SL Green Realty Corp. (SLG)

$60.24 (As of 01/08/21)

Price Target (6-12 Months): **$64.00**

Long Term: 6-12 Months	Zacks Recommendation:	**Neutral**
	(Since: 04/12/18)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	Zacks Rank: (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: C Growth: F	Momentum: F

Summary

Shares of SL Green have underperformed the industry in the past year. The company's guidance for 2020 funds from operations (FFO) per share is $6.60-$7.10. Further, in December, it increased the dividend and the share buyback program. Notably, SL Green's business plan entails the sale of non-core properties and redeploying the proceeds to fund development pipeline, share buybacks and repayment of debt. Also, decent office rent receipts and solid leasing pipeline bode well. Balance-sheet strength and ample liquidity will likely help it navigate uncertain environment. Yet, the pandemic continues to weigh on New York City office fundamentals. Amid this, extension of free rent period and higher concessions are likely to affect its performance. Also, high supply of office properties and choppy retail environment are concerning.
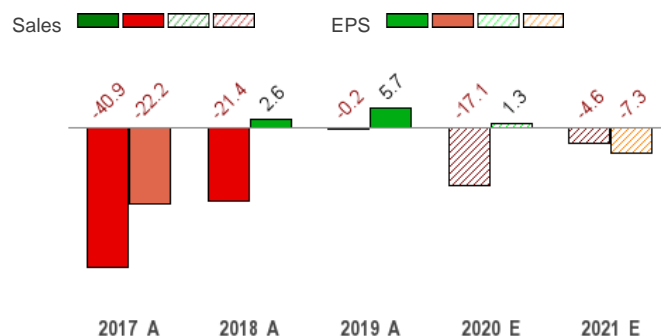
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	$96.39 - $35.16
20-Day Average Volume (Shares)	1,361,000
Market Cap	$4.4 B
Year-To-Date Price Change	1.1%
Beta	1.73
Dividend / Dividend Yield	$3.64 / 6.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 13% (220 out of 253)
Last EPS Surprise	13.6%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	-0.1%
Expected Report Date	01/27/2021
Earnings ESP	-0.1%
P/E TTM	8.3
P/E F1	9.2
PEG F1	5.0
P/S TTM	3.9

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	171 E	170 E	170 E	170 E	682 E
2020	195 A	174 A	174 A	172 E	715 E
2019	213 A	216 A	215 A	219 A	863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.61 E	$1.63 E	$1.64 E	$1.71 E	$6.57 E
2020	$2.08 A	$1.70 A	$1.75 A	$1.54 E	$7.09 E
2019	$1.68 A	$1.82 A	$1.75 A	$1.75 A	$7.00 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/08/2021. The reports text is as of 01/11/2021.

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Overview

SL Green Realty Corp. dominates the office real estate market of New York. The real estate investment trust (REIT) was founded in 1997 and primarily acquires, manages, develops and leases commercial office properties in the New York Metropolitan area, especially midtown Manhattan. This S&P 500 company also makes investments in Brooklyn, Westchester County and Connecticut. These assets are jointly called the Suburban properties.
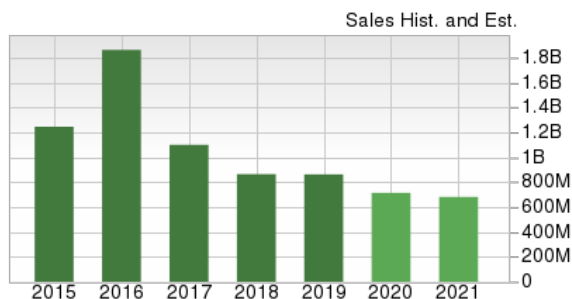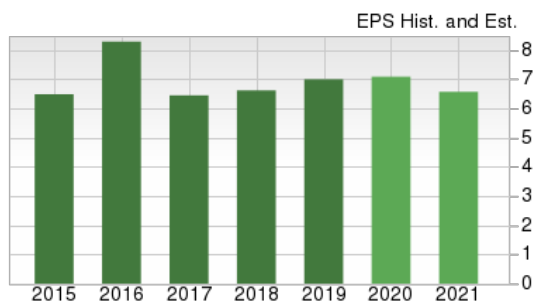
Moreover, in recent years, SL Green is seeking to tap opportunities in New York City's premium retail locations with its retail investments complementing its core office and structured finance businesses. The company has two reportable segments — real estate and debt and preferred equity (DPE) investments.

