

## Grocery Outlet Holding (GO)

**\$33.75** (As of 06/09/21)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 05/14/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:B

Value: C

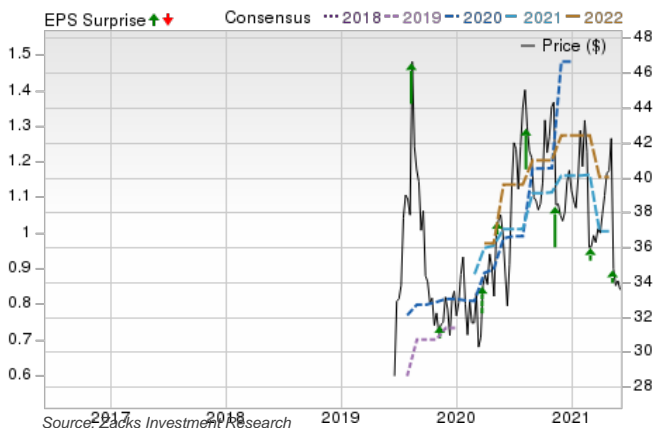
Growth: A

Momentum: D

### Summary

Shares of Grocery Outlet have underperformed the industry in the past three months. The stock came under pressure on account of the company's soft first-quarter 2021 results, wherein both the top and the bottom line declined year over year and the former missed the Zacks Consensus Estimate. We note that decline in the company's comparable store sales mainly hurt the top line. Notably, the company saw a comparable-store sales decline of 8.2%. Apart from this, margins were dismal during the quarter. Also, the company has been witnessing higher SG&A expenses for a while now. Management informed that in the second-quarter-to-date (till May 11), comparable store sales were in the negative low-double digits. Nevertheless, the company's flexible supply chain model is likely to mitigate headwinds like commodity and freight costs.

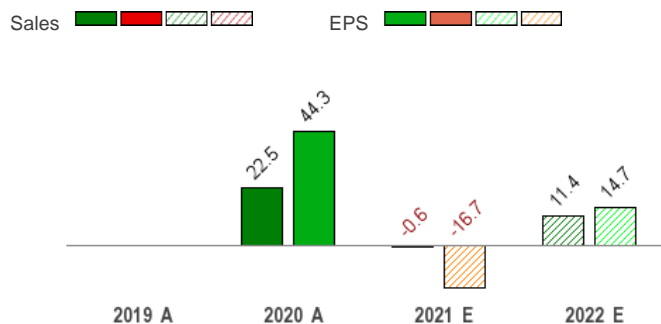
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$48.87 - \$32.33</b>
20-Day Average Volume (Shares)	<b>869,353</b>
Market Cap	<b>\$3.2 B</b>
Year-To-Date Price Change	<b>-14.0%</b>
Beta	<b>-0.35</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Consumer Products - Staples</b>
Zacks Industry Rank	<b>Bottom 9% (228 out of 251)</b>

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



Last EPS Surprise	<b>4.6%</b>
Last Sales Surprise	<b>-1.0%</b>
EPS F1 Estimate 4-Week Change	<b>-8.6%</b>
Expected Report Date	<b>08/09/2021</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>24.3</b>
P/E F1	<b>35.5</b>
PEG F1	<b>2.6</b>
P/S TTM	<b>1.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	844 E	866 E	906 E	897 E	3,473 E
2021	752 A	770 E	803 E	801 E	3,117 E
2020	760 A	803 A	764 A	807 A	3,135 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.27 E	\$0.30 E	\$0.27 E	\$0.25 E	\$1.09 E
2021	\$0.23 A	\$0.23 E	\$0.24 E	\$0.21 E	\$0.95 E
2020	\$0.36 A	\$0.42 A	\$0.50 A	\$0.24 A	\$1.14 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 06/09/2021. The report's text and the analyst-provided price target are as of 06/10/2021.

