

## Amazon.com Inc. (AMZN)

**\$3,005.00** (As of 03/03/21)

Price Target (6-12 Months): **\$3,155.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

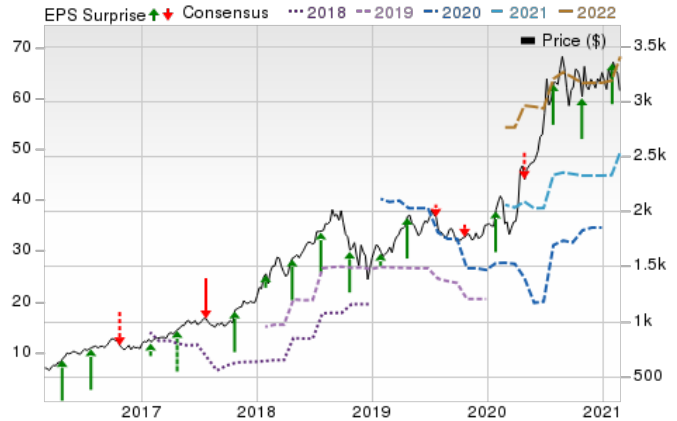
Growth: A

Momentum: B

### Summary

Amazon is gaining on solid Prime momentum owing to ultrafast delivery services and expanding content portfolio. Further, coronavirus-led spike in online orders continues to be a major tailwind. Also, solid growth in its online stores sales remains a positive. Moreover, surge in online grocery shopping is another positive. Additionally, strong adoption rate of AWS is aiding the company's cloud dominance. Moreover, expanding AWS services portfolio is continuously helping Amazon in gaining further momentum among the customers. Further, improving Alexa skills and expanding smart home products portfolio are positives. Notably, the stock has outperformed its industry over a year. However, accelerating coronavirus related expenses remain risks for the company's margin expansion in the near term. Also, rising cloud competition poses risk.

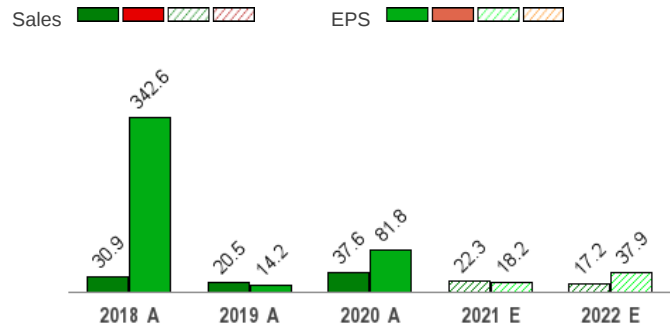
### Price, Consensus & Surprise



### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$3,552.25 - \$1,626.03     |
| 20-Day Average Volume (Shares) | 3,154,434                   |
| Market Cap                     | \$1,513.2 B                 |
| Year-To-Date Price Change      | -7.7%                       |
| Beta                           | 1.13                        |
| Dividend / Dividend Yield      | \$0.00 / 0.0%               |
| Industry                       | Internet - Commerce         |
| Zacks Industry Rank            | Bottom 15% (217 out of 254) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 99.9%      |
| Last Sales Surprise           | 4.3%       |
| EPS F1 Estimate 4-Week Change | 9.9%       |
| Expected Report Date          | 04/29/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 71.9       |
| P/E F1                        | 60.8       |
| PEG F1                        | 1.8        |
| P/S TTM                       | 3.9        |

### Sales Estimates (millions of \$)

|      | Q1        | Q2        | Q3        | Q4        | Annual*   |
|------|-----------|-----------|-----------|-----------|-----------|
| 2022 | 123,403 E | 127,320 E | 134,935 E | 168,140 E | 553,242 E |
| 2021 | 105,055 E | 107,321 E | 114,939 E | 144,933 E | 472,081 E |
| 2020 | 75,452 A  | 88,912 A  | 96,145 A  | 125,555 A | 386,064 A |

### EPS Estimates

|      | Q1        | Q2        | Q3        | Q4        | Annual*   |
|------|-----------|-----------|-----------|-----------|-----------|
| 2022 | \$12.69 E | \$16.13 E | \$17.73 E | \$18.77 E | \$68.19 E |
| 2021 | \$9.89 E  | \$11.14 E | \$12.37 E | \$14.07 E | \$49.46 E |
| 2020 | \$5.01 A  | \$10.30 A | \$12.37 A | \$14.09 A | \$41.83 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 03/03/2021. The report's text and the analyst-provided price target are as of 03/04/2021.

