Verizon Communications (VZ)

$59.39 (As of 09/25/20)

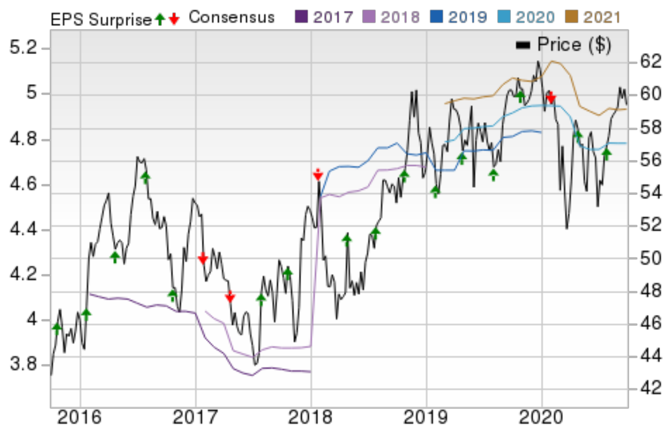
Price Target (6-12 Months): **$63.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/29/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: B | Momentum: B	

Summary

Verizon, in association with Amazon Web Services, has added three more 5G mobile edge computing cities — Atlanta, New York City and Washington, DC — bringing the total to five. The company has been building its 5G Ultra Wideband network to enable innovations that will support the changing behavior of customers. Verizon completed the world's first end-to-end fully virtualized 5G data session in a live network. It has inked a deal to acquire TracFone — a subsidiary of Mexico's largest telecommunications company, America Movil. However, Verizon is facing challenges within the media business due to sluggish advertising trends. It operates in a fiercely competitive U.S. wireless market that strains margins. The company is spending heavily on promotion and lucrative discounts to attract customers, which erodes profitability.

Price, Consensus & Surprise



Source: Zacks Investment Research

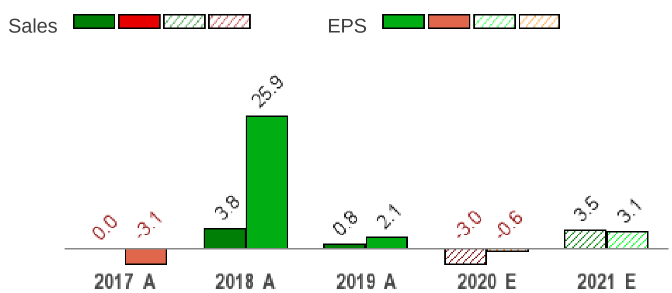
Data Overview

52-Week High-Low	**$62.22 - $48.84**
20-Day Average Volume (Shares)	**14,849,941**
Market Cap	**$245.8 B**
Year-To-Date Price Change	**-3.3%**
Beta	**0.46**
Dividend / Dividend Yield	**$2.51 / 4.1%**
Industry	**Wireless National**
Zacks Industry Rank	**Top 46% (116 out of 250)**

Last EPS Surprise	**1.7%**
Last Sales Surprise	**1.8%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**10/21/2020**
Earnings ESP	**-0.1%**

P/E TTM	**12.3**
P/E F1	**12.4**
PEG F1	**4.0**
P/S TTM	**1.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	32,237 E	32,126 E	32,922 E	34,685 E	132,389 E
2020	31,610 A	30,447 A	31,648 E	34,135 E	127,952 E
2019	32,128 A	32,071 A	32,894 A	34,775 A	131,868 A

