

Accenture Plc (ACN)

\$242.99 (As of 08/28/20)

Price Target (6-12 Months): **\$258.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

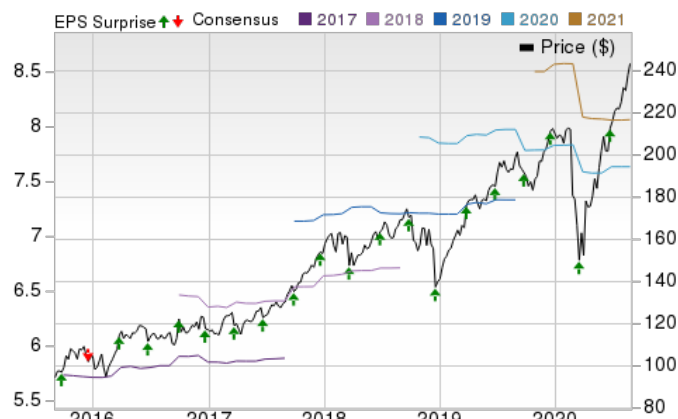
Growth: A

Momentum: F

Summary

Accenture's shares have outperformed its industry in the past year, partly due to earnings and revenue beat in five of the last six quarters and updated fiscal 2020 guidance. The company has been steadily gaining traction in its outsourcing and consulting businesses. Further, it has been strategically enhancing its cloud and digital marketing suite through acquisitions and partnerships. The company's strong operating cash flow has helped it reward its shareholders in the form of dividends and share repurchases, and pursue opportunities in areas that show true potential. However, Accenture continues to face pricing pressure due to significant competition from strong companies like Genpact, Cognizant and Infosys. Global presence exposes it to foreign currency exchange rate fluctuations. Buyout-related integration risks is a concern.

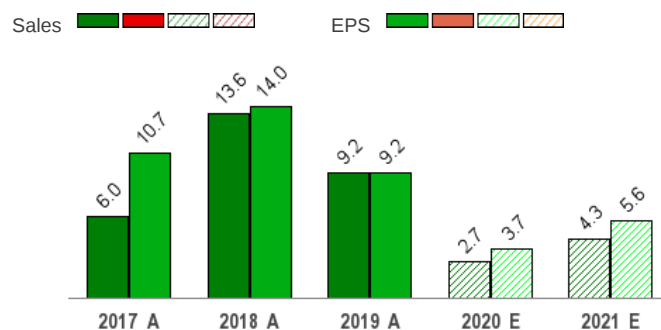
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$243.54 - \$137.15
20-Day Average Volume (Shares)	1,490,454
Market Cap	\$154.7 B
Year-To-Date Price Change	15.4%
Beta	1.06
Dividend / Dividend Yield	\$3.20 / 1.3%
Industry	Consulting Services
Zacks Industry Rank	Top 26% (66 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	0.7%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	09/24/2020
Earnings ESP	0.0%
P/E TTM	31.8
P/E F1	31.9
PEG F1	3.1
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,364 E	11,433 E	11,793 E	11,750 E	46,302 E
2020	11,359 A	11,142 A	10,991 A	10,888 E	44,381 E
2019	10,606 A	10,454 A	11,100 A	11,056 A	43,215 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.08 E	\$1.86 E	\$2.12 E	\$1.99 E	\$8.06 E
2020	\$2.09 A	\$1.91 A	\$1.90 A	\$1.73 E	\$7.63 E
2019	\$1.96 A	\$1.73 A	\$1.93 A	\$1.74 A	\$7.36 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 08/28/2020. The reports text is as of 08/31/2020.

Overview

Years of investment in digital, cloud and security strategy has helped Accenture evolve as a trusted and viable consulting services provider. It is currently the world's top consultancy firm by revenues that increased 5% in 2019 with a contribution of 56% from consulting services.

The company has spent decades establishing itself as a trusted advisor, continuously adjusting its business mix to take advantage of changing market conditions. It has extensive relationships with World's leading companies. Currently, Accenture's clients comprise 92 of the Fortune Global 100 and more than three-quarters of the Fortune Global 500. Ability to anticipate large, transformative technology trends and capitalize on them through mergers and acquisitions are keys to the company's success.

Accenture reports under five segments, which are discussed below:

Communications, Media & Technology (20% of FY19 revenues): Offers services to communications, electronics, high technology, media and entertainment industries.

