

## Sysco Corporation (SYN)

**\$60.80** (As of 10/26/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM: C

Value: C

Growth: B

Momentum: D

### Summary

Sysco's shares have outperformed the industry in the past three months. Though the company is bearing the brunt of coronavirus-led hurdles, it has been focused on utilizing its sales team to boost additional businesses and prepare for the return of demand in the food-away-from-home channel. To this end, the company's transformation initiatives are quite noteworthy. Sysco is also helping its restaurant partners to reshape the business, as per the current landscape. Incidentally, soft volumes in the food-away-from-home channel have been a deterrent due to increased social distancing. This was witnessed in fourth-quarter fiscal 2020, wherein top and bottom lines deteriorated year over year. Sales were hurt by temporary pandemic-led closures. Also, food cost inflation in the U.S. Foodservice unit and currency woes have been limiting factors.

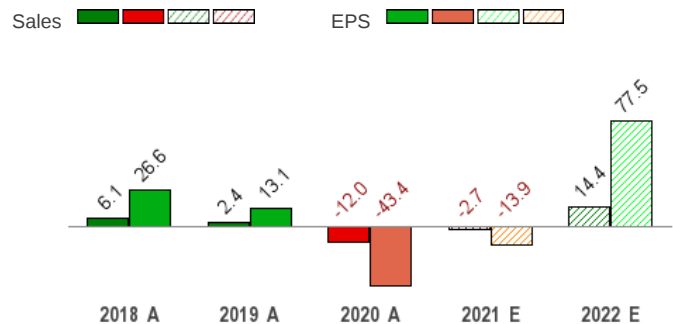
### Price, Consensus & Surprise



### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$85.98 - \$26.00           |
| 20-Day Average Volume (Shares) | 2,191,306                   |
| Market Cap                     | \$31.0 B                    |
| Year-To-Date Price Change      | -28.9%                      |
| Beta                           | 1.20                        |
| Dividend / Dividend Yield      | \$1.80 / 3.0%               |
| Industry                       | Food - Miscellaneous        |
| Zacks Industry Rank            | Bottom 23% (190 out of 248) |

### Sales and EPS Growth Rates (Y/Y %)



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 25.6%      |
| Last Sales Surprise           | 8.3%       |
| EPS F1 Estimate 4-Week Change | -7.2%      |
| Expected Report Date          | 11/03/2020 |
| Earnings ESP                  | 7.7%       |
| P/E TTM                       | 30.6       |
| P/E F1                        | 35.1       |
| PEG F1                        | 3.6        |
| P/S TTM                       | 0.6        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | 14,637 E | 14,752 E | 14,901 E | 15,270 E | 58,893 E |
| 2021 | 11,497 E | 12,333 E | 12,903 E | 14,424 E | 51,485 E |
| 2020 | 15,303 A | 15,025 A | 13,699 A | 8,867 A  | 52,893 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4        | Annual*  |
|------|----------|----------|----------|-----------|----------|
| 2022 | \$0.77 E | \$0.74 E | \$0.78 E | \$0.83 E  | \$3.07 E |
| 2021 | \$0.20 E | \$0.37 E | \$0.42 E | \$0.74 E  | \$1.73 E |
| 2020 | \$0.98 A | \$0.85 A | \$0.45 A | -\$0.29 A | \$2.01 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 10/26/2020. The reports text is as of 10/27/2020.

## Overview

Headquartered in Houston, TX, **Sysco Corporation**, through its subsidiaries, markets and distributes a range of food and related products primarily to the foodservice or food-away-from-home industry. The company provides products and related services to approximately 425,000 customers, including restaurants, health care and educational facilities, lodging establishments and other foodservice customers.

The company's distribution facilities are located throughout the United States, Bahamas, Canada, Republic of Ireland and Northern Ireland. In fiscal 2017 that ended July 1, 2017, the company generated sales of more than \$55 billion.

In the foodservice industry, Sysco caters to restaurants, hospitals and nursing homes, hotels and motels, schools and colleges and industrial caterers among others. Some of the products distributed by the company include a full line of canned and dry foods; beverage products; fresh meat and sea foods; imported specialties; a full line of frozen foods (like meat, fruits, vegetables, desserts) and more.

Additionally, Sysco supplies non-food items like paper products (disposable plates, napkins etc), cookware (pots and utensils), cleaning supplies, restaurant and kitchen supplies and tableware (like silverware ).

