

## Viasat, Inc. (VSAT)

**\$50.45** (As of 04/06/21)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 11/09/20)

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

Viasat's Satellite Services business is progressing well, driven by subscriber demand for broadband with significant growth in video streaming. The company continues to make progress on its ViaSat-3 global constellation amid challenges posed by the pandemic. It has completed the rollout of its residential Internet service to all the states of Brazil. Viasat's Ka-band solutions enable business jet customers to enjoy high-speed Internet connectivity. However, it operates in a highly dynamic and competitive market. It expects to incur huge research and development costs due to the launch of ViaSat-3 satellites, which can materially affect margins. Integration risks related to acquisitions might mar its near-term financials. In-flight connectivity weakness due to the pandemic is expected to hurt Viasat's revenues to a moderate extent.

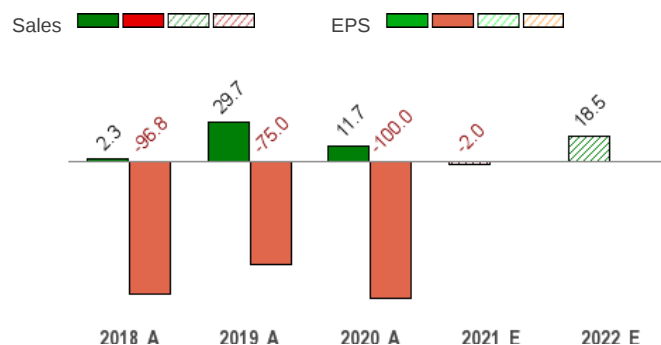
### Price, Consensus & Surprise



### Data Overview

|                                |                                |
|--------------------------------|--------------------------------|
| 52-Week High-Low               | <b>\$61.35 - \$29.82</b>       |
| 20-Day Average Volume (Shares) | <b>636,585</b>                 |
| Market Cap                     | <b>\$3.5 B</b>                 |
| Year-To-Date Price Change      | <b>57.3%</b>                   |
| Beta                           | <b>1.15</b>                    |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>           |
| Industry                       | <b>Wireless Equipment</b>      |
| Zacks Industry Rank            | <b>Top 30% (76 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>400.0%</b>     |
| Last Sales Surprise           | <b>-5.4%</b>      |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>05/25/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | 621 E | 669 E | 683 E | 715 E | 2,680 E |
| 2021 | 530 A | 554 A | 576 A | 607 E | 2,262 E |
| 2020 | 537 A | 592 A | 588 A | 592 A | 2,309 A |

### EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*   |
|------|-----------|----------|----------|----------|-----------|
| 2022 | \$0.08 E  | \$0.17 E | \$0.18 E | \$0.11 E | \$0.10 E  |
| 2021 | -\$0.20 A | \$0.03 A | \$0.10 A | \$0.07 E | -\$0.33 E |
| 2020 | \$0.10 A  | \$0.05 A | \$0.10 A | \$0.03 A | \$0.00 A  |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/06/2021. The report's text and the analyst-provided price target are as of 04/07/2021.

## Overview

Headquartered in Carlsbad, CA, Viasat designs, develops and markets advanced digital satellite telecommunications and other wireless networking and signal processing equipment. The company serves its high-bandwidth, high-performance communications solutions to public as well as military, enterprises and governments enterprises.

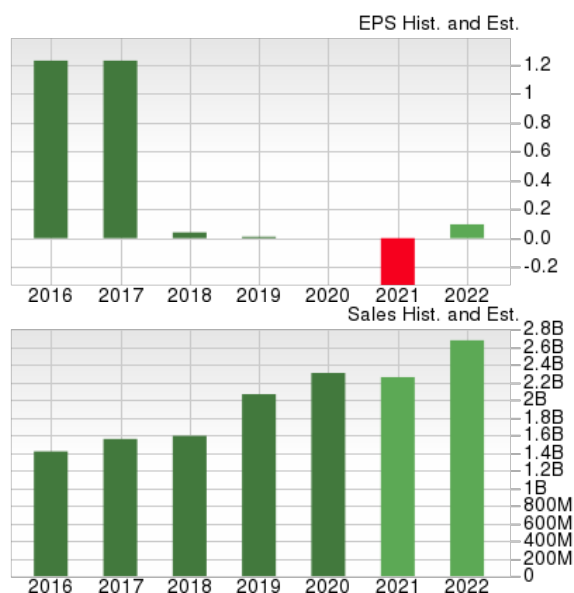
Viasat provides broadband services named 'Exede' in North America. This features the world's highest capacity satellite – ViaSat-1; satellite broadband networking systems; global mobile satellite services comprising high-speed in-flight Internet as well as global tracking and messaging; and Wi-Fi and other hotspot support, operations and management systems. Apart from these, the company offers cybersecurity and network-centric military communication systems for the U.S. government and its alliances.

