

Fastenal Company (FAST)

\$51.13 (As of 04/20/21)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/03/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: A

Momentum: F

Summary

Fastenal's first-quarter 2021 earnings met the Zacks Consensus Estimate but revenues missed the same. Earnings and revenues, however, grew 3.7% year over year each. The growth was led by higher unit sales, mainly of fastener, safety and janitorial products. Also, lower operating and administrative expenses (down 110 basis points/bps) added to the positives. Higher demand for fastener, and safety and sanitizer products is encouraging. It has been witnessing improvement in manufacturing (particularly in heavy manufacturing end markets) and construction markets. However, gross margin fell due to write-downs, and unfavorable product and customer mix. Further, inflationary pressures, supply chain-related issues, soft guidance for Q2 sales and reduced onsite signing expectation for 2021 are concerns.

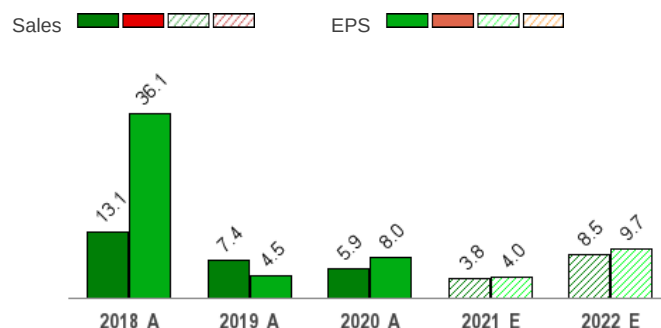
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$51.89 - \$34.40
20-Day Average Volume (Shares)	3,409,457
Market Cap	\$29.2 B
Year-To-Date Price Change	4.0%
Beta	1.28
Dividend / Dividend Yield	\$1.12 / 2.2%
Industry	Building Products - Retail
Zacks Industry Rank	Top 44% (112 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.5%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	07/13/2021
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,550 E	1,638 E	1,585 E	1,535 E	6,359 E
2021	1,417 A	1,505 E	1,513 E	1,425 E	5,860 E
2020	1,367 A	1,509 A	1,413 A	1,358 A	5,647 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.41 E	\$0.45 E	\$0.43 E	\$0.40 E	\$1.70 E
2021	\$0.37 A	\$0.41 E	\$0.41 E	\$0.36 E	\$1.55 E
2020	\$0.35 A	\$0.42 A	\$0.38 A	\$0.34 A	\$1.49 A

*Quarterly figures may not add up to annual.

P/E TTM	33.6
P/E F1	33.0
PEG F1	2.1
P/S TTM	5.1

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/20/2021. The report's text and the analyst-provided price target are as of 04/21/2021.

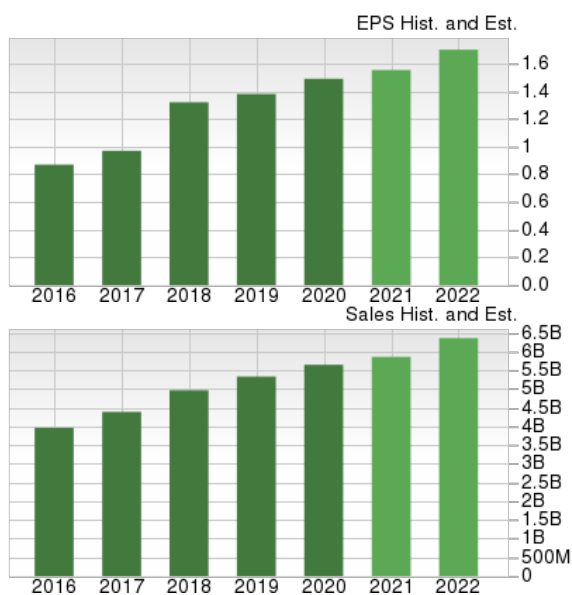
Overview

Based in Winona, MN, **Fastenal Company** is a national wholesale distributor of industrial and construction supplies. The company distributes its products through more than 3,000 company-owned stores mostly located in North America.

Fastenal derives sales from the fastener product line and the other product line. The fastener product line comprises two kinds of products, threaded fasteners, and miscellaneous industrial and construction supplies and hardware. Threaded fasteners include products like bolts, nuts, screws, studs and related washers, while miscellaneous industrial and construction supplies and hardware include various pins and machinery keys, concrete anchors, metal framing systems, wire rope, strut, rivets and related accessories. Threaded fasteners are used in most manufactured products and building projects, and for the maintenance and repair of machines and structures.