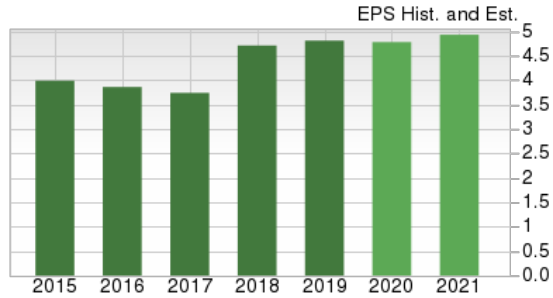
EPS Estimates

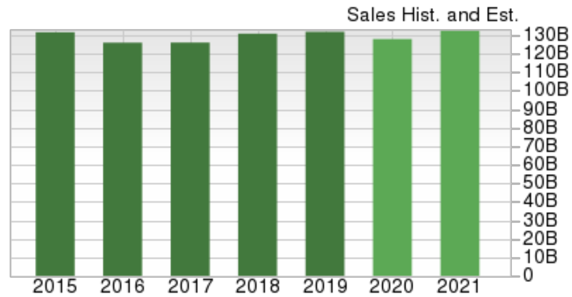
	Q1	Q2	Q3	Q4	Annual*
2021	$1.26 E	$1.25 E	$1.26 E	$1.15 E	$4.93 E
2020	$1.26 A	$1.18 A	$1.22 E	$1.13 E	$4.78 E
2019	$1.20 A	$1.23 A	$1.25 A	$1.13 A	$4.81 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/25/2020. The reports text is as of 09/28/2020.

Overview





Based in New York, Verizon Communications Inc. was formed through the merger of Bell Atlantic and GTE Corp. The company offers communication services in the form of local phone service, long distance, wireless and data services. In Jan 2006, Verizon completed its merger with MCI Corporation, a leader in long distance and data networking. With the acquisition of Alltel Wireless Corp. in early 2009, Verizon has surpassed AT&T Inc. as the largest wireless carrier in the North America, serving millions of customers nationwide.

Verizon has teamed up with Amazon Web Services to create and deploy low latency applications to mobile devices using 5G and became the first telecom carrier in the world to offer such service. The company has launched a free consumer search engine dubbed OneSearch with enhanced privacy options to add a new dimension to the search ecosystem. It has also announced a pricing breakthrough in the cable industry with the launch of Mix & Match on its FiOS platform, enabling viewers to combine TV with Internet plans effectively without any hidden charges and annual contracts. Focus on online content delivery, mobile video and online advertising will likely stoke future growth.

With the ramp-up of 5G service across the country, Verizon is likely to retain its lead in promulgating 5G mobile networks nationwide by using virtualized machines, advanced levels of operational automation and adaptability. Effective second-quarter 2019, the company has reorganized its operating segments under its new operating structure dubbed Verizon 2.0. Under this operating structure, the new segments of the company are Consumer, Business and Media Group.

- **Consumer** (69.3% of aggregate revenues in second-quarter 2020): This segment includes the retail wireline and wireless businesses.
- **Business** (24.6%): This segment includes the wireless and wireline operations of Wholesale, Public Sector and Other, Small and Medium Business, and Global Enterprise.
- **Media Group** (6.1%): This segment includes assets gained through the Yahoo acquisition, media verticals and the ad platform.

Source: Zacks Investment Research

Reasons To Buy:

- Verizon is likely to benefit from a disciplined network strategy, including accelerated 5G deployment despite economic uncertainties stemming from the COVID-19 crisis. The wireless operator launched 35th 5G Ultra Wideband city in San Diego and intends to make 60 5G mobility cities this year. It is building the 5G home solution and mobile edge computing on the same network. Verizon expects to see strong momentum heading into the second half of 2020. Furthermore, the company acquired San Jose, CA-based video conferencing company, BlueJeans Network, expanding its unified communications portfolio. BlueJeans' products complement Verizon's mobile-first business solutions like One Talk and will be integrated into its 5G product roadmap.

Verizon launched 35th 5G Ultra Wideband city in San Diego and intends to make 60 5G mobility cities this year. It is building the 5G home solution and mobile edge computing on the same network.

- Despite coronavirus-induced challenges, Verizon completed Dynamic Spectrum Sharing ("DSS") trial to accelerate the pace of 5G network evolution. The trial underscores Verizon's commitment to introduce nationwide 5G coverage with the deployment of Ultra Wideband network services by the end of 2020. DSS will help Verizon to deploy lower-frequency bands, including mid-band and low-band spectrum, to deliver an optimum combination of 5G coverage and speed to its customers. Moreover, in the enterprise and wholesale business, Verizon is changing its revenue mix toward newer growth services like cloud, security and professional services. Verizon is looking forward to capitalize on the countless innovative technology solutions being developed in the Internet of Things and telematics ecosystem across multiple industries. The company's focus on online content delivery, mobile video and online advertising should drive growth.

