

Guess?, Inc. (GES)

\$25.34 (As of 03/18/21)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/27/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

Guess? has outpaced the industry in the past three months. The company is benefitting from its solid digital efforts. Notably, its e-commerce business in North America and Europe increased 19% year over year in the third quarter of fiscal 2021. In fact, management is optimistic about its online growth in the fourth quarter. Apart from this, Guess?'s strategic initiatives to boost operating margin via cost-saving efforts and enhancing operating efficiencies are noteworthy. Also, the company reported reduced expenses and improved gross margin in the third quarter. However, lower demand amid the coronavirus outbreak affected revenues that declined 7.6% year over year in the quarter. Moreover, the company anticipates sales in the fourth quarter to decline in low to mid-twenties thanks to some pandemic-led store closures and reduced traffic.

Data Overview

52-Week High-Low	\$28.30 - \$5.60
20-Day Average Volume (Shares)	631,216
Market Cap	\$1.6 B
Year-To-Date Price Change	12.0%
Beta	2.15
Dividend / Dividend Yield	\$0.45 / 1.8%
Industry	Textile - Apparel
Zacks Industry Rank	Top 31% (79 out of 253)

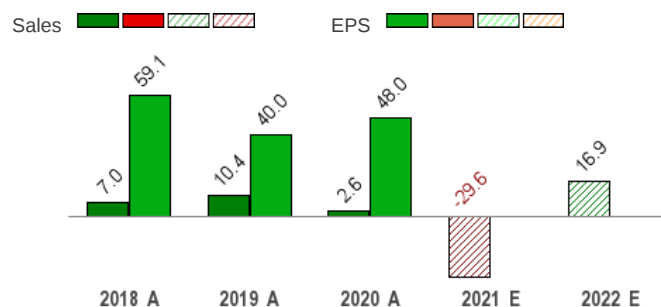
Last EPS Surprise	866.7%
Last Sales Surprise	11.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	03/17/2021
Earnings ESP	0.0%

P/E TTM	NA
P/E F1	17.1
PEG F1	1.0
P/S TTM	0.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	294 E	472 E	627 E	692 E	2,203 E
2021	260 A	399 A	569 A	657 E	1,885 E
2020	537 A	683 A	616 A	842 A	2,678 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.37 E	\$0.35 E	\$0.70 E	\$0.76 E	\$1.48 E
2021	-\$1.81 A	-\$0.01 A	\$0.58 A	\$0.57 E	-\$0.71 E
2020	-\$0.25 A	\$0.38 A	\$0.22 A	\$1.22 A	\$1.45 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

Founded in 1981 and based in L.A. **Guess?**, Inc. designs, markets, distributes and licenses casual apparel and accessories for men, women and children as per the American lifestyle and European fashion sensibilities.

The company's collection includes contemporary apparel, denim, handbags, eyewear, watches, footwear, and other related consumer products. In the clothing category, the company's collections include jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear and intimate apparel. It also designs jewelry and other fashion accessories.

