

Booking Holdings Inc. (BKNG)

\$2,103.45 (As of 11/24/20)

Price Target (6-12 Months): **\$2,209.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

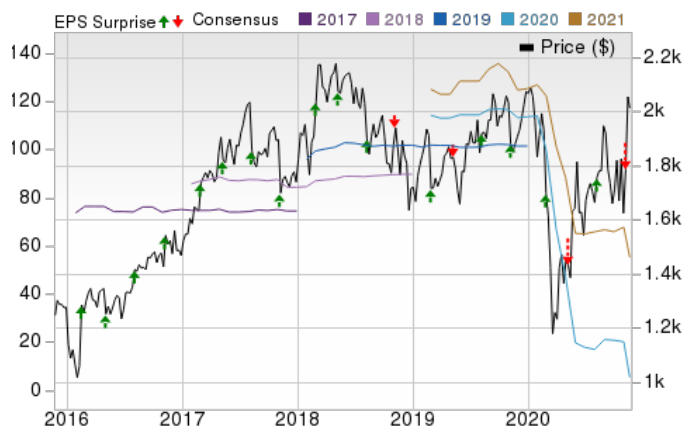
Growth: D

Momentum: B

Summary

Booking Holdings' third quarter results were impacted by coronavirus-led disruptions in the global travel industry. Nevertheless, the company's improving bookings owing to reopening of the economy remained a major positive. Further, its expanding payment platform is a tailwind. The company remains optimistic about its highly variable cost structure and strong liquidity position, which are expected to help it in navigating through the current crisis scenario. Further, robust alternative accommodation business, efforts to ramp up merchant business and strengthening flight capabilities are other positives. However, coronavirus pandemic which is likely to persist as a headwind in the near term remains a concern. Further, continued softness in agency business is an overhang. The stock has underperformed its industry on a year-to-date basis.

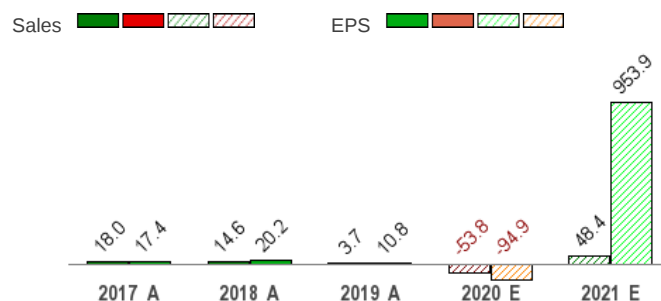
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$2,128.02 - \$1,107.29
20-Day Average Volume (Shares)	490,911
Market Cap	\$86.1 B
Year-To-Date Price Change	2.4%
Beta	1.10
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 31% (176 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.2%
Last Sales Surprise	1.0%
EPS F1 Estimate 4-Week Change	-73.9%
Expected Report Date	02/24/2021
Earnings ESP	-201.2%
P/E TTM	73.7
P/E F1	402.2
PEG F1	33.3
P/S TTM	9.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,499 E	2,058 E	3,536 E	2,463 E	10,320 E
2020	2,288 A	630 A	2,640 A	1,283 E	6,956 E
2019	2,837 A	3,850 A	5,040 A	3,339 A	15,066 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.88 E	\$4.23 E	\$32.27 E	\$15.77 E	\$55.12 E
2020	\$3.77 A	-\$10.81 A	\$12.27 A	-\$1.17 E	\$5.23 E
2019	\$11.17 A	\$23.59 A	\$45.36 A	\$23.30 A	\$102.57 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 11/24/2020. The reports text is as of 11/25/2020.

Overview

Norwalk, Connecticut-based Booking Holdings Inc. is one of the largest online travel companies in the world. The company's travel-related offerings cover hotel rooms, airline tickets, rental cars, vacation packages, cruises, "things to do" at customer destinations and travel insurance.

The company has agreements with hotels, airlines companies, cruise ships, transport companies and vacation providers, which enable it to accept bookings on their behalf. Information on these offerings and customer reviews are available on the company's owned or operated websites, thus helping customers take informed decisions.

