

Fortinet Inc. (FTNT)

\$194.68 (As of 04/06/21)

Price Target (6-12 Months): **\$204.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/12/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

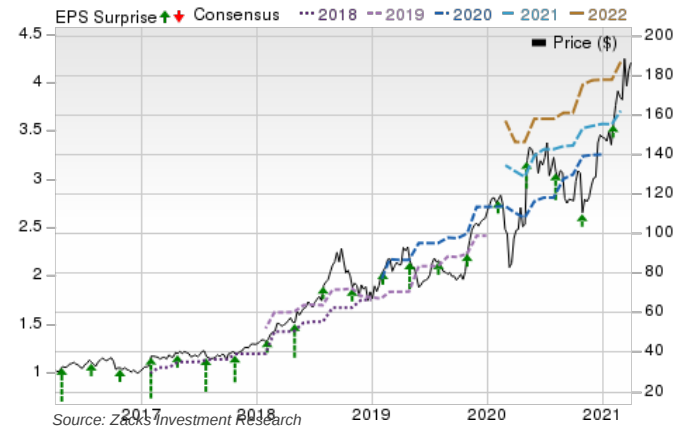
Growth: B

Momentum: F

Summary

Fortinet is benefiting from rising demand for security and networking products amid coronavirus crisis as a huge global workforce is working remotely. It is also benefiting from robust growth in Fortinet Security Fabric, cloud and SD-WAN offerings. Moreover, continued deal wins, especially those of high value, are a key driver. Higher IT spending on cybersecurity is further expected to aid Fortinet to grow faster than the security market. Also, focus on enhancing its UTM portfolio through product development and acquisitions is a tailwind for Fortinet. However, competition from numerous big and small players in the security application market poses a concern. Moreover, increasing consolidation in the security industry is intensifying competition. Increased hiring, mostly in sales and marketing, and M&A spends remain overhangs on margin.

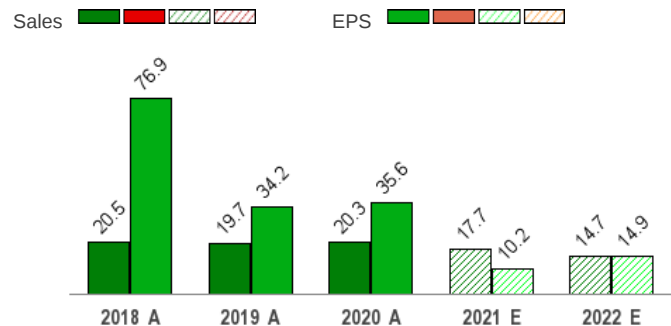
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$195.51 - \$99.61
20-Day Average Volume (Shares)	1,314,254
Market Cap	\$31.2 B
Year-To-Date Price Change	28.8%
Beta	1.10
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Security
Zacks Industry Rank	Bottom 7% (236 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.4%
Last Sales Surprise	3.6%
EPS F1 Estimate 4-Week Change	-0.8%
Expected Report Date	04/29/2021
Earnings ESP	-0.8%
P/E TTM	56.9
P/E F1	52.8
PEG F1	3.5
P/S TTM	12.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	784 E	839 E	881 E	998 E	3,503 E
2021	679 E	731 E	769 E	873 E	3,053 E
2020	577 A	616 A	651 A	748 A	2,594 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.84 E	\$1.02 E	\$1.08 E	\$1.28 E	\$4.24 E
2021	\$0.74 E	\$0.90 E	\$0.94 E	\$1.10 E	\$3.69 E
2020	\$0.60 A	\$0.82 A	\$0.88 A	\$1.06 A	\$3.35 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 04/06/2021. The report's text and the analyst-provided price target are as of 04/07/2021.

Overview

Headquartered in Sunnyvale, CA, Fortinet, Inc. is a provider of network security appliances and Unified Threat Management (UTM) network security solutions to enterprises, service providers and government entities worldwide.

Its solutions are designed to integrate multiple levels of security protection, including firewall, virtual private networking (VPN), antivirus, intrusion prevention (IP), web filtering, anti-spam and wide area network (WAN) acceleration.

