

## Eaton Corporation plc (ETN)

**\$122.19** (As of 11/25/20)

Price Target (6-12 Months): **\$130.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/29/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

### Summary

Eaton is benefiting from widespread operations and R&D investments to develop technically advanced products. Spin-off of less profitable businesses and focus on core operations will boost operations. The company has taken measures to combat the economic crisis and decline in demand caused by the pandemic. Eaton's restructuring actions are in sync with long-term growth objectives. Strong cash flow generation is supporting Eaton's shareholder-friendly moves. Its shares have outperformed the industry in the past 12 months. However, Eaton's world-wide operations expose it to negative currency translation, cyber-attacks and security breaches, all of which might impact operations. Choppy end-market conditions and COVID-19-induced weakness have compelled it to forecast decremental margins for 2020.

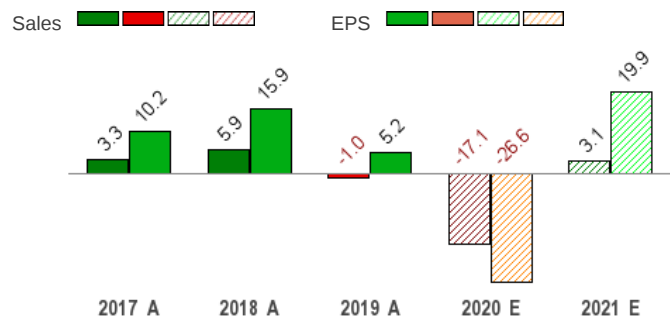
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$123.67 - \$56.42</b>          |
| 20-Day Average Volume (Shares) | <b>1,930,294</b>                   |
| Market Cap                     | <b>\$49.1 B</b>                    |
| Year-To-Date Price Change      | <b>30.1%</b>                       |
| Beta                           | <b>1.11</b>                        |
| Dividend / Dividend Yield      | <b>\$2.92 / 2.4%</b>               |
| Industry                       | <b>Manufacturing - Electronics</b> |
| Zacks Industry Rank            | <b>Top 34% (86 out of 254)</b>     |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>12.4%</b>      |
| Last Sales Surprise           | <b>7.8%</b>       |
| EPS F1 Estimate 4-Week Change | <b>5.7%</b>       |
| Expected Report Date          | <b>02/02/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>28.4</b>       |
| P/E F1                        | <b>29.4</b>       |
| PEG F1                        | <b>2.7</b>        |
| P/S TTM                       | <b>2.7</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 4,480 E | 4,432 E | 4,704 E | 4,737 E | 18,287 E |
| 2020 | 4,789 A | 3,856 A | 4,526 A | 4,570 E | 17,736 E |
| 2019 | 5,305 A | 5,533 A | 5,314 A | 5,238 A | 21,390 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.03 E | \$1.15 E | \$1.36 E | \$1.34 E | \$4.99 E |
| 2020 | \$1.09 A | \$0.70 A | \$1.18 A | \$1.20 E | \$4.16 E |
| 2019 | \$1.26 A | \$1.53 A | \$1.52 A | \$1.37 A | \$5.67 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 11/25/2020. The reports text is as of 11/25/2020.

## Overview

Dublin, Ireland-based Eaton Corporation plc is a diversified power management company, and a global technology leader in electrical components and systems. It sells products in more than 175 countries and has 99,000 employees in 59 countries. The company was founded in 1916.

