

## Dow Inc (DOW)

**\$55.34** (As of 11/19/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 11/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: B

## Summary

Dow's adjusted earnings and sales for the third quarter of 2020 beat the respective Zacks Consensus Estimate. The company should benefit from cost synergy savings and productivity initiatives. It focuses on maintaining cost and operational discipline through cost synergy and stranded cost-removal initiatives. The company's actions to reduce operating expenses are expected to lend support to its earnings in 2020. Dow's restructuring program is also expected to deliver margin benefits. Investment in high-return projects should also be accretive to its earnings. Dow is investing in a number of high-return growth projects including the expansion of downstream silicones capacity. The company is also taking actions to reduce its debt and remains focused on boosting shareholder returns leveraging strong cash flows.

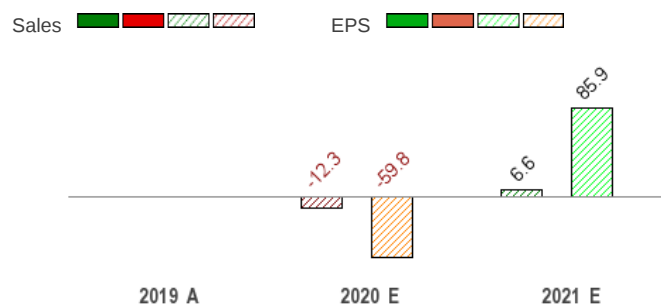
## Price, Consensus & Surprise



## Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$56.28 - \$21.95           |
| 20-Day Average Volume (Shares) | 4,522,775                   |
| Market Cap                     | \$41.0 B                    |
| Year-To-Date Price Change      | 1.1%                        |
| Beta                           | 1.77                        |
| Dividend / Dividend Yield      | \$2.80 / 5.1%               |
| Industry                       | Chemical - Diversified      |
| Zacks Industry Rank            | Bottom 49% (130 out of 254) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 51.5%      |
| Last Sales Surprise           | 4.0%       |
| EPS F1 Estimate 4-Week Change | 30.4%      |
| Expected Report Date          | 02/03/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 34.4       |
| P/E F1                        | 39.0       |
| PEG F1                        | 10.7       |
| P/S TTM                       | 1.1        |

## Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | 9,095 E  | 9,272 E  | 9,368 E  | 9,362 E  | 40,150 E |
| 2020 | 9,770 A  | 8,354 A  | 9,712 A  | 9,808 E  | 37,674 E |
| 2019 | 10,969 A | 11,014 A | 10,764 A | 10,204 A | 42,951 A |

## EPS Estimates

|      | Q1       | Q2        | Q3       | Q4       | Annual*  |
|------|----------|-----------|----------|----------|----------|
| 2021 | \$0.66 E | \$0.61 E  | \$0.69 E | \$0.75 E | \$2.64 E |
| 2020 | \$0.59 A | -\$0.26 A | \$0.50 A | \$0.63 E | \$1.42 E |
| 2019 | \$0.24 A | \$0.86 A  | \$0.91 A | \$0.78 A | \$3.53 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 11/19/2020. The reports text is as of 11/20/2020.

## Overview

Dow Inc. is a material science company, providing a world-class portfolio of advanced, sustainable and leading-edge products. DowDuPont Inc. (now known as DuPont de Nemours, Inc.), on Apr 1, 2019, completed the separation of its Materials Science unit through the spin-off of Dow Inc. Shares of Dow started trading on the NYSE on Apr 2, 2019.

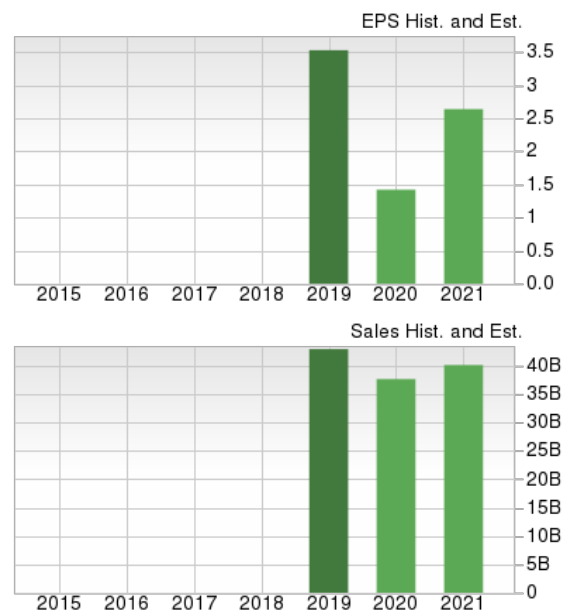
Dow, which recorded revenues of around \$42.9 billion in 2019, offers a vast range of differentiated products and solutions across high-growth market segments such as packaging, infrastructure and consumer care. Its ethylene plant in Freeport, TX, having a total capacity of 2,000 kilotons per year, is the largest ethylene cracker on the planet.