## Overview

Amazon.com is one of the largest e-commerce providers, with sprawling operations in North America, now spreading across the globe.

Its online retail business revolves around the Prime program well-supported by the company's massive distribution network. Further, the Whole Foods Market acquisition helped Amazon establish footprint in physical grocery supermarket space.

Amazon also enjoys dominant position in the cloud-computing market, particularly in the Infrastructure as a Service (IaaS) space, thanks to Amazon Web Services (AWS), which is one of its high-margin generating businesses.

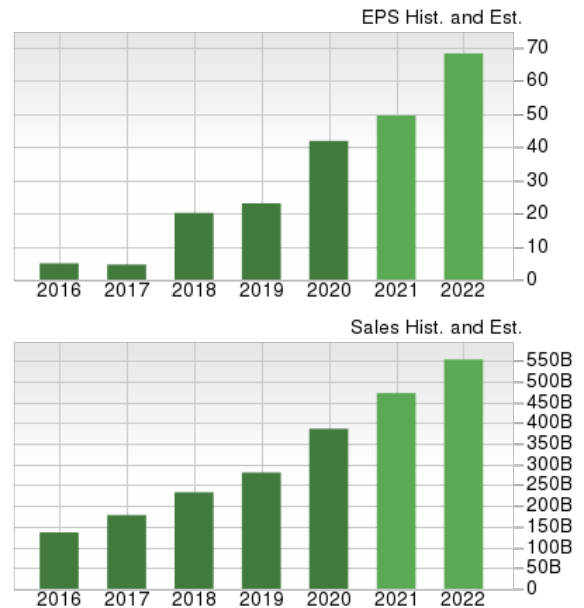
Amazon has also become a household name with its Alexa powered Echo devices. Artificial Intelligence (AI) backed Alexa is helping the company sell products and services.

Revenues were \$386.1 billion in 2020. The company reports revenue under three broad heads—North America, International and AWS, which generated 61.2%, 27% and 11.8% of total revenues, respectively.

Headquartered in Seattle, WA, Amazon targets three categories of customers—consumers, sellers and website developers. Consumers are offered variety, convenience and free delivery of goods displayed on the company's websites.

The agreements with sellers are varied, enabling them to use the company's websites to either sell their merchandise directly, or redirect customers to the sellers' own branded websites. In case of the latter arrangement, Amazon earns a fee for the sales thus generated.

