

Tractor Supply Company (TSCO)

\$147.08 (As of 12/18/20)

Price Target (6-12 Months): **\$156.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/22/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Tractor Supply have outpaced the industry year to date driven by robust earnings surprise trend, which continued in third-quarter 2020. It marked third straight quarter of earnings beat in the said quarter. Results gained from robust sales, comps growth and S&GA leverage, which also aided margins. Its omni-channel investments like curbside pickup, BOPIs, ship-to-store, same day/next day delivery, revamped website, Neighbor's Club loyalty program and its first-ever mobile app, have been leading to rise in new customers. Also, e-commerce sales grew triple-digits in the third quarter. It also provided an upbeat view for the fourth quarter. Its Life Out Here and 'ONETractor' strategies seem encouraging. However, the company expects to remain hurt by elevated COVID-19 related costs of \$17-\$20 million in the fourth quarter.

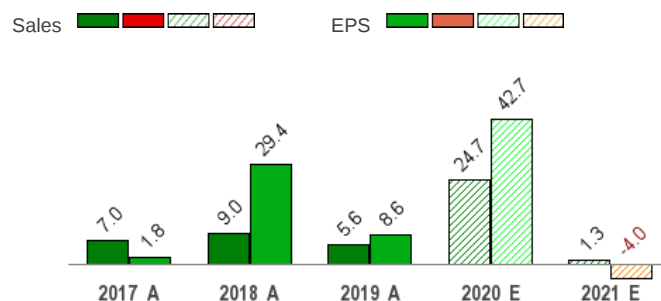
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$157.07 - \$63.89
20-Day Average Volume (Shares)	1,258,747
Market Cap	\$17.1 B
Year-To-Date Price Change	57.4%
Beta	0.98
Dividend / Dividend Yield	\$1.60 / 1.1%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 15% (39 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.4%
Last Sales Surprise	8.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/04/2021
Earnings ESP	0.0%
P/E TTM	22.8
P/E F1	22.0
PEG F1	1.9
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,263 E	3,074 E	2,557 E	2,752 E	10,553 E
2020	1,959 A	3,176 A	2,607 A	2,678 E	10,415 E
2019	1,822 A	2,354 A	1,984 A	2,192 A	8,352 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.83 E	\$2.56 E	\$1.48 E	\$1.58 E	\$6.41 E
2020	\$0.71 A	\$2.90 A	\$1.62 A	\$1.46 E	\$6.68 E
2019	\$0.63 A	\$1.80 A	\$1.04 A	\$1.21 A	\$4.68 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 12/18/2020. The reports text is as of 12/21/2020.

Overview

Headquartered in Brentwood, TN, Tractor Supply Company is the largest retail farm and ranch store chain in the United States. The company focuses on recreational farmers and ranchers as well as tradesmen and small businesses. It offers a wide array of merchandise such as livestock, pet and animal products, maintenance products for agricultural and rural use, hardware and tools, lawn and garden power equipment, truck and towing products, and work apparel.

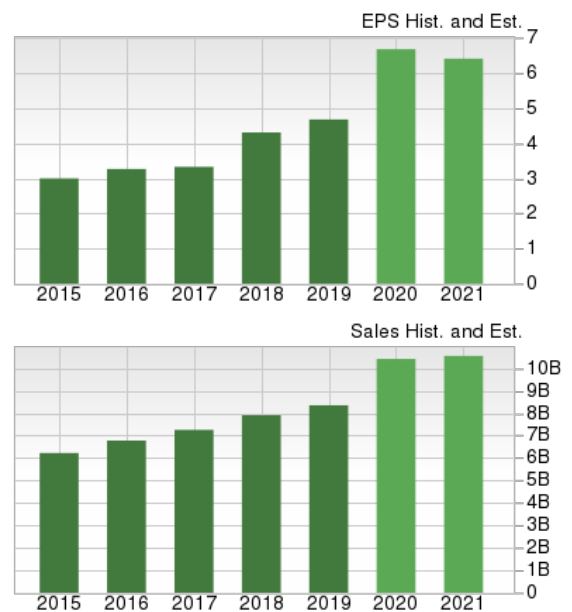
Stores of Tractor Supply are primarily located in rural areas and the suburbs of major cities, which have inside selling space of 15,000–20,000 square feet with a similar area of outside space, used to demonstrate agricultural fencing, livestock equipment and horse stalls. Petsense stores have roughly 5,500 square feet of inside selling space. For Tractor Supply retail locations, the company has a standard design for the new built-to-suit locations, including nearly 15,500 square feet of inside selling space.

