Dollar Tree, Inc. (DLTR)

$94.70 (As of 09/02/20)

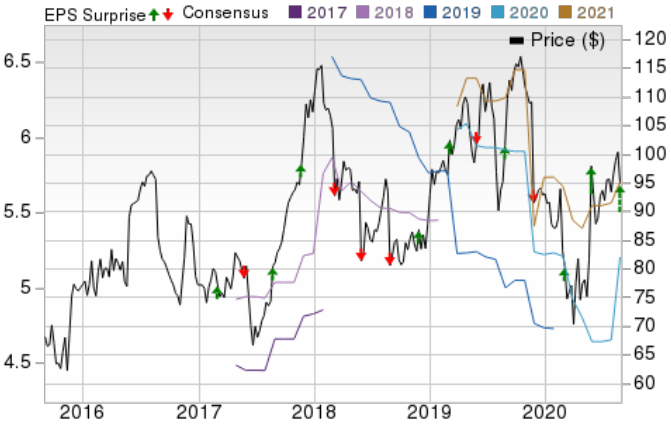
Price Target (6-12 Months): **$99.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/27/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B | Momentum: A	

Summary

Dollar Tree has outpaced the industry in the past six months. The company is gaining from enterprise same-store sales (comps) growth, as witnessed in second-quarter fiscal 2020. During the quarter, earnings and sales surpassed the Zacks Consensus Estimate and improved year on year. The top line benefitted from comps rise of 7.2%, owing to growth across both Family Dollar and Dollar Tree segments. Improved consumer spending on discretionary items aided sales growth across stores. Further, earnings benefited from a sturdy top line and margin improvements. We note that the company is on track with store rationalization and renovation efforts. However, higher payroll expenses related to frontline associates and field management staff bonuses are a concern for the company. These expenses led to increased SG&A expenses during fiscal second quarter.

Price, Consensus & Surprise

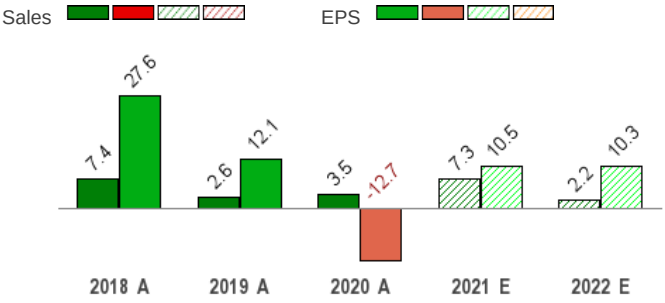


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$119.71 - $60.20**
20-Day Average Volume (Shares)	**2,368,354**
Market Cap	**$22.5 B**
Year-To-Date Price Change	**0.7%**
Beta	**0.62**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Retail - Discount Stores**
Zacks Industry Rank	**Top 27% (68 out of 251)**
Last EPS Surprise	**23.6%**
Last Sales Surprise	**0.8%**
EPS F1 Estimate 4-Week Change	**4.2%**
Expected Report Date	**11/24/2020**
Earnings ESP	**0.0%**
P/E TTM	**18.9**
P/E F1	**18.0**
PEG F1	**1.8**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	6,308 E	6,400 E	6,293 E	6,883 E	25,898 E
2021	6,287 A	6,278 A	6,115 E	6,659 E	25,333 E
2020	5,809 A	5,741 A	5,746 A	6,315 A	23,611 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$1.27 E	$1.25 E	$1.29 E	$2.12 E	$5.80 E
2021	$1.04 A	$1.10 A	$1.16 E	$1.96 E	$5.26 E
2020	$1.14 A	$0.76 A	$1.08 A	$1.79 A	$4.76 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/02/2020. The reports text is as of 09/03/2020.