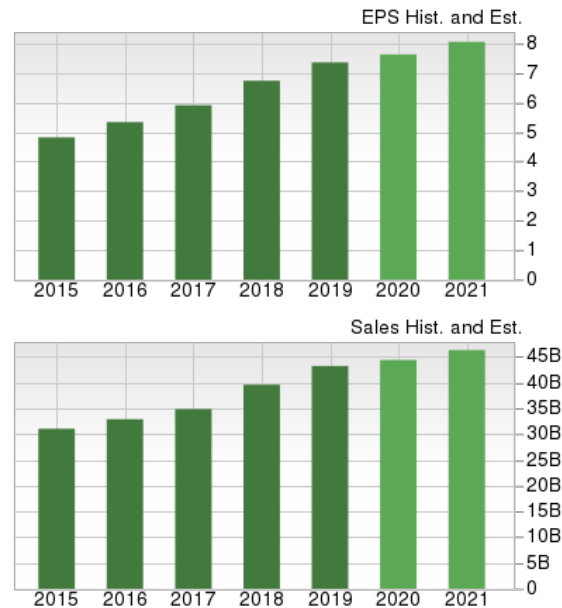
Financial Services (20%): Offers services to banking, capital markets and insurance industries. The segment enables clients to address growth, cost and profitability pressures, industry consolidation and regulatory changes.

Health & Public Service (16%): Offers services to the healthcare providers, government agencies, public service organizations, educational institutions and non-profit organizations.

Products (28%): Offers services to the companies which belong to Air, Freight & Travel Services, Automotive, Consumer Goods & Services, Industrial Equipment, Infrastructure & Transportation Services, Life Sciences and Retail industries.

Resources (16%): Offers services to the companies which belong to chemicals, forest products, energy, metals and mining, utilities and related industries. The segment helps clients manage complex change initiatives and integrate digital technologies.

On the basis of nature of work, the company derives its revenues by providing Outsourcing (44% of FY19 revenues) and Consulting services (56%). Geographically, 46% of total FY19 revenues were generated in North America, 34% in Europe and 20% from Growth Market.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Accenture has been steadily gaining traction in its **outsourcing as well as consulting businesses** backed by high demand for services that can improve operating efficiencies and save costs. On the outsourcing front, the company continues to see strong demand to assist clients with the operation and maintenance of digital-related services and cloud enablement. In fiscal 2019, Accenture's net revenues from outsourcing business increased 5% in U.S. dollars and 8% in local currency. The same increased 12% in U.S. dollars and 9% in local currency in fiscal 2018. On the consulting front, the company experiences strong demand for digital, cloud- and security-related services. In fiscal 2019, Accenture's net revenues from consulting business increased 6% in U.S. dollars and 9% in local currency. The same increased 15% in U.S. dollars and 12% in local currency in fiscal 2018.
- ▲ **Acquisitions** have been one of the key growth strategies for Accenture. They have enabled the company to enter new markets, diversify and broaden its product portfolio, and maintain its leading position. In fiscal 2019, the company invested \$1.2 billion on 33 buyouts. Acquisitions are expected to continue contributing significantly to its revenue stream. The company is set to acquire Symantec's Cyber Security Services business from Broadcom in March 2020. The buyout will strengthen Accenture Security's position as one of the leading providers of comprehensive managed services for global businesses.
- ▲ Accenture's strategy of enhancing its **cloud capabilities** through acquisitions and partnerships is a step in the right direction. This is evident from the recent forecast by several independent research firms. According to Gartner, the worldwide public cloud revenues are likely to grow 17% in 2020 to \$266.4 billion, up from \$227.8 billion in 2019. Per International Data Corporation (IDC), global spending on public cloud services and infrastructure market will witness a compounded annual growth rate (CAGR) of 22.3% during the 2019-2023 period. Therefore, considering the growing need for cloud-based applications and software, we expect Accenture's investments in this space to propel long-term growth. Moreover, Accenture has been aggressively trying to strengthen its position as a leading provider of **Salesforce capabilities** and is currently a global leader in the Salesforce implementation service space. It presently employs more than 11,000 Salesforce professionals and has invested in several acquisitions in recent years as part of its investment in Salesforce capabilities. Given that Salesforce is one of the largest providers of cloud-based applications and software, it is imperative that Accenture enhances its capabilities in delivering the Salesforce's services.
- ▲ Accenture's cash and cash equivalent balance of \$6.45 billion at the end of the third-quarter fiscal 2020 was well above the debt level \$29 million, underscoring that the company **has enough cash to meet its debt burden**. A strong cash position allows the company to pursue strategic acquisitions, invest in growth initiatives and return cash through regular quarterly dividend payment and share repurchases.
- ▲ Accenture's shares have gained 22.6% over the past year, outperforming the industry's 19.8% growth of the industry. The **outperformance** partly reflects better-than-expected earnings and revenue performance in five of the last six quarters. Further, the company has updated its fiscal 2020 guidance. Management now expects EPS in the range of \$7.57-\$7.70 compared with the prior guided range of \$7.48-\$7.70. Revenues are expected to register 3.5-4.5% growth in terms of local currency compared with the prior guided growth rate of 3-6%. Operating cash flow is now anticipated in the range of \$6.45-\$6.95 billion compared with \$6.15-\$6.65 billion guided earlier. Free cash flow is now expected between \$5.8 billion and \$6.3 billion compared with the prior guidance of \$5.5-\$6.0 billion.