Tractor Supply's broad assortment of products is tailored to meet the regional and geographic needs of its markets. Moreover, the retailer's full line of product offerings is supported by a strong in-stock inventory position with an average of 16,000–19,500 unique products per store.

Apart from selling nationally recognized branded merchandise, the company also markets an increasing list of products under its "private-label programs." The latter include Masterhand and Job Smart (tools and tool chests), Dumor and Producers Pride (livestock feed) and Retriever and Paws 'n Claws (pet foods). Further, the company recently acquired 100% stake in Petsense, to fortify its presence in the pet specialty space.

Tractor Supply operates retail stores under the names Tractor Supply Company, Del's Feed & Farm Supply, and Petsense as well as operate websites under the names TractorSupply.com and Petsense.com. Its online selling websites are expected to offer expanded assortment of products beyond in-store as well as boost store traffic through buy online, pickup in-store and ship to store programs.

As of Sep 26, the company operated 1,904 Tractor Supply stores across 49 states and 183 Petsense stores in 25 states.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Strong Q3 Results:** Shares of Tractor Supply have increased 57.4% year to date outperforming the industry's 9.1% growth. In third-quarter 2020, the company's top and bottom lines surpassed the Zacks Consensus Estimate and improved year over year. This marks the third straight quarter of earnings beat. The improvement in top line was driven by comparable store sales (comps) increase of 26.8%, led by growth of 12.5% in comparable average ticket and 14.3% in comparable average transaction count. Comps growth was backed by strength in demand for summer seasonal categories as well as everyday merchandise, including consumable, usable and edible products. Further, robust comps growth at all of the company's geographic regions aided results. Management estimates the solid sales momentum to continue in the fourth quarter.

Tractor Supply's omni-channel efforts like curbside pickup, BOPIS, ship to store, same day, next-day delivery, a re-launched website and new mobile app, aided triple-digits digital sales growth in Q3.

▲ **Cost Leverage & Favorable Q3 Margins:** Tractor Supply's bottom line in the third quarter benefited from robust gross and operating margin growth, as well as lower SG&A expenses. Gross profit rose 36.6% year over year, while gross margin expanded 138 basis points (bps) to 36.4%. Gross margin gained from lower depth and frequency of sales promotions, lower clearance activity, and reduced transportation costs as a percent of net sales. Selling, general and administrative (SG&A) expenses — including depreciation and amortization — as a percentage of sales declined 14 bps to 26.7% on leverage in occupancy, personnel as well as other operating costs due to higher comps, partly offset by incremental costs related to the pandemic. Driven by higher sales and gross margin, operating income rose 55.9%, along with 152 bps expansion in operating margin to 9.7%.

▲ **Q4 Outlook:** Although Tractor Supply continues to remain uncertain regarding the magnitude of the pandemics impact upon the company performance in 2020, it has provided upbeat guidance for the fourth quarter. The company expects net sales in the range of \$2.6-\$2.7 billion for the fourth quarter, with comps growth of 15-20%. Moreover, net income is likely to be \$163-\$175 million, while earnings per share are expected in the bracket of \$1.37-\$1.47. Also, gross margin is likely to be in the range of flat to marginal increase in the fourth quarter.

