

## ExxonMobil Corporation (XOM)

**\$32.98** (As of 10/02/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

### Summary

ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry-leading returns and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play. Notably, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels from offshore Guyana discoveries. Recently, after getting government approval, ExxonMobil decided to proceed with the Payara field offshore development in Guyana. However, the firm's recent third-quarter 2020 update hints at a challenging quarter. The company expects weak refining margins to have hurt its downstream business. Moreover, the integrated firm expects the drop in realized gas prices to have affected its upstream operations.

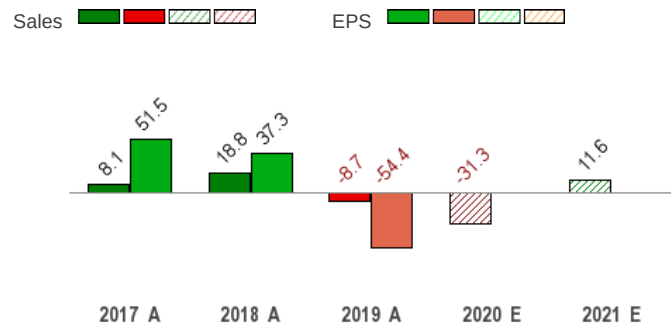
### Price, Consensus & Surprise



### Data Overview

|                                |                                          |
|--------------------------------|------------------------------------------|
| 52-Week High-Low               | \$73.12 - \$30.11                        |
| 20-Day Average Volume (Shares) | 27,502,054                               |
| Market Cap                     | \$139.4 B                                |
| Year-To-Date Price Change      | -52.7%                                   |
| Beta                           | 1.31                                     |
| Dividend / Dividend Yield      | \$3.48 / 10.6%                           |
| Industry                       | Oil and Gas - Integrated - International |
| Zacks Industry Rank            | Bottom 9% (229 out of 251)               |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | -11.1%     |
| Last Sales Surprise           | -9.6%      |
| EPS F1 Estimate 4-Week Change | -6.2%      |
| Expected Report Date          | 10/30/2020 |
| Earnings ESP                  | 7.8%       |
| P/E TTM                       | 35.9       |
| P/E F1                        | NA         |
| PEG F1                        | NA         |
| P/S TTM                       | 0.6        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | 54,955 E | 55,344 E | 57,526 E | 57,893 E | 203,209 E |
| 2020 | 56,158 A | 32,605 A | 49,369 E | 54,260 E | 182,135 E |
| 2019 | 63,625 A | 69,091 A | 65,049 A | 67,173 A | 264,938 A |

### EPS Estimates

|      | Q1       | Q2        | Q3        | Q4       | Annual*   |
|------|----------|-----------|-----------|----------|-----------|
| 2021 | \$0.19 E | \$0.30 E  | \$0.39 E  | \$0.32 E | \$1.13 E  |
| 2020 | \$0.53 A | -\$0.70 A | -\$0.17 E | \$0.09 E | -\$0.37 E |
| 2019 | \$0.55 A | \$0.73 A  | \$0.68 A  | \$0.41 A | \$2.25 A  |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/02/2020. The reports text is as of 10/05/2020.

## Overview

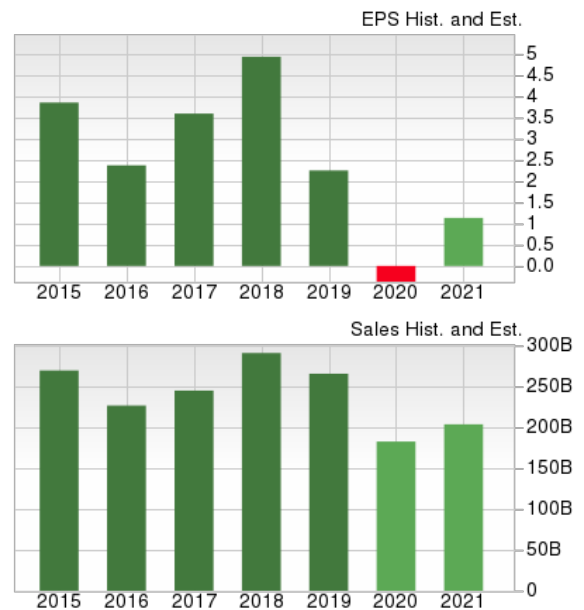
ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry-leading returns and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play.

