

Darden Restaurants (DRI)

\$141.36 (As of 05/24/21)

Price Target (6-12 Months): **\$148.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/24/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

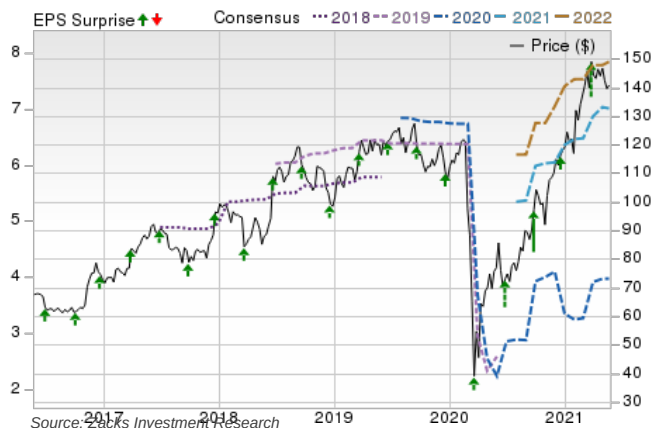
Growth: B

Momentum: B

Summary

Shares of Darden have outperformed the industry so far this year. Notably, the company has been gaining from its increased focus on sales-building initiatives, Cheddar's business model transformation and technology-driven moves. These include simplifying kitchen systems, improving sales planning and scheduling, and operational excellence to enhance guest experience, develop new core menu items, allow customization and make smarter promotional investments. Moreover, its focus on online ordering bode well. Earnings estimates for 2021 have moved up over the past 30 days, depicting analysts optimism regarding the stock growth potential. However, the coronavirus related woes persists. Due to the social distancing protocol, traffic in fourth-quarter fiscal 2021 is likely to remain low.

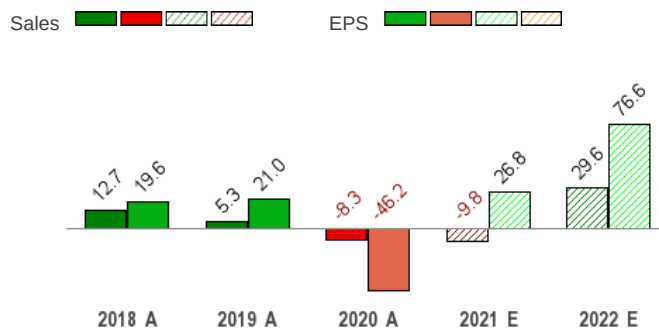
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$149.73 - \$68.68
20-Day Average Volume (Shares)	1,236,467
Market Cap	\$18.4 B
Year-To-Date Price Change	18.7%
Beta	1.54
Dividend / Dividend Yield	\$3.52 / 2.5%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 38% (96 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	36.1%
Last Sales Surprise	6.6%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	06/24/2021
Earnings ESP	4.7%
P/E TTM	135.9
P/E F1	35.6
PEG F1	3.5
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,107 E	2,096 E	2,423 E	2,410 E	9,123 E
2021	1,527 A	1,657 A	1,733 A	2,124 E	7,041 E
2020	2,134 A	2,056 A	2,347 A	1,270 A	7,807 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.45 E	\$1.28 E	\$2.13 E	\$2.09 E	\$7.01 E
2021	\$0.56 A	\$0.74 A	\$0.98 A	\$1.70 E	\$3.97 E
2020	\$1.38 A	\$1.12 A	\$1.90 A	-\$1.24 A	\$3.13 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 05/24/2021. The report's text and the analyst-provided price target are as of 05/25/2021.

Overview

Founded in 1968 and based in Orlando, FL, Darden Restaurants is one of the largest casual dining restaurant operators worldwide. The company has operations in the United States and Canada with more than 1,700 restaurants.

Beginning fourth-quarter fiscal 2015, the company began reporting its business under four segments: Olive Garden (50% of total revenues in fiscal third-quarter 2021), LongHorn Steakhouse (26.6%), Fine Dining (6%) and Other Business (17.4%).

Fine Dining, includes The Capital Grille and Eddie V's while the Other Business segment comprises of Cheddar's Scratch Kitchen, Yard House, Seasons 52, Bahama Breeze, consumer packaged goods and franchise revenues. Notably, all the company owned restaurants fall under full-service segment of the restaurant industry.