- Verizon has upped the ante by launching the 5G Ultra Wideband network in multiple cities across the country. The 5G Ultra Wideband network uses a millimeter-wave spectrum and is designed to provide customers significantly faster download speed and greater bandwidth compared with 4G. Verizon's 5G mobility service offers an unparalleled experience that impacts industries as diverse as public safety, health care, retail and sports. The company's 5G network hinges on three fundamental drivers to deliver the full potential of next-generation wireless technology. These include massive spectrum holdings, particularly in the millimeter-wave bands for faster data transfer, end-to-end deep fiber resources and the ability to deploy a large number of small cells.

- Verizon is systematically diversifying itself as a major player in the digital content and online advertising space. The company wrote off a majority of its media business — Oath — which includes Yahoo and AOL, due to lower-than-expected performance. Verizon Media replaced the Oath brand. Over the years, the largest U.S. wireless carrier (by subscribers), has spurred technological innovation and economic development, including introduction of mobile data and making the ecosystem more pervasive with 4G LTE. The company has now embarked on a new operating structure under Verizon 2.0, with the operating model closely aligned with the evolving customer needs. The business transformation is likely to propel the growth engine of the company as the industry witnesses a major upheaval.

- With one of the most efficient wireless networks in the United States, Verizon continues to deploy the latest 4G LTE Advanced technologies to deliver faster peak data speeds and capacity for customers, driven by customer-focused planning, disciplined engineering and constant strategic investment. Verizon has been aggressively forging ahead to expand its fiber optics networks to support 4G LTE and upcoming 5G wireless standards as well as wireline connections. The company remains focused on making necessary capital expenditures in order to support increased demand for network traffic. At the same time, Verizon is focusing on build-out of its 5G Ultra Wideband network, deployment of fiber assets across the country and shift toward Intelligent Edge Network architecture.

- As of Jun 30, 2020, Verizon had $7,882 million in cash and equivalents with $106,190 million of long-term debt compared with the respective tallies of $7,047 million and $124,678 million at the end of the previous quarter. Verizon has been looking to slash costs through employee reduction, active management of its near-term maturities, and optimization of overall funding footprint and lowering of cost of capital. To date, the company achieved more than $6.3 billion of cumulative cash savings and is on track to achieve savings of $10 billion by 2021. Verizon currently has a debt-to-capital ratio of 0.69 compared with 0.52 of the industry. The times interest earned (TIE) ratio has improved steadily over the past quarters to 6.1 at present relative to 3.9 of industry. This suggests that the company is more likely to meet its debt obligations. Verizon has a dividend payout rate of 50.8%. The rate has remained steady over the past quarters, indicating that the company is sharing more of its earnings with stockholders. It is to be seen whether Verizon can maintain the momentum in the coming days amid disruptions stemming from the COVID-19 crisis.

Reasons To Sell:

> Verizon is facing headwinds in the media business due to sluggish advertising trends. It operates in a fiercely competitive U.S. wireless market.

- In the second quarter of 2020, Verizon's aggregate operating revenues declined 5.1% year over year to $30,447 million. This was the result of substantial declines in wireless equipment revenues in the Consumer and Business segments, primarily due to limited in-store engagement and the impact of COVID-19 on customer behavior. Verizon is facing headwinds in the media business due to sluggish advertising trends. For 2020, the company expects adjusted earnings per share growth between -2% and 2%.

- Verizon continues to struggle in a competitive and almost saturated U.S. wireless market with incumbents like AT&T and T-Mobile. The industry is likely to witness stiff competition in 2020 and beyond with the entry of cable MSOs (multi service operators). Comcast has already entered this space with Xfinity Mobile offering. Charter Communications also reiterated its plans of launching wireless service. Adoption of several unlimited data plans has resulted in reduction of wireless service revenues and lower average revenue per user.

- Spectrum crunch has become a major issue in the U.S. telecom industry. Most of the carriers are finding it increasingly difficult to manage mobile data traffic, which is growing by leaps and bounds. The situation has become even more acute with the growing popularity of iPhone and Android smartphones as well as rising online mobile video streaming, cloud computing and video conferencing services.

