

Curtiss-Wright Corp. (CW)

\$96.87 (As of 09/09/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Curtiss-Wright, going ahead expects to maintain a very solid free cash flow level in 2020 with a targeted adjusted free cash flow conversion rate of at least 130%. Ample scope for increased nuclear power adoption worldwide should boost Curtiss-Wright's power segment. A strong financial position enables the company to maintain a decent capital deployment strategy. Its shares have outperformed the industry in the past year. However, the impact of the COVID-19 pandemic on worldwide demand in the commercial aerospace and general industrial end markets has dragged down its operating results. Further, expanded tariff on import of aluminum and steel and their derivatives may hurt aerospace-defense equipment stocks like Curtiss-Wright. Adverse trends in the U.S. reactor market might weigh on this stock.

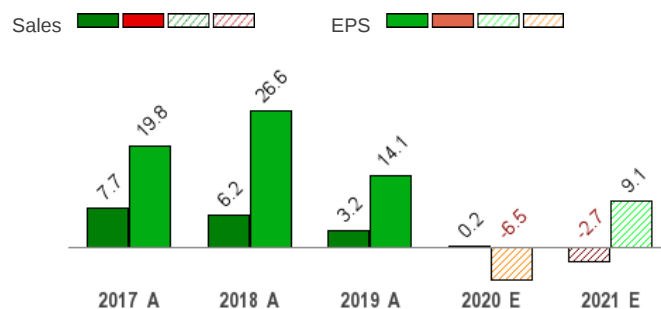
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$149.90 - \$70.56
20-Day Average Volume (Shares)	222,847
Market Cap	\$4.0 B
Year-To-Date Price Change	-31.2%
Beta	1.31
Dividend / Dividend Yield	\$0.68 / 0.7%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 13% (219 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	1.1%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	14.4
P/E F1	14.3
PEG F1	NA
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,425 E
2020	601 A	550 A	565 E	665 E	2,493 E
2019	578 A	639 A	615 A	656 A	2,488 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.57 E	\$1.95 E	\$2.26 E	\$7.42 E
2020	\$1.34 A	\$1.31 A	\$1.54 E	\$2.61 E	\$6.80 E
2019	\$1.30 A	\$1.90 A	\$1.95 A	\$2.12 A	\$7.27 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 09/09/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/10/2020.

Overview

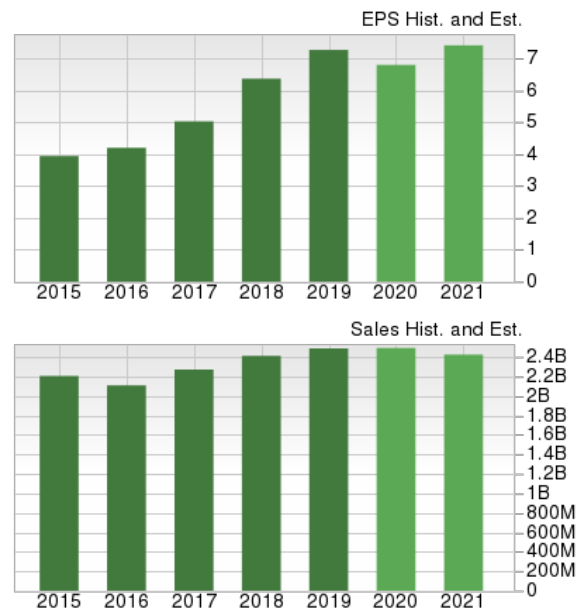
North Carolina-based Curtiss-Wright Corporation, incorporated in July 1929, is a diversified multinational company that designs and overhauls precision components. It provides highly engineered products and services for high-performance platforms, and critical applications in key areas such as commercial aerospace and defense electronics, reactor coolant pumps for next-generation nuclear reactors as well as advanced surface treatment technologies. The company's products and services are offered to the aerospace, defense, general industrial and power generation markets.

Curtiss-Wright operates through three business segments namely — Commercial/Industrial, Defense and Power.