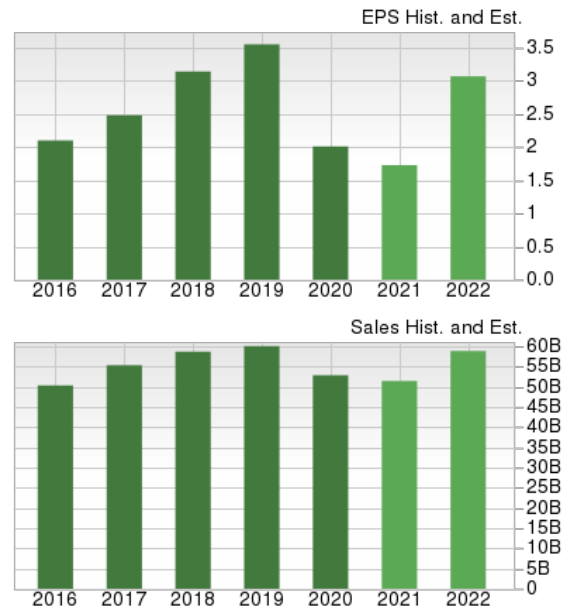
The company reports through these operating segments:

**U.S. Foodservice Operations** primarily includes U.S. broadline operations, Specialty Meat and FreshPoint (the specialty produce companies). In fourth-quarter fiscal 2020, the segment contributed 69% to total revenues.

**International Foodservice Operations**, which includes Canada, Europe, Bahamas, International Food Group, and the joint ventures in Mexico and Costa Rica. In fourth-quarter fiscal 2020, the segment contributed 15.4% to total revenues.

**SYGMA:** The company' customized distribution subsidiary. In fourth-quarter fiscal 2020, the segment contributed 14.5% to total revenues.

**Other:** This mainly includes hotel supply operations and Sysco Labs.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Ways to Tap Other Opportunities Amid Crisis:** Shares of Sysco have gained 14.5% in the past three months, compared with the industry's growth of 3.3%. The company is making robust efforts to manage its business amid the pandemic. To this end, it is utilizing its sales team to boost additional businesses and also prepare for the return of demand in the food-away-from-home channel. The company is also helping its restaurant partners to reshape business, as per the current environment, by offering solutions related to meal kits, contactless menus, curbside/takeout, along with safety and sanitation. Encouragingly, management expects fiscal 2021 sales to be stronger than the fiscal 2020 level despite the current scenario. This also makes the company optimistic about its profitability in fiscal 2021.

Sysco is focused on transformation initiatives. The company is working toward becoming more digitally oriented, concentrating on improving sales model, regionalizing U.S. operations and cutting costs.

As a significant chunk of the business has been hurt by reduced away-from-home sales amid the coronavirus crisis, the company has turned its distribution model to areas it didn't essentially cater to before the pandemic. These include grocers, retailers and supply-chain contracts. Incidentally, the company is working with some of the best retailers to address customers' needs through supply-chain as well as labor service deals. To this end, Sysco is offering supply-chain service deals like carrier services, cross-docking and freight brokerage, thanks to its solid transportation fleet and logistic capacity. Also, the company has inked temporary labor-sharing contracts with some retailers. On the sales front, Sysco has been shifting sales to national and regional retailers, which will cater to the growing demand at retail stores. Sysco has shipped truckloads of protein, fresh product and bulk consumables to certain retail partners. The company is also supporting healthcare customers by arranging for deliveries of important items like PPE to hospitals, urgent care facilities and long-term care facilities. Apart from this, the company's digital investments, like its Shop platform, bode well.

- ▲ **Debt Analysis & Efforts to Enhance Liquidity:** Although Sysco's long-term debt (including operating lease liabilities) rose 27% sequentially to roughly \$13,436 million as of the end of the fourth quarter of fiscal 2020 (Jun 27, 2020), its cash and cash equivalents of \$6,059.4 million are sufficient to fund its short-term debt (including operating lease liabilities) of \$1,649.3 million. Further, during the fourth quarter, the company paid about \$930 million on its revolving credit facility and still had \$700 million remaining. Notably, Sysco had cash and available liquidity of more than \$8 billion as of Aug 11. In its fourth-quarter earnings call, management informed that it has sufficient liquidity even to navigate through the current situation.

