

## Danaher Corporation (DHR)

**\$224.96** (As of 02/22/21)

Price Target (6-12 Months): **\$260.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**  
(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5) **2-Buy**

Zacks Style Scores: VGM:C

Value: D | Growth: B | Momentum: B

### Summary

In the past year, Danaher's shares have outperformed the industry. In fourth-quarter 2020, the company's earnings and sales surpassed estimates by 13% and 0.1%, respectively. In the quarters ahead, it is poised to gain from Danaher Business System ("DBS"), policy of rewarding shareholders and investment in product innovation. Also, its inorganic activities, including acquisitions and divestments, are boons. For 2021, the company anticipates core revenues growth in low-double digits, whereas it reported a 9.5% increase in 2020. Growth opportunities within the Life Sciences and Diagnostics segments will likely be beneficial for the company. The pandemic-led tailwinds are expected to boost core sales by 5% in 2021. In the past 30 days, the company's earnings estimates have been revised upward for 2021.

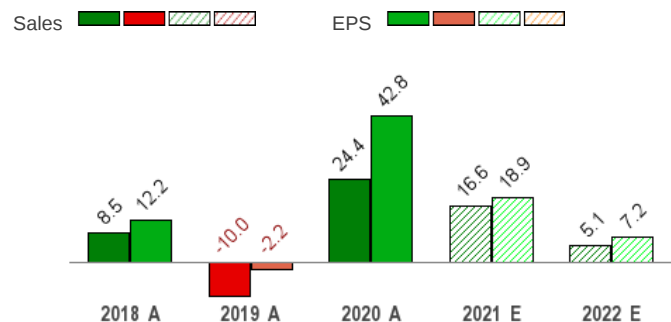
### Price, Consensus & Surprise



### Data Overview

|                                |                          |
|--------------------------------|--------------------------|
| 52-Week High-Low               | \$248.86 - \$119.60      |
| 20-Day Average Volume (Shares) | 2,393,838                |
| Market Cap                     | \$164.3 B                |
| Year-To-Date Price Change      | 4.1%                     |
| Beta                           | 0.68                     |
| Dividend / Dividend Yield      | \$0.72 / 0.3%            |
| Industry                       | Diversified Operations   |
| Zacks Industry Rank            | Top 42% (106 out of 253) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 13.0%      |
| Last Sales Surprise           | 0.1%       |
| EPS F1 Estimate 4-Week Change | 3.9%       |
| Expected Report Date          | 05/05/2021 |
| Earnings ESP                  | 0.0%       |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 | 6,462 E | 6,745 E | 6,899 E | 7,541 E | 27,310 E |
| 2021 | 6,051 E | 6,248 E | 6,491 E | 7,183 E | 25,974 E |
| 2020 | 4,343 A | 5,297 A | 5,883 A | 6,760 A | 22,284 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.91 E | \$2.00 E | \$2.04 E | \$2.25 E | \$8.04 E |
| 2021 | \$1.67 E | \$1.77 E | \$1.89 E | \$2.15 E | \$7.50 E |
| 2020 | \$1.05 A | \$1.44 A | \$1.72 A | \$2.08 A | \$6.31 A |

\*Quarterly figures may not add up to annual.

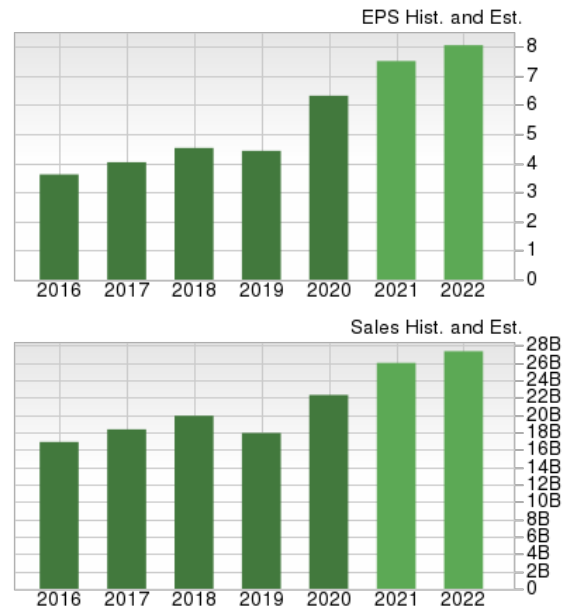
|         |      |
|---------|------|
| P/E TTM | 36.8 |
| P/E F1  | 30.0 |
| PEG F1  | 2.8  |
| P/S TTM | 7.4  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/22/2021. The report's text and the analyst-provided price target are as of 02/23/2021.