Viasat has three operating segments that are as follows:

**Satellite Services (38.4% of total revenues in third-quarter fiscal 2021):** Under this segment, Viasat offers retail and wholesale satellite-based broadband services to mobile broadband customers and enterprises mainly in the U.S. Apart from providing Exede broadband services, the company presents a platform for network management services provision to national and international satellite service providers.

**Commercial Networks (15.6%):** The segment creates and produces a varied range of comprehensive and advanced satellite and other wireless communication systems as well as ground networking equipment and products. These offerings are aimed at addressing five key market segments: consumer, enterprise, maritime, in-flight and ground mobile applications.

**Government Systems (46%):** Through this segment, Viasat creates and presents network-centric IP-based fixed and mobile secure government communications systems and solutions for its federal customers such as Department of Defense (DoD), armed forces, public safety first-responders and remote government employees. The segment offering is strategized at aiding the collection and distribution of secure real-time digital information between communications nodes, command centers and air defense systems.



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## Reasons To Buy:

- ▲ Viasat delivered a trailing four-quarter earnings surprise of 190.9%, on average. The company holds a leadership position in the satellite and wireless communications market. With the rapid proliferation of the smartphone market and usage of mobile broadband, the user demand for coverage, speed and quality has increased, which in turn is fueling the demand for network tuning and optimization to maintain high data traffic. The company attracts millions of U.S. consumers and enterprises by its high-quality broadband service. Viasat's blue-chip customer base, which comprises the U.S. Department of Defense, civil agencies, allied foreign governments, satellite network integrators as well as large communications service providers and enterprises, adds to its strength. Viasat is eyeing opportunities to extend broadband satellite mobility to rotary wing aircraft, as it is a large addressable market.
- ▲ Viasat's Satellite Services business is progressing well with key metrics, including ARPU (average revenue per user) and revenues, showing impressive growth. ARPU is growing on the back of a solid retail distribution network, which accounts for a rising proportion of high value and high bandwidth subscriber base. Furthermore, the growing adoption of in-flight Wi-Fi services in commercial aircraft is proving conducive to business growth. Viasat's impressive bandwidth productivity sets it apart from conventional and lower-yield satellite providers that run on incumbent business models. Viasat has a competitive advantage in bandwidth economics, global coverage, flexibility and bandwidth allocation, which makes it believe that mobile broadband will act as a profit churner.
- ▲ Viasat is ramping up investments in the development of its revolutionary ViaSat-3 broadband communications platform, which will have nearly 10 times the bandwidth capacity of ViaSat-2. The ViaSat-3 payload program has begun its transition to the construction phase. These satellites will be capable of covering one-third of the world, including all Americas. The second ViaSat-3 will cover Europe, Middle East and Africa region. The ViaSat-3 platform will help to form a global broadband network with sufficient network capacity to allow better consumer choices with an affordable, high-quality, high-speed Internet and video streaming service. In a nutshell, Viasat has garnered enough economics of scale and scope to serve vast emerging markets in South America, Africa, Middle East and Western Asia. Hence, momentous market traction of ViaSat-1 and ViaSat-2 satellites, coupled with strategically planned ViaSat-3 satellites, are likely to provide the company with a solid competitive edge over its peers, thereby bolstering growth in long run.

Viasat holds a leadership position in the satellite and wireless communications market. The company continues to make progress on its ViaSat-3 global constellation amid challenges posed by the pandemic.

