

Acuity Brands, Inc.(AYI)

\$104.51 (As of 09/14/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

Summary

Although Acuity Brands' shares have underperformed its industry in the past three months, estimates for current year have moved up in the past 60 days, reflecting analysts' optimism over the stock. Strength in go-to-market channels, product portfolio and supply chain has enabled it to effectively serve customers. Its gross margin improved a notable 170 basis points (bps) third-quarter fiscal 2020 backed by acquisitions, favorable channel mix and lower input costs, partly offset by reduced average selling prices. However, it has been witnessing muted demand owing to the COVID-19 pandemic. Moreover, it expects pricing pressure and costs related to tariffs to continue in the fourth quarter.

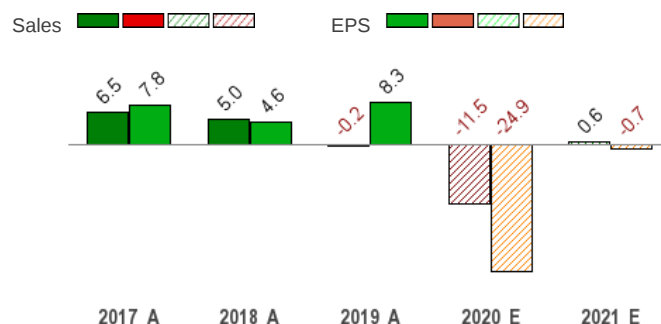
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$143.55 - \$67.46
20-Day Average Volume (Shares)	297,668
Market Cap	\$4.1 B
Year-To-Date Price Change	-24.3%
Beta	1.43
Dividend / Dividend Yield	\$0.52 / 0.5%
Industry	Building Products - Lighting
Zacks Industry Rank	Top 28% (70 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.4%
Last Sales Surprise	0.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/08/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	762 E	753 E	828 E	888 E	3,268 E
2020	835 A	824 A	776 A	815 E	3,250 E
2019	933 A	854 A	948 A	938 A	3,673 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.60 E	\$1.57 E	\$1.51 E	\$2.13 E	\$7.14 E
2020	\$2.13 A	\$1.84 A	\$1.94 A	\$1.81 E	\$7.19 E
2019	\$2.32 A	\$1.99 A	\$2.53 A	\$2.75 A	\$9.57 A

*Quarterly figures may not add up to annual.

P/E TTM	12.1
P/E F1	14.6
PEG F1	1.5
P/S TTM	1.2

The data in the charts and tables, except sales and EPS estimates, is as of 09/14/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/15/2020.

Overview

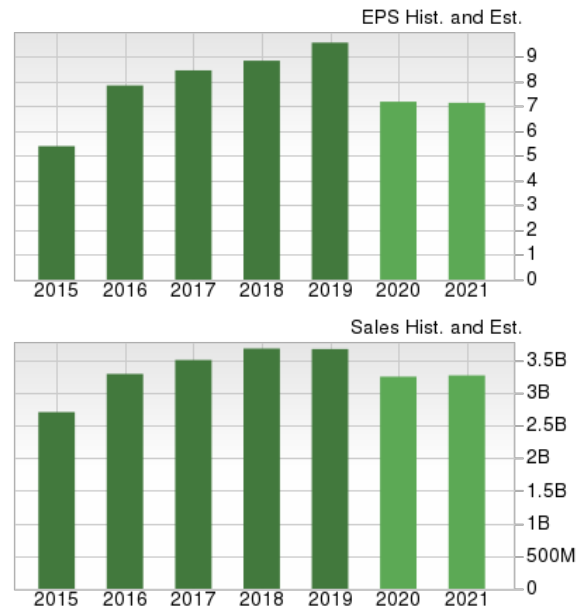
Headquartered in Atlanta, GA, **Acuity Brands, Inc.** is the parent company of Acuity Brands Lighting, Inc. ("ABL") and other subsidiaries. The company manufactures and distributes lighting fixtures and related components that comprise devices such as luminaires, lighting controls, and controllers for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications.

Additionally, it has expanded its solutions portfolio, including software and services, that benefits economy in data analytics that enables the Internet of Things ("IoT"); supports the advancement of smart buildings, cities, and grid; and allows businesses to develop custom applications to scale their operations.

The portfolio of lighting solutions comprises lighting products utilizing fluorescent, light emitting diode (LED), organic LED (OLED), high intensity discharge, metal halide, and incandescent light sources to illuminate a number of applications.

Acuity Brands provides lighting solutions for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and as well as Europe and Asia. The company has one reportable segment serving the North American and select international markets.