Through its products and subscription services, the company provides integrated protection against dynamic security threats while simplifying the IT security infrastructure. Its solutions incorporate application-specific integrated circuits, hardware architecture, operating system, and associated security and networking functions to defend against multiple categories of IT security attacks without impacting network performance.

The company's network security gateways protect customer data, reduce security complexities and lower the total cost of ownership. Customers are able to implement their security policies on traffic between internal networks and the Internet, as well as between internal and private networks shared with partners.

Its flagship UTM solution consists of the FortiGate appliance product line and FortiGuard security subscription services.

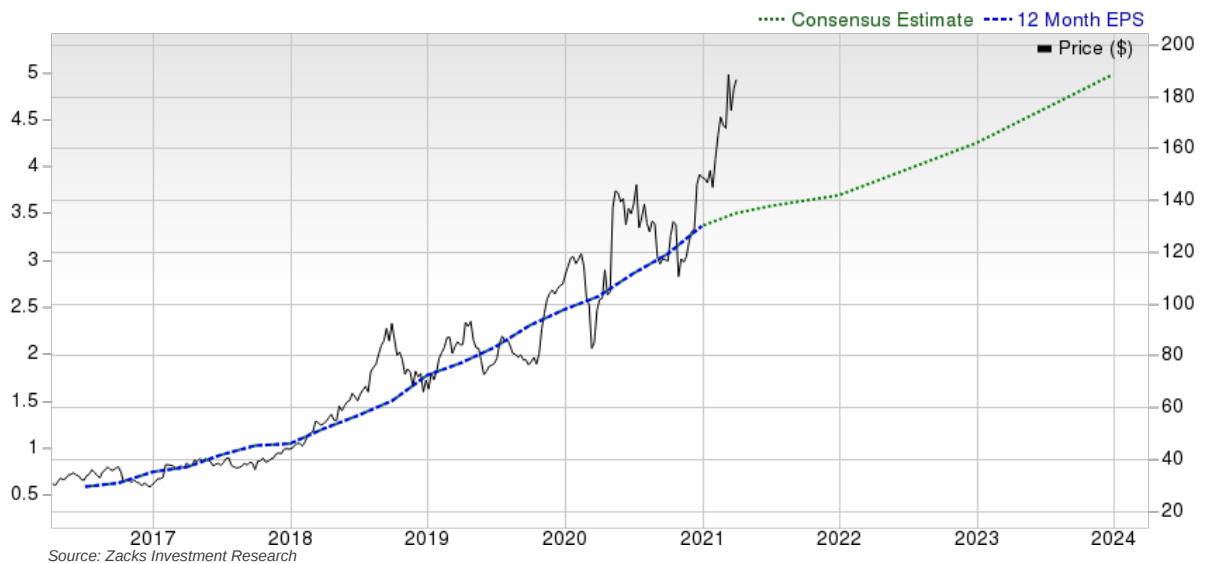
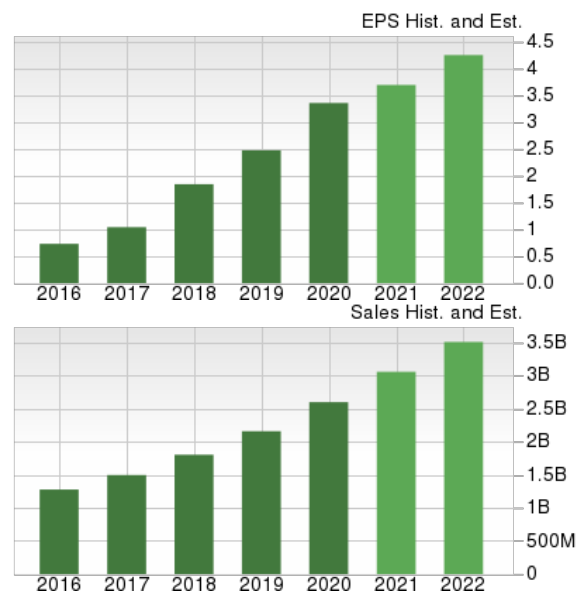
Its products and services are sold through a network of more than 20,000 channel partners worldwide, including distributors, resellers, value-added resellers and managed service providers. The company caters to more than 450,000 customers worldwide that includes most of the Fortune 100 companies.