- ▲ **Transformation Initiatives on Track:** Sysco is focused on its transformation initiatives. To this end, the company has been focused on working toward becoming more digitally oriented, as part of which it is making investments to enhance its Sysco Shop digital order platform among other efforts. Further, Sysco is concentrating on improving its sales model – including transforming sales structure to be more focused, coordinating sales force incentives more closely with the company's business goals and enhancing partnership of sales teams across its different business lines. Moving on, Sysco is on track to regionalize its U.S. operations, which is likely to enhance the company's efficiency.

The company's fourth initiative involves removing structural fixed costs. The company now intends to eliminate annualized permanent fixed costs of about \$350 million from its business in fiscal 2021. Apart from these savings, management has outlined other cost-reduction opportunities, which are expected to deliver savings fiscal 2022 onwards. Incidentally, Sysco cut operating expenses by about \$500 million in the fourth quarter of fiscal 2020 itself, including nearly \$300 million of structural and permanent costs on an annual run-rate basis.

- ▲ **Acquisitions Driving Growth:** The company has been carrying out various acquisitions over the years to grow its distribution network and customer base and boost long-term growth. To this end, Sysco announced the buyout of J. Kings Food Service Professionals in August 2019. Prior to this, the company took over sister firms J & M Wholesale Meats and Imperio Foods in April. These are expected to strengthen Sysco's distribution network.

Other evidences in this regard include the takeovers of HFM in Hawaii, Doerle Food Service in Louisiana and Kent Frozen Foods in the U.K. Also, the company inked a small deal in Sweden and bought the remaining 50% stake in Mayca Distribuidores of Costa Rica. Previous moves in this regard include the buyout Supplies on the Fly; North Star Seafood, Gilchrist & Soames and 50% stake in Mexico-based Pacific Star Foodservice among others.

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## Reasons To Sell:

▼ **COVID-19 Hurts Q4 Results:** Sysco has been bearing the brunt of coronavirus-related hurdles. This was also witnessed in fourth-quarter fiscal 2020 results, wherein both top and bottom lines deteriorated year over year. The company posted an adjusted loss of 29 cents per share, significantly lower than the year-ago period's adjusted earnings of \$1.10 per share. Further, Sysco reported sales of \$8,866.6 million, which slumped 42.7% year over year, thanks to the coronavirus outbreak and foreign currency headwinds. Sales declined in both – the U.S. Foodservice and International Foodservice segments on account of temporary closures amid the pandemic. Lower volumes in the food-away-from-home channel have been a deterrent. Increased social distancing had a considerable adverse impact on the company's restaurant, education and hospitality customer segments. Though the company saw its sales improve week over week from May to June as things started reopening, the rising number of cases in some locations has stagnated business recovery.

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▼ **Food Cost Inflation in the U.S. Foodservice Unit:** Sysco has been encountering inflation in the meat category in the U.S. Foodservice unit for a while now. During the fourth quarter of fiscal 2020, the U.S. Foodservice's food-cost inflation was almost flat in U.S. Broadline, as deflationary trends in frozen and poultry categories were countered by inflation in meat. Gross profit in the segment plunged 45.7% to \$1,165.6 million, while gross margin contracted 102 bps to 19.06%. Also, adjusted operating income slumped 80% to \$164.9 million. Persistence of such trends poses threats to margins.

▼ **Unfavorable Currency Translations:** Sysco generates solid business from its international operations, which are spread across Canada, Europe and Latin America. Evidently, sales from its International Foodservice operations constituted roughly 15.4% of the company's total revenues in the fourth quarter. Thus, the company remains prone to the risk of unfavorable currency translations. Foreign exchange fluctuations negatively impacted International segment sales by 1.5% during the fourth quarter. Currency woes hurt the company's overall top line as well as gross profit.

▼ **Stiff Competition:** Sysco operates in a highly fragmented and competitive foodservice distribution industry. Thus, the company faces competition from various local, regional, multi-regional distributors and specialty players on grounds of lower cost advantage, pricing, product assortment, geographic reach and responsiveness to changing consumer needs among others.

Volatile and price-sensitive demand for food-away-from-home products also restricts the company to undertake price increases, despite rising input costs and inflationary trends in the industry. Additionally, rising competition from non-traditional players like club stores or commercial wholesale markets, which have a lower cost structure, creates pricing pressure and remains a threat to Sysco's margins.