The company has a wide variety of brands that include Lithonia Lighting, Holophane, Peerless, Gotham, Mark Architectural Lighting, Winona Lighting, Juno, Indy, Aculux, Healthcare Lighting, Hydrel, American Electric Lighting, Antique Street Lamps, Sunoptics, eldoLED, Distech Controls, nLight, ROAM, Sensor Switch, Power Sentry, IOTA, and Atrius.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Innovation Continues to Drive Growth:** Acuity Brands' diversified portfolio of innovative lighting control solutions and energy-efficient luminaires bode well for the company. Apart from an attractive business model, the company is working on smart business strategies to achieve consistent growth in sales and earnings. In response to the rapidly changing market trends, Acuity Brands is continually expanding its portfolio of innovative lighting control solutions and energy-efficient luminaires.

In the fiscal second quarter, the company launched Modulus technology — a proprietary and innovative low voltage distributed power and control system for LED luminaires that enables design flexibility, greater connectivity options and lower installation costs. Notably, its independent sales network channel — which represents nearly 75% of sales — has been performing pretty well over the last few quarters.

In fiscal 2019, Acuity Brands introduced almost 100 new product families to its industry-leading portfolio, in turn gaining market share in product categories and sales channels. Its tier 3 and 4 solutions grew more than 15% in the fiscal first and second quarters. Notably, its Atrius-based IoT luminaires and solutions in the retail segment are becoming the industry standard. The company remains focused on expanding these solutions in other channels.

It is important to note that LEDs are ruling the lighting market in a big way. The LED segment is the fastest growing segment for lighting. The company expects that the lighting and lighting-related industry along with building automation systems have the potential to experience solid growth over the next decade, particularly when energy and environmental concerns come to the forefront along with emerging opportunities for digital lighting to play a key role in the IoT.

▲ **Inorganic Moves:** Acuity Brands is committed to expand its geographic borders and product portfolio through acquisitions and joint ventures. On Nov 25, 2019, the company acquired all equity interests of LocusLabs, Inc. — a leading indoor mapping and location platform whose software supports navigation applications used in mobile devices, web browsers or digital displays in airports, event centers, multi-floor buildings and campuses. With the acquisition, Acuity Brands aims to provide venues with an indoor positioning system.

On Sep 17, 2019, the company acquired Canada-based The Luminaires Group ("TLG") — a leading provider of specification-grade lightening solutions. Again, on Jun 20, 2019, it acquired a New Castle, DE-based manufacturer of advanced optical components, WhiteOptics, L.L.C. The acquisition enhances its optical materials offering that will boost the performance of commercial and architectural products. Notably, acquisitions contributed 2% to sales growth in the fiscal third quarter.

▲ **Cost-Saving Initiatives:** The company has been undertaking certain actions that are expected to offset higher input cost as well as the impact of tariffs. These actions include price increases and reduction in other costs. The company has been increasing prices in order to offset the negative impact of higher material cost, which mainly stemmed from inflationary effects and tariffs by the government on Chinese finished goods and components. Also, it eliminated certain products that were less profitable and exposed to tariffs-related risks.

In first nine months of fiscal 2020, adjusted gross margin increased a significant 250 bps year over year backed by acquisitions, a favorable channel mix and lower input costs. The company believes that efforts to prune product portfolio and reduce channel exposure to less profitable products will offset cost pressures, in turn driving margins.

▲ **Strong Liquidity Position:** Acuity Brands has been maintaining a strong liquidity position to navigate through the current environment due to the COVID-19 pandemic. The company ended the fiscal third quarter with solid liquidity, including \$520.6 million cash and cash equivalents, along with \$396 million of available capacity on the \$400-million revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of \$34 million.

Long-term debt obligations totaled \$432.2 million, slightly down from \$439 million at fiscal second quarter-end. Moreover, the company has no significant debt maturity until June 2023.

Its leading market position along with diversified portfolio of innovative lighting control solutions and energy-efficient luminaires are the driving factors.

Reasons To Sell:

- ▼ **Coronavirus-Led Slowdown:** The company's fiscal third-quarter volume declined 20% year over year due to the coronavirus pandemic, in turn resulting in 18% fall in total net sales. During the fiscal third quarter, net sales through independent network (contributing approximately 75% of total net sales) was down 10% year over year, largely due to low demand due to the COVID-19 outbreak.

Again, net sales through direct network declined 31% from the prior year in the fiscal third-quarter due to weakness in large projects that have been postponed due to COVID-19 woes, as well as the absence of some large projects. Sales in its corporate accounts channel were also down 59% from the year-ago period, as retail customers delayed many retrofit opportunities to limit activity in their stores.

The company's near-term prospects cannot be determined right now as uncertainty surrounding demand and the timing of economic recovery persists. Meanwhile, the company expects pricing pressure and continued costs related to tariffs to continue in fourth-quarter fiscal 2020.

