

Flowers Foods, Inc.(FLO)

\$22.91 (As of 01/04/21)

Price Target (6-12 Months): **\$19.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/01/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Flowers Foods has lagged the industry in the past three months. The company's foodservice performance is hurt by social-distancing trends amid COVID-19. Coronavirus-induced stay-at-home trends and restrictions started to hurt foodservice results in mid-March. Incidentally, foodservice and other non-retail sales declined 14.7% in the third quarter of fiscal 2020 due to lower volumes amid COVID-19. Apart from this, it has been seeing higher costs for a while now. During the quarter, adjusted selling, distribution and administrative expenses (as a percentage of sales) rose 50 basis points. Also, its workforce-related costs increased as employee-incentives rose. Nonetheless, burgeoning demand in retail business stemming from rising stay-at-home eating trend amid coronavirus offered some respite. Also, favorable price/mix has been a driver.

Price, Consensus & Surprise

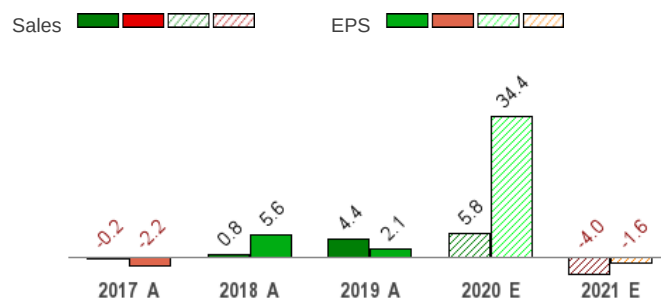


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$25.18 - \$17.42
20-Day Average Volume (Shares)	844,798
Market Cap	\$4.8 B
Year-To-Date Price Change	1.2%
Beta	0.34
Dividend / Dividend Yield	\$0.80 / 3.5%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 20% (202 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.0%
Last Sales Surprise	1.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/03/2021
Earnings ESP	0.0%
P/E TTM	18.9
P/E F1	17.8
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,269 E	988 E	983 E	939 E	4,190 E
2020	1,349 A	1,026 A	990 A	998 E	4,363 E
2019	1,264 A	976 A	967 A	918 A	4,124 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.24 E	\$0.38 E	\$0.30 E	\$0.25 E	\$1.27 E
2020	\$0.41 A	\$0.33 A	\$0.29 A	\$0.26 E	\$1.29 E
2019	\$0.32 A	\$0.25 A	\$0.22 A	\$0.18 A	\$0.96 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/04/2021. The reports text and the analyst-provided sales and EPS estimates are as of 01/05/2021.

Overview

Headquartered in Thomasville, Georgia, Flowers Foods, Inc. (FLO) produces packaged bakery foods in the United States. The company specializes in baked food products as well as produces a wide range of breads, buns, rolls, snack cakes and tortillas

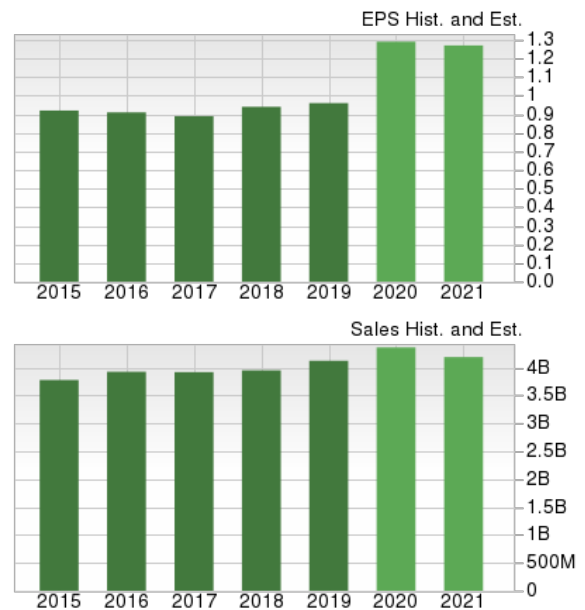
Flowers Foods emphasizes on providing high-quality baked items, developing strong brands, making innovations to improve capabilities and undertaking prudent acquisitions. Along with these, the company strives toward developing technology advanced bakeries.

