Estee Lauder(EL)

$308.70 (As of 06/24/21)

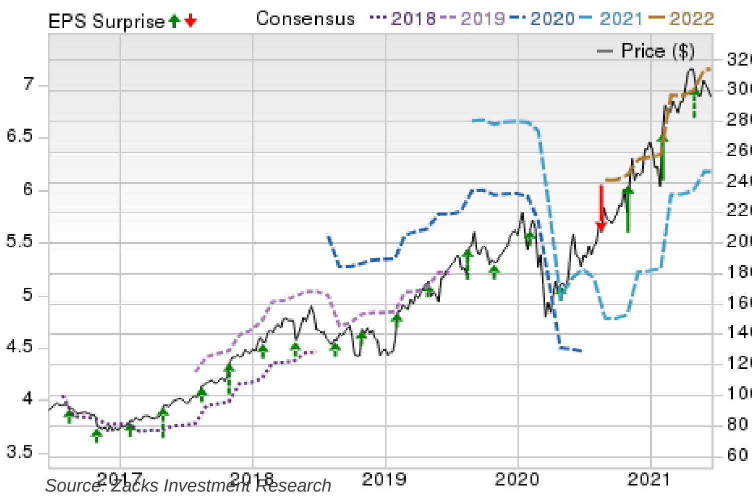
Price Target (6-12 Months): **$327.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/23/21) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A | Momentum: F	

Summary

Shares of The Estee Lauder Companies have outperformed the industry in the past year. The company is undertaking robust cost-control measures amid the coronavirus outbreak. Such efforts drove operating income margin in third-quarter fiscal 2021. Also, the company's Skin Care business is growing steadily. This along with solid online growth bodes well, especially amid the pandemic. Notably, the company's sales and earnings increased year over year in the quarter. However, soft store traffic amid pandemic-led social distancing has been a concern. In its last earnings call, management stated that some retail stores were temporarily closed at some point in the quarter due to the resurgence of coronavirus cases. Also, international travel restrictions have been negatively impacting consumer traffic in most travel retail locations.

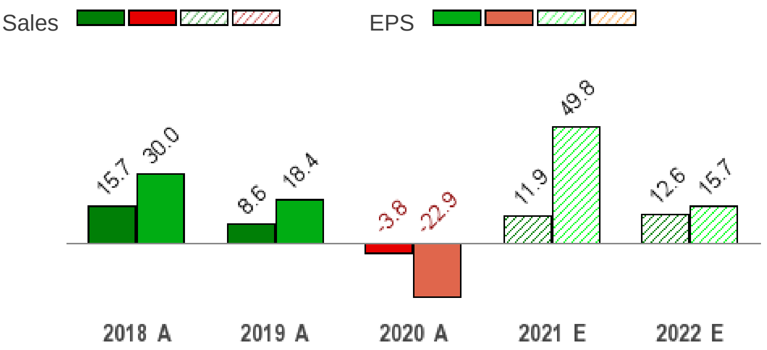
Price, Consensus & Surprise



Data Overview

52-Week High-Low	$318.34 - $183.22
20-Day Average Volume (Shares)	1,024,348
Market Cap	$111.9 B
Year-To-Date Price Change	16.0%
Beta	0.95
Dividend / Dividend Yield	$2.12 / 0.7%
Industry	Cosmetics
Zacks Industry Rank	Bottom 18% (207 out of 252)
Last EPS Surprise	25.6%
Last Sales Surprise	-1.5%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	08/19/2021
Earnings ESP	0.0%
P/E TTM	60.1
P/E F1	50.0
PEG F1	3.8
P/S TTM	7.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	4,162 E	5,409 E	4,308 E	4,091 E	18,022 E
2021	3,562 A	4,853 A	3,864 A	3,711 E	16,002 E
2020	3,895 A	4,624 A	3,345 A	2,430 A	14,294 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$1.83 E	$2.76 E	$1.84 E	$0.82 E	$7.14 E
2021	$1.44 A	$2.61 A	$1.62 A	$0.50 E	$6.17 E
2020	$1.67 A	$2.11 A	$0.85 A	-$0.53 A	$4.12 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 06/24/2021. The report's text and the analyst-provided price target are as of 06/25/2021.

