

General Dynamics Corp. (GD)

\$179.24 (As of 03/18/21)

Price Target (6-12 Months): **\$152.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/25/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

Summary

The fiscal 2021 defense budget has slashed its shipbuilding investments by \$4 billion, which going forward could deal a heavy blow to the General Dynamics, a shipbuilding giant. Within its Aerospace segment, quarantine and travel restrictions in connection with the pandemic have impacted the timing of aircraft deliveries and the economic consequences of COVID-19 have affected demand. Its defense business has also experienced disruptions, such as customer site closures, travel restrictions, which have affected contract execution. However, the company continues to witness strong order growth from both Pentagon and overseas clients. Impressive backlog trends indicate solid demand for its products, thereby bolstering its revenue generation prospects. General Dynamics' shares have outperformed its industry in the past year.

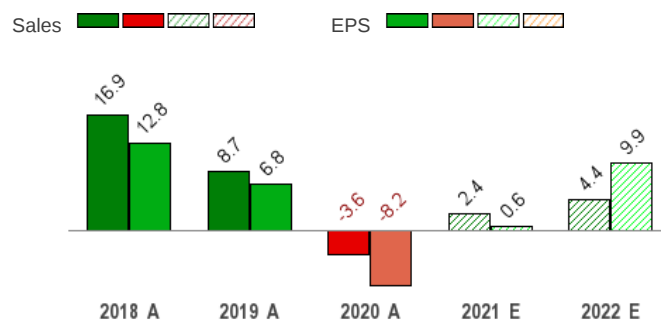
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$180.35 - \$100.55
20-Day Average Volume (Shares)	1,216,460
Market Cap	\$51.3 B
Year-To-Date Price Change	20.4%
Beta	1.07
Dividend / Dividend Yield	\$4.76 / 2.5%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 14% (218 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.7%
Last Sales Surprise	-3.4%
EPS F1 Estimate 4-Week Change	-0.3%
Expected Report Date	05/05/2021
Earnings ESP	6.4%
P/E TTM	16.3
P/E F1	16.2
PEG F1	1.8
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	9,724 E	9,980 E	10,094 E	10,967 E	40,539 E
2021	8,993 E	9,410 E	9,680 E	10,744 E	38,833 E
2020	8,749 A	9,264 A	9,431 A	10,481 A	37,925 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.75 E	\$2.88 E	\$3.08 E	\$3.46 E	\$12.15 E
2021	\$2.33 E	\$2.64 E	\$2.84 E	\$3.27 E	\$11.06 E
2020	\$2.43 A	\$2.18 A	\$2.90 A	\$3.49 A	\$11.00 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 03/18/2021. The report's text and the analyst-provided price target are as of 03/19/2021.

Overview

Headquartered in Falls Church, VA, **General Dynamics Corporation** engages in mission-critical information systems and technologies; land and expeditionary combat vehicles, armaments and munitions; shipbuilding and marine systems; and business aviation. The company was incorporated in February 1952.

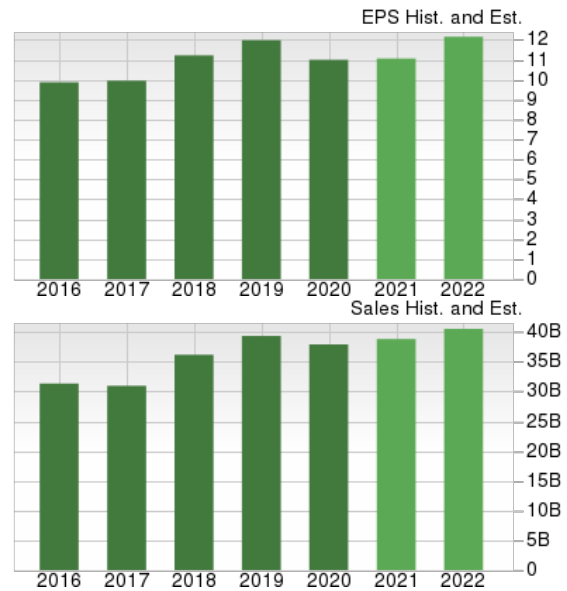
The company currently operates through four segments: **Aerospace**, **Combat Systems**, **Marine Systems** and the newly reorganized **Technologies** segment.