As of Sep 30, 2020, SL Green had interests in 93 buildings, covering 40.6 million square feet of space. This comprised ownership interests in Manhattan properties, spanning 29.2 million square feet of area, and 10.3 million square feet of space secured by DPE investments.

In the Manhattan portfolio, SL Green signed 33 office leases for 187,469 square feet during the third quarter. The mark-to-market on signed Manhattan office leases was 6.7% during the September-end quarter, lower than the previous fully-escalated rents in the same spaces. As of Sep 30, 2020, Manhattan's same-store office occupancy, inclusive of leases signed but not yet commenced, was 94.2%, down 100 basis points from the prior quarter.

EPS Hist. and Est.

Sales Hist. and Est.

SL Green adopted the Current Expected Credit Loss model in first-quarter 2020. The company's reserves after the adoption of this model totaled $43.5 million at the end of the quarter.

Note: *All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*

Source: Zacks Investment Research

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

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Reasons To Buy:

▲ SL Green has a mono-market strategy focus with an enviable footprint in the large and high-barrier to entry New York real estate market. This, along with ownership of premier Manhattan office assets, has enabled the company to enjoy high occupancy at its portfolio over the years. Additionally, the company aims at maintaining a diversified tenant base to hedge the risk associated with dependency on single-industry tenants. As a result, its largest tenants include renowned firms from different industries. Moreover, with long-term leases to tenants with strong credit profile, the company is well poised to generate stable rental revenues over the long term. In fact, SL Green's office rent collections remained decent with second and third-quarter receipts totaling 96.6% and 96.6%, respectively. Moreover, gross tenant billing receipts from office tenants for October was 93.6%.

▲ Much of the leasing proportion has shifted from new to renewal- oriented deals due to the pandemic. Going forward, the next cycle of office-space demand will likely be driven by de-densification to allow higher square footage per office worker and the need for better-amenitized office properties to focus on health & wellness amid social-distancing requirements. Moreover, tenant downsizing is less likely and this will improve tenant retention. Hence, SL Green is well -positioned to benefit from the emerging trend, given the demand for office space in Manhattan and the company's revamp efforts that will well-position it to re-tenant office spaces. Since the beginning of the year through Dec 4, 2020, the company has signed 121 leases spanning an area of about 1.2 million square feet. The company's near-term leasing pipeline also remains robust with about 28 leases spanning an area of about 658,369 square feet.

▲ The company expects tenants to slowly return to office spaces in 2021. With encouraging leases executed over the past few quarters, several new names have been added to the company's tenant roster. Such efforts are likely to drive rental revenues over the upcoming years. Also, the company is focused on continuation of its operating expense savings initiatives, and these efforts are likely to aid its net operating income (NOI) growth. The company projects a compound annual growth rate (CAGR) of 8.1% for NOI till 2024. Also, the company expects FFO per share of $6.60-$7.10 and $6.30-$6.70 for 2020 and 2021, respectively.

▲ SL Green has been following an opportunistic investment policy to enhance its overall portfolio. This includes divesting its mature and non-core assets in a tax-efficient manner and using the proceeds to fund development projects and share buybacks. Such match-funding initiatives indicate the company's prudent capital-management practices and will relieve pressure from its balance sheet. It has also completed the majority of its sub-urban asset sale. This helped to narrow its focus on the Manhattan market as well as retain premium and highest-growth assets in the portfolio. Further, SL Green intends to continue with the same strategy in 2021. Additionally, the company has been shrinking its DPE portfolio and reducing exposure to retail real estate asset to increase focus on office assets.

