

Electronic Arts Inc. (EA)

\$132.94 (As of 10/13/20)

Price Target (6-12 Months): **\$140.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/08/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: A

Momentum: F

Summary

EA's digital and live services revenues are expected to gain from portfolio strength on the back of franchises including *Apex Legends*, *FIFA* and *Madden NFL*, *The Sims 4*, *Need For Speed Heat* and *Star Wars Jedi: Fallen Order*. EA SPORTS titles along with *Battlefield* and *Star Wars* are some of its biggest franchises driving active player base. As more people stayed at home, EA witnessed the rising usage and engagement levels for many of its games. Moreover, EA has a strong slate of game releases for fiscal 2021 including the latest installments of *FIFA* and *Madden NFL*, which are likely to boost its top line. Shares have outperformed the industry year to date. However, stiff competition from Activision and Take-Two Interactive is a significant headwind.

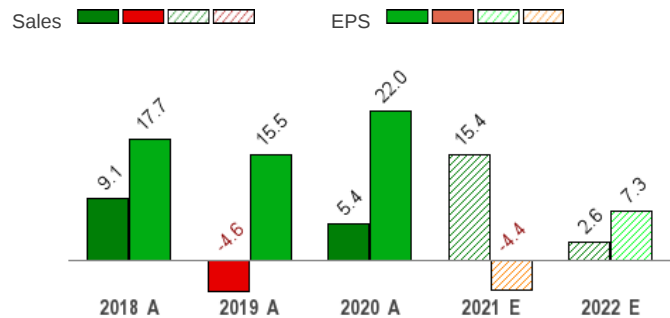
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$147.36 - \$85.69
20-Day Average Volume (Shares)	2,183,990
Market Cap	\$38.4 B
Year-To-Date Price Change	23.7%
Beta	0.90
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Bottom 30% (179 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	65.9%
Last Sales Surprise	29.0%
EPS F1 Estimate 4-Week Change	0.4%
Expected Report Date	11/05/2020
Earnings ESP	155.0%
P/E TTM	20.6
P/E F1	24.3
PEG F1	4.2
P/S TTM	6.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,036 E	1,410 E	2,300 E	1,412 E	6,174 E
2021	1,390 A	946 E	2,353 E	1,328 E	6,016 E
2020	743 A	1,277 A	1,978 A	1,213 A	5,211 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.51 E	\$1.06 E	\$3.11 E	\$1.29 E	\$5.87 E
2021	\$1.36 A	\$0.03 E	\$2.95 E	\$1.11 E	\$5.47 E
2020	-\$0.02 A	\$0.96 A	\$2.79 A	\$1.34 A	\$5.72 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 10/13/2020. The reports text is as of 10/14/2020.

Overview

Headquartered in Redwood City, CA, Electronic Arts is a leading developer, marketer, publisher and distributor of interactive games (video game software and content).

Electronic Arts, popularly known as EA, distributes its gaming content and services through multiple distribution channels as well as directly to consumers (online and wirelessly) through its online portals — Origin and Play4Free.

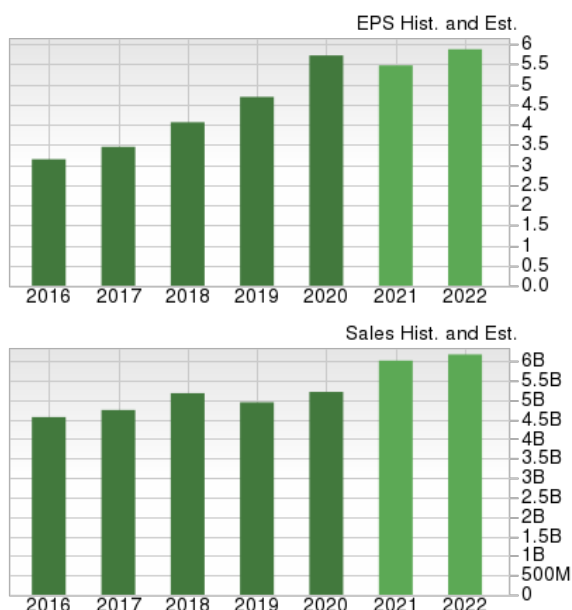
EA games can be played on video consoles, personal computers, mobile devices, tablets and electronic readers. The company generates revenues from the sale of disk-based video game products (known as packaged goods), downloadable contents (DLCs), subscription, micro-transactions and advertising.

