

Digital Realty Trust (DLR)

\$138.22 (As of 11/09/20)

Price Target (6-12 Months): **\$155.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/08/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Digital Realty's better-than-expected third-quarter 2020 core funds from operations (FFO) per share reflects decent leasing activities and strong signed total bookings. The company has raised its core FFO per share outlook for 2020. Notably, data centers are poised to benefit from heightening reliance on technology and acceleration in digital transformation strategies by enterprises amid the coronavirus pandemic. Capitalizing on such factors and backed by a healthy balance sheet, the company is expanding its portfolio on accretive acquisition and development efforts. Its shares have also outperformed the industry in the past year. However, amid the competitive data-center landscape, aggressive pricing pressure is likely to prevail in the upcoming period. Moreover, a global footprint exposes its earnings to foreign currency translation.

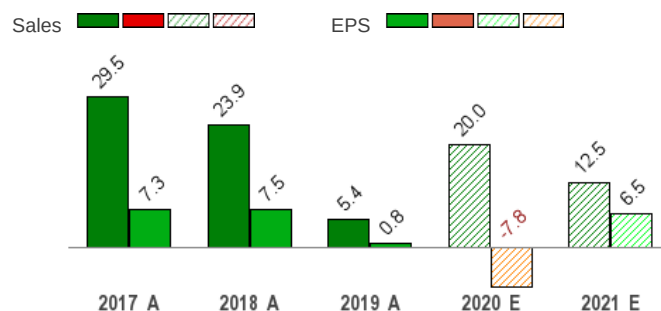
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$165.49 - \$105.00
20-Day Average Volume (Shares)	1,213,517
Market Cap	\$39.5 B
Year-To-Date Price Change	22.5%
Beta	0.17
Dividend / Dividend Yield	\$4.48 / 3.1%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 6% (233 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	2.8%
EPS F1 Estimate 4-Week Change	1.0%
Expected Report Date	NA
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,049 E	1,072 E	1,090 E	1,101 E	4,332 E
2020	823 A	993 A	1,025 A	1,026 E	3,851 E
2019	815 A	801 A	806 A	787 A	3,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.60 E	\$1.63 E	\$1.66 E	\$1.67 E	\$6.53 E
2020	\$1.53 A	\$1.54 A	\$1.54 A	\$1.51 E	\$6.13 E
2019	\$1.73 A	\$1.64 A	\$1.67 A	\$1.62 A	\$6.65 A

*Quarterly figures may not add up to annual.

P/E TTM	23.5
P/E F1	22.6
PEG F1	3.3
P/S TTM	10.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/09/2020. The reports text is as of 11/09/2020.

Overview

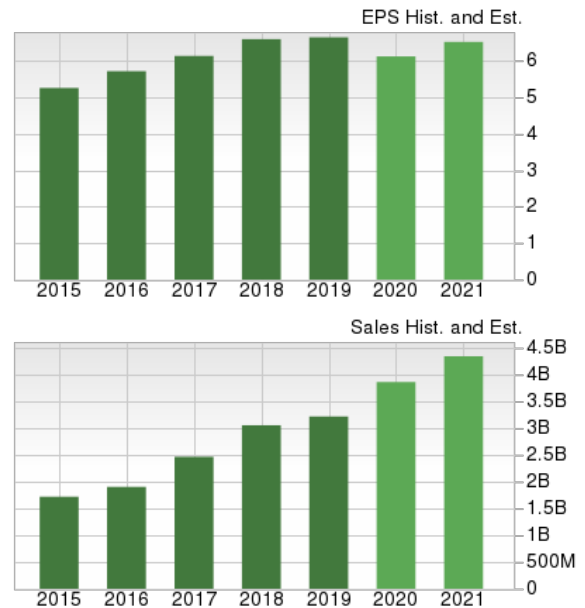
Digital Realty Trust is engaged in the ownership, acquisition, repositioning and management of the technology-related real estate. Specifically, the company offers data center, colocation and interconnection solutions for domestic and international tenants through its portfolio of data centers located throughout North America, Europe, Asia and Australia. The tenants belong to a wide variety of industry verticals, ranging from financial services, cloud and information technology services, to manufacturing, energy, healthcare and consumer products.