Dow's broad portfolio of higher-value functional polymers, significant low-cost global feedstock positions, global footprint and market reach and manufacturing sites in every geographic region places it in an advantageous position against competitors. The company currently operates in three segments:

**Packaging & Specialty Plastics:** The segment employs the industry's broadest polyolefin product portfolio. The unit leverages Dow's proprietary catalyst and manufacturing process technologies to deliver higher performing and sustainable plastics to customers across end markets, including food and specialty packaging, industrial and consumer packaging. The segment accounted for 47% of 2019 sales.

**Performance Materials & Coatings:** The unit provides a vast range of solutions to consumer and infrastructure end-markets. It comprises coatings & performance monomers and consumer solutions businesses. These businesses employ materials science capabilities, unique products and technology, and global reach to offer differentiated offerings to customers. The unit accounted for 22% of 2019 sales.

**Industrial Intermediates & Infrastructure:** The segment comprises industrial solutions, and polyurethanes & construction chemicals businesses. These businesses develop key intermediate chemicals for production processes as well as downstream, customized materials and formulations that utilize advanced development technologies. The segment accounted for 31% of 2019 sales.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Dow should gain from cost synergy savings and productivity actions. It focuses on maintaining cost and operational discipline through cost synergy as well as stranded cost-removal initiatives. Dow delivered more than \$600 million in cost synergy and stranded costs savings in 2019. The company also expects to complete its stranded costs removal target in 2020 and capture \$140 million of savings. Dow is also taking actions to cut operating expenses by \$500 million, which is expected to lend support to its earnings in 2020. The company also expects to realize more than \$300 million annualized EBITDA benefit from restructuring programs being initiated in the third quarter of 2020. The restructuring initiatives will rationalize certain manufacturing assets and lower the company's global workforce costs by nearly 6%.
- ▲ The company remains focused on investing in attractive areas through highly accretive projects. Dow is investing in several high-return growth projects including the expansion of downstream silicones capacity. The company completed 16 silicones incremental expansion projects last year, which provided additional downstream capability. The company remains committed to advancing its investments in higher-return growth projects in 2020.
- ▲ The company is committed to return value to its shareholders by leveraging healthy cash flows. Dow generated strong operating cash flows from continuing operations of \$1.8 billion in the third quarter of 2020. It also generated free cash flow of \$1.5 billion in the quarter. The company returned \$518 million in dividends to its shareholders in the third quarter.
- ▲ Dow is also taking actions to reduce its debt. The company, during the first quarter of 2020, issued euro denominated notes (worth €2.25 billion) and used the net proceeds to redeem existing notes and repay debt. The company also repaid roughly \$600 million of debt in the second quarter and also reduced net debt by \$1.1 billion in the third quarter. It has already reduced net debt by \$1.8 billion this year. Dow has no substantial long-term debt maturities until the second half of 2024. The company ended the third quarter with cash and available liquidity of more than \$13.5 billion. Its current debt was \$676 million as of Sep 30, 2020. As such, Dow has adequate liquidity to meet its short-term debt obligations.

Dow should benefit from cost synergy savings and productivity initiatives. Investment in high-return projects should also be accretive to its earnings. Dow is also taking actions to reduce its debt.