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## Reasons To Sell:

- ▼ Viasat operates in a dynamic and competitive market, which includes stalwarts from varied industries. In the Satellite Services segment, the company faces competition from companies like AT&T, Comtech and DISH Network. On the other hand, the Government Systems segment faces threats from manufacturers of defense electronics products and systems such as General Dynamics. Hence, to combat such competitive pressure, Viasat has to continuously customize its network offering as per needs, enhance cost-effectiveness of its products and services, and boost the satellite data networks. Increased competition results in price reductions, reduced margins and loss of market share, which has an adverse effect on the results of operations.
- ▼ Although Viasat's acquisition strategy has significant long-term impact, it has led to integration risks in the near term. Failure to successfully integrate the newly acquired companies into its own business model will hurt the company's financials. Though the company's research and development activities promise long-term prospects, they weigh on net income. This apart, the company anticipates incurring huge rise in research and development costs related to the launch of ViaSat-3 satellites that can materially impact its margins. In-flight connectivity (IFC) weakness resulting from the pandemic is expected to hinder Viasat's revenue growth. While the company targets mid-2021 for the launch of the first ViaSat-3 class satellite, the coronavirus-induced disruptions pose risk to the payload completion and the final spacecraft assembly, integration and test schedule.
- ▼ Viasat's Satellite Services segment is affected by seasonality of demand due to traditional retail selling periods. Historically, March through May of any year proves to be expensive months for the company in terms of subscriber acquisition. Additionally, the sales activity is mostly high during the second half of every calendar year. Any failure in promotional and subscriber retention efforts, changes in third parties, changes in subscribers' approval processes will likely impact sales and churn rate. In addition, there may be a number of technical problems in relation with the performance of satellites, as they utilize highly complex technology and operate in the harsh environment, which may pose concerns for Viasat's future profitability. For instance, problems associated with the power sub-systems, control sub-systems and degradation or unforeseen anomalies in space can pose material threats to profitability.
- ▼ Viasat depends on U.S. government contracts for a major portion of its revenues. In future, any additional Federal budgetary pressure will lead to deeper-than-expected cuts in defense spending, significantly impacting the company's business. A shift in the U.S. government's foreign policy could result in the termination of some major international contracts. Moreover, as the company's international sales and operations are subject to laws related to trade, export controls and foreign corrupt practices and others, failures to comply with them could hurt its financials.
- ▼ As of Dec 31, 2020, Viasat had \$317 million in cash and cash equivalents with \$1,804 million of long-term debt compared with the respective tallies of \$350 million and \$1,815 million at the end of the previous quarter. The company has a debt-to-capital ratio of 0.44 compared with 0.35 of the industry. The times interest earned (TIE) ratio has improved from the prior quarter to 1.2 at present, relative to 8.8 of the industry. It is to be seen whether Viasat can turn the tables in the coming days amid disruptions stemming from the pandemic.

Viasat expects to incur huge research and development costs relating to the service launch of ViaSat-3 satellites. In-flight connectivity weakness due to the pandemic is expected to hurt its revenues to a moderate extent.

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## Last Earnings Report

### Viasat's Q3 Earnings Beat Estimates, Revenues Miss

Viasat reported mixed third-quarter fiscal 2021 results, wherein the bottom line beat the Zacks Consensus Estimate but the top line missed the same.

#### Net Income

On a GAAP basis, net income in the December quarter was \$6.8 million or 10 cents per share compared with \$6.5 million or 10 cents per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 8 cents, delivering a positive surprise of 400%.

Non-GAAP net income came in at \$26.6 million or 39 cents per share compared with \$24.7 million or 39 cents per share in the prior-year quarter.

#### Revenues

Quarterly total revenues declined 2.2% year over year to \$575.6 million. This was largely due to a decrease in U.S. commercial airline traffic. While product revenues totaled \$266.5 million, down 12.1% year over year, service revenues grew 8.4% to \$309 million. The top line lagged the consensus estimate of \$608 million.

#### Segment Results

**Satellite Services** revenues grew 4.3% year over year to \$220.8 million. This was driven by subscriber demand for broadband, reflecting the work-from-home and school-from-home environment with substantial growth in video streaming. In-flight connectivity (IFC) services decreased year over year owing to pandemic-induced travel restrictions. The company ended the quarter with 596,000 U.S. subscribers. The segment's operating profit was \$11.5 million compared with \$3.6 million in the year-ago quarter. Adjusted EBITDA was \$88.1 million, up 17%.

**Commercial Networks** revenues were up 6.4% to \$90.1 million, primarily due to higher revenues from broadband terminal products and maintenance services, partially offset by lower IFC terminal product shipments. The company is focused on strategic investments in higher throughput/lower cost per bit satellite payload, ground network and terminal development. The segment's operating loss was \$39 million compared with operating loss of \$46.9 million in the year-ago quarter. Adjusted EBITDA was a negative \$18.8 million compared with negative \$30.6 million in the year-ago quarter.