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## Last Earnings Report

### Sysco's Q4 Loss Narrower Than Expected, Sales Down Y/Y

Sysco reported fourth-quarter fiscal 2020 results, wherein it posted an adjusted loss of 29 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of 39 cents. However, the bottom line fell significantly from the year-ago period's adjusted earnings of \$1.10 per share. The year-over-year deterioration can be attributed to reduced sales and margins.

Sysco reported sales of \$8,866.6 million, which slumped 42.7% year over year, thanks to the coronavirus outbreak. Nevertheless, the figure surpassed the Zacks Consensus Estimate of \$8,188.2 million. Foreign currency headwinds had an adverse impact of about 0.3% on the top line.

Gross profit in the quarter declined 47.4% to \$1,565.7 million and the gross margin contracted 159 basis points (bps) to 17.66%. Foreign currency headwinds had an adverse impact of about 0.3% on the gross profit. Adjusted operating loss was \$33.9 million against adjusted operating income of roughly \$818 million in the year-ago period.

### Segment Details

**U.S. Foodservice Operations:** During the fourth quarter, segment sales declined 42.8% to \$6,114.9 million. Local case volumes within U.S. Broadline operations fell 38.7% (including organic sales decline of 39.4%) and total case volumes dropped 41.5% (wherein organic sales declined 41.9%). Gross profit plunged 45.7% to \$1,165.6 million, while gross margin contracted 102 bps to 19.06%. Food-cost inflation was almost flat in U.S. Broadline, as inflation in meat was countered by deflationary trends in frozen and poultry categories.

**International Foodservice Operations:** Segment sales declined 53.4% to \$1,361.1 million in the fourth quarter. Foreign exchange fluctuations hurt segment sales by 1.5% during the quarter. On a constant-currency (cc) basis, sales fell 51.9% to \$1,405.6 million. At cc, gross profit declined 56.4% to \$270.9 million and gross margin fell 199 bps to 19.27%. Currency headwinds affected the segment's gross profit by 1.3%.

**SYGMA** sales dropped 16.8% to \$1,288.9 million. **Other** segment sales tumbled 66.8% to \$101.6 million.

### Other Updates

Sysco ended the quarter with cash and cash equivalents of \$6,059.4 million, long-term debt of \$12,902.5 million and total shareholders' equity of \$1,158.6 million. During fiscal 2020, the company generated cash flow from operations of \$1,618.7 million and free cash flow amounted to \$927 million.

The company is making robust efforts to manage its business amid the pandemic. To this end, it is utilizing its sales team to boost additional businesses and prepare for the return of demand in the food-away-from-home channel. The company is also helping its restaurant partners to reshape business, as per the current environment, by offering solutions related to meal kits, contactless menus, curbside/takeout, along with safety and sanitation.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Aug 11, 2020 |
| Sales Surprise   | 8.29%        |
| EPS Surprise     | 25.64%       |
| Quarterly EPS    | -0.29        |
| Annual EPS (TTM) | 1.99         |

## Recent News

### Sysco's Cutting Edge Solutions to Help Foodservice Operators - Sep 28, 2020

Sysco stated that it is launching 10 fascinating menu concepts only for its customers nationally, with the help of the Cutting Edge Solutions platform. These exclusively crafted products are likely to aid foodservice operators to keep up with the new dining trends while keeping them ahead of their competitors amid the pandemic. The platform will help them to increase dining traffic as well as open up new revenue streams amid the crisis.

Further, it will help foodservice operators update their menus in a simple manner. The platform also enables a smooth functioning of back-of-house operations for the foodservice operators. Notably, the Cutting Edge Solutions' products are curated keeping in mind dining trends like comfort foods, outdoor and patio dining, better-for-you ingredients, takeout-friendly as well as versatility and labor-saving solutions.

### Sysco Rolls Out Foodie Solutions to Aid Foodservice Demand - Sep 11, 2020

Sysco launched Foodie Solutions in an attempt to aid foodservice operators. Foodie Solutions' toolkits are aimed at helping foodservice operators in driving traffic and enhancing sales to stay afloat amid the coronavirus crisis. Apart from this, Foodie Solutions is also designed to help Sysco's customers by providing them with long-term operational strategies.

