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Sep 02, 2020

Choice Hotels (CHH)

$98.04 (As of 09/01/20)

Price Target (6-12 Months): **$83.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/27/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: C	Momentum: A

Summary

Although shares of Choice Hotels have outperformed the industry in the past year, coronavirus-related woes remain a major concern. The company reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. However, the top and the bottom line declined 52% and 89%, respectively, on a year-over-year basis. Owing to the "shelter in place" orders and travel restrictions, travel and hotel demand has declined significantly. Also, the company's high debt level remains a concern. However, continual expansion strategies as well as enhancement of the mid-scale brand along with the transformation and advancement of the Comfort and Cambria brands are likely to aid the company. Notably, earnings estimates for 2020 have increased over the past 30 days.

Price, Consensus & Surprise

Source: Zacks Investment Research

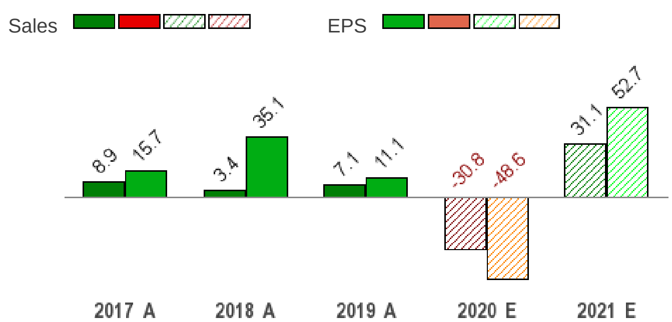
Data Overview

52-Week High-Low	**$109.26 - $46.25**
20-Day Average Volume (Shares)	**312,696**
Market Cap	**$5.4 B**
Year-To-Date Price Change	**-5.2%**
Beta	**1.47**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Hotels and Motels**
Zacks Industry Rank	**Bottom 5% (239 out of 251)**

Last EPS Surprise	**-53.6%**
Last Sales Surprise	**1.6%**
EPS F1 Estimate 4-Week Change	**-5.3%**
Expected Report Date	**11/03/2020**
Earnings ESP	**0.0%**

P/E TTM	**30.8**
P/E F1	**44.2**
PEG F1	**4.5**
P/S TTM	**5.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	191 E	273 E	278 E	247 E	1,012 E
2020	218 A	152 A	200 E	194 E	772 E
2019	218 A	318 A	311 A	268 A	1,115 A

EPS Estimates

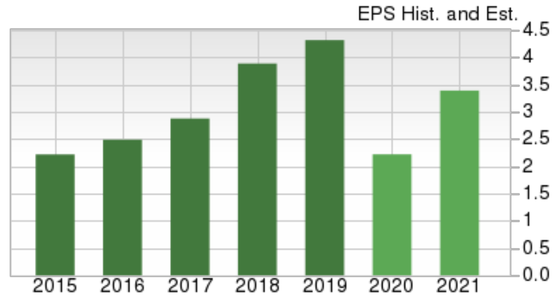
	Q1	Q2	Q3	Q4	Annual*
2021	$0.59 E	$0.96 E	$1.15 E	$0.78 E	$3.39 E
2020	$0.76 A	$0.13 A	$0.69 E	$0.56 E	$2.22 E
2019	$0.84 A	$1.19 A	$1.37 A	$0.92 A	$4.32 A

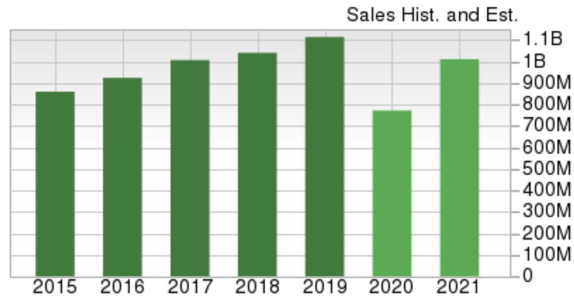
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/01/2020. The reports text is as of 09/02/2020.