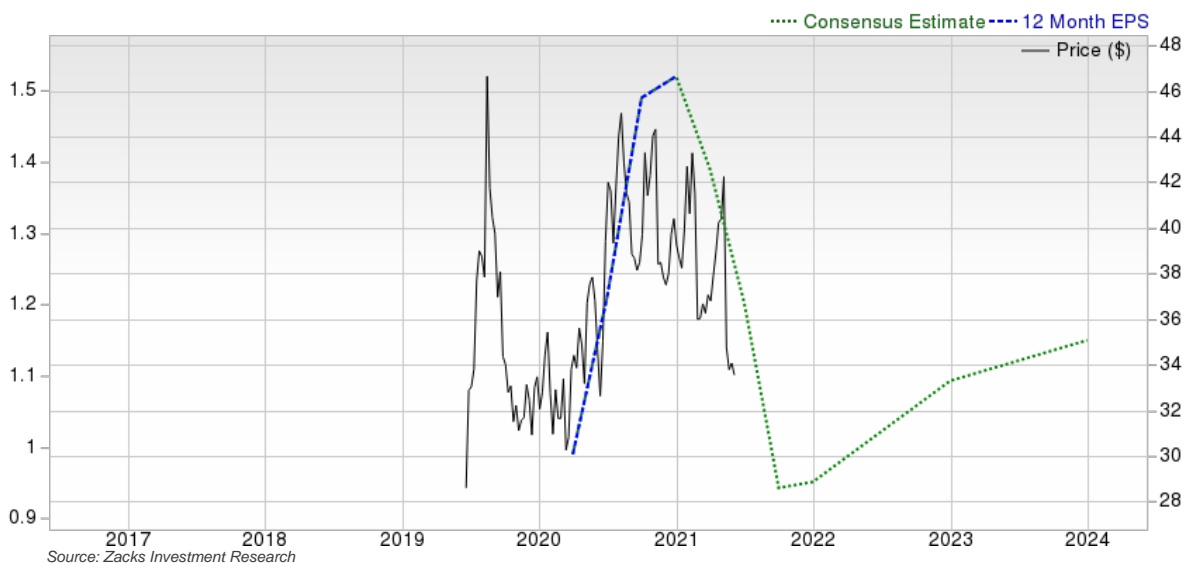
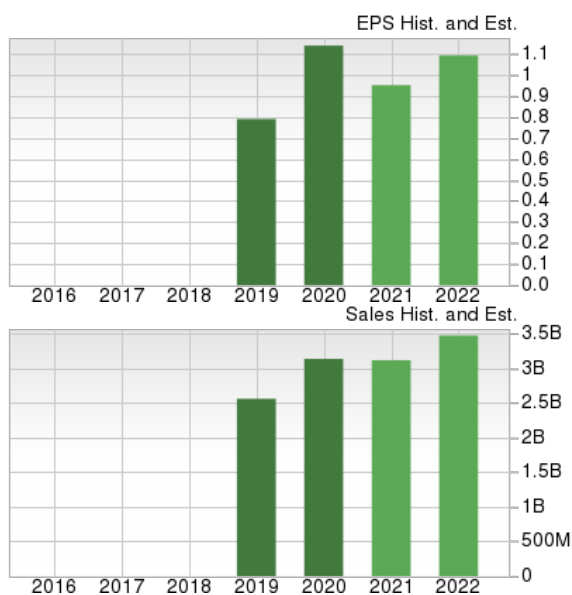
## Overview

Founded in 1946 and headquartered in Emeryville, CA, Grocery Outlet Holding Corp. is a high-growth, extreme value retailer of quality, name-brand consumables and fresh products that are sold through a network of independently owned and operated stores. Notably, the company's stores offer a fun, treasure hunt shopping experience in an easy-to-navigate, "small-box" format of size 15,000-20,000 square feet. The company offers discounted, overstocked and closeout products from name brand and private label suppliers. Stores are operated by Entrepreneurial Independent Operators ("IOs").