The company derives a significant portion of total sales from the top 10 biggest distributors, of which Exclusive Networks Group has the highest share and accounted for 31% of 2019 total revenues.

Fortinet reported revenues of \$2.59 billion in 2020, which increased 20% from 2019.

Product revenue was \$916.4 million, up 16% while Service revenue of \$1.68 billion improved 22% year over year.

The company faces significant competition with Palo Alto Networks, CyberArk, Qualys and Cisco in the network security as well as cloud security space.



Reasons To Buy:

- ▲ Fortinet is benefiting from rising demand for security and networking products amid coronavirus crisis. In an effort to contain the coronavirus's spread, a huge global workforce is working remotely. But more people logging into employers' networks means a greater need for security. This trend is positively impacting the demand for Fortinet's products.
- ▲ As per IDC, Fortinet ranks third in Unified Threat Management (UTM) in terms of revenues and holds a market share of approximately 12.7% in the network security appliances market (as of Sep3, 2020). According to industry analysis, the category is believed to be one of the fastest growing segments in Network Security with a projected growth in the range of high-single to low-double digits. Given the company's sustained focus on enhancing its UTM portfolio through product development and acquisitions, we believe Fortinet will continue to increase its market share in the segment and retain the leadership position.
- ▲ Fortinet's rich experience in the security space and continued delivery of mission-critical solutions will help it to maintain and grow its market share in the cyber security space. Moreover, growing adoption of Software-Defined Wide Area Network (SD-WAN) solutions could be a key growth driver for Fortinet in the long-run. The market research firm, MarketsandMarkets, predicts that the market size for SD-WAN solutions could grow to \$8.4 billion by 2025 from \$1.9 billion in 2020, indicating a CAGR of 34.5%. As there are only few vendors that offers security and SD-WAN solution, Fortinet is well-positioned to capitalize on the increasing opportunities in the market.
- ▲ Fortinet has made strategic acquisitions to expedite growth. The acquisition of AccelOps helped it in correlating visibility and threat intelligence to its entire network security ecosystem, and simultaneously extends it to third-party vendor solutions. The acquisition of Meru Networks helped Fortinet strengthen its cloud capabilities and expand its solutions portfolio. Again, the acquisitions of Coyote Point and XDN have not only helped it to broaden the product offerings but also the customer base and geographic reach. Moreover, the acquisitions of ZoneFox and Bradford Networks are expected to enhance its Security Fabric with additional product capabilities and drive growth further.
- ▲ Fortinet is gaining customer accounts, thereby driving revenue growth. The growing percentage of large deals in the mix is a positive as it increases deferred revenues and visibility. Also, Fortinet boasts a huge customer base of over 450,000. This vast customer base presents the company an opportunity to upsell products within its installed user base. Moreover, any product refresh brings in additional dollars as every enterprise attempts to keep their threat management infrastructure updated.
- ▲ Fortinet is currently focusing on selling more subscription-based services. This unique business model is helping the company in generating stable revenues while expanding margins. Subscription-based service is a high gross margin business (approximately 80%) compared with the hardware-centric model. We believe that the strategy will continue to improve the company's top and bottom-line performances.
- ▲ Fortinet has a strong balance sheet with ample liquidity position and no debt obligations. As of Dec 31, 2020, the company had cash and cash equivalents and short-term investments of approximately \$1.84 billion. During the October-December quarter, the company generated operating and free cash flows of \$296.5 million and \$264.2 million, respectively.

Product ramp ups, deal wins, continuous growth of the network security market and expected benefits from the ongoing investments are the positives.