## Overview

Danaher Corporation is a global conglomerate that designs, manufactures and markets diverse lines of professional, industrial, commercial and consumer products. It is headquartered in Washington, DC. The company's segmental details are provided below:

- **Life Sciences** (49.7% of revenues generated in fourth-quarter 2020) segment offers a broad range of research tools used to analyze a range of critical areas — including genes, proteins, metabolites and cells — to understand the causes of diseases, identify new therapies, and test new drugs and vaccines. It also provides filtration, separation and purification technologies to a range of industries, such as biopharmaceutical, food and beverage, medical, aerospace, microelectronics, and general industrial.
- **Diagnostics** (32.9%) segment offers analytical instruments, reagents, consumables, software and services that are deployed in hospitals, physicians' offices, reference laboratories and other critical care settings. It helps to diagnose diseases and take suitable treatment decisions.
- **Environmental & Applied Solutions** (17.4%) segment offers products and services to keep global food and water supplies safe. It offers instrumentation, consumables, services and disinfection systems to help analyze, treat and manage the quality of ultra-pure, potable, waste, ground, source and ocean water. Moreover, the product identification businesses develop and manufacture equipment, consumables and software for various printing, marking, coding, packaging, design and color management applications.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ In the past year, Danaher's shares have gained 43.8% compared with the industry's growth of 17.9%. In fourth-quarter 2020, the company's earnings surpassed estimates by 13%, while sales exceeded the same by 0.1%. On a year-over-year basis, the bottom line increased 62.5% on growth in sales and expansion in operating margin. It is worth mentioning that the pandemic-induced demand for products increased quarterly sales by 12%. In the quarters ahead, the DBS' initiatives — which enabled the company to focus more on product innovation, superior product quality, building an efficient workforce and enhancing shareholder value — might be beneficial. The COVID-related tailwinds are predicted to boost core sales by 13% in the first quarter and by 5% in 2021. In the past 30 days, earnings estimates for Danaher have moved 3.9% north for 2021 and 5.2% for 2022. Estimates for the first quarter of 2021 also grew by 7.1% in the same time period.
- ▲ Based on the market trends, Danaher expects healthy demand for bioprocessing products to be beneficial for the Life Sciences segment. To help the company tap benefits from the demand increase, owing to the pandemic, initiatives are being taken to expand production capacity at Cytiva and Pall Biotech. For 2021, the company anticipates the demand for therapeutics and COVID-related vaccines to contribute \$1.3 billion to Cytiva and Pall Biotech revenues. Also, activities at non-COVID bioprocessing business are expected to remain healthy. For the Diagnostics segment, the company believes healthy demand for products related to molecular testing will be beneficial. Notably, it anticipates supplying as many as 9 million Cepheid tests in each quarter of 2021. In addition, healthy consumables business and a solid demand for equipment will be favorable for the Environmental & Applied Solutions segment. Danaher anticipates core revenues, including Cytiva, to grow in mid- to high-teens in the first quarter of 2021. The same is predicted to increase in low-double digits in 2021, whereas it recorded growth of 9.5% in 2020.
- ▲ Over time, Danaher has relied on inorganic activities to boost its competency. The company acquired Labcyte Corporation in January 2019 and added General Electric's BioPharma business to its portfolio in March 2020. The BioPharma buyout complements Danaher's biologics workflow solutions of the Life Sciences segment. It works as an operating company (stand-alone) — Cytiva. Talking about divestments, Danaher divested its dental business to Envista in September 2019 and closed the disposition of its stake in Envista in December 2019. Also, in April 2020, it completed the divestment of certain assets belonging to its Life Sciences segment to Sartorius AG. In fourth-quarter 2020, acquisitions/divestments boosted the company's sales by 24.5%. Cytiva's contribution to sales growth was 3.5% in the quarter.
- ▲ Danaher remains committed to rewarding its shareholders handsomely through dividend payments. In 2020, the company used \$615 million of funds to pay out dividends, reflecting growth of 16.7% from the previous year. It is worth mentioning here that the company announced a hike of one cent per share in the quarterly dividend rate in February 2020. In addition, the company provided its long-term targets in January this year. It anticipates core revenue growth to be in mid-single digits for the long run. Margin expansion is predicted to be 50-75 basis points (bps), while free cash flow conversion will be greater than 100% of net income. Also, investments in acquisitions will be given priority. Earnings growth in the long term is anticipated to be in double-digits.

