

Eastman Chemical(EMN)

\$76.61 (As of 09/01/20)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Eastman Chemical's adjusted earnings for the second quarter missed the Zacks Consensus Estimate while sales beat. The company is expected to gain from cost-cutting and productivity actions, synergies of strategic acquisitions, sustained innovation and efforts to reduce debt. It is taking a more aggressive approach to manage costs this year and keep its manufacturing costs under control. The company is also focused on growing new business revenues leveraging its innovation-driven growth model. However, it is seeing weak demand in certain markets including transportation and textile due to the pandemic. The difficult demand environment is expected to persist in the third quarter. Weaker product spreads and higher maintenance spending are other headwinds. The company also faces challenges in the fiber business due to a weak acetate tow market.

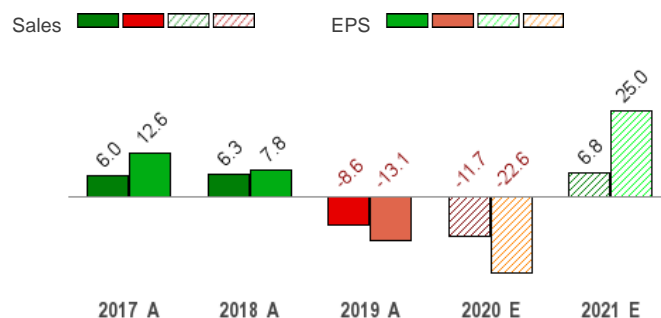
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$83.99 - \$34.44
20-Day Average Volume (Shares)	808,429
Market Cap	\$10.4 B
Year-To-Date Price Change	-3.3%
Beta	1.61
Dividend / Dividend Yield	\$2.64 / 3.4%
Industry	Chemical - Diversified
Zacks Industry Rank	Bottom 32% (171 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-17.5%
Last Sales Surprise	8.4%
EPS F1 Estimate 4-Week Change	-6.3%
Expected Report Date	10/22/2020
Earnings ESP	1.5%
P/E TTM	12.3
P/E F1	13.9
PEG F1	2.2
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,196 E	2,117 E	2,072 E	2,116 E	8,742 E
2020	2,241 A	1,924 A	2,001 E	2,041 E	8,184 E
2019	2,380 A	2,363 A	2,325 A	2,205 A	9,273 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.72 E	\$1.92 E	\$1.83 E	\$1.47 E	\$6.90 E
2020	\$2.03 A	\$0.85 A	\$1.27 E	\$1.35 E	\$5.52 E
2019	\$1.77 A	\$1.99 A	\$1.94 A	\$1.42 A	\$7.13 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/01/2020. The reports text is as of 09/02/2020.

Overview

Eastman Chemical Company, based in Kingsport, TN, manufactures and sells chemicals, plastics and fibers. The company has 16 manufacturing sites in the United States, Europe and Asia-Pacific, supplying products throughout the world.

The company's products include additives, specialty polymers and other raw materials that are integral to the production of paints and coatings, inks, adhesives and other formulated products. It also makes intermediates based on acetyl and oxo chemistries and other intermediate products including plasticizers and glycols.

Eastman Chemical's other products include performance chemicals, highly specialized copolyesters and cellulosic plastics, copolyester cellulosic based products, acetate tow and triacetin plasticizers, and natural and solution-dyed acetate yarns. The company recorded revenues of around \$9.3 billion in 2019.

Eastman Chemical realigned its reporting segments following the closure of the acquisition. The new structure has five reporting segments – Additives and Functional Products, Adhesives and Plasticizers, Advanced Materials, Fibers, and Specialty Fluids and Intermediates. Eastman Chemical also made certain changes in executive leadership positions in conjunction with the restructuring of its reporting segments.

