

## Workday Inc. (WDAY)

**\$223.61** (As of 11/18/20)

Price Target (6-12 Months): **\$235.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM: C

Value: D

Growth: A

Momentum: C

### Summary

Workday is poised to gain from solid adoption of subscription-based software solutions, which is driving revenues. Also, the company raised fiscal 2021 guidance for subscription and professional revenues on strong backlog and solid pipeline. Moreover, synergies from Scout RFP acquisition are helping it secure deal wins. Extended capabilities and tools in Human Capital Management and Financial Management solutions are likely to boost user base. Also, strong balance sheet and cash flow generating ability are anticipated to drive growth initiatives in the long haul. However, stiff competition from Oracle and SAP is likely to hurt profitability at least in the near term. Moreover, coronavirus-induced layoffs might negatively impact contract renewals, which is a headwind. Notably, Workday stock has underperformed the industry on a year-to-date basis.

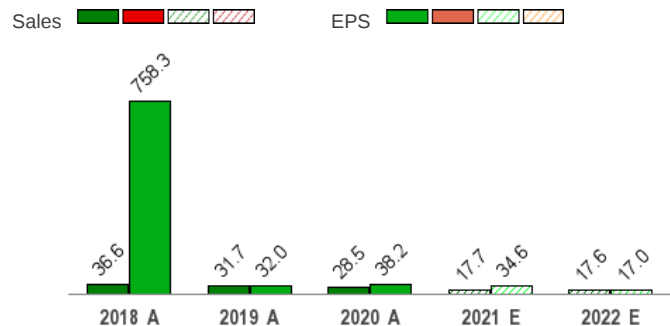
### Price, Consensus & Surprise



### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$248.75 - \$107.75         |
| 20-Day Average Volume (Shares) | 1,603,205                   |
| Market Cap                     | \$53.0 B                    |
| Year-To-Date Price Change      | 36.0%                       |
| Beta                           | 1.58                        |
| Dividend / Dividend Yield      | \$0.00 / 0.0%               |
| Industry                       | Internet - Software         |
| Zacks Industry Rank            | Bottom 22% (197 out of 254) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 29.2%      |
| Last Sales Surprise           | 1.8%       |
| EPS F1 Estimate 4-Week Change | -0.9%      |
| Expected Report Date          | 11/19/2020 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 96.8       |
| P/E F1                        | 88.4       |
| PEG F1                        | 3.3        |
| P/S TTM                       | 13.3       |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 1,172 E | 1,238 E | 1,286 E | 1,324 E | 5,019 E |
| 2021 | 1,018 A | 1,062 A | 1,086 E | 1,101 E | 4,268 E |
| 2020 | 825 A   | 888 A   | 938 A   | 976 A   | 3,627 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.63 E | \$0.79 E | \$0.77 E | \$0.77 E | \$2.96 E |
| 2021 | \$0.44 A | \$0.84 A | \$0.67 E | \$0.58 E | \$2.53 E |
| 2020 | \$0.43 A | \$0.44 A | \$0.53 A | \$0.50 A | \$1.88 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 11/18/2020. The reports text is as of 11/19/2020.

## Overview

Founded in 2005 and headquartered in Pleasanton, CA, Workday Inc. (WDAY) is a provider of enterprise-level software solutions for financial management and human resource domains. The company's cloud-based platform combines finance and HR in a single system that makes it easier for organizations to provide analytical insights and decision support.

Notably, organizations ranging from medium-sized businesses to Fortune 50 enterprises have opted for Workday solutions. The company also offers open, standards-based web-services application programming interfaces and pre-built packaged integrations and connectors.

In fiscal 2020, the company reported revenues of \$3.63 billion. Subscription revenues accounted for 85.4% of total revenues, while professional revenues made up the rest.

Apart from Financial Management and Human Capital Management (HCM) solutions, the company offers applications related to Payroll, Time Tracking, Recruiting, Learning, Planning, Professional Services Automation and Student.