Commercial/Industrial: This business segment offers industrial vehicle products such as electronic throttle control devices, joysticks and transmission shifters; sensors, controls and electro-mechanical actuation components and utility systems used on commercial aircraft; valves to both the industrial and naval defense markets; and surface technology services such as shot peening, laser peening, coatings and advanced analytical testing. It generated sales of \$1.24 billion in 2019, representing 49.8% of total sales.

Defense: This segment provides commercial off-the-shelf (COTS) embedded computing board level modules, integrated subsystems, flight test equipment, instrumentation and control systems, turret aiming and stabilization products, and weapons handling systems. The unit also offers avionics and electronics, flight test equipment, and aircraft data management solutions to the commercial aerospace market. It generated sales of \$0.58 billion in 2019, representing 23.3% of total sales.

Power: This unit offers a wide range of hardware, pumps, valves, fastening systems, specialized containment doors, airlock hatches, spent fuel management products, and fluid sealing technologies. It provides Reactor Coolant Pump (RCP) technology, pump seals, and control rod drive mechanisms for commercial nuclear power plants, primarily to support the Westinghouse AP1000 reactor design. Sales from this division totaled \$0.67 billion in 2019, representing 26.9% of total sales.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Worldwide, a historical shift toward adopting alternative energy sources is on the rise, to reduce emission of greenhouse gases. Hence, long-term growth prospects of nuclear power market seem constructive. According to the World Nuclear Association, as of the end of March 2020, nuclear energy provided about 10% of the world's electricity from about 440 power reactors. In the United States, about one-fifth of electricity comes from nuclear. Nuclear is the world's second largest source of low-carbon power. With continued growth in its global demand, especially in developing countries with limited power supply such as China and India, increased capacity of nuclear power will be needed. About 50 more reactors are under construction worldwide, equivalent to approximately 15% of existing capacity. This indicates ample scope for increased nuclear power adoption worldwide, which, in turn, should boost Curtiss-Wright's power segment that serves the nuclear power market. This may have boosted investor confidence in the stock, which has lost 26.4% in the past year compared with the industry's 39.2% plunge.
- ▲ Currently, China plans to expand its nuclear power capabilities significantly through the construction of new nuclear power plants. The strong impetus for developing new nuclear power in China comes from the need to improve urban air quality and reduce greenhouse gas emissions. The nation's government has a long-term target, as outlined in its Energy Development Strategy Action Plan 2014-2020, to enhance its nuclear capacity to 58 gigawatt electrical (GWe) by 2020, with 30 GWe more under construction. To this end, the nation is constructing Westinghouse AP1000 reactor —the most advanced and economical commercially available nuclear power plant. Interestingly, Curtiss-Wright provides Reactor Coolant Pumps (RCPs) and control rod drive mechanisms that support the Westinghouse AP1000 reactor design. In the United States, two new build reactors are under construction in Georgia utilizing the AP1000 design. The company expects to generate increased revenues from the AP1000 program in 2020 and beyond.
- ▲ Curtiss-Wright's cash and cash equivalents were \$155 million at the end of second- quarter 2020, compared with \$158 million as of Mar 31, 2020. Its long-term debt was \$972 million as of Jun 30, 2020, compared with \$1,047 million at the end of Mar 31, 2020. Although its long-term debt is higher than its cash reserve, its impressive financial ratios indicate that the company does not hold a weak solvency position. Evidently, the company's debt-to-capital ratio of 0.36 as of Jun 30, 2020 declined sequentially from 0.39. Moreover, its current ratio of 1.91 at the end of second-quarter 2020, being higher than 1, indicates that the company holds sufficient cash in hand to meet its obligations. Such solid financial ratios reflect that the company will be able to pay off its debt obligations, at least in the near term.

