

American Water Works(AWK)

\$159.69 (As of 01/13/21)

Price Target (6-12 Months): **\$168.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

American Water Works is benefiting from new rates and planned capital expenditure to strengthen its infrastructure, which will enable it to provide efficient water as well as wastewater services to the expanding customer base. The company continues to expand operations through acquisitions and organic means. Proper cost management is lowering operating expenses and is boosting margins of the company. It has ample current liquidity to meet near-term debt obligations. Shares of American Water Works have outperformed the industry in the past 12 months. However, fluctuating weather conditions, lower demand for water and the pandemic-led decline in demand will adversely impact profitability. Its operations are subject to stringent regulations, risk of accidents and contamination due to soiling of old pipelines.

Price, Consensus & Surprise

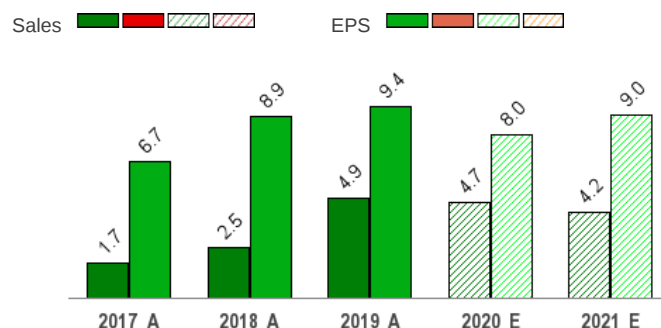


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$172.56 - \$92.00
20-Day Average Volume (Shares)	819,343
Market Cap	\$28.9 B
Year-To-Date Price Change	4.1%
Beta	0.18
Dividend / Dividend Yield	\$2.20 / 1.4%
Industry	Utility - Water Supply
Zacks Industry Rank	Bottom 11% (225 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.8%
Last Sales Surprise	3.8%
EPS F1 Estimate 4-Week Change	-0.0%
Expected Report Date	02/16/2021
Earnings ESP	0.0%
P/E TTM	41.7
P/E F1	37.7
PEG F1	4.7
P/S TTM	7.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	865 E	965 E	1,079 E	969 E	3,940 E
2020	844 A	931 A	1,079 A	926 E	3,780 E
2019	813 A	882 A	1,013 A	902 A	3,610 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.72 E	\$1.11 E	\$1.51 E	\$0.94 E	\$4.25 E
2020	\$0.67 A	\$0.97 A	\$1.46 A	\$0.79 E	\$3.90 E
2019	\$0.61 A	\$0.94 A	\$1.33 A	\$0.73 A	\$3.61 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 01/13/2021. The reports text is as of 01/14/2021.

Overview

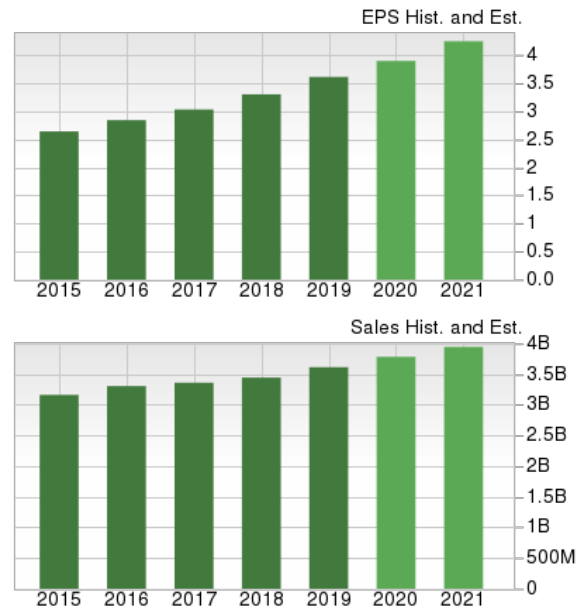
Water supply and wastewater service provider American Water Works Company was founded in 1886. The company provides essential water services to over 15 million customers in 47 states, the District of Columbia and Ontario, Canada. It has employee strength of 6,800. The company also intermittently acquires small water service providers to expand its customer base. In 2019, the company added 53,100 water and wastewater customer connections through acquisitions.

