

## Ecolab Inc. (ECL)

**\$197.08** (As of 08/31/20)

Price Target (6-12 Months): **\$168.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 06/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

## Summary

Ecolab exited the second quarter on a weak note. The company witnessed sluggish performance across Global Industrial and Global Institutional business segments in the quarter under review. Contraction in both gross and operating margins raises concern. The company has also not provided either quarterly or full-year 2020 guidance in view of the continued uncertainty due to the COVID-19 pandemic. The stock has underperformed the industry in a year's time. Nonetheless, the company witnessed growth in its Specialty business in the second quarter. Moreover, Ecolab's Global Healthcare and Life Sciences segment exhibited solid performance. The company remains optimistic about its efficiency program that will generate \$325 million of run rate savings by 2021.

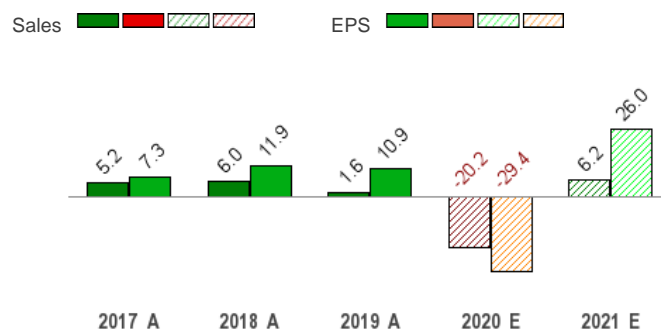
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	\$231.36 - \$124.60
20-Day Average Volume (Shares)	894,223
Market Cap	\$56.2 B
Year-To-Date Price Change	2.1%
Beta	0.94
Dividend / Dividend Yield	\$1.88 / 1.0%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 33% (167 out of 251)

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



Last EPS Surprise	-21.7%
Last Sales Surprise	-5.5%
EPS F1 Estimate 4-Week Change	-2.1%
Expected Report Date	11/03/2020
Earnings ESP	1.5%

P/E TTM	38.3
P/E F1	48.0
PEG F1	3.9
P/S TTM	4.0

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,030 E	3,173 E	3,263 E	3,340 E	12,644 E
2020	3,581 A	2,686 A	2,963 E	3,116 E	11,901 E
2019	3,505 A	3,759 A	3,818 A	3,824 A	14,906 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.05 E	\$1.30 E	\$1.46 E	\$1.59 E	\$5.18 E
2020	\$1.13 A	\$0.65 A	\$1.10 E	\$1.26 E	\$4.11 E
2019	\$1.03 A	\$1.42 A	\$1.71 A	\$1.66 A	\$5.82 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 08/31/2020. The reports text is as of 09/01/2020.

## Overview

Headquartered in St. Paul, MN, Ecolab Inc is a leading provider of water, hygiene and energy technologies and services that protect people and vital resources.

The company's programs and services helps in promoting safe food, maintaining clean environments, optimizing water and energy use, and improving operational efficiencies for customers in the food, energy, healthcare, industrial and hospitality markets in more than 170 countries.

The company's three main reportable segments are Global industrial, Global Institutional and Global Energy. The Other segment comprises fee-for-service business.

**Global Industrial segment** consists of the Water, Food & Beverage, Paper and Textile Care operating units. The segment provides water treatment & process applications, and cleaning & sanitizing solutions primarily to large industrial customers within the manufacturing, food and beverage processing, chemical, mining and primary metals, power generation, pulp and paper, and commercial laundry industries.

**Global Institutional segment** comprises Institutional, Specialty and Healthcare operating units. The segment offers specialized cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government and education and retail industries.

