

Grocery Outlet Holding (GO)

\$37.70 (As of 01/15/21)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

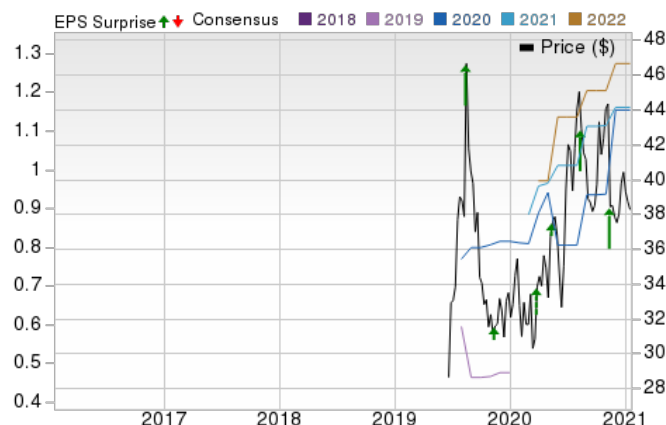
Growth: A

Momentum: C

Summary

Shares of Grocery Outlet have increased and outpaced the industry in the past year. The company sustained its upbeat performance in third-quarter 2020, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also grew year on year. This was the sixth straight quarter of earnings beat. Notably, the top line gained from comparable-store sales growth and contribution from additional stores opened. Rise in average transaction size drove comparable-store sales growth during the quarter. The company continues to manage inventory efficiently to meet customers' burgeoning demand. While gross margin also expanded, management cautioned that the metric may be at or slightly below prior-year levels in the final quarter due to ongoing headwinds from COVID-19 related distribution expenses and commodity cost pressures.

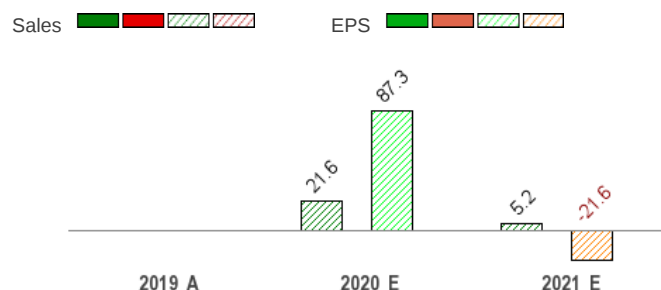
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$48.87 - \$28.11
20-Day Average Volume (Shares)	755,649
Market Cap	\$3.6 B
Year-To-Date Price Change	-2.6%
Beta	-0.39
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 48% (121 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	117.4%
Last Sales Surprise	1.4%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	25.7
P/E F1	32.5
PEG F1	2.4
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	780 E	835 E	845 E	828 E	3,275 E
2020	760 A	803 A	764 A	787 E	3,114 E
2019		645 A	653 A	656 A	2,560 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.32 E	\$0.30 E	\$0.25 E	\$1.16 E
2020	\$0.36 A	\$0.42 A	\$0.50 A	\$0.23 E	\$1.48 E
2019		\$0.20 A	\$0.22 A	\$0.21 A	\$0.79 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 01/15/2021. The reports text is as of 01/19/2021.

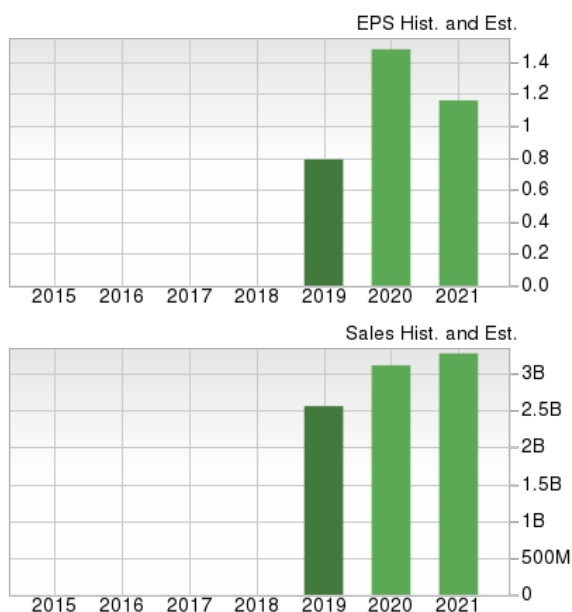
Overview

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 Sep 26, 2020, the company had 372 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 2019 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. Consumables represented approximately 90% of product sales in 2019.