Competition comes in the form of traditional retailers, other online retailers, media companies, web portals, search engines, e-commerce companies and cloud computing service providers.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Amazon.com is **one of the largest e-commerce companies** in the world. Although the primary product line was books at first, the company rapidly diversified into a host of other product categories. The current focus is on building video content, primarily for Prime subscribers because the growth prospects in that market are considerable. Product selection, a superior user experience, bargains and customer feedback have helped the company build a strong position for itself in the fast-growing ecommerce market. The growth of the e-commerce industry with consumers increasingly buying things online has proved to be favorable for the company. While the big brands may build their own online stores over time, a platform like Amazon allows discovery by new buyers. Smaller players are far more dependent on Amazon as they don't have the resources that Amazon has to invest in technology and fulfillment to generate the kind of reach that Amazon can deliver. Moreover, considering opportunities in international markets, the company's high growth rates are likely to be sustained over the next few years.
- ▲ Amazon keeps its retail business very hard to beat on price, choice, and convenience with the help of a solid loyalty system in **Prime and its FBA strategy**. The company continues to push advantages exclusively to Prime members, thus encouraging them to spend more on Amazon. The current focus is on building video content, primarily for Prime subscribers because the growth prospects in the market are considerable. Prime members are much more loyal and spend double the amount spent by non-Prime members.
- ▲ Amazon's strategy of **merging online and offline retail** looks promising. It will not only reshape the retail landscape but also help it fend off competition, if it could manage a first mover advantage. It has added online and offline features to its bookstores and is going the same way with innovations such as drive-in-grocery delivery service (AmazonFresh Pickup - order groceries online and collect them from a store nearby) and "cashier-less" stores (Amazon Go – the company's first brick-and mortar grocery store). We expect online retail sales to decelerate while the overall retail market still holds a lot of potential. So, moves like these will help Amazon tap a large number of customers who prefer to shop offline, while not doing away with the online business.
- ▲ Amazon is the leading provider of cloud infrastructure as a service to enterprise customers. The expanding customer base of **Amazon Web Services (AWS)** driven by its strengthening cloud offerings will continue to aid Amazon's dominance in the global cloud space. Even more encouraging is the fact that AWS generates much stronger margins than the traditional retail business, which should remain a positive for the company's profitability as it continues to grow in the mix. AWS is gaining momentum with customers including Metro Goldwyn Mayer, ViacomCBS, Boom Supersonic, MercadoLibre, Zalando, Western Union, Klarna, Old Mutual, Seattle Seahawks, FINRA CAT, Emirates NBD, Adobe, Pinterest, Spotify, Tata Motors, Unilever, McDonalds and BMW, to name a few.
- ▲ Amazon is pushing well with its **devices strategy**. Alexa powered Echo devices are going great guns and help the company sell products and services. Artificial intelligence (AI) driven Alexa has already been integrated into a host of everyday devices for the digital home, which has converted the nascent smart home market into a potential area of growth in a very short time. Moreover, the company is benefiting from increasing number of Alexa compatible smart devices. The company is racing to build an ecosystem around Alexa and it's safe to say that it has taken an early lead over Google's smart assistant and Microsoft's Cortana.
- ▲ Amazon is gradually choosing the **buy option over build**, which, along with the other positives, ensures that the company generates revenues right way without wasting any time in building its own infrastructure. The company's acquisition of a Dubai-based e-commerce giant, Souq.com, is helping it to strengthen presence in countries like Egypt, Saudi Arabia, and the UAE markets like Egypt, Saudi Arabia, and the UAE. Amazon's retail market share is still relatively small in these markets, but there is a good possibility of an increase in the next few years. If this happens, the company will see additional several billion dollars a year in revenues. The company acquired natural and organic foods supermarket, Whole Foods Market for \$13.7 billion. Through this acquisition, the company is gaining traction across a large customer base that still prefers to shop at physical stores. This is Amazon's way of tackling mounting competition and slow growth in the e-commerce space. Amazon has also acquired Body Labs, a startup that develops AI, computer vision and body-modelling based 3D body shapes and motion for various industries. It also acquired GameSparks to spruce up its gaming capabilities.
- ▲ Amazon has a solid balance sheet that makes the stock attractive to investors. As of Dec 31, 2020, the company's net cash amounted to \$52.6 billion compared with \$35.5 billion as of Sep 30, 2020. Further, debt-to-total capital was 25.4% as of Sep 30, 2020, down from 28.5% as of Sep 30, 2020. Additionally, strong cash flow generation is bolstering the company's liquidity position. Notably, Amazon generated \$30.4 billion of cash from operations in the fourth quarter.

Amazon is benefiting from its Prime program, delivery and logistic system in the e-commerce space. Further, its dominant position in cloud market is a positive.

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## Reasons To Sell:

- ▼ There is a downside to a growing international business in the current economic environment. While expansion opportunities automatically increase, **currency** also starts playing a bigger role. Currency continues to have a significantly negative impact on its e-commerce results, which is now being offset by strength in AWS. Since the dollar remains strong at the moment and the situation may not change much for the rest of the year as well, there will be pressure on Amazon's profitability. The risk should be hedged however as AWS increases in the mix. AWS revenues are dollar-denominated while a lot of the assets were located in low-cost regions meaning that reduced competitiveness from the rising dollar would potentially be compensated by lower costs. Also note that once companies have migrated to its AWS platform, it will be difficult to switch or stop using it, leading to a situation of relatively inelastic demand.
- ▼ The AWS business is bringing an **element of cyclicity** into the business. Generally, a capital-intensive business means that the company will have to periodically sacrifice profits to build out infrastructure and then wait for customers to fill up the capacity thus created. So there will be periods during which the company will build out at the cost of profits and cash flows followed by periods during which the increased operating leverage will translate into improved profitability. AWS is still a small percentage of Amazon's total business, but still has a significant impact on its profitability because of the low-margin profile of the retail business. As AWS grows as a percentage of sales, it will become a greater influence on profitability.
- ▼ **Prime's saturation in the U.S. market** is apparent, because Amazon has very high penetration rates in the country. This led management to announce a tiered pricing system, wherein users can try out a monthly subscription if they are unsure about the program or don't want to pay upfront for the whole year. This plan brings flexibility to the pricing system, so is likely to remain. It should also increase penetration amongst the less affluent households.
- ▼ The **competition in online retail** is heating up. Traditional retailers have always provided the strongest competition and a number of them are running e-commerce sites as well. Additionally, the increased use of the Internet in both developed and developing economies is attracting other players into the space. Affiliation programs are being used by big players such as eBay. Several smaller companies could also find their own niche. While the Chinese market appears ripe and Amazon has initiatives to increase penetration in the market, local company Alibaba.com is very well-entrenched there. In China, Amazon has to contend with not only Alibaba, but also a growing number of other home-grown players. Additionally, Alibaba is now targeting the American market, which will greatly increase competition for Amazon. Further, since Amazon's first mover advantage is likely to moderate over time, some market share erosion seems inevitable.
- ▼ Amazon continues to **invest heavily on fulfillment centers, TV shows and movies, grocery, AWS, India expansion** and what not. In India, the company is making massive investments to build a logistics network that would cover the entire country. The \$5 billion investment plan is well on track but at the cost of global margins. Management has indicated that Amazon will continue with its push into the Indian e-commerce market, making the nation its fifth largest market after the U.S., the U.K. Japan and Germany. That being said, Amazon's global margins are likely to be under pressure at least for a few years in the future.
- ▼ Most retail businesses tend to be **seasonal** and Amazon's is no different. The company's revenues get a huge boost from the holiday season each year. Over 32% of its 2020 revenues were generated in the fourth quarter of 2020. With such a huge contribution from the fourth quarter, there is an obvious drop-off in the first quarter. The dependence on consumer spending makes the business lumpy, increasing the possibility of expectations going awry. However, management usually provides a fairly conservative guidance and reported revenues are usually within the guided range.