The **Aerospace** segment consists of Gulfstream Aerospace, which manufactures business jets, and Jet Aviation, which provides aircraft maintenance and spare parts. Segment revenues in 2020 summed \$8,075 million, representing 21.3% of the company's total revenues.

Combat Systems manufactures combat vehicles, medium-caliber guns, ammunition and ammunition handling systems. Revenues during 2020 came in at \$7,223 million, contributing 19% to the company's total revenues.

Marine Systems makes nuclear submarines, surface combatants and auxiliary ships. In 2020, revenues amounted to \$9,979 million, comprising 26.3% of the company's total revenues.

Effective from December 31, 2020, the company has reorganized its Mission Systems and Information Technology business into a single reporting unit, named **Technologies**. The Technologies segment revenues in 2020 summed \$12,648 million, representing 33.4% of the company's total revenues.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ It is already a known fact that General Dynamics boasts a strong position in the U.S. defense space and overseas. However, the fiscal 2021 defense budget has slashed its shipbuilding investments by \$4 billion, as the U.S. Navy plans on securing fewer ships and submarines and direct more funding toward operations and research. The proposed spending provision includes eight ships, including three submarines, compared to the procurement for purchasing 11 new ships, including four submarines, in the previous year's budget. This reduced budgetary amendment might hamper growth of the company's shipbuilding business in the near term.
- ▼ Although the COVID-19 pandemic did not have a material impact on General Dynamic's operating results or business in the fourth quarter of 2020, its ongoing and prolonged impacts may be a cause of concern and might dent its future performance. This could be because the pandemic might have an adverse impact on the company's existing and planned operations, distribution systems and thus, increase overall expenses. Within its Aerospace segment, quarantine and travel restrictions in connection with the outbreak have impacted the timing of aircraft deliveries and the economic consequences of COVID-19 have affected demand. Evidently, during the fourth quarter, the company witnessed a shortfall in its anticipated deliveries by three jets. Since the pandemic is still prevalent worldwide, more delivery shortcomings might occur in coming days, which then will hurt the stock's revenue generation from commercial aerospace industry.
- ▼ General Dynamics' defense business has also experienced disruptions, such as customer site closures, travel restrictions and social-distancing requirements, which have affected contract execution. Since for the defense side of business, contract winning and successful execution is the main driver of revenues, consistent disruptions in the same, if happens, might impact the company's top line performance. This must have been hindering investors' confidence in favor of this stock.
- ▼ The company's long-term debt stands at \$10 billion as of Dec 31, higher than \$9.98 billion as of Sep 30. Meanwhile, the company's cash and cash equivalents were \$2.82 billion at the end of 2020, which is lower than its current debt of \$3 billion as well as the long-term debt. This indicates that the company's solvency position is weak and thus may spook investors, given the prevailing uncertainty in the COVID-19-affected market scenario. With the prolonged impacts of the pandemic still hovering on the global economy, at large, we may expect the upcoming quarterly results to reflect similar poor cash flow performance by the company.

The company's times interest earned ratio is 8.8 as of Dec 31, 2020, which deteriorated sequentially compared to 9.1 as of Sep 30, 2020. Such an unfavorable financial ratio indicates that General Dynamics might face difficulties and struggle to meet its debt obligations at least in the near future.

Delayed aircraft deliveries due to the COVID-19 pandemic may hurt General Dynamics' top line. Intensified competition are likely to hurt the stock

