

## Comerica Incorporated (CMA)

**\$56.06** (As of 12/23/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

## Summary

Shares of Comerica have outperformed the industry over the past three months. Also, the company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate for earnings in three of the trailing four quarters and missed in the other. Moreover, Comerica's prospects look promising as revenues and efficiency initiatives are likely to boost financials in the quarters ahead. Despite low rates, rising loans and deposits balance is expected to augment revenues. Furthermore, involvement in steady capital deployment activities in order to enhance shareholders' value is encouraging. Nevertheless, elevated expenses on account of rising salaries and investment in technology might adversely affect the bottom line in the near term. Further, lack of diversification in loans and high debt levels pose concerns for the company.

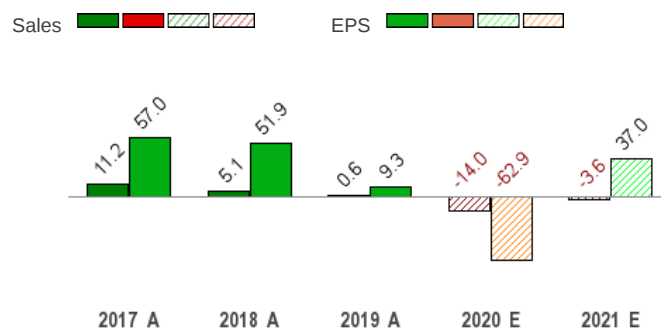
## Price, Consensus & Surprise



## Data Overview

|                                |                                 |
|--------------------------------|---------------------------------|
| 52-Week High-Low               | <b>\$72.09 - \$24.28</b>        |
| 20-Day Average Volume (Shares) | <b>2,199,632</b>                |
| Market Cap                     | <b>\$7.8 B</b>                  |
| Year-To-Date Price Change      | <b>-21.9%</b>                   |
| Beta                           | <b>1.67</b>                     |
| Dividend / Dividend Yield      | <b>\$2.72 / 4.9%</b>            |
| Industry                       | <b>Banks - Major Regional</b>   |
| Zacks Industry Rank            | <b>Top 40% (103 out of 255)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>65.5%</b>      |
| Last Sales Surprise           | <b>2.3%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.7%</b>       |
| Expected Report Date          | <b>01/19/2021</b> |
| Earnings ESP                  | <b>2.5%</b>       |
| P/E TTM                       | <b>15.4</b>       |
| P/E F1                        | <b>19.2</b>       |
| PEG F1                        | <b>NA</b>         |
| P/S TTM                       | <b>2.4</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 702 E | 692 E | 696 E | 694 E | 2,778 E |
| 2020 | 750 A | 718 A | 710 A | 705 E | 2,881 E |
| 2019 | 844 A | 853 A | 842 A | 810 A | 3,349 A |

## EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*  |
|------|-----------|----------|----------|----------|----------|
| 2021 | \$1.13 E  | \$1.04 E | \$1.01 E | \$1.05 E | \$4.00 E |
| 2020 | -\$0.46 A | \$0.80 A | \$1.44 A | \$1.15 E | \$2.92 E |
| 2019 | \$2.08 A  | \$1.94 A | \$1.93 A | \$1.85 A | \$7.87 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 12/23/2020. The reports text is as of 12/24/2020.

## Overview

Headquartered in Dallas, TX, Comerica Incorporated is a banking and financial services company. The company delivers financial services in three primary geographic markets - Texas, California, Michigan, as well as Arizona and Florida. Also, the firm has operations in numerous other U.S. states as well as in Canada and Mexico. Comerica reports its results through the following business segments:

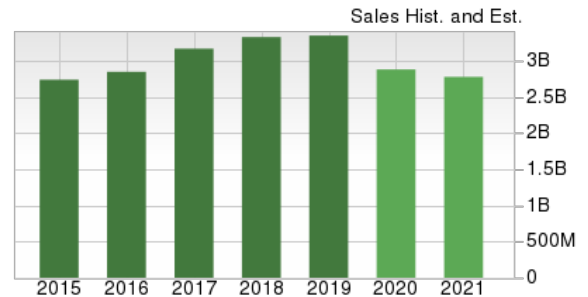
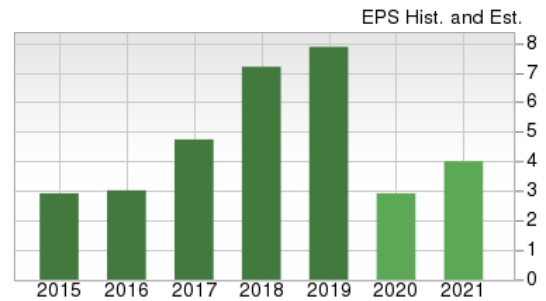
The **Commercial Bank** segment offers various products and services, including commercial loans and lines of credit, deposits, cash management, capital market products, international trade finance, foreign exchange management services and loan syndication services for small and middle market businesses, multinational corporations and governmental entities.