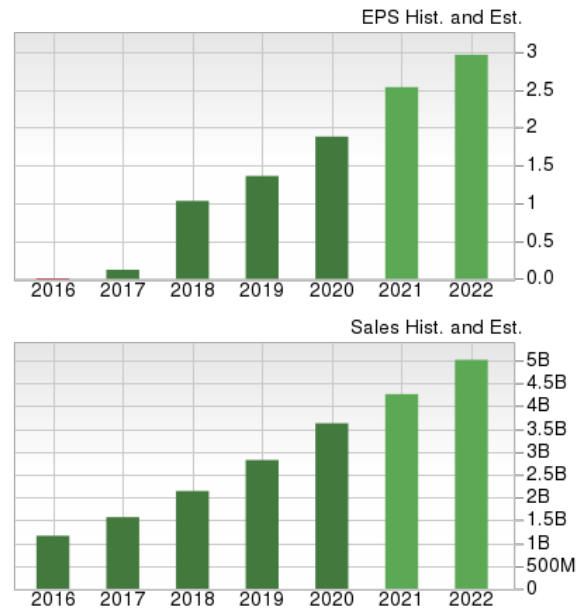
The company offers Adaptive Insights Business Planning Cloud solutions, Workday Prism Analytics, Workday Data-as-a-Service (DaaS) and Workday Marketplace. Workday Prism Analytics helps in business planning and collaborative approach.

Workday Prism Analytics helps customers to bring Workday data and data from any outside source together in order to make better business decisions. Workday DaaS is a cloud service that provides important data to customers which in turn help in decision-making.

The company serves technology, financial services, business services, healthcare and life sciences, manufacturing, and consumer and retail industries, as well as education and government industries.

Workday ended fiscal 2020 with more than 3,200 customers, including 45% of the Fortune 500, precisely 60% of the Fortune 50, as HCM customers and penetration in the Global 2000 clientele of up to 20%.

Workday's peers in HCM market include SAP SE, Oracle Corporation, Automated Data Processing, and Ceridian, among others.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Workday's revenue growth continues to be driven by high demand for its HCM and financial management solutions. The company's cloud-based business model and expanding product portfolio have been the primary growth drivers. Moreover, growing clout of Workday Prism Analytics and Adaptive Insights business planning cloud offerings holds promise. According to Technavio, the global Software-as-a-Service (SaaS) market is expected to grow by \$7.42 billion between 2020 and 2024. Based on its expanding product portfolio, we believe that Workday is well positioned to gain from this strong growth prospect going forward.
- ▲ Workday's HCM suite of applications demonstrates strong growth momentum driven by the transition of organizations to the cloud. In fact, per research firm MarketsandMarkets, the HCM market size is anticipated to hit \$26.5 billion by 2024 from \$16.7 billion in 2019, seeing a CAGR of 9.7%. Notably, the company witnessed rapid deployment of HCM solution in the fiscal first quarter. Apart from the city of Los Angeles, key deal wins include EMEA-based utility company with over 80,000 employees and Asia Pacific-based large insurance company with over 50,000 employees.
- ▲ Workday's diversified product portfolio continues to yield a steady flow of customers. We believe that the company's high customer satisfaction rate bodes well for its long-term business model.. Moreover, Workday is gaining traction in the international market, which is evident from 21.8% year-over-year increase in revenues to \$257 million (24% of total revenues) in second-quarter fiscal 2021.
- ▲ Workday has a strong balance sheet with ample liquidity position. The company had a net cash position of \$964 million as of Jul 31, 2020, compared with \$830 million as of Apr 30, 2020. Moreover, the company generated \$157.2 million cash from operating activities in the fiscal second quarter. The strength in cash flow reflects that the company is making investments in the right direction. At the end of the fiscal second quarter, the company had access to \$750 million of the untapped capacity of revolving credit facility. During the quarter, Workday settled a \$250-million convertible note using cash proceeds from the final funding of term loan. Further, the ample cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Workday is benefiting from increasing demand for human capital management and financial software solutions, diversified product portfolio, expanding customer base and strong liquidity.