Overview

New York-based The Estee Lauder Companies Inc. is one of the world's leading manufacturers and marketers of skin care, makeup, fragrance and hair care products. The company's products are sold through department stores, mass retailers, company-owned retail stores, hair salons and travel-related establishments.

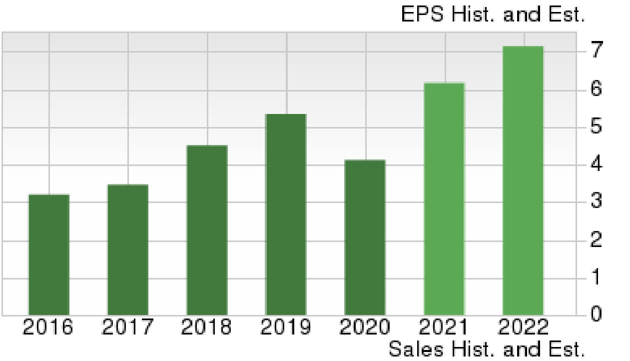
The Estee Lauder Companies' manufacturing and research facilities are spread across the U.S., Canada, Belgium, Switzerland, Japan, South Africa and the U.K.

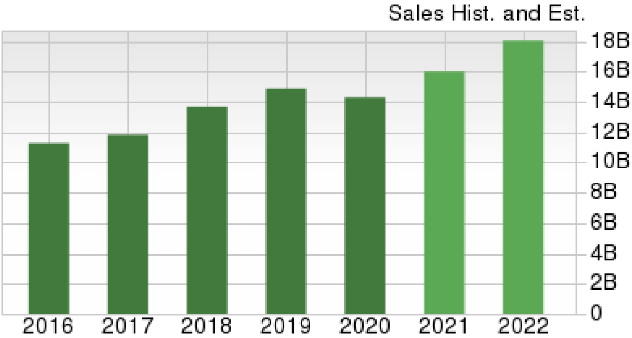
The company reports operating results in terms of product categories and geographic regions.

In terms of product categories, The Estee Lauder Companies' primary segments include:

Skin Care division (51.6% of fiscal 2020 sales): This segment sells skin care products for men and women. The products consist of moisturizers, creams, lotions, cleansers, sunscreens and self-tanning products.

Makeup division (33.5% of fiscal 2020 sales): This segment manufactures, markets and sells makeup products. Products include lipsticks, mascaras, foundations, eye shadows, nail polishes, powders and related items, such as compacts, brushes and other makeup tools.





Fragrances division (10.9% of fiscal 2020 sales): This segment sells fragrance products for men and women. Its products include eau de perfume, sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance.

Hair care division (3.6% of fiscal 2020 sales): This segment includes hair color and styling products, shampoos, conditioners, and finishing sprays.

Other division: This segment sells ancillary products and services.

Region-wise, the company reports under Americas (26.5% of fiscal 2020 sales); Europe, the Middle East & Africa (43.8% of fiscal 2020 sales); and Asia-Pacific (29.6% of fiscal 2020 sales).

Source: Zacks Investment Research

Reasons To Buy:

The Estee Lauder Companies' cost-control measures amid the coronavirus outbreak are encouraging. Additionally, it has been depicting strong growth in its and online business.

- **Skin Care Sales Strong**: Shares of The Estee Lauder Companies have surged 67.6% in the past year compared with the industry's growth of 58%. The company's Skin Care portfolio has been performing well for a while now. During the third quarter of fiscal 2021, brands like Estee Lauder, Clinique and La Mer witnessed significant growth. Notably, Estee Lauder delivered solid double-digit growth on the back of improvement in travel retail and Mainland China. La Mer also increased double-digits, driven by growth in Asia/Pacific, Europe, the Middle East & Africa and The Americas regions. Further, Clinique increased double-digit in every region on the back of solid demand for its hero products. The Skin Care category is also benefitting from Origins as well as the acquisition of Dr. Jart. During the quarter, Skin Care category's sales were up 31% year over year (up 28% at constant currency) to $2,259 million.