The toolkit consists of various features like Virtual Kitchens which lists recommendations for serving customers via online platforms and phone calls. Also, Foodie Solutions offers a manual for pre-made meals as well as signature dishes of foodservice operators. Moreover, Family Style Meal Kits and Patio Dining solutions are also available in the toolkit. Apart from these, content related to takeout and delivery, meal prep kits as well as bar services among others is available.

### Sysco Declares Dividend – Aug 22, 2020

Sysco announced a quarterly cash dividend of 45 cents per share, payable on Oct 23, 2020 to shareholders of record as on Oct 2.

## Valuation

Sysco shares are down 26.7% in the year-to-date period and 20.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 0.1% in the year-to-date period, while the Zacks Consumer Staples sector is down 3.2%. Over the past year, the Zacks sub-industry and the sector gained 8.1% and 2.4%, respectively.

The S&P 500 index is up 9.4% in the year-to-date period and 16.5% in the past year.

The stock is currently trading at 29.94X forward 12-month earnings, which compares to 18.85X for the Zacks sub-industry, 19.61X for the Zacks sector and 22.28X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.92X and as low as 7.81X, with a 5-year median of 20.04X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$64 price target reflects 31.52X forward 12-month earnings.

The table below shows summary valuation data for SY

| Valuation Multiples - SY |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                 | Current       | 29.94 | 18.85        | 19.61  | 22.28   |
|                          | 5-Year High   | 31.92 | 22.9         | 22.37  | 23.47   |
|                          | 5-Year Low    | 7.81  | 14.74        | 16.61  | 15.27   |
|                          | 5-Year Median | 20.04 | 18.52        | 19.61  | 17.68   |
| P/S F12M                 | Current       | 0.61  | 1.67         | 9.5    | 4.14    |
|                          | 5-Year High   | 0.7   | 2.05         | 11.16  | 4.31    |
|                          | 5-Year Low    | 0.25  | 1.4          | 8.14   | 3.18    |
|                          | 5-Year Median | 0.53  | 1.72         | 9.89   | 3.67    |
| EV/EBITDA F12M           | Current       | 14.33 | 12.95        | 35.44  | 17.26   |
|                          | 5-Year High   | 14.82 | 14.65        | 37.5   | 18.91   |
|                          | 5-Year Low    | 6.77  | 10.81        | 25.76  | 13.03   |
|                          | 5-Year Median | 11.29 | 13.08        | 33.86  | 15.8    |

As of 10/26/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 23% (190 out of 248)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                    | Rec        | Rank |
|-------------------------------------|------------|------|
| United Natural Foods, Inc. (UNFI)   | Outperform | 1    |
| Conagra Brands Inc. (CAG)           | Neutral    | 3    |
| Campbell Soup Company (CPB)         | Neutral    | 3    |
| General Mills, Inc. (GIS)           | Neutral    | 2    |
| The Kraft Heinz Company (KHC)       | Neutral    | 3    |
| Mondelez International, Inc. (MDLZ) | Neutral    | 4    |
| Post Holdings, Inc. (POST)          | Neutral    | 5    |
| TreeHouse Foods, Inc. (THS)         | Neutral    | 3    |