- ▼ **Softness in the Lighting Industry Propels Lower Sales:** Over the last few quarters, Acuity Brands and other industry bellwethers are witnessing weak demand for luminaries in the United States. In the first nine months of fiscal 2020, the company's revenues declined 11% year over year. Consequently, adjusted operating margin contracted 60 bps from the prior year. In addition to the COVID-19 pandemic, unfavorable pricing, absence of some large projects, and its plans to exit and phase out of certain products that have poor financial returns — largely due to the impact of additional tariffs — are hurting the company.

Importantly, management expects these headwinds to prevail in the near term.

- ▼ **Higher Costs, Denting Margins:** Energy efficient lighting products like LED fixtures need extensive research and development and hence involve costs. Higher spending on research and development may dent margins and thereby the bottom line of the company. Again, a shortage of skilled labor may limit production.

Again, higher tariff could dampen its overall results. Moreover, labor shortages in the construction industry, and uncertainty related to infrastructure spending, federal regulatory and trade policies will remain concerns in the upcoming quarters as well.

Moreover, the company is highly committed to acquisitions and joint venture, owing to which it experience higher costs, which thereby pressurizes margins. Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.7% to net sales — grew 250 bps from the year-ago figure. The increase was due to higher acquisition-related costs that include increase in employee expenses and amortization of intangibles, more commissions, increased professional fees, as well as high variable incentive compensations.

- ▼ **Vulnerable to Economic Volatility:** Acuity Brands operates in a highly competitive industry that is affected by volatility owing to a number of general business and economic factors, such as gross domestic product growth, employment levels, credit availability, energy costs, and commodity costs. The company thrives on residential and non-residential construction, covering new, reconstruction and retrofit activity, which is sensitive to volatility induced by economic factors.

Coronavirus-led slowdown, softness in the lighting industry, uncertainty surrounding infrastructure spending, and federal regulatory and trade policies are headwinds.

Last Earnings Report

Acuity Brands Q3 Earnings Top Estimates, Declines Y/Y

Acuity Brands, Inc. reported impressive results in third-quarter fiscal 2020. Earnings and revenues surpassed the Zacks Consensus Estimate but declined year over year. Strength in go-to-market channels, product portfolio and supply chain allowed the company to effectively serve customers.

Neil Ashe, president and chief executive officer of Acuity Brands, said, "We are demonstrating the durability of our business and our continued ability to generate cash. However, there is still great uncertainty around demand and the timing of any economic recovery. Also, we expect pricing pressure and continued costs related to tariffs in the fourth quarter of fiscal 2020. As we look forward, we plan to continue to balance the management of our costs with the investment in our transformation and we have a robust new product portfolio that is positioned to benefit from a recovery in demand."

Quarter Ending	05/2020
Report Date	Jun 30, 2020
Sales Surprise	0.20%
EPS Surprise	50.39%
Quarterly EPS	1.94
Annual EPS (TTM)	8.66

Delving Deeper

The company reported adjusted earnings of \$1.94 per share that comfortably surpassed the Zacks Consensus Estimate of \$1.29 by 50.4%. However, the said metric declined 23.3% from the year-ago reported figure, primarily due to lower pre-tax income.

Net sales during the quarter totaled \$776.2 million, which marginally topped the consensus mark of \$774.63 million. However, the reported figure declined 18.1% from \$947.6 million in the prior-year quarter. The downside was caused by a 20% decline in volume, mainly due to lower demand owing to the COVID-19 pandemic, partially offset by 2% contribution from acquisitions.

Operating Highlights

Gross margin improved 170 basis points (bps) on a year-over-year basis to 42.2% despite lower volume. The improvement can be attributed to benefits from acquisitions, favorable channel mix and lower input costs, partly offset by reduced average selling prices.

Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.7% to net sales — grew 250 bps from the year-ago figure. The increase was due to higher acquisition-related costs. Adjusted operating profit margin came in at 13.5%, down 80 bps year over year.

Financials

As of May 31, 2020, Acuity Brands had cash and cash equivalents of \$520.6 million compared with \$461 million at the end of fiscal 2019. In the first nine months of fiscal 2020, cash provided by operating activities totaled \$378.3 million, reflecting an increase from \$312 million in the prior-year period.

Valuation

Acuity Brands shares are down 24.3% in the year-to-date period and 24.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.3% but the Zacks Construction sector is up 7.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 21.6% but sector is up 15.2%.

The S&P 500 index is up 5.1% in the year-to-date period and 13.3% in the past year.

