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Sep 03, 2020

Ametek Inc.(AME)

$103.08 (As of 09/02/20)

Price Target (6-12 Months): **$108.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/10/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: C | Momentum: A	

Summary

AMETEK is riding on acquisition benefits. The Gatan and IntelliPower buyouts are driving growth in the Electronic Instruments unit. Further, positive contributions from Pacific Design Technologies acquisition are benefiting the Electromechanical unit. Also, strong momentum across defense and medical markets is a tailwind. We believe proper execution of core growth strategies like operational excellence, global market expansion, investments in product development and strategic acquisitions will continue to drive the top-line growth. Further, the AMETEK Growth Model is a major positive. However, disruptions caused by the coronavirus pandemic are major headwinds. Further, foreign exchange fluctuations and high goodwill associated with aggressive acquisition strategy remain risks. The stock has underperformed its industry on a year-to-date basis.

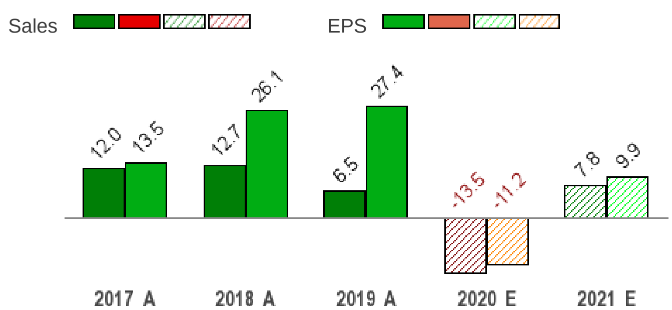
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$103.95 - $54.82**
20-Day Average Volume (Shares)	**890,198**
Market Cap	**$23.7 B**
Year-To-Date Price Change	**3.4%**
Beta	**1.29**
Dividend / Dividend Yield	**$0.72 / 0.7%**
Industry	**Electronics - Testing Equipment**
Zacks Industry Rank	**Bottom 23% (193 out of 251)**
Last EPS Surprise	**16.7%**
Last Sales Surprise	**3.8%**
EPS F1 Estimate 4-Week Change	**5.0%**
Expected Report Date	**10/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.8**
P/E F1	**27.7**
PEG F1	**2.9**
P/S TTM	**4.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates **(millions of $)**

	Q1	Q2	Q3	Q4	Annual*
2021	1,243 E	1,119 E	1,177 E	1,250 E	4,810 E
2020	1,202 A	1,012 A	1,091 E	1,158 E	4,462 E
2019	1,288 A	1,289 A	1,277 A	1,305 A	5,159 A

EPS Estimates

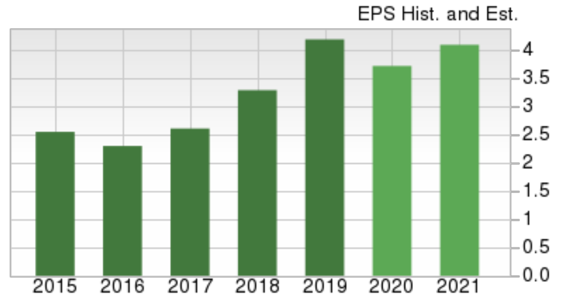
	Q1	Q2	Q3	Q4	Annual*
2021	$1.04 E	$1.00 E	$1.01 E	$1.03 E	$4.09 E
2020	$1.02 A	$0.84 A	$0.91 E	$0.93 E	$3.72 E
2019	$1.00 A	$1.05 A	$1.06 A	$1.08 A	$4.19 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/02/2020. The reports text is as of 09/03/2020.