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



Source: Zacks Investment Research

Reasons To Buy:

▲ **Impressive Q3 Results Boost Stock:** Grocery Outlet impressed investors with its third-quarter 2020 performance, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also grew year over year. The company gained from coronavirus-led demand. As people continue to dine at home and maintain social distancing, they have been stocking essential items. Net sales of \$764.1 million surged 17.1% from year-ago quarter's figure, courtesy of comparable-store sales growth and contribution from 35 net additional stores opened since the end of the third quarter last year. Management highlighted that it witnessed broad-based growth across all regions and categories during the reported quarter. Moreover, the company reported adjusted earnings of 50 cents a share that improved significantly from 22 cents in the prior-year quarter. Higher net sales and lower interest expenses contributed to the bottom line. This was the sixth straight quarter of positive earnings surprise.

We believe that Grocery Outlet's compelling value proposition will continue to attract bargain-hunters, encourage customers to revisit stores, and increase basket sizes.

Going ahead, Grocery Outlet is encouraged regarding its strong inventory pipeline and efficient distribution networks. Prudent deals with suppliers have also been helping the company to generate value for customers. Apart from these, the company is focusing on efficient marketing communications, to bolster sales and build dynamic relationships with customers. Markedly, the company is emphasizing on digital marketing. Such upsidest along with a strong store footprint are likely to continue fueling growth for the company. Notably, the company's shares have risen 11.1% in the past year against the industry's decline of 1%.

▲ **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 "Welcome to Bargain Bliss."

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.

▲ **Decent Comps Performance:** We believe that Grocery Outlet's compelling value proposition will continue to attract bargain-hunters, encourage customers to revisit stores, and increase basket sizes. Cumulatively, these will drive comparable-store sales growth. Notably, 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, and fresh seafood and grass-fed meat. The company's opportunistic purchasing strategy, inventory optimization, marketing initiatives and new product offerings have helped it to register comparable-store sales growth for 16 straight years. In fiscal 2019, comparable store sales had risen 5.2%.

The company registered comparable-store sales growth of 9.1% during the third quarter, on account of increase in average transaction size. This followed an increase of 16.7% in the preceding quarter. We note that the company's comparable-store sales rose 5.8% in the third quarter last year. Management notified that for the fourth quarter to date, comparable store sales growth is tracking in the mid-single digits. The increase in comparable-store sales reflects rise in average basket size, partly negated by lower store traffic as customers continue to consolidate trips. Taking into account current trends, management anticipates comparable store results for the final quarter to remain consistent at these levels.

▲ **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 more than 1,500 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 fiscal 2019, the company had opened 34 new stores.

Markedly, the company opened 10 new stores in the third quarter, taking the total count to 372 stores in six states — California, Washington, Oregon, Pennsylvania, Idaho and Nevada. The company intends to open seven stores in the fourth quarter with no additional closures. This will lead to 34 new outlets for the year. 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.

Reasons To Sell:

▼ **Near Term Headwinds:** Management anticipates gross margin rate in the fourth quarter of 2020 to be at or marginally below prior-year levels due to ongoing headwinds from COVID-19 related distribution expenses and commodity cost pressures. Management continues to expect incremental expenses related to the coronavirus outbreak. Undeniably, higher distribution and supply-chain costs, short-term product mix shifts and potential increases in commodity prices are the factors that might hurt gross margin. Apart from this management highlighted that its witnessing moderation in its average basket size growth, as food away from home is beginning to pick up pace.

▼ **Higher Operating Expenses a Concern:** We note that overall operating expenses jumped 17.3% to \$207.9 million during the third quarter of 2020, thanks to higher SG&A expenses that rose 17.9%. As a percentage of net sales, operating expenses increased 10 basis points to 27.2%. The increase in SG&A expenses was primarily driven by increased variable commission payments to IOs, store occupancy costs as well as investments to boost personnel and infrastructure capabilities for supporting the growth of business. SG&A expenses also increased on account of incremental costs associated with COVID-19.

