

## Bank of Hawaii (BOH)

**\$83.91** (As of 01/20/21)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:F

Value: C

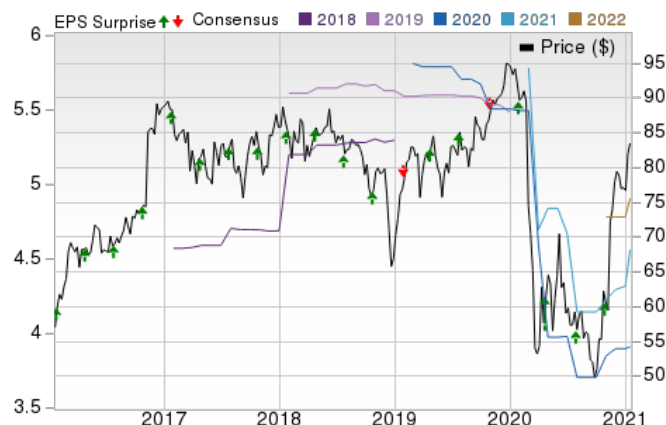
Growth: F

Momentum: D

## Summary

Shares of Bank of Hawaii have underperformed the industry over the past six months. Yet, the company has an impressive earnings surprise history. It surpassed the Zacks Consensus Estimate in each of the trailing four quarters. Also, earnings estimates have been revised upward ahead of the fourth quarter results. Improving non-interest-bearing deposits support net interest income growth. Further, sustainable capital deployment activities on the back of strong liquidity position, continues to enhance shareholders' value. Strong balance sheet position keeps Bank of Hawaii well poised for growth. Nevertheless, the company's elevated expenses on account of expanding franchise and rising compensation costs might hurt bottom-line growth to some extent. Lack of diversifying efforts to expand sources of revenues might dent top-line growth.

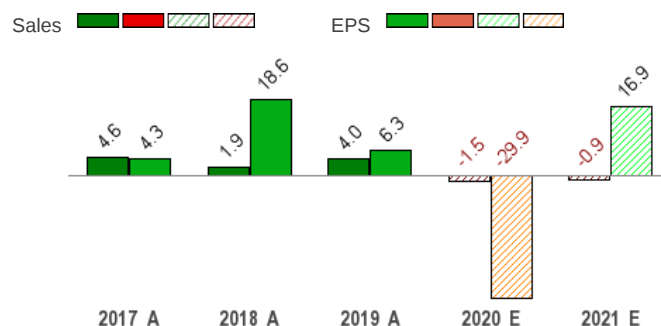
## Price, Consensus & Surprise



## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$94.15 - \$46.70</b>           |
| 20-Day Average Volume (Shares) | <b>174,152</b>                     |
| Market Cap                     | <b>\$3.4 B</b>                     |
| Year-To-Date Price Change      | <b>9.5%</b>                        |
| Beta                           | <b>1.27</b>                        |
| Dividend / Dividend Yield      | <b>\$2.68 / 3.2%</b>               |
| Industry                       | <b>Banks - West</b>                |
| Zacks Industry Rank            | <b>Bottom 24% (193 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>8.0%</b>       |
| Last Sales Surprise           | <b>2.1%</b>       |
| EPS F1 Estimate 4-Week Change | <b>6.2%</b>       |
| Expected Report Date          | <b>01/25/2021</b> |
| Earnings ESP                  | <b>4.7%</b>       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 167 E | 165 E | 166 E | 165 E | 665 E   |
| 2020 | 172 A | 178 A | 166 A | 166 E | 671 E   |
| 2019 | 169 A | 170 A | 171 A | 172 A | 681 A   |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.14 E | \$1.12 E | \$1.09 E | \$1.08 E | \$4.56 E |
| 2020 | \$0.87 A | \$0.98 A | \$0.95 A | \$1.11 E | \$3.90 E |
| 2019 | \$1.43 A | \$1.40 A | \$1.29 A | \$1.45 A | \$5.56 A |

\*Quarterly figures may not add up to annual.