Amazon's rising operating expenses to support expansion of business into new markets and territories, and grow its volume of content remain major concerns.

## Last Earnings Report

### Amazon's Q4 Earnings & Revenues Beat Estimates

Amazon.com reported fourth-quarter 2020 earnings of \$14.09 per share, beating the Zacks Consensus Estimate by 99.8%. The bottom line also improved 117.8% from the year-ago quarter and 13.9% from the previous quarter.

Net sales of \$125.6 billion comfortably surpassed the Zacks Consensus Estimate of \$120.4 billion and exceeded management's guidance of \$112-\$121 billion. Further, the figure increased 44% on a year-over-year basis and 30.6% sequentially.

North America revenues (60% of sales) advanced 40.3% from the year-ago quarter to \$75.3 billion. International revenues (30% of sales) climbed 57.3% year over year to \$37.5 billion. Amazon Web Services ("AWS") revenues (10% of sales) rose 28% year over year to \$12.7 billion.

Robust performance delivered by Amazon during the holiday season drove top-line growth. Notably, it sold more than a billion products under the categories of toys, electronics, home, fashion, beauty and personal care across the world during the holiday shopping period.

Moreover, the coronavirus pandemic-induced continuous surge in online shopping contributed well. We note that the company's online store sales rose 46% from the prior-year quarter.

Additionally, strengthening relationships with third-party sellers remained a major positive. In the fourth quarter, sales generated by these sellers rose 57% on a year-over-year basis.

Further, strong momentum across Prime members remained a tailwind. The company's subscription services delivered robust performance during the reported quarter. Sales from these services went up 35% from the prior-year quarter.

Furthermore, solid AWS momentum and strengthening smart devices offerings continued to benefit the company's fourth-quarter performance.

The company's strong global presence, growing Prime momentum, expanding data center network and increasing number of AWS regions, improving Alexa skills, expanding smart devices portfolio, and growing efforts toward gaining strong traction among small and medium businesses are likely to drive its near-term financial performance.

With the release of fourth-quarter results, the company also announced the transition in the role of Jeff Bezos to the position of Executive Chair. Notably, Jeff Bezos will be stepping down from his current CEO role in third-quarter 2021 and Andy Jassy will become the new CEO.

### Retail & Prime Momentum

Amazon's aggressive retail strategies continued to benefit its fourth-quarter results. Expanding the fulfillment network and ultrafast delivery services contributed well.

The opening of Amazon Fresh grocery stores in Irvine, CA, Schaumburg, IL, North Hollywood, CA, Ladera Heights, CA, Naperville, IL, Northridge, CA and Whittier, CA, bolstered the company's physical retail presence as well as grocery retail footprints.

Further, the unveiling of the online store for prescription medicines namely Amazon Pharmacy in integration with its PillPack buyout remained noteworthy. The store offers a free two-day delivery service to Prime members.

Additionally, the company boosted its fashion retail efforts by introducing a service —Made for You, which allows shoppers to create a customized T-shirt according to their exact measurements.

Further, a huge success in the company's Great Indian Festival event contributed well. Notably, it witnessed strong momentum across small and medium businesses. Customers made purchases from above 110,000 such sellers during the event.