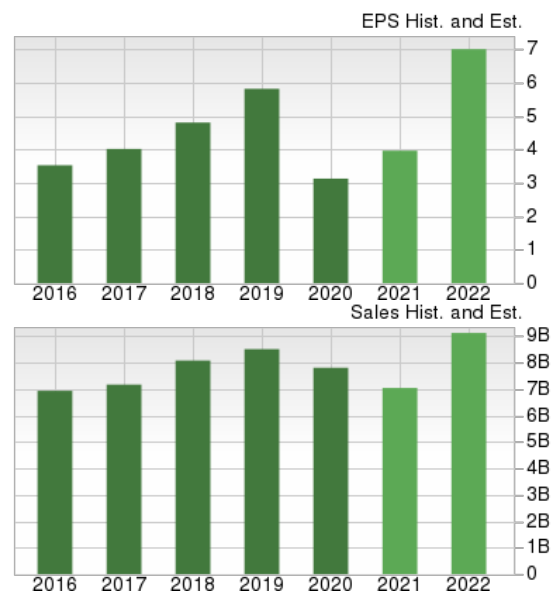
Florida-based Olive Garden is the largest full-service Italian restaurant in America. The brand features a menu, which has a variety of Italian food made with fresh ingredients.

LongHorn Steakhouse is a full-service steakhouse restaurant, with locations primarily in the eastern United States. The brand offers signature fresh steaks and chicken as well as salmon, shrimp, ribs, pork chops, burgers and prime rib.

Cheddar's Scratch Kitchen is a full-service restaurant operating in Texas and throughout the southern, mid-western and mid-Atlantic regions of the United States. The casual dining menu features modern classics and American favorites cooked from scratch.

On Nov 9, 2015, Darden completed the spin-off of Four Corners Property Trust, Inc.

On Apr 24, 2017, the company completed the acquisition of the Cheddar's Scratch Kitchen for \$799.8 million in total consideration. The acquired operations of Cheddar's Scratch Kitchen included 140 company-owned restaurants and 25 franchised restaurants. On Aug 28, 2017, Darden completed the acquisition of 11 Cheddar's Scratch Kitchen franchised restaurants from an already existing franchisee.



Reasons To Buy:

▲ **Impressive Earnings Surprise:** We are encouraged by Darden's impressive earnings surprise. Notably, the company's earnings surpassed the Zacks Consensus Estimate for 26 straight quarters. In third-quarter fiscal 2021, the company reported adjusted earnings per share of 98 cents per share, beating the Zacks Consensus Estimate of earnings of 72 cents. The company's continuous efforts to augment the basic operating factors of the business — food, service and ambiance — bode well. The company expects fourth-quarter fiscal 2021 earnings per share in the range of \$1.60 to \$1.70, which was well above the analyst's expectations. Moreover, shares of the company have outperformed the industry in the past six months.

Cheddar's acquisition, various sales boosting initiatives along with the cost saving efforts undertaken by the company are expected to drive growth

▲ **Cheddar's a Long-term Growth Driver:** Darden's acquisition of the small restaurant chain, Cheddar's Scratch Kitchen (Cheddar's), in April 2017 has added an undisputed casual dining value to the company's portfolio of differentiated brands. It also helped Darden to further enhance its scale. Further, management made significant operational readjustment to the brand, which is expected to reap long-term benefits. Apart from making good progress with the integration of Cheddar's, the company seems to gain more confidence in its outcome. Due to the transformation, the company is witnessing improved margin at Cheddar's. Moving forward, the company considers Cheddar a significant prospect for long-term growth. The company is also witnessing sharp increase in To Go sales. The company announced that across the Darden, its hourly labor productivity has improved by over 20%, with Cheddar's increasing over 30%. Due to Cheddar's business model transformation, Cheddar's the restaurant level margins has improved over 300 basis points year-to-date through the third quarter. The company also added that when Cheddar's reaches 100% of the pre-COVID sales, it anticipates that restaurant level margins to be well in the high teens.

▲ **Brand Renaissance Plan for Olive Garden and Other Initiatives to Boost the Top Line:** In order to boost the performance of the Olive Garden brand, the company implemented a set of initiatives under its Brand Renaissance Plan. These included simplifying kitchen systems, improving sales planning and scheduling, operational excellence to improve guest experience, developing new core menu items, allowing customization and making smarter promotional investments. The revamped restaurants are already generating high same-restaurant sales and returns. Meanwhile, the company is also focusing on technology-driven initiatives like the system-wide rollout of tablets in order to capitalize on the digitization, which has rapidly penetrated the U.S. fast-casual restaurant sector. This initiative has been providing a boost to the company's sales for the past few quarters.