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## Reasons To Sell:

- ▼ Competition in the HCM and financial management software market is increasing, which could lead to pricing pressure and affect Workday's margins. Oracle's strong momentum in the cloud is a headwind for the company. Moreover, we believe that Workday's dominance could be challenged by new entrants. This could make the company take resort to competitive pricing to maintain and capture further market share. This apart, the ongoing trend to invest more in cloud solutions exposes Workday to the risk of losing existing "on-premise customers", which can adversely impact its top-line performance, especially in the near term.
- ▼ The company's margin continues to be affected by higher operating expense, primarily due to an increase in headcount and marketing spending. As of Jan 31, 2019, Workday had about 12,200 employees (including 150 from Scout RFP acquisition) compared with about 1,500 employees as of its listing date in October 2012. Notably, non-GAAP sales and marketing expenses in fiscal 2020 increased 25.7% year over year to \$929 million. We believe Workday's continuous investments in order to achieve long-term growth will hurt its margins in the short haul.
- ▼ We note that Workday currently has a trailing 12-month Price/Book (P/B) ratio of 18.67X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 16.49X and is near the high end of the valuation range in this period. Hence, valuation looks slightly stretched from a P/B perspective.

Intensifying competition from the likes Oracle and SAP and increasing marketing spending are major concerns.

## Last Earnings Report

### Workday Earnings & Revenues Top Estimates in Q2

Workday, Inc. reported second-quarter fiscal 2021 non-GAAP earnings of 84 cents per share, which outpaced the Zacks Consensus Estimate by 29.2%. Moreover, the bottom line improved 90.9% year over year.

Bottom-line growth can primarily be attributed to an improvement of 19.6% in revenues, which amounted to \$1.062 billion. The top line surpassed the Zacks Consensus Estimate by 1.8%. The upside was driven by solid growth in subscription services' revenues.

Quarter Ending 07/2020

| Report Date      | Aug 27, 2020 |
|------------------|--------------|
| Sales Surprise   | 1.82%        |
| EPS Surprise     | 29.23%       |
| Quarterly EPS    | 0.84         |
| Annual EPS (TTM) | 2.31         |

### Quarter in Detail

**Subscription services** revenues (87.7% of total revenues) rallied 23.1% year over year to \$931.7 million on the back of expanding the customer base.

Backlogs from Subscription revenues were \$8.6 billion, up 22.3% year over year, primarily driven by robust growth in new ACV bookings through both net new and add-on business domains, and deal renewals, and net retention of customers.

Subscription revenue backlog that will be recognized within the next two years totaled \$5.78 billion, up 21%. In the fiscal second quarter, gross retention rate exceeded 95% and net retention, which includes upselling at the time of renewal, was 100%.

**Professional services'** revenues (12.3% of total revenues) declined 0.3% from the year-ago quarter to \$130.3 million.

Revenues outside the United States surged 21.8% year over year to \$257 million and contributed 24% to total revenues.

The company witnessed the rapid deployment of HCM solution in the fiscal second quarter, which was selected by IB, Air Liquide, the State of Oklahoma and notable manufacturing company based in Germany, Thyssenkrupp. The company also expanded its Fortune 50 clientele with one of the leading U.S. telecommunications services company, adopting its HCM offerings. Key HCM go-lives in the reported quarter included General Motors, The Hartford, Eli Lilly and Bridgestone Americas.

Workday Financial Management customer base continued to expand, with key wins, including a Comerica Bank. Notably, The Amenity Collective, Sharp Healthcare, and American Financial Group selected both HCM and core financial solutions. Moreover, Nebraska Medicine and Prisma Health were the key core financials go-lives in the quarter.

Also, Shelter Insurance and CNA, early adopters of Workday Accounting Center, went live in the quarter. Management noted that Workday Accounting Center is on track to be commercially available in the fall of 2020.

The company is witnessing momentum in the latest offerings, including Workday Adaptive Planning, Spend Management and Prism Analytics. Synergies from Scout RFP acquisition aided Workday to win multiple customers. Markedly, three Fortune 500 companies, which selected the solution in the fiscal first quarter, went live and are in production.

During the quarter under review, the company launched Workday Help and Workday Journeys solutions to expand the capabilities of its employee experience offering — Workday People Experience. Additionally, it rolled out Workday People Analytics — an augmented analytics application that delivers deep insights regarding the risks and opportunities related to a company's workforce. Management is optimistic on the growing pipeline of the latest offerings.