The company's flexible buying model allows it to offer products significantly below those of conventional retailers and discounters. It acquires merchandise at considerable discounts arising from order cancellations, manufacturer overruns, packaging changes and approaching "sell-by" dates. Notably, an ever-changing assortment of "WOW!" deals, supplemented by competitively priced everyday staples attracts bargain-hunters.

As of Apr 3, 2021, the company had 389 stores in California, Washington, Oregon, Pennsylvania, Idaho and Nevada. The stores offer a curated and ever-changing assortment of approximately 5,000 SKUs. The company's perishable departments, which comprises dairy and deli, produce and floral and fresh meat and seafood, represented about 34% of 2020 sales. Non-perishable departments including grocery, general merchandise, health and beauty care, frozen foods and beer and wine, represented roughly 66% of sales. The company also provides a wide range of Natural, Organic, Specialty and Healthy or "NOSH" products.

In June 2019, the company completed the initial public offering.



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## Reasons To Sell:

- ▼ **Soft Q1 Results:** Shares of Grocery Outlet have declined 17.8% in the past three months compared with the industry's rise of 5.2%. Much of this downside is caused by the company's soft first-quarter 2021 results, wherein both the top and the bottom line declined year over year and the former missed the Zacks Consensus Estimate. Decline in the company's comparable store sales mainly hurt the top line. Notably, the company saw a comparable-store sales decline of 8.2% during the quarter under review. This followed an increase of 7.9% in the preceding quarter. We note that the company's comparable-store sales rose 17.4% during the first quarter of last year.

We believe that higher commodity and freight costs will continue to hurt the company's gross margin. Also, it is witnessing higher SG&A expenses for a while now.

Moving on, management informed that second-quarter-to-date comparable store sales are in the negative low-double digits.

- ▼ **Higher SG&A Expenses a Concern:** We note that selling, general and administrative (SG&A) expenses rose 0.9% to \$188.6 million in the first quarter, owing to higher investments in personnel and infrastructure as well as increased store occupancy and maintenance costs emerging from store expansions. As a percentage of net sales, SG&A expenses increased 50 basis points (bps) to 25.1%. This has been weighing on the company's margins. Moving on, the company has been making key investments including infrastructure and technology investments, to support growth. In addition, incremental expenses related to the coronavirus outbreak such as additional employee payments and benefits along with investments undertaken to preserve safety and health of customers and team members may weigh on the company's profitability.
- ▼ **Dismal Margins:** We note that gross profit dropped 2.2% year over year to \$231.9 million during the first quarter. Also, gross margin contracted 40 bps to 30.8% owing to higher commodity, freight costs and normalized inventory turns. During the quarter, adjusted EBITDA tumbled 13.7% to \$48.8 million. Management expects second-quarter gross margin at roughly 30.5%, reflecting normalized inventory turns. In fact, its flexible supply chain model is likely to mitigate headwinds such as commodity and freight costs. We note that the company delivered gross margin of 31.5% in the year-earlier quarter. Moreover, the company projects adjusted EBITDA margin at nearly 6.5% of sales for the second quarter.
- ▼ **Financial Flexibility:** Grocery Outlet ended first-quarter 2021 with cash and cash equivalents of \$95.3 million (as of Apr 3, 2021), down from \$105.3 million as of Jan 2, 2021 and \$160.9 million as of Mar 28, 2020. In addition, the company's total debt was \$449.7 million at the end of the reported quarter, showing an increase of 0.1% from the preceding quarter.
- ▼ **Stock Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Grocery Outlet looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a forward 12-month P/E ratio of 34.05, which is below the median level of 36.94 and the high level of 48.46 scaled in the past year. On the contrary, the forward 12-month P/E ratios for the industry and the S&P 500 are 23.13 and 21.87, respectively.
- ▼ **Stiff Competition:** Grocery Outlet competes with both conventional grocery stores and discounters. The company faces stiff competition from a diverse group of retailers, including discount, conventional grocery, department, drug, convenience, hardware, variety, online and other specialty stores. The company views discount retailers of consumable products, such as Walmart, WinCo, Aldi and Lidl, as major competitors, as these provide wide range of products at relatively low prices, when compared with conventional grocery stores. While the company has embraced online and digital marketing, it has thus far not pursued e-commerce. The company also competes against a fragmented landscape of opportunistic purchasers, such as Big Lots and 99 Cents Only.

