

## Federal Realty (FRT)

**\$95.77** (As of 02/10/21)

Price Target (6-12 Months): **\$102.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

## Summary

Federal Realty sold three retail properties for aggregate gross proceeds of \$170 million prior to 2020 end. Further, the company repaid certain near-term outstanding debt with cash on hand in a bid to provide financial flexibility to its balance sheet. Also, it is poised to benefit from the upscale geographic locations of its properties, a diversified tenant base and a focus on essential retail and mixed-use assets. Yet, its shares have underperformed the industry in the past three months. Shrinking traffic, store closures, tenant bankruptcy and exposure to non-essential retail tenants remain concerning for the company. The choppiness in the economy will likely continue to prevail, with dwindling footfall amid the social-distancing needs and higher e-commerce adoption, taking a toll on rent collections, occupancy levels and pricing power.

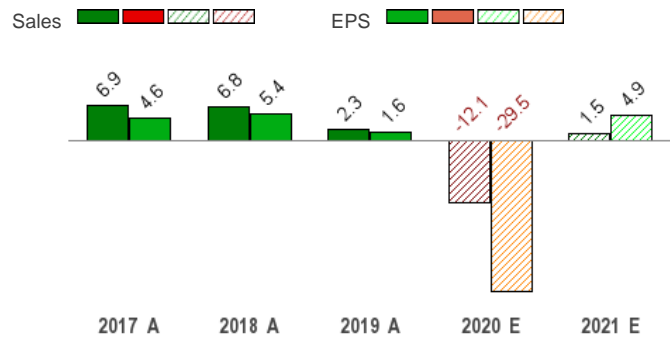
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$129.19 - \$64.11</b>
20-Day Average Volume (Shares)	<b>775,042</b>
Market Cap	<b>\$7.2 B</b>
Year-To-Date Price Change	<b>12.5%</b>
Beta	<b>1.11</b>
Dividend / Dividend Yield	<b>\$4.24 / 4.4%</b>
Industry	<b>REIT and Equity Trust - Retail</b>
Zacks Industry Rank	<b>Bottom 14% (218 out of 253)</b>

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



Last EPS Surprise	<b>1.8%</b>
Last Sales Surprise	<b>0.9%</b>
EPS F1 Estimate 4-Week Change	<b>-5.2%</b>
Expected Report Date	<b>02/11/2021</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>19.3</b>
P/E F1	<b>20.5</b>
PEG F1	<b>4.2</b>
P/S TTM	<b>8.5</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	203 E	202 E	206 E	211 E	835 E
2020	232 A	176 A	208 A	209 E	823 E
2019	232 A	230 A	234 A	239 A	936 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.13 E	\$1.13 E	\$1.21 E	\$1.21 E	\$4.68 E
2020	\$1.50 A	\$0.77 A	\$1.12 A	\$1.07 E	\$4.46 E
2019	\$1.56 A	\$1.60 A	\$1.59 A	\$1.58 A	\$6.33 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/10/2021. The report's text and the analyst-provided price target are as of 02/11/2021.

## Overview

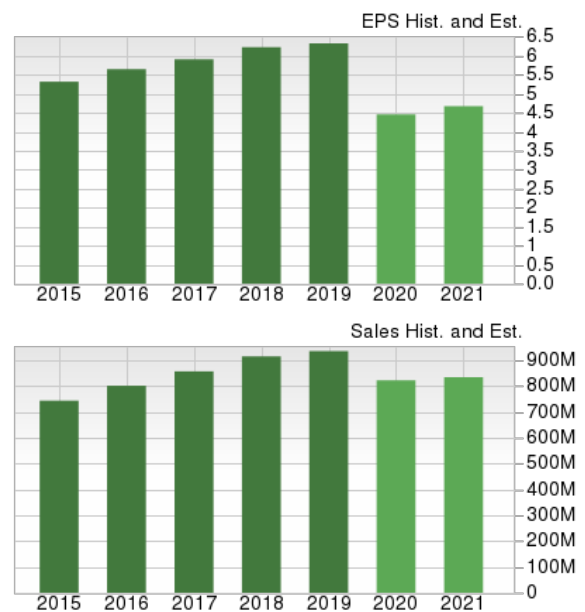
Rockville, MD-based Federal Realty is a real estate investment trust (REIT) that owns, manages, develops and redevelops premium retail and mixed-use properties in the United States. The assets — community and neighborhood shopping centers and mixed-use properties — are mainly concentrated over strategically-selected metropolitan markets in the Northeast and Mid-Atlantic regions of the nation, California and South Florida. Federal Realty's retail properties are anchored by supermarkets, drug stores or high-volume, value-oriented retailers, which provide consumer necessities.