Some of the most popular brands of the company include — Nature's Own, Wonder, Dave's Killer Bread and Tastykake. The company supports brands through advertising and marketing across diverse social media platforms. It also provides store coupons. Additionally, the company focuses on providing exceptional customer services.

Earlier, Flowers Foods had two operating segments, namely, Direct-Store-Delivery Segment (the DSD Segment) and Warehouse Delivery Segment (the Warehouse Segment). DSD Segment consisted of fresh breads, buns, rolls, tortillas and snack cakes. Nature's Own, Wonder, Cobblestone Bread Company, Tastykake and Dave's Killer Bread were the top brands in this segment. The Warehouse Segment included fresh snack cakes and frozen breads and rolls. Mrs. Freshley's, Alpine Valley Bread, and European Bakers were the top brands in this segment.

Following Project Centennial's organizational restructuring, the company has consolidated all its operations under a single segment, which was reflected in the company's first-quarter 2019 results.

Additionally, the company identifies sales under three categories — branded retail sales, Store branded retail sales and Non-retail and other sales.



Source: Zacks Investment Research

Reasons To Sell:

▼ **Escalated Cost Concerns:** Flowers Foods' shares have lost 6.9% in the past three months against the industry's growth of 7.2%. Flowers Foods' has been seeing higher costs for a while now. During third-quarter fiscal 2020, adjusted selling, distribution and administrative expenses (as a percentage of sales) rose 50 basis points (bps) to 38%, courtesy of increased distribution fees and escalated employee-incentive costs. Prior to this, the metric expanded 110 bps, courtesy of increased distribution fees, escalated employee-incentive costs and consulting costs with respect to Project Centennial in the second quarter.

The company's performance is being challenged by the soft foodservice business. Also, escalated cost concerns continue.

Apart from these, management incurred \$1.9 million of start-up expenses in relation to the ongoing conversion of its Lynchburg, VA, facility to an organic bakery. We believe that persistence of such trends is a threat to the company's performance in the future.

▼ **Softness in Foodservice Business:** While branded retail sales were strong in the fiscal third quarter, the company's foodservice performance has been under pressure due to social-distancing trends. Increased social distancing, stay-at-home trends and other government restrictions started to hurt foodservice results in mid-March. Incidentally, foodservice and other non-retail sales decrease 14.7% in the fiscal third quarter due to reduced volumes amid the pandemic. The company witnessed declines in most categories of its non-retail business, mainly food service, schools and other institutions. Apart from this, store-branded retail sales fell 9.5% stemming from consumers' shift to more branded products. We note that Flowers Foods has shifted focus from foodservice to branded-retail products, given the current situation.

▼ **Competition:** The bakery industry in the United States is intensely competitive. Flowers Foods competes with largely advertised branded products as well as with store branded products that are generally sold at lower prices. Flowers Foods competes with Bimbo Bakeries USA and Campbell Soup Company along with smaller independent regional bakers, local bakeries, and retailer-owned bakeries.

Hence, the company undertakes aggressive pricing strategies and promotional activities to counter competition. The intense competitive pressure may result in loss of market share as well as decline in sales and operating margins.

▼ **Dependency on Few Customers:** Flowers Foods' top ten customers contributed 51% of sales in fiscal 2019. Notably, the company's largest customer Walmart/Sam's Club contributed 21.1% of the company's sales in the time period. We note that the company's performance could be affected due to loss in sales to any one of its key customers.

Risks

- **Solid Q3 Results & Lifted View:** The company is gaining from burgeoning demand stemming from rising stay-at-home eating trend amid coronavirus. Also, favorable price/mix has been a driver. Flowers Foods posted better-than-expected third-quarter fiscal 2020 results, with the top and the bottom line increasing year over year. Adjusted earnings per share (EPS) of 29 cents came ahead of the Zacks Consensus Estimate of 25 cents. Moreover, the bottom line increased 32%. Sales rose 2.4% to \$989.7 million, which beat the consensus mark of \$977 million. Notably, increased demand owing to the coronavirus pandemic contributed to this growth. Higher branded retail sales helped offset the decline in store-branded retail sales, and non-retail and other sales. Going ahead, management is optimistic about stay-at-home food demand. Also, the company's supply-chain initiatives, product optimization and restructuring actions are likely to help it stay afloat amid this crisis. Nature's Own, Dave's Killer Bread and Wonder brands continued to deliver strong performances.