▲ **Long-term Initiatives:** Tractor Supply's is on track to build up on Tractor Supply's Out Here lifestyle assortment and convenient shopping format to gain new customers and market share. The strategy is essentially based on five key pillars which includes customers, digitization, execution, team members as well as total shareholder return. Some of the key initiatives undertaken to support the strategy include boosting space productivity, enhancing omni-channel initiatives, evolution of Neighbor's Club loyalty program as well as augmenting in-store merchandising execution. As part of the Life Out Here Strategy, the company also provided long term financial growth targets for the upcoming three to five years. Accordingly, management envisions achieving net sales growth in the bracket of 6-7%, while comps are expected to grow between 4-5%. Further, operating margin is expected in the range of 9-9.5% and earnings per share are expected to grow in the bracket of 8-10%. Additionally, the company launched the Field Activity Support Team ("FAST") and is implementing various technology and service enhancements across the enterprise. It is also in the initial phase of transforming its side lots and mature stores to improve space productivity, bringing the latest merchandising strategies to life and advancing efforts to remain nationally strong and locally relevant.

▲ **'ONETractor' Strategy To Boost E-Commerce:** Given the changing consumer trends, Tractor Supply is focused on integrating its physical and digital operations to offer consumers a seamless shopping experience. Incidentally, the company remains on track with the 'ONETractor' strategy that is aimed at connecting store and online shopping. Backed by this initiative, the company continues to drive growth, build customer-centric engagement, offer suitable products and services, and reinforce core infrastructure capabilities. Moreover, Tractor Supply is benefiting from the roll out of capabilities like stockyard in-store kiosk and mobile point-of-sale (PoS) in all its stores, as well as enhancing of the Tractor Supply credit card offering, and investments in its supply chain. The company's omni-channel investments, including curbside pickup, same day, next-day delivery, a re-launched website and new mobile app contributed to digital sales growth in the third quarter to the tune of triple-digits. Also, higher conversions aided digital sales to a large extent. Notably, Buy Online Pickup in Store and Ship to Store facilities acted as key growth drivers, representing more than 80% of online orders. Apart from these, its newly launched mobile app as well as the Neighbor's Club loyalty program bode well. In fact, it witnessed 500,000 downloads since the launch of its mobile app in July. Consequently, these well chalked out efforts are boosting traffic which in turn is leading to new customer acquisitions. Going ahead, management expects to offer one-day delivery to 99% of its customers in the near term.

▲ **Store Growth Initiatives:** Tractor Supply is persistently focusing on its growth initiatives, which include expansion of store base and incorporation of technological advancements to induce traffic and drive the top line. The company's sales and comps have been considerably gaining from the addition of new stores every quarter. Moreover, the company expects to drive comps by improving marketing and merchandising initiatives as well as supply chain efficiencies. The company is well positioned to expand store base, remaining on track to increase its domestic store to 2,500 in the long term. In the third quarter, Tractor Supply opened 23 namesake and three Petsense stores. Management remains on track with its store opening initiatives. For 2020, the company expects to open 80 Tractor Supply stores. It now anticipates opening 10 new Petsense locations compared with the prior outlook of 10-15 stores. However, some store openings might be delayed owing to government restrictions stemming from the COVID-19 crisis.

▲ **Debt Analysis:** Tractor Supply's cash and cash equivalents at the end of third-quarter 2020 increased substantially to \$1,112 million from \$82.6 million in the prior quarter. Notably, the company's cash position remains sufficient to fund its short term obligations of about \$380 million as of Sep 26, 2020. Further, it has no amounts drawn on its \$500 million revolving credit facility as of Sep 26, 2020. This provides ample financial flexibility to the company to steer through the pandemic. Its long-term debt of \$562 million (including finance lease liabilities) declined 1% sequentially. Moreover, its debt-to-capitalization ratio of 0.33 represents a sequential improvement from 0.36.