Considering the growing need for cloud-based applications and software, Accenture's investments in this space are likely to propel long-term growth.

Reasons To Sell:

- ▼ Higher talent costs due to a **competitive talent market** coupled and Trump's stringent policies on immigration are hurting consulting services providers like Accenture. The industry is labor intensive and heavily dependent on foreign talent. Moreover, while advancement in automation and AI offer massive opportunity to the industry, these technologies enable clients to comprehend and integrate new methods to improve performance, thereby creating uncertainty for consulting services firms.
- ▼ Accenture's market share and revenues necessarily depend on client relationships and the number of contracts it secures. This, along with the limited scope for product differentiation, makes the renegotiation of large contracts extremely important. As a result, **competition** from strong companies like Genpact Limited, Cognizant Technology Solutions and Infosys is a constant pressure. Competition is particularly tough in the case of resurgent regions like Europe, since all the major players are fighting for business. This naturally also increases pricing pressures.
- ▼ Accenture continues to acquire a large number of companies. While this improves revenue opportunities, business mix and profitability, it also adds to **integration risks**. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward.

Stiff competition and pricing pressure continue as Accenture's headwinds.

Last Earnings Report

Accenture Beats Q3 Earnings & Revenues Estimates

Accenture reported solid third-quarter fiscal 2020 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

Earnings of \$1.90 per share surpassed the consensus estimate by 3.3% but came below the year-ago figure by 1.6%. The decline was due to lower revenues and operating results, higher non-operating expenses, which were partially offset by lower share count.

Net revenues of \$10.99 billion outpaced the consensus mark by 0.7% but decreased 1% year over year on a reported basis and 1.3% in terms of local currency. Net revenues came in toward the higher end of the guided range of \$10.75-\$11.15 billion.

Revenues in Detail

On the basis of the type of work, Consulting revenues of \$6 billion decreased 4% year over year on a reported basis and 2% in terms of local currency. Outsourcing revenues of \$5 billion increased 3% year over year on a reported basis and 5% in terms of local currency.

Segment-wise, Communications, Media & Technology revenues of \$2.20 billion decreased 2% year over year on a reported basis and were flat in terms of local currency. Financial Services revenues of \$2.14 billion decreased 3% year over year on a reported basis and were flat in terms of local currency. Health & Public Service revenues of \$2.02 billion increased 11% year over year on a reported basis and 12% in terms of local currency. Products revenues of \$3 billion decreased 3% year over year on a reported basis and 1% in local currency. Resources revenues of \$1.64 billion decreased 6% year over year on a reported basis and 3% in terms of local currency.

Geographically, revenues of \$5.24 billion from North Americas increased 2% year over year on a reported basis as well as in terms of local currency. Revenues from Europe of \$3.57 billion decreased 5% on a reported basis and 2% in terms of local currency. Revenues from Growth Markets of \$2.18 billion was flat year over year on a reported basis and increased 5% in terms of local currency.

Booking Trends

Accenture reported new bookings worth \$11 billion. Consulting bookings and Outsourcing bookings totaled 6.2 billion and \$4.8 billion, respectively.

Operating Results

Gross margin (gross profit as a percentage of net revenues) for the third quarter of fiscal 2020 increased 30 basis points (bps) to 32.1%. Operating income was \$1.71 billion, down 0.6% year over year. Operating margin in the reported quarter expanded 10 bps to 15.6%.

Balance Sheet & Cash Flow

Accenture exited third-quarter fiscal 2020 with total cash and cash equivalents balance of \$6.44 billion compared with \$5.44 billion at the end of the prior quarter. Long-term debt was \$60.3 million compared with \$13.2 million at the end of the prior quarter.

