

CACI International (CACI)

\$213.16 (As of 09/30/20)

Price Target (6-12 Months): **\$224.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

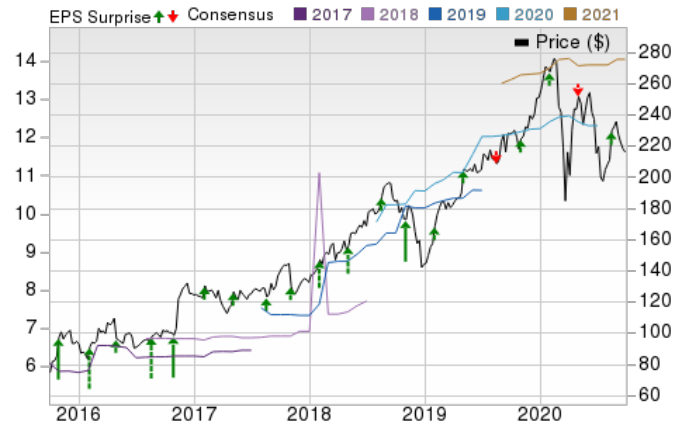
Growth: A

Momentum: B

Summary

CACI is benefiting from new business wins and organic expansions. The company has a large pipeline of new projects and continues to win more deals at regular intervals. Furthermore, having the government as a big client lends stability to the business and moderates fluctuations in revenue. CACI continues to generate higher cash flows mainly driven by growth in billing and collection processes as well as its Master Accounts Receivable Purchase Agreement. The company completed three acquisitions recently, adding mission expertise and technology capabilities to its business. CACI continues to expect accelerating organic revenue growth and margin expansion throughout fiscal 2021. The stock has outperformed the industry in the past year. However, increased interest expenses kept margins under pressure. Intense competition remains major concern.

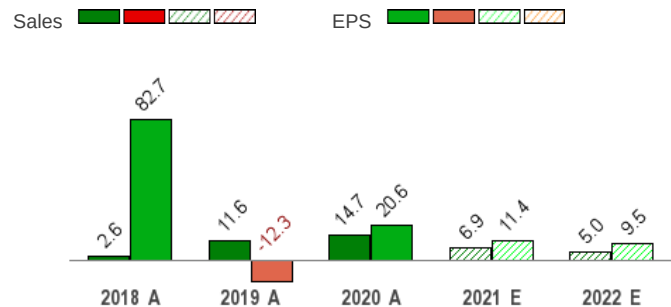
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$288.59 - \$156.15
20-Day Average Volume (Shares)	166,470
Market Cap	\$5.3 B
Year-To-Date Price Change	-14.7%
Beta	1.24
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computer - Services
Zacks Industry Rank	Top 24% (61 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	1.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/28/2020
Earnings ESP	0.0%
P/E TTM	16.9
P/E F1	15.2
PEG F1	1.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,593 E	1,585 E	1,590 E	1,531 E	6,419 E
2021	1,453 E	1,491 E	1,557 E	1,616 E	6,112 E
2020	1,363 A	1,395 A	1,466 A	1,496 A	5,720 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$3.94 E	\$3.81 E	\$3.52 E	\$3.86 E	\$15.39 E
2021	\$3.38 E	\$3.14 E	\$3.39 E	\$3.58 E	\$14.05 E
2020	\$2.66 A	\$3.11 A	\$3.16 A	\$3.68 A	\$12.61 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/30/2020. The reports text is as of 10/01/2020.

Overview

Based in Arlington, VA, CACI International delivers IT applications and infrastructure to improve communications and secure the integrity of information systems and networks, enhance data collection and analysis, and increase efficiency and mission effectiveness. The company's solutions enrich defense and intelligence capabilities, assure homeland security, improve decision-making, and help customers operate smartly and proficiently.

The company earns its revenues through four customer groups: Department of Defense (DoD), Federal Civilian Agencies, Commercial and Other, and State and Local Governments. DoD customers include the U.S. Army (CACI International's largest customer) and the U.S. Navy. Federal civilian agencies cater litigation support services to the Department of Justice (DoJ). In fiscal 2019, the company reported revenues of \$5.72 billion.