Danaher is expected to benefit from its DBS initiatives, inorganic moves and shareholder-friendly policies. Also, strength across Life Sciences and Diagnostics segments might be growth drivers.

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## Risks

- Rising cost of sales has been a major cause of concern for Danaher. Its cost of sales increased 29.7% year over year in the fourth quarter and 23.7% in 2020. Also, operating expenses (including selling, general and administrative, and research and development expenses) flared up 35% year over year in the fourth quarter of 2020 and 22.8% in 2020. Escalating costs, if unchecked, might have adverse impacts on the company's margins and profitability in the quarters ahead.
  - In order to finance buyout activities and working capital needs, sometimes Danaher generates funds through the issuance of long-term debt instruments and equities. This, in turn, could affect its cost of funds, liquidity and access to capital markets in case of a downgrade in investment grade ratings. To fund the acquisition of the BioPharma business, the company raised funds through the issuance of common and preferred shares. It is worth mentioning here that Danaher's long-term debt at the end of the fourth quarter of 2020 stood at \$21.2 billion. During the year, the company raised \$8,670 million through borrowings, with maturity of more than 90 days, and its repayments amounted to \$5,933 million. Notably, the company's interest expenses increased 63.6% year over year in the fourth quarter of 2020 and surged 154.6% year over year in 2020. High debts, if unchecked, might further inflate the company's financial obligations and hurt profitability.
  - The company has operations in multiple nations and such business diversifications have exposed it to risks arising from unfavorable movements in foreign currencies, geopolitical issues and other headwinds. Though the foreign currency translation had positive impacts on fourth-quarter 2020 results, any adverse movement in foreign currencies in future might adversely influence results. Also, the company's business is overseen by a number of U.S. and non-U.S. governmental and self-regulatory entities. The entities ensure Danaher's compliance with multiple regulations related to import laws, export control and economic sanctions laws, restricting its scope. Further, any change in governmental regulations may curb the demand for the company's product or service portfolio and elevate expenses.
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## Last Earnings Report

### Danaher Q4 Earnings Beat Estimates, Sales View Solid

Danaher has reported impressive results for the fourth quarter of 2020, with earnings surpassing estimates by 13%. Also, the company's sales surpassed the consensus estimate by 0.1%.

Danaher's adjusted earnings were \$2.08 per share in the reported quarter, which surpassed the Zacks Consensus Estimate of \$1.84. Also, the bottom line increased 62.5% from the year-ago quarter's figure of \$1.28 mainly on sales growth and improved operating margin.

In 2020, the company's adjusted earnings were \$6.31 per share, reflecting growth of 42.8% from the previous year. Also, the bottom line surpassed the Zacks Consensus Estimate of \$6.06.