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

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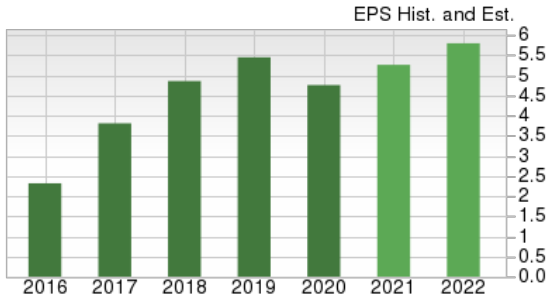
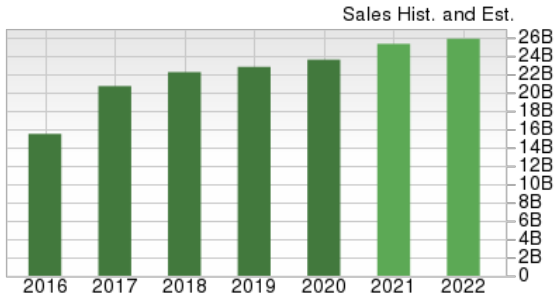
Overview

Founded in 1986 and headquartered in Chesapeake, VA, Dollar Tree Inc. is an operator of discount variety stores offering merchandise and other assortments. Its stores successfully operate in major metropolitan areas, mid-sized cities and small towns. The company offers a wide range of quality everyday general merchandise in many categories, including housewares, seasonal goods, candy and food, toys, health and beauty care, gifts, party goods, stationery, books, personal accessories, and other consumer items. Its stores are supported by a nationwide logistics network and distribution centers.





Dollar Tree also owns an e-commerce platform – DollarTree.com – which sells its merchandise in bulk to individuals and small businesses as well as organizations. Through its online platform, the company advertises its in-store events and showcases its special and seasonal promotions for featured products. Further, it acquired Family Dollar Stores, Inc. on July 6, 2015.

The company operates in two reporting business segments: Dollar Tree and Family Dollar.

Dollar Tree: Being the major operator of discount variety stores, this segment offers merchandise at the fixed price point of $1.00. The segment has nearly 7,652 stores operating under the Dollar Tree and Dollar Tree Canada banners, 12 distribution centers in the United States and two in Canada. Dollar Tree stores primarily range from 8,000 - 10,000 selling square feet.

Family Dollar: This segment operates general merchandise discount retail stores with competitively-priced merchandise in the neighborhood stores. It has nearly 7,827 stores, which sell merchandise at prices ranging from $1.00 to $10.00. These stores primarily range from 6,000 - 8,000 selling square feet. The segment includes store operations under the Family Dollar brand and 11 distribution centers.

As of Aug 1, 2020, Dollar Tree operated 15,479 stores in 48 states and five Canadian provinces.

Source: Zacks Investment Research

Reasons To Buy:

> Dollar Tree reported enterprise comps growth of 7.2%. Results benefited from an improvement in spending for discretionary items at Family Dollar stores.

- **Strong Q2 Results:** Shares of Dollar Tree have gained 20% in the past six months against the industry's rise of 8.8%. Sound business fundamentals along with favorable customer response toward assortments have been driving the company's performance. Moreover, the stock received a boost from robust second-quarter fiscal 2020 results. In the reported quarter, earnings and sales surpassed the Zacks Consensus Estimate and improved year over year. Consolidated net sales rose 9.4% year on year, on the back of robust same-store sales. Both Family Dollar and Dollar Tree segments performed well. The company's bottom line improved 44.7% year over year to $1.10 per share. Earnings benefited from strong top line growth as well as margins. Notably, gross profit improved 16.2% year over year, while gross margin expanded 180 bps to 30.5%. The expansion was mainly a result of lower merchandise costs, including freight, leverage on occupancy costs due to robust comps, lower markdowns and better shrink. Further, Operating income advanced 39.4% year over year, while operating margin expanded 130 bps to 6%.