  In May 2021, The Estee Lauder Companies took another step to expand its Skin Care business when it concluded the first phase of raising its ownership stake in DECIEM Beauty Group Inc. ("DECIEM"). Consequently, The Estee Lauder Companies now has nearly 76% ownership in DECIEM compared with 29% earlier. Further, The Estee Lauder Companies agreed to buy the remaining stake after three years. We note that DECIEM — a Canada-based company — is the force behind fast-growing skin care brands like The Ordinary and NIOD. Management, in its last earnings call, highlighted that it expects The Ordinary brand to further diversify the company's Skin Care growth in terms of consumer segment, price point as well as geography.

- **Robust Q3 Results, Impressive View**: The Estee Lauder Companies reported third-quarter fiscal 2021 results, with the top and the bottom line increasing year over year. Further, earnings surpassed the Zacks Consensus Estimate. Notably, the company posted adjusted earnings of $1.62 per share, up 92%. On a constant-currency (cc) basis, adjusted earnings surged 88%. Further, net sales of $3,864 increased 16% (up 13% at cc). Net sales grew in all regions, wherein the company operates along with growth in most product categories.

  We note that the company's Skin Care and Fragrance categories witnessed impressive growth. Apart from this, improving trends in the usage of makeup products as pandemic-led restrictions are easing is aiding growth. Also, sales increased in all regions, led by double-digit growth in Asia/Pacific, where growth in mainland China accelerated. Additionally, the company's online and Travel Retail businesses were strong. Notably, solid growth in brands like Estee Lauder, La Mer, Jo Malone London, Clinique and Tom Ford Beauty contributed to the upside.

  In fiscal 2021, the company projects net sales to increase in the band of 11-12%. Excluding the impact of currency, management expects net sales to improve 9-10% in the quarter. The company's DECIEM buyout is likely to be negligible to overall sales growth. Further, adjusted earnings are anticipated to increase in the range of 45-47% at cc in fiscal 2021. Its fiscal fourth-quarter sales are anticipated to increase 44-50% at cc. This reflects on recovery in several parts of the world and favorable year-over-year comparison.

- **Cost-Saving Efforts**: The Estee Lauder Companies is on track with cost-saving measures. In fact, uncertainties related to COVID-19 led management to implement stringent cost-curtailment practices. These include costs related to advertising and promotion activities, travel, meetings, consulting and certain employee expenses. During third-quarter fiscal 2021, operating expenses, as a percentage of sales, went down significantly to 59.8% from 71.7% reported in the year-ago quarter. Consequently, the company's operating income of $616 million went up from $109 million reported in the year-ago quarter. Further, operating income margin increased significantly to 15.9% from 3.3% reported in the year-ago quarter. Also, gross margin increased to 75.7% from 75% reported in the year-ago quarter.

- **Solid Presence in Emerging Markets**: The Estee Lauder Companies has strong presence in emerging markets which insulates it from the macroeconomic headwinds in the matured markets. The company derives significant revenues from emerging markets like Thailand, India, Russia and Brazil, which keeps it encouraged about making distributional, digital and marketing investments in these countries. Notably, in the Asia-Pacific region sales increased 35% (up 26% at cc) to $1,252 million in fiscal third quarter.

  China is a major area of focus for The Estee Lauder Companies. In fact, the company's sales grew double-digit sequentially in Mainland China during the quarter. Notably, Skin Care and Fragrance category witnessed robust growth in the region. Moreover, Makeup business also returned to growth with double digit growth in the region. During the fiscal third quarter, brick and mortar as well as online business witnessed growth on solid equity of brands, impressive innovation and repeat purchases among others. Moreover, the company is making investments to cater to demand from consumers in China and Asia. To this end, it bought Korea-based skincare brand Dr. Jart in 2019. Also, the company is on track to open its end to end innovation center in Shanghai during 2022. Further, management is building a state of art production unit near Tokyo, which is likely to start operations in the same year.