Services in the U.S. are provided through the Booking Holdings.com website. The company employs two marketing strategies in the U.S.—"price-disclosed" and "name your own price" or "opaque".

International revenues are generated through Booking.com and Agoda. Booking.com is older and therefore, has more patrons. Agoda is an Asian company acquired in 2007. Booking Holdings's investment in Chinese travel company Ctrip facilitates the use of each other's inventories in China and the U.S.

International results are comprised of revenues from rentalcars.com and Kayak. While rentalcars.com allows it to take rental car reservations, Kayak enables comparative shopping of Booking Holdings inventories.

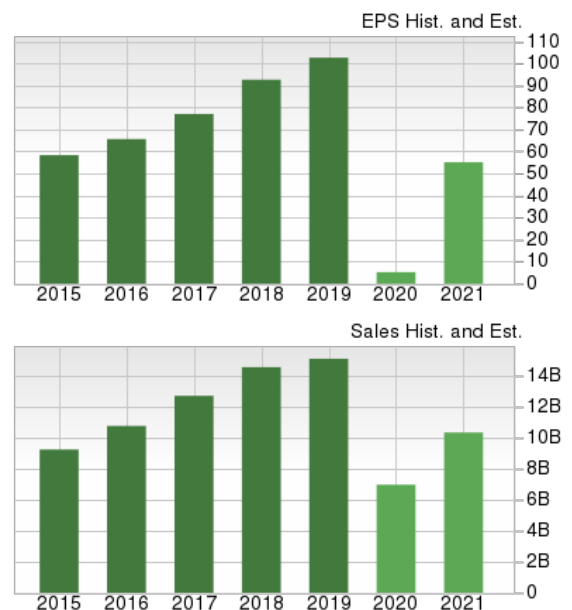
The acquisition of OpenTable that has allowed it to expand into restaurant reservations space, also contributes to the international revenues.

Booking Holdings distributes its services through merchant (31.4% of 2019 bookings, 25.4% of 2019 total revenues) and agency (68.6%, 67.2%) channels. It also generates around 7.4% of revenues through advertisements on its websites, classified as the Advertising & Other category.

The agency model is more lucrative for the company. It generates revenues from travel-related transactions which include travel reservation commissions, GDS reservation booking fees and certain travel insurance fees.

Merchant model revenues are also derived from travel-related transactions which include ancillary fees, credit card processing rebates, customer processing fees along with the ones included in agency model.

Advertising & Other revenues are generated from KAYAK and Open Table.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The online travel booking segment has **secular growth drivers**. The biggest of these is the shift from offline to online booking across the world. The booking growth through the online channel is reaching its zenith given the proliferation of mobile devices and increasing Internet user penetration rate. Further, there is a growing middle class in many geographies that highly lives online. This is that section of the total population on which Booking Holdings is extremely well positioned to tap. Moreover, the company's world-class platform remains the major positive which helps it to win customers.
- ▲ Booking Holdings generates the bulk of its business from international markets where growth prospects are greater than in the domestic market. According to PhoCusWright, online travel booking in Europe is growing at a faster rate than in the U.S. with penetration rates already higher. Since Booking Holdings is very strongly positioned here, it will be able to benefit from increasing penetration rates. Latin America and Asia Pacific are at a nascent stage, but are believed to have significant long-term growth potential. Booking Holdings has increased focus on these regions through Agoda, booking.com and its agreement with Trip.com which enables it to share inventory and thereby capture outbound traffic from China. It is also able to use Trip.com's inventory for people looking to travel to China.
- ▲ Further, Booking's strong initiatives to bolster its presence in North American OTA market remains positive. The company is in a position to leverage the strong popularity of its brand name to capture a share of international travel into the U.S. Its strategic investment in Trip.com has been aiding this objective. Moreover, its acquisition of OpenTable is continuously helping in beefing up its domestic business. Booking Holdings has also supplemented these initiatives with brand-building actions using both online and offline channels which remains positive.
- ▲ Booking Holdings's **sales approach** enables it to serve both premium and cost-conscious customers, at the same time helping to mobilize its suppliers' excess room nights. Room nights not used are lost forever and the low occupancy rate lowers margins for the seller. Booking Holdings's opaque business takes care of this problem by selling suppliers' excess room nights to cost conscious customers at a discount. Customers' preferences regarding the kind of accommodation/car/etc are considered, but the supplier's name is not disclosed at the outset. This protects supplier pricing models, while helping them mobilize inventory. It also generates additional revenue for Booking Holdings.

