

## Applied Industrial (AIT)

**\$61.09** (As of 10/12/20)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

### Summary

Applied Industrial is focused on improving its product line and providing value-added services to its wide customer base. Also, driving operational excellence and saving costs remain its priorities. Moreover, the company has been benefiting from its acquired assets. Its shareholder-friendly policies are likely to work in its favor. In the past three months, the company's shares have underperformed the industry. For fiscal 2021, it refrained for providing projections due to the pandemic-related uncertainties. Sales in the fiscal first quarter are expected to decline 17-18% year over year. Huge debt levels and weak free cash generation can be detrimental in the quarters ahead. In addition, foreign exchange headwinds might adversely impact its performance. In the past 60 days, the company's earnings estimates have declined for fiscal 2021.

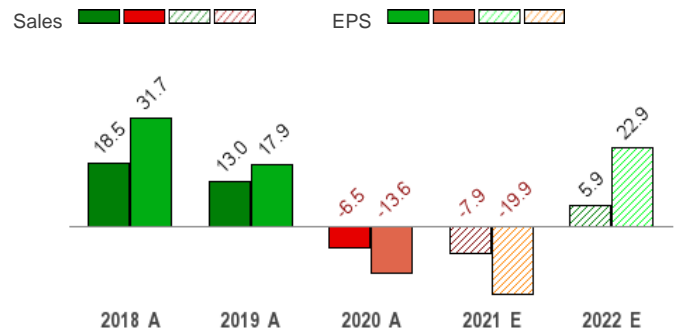
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$70.62 - \$30.66</b>
20-Day Average Volume (Shares)	<b>236,398</b>
Market Cap	<b>\$2.4 B</b>
Year-To-Date Price Change	<b>-8.4%</b>
Beta	<b>1.39</b>
Dividend / Dividend Yield	<b>\$1.28 / 2.1%</b>
Industry	<b>Manufacturing - General Industrial</b>
Zacks Industry Rank	<b>Top 49% (125 out of 254)</b>

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



Last EPS Surprise	<b>17.7%</b>
Last Sales Surprise	<b>-3.5%</b>
EPS F1 Estimate 4-Week Change	<b>1.7%</b>
Expected Report Date	<b>10/28/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>16.0</b>
P/E F1	<b>20.0</b>
PEG F1	<b>1.7</b>
P/S TTM	<b>0.7</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	777 E	765 E	803 E	820 E	3,165 E
2021	726 E	722 E	761 E	778 E	2,988 E
2020	856 A	833 A	831 A	725 A	3,246 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.83 E	\$0.84 E	\$0.96 E	\$1.03 E	\$3.75 E
2021	\$0.64 E	\$0.62 E	\$0.75 E	\$0.85 E	\$3.05 E
2020	\$1.02 A	\$0.97 A	\$1.02 A	\$0.80 A	\$3.81 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/12/2020. The reports text is as of 10/13/2020.

## Overview

Applied Industrial Technologies, Inc. is a distributor of value-added industrial products — including engineered fluid power components, bearings, specialty flow control solutions, power transmission products and miscellaneous industrial supplies. These products are mainly sold to original equipment manufacturers (OEM) and maintenance, repair, and operations (MRO) customers in Australia, North America, Singapore and New Zealand.

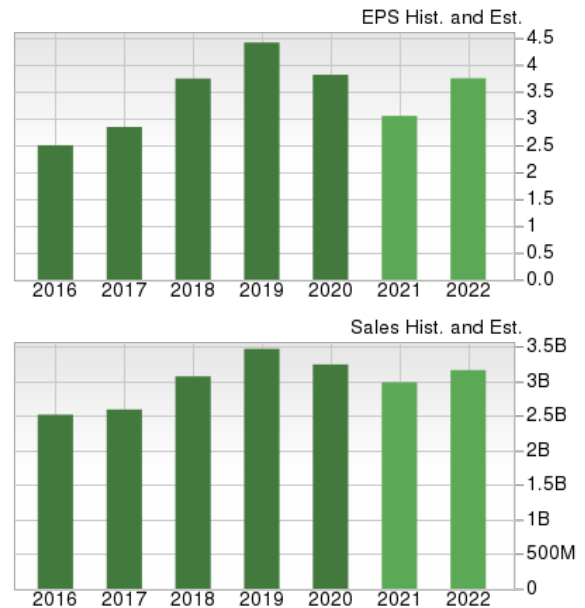
The company is also well known in the market for its engineering, design and systems integration services. Moreover, its inventory management solutions and maintenance training services boost the value of end users in the market. The company, founded in 1923, is currently headquartered in Cleveland, OH.