- **Strong Online Business**: The Estee Lauder Companies has a strong online business and the company expects it to be a major growth engine for the upcoming few years. The Estee Lauder Companies was the first global prestige beauty company that went online with the Clinique brand in the United States in 1996 and has now spread its presence online to about 50 markets. Further, The Estee Lauder Companies has been implementing new technology and digital experiences including online booking for each store appointment, omni-channel loyalty programs and high touch mobile services. These initiatives and the company's digital-first mindset have been aiding the company's online sale.

Moreover, The Estee Lauder Companies' brand teams have been fully committed to enhancing consumer experiences online since coronavirus-induced lockdowns were imposed. In this regard, they have been focusing on proper product placement and showing cases tools including virtual try-on to ease decision-making. During the third quarter of fiscal 2021, online sales continued to drive the company's top-line growth. In this regard, sales of Brand.com, third-party platforms and Retail.com surged double digits. Further, sales of Pure-Play retailers increased triple digits in the quarter. Also, EMEA online sales increased almost triple digits, while Latin America's growth was also solid. In its last earnings call, management highlighted that its online channel has now almost doubled when compared with two years ago. The company is on track to undertake high touch innovation on digital platforms. Apart from these, management has been on track with expanding brand presence across various third-party sites, rolling out new digital payment technologies and enhancing its loyalty programs as it continues to widen market reach.

Reasons To Sell:

Some retail store closures and reduced traffic in reopened stores amid the coronavirus pandemic is a concern for The Estee Lauder Companies.

- **Pandemic-led Hurdles**: While most brick-and-mortar retail stores that sell The Estee Lauder Companies' products; (both company and customer operated) remained mostly open, especially in China and the United States during fiscal third quarter, there were intermittent shutdowns in the rest of the world. Many retail stores were temporarily shut at some point in the quarter across the U.K., Japan, Canada, Italy, Spain, France, Mexico and Brazil due to resurgence of coronavirus infections. Moreover, store traffic was significantly lower compared with pre-pandemic levels globally. Apart from these, international travel has been majorly restricted worldwide due to government regulations and consumer health concerns. Such restrictions have been negatively impacting consumer traffic in most travel retail locations.

  As part of its two-year Post-COVID Business Acceleration Program introduced in August 2020, the company had unveiled plans to reduce retail footprint. Through this plan, management expected shutting 10-15% of its freestanding stores worldwide along with various low-performing department store counters. Also, the company mentioned that various retailers decided to undertake planned reduction of their footprint via door closures amid the pandemic. Management, in its last earnings call highlighted that, year to date, it has taken actions to adjust distribution footprint in Latin America and EMEA, exit global distribution of BECCA products as well as realign resources and capabilities under the program. Moreover, the company expects to further rationalize its brick-and-mortar retail footprint, mainly in Western markets as the program progresses.

- **Financial Status**: The Estee Lauder Companies' long-term debt of $5,487 at the end of third-quarter 2021 (as of Mar 31, 2021) increased 11.7% from $4,913 million reported in the preceding quarter. Moreover, its debt-to-capitalization ratio of 0.52 stands higher than the preceding quarter's figure of 0.50.

- **Risk of Operating in Overseas Markets**: The Estee Lauder Companies' financial performance may be largely affected by its significant presence in the international markets, which exposes it to the risk of unfavorable foreign currency translations, economic or political instability, and other governmental actions on trade and repatriation of foreign profits. We believe that, the above mentioned factors pose a major threat to the company's performance.

- **Market Trends and Consumer Preferences**: As The Estee Lauder Companies operates in a consumer centric market, its ability to garner profits depends largely on how well it can predict changes in consumer preferences and spending patterns for beauty products and respond in a timely manner to fulfill the same. Hence, failure to stay up to date on product mix by continually searching for new products and anchoring new supplier agreements may raise the risk of the business becoming obsolete.