- In a bid to expand its customer base, Verizon is spending heavily on promotion and is also offering lucrative discounts, which is weighing on margins. The company's wireline division is struggling with persistent losses in access lines owing to competitive pressure from voice-over-Internet protocol (VoIP) service providers and aggressive triple-play (voice, data and video) offerings by cable companies. These are likely to weigh on the company's revenues in the future. The company recorded high capital expenditures in order to support the launch and continued build-out of its 5G Ultra Wideband network, deployment of significant fiber assets across the country and upgrade to Intelligent Edge Network architecture. It remains unclear if and when a reasonable return can be achieved from such investments.

Last Earnings Report

Verizon Beats Q2 Earnings Estimates Despite COVID-19 Woes

Quarter Ending	06/2020
Report Date	Jul 24, 2020
Sales Surprise	1.80%
EPS Surprise	1.72%
Quarterly EPS	1.18
Annual EPS (TTM)	4.82

Verizon reported healthy second-quarter 2020 results, with the bottom and the top line beating their respective Zacks Consensus Estimate. This highlights the company's disciplined network strategy for long-term growth along with strong operational performance. Verizon expects to see strong momentum heading into the second half of 2020.

Net Income

On a GAAP basis, net income in the June-end quarter was $4,700 million or $1.13 per share compared with $3,944 million or 95 cents per share in the prior-year quarter. The improvement can be attributable to lower other expenses and interest payments. Non-GAAP net income per share came in at $1.18 compared with $1.23 in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 2 cents.

Revenues

Quarterly aggregate operating revenues declined 5.1% year over year to $30,447 million. This was the result of substantial declines in wireless equipment revenues in the Consumer and Business segments, primarily due to limited in-store engagement and the impact of COVID-19 on customer behavior. Nevertheless, the top line surpassed the consensus estimate of $29,910 million.

Segment Results

Consumer: Total revenues fell 4% year over year to $21,113 million. This was caused by a significant fall in wireless equipment revenues due to low activation levels. Service revenues declined 2.8% to $15,900 million due to reduced roaming, usage and waived fees on account of COVID-19. Wireless equipment revenues fell 17.8% to $3,209 million due to closed company-operated retail stores. Other revenues totaled $2,004 million, up 15% year over year.

During the quarter, Verizon recorded 72,000 wireless retail postpaid net additions. This comprised 97,000 phone net additions and 97,000 tablet net losses, offset by 72,000 other connected device net additions. Postpaid smartphone net additions were 199,000. The total retail postpaid churn was 0.69% and the retail postpaid phone churn was 0.51%. The company saw 10,000 Fios Internet net additions, as installations were limited due to restrictions on working inside customers' homes.

The segment's operating income declined 3.7% year over year to $7,064 million. The operating margin was 33.5%, slightly up from 33.4%. EBITDA came in at $9,913 million, reflecting a margin of 47% compared with the respective tallies of $10,217 million and 46.5% in the prior-year quarter.

Business: Revenues were $7,482 million, down 3.7% year over year. Verizon responded to the challenges of COVID-19, handling increased traffic needs while meeting a surge in demand for connectivity and devices. The company recorded 280,000 wireless retail postpaid net additions in the quarter. This comprised 76,000 phone net additions, 61,000 tablet net additions and 143,000 other connected device additions.

The segment's operating income was $946 million compared with $1,071 million in the year-ago quarter for respective margins of 12.6% and 13.8%. EBITDA declined 7.4% to $1,960 million for a margin of 26.2% compared with 27.3% in the prior-year quarter.

Revenues from Verizon Media were $1.4 billion, down 24.5% year over year. This was primarily as a result of COVID-19 related impacts. Verizon Media continued to drive increased customer engagement on its owned and operated properties.

Other Details

Total operating expenses reduced 4.7% year over year to $23,086 million. Overall, operating income declined 6.2% year over year to $7,361 million. Adjusted EBITDA was $11.5 billion with a margin of 37.9%.

Cash Flow & Liquidity

In the first half of 2020, Verizon generated $23,552 million of net cash from operating activities compared with $15,836 million in the year-ago period. It ended first-half 2020 with free cash flow (non-GAAP) of $13.7 billion, up 74.1% year over year. As of Jun 30, the company had $7,882 million in cash and cash equivalents with $106,190 million of long-term debt.