As of Sep 30, 2020, the company had 104 properties that included around 2,800 tenants in 24 million square feet, and approximately 2,800 residential units. In total, the real estate projects were 91.5% leased and 90.0% occupied as of that date.

In January 2020, Federal Realty acquired a 49,000-square-foot shopping center in Fairfax, VA, for \$22.3 million. This property is next to, and will be operated as part of the company's Fairfax Junction property. Moreover, in February 2020, the company acquired two buildings aggregating 12,000 square feet in Hoboken, NJ, for \$14.3 million, including an assumption of \$8.9 million of mortgage debt.

The company focuses on investing in densely populated, well-off communities where retail demand is high. Moreover, mixed-use developments have gained popularity in recent years and the company targets creating urban, mixed-use neighborhoods like Santana Row in San Jose, CA, Pike & Rose in North Bethesda, MD, and Assembly Row in Somerville, MA.

Note: All EPS numbers presented in this report represent funds from operations (FFO) per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Federal Realty's portfolio of premium retail assets — mainly situated in the major coastal markets from Washington, D.C. to Boston, San Francisco and Los Angeles — along with a diverse tenant base, both national and local, positions it well for decent growth. Specifically, the diversified tenant base of retailers includes names like TJX Companies, Kroger and CVS Corporation. This limits the company's risk to any particular retail industry and positions the company well for experiencing a stable source of rental revenues. In fact, as of Sep 30, 2020, no retail tenant accounted for greater than 2.6% of annualized base rent (ABR). The company has strategically selected 1st ring suburbs of 8 major metropolitan markets. Due to the strong demographics and infill nature of its properties, the company has been able to maintain a high occupancy level over the years. Moreover, its focus on open-air format and "The Pick-Up" concept poises it well to lure tenants amid the current health crisis.
- ▲ Federal Realty has been capitalizing on expansion opportunities in premium markets, which generates income growth and creates long-term value. In January 2020, the company acquired a 49,000-square-foot shopping center in Fairfax, VA, for \$22.3 million and in February the company acquired two buildings aggregating 12,000 square feet in Hoboken, NJ, for \$14.3 million, including the assumption of \$8.9 million of mortgage debt. Further, Federal Realty has expertise in raising its operating performance through conversion, redevelopment and repurposing of assets. Such efforts bode well for the company's long-term growth.
- ▲ In addition, amid the challenges in the retail real estate market, the company has been diversifying its portfolio with residential and office properties. Presently, around 21% of ABR comes from office & residential, while 24% of ABR comes from essential retail. In addition, more than 75% of its centers have a grocery component. Furthermore, the situation has now improved from the beginning of the pandemic, and the company noted that though all 104 of its properties are open and operational, roughly 97% of retail tenants based on annualized base rent are open and operational as of Oct 30. It has also collected about 85% of the third quarter and 85% of October billed recurring rents as of that date. Notably, the third-quarter billed recurring rent collections from such tenants have been better with 99% collections from Banks/Financial Services, Grocery & Drug, communications & home office tenants and 98% from residential.
- ▲ Federal Realty focuses on maintaining a decent balance-sheet position with ample liquidity. The company entered 2021 with around \$800 million of cash on the balance sheet and a \$1-billion credit facility with full availability. Moreover, in January, Federal Realty announced the redemption of its \$250-million 3.00% senior unsecured notes due 2022 at an aggregate redemption price of \$263.5 million. Following this, it has no public bonds maturing until June 2023. Therefore, with a well-laddered debt maturity schedule and all near-term maturities pre-funded, the company seems well-poised to navigate through current challenging times. Moreover, Federal Realty's credit ratings of A-, A3 ratings from Standard & Poor's and Moody's, respectively, enable it to procure debt financing at an attractive cost.
- ▲ Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Federal Realty remains committed to that. In August 2020, even amid the pandemic, the company announced a roughly 1% hike in quarterly dividends. The company has paid out uninterrupted dividends since its inception in 1962 and the latest hike marked the 53rd consecutive year of common dividend increases by the company. Given the company's balance sheet and liquidity position compared to that of the industry, this dividend rate is expected to be sustainable.