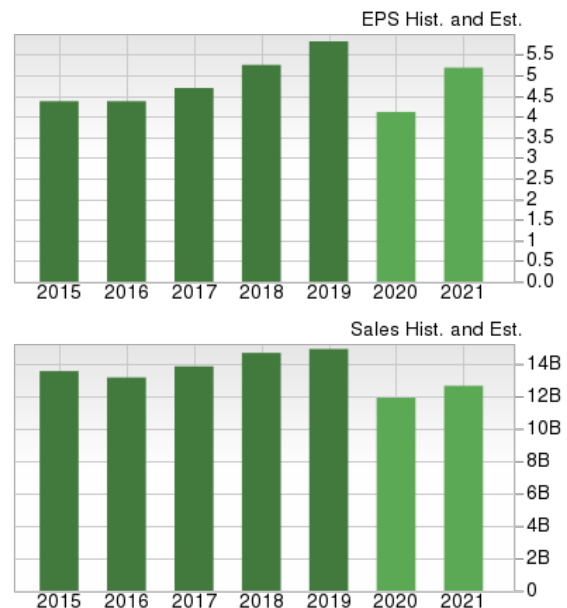
**Global Energy segment** serves the process chemicals and water treatment needs of the global petroleum and petrochemical industries in both upstream and downstream applications.

The **Other segment** comprises the remaining two units Pest Elimination and Equipment Care which are primarily fee-for-service businesses.

### 2019 at a Glance

Ecolab's 2019 revenues totaled \$14.91 billion, up 1.6%.

Global Industrial sales were \$5.57 billion (37.4% of net sales), Global Institutional sales grossed \$5.24 billion (35.1%), Global Energy revenues were \$3.33 billion (22.4%), while Other revenues were \$907.5 million (6.1%).



Source: Zacks Investment Research

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## Reasons To Sell:

▼ **Weak Stock Performance:** In the past year, Ecolab's stock has lost 3.5%, compared with the industry's fall of 8.2%. Intense competition and cost fluctuations continue to weigh on the company's overall growth.

▼ **Suspension of 2020 Outlook:** The company has not issued either quarterly or full-year 2020 outlook owing to the continued uncertainty surrounding the COVID-19 pandemic and the full scope of its impact on the global economy and duration of the same.

Intensifying competition, foreign exchange volatility, higher raw material costs and integration risks are primary headwinds.

On the basis of a gradual, although uneven, recovery from the first half of the impact of the pandemic, full-year 2020 sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is anticipated on Industrial segment businesses, while lowering but still substantial strain is expected on sales in Institutional and Other segments.

The pandemic's impact on restaurant, hospitality, and entertainment is expected to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year.

Nonetheless, the company anticipates to see gradual sequential improvement from second-quarter levels in the second half with product and service innovation, investments in new hygiene and digital technologies, and successful sales initiatives driving a sustainable recovery in customer activity.

▼ **Segmental Softness:** In second-quarter 2020, Ecolab's Global Industrial sales declined 1.8% year over year to \$1.48 billion. Further, sales at Global Institutional segment plunged 35.1% year over year to \$722.4, owing to a steep decline in the Institutional business, which more than negated solid growth in Specialty business. With respect to the Other segment, sales fell 19.3% year over year to \$247.1 million.

▼ **Cutthroat Competition:** Ecolab operates in highly competitive markets. The company's competitors can be grouped into two classes: large companies, selling directly or through distributors, and many smaller regional players who focus on limited geographical areas, product line, and/or end-user division. Notably, Ecolab faces competition from bigwigs like P&G, Unilever, PuroClean and ChemStation. The company's U.S. Cleaning & Sanitizing and International divisions face stiff competition from Clorox and Church & Dwight.

▼ **Cost Fluctuations:** The fluctuation in the cost of raw materials, especially in Europe, has the potential to affect Ecolab adversely. The frequent changes in oil or raw material prices, the absence of adequate and reasonably priced raw materials or their substitutes coupled with other factors, can hinder the business model of the company. Although Ecolab employs effective pricing strategies to offset raw material inflation, raw material cost is expected to remain a headwind, moving ahead.

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## Risks

- **Cost Efficiency Program:** Ecolab recently announced an efficiency program that will generate \$325 million of run rate savings by 2021. These additional savings are expected to have a greater impact in 2020 and 2021. In fact, as a result of the May 2020 program, the company expects to more than \$130 million with respect to selling, general and administrative costs in 2020.

The program leverages on the company's \$600 million in the last five years in technology. Ecolab is driving efficiency in G&A by leveraging its Workday and SAP platforms, consolidating systems, consolidating back offices, and by consolidating third-party vendors.