The company's upstream portfolio has not generated much production growth in 2019 and the trend isn't expected to change at least in the near term. The company nevertheless owns some of the most prolific upstream assets globally. Other aspects of the company's story include the largest global refining operations, substantial chemicals assets and a dividend history and credit profile that are second to none in the space.

As compared to other energy giants, ExxonMobil's capital spending discipline is quite aggressive. The company has a plan in place to allocate significant proportion of its budget to key oil and gas projects that include offshore Guyana resources and Permian - the most prolific shale play in the United States.

Needless to say, the company's business perspective looks different from most peers since big oil rivals have pledged to lower carbon emissions to tackle climate change. The European oil majors believe that the energy space is evolving, calling for more investment in renewables such as wind and solar. On the contrary, ExxonMobil believes that renewables alone will not be enough to meet energy demand. The company thinks the world needs more oil in the next two decades since people's standard of living is improving over time.

Irving, TX-based ExxonMobil has a market cap of around \$202 billion and divides its operations into three main segments: Upstream (exploration & production), Downstream (refining) and Chemicals (manufacturing & marketing petrochemicals). In 2019, these segments generated 83%, 14% and 3%, respectively, of the company's total earnings.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ ExxonMobil's bellwether status in the energy space, optimal integrated capital structure that has historically produced industry leading returns, and management's track record of capex discipline across the commodity price cycle make it a relatively lower-risk energy sector play.
- ▲ ExxonMobil recently announced plans to slash 2020 capital spending plan by 30% or \$10 billion from its original guidance to \$23 billion, as low commodity prices amid an oversupplied industry are a concern for the global energy space. The company will also slash cash operating expenses by 15% to combat the pandemic. The measures are likely to help the energy giant make up for the massive shortfall in cashflows.
- ▲ The company made world-class oil discoveries at the Stabroek Block, located off the coast of Guyana. In the block, the company estimates gross recoverable resource of more than 8 billion oil-equivalent barrels. Moreover, the firm projects daily Guyana oil production volumes of more than 750,000 gross barrels by 2025. Notably, after getting government approval, ExxonMobil decided to proceed with the Payara field offshore development in Guyana. The energy major expects the development to produce up to 220,000 barrels of crude oil every day following start-up in 2024. The company expects to utilize the Prosperity floating production, storage and offloading (FPSO) vessel for the development.
- ▲ At the end of second-quarter 2020, the company's total cash and cash equivalents were \$12.6 billion and debt amounted to \$69.5 billion. Notably, the integrated energy firm has significant lower debt exposure as compared to other integrated majors. The energy giant also carries high investment grade rating of Aa1 from Moody's, reflecting the company's strong ability to fulfil financial commitments. Moreover, the integrated energy company has maintained its long-term business outlook. The company added that it will continue to invest in profitable projects to capitalize on long-term energy demand.

Major discoveries in the Stabroek Block have enhanced prospects for ExxonMobil's upstream businesses.

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## Reasons To Sell:

