

Astec Industries, Inc. (ASTE)

\$64.87 (As of 06/25/21)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/18/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: C

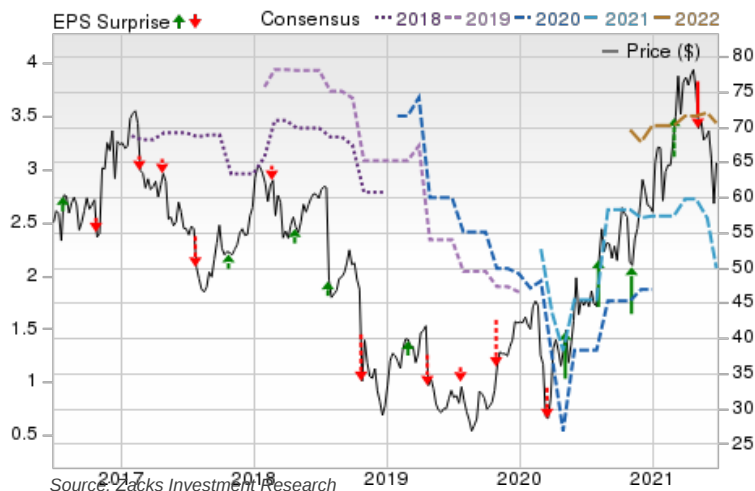
Growth: D

Momentum: F

Summary

Astec anticipates steel prices to be higher this year owing to improving demand and continued supply constraints. The company is also witnessing tightness in labor availability for some positions and container shortages in general to support the increase in backlog. Further, supply headwinds, increased transportation and logistics costs remain headwinds. Investments related to automation are also anticipated to drive corporate costs higher. All of these factors will hurt Astec's margins this year. Moreover, the company has been selling asphalt plant in certain markets at lower margins, which will weigh on its results. Thus, earnings estimates for the ongoing quarter and year have undergone negative revisions lately. Furthermore, the uncertainty regarding the lingering impact of the COVID-19 pandemic remains a woe.

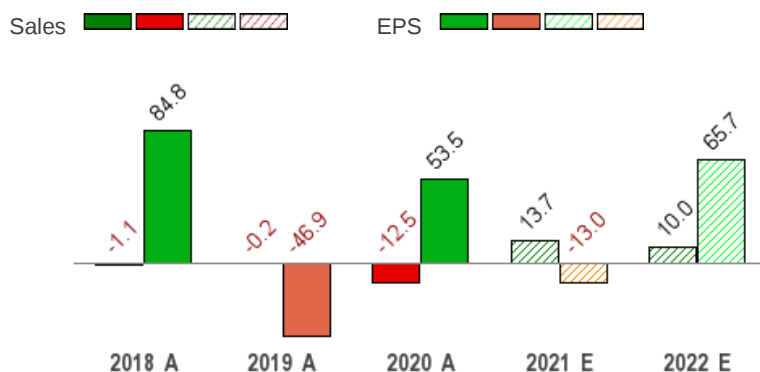
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$80.00 - \$42.84
20-Day Average Volume (Shares)	165,497
Market Cap	\$1.5 B
Year-To-Date Price Change	12.1%
Beta	1.37
Dividend / Dividend Yield	\$0.44 / 0.7%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Top 50% (127 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	337 E	354 E	301 E	300 E	1,280 E
2021	284 A	311 E	280 E	282 E	1,164 E
2020	289 A	265 A	231 A	239 A	1,024 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.00 E	\$1.14 E	\$0.68 E	\$0.74 E	\$3.43 E
2021	\$0.41 A	\$0.49 E	\$0.50 E	\$0.56 E	\$2.07 E
2020	\$1.00 A	\$0.67 A	\$0.20 A	\$0.56 A	\$2.38 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	-52.3%
Last Sales Surprise	-9.7%
EPS F1 Estimate 4-Week Change	-15.0%
Expected Report Date	08/04/2021
Earnings ESP	0.0%
P/E TTM	35.3
P/E F1	31.3
PEG F1	NA
P/S TTM	1.5

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/25/2021. The report's text and the

analyst-provided price target are as of 06/28/2021.

Overview

Chattanooga, TN-based Astec Industries Inc. is a leading manufacturer and marketer of road building equipment. The company sells equipment used in each phase of road building, from quarrying and crushing the aggregate to applying the asphalt.