Encouragingly, Flower Foods lifted its 2020 view. Management now projects sales of \$4.35-\$4.37 billion for 2020, suggesting growth of 5.5-6% year over year. Earlier, it expected sales in the band of \$4.29-\$4.33 billion, which indicates 4-5% growth from the year-ago period's reported figure. Adjusted EPS is now envisioned to be \$1.23-\$1.28, which indicates growth of 28.1-33.3% from the year-ago period's levels. This guidance is above the earlier-projected range of \$1.15-\$1.25 per share, which suggested an improvement of 19.8-30.2% year over year.

- **Strategic Priorities & Long-Term Goals:** Management is on track with its core priorities, which include developing its team, concentrating on brands, prioritizing margins and looking out for prudent buyouts. To this end, the company intends to shift focus toward value-added branded retail products, which are anticipated to aid top-line growth and enhance margins. Also, the company expects its optimized portfolio to drive market share gains through innovation. Further, Flowers Foods remains focused on optimizing supply chain (which it had started under the Project Centennial program), while enhancing efficiency and reducing costs. Moving to margins, the company's brand-building efforts such as plans to shift a larger proportion of sales mix to branded retail are likely to aid margin performance. Notably, the company's new product introductions including DKB buns and extensions of its Nature's Own Perfectly Crafted line are already yielding results. Finally, management intends to remain committed toward making marketing investments, undertaking innovation and go for smart M&A activities in line with its portfolio strategy. Apart from this, Flowers Foods intends to stay committed to enhancing its portfolio and supply chain that are anticipated to deliver more than \$20 million in savings in 2020. In fact, it anticipates benefits from these initiatives to be realized in 2021 as well. Over the long term, the company expects sales growth of 1-2%, EBITDA growth of 4-6% and earnings per share increase of 7-9%.
- **Financial Analysis:** Flowers Foods' long-term debt of \$1,009.8 million as of the end of third-quarter fiscal 2020 (Oct 3, 2020) slightly increased from \$1,009.6 million as of the end of second-quarter. Nonetheless, its debt-to-capitalization ratio of 0.43 stands better than the industry's figure of 0.45. Further, the company's times interest earned ratio stands at 4.4, higher than the industry's ratio of 3.3. The times interest earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on its current income.

Flowers Foods looks well placed on the dividend payout front. The company, which generated cash from operating activities of \$364.4 million during the nine months ending Oct 3, 2020 paid out dividends of \$124.9 million in the same time frame. Flowers Foods recently declared its 73rd straight quarterly dividend of 20 cents per share, which was payable on Dec 11. The annualized dividend of 79 cents per share compares favorably with 75 cents in the same period last year. Notably, the company has a dividend payout of 66.1%, dividend yield of 3.5% and free cash flow yield of 7.3%. With an annual free cash flow return on investment of 15.3%, ahead of the industry's almost 10%; the dividend payment is likely to be sustainable.

Last Earnings Report

Flowers Foods Ups View on Q3 Earnings & Sales Beat

Flowers Foods posted better-than-expected third-quarter fiscal 2020 results, wherein the top and bottom lines increased year over year. The company benefited from the rising trend of stay-at-home eating. Going ahead, management remains optimistic about stay-at-home food demand. Also, the company's supply-chain initiatives, product optimization and restructuring actions are likely to help it stay afloat amid this crisis. Encouragingly, Flower Foods lifted its 2020 view.

Q3 in Detail

Adjusted EPS of 29 cents came ahead of the Zacks Consensus Estimate of 25 cents. Moreover, the bottom line increased 32% year over year.