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## Risks

- **Differentiated Business Model:** Grocery Outlet looks well poised from a long-term perspective given its flexible sourcing and distribution model that differentiates it from traditional retailers. The company provides customers quality, name-brand consumables and fresh products at exceptional values. The company purchases merchandise at considerable discounts that arise from order cancellations, manufacturer overruns, packaging changes and nearing “sell-by” dates. We note that a typical “Grocery Outlet basket” is priced roughly 40% below than conventional grocers and approximately 20% below than leading discounters. The company’s product offering is ever-changing with a constant rotation of opportunistic products, complemented by everyday staple products. Opportunistically sourced products accounts for approximately half of purchasing mix, and are referred to as “WOW!” deals. Moreover, in order to drive customers and keep them well informed about price, quality and service, the company refreshed its brand image — updated website, modernized logo and adopted new marketing campaign.

Notably, the company’s stores are operated by Entrepreneurial Independent Operators (“IOs”). The company enters into an “Operator Agreement” with each IO, which grants it a license to operate a particular Grocery Outlet Bargain Market retail store. The agreement provides the IO with greater decision-making power, which includes merchandising, selecting about 75% of products, managing inventory, marketing locally, directly hiring, training and employing store workers and supervising operations. The company shares 50% of store-level gross profits with IOs.

- **Product Offerings:** We believe that Grocery Outlet’s compelling value proposition will continue to attract bargain-hunters, encourage customers to revisit stores, and increase basket sizes. Notably, its expanded product offerings, more “WOW!” Deals and increased customer awareness will help fuel sales. In terms of offerings, the company source on-trend products based on consumer preferences. Moreover, with consumers now looking for fresh and healthy options, the company shifted its focus to Natural, Organic, Specialty and Healthy or “NOSH” products. The company’s opportunistic purchasing strategy, inventory optimization, marketing initiatives and new product offerings appear encouraging. Cumulatively, these factors will drive comparable-store sales growth and in turn sales.
- **Store-Growth Opportunity:** Grocery Outlet had earlier indicated that based on experience and in addition to research conducted by eSite Analytics, it believes that there is a room for approximately 1,900 additional locations in the states in which it currently operates and neighboring ones. In the long term, the company believes that there is potential to establish 4,800 locations nationally. In first-quarter 2021, Grocery Outlet opened 10 stores and shuttered one during the first quarter, taking the total count to 389 stores in six states. Moreover, the company has opened six additional stores so far in the second quarter and intends to open 36-38 stores and close one during 2021. Well, it remains consistent with its 10% annual target. Markedly, the company is on track to open its 400th store in Hailey, Idaho, in the next few months.

The company continues to build its real estate pipeline to support 10% annual unit growth. Notably, the company has been undertaking strategic investments to improve its functionality and scalability. These include enhanced point of sale, warehouse management, vendor tracking, store communications, real estate lease management, and financial planning and analysis.

- **Long-term Outlook:** Encouragingly, management remains encouraged by the company’s flexible business model and healthy inventory position. The company is also on track with plans to broaden its store base. In the long run, it is committed toward accomplishing objectives of 1-3% comps growth, 10% annual unit growth and strong margins.
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## Last Earnings Report

### Grocery Outlet's Q1 Earnings Beat Estimates, Sales Miss

Grocery Outlet posted mixed results in first-quarter 2021, wherein sales missed the Zacks Consensus Estimate and earnings beat the same. Moreover, the top and bottom line declined year over year.

Decline in the company's comparable store sales mainly hurt the top line. Notably, this Emeryville, CA-based company saw a comparable-store sales decline of 8.2% during the quarter under review. This followed an increase of 7.9% in the preceding quarter. We note that the company's comparable-store sales rose 17.4% during the first quarter of last year.

