

Garmin Ltd. (GRMN)

\$115.19 (As of 11/06/20)

Price Target (6-12 Months): **\$121.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Garmin reported stellar third-quarter results wherein both earnings and revenues topped the estimates and grew year over year. Strong performance of fitness, outdoor and marine segments drove the top-line growth. Growing demand for advanced wearables, adventure watches and cycling products remained a positive. Solid adoption of Chartplotters contributed well. Also, strengthening momentum across specialty categories and new OEM programs was another positive. Garmin's strong focus on continued innovation, diversification and market expansion to explore growth opportunities in all its segments remains a tailwind. The stock has outperformed its industry on a year-to-date basis. However, weak personal navigation device market remains a headwind for the company's auto segment. Sluggish ADS-B products remain overhangs for the aviation segment.

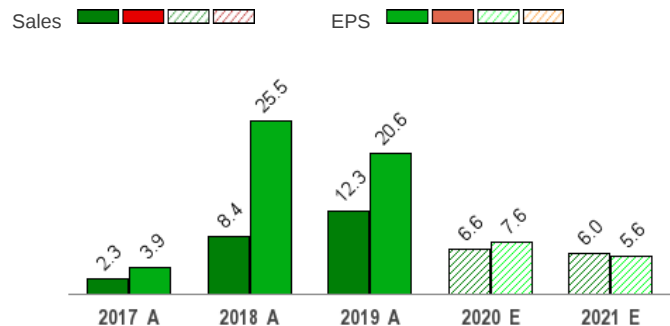
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$116.29 - \$61.04
20-Day Average Volume (Shares)	910,799
Market Cap	\$22.0 B
Year-To-Date Price Change	18.1%
Beta	0.98
Dividend / Dividend Yield	\$2.44 / 2.1%
Industry	Electronics - Miscellaneous Products
Zacks Industry Rank	Top 47% (117 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	56.4%
Last Sales Surprise	22.3%
EPS F1 Estimate 4-Week Change	18.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	24.6
P/E F1	24.1
PEG F1	3.3
P/S TTM	5.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,244 E
2020	856 A	870 A	1,109 A	1,168 E	4,005 E
2019	766 A	955 A	934 A	1,102 A	3,758 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.88 E	\$1.37 E	\$1.39 E	\$1.54 E	\$5.06 E
2020	\$0.91 A	\$0.91 A	\$1.58 A	\$1.39 E	\$4.79 E
2019	\$0.73 A	\$1.16 A	\$1.27 A	\$1.29 A	\$4.45 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/06/2020. The reports text is as of 11/09/2020.

Overview

Olathe, Kansas-based, Garmin, Ltd. is an original equipment manufacturer (OEM) of navigation and communication equipment that incorporate the global positioning system (GPS)-based technology.

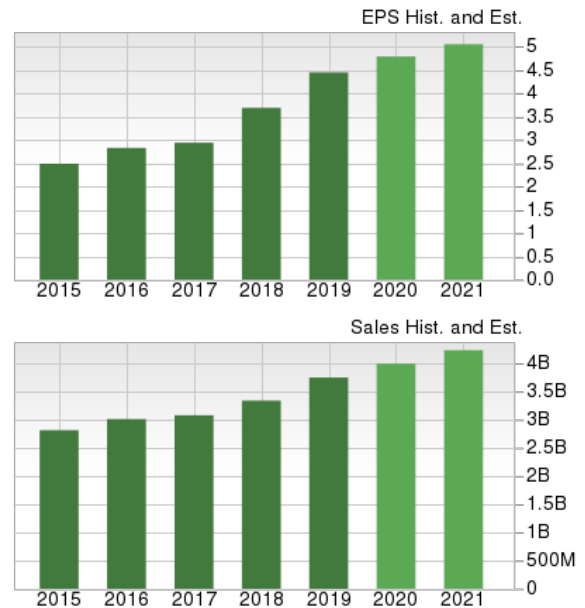
The company's diverse portfolio of handheld, portable and fixed-mount GPS-enabled devices provides geographical location and navigation data using the GPS satellite system

Garmin reported revenues of \$3.758 billion in 2019. The company report operations under five segments—Outdoor, Fitness, Marine, Auto and Aviation, which generated 24%, 28%, 14%, 15% and 19% of revenues, respectively.

Outdoor products currently include handhelds, wearables, golfing devices, dog tracking/training devices and action cameras. The Fitness segment offers running and cycling products of various kinds and includes platforms for connecting and sharing data with others. Marine products include chartplotters, fishfinders, sounders, autopilot systems, radars, instruments, radios, handhelds and wrist-worn devices, sailing and entertainment products. Auto offers personal navigation devices (PNDs), infotainment solutions and mobile applications. Aviation offers integrated avionics or flight decks; panel mounted navigation, traffic, audio, transponder, weather and other products; portable and wearable solutions; and mobile apps.

Products are manufactured at its Xizhi, Jhongli and LinKou facilities in Taiwan, its Yangzhou facility in China and its Olathe, Kansas and Salem, Oregon facilities in the U.S. They are sold through a big network of independent dealers across 100 countries globally.