- **Product-Portfolio Solid:** Ecolab has major launches underway including the new Smartpowerware wash platform, which is expected to drive institutional improvements. Ecolab also continues to invest significantly in customer-facing technology and in infrastructure technology. In June, Ecolab's subsidiary, Nalco Water, launched Rapid Bio Intelligence — a total aerobic bacteria test kit that drastically simplifies water chemistry testing and compliance for cooling water systems. Through this, the company aims to maintain efficient cooling of water systems, which is crucial in protecting assets, adhering to safety and environmental regulations, and controlling operating costs. In the same month, the company also introduced its Pest Elimination Rodent Ceiling Service, which will offer additional monitoring and protection with hard-to-access ceiling areas. This new service is likely to provide a boost to the company's Other Segment that comprises two units, Pest Elimination and Equipment Care, and are primarily fee-for-service businesses.

Ecolab has been gaining traction in digital technology markets also. The company expects huge investments in the coming quarters to enhance its digital portfolio. New customer digital programs like SMARTPOWER, 3D CIP, 3D TRASAR, new QSR and FRS digital safety platforms continue to improve field efficiency, customer service and capability.

- **Global Industrial Drives Growth:** Sales at the segment decreased 1.8% year over year to \$1.48 billion. Lower volumes in other Industrial businesses more than offset modest growth in Food & Beverage. Although the segment saw a modest decline in sales in the second quarter due to the COVID-19 impact, it exhibited a robust margin performance, which drove strong income gains.

Last year, Ecolab acquired New York-based Cascade Water Services Inc., a privately-held company that provides water treatment programs and services to the U.S. institutional market. Notably, acquisition broadens services and improves opportunities in strategic water treatment market in the Global Industrial unit.

- **Strong Business:** Ecolab's consistent delivery of considerable earnings growth despite the current challenging business environment continues to impress. One can derive comfort from the company's large base of recurring revenues and its industry-leading technologies along with excellent field service, to support long-term growth for the company. Management remains optimistic regarding improvement in its ability to attract new customers, and opportunities for greater customer penetration through new product development.
- **Strategic Acquisitions & Divestments:** Ecolab continues to focus on investment in key growth businesses and bolt-on acquisitions to gain market traction and boost profits.

In May, Ecolab completed the acquisition of CID Lines — a leading global provider of livestock biosecurity and hygiene solutions — forming a new Animal Health division. On the back of the combined strengths and experience, Ecolab will be able to build and expand the hygiene solutions for the future of the food industry.

- **Separation of ChampionX Business:** On Dec 19, 2019, Ecolab entered into a definitive agreement wherein it decided to separate the ChampionX business and at the same time combining it with Apergy Corporation in a tax-free Reverse Morris Trust transaction. The transaction is likely to build a stronger business that can push through the current downturn and also become a successful, long-term market leader with more robust cash generation, low capital intensity and large base of consumable revenues.

The transaction was completed on Jun 3, 2020. Notably, ChampionX will be accounted as a discontinued operation for Ecolab's full-year 2020.

- **Strong International Presence:** Ecolab has a significant presence in the international market. The largest international operations of the company are in Europe, Asia-Pacific, Latin America and Canada. Ecolab operates on a smaller scale in Africa and the Middle East. Latin America represents a key growth area for the company's overseas operation. Ecolab's strong international presence has boosted its growth and we believe will continue doing so in the coming years, buoyed by the strong performance from emerging markets.
- **Stable Liquidity Position:** Ecolab exited the second quarter with cash and cash equivalents of \$1.37 billion, lower than \$1.66 billion, sequentially. Meanwhile, long-term debt amounted to \$6.75 billion in the quarter, slightly increasing from \$6.74 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$534.9 million in the quarter, down from \$1.04 billion sequentially, is in fact much lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, it has sufficient cash for debt repayment.

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## Last Earnings Report

### Ecolab Earnings and Revenues Lag Estimates in Q2

Ecolab Inc. reported second-quarter 2020 adjusted earnings per share of 65 cents, missing the Zacks Consensus Estimate of 83 cents by 21.7%. Further, the figure declined 48.8% on a year-over-year basis.