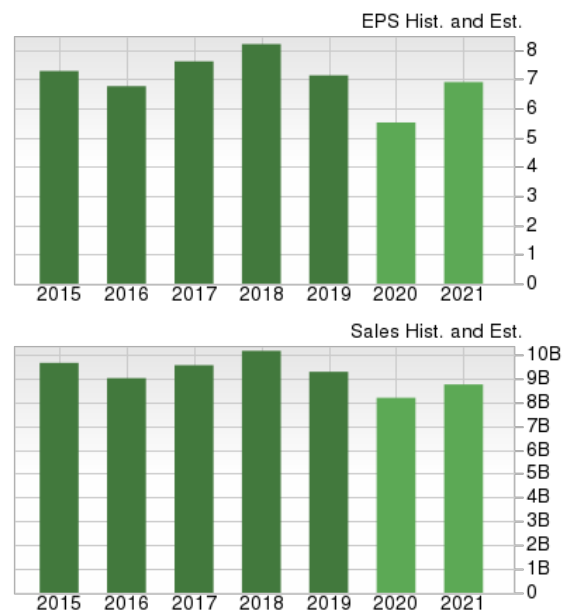
The company has further restructured its reporting segments and currently has four business segments - Additives and Functional Products/AFP (35% of 2019 sales), Advanced Materials (29%), Chemical Intermediates (26%) and Fibers (10%).

The AFP unit makes chemicals including coatings and inks additives and adhesives resins for a number of end-use markets including transportation, consumables, building and construction, crop protection, energy, personal and home care.

The Advanced Materials segment makes polymers, films and plastics for transportation, consumables, building and construction, durable goods, and health and wellness markets.

The Chemical Intermediates unit sells intermediates, plasticizers and functional amines to markets such as industrial chemicals and processing, building and construction, health and wellness, and agrochemicals.

The Fibers segments markets products such as acetate tow, acetate yarn and acetyl chemical products.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Eastman Chemical's shares have gained 19.1% over a year, outperforming the 9.1% rise of the industry. Eastman Chemical remains focused on cost-cutting and productivity actions, which is helping it to offset raw material cost inflation and other cost headwinds. The company is taking a more aggressive approach to cost management this year to keep its manufacturing costs in control. The company is significantly increasing cost reduction targets, which is forecast to be roughly \$150 million of net savings in 2020. Its cost reduction actions are expected to contribute to its earnings per share in 2020.
- ▲ Eastman Chemical should gain from its strategic acquisitions. The acquisition of Solutia has significantly accelerated its growth efforts and offered excellent growth opportunities in Asia Pacific. Eastman Chemical expects to realize significant tax benefits from the acquisition. Moreover, the acquisition of BP Plc's aviation turbine engine oil business has enabled Eastman Chemical to better address the needs of the global aviation industry. Moreover, the purchase of Taminco Corporation has reinforced the company's foothold in attractive niche end-markets including food, feed and agriculture where Taminco has a strong presence. The acquisition has also provided attractive cost and revenue synergy opportunities.
- ▲ The company remains focused on growing new business revenues leveraging its innovation-driven growth model. It achieved roughly \$400 million in new business revenues from innovation (driven by Advanced Materials) in 2019. Revenues were driven by products including Tritan copolyester and Saflex acoustic interlayers. Eastman Chemical expects to generate roughly \$500 million of new business revenues in 2020.
- ▲ Eastman Chemical remains focused on maintaining a disciplined approach to capital allocation, with an emphasis on financing its dividend and debt reduction. The company generated cash from operating activities of \$1.5 billion and free cash flow of \$1.1 billion during 2019 and returned \$668 million to shareholders through share repurchases and dividends during the year. The company also repaid \$370 million of debt in 2019. The company's net debt fell 12% year over year to \$5,429 million at the end of the second quarter of 2020. It had a cash balance of \$704 million at the end of the second quarter, which appears to be sufficient to meet its short-term debt obligations. Eastman Chemical expects to reduce net debt by more than \$600 million in 2020. The company has also taken steps to boost its cash flows. These include reduction of capital expenditure by around \$100 million to \$325-375 million. Eastman Chemical expects to generate solid free cash flow of more than \$1 billion in 2020. It has also hiked its dividend for the tenth consecutive year.

