

Constellation Brands (STZ)

\$195.31 (As of 09/14/20)

Price Target (6-12 Months): **\$207.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: B

Summary

Constellation Brands has outpaced the industry year to date on a robust earnings trend, with the 10th consecutive beat in first-quarter fiscal 2021. Results were aided by robust depletions, strength in off-premise channel and strong margins. The company witnessed robust depletions growth in the beer segment driven by strength in the Modelo and Corona Brand Families, while its power brands aided depletions for the wine & spirits business. It is witnessing robust e-commerce demand for its alcoholic beverages due to the shelter-in-place orders. However, lower shipments and on-premise channel sales due to the COVID-19 outbreak hurt the company's top line in the fiscal first quarter. Moreover, it expects production in Mexico to continue hurting shipments and distribution inventory levels in the fiscal second quarter.

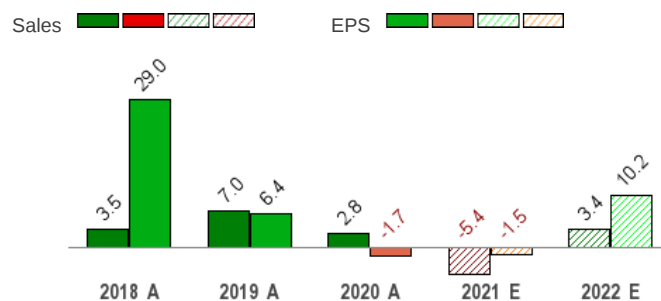
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$210.65 - \$104.28
20-Day Average Volume (Shares)	962,004
Market Cap	\$37.7 B
Year-To-Date Price Change	2.9%
Beta	0.97
Dividend / Dividend Yield	\$3.00 / 1.5%
Industry	Beverages - Alcohol
Zacks Industry Rank	Top 50% (126 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.3%
Last Sales Surprise	-0.9%
EPS F1 Estimate 4-Week Change	1.0%
Expected Report Date	10/01/2020
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,976 E	2,284 E	2,063 E	1,865 E	8,160 E
2021	1,963 A	2,164 E	1,989 E	1,779 E	7,891 E
2020	2,097 A	2,344 A	1,999 A	1,903 A	8,344 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.50 E	\$2.90 E	\$2.52 E	\$2.09 E	\$9.90 E
2021	\$2.30 A	\$2.49 E	\$2.30 E	\$1.89 E	\$8.98 E
2020	\$2.21 A	\$2.72 A	\$2.14 A	\$2.06 A	\$9.12 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 09/14/2020. The reports text is as of 09/15/2020.

Overview

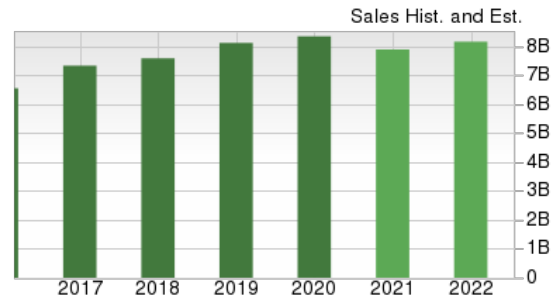
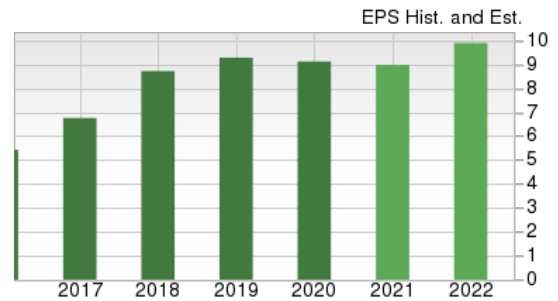
Founded in 1945 and headquartered in Victor, NY, Constellation Brands Inc. produces and markets beer, wine and spirits. It is the third-largest beer company and a leading, high-end wine company in the United States. It has a strong portfolio of high-quality brands, including Corona, Modelo Especial, Robert Mondavi, Kim Crawford, Meiomi and SVEDKA Vodka. The company conducts its operations in the United States, Mexico, Canada, Italy and New Zealand.