The stock is currently trading at 14.64X forward 12-month earnings, which compares to 45.31X for the Zacks sub-industry, 18.02X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.42X and as low as 8.18X, with a 5-year median of 17.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$110 price target reflects 15.41X forward 12-month earnings.

The table below shows summary valuation data for AYI

Valuation Multiples - AYI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.64	45.31	18.02	22.4
	5-Year High	36.04	133.83	18.97	23.44
	5-Year Low	8.18	11.15	10.74	15.26
	5-Year Median	17.41	16.64	15.86	17.63
P/B TTM	Current	1.98	1.28	3.58	5.82
	5-Year High	7.72	5.69	6.76	6.17
	5-Year Low	1.38	1.06	1.71	3.75
	5-Year Median	3.72	2.89	3.31	4.84
P/S F12M	Current	1.27	1.01	2.07	4.13
	5-Year High	3.63	2.15	2.13	4.29
	5-Year Low	0.8	0.77	1.18	3.11
	5-Year Median	1.7	1.13	1.65	3.66

As of 09/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Johnson Controls International plc (JCI)	Outperform	2
Energy Focus, Inc. (EFOI)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
LSI Industries Inc. (LYTS)	Neutral	3
Orion Energy Systems, Inc. (OESX)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Stanley BlackDecker, Inc. (SWK)	Neutral	3
Ingersoll Rand Inc. (IR)	Underperform	5

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

Industry Comparison Industry: Building Products - Lighting				Industry Peers		
	AYI	X Industry	S&P 500	IR	LYTS	OESX
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	3
VGM Score	A	-	-	F	B	F
Market Cap	4.14 B	197.03 M	23.63 B	15.15 B	173.26 M	220.80 M
# of Analysts	4	2.5	13	4	2	3
Dividend Yield	0.50%	0.00%	1.61%	0.00%	3.04%	0.00%
Value Score	B	-	-	F	C	D
Cash/Price	0.13	0.08	0.07	0.08	0.00	0.05
EV/EBITDA	7.33	10.81	13.23	38.85	16.76	14.29
PEG F1	1.45	1.23	2.98	3.63	0.99	NA
P/B	1.98	4.77	3.24	1.75	1.37	7.55
P/CF	9.33	11.93	12.74	22.04	14.52	15.30
P/E F1	14.51	24.83	21.70	28.83	24.83	42.41
P/S TTM	1.23	1.54	2.48	4.64	0.57	1.85
Earnings Yield	6.83%	3.15%	4.46%	3.47%	3.95%	2.36%
Debt/Equity	0.18	0.10	0.70	0.44	0.01	0.00
Cash Flow (\$/share)	11.20	0.47	6.93	1.65	0.45	0.47
Growth Score	B	-	-	C	B	F
Historical EPS Growth (3-5 Years)	8.30%	-15.05%	10.41%	NA	-38.40%	NA
Projected EPS Growth (F1/F0)	-0.63%	35.67%	-4.75%	-20.75%	120.83%	-57.50%
Current Cash Flow Growth	6.99%	-39.95%	5.26%	-25.03%	-62.18%	-397.85%
Historical Cash Flow Growth (3-5 Years)	15.70%	27.25%	8.49%	5.38%	28.84%	25.67%
Current Ratio	2.40	2.14	1.35	2.25	2.48	1.87
Debt/Capital	15.55%	8.46%	42.95%	30.64%	1.38%	0.16%
Net Margin	8.02%	4.20%	10.25%	-4.51%	3.14%	5.26%
Return on Equity	15.57%	9.08%	14.59%	-2.80%	2.58%	20.84%
Sales/Assets	1.01	1.35	0.50	0.33	1.64	1.85
Projected Sales Growth (F1/F0)	0.58%	-0.25%	-1.43%	109.53%	-1.07%	-21.07%
Momentum Score	C	-	-	C	B	F
Daily Price Change	0.07%	3.64%	1.47%	0.94%	3.62%	3.67%
1-Week Price Change	-3.60%	-0.85%	-1.87%	1.90%	-1.70%	5.06%
4-Week Price Change	-5.57%	-2.18%	-0.20%	4.34%	-1.05%	44.78%
12-Week Price Change	17.01%	15.79%	6.74%	24.51%	2.17%	108.99%
52-Week Price Change	-24.50%	89.77%	0.79%	14.03%	35.95%	143.58%
20-Day Average Volume (Shares)	297,668	91,958	1,845,187	1,780,162	84,498	506,863
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	2.69%	0.00%	0.00%	103.85%	0.00%
EPS F1 Estimate 12-Week Change	-10.74%	33.37%	4.00%	-5,500.00%	103.85%	64.52%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	NA	NA

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	B
Growth Score	B
Momentum Score	C
VGM Score	A

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

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 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.