Overview

Choice Hotels International is one of the largest hotel franchisors globally. As of Jun 30, 2020, the company had more than 7,118 hotels open and 1,035 hotels under construction, awaiting conversion or approval for development. This hotel chain is spread across 40 countries and territories internationally, and is present in 50 states domestically and the District of Columbia.





Comfort Inn, Comfort Suites, Quality, Clarion, Clarion Pointe, Sleep Inn, Econo Lodge, Rodeway Inn, MainStay Suites, Suburban Extended Stay Hotel, WoodSpring Suites, Everhome Suites, Cambria Hotels, and Ascend Hotel Collection (collectively, the "Choice brands") are the company's proprietary brand names.

On Jan 27, 2020, the company announced the launch of Everhome Suites, a new-construction midscale extended-stay brand offering. It expects to open the first Everhome Suites hotel in 2021.

Choice Hotel's primary business segment is hotel franchising, representing 97% of the total revenues. While domestic franchising operations are conducted through direct franchising relationships, international franchise operations are carried out via a combination of direct and master franchising relationships.

As of Jun 30, 2020, the company had 982 franchised hotels with 78,517 rooms under construction. The number of new construction franchised hotels in the company's domestic pipeline decreased 2% to 741 on Jun 30, 2020 from 753 on Jun 30, 2019.

Choice Hotels brands – including WoodSpring Suites, Suburban Extended Stay, MainStay Suites and Everhome Suites, have performed significantly well amid the ongoing crisis. In the month of March and April, Choice Hotels' extended stay brands witnessed an average occupancy level of approximately 68% and 60%, compared to the U.S. hotel industry average of approximately 40% and 25%, respectively.

Source: Zacks Investment Research

Reasons To Sell:

Cyclical nature of the industry, the coronavirus outbreak, stiff competition and high debt level remain concerns for Choice Hotels.

- **Coronavirus Likely to Hurt 2020 Results:** The Hotel and Motels industry is currently grappling with the coronavirus pandemic and Choice Hotels isn't immune to the trend. In order to mitigate the spread of the virus, the company has been adhering to temporary closures, "shelter in place" orders, travel restrictions, cancellation of events, conferences and meetings, social-distancing measures and other governmental regulations. Resultantly, reduced travel and demand for hotels has negatively impacted the business. We believe that the pandemic is likely to continue and have an adverse material impact on the company as well as the hospitality industry.

- **High Debt a Concern:** At the end of Jun 30, 2020, the company's long-term debt stood at $1,232.1 million, up from $1,208.9 million as of Mar 31, 2020. As a result, the company's debt-to-capitalization came in at 103.5%, compared with the industry's average of 97.8%. Moreover, the company ended first-quarter fiscal 2020 with cash and cash equivalent of $314.1 million, which may not be enough to manage the high debt level.

- **Cutthroat Competition:** The hotel industry is highly competitive, as major hospitality chains with well-established and recognized brands are continuously expanding their global presence. Choice Hotels is continuously facing intense competition from both large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry. Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google, and peer-to-peer inventory sources such as Airbnb and HomeAway that allow travelers to book stays on websites that facilitate the short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms. Unless the company counters these competitions with appropriate strategies, it may pose a concern for its future profitability.

- **Cyclical Nature of the Industry Poses Concern:** The hospitality industry is cyclical, and a worsening of global economic conditions might in turn dent Choice Hotels' revenues and profits. Consumer demand for services is closely linked to performance of the general economy, and is sensitive to business and personal discretionary spending levels. Decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower revenues as well as the profitability of the company. These factors can also reduce its management and franchise fee revenues.

Risks

- **Strong Brand Recognition:** Choice Hotels' riveting growth potential depends on the continual expansion of its brands. In fact, the company's portfolio of well-segmented brands is getting evidently stronger. With continuous enhancement of the mid-scale brand, acquisition of the WoodSpring brand, and transformation and advancement of the Comfort and Cambria brands, Choice Hotels is poised for growth.