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## Risks

- Weak demand is hurting Dow's volumes in certain regions, as witnessed in the last-reported quarter. Demand across certain industrial segments remains soft due to the coronavirus pandemic. The company saw softer demand in automotive, consumer durable and construction end markets in the most recent quarter. While Dow is seeing a rebound across these markets, a material recovery is not expected in the final quarter of 2020. Demand in the oil & gas end-market also remains soft. The company also expects some seasonal headwinds in the fourth quarter. Coatings and construction seasonality in the Northern hemisphere is expected to hurt sales in the Performance Materials & Coatings unit in the fourth quarter. Moreover, subdued air travel is expected to weigh on sales in the Industrial Intermediates & Infrastructure division. These headwinds may put pressure on volumes and the company's top line in the fourth quarter.
  - The company faces headwind from plant turnaround costs in the fourth quarter. It envisions an unfavorable impact of \$100 million in the quarter in the Packaging & Specialty Plastics unit related to turnarounds associated with the Sabine ethylene cracker and co-polymer facility. These turnarounds have been delayed from the third quarter due to hurricanes in the U.S Gulf Coast. As such, turnaround costs are expected to hurt margins in the fourth quarter.
  - Dow is exposed to pricing pressure due to lower global energy prices. The company saw lower selling prices for its products in the most recent quarter, hurting its revenues. Local prices fell 9% year over year in the quarter and also declined across all segments. Lower energy prices hurt the company's selling prices in the third quarter. Lower polyethylene prices impacted revenues in the Packaging & Specialty Plastics segment. Prices are expected to remain under pressure in the fourth quarter. This is likely to weigh on the company's top line in the quarter.
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## Last Earnings Report

### Dow's Earnings and Revenues Trough Estimates in Q3

Dow logged loss (on a reported basis) of 4 cents per share for third-quarter 2020 against earnings of 45 cents per share a year ago. The bottom line in the reported quarter was hit by restructuring and asset-related charges.

Barring one-time items, adjusted earnings were 50 cents per share for the reported quarter, topping the Zacks Consensus Estimate of 33 cents.

Dow raked in net sales of \$9,712 million for the quarter, down roughly 10% year over year. It, however, surpassed the Zacks Consensus Estimate of \$9,340.3 million. Sales fell due to lower local pricing resulting from reduced global energy prices. Dow saw a 9% decline in local prices in the reported quarter.

Volumes fell 1% year over year in the quarter. However, volumes rose 9% on a sequential comparison basis on improved demand across furniture & bedding, appliances, packaging, construction and automotive end markets.

### Segment Highlights

**Packaging & Specialty Plastics:** The division's sales fell 10% year over year to \$4.6 billion in the reported quarter, hurt by reduced polyethylene prices. Volumes edged up 1% while local prices slipped 12%. Currency increased sales by 1%.

**Industrial Intermediates & Infrastructure:** Sales for the unit fell 9% year over year to \$3.1 billion. Volumes fell 3% on lower demand in automotive, industrial and energy markets while local prices declined 7%. Currency increased sales by 1%.

**Performance Materials & Coatings:** Revenues from the division went down 11% year over year to \$2 billion. Sales were impacted by volumes and local price declines of 5% and 6%, respectively. The impact of currency was flat. Volumes were hurt by declines in automotive, construction and oil & gas applications.

### Financials

Dow had cash and cash equivalents of \$4,549 million at the end of the quarter. Long-term debt was \$16,698 million.

Cash provided by operating activities from continuing operations was \$1.8 billion in the reported quarter while free cash flow was \$1.5 billion.

Dow also returned \$518 million to shareholders in the third quarter through dividends.

### Outlook

Moving ahead, Dow noted that it expects the rebound that it witnessed in its markets in the third quarter to continue in the near term. The company said that it entered the fourth quarter with momentum on a sequential comparison basis, improved financial flexibility and a consistent focus on cash. It remains focused to deliver against its strategic and operational objectives.

Moreover, Dow expects its restructuring actions to generate total annualized EBITDA savings of more than \$300 million by the end of 2021.

The company also completed the divestment of its North American rail infrastructure assets in the third quarter for \$315 million. It also entered into an agreement to divest certain U.S. Gulf Coast marine and terminal operations and assets, with expected cash proceeds of \$620 million at transaction closure before end-2020.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 22, 2020 |
| Sales Surprise   | 3.98%        |
| EPS Surprise     | 51.52%       |
| Quarterly EPS    | 0.50         |
| Annual EPS (TTM) | 1.61         |

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## Recent News

### Dow Announces Restructuring Actions to Boost Cost Savings

Dow, on **Sep 30, 2020**, said that it laid out a series of actions that will help the company achieve its earlier announced structural cost-improvement targets and boost its long-term competitiveness.

In July, the company stated that it is implementing a restructuring program that will rationalize certain manufacturing assets and lower global workforce costs by nearly 6%. The company expects these actions to generate total annualized EBITDA savings of more than \$300 million by the end of 2021.

