CDW Corporation (CDW)

$112.17 (As of 09/03/20)

Price Target (6-12 Months): **$129.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/04/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: C | Momentum: D	

Summary

CDW is benefiting from ongoing digital transformation and increased demand for products that enable remote working and operations continuity plan amid the COVID-19 pandemic crisis. It is also benefiting from growth across government, education and healthcare end markets. The acquisitions of Scalar Decisions and Aptris has strengthened its capabilities and expanded product offerings. Progress in network management, storage management and operating system software is a tailwind. CDW's core strength of providing best-in-class services and easy-to-acquire technologies will bolster its growth in the future. Nonetheless, high debt load, currency headwind and competition are hurting CDW's growth. Further, the passage of Windows 10 replacement cycle might mar CDW's prospects. The stock underperformed the industry in the YTD period.

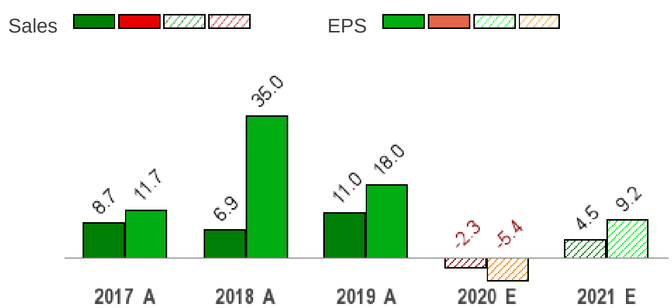
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$146.09 - $73.39**
20-Day Average Volume (Shares)	**739,349**
Market Cap	**$16.0 B**
Year-To-Date Price Change	**-21.5%**
Beta	**1.21**
Dividend / Dividend Yield	**$1.52 / 1.4%**
Industry	**Computers - IT Services**
Zacks Industry Rank	**Bottom 30% (175 out of 251)**
Last EPS Surprise	**15.6%**
Last Sales Surprise	**1.1%**
EPS F1 Estimate 4-Week Change	**7.0%**
Expected Report Date	**10/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**18.1**
P/E F1	**19.4**
PEG F1	**1.5**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,353 E	4,673 E	4,848 E	4,456 E	18,417 E
2020	4,389 A	4,366 A	4,536 E	4,268 E	17,623 E
2019	3,958 A	4,630 A	4,908 A	4,537 A	18,032 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.34 E	$1.63 E	$1.73 E	$1.55 E	$6.30 E
2020	$1.38 A	$1.56 A	$1.47 E	$1.34 E	$5.77 E
2019	$1.24 A	$1.60 A	$1.70 A	$1.57 A	$6.10 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 09/03/2020. The reports text is as of 09/04/2020.

Overview

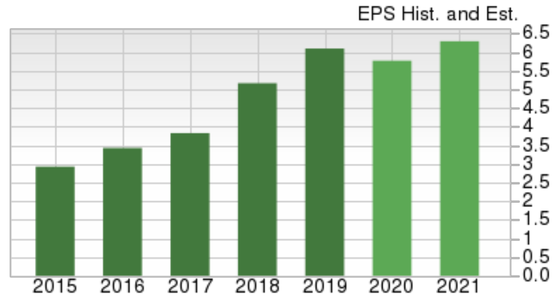
Headquartered in Vernon Hills, IL, CDW Corporation, founded in 1984, is a leading provider of integrated information technology (IT) solutions to small, medium and large business, government, education and healthcare customers in the United States, United Kingdom and Canada.

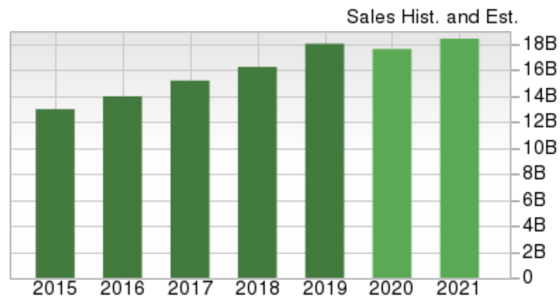
CDW offers discrete hardware and software products to integrated IT solutions businesses such as mobility, security, data center optimization, cloud computing, virtualization and collaboration.

The company's hardware products include notebooks/mobile devices (also tablets), network communications, desktop computers, video monitors, enterprise and data storage besides printers and servers. Its software products are application suites, security, virtualization, operating systems and network management. Alongside these, the company offers services like warranties, managed services, consulting design as well as implementation.

CDW's solutions portfolio includes more than 100,000 products and services from above 1,000 leading and emerging brands. Its solutions are delivered in physical, virtual and cloud-based environments through more than 6,000 customer-facing coworkers including sellers, highly-skilled technology specialists and advanced service delivery engineers.