Increased adoption of nuclear power, especially in China, bodes well for the company. Its impressive financial ratios should have encouraged its investors

Such strong financial position also enables the company to maintain a decent capital deployment strategy. Notably, during the first six months of 2020, Curtiss-Wright spent \$125 million for share buyback compared with only \$25 million utilized in the prior-year period. On Dec 2, 2019, Curtiss-Wright adopted two written trading plans in connection with its previously authorized share repurchase program, which allow purchase of its outstanding common stock of up to \$200 million. Going ahead, Curtiss-Wright expects to maintain a very solid free cash flow level in 2020 with a targeted adjusted free cash flow conversion rate of at least 130%, despite any potential impacts from COVID-19 on its operations. The fact that this expected conversion rate is better than the company's earlier projection of 100%, amid the ongoing uncertainties, should boost investor confidence in this stock.

Reasons To Sell:

- ▼ U.S. reactor operators have been facing increased security and post-Fukushima regulatory requirements over the past few years. All of these factors led the plant operators to divert and defer their typical plant capital expenditure budgets significantly away from planned maintenance. A reversal of this situation is unlikely in the near term, as a result of which Curtiss-Wright's growth prospects seem to be gloomy in the United States.
- ▼ In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, stating that from Feb 8, steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concern by saying that such a tariff will raise cost and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, the growth prospects for aerospace and defense equipment stocks like Curtiss-Wright seem bleak.
- ▼ Starting from the second quarter, Curtiss-Wright begun to feel the heat of the COVID-19 pandemic and the consequent impacts. Evidently, sales from its Commercial/Industrial segment declined 27% year over year in the reported quarter, courtesy of the COVID-19 impact. Moreover, the company experienced operational interruptions as a result of COVID-19, including the temporary suspension of operations due to government imposed restrictions at its facilities in Mexico and India. Additionally, certain portions of its workforce might have not been able to work effectively due to quarantines, government orders and guidance, travel restrictions, and other precautionary measures and restrictions. This could have an adverse effect on the productivity and profitability of such manufacturing facilities, which could adversely impact its business and operations.

Increased tariff imposition on import of aluminum and growing impact of the coronavirus pandemic may hurt this stock's growth

Curtiss-Wright experienced and expects to continue to experience unpredictable demand volatility for commercial aerospace and general industrial end markets. Approximately 17% of the company's net sales for 2019 were derived from sales to commercial aerospace customers. These sales will be impacted due to current travel restrictions, as well as changes in the propensity of the general public to travel by air as a result of the COVID-19 pandemic, which have caused reductions in demand for commercial aircraft. On the other hand, an overall reduction in business activity as a result of the disruption caused by COVID-19 has led to a decrease in global demand for oil, thereby contributing to a substantial decline in oil prices. Approximately 23% of the company's net sales in 2019 were derived from sales to the general industrial market, which includes oil and gas sales. Notably, a downward economic cycle in the oil and gas market affects Curtiss-Wright's customers, which could result in industrial valve sales to the downstream markets being negatively impacted.

Last Earnings Report

Curtiss-Wright Q2 Earnings and Sales Beat Estimates

Curtiss-Wright reported second-quarter 2020 adjusted earnings of \$1.31 per share, which surpassed the Zacks Consensus Estimate of \$1.29 by 1.6%. The bottom line, however, declined 31% from \$1.90 in the prior-year quarter.

Excluding one-time items, GAAP earnings came in at 74 cents per share, down 60% from \$1.86 registered in the year-ago quarter.

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	1.08%
EPS Surprise	1.55%
Quarterly EPS	1.31
Annual EPS (TTM)	6.72

Operational Performance

In the quarter under review, the company's total sales of \$550 million declined 14% year over year. The top line, however, surpassed the Zacks Consensus Estimate of \$544 million by 1.1%.

Gross profit declined 19% year over year to \$186 million. Operating income of \$55.3 million plunged 48% from \$105.7 million a year ago.

Curtiss-Wright's total backlog at the end of the second quarter was \$2.2 billion, increasing 1% from Dec 31, 2019. New orders of \$620 million were up 3%, led by strong growth in naval defense.