- **Franchise Business Lends Economies of Scale:** The company's 97% of revenues are generated from the franchise business. Choice Hotels gains from economies of scale associated with the franchise business. Accordingly, higher fee from franchisees and transference of cost burden to franchises provide the company with operational advantages. Apart from royalty fees and procurement services revenues, Choice Hotels also collect marketing and reservation system fees to provide support activities for the franchise system. Franchising, as we believe, will facilitate ROE expansion and earnings growth over the long term. Meanwhile, the company's solid commitment toward franchisee profitability is driving incremental revenues.

  As of Jun 30, 2020, the company had 982 franchised hotels with 78,517 rooms under construction, awaiting approval for development in its domestic system as compared with 988 hotels and 78,613 rooms at Jun 30, 2019. The number of new construction franchised hotels in the company's domestic pipeline decreased 2% to 741 on Jun 30, 2020, from 753 on Jun 30, 2019. However, the number of conversion franchised hotels in its domestic pipeline increased by 6 hotels (or 3%) to 241 hotels as on Jun 30, 2020 from 235 hotels reported in the prior-year quarter.

- **Continual Expansion Bodes Well:** Choice Hotels relies heavily on expansion in both domestic and international markets. Despite the coronavirus pandemic, the company awarded nearly 60 and 93 new agreements in first and second-quarter 2020, respectively. During fourth-quarter 2019, the hotelier was awarded 307 domestic franchise agreements, improving 7% year over year.

  Alongside domestic growth, the company continues to expand its international footprint in new countries. Key international operating markets include Spain, Colombia, Panama, the Caribbean and Canada. Relatively new to the midscale portfolio, Clarion Pointe - part of the popular Clarion brand, is experiencing great success. With more than 30 domestic franchise agreements in 2019. As Clarion Pointe brand is resonating with guests, the total number of Clarion Pointe hotels open or awaiting conversion since the brand launch has now surpassed 50 hotels. Meanwhile, in 2018, the company announced an alliance with Sercotel, a leading hotel operator and franchisor based in Spain. This alliance will enable the extension of Choice Hotels' global footprint in Spain and other markets, as well as the creation of opportunities for additional hotel development across Europe and Latin America.

  The Cambria brand has been doing solid business. In 2019, the brand opened 11 new hotels, representing over 1,700 upscale rooms in major markets like Boston, Houston and Phoenix. It ended the year with the opening of its 50th Cambria hotel, the brand's largest property just outside Disneyland in Anaheim, CA.

- **Woodspring Acquisition Adds Value:** Apart from constant franchise expansions, Choice Hotels has added 239 extended-stay hotels in 35 states to its portfolio through the acquisition of Woodspring Suites in 2018. During the second quarter of 2020, the extended stay domestic pipeline grew 8% year over year to 414 hotels. This was primarily driven by the continued expansion of the Woodspring brand. In 2018, the company completed opening of additional 12 WoodSpring hotels in top markets like Chicago, Seattle, Charlotte and Detroit. Currently, Choice Hotels has 270 Woodspring hotels. By the end of 2020, it expects to see Woodspring operating 300 hotels. Additionally, in Jan, 2019, the company finalized an agreement with a developer to build more than 27 additional WoodSpring Suites over the next four years.

  Meanwhile, during the second quarter of 2020, occupancy rates for WoodSpring Suites brand came in at 69% beating the industry average by nearly 36 percentage points. For the period mid-May through last week of July occupancy rates remained above 70%, thereby matching 2019 levels.

  In January 2020, the company further strengthened its extended stay presence by introducing Everhome Suites, an all-new construction midscale brand in the extended stay segment. Multiple developers have already committed to build 13 Everhome Suites hotels in Austin, TX and Los Angeles market. Nonetheless, it expects to open its first Everhome Suite in 2021.

Last Earnings Report

Choice Hotels Q2 Earnings Miss, Revenues Top Estimates

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	1.62%
EPS Surprise	-53.57%
Quarterly EPS	0.13
Annual EPS (TTM)	3.18

Choice Hotels reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues beat the same. Meanwhile, earnings and revenues declined from the year-ago level due to the coronavirus pandemic.