**Government Systems** revenues fell 13.1% to \$264.7 million owing to COVID-19 adversities. This compares to a very strong period last year. The segment benefited from healthy demand across government mobile broadband services. The segment's operating profit was \$50.6 million, down 14.4% year over year. Adjusted EBITDA was \$78.2 million, up from \$77.8 million in the year-earlier quarter.

#### Other Details

Overall, operating income was \$21.8 million compared with \$14 million in the prior-year quarter. Adjusted EBITDA came in at \$147.6 million compared with \$122.3 million a year ago. New contract awards during the quarter aggregated \$643 million, up from \$577 million a year ago. Sales backlog was record high at \$2,365.7 million, up from \$1,923.7 million a year ago.

#### Cash Flow & Liquidity

For the first nine months of fiscal 2021, Viasat's cash from operating activities was record high at \$557.4 million, driven by earnings and optimization of working capital. This compares to \$293.4 million in the prior-year period.

As of Dec 31, 2020, the company had \$317.3 million in cash and cash equivalents with \$1,682.5 million of senior notes.

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Quarter Ending 12/2020

|                  |              |
|------------------|--------------|
| Report Date      | Feb 04, 2021 |
| Sales Surprise   | -5.39%       |
| EPS Surprise     | 400.00%      |
| Quarterly EPS    | 0.10         |
| Annual EPS (TTM) | -0.04        |

## Recent News

On Apr 1, 2021, Viasat announced that the former National Aeronautics and Space Administration ("NASA") chief and former Oklahoma Congressman James Bridenstine has been appointed to its board of directors. With this appointment, the board now consists of eight members, six of whom are independent directors. Bridenstine joins Viasat's board as the company is preparing for the impending launch of its ViaSat-3 network.

On Mar 30, Viasat announced that its subsidiary, Viasat UK Ltd., has set up a Network Operations Center ("NOC") and Cyber Security Operations Center ("CSOC") in Aldershot, the U.K. The state-of-the-art facility will support defense, government and commercial organizations that depend on the resilience of their networks for daily operations. The NOC and CSOC are the beginning of Viasat's substantial investment in the U.K. prosperity agenda. These include the target of creating more than 75 highly-skilled jobs and investments of more than £300 million to support the launch of the ViaSat-3 constellation over Europe, the Middle East and Africa. The NOC and CSOC provide customers with monitoring, detection and network support to help ensure the health of the network. These services primarily identify potential cybersecurity threats and resolve them in the shortest time possible.

On Feb 22, Viasat announced that it is part of an elite community of commercial service providers approved to receive cyber threat intelligence through the Department of Homeland Security Enhanced Cybersecurity Services program.

On Feb 10, Viasat, Russian satellite operator Gazprom Space Systems and Russian telecom operator TMC LLC inked a memorandum of understanding that aims to advance in-flight connectivity for airlines flying into Russia.

On Feb 9, Viasat announced that Airbus has awarded its UK entity an \$8.5 million contract to upgrade the Ultra High Frequency satellite communications Network Control Stations. This upgrade will deliver the Ultra High Frequency Skynet capability to the UK Ministry of Defence.

On Jan 12, Viasat announced that it inked a distribution contract with a subscription television service provider — SKY Brasil — to offer superior connectivity and satellite Internet across Brazil. The latest move comes as a boon at a time when service providers are striving to provide best-in-class broadband connectivity while addressing the burgeoning network requirements of customers, especially in the underserved areas of Brazil.

On Jan 5, Viasat announced that it secured a prime contract for Ka-band satellite in-flight connectivity (IFC) solutions from Delta Air Lines for an undisclosed amount. Per the deal, Delta Air will use Viasat's Ka-band IFC solutions in more than 300 mainline narrow-body aircraft with an option to add additional fleet within the service coverage. The improved IFC services aim to offer enhanced Internet capabilities with best-in-class in-flight entertainment options to entice customers and will likely contribute to the uptrend in leisure air-travel demand.

## Valuation

Viasat's shares are up 43.6% over the past six months, and up 17.2% in the trailing 12-month period. Stocks in the Zacks sub-industry are up 16.8% over the past six months, while stocks in the Zacks Computer and Technology sector are up 21.4% in the same period. Over the past year, the Zacks sub-industry and the sector are up 64.5% and 67.9%, respectively.