In the Industrial Intermediates & Infrastructure business, the company will rationalize its asset footprint by closing selected small-scale downstream polyurethanes manufacturing facilities as well as some solvents and amines plants in the United States and Europe. In the Performance Materials & Coatings, the company will close mainly small-scale coatings reactors. It will also rationalize its upstream asset footprint in the United States, Europe and Canada by adjusting the supply of siloxane and silicon metal.

Notably, the restructuring program is in addition to the operating expense savings worth \$500 million that the company expects to achieve by the end of 2020. Dow also expects to achieve its capital expenditures target of \$1.25 billion for 2020.

### Dow to Divest U.S. Gulf Coast Assets for \$620 Million

Dow, on **Sep 14, 2020**, announced that it has inked a definitive agreement to sell certain U.S. Gulf Coast marine and terminal operations to Vopak Industrial Infrastructure Americas for \$620 million. Notably, Vopak Industrial Infrastructure Americas is a joint venture between BlackRock's Global Energy & Power Infrastructure Fund and Royal Vopak.

The deal includes divestment of marine and storage terminal operations and assets at Dow's sites in Plaquemine and St. Charles, LA, and Freeport, TX. Dow's latest move demonstrates its focus on disciplined capital allocation strategy. Moreover, the transaction will enable the company deploy cash toward value-enhancing opportunities in core business areas as well as clearing additional debt.

In regards to this announcement, Dow and Vopak Industrial Infrastructure Americas have also inked long-term service agreements to ensure reliable and cost-saving services for existing Dow businesses at the in-scope sites. The deal is slated to close in fourth-quarter 2020, which is subject to customary closing conditions. Further, normal operations are likely to continue throughout the divestment process.

### Dow Completes Senior Notes Offering Worth \$2 Billion

On **Aug 26, 2020**, Dow Inc.'s fully-owned subsidiary, The Dow Chemical Company, stated that it has completed the public offering of \$2 billion total principal amount of its notes. The Dow Chemical Company has issued \$1.15 billion of its 3.6% notes due 2050 and \$850 million of its 2.1% notes due 2030.

The company will employ the net proceeds to fund the redemption of debt. This includes the repayment of up to \$1.25 billion principal balance outstanding per the term loan facility of the Dow Chemical Company's full-owned subsidiary, Dow Silicones Corporation. The company will also use the proceeds to finance the cash tender offers to acquire some of its debt securities and certain debt securities of another subsidiary of the Dow Chemical Company, Union Carbide Corporation, in a total purchase price (excluding accrued interest) of up to \$550 million.

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## Valuation

Dow's shares are up 1.1% in the year-to-date period and up 5.1% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are up 4.3% and up 5.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.3% and up 13.2%, respectively.

The S&P 500 index is up 11.2% in the year-to-date period and up 15.5% in the past year.

Our Outperform recommendation indicates that the stock will perform above the market. Our \$64 price target reflects 25.6X forward 12-month earnings per share.

## Industry Analysis Zacks Industry Rank: Bottom 49% (130 out of 254)



## Top Peers

| Company (Ticker)                       | Rec        | Rank |
|----------------------------------------|------------|------|
| The Chemours Company (CC)              | Outperform | 2    |
| PPG Industries, Inc. (PPG)             | Outperform | 2    |
| Air Products and Chemicals, Inc. (APD) | Neutral    | 4    |
| BASF SE (BASFY)                        | Neutral    | 3    |
| Celanese Corporation (CE)              | Neutral    | 3    |
| DuPont de Nemours, Inc. (DD)           | Neutral    | 3    |
| Eastman Chemical Company (EMN)         | Neutral    | 3    |
| LyondellBasell Industries N.V. (LYB)   | Neutral    | 4    |