Management continues to expect incremental COVID-related costs in the foreseeable future. These expenses are being borne by the company in order to maintain employee health and safety. Additionally, the company expects to incur higher personnel expenses as well as public company costs. As a result, management expects adjusted EBITDA margins in the fourth quarter to be slightly below prior-year levels.

▼ **Stock 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 32.8, which is below the median level of 38.79 and the high level of 48.46 scaled in the past one year. On the contrary, the forward 12-month P/E ratios for the industry and the S&P 500 are 25.56 and 19.64, 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.

Grocery Outlet cautioned that gross margin might be impacted due to a number of COVID-related factors, such as higher distribution and supply chain costs, short-term product mix shifts and potential increases in commodity prices.

Last Earnings Report

Grocery Outlet's Q3 Earnings Beat Estimates, Comps Rise

Grocery Outlet sustained its upbeat performance in third-quarter 2020 with both the top and the bottom lines not only surpassing the Zacks Consensus Estimate but also improving year over year. The company gained from coronavirus-induced spike in demand. With people dining at home and maintaining social distancing, they have been stocking essential items.

Additionally, the company's flexible sourcing and distribution business model that helps it in offering quality, name-brand consumables and fresh products at exceptional values is commendable.

Let's Take an Insight

The owner and operator of grocery store chains reported adjusted earnings of 50 cents a share that comfortably beat the Zacks Consensus Estimate of 23 cents and improved significantly from 22 cents in the prior-year period. Higher net sales and lower interest expense contributed to the bottom line. This was the sixth straight quarter of positive earnings surprise.

Net sales of \$764.1 million surged 17.1% from year-ago quarter, courtesy of comparable-store sales growth and contribution from 35 net additional stores opened since the end of the third quarter last year. The top line also surpassed the Zacks Consensus Estimate of \$753.7 million.

Notably, this Emeryville, CA-based company registered comparable-store sales growth of 9.1% during the quarter under review on account of increase in average transaction size, partially offset by decline in traffic. This followed an increase of 16.7% in the preceding quarter. We note that the company's comparable-store sales rose a meager 5.8% in the third quarter last year.

Management notified that for the fourth quarter to-date comparable store sales growth is tracking in the mid-single digits. The increase in comparable-store sales reflects rise in average basket size, partly negated by lower store traffic as customers continue to consolidate trips. Taking into account current trends, management anticipates comparable store results for the final quarter to remain consistent at these levels.

Margins & Costs

We note that gross profit improved 18.4% year over year to \$238.2 million, while gross margin expanded 40 basis points to 31.2% courtesy of reduced markdowns. Management anticipates gross margin rate in the fourth quarter to be at or marginally below prior-year levels due to ongoing headwinds from COVID-19 related distribution expenses and commodity cost pressures. Management continues to expect incremental expenses related to the coronavirus outbreak.

During the quarter, adjusted EBITDA surged 25.1% to \$55.3 million owing to gross margin expansion, partially offset by SG&A deleverage. Adjusted EBITDA margin increased 40 basis points to 7.2%. Management envisions fourth-quarter adjusted EBITDA margin to be modestly below prior-year levels.

SG&A expenses rose 17.9% to \$189.9 million. Again, as a percentage of net sales, the same jumped 20 basis points to 24.9%. The increase in SG&A expenses led to a jump of 17.3% in overall operating expenses of \$207.9 million. As a percentage of net sales, operating expenses increased 10 basis points to 27.2%.

Store Update

Grocery Outlet opened 10 new stores during the third quarter, taking the total count to 372 stores in six states. The company intends to open seven stores in the fourth quarter with no additional closures. This would result in 34 new outlets for the year. The company continues to build its real estate pipeline to support 10% annual unit growth.

Other Financial Aspects

Grocery Outlet ended third-quarter 2020 with cash and cash equivalents of \$59.1 million compared with \$44 million at the end of the same period in fiscal 2019. Total debt was \$460.1 million at the end of the quarter under review compared with \$475.5 million at the end of the prior-year period.