The other product line includes tools, cutting tools, material handling, janitorial, electrical, safety and welding supplies and many more. Non-fastener products now represent nearly 66.4% of the company's daily sales.

Fastenal mainly serves customers in the manufacturing and non-residential construction markets. In the manufacturing market, its customers include original equipment manufacturers (OEMs) and maintenance and repair operations (MRO), while in the non-residential construction market it serves general, electrical, plumbing, sheet metal and road contractors.



Reasons To Buy:

- ▲ **Cost-Control Efforts & Diversification Beyond Fasteners:** Fastenal is actively seeking to control costs to offset cost inflation due to tariffs and rising freight expenses. The strategies for the same include automating warehouses, increasing delivery efficiency through its trucking network, and selling more private-level products with higher margins. This will aid the company to improve efficiency level, thereby increasing returns.

Markedly, the company has gradually expanded from a fastener distributor to a full-line industrial supplier. It has expanded its product lines to include an internal manufacturing division, government sales, Internet sales, metalworking and industrial vending.

Fastenal has also built a national accounts team, which is dedicated to servicing corporate customers. These initiatives are gaining traction and will help to achieve future profitability.

Indeed, Fastenal had a small inventory write-down on masks (\$8 million) that affected gross margins by 50 basis points (bps) during the first quarter of 2021. Nonetheless, it still expects gross margin to grow 50 bps or less in 2021 and near 45.9% for the second quarter. The company still anticipates incremental margins of 20-25% for 2021 as the potential increase in gross margins should have offset modest SG&A leverage due to comparisons.

Fastenal should continue to maintain the growth trend, given vending, on-site, mobility tools and commercialization of Fast Bin.

- ▲ **Focus on E-commerce:** Fastenal has been focusing more on virtual platforms to boost customers' engagement. The company has slashed hundreds of branches since 2013 in favor of vending machines and online sales, in response to changes in customer dynamics. The company's e-commerce business includes sales made through an electronic data interface with customers or through the web. During the first quarter of 2021, daily sales through e-commerce increased 35.5% year over year. Revenues attributable to e-commerce represented 12.2% of total revenues during the period. E-commerce sales grew 27% for the first quarter of 2020, 13.5% for the second quarter, more than 10% for the third quarter and 38% for fourth-quarter 2020, backed by promotion of its services/products.

- ▲ **Revolutionary FAST Solutions:** Fastenal has adopted FAST Solutions, an industrial vending process that has the potential to revolutionize the industrial distribution system and increase profitability. The company installs vending machines at the customer's location and keeps it filled with products they need. These vending machines inform customers what they are using and how they are using these products, which subsequently results in controlling the customer's inventory and administrative cost while reducing product consumption. Particularly, the non-fastener product line has benefited significantly from initiatives pertaining to industrial vending.

Industrial vending is one of the primary growth drivers for Fastenal and has the potential to significantly increase sales and profits. Sales through vending machines grew at or near a double-digit pace in both 2017 and 2018. Sales through vending devices continued to grow at a double-digit pace in 2019, primarily due to higher installed base.

At the start of 2021, Fastenal disclosed a weighted FMI or Fastenal Managed Inventory measure that combines the signings, installations, and sales of FAST Vend and FAST Bin into a standardized machine equivalent unit (MEU) based on the expected output of each type of device. In first-quarter 2021, the company signed 4,683 weighted FMI devices, almost in line with 4,692 signed in the prior-year quarter.

- ▲ **Onsite Locations:** In order to serve customers better, Fastenal provides Onsite location, in which a mini-Fastenal shop is basically located in the plant of a customer. Fastenal signed 68 new Onsite locations during the first quarter. The figure was 85 in the year-ago period. Though this marks a decline from the year-ago period, it represented the highest rate of quarterly signings since the onset of the pandemic.

Notably, Fastenal signed 362 new Onsite locations during 2019 (up from 336 signed in 2018) and 223 in 2020. As of Mar 31, 2021, the company had 1,285 active sites, up 9% from the comparable year-ago period. First-quarter 2021 daily sales through Onsite locations (excluding sales transferred from branches to new Onsites) increased at a mid-to-high single-digit rate from a year ago. The increased number of onsite locations is likely to expand Fastenal's market share.