American Water Works Company primarily operates through the **Regulated Businesses** segment. The Regulated Businesses segment's operating revenues were \$3,094 million in 2019, \$2,984 million in 2018, and \$2,958 million in 2017, accounting for 86%, 87% and 88% of the company's total operating revenues, respectively.

The company also has **Market-Based Businesses**. Through this business, the company provides services to military bases, municipalities, exploration and production companies, commercial, industrial and residential customers that are not subject to economic regulation by state PUCs and do not require substantial infrastructure investment. Market-Based Businesses' operating revenues were \$539 million in 2019, \$476 million in 2018 and \$422 in 2017.

Other had a negative impact of \$23 million on 2019 revenues.

At the end of 2019, the company provided water and wastewater services to 3,205,000 and 229,000 customers, respectively.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ American Water Works has plans to invest \$8.8-\$9.4 billion in the 2020-2024 time period and \$20-\$22 billion in the next decade. American Water maintained the five-year adjusted EPS compound annual growth rate of 7-10%. More than 85% of its net income is generated from regulated operations. For the first nine months of 2020, the company made capital investments of nearly \$1.38 billion, including \$1.31 billion primarily for infrastructure improvements in the Regulated Businesses. Shares of American Water Works have gained 28.1% in the past 12 months compared with the Zacks Utility Water Supply industry's 3.2% growth.

Focus on regulated operation is yielding stable returns, which allowed the company to increase shareholders' value. The board of directors raised its dividend rate by 10% on an annual basis for five consecutive years. Over the 2020-2024 period, American Water Works' dividend growth rate will be at the high end of the projected EPS growth rate of 7-10%, with a payout target within 50-60%, subject to approval of the board of directors.

- ▲ The company continues to optimize market-based businesses. At the end of first nine months of 2020, it provided services to 17 military bases under 50-year contracts. This is expected to contribute 1-2% to earnings growth from 2020 through 2024. Remaining performance obligations associated with the contracts with the U.S. government were nearly \$6.3 billion as of Sep 30, 2020, which ensures a steady flow of earnings for the company. Its knowledge and expertise in providing services to the U.S. military installation could create opportunities for more military orders in the future.

The company is also working on its Environment Social Responsibility and Governance principles, as well as aims to lower greenhouse gas emissions to 40% by 2025 from 2007 levels. The company was involved in more than 5,000 hours of community services in 2019.

- ▲ It has been benefiting from rate increase since the beginning of 2020. The new water rates (effective Jan 1, 2020) will increase American Water Works' total revenues by \$127 million. It still has rate cases worth \$212 million pending in various jurisdictions, awaiting final order. The ongoing expansion of the rate base will have a positive impact on its earnings over the long term.

The company continues to improve operational efficiency. It has been successful in lowering the O&M efficiency ratio through systematic cost savings and increase in revenues. Notably, the O&M efficiency ratio is a company's regulated O&M expenses divided by operating revenues. It lowered the O&M efficiency from 46.1% in 2010 to 35.6% in 2018. For the past 12-month period ended Sep 30, 2020, the company's adjusted regulated O&M efficiency improved to 34.2% from 34.8% in the comparable period of 2019. The improvement was primarily due to an increase in operating revenues and persistent focus on operating costs of the Regulated businesses. Efficient cost management will have a positive impact on the company's margins. It targets to lower O&M efficiency to 31.3% in 2024.

- ▲ The company is expanding the customer base through organic initiatives and acquisitions. In 2018 and 2019, the company added 25,000 and 67,000 new customers, respectively, in the regulated business through organic growth and acquisitions. Till Nov 3, it added 47,100 customers to the existing customer base, out of which 10,900 customers were added through the organic route. The company continues to make regular investments to strengthen the existing operations.

Consolidation is the need of the hour in the fragmented U.S. water utility space and American Water Works continues to widen market footprint through strategic acquisitions. From 2015 to 2019, the company closed 83 deals and added 173,000 customers to the existing customer base. It added 36,200 customers to the existing customer base as of Nov 3, through 20 acquisitions. The 25 pending acquisitions as of Nov 3, 2020 — on completion — are expected to add 19,000 customers to its customer base. The company remains customer friendly as it announced that its subsidiaries will continue providing potable water and wastewater services to customers despite non-payment of service dues amid the distress created by the coronavirus pandemic.