Eastman Chemical will gain from cost-cutting and productivity actions, synergies of strategic acquisitions, sustained innovation and efforts to reduce debt.

Reasons To Sell:

- ▼ Eastman Chemical is witnessing lower demand across certain markets. The company faced weak demand across a number of markets including transportation and textile in the last reported quarter due to the coronavirus pandemic, hurting its volumes in these markets. Challenges in transportation, textiles and energy markets is likely to continue in the third quarter. While there has been some recovery of late across building & construction, tires, automotive and consumer durables end-markets, sluggishness is expected to continue over the short term amid the challenging environment due to the pandemic. As such, sales volumes are expected to remain under pressure in the third quarter. The company has withdrawn its guidance for 2020 due to higher uncertainties surrounding the pandemic.
- ▼ The company's Fibers segment continues to be hurt by a weak acetate tow market. Weak market conditions led to a decline in sales and margins in this unit in 2019. Volumes in this unit are likely to remain under pressure over the near term amid the pandemic. The company is also seeing weak demand for textiles products due to coronavirus. The pandemic has led to a downturn in tow and textile markets.
- ▼ Eastman Chemical is exposed to challenges from weak product spreads in its Chemical Intermediates segment, which is impacting this business. It saw a decline in spreads in many of its derivative product lines last year due to a slowdown in industrial activities amid the trade conflict. The company also saw higher prices of certain raw materials including propane in the most recent quarter and expects significant raw material cost headwind in the second half of 2020. This may impact spreads in Chemical Intermediates during this period.
- ▼ The company faces headwind from higher maintenance spending in the third quarter of 2020. The Chemical Intermediates segment is expected to witness headwind from increased maintenance shutdowns in the quarter. This is expected to weigh on margins in this unit as well as the company's bottom line in the third quarter.

Eastman Chemical faces challenges from weak demand. It is also exposed to headwinds from weak product spreads, higher maintenance spending and weakness in the fibers unit.

Last Earnings Report

Eastman Chemical's Q2 Earnings Lag, Sales Top Estimates

Eastman Chemical logged profit of \$27 million or 20 cents per share for the second quarter of 2020, down from the year-ago profit of \$258 million or \$1.85 per share.

Barring one-time items, earnings were 85 cents per share for the quarter, down from \$1.99 in the year ago-quarter. Earnings also missed the Zacks Consensus Estimate of \$1.03.

Revenues dropped around 19% year over year to \$1,924 million in the quarter, hurt by lower sales volumes resulting from the impacts of the coronavirus pandemic and lower selling prices due to reduced raw material prices. The top line, however, surpassed the Zacks Consensus Estimate of \$1,774.8 million.

The company saw lower volumes in transportation, building & construction, consumer durables and textiles end markets, partly offset by gains in consumables, personal care & wellness, medical and agriculture.

Segment Review

Revenues from the Additives and Functional Products division fell 17% year over year to \$685 million for the reported quarter, hurt by lower volumes and selling prices as well as less favorable product mix. Volumes fell in coatings additives, tire additives and aviation fluids products sold in transportation end markets.

Revenues from the Advanced Materials unit slipped 19% year over year to \$567 million. The decline can be attributed to lower volumes and less favorable product mix.

Chemical Intermediates sales dropped 27% year over year to \$461 million, hurt by lower selling prices and sales volumes. Lower raw material prices impacted selling prices. Volumes fell partly due to the unfavorable impacts of coronavirus on demand.

Fibers segment sales edged down 1% year over year to \$211 million. Acetate tow sales volumes rose modestly in the quarter. Demand for textiles products was affected by the pandemic.