▲ SL Green has a robust balance sheet and ample financial flexibility. The company ended third-quarter 2020 with $1.56 billion of liquidity, consisting of $249.1 million of consolidated cash, cash equivalents, and marketable securities, and $1.31 billion of undrawn balance on its $1.5-billion revolving credit facility. Over the past quarters, SL Green has taken proactive steps to bolster liquidity on the back of financing, refinancing, sale of real estate assets and joint venture stake, as well as repayment of existing positions in the DPE portfolio. Such prudent steps enhance SL Green's ability to withstand the current crisis and any future unexpected negative externalities. In fact, the company expects to end 2020 with a liquidity of $1.7 billion. Moreover, its fixed charge coverage ratio has been stable over the previous five quarters, indicating decent cash flows availability for near term debt repayment and other fixed charges. Going forward, with a number of creditworthy tenants in its roster, it is expected to enjoy stable cash flows.

▲ Furthermore, dividend payouts are arguably the biggest enticement for REIT investors and SL Green has consistently increased its dividend rate. In fact, in December 2020, the company announced a 2.8% increase in its annual ordinary dividend to $3.64 per share. This represented SL Green's tenth consecutive year of common dividend hike. Additionally, the company announced a special dividend of $1.6967 per share, which will be paid in common stock. Apart from dividend hikes, the company remains committed to increasing shareholder value through share buybacks. The company initially announced a $1-billion share repurchase program in August 2016. This authorization was enhanced in subsequent periods, with the most recent addition of $500 million in December 2020, bringing the tally to $3.5 billion. From the start of the year through Oct 21, the company repurchased 6.5 million shares of common stock. Such buyback efforts boost investor's confidence in the stock.

> Substantial high-quality office properties in key markets, diverse tenant base, opportunistic investments and strong balance sheet are growth drivers.

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Reasons To Sell:

▼ Rising supply of office properties in SL Green's markets remains a concern for the company. The company faces intense competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. Amid higher leasing costs and elevated supply of office assets, it will be challenging for the company to backfill near-term tenant move-outs and vacancies. This will impact its 2021 same-store NOI growth.

▼ The coronavirus pandemic has led to an uncertain economic environment. In such a scenario, there has been a reduction in office space utilization, while rental payment collections have become uncertain and landlords are offering tenant lease extensions, concessions and extension of free rent periods. Notably, the company's projected NOI for the current year is expected to be adversely impacted due to rent abatements of $18 million and lost garage income of $3 million. This is due to the slowdown in leasing activities, reduced market rents and muted garage parking brought about by the pandemic.

▼ The company has been resorting to non-core asset sales in a bid to enhance its liquidity to fund development projects and share buybacks. Notably, the company aims dispositions to be more than $1 billion in 2021. While strategic dispositions are a strategic fit over the long term, it will be dilutive for near term earnings. In fact for 2020 and 2021, the core portfolio GAAP NOI is likely to be adversely impacted to the tune of $11.7 million and $9.4 million due to property dispositions and planned sales, respectively.

▼ Moreover, geographic concentration of assets remains a concern for SL Green. In fact, majority of the company's property holdings consists of commercial office properties situated in midtown Manhattan. The company also has a number of retail properties and multifamily residential assets in New York City. In fact, Manhattan operating properties accounted for around 89% of its total NOI in third-quarter 2020. Therefore, performance of the company is susceptible to the condition of the New York City economy which is currently affected because of the coronavirus pandemic.

▼ With a street-retail portfolio in important Manhattan shopping corridors, softness in the retail real estate sector is also a concern for SL Green. In fact, the retail real estate environment is currently choppy and mall traffic has been declining significantly amid rapid increase in online sales, forcing retailers to opt for store closures. Further, the coronavirus pandemic and measures to curb its spread are expected to adversely affect the demand for retail space, limiting the landlord's pricing power and resulting in lesser absorption. Moreover, it is impacting retail tenant's ability to pay rents.

▼ Shares of SL Green have lost 34.4% over the trailing 12 months, which is wider than the industry's decline of 7.7%. Further, the trend in estimate revisions of current-year FFO per share does not indicate a favorable outlook for the company, as estimates have been revised marginally downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revision, there is a limited upside potential to the stock.

Rising supply of office properties, intense competition from developers and owners, retail tenant bankruptcies and geographic concentration of assets are causes of concern before SL Green.