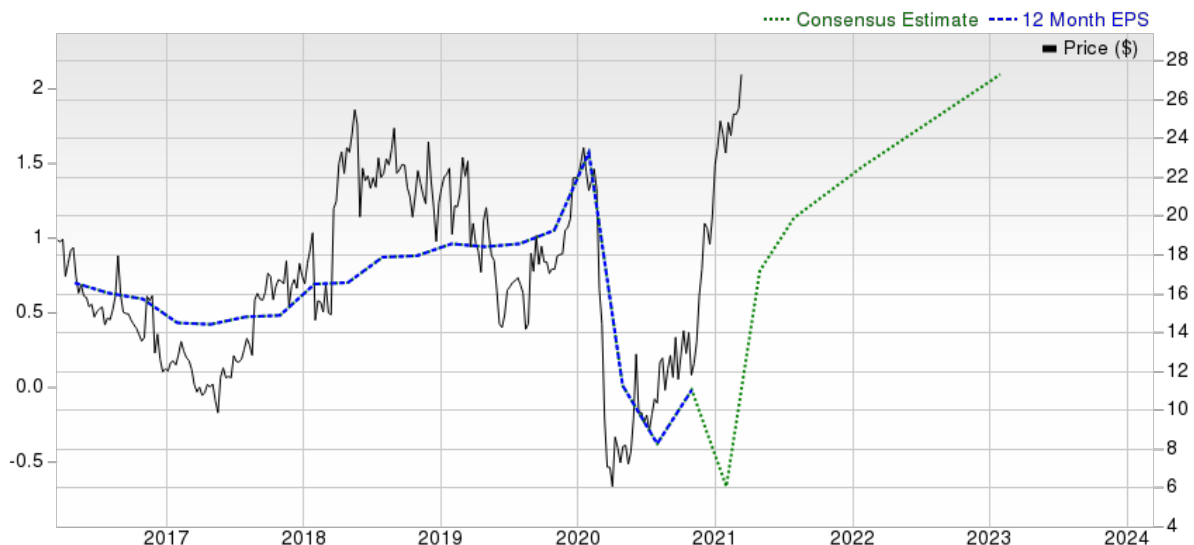
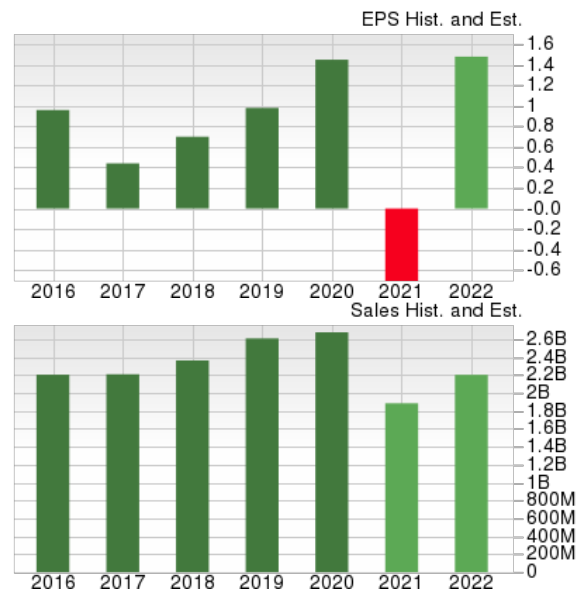
Products of the company are sold through retail, wholesale, e-Commerce and licensing distribution channels.

The company's apparel is marketed under several trademarks such as GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS (GbG), GUESS by MARCIANO and Gc.

Guess' and its network of licensee partners sell their products primarily through six different store concepts, namely the flagship Guess-Full-price retail stores, Guess-factory outlet stores, Guess by Marciano stores, G by Guess stores, Guess Accessories Stores and Guess Kids Stores.

Further, the products are sold through wholesale, direct-to-consumer and licensing distribution networks. The company's business is classified into five reportable segments: **Europe, Americas Retail, Asia, Americas Wholesale and Licensing.**

The company sources products from numerous suppliers located both locally and globally. Further, the company promotes its products through advertising, public relations and marketing strategies. In fact, strong promotional skills have helped the company in creating a unique name for itself in the fashion space as well as keep driving consumer traffic.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Digital Operations to Drive Performance:** Shares of Guess? have surged 36.5% in the past three months compared with the industry's growth of 2.8%. Guess? has been benefitting from its solid digital efforts. Notably, the company's e-commerce business in North America and Europe increased 19% in the third quarter of fiscal 2021. Also, management is optimistic about its online growth in fiscal fourth quarter.

Well, Guess? has been on track with its digital-first initiative and has been investing in brand building through social media platforms such as Facebook, Twitter, Instagram and YouTube. Further, the company has been focusing on linking brick-and-mortar stores, e-commerce and mobile sales to improve its online operations. This is likely to have enabled customers to reserve merchandise online and pick them up in stores.

Earlier, management stated that they are on track with upgrading online platform in the European and American regions. It is also planning to improve e-commerce operations by undertaking efforts such as better data capturing, improved customer profiling, personalized marketing and relationship management. These efforts are expected to help the company enhance customer base and enrich their experience, which in turn is likely to aid sales.

- ▲ **Strategic Endeavors to Aid Growth:** The company is on track with boosting operating margin through cost saving efforts, enhancing operating efficiencies as well as gross margin improvement efforts. Moreover, Guess?'s focus on its customer centricity initiatives including global ecommerce strategy, salesforce implementation as well as omnichannel experience redesign projects bodes well. In this regard, the company completed the implementation of the salesforce platform in the United States, Canada and Europe except for Russia. It plans to implement the platform in Russia during February. In fact, management is impressed with the performance of the platform that enables better customer experience and improved conversion as well as engagement. Also, Guess? expects to see solid online growth via these platforms. Also, the company is progressing well with its customer 360 project to enhance personalization, customer data integration, journey engagement as well as results analysis. Moreover, management earlier stated that it believes such robust customer centric efforts will increase the company's e-commerce business penetration to represent more than 23% of its direct-to-consumer business in the next three to five years.