The **Retail Bank** segment includes small business banking and personal financial services, which consists of consumer lending, consumer deposit gathering and mortgage loan origination. This segment also provides consumer products, including deposit accounts, credit cards, home equity lines of credit and residential mortgage loans.

The **Wealth Management** segment offers products and services such as fiduciary services, private banking, retirement services, investment management and advisory services, investment banking and discount securities brokerage services. Additionally, the sale of annuity products, life, disability and long-term care insurance products are offered by this segment.

Moreover, the **Finance** segment includes Comerica's securities portfolio and asset and liability management activities while the **Other** category includes discontinued operations, the income and expense impact of equity and cash and tax benefits not related to specific business segments.

As of Sep 30, 2020, Comerica had total assets of \$83.6 billion, total loans of \$52.4 billion, total deposits of \$68.5 billion and shareholders' equity of \$7.7 billion.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Comerica's focus on improving operational efficiency led to the introduction of GEAR Up initiatives in mid-2016. Since the implementation of this initiative, the bank has consolidated 38 banking centers, reduced retirement plan expenses significantly and retrenched around 800 employees, among others. Execution of these initiatives resulted in an efficiency ratio of 51.8% in 2019, improving from 53.6% in 2018, 58.6% in 2017 and 67.5% in 2016. Further, return on equity improved to 16.4% in 2019 from 15.8% in 2018, 9.3% in 2017 and 6.2% in 2016. Though both metrics deteriorated in the first nine months of 2020 due to a challenging macroeconomic environment, the company remains on track to generate higher revenues through product enhancements, enhanced sales tools and training and improved customer analytics to drive opportunities.
- ▲ Since 2016, Comerica has reported a rise in net interest margin (NIM) after years of decline. Also, it has been benefiting from improved loan yields. Though margin declined slightly in 2019 and the first nine months of 2020 due to lower rates, the bank's key metric might continue to benefit from improving lending scenario in the quarters ahead.
- ▲ Comerica remains focused on its revenue growth strategy. Net interest income (NII) witnessed a compound annual growth rate (CAGR) of 5.3% over the last five years (2015-2019). We remain optimistic of the company's income generation capability, given the implementation of strategic initiatives. Also, total loans have increased at a five-year CAGR of about 1% (ended 2019). While loans improved in the first nine months of 2020, the NII declined on lower interest income. With the expected improvement in economy, the company's loans balance is expected to continue improving, thereby aiding NII growth.
- ▲ Comerica's capital deployment activities are encouraging. In January 2020, the board of directors hiked quarterly dividend by 1.5%. Also, last November, the company announced an additional share-buyback plan, with authorization to repurchase 7 million shares. Moreover, the company's improving performance and favorable debt-to-equity ratio when compared with the industry reflects the fact that such capital deployment activities are sustainable in the future. Notably, the company has temporarily suspended share buybacks, following the "unprecedented challenge" from the coronavirus pandemic.
- ▲ Shares of Comerica have outperformed the industry over the past three months. Moreover, the company's earnings estimates for the current year have moved marginally upward over the past seven days. Further, the stock seems undervalued when compared with the broader industry. Its current price-to-cash flow ratio (P/CF) and price-to-book value (P/B) ratios are below the respective industry averages. Also, the stock has a Value Score of B. Therefore, given the strong fundamentals and positive estimates revision, the stock has decent upside potential.

Comerica's focus on revenue enhancing initiatives might drive operational efficiency. Also, it benefits from a strong capital position. Sustainable capital deployment activities are a tailwind.