Headquartered in San Francisco, CA, Digital Realty is diversified in major metropolitan areas where data center and technology customers are concentrated. Particularly, in North America, the company has presence in Atlanta, Boston, Chicago, Dallas, Los Angeles, New York, Northern Virginia, Phoenix, San Francisco, Seattle, Silicon Valley and Toronto metropolitan areas.

As of Sep 30, 2020, the company's total portfolio comprised 284 data centers. This included 43 properties held as investments in unconsolidated joint ventures. Specifically, 141 data centers located in North America, with 102 located in Europe, 22 in Latin America, 12 in Asia, five in Australia and two in Africa. The portfolio contains 43.2 million square feet of space, including about 5.4 million square feet under active development and 2.4 million square feet of space held for development.

In recent years, Digital Realty has opted for strategic acquisitions which helped the company gain scale. Particularly, in March 2020, the company announced that it has completed the acquisition of Interxion, a provider of carrier and cloud-neutral colocation data-center services. The acquisition deal was announced in October 2019 and was valued at \$8.4 billion, including debt. It aids Digital Realty to gain a strong presence in Europe and capitalize on Interxion's expertise in the colocation and interconnection space in the region.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Digital Realty has a high-quality diversified customer base comprising tenants from cloud, content, information technology, network, other enterprise, and financial industries. The company has a global presence with 284 data centers in 48 metros across 23 countries on six continents, enjoying 86% occupancy. The company is poised for growth with 4,000 global customers and growing. Tenant roster includes names like Facebook, IBM, Oracle, LinkedIn, Verizon, Comcast and others. Majority of its tenants are investment grade and numerous customers use multiple locations across the portfolio.
- ▲ Digital Realty is expected to ride on its growth curve backed by strategic acquisitions. In March, the company completed the previously-announced acquisition of Interxion, a European provider of carrier and cloud-neutral colocation data-center services for a total consideration of \$8.4 billion, including debt. The combined company enjoys enhanced presence in major European metro areas, and its size and scale is expected to result in an efficient cost structure and superior EBITDA margins. During the September-end quarter, Digital Realty closed on the prior-announced acquisition of the freehold to the land under its Hanauer Landstraße campus in Frankfurt for €185 million, or roughly \$217 million. The company also acquired Altus IT, a carrier-neutral data center provider in Croatia, for about €11 million, or approximately \$13 million. This data-center REIT also acquired the freehold to a parcel of land within roughly one kilometer of its existing campus in Vienna, Austria for €17 million, or \$19 million. Additionally, the company enhanced its presence in Europe, Australia and Asia in recent years through the development of high-quality facilities. We believe such expansion efforts will drive the company's top and bottom lines in the years ahead.
- ▲ With growth in cloud computing, Internet of Things and big data, and an increasing number of companies opting for third-party IT infrastructure; data-center REITs are experiencing a boom market. Also, the estimated growth rates for the artificial intelligence, autonomous vehicle and virtual/augmented reality markets will remain robust over the next five to six years. Demand is strong in top-tier data center markets and despite enjoying high occupancy, the top-tier markets are absorbing new construction at a faster pace. These are anticipated to drive demand for data centers. Apart from these, data centers are poised to benefit from the heightening reliance on technology in the wake of the coronavirus pandemic.
- ▲ Moreover, the company delivered a healthy performance in third-quarter 2020 on solid data-center demand. Signed total bookings during the reported quarter are estimated to generate \$89 million of annualized GAAP rental revenues. This is expected to include a \$14-million contribution from interconnection. The company signed renewal leases, marking \$161 million of annualized GAAP rental revenues during the September-end quarter. Also, the company generated third-quarter adjusted EBITDA of \$568 million, up 17% year on year.
- ▲ The company focuses on maintaining a solid balance sheet and enjoys ample liquidity, with diversified sources of capital. As a result of its proactive balance-sheet management, the company exited third-quarter 2020 with cash and cash equivalents of \$971.3 million, up from the \$505.2 million recorded at second-quarter end. Its debt maturity schedule is well laddered, with weighted average maturity of 6.5 years and 2.5% weighted average coupon. Net debt to adjusted EBITDA stepped down to 5.6x, while fixed charge coverage remains healthy at 4.4x. Further, 98% of its total debt is unsecured, offering flexibility for capital recycling. The company strategically taps the debt and the equity market to bolster its balance sheet and leverage on growth scopes. Furthermore, Digital Realty currently enjoys BBB/BBB/Baa2 credit rating from S&P Global, Fitch and Moody's.
- ▲ Additionally, solid dividend payouts are the biggest enticement for REIT shareholders and Digital Realty remains committed to that. In February 2020, the company announced a 4% hike in dividend to \$1.12 per share. The company has raised dividend every year since its initial public offering and the latest dividend hike marked the 15th consecutive year of increase. Given its solid operating platform and balance sheet management efforts, the company remains well poised to sustain the dividend payment.
- ▲ Shares of Digital Realty have outperformed its industry over the past year. The stock has gained 25.8% against the industry's decline of 6.2% in the same period. Apart from this, the trend in estimate revision of current-year FFO per share indicates an upbeat outlook. Over the past week, the Zacks Consensus Estimate for 2020 FFO per share moved marginally upward. Therefore, given the strong fundamentals and upward estimate revisions, the stock has decent upside potential.