Risks

- During the fourth quarter of 2020, General Dynamics witnessed strong order growth, in line with its usual trend. This, in turn, boosted its backlog, which grew 9.8% year over year to a record-high \$89.5 billion, owing to higher orders received particularly by the Aerospace segment. The estimated contract value, which combines total backlog with estimated potential contract value, was \$134.7 billion at the end of 2020, approximately 6.7% more than the year-ago quarter. Such impressive backlog trends indicate solid demand for the company's products, thereby bolstering its revenue generation prospects significantly. Significant awards in the fourth quarter included a \$9.5 billion option exercise from the U.S. Navy for construction and test of the first two Columbia-class submarines and a \$4.6 billion contract to produce M1A2 SEPv3 Abrams main battle tanks for the U.S. Army, alongside other major contracts.
 - In October 2019, General Dynamics introduced its flagship aircraft in the business jet industry, the Gulfstream G700, which completed its first flight in February 2020, demonstrating the program's maturity and officially launching its official flight-test program. Per management, there is already significant customer interest for this new product in both the domestic and international markets. Further, on the product development front, all five G700 flight test aircrafts are flying and have over 1,000 hours of test flight. General Dynamics appears to be on track for entry of this jet into service in the fourth quarter 2022, which is expected to boost both its revenue and earnings next year. Notably, such product innovation along with major certification approvals is projected to enhance this shipbuilder's footprint in the business jet market, going ahead.
 - General Dynamics has been making investments in its business to promote operating efficiency, innovation and affordability for its customers. This is evident as capital expenditures made in 2020 amounted to \$967 million. This further reflects the ongoing investments to support growth at its shipyards, particularly at Electric Boat to prepare for Block V and the new Columbia ballistic missile submarine. In the Aerospace segment, the company continues to invest in the development of new aircraft products and technologies to support the Aerospace segment's long-term growth. This might have boosted investors' confidence in this stock. Notably, the company outperformed the industry in terms of share price performance. General Dynamics' share price has increased 57.2% in the past year compared to the industry's 56.5% growth.
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Last Earnings Report

General Dynamics Q4 Earnings Miss Estimates, Sales Down Y/Y

General Dynamics Corporation reported fourth-quarter 2020 earnings from continuing operations of \$3.49 per share, which missed the Zacks Consensus Estimate of \$3.55 by 1.7%. The bottom line, moreover, declined 0.6% from the prior-year quarter's \$3.51 per share.

The company reported GAAP earnings of \$3.50 per share compared with the year-ago quarter's \$3.53.

For 2020, earnings were \$11.00 per share, down 8.2% from \$11.98 in the year-ago quarter. Moreover, full-year earnings also missed the Zacks Consensus Estimate of \$11.06 by 0.5%.

Quarter Ending 12/2020

Report Date	Jan 27, 2021
Sales Surprise	-3.43%
EPS Surprise	-1.69%
Quarterly EPS	3.49
Annual EPS (TTM)	11.00

Total Revenues

General Dynamics' fourth-quarter revenues of \$10,481 million missed the Zacks Consensus Estimate of \$10,854 million by 3.4%. Further, revenues declined 2.7% from \$10,773 million in the year-ago quarter.

In 2020, total revenues declined 3.6% year over year to \$37.93 billion. Full-year revenues missed the Zacks Consensus Estimate of \$38.28 billion by 0.9%.

Backlog

The company recorded a total backlog of \$89.5 billion, up 2.9% year over year. Funded backlog at the quarter-end was \$45.2 billion. Total estimated contract value, representing the sum of all backlog components was \$134.7 billion, up 6.7% for the year.

Segment Performance

Aerospace: The segment reported revenues of \$2,435 million, down 16.9% year over year. Operating earnings of \$401 million declined 16.5% from the prior-year quarter's \$480 million.

Combat Systems: Segment revenues declined 0.6% from the prior-year quarter to \$1,960 million. However, operating earnings were up 8.8% from the year-ago quarter to \$309 million.

Technologies: The segment reported revenues of \$3,229 million, which declined 2.3% year over year. Operating earnings of \$352 million declined 2.2% from the prior-year quarter's \$360 million.

Marine Systems: The segment's revenues of \$2,857 million were up 11.4% from the year-ago quarter's \$2,564 million.

Operating earnings also improved 24.1% year over year to \$247 million.

Operational Highlights

Company-wide operating margin was 12.3%, up 90 basis points from the prior quarter.

Company-wide operating margin was 12.3%, up 90 basis points from the prior quarter.

In the quarter under review, General Dynamics' operating costs and expenses declined 2.9% from the year-ago period to \$9,188 million.