The company primarily operates with two segments:

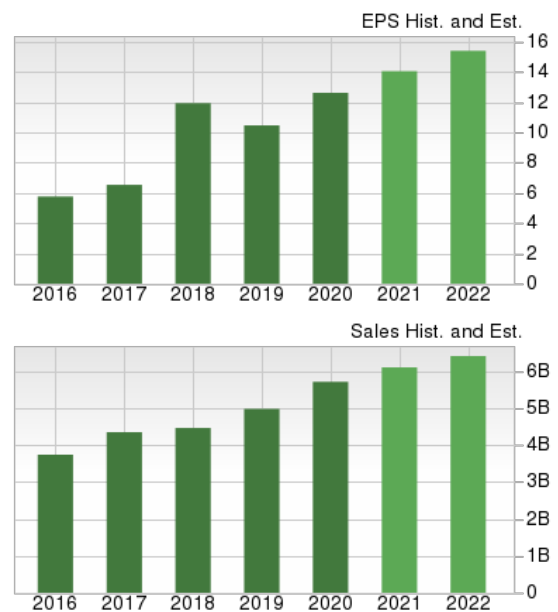
Domestic Operations: The operations are channeled through subsidiaries and a joint venture in which CACI International has a controlling stake. The services offered are categorized as Enterprise IT and Network Services; Data, Information and Knowledge Management Services; Business System Solutions, Logistics and Material Readiness Services; Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) Integration Services; Cyber Security, Integrated Security and Intelligence Solutions and Program Management; and System Engineering and Technical Assistance (SETA) Services.

International Operations: These operations are carried out through the company's subsidiary in Europe. International segment's solutions support commercial and government clients in telecommunications, education, financial services, healthcare services and transportation sectors. It furnishes solutions to specific technical or business requirement by planning, designing, implementing and managing solutions.

CACI's revenues come from three types of contracts:

Cost reimbursable type contracts, which contributed 57.2% to fiscal 2020 revenues; firm fixed price type contracts, which accounted for 28.5% of FY20 revenues; and time and materials, which constituted 14.3% revenues.

CACI faces acute competition from Science Applications in the federal space.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ A leader in IT outsourcing for the U.S. federal government, CACI International has ample exposure to the rapidly growing DoD and Department of Homeland Security budgets. CACI International's system integration skills and intelligence expertise consume a significant portion of the funds earmarked for the Department of Homeland Security while creating systems that foster the sharing of critical information among all intelligence agencies. We believe the company is comfortably positioned, given its favored relationship with the DoD. Moreover, cyber attacks are creating increased awareness, leading to more demand for cyber solutions.
- ▲ Being one of the largest pure-play government service contractors, CACI International is likely to gain from the recently passed two-year Bipartisan Budget Agreement. Higher spending, as proposed in the latest federal government budget, is anticipated to accelerate the pace of contract awards, which, in turn will be beneficial for the company's top-line growth.
- ▲ The company has a large pipeline of new projects and continues to win more deals at regular intervals. Furthermore, having the government as a big client lends stability to the business and moderates fluctuations in revenue. Although the government generally has a lengthy approval process, the project earns money for a number of years after it is approved. Moreover, government contracts also improve the visibility of future revenue streams. The company has been doing very well with a record level of awards, which reflects its disciplined business development actions, consistent operational excellence and high customer satisfaction. The company's strategy of winning high-value contracts, delivering excellence to its customers and deploying its capital for growth is expected to help it achieve newer heights.
- ▲ CACI International remains focused on the federal government marketplace and capturing more market share. The company intends to drive operational excellence by intensively focusing on its organic and inorganic growth strategy and strengthening its existing customer relationships while building newer ones. CACI International also remains focused on its strategy to grow in larger markets and leverage mergers and acquisitions to further increase its market share and create long-term value for its shareholders. The company had acquired 26 companies and its most recent buyout was Ascent Vision Technologies on Aug 12, 2020 for an undisclosed amount. The acquisition of Ascent Vision Technologies has enhanced its technology and solutions offerings and capabilities in the unmanned aircraft systems, air defense and intelligence, surveillance and reconnaissance.

A favored relationship with the DoD and exposure to expanding DoD and Department of Homeland Security budgets are key growth catalysts for CACI International.