Furthermore, the company supplies its products to various customers, including wholesale distributors, retailers and through on-premise outlets.

The company reports in three operating segments: (1) Beer, (2) Wine and Spirits, and (3) Corporate Operations and Other. While the company's beer segment contributed about 64.1% to total sales in fiscal 2019, its Wine and Spirits segment contributed roughly 35.9%.

Beer: Constellation Brands sells beer primarily under the Corona Extra, Corona Light, Corona Premier, Corona Familiar Modelo Especial, Modelo Negra, Modelo Chelada, Pacifico, and Victoria brands, as well as Funky Buddha, Four Corners, and Ballast Point brands.

Wine and Spirits: Constellation Brands' wine offerings include the 7 Moons, Black Box, Clos du Bois, Franciscan Estate, Kim Crawford, Mark West, Meiomi, Mount Veeder, Nobilo, Ravage, Robert Mondavi, Ruffino, Schrader, Simi, The Dreaming Tree, Charles Smith, Prisoner. Spirits are sold under the Casa Noble, High West, SVEDKA Vodka, Casa Noble tequila, and High West craft whiskey brands.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Robust Earnings Trend:** Although shares of Constellation Brands lost 3% year to date, it fared better than the industry's 19.1% decline. The company boasts a solid earnings surprise trend, with the 10th consecutive earnings beat recorded in first-quarter fiscal 2021. Despite the impacts of the coronavirus outbreak, results have been primarily aided by robust depletions and strength in the off-premise channel. Moreover, the company benefited from strong margins in the fiscal first quarter.
- ▲ **Margins Remain Favorable:** Constellation brands witnessed strong gross and operating margins in first-quarter fiscal 2021 driven by lower marketing spending and other expenses, as well as favorable pricing. Adjusted gross margin expanded 60 basis points (bps) while comparable operating margin rose 190 bps. Further, the operating margin at the beer segment expanded 240 bps, owing to gains from the timing of marketing spends and favorable pricing, offset by higher cost of goods sold (COGS). Wine and spirits segment's operating margin expanded 240 bps on mix benefits, favorable price and lower SG&A expenses, offset by the divestiture of Black Velvet and higher COGS.
- ▲ **Beer Business Gains From Depletions Growth:** Constellation Brands has been significantly gaining from strength in the beer business over the years. Although sales at the beer business declined 6.3% in first-quarter fiscal 2021 due to the impacts of coronavirus outbreak on shipment volumes, it witnessed robust depletions growth of 5.6%. Depletion volume benefited from robust off-premise channel sales growth of nearly 20%, which more than offset the 75% decline in the on-premise channel due to coronavirus outbreak-related closures. Adjusting for one less selling day in the quarter, the company reported depletion growth of 7%. Solid portfolio depletions and market share gains mainly stemmed from continued strength in the Modelo and Corona Brand Families. Notably, depletions for the Modelo Brand Family increased 12%. Though the company did not provide guidance for fiscal 2021, management expects product inventories to return to normal levels in the fiscal third quarter. Moreover, the company's long-term outlook for the beer business remains unchanged.