The secular growth trend in the online travel booking market, strong position in international markets and growth opportunities in the domestic market are positives.

Reasons To Sell:

- ▼ Booking Holdings has been **increasing advertising spend**. Management is trying to take share in the U.S. for which it has embarked on an extensive offline brand advertising campaign in addition to continuing strong online advertising. As a result, performance and brand advertising expenses increased significantly in the recent years. Total performance advertising expenses were \$4.4 billion, \$4.4 billion and \$4.2 billion in 2019, 2018 and 2017, respectively. Total brand advertising expenses were \$548 million, \$509 million and \$435 million in 2019, 2018, 2017, respectively. The increased advertising spend is necessitated by the fact that the company has a very strong competitor in Expedia in the domestic market. Capturing mindshare involves sustained investments in brand building, so this expense is not necessarily a negative although it can negatively impact results in the near term.
- ▼ Despite significant investments as well as branding and promotional initiatives, the **domestic business remains small**. Limited presence in the domestic market is particularly significant in the current environment because the stronger dollar is increasing the cost of travel for inbound tourists and thereby impacting the sales of the domestic business negatively.
- ▼ Booking Holdings also has a leveraged balance sheet. As of Sep 30, 2020, the company's net debt was \$368 million compared with \$229 million as of Jun 30, 2020. Notably, debt-to-total capital was 68.8% as of Sep 30, 2020 which decreased from 76.4% as of Jun 30, 2020. Although declining debt-to-capital ratio is a positive, increasing net debt balance is a negative. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates.
- ▼ Similar to other online travel companies, Booking Holdings is also **facing a significant amount of litigation**. This is mainly because there seems to be a doubt about whether its revenue is taxable under the tax ordinances applicable to hotels. It has been argued that had the hotels charged customers directly, they would have charged higher rates than they charge the online travel companies, which acquire inventory at wholesale prices. Therefore, a higher amount would have come under the ambit of occupancy tax. Apart from this, certain facts have come to light regarding the taxes collected by online travel companies. It appears that they have been collecting cash from customers in the name of occupancy taxes on the retail value of rooms sold, but remitting taxes on wholesale prices to hotels, keeping the balance. Online travel companies have been winning some cases and losing some, but they have had to pay significant amount of taxes in some states.

Macro headwinds, rising advertising costs, intensifying competition and occupancy tax-related litigation remain overhangs for Booking Holdings.

Last Earnings Report

Booking Holdings' Q3 Earnings Miss, Revenues Beat

Booking Holdings reported third-quarter 2020 non-GAAP earnings of \$12.27 per share, which missed the Zacks Consensus Estimate by 23.2%. Further, the figure plunged 73% year over year.

Nevertheless, the bottom line reversed the loss of \$10.81 per share reported in the previous quarter.

Revenues of \$2.64 billion surpassed the Zacks Consensus Estimate of \$2.61 billion. The top line also surged significantly from \$630 million in the prior quarter.

However, the metric declined 48% on reported basis and 49% on constant currency basis from the year-ago quarter.

The coronavirus pandemic remained the biggest headwind during the third quarter. COVID-19-induced disruptions in the global travel industry negatively impacted the company's results.

Booking Holdings witnessed a year-over-year decline of 55.6% and 9.3% in the rental car days and airline tickets unit, respectively, in the third quarter.

Additionally, the company witnessed sluggish agency, merchant, and advertising and other business revenues during the reported quarter.