Digital Realty is well poised to grow amid robust demand for data centers, accretive acquisitions, development efforts and solid balance-sheet strength. Rising dividends augur well for shareholders.

Reasons To Sell:

- ▼ Digital Realty faces stiff competition in its industry. The company competes with several data-center developers, owners and operators, many of whom enjoy ownership of similar assets in locations same as Digital Realty. Also, there are a number of local developers in the United States, and several regional operators in Europe, Asia and Australia. Given the solid growth potential of the data center real estate market, competition is expected to increase in the upcoming period from existing players, as well as the entry of new players. Amid this, there is likely to be aggressive pricing pressure in the data-center market.
- ▼ Digital Realty has a significant number of properties situated outside the United States. The company is also considering making additional international acquisitions. Although a sound global footprint helps the company meet rising data center requirements of customers around the world, the process exposes the company's earnings to foreign currency translation.
- ▼ While data centers are largely unaffected by the coronavirus pandemic, the company noted tenants accounting for roughly 3% of annualized recurring rent, have requested for rent deferrals.

Digital Realty faces cut-throat competition in the industry, leading to aggressive pricing pressure. In addition, notable exposure to foreign currency translation is a concern for the company.

Last Earnings Report

Digital Realty Q3 FFO & Revenues Top Estimates, View Up

Digital Realty reported third-quarter 2020 core FFO per share of \$1.54, beating the Zacks Consensus Estimate of \$1.48. However, the reported figure compares unfavorably with the year-ago quarter's \$1.67.

The company registered operating revenues of \$1.024 billion in the third quarter, marking a 27.1% year-over-year rise. The revenue figure also outpaced the Zacks Consensus Estimate of \$996.6 million.

Decent leasing activities and strong signed total bookings aided results. Moreover, the company has raised its core FFO per share outlook for full-year 2020.

According to Digital Realty's CEO A. William Stein, "Our new logo growth and heightened deal velocity reflect the power of our global platform and the resiliency of our business."

Quarter in Detail

Signed total bookings during the reported quarter are estimated to generate \$89 million of annualized GAAP rental revenues. This is expected to include a \$14-million contribution from interconnection. Notably, the weighted-average lag between leases signed during the third- quarter and the contractual commencement date was seven months.

Digital Realty signed renewal leases, marking \$161 million of annualized GAAP rental revenues in the September-end quarter. Rental rates on renewal leases signed during the quarter rolled down 0.2% on a cash basis but went up 0.4% on a GAAP basis.