Reasons To Sell:

- ▼ CACI International derives a significant portion of total revenue from the U.S. federal government as either a prime contractor or a subcontractor. These contracts are subject to extensive legal and regulatory hurdles, which are stringent, and subject to change from time to time. The government also investigates operations periodically to ensure that the terms and conditions have been properly adhered to. Deviations from the terms laid out by the government may result in huge penalties or termination.
- ▼ CACI International competes primarily in the government IT services arena, which, like other government sectors, consists of many competitors of various sizes. Its main competitors include CGI Group, Inc., SYNNEX Corporation, ManTech International Corporation and Sapient Corporation, all of whom are established players in the industry with their respective strengths. Consequently, CACI International has to continuously invest in value drivers that act as a hedge against competition. These increase its operating costs and reduce its profitability.
- ▼ CACI International generates revenue from contracts and task orders awarded through a competitive bidding process. These contracts contain provisions permitting a government client to terminate the contract for convenience. A decision to terminate contracts on an ongoing basis for convenience is likely to result in significant revenue shortfalls for the company. Evolving rules and regulations remain a significant impediment to margin growth.
- ▼ Investment in CACI stock could be a risky bet considering its high debt level. The company's long-term debt has increased in the last five years to \$1.44 billion at the end of fiscal 2020 from \$1.03 billion at the end of fiscal 2015. As a result, its annualized interest expense has increased during the same time frame. Additionally, the long-term debt level of \$1.4 billion as of Jun 30, 2020 is much more than cash and cash equivalents of \$107 million.

Stiff competition and regulatory pressure remain possible headwinds for the company.

Last Earnings Report

CACI International reported better-than-expected fourth-quarter fiscal 2020 (ended Jun 30, 2020) results.

Quarterly earnings were \$3.68 per share, up 87.2% year over year and beating the Zacks Consensus Estimate by 9.2%.

Revenues were approximately \$1.5 billion, up 8.9% from the year-ago quarter's figure. The upside can be primarily attributed to new business wins, acquired contracts and on-contract growth. Organic revenue growth in the fiscal fourth quarter stood at 8%. The top line also outpaced the consensus mark of \$1.48 billion.

Quarter Ending	06/2020
Report Date	Aug 12, 2020
Sales Surprise	1.21%
EPS Surprise	9.20%
Quarterly EPS	3.68
Annual EPS (TTM)	12.61

Quarter Details

Contract awards in the reported quarter were worth \$3.4 billion, a 9.5% year-over-year decline, of which approximately 55% came from new businesses. Revenues from contract awards do not include ceiling values of multi-award, indefinite-delivery, indefinite-quantity contracts. Total backlog, as of Jun 30, 2020, was \$21.6 billion, up 28% higher than the prior-year quarter's level. Funded backlog at the end of June was \$2.8 billion, down 3.4%.

In terms of customer mix, the Department of Defense contributed 69.1% to total revenues in the quarter. Federal Civilian Agencies contributed about 26.8%, while Commercial and other customers accounted for 4.1% of revenues.

Revenues generated as a prime contractor and a subcontractor accounted for 91.7% and 8.3% of total revenues, respectively.

In terms of contract type, cost reimbursable type contracts contributed 57.2%, fixed-price contracts contributed 27.9%, and time and material type contracts contributed 14.9% to total revenues.

Margins

Operating income for the quarter came in at \$133.7 million, up 64.8% from the year-ago quarter's level. The upside came on the back of higher revenues as well as lower indirect costs and selling expenses. Operating income margin expanded 300 basis points (bps) to 8.9%.

Adjusted EBITDA for the fiscal fourth quarter increased 48.8% year over year to \$162.9 million. Adjusted EBITDA margin of 10.9% expanded 290 bps.

Balance Sheet and Cash Flow

At the quarter end, CACI International had cash and cash equivalents of \$107.2 million compared with \$77.2 million in the previous quarter.

Total long-term (net of current portion) debt was \$1.36 billion.

Cash flow from operations, as of Jun 30, was \$518.7 million, driven by growth in net income combined with lower DSO.

Guidance

CACI International initiated its guidance for fiscal 2021. Revenues are expected in the range of \$6-\$6.2 billion. Earnings per share are expected between \$13.50 and \$14.28.