Moreover, softness in the travel trends in Asia and especially, all over Europe were a major concern.

Nevertheless, the company witnessed improvement in the North American region during the reported quarter.

Notably, the booked room nights number, which was 127 million in the third quarter, plunged 43.1% from the prior-year quarter but improved significantly from 28 million in the last reported quarter.

Booking Holdings anticipates this pandemic situation to persist as a major headwind to the travel industry in the near term.

Nevertheless, the company's highly variable cost structure and strong liquidity position are expected to help it navigate the crisis scenario. Moreover, its solid cost-cutting initiatives are an added positive.

TopLine in Detail

Booking Holdings generates bulk of revenues from the international markets wherein the agency model is more popular. This is reflected in the merchant/agency split of revenues, which was 31.7/65.3% in the third quarter (previous quarter's split was 38.9/56.7%)

Merchant revenues were \$837 million, down 36.2% year over year. Further, Agency revenues were \$1.7 billion, down 49.8% on a year-over-year basis.

Advertising & Other revenues were \$80 million (3% of total revenues), decreasing 72.6% from the year-ago quarter. These are basically non-inter company revenues from Kayak and OpenTable.

Bookings

Booking Holdings' overall gross bookings totalled \$13.4 billion, down 47.1% year over year on reported basis. Further, the figure was down 48% in constant currency from the year-ago quarter.

Additionally, gross bookings lagged the Zacks Consensus Estimate of \$13.5 billion.

Merchant bookings were \$3.9 billion, down 46.1% from the prior-year quarter. Further, agency bookings plunged 47.4% year over year to \$9.5 billion.

Operating Results

Adjusted EBITDA in the third quarter was \$1 billion, slumping 60% from the prior-year quarter.

Per management, operating expenses were \$2.3 billion, down 12.9% on a year-over-year basis. As a percentage of revenues, the same expanded significantly to 88.1% in the reported quarter from 52.9% in the previous quarter.

Further, the company generated operating income of \$315 million, which plummeted 86.7% year over year.

Balance Sheet & Cash Flow

As of Sep 30, 2020, cash and cash equivalents was \$11.2 billion, up from \$10.4 billion as of Jun 30, 2020.

At the end of the third quarter, Booking Holdings had \$10.8 billion of long-term debt, up from \$10.6 billion at the end of the second quarter.

During the reported quarter, the company generated \$920 million worth cash from operations compared with \$122 million of cash utilized in operations during the prior quarter.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	1.03%
EPS Surprise	-23.22%
Quarterly EPS	12.27
Annual EPS (TTM)	28.53

Further, free cash flow was \$848 million in the third quarter.

Recent News

On **May 14, 2020**, Booking Holdings announced the offering of reservation facilities at bars and wineries via its OpenTable platform.

On **May 1, 2020**, Booking Holdings has unveiled an enhanced restaurant management platform via its OpenTable platform to provide added support for restaurants so they can adhere to social distancing guidelines and prepare for reopening post COVID-19. Further, it has announced fee waiver to reduce the reopening prices.

On **Jan 21, 2020**, Booking Holding's KAYAK unveiled a new tool called Trip Builder which helps in seamless planning of multi-city trip.

Valuation

Booking Holdings shares are up 0.3% in the year-to-date period and 9.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 62.7% and 37.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 71% and 41%, respectively.

The S&P 500 index is up 13.1% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 41.9X forward 12-month earnings, which compares to 50.28X for the Zacks sub-industry, 31.42X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.11X and as low as 12.19X, with a 5-year median of 20.01X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$2,209 price target reflects 44X forward 12-month earnings.