Upscale geographic location of its properties, a diversified tenant base, focus on essential retail and mixed-use assets, and balance-sheet strengthening moves will help sail through current turmoil.

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## Reasons To Sell:

- ▼ In recent years, traffic at retail properties has continued to suffer amid a rapid shift in customers' shopping preferences and patterns with online purchases growing by leaps and bounds. These have made retailers reconsider their footprint and eventually opt for store closures. Further, retailers that are not being able to cope with competition are filing bankruptcies. This has emerged as a pressing concern for retail REITs, like Federal Realty, as the trend is curtailing demand for the retail real estate space considerably. The situation has been further aggravated amid social-distancing requirements and higher e-commerce adoption due to the coronavirus crisis and a robust rebound is unlikely in the near term.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores or reduce store hours. Situations have now improved from the outbreak of the pandemic, and the company noted that though all 104 of its properties are open and operational, roughly 97% of retail tenants based on annualized base rent are open and operational as of Oct 30. However, a number of states, where the company does its business, have been adversely impacted. Also, with the tenant roster having exposure to lifestyle and entertainment-oriented properties, and retailers that are not essential for consumers during the pandemic, rent collection is a pressing concern. The company collected about 72%, of second-quarter, 85% of third-quarter and 85% of October rents as of Oct 30. The collections are improving, and the choppiness is likely to continue in the near term amid the current stressed environment in the retail real estate.
- ▼ Additionally, amid the fast-changing retail environment, the company has been making efforts to expand, redevelop and re-merchandise its portfolio. This includes an upgrade of the tenant mix. While repositioning and redevelopment are a strategic fit for long-term growth, such initiatives involve considerable upfront costs and tend to drag down near-term profitability.
- ▼ Shares of Federal Realty have gained 6% over the past three months compared with the industry's rally of 11.2%. Moreover, the trend in 2021 FFO per share estimate revision does not indicate a favorable outlook for the company, with the estimate witnessing a marginal downward revision over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Shrinking traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues have added to the company's woes.

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## Last Earnings Report

### Federal Realty Q3 FFO and Revenues Surpass Estimates

Federal Realty's third-quarter 2020 FFO per share of \$1.12 surpassed the Zacks Consensus Estimate of \$1.10. Moreover, quarterly revenues of \$208.2 million topped the consensus mark of \$206.3 million.

According to Donald C. Wood, the company's president and chief executive officer, "Progress in many respects was the theme of the third quarter." He also noted about "improving rent collections" as well as "leasing volumes at pre-COVID levels".

However, the reported FFO per share decreased from the \$1.43 reported in the year-ago quarter. In addition, revenues fell 11% year on year. The pandemic's adverse impact and the resultant collectability related adjustment issues caused this year-over-year declines.

Nevertheless, the situation has now improved from the beginning of the pandemic, and the company noted that though all 104 of its properties are open and operational, roughly 97% of retail tenants based on annualized base rent are open and operational as of Oct 30. It has also collected about 85% of the third quarter and 85% of October billed recurring rents as of that date.

### Quarter in Details

During the reported quarter, Federal Realty signed 101 leases for 481,105 square feet of retail space. On a comparable space basis, the company leased 471,726 square feet at an average rent of \$37.38 per square foot. This denotes cash-basis rollover growth of a negative 1%. Also, the company signed 13 leases for 63,609 square feet of office space during the third quarter.