Net income is expected in the range of \$347-\$367 million. Moreover, net cash provided by operating activities is expected to be at least \$580 million.

The company expects to accelerate organic revenue growth and continued margin expansion throughout 2021.

Recent News

On Sep 29, CACI announced receiving a four-year, 10-month task order, with a ceiling value of more than \$59 million, by the Office of Under Secretary of Defense (Comptroller) (OUSD(C)) to provide enterprise expertise and technology in support of the Defense Finance and Accounting Service's Comptroller critical mission systems.

On Sep 15, CACI announced receiving a five-year, \$450 million single-award Blanket Purchase Agreement (BPA) to provide Desktop Support Services to the Department of Homeland Security (DHS) Headquarters.

On Aug 31, CACI announced receiving six-year single-award contract worth over \$152 million from the Department of Veteran Affairs to provide enterprise expertise in support of the department's Financial Management Business Transformation Program (FMBT).

On Aug 17, CACI announced the appointment of Todd Probert as the President of the company's National Security and Innovative Solutions (NSIS) sector.

On Aug 14, CACI revealed receiving five-year single-award contract worth approximately \$128 million to provide mission expertise, including training and field service support to the U.S. Army Program Executive Office for Soldier (PEO Soldier) on maneuver, precision targeting and visual augmentation systems.

On Aug 12, CACI International announced the acquisition of Ascent Vision Technologies. This acquisition will increase CACI's reach in the multi-domain intelligence, surveillance, and reconnaissance (ISR) operations. On Aug 10,

CACI's CORIAN system was adopted by the Joint Counter-Small Unmanned Aircraft Systems office to shield DoD facilities against risks from unmanned aircraft /drones.

On Jul 27, CACI won an indefinite delivery/indefinite quantity (IDIQ) contract from U.S. Air Force to render mission-critical expertise and technology to U.S. Air Force's Joint All Domain Command and Control efforts, which involves integrating of operations across land, air, sea, space, cyber, and electromagnetic spectrum against any threat.

On Jul 23, CACI inked a partnership deal with RigNet to provide SteelBox with enhanced mobile communications application.

On Jun 4, CACI recently won a \$1.5-billion, single-award Indefinite Delivery Indefinite Quantity (IDIQ) contract to render its enterprise Information Technology, transport and cybersecurity services to the National Geospatial-Intelligence Agency (NGA) and its mission partners. Notably, this is the largest contract CACI has ever received.

On Apr 16, CACI was chosen as a prime contractor in a \$249-million, multiple-award, indefinite delivery/indefinite quantity (IDIQ) contract, by the Naval Sea Systems Command (NAVSEA).

On Apr 14, CACI won a single-award task order for one base year and four option-years from the U.S. Navy to provide mission expertise, including planning maintenance and repair of submarines, to the Portsmouth Naval Shipyard in Kittery, Maine. The contract is capped at \$83 million.

On Mar 17, CACI announced that it has been honored by the Global M&A Network with two awards for the successful acquisition of LGS Innovations.

On Mar 16, CACI won a six-year single-award task order to support U.S. Africa Command (AFRICOM) with its advanced mission expertise. The contract value is capped at \$249 million and represents new work for CACI. The deal will help AFRICOM improve communication and mission execution at lower costs and minimize operational risks.

Valuation

Shares of CACI have lost 14.7% in the year-to-date period and 5% over the trailing 12-month time frame. Stocks in the Zacks sub-industry decreased 13.6% while the Zacks Technology sector gained 22.7% year to date. Over the past year, while the Zacks sub-industry lost 3.1%, the sector grew 40.4%, respectively.

The S&P 500 Index has gained 4.5% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 14.81X forward 12-month earnings, comparing with 18.55X for the Zacks sub-industry, 25.96X for the Zacks sector and 21.82X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.28X and as low as 12.36X with a 5-year median of 17.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$224 price target reflects 15.55X forward 12-month earnings.