Reasons To Sell:

- ▼ **Higher COVID Related & Other Costs:** Despite a decent view for the fourth quarter, Tractor Supply expects costs related to the coronavirus outbreak to hurt its business by \$17-\$20 million in the said quarter. Additionally, costs related to the aforementioned Life Out Here Strategy is likely to be in the range of \$12-\$15 million during the fourth quarter. The company also expects to incur wage and benefit changes related costs of nearly \$13 million.
- ▼ **Increased Capex View:** In the first nine months of 2020, Tractor Supply incurred capital expenditure of \$161.3 million and generated cash flow from operating activities of \$1,005 million. However, it continues expects capital expenditure of \$300-\$325 million for 2020 owing to increased capital investments to support the company's strategic growth initiatives. This reflects a sharp rise from \$225-\$275 million mentioned earlier.
- ▼ **Seasonality Risk:** Tractor Supply's business is highly seasonal, with sales and profits soaring in the spring and winter selling seasons on the back of seasonal demand for its merchandise offering. Unseasonable weather, heavy precipitation, drought conditions and early or late frosts may have a material impact on the company's financial condition and its operational results. In fact, fourth-quarter top line performance was affected by adverse seasonal weather trends. Unseasonably warm temperatures in December hurt sales for many seasonal categories.
- ▼ **Competitive Threat:** Tractor Supply's business is highly competitive, primarily based on customer services, price, store location and assortment of merchandise. It faces stiff competition from local, regional and international players. Being in such a highly competitive industry, Tractor Supply may find it difficult to execute and implement new business strategies, which could adversely impact its operations.
- ▼ **Volatility in Raw Material Prices:** Tractor Supply's business involves the purchase of commodities like grain, steel, petroleum, corn, and cotton, among various other raw materials, whose prices keep fluctuating. Prices of these products are also quite prone to inflationary and deflationary pressures, which in turn can hurt the company's sales, margins and overall financial results. Though the company is focused on minimizing such price volatility, the failure to implement its strategies efficiently may be a cause for concern.

Despite a decent view for fourth-quarter 2020, Tractor Supply expects costs related to the coronavirus outbreak to hurt its business by \$17-\$20 million in the said quarter.

Last Earnings Report

Tractor Supply Posts Q3 Earnings Beat, Sales Up Y/Y

Tractor Supply reported third-quarter 2020 results, wherein the top and the bottom lines improved year-on-year and also surpassed the Zacks Consensus Estimate. The company also provided its view for the fourth quarter.

Tractor Supply's earnings came in at of \$1.62 per share, which surpassed the Zacks Consensus Estimate of \$1.38. Moreover, the bottom line improved 58.8% from the prior-year quarter's figure.

Net sales increased 31.4% year over year to \$ 2,606.6 million and beat the Zacks Consensus Estimate of \$2,398 million. The improvement was driven by comparable store sales (comps) increase of 26.8%, led by growth of 12.5% in comparable average ticket and 14.3% in comparable average transaction count.

Comps growth was backed by strength in demand for summer seasonal categories as well as everyday merchandise, including consumable, usable and edible products. Further, robust comps growth at all of the company's geographic regions aided results. Additionally, the company witnessed triple-digit sales growth in the e-commerce business.

Margins & Costs

Gross profit rose 36.6% year over year to \$948 million, while gross margin expanded 138 basis points (bps) to 36.4%. Gross margin gained from lower depth and frequency of sales promotions, lower clearance activity, and reduced transportation costs as a percent of net sales.

Selling, general and administrative (SG&A) expenses — including depreciation and amortization — as a percentage of sales declined 14 bps to 26.7%. SG&A expenses benefited from leverage in occupancy, personnel as well as other operating costs due to higher comps, partly offset by incremental costs related to the pandemic. In dollar terms, SG&A expenses, including depreciation and amortization, rose 30.7% to \$695.8 million.

Driven by higher sales and gross margin, operating income rose 55.9% to \$ 252.2 million in the third quarter. Operating margin expanded 152 bps to 9.7%.

Strategic Initiatives

The company provided details regarding its new 'Life Out Here Strategy'. The strategy is essentially based on five key pillars which includes customers, digitization, execution, team members as well as total shareholder return. Some of the key initiatives undertaken to support the strategy include boosting space productivity, enhancing omni channel initiatives, evolution of Neighbor's Club loyalty program as well as augmenting in-store merchandising execution.

As part of the Life Out Here Strategy, the company also provided long term financial growth targets for the upcoming three to five years. Accordingly management envisions achieving net sales growth in the bracket of 6-7%, while comps are expected to grow between 4-5%. Further, operating margin is expected in the range of 9-9.5% and earnings per share are expected to grow in the bracket of 8-10%.