The company provides integrated IT solutions to more than 80 countries for customers with primary locations in the United States, UK and Canada.





The company believes that its addressable markets in the United States, UK and Canada represent more than $325 billion in annual sales.

Net sales in 2019 improved 11% year over year to $18.03 billion.

The company has four operating segments, namely Corporate (42% of FY19 revenues), Small Business (8%), Public (38%) and Other (12%).

The company's current competitor includes manufacturers, who sell directly to customers like Adobe, Apple, Dell, HP Inc., Hewlett Packard Enterprise; cloud providers, namely Amazon Web Services, Box and Microsoft; large service providers and system integrators, such as Accenture, Dell, HPE and IBM and communications service providers like AT&T, CenturyLink and Verizon among others.

Source: Zacks Investment Research

Reasons To Buy:

> Growth across customer end markets, broad-based product and solutions portfolio and a healthy IT spending environment are consistent positives.

- CDW is benefiting from the ongoing digital transformation and coronavirus-led work-from home wave. During the second quarter of 2020, the company witnessed strong demand for products that enabled remote working and operations continuity plan. It registered double-digit revenue growth in product categories including collaboration tools, enterprise storage, notebook, desktops, video, hardware, and security software.

- CDW's robust product portfolio and frequent product refreshes are its tailwinds. The company has been expanding its solutions suite and enriching services capabilities to cater to customers' growing needs. Strong demand for consumer devices like notebooks and chromebooks plus servers is an upside for the company. Moreover, growth in software and services is proving beneficial. Notably, the company is benefiting from growth in each of its end markets, which include corporate, small business, government, education and healthcare.

- CDW is looking at strategic acquisitions to supplement organic growth. The acquisition of Aptris in October 2019 enhances the company's IT Service Management solution capabilities, including consulting, advisory, and development services. The buyout of Scalar Decisions in January 2019 has broadened CDW Canada's solutions portfolio, deepened technical skillset and extended its geographic reach. The company's purchase of Kelway TopCo (later rebranded it to CDW UK) in August 2015 improved its ability to provide IT solutions for US-based customers with multinational locations. The company's footprint in the United Kingdom also grew with this transaction.

- CDW is witnessing earnings growth at a faster rate, courtesy of its share repurchase initiatives. In 2019, the company returned more than 100% of free cash flow to shareholders. The company deployed $840 million of cash to shareholders including $183 million of dividends and $657 million of share repurchases. The company once again expects to return more than 100% of free cash flow to shareholders in 2020. In the first half of 2020, the company returned $195 million to shareholders through share repurchases and dividend payments.

Risks

- CDW's growth prospects is likely to hurt by soft IT spending as organizations are pushing back their investments in big and expensive technology products due to global economic slowdown concerns amid the ongoing coronavirus crisis. Per the latest forecast by Gartner, the worldwide IT spending is anticipated to be $3.4 trillion in 2020, a decrease of 8% from 2019. The research firm expects worldwide spending on IT services to decline 7.7% year-over-year to $1.032 trillion in 2020. Gartner pointed out that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and effects of the global economic recession.

- CDW operates in a highly volatile industry, characterized by a rapid technological innovation, frequent introduction of enhanced hardware, software and services offerings and continuous changing customer demand patterns. Thus, the company has to develop technologically updated products to respond to the evolving market trends. These make it highly vulnerable to operating risks regarding technological obsolescence.

- Competition in the market for technology products and services is heating up with increase in products sold directly to customers and not via service provider like CDW. As a result, the company faces rivalry from resellers like Insight Enterprises and PC Connection, manufacturers like Apple, Adobe, HP and Hewlett Packard Enterprise, which sell directly to customers and cloud providers, namely Amazon Web Services, Box and Microsoft. This also naturally raises pricing pressures and consequently, reduce market share and hamper results.

- CDW is on an acquisition spree. While this improves its revenue opportunities, business mix and profitability, it also aggravates its integration risks. Notably, buyouts negatively impacted the company's balance sheet in the form of high level of goodwill and net intangible assets, which comprised almost 29% of the total assets as of Jun 30, 2020. The takeover moves have also affected CDW's capital position as high indebtedness raises its investment risk in the to-be-acquired company. As of Jun 30, 2020, net debt amounted to $2.94 billion. Such high-debt levels increase leverage risks and interest costs, which might erode the company's profits.
- CDW has been benefiting largely from the ongoing client device refresh cycle. However, with the passage of Window's 10 replacement cycle in January 2020, it expects growth in client devices to be at a more muted rate. Robust growth in client devices over the last couple of years and the quarters is likely to lead to a tough year-over-year comparison in fiscal 2020.