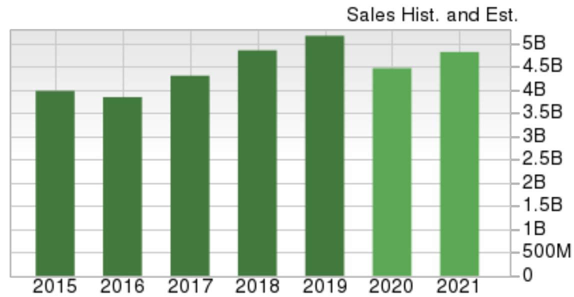
Overview

AMETEK, located in Berwyn, PA, is one of the leading manufacturers of electronic appliances and electromechanical devices. AMETEK has more than 120 operating sites all over the world.



The company operates over 80 sales and service stations in North America, Europe, Asia and South America to support these operations.

AMETEK sells its products globally through two operating groups, the Electronic Instruments Group ("EIG") and the Electromechanical Group ("EMG"). The company had approximately 18,100 employees worldwide as of Dec 31, 2019.



The Electronic Instruments Group ("EIG") (64.4% of total revenue in 2019) specializes in manufacturing instruments employed for monitoring, examining, calibration and display purposes in the aerospace, power and industrial instrumentation markets. The segment is one of the leaders in many of the markets it serves, including airframe and aircraft engine sensors; process and analytical instruments; electric power generation, distribution and transmission instruments; and heavy-vehicle instrument panels.

The Electromechanical Group ("EMG") (35.6% of total revenue in 2019) produces engineered electrical connectors and electronics packaging for electronic applications in aerospace, defense, medical and industrial markets. In addition, it manufactures advanced technical motor and motion control products used in electronic data storage, medical appliances, company equipment, robotics and many other applications. It is also engaged in the production of precision motion control solutions, specialty metals and alloys; electric motors, blowers and heat exchangers.

The target customers are aerospace and defense industries, commercial and fitness equipment makers, food and beverage machine builders, and manufacturers of hydraulic pumps, industrial blowers and vacuum cleaners.

AMETEK revenues increased 6% to $5.2 billion in 2019.

The company uses a direct sales model for the distribution of its products, which is supplemented by distributors and sales representatives as necessary. Given the scale of operations, the company has a host of competitors, including Agilent Technologies, Emerson Electric and Cognex.

Source: Zacks Investment Research

Reasons To Buy:

> The company excels in making strategic acquisitions, driving operational efficiencies, introducing new products and taking core competencies to the global marketplace.

▲ Considering its size and scale, AMETEK has seen pretty **strong growth** rates in the last few years due to the managements strategy of productivity improvements; increasing organic sales through global market expansion and new product development; and synergies from strategic acquisitions. This has helped Ametek build an excellent backlog that has resulted in solid performance quarter after quarter. One of the key growth strategies of AMETEK is operational excellence. AMETEK has been focusing on operational improvements and efficiencies, which will help aid both competitive and financial growth. Steps taken to implement this strategy include global sourcing, strategic procurement, lean manufacturing, value engineering, value analysis and realignment actions. In low-growth environments, Operational Excellence initiatives help the company drive significant margin expansion while also allowing it to continue to invest in key growth initiatives. Additionally, AMETEK's diversified geographic and industrial operations coupled with its highly differentiated product line indicate healthy growth prospects for the company. Both these factors cushion it against unfavorable developments in any one industry or country at a given time. With the core business remaining steady, growth initiatives are reflected quickly in top and bottom line performance.

▲ AMETEK supplements organic growth with **strategic acquisitions**. For this purpose, it generally looks for niche players that complement one of its many product lines or round out its portfolio. Therefore, acquisitions have mostly been small and well-managed, and incorporation issues negligible. In 2016, the company deployed around $391.4 million in capital on five acquisitions — Brookfield Engineering Laboratories, ESP/SurgeX, Nu Instruments, HS Foils and Laserage. In 2017, AMETEK deployed around $520 million in capital and garnered approximately $225 million in revenues from two acquisitions – MOCON and Rauland. In early 2018, the company completed two acquisitions – FMH Aerospace and Arizona Instrument by deploying approximately $273 million of capital. Further, AMETEK's acquisitions of Soundcom, Spectro Scientific and Motec have started aiding its top-line growth. Additionally, the company has deployed $565 million in its recent acquisitions of Telular and Forza Silicon which are likely to strengthen its EIG division. Further, the company's latest buyout of Gatan is aiding sales growth in its EIG unit. Further, the Pacific Design Technologies buyout is contributing well to the performance of the company's EMG unit. In 2019, AMETEK spent $1.1 billion on acquisitions.