Sales grew 2.4% to \$989.7 million, which beat the Zacks Consensus Estimate of \$977 million. Notably, increased demand owing to the coronavirus pandemic contributed to this growth. Higher branded retail sales helped offset the decline in store-branded retail sales, and non-retail and other sales. While pricing/mix increased 8.1%, volumes dropped 5.7%.

Costs & Margins

Materials, labor, supplies and other production expenses (net of depreciation and amortization), as a percentage of sales, contracted 240 basis points (bps) year over year to 50.3%. This can be attributed to favorable shifts in mix from non-retail and store-branded retail products to branded retail products.

Adjusted selling, distribution and administrative expenses (as a percentage of sales) rose 50 bps to 38%, courtesy of increased distribution fees and escalated employee-incentive costs. These were partly offset by reduced logistics expenses, a decline in fuel expenses and supply-chain optimization.

Adjusted EBITDA rose 22.4% to \$116.4 million, whereas adjusted EBITDA margin expanded 200 bps to 11.8%.

Category Performance

Branded retail sales rose 12.2% to \$657.1 million in the quarter under review. Meanwhile, store-branded retail sales fell 9.5% to \$136.6 million, whereas non-retail and other sales declined 14.7% to \$196 million.

More Financial Aspects

The company ended the quarter with cash and cash equivalents of \$325.8 million and long-term debt of \$1,009.8 million. Further, stockholders' equity amounted to \$1,351.5 million.

In the nine months ending Oct 3, 2020, the company's cash flow from operating activities amounted to \$364.4 million, while it incurred capital expenditures of \$68.3 million. Capital expenditures are still projected in the range of \$85-\$95 million for 2020.

Flowers Foods paid out dividends worth \$124.9 million in the aforementioned period and has 6.2 million shares remaining under the ongoing repurchase program.

Guidance

Notably, the company intends to stay committed to enhancing its portfolio and supply chain that are anticipated to deliver more than \$20 million in savings in 2020.

Management now projects sales of roughly \$4.35-\$4.37 billion for 2020, suggesting growth of about 5.5-6% year over year. Earlier, it expected sales in the band of \$4.29-\$4.33 billion, which indicated 4-5% growth from the year-ago period's reported figure.

Adjusted EPS is now envisioned to be \$1.23-\$1.28, indicating growth of about 28.1-33.3% from the year-ago period. This guidance is above the earlier-projected range of \$1.15-\$1.25 per share, which suggested an improvement of 19.8-30.2% year over year. Moreover, the Zacks Consensus Estimate for 2020 earnings is currently pegged at \$1.22, which is below the currently guided range.

The company expects net interest expenses of about \$11 million and an effective tax rate of nearly 24-24.5% for the year.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	1.34%
EPS Surprise	16.00%
Quarterly EPS	0.29
Annual EPS (TTM)	1.21

Recent News

Flowers Foods Announces Dividend – Nov 13, 2020

Flowers Foods announced a quarterly dividend of 20 cents per share, which is payable on Dec 11, 2020, to shareholders of record as on Nov 27.

Valuation

Flowers Foods shares are up 3.9% in the past six months and 7.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 13.2% and the Zacks Consumer Staples sector gained 14.7% in the past six months. Over the past year, the Zacks sub-industry went up 3.7% while the sector gained 1.1%.

The S&P 500 index is up 19.1% in the past six months and 17.7% in the past year.

The stock is currently trading at 19.91X forward 12-month earnings, which compares to 19.43X for the Zacks sub-industry, 20.56X for the Zacks sector and 23.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.26X and as low as 14.05X, with a 5-year median of 20.05X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$19 price target reflects 16.51X forward 12-month earnings.