- ▲ **Power Brands Aid Wine & Spirits Business:** Constellation Brands remains keen on reviving the performance of the wine & spirits business. The company's wine & spirits premiumization strategy is playing out well, as evident from the accelerated power brand depletion growth and operating margin improvement in first-quarter fiscal 2021. Notably, the power brand's depletion volume grew 5% as these brands continue to win in higher-end and across the majority of price segments in the U.S. Wine category. The growth was led by gains in Kim Crawford, Meiomi, SVEDKA, The Prisoner Brand Family, and Woodbridge by Robert Mondavi. Additionally, the company is making investments to fuel growth of its power brands through innovation, capitalizing on priority, consumer trends, with successful product introductions, like the Prisoner unshackled Ruffino organic Prosecco and Robert Mondavi Private Selection Buttery Chardonnay, which are performing well in the marketplace. Overall depletion for the wine & spirits business declined 1% reflecting the impact of the brands to be divested.
- ▲ **Growth in E-commerce Trend Aid:** With the shelter-in-place orders and shutdown of on-premise channel due to COVID-19, the e-commerce platform has been gaining traction as consumers shift to e-commerce for buying alcoholic beverages as well. Notably, e-commerce for beverage alcohol has expanded significantly, increasing three to seven times in volume versus prior year. Moreover, two-thirds of the consumers plan to continue their e-commerce purchases even in the post-COVID situation. The digital business is gaining share through platforms like Instacart, Drizly and other retailer online sites as consumers look for the convenience offered by these channels. Driven by the accelerated e-commerce trend, the company acquired Empathy Wines, which fits its premiumization strategy and also provides avenue to strengthen its position in the direct-to-consumer, and three-tier e-commerce channel. Empathy Wines produces high quality and sustainably made wines that are sold directly to consumers through the e-commerce platform.
- ▲ **Hard Seltzer A Big Opportunity:** The beverage industry has undergone transformation with the arrival of hard seltzers, which has taken the alcohol-drinking American population by storm. Constellation Brands is one of the beer companies looking for opportunities in the hard seltzer category, with the launch of Corona Hard seltzer in first-quarter fiscal 2021. Corona Hard seltzer is launched four flavors, namely tropical lime, mango, cherry and blackberry lime. The response to the trails and initial launch has been exceeding expectations. Corona Hard Seltzer is already the number four hard seltzer brand and recently achieved IRI market share of almost 6% of the U.S. seltzer market. The company is witnessing high Hispanic penetration rates for the brand versus other hard seltzers. Notably, the refreshment characteristics of seltzers combined with the Corona beer brand's popularity is aiding the performance of Corona Hard seltzer.
- ▲ **Strong Cash Flows & Shareholder Returns:** Constellation Brands has been consistently generating strong cash flows. Despite the shelter-in-place orders, the company increased operating cash flow and free cash flow by 16% and 24%, respectively, in the fiscal first quarter. The strong cash flows provide the company ample financial flexibility to continue focusing on debt pay-down and liquidity. During the reported quarter, it issued debt at very favorable rates and used the proceeds to pay down \$700 million of debt due in November 2020, and other near term maturities. Moreover, on a comparable basis, interest expense for the fiscal first quarter fell 13% to \$100 million, primarily due to lower average borrowings. However, it remains committed to providing enhanced shareholder returns over the long term, by returning \$4.5 billion in cash to shareholders through share repurchases and dividends by fiscal 2022. On Jun 30, 2020, the company announced a quarterly dividend of 75 cents per share for Class A and 68 cents for Class B stock. The dividend is payable Aug 25 to its shareholders of record as of Aug 11. However, it expects no share repurchases in fiscal 2021.