Financial Position

Tractor Supply ended the quarter with cash and cash equivalents of \$1,112 million, long-term debt of \$529.3 million and total stockholders' equity of \$1,875.9 million. Further, it has no amounts drawn on its \$500 million revolving credit facility as of Sep 26, 2020. This provides ample financial flexibility to the company to steer through the pandemic.

In the first nine months of 2020, it incurred capital expenditure of \$161.3 million and generated cash flow from operating activities of \$1,005 million. For 2020, it continues expects capital expenditure of \$300-\$325 million.

Store Update

In the quarter under review, Tractor Supply opened 23 Tractor Supply stores and three Petsense stores. As of Sep 26, the company operated 1,904 Tractor Supply stores across 49 states and 183 Petsense stores in 25 states. Going ahead, management remains on track with its store-opening initiatives. It plans to open 80 new Tractor Supply stores and 10 Petsense stores in 2020.

Q4 Outlook

Tractor Supply continues to remain uncertain regarding the magnitude of the pandemics impact upon the company performance in 2020. Nevertheless, it has provided guidance for the fourth quarter. The company expects net sales in the range of \$2.6-\$2.7 billion for the fourth quarter, with comps growth of 15-20%. Moreover, net income is likely to be \$163-\$175 million, while earnings per share are expected in the bracket of \$1.37-\$1.47.

However, the company expects costs related to COVID-19 to hurt its business by \$17-\$20 million in the fourth quarter. Additionally, costs related to the aforementioned Life Out Here Strategy is likely to be in the range of \$12-\$15 million during the fourth quarter. The company also expects to incur wage and benefit changes related costs of nearly \$13 million.

Quarter Ending	09/2020
Report Date	Oct 22, 2020
Sales Surprise	8.04%
EPS Surprise	17.39%
Quarterly EPS	1.62
Annual EPS (TTM)	6.44

Recent News

Tractor Supply's Upcoming Distribution Center to Aid Sales - Dec 7, 2020

Tractor Supply announced plans to open a distribution center in Navarre, OH, in a bid to better serve customers at stores and online. With an initial investment of \$70 million, the facility will bring new jobs. The distribution center, which is likely to be completed by fall 2022, will create more than 375 new full-time jobs by the end of 2023. Post the construction of this state-of-the-art facility, the company will operate nine distribution centers nationwide.

This move is in sync with its Life Out Here Strategy and is expected to serve 250 Tractor Supply stores at full capacity. Moreover, the latest development is estimated to contribute to online sales as well.

Tractor Supply Announces Dividend - Nov 5, 2020

Tractor Supply's board approved dividend of 40 cents per share which is to be payable on Dec 8 as of shareholders record on Nov 23, 2020. Apart from this, the company intends to restart its share repurchase program which was suspended in March owing to the COVID-19 crisis.

Valuation

Tractor Supply shares are up 57.4% in the year-to-date period and nearly 59.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 9.1% and 38% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.9% and 38.7%, respectively.

The S&P 500 index is up 17.1% each in the year-to-date period and in the past year.

The stock is currently trading at 22.91X forward 12-month earnings, which compares to 17.33X for the Zacks sub-industry, 30.94X for the Zacks sector and 23.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.28X and as low as 13.05X, with a 5-year median of 19.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$156 price target reflects 24.3X forward 12-month earnings.

The table below shows summary valuation data for TSCO

Valuation Multiples - TSCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.91	17.33	30.94	23.06
	5-Year High	26.28	24.2	34.06	23.79
	5-Year Low	13.05	11.54	19.08	15.3
	5-Year Median	19.76	15.97	23.62	17.81
P/S F12M	Current	1.62	0.95	1.31	4.35
	5-Year High	1.8	1.13	1.32	4.35
	5-Year Low	0.86	0.52	0.83	3.17
	5-Year Median	1.31	0.89	1.01	3.67
EV/EBITDA TTM	Current	13.96	12.75	19.32	16.82
	5-Year High	16.5	12.9	20.72	16.87
	5-Year Low	8.04	4.71	11.14	9.56
	5-Year Median	12.65	9.41	13.04	13.17