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## Reasons To Sell:

- ▼ Comerica's non-interest expenses saw a CAGR of 2.7% over the five years (ended 2018) due to rising salaries and benefits expense, restructuring charges and changes in accounting presentation. Though expenses decreased in 2019 due to the GEAR Up initiatives, it escalated in the first nine months of 2020 on continued investments in technology and other expenses, hindering bottom-line expansion. Also, management expects expenses to flare up in the fourth quarter.
- ▼ As of Sep 30, 2020, the company held debt worth \$5.8 billion and cash and due from banks worth \$988 million. Both have remained volatile over the past few quarters. However, its total debt to total capital of 42.2% has improved sequentially and is lower than the industry average of 50.7%. Moreover, the company's time-interest-earned ratio has decreased in the past few quarters and is currently at 6.7X. Since the ratio indicates the company's ability to meet its debt obligations based on current income, we believe Comerica has higher likelihood of default of interest and debt repayments if the economic situation worsens.
- ▼ Though Comerica is trying to diversify its geographical footprint, it still derives the major part of its total revenue from California and Michigan, where the economic environment has continued to be increasingly challenging over the past few years. While an improving environment is visible in these regions, any significant turnaround still remains elusive, thereby restricting significant earnings power from these regions.
- ▼ Comerica has substantial exposure to commercial and commercial mortgage loans. As of Sep 30, 2020, the company's exposure to the loan portfolio was approximately 81% of the total loans. Such high exposure depicts lack of diversification which can be risky for the company amid challenging economy and competitive markets.

Comerica's exposure to challenging economies of California and Michigan remains a concern. Further, rising expenses through continued investments in technology deter bottom line growth.

## Last Earnings Report

### Comerica Q3 Earnings Top Estimates, Revenues Down

Comerica delivered a third-quarter 2020 positive earnings surprise of 65.5%. Earnings per share of \$1.44 easily surpassed the Zacks Consensus Estimate of 87 cents. However, bottom line came in lower than the prior-year quarter figure of \$1.96.

The company's results were supported by fall in provisions. Also, the capital position remained strong. Nevertheless, lower revenues, due to reduction in net interest and non-interest income, were recorded. Moreover, higher expenses and reduced loans balance were major drags.

Net income came in at \$211 million in the quarter, down 27.7% year over year from \$292 million.

Furthermore, segment wise, on a year-over-year basis, net income increased 5.2% at Commercial Bank. Retail and Wealth Management reported 81% and 23.7% declines in net income, respectively. The Finance segment reported net loss.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 20, 2020 |
| Sales Surprise   | 2.33%        |
| EPS Surprise     | 65.52%       |
| Quarterly EPS    | 1.44         |
| Annual EPS (TTM) | 3.63         |

### Revenues Fall on Low Rates, Expenses Rise

Comerica's third-quarter net revenues were \$710 million, down 15.7% year over year. However, the top line surpassed the Zacks Consensus Estimate of \$693.9 million.

Net interest income slipped 22% on a year-over-year basis to \$458 million in the quarter, on lower short-term rates. In addition, net interest margin contracted 119 basis points (bps) to 2.33%.

Total non-interest income came in at \$252 million, down 1.6% on a year-over-year basis. Lower service charges on deposit accounts, commercial lending fees and foreign exchange income mainly affected the results, partly mitigated by increase in card fees and other non-interest income.

Non-interest expenses totaled \$446 million, up 2.5% year over year. The upswing resulted chiefly from higher salaries and benefits expense, software expense and other non-interest expenses.

Efficiency ratio was 62.79% compared with the prior-year quarter's 51.54%. A rise in ratio indicates a fall in profitability.

### Solid Balance Sheet

As of Sep 30, 2020, total assets and common shareholders' equity were \$83.6 billion and \$7.9 billion, respectively, compared with \$84.4 billion and \$7.8 billion as of Jun 30, 2020.

Total loans declined 2% on a sequential basis to \$52.4 billion. However, total deposits jumped 1.1% from the prior quarter to \$68.5 billion.

### Credit Quality: A Mixed Bag

Total non-performing assets increased 46.3% year over year to \$335 million. Also, allowance for loan losses was \$978 million, up 50%. Additionally, the allowance for loan losses to total loans ratio was 1.87% as of Sep 30, 2020, up from 1.27% on Sep 30, 2019.

However, provision for credit losses was \$5 million, down significantly from the prior-year quarter's \$35 million. Further, net loan charge-offs jumped 21.4% to \$33 million.

### Strong Capital Position

As of Sep 30, 2020, the company's tangible common equity ratio was 8.24%, down 85 bps year over year. Common equity Tier 1 capital ratio was 10.26%, up from 9.96%. Total capital ratio was 13.14%, up from 11.95%.

### Q4 Outlook Compared With Q3

Comerica has provided guidance for fourth-quarter 2020 on expectations of gradual improvement in economic conditions.