EA generated revenues of \$5.54 billion in fiscal 2020, of which digital net revenues contributed 77.9% and the remaining were generated from packaged goods and others.

Moreover, net revenues from live services comprised 50.8% of total net revenues in fiscal 2020.

The company operates in three divisions — EA Studios, Maxis and EA Mobile. EA Studios includes DICE (Sweden), EA Canada (Canada), Tiburon (the United States), BioWare (Canada and the United States) and Visceral (the United States).

EA faces substantial competition from console and personal computer game publishers and diversified media companies that include Sony, Microsoft, Nintendo, Activision Blizzard, Take-Two Interactive and Ubisoft. In the mobile and social gaming market, the company competes with Glu Mobile and Zynga.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ EA has been the primary beneficiary of the ongoing shift from physical to digital versions of video games. Notably, contribution of the digital business to EA's revenues increased from 57% in fiscal 2017 to 67% in fiscal 2018 and 75% in fiscal 2019. The company expects the digital business to continue to grow primarily on the back of live services and a strong mobile business. Moreover, compared with the physical platform, digital games are more profitable due to minimum packaging cost. In addition, the company's freemium and extra content services are generating significant market traction, which is driving the top line.
- ▲ EA's popularity is primarily driven by its well-known franchises, which will continue to fuel the top line. EA SPORTS titles along with Battlefield, Titanfall and Star Wars are some of its biggest franchises. Additionally, the video game company is gaining traction with The Sims franchise, which is a positive. Moreover, coronavirus has been a tailwind for the company. As more and more people were compelled to stay at home due to lockdowns and physical distance measures, EA witnessed rising usage and engagement levels for many of its games including The Sims 4, Madden NFL 20, Apex Legends and FIFA in the first quarter.
- ▲ EA's latest battle royale (BR) game — Apex Legends — is an instant hit. The game has smashed the records of Epic Game's Fortnite in this genre. The company is in talks with Tencent to bring the game to China. Notably, EA lacks significant presence in China apart from FIFA and a few mobile games. Thus, Apex Legends will boost EA's footprint in China's PC-gaming market, which is a positive.
- ▲ EA's strong liquidity and cash flow-generating ability make the stock attractive to investors. As of Jun 30, 2020, the company had \$5.9 billion in cash and short-term investments compared with \$5.7 billion as of Mar 31, 2020. In comparison, EA had \$1 billion senior notes as of Jun 30, 2020, with \$600 million maturing in March 2021 and \$400 million due in 2026.

EA has been the primary beneficiary of the ongoing shift from physical to digital versions of video games. Core franchises like *FIFA* and *The Sims* are driving growth.

Reasons To Sell:

- ▼ Video games are hit driven. Though EA has a powerful line up of games that can be repeatedly upgraded, there is no assurance that a particular game will be a hit. Moreover, the video game business is highly cyclical and heavily dependent on time-to-time upgrade/introduction of new game software and hardware systems.
- ▼ The video game publishing industry is intensely competitive. EA faces significant competition from the likes of Take Two Interactive and Activision Blizzard. The resultant pressure can exert pressure on margins and lead to market share losses. Lower volume of packaged goods sales are a drag on margins. EA's continued investment in the digital market may also hurt profitability in the near term.
- ▼ EA is now expected to release the next installment of *Battlefield* to fiscal 2022, which is disappointing for players. The company is expected to release 14 games in fiscal 2021, including *FIFA 21* and *Madden NFL 21*. Lack of a new *Battlefield* game is also expected to hurt EA's competitive position against Activision's *Call of Duty* franchise.
- ▼ EA is dependent on few well-known franchises like *FIFA*, *Battlefield* and *Star Wars* for revenue generation. This doesn't bode well for the company. Notably, its much-awaited shooter looter game — *Anthem* — received lukewarm response from critics as well as players. The PC version of *Anthem* had average critic score of 61 out of 100 on Metacritic compared with *Apex Legends* score of 88. The company's failure to expand its game franchise is a major concern amid rising competition.