▲ The company has consistently introduced **new and improved products** that added to its vastly differentiated product pipeline. Recently, Mocon launched AQUATRAN Model 3 WVTR measurement instrument. It measures the water vapor transition rate of ultra-high barrier materials. Also, Rauland launched Responder 5000 'nurse call' system. Recently, AMETEK's Zygo business launched two next-generation 3D optical profilers named - Nexview NX2 and NewView 9000 profiling instruments. The consistent product introductions generate customer loyalty and facilitate market share gains, thereby boosting revenues. New products introduced over the last three years comprised 24% of revenues. This indicates that the company is not only good at developing products but also at marketing them.

Reasons To Sell:

A weak balance sheet, foreign exchange headwinds and vulnerability to integration issues due to an extremely aggressive acquisition strategy remain major concerns.

- AMETEK's balance sheet remains leveraged. As of Jun 30, 2020, the company's net debt amounted to $2.5 billion compared with $2 billion as of Mar 31, 2020. Accumulating such high debt levels may impede sufficient cash flow generation, which is needed to meet future debt obligations. Moreover, this may keep the company from accessing the debt market and refinancing at suitable rates. Further, the debt-to-total capital was 34.3% as of Jun 30, 2020 which decreased from 35.1% as of Mar 31, 2020. Although declining ratio is a positive, the presence of current debt worth current debt of $115.9 million as of Jun 30, 2020 is a negative

- Acquisitions are a part of AMETEK's growth strategy to supplement the top line. However, the company's inability to identify suitable acquisition candidates, unsuccessful execution and integration of new acquisitions and an increase in acquisition costs due to stiff competition could negatively impact its sales/margin performance. The large number of acquisitions increases the chances of **integration issues**.

- Its nature of business makes AMETEK vulnerable to **foreign exchange headwinds**. The company has manufacturing operations in 17 countries outside the United States and 48% of total sales come from these operations. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies could impact the company's financial results.

Last Earnings Report

AMETEK Beats Q2 Earnings & Revenues Estimates

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	3.83%
EPS Surprise	16.67%
Quarterly EPS	0.84
Annual EPS (TTM)	4.00

AMETEK reported second-quarter 2020 adjusted earnings of 84 cents per share, which beat the Zacks Consensus Estimate by 16.7%.

However, the bottom line declined 20% from the year-ago quarter and 17.6% from the previous quarter.

Net sales of $1.01 billion surpassed the Zacks Consensus Estimate of $974.6 million. Notably, the top line was down 22% year over year and 15.8% sequentially.

Disruptions caused by the COVID-19 pandemic led to decline in the company's top line. The coronavirus crisis affected both Electronic Instruments Group (EIG) and Electromechanical Group (EMG) segments during the reported quarter.

Nevertheless, the company delivered strong operational performance during the second quarter.

We believe AMETEK's proper execution of the four core growth strategies — operational excellence, global market expansion, investments in product development and acquisitions are expected to continue aiding its financial growth in the near term and the long haul. Moreover, the AMETEK Growth Model is likely to continue driving the company's business performance.

Segments in Detail

EIG (64% of total sales): The company generated sales of $647.9 million from this segment, reflecting a decline of 21% from the year-ago quarter. This can primarily be attributed to the coronavirus pandemic. Nevertheless, the segment witnessed strong operating performance during the reported quarter.