As of Sep 30, 2020, the REIT's overall portfolio was 92.2% leased. As of the same date, the comparable property portfolio was 92% leased.

### Balance Sheet

Federal Realty exited third-quarter 2020 with cash and cash equivalents of \$863.3 million, up from the \$127.4 million recorded at the end of 2019. Along with undrawn availability under its \$1-billion revolving credit facility, the company's liquidity amounted to \$1.9 billion. Following the quarter end, the company also issued \$400 million of green bonds.

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**Quarter Ending** **09/2020**

Report Date	Nov 05, 2020
Sales Surprise	0.92%
EPS Surprise	1.82%
Quarterly EPS	1.12
Annual EPS (TTM)	4.97

## Recent News

### Federal Realty Sells Three Non-Core Assets, Repays Debt – Jan 7, 2021

Federal Realty announced the sale of three retail properties for aggregate gross proceeds of \$170 million. Moreover, addressing near-term debt maturities, the company repaid the debt with cash on hand.

Notably, the properties, which were not in line with the company's growth plans, were sold prior to the end of 2020. In fact, it sold The Shops at Sunset Place located in South Miami, FL, given the lack of any viable redevelopment opportunities at the property. Federal Realty also repaid the \$60.6-million non-recourse mortgage loan that encumbered the property.

Moreover, the company disposed of Eastgate Crossing, a 158,000-sq-ft shopping center located in Chapel Hill, NC. This marked its exodus from North Carolina. Markedly, anchor tenants at the retail center included Trader Joe's, Ulta and Petco.

Lastly, Federal Realty sold Sam's Park and Shop, a 51,000-sq-ft shopping center. The property was anchored by an urban Target positioned in the Cleveland Park neighborhood of Washington, DC. The sales are expected to have provided the company with additional liquidity.

Notably, the company has also repaid certain near-term outstanding debt with cash on hand in a bid to provide financial flexibility to its balance sheet. Specifically, 2.55% senior unsecured notes were repaid at par amounting to \$250 million. The notes were due in 2021.

Further, Federal Realty redeemed its \$250-million 3.00% senior unsecured notes due 2022 at an aggregate redemption price of \$263.5 million. Accordingly, the company expects to record a loss on extinguishment of debt of \$11.2 million for the December-end quarter of 2020.

Further, following the repayment and redemption, it has no public bonds maturing until June 2023. Further, it entered 2021 with around \$800 million of cash on the balance sheet and a \$1-billion credit facility with full availability.

### Dividend Update

Concurrent with its third-quarter 2020 earnings release, Federal Realty announced its regular quarterly cash dividend to \$1.06 per share. It indicates an annual rate of \$4.24 per share. The dividend was paid out on Jan 15, to shareholders of record as of Jan 4, 2021.

## Valuation

Federal Realty's shares have declined 22.7% over the trailing 12-month period. Stocks in the Zacks sub-industry have declined 4.7%, while in the Zacks Finance sector have inched up 1.6% over the past year.

The S&P 500 Index has been up 17.8% over the trailing 12-month period.

The stock is currently trading at 20.28X forward 12-month FFO, which compares to 16.91X for the Zacks sub-industry, 16.88X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 28.54X and as low as 10.20X, with a 5-year median of 20.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$102 price target reflects 21.60X FFO.

The table below shows summary valuation data for FRT.

Valuation Multiples - FRT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	20.28	16.91	16.88	22.87
	5-Year High	28.54	19.41	17.12	23.80
	5-Year Low	10.2	9.68	11.59	15.30
	5-Year Median	20.19	14.72	14.56	17.85
P/S F 12M	Current	8.63	9.30	7.17	4.56
	5-Year High	14.44	14.44	7.17	4.56
	5-Year Low	5.13	5.54	5.02	3.20
	5-Year Median	10.17	8.38	6.12	3.68
P/B TTM	Current	3.21	3.15	3.02	6.69
	5-Year High	6.23	5.69	3.02	6.70
	5-Year Low	2.03	1.76	1.74	3.73
	5-Year Median	4.21	3.30	2.59	4.95