Additionally, the company is on track with global organizational development strategy with a view to capture new efficiencies, global consistency in performance as well as higher accountability. Apart from these, Guess? is undertaking efforts to elevate its brand. In this regard, the company has one global line of products across all categories including women's and men's apparel, athleisure, lingerie and all accessories. This move will help it represent Guess? brand to maintain consistence in all markets and lower product development expenses throughout the supply chain.

- ▲ **Reduced Costs, Robust Margin:** During the third quarter of fiscal 2021, adjusted SG&A decreased \$22 million year over year to \$184 million. The upside can be attributed to benefits from changes to the company's expense structure especially increased streamline hourly labor-staffing at the store level, reduction of corporate headcount. Also, reduced travel costs and lower professional fees contributed to the upside. Additionally, few one-time benefits from government subsidies and less advertising were a reason. As a percentage of sales, SG&A expenses declined to 32.5% compared with 33.3% reported in the year-ago quarter.

Moreover, gross margin in the quarter expanded 480 basis points (bps) to 42.1%. Product margin increased 200 bps driven by higher IMU and lower promotions. Also, adjusted operating margin expanded 600 bps to 9.7%, on the back of benefits from higher wholesale revenues in Europe stemming from elongating the fall-winter season's shipment window. Also, higher initial markups and overall reduced expenses were a reason.

- ▲ **Financial Analysis, Dividend:** Guess? ended the third quarter of fiscal 2021, with cash and cash equivalents of \$365 million up from \$110 million reported in the year-ago quarter. The upside can be attributed to strategic management of working capital and investments. Moreover, the company looks well placed on dividend front. Recently, Guess? announced a quarterly dividend of 11.25 cents per share that was payable on Jan 4, 2021. Notably, Guess? has a dividend yield of 1.8% and free cash flow yield of 19.1%. With an annual free cash flow return on investment of almost 52%, much ahead of the industry's 10.8%, the dividend payment is likely to be sustainable.

Guess?'s is on track with boosting operating margin through cost saving efforts, enhancing operating efficiencies as well as gross margin improvement efforts.

Reasons To Sell:

▼ **COVID-19 Hurts Sales, Dull Outlook:** Guess?'s net revenues amounted to \$569.3 million, which declined 7.6% year over year in the third quarter of fiscal 2021. On a constant-currency (cc) basis, net revenues declined 10.1%. Sales in the quarter were affected by lower demand due to the coronavirus outbreak. We note that, sales in all segments except Europe declined during the quarter. Moreover, the company anticipates sales in the fiscal fourth quarter to decline in low to mid-twenties. Lower customer traffic in stores and temporary government-mandated store closures, especially in Europe and Canada, owing to the coronavirus outbreak are likely to affect sales in the quarter. Also, permanent store closures are expected to be a drag.

Guess? expects store closures amid the outbreak of the coronavirus to hurt its fourth-quarter fiscal 2021 sales.

▼ **Store Closures Amid COVID-19:** Toward the end of the third quarter of fiscal 2021, Guess? started to implement a new round of government-mandated temporary store closures amid the pandemic. This resulted in the closure of just more than 5% of its directly-operated stores as of Oct 31. These closures were mainly in Europe. The percentage of store closures increased to slightly below 20% during November. The recently undertaken store reopening has moved the percentage of store closures to under 10% as of Nov 29. However, such temporary store closures are likely to put pressure on the company's top-line performance.

▼ **International Exposure Poses Currency Risks:** Owing to Guess?' solid international presence, the company remains exposed to the unfavorable currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. We note that, currency headwinds can weigh on the company's revenues in the future.

Last Earnings Report

Guess? Q3 Earnings Beat Estimates, Sales Down Y/Y

Guess? reported third-quarter fiscal 2021 results with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, earnings increased year over year. However, sales declined thanks to weakness across all segments, except Europe.

Due to uncertainties related to the COVID-19 crisis, management refrained from providing detailed outlook for the fourth quarter as well as fiscal 2021. However, the company anticipates sales in the fourth quarter to decline in low to mid-twenties. Lower customer traffic in stores and temporary government-mandated store closures, especially in Europe and Canada, owing to the coronavirus outbreak are likely to affect sales in the quarter. Also, permanent store closures are expected to be a drag.