The signings environment has been improving (albeit not at a 375-400 annual rate) and the company expects 2021 signings in the 300-350 range.

- ▲ **Driving Investors Value:** Fastenal has been driving investor value by providing regular dividends. The company began paying annual dividends in 1991 and semi-annual dividends in 2003, and then expanded to quarterly dividends in 2011.

The company paid nearly \$160.8 million worth of dividend in first-quarter 2021 versus \$143.6 million a year ago. The company keeps on raising quarterly dividends on a regular basis.

- ▲ **Healthy Balance Sheet:** In response to unfavorable demand trends owing to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. It ended first-quarter 2021 with cash and cash equivalents of \$333.9 million, up from \$245.7 million at fourth quarter 2020-end. Its debt to total capitalization of 12.7% (as of Mar 31, 2021) was down from 12.9% at fourth quarter 2020-end and 14.6% in the year-ago period. It has ample liquidity to take advantage of growth opportunities. At first quarter 2021-end, net debt was 2.2% of total capital, down from 9.5% in the year-ago period and 5.1% in fourth-quarter 2020. At first quarter 2021-end, Fastenal had substantially all its \$700-million bank revolver available.

Fastenal's cost-control efforts, aggressive investment to increase Onsite locations, vending machines count and ecommerce business is expected to boost sales

Reasons To Sell:

▼ **Margins Under Pressure:** Negative customer/product mix as a result of enhanced growth of lower-margin national accounts and lower proportion of higher margin fasteners have been the dampeners for Fastenal's gross margin since the past three years. The customer mix shifted toward the large-account end-market, which produces low-margin gross profit but stronger operating income. The product mix shifted from high-margin fastener products to lower margin non-fastener products.

Unfavorable product mix, pricing and competitive pressures are hurting gross margins

Moreover, inflationary pressures have been a cause of concern. Although Fastener has seen a nominal impact from the same on first-quarter performance, it highlighted the fact that it has been experiencing significant material cost inflation, particularly for steel, fuel and transportation.

Notably, in first-quarter 2020, the company's gross and operating margin contracted 110 bps and 10 bps, respectively, due to changes in product and customer mix, and deleveraging of fixed costs. In the second, third and fourth quarters as well, Fastenal's gross margin contracted 240 bps, 190 bps and 130 bps year over year, respectively, owing to the above-mentioned headwinds.

▼ **Coronavirus-Related Woes:** The coronavirus pandemic has caused shutdown of many companies' production units, retail stores and infrastructure activities. Fastenal is considered as "critical infrastructure" due to its presence with state/local governments, first responders, food processors, etc., and its supply chain capabilities. However, as the product mix has shifted abruptly toward lower margin government/safety products from higher margin manufacturing/fasteners, the company expects to temporarily experience sharply lower gross margin in the near term. The company expects reduced margins to persist well into the second half of 2021 as well, owing to the sell-through of lower-margin masks out of its inventory.

Although Fastenal delivered impressive performance through 2020, it faced enormous challenges owing to the coronavirus pandemic.

▼ **Stiff Competition:** The industrial, construction, and maintenance supply industry, still remains a large, fragmented industry that is highly competitive. Fastenal faces increased competition from brick and mortar retailers or from online retailers (particularly major internet providers who can offer a wide range of products and rapid delivery). This could cause Fastenal to lose market share, reduce the prices or increase spending, thus eroding operating income.

▼ **Overvalued Compared to Peers:** The company's stretched valuation is another major concern. Its trailing 12-month price to earnings ratio is 33.5, higher than the industry's 26.3. This implies that the stock is overvalued than peers.

Last Earnings Report

Fastenal (FAST) Q1 Earnings Meet, Revenues Miss Estimates

Fastenal Company's first-quarter 2021 earnings met the Zacks Consensus Estimate but revenues missed the same.

Earnings & Sales in Detail

The company reported earnings of 37 cents per share, in line with the consensus mark. The reported figure, nonetheless, increased 3.7% from the year-ago profit of 35 cents per share.

Net sales for the reported period were \$1,417 million, marginally missing the consensus mark of \$1,424 million but increasing 3.7% from the year-ago figure of \$1,367 million. The upside was due to higher unit sales of fastener, safety and janitorial products.

It reported daily sales growth of 5.3%, lower than 6.4% increase in fourth-quarter 2020 but higher than 2.8% in the year-ago period.