Apart from this, solid momentum across Prime Video remained a major tailwind in the reported quarter. Expanding original content and overall content portfolio on Prime Video continued to accelerate the Prime engagement further.

We note that Prime Video premiered new and returning seasons of its original series and specials namely What the Constitution Means to Me, The Pack, Small Axe, Utopia, The Wilds, The Expanse, Yearly Departed, and the final season of Vikings during the reported quarter.

Also, the company bolstered its original movie content library with Borat Subsequent Moviefilm, Uncle Frank, Sylvie's Love, Sound of Metal and I'm Your Woman.

Further, it strengthened its country-wise Amazon Originals content portfolio by streaming The Challenge: ETA, BILD.Macht.Deutschland?, FERRO, El Cid, Binge Reloaded, Truth Seekers, The Bachelorette, Mirzapur, Locaspor el Cambio, The Grand Tour: A Massive Hunt, and All or Nothing: Tottenham Hotspur.

Additionally, Amazon witnessed strongest growth in its viewership for live sports streaming in the reported quarter. Live streaming of San Francisco 49ers vs. Arizona Cardinals game, Premier League football, NFL regular season game, and Autumn Nations Cup tournament helped the company in attracting Prime members.

### Expanding AWS Portfolio: A Key Catalyst

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Feb 02, 2021 |
| Sales Surprise   | 4.32%        |
| EPS Surprise     | 99.86%       |
| Quarterly EPS    | 14.09        |
| Annual EPS (TTM) | 41.77        |

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AWS, which witnessed solid growth in the topline, continued to gain strong customer momentum in the coronavirus-hit fourth quarter, courtesy of its highly reliable services portfolio.

During the reported quarter, AWS rolled out a cloud-based healthcare service called Amazon HealthLake. Further, it unveiled Amazon DevOps Guru, which improves application availability by using ML services.

Additionally, the company rolled out five industrial ML services namely, Amazon Monitron, Amazon Lookout for Equipment, the AWS Panorama Appliance, the AWS Panorama SDK, and Amazon Lookout for Vision.

Further, AWS made Amazon Managed Workflows for Apache Airflow generally available. Furthermore, the company announced the general availability of AWS Network Firewall, which is a new service, well-equipped to protect against common network threats.

Also, AWS unveiled Mac instances for Amazon Elastic Compute Cloud (Amazon EC2). Also, it introduced nine capabilities for Amazon SageMaker, five new capabilities for Amazon Connect and four new container services.

Furthermore, the company rolled out Amazon QuickSight Q, AWS Glue Elastic Views and Aurora Serverless v2 among others.

On the heels of expanding services portfolio, AWS experienced strong growth in its clientele with the addition of Thomson Reuters, Metro Goldwyn Mayer, ViacomCBS, Boom Supersonic, MercadoLibre, Zalando, Nationwide, Twitter, Star Alliance, Standard Chartered Bank, Arm Holdings, Zoom and Itau Unibanco, to name a few.

Also, extended relationships with Carrier Global and BlackBerry remained positives.

### **Alexa, Smart Devices Offering & Self-Driving Space**

Amazon continued to enhance the skills and features of Alexa in the reported quarter. Introduction of multilingual feature, new Alexa Routines on Fire TV, Alexa Custom Assistant, and a new capability that helps in making Alexa more natural remained positives.

Further, Amazon made Ring's new Mailbox Sensor generally available to customers. It also rolled out Customizable Motion Zones for all battery-powered Ring Video Doorbells and Security Cameras.

Additionally, the company's growing momentum across Fire TV, whose monthly active user base has exceeded the mark of 50 million, remained a tailwind. Also, winning content deals with streaming providers such as HBO Max, discovery+, and Xfinity in the U.S., Disney+ in Mexico and Brazil, NOW TV in the UK and CANAL+ in France contributed well.

Apart from these, Amazon gained strong traction in the autonomous driving space with the first look of Zoox's fully functional, electric, autonomous vehicle.

### **Quarter in Detail**

Product sales (56.6% of sales) increased 40.6% year over year to \$71.1 billion. Service sales (43.4% of sales) rose 47.7% from the year-ago quarter to \$54.5 billion.

Operating expenses were \$118.7 billion, up 42% from the year-ago quarter. As a percentage of revenues, the figure contracted 110 bps on a year-over-year basis to 94.5%.