Applied Industrial reports revenues under two business segments — Service Center-Based Distribution, and Fluid Power & Flow Control. A brief discussion on the segments is provided below:

- **Service Center-Based Distribution** (67.4% of net revenues in the fourth quarter of fiscal 2020) segment offers different types of industrial products majorly through service centers in New Zealand, Australia and North America.

This segment also provides services in the oil and gas industry as well as includes operations of fabricated rubber shops (regional) and rubber service field crews. Service offerings of Applied Maintenance Supplies & Solutions come under the ambit of this segment.

- **Fluid Power & Flow Control** (32.6%) segment includes specialized regional companies that offer fluid power components, assembling and designing of fluid power systems, and provides equipment repairing services. These products and services are traded to the end-users directly in the absence of any service centers. In addition, the segment engages in the integration of flow control system, pump repair and others.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Applied Industrial noted that workers' safety, cash generation, satisfaction of customers and maintaining a reliable supply chain are its priorities in the present difficult environment. Also, it has initiated certain cost-control measures — including pay reductions, lowering discretionary spending, staff adjustments and others — to mitigate some financial pressures. Also, over the long term, Applied Industrial will continue focusing on improving the product line, value-added services, initiatives to drive operational excellence and cost-saving initiatives. It intends to generate revenues of more than \$4.5 billion in the long term. EBITDA margin is anticipated to grow to 11%.
- ▲ Applied Industrial is committed to rewarding shareholders handsomely through dividend payments. From fiscal 2017 to 2019, the company's dividend payments grew from \$1.14 per share to \$1.22. In fiscal 2020, it used \$48.9 million to pay out dividends to shareholders, reflecting 3.4% growth from the previous year. It is worth noting here that the company hiked the quarterly dividend rate by 3.2% in January 2020.
- ▲ Over time, Applied Industrial added multiple assets to its portfolio. In this regard, buyouts of Sentinel Fluid Controls (in March 2017), FCX Performance (in January 2018) and Fluid Power Sales (in November 2018) are worth mentioning. Further, Applied Industrial acquired MilRoc Distribution and Woodward Steel in March 2019, while added Olympus Controls to its portfolio in August 2019. Notably, the automation solutions offered by Olympus Controls are proving beneficial amid the pandemic. In addition, its buyout of Advanced Control Solutions (in October 2020) will enable it to strengthen and expand its range of automation solutions across various end markets. In fourth-quarter fiscal 2020, buyouts had a positive impact of 1.5% on the company's sales. For the Fluid Power & Flow Control segment, acquired assets raised sales by 5% year over year.

Focus on value-added services, cost-saving initiatives, gains from acquired assets and shareholder-friendly policies are likely to work well for Applied Industrial, going forward.

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## Reasons To Sell:

- ▼ In the past three months, Applied Industrial's shares have declined 1.5% against the industry's growth of 14%. In fourth-quarter fiscal 2020, the company's earnings declined 21.6% year over year on weak sales performance and lower margin. It noted that industry demand has been adversely impacted by the coronavirus outbreak. For fiscal 2021, the company refrained from providing financial projections due to the prevailing pandemic-related uncertainties. For the first quarter, it expects a year-over-year organic sales decline of 17-18%. Organic sales decline of mid-teens is expected for the Fluid Power & Flow Control segment and in high-teens for the Service Center-Based Distribution segment. In the past 60 days, the company's earnings estimates have decreased by 7.9% for fiscal 2021 and 0.3% for fiscal 2022.
- ▼ The company's long-term debt rose 21.3% (CAGR) in the last five fiscal years (2016-2020). The balance at the end of fourth-quarter fiscal 2020 was \$855.1 million, while its net leverage was at 2.3x. This compares favourably with long-term debt of \$864.8 million and net leverage of 2.5x at the end of third-quarter fiscal 2020. Despite this, we find the company's ability to address financial obligations concerning. The company's times interest earned in the fourth quarter was at 2.5x, down from 3.0x at the end of the third quarter. Its cash and cash equivalents were just \$268.6 million exiting fourth-quarter fiscal 2020, while its net cash from operating activities was \$296.7 million. We believe that high-debt levels and weak abilities to repay debts can prove detrimental to the company's margins and profitability in the quarters ahead. It expects seasonality to hurt its free cash flow generation in the first half of fiscal 2021.
- ▼ With operations across multiple continents, Applied Industrial's performance is exposed to the adverse impacts of macroeconomic cycles in the United States and international markets as well as unfavorable foreign currency movements. Forex woes had adversely impacted fourth-quarter sales by 1%.