Interest expenses in the reported quarter amounted to \$120 million, up from \$110 million registered in the year-ago quarter.

Financial Condition

As of Dec 31, 2020, General Dynamics' cash and cash equivalents were \$2,824 million compared with \$902 million as of Dec 31, 2019.

Long-term debt as of Dec 31 was \$9,995 million compared with the 2019-end level of \$9,010 million.

As of Dec 31, the company's cash provided by operating activities was \$3,858 million compared with \$2,981 million in the year-ago period.

Recent News

On **Mar 9, 2021**, General Dynamics announced that its subsidiary, Gulfstream Aerospace Corp., has been awarded \$696 million in contracts from the U.S. Air Force Life Cycle Management Center for engineering services support and contractor logistics for C-20 and C-37 aircraft.

The Engineering Service Contract (ESC) represents a \$612 million, 10-year renewal of a prior ESC. The contractor logistics support (CLS) award for \$84 million exercises Option Year Four of an existing CLS contract, bringing its cumulative face value to \$594 million.

On **Mar 3, 2021**, General Dynamics announced that its board of directors has declared a dividend hike of 8.2% over last year's dividend. The new quarterly dividend of \$1.19 per share on the company's common stock, is payable on May 7, 2021, to shareholders of record on April 9, 2021. This is the 24th consecutive annual dividend increase authorized by the General Dynamics board.

On **Jan 22, 2021**, General Dynamics Information Technology (GDIT), a business unit of General Dynamics announced that it has been selected as one of three prime contractors on the U.S. Department of State's Global Support Strategy (GSS) 2.0 indefinite delivery, indefinite quantity contract vehicle (IDIQ). The IDIQ, awarded in fourth-quarter 2020, has a total estimated value of up to \$3.3 billion over a 10 year period, inclusive of a one-year base period and nine one-year options.

On **Dec 23, 2020**, General Dynamics announced that its business unit, Land Systems, has been awarded a \$4.6 billion fixed-price-incentive contract to produce M1A2 SEPv3 Abrams main battle tanks for the U.S. Army.

Work locations and funding will be determined with each order, with an estimated completion date of June 17, 2028. The first delivery order is valued at an estimated \$406 million.

On **Nov 5, 2020**, General Dynamics Electric Boat was awarded a \$9.5 billion contract by U.S. Navy for construction and test of the lead and second ships of the Columbia class, as well as associated design and engineering support.

Valuation

General Dynamics' shares are up 20.4% in the year-to-date period and 57.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 10.7% and 8.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 56.5% while the sector is up 42.7%.

The S&P 500 index is up 6.3% in the year to date period and 74.4% in the past year.

The stock is currently trading at 15.9X of forward 12-month earnings, which compares to 22.1X for the Zacks sub-industry, 23.3X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.9X and as low as 8.3X, with a 5-year median of 14.9X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$152 price target reflects 13.4X earnings value.

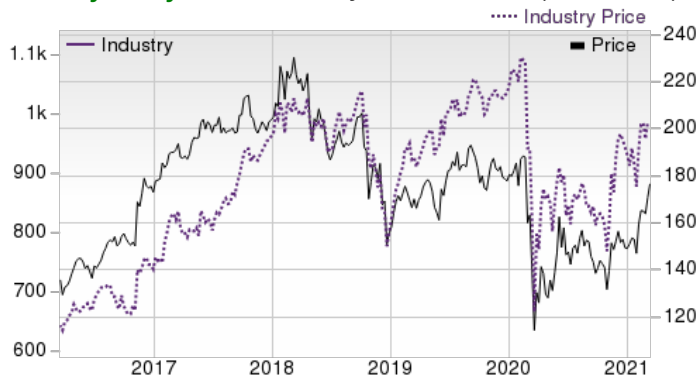
The table below shows summary valuation data for GD