Segmental Performance

Commercial/Industrial: Sales in this segment decreased 27% year over year to \$213.6 million. The decline in sales was primarily due to reduced demand resulting from the impact of the COVID-19 pandemic, alongside lower commercial aerospace market revenues and reduced general industrial market sales.

While operating income plunged 72% to \$14.4 million, operating margin contracted 720 basis points (bps) to 10.3%.

Defense: Sales at this segment improved 7% year over year to \$170 million. This can be attributed to higher sales of embedded computing equipment on various Intelligence, Surveillance and Reconnaissance (ISR) programs, including fighter jets and Unmanned Aerial Vehicle (UAV) platforms.

Meanwhile, adjusted operating income declined 15% to \$27.9 million, whereas adjusted operating margin expanded 60 bps to 21.6%.

Power: Sales at this segment declined 11% year over year to \$166.4 million on account of lower naval defense market revenues and reduced power generation market sales.

While adjusted operating income fell 34% to \$21.3 million, operating margin contracted 100 bps to 16.7%.

Financial Update

Curtiss-Wright ended second-quarter 2020 with cash and cash equivalents of \$155.4 million, down 60% from \$391 million as of Dec 31, 2019. Long-term debt summed \$834.8 million compared with \$760.6 million as of Dec 31, 2019.

Net cash flow from operating activities amounted to \$140.4 million at the end of second-quarter 2020, up from \$92.2 million a year ago.

Adjusted free cash flow at the end of the quarter was \$130 million, up 71% compared to the prior-year period. During the second quarter, the company repurchased 132,443 shares of its common stock for approximately \$13 million.

2020 Guidance

Curtiss-Wright reiterated its financial guidance for 2020. The company continues to expect adjusted earnings of \$6.60-\$6.85 per share. The Zacks Consensus Estimate for the company's full-year earnings is pegged at \$6.38, below the company's guidance range.

Apart from this, Curtiss-Wright continues to expect adjusted free cash flow in the range of \$350-\$380 million for the current year.

Valuation

Curtiss Wright's shares are down 31.3% in the year to date period and 26.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 42.1% and 34.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 39.2% while the sector is down 37.2%.

The S&P 500 index is up 5.6% in the year-to-date period and 13.8% in the past year.

The stock is currently trading at 13.4X forward 12-month earnings, which compares to 22X for the Zacks sub-industry, 20.3X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.9X and as low as 10X, with a 5-year median of 18.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$103 price target reflects 14.3X earnings value.

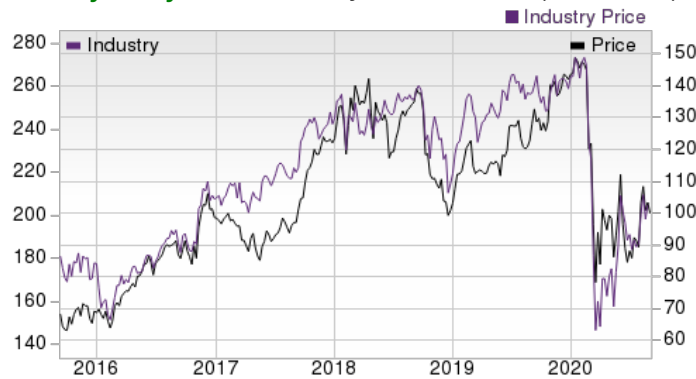
The table below shows summary valuation data for CW

Valuation Multiples - CW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.4	22.02	20.31	22.61
	5-Year High	25.89	23.54	21.04	23.44
	5-Year Low	9.96	12.99	14.17	15.26
	5-Year Median	18.79	17.3	17.33	17.63
P/S F12M	Current	1.65	1.41	1.65	4.16
	5-Year High	2.59	1.44	1.69	4.29
	5-Year Low	1.24	1.79	0.92	3.11
	5-Year Median	1.89	1.06	1.23	3.66
EV/EBITDA TTM	Current	9.54	9.34	15.95	14.73
	5-Year High	15.1	12.18	16.69	15.6
	5-Year Low	7.11	5.85	7.38	9.51
	5-Year Median	11.76	8.87	10.6	13