Also, the company generated third-quarter adjusted EBITDA of \$568 million, up 17% year on year.

Portfolio Activity

During the September-end quarter, Digital Realty closed on the prior-announced acquisition of the freehold to the land under its HanauerLandstraße campus in Frankfurt for €185 million, or roughly \$217 million. The company also acquired Altus IT, a carrier-neutral data center provider in Croatia, for about €11 million, or approximately \$13 million.

This data-center REIT also closed on the previously-announced sale of a property in Gronigen, the Netherlands for €20 million, or around \$23 million, as well as acquired the freehold to a parcel of land within roughly one kilometer of its existing campus in Vienna, Austria for €17 million, or \$19 million.

Balance Sheet

Digital Realty exited third-quarter 2020 with cash and cash equivalents of \$971.3 million, up from the \$505.2 million recorded at second-quarter end.

Further, during the third quarter, the company issued 1.6 million shares of common stock under its at-the-market ("ATM") equity offering program, generating around \$249 million in gross proceeds.

Additionally, as of Sep 30, 2020, the data-center REIT had \$12.9 billion of total debt outstanding, of which \$12.7 billion was unsecured debt and \$0.2 billion was secured debt. Also, as of the same date, its net debt-to-adjusted EBITDA was 5.6X, while fixed charge coverage was 4.4X.

Guidance

Digital Realty raised its guidance for 2020 core FFO per share to \$6.10-\$6.15 from the prior estimate of \$6.00-\$6.10.

It expects total revenues of \$3.850-\$3.875 billion compared with the \$3.775-\$3.825 billion guided earlier. Further, adjusted EBITDA for the ongoing year is estimated to be \$2.150-\$2.175 billion compared with the \$2.1-\$2.125 billion guided earlier.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	2.82%
EPS Surprise	4.05%
Quarterly EPS	1.54
Annual EPS (TTM)	6.23

Recent News

Digital Realty's Unit Grows in Southeastern Europe With LamdaHellix Buyout - Nov 3, 2020

Digital Realty's unit — Interxion — acquired LamdaHellix, the leading colocation and interconnection provider in Southeastern Europe. The move reflects Digital Realty's continued investment in PlatformDIGITAL and the buyout offers access to one of the most important emerging gateways in Southeastern Europe.

Headquartered in Athens, Greece, a developing interconnection hub at the crossroads of Europe, Africa, Asia and the Middle East, LamdaHellix is the largest carrier-neutral colocation and interconnection provider in Greece, offering cloud, colocation and connectivity solutions.

The campus presently offers two innovative data centers (Athens 1 & Athens 2) which have bagged multiple prestigious international awards.

The management team of LamdaHellix has a combined 60 years of experience in the data center industry. This team will continue with the business, including present CEO and Chairman ApostolosKakkos, who will carry on leading and running the operation.

Valuation

Digital Realty shares have been up 25.8% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 6.2% and 11.9% in the past year, respectively.

The S&P 500 Index is up 14.3% in the past year.

The stock is currently trading at 22.68X forward 12-month FFO, which compares with the 18.93X for the Zacks sub-industry, 16.18X for the Zacks sector and 22.24X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.26X and as low as 12.64X, with a 5-year median of 17.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$155 price target reflects 23.97X FFO.

The table below shows summary valuation data for DLR.

Valuation Multiples - DLR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.68	18.93	16.18	22.24
	5-Year High	25.26	19.33	16.73	23.47
	5-Year Low	12.64	14.32	11.59	15.27
	5-Year Median	17.37	16.18	14.45	17.72
P/S F12M	Current	9.25	8.17	6.06	4.12
	5-Year High	12.08	8.38	6.66	4.30
	5-Year Low	5.13	5.97	4.96	3.17
	5-Year Median	7.38	7.17	6.05	3.67
P/B TTM	Current	2.26	2.21	2.55	6.21
	5-Year High	5.88	3.03	2.90	6.22
	5-Year Low	2.05	1.81	1.72	3.74
	5-Year Median	2.68	2.51	2.54	4.90