Quarter Ending 12/2020

|                  |              |
|------------------|--------------|
| Report Date      | Jan 28, 2021 |
| Sales Surprise   | 0.10%        |
| EPS Surprise     | 13.04%       |
| Quarterly EPS    | 2.08         |
| Annual EPS (TTM) | 6.29         |

### Revenue Details

In the quarter under review, the company's net sales were \$6,760 million, reflecting year-over-year growth of 38.9%. The results were driven by solid segmental performances. Organic sales in the quarter increased 12% and foreign-currency translations had a positive impact of 2.5%. Also, acquisitions/divestments boosted sales by 24.5%.

As noted, Cytiva had a 3.5% positive contribution on sales growth in the quarter. Organic sales, including the impact of Cytiva, increased 15.5% year over year. Also, the pandemic-induced demand for products boosted sales by 12%.

Also, the company's top line surpassed the Zacks Consensus Estimate of \$6,753 million.

It reports net sales under three segments — Life Sciences, Diagnostics, and Environmental & Applied Solutions. The segmental information is briefly discussed below:

Revenues for the **Life Sciences** segment totaled \$3,361 million, rising 75.5% year over year. Acquisitions/divestments had a positive contribution of 62% to sales growth, while foreign-currency translations boosted sales by 3%. Core sales grew 10.5% year over year.

Cytiva had a positive impact of 8% and including this, organic sales in the quarter increased 18.5% year over year.

Revenues in the **Diagnostics** segment grossed \$2,227 million, increasing 23.5% year over year. The improvement came on the back of a 21.5% rise in core sales and a 2% gain from foreign-currency translations.

Revenues in the **Environmental & Applied Solutions** segment totaled \$1,172 million, increasing 2% year over year. Core sales expanded 1%, while acquisitions and foreign currency translation had positive impacts of 0.5% and 0.5%, respectively.

For 2020, the company's net sales totaled \$22.28 billion, reflecting growth from The Zacks Consensus Estimate of \$21.95 billion. Also, the results increased 24.4% on a year-over-year basis.

### Margin Profile

In the quarter under review, Danaher's cost of sales increased 29.7% year over year to \$2,806 million. It represented 41.5% of net sales compared with 44.5% in the year-ago quarter. Gross profit increased 46.2% year over year to \$3,954 million, while margin increased 290 basis points (bps) year over year to 58.5%.

Selling, general and administrative expenses of \$1,957 million witnessed a year-over-year increase of 35.1%. As a percentage of net sales, it represented 29% versus 29.8% in the year-ago quarter. Research and development expenses were \$396 million, which rose 34.7% year over year. It represented 5.9% of net sales versus 6% in the year-ago quarter.

Operating income in the quarter under review increased 66.6% year over year to \$1,601 million. Operating margin increased 390 bps to 23.7% in the quarter. Interest expenses in the quarter totaled \$72 million, higher than \$44 million reported in the year-ago quarter.

### Balance Sheet and Cash Flow

Exiting the fourth quarter, Danaher had cash and cash equivalents of \$6,035 million, up 6.1% from \$5,687.7 million at the end of the last reported quarter. Long-term debt balance decreased 2.8% sequentially to \$21,193 million.

In 2020, the company raised \$8,670 million through borrowings, with a maturity of more than 90 days. It also repaid \$5,933 million borrowings, with a maturity of more than 90 days.

In 2020, the company generated net cash of \$6,215 million from operating activities (continuing operations), reflecting a year-over-year increase of 69.9%. Capital used for purchasing property, plant and equipment totaled \$791 million versus \$636 million in the previous year. Free cash flow in the year improved 79% year over year to \$5,426 million.

The company paid out dividends worth \$615 million to its shareholders in 2020, reflecting an increase of 16.7% from the previous year.

### Outlook

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In the quarters ahead, DanaHER expects to benefit from a solid product portfolio, dedicated workforce and a strong balance sheet.

For the first quarter of 2021, the company expects core revenues, including Cytiva, to grow in mid- to high-teens. The same is predicted to increase in low-double digits in 2021, whereas it recorded 9.5% in 2020.

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## Recent News

### Acquisition

On **Feb 1, 2021**, Danaher's Cytiva announced that it acquired Canada-based Vanrx Pharmsystems for an undisclosed amount. Notably, Vanrx is a specialist in making robotic aseptic filling machines.