The S&P 500 Index is up 19.4% in the past six months, and up 51.1% in the past year.

The stock is currently trading at 12.03X trailing 12-month EV/EBITDA, which compares to 18.37X for the Zacks sub-industry, 16.48X for the Zacks sector and 18.17X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 32.3X and as low as 8.89X, with a 5-year median of 16.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$55 price target reflects 37.41X trailing 12-month book value.

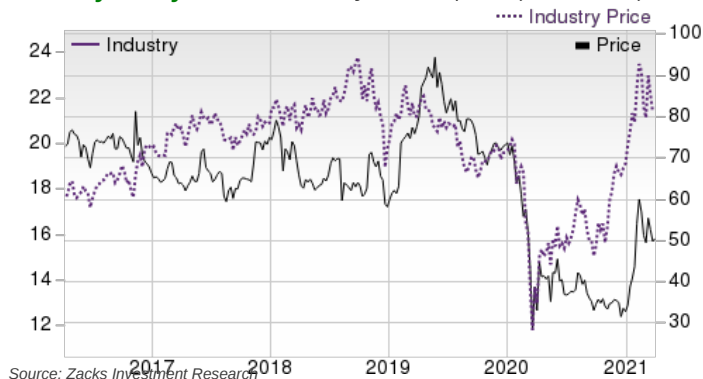
The table below shows summary valuation data for VSAT

| Valuation Multiples - VSAT |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM              | Current       | 12.03 | 18.37        | 16.48  | 18.17   |
|                            | 5-Year High   | 32.3  | 30           | 17.23  | 18.19   |
|                            | 5-Year Low    | 8.89  | 11.61        | 9.03   | 9.62    |
|                            | 5-Year Median | 16.12 | 18.17        | 12.29  | 13.35   |
| P/B TTM                    | Current       | 1.47  | 9.66         | 8.97   | 6.89    |
|                            | 5-Year High   | 3.36  | 10.64        | 9.38   | 6.9     |
|                            | 5-Year Low    | 0.84  | 2.62         | 4.41   | 3.83    |
|                            | 5-Year Median | 2.13  | 4.88         | 5.78   | 4.98    |
| P/S F12M                   | Current       | 1.29  | 4.13         | 4.77   | 4.71    |
|                            | 5-Year High   | 2.6   | 4.62         | 4.77   | 4.71    |
|                            | 5-Year Low    | 0.67  | 2.27         | 2.78   | 3.21    |
|                            | 5-Year Median | 2.02  | 2.89         | 3.5    | 3.71    |

As of 04/06/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 30% (76 out of 253)



## Top Peers

| Company (Ticker)                        | Rec        | Rank |
|-----------------------------------------|------------|------|
| Ubiquiti Inc. (UI)                      | Outperform | 1    |
| Aviat Networks, Inc. (AVNW)             | Neutral    | 3    |
| Clearfield, Inc. (CLFD)                 | Neutral    | 3    |
| Comtech Telecommunications Corp. (CMTL) | Neutral    | 3    |
| Ericsson (ERIC)                         | Neutral    | 3    |
| InterDigital, Inc. (IDCC)               | Neutral    | 4    |
| Juniper Networks, Inc. (JNPR)           | Neutral    | 3    |
| Sierra Wireless, Inc. (SWIR)            | Neutral    | 2    |