Quarter Ending	10/2020
Report Date	Dec 02, 2020
Sales Surprise	11.34%
EPS Surprise	866.67%
Quarterly EPS	0.58
Annual EPS (TTM)	-0.02

Quarter in Detail

Guess? posted adjusted earnings of 58 cents per share, which beat the Zacks Consensus Estimate of 6 cents. Also, the metric increased from earnings of 22 cents reported in the year-ago quarter. Notably, share repurchases had a positive impact of 5 cents on adjusted earnings per share.

Net revenues amounted to \$569.3 million, which surpassed the consensus mark of \$511.3 million. However, the metric declined 7.6% year over year. On a cc basis, net revenues declined 10.1%. Sales in the quarter were affected by lower demand due to the coronavirus outbreak.

The company's gross margin expanded 480 bps to 42.1%. As a percentage of sales, SG&A expenses declined to 32.5% compared with 33.3% reported in the year-ago quarter.

During the quarter, adjusted earnings from operations increased significantly to \$55.3 million. Adjusted operating margin expanded 600 bps to 9.7%, on the back of benefits from higher wholesale revenues in Europe stemming from elongating the fall-winter season's shipment window. Also, higher initial markups and overall reduced expenses were a reason. These were somewhat offset by unfavorable impact from negative comparable sales.

Segment Performance

Revenues in the **Americas Retail** segment declined 26.7% (or 26.2% at cc) year over year to \$130.3 million. Retail comp sales including e-commerce fell 21% (or 20% at cc). Operating margin contracted 50 bps to 0.4% thanks to deleveraging impact of negative comparable sales stemming from reduced traffic amid COVID-19. These were somewhat offset by lower store selling expenses.

Net revenues in the **Americas Wholesale** segment dropped 36.2% year over year to \$36 million. Also, the metric was down 34.2% at cc. Further, operating margin expanded 300 bps to 22.9% mainly driven by higher product margin.

The **Europe** segment's revenues increased 16% year over year to \$321.6 million. The metric rose 10.2% at cc. Retail comp sales including e-commerce fell 9% (or 13% in cc). Operating margin expanded 900 bps to 16.0% mainly driven by overall cost leveraging. Also, higher initial markups and rent concessions were a reason.

Asia revenues plunged 24.7% on a year-over-year basis to \$62 million. Additionally, the metric dropped 26.6% at cc. Retail comp sales, including e-commerce, declined 15% (or 18% in cc). Operating margin expanded 530 bps to 2.3% on the back of higher product margin and the favorable impact of business mix.

Licensing revenues declined 12.5% year over year to \$19.4 million. Operating margin increased 660 bps to 93.8%.

Other Updates

The company exited the quarter with cash and cash equivalents of \$365.3 million as well as long-term debt and finance lease obligations of \$70.1 million. Further, stockholders' equity was \$459.8 million. Net cash used provided by operating activities during nine months ended Oct31 amounted to \$98.4 million.

The company announced a quarterly dividend of 11.25 cents per share on its common stock. The dividend will be payable on Jan 4, 2021 to shareholders as of Dec 16, 2020.

COVID-19 Related Update

Toward the end of the fiscal third quarter, Guess? started to implement a new round of government-mandated temporary store closures amid the pandemic. This resulted in the closure of just more than 5% of its directly-operated stores as of Oct 31. These closures were mainly in Europe. The percentage of store closures increased to slightly below 20% during November. Nevertheless, the recently undertaken store reopening has moved the percentage of store closures to under 10% as of Nov 29.

Valuation

Shares of Guess? are up 12% in the year-to-date period and 265% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 5.1% and 10.1%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 111.5% while the sector gained 99.1%.

The S&P 500 index is up 6.5% in the year-to-date period and 77.4% in the past year.

The stock is currently trading at 0.73X forward 12-month sales, which compares to 3.02X for the Zacks sub-industry, 3.12X for the Zacks sector and 4.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.83X and as low as 0.1X, with a 5-year median of 0.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 0.77X forward 12-month sales.