EMG (36% of sales): This segment generated $364.04 million of sales in the second quarter, which declined 22% on a year-over-year basis. Coronavirus-induced headwinds were major negatives. Nevertheless, the segment delivered strong operational results on the back of proper execution of operational excellence initiatives.

Operating Details

For the second quarter, operating expenses were $784.9 billion, down 21% year over year. However, the figure expanded 50 basis points (bps) from the year-ago quarter as a percentage of net sales.

Consequently, operating margin was 22.4%, which contracted 50 bps from the year-ago reported figure.

Although operating margin for EIG contracted 130 bps year over year to 24.6%, the same for EMG expanded 170 bps from the year-ago quarter to 23.2%.

Balance Sheet& Cash Flow

As of Jun 30, 2020, cash and cash equivalents were $1.13 billion, significantly down from $1.25 billion as of Mar 31, 2020.

Further, inventories amounted to $621.5 million at the end of the second quarter compared with $654.3 million at the end of the prior quarter.

Long-term debt was $2.75 billion in the reported quarter, up from $2.74 billion in the prior quarter.

The company generated $314.6 million of cash from operation during the second quarter compared with $271 million in the previous quarter.

Further, AMETEK generated free cash flow of $304.5 million in the reported quarter.

Recent News

On **Aug 6, 2020**, AMETEK's Board of Directors approved a quarterly dividend of 18 cents per share for the shareholders of the record as of Sep 14, 2020 which will be paid on Sep 30, 2020.

On **May 7, 2020**, AMETEK's Board of Directors approved a quarterly dividend of 18 cents per share for the shareholders of the record as of Jun 12 payable on Jun 30.

On **Mar 23, 2020**, AMETEK completed the sale of the Reading Alloys business to Kymera International in an all-cash transaction valued at $250 million.

On **Feb 24, 2020**, AMETEK revealed that it is gaining traction among health researchers on the back of its Gatan buyout. Notably, K3 camera of Gatan is being used by the researchers at the University of Texas at Austin and the National Institutes of Health to map a part of the novel coronavirus called the spike protein.

On **Feb 12, 2020**, AMETEK's Board of Directors approved a hike of 29% in the quarterly dividend which now stands at 18 cents per share. Notably, the dividend is applicable for the shareholders of the record as for Mar 13, 2020 which will be paid on Mar 31, 2020.

On **Feb 5, 2020**, AMETEK acquired IntelliPower which offers ruggedized solutions including uninterruptible power systems, external battery packs, power distribution units and power conditioners. The latest buyout expands the company's Electronic Instruments Group (EIG) segment.

Valuation

AMETEK shares are up 0.1% in the year-to-date period and 17.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 9.7% and 23.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 29.3% and 38.4%, respectively.

The S&P 500 index is up 6.8% in the year-to-date period and 17.4% in the past year.

The stock is currently trading at 25.96X forward 12-month earnings, which compares to 27.26X for the Zacks sub-industry, 28.77X for the Zacks sector and 23.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.65X and as low as 13.45X, with a 5-year median of 21.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $108 price target reflects 27.19X forward 12-month earnings.

The table below shows summary valuation data for AME

Valuation Multiples - AME

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.96	27.26	28.77	23.94
	5-Year High	28.65	27.26	28.77	23.94
	5-Year Low	13.45	18.3	16.72	15.25
	5-Year Median	21.07	22.12	19.7	17.6
EV/Sales TTM	Current	5.27	4.95	4.84	3.36
	5-Year High	5.27	4.95	5.02	3.44
	5-Year Low	2.91	2.45	2.56	2.11
	5-Year Median	4.01	3.94	3.64	2.86
EV/EBITDA TTM	Current	19.45	18.34	13.63	13
	5-Year High	19.52	19.01	14.15	13.29
	5-Year Low	10.37	8.83	7.59	8.22
	5-Year Median	15.78	15.2	10.94	10.92