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

| Industry Comparison Industry: Food - Miscellaneous |           |            |           | Industry Peers |           |            |
|----------------------------------------------------|-----------|------------|-----------|----------------|-----------|------------|
|                                                    | SYN       | X Industry | S&P 500   | CPB            | KHC       | UNFI       |
| Zacks Recommendation (Long Term)                   | Neutral   | -          | -         | Neutral        | Neutral   | Outperform |
| Zacks Rank (Short Term)                            | 4         | -          | -         | 3              | 3         | 1          |
| VGM Score                                          | C         | -          | -         | B              | A         | B          |
| Market Cap                                         | 30.95 B   | 3.52 B     | 23.46 B   | 14.60 B        | 37.39 B   | 883.47 M   |
| # of Analysts                                      | 5         | 3          | 13        | 7              | 8         | 4          |
| Dividend Yield                                     | 2.96%     | 0.00%      | 1.66%     | 2.90%          | 5.23%     | 0.00%      |
| Value Score                                        | C         | -          | -         | C              | A         | B          |
| Cash/Price                                         | 0.18      | 0.07       | 0.07      | 0.06           | 0.07      | 0.05       |
| EV/EBITDA                                          | 20.52     | 12.57      | 13.28     | 13.02          | 13.31     | 6.15       |
| PEG F1                                             | 3.48      | 3.85       | 2.69      | 11.46          | 2.28      | NA         |
| P/B                                                | 26.64     | 2.32       | 3.42      | 5.68           | 0.76      | 0.76       |
| P/CF                                               | 14.21     | 12.20      | 13.02     | 11.90          | 8.94      | 1.01       |
| P/E F1                                             | 34.44     | 18.05      | 21.07     | 16.50          | 11.40     | 4.68       |
| P/S TTM                                            | 0.59      | 1.34       | 2.56      | 1.68           | 1.47      | 0.03       |
| Earnings Yield                                     | 2.85%     | 5.01%      | 4.47%     | 6.07%          | 8.76%     | 21.35%     |
| Debt/Equity                                        | 11.14     | 0.58       | 0.70      | 1.94           | 0.57      | 2.25       |
| Cash Flow (\$/share)                               | 4.28      | 2.68       | 6.93      | 4.06           | 3.42      | 15.91      |
| Growth Score                                       | B         | -          | -         | A              | B         | C          |
| Historical EPS Growth (3-5 Years)                  | 12.72%    | 4.55%      | 10.10%    | -2.54%         | -0.23%    | -4.96%     |
| Projected EPS Growth (F1/F0)                       | -14.03%   | 10.79%     | -1.80%    | -0.78%         | -5.84%    | 26.56%     |
| Current Cash Flow Growth                           | -17.79%   | 4.54%      | 5.49%     | 7.36%          | -15.53%   | 31.69%     |
| Historical Cash Flow Growth (3-5 Years)            | 5.26%     | 6.08%      | 8.50%     | 2.72%          | 11.14%    | 32.71%     |
| Current Ratio                                      | 1.84      | 1.68       | 1.37      | 0.78           | 1.09      | 1.56       |
| Debt/Capital                                       | 91.78%    | 36.72%     | 42.02%    | 66.03%         | 36.37%    | 69.23%     |
| Net Margin                                         | 0.41%     | 2.97%      | 10.35%    | 18.73%         | -0.76%    | -1.07%     |
| Return on Equity                                   | 50.53%    | 9.73%      | 14.88%    | 40.53%         | 6.68%     | 14.10%     |
| Sales/Assets                                       | 2.60      | 1.02       | 0.50      | 0.70           | 0.25      | 3.31       |
| Projected Sales Growth (F1/F0)                     | -2.66%    | 0.00%      | -0.40%    | -3.44%         | 3.35%     | 7.07%      |
| Momentum Score                                     | D         | -          | -         | C              | A         | B          |
| Daily Price Change                                 | -6.17%    | -1.03%     | -2.29%    | -0.54%         | -2.52%    | -0.25%     |
| 1-Week Price Change                                | -1.49%    | -0.25%     | 0.01%     | -0.80%         | -2.46%    | -17.14%    |
| 4-Week Price Change                                | -1.70%    | 0.59%      | 2.49%     | 0.65%          | 2.51%     | -16.01%    |
| 12-Week Price Change                               | 16.63%    | 0.72%      | 3.88%     | -2.86%         | -12.10%   | -20.72%    |
| 52-Week Price Change                               | -22.90%   | 3.94%      | 1.66%     | 3.72%          | 7.79%     | 110.86%    |
| 20-Day Average Volume (Shares)                     | 2,191,306 | 141,202    | 1,767,276 | 1,803,855      | 5,208,826 | 2,136,654  |
| EPS F1 Estimate 1-Week Change                      | -3.89%    | 0.00%      | 0.00%     | 0.00%          | 0.09%     | 0.00%      |
| EPS F1 Estimate 4-Week Change                      | -7.22%    | 0.00%      | 0.25%     | 0.00%          | 0.14%     | 68.13%     |
| EPS F1 Estimate 12-Week Change                     | -24.04%   | 3.25%      | 3.29%     | 2.35%          | 10.50%    | 101.61%    |
| EPS Q1 Estimate Monthly Change                     | -15.19%   | 0.00%      | 0.00%     | 0.00%          | 0.42%     | 361.54%    |

Source: Zacks Investment Research

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## 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.

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### 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   | B |
| Momentum Score | D |
| VGM Score      | C |

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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## Disclosures

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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.

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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.

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**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 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.