As of 02/10/2021 Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 14% (218 out of 253)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Acadia Realty Trust (AKR)	Neutral	4
Brixmor Property Group Inc. (BRX)	Neutral	3
Kimco Realty Corporation (KIM)	Neutral	4
Retail Properties of America, Inc. (RPAI)	Neutral	3
SITE CENTERS CORP. (SITC)	Neutral	4
Urban Edge Properties (UE)	Neutral	3
Weingarten Realty Investors (WRI)	Neutral	3
Regency Centers Corporation (REG)	Underperform	4

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	FRT	X Industry	S&P 500	BRX	KIM	REG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	4	4
VGM Score	F	-	-	F	D	D
Market Cap	7.24 B	2.09 B	27.72 B	5.47 B	7.62 B	8.51 B
# of Analysts	8	5	13	8	9	7
Dividend Yield	4.43%	3.63%	1.42%	4.66%	3.63%	4.74%
Value Score	C	-	-	B	C	C
Cash/Price	0.13	0.07	0.06	0.12	0.04	0.03
EV/EBITDA	15.60	14.12	14.81	13.13	16.50	18.10
PEG F1	4.19	5.15	2.38	NA	NA	12.14
P/B	3.21	1.43	3.81	2.02	1.38	1.39
P/CF	12.18	10.31	15.29	9.22	10.81	14.47
P/E F1	20.53	14.04	20.64	11.28	14.04	15.18
P/S TTM	8.47	5.34	3.04	5.08	7.03	8.13
Earnings Yield	4.89%	7.15%	4.77%	8.88%	7.15%	6.60%
Debt/Equity	2.01	0.97	0.68	2.02	0.97	0.65
Cash Flow (\$/share)	7.86	2.25	6.77	2.00	1.63	3.47
Growth Score	F	-	-	F	F	D
Historical EPS Growth (3-5 Years)	1.59%	-1.38%	9.27%	-3.87%	-2.43%	3.87%
Projected EPS Growth (F1/F0)	4.85%	4.88%	13.85%	10.83%	8.28%	13.69%
Current Cash Flow Growth	22.11%	-3.02%	3.46%	-14.31%	-14.81%	-0.84%
Historical Cash Flow Growth (3-5 Years)	12.40%	5.86%	7.74%	5.61%	1.91%	11.14%
Current Ratio	3.86	1.84	1.38	1.97	NA	1.98
Debt/Capital	65.99%	49.26%	41.31%	66.89%	49.26%	39.48%
Net Margin	21.56%	12.55%	10.58%	14.75%	83.81%	4.51%
Return on Equity	7.72%	3.76%	14.86%	6.07%	17.35%	1.01%
Sales/Assets	0.11	0.11	0.51	0.13	0.10	0.09
Projected Sales Growth (F1/F0)	1.47%	1.44%	6.30%	1.44%	-0.18%	3.60%
Momentum Score	F	-	-	F	F	D
Daily Price Change	2.96%	1.28%	0.21%	2.21%	2.56%	1.25%
1-Week Price Change	4.23%	3.68%	4.58%	3.78%	1.27%	4.09%
4-Week Price Change	10.99%	8.23%	1.11%	11.68%	10.74%	8.17%
12-Week Price Change	5.65%	12.91%	8.61%	13.88%	21.17%	6.45%
52-Week Price Change	-22.67%	-20.17%	8.77%	-9.69%	-6.07%	-19.50%
20-Day Average Volume (Shares)	775,042	734,749	2,095,832	2,226,647	5,300,176	1,244,919
EPS F1 Estimate 1-Week Change	-0.45%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-5.22%	0.00%	0.59%	-0.08%	-0.55%	-1.05%
EPS F1 Estimate 12-Week Change	-7.75%	-1.31%	1.77%	-2.09%	-1.57%	-4.69%
EPS Q1 Estimate Monthly Change	-4.58%	0.00%	0.22%	-0.66%	0.00%	-0.76%

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

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

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## Disclosures

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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