Comerica expects average loans to decline. The outlook reflects decline in Mortgage Banker Finance due to a reduction in activity and the cyclical impacts on Middle Market, Large Corporate and Energy, partly offset by growth in National Dealer Services as inventory levels begin to slowly rebuild. Furthermore, average deposits are expected to be strong and relatively stable.

The company projects stable net interest income, affected by lower interest rates and reduced loan balances, partly offset by management of loan and deposit pricing, the full quarter benefit of the larger securities portfolio and lower wholesale funding.

Non-interest income is likely to decline on lower card fees, partially mitigated by growth in several fee categories due to improving economic conditions. Notably, higher bank-owned life insurance, securities trading income and deferred compensation levels recorded in the third quarter are not expected in the fourth.

Non-interest expenses are estimated to flare up, resulting from technology projects and seasonal impact of staff insurance. This is likely to be mostly offset by third quarter levels of deferred compensation and charitable contributions, which are not expected to be repeated.

Provisions for credit losses are expected to be reflective of economic environment, including pace of economic recovery. Net charge-offs are expected to be modestly higher.

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Lastly, the company seeks to maintain strong capital levels with a focus on supporting growth as well as providing an attractive return to shareholders.

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## Recent News

### Dividend Update

On Nov 3, 2020, Comerica announced a quarterly cash dividend of 68 cents per share. The dividend will be paid on Jan 1, 2020 to shareholders of record as of Dec 15, 2020.

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## Valuation

Comerica's shares are down 21.9% in the year-to-date period and 21.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.4% and 5.4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 21.1% and 4.7%, respectively.

The S&P 500 Index is up 16.4% and 16.5% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 14.23X forward 12 months earnings, which compares to 13.43X for the Zacks sub-industry, 16.81X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 23.21X and as low as 4.39X, with a 5-year median of 13.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$59 price target reflects 14.98X forward earnings.

The table below shows summary valuation data for CMA

| Valuation Multiples - CMA |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 14.23 | 13.43        | 16.81  | 22.87   |
|                           | 5-Year High   | 23.21 | 14.2         | 16.81  | 23.79   |
|                           | 5-Year Low    | 4.39  | 8.01         | 11.59  | 15.3    |
|                           | 5-Year Median | 13.61 | 11.55        | 14.45  | 17.81   |
| P/TB TTM                  | Current       | 1.06  | 1.77         | 3.52   | 16.31   |
|                           | 5-Year High   | 2.28  | 2.68         | 4.05   | 16.46   |
|                           | 5-Year Low    | 0.49  | 1.21         | 2.05   | 7.42    |
|                           | 5-Year Median | 1.51  | 2.11         | 3.53   | 10.8    |
| P/S F12M                  | Current       | 2.81  | 3.36         | 7.06   | 4.33    |
|                           | 5-Year High   | 5.23  | 4.59         | 7.06   | 4.29    |
|                           | 5-Year Low    | 1.29  | 2.39         | 5.01   | 3.17    |
|                           | 5-Year Median | 3.27  | 3.59         | 6.1    | 3.68    |

As of 12/23/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 40% (103 out of 255)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                             | Rec     | Rank |
|----------------------------------------------|---------|------|
| The Bank of New York Mellon Corporation (BK) | Neutral | 3    |
| BankUnited, Inc. (BKU)                       | Neutral | 3    |
| Fifth Third Bancorp (FITB)                   | Neutral | 3    |
| KeyCorp (KEY)                                | Neutral | 3    |
| M&T Bank Corporation (MTB)                   | Neutral | 3    |
| Northern Trust Corporation (NTRS)            | Neutral | 3    |
| State Street Corporation (STT)               | Neutral | 3    |
| Truist Financial Corporation (TFC)           | Neutral | 3    |