- **Cheaper Alternatives & Competition**: The cosmetics industry is very competitive not only with regard to the peers existing in the space but also due to the fact that the market is flooded with alternative products. Therefore, it is very difficult to advertise a product and convert into sales, as many cheaper generic products are available. Cheaper alternatives may hinder customers' loyalty for the brand, thus impacting the sale of its products.

Last Earnings Report

The Estee Lauder Companies Q3 Earnings Beat Estimates, Up Y/Y

Quarter Ending	03/2021
Report Date	May 03, 2021
Sales Surprise	-1.54%
EPS Surprise	25.58%
Quarterly EPS	1.62
Annual EPS (TTM)	5.14

The Estee Lauder Companies reported third-quarter fiscal 2021 results, with the top and the bottom line increasing year over year. Further, earnings surpassed the Zacks Consensus Estimate, while sales missed the same.

We note that, the company's Skin Care and Fragrance categories witnessed impressive growth. Also, sales increased in all regions, led by double-digit growth in Asia/Pacific, where growth in mainland China accelerated. Additionally, the company's online and Travel Retail businesses were strong. Notably, solid growth in brands like Estee Lauder, La Mer, Jo Malone London, Clinique and Tom Ford Beauty contributed to the upside.

Quarter in Detail

The company posted adjusted earnings of $1.62 per share, which surpassed the Zacks Consensus Estimate of $1.29. Also, adjusted earnings increased 92% year over year. On a cc basis, adjusted earnings surged 88%.

Net sales of $3,864 million missed the Zacks Consensus Estimate of $3,924.3 million. Nevertheless, the metric increased 16% (up 13% at cc) from $3,345 million reported in the year-ago quarter. Net sales grew in all regions in which the company operates along with growth in most product categories. This reflects year over year rebound in various areas following brick-and-mortar store shut down amid the pandemic.

Gross profit came in at $2,925 million, up 17%. Also, gross margin increased to 75.7% from 75% reported in the year-ago quarter.

The company reported operating income of $616 million, up from $109 million reported in the year-ago quarter. Further, operating income margin increased significantly to 15.9% from 3.3% reported in the year-ago quarter.

Product-Based Segment Results

Skin Care's sales were up 31% year over year (up 28% at cc) to $2,259 million. Makeup revenues declined 11% year over year (down 13% at cc) to $1,018 million. In the Fragrance category, revenues increased 30% year over year (up 27% at cc) to $454 million. Hair Care sales totaled $128 million, up 8% (up 6% at cc).

Regional Results

Sales in the Americas increased 3% year over year (up 4% at cc) to $916 million. Revenues in Europe, the Middle East & Africa region increased 12% (up 10% at cc) to $1,706 million. Lastly, in the Asia-Pacific region sales increased 35% (up 26% at cc) to $1,252 million.

Other Updates

The company exited the quarter with cash and cash equivalents of $6,399 million, long-term debt of $5,487 million and total equity of $5,558 million.

Net cash flow provided by operating activities for nine-months ended Mar 31, 2021, came in at $2,777 million. In March 2021, management resumed its Class A common stock buyback plans. Notably, the company repurchased nearly 1.2 million stocks worth $316 million till Mar 31.

In a separate press release, the company declared quarterly dividend of 53 cents per share on Class A and Class B shares. The dividend will be paid out on Jun 15, 2021 to shareholders of record as on May 28.

COVID-19 Update

While most brick-and-mortar retail stores that sell The Estee Lauder Companies' products; (both company and customer operated) remained mostly open, especially in China and the United States during the third quarter, there were intermittent shutdowns in the rest of the world. Notably, many retail stores were temporarily shut at some point in the quarter across the U.K., Japan, Canada, Italy, Spain, France, Mexico and Brazil thanks to resurgence of coronavirus infections. Moreover, store traffic was significantly lower compared with pre-pandemic levels globally. Apart from these, international travel has been majorly restricted worldwide due to government regulations and consumer health concerns. Such restrictions have been negatively impacting consumer traffic in most travel retail locations. In the wake of the pandemic, the company is on track to undertake stringent cost-control measures.