The table below shows summary valuation data for FLO

Valuation Multiples - FLO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.91	19.43	20.56	23.1
	5-Year High	23.26	22.91	22.42	23.79
	5-Year Low	14.05	14.75	16.5	15.3
	5-Year Median	20.05	18.45	19.57	17.82
P/S F12M	Current	1.16	1.81	10.81	4.49
	5-Year High	1.24	2.03	11.97	4.49
	5-Year Low	0.76	1.38	8.59	3.21
	5-Year Median	1.06	1.69	10.51	3.67
EV/EBITDA F12M	Current	11.72	12.67	36.8	15.2
	5-Year High	13.45	14.4	38.91	15.52
	5-Year Low	8.23	10.71	26.65	10.69
	5-Year Median	10.8	12.95	35.04	13.34

As of 01/04/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
B&G Foods, Inc. (BGS)	Outperform	2
Darling Ingredients Inc. (DAR)	Outperform	3
Lamb Weston Holdings Inc. (LW)	Neutral	3
McCormick & Company, Incorporated (MKC)	Neutral	3
Nomad Foods Limited (NOMD)	Neutral	3
Tate & Lyle PLC (TATYY)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	3
Want Want China Holdings Ltd. (WWNTY)	Neutral	2

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	FLO	X Industry	S&P 500	LW	TATYY	THS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	A	-	-	B	A	B
Market Cap	4.85 B	3.62 B	25.35 B	11.07 B	4.34 B	2.45 B
# of Analysts	3	3	13	4	1	6
Dividend Yield	3.49%	0.00%	1.48%	1.22%	2.30%	0.00%
Value Score	B	-	-	C	A	B
Cash/Price	0.07	0.07	0.06	0.09	NA	0.15
EV/EBITDA	14.04	13.69	14.42	17.58	NA	27.27
PEG F1	NA	3.87	2.57	4.71	NA	2.39
P/B	3.59	2.83	3.64	33.29	2.44	1.34
P/CF	13.90	12.72	13.82	20.02	7.65	7.07
P/E F1	17.76	19.92	20.14	32.83	13.42	14.37
P/S TTM	1.13	1.55	2.83	3.01	NA	0.57
Earnings Yield	5.02%	4.76%	4.86%	3.05%	7.45%	6.97%
Debt/Equity	0.76	0.54	0.70	8.98	NA	1.20
Cash Flow (\$/share)	1.65	2.70	6.93	3.78	4.84	6.13
Growth Score	A	-	-	A	A	D
Historical EPS Growth (3-5 Years)	4.30%	4.40%	9.71%	6.25%	NA	-6.81%
Projected EPS Growth (F1/F0)	-9.68%	14.32%	12.14%	-7.80%	-6.76%	10.57%
Current Cash Flow Growth	1.85%	2.20%	5.22%	-13.39%	9.08%	-1.33%
Historical Cash Flow Growth (3-5 Years)	1.66%	5.96%	8.33%	8.09%	4.27%	5.96%
Current Ratio	1.68	1.81	1.38	3.44	NA	1.69
Debt/Capital	43.13%	36.41%	41.97%	89.98%	NA	54.64%
Net Margin	2.30%	4.59%	10.40%	9.24%	NA	-0.12%
Return on Equity	19.41%	11.66%	15.07%	130.91%	NA	8.63%
Sales/Assets	1.28	0.95	0.50	0.93	NA	0.82
Projected Sales Growth (F1/F0)	-3.96%	3.65%	5.94%	-6.08%	-3.82%	3.54%
Momentum Score	C	-	-	D	B	B
Daily Price Change	1.24%	-0.79%	-1.64%	-3.90%	-1.12%	2.02%
1-Week Price Change	-2.29%	0.00%	1.16%	1.40%	1.27%	-0.52%
4-Week Price Change	1.87%	0.46%	-0.51%	-1.21%	6.50%	3.26%
12-Week Price Change	-8.21%	4.63%	7.68%	4.20%	5.11%	5.50%
52-Week Price Change	7.16%	1.70%	5.11%	-16.57%	-8.97%	-8.22%
20-Day Average Volume (Shares)	844,798	132,350	1,660,295	607,608	3,259	550,327
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	-0.54%	0.00%	2.84%
EPS F1 Estimate 12-Week Change	-5.99%	1.08%	2.53%	10.68%	14.52%	5.42%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-3.98%	NA	6.47%

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	B
Growth Score	A
Momentum Score	B
VGM Score	A

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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