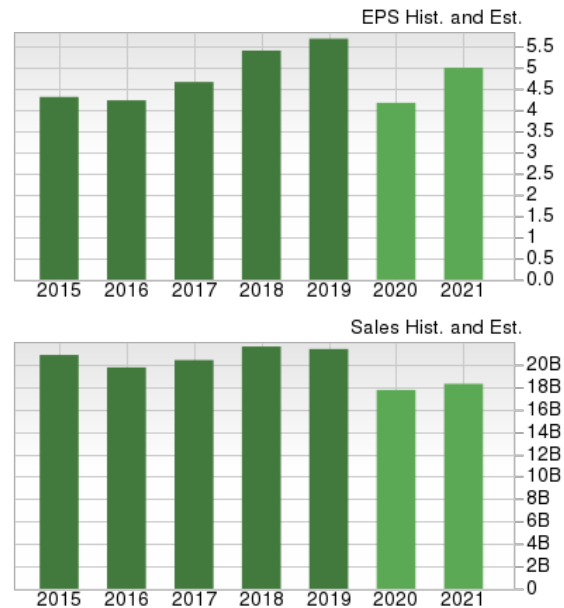
During first-quarter 2020, Eaton re-segmented certain reportable segments due to a reorganization of businesses. The new reportable segments are Electrical Americas and Electrical Global, which include Legacy Electrical Products and Electrical Systems and Services segments. The Filtration and Golf Grip businesses previously included in the Hydraulics segment and electrical aerospace connectors business, which was earlier under the Electrical Products segment, have been added to the Aerospace reportable segment, as part of the reorganization. Post reorganization, Eaton's reportable segments are **Electrical Americas**, **Electrical Global**, **Hydraulics**, **Aerospace**, **Vehicle** and **eMobility**.

The Electrical Americas segment includes sales contracts that are primarily for electrical and industrial components, power distribution and assemblies, residential products, single and three-phase power quality, wiring devices, circuit protection, utility power distribution, power reliability equipment, as well as services that are primarily produced and sold in North and South America. The Electrical Global segment consists of the same activities as mentioned in Electrical Americas but are primarily produced and sold outside of North and South America.

Vehicle segment includes the company's erstwhile truck and automotive segments. The truck segment designs, manufactures and markets powertrain systems and other components for commercial vehicle markets. Aerospace segment is a supplier of aerospace fuel, hydraulics and pneumatic systems for commercial and military use.

The eMobility segment focus on two technologies within electrical vehicles, namely Power electronics & conversion and Power distribution & circuit protection.

Eaton's segments — Electrical Americas, Electrical Global, Hydraulics, Aerospace, Vehicle and eMobility — contributed 37.3%, 23.9%, 10.6%, 14.2%, 12.5% and 1.5%, respectively, to first-quarter 2020 revenues.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Eaton has been investing consistently in its R&D programs to introduce new products, including power management solutions which will reduce energy consumption and carbon emissions. The company has been upgrading the existing systems to maintain its strong position in global markets. In 2019, the company's R&D expenses amounted to \$606 million, up 3.8% from 2018. For the first nine months of 2020, R&D expenses were \$411 million compared with \$454 million in the comparable year-ago period. Eaton has laid out a 10-year plan that includes \$3 billion investment in R&D programs, which will allow the company to create sustainable products over this period of time. The products supplied by Eaton have been deemed to be critical part of the global infrastructure and are absolutely essential in the crisis situation.

Eaton's wide market reach, restructuring actions, strong cash flow generation, share buybacks, R&D Programs and product innovation are likely to drive its performance.

Eaton's strategy to manufacture in the zone of sale has helped it to offset the impact of tariff on material prices. The company activated and stood up its pandemic management and response team early, created a COVID-19 playbook, as well as kept most of the manufacturing units operational across the globe, in compliance with safety measures. The company trimmed the salaries of senior executives, eliminated merit increases in 2020, reduced discretionary spending, and implemented travelling and hiring freezes to lower costs and preserve liquidity amid this economic crisis as a result of the novel coronavirus. In the past 12 months, shares of Eaton have gained 38.3% compared with the industry's 25.4% growth.

- ▲ Eaton operates in a number of markets and faces a wide array of competitors in varied niches. The quality of products supplied by the company enables it to retain a strong market position. In addition, Eaton's strategic acquisitions allow it to foray into new markets and enhance its revenue stream. Acquisitions made by the company contributed 2% to total third-quarter revenues.