Astec also manufactures equipment and components unrelated to road construction, including equipment for the mining, quarrying, construction and demolition industries and port and rail yard operators; gas and oil drilling rigs; water well and geothermal drilling rigs; industrial heat transfer equipment; commercial whole-tree pulpwood chippers; horizontal grinders; blower trucks; concrete plants; commercial and industrial burners; and combustion control systems. The company comprises a total 33 companies, of which 25 represent manufacturing sites and sites that operate as sales offices.

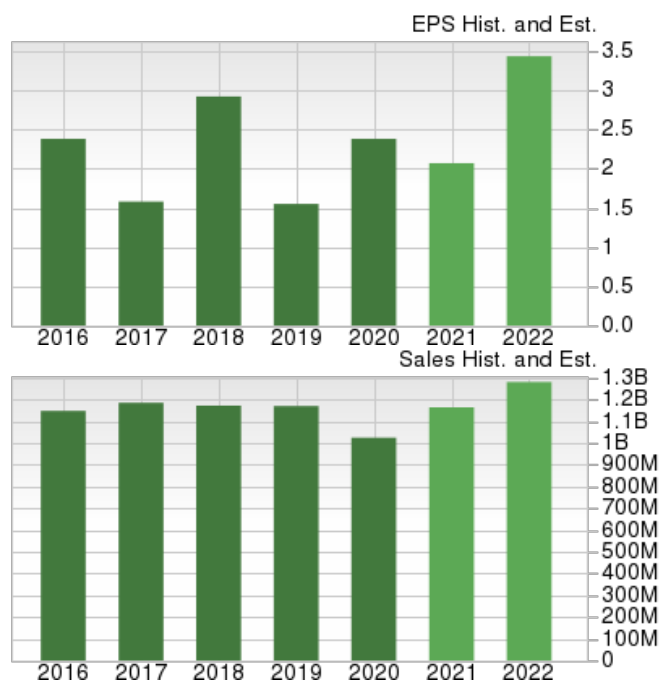
In the first quarter of 2020, Astec completed an internal reorganization into two segments —

Infrastructure Solutions (approximately 69% of the revenues in 2020) -

The products include road building, asphalt and concrete plant equipment, thermal and storage solutions as well as wood grinding equipment. The purchasers of the segment's products are asphalt producers, highway and heavy equipment contractors, foreign and domestic governmental agencies, processors of oil, gas and biomass for energy production, ready mix concrete producers and contractors in the construction and demolition recycling markets.

Materials Solutions (approximately 31% of the 2020 revenues) - Its products include crushing and screening, washing and classifying, plants and systems and material handling equipment. The purchasers of the segment's products are distributors, open mine operators, quarry operators, port and inland terminal operators, highway and heavy equipment contractors, and foreign and domestic governmental agencies.

Astec holds a dominant position in attractive niche markets in industries benefiting from long-term secular trends including population growth, urbanization and aging infrastructure. It also boasts industry-leading reputation for innovation, high-quality products and superior customer service. The company remains focused on strategic transformation with Simplify, Focus, and Grow pillars.



Reasons To Sell:

- ▼ Astec utilizes steel as a major raw material to manufacture products. With a drop in demand amid the pandemic steel prices declined during the first half of 2020 but picked up in the later part of the year. The company expects steel prices to be higher in 2021 amid improving demand and continued supply constraints. This will impact Astec's margins. Given the competition, it might not be possible for Astec to raise prices to combat the raw material cost inflation. The company is also witnessing tightness in labor availability for some positions and container shortages in general to support the increase in backlog. Supply headwinds, increased transportation and logistics costs also remain headwinds. The company is also likely to experience higher corporate costs driven by investments related to automation.
- ▼ In a bid to build its market position and expand installed base, Astec has been selling asphalt plants in markets (particularly in international markets), at lower than normal price levels. On top of this, shipping costs were high. This impacted margins in the first quarter and is expected to do so in the second quarter as well.
- ▼ Per the Simplify aspect of its Simplify, Focus and Grow strategy, the company had closed its Mequon facility and shifted that production to other factories. However, it did not have labor to handle the incoming equipment shipments. The problem has not been solved yet and labor issues persist. This will impact results in the second quarter.
- ▼ During 2020, Astec's sales and profits have been negatively impacted by the COVID-19 pandemic. It is likely to disrupt its business and operations in the future. The extent of the COVID-19 pandemic on Astec's operations and its served markets remain highly uncertain and largely depend on surging infection rates, the duration of the COVID-19 pandemic, government initiatives to contain the outbreak or counter its impact, such as re-imposing previously lifted measures or putting in place additional restrictions, and the widespread distribution and acceptance of an effective vaccine, among other things. These developments are constantly evolving and cannot be accurately predicted and consequently remain a concern.
- ▼ The level of governmental funding for federal highway projects will continue to be uncertain. Although continued funding under the FAST Act or funding of a bill passed by the current administration is expected, it may be at lower levels than originally approved or anticipated. This might weigh on Astec's results.