The table below shows the summary valuation data for CACI

Valuation Multiples - CACI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.81	18.55	25.96	21.82
	5-Year High	22.28	24.83	27.98	23.46
	5-Year Low	12.36	13.82	16.95	15.26
	5-Year Median	17.75	21.04	19.94	17.67
EV/EBITDA TTM	Current	11.64	9.88	14.50	14.45
	5-Year High	18.81	12.32	15.84	15.65
	5-Year Low	8.68	6.00	8.27	9.53
	5-Year Median	12.43	9.57	11.85	13.06

EV/Sales TTM	5-Year Median	1.15	1.95	4.79	3.80
	Current	1.15	1.95	4.79	3.80
	5-Year High	1.61	2.28	5.24	4.15
	5-Year Low	0.82	1.14	2.85	2.61
	5-Year Median	1.09	1.85	3.83	3.56

As of 09/30/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 24% (61 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Booz Allen Hamilton Holding Corporation (BAH)	Neutral	3
CGI Group, Inc. (GIB)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	2
Science Applications International Corporation (SAIC)	Neutral	3
Virtusa Corporation (VRTU)	Neutral	3

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

Industry Comparison Industry: Computer - Services				Industry Peers		
	CACI	X Industry	S&P 500	BAH	GIB	SAIC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	5.35 B	933.84 M	22.99 B	11.43 B	17.57 B	4.56 B
# of Analysts	9	1	14	9		7
Dividend Yield	0.00%	0.00%	1.65%	1.49%	0.00%	1.89%
Value Score	B	-	-	C	B	A
Cash/Price	0.02	0.18	0.08	0.05	0.06	0.04
EV/EBITDA	11.56	12.19	13.09	16.77	12.31	13.66
PEG F1	1.51	1.91	2.91	2.17	2.46	NA
P/B	2.01	2.67	3.22	12.96	3.51	3.15
P/CF	12.31	15.01	12.81	21.71	14.27	9.59
P/E F1	15.06	22.69	21.25	22.92	18.68	12.89
P/S TTM	0.94	1.25	2.51	1.51	1.93	0.68
Earnings Yield	6.59%	4.21%	4.44%	4.36%	5.36%	7.77%
Debt/Equity	0.51	0.20	0.70	2.25	0.52	1.83
Cash Flow (\$/share)	17.32	2.80	6.92	3.82	4.75	8.18
Growth Score	A	-	-	A	B	B
Historical EPS Growth (3-5 Years)	19.60%	9.72%	10.45%	19.35%	9.72%	18.11%
Projected EPS Growth (F1/F0)	11.40%	8.52%	-2.91%	13.84%	0.00%	7.52%
Current Cash Flow Growth	22.78%	11.53%	5.47%	13.32%	3.80%	74.09%
Historical Cash Flow Growth (3-5 Years)	17.39%	8.63%	8.52%	11.25%	1.29%	23.85%
Current Ratio	1.41	1.60	1.35	1.81	1.33	1.03
Debt/Capital	33.78%	15.94%	42.68%	69.27%	34.30%	64.69%
Net Margin	5.62%	4.28%	10.27%	6.51%	9.77%	3.00%
Return on Equity	12.66%	9.87%	14.74%	52.76%	18.99%	25.96%
Sales/Assets	1.04	0.86	0.51	1.62	0.87	1.25
Projected Sales Growth (F1/F0)	6.84%	0.00%	-0.66%	8.22%	0.00%	12.11%
Momentum Score	B	-	-	B	B	B
Daily Price Change	-0.76%	0.00%	0.67%	-1.50%	1.15%	-0.23%
1-Week Price Change	-1.03%	-1.04%	-2.32%	0.22%	-1.00%	1.68%
4-Week Price Change	-11.31%	-7.83%	-4.51%	-6.39%	-7.90%	-7.67%
12-Week Price Change	5.03%	4.79%	5.70%	9.95%	6.12%	8.89%
52-Week Price Change	-5.03%	19.13%	3.48%	20.24%	-11.54%	-6.29%
20-Day Average Volume (Shares)	166,470	105,849	2,145,455	720,210	169,575	624,508
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.78%
EPS F1 Estimate 12-Week Change	1.06%	4.66%	4.07%	1.27%	7.15%	0.78%
EPS Q1 Estimate Monthly Change	0.46%	0.00%	0.00%	0.00%	0.00%	-3.10%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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