- CDW has a highly leveraged balance sheet with low cash balance. The company had ended the second quarter of 2020 with cash and equivalents of $958 million. On the other hand, CDW's long-term debt (including current maturities) has increased to $3.9 billion as of Jun 30, 2020 from $3.5 billion as of Mar 31, 2020. Also, the company's current total debt to total capital ratio of 0.79 is significantly higher than the industry average of 0.49.

Last Earnings Report

CDW reported better-than-expected results for second-quarter 2020.

Quarter Ending	06/2020
Report Date	**Aug 05, 2020**
Sales Surprise	**1.05%**
EPS Surprise	**15.56%**
Quarterly EPS	**1.56**
Annual EPS (TTM)	**6.21**

The company's second-quarter non-GAAP earnings per share of $1.56 surpassed the Zacks Consensus Estimate of $1.35. The reported figure, however, declined 2.6% year over year mainly on lower revenues.

The company's quarterly revenues of $4.37 billion outpaced the consensus mark of $4.32 billion. However, the top-line figure fell 5.7% year over year on a reported basis and decreased 5.3% on constant currency. Weakness in corporate demand due to the pandemic-induced economic and business disruptions, along with unfavorable currency-exchange rates, mainly hurt CDW's sales during the reported quarter.

Quarter in Detail

Net sales of CDW's Corporate segment, amounting to $1.56 billion, registered a 17.3% decline on a year-over-year basis.

The Small Business segment's net sales of $302 million dropped 19.9% year over year.

Coming to the Public segment, net sales of $2.02 billion climbed 9.9% from the year-earlier quarter. Moreover, revenues from Government and Education customers were up 24.4% and 13.3%, respectively. However, sales to Healthcare customers slid 12.8%.

Net sales in Other (Canadian and UK operations) were down 8.4% to $484 million.

CDW's gross profit of $747 million dipped 3.4% on a year-over-year basis. Yet, gross margin expanded 40 basis points (bps) to 17.1% on solid product margin and lower cost of goods sold.

Non-GAAP operating income fell 5.6% year over year to $338 million. However, non-GAAP operating margin remained flat at 7.7%.

Effective tax rate for the June-end quarter was 22.9%, lower than the year-ago quarter's 24.7%.

Balance Sheet and Cash Flow

CDW exited the April-June quarter with cash and cash equivalents of $958 million compared with the $214 million witnessed at the end of the previous quarter.

The company has a long-term debt of $4.13 billion compared with the prior quarter's $3.56 billion.

CDW generated $515.8 million of cash flow from operational activities in the first-half of 2020.

Recent News

On Aug 11, CDW prices 3.25% senior notes offering worth $700 million.

On Aug 5, CDW declared a quarterly cash dividend of 38 cents per share to be payable on Sep 10 to the shareholders of record date as of Aug 25.

On May 6, CDW's board of directors declared quarterly cash dividend of 38 cents per share to be payable on Jun 10 to the shareholders of record date as of May 25.

On Apr 16, CDW priced an offering of $600 million worth of 4.125% Senior Notes due 2025.

On Apr 16, CDW provided business updates on impact of COVID-19. The company anticipates reporting revenues and non-GAAP earnings per share of $4.39 billion and $1.38, respectively, for the first quarter of 2020.

On Feb 6, CDW's board of directors declared quarterly cash dividend of 38 cents per share to be payable on Mar 10 to the shareholders of record date as of Feb 25.

On Jan 21, CDW Corporation named Christina M. Corley as the chief commercial and operating officer.

Valuation

CDW shares are down 21.5% in the year-to-date period 5.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 29.7% and 23.7% YTD, respectively. Over the past year, the Zacks sub-industry and the sector have gained 28.4% and 35.8%, respectively.

The S&P 500 Index has gained 6.8% year to date and 16% in the past year.

The stock is currently trading at 18.31X forward 12-month earnings, which compares to 32.61X for the Zacks sub-industry, 28.75X for the Zacks sector and 23.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.95X and as low as 10.56X with a 5-year median of 16.45X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $129 price target reflects 21.06X forward 12-month earnings.