Eaton supplies its products to around 175 countries and most importantly, this in a sense provides stability to the revenue generation ability of the company, as the loss of a customer will not have any significant impact on revenues and margins. Moreover, a diversified product portfolio offering energy efficient solutions helps to serve a wide customer base.

- ▲ The company has decided to implement a multi-year restructuring program to deal with the anticipated prolonged weakness in some of the end markets served. The cost of the program is estimated to be \$280 million, including the \$197 million charge it took in the first nine months of 2020. These actions will reduce structural cost and are targeted in those end markets, including Eaton's commercial aerospace, oil and gas, NAFTA Class 8 truck, as well as North America and European light vehicle markets, wherein recovery from the pandemic-induced weakness could take several years. The company expects the restructuring program to deliver mature-year benefits of \$200 million, when fully implemented in 2023.

- ▲ Eaton continues to generate a stable cash inflow through proficient handling of operating activities. In 2019, The company's operating cash flow and free cash flow was \$3.5 billion and \$2.9 billion, respectively. It expects 2020 free cash flow in the range of \$2.4-\$2.6 billion. In addition to utilizing funds for growth ventures and several other activities, a strong cash generating capacity supports the company's systematic debt-reduction initiatives and shareholder-friendly moves.

It is targeting share repurchases in the range of \$1.7-\$1.9 billion in 2020, which includes \$1.5 billion already repurchased in the first nine months of 2020. Eaton reaffirmed capital spending view of \$400 million for 2020.

- ▲ As of Sep 30, 2020, the company's long-term debt was \$6,948 million, down from \$8,150 million at 2019-end. Eaton is trying to lower debts from the balance sheet. At third quarter-end, the company's cash and short-term investments were \$763 million, and it had enough liquidity to meet near-term obligation.

The times interest earned ratio of Eaton at second quarter-end was 10.3, down from 12 at the end of fourth-quarter 2019. A strong times interest earned ratio, although it declined from the 2019-end level, clearly indicates that the company will be able to fulfill debt obligations in the near term without any hassle. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, Eaton's improving times interest earned ratio is reassuring for investors.

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### Reasons To Sell:

- ▼ Eaton operates in nearly 175 countries and has manufacturing facilities worldwide. This definitely enhances the revenue stream of the company but at the same time exposes it to disruptions like natural disaster, labor strike, war, political unrest, terrorist activity and economic upheaval. Such disturbances could delay shipments, stop production process and result in cancellation of orders. The outbreak of COVID-19 is also resulting in demand weakness in some of the end markets served.

Due to prevailing economic uncertainty across the globe as a result of the COVID-19 pandemic, the company expects a decremental margin of 25% for the fourth quarter.

- ▼ To conduct its business in an efficient manner, the company depends on its information technology network. These technology networks and systems may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components; power outages; hardware failures; or computer viruses. In addition, cyber-attacks and security breaches could impact the operations of the company affecting its financial performance.
- ▼ Eaton utilizes a variety of raw materials and components in its businesses and has to depend on others for the supply of raw materials. So, any significant shortage, price increase, or supplier insolvencies could increase operating costs and adversely impact Eaton's competitive position.

Widespread operation exposes it to geo-political risks. Weakness in some end markets served and shortage of raw materials can impact the company's performance.

## Last Earnings Report

### Eaton Beats Q3 Earnings Estimates, Narrows Guidance

Eaton Corporation reported third-quarter 2020 earnings of \$1.18 per share, which surpassed the Zacks Consensus Estimate of \$1.05 by 12.7%. However, earnings were down 22.4% year over year due to weakness in some of its end markets.