- ▼ Unlike the S&P 500 index which evaluates the weight of the component stocks on the basis of market capitalization, the Dow Jones Industrial Average calculates the weight on the basis of share price of the components. With Apple's planned 4-to-1 stock split, the technology sector will have less weightage in the index. Thus, to compensate for the benchmark's lower exposure to the technology sector, the price-weighted index, tracking 30 large publicly-owned companies, has replaced ExxonMobil – plummeting 34.9% in the past 10 years – with Salesforce.
- ▼ ExxonMobil's recent third-quarter 2020 sneak peek has pointed to a challenging quarter. Lower realized gas prices are likely to have hurt the energy major's upstream operations. The company expects weak refining margins to have hurt its downstream business. In fact, the Zacks Consensus Estimate for third-quarter loss has widened in the past 30 days, reflecting a challenging business scenario. Lower cashflow owing to a challenging business environment is likely to have weakened the company's capability to continue paying dividend by utilizing debt capital.
- ▼ On Jul 29, ExxonMobil announced that it has maintained its quarterly dividend at 87 cents per share, likely to be paid on Sep 10, to shareholders of record as of Aug 13. Since the coronavirus pandemic has shocked the energy market, many leading energy firms have opted to slash dividend as a measure of preserving cashflows. Hence, the company's decision to maintain dividends is worth appreciating. However, it is expected to be difficult for the energy major to sustain a high payout rate, since the company's overall business is severely affected by the coronavirus pandemic.
- ▼ Owing to ExxonMobil's huge counter-cyclical capital spending program, which has been deteriorating its cash flow generation capabilities, the company may need to compromise balance sheet strength in the medium term. Once its balance sheet strength gets compromised, ExxonMobil may be compelled to lower dividend. However, the company is unlikely to take a rash step to lower dividend in the near term since it has a long track record of increasing dividend.

Weakness in the firm's downstream business is a concern.

## Last Earnings Report

### ExxonMobil Q2 Earnings Miss Estimates on Weak Oil Price

ExxonMobil reported weak second-quarter results owing to lower oil-equivalent production, coronavirus-induced weak commodity prices and reduced industry refining margins in both U.S. and non-U.S. operations.

The integrated energy giant's loss per share of 70 cents – excluding identified items – was wider than the Zacks Consensus Estimate of a loss of 63 cents. In the year-ago quarter, the company reported earnings of 73 cents per share.

ExxonMobil's total revenues of \$32,605 million missed the Zacks Consensus Estimate of \$36,081 and deteriorated from the year-earlier figure of \$69,091 million.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 31, 2020 |
| Sales Surprise   | -9.63%       |
| EPS Surprise     | -11.11%      |
| Quarterly EPS    | -0.70        |
| Annual EPS (TTM) | 0.92         |

### Operational Performance

#### Upstream

The segment reported quarterly loss of \$1,651 million against a profit of \$3,261 million a year ago. The downside was owing to lower oil-equivalent production volumes and commodity prices.

Operations in the United States recorded a loss of \$1,197 million against a profit of \$335 million in the June quarter of 2019. Moreover, the company reported loss of \$454 million from non-U.S. operations against the year-ago quarter's profit of \$2,926 million.

**Production:** Total production averaged 3.638 million barrels of oil-equivalent per day (MMBoE/D), lower than 3.909 MMBoE/D a year ago, reflecting coronavirus-induced drop in fuel demand and curtailment in volumes as mandated by the government.

Liquid production decreased to 2.306 million barrels per day (MMBbls/D) from 2.389 MMBbls/D in the prior-year quarter. While production from the United States, Europe and Africa declined significantly, it increased in Canada and Asia. Moreover, natural gas production was 7.990 billion cubic feet per day (Bcf/d), down from 9.120 Bcf/d a year ago due to lower output from Europe and United States.

**Price Realization:** In the United States, the company recorded crude price realization of \$21.79 per barrel, lower than the year-ago quarter's \$57.95. The same metric for non-U.S. operations declined to \$20.91 per barrel from the year-ago \$62.47. Moreover, natural gas prices in the United States were recorded at \$1.57 per thousand cubic feet (Kcf), below the year-ago quarter's \$2.22. Similarly, in the non-U.S. section, the metric fell to \$4.07 per Kcf from \$5.84 in second-quarter 2019.

#### Downstream

The segment recorded an earnings of \$976 million, up from the year-ago profit of \$451 million, primarily owing to decline in expenses. This was offset partially by lower industry refining margins in both U.S. and non-U.S. operations.

Notably, ExxonMobil's refinery throughput averaged 3.5 MMBbls/D, lower than the year-earlier level of 3.9 MMBbls/D.