Higher steel prices amid improving demand and persistent supply constraints will dent Astec's margins. The company's performance will also be impacted by the uncertainty related to the coronavirus crisis.

Risks

- The company has been witnessing improvement in order levels lately as evident from 71.5% year-over-year increase in total backlog to \$420.8 million at the end of the first quarter of 2021. The Materials Solutions segment's backlog increased 91% year over year, while Infrastructure Solution backlog surged 61%. Domestic backlog increased by 74.4% to \$322.9 million, while international backlog improved by 62.6% to \$97.9 million. This bodes well for the company's performance in the ongoing quarter. The company expects to benefit from strong residential real estate demand and improvement in non-residential construction. Further, increased US infrastructure spending under the new administration augurs well for Astec. The Coronavirus Response and Relief Supplemental Appropriations Act has recently been signed into law. This bill will appropriate \$10 billion to highway infrastructure projects.
 - The company is making steady progress toward its strategy for profitable growth – Simplify, Focus and Grow. The company's transition to a two-segment organizational structure ensures that its products are better aligned to end markets and customers. This move helps streamline the company's reporting structure. Also per the Simplify aspect, Astec continues to reduce organizational structure complexity and consolidate and rationalize footprint and product portfolio. The company has rationalized three sites in Hameln, Germany, Albuquerque, NM and Mequon, WI to further streamline operations. It is completing the closure of Tacoma facility as part of its ongoing rationalization.
 - Per the Focus initiative, the company sold its GEFCO business that effectively eliminates Astec's exposure to the energy industry. It continues to drive operational excellence across organization and optimize product portfolio. In March 2020, the company launched its OneASTEC business model, with the strategic pillars of Simplify, Focus and Grow. The model was designed to better set strategic direction, define priorities and improve overall operating performance. The company plans to emphasize more on Focus and Grow pillars in 2021. Through the Grow aspect, it will focus on innovation, global expansion and disciplined and strategic acquisitions, among others. Through controls and automation as well as other technologies, Astec expects to leverage technology and digital connectivity to enhance customer experience. It intends to make investments in projects that generate more than 14% returns.
 - In 2020, Astec acquired two premier full-line concrete batch plant manufacturers — CON-E-CO and BMH. Both the buyouts will significantly strengthen the Infrastructure Solutions group portfolio and provide customers with access to the most robust line of concrete products in the infrastructure industry. Both the acquisitions have been fully integrated and are performing better-than-expected. Astec is looking for avenues to grow regionally in attractive markets. The company has acquired certain assets of Grathwol Automation, LLC which is engaged in the business of developing and providing advanced telematics and remote diagnostics for construction equipment and related products and services. Grathwol Automation has been partnering with Astec for a decade. In fact, the company has developed the Guardian system for Astec's Roadtec equipment and a jobsite management system.
 - Astec remains committed toward improvement of its part sales volume over the long term. It also intends to improve competitive part sales and service sales. Majority of its customers in the United States have been experiencing a stable product market, and the company remains focused on selling existing and new products. The company also continues to focus on growing its international sales through the establishment of new regional international sales offices and the new products for international customers. Astec remains well poised in the long term backed by the global population growth, increased urbanization and the need to repair the ageing infrastructure.
 - Astec ended the first quarter of 2021 with total available liquidity of \$319 million, which includes cash and cash equivalents of \$164.6 million. The company's total debt stood at \$1.7 million as of Mar 31, 2021. Its total debt is 0.1% of total capital, much lower than its industry's 70%. Its times interest earned is 45.4 compared with the industry's 5.1. Thus, with a strong balance sheet and liquidity position, Astec seems well poised to sail through these turbulent times. In the wake of the coronavirus pandemic, the company continued to implement actions to reduce expenses and conserve cash.
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Last Earnings Report

Astec Q1 Earnings & Revenues Miss Estimates, Down Y/Y

Astec Industries' first-quarter 2021 adjusted earnings per share of 41 cents missed the Zacks Consensus Estimate of 86 cents by a margin of 52%. The bottom line also declined 58% from the prior-year quarter due to an unfavorable product mix in Infrastructure Solutions segment and under absorption in Materials Solutions segment.

Including one-time items, the company reported earnings per share of 38 cents in the quarter under review compared with 91 cents in the year-ago quarter.