The company incurred capital expenditures (excluding the impact of landlord allowances) of \$35.9 million during the quarter under review. Management envisions capital expenditures to be about \$105 million for the full year.

Quarter Ending 09/2020

Report Date	Nov 10, 2020
Sales Surprise	1.38%
EPS Surprise	117.39%
Quarterly EPS	0.50
Annual EPS (TTM)	1.49

Valuation

Grocery Outlet shares are down 3% in the past six months but up nearly 11.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 7.2% and 12.5%, respectively, in the past six months. Over the past year, the sub-industry is down 1% but the sector is 0.4%.

The S&P 500 index is up 17.4% in the past six months and 17.1% in the past year.

The stock is currently trading at 32.8X forward 12-month earnings, which compares to 25.56X for the Zacks sub-industry, 19.64X for the Zacks sector and 22.85X for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 34.77X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Dollar Tree, Inc. (DLTR)	Outperform	1
Target Corporation (TGT)	Outperform	2
Big Lots, Inc. (BIG)	Neutral	4
Caseys General Stores, Inc. (CASY)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Neutral	4
Sprouts Farmers Market, Inc. (SFM)	Neutral	2
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)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	2
VGM Score	B	-	-	A	C	C
Market Cap	3.60 B	3.45 B	27.23 B	1.93 B	6.42 B	409.23 B
# of Analysts	7	3.5	13	6	7	14
Dividend Yield	0.00%	0.00%	1.44%	2.30%	0.00%	1.49%
Value Score	C	-	-	A	D	C
Cash/Price	0.02	0.07	0.06	0.33	0.05	0.03
EV/EBITDA	34.58	11.94	14.76	3.03	32.12	13.07
PEG F1	2.41	2.46	2.58	0.65	1.63	4.74
P/B	3.94	4.21	3.73	1.63	5.06	4.68
P/CF	28.89	18.64	14.32	7.26	42.49	16.33
P/E F1	32.50	19.43	20.57	7.17	32.31	26.08
P/S TTM	1.21	1.65	2.98	0.32	3.74	0.75
Earnings Yield	3.03%	3.95%	4.78%	13.96%	3.10%	3.84%
Debt/Equity	0.50	0.41	0.70	0.03	0.00	0.52
Cash Flow (\$/share)	1.32	1.15	6.92	7.18	2.31	8.85
Growth Score	A	-	-	B	B	C
Historical EPS Growth (3-5 Years)	NA%	1.98%	9.72%	10.07%	31.82%	3.78%
Projected EPS Growth (F1/F0)	-21.62%	13.66%	12.26%	98.09%	54.88%	12.47%
Current Cash Flow Growth	75.51%	8.58%	5.20%	0.18%	8.58%	-0.12%
Historical Cash Flow Growth (3-5 Years)	NA%	5.94%	8.37%	2.93%	30.96%	-0.31%
Current Ratio	1.76	1.51	1.38	1.49	2.65	0.84
Debt/Capital	33.54%	39.59%	41.97%	3.04%	0.05%	34.26%
Net Margin	3.09%	1.53%	10.44%	10.30%	13.31%	3.60%
Return on Equity	17.92%	16.64%	15.40%	26.25%	16.64%	19.22%
Sales/Assets	1.29	1.18	0.50	1.63	0.98	2.29
Projected Sales Growth (F1/F0)	5.17%	5.79%	6.01%	16.92%	26.27%	5.86%
Momentum Score	C	-	-	F	B	C
Daily Price Change	1.03%	-0.97%	-0.59%	-0.17%	1.66%	-1.59%
1-Week Price Change	-1.43%	3.48%	2.23%	3.61%	11.69%	1.72%
4-Week Price Change	-2.97%	5.31%	2.58%	10.74%	17.98%	-1.00%
12-Week Price Change	-8.54%	17.26%	11.96%	1.94%	6.05%	0.76%
52-Week Price Change	11.52%	32.30%	5.71%	80.99%	79.54%	24.80%
20-Day Average Volume (Shares)	755,649	855,728	1,749,628	1,595,073	1,171,052	7,039,255
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.83%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.06%	-0.66%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	4.37%	0.31%	2.44%	0.02%	0.05%	3.71%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-18.74%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	C
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.

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.

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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