|         |             |
|---------|-------------|
| P/E TTM | <b>19.7</b> |
| P/E F1  | <b>18.4</b> |
| PEG F1  | <b>2.3</b>  |
| P/S TTM | <b>4.5</b>  |

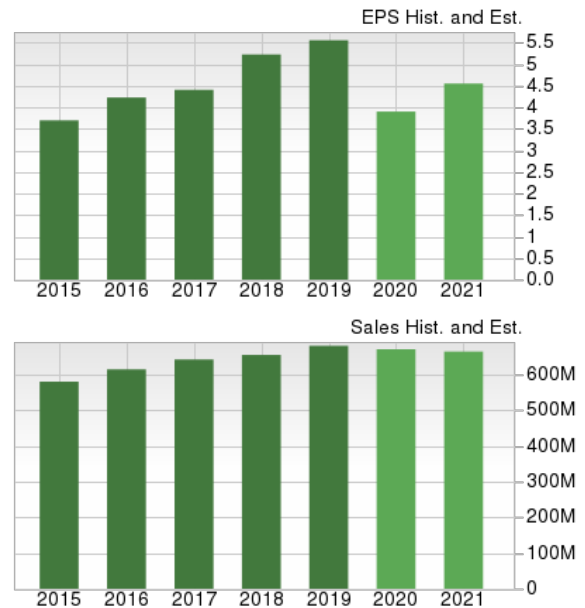
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2021. The reports text is as of 01/21/2021.

## Overview

Headquartered at Honolulu, Hawaii, Bank of Hawaii Corporation is a bank holding company, which provides a broad array of products and services in Hawaii, Guam and other Pacific Islands having a principal operating subsidiary — Bank of Hawaii (the "Bank"). Directly and through its subsidiaries, Bank of Hawaii provides financial services and products to businesses, consumers and governments. As of Sep 30, 2020, Bank of Hawaii had consolidated total assets worth \$20.1 billion.

Effective Jan 1, 2020, the company changed segments based on management structure and strategic focus. The business segments are:

- Consumer Banking:** This segment offers a broad range of financial products and services to consumers and small businesses. It also offers consumer insurance products. The segment's products and services are served to customers through 67 branch locations and 358 ATMs throughout Hawaii and the Pacific Islands, e-Bankoh (on-line banking service), a 24-hour customer service center and a mobile banking service.
- Commercial Banking (46%):** This segment offers products including corporate banking, commercial real estate loans, commercial lease financing, auto dealer financing and deposit products to middle-market and large companies in Hawaii and the Pacific Islands. Deposit products are also offered to government entities in Hawaii. The segment also includes international banking and provides merchant services to its customers.
- Treasury and Other (3%):** This segment consists of corporate asset and liability management activities, including interest rate risk management and a foreign currency exchange business. The net residual effect of the transfer pricing of assets and liabilities is included in Treasury, along with the elimination of intercompany transactions.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Organic growth remains a key strength at Bank of Hawaii, as reflected by its revenue growth story. Revenues witnessed a compounded annual growth rate (CAGR) of 4.1% over the last five years (2015-2019) on increasing net interest income. The rising trend continued in the first three quarters of 2020. Moreover, the low-cost funding source — non-interest bearing deposits — representing over 29% of total deposits, are anticipated to boost the net interest income and margin. Hence, we believe the company is well positioned to maintain its increasing revenue trend in the days to come.
- ▲ Bank of Hawaii exhibits a strong balance sheet position. The company's deposit base recorded a five-year CAGR of 4.4% (2015-2019) while loans witnessed a CAGR of 9.5%, during the same time frame. Both metrics continued to rise in first nine months of 2020. Thus, strong deposit balances will help the company generate higher loans and meet other general business purposes.
- ▲ We remain encouraged by Bank of Hawaii's steady capital-deployment activities. In April 2019, the company hiked its quarterly stock dividend by 4.8%. Also, from the beginning of share-repurchase program in July 2001, the company has repurchased a total of 57.1 million shares of common stock for a total cost of \$2.3 billion as of Sep 30, 2020. Notably, no shares were repurchased during the third quarter of 2020 owing to pandemic-related concerns. The company's debt/equity ratio compares favorably with that of the broader industry, which reflects the fact that such activities are sustainable in the future.
- ▲ Bank of Hawaii's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 12.73% compares favorably with the industry's 8.75%.
- ▲ Shares of Bank of Hawaii have underperformed the industry in the past six months. Despite this unfavorable trend, the company's earnings estimates for 2020 have been revised marginally upward over the past 30 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has decent upside potential.