Guidance

In fiscal 2021, the company projects net sales to increase in the band of 11-12%. Excluding the impact of currency, management expects net sales to improve 9-10% in the quarter. The company's DECIEM buyout is likely to be negligible to overall sales growth. Further, adjusted earnings are anticipated to increase in the range of 45-47% on a cc basis in fiscal 2021.

Recent News

The Estee Lauder Companies Ups DECIEM Stake – May 18, 2021

The Estee Lauder Companies concluded the first phase of raising its ownership stake in DECIEM Beauty Group Inc. ("DECIEM"). Consequently, The Estee Lauder Companies now has nearly 76% ownership in DECIEM compared with 29% earlier. Further, The Estee Lauder Companies agreed to buy the remaining stake after three years.

We note that DECIEM — a Canada-based company — is the force behind fast-growing skincare brands like The Ordinary and NIOD. Well, DECIEM's hero products, innovation along with digital- and consumer-first high-touch approach have been yielding results. DECIEM's functional beauty brand and products are mainly sold via DECIEM-owned and online retailer websites as well as specialty-multi stores and its freestanding stores across the United States, the U.K. and Canada.

The Estee Lauder Companies Declares Dividend – May 3, 2021

The Estee Lauder Companies declared quarterly dividend of 53 cents per share on Class A and Class B shares. The dividend will be paid out on Jun 15, 2021 to shareholders of record as on May 28.

Valuation

The Estee Lauder Companies' shares are up 16% in the year-to-date period and 67.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 13.4% and the Zacks Consumer Staples sector gained 4.7% in the year-to-date period. Over the past year, the Zacks sub-industry went up 58% and the sector gained 25.1%.

The S&P 500 index is up 13.7% in the year-to-date period and 43.3% in the past year.

The stock is currently trading at 43.3X forward 12-month earnings, which compares to 44.39X for the Zacks sub-industry, 20.28X for the Zacks sector and 21.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.93X and as low as 21.25X, with a 5-year median of 29.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $327 price target reflects 45.87X forward 12-month earnings.

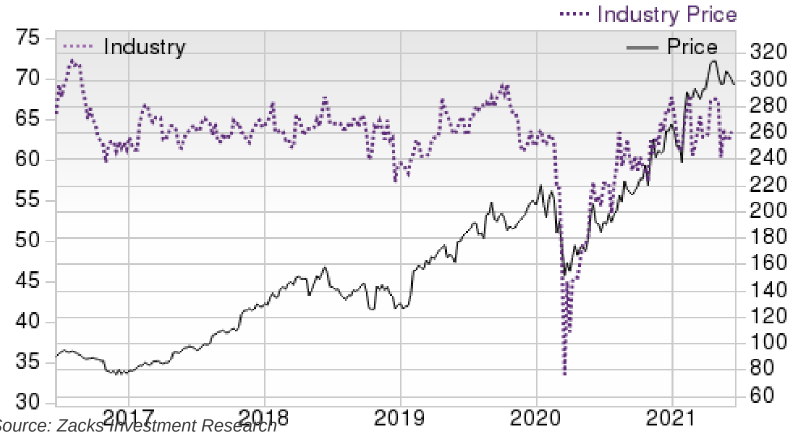
The table below shows summary valuation data for EL

Valuation Multiples - EL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	43.3	44.39	20.28	21.66
	5-Year High	48.93	48.27	22.4	23.83
	5-Year Low	21.25	19.65	16.52	15.31
	5-Year Median	29.48	26.82	19.51	18.05
P/S F12M	Current	6.22	5.42	10.16	4.71
	5-Year High	6.59	7.94	11.95	4.74
	5-Year Low	2.28	1.53	8.58	3.21
	5-Year Median	3.73	3.19	10.32	3.72
EV/EBITDA F12M	Current	26.83	30.36	36.13	15.51
	5-Year High	29.03	42.52	38.68	16.53
	5-Year Low	12.11	8.68	26.62	10.79
	5-Year Median	17.81	20.6	34.99	13.6