Reasons To Sell:

- ▼ We have been noticing that Fortinet is losing business to its rivals. In the last nine quarters, the company's revenue growth rates have been around 20%, which are significantly lower than its previous growths of over 30%. This makes us skeptical about its growth prospects.
- ▼ To survive in the highly competitive cyber-security market, each player must continuously invest in broadening its capabilities. Over the past few years, Fortinet has invested heavily to enhance its sales and marketing capabilities, particularly by increasing the sales force. This has eroded its operating margins.
- ▼ Near-term prospects for Fortinet are not promising as changing customer spending behavior has recently hit several other players in this space. For the past few months, various competitors in the cyber security space noticed that the companies have been breaking their cybersecurity investment plans into phases and implementing the same over longer periods of time, instead of making a single large investment. This makes us slightly cautious about the company's near-term performance.
- ▼ Fortinet faces competition from numerous big and small players in the security application market. As Internet threats and attacks increase, competition will intensify. Competing firms must deliver prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. Moreover, we believe that Fortinet's dominance could be challenged by new entrants, thus forcing it to resort to competitive pricing to maintain and gain further market share.
- ▼ Fortinet currently has a trailing 12 month Price/Book Value (P/B) ratio of 30.23. This level compares unfavorably with what the industry saw over the last year. Hence, valuation looks significantly stretched from a P/B perspective.

Changing customer spending behavior, intensifying competition, an uncertain economic environment and currency fluctuations remain the headwinds.

Last Earnings Report

Fortinet Q4 Earnings & Revenues Top Estimates

Fortinet delivered fourth-quarter 2020 non-GAAP earnings per share of \$1.06, beating the Zacks Consensus Estimate of 96 cents. The reported figure also improved significantly from the year-ago quarter's 77 cents.

Moreover, revenues of \$748 million surpassed the consensus mark of \$722.4 million and increased 21% year over year. This top-line growth was driven by advanced FortiGate technology with SPU, integrated Security Fabric platform and hybrid multi-cloud offerings.

Strategic investments in developing powerful products and services, efforts to expand into adjacent addressable markets and boost the firm's global sales force aided the company's quarterly performance.

Quarter in Detail

Segment wise, Product revenues jumped 20.8% year over year to \$288.4 million. This uptick was supported by the continued adoption of the FortiGate-based secure SD-WAN solution.

Services revenues climbed 21.2% to \$459.6 million chiefly on strong demand for fabric and cloud security solutions.

Billings were up 19.8% to \$960.9 million on solid execution and growth across all regions. The APAC region registered the highest growth, followed by the EMEA, and then the Americas, including Latin America.

During the December-end quarter, the company secured 68 total deals worth equal to or more than \$1 million each. Secure SD-WAN continued to be the leading contributor to growth, in terms of the number of deals worth more than \$1 million. Secure SD-WAN accounted for 16 of the large deals won during the fourth quarter.

Margins

Gross margin expanded 40 basis points (bps) year on year to 78.5% during the October-December quarter. Product gross margin advanced 130 bps to 63.2% during this period primarily on higher mix of software products and lower direct cost of its new generation FortiGate products.

Non-GAAP operating income surged 30.4% to \$219.9 million in the reported quarter, while non-GAAP operating margin expanded 210 bps to 29.4%.

Balance Sheet & Cash Flow

Fortinet exited the fourth quarter with cash and cash equivalents, and short-term investments of \$1.84 billion, up from the \$1.66 billion reported at the end of the previous quarter.

During the October-December period, the company generated operating cash flow of \$296.5 million compared with the year-ago quarter's \$190.4 million. Free cash flow was \$264.2 million compared with the \$143.2 million witnessed in the fourth quarter of 2019.

During full-year 2020, Fortinet generated operating and free cash flows of \$1.08 billion and \$907.8 million, respectively. The company repurchased \$1.08 billion worth of its common stock in 2020.

Notably, in July 2020, the company had increased its share-repurchase authorization by \$500 million to \$3 billion. At the end of 2020, it had \$1 billion left under the ongoing authorization which is set to expire in February 2022.

Guidance

For first-quarter 2021, the company estimates revenues of \$670-\$685 million. Billings are estimated in the band of \$765-\$780 million.

Non-GAAP earnings per share are projected at 70-75 cents.

Non-GAAP gross margin is expected in the range of 78.5-79.5%, whereas non-GAAP operating margin is anticipated between 22.5% and 23.5%.

For 2021, Fortinet forecasts revenues and billings in the band of \$3.025-\$3.075 billion and \$3.560-\$3.640 billion, respectively. Non-GAAP earnings per share are projected to lie between \$3.60 and \$3.75.