End-market challenges caused by the coronavirus outbreak are expected to impact Applied Industrial's performance in the near term. Also, subdued free cash flow generation and forex woes might play spoilsports.

## Last Earnings Report

### Applied Industrial Q4 Earnings Top Estimates, Sales Lag

Applied Industrial reported mixed results for fourth-quarter fiscal 2020 (ended Jun 30, 2020), with earnings surpassing estimates by 17.65%. However, sales lagged estimates by 3.48%.

The company's earnings in the fiscal fourth quarter were 80 cents per share, surpassing the Zacks Consensus Estimate of 68 cents. However, quarterly earnings declined 21.6% from the year-ago quarter's figure of \$1.02 on weak sales performance and a decline in margin.

For fiscal 2020, the company's adjusted earnings per share were \$3.81, lower than the year-ago number of \$4.41. However, the bottom line surpassed the Zacks Consensus Estimate of \$3.69.

Quarter Ending	06/2020
Report Date	Aug 12, 2020
Sales Surprise	-3.48%
EPS Surprise	17.65%
Quarterly EPS	0.80
Annual EPS (TTM)	3.81

### Revenue Details

In the reported quarter, Applied Industrial's net sales amounted to \$725.1 million, down 17.9% year over year. The results were adversely impacted by an 18.4% fall in organic sales and a 1% impact from forex woes, partially offset by a 1.5% gain from acquired assets.

The company noted that it continues to serve many industries in the present uncertain environment. However, industrial demand suffered in the quarter due to the pandemic.

Also, its top line lagged the Zacks Consensus Estimate of \$751.3 million.

The company reports revenues under two market segments. A brief discussion of the quarterly results is provided below:

Service Center-Based Distribution's revenues totaled \$488.6 million, which contributed 67.4% to net revenues in the quarter under review. On a year-over-year basis, the segment's revenues declined 22.3%. Organic sales declined 21.1% and unfavorable movements in foreign currencies had an adverse impact of 1.2%.

Weakness in mining, machinery, oil & gas, transportation, and metals end markets affected the segment's results.

The Fluid Power & Flow Control segment generated revenues of \$236.4 million, contributing 32.6% to net revenues in the reported quarter. The figure decreased 6.8% year over year due to an 11.8% decline in organic sales, partially offset by a 5% gain from acquisitions.

The results suffered from weakness in the flow-control end market as well as a soft demand in off-highway mobile and fluid power industrial applications. Project activity too was down in the quarter. The headwinds were partially offset by an improvement in technology end markets.

For fiscal 2020, the company's net sales were \$3,245.7 million, decreasing 6.5% year over year. However, the top line lagged the Zacks Consensus Estimate of \$3.27 billion.

### Margin Profile

In the reported quarter, Applied Industrial's cost of sales declined 17.4% year over year to \$516.8 million. Cost of sales was 71.3% of the quarter's net sales. Gross profit in the quarter decreased 19.1% year over year to \$208.3 million, while gross margin fell 43 basis points (bps) year over year to 28.7%.

Selling, distribution and administrative expenses (including depreciation) decreased 13.8% year over year to \$159.7 million. It represented 22% of net sales in the reported quarter versus 21% in the year-ago quarter. Adjusted earnings before interest, tax, depreciation and amortization (EBITDA) were \$64.8 million, reflecting a year-over-year decline of 26%. Margin decreased 98 bps year over year to 8.9%.