Financials

Eastman Chemical ended the quarter with cash and cash equivalents of \$704 million, a nearly four fold year-over-year increase. Net debt at the end of the quarter was \$5,429 million, down around 12% year over year.

Eastman Chemical generated cash from operating activities of \$436 million and free cash flow of \$339 million during the reported quarter.

The company also returned \$119 million to its shareholders through share repurchases and dividends during the quarter.

Outlook

Eastman Chemical did not provide earnings guidance for full-year 2020 due to higher level of uncertainties related to the impacts of coronavirus. The company noted that it is on track to deliver roughly \$150 million of cost savings for 2020 in response to the pandemic. It also expects to generate more than \$1 billion of free cash flow this year.

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	8.41%
EPS Surprise	-17.48%
Quarterly EPS	0.85
Annual EPS (TTM)	6.24

Recent News

Eastman Chemical Expands Its Partnership With IMCD

Eastman Chemical, on **Jun 25, 2020**, announced that it is expanding its collaboration with the IMCD Group for the distribution of its specialty plastics.

Currently, IMCD distributes specialty plastics of Eastman Chemical in Portugal and Spain. Under the expanded deal, effective Aug 1, 2020, IMCD will carry out the distribution of specialty plastics in expanded markets in Europe, Middle East and Africa (EMEA). Notably, IMCD will distribute thermoplastic polyester materials over a broad range of markets and applications such as medical, cosmetics, consumer durables, personal care, packaging and more.

Eastman Chemical's proven portfolio of specialty polymers and compounds along with its advanced recycling technologies helps tackle the technical, regulatory and increasing sustainability problems confronted by many industries.

Per management, the company expects the partnership to ensure a seamless transition for its specialty plastics customers, whose distribution arrangements with incumbent distribution partners complete in late July.

Eastman Chemical Launches Tritan Renew Copolyester

Eastman Chemical, on **Jun 23, 2020**, launched the Tritan Renew copolyester. Tritan Renew offers uncompromising sustainability, ensuring the same durability, performance and safety of original Tritan.

Notably, Tritan Renew comes with up to 50% recycled content derived from waste plastic. The company will make it, using its Advanced Circular Recycling technologies. The technologies use recycled plastic as raw material, reducing fossil fuel consumption and with minimal greenhouse gas emissions.

Per management, Tritan Renew is an important step as it is the first product to market using molecular recycling made possible by the company's Advanced Circular Recycling technologies. Moreover, Eastman Chemical has made significant progress over the past year to create sustainable solutions that convert millions of pounds of waste into new materials.

Valuation

Eastman Chemical's shares are down 3.4% in the year-to-date period and up 19.1% over the trailing 12-month period. Stocks in the Zacks Chemical - Diversified industry and Zacks Basic Materials sector are down 3.8% and up 2.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 9.1% and 14.3%, respectively.

The S&P 500 index is up 3.7% in the year-to-date period and up 15.3% in the past year.

The stock is currently trading at 9.06X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.54X for the Zacks sub-industry, 7.66X for the Zacks sector and 12.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.08X and as low as 5.6X, with a 5-year median of 8.1X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$80 price target reflects 12.42X forward 12-month earnings per share.

The table below shows summary valuation data for EMN:

Valuation Multiples - EMN					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.06	8.54	7.66	12.59
	5-Year High	11.08	13.12	18.38	13.29
	5-Year Low	5.6	5.2	6.49	8.22
	5-Year Median	8.1	7.49	10.29	10.92
P/E F 12M	Current	11.89	19.66	14.87	23.2
	5-Year High	13.52	19.66	21.05	23.2
	5-Year Low	5.15	8.97	9.84	15.25
	5-Year Median	10.07	13.15	13.49	17.6
P/B TTM	Current	1.7	1.97	2.29	4.53
	5-Year High	2.91	2.82	3.07	4.76
	5-Year Low	0.87	0.87	1.23	2.83
	5-Year Median	2.39	1.75	2.21	3.76