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Last Earnings Report

SL Green Q3 FFO Surpasses Estimates, Revenues Down Y/Y

Quarter Ending	09/2020
Report Date	**Oct 21, 2020**
Sales Surprise	**0.64%**
EPS Surprise	**13.64%**
Quarterly EPS	**1.75**
Annual EPS (TTM)	**7.28**

SL Green reported third-quarter 2020 FFO per share of $1.75, surpassing the Zacks Consensus Estimate of $1.54. The figure, nonetheless, remained unchanged from the year-ago quarter's number.

Third-quarter 2020 FFO per share figure includes income derived from a legal settlement, net of related costs, of 26 cents. This was partially offset by 12 cents per share of losses related to certain DPE investments that were sold.

Net rental revenues of $173.5 million in the third quarter outpaced the Zacks Consensus Estimate of $172.4 million. The revenue figure, however, declined 19.5% from the prior-year number of $216.48 million.

As of Oct 21, the company's gross tenant billing collection for the third quarter was 92.6%. This includes 96.9% from office and 70% from retail tenants. As of the same date, its gross tenant billing receipts for October were 90.3%, consisting of 93.6% from office and 70.9% from retail tenants.

Moreover, second-quarter gross tenant billings collection improved to 91.8%, including 96.6% and 71.5% from office and retail tenants, respectively.

Quarter in Details

During the September-end quarter, same-store cash NOI, including SL Green's share of same-store cash NOI from unconsolidated joint ventures, improved 2.1% year over year. This includes lease termination and free rent income given to Viacom for space at 1515 Broadway.

In the Manhattan portfolio, SL Green signed 33 office leases for 187,469 square feet during the reported period. The mark-to-market on signed Manhattan office leases was 6.7% during the third quarter, lower than the previous fully-escalated rents in the same spaces.

As of Sep 30, 2020, Manhattan's same-store office occupancy, inclusive of leases signed but not yet commenced, was 94.2%, down 100 basis points from the prior quarter.

The carrying value of its debt and preferred equity investment portfolio decreased to $1.18 billion from $1.25 billion as of June end.

Liquidity

SL Green exited third-quarter 2020 with $1.56 billion of liquidity, consisting of $249.1 million of consolidated cash, cash equivalents, and marketable securities, as well as $1.31 billion of undrawn balance on its $1.5-billion revolving credit facility.

As of the third-quarter end, it had cash and cash equivalents of $221.4 million, up from $166.1 million recorded at the end of 2019.

Investment Activity

Under the $3-billion share-repurchase program, the company repurchased 6.5 million shares year to date at an average price of $63.42 per share.

During the third quarter and through Oct 21, it generated $122.1 million of cash through the sale of two DPE positions.

Recent News

SL Green Updates on Q4 Leasing, Boosts Share-Buyback Program - Dec 7, 2020

SL Green is witnessing a decent leasing activity in its portfolio. So far in the quarter, the company has signed 393,056 square feet of Manhattan office leases, bringing the year-to-date tally to 1.18 million square feet. Moreover, with solid demand for space in the company's properties, Manhattan office leases projected to be signed before the end of the year will likely reach more than 400,000 square feet in the fourth quarter and cross 1.2 million for the year.

Notably, since the onset of the pandemic, SL Green has signed seven leases at its iconic skyscraper One Vanderbilt Avenue. Particularly, a new 12-year lease encompassing 36,031 square feet on the entire 25th floor at One Vanderbilt has been signed by Heidrick & Struggles, International, Inc. Moreover, a new 15-year lease, spanning 4,924 square feet on part of the ground and 2nd floor at the property, has been signed by 1Life Healthcare, Inc. d/b/a One Medical.

According to Steven Durels, executive vice president and director of Leasing and Real Property at SL Green, the company is witnessing a "notable increase in leasing activity over the past several months" as its portfolio "reaps the benefits of having fully redeveloped, high quality buildings that are conveniently located near Grand Central Terminal."

The other notable leases include Travelers Indemnity's signing a 5-year lease renewal for 133,479 square feet of space at 485 Lexington Avenue as well as Cohen & Gresser signing a 10-year lease extension for 33,900 square feet at the 800 Third Avenue, among others.