Bank of Hawaii's growth story has been aided by impressive revenue growth, high loans and deposit balances. Moreover, robust capital position supports its steady capital-deployment measures.

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### Reasons To Sell:

- ▼ Bank of Hawaii's expanding cost base exposes the company to operational risks. Though non-interest expenses declined in the first nine months of 2020, it witnessed a CAGR of 2.2% over the last five years (2015-2019), primarily due to rise in salaries expenses. Therefore, mounting expenses will likely remain a near-time headwind as the company focuses on growing its franchise.
- ▼ Slowdown in mortgage banking activities due to rising interest rates kept Bank of Hawaii's non-interest income under pressure. Over the three-year period (ended 2018), fee income declined at a CAGR of 7.5%. Though fee income improved in 2019 and in the first three quarters of 2020 owing to reversal of trend in mortgage banking on interest rate cuts, lack of diversifying efforts to expand sources of revenues might keep restricting top-line growth.
- ▼ As of Sep 30, 2020, the company held total borrowings worth \$662.6 million. The debt level has been volatile over the past few quarters. Moreover, in September, Moody's affirmed the company's ratings while lowering the outlook to negative. Also, earnings before interest and tax are 12.8 times the interest expenses and have witnessed a declining trend. As the ratio indicates the company's ability to meet its debt obligations based on current income, we believe Bank of Hawaii carries credit risk and has higher likelihood of default of interest and debt repayments if the economic situation worsens.

Escalating expenses remain a key concern for Bank of Hawaii's bottom-line growth. Further, declining fee income restricts top-line expansion. Stretched valuation is a headwind for the company.

## Last Earnings Report

### Bank of Hawaii Q3 Earnings Top Estimates, Provisions Up

Bank of Hawaii delivered a positive earnings surprise of 8% in third-quarter 2020. Earnings per share of 95 cents surpassed the Zacks Consensus Estimate of 88 cents. However, the bottom line compares unfavorably with earnings of \$1.29 reported in the prior-year quarter.

The company's third-quarter results witnessed a fall in expenses which reflected prudent cost management. Also, higher deposit balances supported the results. However, contraction of the NIM was a major drag. Further, a substantial rise in provisions was a headwind.

The company's net income came in at \$37.8 million, down 27.4% from the prior-year quarter's figure.

### Revenues & Expenses Down, Deposits Rise

The company's total revenues declined 3.2% year over year to \$165.9 million in the quarter. However, the figure surpassed the Zacks Consensus Estimate of \$162.5 million.

The bank's net interest income was \$124.2 million, down marginally year over year. NIM shrunk 34 basis points (bps) year over year to 2.67% on low rates and elevated levels of liquidity.

Non-interest income came in at \$41.7 million, down 10.3% year over year. This downswing primarily resulted from a decline in fee income due to muted customer and visitor activity related to the pandemic.

The bank's non-interest expenses declined 10.4% year over year to \$89.9 million. This fall mainly reflects lower salaries and benefits and other expenses, partly negated by higher net equipment costs and professional fees.

Efficiency ratio came in at 54.22% compared with the 58.55% recorded in the year-ago quarter. Notably, a fall in the efficiency ratio reflects higher profitability.

As of Sep 30, 2020, total loans and leases balance remained unchanged from the end of the prior quarter at \$11.8 billion and total deposits improved 1.8% to \$17.7 billion.

### Credit Quality: A Mixed Bag

As of Sep 30, 2020, allowance for credit losses jumped 86.8% year over year to \$203.5 million. In addition, the company recorded provision for credit losses of \$28.6 million, significantly up from the prior-year quarter's levels. However, non-performing assets declined 13.9% to \$18.6 million.