GAAP earnings for the reported quarter were \$1.11 per share compared with \$1.44 in the year-ago period. The difference between GAAP and operating earnings for the reported quarter was due to a one-time charge of 5 cents associated with acquisitions and divestitures, as well as 2 cents related to a multi-year restructuring program.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 03, 2020 |
| Sales Surprise   | 7.76%        |
| EPS Surprise     | 12.38%       |
| Quarterly EPS    | 1.18         |
| Annual EPS (TTM) | 4.34         |

### Revenues

Total quarterly revenues came in at \$4,526 million, which beat the Zacks Consensus Estimate of \$4,200 million by 7.8%. However, total revenues decreased 14.8% from the year-ago quarter.

For the reported quarter, organic sales were down 9% from the prior-year period. Divestiture of the Lighting and Automotive Fluid Conveyance businesses resulted in an 8% decline in revenues, while acquired assets added 2% to third-quarter sales.

### Segment Details

**Electrical Americas'** total third-quarter sales were \$1,699 million, down 16.7% from the year-ago level. The decline was due to the impact of the Lighting business divestiture and negative currency translation.

However, higher organic sales and contribution from the acquired assets marginally offset the drop in revenues.

**Electrical Global's** total sales were \$1,196 million, down 7.6% from the year-ago quarter. Organic sales were down 10% from the year-ago quarter, primarily due to the COVID-19 outbreak. Positive currency translation offset the negatives by 2%.

**Hydraulics'** total sales were \$439 million, down 15.4% from the year-ago quarter. The revenue decline was due to fall in organic sales.

**Aerospace** total sales were \$540 million, down 12.9% from the year-ago quarter. The decline was due to downturn in commercial aviation, partially offset by growth in military sales. Organic sales were down 26%, partially offset by a 12% increase from the acquisition of Souriau-Sunbank and 1% growth from the impact of positive currency translation.

**Vehicle** total sales were \$573 million, down 24.7% from the year-ago quarter. Decline in organic sales, divestiture of the automotive fluid conveyance business and negative currency translation affected the results.

**eMobility** segment's total sales were \$79 million, flat year over year. The decline in organic sales was offset by positive currency translation.

### Highlights of the Release

Selling and administrative expenses were \$754 million, down 14.8% from the year-ago quarter.

The company's third-quarter research and development expenses were \$132 million, down 10.2% from the prior-year period. Interest expenses for the quarter were \$41 million, down 12.8% from the year-ago period.

Orders in Hydraulics were up 8% year over year, while the same in Electrical Americas, Electrical Global, and Aerospace was down 1%, 6%, and 22%, respectively.

The company decided to implement a multi-year restructuring program that will cost nearly \$280 million. Restructuring charges incurred under this program for the nine months ended Sep 30, 2020 was \$197 million.

During the quarter, it repurchased shares worth \$177 million, with its year-to-date buyback totaling \$1.5 billion.

### Financial Update

Eaton's cash was \$429 million as of Sep 30, 2020 compared with \$370 million on Dec 31, 2019.

As of Sep 30, 2020, long-term debt of the company was \$6,948 million, down from \$7,819 million on Dec 31, 2019.

### Guidance

Eaton narrowed its 2020 free cash flow guidance to the range to \$2.4-\$2.6 billion from \$2.3-\$2.7 billion. It is targeting share buyback in the range of \$1.7-\$1.9 billion in 2020.

## Valuation

Eaton Corporation shares are up 34.5% in the year to date period and up 38.3% over the trailing 12-month period. Stocks in the Zacks sub-industry was up 20.3% and the Zacks Industrial Products sector was up 20.1% in the year to date period. Over the past year, the Zacks sub-industry is up 25.4% and the sector is up 22.7%.

The S&P 500 index is up 15% in the year to date period and up 18.2% in the past year.

The stock is currently trading at 25.13X forward 12-month earnings, which compares to 25.12X for the Zacks sub-industry, 23.89X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.13X and as low as 9.92X, with a 5-year median of 14.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$130 price target reflects 26.51X forward 12-month earnings.