As of 12/18/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Calyxt, Inc. (CLXT)	Outperform	2
MarineMax, Inc. (HZO)	Outperform	1
Archer Daniels Midland Company (ADM)	Neutral	2
Adecoagro S.A. (AGRO)	Neutral	3
BuildABear Workshop, Inc. (BBW)	Neutral	2
KAR Auction Services, Inc (KAR)	Neutral	3
Limoneira Co (LMNR)	Neutral	3
Calavo Growers, Inc. (CVGW)	Underperform	4

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	TSCO	X Industry	S&P 500	CLXT	CVGW	HZO
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Underperform	Outperform
Zacks Rank (Short Term)	3	-	-	2	4	1
VGM Score	B	-	-	F	B	A
Market Cap	17.13 B	1.61 B	26.14 B	156.78 M	1.27 B	790.83 M
# of Analysts	14	5	14	3	2	6
Dividend Yield	1.09%	0.00%	1.49%	0.00%	1.60%	0.00%
Value Score	B	-	-	F	B	A
Cash/Price	0.07	0.25	0.06	0.20	0.00	0.23
EV/EBITDA	17.66	5.56	14.57	-3.88	16.32	5.38
PEG F1	1.90	1.60	2.84	NA	NA	NA
P/B	9.13	1.80	3.64	4.02	4.72	1.70
P/CF	22.68	6.97	14.01	NA	19.00	8.74
P/E F1	21.64	9.33	22.19	NA	24.81	9.34
P/S TTM	1.72	0.52	2.76	11.45	1.14	0.52
Earnings Yield	4.54%	5.40%	4.34%	-28.84%	4.02%	10.69%
Debt/Equity	0.30	0.19	0.70	0.56	0.02	0.02
Cash Flow (\$/share)	6.49	3.99	6.94	-1.15	3.79	4.10
Growth Score	B	-	-	F	A	A
Historical EPS Growth (3-5 Years)	15.37%	4.84%	9.69%	NA	6.16%	28.98%
Projected EPS Growth (F1/F0)	42.83%	5.13%	1.21%	-0.83%	60.06%	12.08%
Current Cash Flow Growth	7.18%	6.18%	5.22%	41.73%	17.65%	81.22%
Historical Cash Flow Growth (3-5 Years)	9.40%	2.23%	8.33%	NA	15.90%	26.76%
Current Ratio	1.49	1.49	1.38	4.83	1.41	1.85
Debt/Capital	23.06%	18.51%	42.00%	35.90%	2.14%	1.59%
Net Margin	7.62%	3.90%	10.44%	-318.57%	-1.31%	4.94%
Return on Equity	46.65%	10.96%	14.99%	-89.86%	10.31%	18.47%
Sales/Assets	1.60	1.22	0.50	0.19	2.52	1.88
Projected Sales Growth (F1/F0)	24.70%	0.00%	0.35%	145.31%	8.91%	21.88%
Momentum Score	D	-	-	F	D	F
Daily Price Change	1.08%	-1.57%	-0.33%	-8.04%	-2.97%	2.05%
1-Week Price Change	3.18%	-2.16%	-1.29%	6.20%	4.62%	-2.16%
4-Week Price Change	12.06%	6.30%	3.05%	17.83%	0.83%	6.80%
12-Week Price Change	6.38%	21.47%	19.99%	-32.10%	7.15%	42.94%
52-Week Price Change	60.20%	16.43%	6.80%	-37.33%	-21.19%	116.04%
20-Day Average Volume (Shares)	1,258,747	652,705	1,976,201	183,225	65,197	357,497
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-2.52%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	4.87%	0.00%	-0.41%	-3.01%	0.00%
EPS F1 Estimate 12-Week Change	6.26%	31.12%	3.94%	1.21%	-6.89%	57.97%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-10.87%	-9.43%	0.00%

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	B
Growth Score	B
Momentum Score	D
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.

Disclosures

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Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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.