Also, net recoveries were \$1.5 million, compared to net charge-offs of \$3 million recorded in the prior-year quarter.

### Capital and Profitability Ratios Deteriorate

As of Sep 30, 2020, Tier 1 capital ratio was 12.09% compared with 12.33%, as of Sep 30, 2019. Total capital ratio was 13.35%, down from 13.44%. The ratio of tangible common equity to risk-weighted assets was 12.02% compared with the 12.10% reported at the end of the year-ago quarter.

Return on average assets was down 41 bps year over year to 0.76%. Return on average shareholders' equity was 11.01% compared with 16.02%, as of Sep 30, 2019.

### Outlook

#### Fourth-Quarter 2020

Management expects NIM to shrink approximately seven-eight basis points in the fourth quarter on the continued impact of lower rates and additional liquidity. However, net interest income is expected to be approximately flat sequentially, net of the interest recovery as loan growth and asset mix change are expected to mitigate the impact of the lower margin.

Non-interest revenues are expected to be about \$42 million. Challenges continued due to lower levels of customer activity during the COVID pandemic.

For the fourth quarter, quarterly non-interest expenses are likely to be flat sequentially at more than \$90 million.

Effective tax rate is estimated to be 20-21%.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 26, 2020 |
| Sales Surprise   | 2.09%        |
| EPS Surprise     | 7.95%        |
| Quarterly EPS    | 0.95         |
| Annual EPS (TTM) | 4.25         |

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## Recent News

### Bank of Hawaii Ratings Affirmed, Outlook Lowered by Moody's – Sep 2, 2020

Ratings of Bank of Hawaii along with its banking subsidiary have been affirmed by Moody's Investors Service. Notably, the rating outlook on the group has been downgraded to negative from stable.

Bank of Hawaii's standalone baseline credit assessment ("BCA") has been affirmed at a1. Long-term/short-term deposit ratings of Aa2/Prime-1 and a long-term issuer rating of A2 have also been reiterated. Also, the parent company has a senior unsecured medium-term note program rating of (P)A2.

#### Reasons for Ratings Affirmation

The BCA has been affirmed on account of the bank's strong financial profile, supported by a leading market position in Hawaii and a conservative credit culture that has resulted in a record of strong credit quality.

Also, the ratings agency finds the liquidity position to be robust, with a large core deposit base, low refinancing risk, given the lesser dependency on confidence-sensitive market funding, and sizeable holdings of liquid resources.

Further, the company's efforts to control credit costs and good operational efficiency resulted in strong and stable profitability. However, it faces a geographic concentration risk as it operates in one small economy, making the bank's risk profile more vulnerable to localized economic downturns.

BCA also incorporates Moody's expectation of better than peer capital resilience in stress scenarios. However, the impacts of the coronavirus outbreak on Hawaii and its tourism industry are likely to result in a more severe economic decline than the rest of the United States.

#### Reasons for Outlook Downgrade

Moody's changed the company's outlook to negative from stable on its assessment that the bank's asset quality, capitalization and profitability will be under increased pressure due to the contraction in the Hawaiian economy in 2020 as a result of the coronavirus pandemic.

Also, the ratings agency regards the coronavirus outbreak as a social risk under its environmental, social and governance framework, given the substantial implications for public health and safety.

#### Factors Leading to an Upgrade or Downgrade of Ratings

Owing to the negative rating outlook, upward movement is unlikely in the near term. The outlook could return to stable if the company's asset quality and profitability show continued resilience to the economic effects of the coronavirus outbreak in the form of better than peer performance and if it maintains a stronger level of capitalization relative to its lower-rated peers.

However, a decrease in profitability because of elevated credit costs, a decline in capitalization or a dip in liquid resources as a percentage of tangible banking assets would also lead to downward rating pressure. A downgrade of the BCA and the ratings could also result from expansion initiatives, which would not complement Bank of Hawaii's island-based regional banking franchise and that could, in turn, result in the worsening of asset quality.