During fourth-quarter 2020, the company rolled out online ordering facility for Cheddar's as well as other brands that did not have this facility previously. This also included online sales of alcohol for all brands. To reduce friction and enhance consumer convenience in the digital platform, the company initiated streamlining of order pickup process and payment methods. Backed by these initiatives, online ordering has increased sharply.

▲ **Initiatives to Attract Guests at LongHorn and Other Units:** At LongHorn, the company strives to attract its guests by focusing on core menu, culinary innovation and providing regional flavors. It is also working on its marketing strategy to improve execution; customer relationship management and digital advertising as well as a strong promotional pipeline that leverage the segment's expertise. Further, the company continues to focus on strengthening its in-restaurant execution through investments in quality and simplification of operations in order to augment the guest experience. Sales are being driven by various initiatives undertaken and personalized services, which are likely to aid long-term growth as well.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Darden stated it has enough liquidity to survive the coronavirus pandemic for some time. As of Feb 28, 2021, the company's cash balance totaled nearly \$994 million, million compared with \$777 million as of Nov 29, 2020. Lately, it has been generating positive cash flow, adding to the positives. As of Feb 28, 2021, the company's long-term debt stands at \$929.7 million compared with \$929.4 million at the end of Nov 29, 2020. At the end of third-quarter fiscal 2021, the company had total debt-to-capital ratio of 0.27 that indicates that its debt levels are manageable.

Reasons To Sell:

- ▼ **Coronavirus to Hurt Performance:** The coronavirus pandemic is likely to hurt the company's results in the coming quarters. Due to the social distancing protocol, traffic in fourth-quarter fiscal 2021 is likely to remain low. Dismal traffic, in turn, will negatively impact the company's top and bottom lines.
- ▼ **Dismal Q3 Same-restaurant sales:** In third-quarter fiscal 2021, same-restaurant sales declined sharply at all segments due to the pandemic. Same-restaurant sales at Olive Garden, Fine Dining, LongHorn Steakhouse and Other Business fell 25.8%, 45.2%, 12.6% and 36.9%, respectively. Moreover, total sales also slumped 26.1% from the prior-year quarter's levels due to negative blended same-restaurant sales of 26.7%.
- ▼ **Dismal Comps Trend Continues in Q4:** For the week ended Feb 28, Mar 7, Mar 14 and Mar 21, comps at Darden declined 15.9%, 13.9%, 11.1% and up 5.4%, respectively. Meanwhile, comps at Olive Garden for the week ended Feb 28, Mar 7, Mar 14 and Mar 21 were down 17.4%, 15.3%, 11.6% and up 5.7%, respectively. Moreover, comps at LongHorn Steakhouse were down 3.4% and up 0.3%, 18.5%, 3.8% and 23.2%, for the week ended Feb 28, Mar 7, Mar 14 and Mar 21, respectively.
- ▼ **Limited International Presence:** Darden's restaurants are located in the United States and Canada, and the company has no exposure in international markets. While several other fast casual restaurateurs are capitalizing on the emerging market potential, Darden seems to be slow on this front. We believe that the company needs to expand its presence beyond the United States in order to offset the impact of cutthroat competition in the saturated domestic market.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Darden operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. Darden, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If the company does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other retailers.

Dismal comps, coronavirus pandemic along with the company's limited international presence raise concerns.

Last Earnings Report

Darden Q3 Earnings And Revenues Beat Estimates

Darden reported third-quarter fiscal 2021 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. The bottom line beat the consensus mark for the ninth straight quarter, while the top line outpaced the same after missing in the preceding three quarters. However, both the metrics declined on a year-over-year basis.

During the fiscal third quarter, the company reported adjusted earnings of 98 cents per share, beating the Zacks Consensus Estimate for earnings of 72 cents. In the prior-year quarter, the company had reported adjusted earnings per share of \$1.90.

Total sales during the quarter amounted to \$1,733 million, beating the consensus mark of \$1,625 million. However, sales declined 26.1% from the prior-year quarter on account of negative blended same-restaurant sales of 26.7%. The decline was partially mitigated by the opening of 10 net new restaurants.