Nonetheless, Patrick Pacious — president and chief executive officer of Choice Hotels — said, "We believe that our predominantly leisure focus and strength in domestic drive-to markets will allow us to continue to outperform the overall industry during the recovery phase. We are optimistic that our long-term view, strong balance sheet, disciplined capital allocation strategy, proven brands and compelling franchisee value proposition will help us emerge from the crisis in a position of strength."

The lodging franchisor reported adjusted earnings of 13 cents per share, which missed the consensus mark of 28 cents by 53.6%. Also, the bottom line dropped 89% from the prior-year number.

For the quarter under review, total revenues came in at $151.7 million, down 52% year over year. Nonetheless, the figure topped the consensus mark of $149 million by 1.6%.

The coronavirus pandemic has been hurting demand and occupancy. Owing to the unprecedented nature of the crisis, the company has withdrawn its 2020 guidance. That said, it expects the impact of COVID-19 on business performance to be less significant in the third quarter than the second quarter due to continued weekly trend of travel demand growth, predominantly stemming from leisure transient guests driving to their destinations.

Franchising & Royalties

Domestic royalty fees totaled $48.3 million, down 52% year over year. Also, domestic system-wide RevPAR declined 49.6% year over year. Average daily rate was down 19.9% and occupancy was down to 39.1% from 62.1% in the prior-year quarter.

The company's newly-executed domestic franchise agreements were 93 in the second quarter, down 49% year over year. As of Jun 30, 2020, the number of domestic hotels and rooms rose 0.6% and 2% year over year, respectively.

Operating Results

Total operating expenses decreased 32% from second-quarter 2019 to $142.6 million. Adjusted EBITDA declined 60% from the prior-year quarter to $41.1 million.

Balance Sheet

As of Jun 30, 2020, Choice Hotels had cash and cash equivalents of $314.1 million compared with $33.8 million on Dec 31, 2019.

Long-term debt at second quarter-end was $1,232.1 million, up from $844.1 million at 2019-end. Goodwill, as a percentage of total assets, was 9.4% at second quarter-end compared with 67.3% at 2019-end.

Meanwhile, it suspended the payout of future dividends for the remainder of 2020. As a result, total dividends paid for 2020 will be approximately $25 million.

Management repurchased roughly 7,000 shares for nearly $0.5 million under the share repurchase program during the second quarter. As of Jun 30, 2020, the company had 3.4 million shares remaining under the current share repurchase authorization.

Valuation

Choice Hotels' shares are down 5.2% year-to-date but up 6.9% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Discretionary sector is down by 22.1% and 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry was down by 6.8%, while the sector was up by 10.8%.

The S&P 500 index is up by 3.8% in the year-to-date period and 15.3% in the past year.

The stock is currently trading at 32.6X forward 12-month earnings, which compares to 60.09X for the Zacks sub-industry, 34.39X for the Zacks sector and 23.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.82X and as low as 12.47X, with a 5-year median of 20.74X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our $83 price target reflects 27.66X forward 12-month earnings.

The table below shows summary valuation data for CHH.

Valuation Multiples - CHH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.6	60.09	34.39	23.03
	5-Year High	33.82	60.09	34.39	23.03
	5-Year Low	12.47	15.55	16.13	15.25
	5-Year Median	20.74	20.4	19.84	17.6
P/S F12M	Current	5.82	2.45	2.47	3.93
	5-Year High	6.03	2.45	2.95	3.93
	5-Year Low	2.52	1.13	1.68	2.53
	5-Year Median	3.76	1.64	2.49	3.07
EV/EBITDA TTM	Current	22.44	21.09	11.31	12.5
	5-Year High	23.06	22.86	17.83	13.29
	5-Year Low	9.88	9.05	8.3	8.22
	5-Year Median	15.49	14.64	12.23	10.91