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

| Industry Comparison Industry: Banks - Major Regional |           |            |           | Industry Peers |         |           |
|------------------------------------------------------|-----------|------------|-----------|----------------|---------|-----------|
|                                                      | CMA       | X Industry | S&P 500   | BKU            | MTB     | NTRS      |
| Zacks Recommendation (Long Term)                     | Neutral   | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                              | 3         | -          | -         | 3              | 3       | 3         |
| VGM Score                                            | C         | -          | -         | D              | F       | F         |
| Market Cap                                           | 7.80 B    | 36.31 B    | 25.78 B   | 3.19 B         | 16.11 B | 19.15 B   |
| # of Analysts                                        | 12        | 9          | 13        | 9              | 7       | 5         |
| Dividend Yield                                       | 4.85%     | 3.14%      | 1.49%     | 2.67%          | 3.50%   | 3.04%     |
| Value Score                                          | B         | -          | -         | B              | D       | D         |
| Cash/Price                                           | 1.54      | 1.84       | 0.06      | 0.12           | 1.44    | 2.52      |
| EV/EBITDA                                            | 1.43      | -0.03      | 14.51     | 11.90          | -0.03   | -8.25     |
| PEG F1                                               | NA        | 2.03       | 2.80      | 6.92           | NA      | 1.48      |
| P/B                                                  | 1.04      | 1.06       | 3.62      | 1.11           | 1.09    | 1.79      |
| P/CF                                                 | 6.20      | 7.62       | 13.84     | 9.41           | 7.43    | 9.67      |
| P/E F1                                               | 19.05     | 14.61      | 22.03     | 18.68          | 13.39   | 15.84     |
| P/S TTM                                              | 2.39      | 2.52       | 2.85      | 2.53           | 2.52    | 2.96      |
| Earnings Yield                                       | 5.21%     | 6.85%      | 4.39%     | 5.36%          | 7.47%   | 6.32%     |
| Debt/Equity                                          | 0.77      | 0.79       | 0.70      | 1.44           | 0.37    | 0.48      |
| Cash Flow (\$/share)                                 | 9.04      | 6.63       | 6.93      | 3.67           | 16.90   | 9.51      |
| Growth Score                                         | F         | -          | -         | D              | F       | F         |
| Historical EPS Growth (3-5 Years)                    | 20.65%    | 9.00%      | 9.71%     | 6.23%          | 14.37%  | 14.34%    |
| Projected EPS Growth (F1/F0)                         | -62.89%   | -32.25%    | 1.26%     | -41.00%        | -31.76% | -12.43%   |
| Current Cash Flow Growth                             | -4.61%    | 2.66%      | 5.23%     | 47.99%         | 5.45%   | -5.52%    |
| Historical Cash Flow Growth (3-5 Years)              | 12.59%    | 9.49%      | 8.33%     | 71.12%         | 11.65%  | 10.90%    |
| Current Ratio                                        | 0.97      | 0.88       | 1.38      | 0.87           | 1.07    | 0.64      |
| Debt/Capital                                         | 42.22%    | 42.22%     | 41.97%    | 58.98%         | 25.32%  | 30.70%    |
| Net Margin                                           | 16.17%    | 18.68%     | 10.40%    | 15.98%         | 21.49%  | 20.72%    |
| Return on Equity                                     | 7.12%     | 7.87%      | 14.99%    | 7.25%          | 9.45%   | 13.07%    |
| Sales/Assets                                         | 0.04      | 0.04       | 0.50      | 0.04           | 0.05    | 0.04      |
| Projected Sales Growth (F1/F0)                       | -13.98%   | -1.77%     | 0.39%     | -1.77%         | -5.00%  | 0.24%     |
| Momentum Score                                       | A         | -          | -         | F              | B       | F         |
| Daily Price Change                                   | 3.53%     | 2.79%      | 0.40%     | 3.29%          | 3.69%   | 1.53%     |
| 1-Week Price Change                                  | -0.11%    | -0.24%     | 0.87%     | 2.70%          | -1.68%  | 2.00%     |
| 4-Week Price Change                                  | 5.18%     | 3.51%      | 0.78%     | 13.67%         | 2.71%   | -5.05%    |
| 12-Week Price Change                                 | 46.56%    | 30.07%     | 14.63%    | 57.46%         | 36.40%  | 17.98%    |
| 52-Week Price Change                                 | -21.91%   | -15.79%    | 5.58%     | -6.33%         | -25.82% | -13.79%   |
| 20-Day Average Volume (Shares)                       | 2,199,632 | 5,119,884  | 2,005,107 | 571,977        | 925,575 | 1,012,963 |
| EPS F1 Estimate 1-Week Change                        | 0.00%     | 0.05%      | 0.00%     | -0.05%         | 0.00%   | -0.13%    |
| EPS F1 Estimate 4-Week Change                        | 0.72%     | 0.10%      | 0.00%     | -0.98%         | 0.01%   | -0.07%    |
| EPS F1 Estimate 12-Week Change                       | 56.73%    | 20.35%     | 3.68%     | 5.44%          | 5.42%   | 2.72%     |
| EPS Q1 Estimate Monthly Change                       | 2.10%     | 0.40%      | 0.00%     | -0.03%         | 0.04%   | -0.47%    |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>F</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>C</b> |

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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## Disclosures

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## 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 forward-looking 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 medium-term price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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