- **Impressive Comps:** During second-quarter fiscal 2020, Dollar Tree reported enterprise same-store sales (comps) growth of 7.2%. Comps growth was backed by an 11.6% improvement in Family Dollar stores and a 3.1% rise in Dollar Tree. Family Dollar comps benefitted from strong spending on discretionary items. The segment witnessed 25.9% increase in average ticket. Management highlighted that sales growth at Family Dollar was broad-based geographically, with each zone delivering comp rise between 9.5-13.5%. H2 stores in this category also performed well. Moreover, the company notes that the Family Dollar stores continue to witness solid comps trends in the fiscal third quarter.

  Coming to the Dollar Tree segment, comps in the category bounced back to growth, after witnessing a decline in the first quarter. Dollar tree stores gained from higher sale of discretionary items. Average ticket in this segment rose 22.6%. Apart from food, all other product lines witnessed growth including kitchenware, crafts, housework products, party celebrations as well as beauty and eyewear. Additionally, its expanded Crafter's Square assortments continue to perform very well.

- **Store Rationalization:** Dollar Tree's restructuring and expansion initiatives, as evident from steady store openings and improvement of distribution centers, are likely to drive revenues. In second-quarter fiscal 2020, Dollar Tree opened 131 stores, expanded or relocated 22 outlets, and shuttered 26 stores. As of Aug 1, 2020, the company operated 15,479 stores in 48 states and five Canada provinces.

  Moreover, the company is progressing well with its plan to open 500 stores in fiscal 2020, including 325 Dollar Tree and 175 Family Dollar outlets. Such efforts keep the company on track to reach its long-term target of operating 26,000 stores, with more than 10,000 Dollar Tree and 15,000 Family Dollar outlets, across North America. Additionally, the company is on track to leverage Family Dollar and Dollar Tree distribution center systems and combined merchandise. This will help in bringing the latest products into Dollar Tree stores without any disruptions.

- **Store Renovation Initiatives on Track:** Backed by the uncertainties related to the coronavirus pandemic, Dollar Tree suspended its Family Dollar H2 renovations and Dollar Tree Snack Zone installation initiatives to minimize travel and protect employees, in its March business update. However, it is now in the process of resuming these initiatives in select, low-risk markets. Consequently, the company now expects to complete 750 Family Dollar H2 renovations in fiscal 2020 compared with its initial guidance of 1,250 renovations. During second-quarter fiscal 2020, the company completed the renovation of 76 Family Dollar stores to the H2 format.

- **Financial Flexibility:** Dollar Tree ended first-quarter fiscal 2020 with cash and cash equivalents of $1,750.3 million, reflecting a significant growth from $623.4 million at the end of the prior quarter. The company's cash balance as of Aug 1 included $500 million drawn on its revolving credit facility. Notably, the company repaid $250 million on its line of credit during the fiscal second quarter. Additionally, we note that the company's debt-to-capitalization ratio of 0.37 is lower than the industry's ratio of 0.48. Moreover, the company looks to preserve liquidity by suspending share buybacks. On its March business update, the company suspended its share-repurchase plan, citing unprecedented effects of the COVID-19 crisis. Currently, it has nearly $800 million remaining under its share-buyback plan.

- **Coronavirus-Related Actions:** In the wake of the coronavirus pandemic, Dollar Tree has implemented several measures to provide uninterrupted service to customers across both banners. The company quickly took to adopting enhanced cleaning protocols to keep its facilities clean and sanitized. It is encouraging social distancing at its stores, implementing associate health screening procedures and providing PPE kits, masks and gloves to staff. Additionally, it has installed more than 16,000 plexiglass shields at store checkouts and is encouraging contactless payment options through tap-to-pay with Visa, MasterCard, Apple Pay and Google Pay. Further, it is closely working with vendor partners to support and streamline shipments of needed essentials.