Guidance Reiterated

Verizon has reiterated its previously-provided outlook for 2020. The company continues to expect adjusted earnings per share growth between -2% and 2%. Capital spending is likely to be in the range of $17.5-$18.5 billion.

Recent News

On Sep 22, 2020, Verizon announced that together with Amazon Web Services it has added three more 5G mobile edge computing (MEC) cities — Atlanta, New York City and Washington, DC — bringing the total to five. In August, the companies introduced the MEC platform in Boston and San Francisco Bay Area, and are committed to launching in more cities by the end of 2020. The move enables developers to build new latency-sensitive applications with AWS Wavelength at Verizon's 5G Edge. Verizon's 5G Ultra Wideband network will enable throughput at least 10 times faster than 4G, delivering ultra-low latency and very high bandwidth.

On Aug 25, Verizon announced the completion of the world's first end-to-end fully virtualized 5G data session in a live network. The feat enables the telecom giant to respond to customers' latency and computing needs by providing the base for mobile edge computing and network slicing.

On Aug 17, Verizon unveiled plans to reach a broader spectrum of customers by unlocking more value with a bundled offering at the same price. In this regard, the company has inked an agreement with The Walt Disney Company to offer more streaming content with its Mix & Match Unlimited plans.

On Aug 13, Verizon announced that it has secured a five-year contract from Bayer AG for an undisclosed amount to augment the existing global network capabilities of the life science firm. The strategic deal is part of the ongoing digital transformation initiative of Bayer and aims to develop state-of-the-art network technologies to improve the resilience, flexibility and scalability of the legacy network infrastructure.

On Jul 23, Verizon Business announced that it has joined forces with Microsoft to enable the quick deployment of end-to-end IoT solutions. Verizon's ThingSpace IoT platform and 5G/LTE network connectivity have been integrated with Microsoft Azure IoT Central to accelerate time-to-market and save costs for IoT solutions.

On Jun 22, Verizon announced the completion of Dynamic Spectrum Sharing ("DSS") trial to accelerate the pace of 5G network evolution. DSS will help Verizon deploy lower-frequency bands, including mid-band and low-band spectrum, to deliver an optimum combination of 5G coverage and speed to its customers. The DSS technology enables the deployment of both 4G and 5G in the same band and proactively allocates spectrum resources between them, based on user demand.

Valuation

Verizon's shares are down 1.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 2% over the past year, but stocks in the Zacks Computer and Technology sector are up 33.4% in the same period.

The S&P 500 Index is up 11% in the past year.

The stock is currently trading at 7.69X trailing 12-month EV/EBITDA, which compares to 6.18X for the Zacks sub-industry, 14.28X for the Zacks sector and 14.24X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 11.96X and as low as 6.06X, with a 5-year median of 7.29X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $63 price target reflects 5.19X forward 12-month earnings.

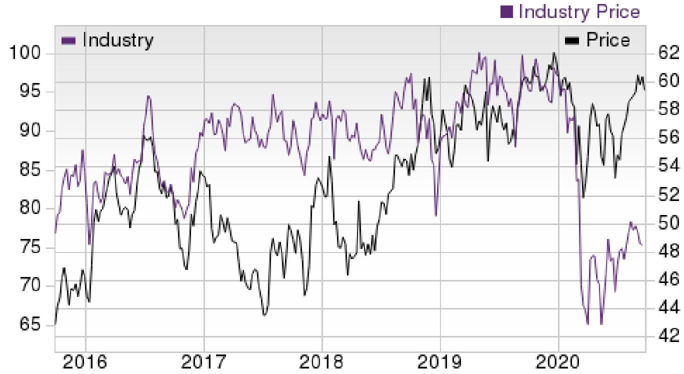
The table below shows summary valuation data for VZ

Valuation Multiples - VZ

		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.69	6.18	14.28	14.24
	5-Year High	11.96	11.55	15.83	15.61
	5-Year Low	6.06	5.27	8.27	9.51
	5-Year Median	7.29	6.67	11.84	13.03
P/E F12M	Current	12.14	12.84	25.59	21.54
	5-Year High	14.19	15	27.96	23.44
	5-Year Low	10.02	10.1	16.72	15.26
	5-Year Median	12.07	12.25	19.93	17.63
P/S F12M	Current	1.87	1.6	4.17	4.01
	5-Year High	1.93	1.68	4.49	4.29
	5-Year Low	1.31	1.22	2.7	3.11
	5-Year Median	1.68	1.48	3.43	3.66