In the large enterprise domain, the company inked nine new Global 2000 (G2K) HCM customer wins and two new G2K financial solutions' deals. Solid momentum across education and government agencies, and a solid pipeline of state and local government deal wins are encouraging.

The company also witnessed strength across medium enterprise vertical. Moreover, robust performance across North America and APAC remained notable. Meanwhile, improvement in the business across Europe bodes well.

Workday recently expanded partnership with International Business Machines Corporation (IBM) with the rollout of a joint return-to-workplace focused solution to help enterprises reopen safely. The integrated solution combines Workday's Adaptive Planning and HCM solutions, and IBM's Watson Works.

### Margin Highlights

Non-GAAP expenses pertaining to Product development, sales and marketing, and general and administrative climbed 3.9% year over year to \$569.1 million. As a percentage of revenues, the figure contracted 810 basis points (bps) on a year-over-year basis to 53.6%.

Reduced spend on travel and marketing, program delays, canceled events and more calculated hiring kept expenses in check.

The company generated non-GAAP operating income of \$257.7 million, which soared 119.2% year over year.

Consequently, non-GAAP operating margin expanded from 13.2% in the year-ago quarter to 24.3%.

### Balance Sheet & Cash Flow

Cash, cash equivalents and marketable securities were \$2.75 billion as of Jul 31, 2020, compared with \$2.6 billion as of Apr 30, 2020.

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Total debt (current plus non-current) was \$1.79 billion as of Jul 31, 2020, compared with \$1.77 billion as of Apr 30, 2020.

During the quarter, Workday settled a \$250-million convertible note using cash proceeds from the final funding of term loan. At the end of the fiscal second quarter, the company had access to \$750 million of the untapped capacity of revolving credit facility.

Workday generated operating cash flow of \$157.2 million compared with the prior-quarter figure of \$264 million.

As of Jul 31, 2020, total unearned revenues (including non-current portion) were \$2.07 billion compared with \$2.09 billion as of Apr 30, 2020.

### **Guidance**

For third-quarter fiscal 2021, Workday expects subscription revenues of \$948-\$950 million (indicating year-over-year growth of 19%). Professional services revenues are projected to be \$135 million. The company anticipates a non-GAAP operating margin of 19%. Management projects subscription revenue backlog growth in the fiscal third quarter to be in the high-teens.

Workday revised the fiscal 2021 guidance on the heels of robust fiscal second-quarter performance, strong backlog and solid pipeline.

The company now expects subscription services' revenues to be \$3.73-\$3.74 billion (previously \$3.67-\$3.69 billion). For fiscal 2021, Professional services revenues are now projected to be \$525 million (previously \$500 million).

The company anticipates non-GAAP operating margin to be 18%, up from the previously mentioned 16%.

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## Recent News

On Nov 12, Workday stated that it was adjudged as a "Leader" for the fifth successive year by Gartner in its "Magic Quadrant for Cloud HCM Suites for 1,000+ Employee Enterprises" report.

On Oct 29, Workday rolled out machine learning (ML)-based predictive forecasts and Workday Accounting Center features for its Workday Adaptive Planning solution. The company also added many other functions across its finance solutions' portfolio to assist customers in driving efficiency.

On Oct 28, Workday stated that it was named as a "Leader" for the fourth consecutive year by Gartner in its 2020 "Gartner Magic Quadrant for Cloud Financial Planning & Analysis" report.

On Oct 15, Workday rolled out Workday Talent Marketplace solution to help employers to effectively utilize the employee talent pool according to individual interests and skillsets. The solution is aimed at the improving retention and engagement rates.

On Oct 8, Workday announced that it has been named a leader in the 2020 Gartner Magic Quadrant for Cloud Financial Planning & Analysis for the fourth successive year.

On Sep 9, Workday rolled out two new offerings, VIBE Central and VIBE Index, to aid HR leaders boost inclusivity and accelerate belonging and diversity (B&D) initiatives within the workplace. Workday noted that VIBE is the acronym for Value Inclusion, Belonging, and Equity.