Reasons To Sell:

- **Higher Payroll Costs:** Dollar Tree continued to witness higher payroll expenses, in the wake of the coronavirus crisis. During second-quarter fiscal 2020, pandemic-related payroll costs of nearly $11.4 million weighed on the company's gross margin. Moreover, selling, general and administrative (SG&A) expenses, as a percentage of sales, increased 50 bps to 24.5%, primarily owing to higher payroll expenses. This included incremental payroll expenses for premium wage payments to frontline associates in stores and distribution centers and field management staff bonuses.

> Incremental payroll expenses related to premium wage payments to frontline workers and field management bonuses have led to increased SG&A expenses.

- **Competitive Pressure:** Dollar Tree operates in the highly competitive discount retail merchandise sector. The company faces stiff competition from Wal-Mart and Dollar General that will probably continue to weigh on its results. The competitors have a larger number of stores, greater market presence, brand recognition and financial resources.

- **Risks of Sourcing Merchandise from Overseas Markets:** A significant portion of Dollar Tree's merchandise is imported from countries outside the U.S. such as China and other Asian countries. Consequently, the company is exposed to political, social and economic risks associated with operations in these countries. Further, an adverse movement in foreign currency exchange rates may dent the company's operational performance.

- **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels as well as high household debt levels, which may affect their sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Also, uncertainty surrounding government stimulus and a contentious November election may impact consumer spending activity.

Last Earnings Report

Dollar Tree Earnings & Sales Beat Estimates in Q2

Quarter Ending	07/2020
Report Date	**Aug 27, 2020**
Sales Surprise	**0.76%**
EPS Surprise	**23.60%**
Quarterly EPS	**1.10**
Annual EPS (TTM)	**5.01**

Dollar Tree reported second-quarter fiscal 2020 results, wherein earnings and sales surpassed the Zacks Consensus Estimate and improved year over year. The company also reported robust same-store sales (comps) across both formats. Results benefited from an improvement in spending for discretionary items at Family Dollar stores, following the Easter holiday season. Additionally, its expanded Crafter's Square assortments continue to perform very well.

However, the company has refrained from updating its outlook for fiscal 2020 given the expectations of continued volatility and uncertainty as the coronavirus situation evolves.

Quarter in Detail

Dollar Tree's earnings advanced 44.7% year over year to $1.10 per share and surpassed the Zacks Consensus Estimate of 89 cents.

Consolidated net sales rose 9.4% to $6,277.6 million and surpassed the Zacks Consensus Estimate of $6,230 million. Enterprise same-store sales (comps) grew 7.2%. Comps growth was backed by an 11.6% improvement in Family Dollar stores and a 3.1% rise in Dollar Tree.

Quarterly gross profit improved 16.2% year over year to $1,916.2 million, while gross margin expanded 180 bps to 30.5%. The expansion was mainly a result of lower merchandise costs, including freight, leverage on occupancy costs due to robust comps, lower markdowns and better shrink, partly negated by higher distribution costs. The rise in distribution costs mainly resulted from $11.4 million of pandemic-related payroll costs and $10.8 million of incremental tariffs.

Selling, general and administrative expenses, as a percentage of sales, increased 50 bps to 24.5% due to incremental pandemic-related costs of $123.5 million, which primarily related to the payment of premium wages to frontline workers, field management bonuses and store supplies.

Operating income advanced 39.4% to $374.9 million, while operating margin expanded 130 bps to 6%. The company's fiscal second-quarter operating income included $134.9 million of additional operating costs related to the coronavirus outbreak. Segment-wise, the company incurred additional costs of $76.6 million at Dollar Tree, $57.1 million at Family Dollar, and $1.2 million for Corporate and Support. Further, the company incurred store damage, lost inventory, and other costs of $16.8 million, owing to civil unrest in certain communities in the fiscal second quarter. Segment-wise, the civil unrest charges included $11.7 million at Family Dollar and $5.1 million at Dollar Tree. Collectively, the pandemic-related and civil unrest costs for the reported quarter were $151.7 million (49 cents per share).