#### Chemical

This unit recorded \$467-million profit, up from \$188 million in the year-ago quarter on an increase in margin from U.S. operations.

#### Financials

During the quarter under review, ExxonMobil generated cash flow of \$43 million from operations and asset divestments, substantially down from \$5.9 billion a year ago. The company's capital and exploration spending declined 34% year over year to \$5.3 billion.

At the end of second-quarter 2020, total cash and cash equivalents were \$12.6 billion, and debt amounted to \$69.5 billion.

## Recent News

### Will ExxonMobil Report Quarterly Loss for 3rd Time in a Row? – Oct 1, 2020

ExxonMobil recently provided a glimpse of third-quarter operations, which are expected to have been affected by the pandemic at large. The impact of the pandemic on energy demand and oil and gas prices is concerning, especially for companies like ExxonMobil. It is expected to incur losses in both upstream and downstream businesses in third-quarter 2020 due to continuing headwinds from the coronavirus pandemic.

#### Upstream

Even though upstream operations are expected to gain \$1.4-\$1.8 billion in the third quarter from second-quarter 2020 due to improving liquids prices, it will likely bear an additional \$100-\$500 million brunt from declining gas prices. Notably, it reported second-quarter loss of \$1.9 billion (excluding identified items) from upstream operations. Hence, the segment is likely to hover in the negative territory in the third quarter as well.

#### Downstream & Chemicals

Loss from the refining business is expected to increase \$200-\$600 million from second-quarter loss of \$600 million due to lower margins. Moreover, the company is expected to have a maximum \$200 million negative impact from North American crude logistics differentials. The chemicals business' margins are expected between \$100 million decline and \$100 million increase. Second-quarter earnings from this segment were \$400 million.

#### Earnings Estimates

Notably, the Zacks Consensus Estimate for third-quarter loss is pegged at 17 cents per share. Earnings per share of 68 cents were recorded in the year-ago period. The company is scheduled to release third-quarter results on Oct 30. In the past 30 days, it has witnessed no upward movement but two downward estimate revisions. In case the estimates come true and the company reports a quarterly loss, it will be the third one in a row, a rare occasion in the last 36 years.

Moreover, the Zacks Consensus Estimate for third-quarter revenues is pegged at \$49.4 billion, indicating a 24.1% decline from the year-ago period.

#### LNG Project

Hai Phong's port city in Vietnam recently approved a nearly \$5.1 billion liquefied natural gas (LNG) power project, which will likely be developed by ExxonMobil, per Reuters. The project is expected to commence electricity generation in 2026 or 2027, with an initial capacity of 2.25 gigawatts. The capacity will likely double to 4.5 gigawatts by 2029-2030. The project is also expected to incorporate a terminal with a capacity of 6 million tons of LNG per year.

### ExxonMobil Makes 18th Oil Discovery in Guyana's Stabroek Block – Sep 8, 2020

ExxonMobil announced another offshore Guyana oil finding, marking the 18th discovery in the Stabroek block. This time, the discovery has been made at the Redtail-1 well and the company is expecting the discovery to increase its prior estimate of more than 8 billion barrels of oil equivalent for gross discovered recoverable resource.

The company added that the well was drilled in 1,878 meters of water, where it encountered almost 70 meters of high-quality oil-bearing sandstone. The Noble Don Taylor drillship was employed by Exxon Mobil Corporation for drilling the well. Notably, the Redtail-1 well's location is at 1.5 miles northwest of the Yellowtail discovery.

ExxonMobil added that it encountered 21 meters of high-quality oil-bearing reservoirs at Yellowtail-2 well, which marked the 17th discovery in the Stabroek Block. Importantly, the leading upstream player believes that discoveries at Redtail-1 and Yellowtail-2 wells reflect remarkable exploration potential of the offshore block and has brightened the company's oil production prospects.

ExxonMobil, with a 45% interest is the operator of the block, covering 6.6 million acres. Hess owns 30% interest in the block. The remaining 25% stake is being held by a wholly-owned subsidiary of CNOOC Limited.