Moving on, management informed that second-quarter-to-date comparable store sales are in the negative low-double digits.

### Q1 Insights

The owner and operator of grocery store chains delivered adjusted earnings of 23 cents a share that beat the Zacks Consensus Estimate by a penny. However, the bottom line plunged 23.3% from 30 cents reported in the prior-year quarter.

Net sales of \$752.5 million dropped 1% from the year-ago quarter level and lagged the Zacks Consensus Estimate of \$759.8 million. However, this downside was partly offset by the sales contribution from 34 net stores opened since the end of the first quarter of last year. In fact, new stores performed in line with management's expectations, thus contributing to sales volume.

### Margins & Costs

We note that gross profit dropped 2.2% year over year to \$231.9 million. Also, gross margin contracted 40 basis points (bps) to 30.8% on higher commodity and freight costs. During the quarter, adjusted EBITDA tumbled 13.7% to \$48.8 million.

Selling, general and administrative (SG&A) expenses rose 0.9% to \$188.6 million owing to higher investments in personnel and infrastructure as well as increased store occupancy and maintenance costs emerging from store expansions. As a percentage of net sales, the SG&A expenses increased 50 bps to 25.1%.

### Store Update

Grocery Outlet opened 10 stores and shuttered one during the first quarter, taking the total count to 389 stores in six states.

Moreover, the company has opened six additional stores so far in the second quarter and intends to open 36-38 stores and close one during 2021. Well, it remains consistent with its 10% annual target.

### Other Financial Aspects

Grocery Outlet ended first-quarter 2021 with cash and cash equivalents of \$95.3 million. Total net long-term debt was \$449.7 million, while stockholders' equity amounted to \$948.1 million.

Net cash provided by operating activities were \$26.4 million during the reported quarter.

The company incurred capital expenditures (excluding the impact of tenant improvement allowances) of \$36.6 million during the quarter under review. Management continues to envision capital expenditures (net of tenant improvement allowances) of about \$130 million for 2021.

### Outlook

Management expects second-quarter gross margin at roughly 30.5%, reflecting normalized inventory turns. Its flexible supply chain model is likely to mitigate headwinds such as commodity and freight costs. Moreover, the company projects adjusted EBITDA margin at nearly 6.5% of sales for the second quarter.

Further, management is encouraged by the company's flexible business model and healthy inventory position. The company is also on track with plans to broaden its store base. In the long run, it is committed toward accomplishing objectives of 1-3% comps growth, 10% annual unit growth and strong margins.

Quarter Ending	03/2021
Report Date	May 11, 2021
Sales Surprise	-0.97%
EPS Surprise	4.55%
Quarterly EPS	0.23
Annual EPS (TTM)	1.39

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## Valuation

Grocery Outlet shares are down 5.2% in the year-to-date period but up nearly 10.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 4.5% and 7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 15.2% and 25.8%, respectively.

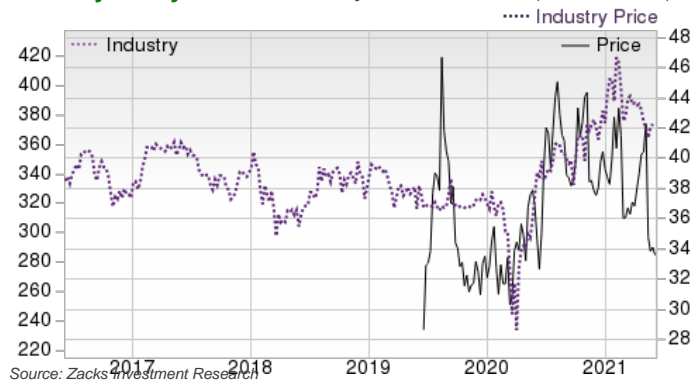
The S&P 500 index is up 13.1% in the year-to-date period and 42.6% in the past year.