Balance Sheet

Dollar Tree ended the quarter with cash and cash equivalents of $1,750.3 million, comprising $500 million drawn on its revolving credit facility. Notably, the company repaid $250 million on its line of credit during the fiscal second quarter. Moreover, it had net merchandise inventories of $3,275.7 million, net long-term debt (excluding current maturities) of $3,224.3 million and shareholders' equity of $6,813.6 million as of Aug 1, 2020.

On its March business update, the company suspended its share-repurchase plan, citing unprecedented effects of the COVID-19 crisis. Currently, it has nearly $800 million remaining under its share-buyback plan. However, it expects to incur capital expenditure of about $1 billion for fiscal 2020.

Store Update

In second-quarter fiscal 2020, Dollar Tree opened 131 stores, expanded or relocated 22 outlets, and shuttered 26 stores. It also completed the renovation of 76 Family Dollar stores to the H2 format. As of Aug 1, 2020, the company operated 15,479 stores in 48 states and five Canada provinces.

Moreover, the company reiterated its plan to open 500 stores in fiscal 2020, including 325 Dollar Tree and 175 Family Dollar outlets. Additionally, it expects to complete 750 Family Dollar H2 renovations in fiscal 2020.

Recent News

ADT & Dollar Tree Announce Partnership - Jun 8, 2020

Dollar Tree teamed up with ADT, which through ADT Commercial will offer safety and protection to the retailer's countrywide stores. Per the deal, ADT Commercial will help most Dollar Tree and Family Dollar locations in the United States with its efficient security and monitoring services.

Valuation

Dollar Tree shares are up 0.7% in the year-to-date period but down nearly 9.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 7.8% and 39% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 14% and 46.8%, respectively.

The S&P 500 index is up 3.7% in the year-to-date period and 14% in the past year.

The stock is currently trading at 17.28X forward 12-month earnings, which compares to 27.45X for the Zacks sub-industry, 33.41X for the Zacks sector and 23.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.81X and as low as 12.93X, with a 5-year median of 17.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $99 price target reflects 18.06X forward 12-month earnings.

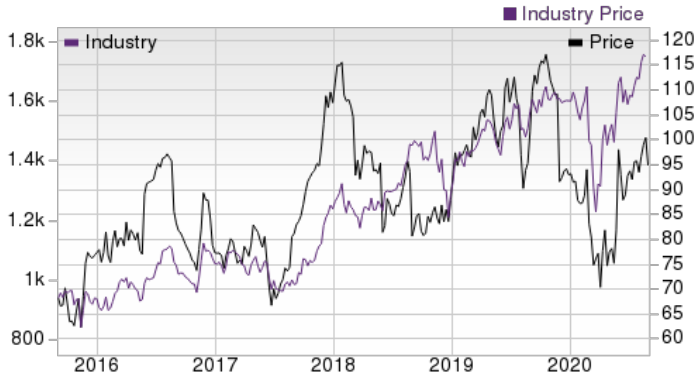
The table below shows summary valuation data for DLTR

Valuation Multiples - DLTR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.28	27.45	33.41	23.18
	5-Year High	32.81	29.98	34.84	23.18
	5-Year Low	12.93	17.93	19.09	15.25
	5-Year Median	17.92	20.12	23.53	17.6
P/S F12M	Current	0.88	1.5	1.34	3.95
	5-Year High	1.24	1.5	1.34	3.95
	5-Year Low	0.63	0.96	0.82	2.53
	5-Year Median	0.89	1.15	0.99	3.07
EV/EBITDA TTM	Current	9.37	24.89	20.58	12.59
	5-Year High	16.21	24.89	20.58	13.29
	5-Year Low	4.79	11.02	11.15	8.22
	5-Year Median	10.74	14.18	12.97	10.91