- ▲ Amid the unprecedented economic crisis, American Water Works has ample liquidity to meet debt obligations. As of Sep 30, 2020, the company had a total liquidity of \$2,189 million, which is enough to meet near-term obligations. Long-term debt as of Sep 30, 2020 was \$9,584 million, up from \$8,644 million on Dec 31, 2019. Total debt to capital was 59.7% at third quarter-end, up from 58.6% at the end of 2019.

The times interest earned ratio at second quarter-end was 3.2, unchanged sequentially. This indicates that the company has enough liquidity to meet debt obligations without any difficulty. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, this stable times interest earned ratio is reassuring for investors

Planned capital investment, expansion of customer base through organic and inorganic initiatives, and optimization of Market-Based Businesses will drive the company's long-term growth.

Reasons To Sell:

- ▼ Additions and improvement in the existing water infrastructure require huge capital investments. A major portion of the existing water lines and mainline are nearing the end of their effective usage life. The company plans to invest billions of dollars over the long term to maintain the integrity of its systems. If the company fails to generate the desired returns due to the ongoing economic crisis, its margins could be hampered.

Moreover, in this adverse economic condition caused by the COVID-19 outbreak, the loss of one or more large industrial or commercial customers could have a material adverse impact on the results of operations.

- ▼ It envisions improving the quality of buried water pipelines and for that, the utilities need in excess of \$1 trillion to fund their systems in the next 25 years. Any disruption in capital markets and change in the company's credit ratings might make it difficult for American Water to get the necessary or desired amount to fund capital improvements on favorable terms.
- ▼ Weather plays a significant role in the increase/decrease in demand of fresh water and wastewater services. Demand for water during the warmer months is generally higher than during cooler months due primarily to increased water usage for irrigation systems, swimming pools, cooling systems and other applications.
- ▼ The existing water system in the U.S. is getting older and is susceptible to fail at some point in time despite ongoing repairs and overhauls. The network of water and wastewater pipes and water reservoirs could result in losses and damages that may affect American Water Works' financial condition.

The risk of contamination of water supplied by the company is a concern and could lead to interruption of services provided to customers, and result in losses and damages that may affect its financial condition and reputation.

Fluctuating weather patterns, risk of failure of old and soiled pipelines, and possibility of contamination are persistent headwinds.

Last Earnings Report

American Water Q3 Earnings Top Estimates, 2020 View Up

American Water Works Company posted third-quarter 2020 earnings of \$1.46 per share, which beat the Zacks Consensus Estimate by 5.8%.

The bottom line also improved 9.8% year over year on the back of strong contributions from Regulated businesses. The encouraging quarterly earnings reflect favorable impact of weather and improved residential customer demand, attributable to more stay-at-home activities owing to the COVID-19 pandemic.

Total Revenues

Total revenues of \$1,079 million beat the Zacks Consensus Estimate of \$1,040 million by 3.8% and improved 6.5% from the year-ago figure of \$1,013 million.

Highlights of the Release

Total operating expenses for the quarter were \$646 million, up 6.4% from the year-ago period. The increase was due to higher operation and maintenance expenses.

Operating income was \$433 million, 6.7% higher than the year-ago figure. New rates approved in the year added \$127 million to annual revenues and the pending rate case, if approved without change, will further increase revenues by \$212 million.

From the start of the year till Nov 2, the company added more than 47,000 customers to the existing customer base through closed acquisitions and organic means, out of which 36,200 customers were added via acquisitions. Its pending acquisitions, when completed, will add another 19,000 customers to the customer base.

For the 12 months period ended Sep 30, O&M efficiency improved to 34.2% from 34.8% in the year-ago period. The improvement was due to persistent focus on operating costs and an increase in operating revenues for Regulated businesses.

Interest expenses for the reported quarter totaled \$99 million, up 2.1% from \$97 million in the prior-year period.

Segment Details

Regulated businesses' net income was \$261 million compared with \$236 million in the year-ago quarter. From the start of the year till Nov 2, this segment added 36,200 customers through 20 acquisitions in nine states. Acquisitions, organic growth and additional authorized revenues to support infrastructure investments boosted income.

Market-Based businesses' net income was \$23 million, on par with the year-ago quarter. Military Services Group was awarded a contract for Joint-Base Lewis-McChord in September 2020.