On Aug 28, Workday announced the promotion of Chano Fernandez from co-president to co-CEO position alongside Workday co-founder Aneel Bhusri, who was earlier the sole CEO.

On Aug 12, Workday and IBM expanded partnership with the roll out of a joint return-to-workplace focused solution to help enterprises reopen safely. The integrated solution combines Workday's Adaptive Planning and HCM solutions, and IBM's Watson Works.

On Jun 24, Workday announced the launch of the Workday Help and Workday Journeys solutions to expand the capabilities of its employee experience offering — Workday People Experience.

On the same day, Workday rolled out Workday People Analytics, an augmented analytics application that delivers deep insights regarding the risks and opportunities related to a company's workforce.

## Valuation

Workday shares are up 35.9% in the year to date period, and 29.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 80.4% and 31% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 81% and 36.5%, respectively.

The S&P 500 index is up 12.5% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 10.87X forward 12-month sales, which compares to 9.62X for the Zacks sub-industry, 4.29X for the Zacks sector and 4.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.02X and as low as 5.92X, with a five-year median of 9.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$235 price target reflects 11.42X forward 12-month sales.

The table below shows summary valuation data for WDAY

| Valuation Multiples - WDAY |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 10.87 | 9.62         | 4.29   | 4.23    |
|                            | 5-Year High   | 13.02 | 9.62         | 4.48   | 4.3     |
|                            | 5-Year Low    | 5.92  | 3.07         | 2.77   | 3.17    |
|                            | 5-Year Median | 9.33  | 5.47         | 3.44   | 3.67    |
| P/B TTM                    | Current       | 18.67 | 10.4         | 8.16   | 6.13    |
|                            | 5-Year High   | 24.35 | 12.15        | 8.32   | 6.17    |
|                            | 5-Year Low    | 8.39  | 2.31         | 4.09   | 3.74    |
|                            | 5-Year Median | 15.96 | 5.73         | 5.6    | 4.9     |
| EV/Sales TTM               | Current       | 13.02 | 10.51        | 5      | 4.21    |
|                            | 5-Year High   | 15.9  | 12.06        | 5.23   | 4.23    |
|                            | 5-Year Low    | 6.54  | 3.07         | 2.85   | 2.62    |
|                            | 5-Year Median | 10.86 | 6.08         | 3.86   | 3.58    |

As of 11/18/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                      | Rec     | Rank |
|---------------------------------------|---------|------|
| Automatic Data Processing, Inc. (ADP) | Neutral | 2    |
| Ceridian HCM Holding Inc. (CDAY)      | Neutral | 3    |
| salesforce.com, inc. (CRM)            | Neutral | 3    |
| HubSpot, Inc. (HUBS)                  | Neutral | 3    |
| Microsoft Corporation (MSFT)          | Neutral | 2    |
| Oracle Corporation (ORCL)             | Neutral | 3    |
| Anaplan, Inc. (PLAN)                  | Neutral | 3    |
| SAP SE (SAP)                          | Neutral | 4    |