Quarter Ending	02/2021
Report Date	Mar 25, 2021
Sales Surprise	6.61%
EPS Surprise	36.11%
Quarterly EPS	0.98
Annual EPS (TTM)	1.04

Sales by Segments

Darden reports business under four segments — Olive Garden, LongHorn Steakhouse, Fine Dining that includes The Capital Grille and Eddie V's, and Other Business.

Sales at Olive Garden decreased 25.4% year over year to \$872 million. Comps slumped 25.8% at the segment compared with the prior-quarter's comp decline of 19.9%.

Sales at Fine Dining plunged 44.6% to \$104.4 million. Comps fell 45.2% at the segment, compared with a decline of 31% in second-quarter fiscal 2021.

Sales at Other Business decreased 36.8% year over year to \$302.3 million. Moreover, comps Other Business fell 36.9%, compared with a decline of 28.6% in the prior quarter.

At LongHorn Steakhouse, sales were down 11% year over year to \$454.3 million. Comps at the segment decreased 12.6%, compared with comps decline of 11.1% in the previous quarter.

Other Business Updates

For the week ended Feb 28, Mar 7, Mar 14 and Mar 21, comps at Darden declined 15.9%, 13.9%, 11.1% and up 5.4%, respectively.

Meanwhile, comps at Olive Garden for the week ended Feb 28, Mar 7, Mar 14 and Mar 21 were down 17.4%, 15.3%, 11.6% and up 5.7%, respectively. Moreover, comps at LongHorn Steakhouse were down 3.4% and up 0.3%, 18.5%, 3.8% and 23.2%, for the week ended Feb 28, Mar 7, Mar 14 and Mar 21, respectively.

Operating Highlights & Net Income

In the fiscal third quarter, total operating costs and expenses decreased 23.4% year over year to \$1,535.8 million. The decline was due to an overall decrease in food and beverage costs, restaurant expenses, and labor costs.

Balance Sheet

As of Feb 28, 2021, cash and cash equivalents were \$993.9 million compared with \$763.3 million as of May 31, 2020.

Inventories during the fiscal third quarter totaled \$188.2 million. Long-term debt as of Feb 28, 2020, was \$929.7 million, up from \$928.8 million as of May 31, 2020.

The company declared a quarterly cash dividend of 88 cents per share, payable on May 3, 2021, to shareholders of record as of Apr 9, 2021. Moreover, Darden's board of director said that the company may repurchase up to \$500 million of its outstanding common stock.

Q4 Guidance

The company expects total sales of nearly \$2.1 billion. EBITDA is anticipated in the range of \$345 million to \$360 million. Earnings per share from continuing operations are anticipated to be \$1.60-\$1.70. The Zacks Consensus Estimate for the fourth quarter is currently pegged at \$1.27.

The company expects to open 33 net new restaurants and projects total capital spending in the band of \$285 million to \$295 million in fiscal 2021.

Valuation

Darden shares are up 18.7% in the year-to-date period and Up by 80.2% in the trailing 12-month period. Stocks in the Zacks sub-industry are up by 7.8%, but the Zacks Retail-Wholesale sector are down by 3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up by 34.1% and 23.7%, respectively.

The S&P 500 index is up 11.2% in the year-to-date period and 40.9% in the past year.

The stock is currently trading at 20.31X forward 12-month earnings, which compares to 28.36X for the Zacks sub-industry, 29.11X for the Zacks sector and 21.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.59x and as low as 5.2x, with a 5-year median of 18.44x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$148 price target reflects 21.26x forward 12-months earnings.

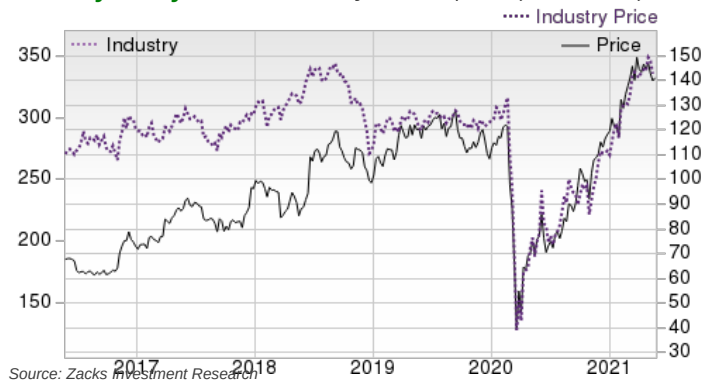
The table below shows summary valuation data for DRI.