Cost of sales, fulfillment, technology & content, marketing and general & administrative expenses increased 46.9%, 51.5%, 23.7%, 19.9% and 39.4% to \$79.3 billion, \$18.5 billion, \$12.05 billion, \$7.4 billion and \$1.9 billion, respectively, on a year-over-year basis.

Other operating income was \$496 million in the reported quarter compared to expenses of \$65 million in the year-ago quarter.

Overall operating income increased 77.2% from the year-ago quarter to \$6.9 billion. Further, the operating margin expanded 110 bps from the year-ago quarter to 5.5%.

Operating income for AWS was \$3.6 billion, up 37.3% year over year. Further, the same for North America improved 55.1% from the prior-year quarter to \$2.9 billion.

Further, the International segment reported an operating income of \$363 million against a loss of \$617 million in the year-ago quarter.

### **Balance Sheet & Cash Flow**

As of Dec 31, 2020, cash and cash equivalents were \$42.1 billion compared with \$29.9 billion as of Sep 30, 2020. Further, marketable securities totaled \$42.3 billion at the end of the fourth quarter, up from \$38.5 billion at the end of the third quarter.

Long-term debt was \$31.8 billion in the reported quarter compared with \$32.9 billion in the previous quarter.

Further, the company generated \$30.4 billion of cash from operation in the fourth quarter, which was up from \$11.9 billion in the prior quarter.

On a trailing twelve month basis, free cash flow came in at \$31.02 billion in the reported quarter, up from \$29.5 billion in the prior quarter.

### **Guidance**

For first-quarter 2021, Amazon expects net sales between \$100 billion and \$106 billion. The figure is anticipated to improve 33-40% on a year-

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over-year basis.

Management projects a favorable foreign exchange impact of 300 bps.

Proceeds from operational activities are likely to range from operating income of \$3 billion to \$6.5 billion.

This guidance is inclusive of more than \$2 billion costs related to COVID-19.

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## Recent News

On **Mar 2, 2021**, Amazon's AWS picked by PGA TOUR as the official cloud provider. This highlights the efficiency and reliability of AWS's innovative cloud products and services.

On **Mar 1, 2021**, Amazon's AWS made its new service offering anomaly detection solution — Amazon Lookout for Vision generally available. Notably, the new service is well-equipped to process several images an hour to detect defects and anomalies in manufactured products.

On **Feb 2, 2021**, Amazon announced the transition in the role of Jeff Bezos to the position of Executive Chair. Notably, Jeff Bezos will be stepping down from his current CEO role in third-quarter 2021 and Andy Jassy will become the new CEO.

On **Jan 11, 2021**, Amazon revealed its plans for opening five new sites in the Detroit area. These sites are expected to create more than 2,000 permanent jobs, including both full and part time. This move will increase the company's investment in Michigan.

On **Jan 5, 2021**, Amazon disclosed about its purchase of 11 used Boeing 767-300 aircrafts. These aircrafts will strengthen the company's in-house shipping and logistics service which in turn will support its Prime-based ultrafast delivery services.

On **Dec 17, 2020**, Amazon extended the return window for purchases made within Oct 1 to Dec 31 of this year till Jan 31 of next year in a bid to provide a hassle-free and seamless return experience to customers for their holiday shopping. Further, the company is providing customers with an option of dropping off the items to be returned at a nearby location.

On **Dec 10, 2020**, Amazon's AWS was selected by Arm Holdings for migrating a major portion of its electronic design automation workloads to it. Notably, Arm is using AWS Graviton2-based instances for increasing throughput for its engineering workloads.

On **Dec 8, 2020**, Amazon's AWS unveiled a cloud-based healthcare service called Amazon HealthLake. Notably, the new service is a HIPAA-eligible one, which helps medical providers, health insurers, and pharmaceutical companies in analyzing their complete data at a petabyte scale in the cloud.

On **Nov 25, 2020**, Amazon's AWS made Amazon Managed Workflows for Apache Airflow ("MWAA") generally available. Notably, the service offers availability, security and improved scalability to customers, while managing their workflows using Apache Airflow.

On **Nov 24, 2020**, Amazon's AWS got selected by MercadoLibre as the primary cloud provider. MercadoLibre strives to acquire meaningful insights from the vast data stored in its marketplace platform, and advertising, logistics and digital payment platform.

On **Nov 6, 2020**, Amazon revealed plans for second AWS region in India which will be located in Hyderabad. Notably, the new region will be available by mid 2022.

On **Nov 3, 2020**, Amazon's AWS made Amazon Elastic Compute Cloud (Amazon EC2) P4d instances generally available. Notably, these instances are ideal for machine learning training and high-performance computing workloads.