Non-GAAP gross and operating margin is anticipated in the band of 78-80% and 25-27%, respectively.

Quarter Ending	12/2020
Report Date	Feb 04, 2021
Sales Surprise	3.55%
EPS Surprise	10.42%
Quarterly EPS	1.06
Annual EPS (TTM)	3.36

Recent News

On Mar 10, Fortinet announced that it has updated the Fortinet Engage Partner Program to include new consumption models for a range of products including FortiSIEM and FortiEDR. This will provide additional flexibility and revenue growth for partners.

On Mar 9, Fortinet expanded its partnership with AT&T to include Secure Access Service Edge (SASE) in AT&T's portfolio of Managed Security Services.

On Feb 24, Fortinet announced the pricing of its underwritten, registered public offering of \$1.0 billion aggregate principal amount of senior notes, consisting of \$500 million aggregate principal amount 1.000% notes due 2026 and \$500 million aggregate principal amount of 2.200% notes due 2031. The offering is likely to close on March 5, 2021.

On Jan 6, Fortinet announced that all its self-paced advanced security training courses will remain free beyond 2021.

On Dec 9, Fortinet announced that its Secure SD-WAN solution was selected by service providers globally, to provide value-added services to the customers.

On Dec 8, Fortinet announced the acquisition of Panopta, a network monitoring and remediation innovator which delivers a complete picture of an enterprise network's health.

On Dec 3, Fortinet announced new integrations with Amazon Web Services (AWS) to provide enhanced cybersecurity solutions to the customers with AWS services.

On Dec 2, Fortinet introduced FortiGate Rugged 60F and FortiGate Rugged 60F with built-in LTE next-generation firewalls, for operational technology (OT) environments.

On Nov 13, Fortinet announced that it has been positioned as a Leader for the 11th time in the 2020 Gartner Magic Quadrant for Network Firewalls.

On Nov 10, Fortinet announced that it has been positioned as a Visionary in the 2020 Gartner Magic Quadrant for Wired and Wireless LAN Access Infrastructure.

On Nov 9, Fortinet announced that three Canadian academic institutions have joined its Security Academy Program to address cybersecurity skills gap.

Valuation

Fortinet shares have gained 60% in the 6-month period while gained 78.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 26.8% and 21.3%, respectively, in the past six months. Over the past year, the Zacks sub-industry and the sector increased 53.2% and 67.9%, respectively.

The S&P 500 Index has increased 19.4% in the 6-month period and 51.1% in the past year.

The stock is currently trading at 10.01X forward 12-month sales, which compares to 8.80X for the Zacks sub-industry, 4.77X for the Zacks sector and 4.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.01X and as low as 3.38X, with a 5-year median of 5.85X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$204 price target reflects 10.51X forward 12-month sales.

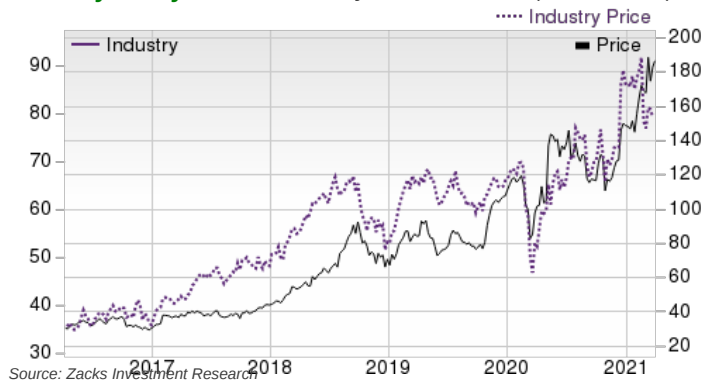
The table below shows summary valuation data for FTNT