The table below shows summary valuation data for CDW

Valuation Multiples - CDW

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.31	32.61	28.75	23.93
	5-Year High	24.95	32.61	28.75	23.93
	5-Year Low	10.56	15.29	16.72	15.25
	5-Year Median	16.45	22.35	19.70	17.60
P/S F12M	Current	0.88	6.29	4.65	4.40
	5-Year High	1.16	10.11	4.65	4.40
	5-Year Low	0.39	3.90	2.32	2.53
	5-Year Median	0.69	6.92	3.15	3.07
EV/EBITDA TTM	Current	11.46	35.73	13.63	13.00
	5-Year High	15.87	35.73	14.15	13.29
	5-Year Low	8.59	19.85	7.59	8.22
	5-Year Median	11.34	27.45	10.94	10.92

As of 09/03/2020

Industry Analysis **Zacks Industry Rank:** Bottom 30% (175 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
ASGN Incorporated **(ASGN)**	Neutral	3
Baozun Inc. **(BZUN)**	Neutral	3
Amdocs Limited **(DOX)**	Neutral	3
Infosys Limited **(INFY)**	Neutral	2
ServiceNow, Inc. **(NOW)**	Neutral	3
PERSPECTA INC **(PRSP)**	Neutral	3
Science Applications International Corporation **(SAIC)**	Neutral	3
DXC Technology Company. **(DXC)**	Underperform	5

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

Industry Comparison Industry: Computers - It Services

	CDW	X Industry	S&P 500	DXC	INFY	SAIC
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	5	2	3
VGM Score	C	-	-	B	B	A
Market Cap	16.00 B	3.05 B	23.52 B	5.43 B	52.89 B	4.83 B
# of Analysts	7	5	14	6	8	7
Dividend Yield	1.36%	0.00%	1.62%	0.00%	1.65%	1.78%
Value Score	B	-	-	A	C	A
Cash/Price	0.06	0.07	0.07	1.05	0.06	0.06
EV/EBITDA	13.74	10.15	13.12	2.63	14.13	14.04
PEG F1	1.48	2.28	2.97	NA	2.28	NA
P/B	15.12	4.91	3.20	1.10	6.00	3.33
P/CF	13.93	13.22	12.72	0.53	19.31	10.17
P/E F1	19.44	33.04	21.67	9.72	22.78	13.77
P/S TTM	0.88	2.50	2.49	0.28	4.14	0.72
Earnings Yield	5.14%	2.27%	4.40%	10.30%	4.41%	7.26%
Debt/Equity	3.66	0.24	0.70	2.09	0.00	1.83
Cash Flow ($/share)	8.05	1.17	6.93	40.21	0.65	8.18
Growth Score	C	-	-	B	B	A
Historical EPS Growth (3-5 Years)	22.51%	17.84%	10.41%	17.98%	5.14%	17.71%
Projected EPS Growth (F1/F0)	-5.36%	-3.34%	-4.75%	-60.63%	-0.45%	6.69%
Current Cash Flow Growth	10.39%	13.18%	5.22%	133.97%	4.82%	74.09%
Historical Cash Flow Growth (3-5 Years)	13.51%	15.72%	8.49%	44.41%	4.59%	23.85%
Current Ratio	1.47	1.50	1.35	1.29	2.25	1.03
Debt/Capital	78.53%	27.73%	42.95%	67.65%	0.00%	64.69%
Net Margin	4.09%	2.64%	10.25%	-29.90%	18.35%	3.00%
Return on Equity	94.36%	9.12%	14.59%	14.79%	27.03%	25.96%
Sales/Assets	2.23	0.74	0.50	0.68	1.03	1.25
Projected Sales Growth (F1/F0)	-2.27%	1.50%	-1.42%	-10.84%	1.43%	13.40%
Momentum Score	D	-	-	D	B	F
Daily Price Change	-4.56%	-3.83%	-2.14%	-4.56%	-2.04%	-2.06%
1-Week Price Change	3.77%	1.43%	2.59%	10.06%	1.67%	0.28%
4-Week Price Change	-2.28%	-2.00%	2.25%	14.23%	-2.81%	2.63%
12-Week Price Change	1.47%	17.87%	11.04%	44.55%	40.74%	-1.26%
52-Week Price Change	-5.32%	3.50%	2.01%	-37.28%	3.31%	-8.03%
20-Day Average Volume (Shares)	739,349	366,654	1,827,096	2,943,559	7,164,479	547,328
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-1.72%	0.00%	-0.45%
EPS F1 Estimate 4-Week Change	6.95%	0.00%	0.00%	-9.29%	1.86%	-0.45%
EPS F1 Estimate 12-Week Change	5.79%	0.56%	3.89%	-9.29%	9.50%	0.50%
EPS Q1 Estimate Monthly Change	5.33%	0.00%	0.00%	-28.89%	0.00%	0.21%

Source: Zacks Investment Research

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	C
Momentum Score	D
VGM Score	C

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 mediumterm 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 mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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