Apart from witnessing a decent leasing activity, SL Green also announced that its board has authorized an increase in the share-repurchase program size by an additional $500 million. This brings the program to a total of $3.5 billion.

Per Marc Holliday, chairman and chief executive officer of SL Green, "We believe the stock price continues to significantly lag behind the real financial value of the platform." As such, the company plans to continue investment in strategic share repurchase program with asset dispositions proceeds.

SL Green Hikes Dividend, Announces Special Dividend - Dec 6, 2020

SL Green has announced a 2.8% hike in its annual ordinary dividend to $3.64 per share. The company will now pay a monthly dividend of 30.33 cents per share, up from the 29.5 cents paid in the prior month.

The increased dividend will be paid on Jan 15, 2021, to shareholders of record as on Dec 15, 2020, i.e. the record date. Based on the increased rate, the annual dividend comes to $3.54 a share.

In addition to the quarterly dividend, SL Green has also announced a special dividend with a value of $1.6967 per share, payable on Jan 15, 2021, to shareholders of record as of the record date. However, this special dividend will be paid in common stock, with the number of shares being calculated based on the volume weighted average trading price of the company's common stock between Jan 5-7, 2021.

SL Green to Dispose 410 Tenth Avenue for $952.5M – Nov 4, 2020

SL Green along with its venture partners, which hold 410 Tenth Avenue, has contracted to sell the 636,000-square-foot Manhattan office redevelopment for gross consideration of $952.5 million. The company currently holds 70.9% stake of the venture.

The 20-story future Class-A office property is currently under a comprehensive, building-wide redevelopment that is anticipated to be completed in third-quarter 2021. It is anchored by Amazon and First Republic Bank.

Moreover, the venture will retain 5% interest in the property until the completion of the property's redevelopment. The transaction is likely to close in the ongoing quarter, subject to customary closing norms.

Per management "this transaction is a perfect example of what SL Green has demonstrated successfully so many times -- acquiring an undervalued asset in an off-market manner through our deep market relationships, creatively redeveloping it to class-A standards, and re-leasing the property to high quality tenants on a long-term basis."

The sale will allow the company to recognize high profits, reduce debt and generate additional liquidity for share buybacks.

SL Green Inks Long-Term Lease at One Vanderbilt Avenue – Oct 13, 2020

SL Green inked a lease for 12,692 square feet of space at One Vanderbilt Avenue with real estate capital market advisor, Hodges Ward Elliott. With this, the tenant will occupy part of the 50th floor at the newly opened property in East Midtown for 10 years.

Moreover, this is the third lease that SL Green has signed at the building since the onset of the pandemic and hence demonstrates resilient demand for premium office space.

Additionally, the company is enhancing its offering at the property and will offer dining experience with a new restaurant named 'Le Pavillon' in first-quarter 2021. The restaurant will be situated on the southeast corner of the second floor across 11,000 square feet of space.

Valuation

SL Green's shares have been down 34.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have declined 7.7% and 0.3% in the past year, respectively.

The S&P 500 Index is up 18.3% in the past year.

The stock is currently trading at 9.14X forward 12-month FFO, which compares to 18.5X for the Zacks sub-industry, 17.33X for the Zacks sector and 23.38X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.42X and as low as 5.36X, with a 5-year median of 13.55X. Our neutral recommendation indicates that the stock will perform in line with the market. Our $64 price target reflects 9.71X FFO.

The table below shows summary valuation data for SLG.

Valuation Multiples - SLG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.14	18.85	17.33	23.38
	5-Year High	17.42	19.54	17.33	23.79
	5-Year Low	5.36	14.31	11.58	15.30
	5-Year Median	13.55	16.31	14.49	17.82
P/S F12M	Current	6.41	7.28	7.10	4.56
	5-Year High	10.85	7.45	7.10	4.56
	5-Year Low	3.53	5.19	5.02	3.21
	5-Year Median	8.46	6.30	6.11	3.67
P/B TTM	Current	0.83	2.22	2.93	6.58
	5-Year High	1.49	2.73	2.94	6.58
	5-Year Low	0.52	1.63	1.74	3.74
	5-Year Median	1.27	2.33	2.58	4.94