Valuation Multiples - FTNT					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	10.01	8.80	4.77	4.71
	5-Year High	10.01	8.80	4.77	4.71
	5-Year Low	3.38	5.21	2.78	3.21
	5-Year Median	5.85	6.44	3.50	3.71
P/B TTM	Current	37.12	14.17	8.97	6.90
	5-Year High	44.46	14.58	9.38	6.90
	5-Year Low	6.00	4.67	4.41	3.83
	5-Year Median	13.31	8.02	5.78	4.98
EV/Sales TTM	Current	11.54	9.28	5.54	4.85
	5-Year High	11.54	9.57	5.79	4.85
	5-Year Low	3.23	4.59	3.07	2.64
	5-Year Median	5.94	6.60	3.96	3.62

As of 04/06/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Check Point Software Technologies Ltd. (CHKP)	Neutral	3
Cisco Systems, Inc. (CSCO)	Neutral	3
CyberArk Software Ltd. (CYBR)	Neutral	3
FireEye, Inc. (FEYE)	Neutral	3
Radware Ltd. (RDWR)	Neutral	4
Palo Alto Networks, Inc. (PANW)	Underperform	4
Qualys, Inc. (QLYS)	Underperform	5
Varonis Systems, Inc. (VRNS)	Underperform	5

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

Industry Comparison Industry: Security				Industry Peers		
	FTNT	X Industry	S&P 500	CHKP	FEYE	PANW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	D	-	-	C	C	B
Market Cap	31.21 B	5.30 B	29.96 B	16.82 B	4.74 B	32.19 B
# of Analysts	13	10	12	12	8	17
Dividend Yield	0.00%	0.00%	1.29%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.06	0.10	0.06	0.10	0.27	0.10
EV/EBITDA	39.95	26.78	16.88	14.27	-101.46	72.29
PEG F1	3.49	2.46	2.38	2.36	4.01	2.42
P/B	36.27	11.58	3.99	4.85	6.17	31.03
P/CF	51.22	48.32	16.85	17.57	384.63	71.26
P/E F1	52.38	53.64	22.08	17.28	55.39	56.37
P/S TTM	12.04	8.14	3.42	8.14	5.04	8.51
Earnings Yield	1.93%	1.81%	4.45%	5.79%	1.81%	1.77%
Debt/Equity	0.00	1.01	0.66	0.00	1.31	1.57
Cash Flow (\$/share)	3.80	1.46	6.78	6.56	0.05	4.73
Growth Score	B	-	-	C	A	A
Historical EPS Growth (3-5 Years)	123.49%	18.44%	9.39%	9.23%	NA	NA
Projected EPS Growth (F1/F0)	10.06%	-5.45%	15.29%	-1.33%	15.73%	20.34%
Current Cash Flow Growth	23.85%	4.02%	0.44%	4.02%	-131.25%	-6.93%
Historical Cash Flow Growth (3-5 Years)	57.79%	24.17%	7.37%	3.76%	15.25%	52.55%
Current Ratio	1.50	1.68	1.39	1.48	2.07	0.98
Debt/Capital	0.00%	43.70%	41.26%	0.00%	45.87%	61.10%
Net Margin	18.76%	-1.24%	10.59%	41.00%	-22.04%	-9.73%
Return on Equity	59.91%	3.38%	14.86%	25.28%	-12.47%	-9.49%
Sales/Assets	0.73	0.45	0.51	0.37	0.33	0.45
Projected Sales Growth (F1/F0)	17.80%	12.83%	7.36%	3.18%	6.91%	22.64%
Momentum Score	F	-	-	B	D	B
Daily Price Change	1.78%	1.36%	0.05%	-0.39%	1.36%	1.92%
1-Week Price Change	1.98%	0.45%	0.35%	-1.43%	1.37%	2.61%
4-Week Price Change	10.76%	-0.15%	5.11%	0.83%	-0.20%	-1.47%
12-Week Price Change	27.32%	-8.93%	8.79%	-13.28%	-14.44%	-8.93%
52-Week Price Change	82.47%	76.94%	60.17%	9.52%	103.64%	95.23%
20-Day Average Volume (Shares)	1,314,254	533,358	2,103,543	905,345	3,998,585	1,092,304
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.81%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	4.51%	-14.54%	2.24%	-3.43%	-78.29%	-12.43%
EPS Q1 Estimate Monthly Change	-1.10%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	F
VGM Score	D

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

Disclosures

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Additional Disclosure

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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.