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

| Industry Comparison Industry: Wireless Equipment |         |            |           | Industry Peers |          |            |
|--------------------------------------------------|---------|------------|-----------|----------------|----------|------------|
|                                                  | VSAT    | X Industry | S&P 500   | CMTL           | SWIR     | UI         |
| Zacks Recommendation (Long Term)                 | Neutral | -          | -         | Neutral        | Neutral  | Outperform |
| Zacks Rank (Short Term)                          | 3       | -          | -         | 3              | 2        | 1          |
| VGM Score                                        | B       | -          | -         | C              | F        | C          |
| Market Cap                                       | 3.52 B  | 621.22 M   | 29.96 B   | 673.75 M       | 566.11 M | 18.26 B    |
| # of Analysts                                    | 4       | 2          | 12        | 2              | 5        | 1          |
| Dividend Yield                                   | 0.00%   | 0.00%      | 1.29%     | 1.55%          | 0.00%    | 0.55%      |
| Value Score                                      | B       | -          | -         | C              | F        | F          |
| Cash/Price                                       | 0.09    | 0.17       | 0.06      | 0.05           | 0.30     | 0.01       |
| EV/EBITDA                                        | 12.93   | 13.53      | 16.88     | 14.79          | -8.91    | 37.65      |
| PEG F1                                           | 20.74   | 2.12       | 2.38      | NA             | NA       | 0.86       |
| P/B                                              | 1.50    | 1.96       | 3.99      | 1.40           | 1.58     | NA         |
| P/CF                                             | 9.17    | 17.75      | 16.85     | 10.41          | NA       | 45.80      |
| P/E F1                                           | 497.60  | 22.17      | 22.08     | 25.99          | NA       | 28.42      |
| P/S TTM                                          | 1.56    | 1.75       | 3.42      | 1.16           | 1.06     | 11.37      |
| Earnings Yield                                   | 0.19%   | 3.18%      | 4.45%     | -10.32%        | -2.93%   | 3.52%      |
| Debt/Equity                                      | 0.77    | 0.11       | 0.66      | 0.45           | 0.13     | -3.20      |
| Cash Flow (\$/share)                             | 5.50    | 0.71       | 6.78      | 2.48           | -0.90    | 6.31       |
| Growth Score                                     | B       | -          | -         | C              | F        | A          |
| Historical EPS Growth (3-5 Years)                | NA%     | -1.47%     | 9.39%     | 42.13%         | -31.63%  | 27.25%     |
| Projected EPS Growth (F1/F0)                     | 129.54% | 53.56%     | 15.29%    | -1,053.57%     | 68.00%   | 73.10%     |
| Current Cash Flow Growth                         | 36.25%  | 3.17%      | 0.44%     | -18.57%        | 825.30%  | 15.77%     |
| Historical Cash Flow Growth (3-5 Years)          | 5.53%   | 7.40%      | 7.37%     | 11.01%         | NA       | 17.65%     |
| Current Ratio                                    | 1.51    | 1.87       | 1.39      | 1.57           | 1.66     | 2.59       |
| Debt/Capital                                     | 43.45%  | 16.02%     | 41.26%    | 30.99%         | 11.35%   | NA         |
| Net Margin                                       | -0.09%  | 4.39%      | 10.59%    | -14.54%        | -9.21%   | 31.91%     |
| Return on Equity                                 | -0.09%  | 3.34%      | 14.86%    | 3.34%          | -15.85%  | -187.58%   |
| Sales/Assets                                     | 0.45    | 0.78       | 0.51      | 0.62           | 0.85     | 2.22       |
| Projected Sales Growth (F1/F0)                   | 18.48%  | 11.05%     | 7.36%     | -0.12%         | -10.83%  | 42.97%     |
| Momentum Score                                   | D       | -          | -         | C              | F        | A          |
| Daily Price Change                               | -1.79%  | -0.35%     | 0.05%     | 0.00%          | 0.46%    | -0.59%     |
| 1-Week Price Change                              | 1.39%   | 0.05%      | 0.35%     | 2.14%          | -0.52%   | -25.84%    |
| 4-Week Price Change                              | -5.13%  | 0.00%      | 5.11%     | -10.74%        | -3.20%   | -12.99%    |
| 12-Week Price Change                             | 42.76%  | 8.30%      | 8.79%     | 16.17%         | -8.97%   | 14.15%     |
| 52-Week Price Change                             | 27.30%  | 73.33%     | 60.17%    | 75.20%         | 149.92%  | 87.93%     |
| 20-Day Average Volume (Shares)                   | 636,585 | 163,953    | 2,103,543 | 200,383        | 271,894  | 160,902    |
| EPS F1 Estimate 1-Week Change                    | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%    | 0.00%      |
| EPS F1 Estimate 4-Week Change                    | 0.00%   | 0.00%      | 0.00%     | 8.74%          | 0.00%    | 0.00%      |
| EPS F1 Estimate 12-Week Change                   | -26.15% | 3.77%      | 2.24%     | 8.74%          | -15.73%  | 29.73%     |
| EPS Q1 Estimate Monthly Change                   | 0.00%   | 0.00%      | 0.00%     | -66.67%        | 0.00%    | NA         |

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.

### 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>B</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>D</b> |
| VGM Score      | <b>B</b> |

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

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## 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.