As of 09/02/2020

Industry Analysis **Zacks Industry Rank:** Bottom 23% (193 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Advanced Energy Industries, Inc. **(AEIS)**	Outperform	1
Teradyne, Inc. **(TER)**	Outperform	2
Agilent Technologies, Inc. **(A)**	Neutral	3
Cognex Corporation **(CGNX)**	Neutral	3
Emerson Electric Co. **(EMR)**	Neutral	3
Fortive Corporation **(FTV)**	Neutral	3
Jabil, Inc. **(JBL)**	Neutral	3
Itron, Inc. **(ITRI)**	Underperform	4

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

Industry Comparison Industry: Electronics - Testing Equipment

Industry Peers

	AME	X Industry	S&P 500	A	FTV	ITRI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	B	-	-	C	B	B
Market Cap	23.67 B	13.52 B	24.30 B	31.89 B	25.05 B	2.50 B
# of Analysts	8	7	14	6	6	4
Dividend Yield	0.70%	0.41%	1.6%	0.70%	0.38%	0.00%
Value Score	C	-	-	D	C	B
Cash/Price	0.05	0.05	0.07	0.04	0.04	0.22
EV/EBITDA	18.17	19.58	13.46	26.65	19.58	13.62
PEG F1	2.77	3.21	3.09	3.21	4.39	2.04
P/B	4.31	4.31	3.25	6.40	3.38	3.10
P/CF	19.70	19.70	13.12	26.08	14.90	9.70
P/E F1	26.78	32.08	22.15	32.08	23.56	51.11
P/S TTM	4.94	4.94	2.57	6.10	3.51	1.06
Earnings Yield	3.61%	3.11%	4.29%	3.11%	4.24%	1.95%
Debt/Equity	0.50	0.46	0.70	0.46	0.63	1.73
Cash Flow ($/share)	5.23	3.96	6.93	3.96	4.99	6.39
Growth Score	C	-	-	C	B	C
Historical EPS Growth (3-5 Years)	14.31%	14.47%	10.41%	15.32%	9.31%	30.59%
Projected EPS Growth (F1/F0)	-11.25%	-9.13%	-4.75%	3.64%	-9.34%	-63.48%
Current Cash Flow Growth	23.89%	9.31%	5.22%	9.85%	22.89%	7.46%
Historical Cash Flow Growth (3-5 Years)	10.17%	9.18%	8.49%	-2.46%	9.55%	9.18%
Current Ratio	2.47	2.47	1.35	2.47	1.13	2.25
Debt/Capital	33.42%	31.43%	42.92%	31.43%	38.75%	63.38%
Net Margin	18.52%	18.52%	10.25%	13.23%	8.00%	-0.96%
Return on Equity	17.13%	16.22%	14.66%	20.57%	16.22%	11.97%
Sales/Assets	0.48	0.55	0.50	0.55	0.42	0.82
Projected Sales Growth (F1/F0)	-13.51%	-4.28%	-1.42%	1.84%	-4.28%	-6.91%
Momentum Score	A	-	-	A	B	C
Daily Price Change	1.04%	2.21%	1.82%	2.27%	1.01%	3.66%
1-Week Price Change	1.69%	1.59%	2.59%	1.63%	1.55%	-3.69%
4-Week Price Change	6.91%	3.16%	4.80%	5.65%	6.16%	-8.56%
12-Week Price Change	10.66%	10.92%	6.31%	15.15%	11.17%	-9.49%
52-Week Price Change	21.03%	16.02%	5.43%	45.95%	11.01%	-10.59%
20-Day Average Volume (Shares)	890,198	1,097,462	1,788,967	1,304,725	2,728,682	278,105
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	5.05%	0.00%	0.00%	3.42%	0.80%	-18.90%
EPS F1 Estimate 12-Week Change	5.27%	5.27%	3.89%	4.22%	12.01%	-30.52%
EPS Q1 Estimate Monthly Change	4.79%	0.00%	0.00%	2.27%	0.44%	-45.61%

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	C
Growth Score	C
Momentum Score	A
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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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