Interest expenses declined 20.6% year over year to \$8.1 million. Adjusted income tax rate in the quarter was 25.2%.

### Balance Sheet & Cash Flow

Exiting the fourth quarter of fiscal 2020, Applied Industrial had cash and cash equivalents of \$268.6 million, up 62.3% from \$165.5 million recorded in the last reported quarter. Long-term debt decreased 1.1% sequentially to \$855.1 million.

During the year, the company repaid long-term debts of \$49.6 million, while borrowings (long-term) were \$25 million.

The company generated net cash of \$296.7 million from operating activities in fiscal 2020, reflecting an increase of 64.3% from the previous year. Capital spent on property purchase totaled \$20.1 million compared with \$19 million in the previous year. Free cash flow increased 71.1% year over year to \$276.6 million.

Applied Industrial rewarded shareholders with a dividend payout of \$48.9 million in fiscal 2020. The amount represents growth of 3.4% year over year.

### Outlook

In the quarters ahead, the company anticipates gaining from its growth initiatives and cost-control measures. For the first quarter of fiscal 2021 (ending September 2020), it expects organic sales to decline 17-18% on a year-over-year basis.

For fiscal 2021 (ending June 2021), the company did not provide financial projections due to the uncertainties related to the pandemic.



## Recent News

### Acquisition

On **Oct 7, 2020**, Applied Industrial announced that it has completed the acquisition of Advanced Control Solutions ("ACS"). Financial terms of the deal were kept under wraps.

Headquartered in Marietta, GA, ACS is engaged in offering a comprehensive solution of automation products and services. The company's product and services are primarily used by customers in Alabama, Mississippi, Georgia, Tennessee and South Carolina.

The transaction is in sync with Applied Industrial's policy of acquiring businesses to gain access to new customers, regions and product lines. Notably, the ACS buyout will enable the company to strengthen and expand its range of automation solutions across various end markets, including life sciences, automotive, packaging & logistics, and industrial manufacturing.

### Dividend

On **Aug 31, 2020**, Applied Industrial paid a quarterly cash dividend of 32 cents per share to shareholders of record as of Aug 14.

## Valuation

Shares of Applied Industrial have decreased 8.4% in the year-to-date period and increased 10.6% over the trailing 12-month period. Stocks in the Zacks sub-industry have declined 0.6% in the year-to-date period while the Zacks Industrial Products sector is up 5.8%. In a year, the Zacks sub-industry grew 11.7%, while the sector increased 18.7%.

The S&P 500 index has increased 7.9% on a year-to-date basis and 17.4% in the past year.

The stock is currently trading at 18.82X forward 12-month earnings per share, which compares to 27.67X for the Zacks sub-industry, 23.44X for the Zacks sector and 22.6X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.14X and as low as 7.05X, with a 5-year median of 16.59X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$65 reflects 20.02X forward 12-month earnings per share.

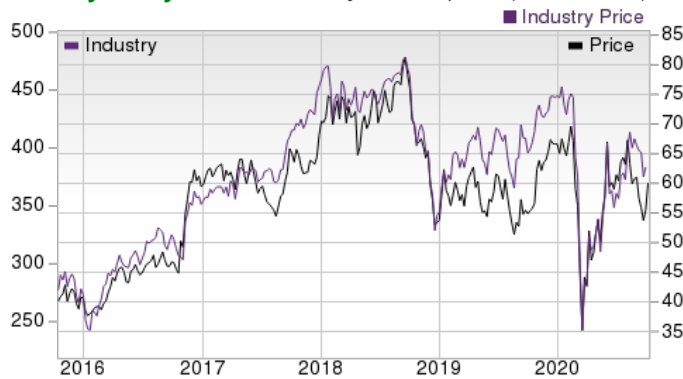
The table below shows summary valuation data for AIT.