With the shelter-in-place orders and shutdown of on-premise channel due to COVID-19, the e-commerce platform has been gaining traction as consumers shift to e-commerce for buying alcoholic beverages.

Reasons To Sell:

- ▼ **Soft Q1 Sales:** Although Constellation Brands reported better than expected earnings in first-quarter fiscal 2020, top line declined 6.4% and missed the Zacks Consensus Estimate. The soft top line performance is attributed to lower shipments in the beer and wine & spirits segments, offset by strong depletions. The company is witnessed decline in on-premise demand as bars and restaurants remain closed in the fiscal first quarter due to the coronavirus outbreak, which weighed on the top line. Further, results were impacted by disruptions in production facility due to the virus. At the company's beer business, sales dropped 6.3%, while the wine & spirits segment reported sales decline of 7%.

Soft first-quarter fiscal 2021 top lines is attributed to lower shipments in the beer and wine & spirits segments, offset by strong depletions. Declines in on-premise channel also impacted sales.
 - ▼ **Beer Shipments Suffer Due to COVID-19:** Constellation Brands witnessed 7.2% decline in beer shipment volume in first-quarter fiscal 2021, while organic shipment volume was down 4%. Shipment volume was negatively impacted by reduced production levels at its breweries in Mexico due to the COVID-19 safety measures. Further, reduced production levels for roughly two-thirds of the quarter and robust consumer demand led to a widened gap between shipments and depletions. This resulted in lower than normal distributor inventory on hand at the end of the quarter. Moreover, the company expects the slowed beer production in Mexico due to the COVID-19 outbreak to continue hurting shipments and distribution inventory levels in the fiscal second quarter.
 - ▼ **Competitive Threats:** Constellation Brands faces intense competition from other well-established players in the industry, including Beam Inc., Brown-Forman Corporation – B, Diageo plc, and Pernod Ricard SA. Moreover, Constellation Brands encounters competition from local and regional players in the respective countries. This may affect the company's future operating performance.
 - ▼ **Seasonal Risks:** Constellation Brands' business is exposed to seasonal risks due to factors affecting demand for each major category of the beverage alcohol industry. In response to wholesaler and retailer demand, the imported beer category usually generates the highest sales during the first and second quarters of the fiscal year that are characterized by the spring and summer seasons in the U.S. Meanwhile, at the wine and spirits category, sales are robust during the third quarter of the fiscal year, primarily due to seasonal holiday buying.
 - ▼ **Macroeconomic Headwinds:** Sluggishness in the global economy, along with macroeconomic headwinds such as a rise in fuel and energy costs, unemployment levels and high household debts may negatively affect the discretionary spending of consumers, and consequently hamper the company's growth and profitability.
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Last Earnings Report

Constellation Brands Q1 Earnings Beat, Sales Miss

Constellation Brands has delivered first-quarter fiscal 2021 results, wherein the bottom line surpassed the Zacks Consensus Estimate, while sales missed the same. With this, the company has reported earnings beat for the 10th consecutive quarter. Despite the impacts of the coronavirus outbreak, results have been primarily aided by robust depletions and strength in the off-premise channel.

Constellation Brands posted fiscal first-quarter comparable earnings of \$2.03 per share, which increased 4% year over year and beat the Zacks Consensus Estimate of \$2.03. The reported figure included Canopy Growth equity loss of 15 cents. Excluding the impacts of Canopy Growth, the company posted earnings of \$2.44 per share, which grew 2% from the year-ago quarter.

Net sales declined 6.4% to \$1,963.4 million and missed the Zacks Consensus Estimate of \$1,981.5 million.

At the company's beer business, sales dropped 6.3% to \$1,384.1 million, driven by a 7.2% decline in shipment volume, offset by 5.6% depletion growth, while organic shipment volume fell 6.3%. Organic sales for the business were down 4%. Depletion volume benefited from robust off-premise channel sales, which more than offset the 75% decline in the on-premise channel due to coronavirus outbreak-related closures. Adjusting for one less selling day in the quarter, the company reported depletion growth of 7%. Shipment volumes and distributor inventory levels were hurt by the slowdown of beer production in Mexico due to the impacts of the COVID-19 outbreak.

Solid portfolio depletions and market share gains mainly stemmed from continued strength in the Modelo and Corona Brand Families. Notably, depletions for the Modelo Brand Family increased 12%.

Sales at the wine and spirits segment declined 7% to \$579.3 million in the fiscal first quarter. Further, organic net sales for the segment dropped 4%. While the segment witnessed a 12.9% decline in shipment volume and a 1.1% fall in depletions, organic shipment volume fell 9.2%.

Margins

Adjusted gross profit declined 5% year over year to \$1,033.6 million. Also, the adjusted gross profit margin expanded 60 basis points (bps) to 52.6%.

Constellation Brands' comparable operating income declined 1% to \$691.3 million, while comparable operating margin improved nearly 190 bps to 35.2%.

Further, the operating margin at the beer segment expanded 240 bps to 41.7%, owing to gains from the timing of marketing spends and favorable pricing, offset by higher cost of goods sold (COGS). Wine and spirits segment's operating margin expanded 240 bps to 28.3% on mix benefits, favorable price and lower SG&A expenses, offset by the divestiture of Black Velvet and higher COGS.