Cash provided by operating activities crossed \$2.74 billion in the reported quarter. Free cash flow came in at \$2.59 billion.

Dividend Payout

Accenture has shifted its dividend payout policy from semi-annual to quarterly basis. On May 15, 2020, the company paid out a quarterly cash dividend of 80 cents per share to shareholders of record at the close of business on Apr 16, 2020. These cash dividend payouts totaled \$509 million.

The company declared a quarterly cash dividend of 80 cents per share for shareholders of record at the close of business on Jul 16, 2020. This dividend will be paid out on Aug 14, 2020.

In fiscal 2019, the company paid out semi-annual cash dividends of \$1.46 per share.

Share Repurchases

In line with the policy of returning cash to its shareholders, Accenture repurchased 3.7 million shares for \$627 million in the fiscal third quarter. The company had approximately 637 million total shares outstanding as of May 31, 2020.

Guidance

Fourth-Quarter Fiscal 2020

For fourth-quarter fiscal 2020, Accenture expects revenues of \$10.6-\$11.0 billion. The assumption is inclusive of a negative foreign-exchange impact of 1%.

Fiscal 2020

Accenture updated its guidance for fiscal 2020. Management now expects EPS in the range of \$7.57-\$7.70 compared with the prior guided range of \$7.48-\$7.70. Revenues are expected to register 3.5-4.5% growth in terms of local currency compared with the prior guided growth rate of 3-

Quarter Ending	05/2020
Report Date	Jun 25, 2020
Sales Surprise	0.69%
EPS Surprise	3.26%
Quarterly EPS	1.90
Annual EPS (TTM)	7.64

6%.

Operating margin for the fiscal year is expected to be around 14.7%, indicating an expansion of 10 bps from fiscal 2019 compared with the previously expected operating margin of expansion of 10-20 bps.

The company continues to expect negative foreign exchange impact of 1.5% on its results in U.S. dollars compared with 1% negative impact expected earlier.

Operating cash flow is now anticipated in the range of \$6.45-\$6.95 billion compared with \$6.15-\$6.65 billion guided earlier. Free cash flow is now expected between \$5.8 billion and \$6.3 billion compared with the prior guidance of \$5.5-\$6.0 billion. Annual effective tax rate is now anticipated in the range of 23.5%-24.5%, compared with the prior guided range of 23.5%-25.5%.

Recent News

On **Aug 19, 2020**, Accenture and Intel announced that they have joined forces to support a neuromorphic computing-research project.

On **Aug 17, 2020**, Accenture announced that it has extended its technology-services agreement with the global mining company Anglo American. The move confirms that Accenture will continue as a strategic IT-services provider to Anglo American till 2023.

On **Aug 13, 2020**, Accenture announced the completion of the purchase of CreativeDrive, a technology-driven content-production company specializing in enhancing the creative-asset production process. The financial terms of the deal have been kept under wraps.

On **Aug 03, 2020**, Accenture announced that it has completed the acquisition of Turin-based boutique systems integrator PLM Systems. Financial terms of the deal have been kept under wraps.

On **Jun 26, 2020**, Accenture announced that it has been honored with three 2020 Pega Partner Awards from Pegasystems Inc.

On **Jun 23, 2020**, Accenture subsidiary Accenture Federal Services ("AFS") announced yesterday that it will open an Advanced Technology Center at 520 Maryville Centre Drive in St. Louis County later this year.

On **Jun 15, 2020**, Accenture announced that it has entered into an agreement to acquire independent data consulting and engineering company Sentelis. Financial terms of the deal have been kept under wraps.

On **Jun 2, 2020**, Accenture announced that it has completed the acquisition of Gekko, a French Amazon Web Services (AWS) cloud services company.

Valuation

Accenture shares are up 15.4% in the year-to-date period and 22.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 12.4% and 4.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 19.8% and 5.8%, respectively.

The S&P 500 index is up 8.9% in the year-to-date period and 20.2% in the past year.

The stock is currently trading at 30.15X price to forward 12 months' earnings, which compares to 27.07X for the Zacks sub-industry, 31.53X for the Zacks sector and 23.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.15X and as low as 17.18X, with a 5-year median of 21.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$258.00 price target reflects 31.97X price to forward 12 months' earnings.