On a monthly basis, daily sales improved 7.5%, 1.5% and 6.5% in March, February and January compared with 0.2%, 4.7% and 3.6% growth, respectively, in the comparable months of the prior year.

Daily sales of Fastener products (mainly used for industrial production and accounting for 32.5% of first-quarter sales) improved 4% year over year. This reflects improvement in demand among traditional industrial and construction customers. Also, easy year-over-year comparison added to the positives. Notably, the company experienced the onset of pandemic-related weakness and a contraction in fastener product growth in the year-ago period. In the fourth quarter, the metric declined 2.3% year over year.

Sales of safety products (accounting for 21.5% of first-quarter sales) grew 14.7% on a daily basis. Sales of the remaining products (accounting for 46% of first-quarter sales) grew 2.5% year over year on a daily basis.

Growth in other products lines, mainly attributable to higher demand for janitorial products, was driven by similar variables as safety products. These favorable factors were partly offset by severe weather in February 2021, which reduced net and daily sales growth by 50-100 bps year over year for the first quarter of 2021.

Vending Trends and Other Growth Drivers

Fastenal signed 4,683 Fastenal Managed Inventory (FMI) devices, almost in line with 4,692 a year ago. Its installed weighted FMI device count on Mar 31, 2021 was 85,157, reflecting an increase of 7.5% from a year ago.

Daily sales through weighted FMI devices grew 9% for first-quarter 2021 and represented 21.2% of net sales.

Fastenal signed 68 new Onsite locations during the first quarter. The figure was 85 in the year-ago period. Though this marks a decline from the year-ago period, it represented the highest rate of quarterly signings since the onset of the pandemic. As of Mar 31, 2021, the company had 1,285 active sites, up 9% from the comparable year-ago period. First-quarter 2021 daily sales through Onsite locations (excluding sales transferred from branches to new Onsites) increased at a mid-to-high single-digit rate from a year ago.

This resumption of growth reflects increasing sales in relatively new active locations with progress in implementations, combined with moderating rates of contraction in more mature sites. It expects Onsite signings between 375 and 400 for 2021. That said, in light of the signings in first-quarter 2021 and continued lengthening of the sales cycle as a result of the COVID-19 pandemic, it believes Onsite signings in 2021 to most likely fall to 300-350 locations.

Daily sales to national account customers (representing 56.3% of total revenues) increased 6.9% on a year-over-year basis for first-quarter 2021. Daily sales to non-national account customers (which include government customers and represent 43.7% of total revenues) grew 3.1% for the quarter.

Margins

Gross margin of 45.4% decreased 120 bps from the prior-year period, as it wrote down the value of the 3-ply masks that remain in inventory by \$7.8. Also, the impact of product and customer mix are concerns.

Also, operating margin contracted 10 bps year over year to 19.8% for the quarter.

Financials

Cash and cash equivalents were \$333.9 million as of Mar 31, 2021, up from \$245.7 million on Dec 31, 2020. Long-term debt at first quarter-end was \$365 million, in line with 2020-end.

In the first quarter, cash provided by operating activities totaled \$274.8 million, up from \$241.1 million in the prior year. Fastenal returned \$160.8 in dividends to shareholders in the quarter compared with \$143.6 a year ago.

Outlook

For second quarter of 2021, the company expects sales growth to be flat to slightly down.

Quarter Ending	03/2021
Report Date	Apr 13, 2021
Sales Surprise	-0.49%
EPS Surprise	0.00%
Quarterly EPS	0.37
Annual EPS (TTM)	1.51

Valuation

Fastenal shares are up 4.8% in the year-to-date period and but up 46.8% over the trailing 12 months. Stocks in the Zacks sub-industry is up 19.1% but the Zacks Retail-Wholesale sector down 0.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 67.5% and 33.8%, respectively.

The S&P 500 index is up 11% in the year-to-date period and 50.7% in the past year.

The stock is currently trading at 32X forward 12-month earnings, which compares with 23.01X for the Zacks sub-industry, 31.89X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.74X and as low as 17.72X, with a 5-year median of 23.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$54 price target reflects 33.6X forward 12-month earnings.

The table below shows summary valuation data for FAST.