Financial Position

Constellation Brands ended the fiscal first quarter with cash and cash equivalents of \$302.8 million. As of May 31, 2020, it had \$11,639.3 million in long-term debt (excluding current maturities) along with total shareholders' equity (excluding non-controlling interest) of \$11,377.6 million.

In fiscal 2020, Constellation Brands generated operating cash flow of \$686.5 million and adjusted free cash flow of \$542.3 million.

On Jun 30, 2020, the company announced a quarterly dividend of 75 cents per share for Class A and 68 cents for Class B stock. The dividend is payable Aug 25 to its shareholders of record as of Aug 11.

Fiscal 2021 Outlook

Driven by the potential impacts of the coronavirus outbreak, the company is not able to provide guidance for fiscal 2021.

However, for the beer segment, it expects the slowed beer production in Mexico due to the COVID-19 outbreak to continue hurting shipments and distribution inventory in the fiscal second quarter. However, product inventories are likely to return to normal levels in the fiscal third quarter. Moreover, the company's long-term outlook for the beer business remains unchanged.

Quarter Ending	05/2020
Report Date	Jul 01, 2020
Sales Surprise	-0.91%
EPS Surprise	13.30%
Quarterly EPS	2.30
Annual EPS (TTM)	9.22

Recent News

Constellation Brands Concludes Buyout of Copper & Kings - Sep 14, 2020

Constellation Brands successfully completed the buyout of Copper & Kings American Brandy Company. Further, terms and conditions of the deal remain undisclosed. This move is in sync with the company's wide array of products in the wine and spirits space.

Constellation Brands Buys Empathy Wines to Boost Digital Portfolio – Jul 1, 2020

Constellation Brands has acquired Empathy Wines, which is a high-performing, digitally-native wine brand and direct-to-consumer (DTC) platform. Empathy Wines produces high quality and sustainably made wines that are sold directly to consumers through its e-commerce platform. The company's digital platform is driven by consumer insights and content-driven digital marketing.

With the acquisition, Constellation Brands will leverage Empathy's rich consumer insights and analytics, proven brand building expertise, and high-performing digital technology to develop its DTC and digital capabilities to deliver strong and sustainable growth for its wine and spirits portfolio. Further, the company will focus on scaling up Empathy's brand growth. The acquisition is in sync with the company's strategy of being consumer-focused and engaging consumers directly in platforms where they are shopping today. The company expects to build the strongest direct-to-consumer and digital commerce business in the wine and spirits category by using Empathy's insights on how to connect directly with customers.

Empathy Wines brand will become a part of Constellation Brands' wine and spirits brand portfolio. The employees and co-founders of Empathy Wines will join the Constellation Brands family and work together with its wine and spirits organization. Vaynerchuk will continue to assist Constellation Brands and Empathy Wines in a consulting capacity. Other terms of the transaction remained under covers.

Valuation

Constellation Brands shares are up 3% in the year-to-date period but down 4.2% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 19.1% and 5.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 23.5% and 3.4%, respectively.

The S&P 500 index is up 5.1% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 20.71X forward 12-month earnings, which compares to 25.67X for the Zacks sub-industry, 19.99X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.96X and as low as 11.49X, with a 5-year median of 22.28X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$207 price target reflects 21.95X forward 12-month earnings.

The table below shows summary valuation data for STZ

Valuation Multiples - STZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.71	25.67	19.99	22.4
	5-Year High	26.96	27.52	22.37	23.44
	5-Year Low	11.49	18.8	16.62	15.26
	5-Year Median	22.28	23.43	19.54	17.63
P/S F12M	Current	4.69	17.14	9.63	4.13
	5-Year High	5.5	20.67	11.15	4.29
	5-Year Low	2.56	13.04	8.12	3.11
	5-Year Median	4.41	17.27	9.89	3.66
EV/EBITDA TTM	Current	11.81	41.08	38.43	14.64
	5-Year High	44.53	53.27	45.11	15.61
	5-Year Low	7.6	27.03	27.23	9.51
	5-Year Median	17.92	43.28	38.43	13