Valuation Multiples - DRI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.31	28.36	29.11	21.69
	5-Year High	37.59	34.23	34.06	23.83
	5-Year Low	5.2	20.37	19.13	15.3
	5-Year Median	18.44	23.12	23.9	18.02
P/S F12M	Current	2.03	4.12	1.32	4.65
	5-Year High	2.27	4.29	1.41	4.74
	5-Year Low	0.46	2.81	0.84	3.21
	5-Year Median	1.46	3.39	1.02	3.71
P/CF	Current	34.49	25.25	13.64	25.64
	5-Year High	36.35	35.04	19.04	26.13
	5-Year Low	3.3	8.59	11.04	12.87
	5-Year Median	11.8	17.51	13.85	18.92

As of 05/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Bloomin Brands, Inc. (BLMN)	Outperform	1
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
Brinker International, Inc. (EAT)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Yum Brands, Inc. (YUM)	Neutral	2
Yum China Holdings Inc. (YUMC)	Neutral	3

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	DRI	X Industry	S&P 500	QSR	YUM	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	D	C	C
Market Cap	18.42 B	832.22 M	30.19 B	20.94 B	35.90 B	27.40 B
# of Analysts	13	6	12	11	10	6
Dividend Yield	2.49%	0.00%	1.3%	3.11%	1.66%	0.74%
Value Score	C	-	-	C	F	C
Cash/Price	0.05	0.07	0.06	0.07	0.02	0.15
EV/EBITDA	72.49	15.85	17.47	20.83	26.52	16.13
PEG F1	3.47	3.05	2.19	2.08	2.44	3.36
P/B	7.15	4.66	4.16	5.23	NA	4.15
P/CF	24.55	24.44	17.45	17.88	28.66	25.69
P/E F1	35.64	32.88	21.83	25.99	29.25	33.49
P/S TTM	2.98	2.06	3.51	4.19	6.11	3.02
Earnings Yield	2.81%	2.48%	4.49%	3.84%	3.42%	2.99%
Debt/Equity	0.36	0.38	0.66	3.17	-1.29	0.29
Cash Flow (\$/share)	5.73	0.66	6.82	3.81	4.18	2.53
Growth Score	B	-	-	C	A	B
Historical EPS Growth (3-5 Years)	-9.29%	-4.79%	9.39%	10.42%	1.75%	2.36%
Projected EPS Growth (F1/F0)	26.74%	83.89%	20.29%	29.29%	13.81%	27.12%
Current Cash Flow Growth	-30.15%	-45.12%	0.74%	-21.84%	3.17%	-8.21%
Historical Cash Flow Growth (3-5 Years)	2.15%	-2.17%	7.37%	9.34%	-6.13%	7.12%
Current Ratio	0.79	0.98	1.39	1.48	0.98	2.47
Debt/Capital	26.52%	45.00%	41.55%	76.04%	NA	22.30%
Net Margin	-3.54%	-0.26%	11.70%	10.41%	19.52%	10.50%
Return on Equity	5.94%	-6.66%	16.07%	25.25%	-15.62%	13.90%
Sales/Assets	0.62	0.74	0.51	0.22	0.98	0.93
Projected Sales Growth (F1/F0)	-9.82%	10.33%	9.14%	14.78%	12.75%	28.37%
Momentum Score	B	-	-	D	C	D
Daily Price Change	-0.26%	-0.33%	0.09%	-0.74%	-0.19%	-0.20%
1-Week Price Change	0.89%	0.00%	-0.49%	0.74%	0.37%	3.07%
4-Week Price Change	-2.23%	0.00%	0.85%	2.87%	1.69%	10.03%
12-Week Price Change	2.50%	8.72%	12.34%	13.73%	15.63%	8.72%
52-Week Price Change	86.12%	69.23%	46.29%	28.54%	37.20%	49.12%
20-Day Average Volume (Shares)	1,236,467	218,551	1,936,476	1,096,647	1,502,748	2,044,655
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.06%	5.54%	1.65%	0.98%	5.18%	5.23%
EPS F1 Estimate 12-Week Change	22.60%	7.38%	2.64%	-1.77%	6.16%	4.57%
EPS Q1 Estimate Monthly Change	-0.94%	6.98%	0.83%	0.17%	4.24%	-1.12%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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 medium-term price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.