The company's quarterly net sales were 2.69 billion, down 15.3% from the year-ago figure. Moreover, net sales surpassed the Zacks Consensus Estimate by 5.5%.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	-5.50%
EPS Surprise	-21.69%
Quarterly EPS	0.65
Annual EPS (TTM)	5.15

### Segmental Analysis

With effect from the first quarter, the company has made modifications to the way it reports its segments, as discussed below.

#### *Global Industrial*

Sales at the segment fell 1.8% year over year to \$1.48 billion. Lower volumes in other Industrial businesses more than offset modest growth in Food & Beverage.

#### *Global Institutional*

Sales plunged 35.1% year over year to \$722.4, owing to a steep decline in the Institutional business, which more than negated solid growth in Specialty business.

#### *Global Healthcare and Life Sciences*

Sales at the segment improved 21.7% year over year to \$307.6 million, courtesy of strong performance that gained from higher sales owing to the COVID-19 related demand in both the Healthcare and Life Sciences business lines.

#### *Other*

Sales declined 19.3% year over year to \$247.1 million.

### Margin Analysis

Ecolab registered adjusted gross profit of \$1.16 billion, down 17.4% year over year. As a percentage of revenues, adjusted gross margin in the second quarter was 40.1%, down 400 basis points (bps).

Adjusted operating income in the quarter was \$300.3 million, down 39.7% year over year. Adjusted operating margin in the quarter was 11%, which contracted 470 bps year over year.

### Guidance

The company has not issued either quarterly or full-year 2020 outlook due to the continued uncertainty surrounding the COVID-19 pandemic and the full scope of its impact on the global economy and duration of the same.

On the basis of a gradual, although uneven, recovery from the first half of the impact of the pandemic, full-year 2020 sales in Healthcare & Life Sciences segment are anticipated to improve from the previous year. Modest pressure is estimated on Industrial segment businesses, while lowering but still substantial amount of pressure is expected on sales, in Institutional and Other segments.

The pandemic's impact on restaurant, hospitality, and entertainment is expected to result in a noticeable decrease for the Institutional division within the Institutional unit and Pest Elimination for the year.

Nonetheless, the company anticipates to see gradual sequential improvement from second-quarter levels in the second half with product and service innovation, investments in new hygiene and digital technologies, and successful sales initiatives driving a sustainable recovery in customer activity.

## Recent News

### Ecolab's Unit Unveils Test Kit for Cooling Water Management: Jun 25, 2020

Ecolab's subsidiary, Nalco Water, launched Rapid Bio Intelligence, a total aerobic bacteria test kit that drastically simplifies water chemistry testing and compliance for cooling water systems. Through this, the company aims to maintain efficient cooling of water systems, which is crucial in protecting assets, adhering to safety and environmental regulations, and controlling operating costs.

### Ecolab's New Pest Elimination Service to Ensure Food Safety: Jun 23, 2020

Ecolab introduced its Pest Elimination Rodent Ceiling Service, which will offer additional monitoring and protection with hard-to-access ceiling areas. This new service is likely to provide a boost to the company's Other Segment that comprises of two units — Pest Elimination and Equipment Care and are primarily fee-for-service businesses.

### Ecolab's AdvaCare Disinfectant Receives First EPA Approval: Jun 8, 2020

Ecolab announced that its AdvaCare Disinfectant has received the first approval given by the U.S. Environmental Protection Agency (EPA). This crucial approval is for a laundry disinfectant and oxidizer emerging viral pathogen claim that is effective against SARS-CoV-2 — the virus causing COVID-19. The company's Global Industrial segment is likely to get a boost following this approval.

## Valuation

Ecolab's shares are up 2.7% in the year-to-date period while down 3.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Basic Materials Market are down 10.1% and 2.9% in the year-to-date period, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 13.4% and up 1.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.2% and up 14.5%, respectively.

The S&P 500 index is up 10.3% in the year-to-date period while up 22.5% in the past year.

The stock is currently trading at 4.5X Forward 12-months sales, which compares to 4.4X for the Zacks sub-industry, 1.9X for the Zacks sector and 3.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.9X and as low as 2.1X, with a 5-year median 2.7X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$168 price target reflects 3.9X forward 12-months sales.

The table below shows summary valuation data for ECL.