As of 09/01/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Air Products and Chemicals, Inc. (APD)	Neutral	3
BASF SE (BASFY)	Neutral	3
Bayer Aktiengesellschaft (BAYRY)	Neutral	4
Celanese Corporation (CE)	Neutral	3
FMC Corporation (FMC)	Neutral	3
Huntsman Corporation (HUN)	Neutral	3
LyondellBasell Industries N.V. (LYB)	Neutral	3
Westlake Chemical Corporation (WLK)	Neutral	3

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	EMN	X Industry	S&P 500	APD	CE	LYB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	D	B	A
Market Cap	10.37 B	2.62 B	23.95 B	66.87 B	12.44 B	22.85 B
# of Analysts	9	3	14	7	10	7
Dividend Yield	3.45%	1.74%	1.61%	1.77%	2.36%	6.14%
Value Score	B	-	-	D	B	A
Cash/Price	0.07	0.11	0.07	0.10	0.05	0.14
EV/EBITDA	8.72	8.18	13.32	19.32	10.18	5.82
PEG F1	2.20	3.48	3.05	4.11	5.24	2.18
P/B	1.70	1.87	3.21	5.56	4.34	3.10
P/CF	6.52	6.70	12.92	22.98	8.14	4.82
P/E F1	14.03	20.05	21.84	36.06	15.31	14.68
P/S TTM	1.19	0.91	2.52	7.58	2.19	0.76
Earnings Yield	7.21%	4.55%	4.39%	2.77%	6.53%	6.81%
Debt/Equity	0.89	0.60	0.70	0.61	1.04	1.85
Cash Flow (\$/share)	11.76	3.41	6.93	13.17	12.92	14.19
Growth Score	B	-	-	C	B	B
Historical EPS Growth (3-5 Years)	0.65%	8.03%	10.41%	4.94%	13.47%	-2.41%
Projected EPS Growth (F1/F0)	-22.63%	-20.92%	-4.75%	2.24%	-27.93%	-51.53%
Current Cash Flow Growth	-9.97%	-8.95%	5.22%	10.98%	-15.99%	-16.46%
Historical Cash Flow Growth (3-5 Years)	1.05%	6.32%	8.49%	5.70%	5.47%	-3.48%
Current Ratio	1.88	1.89	1.35	3.48	1.20	2.36
Debt/Capital	47.11%	37.80%	42.92%	37.97%	51.02%	65.15%
Net Margin	6.64%	3.96%	10.25%	21.58%	11.13%	6.79%
Return on Equity	14.02%	11.04%	14.66%	15.96%	33.49%	29.99%
Sales/Assets	0.54	0.75	0.50	0.43	0.60	0.97
Projected Sales Growth (F1/F0)	-11.75%	-4.79%	-1.40%	-1.38%	-15.41%	-23.16%
Momentum Score	F	-	-	D	C	C
Daily Price Change	4.79%	0.45%	0.29%	3.58%	3.97%	4.55%
1-Week Price Change	5.13%	1.86%	2.59%	3.60%	4.14%	3.78%
4-Week Price Change	7.78%	3.97%	3.53%	8.28%	7.88%	5.63%
12-Week Price Change	-0.53%	3.33%	2.09%	20.67%	8.42%	-9.92%
52-Week Price Change	19.13%	3.94%	4.31%	34.21%	-5.85%	-8.50%
20-Day Average Volume (Shares)	808,429	68,097	1,816,754	777,074	669,397	1,674,778
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-6.34%	0.00%	0.20%	0.00%	-0.15%	-1.38%
EPS F1 Estimate 12-Week Change	-6.60%	3.10%	3.86%	-1.01%	1.75%	-1.00%
EPS Q1 Estimate Monthly Change	-9.52%	0.00%	0.00%	0.00%	-0.60%	-9.17%

Source: Zacks Investment Research

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	B
Growth Score	B
Momentum Score	F
VGM Score	B

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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