Valuation Multiples -GD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.85	22.08	23.28	22.58
	5-Year High	20.91	22.54	23.28	23.8
	5-Year Low	8.25	14.52	14.37	15.3
	5-Year Median	14.85	18.39	18.04	17.9
P/S F12M	Current	1.31	1.43	1.97	4.6
	5-Year High	2.05	1.64	1.97	4.6
	5-Year Low	0.76	0.95	0.94	3.21
	5-Year Median	1.35	1.28	1.27	3.69
EV/SALES TTM	Current	1.55	2.1	2.92	4.71
	5-Year High	2.24	2.1	2.93	4.71
	5-Year Low	0.99	1.04	1.14	2.64
	5-Year Median	1.62	1.57	2.69	3.61

As of 03/18/2021

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
The Boeing Company (BA)	Neutral	4
Embraer Empresa Brasileira de Aeronautica (ERJ)	Neutral	3
Huntington Ingalls Industries, Inc. (HII)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3
L3Harris Technologies Inc (LHX)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3
Textron Inc. (TXT)	Neutral	3

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

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	GD	X Industry	S&P 500	LDOS	LMT	NOC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	A	-	-	B	B	A
Market Cap	51.31 B	13.60 B	28.61 B	13.77 B	100.40 B	52.51 B
# of Analysts	9	6	13	9	10	8
Dividend Yield	2.45%	0.00%	1.38%	1.40%	2.90%	1.84%
Value Score	A	-	-	A	A	A
Cash/Price	0.06	0.08	0.06	0.04	0.03	0.10
EV/EBITDA	11.48	11.07	15.97	14.40	10.77	11.07
PEG F1	1.80	1.75	2.36	1.39	2.29	NA
P/B	3.28	4.21	3.92	3.57	16.63	4.96
P/CF	12.72	12.24	16.09	12.31	12.14	10.04
P/E F1	16.03	16.30	21.39	15.27	13.62	13.35
P/S TTM	1.35	1.35	3.32	1.12	1.54	1.43
Earnings Yield	6.17%	5.13%	4.58%	6.55%	7.34%	7.49%
Debt/Equity	0.64	0.66	0.67	1.20	1.93	1.35
Cash Flow (\$/share)	14.10	2.08	6.78	7.88	29.54	31.37
Growth Score	B	-	-	C	B	A
Historical EPS Growth (3-5 Years)	4.79%	14.94%	9.32%	14.94%	19.45%	22.67%
Projected EPS Growth (F1/F0)	0.56%	19.46%	14.54%	8.94%	7.43%	-0.23%
Current Cash Flow Growth	-6.21%	0.58%	0.72%	14.02%	11.52%	7.37%
Historical Cash Flow Growth (3-5 Years)	3.26%	12.19%	7.32%	34.49%	12.19%	18.58%
Current Ratio	1.35	1.35	1.39	1.15	1.39	1.60
Debt/Capital	38.96%	40.15%	41.42%	54.54%	65.90%	57.41%
Net Margin	8.35%	3.13%	10.59%	5.11%	10.45%	8.67%
Return on Equity	22.04%	8.39%	14.75%	23.18%	152.68%	39.80%
Sales/Assets	0.74	0.74	0.51	1.03	1.31	0.84
Projected Sales Growth (F1/F0)	2.39%	3.47%	7.02%	12.79%	4.19%	-3.53%
Momentum Score	D	-	-	D	D	F
Daily Price Change	0.97%	-1.39%	-0.57%	-0.29%	2.12%	1.41%
1-Week Price Change	3.38%	3.95%	2.96%	4.64%	-0.07%	0.29%
4-Week Price Change	9.81%	6.53%	4.48%	-7.64%	6.08%	5.73%
12-Week Price Change	20.29%	14.20%	8.84%	-6.94%	1.84%	5.12%
52-Week Price Change	51.86%	53.42%	72.14%	27.80%	14.08%	6.07%
20-Day Average Volume (Shares)	1,216,460	1,157,177	2,394,762	1,376,660	1,986,602	1,137,354
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.28%	0.00%	0.00%	-0.71%	0.00%	-0.05%
EPS F1 Estimate 12-Week Change	-5.13%	-0.45%	2.10%	-0.45%	0.35%	-2.34%
EPS Q1 Estimate Monthly Change	-0.21%	0.00%	0.00%	2.74%	0.00%	-0.50%

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	A
Growth Score	B
Momentum Score	D
VGM Score	A

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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