### Dividend

On **Jan 29, 2021**, Danaher paid a quarterly cash dividend of 18 cents per share to shareholders of record as of Dec 28.

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## Valuation

Danaher shares are up 1.6% and 43.8% in the year-to-date and trailing 12-month periods, respectively. Year-to-date, both the Zacks sub-industry and the Zacks Conglomerates sector increased 3.1%. On the other hand, the stocks in both the Zacks sub-industry and the Zacks Conglomerates sector have moved up 17.9% over the past year.

The S&P 500 index has increased 3.7% in the year-to-date period and grew 22.3% in the past year.

The stock is currently trading at 29.75x forward 12-month earnings, which compares to 27.17x for both the Zacks sub-industry and the Zacks sector, and 22.48x for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.87x and as low as 15.64x, with a 5-year median of 22.04x. Our Outperform recommendation indicates the stock to perform better than the market. Our \$260 price target reflects 34.3x forward 12-month earnings per share.

The table below shows summary valuation data for DHR.

| Valuation Multiples - DHR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 29.75 | 27.17        | 27.17  | 22.48   |
|                           | 5-Year High   | 37.87 | 27.41        | 27.41  | 23.8    |
|                           | 5-Year Low    | 15.64 | 15.72        | 15.72  | 15.3    |
|                           | 5-Year Median | 22.04 | 18.63        | 18.63  | 17.84   |
| P/Sales F12M              | Current       | 6.12  | 4.85         | 4.85   | 4.52    |
|                           | 5-Year High   | 7.3   | 4.85         | 4.85   | 4.52    |
|                           | 5-Year Low    | 2.36  | 2.28         | 2.28   | 3.21    |
|                           | 5-Year Median | 3.54  | 3.06         | 3.06   | 3.68    |

As of 02/22/2021 Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Top 42% (106 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                    | Rec        | Rank |
|-------------------------------------|------------|------|
| ParkerHannifin Corporation (PH)     | Outperform | 2    |
| Abbott Laboratories (ABT)           | Neutral    | 2    |
| Ecolab Inc. (ECL)                   | Neutral    | 3    |
| General Electric Company (GE)       | Neutral    | 4    |
| 3M Company (MMM)                    | Neutral    | 3    |
| Stryker Corporation (SYK)           | Neutral    | 3    |
| Thermo Fisher Scientific Inc. (TMO) | Neutral    | 3    |
| Xylem Inc. (XYL)                    | Neutral    | 3    |