Valuation Multiples - FAST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32	23.01	31.89	22.91
	5-Year High	33.74	23.66	34.11	23.83
	5-Year Low	17.72	16.06	19.13	15.3
	5-Year Median	23.3	19.03	23.81	18.01
P/S F12M	Current	4.89	1.81	1.39	4.77
	5-Year High	5.06	1.81	1.39	4.77
	5-Year Low	2.51	1.08	0.84	3.21
	5-Year Median	3.25	1.36	1.02	3.71
EV/EBITDA TTM	Current	22.36	13.54	19.53	18.55
	5-Year High	22.85	15.16	20.84	18.78
	5-Year Low	12.41	8.21	11.19	9.62
	5-Year Median	15.92	11.12	13.33	13.37

As of 04/20/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Applied Industrial Technologies, Inc. (AIT)	Neutral	2
Beacon Roofing Supply, Inc. (BECN)	Neutral	4
GMS Inc. (GMS)	Neutral	2
W.W. Grainger, Inc. (GWW)	Neutral	3
Illinois Tool Works Inc. (ITW)	Neutral	3
MSC Industrial Direct Company, Inc. (MSM)	Neutral	3
Systemax Inc. (SYX)	Neutral	2
WESCO International, Inc. (WCC)	Neutral	3

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

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	FAST	X Industry	S&P 500	GWW	MSM	WCC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	A	A
Market Cap	29.18 B	2.84 B	29.78 B	21.41 B	4.96 B	4.26 B
# of Analysts	10	7	12	11	8	7
Dividend Yield	2.20%	0.00%	1.28%	1.50%	3.39%	0.00%
Value Score	D	-	-	B	B	A
Cash/Price	0.01	0.04	0.06	0.03	0.00	0.10
EV/EBITDA	22.53	11.84	17.06	19.20	12.95	17.29
PEG F1	2.09	1.59	2.40	1.84	NA	1.43
P/B	10.47	2.73	4.08	10.49	4.43	1.27
P/CF	28.75	8.90	17.22	20.97	14.92	11.87
P/E F1	33.36	17.61	22.30	22.04	18.80	14.34
P/S TTM	5.12	1.10	3.45	1.81	1.58	0.35
Earnings Yield	3.05%	5.68%	4.41%	4.54%	5.32%	6.97%
Debt/Equity	0.13	1.24	0.66	1.14	0.41	1.31
Cash Flow (\$/share)	1.78	3.49	6.78	19.73	5.99	7.10
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	15.02%	16.12%	9.39%	11.53%	6.53%	8.34%
Projected EPS Growth (F1/F0)	4.23%	12.10%	15.71%	14.70%	-0.61%	35.54%
Current Cash Flow Growth	8.72%	20.86%	0.72%	-10.78%	-7.34%	23.37%
Historical Cash Flow Growth (3-5 Years)	11.12%	12.06%	7.37%	0.73%	1.85%	4.30%
Current Ratio	3.95	2.07	1.39	2.72	2.14	1.84
Debt/Capital	11.58%	55.33%	41.26%	53.30%	29.22%	56.71%
Net Margin	15.22%	5.60%	10.59%	5.87%	5.97%	0.82%
Return on Equity	31.00%	25.82%	15.09%	40.46%	21.19%	9.13%
Sales/Assets	1.40	1.67	0.50	1.73	1.29	1.21
Projected Sales Growth (F1/F0)	3.77%	1.19%	7.51%	5.02%	0.77%	37.00%
Momentum Score	F	-	-	D	C	F
Daily Price Change	0.65%	-0.75%	-0.61%	1.15%	0.87%	-0.82%
1-Week Price Change	0.96%	2.57%	1.43%	1.31%	-1.47%	-0.57%
4-Week Price Change	7.19%	11.32%	5.71%	4.92%	4.13%	1.56%
12-Week Price Change	7.40%	17.03%	11.34%	9.83%	11.48%	6.54%
52-Week Price Change	49.77%	222.60%	58.53%	53.17%	57.47%	276.11%
20-Day Average Volume (Shares)	3,409,457	310,320	1,796,198	236,405	460,858	356,034
EPS F1 Estimate 1-Week Change	-0.32%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.19%	0.19%	0.05%	-0.12%	0.80%	-0.17%
EPS F1 Estimate 12-Week Change	0.58%	6.89%	1.89%	0.89%	1.24%	-11.64%
EPS Q1 Estimate Monthly Change	-0.30%	0.49%	0.00%	0.03%	-2.42%	-0.60%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

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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 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.