The video game industry is inherently hit driven and highly competitive. EA faces significant competition from the likes of Take Two Interactive and Activision Blizzard.

Last Earnings Report

Electronic Arts (EA) Q1 Earnings Decline Y/Y, Revenues Rise

Electronic Arts reported first-quarter fiscal 2021 earnings of \$1.25 per share, which declined 73.7% year over year.

Revenues however rose 20.7% year over year to \$1.45 billion. At the beginning of fiscal 2021, EA changed the way in which it reports net bookings. Periods prior to the first quarter of fiscal 2021 have been recast for comparability to align with these changes. Net bookings increased 77.7% year over year to \$1.39 billion.

The Zacks Consensus Estimate for earnings and revenues was pegged at 82 cents per share and \$1.07 billion, respectively.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	28.96%
EPS Surprise	65.85%
Quarterly EPS	1.36
Annual EPS (TTM)	6.45

Quarter Details

EA's full game revenues (24.6% of total revenues) grew 37% year over year to \$359 million. Net bookings from full games increased 202% year over year to \$287 million.

Moreover, live services and other revenues (75.4% of total revenues) rose 16.2% year over year to \$1.1 billion. Net bookings from live services increased 61% year over year to \$1.1 billion.

Further segregating full-game revenues, full-game download revenues increased 68% year over year to \$233 million. Revenues from packaged goods increased 5% year over year to \$136 million.

Based on its platforms, revenues from console increased 23% year over year to \$932 million. Net bookings from console increased 98% year over year to \$824 million.

Revenues from PC/browser were up 28% year over year to \$325 million. Net bookings from PC/browser increased 74% year over year to \$340 million.

Revenues from mobile platform increased 3% year over year to \$202 million. Net bookings from mobile increased 32% year over year to \$226 million driven by strong popularity of sports titles in Asia.

Important Game & Player Metrics

The company launched two games during the quarter namely *Command & Conquer Remastered*, which became a top-selling title on Origin and Steam, and *Burnout Paradise Remastered* on Nintendo Switch.

Additionally, EA delivered more than 30 new content updates for console and PC titles, including two major game expansions, as well as more than 50 updates to mobile games.

Moreover, during the quarter, EA launched nearly 30 titles on the Steam platform. Origin business grew 75% year over year by opening up the ability for Steam and Origin players to play together.

Moreover, *Madden NFL 20* is delivering the highest engagement levels with player acquisition growth of nearly 140% year over year.

Further, *FIFA* grew year over year in the fiscal first quarter. Acquisition of new and returning players in *FIFA* grew more than 100% year over year with more than 7 million joining during the quarter.

Moreover, *FIFA Online* continued to perform strongly, engaging nearly 30 million players to date especially in Asia amid coronavirus lockdown.

Notably, fiscal first quarter 2021 saw the most game sessions played and highest revenue total since the launch quarter for *Apex Legends*. Engagement in Season 5 reached the highest levels since its first new season of content. The in-game event, Lost Treasures had more than 96 million hours played in the first two weeks. *Apex Legends* Season 5 outperformed in each of the two prior seasons, even before COVID-19 stay-at-home orders were rolled out.

The Sims 4 now has more than 30 million players life-to-date across all platforms, and daily, weekly and monthly active player totals in the game reached record highs in the first quarter.

Operating Details

EA's GAAP gross profit increased 14.6% from the year-ago quarter to \$1.17 billion. However, gross margin contracted 430 basis points (bps) on a year-over-year basis to 80.3%.

Operating expenses increased 15.3% from the year-ago quarter to \$700 million. As a percentage of revenues, operating expenses contracted 220 bps on a year-over-year basis to 48%.

As a percentage of revenues, marketing & sales (M&S) and research & development (R&D) expenses shrank 80 bps and 1500 bps, respectively. Meanwhile, general & administrative (G&A) expenses expanded 20 bps in the reported quarter.

Operating income on a GAAP basis increased 13.5% year over year to \$471 million. As a percentage of revenues, operating margin contracted

200 bps on a year-over-year basis to 32.3%.

Balance Sheet and Cash Flow

As of Jun 30, 2020, EA had \$5.9 billion in cash and short-term investments compared with \$5.7 billion as of Mar 31, 2020.

Net cash from operating activities in the reported quarter was \$378 million compared with \$1.79 billion in the previous quarter.