The table below shows summary valuation data for ACN

Valuation Multiples - ACN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	30.15	27.07	31.53	23.49
	5-Year High	30.15	27.07	31.53	23.49
	5-Year Low	17.18	18.68	18.68	15.25
	5-Year Median	21.32	21.22	20.95	17.6
P/S F 12M	Current	3.34	2.02	4.4	3.84
	5-Year High	3.34	2.02	4.4	3.84
	5-Year Low	1.83	1.28	3.06	2.53
	5-Year Median	2.37	1.53	3.6	3.05
P/B TTM	Current	9.39	5.8	4.94	4.76
	5-Year High	11.05	7.8	6.71	4.76
	5-Year Low	5.74	3.8	3.28	2.83
	5-Year Median	9.19	6.29	5.22	3.76

As of 08/28/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Aon plc (AON)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
DXC Technology Company. (DXC)	Neutral	5
International Business Machines Corporation (IBM)	Neutral	4
MarshMcLennan Companies, Inc. (MMC)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Oracle Corporation (ORCL)	Neutral	4
Automatic Data Processing, Inc. (ADP)	Underperform	4

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

Industry Comparison Industry: Consulting Services				Industry Peers		
	ACN	X Industry	S&P 500	CTSH	IBM	ORCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	B	-	-	A	A	C
Market Cap	154.73 B	703.25 M	23.71 B	36.70 B	111.38 B	177.62 B
# of Analysts	11	3	14	9	6	11
Dividend Yield	1.32%	0.00%	1.63%	1.30%	5.21%	1.66%
Value Score	D	-	-	B	A	C
Cash/Price	0.04	0.08	0.07	0.13	0.13	0.25
EV/EBITDA	20.70	12.21	13.37	11.16	8.68	11.97
PEG F1	3.06	1.53	3.08	1.73	3.44	1.31
P/B	9.39	2.65	3.22	3.35	5.38	13.97
P/CF	27.26	12.85	12.90	13.44	6.33	12.38
P/E F1	31.65	20.82	21.82	19.03	11.29	14.36
P/S TTM	3.47	1.28	2.52	2.19	1.48	4.55
Earnings Yield	3.14%	4.73%	4.41%	5.26%	8.85%	6.96%
Debt/Equity	0.00	0.65	0.74	0.22	2.68	5.44
Cash Flow (\$/share)	8.91	1.61	6.94	5.04	19.75	4.68
Growth Score	A	-	-	A	C	C
Historical EPS Growth (3-5 Years)	11.11%	11.18%	10.41%	9.68%	-3.28%	9.05%
Projected EPS Growth (F1/F0)	3.67%	-8.29%	-4.94%	-10.83%	-13.54%	4.70%
Current Cash Flow Growth	8.06%	8.06%	5.22%	-2.96%	2.09%	-2.42%
Historical Cash Flow Growth (3-5 Years)	9.75%	9.73%	8.50%	10.46%	-3.76%	-0.39%
Current Ratio	1.37	1.83	1.35	2.66	1.04	3.03
Debt/Capital	0.36%	39.51%	43.86%	18.08%	72.83%	84.48%
Net Margin	11.11%	4.45%	10.25%	9.67%	10.44%	25.94%
Return on Equity	31.51%	12.61%	14.66%	19.87%	51.06%	72.76%
Sales/Assets	1.35	0.86	0.50	0.99	0.50	0.37
Projected Sales Growth (F1/F0)	2.52%	0.00%	-1.43%	-1.32%	-4.43%	0.17%
Momentum Score	F	-	-	F	B	F
Daily Price Change	0.88%	0.17%	0.71%	0.42%	0.34%	1.22%
1-Week Price Change	3.14%	-1.60%	-1.45%	-1.81%	-1.68%	1.83%
4-Week Price Change	8.49%	-0.05%	4.59%	-2.15%	1.77%	4.76%
12-Week Price Change	19.64%	0.69%	4.86%	21.74%	-2.96%	9.52%
52-Week Price Change	22.27%	-9.79%	3.09%	10.28%	-7.27%	10.97%
20-Day Average Volume (Shares)	1,490,454	123,362	1,887,168	2,265,974	3,570,133	10,000,754
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.33%
EPS F1 Estimate 4-Week Change	0.00%	3.30%	0.79%	6.70%	0.00%	-0.33%
EPS F1 Estimate 12-Week Change	0.74%	3.88%	3.43%	3.42%	-1.88%	-2.13%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	9.11%	0.00%	-0.26%

Source: Zacks Investment Research

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	F
VGM Score	B

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

Disclosures

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.