Valuation Multiples - ECL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.54	4.40	1.92	3.84
	5-Year High	4.86	6.32	2.30	3.84
	5-Year Low	2.13	2.99	1.33	2.53
	5-Year Median	2.74	3.87	1.91	3.07
P/B TTM	Current	9.55	7.07	2.24	4.71
	5-Year High	10.27	10.63	3.07	4.71
	5-Year Low	4.14	4.22	1.23	2.83
	5-Year Median	5.39	7.45	2.20	3.76

As of 08/31/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (167 out of 251)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Unilever NV (UN)	Outperform	2
ChurchDwight Co., Inc. (CHD)	Neutral	3
ColgatePalmolive Company (CL)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
KimberlyClark Corporation (KMB)	Neutral	3
ProcterGamble Company The (PG)	Neutral	3
Rollins, Inc. (ROL)	Neutral	2
Unilever PLC (UL)	Neutral	2

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

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ECL	X Industry	S&P 500	PG	UL	UN
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	5	-	-	3	2	2
VGM Score	D	-	-	C	A	A
Market Cap	56.24 B	1.58 B	23.72 B	344.39 B	69.62 B	99.45 B
# of Analysts	8	2	14	9	2	2
Dividend Yield	0.95%	0.39%	1.65%	2.29%	3.12%	3.17%
Value Score	F	-	-	D	B	B
Cash/Price	0.02	0.09	0.07	0.05	0.09	0.07
EV/EBITDA	20.12	9.91	13.28	18.26	5.08	9.61
PEG F1	3.86	3.99	3.03	3.46	NA	NA
P/B	9.55	1.76	3.17	7.45	3.47	4.96
P/CF	21.23	8.76	12.87	20.81	7.17	10.24
P/E F1	48.11	17.63	21.63	25.63	21.47	20.60
P/S TTM	4.04	1.48	2.53	4.85	NA	NA
Earnings Yield	2.09%	5.39%	4.39%	3.90%	4.67%	4.86%
Debt/Equity	1.15	0.62	0.70	0.51	0.00	1.32
Cash Flow (\$/share)	9.29	2.37	6.93	6.65	8.31	5.66
Growth Score	B	-	-	A	B	A
Historical EPS Growth (3-5 Years)	7.09%	6.47%	10.41%	6.31%	NA	NA
Projected EPS Growth (F1/F0)	-29.38%	-8.79%	-4.75%	5.43%	-2.97%	-1.57%
Current Cash Flow Growth	8.14%	4.04%	5.22%	11.93%	1.99%	1.99%
Historical Cash Flow Growth (3-5 Years)	4.49%	6.38%	8.49%	2.25%	5.95%	5.95%
Current Ratio	1.60	2.52	1.35	0.85	0.86	0.86
Debt/Capital	53.41%	39.46%	42.92%	33.43%	0.00%	56.85%
Net Margin	-6.17%	4.41%	10.25%	18.36%	NA	NA
Return on Equity	18.80%	9.07%	14.66%	29.53%	NA	NA
Sales/Assets	0.68	0.61	0.50	0.61	NA	NA
Projected Sales Growth (F1/F0)	-20.16%	-3.27%	-1.40%	2.67%	-0.23%	1.13%
Momentum Score	C	-	-	D	D	D
Daily Price Change	-1.71%	-1.97%	-0.82%	-0.32%	-0.95%	-0.97%
1-Week Price Change	2.90%	1.43%	2.59%	0.97%	0.99%	0.77%
4-Week Price Change	6.87%	2.74%	3.55%	5.36%	-2.73%	-3.25%
12-Week Price Change	-14.35%	-2.55%	-0.44%	16.19%	5.40%	7.95%
52-Week Price Change	-4.47%	3.67%	2.80%	15.05%	-5.70%	-6.59%
20-Day Average Volume (Shares)	894,223	119,610	1,839,384	5,709,511	718,640	1,131,645
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-2.14%	0.00%	0.20%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-18.00%	0.48%	3.87%	3.60%	4.52%	7.65%
EPS Q1 Estimate Monthly Change	-1.96%	0.00%	0.00%	-0.09%	NA	NA

Source: Zacks Investment Research

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## Zacks Style Scores

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

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

Value Score	F
Growth Score	B
Momentum Score	C
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.

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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.

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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