Valuation Multiples - AIT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.82	27.67	23.44	22.6
	5-Year High	24.14	27.67	23.44	23.47
	5-Year Low	7.05	15.83	12.55	15.27
	5-Year Median	16.59	20.1	17.68	17.68
P/Sales F12M	Current	0.78	3.56	3.13	4.16
	5-Year High	1.04	3.56	3.13	4.31
	5-Year Low	0.35	1.65	1.6	3.18
	5-Year Median	0.73	2.27	2.07	3.67

As of 10/12/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 49% (125 out of 254)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Genuine Parts Company (GPC)	Outperform	1
Fastenal Company (FAST)	Neutral	3
W.W. Grainger, Inc. (GWW)	Neutral	3
IDEX Corporation (IEX)	Neutral	2
MSC Industrial Direct Company, Inc. (MSM)	Neutral	4
ParkOhio Holdings Corp. (PKOH)	Neutral	4
DXP Enterprises, Inc. (DXPE)	Underperform	NA
Ingersoll Rand Inc. (IR)	Underperform	4

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	AIT	X Industry	S&P 500	DXPE	GPC	GWW
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-		1	3
VGM Score	A	-	-	-	B	B
Market Cap	2.37 B	1.29 B	23.69 B	324.82 M	14.46 B	20.82 B
# of Analysts	2	3	13	0	4	11
Dividend Yield	2.10%	0.00%	1.59%	0.00%	3.15%	1.57%
Value Score	B	-	-	-	C	C
Cash/Price	0.12	0.10	0.07	0.25	0.07	0.08
EV/EBITDA	10.22	13.23	13.64	5.00	12.68	14.84
PEG F1	1.63	3.21	2.95	NA	13.24	2.56
P/B	2.80	2.08	3.55	0.90	5.04	9.68
P/CF	6.85	10.80	13.58	5.10	12.28	17.64
P/E F1	19.58	24.35	22.44	NA	19.86	24.55
P/S TTM	0.73	1.40	2.67	0.28	0.80	1.79
Earnings Yield	4.99%	3.39%	4.29%	NA%	5.04%	4.08%
Debt/Equity	1.01	0.49	0.70	0.62	0.95	1.53
Cash Flow (\$/share)	8.92	2.49	6.93	3.58	8.16	22.04
Growth Score	A	-	-	NA	A	B
Historical EPS Growth (3-5 Years)	14.04%	9.79%	10.41%	18.18%	5.17%	11.24%
Projected EPS Growth (F1/F0)	-20.08%	-24.38%	-2.99%	NA	-11.29%	-8.42%
Current Cash Flow Growth	28.52%	-0.29%	5.49%	-0.72%	10.00%	-1.82%
Historical Cash Flow Growth (3-5 Years)	16.72%	5.59%	8.51%	-21.68%	6.64%	2.17%
Current Ratio	2.72	2.00	1.35	2.70	1.22	3.54
Debt/Capital	50.34%	33.65%	42.91%	38.08%	48.72%	60.53%
Net Margin	0.74%	4.34%	10.28%	1.97%	-1.06%	5.34%
Return on Equity	16.69%	10.21%	14.79%	6.62%	21.67%	42.19%
Sales/Assets	1.38	0.74	0.51	1.49	1.27	1.77
Projected Sales Growth (F1/F0)	-7.94%	-7.76%	-0.59%	0.00%	-12.09%	1.87%
Momentum Score	B	-	-	-	C	B
Daily Price Change	1.82%	0.00%	0.65%	1.67%	-0.16%	0.84%
1-Week Price Change	8.07%	4.14%	4.06%	6.39%	4.74%	7.24%
4-Week Price Change	6.45%	2.72%	3.76%	5.79%	-2.71%	9.69%
12-Week Price Change	-3.43%	3.36%	8.70%	1.27%	15.17%	17.52%
52-Week Price Change	10.61%	-8.36%	6.31%	-43.21%	3.52%	26.98%
20-Day Average Volume (Shares)	236,398	99,750	2,117,216	104,419	793,258	294,551
EPS F1 Estimate 1-Week Change	0.83%	0.00%	0.00%	NA	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.67%	0.00%	0.00%	NA	1.15%	0.01%
EPS F1 Estimate 12-Week Change	-8.01%	5.37%	3.69%	NA	24.32%	6.77%
EPS Q1 Estimate Monthly Change	-2.36%	0.00%	0.00%	NA	-0.19%	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>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</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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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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.