As of 11/06/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 6% (233 out of 249)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Tower Corporation REIT (AMT)	Neutral	3
Crown Castle International Corporation (CCI)	Neutral	3
CoreSite Realty Corporation (COR)	Neutral	3
Equinix, Inc. (EQIX)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
CyrusOne Inc (CONE)	Underperform	3
QTS Realty Trust, Inc. (QTS)	Underperform	5

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	DLR	X Industry	S&P 500	CONE	COR	EQIX
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	C	D
Market Cap	39.46 B	2.19 B	23.64 B	8.89 B	5.44 B	70.78 B
# of Analysts	9	4	13	9	9	2
Dividend Yield	3.05%	3.82%	1.56%	2.76%	3.84%	1.34%
Value Score	D	-	-	C	D	D
Cash/Price	0.03	0.06	0.07	0.02	0.00	0.04
EV/EBITDA	23.82	13.46	13.75	22.05	23.99	31.66
PEG F1	3.25	3.52	2.71	0.86	1.15	2.37
P/B	2.26	1.22	3.33	3.41	52.89	6.71
P/CF	16.89	9.87	13.32	19.80	20.66	35.58
P/E F1	22.55	15.00	21.18	19.08	24.09	32.27
P/S TTM	10.87	4.64	2.63	8.73	9.09	12.10
Earnings Yield	4.18%	5.86%	4.53%	5.24%	4.15%	3.10%
Debt/Equity	0.74	0.94	0.70	1.24	16.41	0.96
Cash Flow (\$/share)	8.68	2.05	6.92	3.73	6.15	22.33
Growth Score	D	-	-	B	C	B
Historical EPS Growth (3-5 Years)	4.80%	0.67%	10.07%	11.97%	12.86%	14.77%
Projected EPS Growth (F1/F0)	319.57%	-3.06%	0.26%	402.45%	212.19%	7.91%
Current Cash Flow Growth	14.13%	3.36%	5.29%	24.40%	4.75%	12.38%
Historical Cash Flow Growth (3-5 Years)	19.36%	12.74%	8.38%	30.81%	17.21%	22.24%
Current Ratio	0.71	1.59	1.38	1.48	0.22	1.07
Debt/Capital	41.25%	48.41%	41.97%	55.34%	94.26%	48.85%
Net Margin	17.50%	10.49%	10.44%	-2.91%	13.19%	7.58%
Return on Equity	5.31%	3.68%	14.96%	1.23%	51.47%	4.62%
Sales/Assets	0.12	0.12	0.50	0.16	0.28	0.23
Projected Sales Growth (F1/F0)	20.13%	0.00%	0.00%	4.94%	5.82%	7.72%
Momentum Score	B	-	-	F	C	D
Daily Price Change	-0.56%	-1.78%	-0.23%	0.33%	0.53%	1.71%
1-Week Price Change	-5.44%	-6.28%	-5.63%	-5.28%	-3.14%	-5.89%
4-Week Price Change	-6.48%	-4.27%	0.00%	-8.54%	-0.53%	-3.64%
12-Week Price Change	-3.59%	-5.36%	2.80%	-9.89%	3.77%	3.15%
52-Week Price Change	23.59%	-24.22%	2.05%	11.75%	11.69%	52.04%
20-Day Average Volume (Shares)	1,213,517	535,873	1,955,785	852,501	223,386	361,130
EPS F1 Estimate 1-Week Change	0.05%	0.00%	0.00%	-0.03%	0.08%	0.00%
EPS F1 Estimate 4-Week Change	0.98%	0.00%	1.27%	-0.03%	1.31%	0.58%
EPS F1 Estimate 12-Week Change	1.11%	0.00%	3.13%	-0.63%	1.41%	0.58%
EPS Q1 Estimate Monthly Change	-0.40%	0.00%	0.51%	-2.60%	2.86%	-4.04%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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

Disclosures

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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.