As of 06/24/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 18% (207 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Coty Inc. **(COTY)**	Neutral	3
Natura &Co Holding S.A. ADR **(NTCO)**	Neutral	3
Nu Skin Enterprises, Inc. **(NUS)**	Neutral	2
POLA ORBIS **(PORBF)**	Neutral	3
Shiseido Co. **(SSDOY)**	Neutral	4
Symrise AG Unsponsored ADR **(SYIEY)**	Neutral	2
Helen of Troy Limited **(HELE)**	Underperform	5
Revlon, Inc. **(REV)**	Underperform	4

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

Industry Comparison Industry: Cosmetics

	EL	X Industry	S&P 500	COTY	SSDOY	SYIEY
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	2
VGM Score	C	-	-	D	A	F
Market Cap	111.91 B	1.89 B	29.99 B	7.22 B	NA	19.00 B
# of Analysts	11	3	12	5	2	2
Dividend Yield	0.69%	0.00%	1.35%	0.00%	0.38%	0.54%
Value Score	D	-	-	C	B	F
Cash/Price	0.06	0.07	0.06	0.06	NA	NA
EV/EBITDA	61.05	14.23	17.12	-23.70	NA	NA
PEG F1	3.84	4.69	2.06	NA	NA	NA
P/B	20.13	3.83	4.11	2.28	5.87	7.11
P/CF	52.47	30.03	17.50	20.48	45.15	30.97
P/E F1	50.03	44.49	21.14	142.88	48.60	41.75
P/S TTM	7.61	2.22	3.40	1.75	NA	NA
Earnings Yield	2.00%	2.17%	4.66%	0.74%	2.06%	2.40%
Debt/Equity	0.99	0.34	0.66	1.63	0.52	NA
Cash Flow ($/share)	5.88	1.15	6.86	0.46	1.59	1.13
Growth Score	A	-	-	D	A	D
Historical EPS Growth (3-5 Years)	9.93%	0.70%	9.59%	-12.65%	-17.93%	NA
Projected EPS Growth (F1/F0)	49.78%	33.04%	21.79%	113.75%	NA	7.69%
Current Cash Flow Growth	-16.30%	-5.39%	1.02%	-71.21%	-48.22%	5.51%
Historical Cash Flow Growth (3-5 Years)	6.03%	6.03%	7.28%	-9.44%	4.10%	NA
Current Ratio	2.12	1.54	1.39	0.71	1.49	NA
Debt/Capital	49.68%	29.02%	41.51%	62.44%	34.02%	NA
Net Margin	9.45%	1.96%	12.06%	-20.42%	-1.52%	NA
Return on Equity	39.04%	6.72%	16.59%	-4.00%	2.62%	NA
Sales/Assets	0.78	0.74	0.51	0.27	0.79	NA
Projected Sales Growth (F1/F0)	11.73%	10.21%	9.56%	-28.04%	14.07%	5.96%
Momentum Score	F	-	-	F	A	D
Daily Price Change	2.09%	0.16%	0.58%	3.97%	-0.13%	0.72%
1-Week Price Change	-1.45%	0.00%	1.06%	-6.97%	-4.33%	0.62%
4-Week Price Change	1.70%	1.61%	1.56%	6.07%	-1.53%	5.86%
12-Week Price Change	5.60%	5.36%	6.14%	5.13%	4.35%	13.79%
52-Week Price Change	65.12%	49.50%	38.35%	116.28%	8.45%	21.12%
20-Day Average Volume (Shares)	1,024,348	38,530	1,811,241	5,998,620	15,138	30,261
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	2.44%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.01%	0.00%	0.00%	2.44%

EPS F1 Estimate 12-Week Change	3.63%	3.63%	3.54%	-19.51%	16.60%	3.70%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	NA

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	C

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

Disclosures

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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