As of 09/02/2020

Industry Analysis **Zacks Industry Rank:** Top 27% (68 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. **(BIG)**	Outperform	2
Target Corporation **(TGT)**	Outperform	1
Burlington Stores, Inc. **(BURL)**	Neutral	3
Costco Wholesale Corporation **(COST)**	Neutral	3
Dollar General Corporation **(DG)**	Neutral	3
Ross Stores, Inc. **(ROST)**	Neutral	3
Walmart Inc. **(WMT)**	Neutral	3
The TJX Companies, Inc. **(TJX)**	Underperform	4

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

Industry Comparison Industry: Retail - Discount Stores

	DLTR	X Industry	S&P 500	DG	ROST	TGT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	A	-	-	A	B	A
Market Cap	22.47 B	18.21 B	24.30 B	50.83 B	33.66 B	75.01 B
# of Analysts	10	12	14	21	11	13
Dividend Yield	0.00%	0.00%	1.6%	0.71%	0.00%	1.82%
Value Score	A	-	-	B	B	B
Cash/Price	0.08	0.10	0.07	0.06	0.11	0.10
EV/EBITDA	10.76	12.76	13.46	18.51	12.87	11.27
PEG F1	1.81	2.90	3.09	1.67	8.35	2.90
P/B	3.30	5.96	3.25	6.91	11.74	5.96
P/CF	10.67	15.62	13.12	22.94	16.93	12.87
P/E F1	17.78	21.42	22.15	21.42	83.48	20.95
P/S TTM	0.91	0.95	2.57	1.62	2.63	0.89
Earnings Yield	5.55%	3.64%	4.29%	4.67%	1.20%	4.77%
Debt/Equity	0.47	0.68	0.70	0.56	0.80	1.13
Cash Flow ($/share)	8.87	6.38	6.93	8.90	5.59	11.64
Growth Score	B	-	-	A	A	A
Historical EPS Growth (3-5 Years)	16.74%	8.97%	10.41%	16.70%	8.97%	6.65%
Projected EPS Growth (F1/F0)	10.57%	8.74%	-4.75%	41.56%	-75.27%	11.94%
Current Cash Flow Growth	-55.39%	9.68%	5.22%	9.68%	4.53%	10.26%
Historical Cash Flow Growth (3-5 Years)	19.78%	8.54%	8.49%	9.69%	11.61%	3.95%
Current Ratio	1.22	1.32	1.35	1.40	1.70	1.11
Debt/Capital	32.12%	40.05%	42.92%	35.73%	44.36%	53.01%
Net Margin	3.61%	2.99%	10.25%	7.48%	4.25%	4.16%
Return on Equity	18.52%	20.30%	14.66%	33.51%	22.08%	30.25%
Sales/Assets	1.22	1.42	0.50	1.30	1.25	1.89
Projected Sales Growth (F1/F0)	7.30%	6.92%	-1.42%	17.52%	-23.70%	12.36%
Momentum Score	A	-	-	A	F	A
Daily Price Change	1.09%	1.81%	1.82%	2.10%	3.60%	-0.47%
1-Week Price Change	-5.55%	0.37%	2.59%	0.73%	7.58%	-1.81%
4-Week Price Change	-1.17%	6.29%	4.80%	4.52%	6.63%	15.82%
12-Week Price Change	3.53%	9.34%	6.31%	7.35%	-5.48%	24.87%
52-Week Price Change	-9.81%	4.53%	5.43%	29.34%	-10.77%	39.57%
20-Day Average Volume (Shares)	2,368,354	1,672,920	1,788,967	1,976,357	2,620,654	5,952,183
EPS F1 Estimate 1-Week Change	4.78%	0.00%	0.00%	6.42%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	4.16%	2.62%	0.00%	7.00%	-24.44%	44.34%
EPS F1 Estimate 12-Week Change	4.38%	2.65%	3.89%	9.20%	-24.44%	44.34%
EPS Q1 Estimate Monthly Change	2.47%	1.57%	0.00%	8.10%	-29.31%	18.96%

Source: Zacks Investment Research

Zacks Style Scores

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

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

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

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

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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 mediumterm price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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