Financial Highlights

Cash and cash equivalents amounted to \$560 million as of Sep 30, 2020, up from \$60 million on Dec 31, 2019.

Total long-term debt was \$9,584 million as of Sep 30, 2020, higher than \$8,644 million at 2019-end.

Cash flow from operating activities for the first nine months of 2020 was \$988 million compared with \$945 million in the comparable year-ago period. For the same period, capital expenditure of the company was \$1,314 million compared with \$1,115 million in the corresponding year-ago period.

Guidance

American Water increased its guidance for 2020 earnings to the range of \$3.87-\$3.93 from \$3.79-\$3.89, taking into consideration favorable year-to-date impact of weather on demand, a 6-cent impact of depreciation not recorded as required by assets held for sale accounting and an estimated 3-6 cents per share unfavorable impact from the COVID-19 pandemic.

The company aims to invest \$1.9 billion across its service territories in 2020. The company has plans to invest \$20-\$22 billion of capital over the next 10 years.

Subject to approval of the board of directors, dividend growth for the 2020-2024 period is expected at the high end of the 7-10% range. Its O&M efficiency target remains at 31.3% for 2024.

Quarter Ending 09/2020

Report Date	Nov 04, 2020
Sales Surprise	3.76%
EPS Surprise	5.80%
Quarterly EPS	1.46
Annual EPS (TTM)	3.83

Recent News

American Water Arm to Invest \$1.6M to Replace Water Mains - Jan 13, 2021

American Water Works announced that its subsidiary, New Jersey American Water is going to invest \$1.63 million for replacing more than 2,680 feet of aging water mains in Asbury Park and 2,100 feet water mains in Hillside.

In Asbury Park, the company will invest \$965,000 to replace three fire hydrants and 60 utility-owned service lines along the pipeline route. The old mains in this region will be replaced with new ductile iron mains. The Hillside project will replace six fire hydrants and 68 utility-owned service lines along the pipeline route. New Jersey American will upgrade the aging 6-inch cast iron water lines with new, 8-inch ductile iron mains.

These upgrades are part of the company's multimillion-dollar initiative to upgrade the existing old water and wastewater pipelines. The replacement of old mains with new ones will increase resilience of operations and increase water flow for customers in the region.

American Water's Tennessee Arm Acquires Water Assets - Dec 31, 2020

American Water Works Company announced that its subsidiary, Tennessee American Water has acquired the water distribution system of Jasper Highlands. This acquisition will add 600 customers to its existing customer base over the next few years. Tennessee American Water has paid \$2.4 million to acquire the distribution assets of Jasper Highlands.

The acquisition will enable Tennessee American Water to extend high-quality water services to new customers, and bring considerable expertise and resources to the Jasper Highlands system operation.

American Water Arm to Invest \$0.3M to Add Water Mains - Dec 26, 2020

American Water Works announced that its subsidiary, New Jersey American Water is going to invest \$285,000 for adding nearly 800 feet of water mains in Neptune. The project will include installing two utility-owned service lines along the pipeline route.

These new additions to the existing infrastructure will increase resilience of operations and provide more water flow for customers in the region. New Jersey American Water invests millions of dollar annually to upgrade, and properly maintain water as well as wastewater assets.

Valuation

American Water Works Company, shares are up 19.1% in the past six months period, and up 28.1% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 8.7% and the Zacks Utility sector was up 11.4% in the past six months period. Over the past year, the Zacks sub-industry is up 3.2% and sector was down 6.9%.

The S&P 500 index is up 18.9% in the past six period but up 17.7% in the past year.

The stock is currently trading at 37.49X of forward 12 months earnings, which compares to 19.07X for the Zacks sub-industry, 13.5X for the Zacks sector and 23.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.41X and as low as 21.29X, with a 5-year median of 26.24X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$168 price target reflects 39.44X of forward 12 months earnings.