As of 01/08/2021   Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 13% (220 out of 253)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alexandria Real Estate Equities, Inc. (ARE)	Neutral	3
Boston Properties, Inc. (BXP)	Neutral	3
Cousins Properties Incorporated (CUZ)	Neutral	3
Highwoods Properties, Inc. (HIW)	Neutral	3
Hudson Pacific Properties, Inc. (HPP)	Neutral	3
Kilroy Realty Corporation (KRC)	Neutral	3
Piedmont Office Realty Trust, Inc. (PDM)	Neutral	4
Vornado Realty Trust (VNO)	Underperform	4

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Reit And Equity Trust - Other   Industry Peers

	SLG	X Industry	S&P 500	ARE	BXP	VNO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	F	-	-	D	F	D
Market Cap	4.37 B	2.58 B	27.18 B	22.98 B	14.02 B	6.90 B
# of Analysts	9	4	13	2	9	6
Dividend Yield	6.04%	3.59%	1.41%	2.63%	4.35%	5.88%
Value Score	C	-	-	D	C	C
Cash/Price	0.07	0.04	0.06	0.02	0.12	0.21
EV/EBITDA	14.27	14.75	14.99	27.63	14.75	3.32
PEG F1	4.98	3.77	2.65	4.32	6.19	NA
P/B	0.84	1.35	3.77	1.82	1.69	1.15
P/CF	8.70	11.98	14.38	23.05	11.59	11.57
P/E F1	9.07	15.46	20.76	21.53	13.18	13.18
P/S TTM	3.88	5.23	2.97	12.56	4.90	4.28
Earnings Yield	10.91%	5.98%	4.68%	4.64%	7.59%	7.59%
Debt/Equity	1.06	0.95	0.70	0.63	1.60	1.24
Cash Flow ($/share)	6.92	2.05	6.93	7.20	7.77	3.12
Growth Score	F	-	-	C	F	F
Historical EPS Growth (3-5 Years)	-1.34%	0.38%	9.71%	7.62%	5.07%	-11.41%
Projected EPS Growth (F1/F0)	-7.32%	6.30%	12.21%	5.62%	4.74%	9.37%
Current Cash Flow Growth	3.22%	3.18%	5.22%	4.79%	-2.18%	-12.13%
Historical Cash Flow Growth (3-5 Years)	-0.78%	12.69%	8.33%	23.85%	2.31%	-7.64%
Current Ratio	2.32	1.59	1.38	0.31	7.03	5.28
Debt/Capital	49.58%	48.55%	41.97%	38.86%	60.99%	54.21%
Net Margin	19.32%	9.87%	10.40%	29.07%	35.17%	6.43%
Return on Equity	3.99%	3.53%	15.20%	4.79%	12.31%	2.31%
Sales/Assets	0.09	0.12	0.50	0.09	0.13	0.09
Projected Sales Growth (F1/F0)	-4.56%	6.27%	5.91%	NA	0.10%	2.52%
Momentum Score	F	-	-	A	F	A
Daily Price Change	1.24%	0.07%	0.10%	0.34%	-0.23%	0.70%
1-Week Price Change	5.01%	0.55%	1.16%	2.13%	0.64%	3.29%
4-Week Price Change	-2.76%	-1.93%	3.65%	-2.98%	-11.64%	-9.14%
12-Week Price Change	27.25%	10.35%	13.64%	2.46%	13.26%	5.62%
52-Week Price Change	-33.32%	-15.38%	8.59%	5.49%	-33.09%	-45.42%
20-Day Average Volume (Shares)	1,361,000	663,272	1,694,173	958,821	1,097,597	2,126,603
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.06%	-0.02%	0.00%
EPS F1 Estimate 4-Week Change	-0.14%	0.00%	0.08%	-0.06%	-0.81%	-3.94%
EPS F1 Estimate 12-Week Change	-1.58%	0.00%	2.45%	0.37%	-5.58%	-11.34%
EPS Q1 Estimate Monthly Change	-1.23%	0.00%	0.00%	0.53%	-1.11%	-3.61%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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Additional Disclosure

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

# of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every $1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.