Quarter Ending

03/2021

Report Date	May 05, 2021
Sales Surprise	-9.67%
EPS Surprise	-52.33%
Quarterly EPS	0.41
Annual EPS (TTM)	1.84

Revenues & Backlog

Astec reported revenues of \$284 million in the quarter, down 1.5% from the year-ago quarter. Further, the top line lagged the Zacks Consensus Estimate of \$315 million. Domestic sales were down 3.5% year on year due to a used inventory reduction initiative in first-quarter 2020. The sale of used inventory slumped 55.8% in the reported quarter compared with last year. International sales increased 6.9% in the quarter.

At first quarter 2021-end, the company's total backlog was \$420.8 million, reflecting an improvement of 71.5% year over year. Domestic backlog soared 74% year over year to \$322.9 million, while international backlog increased 63% to \$97.9 million.

Operating Performance

Cost of sales inched up 0.2% year over year to \$216 million. Gross profit was \$68.5 million, down 7% from the year-ago quarter figure of \$73.4 million. Gross margin contracted 130 basis points to 24.1% in the quarter under review from the year-ago quarter.

Selling, general, administrative and engineering (SG&A) increased 3% year over year to around \$58 million. Adjusted operating profit for the quarter under review was \$10.5 million, which marked a decline of 39% from the prior-year quarter.

Adjusted operating margin was 3.7% compared with 6.0% in the prior-year quarter. The decline was due to unfavorable product mix in Infrastructure Solutions as certain international product sales carried lower margins (impacted by logistics costs) compared to domestic sales. Under absorption in the Materials Solutions segment primarily related to the movement of production from the Mequon site to other Astec sites also led to lower margins in the quarter.

Adjusted EBITDA was \$18 million in the reported quarter, down 24% from the year-ago quarter. Adjusted EBITDA margin was 6.3%, a 190 basis point contraction from the prior-year quarter primarily driven by strategic sales, lower factory absorption and investments in technology.

Segment Performance

Revenues for the Infrastructure Solutions segment slipped 0.5% to \$2027 million from the year-ago quarter. The segment reported a profit of \$21 million compared with \$17 million in the prior-year quarter.

Materials Solutions segment's total revenues declined 4% year over year to \$832 million. The segment reported a profit of \$6.5 million, reflecting year-over-year increase of 8%.

Financial Position

Astec's cash and cash equivalents improved to \$164.6 million as of Mar 31, 2021 from \$158.6 million as of Dec 31, 2020. As of the first quarter end, the company's total debt was \$0.3 million compared with \$0.4 million as of Dec 31, 2020.

So far the company has been witnessing a ramp up in demand. However, steel prices have been on an uptrend lately and is expected to remain so for the balance of the year. Further, a tight labor market remains a concern. These factors will impact the company's margins this year.

Valuation

Astec's shares are up 12.4% in the trailing-six month period and 44.1% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are up 23.0% and 13.0% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 74.3% and 52.5%, respectively.

The S&P 500 index is up 15.2% in the the trailing six-month period and 42.4% in the past year.

The stock is currently trading at 23.69X forward 12-month earnings, which compares with 20.02X for the Zacks sub-industry, 21.33X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 49.5X and as low as 9.01X, with a 5-year median of 19.47X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$56 price target reflects 20.45X forward 12-month earnings.

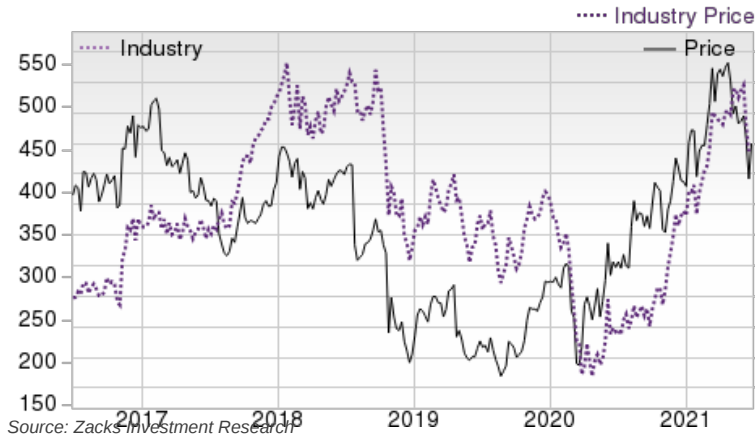
The table below shows summary valuation data for ASTE.