As of 09/01/2020

Industry Analysis **Zacks Industry Rank:** Bottom 5% (239 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Hyatt Hotels Corporation **(H)**	Neutral	4
Extended Stay America, Inc. **(STAY)**	Neutral	3
Wyndham HotelsResorts Inc. **(WH)**	Neutral	4
Hilton Grand Vacations Inc. **(HGV)**	Underperform	4
Hilton Worldwide Holdings Inc. **(HLT)**	Underperform	4
Marriott International, Inc. **(MAR)**	Underperform	4
Marriot Vacations Worldwide Corporation **(VAC)**	Underperform	4
WYNDHAM DESTINATIONS, INC. **(WYND)**	Underperform	4

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

Industry Comparison Industry: Hotels And Motels

	CHH	X Industry	S&P 500	H	HLT	MAR
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	D	-	-	F	C	C
Market Cap	5.43 B	3.93 B	23.95 B	5.74 B	25.43 B	33.43 B
# of Analysts	7	5	14	8	7	10
Dividend Yield	0.00%	0.00%	1.61%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.06	0.14	0.07	0.25	0.14	0.07
EV/EBITDA	17.44	12.77	13.32	4.72	15.76	17.23
PEG F1	4.46	27.88	3.05	NA	56.55	NA
P/B	NA	1.94	3.21	1.64	NA	NA
P/CF	18.89	11.74	12.92	9.02	17.02	13.96
P/E F1	44.21	95.15	21.84	NA	539.47	NA
P/S TTM	5.72	1.81	2.52	1.54	3.51	1.99
Earnings Yield	2.26%	-0.14%	4.39%	-7.47%	0.19%	-0.23%
Debt/Equity	-28.82	0.83	0.70	0.82	-8.08	-128.27
Cash Flow ($/share)	5.19	3.17	6.93	6.29	5.39	7.39
Growth Score	C	-	-	F	B	B
Historical EPS Growth (3-5 Years)	16.99%	12.30%	10.41%	13.62%	8.52%	12.30%
Projected EPS Growth (F1/F0)	-48.58%	-96.65%	-4.75%	-306.89%	-95.64%	-104.05%
Current Cash Flow Growth	7.52%	6.82%	5.22%	5.97%	24.59%	-2.82%
Historical Cash Flow Growth (3-5 Years)	17.19%	4.04%	8.49%	2.61%	2.71%	21.40%
Current Ratio	2.40	1.80	1.35	2.76	1.98	0.67
Debt/Capital	NA%	55.69%	42.92%	45.13%	NA	93.41%
Net Margin	18.07%	0.13%	10.25%	7.45%	0.70%	2.76%
Return on Equity	-426.09%	-1.01%	14.66%	-3.48%	-86.95%	238.84%
Sales/Assets	0.62	0.41	0.50	0.45	0.46	0.66
Projected Sales Growth (F1/F0)	-30.73%	-32.91%	-1.40%	-53.38%	-50.07%	-45.20%
Momentum Score	A	-	-	F	F	F
Daily Price Change	-1.26%	0.42%	0.29%	0.42%	1.49%	0.17%
1-Week Price Change	6.83%	5.92%	2.59%	8.27%	5.01%	11.54%
4-Week Price Change	15.83%	9.98%	3.53%	15.21%	17.10%	19.73%
12-Week Price Change	9.44%	-0.25%	2.09%	-9.91%	6.48%	-3.94%
52-Week Price Change	6.89%	-9.79%	4.31%	-20.56%	0.44%	-17.04%
20-Day Average Volume (Shares)	312,696	312,696	1,816,754	988,436	2,844,017	3,038,533
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.15%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-5.27%	-9.81%	0.20%	-26.42%	-76.01%	-178.14%
EPS F1 Estimate 12-Week Change	-14.40%	-66.38%	3.86%	-41.38%	-82.88%	-128.56%
EPS Q1 Estimate Monthly Change	-0.58%	-5.92%	0.00%	-22.58%	-4,700.00%	-193.33%

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	D
Growth Score	C
Momentum Score	A
VGM Score	D

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

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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.