The table below shows summary valuation data for BKNG

Valuation Multiples - BKNG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.9	50.28	31.42	22.7
	5-Year High	48.11	57.15	34.05	23.47
	5-Year Low	12.19	24.71	19.09	15.27
	5-Year Median	20.01	42.44	23.6	17.72
P/S F12M	Current	8.63	4.57	1.31	4.25
	5-Year High	8.72	6	1.33	4.3
	5-Year Low	3.5	3.21	0.84	3.17
	5-Year Median	5.96	4.73	1.01	3.67
EV/Sales TTM	Current	9.75	6.63	1.55	4.23
	5-Year High	9.81	8.51	1.61	4.23
	5-Year Low	3.29	3.95	0.9	2.62
	5-Year Median	7.04	6.33	1.18	3.58

As of 11/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 31% (176 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
Carnival Corporation (CCL)	Neutral	3
Expedia Group, Inc. (EXPE)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
MakeMyTrip Limited (MMYT)	Neutral	3
Uber Technologies, Inc. (UBER)	Neutral	3
TripAdvisor, Inc. (TRIP)	Underperform	3

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	BKNG	X Industry	S&P 500	EXPE	MMYT	TRIP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	F	D	F
Market Cap	86.15 B	3.70 B	26.32 B	17.69 B	2.84 B	3.70 B
# of Analysts	11	3	14	7	2	7
Dividend Yield	0.00%	0.00%	1.46%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	F	D
Cash/Price	0.14	0.10	0.07	0.30	0.07	0.13
EV/EBITDA	12.84	11.06	14.86	10.69	-6.77	11.44
PEG F1	32.57	2.58	2.79	NA	NA	NA
P/B	17.53	6.82	3.68	5.68	3.38	4.07
P/CF	17.64	21.25	13.94	9.38	NA	13.51
P/E F1	393.80	54.77	21.92	NA	NA	NA
P/S TTM	9.68	2.82	2.87	2.52	10.17	4.49
Earnings Yield	0.25%	0.57%	4.33%	-6.15%	-2.76%	-4.11%
Debt/Equity	2.39	0.11	0.70	2.84	0.02	0.54
Cash Flow (\$/share)	119.22	0.40	6.93	13.34	-4.01	2.03
Growth Score	D	-	-	F	B	F
Historical EPS Growth (3-5 Years)	4.35%	5.29%	9.72%	15.87%	NA	-9.76%
Projected EPS Growth (F1/F0)	-94.90%	19.03%	0.45%	-225.04%	82.28%	-164.01%
Current Cash Flow Growth	1.20%	2.96%	5.29%	-6.21%	193.81%	6.29%
Historical Cash Flow Growth (3-5 Years)	11.28%	11.28%	8.33%	15.70%	NA	-1.67%
Current Ratio	3.17	1.64	1.38	1.20	1.53	2.65
Debt/Capital	70.52%	16.86%	41.99%	68.10%	1.75%	35.05%
Net Margin	15.68%	-0.54%	10.44%	-30.64%	-151.72%	-24.54%
Return on Equity	25.72%	5.25%	14.99%	-21.33%	-44.89%	-15.76%
Sales/Assets	0.43	0.92	0.50	0.34	0.24	0.38
Projected Sales Growth (F1/F0)	-53.83%	0.00%	0.23%	-54.94%	-70.59%	-62.19%
Momentum Score	B	-	-	D	B	F
Daily Price Change	4.14%	0.00%	1.91%	1.83%	4.48%	3.08%
1-Week Price Change	-2.93%	0.68%	0.21%	-2.88%	5.77%	1.69%
4-Week Price Change	23.90%	3.43%	11.71%	31.53%	45.12%	40.22%
12-Week Price Change	9.05%	-0.11%	11.69%	26.00%	65.86%	18.61%
52-Week Price Change	11.44%	29.63%	6.61%	25.93%	7.63%	-5.63%
20-Day Average Volume (Shares)	490,911	457,898	2,311,168	3,816,678	393,075	3,094,099
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-73.91%	4.73%	0.98%	-2.48%	25.37%	-6.38%
EPS F1 Estimate 12-Week Change	-76.17%	7.19%	3.48%	-16.99%	25.37%	-5.34%
EPS Q1 Estimate Monthly Change	-111.75%	-8.96%	0.00%	-51.82%	NA	-85.35%

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	B
VGM Score	D

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

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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.