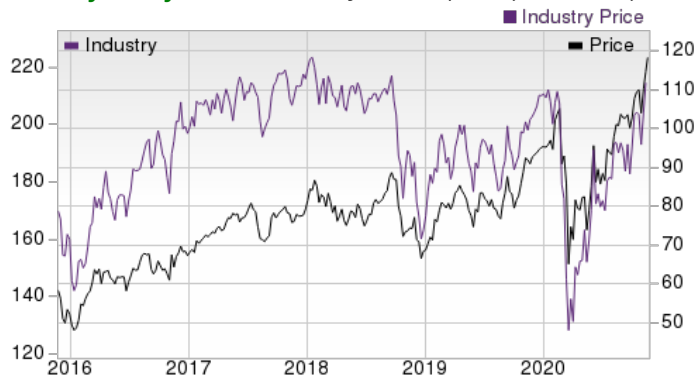
The table below shows summary valuation data for ETN

| Valuation Multiples - ETN |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 25.13 | 25.12        | 23.89  | 22.7    |
|                           | 5-Year High   | 25.13 | 25.12        | 23.89  | 23.47   |
|                           | 5-Year Low    | 9.92  | 13.62        | 12.59  | 15.27   |
|                           | 5-Year Median | 14.8  | 17.7         | 17.72  | 17.72   |
| P/S F12M                  | Current       | 2.7   | 3.34         | 3.36   | 4.18    |
|                           | 5-Year High   | 2.7   | 3.34         | 3.36   | 4.3     |
|                           | 5-Year Low    | 1.08  | 1.53         | 1.6    | 3.17    |
|                           | 5-Year Median | 1.58  | 2.09         | 2.09   | 3.67    |
| P/B TTM                   | Current       | 3.38  | 5.32         | 6.26   | 6.17    |
|                           | 5-Year High   | 3.38  | 5.96         | 6.37   | 6.17    |
|                           | 5-Year Low    | 1.44  | 3.01         | 3.33   | 3.74    |
|                           | 5-Year Median | 2.08  | 4.56         | 4.54   | 4.91    |

As of 11/24/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 34% (86 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                  | Rec        | Rank |
|-----------------------------------|------------|------|
| A. O. Smith Corporation (AOS)     | Outperform | 1    |
| Regal Beloit Corporation (RBC)    | Outperform | 2    |
| Rexnord Corporation (RXN)         | Outperform | 2    |
| ABB Ltd (ABB)                     | Neutral    | 3    |
| Emerson Electric Co. (EMR)        | Neutral    | 3    |
| Energysys (ENS)                   | Neutral    | 3    |
| Murata Manufacturing Inc. (MRAAY) | Neutral    | 3    |
| Energous Corporation (WATT)       | Neutral    | 3    |