As of 09/25/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 46% (116 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
GCI Liberty, Inc. **(GLIBA)**	Outperform	2
ATN International, Inc. **(ATNI)**	Neutral	3
Gogo Inc. **(GOGO)**	Neutral	3
Liberty Latin America Ltd. **(LILA)**	Neutral	3
CenturyLink, Inc. **(LUMN)**	Neutral	3
ATT Inc. **(T)**	Neutral	3
TMobile US, Inc. **(TMUS)**	Neutral	3
United States Cellular Corporation **(USM)**	Neutral	3

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

Industry Comparison Industry: Wireless National

	VZ	X Industry	S&P 500	T	TMUS	USM
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	D	A
Market Cap	245.76 B	764.73 M	23.02 B	199.79 B	138.66 B	2.54 B
# of Analysts	15	5	14	16	5	4
Dividend Yield	4.14%	0.00%	1.69%	7.42%	0.00%	0.00%
Value Score	B	-	-	A	C	A
Cash/Price	0.03	0.15	0.07	0.08	0.08	0.15
EV/EBITDA	7.79	7.49	12.89	5.20	16.16	3.76
PEG F1	3.97	4.21	2.88	1.58	4.76	NA
P/B	3.83	1.37	3.15	1.04	2.47	0.59
P/CF	6.71	9.05	12.43	3.20	9.52	3.07
P/E F1	12.42	23.89	21.02	8.75	58.59	16.27
P/S TTM	1.89	1.12	2.38	1.14	2.68	0.63
Earnings Yield	8.05%	2.09%	4.52%	11.41%	1.71%	6.15%
Debt/Equity	1.66	0.37	0.70	0.79	1.14	0.37
Cash Flow ($/share)	8.85	2.47	6.93	8.77	11.77	9.62
Growth Score	B	-	-	C	F	A
Historical EPS Growth (3-5 Years)	6.18%	6.43%	10.41%	7.55%	46.26%	27.17%
Projected EPS Growth (F1/F0)	-0.62%	-5.54%	-4.56%	-10.22%	-52.44%	26.22%
Current Cash Flow Growth	-0.75%	1.62%	5.26%	14.11%	7.57%	4.94%
Historical Cash Flow Growth (3-5 Years)	4.16%	4.16%	8.49%	15.33%	16.70%	10.62%
Current Ratio	0.96	1.34	1.35	0.81	1.05	2.46
Debt/Capital	62.35%	44.22%	42.92%	44.22%	53.35%	27.40%
Net Margin	14.76%	4.48%	10.25%	6.84%	5.19%	4.48%
Return on Equity	32.15%	8.21%	14.59%	13.03%	9.60%	4.24%
Sales/Assets	0.45	0.48	0.50	0.32	0.46	0.48
Projected Sales Growth (F1/F0)	-2.97%	0.00%	-1.44%	-6.44%	50.57%	-0.97%
Momentum Score	B	-	-	F	B	A
Daily Price Change	0.34%	0.34%	1.35%	0.00%	1.33%	-0.17%
1-Week Price Change	0.94%	0.00%	0.79%	-0.24%	-0.77%	-6.59%
4-Week Price Change	-0.07%	-6.95%	-4.19%	-6.22%	-2.79%	-19.93%
12-Week Price Change	8.40%	0.00%	3.17%	-6.78%	5.67%	-4.02%
52-Week Price Change	-1.74%	-14.56%	-1.37%	-24.99%	41.80%	-19.49%
20-Day Average Volume (Shares)	14,849,941	236,632	2,095,310	35,288,692	4,243,093	135,016
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.10%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.04%	0.00%	0.00%	-0.10%	1.47%	5.67%
EPS F1 Estimate 12-Week Change	0.55%	12.46%	4.08%	-0.14%	63.47%	18.99%
EPS Q1 Estimate Monthly Change	0.16%	0.00%	0.00%	-0.47%	6.19%	-0.79%

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	B
VGM Score	A

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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 forwardlooking 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 mediumterm price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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.