Valuation Multiples - ASTE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.69	20.02	21.33	21.82
	5-Year High	49.50	30.83	23.58	23.83
	5-Year Low	9.01	9.47	12.55	15.31
	5-Year Median	19.47	19.78	18.20	18.05
P/S F12M	Current	1.21	1.88	3.49	4.75
	5-Year High	1.53	2.21	3.58	4.75
	5-Year Low	0.49	0.92	1.60	3.21
	5-Year Median	0.99	1.26	2.10	3.72
EV/EBITDA TTM	Current	17.84	14.68	23.64	17.59
	5-Year High	22.30	16.84	27.94	17.74
	5-Year Low	6.87	5.95	11.11	9.63
	5-Year Median	13.87	9.55	15.43	13.48

As of 06/25/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Caterpillar Inc. (CAT)	Outperform	2
Cummins Inc. (CMI)	Outperform	2
CNH Industrial N.V. (CNHI)	Outperform	1
Deere & Company (DE)	Outperform	2
Lindsay Corporation (LNN)	Outperform	1
John Bean Technologies Corporation (JBT)	Neutral	3
The Manitowoc Company, Inc. (MTW)	Neutral	3
Terex Corporation (TEX)	Neutral	3

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

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	ASTE	X Industry	S&P 500	CAT	HEES	MTW
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	2	3
VGM Score	D	-	-	A	B	C
Market Cap	1.47 B	2.39 B	30.37 B	118.49 B	1.21 B	891.65 M
# of Analysts	2	3.5	12	11	2	5
Dividend Yield	0.68%	0.85%	1.33%	1.90%	3.28%	0.00%
Value Score	C	-	-	C	A	C
Cash/Price	0.12	0.14	0.06	0.10	0.27	0.18
EV/EBITDA	17.78	15.63	17.25	17.73	6.06	15.63
PEG F1	NA	1.72	2.09	1.88	0.60	5.63
P/B	2.27	1.84	4.15	7.13	5.19	1.41
P/CF	18.02	14.79	17.53	19.56	3.18	33.22
P/E F1	30.83	19.30	21.20	22.52	19.97	56.29
P/S TTM	1.45	1.06	3.42	2.76	1.04	0.61
Earnings Yield	3.19%	5.19%	4.61%	4.44%	5.01%	1.79%
Debt/Equity	0.00	0.47	0.66	1.59	5.30	0.47
Cash Flow (\$/share)	3.60	3.15	6.86	11.06	10.56	0.77
Growth Score	D	-	-	A	D	C
Historical EPS Growth (3-5 Years)	0.46%	1.69%	9.59%	21.27%	11.59%	1.69%
Projected EPS Growth (F1/F0)	-13.03%	71.27%	21.79%	46.40%	20.86%	230.29%
Current Cash Flow Growth	32.57%	-27.22%	1.02%	-31.90%	-1.44%	-74.38%
Historical Cash Flow Growth (3-5 Years)	7.44%	2.40%	7.28%	0.67%	10.43%	-29.62%
Current Ratio	3.20	1.93	1.39	1.60	2.73	1.90
Debt/Capital	0.05%	32.16%	41.51%	61.33%	84.13%	32.16%
Net Margin	3.44%	1.75%	12.06%	7.99%	0.73%	-0.98%
Return on Equity	6.62%	6.62%	16.59%	26.63%	15.95%	-1.30%
Sales/Assets	1.23	0.70	0.51	0.55	0.62	0.91
Projected Sales Growth (F1/F0)	13.62%	14.65%	9.56%	17.54%	3.35%	8.39%
Momentum Score	F	-	-	A	C	F
Daily Price Change	3.18%	0.16%	0.33%	-1.38%	-2.16%	4.01%
1-Week Price Change	9.80%	4.68%	2.74%	3.57%	5.80%	13.94%
4-Week Price Change	-5.34%	-9.97%	1.82%	-10.28%	-10.29%	-0.58%
12-Week Price Change	-15.75%	-5.57%	6.49%	-7.06%	-11.29%	24.55%
52-Week Price Change	45.42%	61.08%	42.26%	76.74%	92.15%	145.18%
20-Day Average Volume (Shares)	165,497	210,018	1,881,795	4,671,908	254,539	290,371
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-14.99%	0.00%	0.02%	0.63%	0.00%	-1.58%
EPS F1 Estimate 12-Week Change	-23.90%	12.54%	3.59%	18.97%	9.80%	60.94%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	-37.42%	0.00%	0.00%	0.00%	0.00%	-14.00%
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Source: Zacks Investment Research

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	D
Momentum Score	F
VGM Score	D

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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