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

| Industry Comparison Industry: Chemical - Diversified |            |            |           | Industry Peers |           |           |
|------------------------------------------------------|------------|------------|-----------|----------------|-----------|-----------|
|                                                      | DOW        | X Industry | S&P 500   | BASFY          | DD        | LYB       |
| Zacks Recommendation (Long Term)                     | Outperform | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                              | 1          | -          | -         | 3              | 3         | 4         |
| VGM Score                                            | C          | -          | -         | A              | B         | B         |
| Market Cap                                           | 41.05 B    | 2.93 B     | 25.47 B   | 63.07 B        | 45.54 B   | 27.46 B   |
| # of Analysts                                        | 8          | 3          | 14        | 3              | 8         | 6         |
| Dividend Yield                                       | 5.06%      | 1.52%      | 1.51%     | 3.88%          | 1.93%     | 5.11%     |
| Value Score                                          | D          | -          | -         | A              | C         | A         |
| Cash/Price                                           | 0.12       | 0.11       | 0.06      | 0.10           | 0.09      | 0.11      |
| EV/EBITDA                                            | 20.27      | 9.10       | 14.60     | 8.23           | 13.15     | 6.71      |
| PEG F1                                               | 10.65      | 4.19       | 2.77      | 6.05           | 4.19      | 2.18      |
| P/B                                                  | 3.17       | 1.94       | 3.50      | 1.49           | 1.19      | 3.75      |
| P/CF                                                 | 7.45       | 8.02       | 13.70     | 7.20           | 6.16      | 5.80      |
| P/E F1                                               | 38.97      | 22.29      | 21.91     | 22.49          | 19.66     | 17.45     |
| P/S TTM                                              | 1.08       | 1.05       | 2.80      | 0.97           | 2.24      | 0.98      |
| Earnings Yield                                       | 2.57%      | 4.37%      | 4.41%     | 4.43%          | 5.09%     | 5.73%     |
| Debt/Equity                                          | 1.29       | 0.64       | 0.70      | 0.43           | 0.57      | 1.88      |
| Cash Flow (\$/share)                                 | 7.43       | 3.13       | 6.92      | 2.38           | 10.07     | 14.19     |
| Growth Score                                         | C          | -          | -         | B              | A         | C         |
| Historical EPS Growth (3-5 Years)                    | NA%        | 5.99%      | 9.79%     | -8.09%         | -19.79%   | -5.33%    |
| Projected EPS Growth (F1/F0)                         | -59.74%    | -16.29%    | 0.36%     | -31.85%        | -16.94%   | -51.02%   |
| Current Cash Flow Growth                             | -5.85%     | -9.97%     | 5.39%     | -19.09%        | -56.42%   | -16.46%   |
| Historical Cash Flow Growth (3-5 Years)              | NA%        | 5.56%      | 8.31%     | -3.10%         | 1.70%     | -3.48%    |
| Current Ratio                                        | 1.74       | 1.97       | 1.38      | 1.62           | 1.80      | 2.25      |
| Debt/Capital                                         | 56.35%     | 39.58%     | 41.97%    | 30.27%         | 36.38%    | 65.45%    |
| Net Margin                                           | -6.14%     | 4.05%      | 10.41%    | -3.55%         | -14.73%   | 4.23%     |
| Return on Equity                                     | 9.03%      | 9.09%      | 14.92%    | 6.33%          | 6.30%     | 24.09%    |
| Sales/Assets                                         | 0.63       | 0.71       | 0.50      | 0.65           | 0.29      | 0.90      |
| Projected Sales Growth (F1/F0)                       | -12.29%    | -3.11%     | 0.20%     | -0.48%         | -43.72%   | -22.13%   |
| Momentum Score                                       | B          | -          | -         | B              | B         | D         |
| Daily Price Change                                   | 0.07%      | 0.00%      | 0.29%     | -0.38%         | -0.16%    | 0.04%     |
| 1-Week Price Change                                  | 7.75%      | 1.66%      | 4.23%     | 11.32%         | 3.37%     | 5.46%     |
| 4-Week Price Change                                  | 13.35%     | 4.37%      | 5.77%     | 12.24%         | 4.32%     | 6.68%     |
| 12-Week Price Change                                 | 19.89%     | 7.56%      | 8.35%     | 12.57%         | 9.67%     | 19.31%    |
| 52-Week Price Change                                 | 2.71%      | 2.03%      | 6.43%     | -10.40%        | -5.54%    | -11.90%   |
| 20-Day Average Volume (Shares)                       | 4,522,775  | 120,864    | 2,232,918 | 317,624        | 4,300,302 | 2,378,220 |
| EPS F1 Estimate 1-Week Change                        | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                        | 30.35%     | 1.28%      | 1.57%     | 6.02%          | 4.76%     | -0.72%    |
| EPS F1 Estimate 12-Week Change                       | 86.81%     | 3.59%      | 3.66%     | 21.16%         | 7.89%     | 1.68%     |
| EPS Q1 Estimate Monthly Change                       | 45.38%     | 1.74%      | 0.44%     | -16.67%        | 1.74%     | -8.47%    |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

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

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

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## Disclosures

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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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