The table below shows summary valuation data for AWK

Valuation Multiples - AWK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.49	19.07	13.5	23.14
	5-Year High	39.41	25.47	15.39	23.79
	5-Year Low	21.29	17.25	11.39	15.3
	5-Year Median	26.24	19.07	13.89	17.83
P/S F12M	Current	7.33	7.49	2.87	4.53
	5-Year High	7.67	7.91	3.2	4.53
	5-Year Low	3.22	2.55	1.79	3.2
	5-Year Median	4.46	3.69	2.16	3.68
P/B TTM	Current	4.45	4.37	3.82	6.55
	5-Year High	4.61	4.42	3.88	6.58
	5-Year Low	2.14	2.39	2.13	3.73
	5-Year Median	2.81	3.07	2.58	4.94

As of 1/13/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Artesian Resources Corporation (ARTNA)	Neutral	NA
American States Water Company (AWR)	Neutral	4
Consolidated Water Co. Ltd. (CWCO)	Neutral	4
California Water Service Group (CWT)	Neutral	3
Middlesex Water Company (MSEX)	Neutral	3
Primo Water Corporation (PRMW)	Neutral	3
SJW Group (SJW)	Neutral	4
Essential Utilities Inc. (WTRG)	Neutral	3

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

Industry Comparison Industry: Utility - Water Supply				Industry Peers		
	AWK	X Industry	S&P 500	CWCO	PRMW	WTRG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	F	-	-	C	A	C
Market Cap	28.95 B	1.59 B	27.19 B	197.96 M	2.61 B	11.50 B
# of Analysts	6	2	13	2	2	5
Dividend Yield	1.38%	1.60%	1.41%	2.60%	1.47%	2.14%
Value Score	D	-	-	B	B	D
Cash/Price	0.02	0.02	0.06	0.19	0.06	0.00
EV/EBITDA	21.11	21.11	14.93	9.20	13.24	33.73
PEG F1	4.60	4.57	2.63	2.95	NA	4.48
P/B	4.45	2.48	3.78	1.17	1.92	2.48
P/CF	23.38	17.18	14.43	12.48	11.21	24.09
P/E F1	37.15	31.77	20.64	23.59	25.48	28.16
P/S TTM	7.71	6.25	2.99	2.64	1.28	9.47
Earnings Yield	2.66%	3.14%	4.73%	4.28%	3.92%	3.54%
Debt/Equity	1.47	0.87	0.70	0.00	0.96	1.11
Cash Flow (\$/share)	6.83	1.95	6.93	1.05	1.46	1.95
Growth Score	D	-	-	C	B	D
Historical EPS Growth (3-5 Years)	8.25%	6.90%	9.72%	NA	9.47%	5.29%
Projected EPS Growth (F1/F0)	8.99%	5.55%	12.36%	52.05%	20.75%	5.78%
Current Cash Flow Growth	8.43%	7.09%	5.22%	-8.42%	-10.46%	5.65%
Historical Cash Flow Growth (3-5 Years)	7.49%	5.46%	8.37%	5.37%	2.92%	4.29%
Current Ratio	0.87	0.91	1.38	9.27	0.86	0.47
Debt/Capital	59.54%	46.55%	41.97%	0.08%	48.97%	52.64%
Net Margin	17.63%	11.85%	10.44%	6.64%	-5.00%	20.28%
Return on Equity	11.03%	10.32%	15.37%	4.79%	3.49%	7.84%
Sales/Assets	0.16	0.17	0.50	0.41	0.57	0.10
Projected Sales Growth (F1/F0)	4.23%	3.52%	6.02%	0.85%	7.48%	34.18%
Momentum Score	F	-	-	B	A	A
Daily Price Change	2.21%	0.08%	-0.30%	-0.91%	0.37%	0.51%
1-Week Price Change	2.29%	3.02%	2.23%	7.97%	2.55%	3.02%
4-Week Price Change	6.20%	2.77%	3.84%	9.45%	2.77%	-0.99%
12-Week Price Change	4.89%	10.13%	14.40%	23.14%	18.36%	10.13%
52-Week Price Change	25.86%	-1.36%	7.38%	-19.00%	13.74%	-4.11%
20-Day Average Volume (Shares)	819,343	91,704	1,726,400	91,704	1,426,365	860,244
EPS F1 Estimate 1-Week Change	-0.04%	0.00%	0.00%	0.00%	0.00%	0.30%
EPS F1 Estimate 4-Week Change	-0.04%	0.00%	0.07%	0.00%	0.00%	0.30%
EPS F1 Estimate 12-Week Change	0.24%	0.00%	2.55%	-10.48%	43.54%	-0.10%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	NA	39.13%

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	D
Growth Score	D
Momentum Score	F
VGM Score	F

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

Disclosures

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

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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