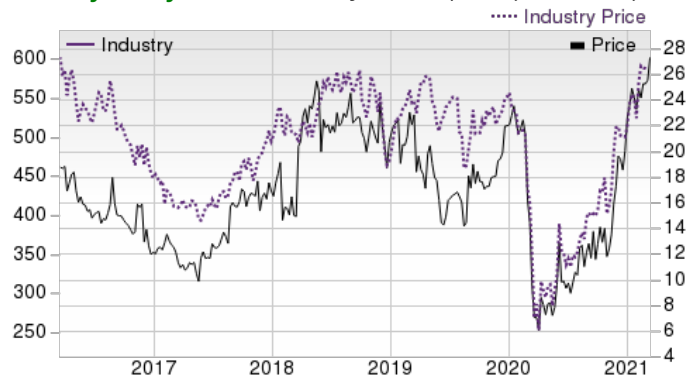
The table below shows summary valuation data for GES

Valuation Multiples - GES					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.73	3.02	3.12	4.6
	5-Year High	0.83	3.02	3.12	4.6
	5-Year Low	0.1	1.45	1.72	3.21
	5-Year Median	0.53	2.1	2.51	3.69
P/B TTM	Current	3.37	9.61	3.96	6.71
	5-Year High	3.68	10.05	4.87	6.71
	5-Year Low	0.39	3.57	2.24	3.83
	5-Year Median	1.72	6.34	4.09	4.97
EV/EBITDA F12M	Current	6.38	21.15	11.43	17.22
	5-Year High	9.27	24.08	12.32	18.82
	5-Year Low	0.92	10.09	8.03	13.03
	5-Year Median	5.29	14.83	10.7	15.77

As of 03/18/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Gildan Activewear, Inc. (GIL)	Outperform	1
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Columbia Sportswear Company (COLM)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Hanesbrands Inc. (HBI)	Neutral	3
lululemon athletica inc. (LULU)	Neutral	4
Ralph Lauren Corporation (RL)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GES	X Industry	S&P 500	COLM	GIII	RL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	C	C
Market Cap	1.61 B	1.57 B	28.61 B	7.04 B	1.57 B	8.96 B
# of Analysts	3	4	13	5	7	6
Dividend Yield	1.78%	0.00%	1.38%	0.98%	0.00%	0.00%
Value Score	A	-	-	B	B	C
Cash/Price	0.21	0.10	0.06	0.11	0.10	0.31
EV/EBITDA	7.13	7.25	15.97	21.83	7.25	12.71
PEG F1	0.99	2.33	2.36	0.84	1.26	29.23
P/B	3.37	3.35	3.92	3.83	1.20	3.33
P/CF	8.96	11.60	16.09	27.57	20.88	11.60
P/E F1	17.29	20.52	21.39	26.30	14.55	239.38
P/S TTM	0.78	0.98	3.32	2.81	0.76	2.04
Earnings Yield	5.84%	4.78%	4.58%	3.80%	6.87%	0.42%
Debt/Equity	0.68	0.47	0.67	0.00	0.38	0.61
Cash Flow (\$/share)	2.83	1.91	6.78	3.85	1.55	10.55
Growth Score	A	-	-	A	F	C
Historical EPS Growth (3-5 Years)	-13.77%	-11.07%	9.32%	2.95%	5.01%	-17.92%
Projected EPS Growth (F1/F0)	309.43%	74.42%	14.54%	148.89%	209.72%	-92.20%
Current Cash Flow Growth	24.83%	-10.70%	0.72%	-42.75%	-61.45%	-10.72%
Historical Cash Flow Growth (3-5 Years)	0.67%	-1.75%	7.32%	1.98%	9.97%	-4.88%
Current Ratio	1.54	1.77	1.39	3.36	2.85	2.55
Debt/Capital	40.78%	36.03%	41.42%	0.00%	27.79%	37.74%
Net Margin	-3.48%	-1.68%	10.59%	4.32%	1.15%	-6.75%
Return on Equity	0.03%	0.28%	14.75%	6.26%	2.89%	1.84%
Sales/Assets	0.87	0.86	0.51	0.92	0.82	0.57
Projected Sales Growth (F1/F0)	16.85%	11.88%	7.02%	20.17%	22.90%	-29.91%
Momentum Score	C	-	-	C	A	C
Daily Price Change	-2.05%	0.00%	-0.57%	1.60%	3.38%	1.16%
1-Week Price Change	6.86%	4.15%	2.96%	2.63%	5.15%	1.46%
4-Week Price Change	2.18%	3.14%	4.48%	3.14%	14.23%	10.35%
12-Week Price Change	26.64%	25.71%	8.84%	17.60%	41.66%	21.36%
52-Week Price Change	187.96%	121.76%	72.14%	67.09%	326.28%	73.68%
20-Day Average Volume (Shares)	631,216	116,739	2,394,762	345,268	529,720	1,144,765
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.80%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-4.31%	0.12%	2.10%	3.25%	0.00%	-56.76%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-7.69%	242.86%	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	A
Growth Score	A
Momentum Score	C
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.

Disclosures

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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