As of 09/09/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 13% (219 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
AAR Corp. (AIR)	Neutral	4
Aerojet Rocketdyne Holdings, Inc. (AJRD)	Neutral	3
CAE Inc (CAE)	Neutral	3
Heico Corporation (HEI)	Neutral	3
Hexcel Corporation (HXL)	Neutral	4
Meggitt PLC Un-sponsored ADR (MEGGY)	Neutral	3
Moog Inc. (MOG.A)	Neutral	3
Triumph Group, Inc. (TGI)	Neutral	4

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	CW	X Industry	S&P 500	CAE	HXL	TGI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	A	-	-	F	B	D
Market Cap	4.03 B	1.66 B	23.35 B	3.96 B	3.16 B	341.08 M
# of Analysts	4	4	14	4	5	5
Dividend Yield	0.70%	0.00%	1.63%	1.66%	0.00%	0.00%
Value Score	A	-	-	D	B	D
Cash/Price	0.04	0.16	0.07	0.07	0.08	0.08
EV/EBITDA	8.88	8.20	13.13	8.71	7.33	7.78
PEG F1	NA	8.21	2.97	9.67	6.90	NA
P/B	2.36	2.20	3.22	2.34	2.20	NA
P/CF	9.96	7.89	12.52	7.95	7.15	1.22
P/E F1	14.12	32.05	21.45	77.35	38.89	NA
P/S TTM	1.66	1.25	2.48	1.58	1.53	0.13
Earnings Yield	7.02%	2.61%	4.45%	1.28%	2.57%	-7.02%
Debt/Equity	0.49	0.38	0.70	1.09	0.88	-1.49
Cash Flow (\$/share)	9.72	2.26	6.93	1.87	5.29	5.37
Growth Score	B	-	-	F	B	F
Historical EPS Growth (3-5 Years)	18.25%	9.93%	10.41%	8.57%	8.21%	-21.37%
Projected EPS Growth (F1/F0)	-6.43%	-17.58%	-4.73%	-80.75%	-72.54%	-116.97%
Current Cash Flow Growth	7.60%	12.73%	5.22%	25.12%	12.73%	28.84%
Historical Cash Flow Growth (3-5 Years)	7.51%	5.99%	8.49%	9.68%	9.27%	-6.18%
Current Ratio	1.91	2.51	1.35	1.17	3.86	1.49
Debt/Capital	32.76%	32.58%	42.95%	52.17%	46.81%	NA
Net Margin	10.52%	4.46%	10.25%	4.34%	9.48%	-12.14%
Return on Equity	16.75%	8.21%	14.59%	11.03%	14.73%	-12.76%
Sales/Assets	0.67	0.73	0.50	0.43	0.64	1.00
Projected Sales Growth (F1/F0)	0.22%	0.00%	-1.42%	-18.62%	-31.05%	-36.89%
Momentum Score	C	-	-	D	B	A
Daily Price Change	0.35%	0.00%	1.39%	-0.67%	-0.89%	-3.39%
1-Week Price Change	-3.27%	-1.72%	-1.28%	-7.32%	-3.35%	-3.08%
4-Week Price Change	-10.18%	-7.08%	-1.22%	-8.93%	-9.05%	-11.84%
12-Week Price Change	3.28%	-4.29%	5.76%	-14.47%	-17.07%	-35.08%
52-Week Price Change	-26.40%	-20.40%	-0.03%	-41.05%	-53.61%	-73.29%
20-Day Average Volume (Shares)	222,847	139,320	1,805,652	355,414	478,654	1,209,249
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	-63.99%	-6.90%	-84.00%
EPS F1 Estimate 12-Week Change	5.59%	0.00%	3.99%	-64.12%	-23.06%	-212.65%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-130.77%	-23.64%	-18.28%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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