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

| Industry Comparison Industry: Manufacturing - Electronics |           |            |           | Industry Peers |           |         |
|-----------------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                           | ETN       | X Industry | S&P 500   | ABB            | EMR       | MRAAY   |
| Zacks Recommendation (Long Term)                          | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                                   | 3         | -          | -         | 3              | 3         | 3       |
| VGM Score                                                 | B         | -          | -         | D              | B         | C       |
| Market Cap                                                | 49.13 B   | 3.39 B     | 26.32 B   | 58.17 B        | 47.78 B   | 55.69 B |
| # of Analysts                                             | 9         | 4          | 14        | 3              | 10        | 1       |
| Dividend Yield                                            | 2.37%     | 0.31%      | 1.46%     | 1.92%          | 2.53%     | 0.73%   |
| Value Score                                               | B         | -          | -         | C              | B         | D       |
| Cash/Price                                                | 0.02      | 0.08       | 0.07      | 0.15           | 0.07      | 0.06    |
| EV/EBITDA                                                 | 14.90     | 14.86      | 14.86     | 18.45          | 15.18     | 14.81   |
| PEG F1                                                    | 2.67      | 2.69       | 2.79      | 5.36           | 2.41      | NA      |
| P/B                                                       | 3.38      | 3.37       | 3.68      | 3.42           | 5.66      | 3.33    |
| P/CF                                                      | 15.59     | 16.18      | 13.94     | 15.91          | 16.18     | 17.77   |
| P/E F1                                                    | 29.37     | 29.09      | 21.92     | 33.26          | 23.23     | 31.21   |
| P/S TTM                                                   | 2.67      | 2.51       | 2.87      | 2.24           | 2.85      | 4.97    |
| Earnings Yield                                            | 3.38%     | 3.38%      | 4.33%     | 3.02%          | 4.30%     | 3.20%   |
| Debt/Equity                                               | 0.48      | 0.13       | 0.70      | 0.37           | 0.75      | 0.09    |
| Cash Flow (\$/share)                                      | 7.91      | 1.93       | 6.93      | 1.69           | 4.94      | 1.16    |
| Growth Score                                              | C         | -          | -         | D              | B         | D       |
| Historical EPS Growth (3-5 Years)                         | 5.92%     | 4.59%      | 9.72%     | 0.70%          | 5.37%     | NA      |
| Projected EPS Growth (F1/F0)                              | -26.61%   | -7.31%     | 0.45%     | -34.95%        | -0.52%    | 0.00%   |
| Current Cash Flow Growth                                  | 0.36%     | -3.96%     | 5.29%     | -3.96%         | -5.22%    | -0.69%  |
| Historical Cash Flow Growth (3-5 Years)                   | 2.58%     | 2.98%      | 8.33%     | -2.99%         | 1.59%     | 7.14%   |
| Current Ratio                                             | 1.49      | 2.11       | 1.38      | 1.42           | 1.52      | 3.72    |
| Debt/Capital                                              | 32.37%    | 11.79%     | 41.99%    | 27.06%         | 42.82%    | 8.11%   |
| Net Margin                                                | 7.53%     | 6.24%      | 10.44%    | 21.33%         | 11.71%    | 14.47%  |
| Return on Equity                                          | 11.94%    | 8.01%      | 14.99%    | 15.47%         | 25.98%    | 10.47%  |
| Sales/Assets                                              | 0.59      | 0.77       | 0.50      | 0.56           | 0.77      | 0.54    |
| Projected Sales Growth (F1/F0)                            | -17.08%   | -2.00%     | 0.23%     | -7.24%         | 1.85%     | -1.18%  |
| Momentum Score                                            | B         | -          | -         | B              | C         | A       |
| Daily Price Change                                        | 2.49%     | 0.84%      | 1.91%     | 0.83%          | 2.75%     | 2.01%   |
| 1-Week Price Change                                       | 2.58%     | 1.90%      | 0.21%     | -1.30%         | 0.20%     | 3.31%   |
| 4-Week Price Change                                       | 16.91%    | 19.15%     | 11.71%    | 4.89%          | 19.47%    | 17.38%  |
| 12-Week Price Change                                      | 19.16%    | 24.24%     | 11.69%    | 4.03%          | 14.00%    | 36.88%  |
| 52-Week Price Change                                      | 32.96%    | 29.55%     | 6.61%     | 21.84%         | 7.42%     | 40.61%  |
| 20-Day Average Volume (Shares)                            | 1,930,294 | 242,073    | 2,311,168 | 1,914,307      | 3,283,624 | 174,394 |
| EPS F1 Estimate 1-Week Change                             | 0.00%     | 0.00%      | 0.00%     | -0.82%         | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                             | 5.73%     | 5.25%      | 0.98%     | 0.00%          | 0.48%     | 0.00%   |
| EPS F1 Estimate 12-Week Change                            | 5.79%     | 5.57%      | 3.48%     | 0.83%          | 0.52%     | 43.48%  |
| EPS Q1 Estimate Monthly Change                            | 10.27%    | 5.26%      | 0.00%     | NA             | 10.61%    | NA      |

Source: Zacks Investment Research

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## 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.

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### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>B</b> |
| VGM Score      | <b>B</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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## Disclosures

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This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

**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 the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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