EA repurchased 747K shares for \$78 million in the reported quarter completing its \$2.4 billion, two-year repurchase program.

Guidance

For the second quarter of fiscal 2021, EA expects GAAP revenues of \$1.2125 billion. Net bookings are expected to be \$875 million.

EA anticipates earnings to be 21 cents per share.

For fiscal 2021, EA expects GAAP revenues of \$5.625 billion and net bookings of \$5.95 billion.

Additionally, earnings are expected to be \$2.97 per share.

Operating cash flow is estimated to be \$1.85 billion.

Note: The EPS data mentioned in the text of this section differs from the rest of report due to the difference in calculation or consideration of one-time items.

Recent News

On Oct 9, EA announced the worldwide launch of EA SPORTS *FIFA 21* featuring robust career mode with over 3.6 million players already in the game.

On Oct 5, EA announced that *Need for Speed Hot Pursuit Remastered* will be available on PS4, Xbox One and PC on Nov 6, 2020.

On Oct 2, EA announced the release of its latest team-based multiplayer space shooter *Star Wars: Squadrons* developed by EA Motive. The game features an original *Star Wars* story set after the events of *Star Wars: Return of the Jedi*.

On Sep 3, EA announced that since the launch of *Madden NFL 21* on Aug 28 for Xbox One, PS4 and PC, players have played nearly 50% more games compared to the first week of *Madden NFL 20*.

On Aug 27, EA announced that *The Sims 4 Star Wars: Journey to Batuu* Game Pack is coming to PC via Origin and Steam, Xbox One and PS4 systems on Sep 8, 2020.

On Aug 18, EA announced that EA Access and Origin Access Basic have become EA Play, and Origin Access Premier has been re-branded as EA Play Pro.

On Aug 14, EA announced the launch of its newest game in the UFC franchise, EA SPORTS *UFC 4* available on PS4 and Xbox One. The game lets players shape their own UFC legacy or challenge the world in new Blitz Battles or Online World Championships to become the undisputed champion of the Octagon.

On Aug 5, EA's division EA Sports unveiled the Yard, a new backyard football-inspired experience coming to *Madden NFL 21*. It is a small-sided football game with new gameplay mechanics, deep player customization and a new gear.

Valuation

Electronic Arts shares are up 23.7% in the year-to-date period and 39.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 23.6%, while the same in the Zacks Consumer Discretionary sector is flat in the year-to-date period. Over the past year, the Zacks sub-industry and sector is up 29.4% and 9.1%, respectively.

The S&P 500 index is up 9.2% in the year-to-date period and 17.5% in the past year.

The stock is currently trading at 23.37X forward 12-month earnings, which compares to 28.68X for the Zacks sub-industry, 33.05X for the Zacks sector and 23.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.45X and as low as 18.01X, with a 5-year median of 25.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$140 price target reflects 24.54X forward 12-month earnings.

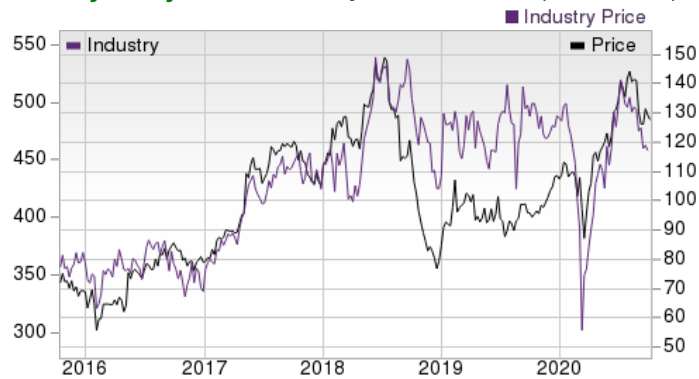
The table below shows summary valuation data for EA

Valuation Multiples - EA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.37	28.68	33.05	23.37
	5-Year High	35.45	31.5	35.24	23.47
	5-Year Low	18.01	19.51	16.13	15.27
	5-Year Median	25.51	25.57	19.85	17.68
P/S F12M	Current	6.33	5.8	2.39	4.21
	5-Year High	8.01	6.16	2.95	4.31
	5-Year Low	3.59	3.5	1.68	3.18
	5-Year Median	5.55	4.85	2.47	3.67
EV/Sales TTM	Current	5.6	6.1	3.22	4.05
	5-Year High	8.4	6.82	3.77	4.16
	5-Year Low	3.28	3.79	2.26	2.61
	5-Year Median	4.83	4.82	3.35	3.57