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

| Industry Comparison Industry: Internet - Software |           |            |           | Industry Peers |           |            |
|---------------------------------------------------|-----------|------------|-----------|----------------|-----------|------------|
|                                                   | WDAY      | X Industry | S&P 500   | CDAY           | CRM       | HUBS       |
| Zacks Recommendation (Long Term)                  | Neutral   | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                           | 3         | -          | -         | 3              | 3         | 3          |
| VGM Score                                         | C         | -          | -         | F              | C         | D          |
| Market Cap                                        | 53.00 B   | 1.29 B     | 25.46 B   | 14.29 B        | 234.02 B  | 16.49 B    |
| # of Analysts                                     | 31        | 5.5        | 14        | 3              | 14        | 10         |
| Dividend Yield                                    | 0.00%     | 0.00%      | 1.51%     | 0.00%          | 0.00%     | 0.00%      |
| Value Score                                       | D         | -          | -         | D              | D         | D          |
| Cash/Price                                        | 0.05      | 0.10       | 0.06      | 0.04           | 0.04      | 0.07       |
| EV/EBITDA                                         | -845.51   | -0.82      | 14.42     | 117.55         | 61.18     | 1,863.67   |
| PEG F1                                            | 3.34      | 6.28       | 2.76      | NA             | 4.39      | 20.96      |
| P/B                                               | 18.67     | 7.02       | 3.55      | 7.02           | 6.09      | 22.50      |
| P/CF                                              | 497.25    | 29.11      | 13.64     | 144.95         | 58.79     | 531.20     |
| P/E F1                                            | 90.45     | 82.41      | 21.83     | 208.68         | 68.71     | 314.44     |
| P/S TTM                                           | 13.27     | 5.36       | 2.79      | 16.98          | 12.08     | 20.18      |
| Earnings Yield                                    | 1.13%     | 0.21%      | 4.41%     | 0.48%          | 1.45%     | 0.32%      |
| Debt/Equity                                       | 0.62      | 0.03       | 0.70      | 0.47           | 0.07      | 0.65       |
| Cash Flow (\$/share)                              | 0.45      | -0.00      | 6.92      | 0.67           | 4.37      | 0.68       |
| Growth Score                                      | A         | -          | -         | C              | B         | C          |
| Historical EPS Growth (3-5 Years)                 | NA%       | 19.13%     | 9.79%     | NA             | 97.45%    | NA         |
| Projected EPS Growth (F1/F0)                      | 34.78%    | 5.63%      | 0.36%     | 0.72%          | 25.18%    | -23.80%    |
| Current Cash Flow Growth                          | 10.10%    | 5.16%      | 5.39%     | 58.18%         | 36.39%    | -1,293.74% |
| Historical Cash Flow Growth (3-5 Years)           | 23.82%    | 20.85%     | 8.31%     | NA             | 40.05%    | 21.83%     |
| Current Ratio                                     | 1.45      | 1.73       | 1.38      | 1.23           | 1.15      | 3.65       |
| Debt/Capital                                      | 38.17%    | 7.38%      | 41.97%    | 31.98%         | 6.50%     | 39.28%     |
| Net Margin                                        | -10.77%   | -17.09%    | 10.41%    | 1.40%          | 12.21%    | -9.78%     |
| Return on Equity                                  | -10.56%   | -7.00%     | 15.05%    | 1.34%          | 3.99%     | -4.76%     |
| Sales/Assets                                      | 0.58      | 0.59       | 0.50      | 0.14           | 0.36      | 0.48       |
| Projected Sales Growth (F1/F0)                    | 17.65%    | 7.56%      | 0.16%     | 1.65%          | 21.49%    | 28.52%     |
| Momentum Score                                    | C         | -          | -         | F              | B         | C          |
| Daily Price Change                                | -1.40%    | 0.00%      | -1.09%    | -0.45%         | 0.39%     | 1.05%      |
| 1-Week Price Change                               | -1.33%    | -0.84%     | 4.23%     | 1.96%          | -4.09%    | -8.06%     |
| 4-Week Price Change                               | -0.31%    | 0.00%      | 5.95%     | 8.64%          | 1.15%     | 16.67%     |
| 12-Week Price Change                              | 4.68%     | -0.70%     | 8.63%     | 26.21%         | -5.57%    | 21.02%     |
| 52-Week Price Change                              | 29.58%    | 29.33%     | 5.46%     | 64.08%         | 56.61%    | 147.10%    |
| 20-Day Average Volume (Shares)                    | 1,603,205 | 502,645    | 2,211,978 | 1,039,421      | 5,319,297 | 530,546    |
| EPS F1 Estimate 1-Week Change                     | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%      |
| EPS F1 Estimate 4-Week Change                     | -0.88%    | 0.00%      | 1.67%     | -36.51%        | 0.00%     | 11.12%     |
| EPS F1 Estimate 12-Week Change                    | 27.64%    | 1.70%      | 3.56%     | -36.51%        | 69.41%    | 11.12%     |
| EPS Q1 Estimate Monthly Change                    | -2.31%    | 0.00%      | 0.63%     | -93.33%        | 0.00%     | 6.39%      |

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |   |
|----------------|---|
| Value Score    | D |
| Growth Score   | A |
| Momentum Score | C |
| VGM Score      | C |

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

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## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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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 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.

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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.