#### Dividend Update

On Oct 26, Bank of Hawaii's board of directors announced a quarterly cash dividend of 67 cents per share. The dividend was paid on Dec 14 to shareholders on record as of Nov 30, 2020.

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## Valuation

Bank of Hawaii's shares are up 39.9% in the six months period but down 9.5% over the trailing 12-month period. Stocks in the Zacks sub-

industry and the Zacks Finance sector are up 54.6% and 22.4% in the past six months, respectively. Over the past year, the Zacks sub-industry and sector are up 20.7% and 0.2%, respectively.

The S&P 500 Index is up 16.7% and 16.2% in the six months period and trailing 12-month period, respectively.

The stock is currently trading at 18.34X forward 12 months earnings, which compares to 17.58X for the Zacks sub-industry, 17.17X for the Zacks sector and 23X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.34X and as low as 8.71X, with a 5-year median of 16.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 19.26X earnings per share.

The table below shows summary valuation data for BOH

| Valuation Multiples - BOH |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 18.34 | 17.58        | 17.17  | 23      |
|                           | 5-Year High   | 21.34 | 18.23        | 17.17  | 23.79   |
|                           | 5-Year Low    | 8.71  | 10.28        | 11.59  | 15.3    |
|                           | 5-Year Median | 16.17 | 14.15        | 14.52  | 17.83   |
| P/TB TTM                  | Current       | 2.56  | 2.15         | 3.76   | 16.81   |
|                           | 5-Year High   | 3.49  | 2.65         | 4.06   | 16.93   |
|                           | 5-Year Low    | 1.51  | 1.09         | 2.05   | 7.42    |
|                           | 5-Year Median | 2.82  | 1.95         | 3.55   | 10.94   |
| P/S F12M                  | Current       | 5.06  | 4.75         | 7.14   | 4.52    |
|                           | 5-Year High   | 6.24  | 4.75         | 7.14   | 4.52    |
|                           | 5-Year Low    | 2.81  | 2.7          | 5.02   | 3.2     |
|                           | 5-Year Median | 4.97  | 3.98         | 6.12   | 3.68    |

As of 01/20/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 24% (193 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                     | Rec        | Rank |
|--------------------------------------|------------|------|
| First Hawaiian, Inc. (FHB)           | Outperform | 1    |
| Cathay General Bancorp (CATY)        | Neutral    | 3    |
| Columbia Banking System, Inc. (COLB) | Neutral    | 3    |
| CVB Financial Corporation (CVBF)     | Neutral    | 2    |
| Glacier Bancorp, Inc. (GBCI)         | Neutral    | 3    |
| Hope Bancorp, Inc. (HOPE)            | Neutral    | 3    |
| SVB Financial Group (SIVB)           | Neutral    | 3    |
| TriCo Bancshares (TCBK)              | Neutral    | 2    |