## Valuation

ExxonMobil shares are down 52.7% in the year-to-date period and 51.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 51% and 46.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 48.7% and 42.2%, respectively.

The S&P 500 index is up 4% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 0.69X forward 12-month sales, which compares to 0.46X for the Zacks sub-industry, 0.61X for the Zacks sector and 4.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.7X and as low as 0.61X, with a 5-year median of 1.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 0.73X F12M sales.

The table below shows summary valuation data for XOM.

| Valuation Multiples - XOM |             |       |              |        |         |
|---------------------------|-------------|-------|--------------|--------|---------|
|                           |             | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                  | Current     | 0.69  | 0.46         | 0.61   | 4.02    |
|                           | 5-Year High | 1.7   | 0.87         | 1.47   | 4.3     |
|                           | 5-Year Low  | 0.61  | 0.46         | 0.6    | 3.18    |

|               |               |       |      |       |       |
|---------------|---------------|-------|------|-------|-------|
| EV/EBITDA TTM | 5-Year Low    | 0.61  | 0.40 | 0.0   | 3.10  |
|               | 5-Year Median | 1.17  | 0.75 | 0.99  | 3.67  |
|               | Current       | 6.51  | 3.29 | 3.91  | 14.63 |
|               | 5-Year High   | 14.06 | 9.88 | 10.48 | 15.66 |
|               | 5-Year Low    | 4.6   | 2.85 | 3.05  | 9.53  |
| P/B TTM       | 5-Year Median | 9.6   | 6.03 | 6.5   | 13.07 |
|               | Current       | 0.75  | 0.66 | 0.83  | 5.81  |
|               | 5-Year High   | 2.23  | 1.48 | 1.55  | 6.2   |
|               | 5-Year Low    | 0.67  | 0.51 | 0.53  | 3.75  |
|               | 5-Year Median | 1.78  | 1.21 | 1.32  | 4.88  |

As of 10/02/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                       | Rec          | Rank |
|----------------------------------------|--------------|------|
| BP p.l.c. (BP)                         | Neutral      | 4    |
| ConocoPhillips (COP)                   | Neutral      | 3    |
| Chevron Corporation (CVX)              | Neutral      | 3    |
| Occidental Petroleum Corporation (OXY) | Neutral      | 3    |
| Phillips 66 (PSX)                      | Neutral      | 3    |
| Royal Dutch Shell PLC (RDS.A)          | Neutral      | 3    |
| TOTAL S.A. (TOT)                       | Neutral      | 3    |
| Eni SpA (E)                            | Underperform | 5    |