On **Nov 2, 2020**, Amazon's AWS revealed its plans for a new infrastructure region in Switzerland which will be available by the second-half of 2022.

On **Oct 15, 2020**, Amazon revealed record-breaking Prime Day sales. Notably, Prime members could save above \$1.4 billion in this two-day mega shopping event owing to great deals with huge discounts on several items. Further, the company witnessed solid momentum across the third-party sellers especially the small and medium businesses whose sales number exceeded \$3.5 billion.

On **Oct 8, 2020**, Amazon's AWS entered into multi-year agreement with Carrier to aid the latter in developing Lynx platform with its IoT, analytics and Machine Learning services

On **Sep 24, 2020**, Amazon the all-new Echo, Echo Dot, Echo Dot with clock, Echo Dot Kids Edition and Echo Show 10 to expand its smart speaker offerings.

Further, the company unveiled the next-generation Fire TV Stick and Fire TV Stick Lite, which is an all-new device. Also, it redesigned Fire TV experience.

Additionally, Amazon unveiled the two mesh Wi-Fi systems namely eero Pro 6 and eero 6.

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## Valuation

Amazon shares are down 8.9% in the six-month period but up 56% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 12.2% and 1.7% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 40.6% and 34.2%, respectively.

The S&P 500 index is up 13.7% in the six-month period and 30.4% in the past year.

The stock is currently trading at 3.11X forward 12-month sales, which compares to 4.26X for the Zacks sub-industry, 1.29X for the Zacks sector and 4.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.31X and as low as 1.93X, with a 5-year median of 2.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$3,155 price target reflects 3.26X forward 12-month sales.

The table below shows summary valuation data for AMZN

| Valuation Multiples - AMZN |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                   | Current       | 3.11  | 4.26         | 1.29   | 4.51    |
|                            | 5-Year High   | 4.31  | 5.97         | 1.34   | 4.51    |
|                            | 5-Year Low    | 1.93  | 3.19         | 0.84   | 3.21    |
|                            | 5-Year Median | 2.82  | 4.66         | 1.02   | 3.68    |
| P/B TTM                    | Current       | 16.2  | 6.94         | 4.29   | 6.86    |
|                            | 5-Year High   | 28.43 | 11.19        | 6.49   | 7.07    |
|                            | 5-Year Low    | 13.45 | 5.27         | 3.8    | 3.84    |
|                            | 5-Year Median | 20.23 | 8.06         | 5.1    | 4.97    |
| EV/Sales TTM               | Current       | 3.78  | 5.37         | 1.39   | 4.54    |
|                            | 5-Year High   | 5.38  | 8.5          | 1.61   | 4.68    |
|                            | 5-Year Low    | 2.31  | 3.94         | 0.97   | 2.64    |
|                            | 5-Year Median | 3.43  | 6.34         | 1.19   | 3.61    |

As of 03/03/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 15% (217 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                     | Rec          | Rank |
|--------------------------------------|--------------|------|
| eBay Inc. (EBAY)                     | Outperform   | 2    |
| Facebook, Inc. (FB)                  | Outperform   | 2    |
| Target Corporation (TGT)             | Outperform   | 2    |
| Alphabet Inc. (GOOGL)                | Neutral      | 3    |
| The Kroger Co. (KR)                  | Neutral      | 3    |
| Microsoft Corporation (MSFT)         | Neutral      | 2    |
| Alibaba Group Holding Limited (BABA) | Underperform | 5    |
| Walmart Inc. (WMT)                   | Underperform | 5    |