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

| Industry Comparison Industry: Diversified Operations |            |            |           | Industry Peers |           |            |
|------------------------------------------------------|------------|------------|-----------|----------------|-----------|------------|
|                                                      | DHR        | X Industry | S&P 500   | GE             | MMM       | PH         |
| Zacks Recommendation (Long Term)                     | Outperform | -          | -         | Neutral        | Neutral   | Outperform |
| Zacks Rank (Short Term)                              | 2          | -          | -         | 4              | 3         | 2          |
| VGM Score                                            | C          | -          | -         | C              | A         | B          |
| Market Cap                                           | 164.27 B   | 3.87 B     | 27.70 B   | 105.39 B       | 102.23 B  | 36.11 B    |
| # of Analysts                                        | 9          | 3          | 13        | 7              | 7         | 11         |
| Dividend Yield                                       | 0.31%      | 0.57%      | 1.43%     | 0.33%          | 3.35%     | 1.26%      |
| Value Score                                          | D          | -          | -         | B              | B         | C          |
| Cash/Price                                           | 0.04       | 0.20       | 0.06      | 0.42           | 0.05      | 0.02       |
| EV/EBITDA                                            | 25.51      | 12.59      | 15.15     | 9.38           | 13.33     | 17.99      |
| PEG F1                                               | 2.76       | 2.10       | 2.38      | 11.58          | 1.94      | 1.70       |
| P/B                                                  | 4.13       | 1.35       | 3.87      | 2.84           | 7.88      | 5.07       |
| P/CF                                                 | 23.22      | 9.41       | 15.75     | 17.89          | 14.52     | 18.67      |
| P/E F1                                               | 29.99      | 19.57      | 20.80     | 49.21          | 18.48     | 20.03      |
| P/S TTM                                              | 7.37       | 1.50       | 3.10      | 1.32           | 3.18      | 2.67       |
| Earnings Yield                                       | 3.24%      | 4.48%      | 4.73%     | 2.00%          | 5.42%     | 4.99%      |
| Debt/Equity                                          | 0.53       | 0.71       | 0.66      | 1.90           | 1.39      | 0.93       |
| Cash Flow (\$/share)                                 | 9.71       | 2.28       | 6.65      | 0.70           | 12.13     | 15.12      |
| Growth Score                                         | B          | -          | -         | D              | B         | B          |
| Historical EPS Growth (3-5 Years)                    | 5.52%      | 13.97%     | 9.34%     | -39.64%        | 2.00%     | 15.82%     |
| Projected EPS Growth (F1/F0)                         | 18.86%     | 16.25%     | 14.09%    | 2,342.90%      | 9.33%     | 29.43%     |
| Current Cash Flow Growth                             | 54.56%     | 6.24%      | 1.92%     | -45.62%        | 1.21%     | -2.94%     |
| Historical Cash Flow Growth (3-5 Years)              | 11.93%     | 7.45%      | 7.62%     | -19.35%        | 1.95%     | 7.19%      |
| Current Ratio                                        | 1.86       | 1.57       | 1.39      | 1.58           | 1.88      | 1.50       |
| Debt/Capital                                         | 34.76%     | 41.52%     | 41.22%    | 65.47%         | 58.18%    | 48.11%     |
| Net Margin                                           | 16.37%     | 2.58%      | 10.60%    | 7.16%          | 16.73%    | 10.60%     |
| Return on Equity                                     | 13.64%     | 5.23%      | 14.86%    | 1.96%          | 44.24%    | 23.93%     |
| Sales/Assets                                         | 0.31       | 0.71       | 0.51      | 0.31           | 0.70      | 0.68       |
| Projected Sales Growth (F1/F0)                       | 16.56%     | 3.43%      | 6.63%     | 1.22%          | 6.72%     | 1.96%      |
| Momentum Score                                       | B          | -          | -         | C              | B         | A          |
| Daily Price Change                                   | -2.48%     | 0.01%      | 0.01%     | 3.99%          | -0.24%    | 0.92%      |
| 1-Week Price Change                                  | -5.96%     | -0.00%     | -0.16%    | 2.47%          | -1.21%    | 1.26%      |
| 4-Week Price Change                                  | -5.31%     | 4.73%      | 2.51%     | 13.74%         | 3.36%     | 4.65%      |
| 12-Week Price Change                                 | 0.39%      | 20.31%     | 7.83%     | 22.79%         | 1.96%     | 5.63%      |
| 52-Week Price Change                                 | 43.79%     | 10.98%     | 12.31%    | 5.40%          | 15.45%    | 38.99%     |
| 20-Day Average Volume (Shares)                       | 2,393,838  | 103,164    | 2,026,525 | 72,262,760     | 2,744,944 | 1,038,414  |
| EPS F1 Estimate 1-Week Change                        | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.05%      |
| EPS F1 Estimate 4-Week Change                        | 3.86%      | 0.00%      | 0.64%     | -23.36%        | 0.59%     | 13.23%     |
| EPS F1 Estimate 12-Week Change                       | 5.87%      | 0.32%      | 1.96%     | -13.53%        | 2.14%     | 16.24%     |
| EPS Q1 Estimate Monthly Change                       | 7.48%      | 0.00%      | 0.27%     | -55.00%        | -2.49%    | 11.80%     |

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    | D |
| Growth Score   | B |
| Momentum Score | B |
| VGM Score      | C |

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

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## 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.

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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 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.