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

| Industry Comparison Industry: Oil And Gas - Integrated - International |            |            |           | Industry Peers |           |           |
|------------------------------------------------------------------------|------------|------------|-----------|----------------|-----------|-----------|
|                                                                        | XOM        | X Industry | S&P 500   | BP             | RDS.A     | TOT       |
| Zacks Recommendation (Long Term)                                       | Neutral    | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                                | 3          | -          | -         | 4              | 3         | 3         |
| VGM Score                                                              | C          | -          | -         | A              | B         | B         |
| Market Cap                                                             | 139.45 B   | 10.93 B    | 23.15 B   | 56.89 B        | 96.03 B   | 88.43 B   |
| # of Analysts                                                          | 6          | 1          | 14        | 4              | 3         | 5         |
| Dividend Yield                                                         | 10.55%     | 3.94%      | 1.66%     | 7.36%          | 4.42%     | 7.74%     |
| Value Score                                                            | B          | -          | -         | A              | A         | B         |
| Cash/Price                                                             | 0.09       | 0.42       | 0.08      | 0.65           | 0.36      | 0.42      |
| EV/EBITDA                                                              | 4.35       | 2.27       | 13.23     | 3.05           | 2.50      | 3.15      |
| PEG F1                                                                 | NA         | 16.10      | 2.82      | NA             | 4.43      | 27.77     |
| P/B                                                                    | 0.75       | 0.60       | 3.31      | 0.69           | 0.60      | 0.84      |
| P/CF                                                                   | 4.88       | 2.16       | 12.85     | 2.05           | 2.20      | 3.15      |
| P/E F1                                                                 | NA         | 22.16      | 21.20     | NA             | 22.16     | 25.36     |
| P/S TTM                                                                | 0.63       | 0.41       | 2.51      | 0.25           | 0.36      | 0.53      |
| Earnings Yield                                                         | -1.12%     | -0.20%     | 4.49%     | -9.61%         | 4.51%     | 3.93%     |
| Debt/Equity                                                            | 0.25       | 0.55       | 0.70      | 0.87           | 0.55      | 0.59      |
| Cash Flow (\$/share)                                                   | 6.76       | 6.76       | 6.92      | 8.23           | 11.18     | 10.59     |
| Growth Score                                                           | F          | -          | -         | B              | C         | C         |
| Historical EPS Growth (3-5 Years)                                      | -6.05%     | 15.32%     | 10.45%    | 29.48%         | 15.07%    | 1.13%     |
| Projected EPS Growth (F1/F0)                                           | -116.52%   | -98.91%    | -2.97%    | -154.83%       | -72.52%   | -70.00%   |
| Current Cash Flow Growth                                               | -28.10%    | 3.73%      | 5.47%     | -1.45%         | 3.73%     | 0.31%     |
| Historical Cash Flow Growth (3-5 Years)                                | -10.50%    | -1.55%     | 8.52%     | 0.30%          | -0.82%    | -3.48%    |
| Current Ratio                                                          | 0.93       | 1.29       | 1.35      | 1.30           | 1.24      | 1.31      |
| Debt/Capital                                                           | 19.92%     | 35.68%     | 42.68%    | 46.47%         | 35.28%    | 37.28%    |
| Net Margin                                                             | 3.24%      | -4.22%     | 10.32%    | -9.45%         | -4.22%    | -1.75%    |
| Return on Equity                                                       | 2.09%      | 2.69%      | 14.77%    | -1.14%         | 6.16%     | 7.12%     |
| Sales/Assets                                                           | 0.61       | 0.58       | 0.51      | 0.83           | 0.68      | 0.63      |
| Projected Sales Growth (F1/F0)                                         | -31.25%    | -9.11%     | -0.89%    | -31.62%        | -28.47%   | -45.63%   |
| Momentum Score                                                         | A          | -          | -         | A              | A         | C         |
| Daily Price Change                                                     | -0.45%     | -0.45%     | 0.46%     | 0.12%          | 1.49%     | -0.74%    |
| 1-Week Price Change                                                    | -6.86%     | -6.36%     | -2.32%    | -5.40%         | -4.60%    | -10.70%   |
| 4-Week Price Change                                                    | -15.67%    | -11.04%    | -1.82%    | -18.24%        | -15.00%   | -14.60%   |
| 12-Week Price Change                                                   | -20.26%    | -18.56%    | 7.71%     | -23.58%        | -21.36%   | -10.36%   |
| 52-Week Price Change                                                   | -51.49%    | -47.67%    | 3.04%     | -53.67%        | -56.83%   | -32.57%   |
| 20-Day Average Volume (Shares)                                         | 27,502,054 | 151,299    | 2,142,397 | 13,401,971     | 7,404,907 | 3,151,366 |
| EPS F1 Estimate 1-Week Change                                          | -0.49%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.61%     |
| EPS F1 Estimate 4-Week Change                                          | -6.19%     | 0.00%      | 0.00%     | 0.00%          | 14.48%    | -0.15%    |
| EPS F1 Estimate 12-Week Change                                         | 66.99%     | -3.85%     | 3.87%     | -1,098.15%     | 261.70%   | 29.59%    |
| EPS Q1 Estimate Monthly Change                                         | 14.29%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |

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    | <b>B</b> |
| Growth Score   | <b>F</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>C</b> |

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

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## Disclosures

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## 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.