The stock is currently trading at 35.02X forward 12-month earnings, which compares to 25.24X for the Zacks sub-industry, 20.78X for the Zacks sector and 21.75X for the S&P 500 index.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$29 price target reflects 30.09X forward 12-month earnings.

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## Industry Analysis Zacks Industry Rank: Bottom 9% (228 out of 251)



## Top Peers

Company (Ticker)	Rec	Rank
Target Corporation (TGT)	Outperform	1
Big Lots, Inc. (BIG)	Neutral	3
Caseys General Stores, Inc. (CASY)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Neutral	3
Sprouts Farmers Market, Inc. (SFM)	Neutral	3
Walmart Inc. (WMT)	Neutral	2

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

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	GO	X Industry	S&P 500	BIG	OLLI	WMT
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	2
VGM Score	B	-	-	A	B	A
Market Cap	3.23 B	2.84 B	30.22 B	2.47 B	5.63 B	389.72 B
# of Analysts	7	3.5	12	6	7	15
Dividend Yield	0.00%	0.00%	1.29%	1.70%	0.00%	1.58%
Value Score	C	-	-	A	C	B
Cash/Price	0.03	0.11	0.06	0.27	0.09	0.06
EV/EBITDA	21.38	11.98	17.40	1.90	17.18	12.08
PEG F1	2.64	2.29	2.13	0.94	2.06	4.28
P/B	3.40	4.07	4.17	1.95	4.06	4.63
P/CF	18.35	16.14	17.80	6.13	24.45	14.72
P/E F1	35.53	16.99	21.56	10.52	29.64	23.52
P/S TTM	1.03	1.28	3.51	0.39	2.94	0.69
Earnings Yield	2.81%	3.47%	4.55%	9.51%	3.37%	4.25%
Debt/Equity	0.47	0.41	0.66	0.03	0.00	0.52
Cash Flow (\$/share)	1.84	1.59	6.83	11.49	3.53	9.45
Growth Score	A	-	-	B	C	A
Historical EPS Growth (3-5 Years)	NA%	0.61%	9.44%	14.43%	32.86%	5.63%
Projected EPS Growth (F1/F0)	-16.54%	5.57%	21.30%	-8.84%	-7.91%	7.92%
Current Cash Flow Growth	47.19%	7.73%	0.98%	52.18%	57.01%	6.44%
Historical Cash Flow Growth (3-5 Years)	NA%	13.55%	7.28%	10.45%	35.11%	2.01%
Current Ratio	1.85	1.70	1.39	1.55	3.27	0.95
Debt/Capital	32.17%	33.35%	41.53%	2.47%	0.04%	34.26%
Net Margin	3.61%	2.97%	11.95%	10.56%	13.83%	2.18%
Return on Equity	15.49%	13.62%	16.36%	25.92%	17.59%	19.92%
Sales/Assets	1.29	1.03	0.51	1.55	0.98	2.30
Projected Sales Growth (F1/F0)	-0.56%	12.36%	9.37%	-1.46%	3.47%	-1.31%
Momentum Score	D	-	-	A	A	B
Daily Price Change	-0.74%	-0.74%	-0.44%	-2.54%	-0.74%	-0.54%
1-Week Price Change	-1.53%	0.00%	0.58%	6.33%	-2.81%	-0.13%
4-Week Price Change	2.18%	8.33%	2.80%	10.80%	8.33%	2.31%
12-Week Price Change	-7.41%	-1.23%	7.24%	4.25%	-4.42%	5.14%
52-Week Price Change	-0.65%	47.31%	36.87%	91.65%	-7.46%	14.79%
20-Day Average Volume (Shares)	869,353	496,562	1,770,532	853,404	1,288,855	7,853,316
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-8.56%	0.00%	0.03%	17.27%	6.09%	9.80%
EPS F1 Estimate 12-Week Change	-8.56%	0.54%	3.39%	19.93%	3.77%	9.64%
EPS Q1 Estimate Monthly Change	-11.29%	0.00%	0.00%	22.46%	6.26%	5.15%

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	B

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

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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