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

| Industry Comparison Industry: Internet - Commerce |            |            |           | Industry Peers |            |              |
|---------------------------------------------------|------------|------------|-----------|----------------|------------|--------------|
|                                                   | AMZN       | X Industry | S&P 500   | GOOGL          | MSFT       | WMT          |
| Zacks Recommendation (Long Term)                  | Neutral    | -          | -         | Neutral        | Neutral    | Underperform |
| Zacks Rank (Short Term)                           | 3          | -          | -         | 3              | 2          | 5            |
| VGM Score                                         | A          | -          | -         | B              | F          | A            |
| Market Cap                                        | 1,513.21 B | 3.88 B     | 27.40 B   | 1,355.97 B     | 1,716.31 B | 360.99 B     |
| # of Analysts                                     | 18         | 3          | 13        | 16             | 15         | 15           |
| Dividend Yield                                    | 0.00%      | 0.00%      | 1.43%     | 0.00%          | 0.98%      | 1.69%        |
| Value Score                                       | C          | -          | -         | C              | D          | B            |
| Cash/Price                                        | 0.05       | 0.09       | 0.06      | 0.10           | 0.08       | 0.05         |
| EV/EBITDA                                         | 28.60      | 11.26      | 15.43     | 19.96          | 23.96      | 11.41        |
| PEG F1                                            | 1.82       | 2.14       | 2.30      | 1.64           | 2.60       | 5.82         |
| P/B                                               | 16.20      | 7.83       | 3.79      | 6.09           | 13.18      | 4.12         |
| P/CF                                              | 32.49      | 31.80      | 15.48     | 25.13          | 30.17      | 13.50        |
| P/E F1                                            | 60.25      | 46.80      | 20.65     | 29.13          | 31.01      | 23.28        |
| P/S TTM                                           | 3.92       | 3.29       | 3.18      | 7.43           | 11.20      | 0.65         |
| Earnings Yield                                    | 1.65%      | 1.16%      | 4.77%     | 3.43%          | 3.23%      | 4.30%        |
| Debt/Equity                                       | 0.34       | 0.14       | 0.67      | 0.06           | 0.42       | 0.51         |
| Cash Flow (\$/share)                              | 92.50      | 0.49       | 6.77      | 80.05          | 7.54       | 9.45         |
| Growth Score                                      | A          | -          | -         | A              | C          | A            |
| Historical EPS Growth (3-5 Years)                 | 78.50%     | 4.58%      | 9.32%     | 20.71%         | 21.45%     | 4.52%        |
| Projected EPS Growth (F1/F0)                      | 18.25%     | 31.57%     | 14.54%    | 17.80%         | 27.41%     | 0.00%        |
| Current Cash Flow Growth                          | 39.56%     | 1.48%      | 0.74%     | 12.89%         | 17.66%     | 6.44%        |
| Historical Cash Flow Growth (3-5 Years)           | 46.61%     | 5.91%      | 7.37%     | 20.90%         | 10.19%     | 2.01%        |
| Current Ratio                                     | 1.05       | 1.78       | 1.39      | 3.07           | 2.58       | 0.97         |
| Debt/Capital                                      | 25.41%     | 18.09%     | 41.42%    | 5.89%          | 29.74%     | 33.97%       |
| Net Margin                                        | 5.53%      | 0.49%      | 10.59%    | 22.06%         | 33.47%     | 2.42%        |
| Return on Equity                                  | 27.07%     | 0.70%      | 14.75%    | 19.03%         | 42.19%     | 18.85%       |
| Sales/Assets                                      | 1.43       | 0.85       | 0.51      | 0.62           | 0.51       | 2.30         |
| Projected Sales Growth (F1/F0)                    | 22.28%     | 22.28%     | 7.02%     | 26.56%         | 14.33%     | -1.86%       |
| Momentum Score                                    | B          | -          | -         | C              | F          | A            |
| Daily Price Change                                | -2.89%     | -1.66%     | -0.42%    | -2.57%         | -2.70%     | -1.94%       |
| 1-Week Price Change                               | -4.83%     | -9.77%     | -1.51%    | -3.20%         | -3.56%     | -6.09%       |
| 4-Week Price Change                               | -9.28%     | -4.54%     | 2.34%     | -2.31%         | -6.35%     | -9.64%       |
| 12-Week Price Change                              | -3.20%     | 12.19%     | 5.72%     | 13.14%         | 7.44%      | -13.95%      |
| 52-Week Price Change                              | 52.09%     | 69.20%     | 19.32%    | 45.59%         | 33.43%     | 9.27%        |
| 20-Day Average Volume (Shares)                    | 3,154,434  | 533,766    | 2,030,734 | 1,398,530      | 24,338,404 | 9,887,402    |
| EPS F1 Estimate 1-Week Change                     | 0.00%      | 0.00%      | 0.00%     | 0.00%          | -0.01%     | 0.00%        |
| EPS F1 Estimate 4-Week Change                     | 9.88%      | 0.00%      | 0.12%     | 10.15%         | -0.01%     | -5.43%       |
| EPS F1 Estimate 12-Week Change                    | 10.45%     | -1.13%     | 2.13%     | 10.82%         | 8.90%      | -5.24%       |
| EPS Q1 Estimate Monthly Change                    | 12.92%     | 0.00%      | 0.00%     | 12.34%         | 0.02%      | -3.91%       |

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.

### 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   | A |
| Momentum Score | B |
| VGM Score      | A |

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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**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.