As of 10/13/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 30% (179 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Activision Blizzard, Inc. (ATVI)	Outperform	2
Nintendo Co. (NTDOY)	Outperform	3
Mattel, Inc. (MAT)	Neutral	2
TakeTwo Interactive Software, Inc. (TTWO)	Neutral	3
Zynga Inc. (ZNGA)	Neutral	4
Glu Mobile Inc. (GLUU)	Underperform	5
Hasbro, Inc. (HAS)	Underperform	3
JAKKS Pacific, Inc. (JAKK)	Underperform	5

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

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	EA	X Industry	S&P 500	HAS	MAT	TTWO
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	D	-	-	F	D	B
Market Cap	38.39 B	8.13 B	23.57 B	11.91 B	4.35 B	19.34 B
# of Analysts	12	6.5	14	7	4	19
Dividend Yield	0.00%	0.00%	1.62%	3.13%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.16	0.16	0.07	0.08	0.11	0.15
EV/EBITDA	19.80	19.80	13.59	16.28	23.47	23.87
PEG F1	4.19	2.12	2.90	2.27	NA	3.06
P/B	4.93	4.78	3.55	4.51	50.54	7.30
P/CF	24.77	29.21	13.31	13.87	31.48	29.36
P/E F1	24.22	24.82	22.26	25.74	NA	36.13
P/S TTM	6.63	4.22	2.66	2.40	1.02	5.72
Earnings Yield	4.11%	3.91%	4.36%	3.89%	-0.96%	2.77%
Debt/Equity	0.05	0.00	0.70	1.82	33.09	0.00
Cash Flow (\$/share)	5.37	2.34	6.93	6.27	0.40	5.76
Growth Score	A	-	-	F	D	A
Historical EPS Growth (3-5 Years)	14.93%	14.93%	10.41%	2.05%	NA	34.56%
Projected EPS Growth (F1/F0)	-4.33%	23.09%	-2.99%	-17.26%	59.17%	-15.34%
Current Cash Flow Growth	15.43%	-3.32%	5.49%	-3.32%	-214.17%	-8.18%
Historical Cash Flow Growth (3-5 Years)	7.26%	6.23%	8.51%	5.21%	-28.91%	12.57%
Current Ratio	2.61	2.09	1.35	1.61	1.47	1.72
Debt/Capital	4.85%	2.43%	42.91%	64.62%	97.07%	0.00%
Net Margin	34.27%	10.40%	10.28%	7.58%	-5.82%	13.22%
Return on Equity	21.32%	18.19%	14.80%	18.71%	-51.02%	28.26%
Sales/Assets	0.52	0.72	0.51	0.57	0.83	0.68
Projected Sales Growth (F1/F0)	14.12%	10.39%	-0.58%	15.23%	-4.89%	-0.87%
Momentum Score	F	-	-	F	A	C
Daily Price Change	1.57%	0.00%	-0.99%	-0.97%	-0.48%	1.21%
1-Week Price Change	-1.26%	0.00%	4.06%	7.46%	3.44%	0.93%
4-Week Price Change	3.59%	0.00%	2.70%	12.25%	13.57%	5.34%
12-Week Price Change	-4.59%	1.78%	6.67%	10.23%	11.65%	10.52%
52-Week Price Change	39.72%	15.83%	5.15%	-28.76%	10.14%	36.49%
20-Day Average Volume (Shares)	2,183,990	350,987	2,058,127	890,136	5,265,546	1,120,731
EPS F1 Estimate 1-Week Change	0.16%	0.00%	0.00%	-0.84%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.37%	0.18%	0.00%	1.37%	15.52%	-1.07%
EPS F1 Estimate 12-Week Change	9.58%	12.27%	3.53%	-4.14%	60.80%	39.78%
EPS Q1 Estimate Monthly Change	-0.14%	0.00%	0.00%	1.61%	5.59%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	A
Momentum Score	F
VGM Score	D

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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