As of 09/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
AnheuserBusch InBev SANV (BUD)	Outperform	2
The Boston Beer Company, Inc. (SAM)	Outperform	1
BrownForman Corporation (BF.B)	Neutral	2
Carlsberg AS (CABGY)	Neutral	3
Heineken NV (HEINY)	Neutral	4
Pernod Ricard SA (PDRDY)	Neutral	3
Molson Coors Beverage Company (TAP)	Neutral	3
Diageo plc (DEO)	Underperform	5

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

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	STZ	X Industry	S&P 500	BUD	PDRDY	TAP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	D	C	A
Market Cap	37.66 B	10.94 B	23.63 B	113.42 B	44.83 B	7.59 B
# of Analysts	6	1.5	13	2	2	6
Dividend Yield	1.54%	0.00%	1.61%	1.49%	1.11%	0.00%
Value Score	D	-	-	B	D	A
Cash/Price	0.01	0.04	0.07	0.23	NA	0.10
EV/EBITDA	-311.70	9.43	13.23	8.60	NA	9.11
PEG F1	2.55	3.67	2.98	NA	NA	1.58
P/B	3.31	2.67	3.24	1.66	2.43	0.57
P/CF	17.62	16.67	12.74	8.90	21.18	4.08
P/E F1	21.87	26.06	21.70	25.92	26.19	9.50
P/S TTM	4.20	1.83	2.48	2.37	NA	0.62
Earnings Yield	4.60%	3.32%	4.46%	3.86%	3.82%	10.51%
Debt/Equity	1.02	0.44	0.70	1.55	NA	0.61
Cash Flow (\$/share)	11.08	1.53	6.93	6.32	1.59	8.59
Growth Score	B	-	-	F	B	B
Historical EPS Growth (3-5 Years)	14.74%	7.14%	10.41%	-7.49%	NA	7.18%
Projected EPS Growth (F1/F0)	-1.59%	0.29%	-4.75%	-46.81%	7.50%	-18.83%
Current Cash Flow Growth	-6.74%	-2.83%	5.26%	11.61%	2.72%	-5.29%
Historical Cash Flow Growth (3-5 Years)	14.06%	4.16%	8.49%	0.84%	4.22%	11.28%
Current Ratio	1.94	1.49	1.35	1.17	NA	0.67
Debt/Capital	50.57%	30.55%	42.95%	60.81%	NA	37.83%
Net Margin	0.62%	2.55%	10.25%	2.55%	NA	-1.33%
Return on Equity	15.10%	9.29%	14.59%	9.03%	NA	7.18%
Sales/Assets	0.33	0.51	0.50	0.41	NA	0.42
Projected Sales Growth (F1/F0)	-5.43%	0.00%	-1.43%	-15.47%	6.16%	-8.01%
Momentum Score	B	-	-	B	B	A
Daily Price Change	3.44%	0.06%	1.47%	0.18%	0.15%	-0.23%
1-Week Price Change	-1.42%	-0.23%	-1.87%	-3.92%	-0.21%	-8.43%
4-Week Price Change	12.45%	0.00%	-0.20%	0.11%	-3.71%	-7.23%
12-Week Price Change	8.68%	1.15%	6.74%	10.55%	5.30%	-7.75%
52-Week Price Change	-4.18%	-5.46%	0.79%	-41.25%	-5.46%	-39.17%
20-Day Average Volume (Shares)	962,004	31,481	1,845,187	1,488,218	92,856	1,570,390
EPS F1 Estimate 1-Week Change	0.98%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.03%	0.00%	0.00%	0.00%	5.74%	0.32%
EPS F1 Estimate 12-Week Change	9.63%	5.78%	4.00%	26.53%	11.69%	25.22%
EPS Q1 Estimate Monthly Change	-0.43%	0.00%	0.00%	0.00%	NA	0.48%

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	D
Growth Score	B
Momentum Score	B
VGM Score	B

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.

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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 medium-term 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 most recent 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.

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.

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.