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

| Industry Comparison Industry: Banks - West |         |            |           | Industry Peers |         |         |
|--------------------------------------------|---------|------------|-----------|----------------|---------|---------|
|                                            | BOH     | X Industry | S&P 500   | CATY           | GBCI    | HOPE    |
| Zacks Recommendation (Long Term)           | Neutral | -          | -         | Neutral        | Neutral | Neutral |
| Zacks Rank (Short Term)                    | 2       | -          | -         | 3              | 3       | 3       |
| VGM Score                                  | F       | -          | -         | C              | F       | D       |
| Market Cap                                 | 3.36 B  | 352.18 M   | 27.30 B   | 2.92 B         | 4.77 B  | 1.53 B  |
| # of Analysts                              | 3       | 4          | 13        | 4              | 5       | 4       |
| Dividend Yield                             | 3.19%   | 1.96%      | 1.43%     | 3.38%          | 2.40%   | 4.52%   |
| Value Score                                | C       | -          | -         | B              | D       | A       |
| Cash/Price                                 | 0.30    | 0.51       | 0.06      | 0.49           | 0.16    | 0.41    |
| EV/EBITDA                                  | 6.76    | 5.43       | 14.98     | 4.39           | 12.70   | 5.46    |
| PEG F1                                     | 2.31    | 2.06       | 2.59      | NA             | NA      | NA      |
| P/B                                        | 2.47    | 1.08       | 3.79      | 1.23           | 2.12    | 0.75    |
| P/CF                                       | 12.20   | 9.71       | 14.64     | 8.66           | 17.66   | 9.03    |
| P/E F1                                     | 18.44   | 13.82      | 20.84     | 13.42          | 20.30   | 11.36   |
| P/S TTM                                    | 4.48    | 2.80       | 3.02      | 3.83           | 6.30    | 2.25    |
| Earnings Yield                             | 5.42%   | 7.24%      | 4.68%     | 7.44%          | 4.92%   | 8.80%   |
| Debt/Equity                                | 0.04    | 0.17       | 0.70      | 0.16           | 0.08    | 0.25    |
| Cash Flow (\$/share)                       | 6.88    | 2.83       | 6.92      | 4.24           | 2.83    | 1.37    |
| Growth Score                               | F       | -          | -         | D              | F       | F       |
| Historical EPS Growth (3-5 Years)          | 6.38%   | 10.62%     | 9.72%     | 12.77%         | 13.22%  | 0.51%   |
| Projected EPS Growth (F1/F0)               | 16.70%  | 0.27%      | 12.43%    | 0.27%          | -8.40%  | 19.13%  |
| Current Cash Flow Growth                   | 3.89%   | 5.35%      | 5.20%     | 4.52%          | 17.36%  | -7.51%  |
| Historical Cash Flow Growth (3-5 Years)    | 4.36%   | 14.60%     | 8.36%     | 17.80%         | 10.53%  | 18.15%  |
| Current Ratio                              | 0.69    | 0.92       | 1.38      | 1.05           | 0.82    | 0.97    |
| Debt/Capital                               | 4.25%   | 14.43%     | 41.72%    | 13.57%         | 7.40%   | 19.91%  |
| Net Margin                                 | 22.62%  | 22.74%     | 10.44%    | 29.49%         | 31.94%  | 18.62%  |
| Return on Equity                           | 12.73%  | 9.06%      | 15.37%    | 9.67%          | 11.31%  | 6.21%   |
| Sales/Assets                               | 0.04    | 0.04       | 0.50      | 0.04           | 0.05    | 0.04    |
| Projected Sales Growth (F1/F0)             | -0.95%  | -0.90%     | 6.13%     | 2.12%          | -0.11%  | 5.36%   |
| Momentum Score                             | D       | -          | -         | D              | F       | D       |
| Daily Price Change                         | 0.10%   | -0.26%     | 0.55%     | -0.54%         | 0.04%   | -0.72%  |
| 1-Week Price Change                        | 1.88%   | 1.15%      | -0.33%    | 4.78%          | 3.88%   | 3.51%   |
| 4-Week Price Change                        | 8.19%   | 8.53%      | 4.35%     | 16.39%         | 9.00%   | 14.42%  |
| 12-Week Price Change                       | 44.37%  | 29.75%     | 20.58%    | 59.47%         | 40.65%  | 56.51%  |
| 52-Week Price Change                       | -9.53%  | -9.53%     | 7.10%     | -1.32%         | 12.88%  | -15.15% |
| 20-Day Average Volume (Shares)             | 174,152 | 17,862     | 1,542,398 | 283,070        | 298,306 | 571,074 |
| EPS F1 Estimate 1-Week Change              | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%   |
| EPS F1 Estimate 4-Week Change              | 6.24%   | 0.00%      | 0.12%     | 1.02%          | -1.60%  | 3.81%   |
| EPS F1 Estimate 12-Week Change             | 11.16%  | 7.54%      | 2.31%     | 0.00%          | 18.56%  | 7.50%   |
| EPS Q1 Estimate Monthly Change             | 3.64%   | 0.00%      | 0.00%     | 1.09%          | 0.00%   | -6.67%  |

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |   |
|----------------|---|
| Value Score    | C |
| Growth Score   | F |
| Momentum Score | D |
| VGM Score      | F |

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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