Garmin products are distributed through a hybrid sales channel system that utilizes a network of distributors and retailers. They are also sold directly to OEMs that integrate the GPS capability into their end product.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The **Fitness business** has continued to grow over the last few years. Management has gradually built the product portfolio, through both internal development efforts and acquisitions. Strength in this segment continues to be driven a focus on location-enabled wearables and growing engagement on the Connect IQ App store. The Connect IQ App store has numerous apps, watch faces and widgets. Also, music providers like Spotify, Deezer and KKBOX and others have been added to Connect IQ App Store. Further, the company's new music-enabled wearables gaining traction in the market. The company is also seeing opportunity to increase penetration in Europe. Given the steady introduction of new products, the mix of products continues to improve, thus offsetting the impact of low average selling prices characteristic of this highly competitive market and ensuring continued improvement in segment profitability.
- ▲ Garmin has a very strong **Outdoor business** where it continues to introduce new products and extend the functionality of current products. One example is Garmin Elevate, which can be used along with some Outdoor products for better golfing or dog tracking. To date, both the golfing and dog tracking and training product lines have done really well. The DeLorme acquisition is helping creation of consumer-type tracking devices that can connect with satellites for communication and navigation. So its addition to segment revenue is likely to be a long-term positive. Further, growing adoption of adventure watch namely fenix 5 Plus series along with the launch of Instinct and Descent is driving revenues within this segment. Further, increasing inReach subscriptions are also tailwinds.
- ▲ The company has been making some significant investments in the **Marine business** that helped it grow a solid product line. The acquisition of Japan-based Active Corporation which is a developer of crowdsourcing boating platform popularly known as ActiveCaptain is contributing well. Garmin has developed a very promising product called Quickdraw Contours that enables boaters to create maps of their lakes and storing them right on the devices. They are also able to share these with others through the Quickdraw Community platform, which leverages the cloud to create these maps as HD images and share this user-generated information. The product is now available for inland waterways and should enable the company to pick up some market share. Further, the company's sonar system called Panoptix LiveScope creates realtime video-like images underwater, is gaining traction in the marine industry. Overall, chartplotters such as GPSMAP and echoMAP, fish finders, cartography and entertainment product lines are all contributing significantly to Marine segment revenues. The company's strategy has been to build a strong position for itself through product introductions and strategic partnerships. Individual and recreational purchases (retail sales) aside, Garmin also has signed on some important accounts (OEMs). Garmin has supplemented these efforts with acquisitions that have made significant contributions.
- ▲ The **Aviation business** is strong with Garmin solutions remaining popular at both OEM after-market customers. Last year, gross margin from this segment stayed over 75%. The company's initiatives to expand its portfolio and enhance existing product lines are therefore positive. With its 345 families of ADS-B transponders, Garmin is well positioned to take advantage of the FAA mandated transition to more efficient transponders (air traffic management systems).
- ▲ Garmin has a **strong balance sheet** with ample liquidity position. As of Sep 30, 2020, Garmin had cash and cash equivalents and marketable securities of \$1.65 billion compared with \$1.7 billion as of Jun 30, 2020. During third-quarter 2020, cash from operations came in at \$274.3 million, up from \$199.2 million in the previous quarter. Garmin also generated free cash flow of \$235.5 million in the third quarter. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, it will help in distributing to shareholders. The company paid out dividends worth \$117 million to shareholders in the third quarter.

Garmin's focus on delivering innovative products across all business segments, namely fitness, marine and outdoor, and contribution from acquisitions remain positives.

Reasons To Sell:

▼ Despite significant reductions for a number of years, Garmin's **PND business** remains a big part of its business. The secular decline in this business is offsetting, at times almost entirely, the growth in its other segments. Management has shifted focus to in-dash solutions where revenue is necessarily deferred in some cases. This adds to the weakness caused by the cannibalization of this market by smartphones. Further, management was late to grasp the changing trends, which increased competition in the space. This is a pity given the leadership position it has always enjoyed in the PND market. Management expects the PND market will continue to decline this year, which will naturally remain a drag on the company's business.

The secular decline in PNDs, macro headwinds, slowing economy, increasing competition and pricing pressures are negatives.

▼ One of the main problems that Garmin is increasingly likely to see is **ASP/volume pressure in wearables**. As Garmin ships a growing number of wearables, these devices are likely to compete with products from Fitbit and Apple Watch, especially the Watch because it can do a whole lot more. Garmin caters to a niche market of professionals, so it can afford to charge a premium for a high-quality product. But as soon as professionals start preferring their Apple products, there will be pressure on the company to lower prices. Conversely, Garmin will never be able to serve the general purpose wearables market with a premium product. So this is a negative for volumes, necessitating its success in the niche it serves. Second quarter results seem to indicate that Garmin is succeeding with its strategy, but the game definitely isn't over yet. So increased pressure on R&D dollars /margins at Garmin can't be ruled out.

▼ Each of the business segments experience **seasonality**. The PND business (auto/mobile) experiences stronger demand in the fourth quarter, driven by the holiday season. The outdoor and fitness segments usually decline in the first quarter from the holiday driven sales in the fourth quarter and thereafter increases every quarter. Aviation is driven less by seasonality than customer product sales, although typically, the second and third quarters are stronger. Marine is also a seasonal business, with the latter half of the year softer than the former due to weather conditions. Seasonality causes wide fluctuations in revenue and profit and makes forecasting difficult. Also, if the company misses a seasonal window when targeting customers, it could lead to share losses. The OEM strategy will mitigate the impact of significant fluctuations and possible share losses across the business.

Last Earnings Report

Garmin's Q3 Earnings & Revenues Surpass Estimates

Garmin has reported third-quarter 2020 pro-forma earnings of \$1.58 per share, beating the Zacks Consensus Estimate by 56.4%. Moreover, the bottom line improved 24.4% on a year-over-year basis and 73.6% sequentially.

Net sales were \$1.11 billion, which surpassed the Zacks Consensus Estimate of \$907.4 million. Further, the figure increased 19% from the year-ago quarter and 27.5% sequentially.

Top-line growth was driven by strong performance delivered by the company's marine, outdoor and fitness segments. Moreover, increasing demand for active lifestyle products remained a major positive.

However, sluggishness in its auto and aviation segments was concerning.

Nevertheless, Garmin's strong focus on continued innovation, diversification and market expansion to explore opportunities across all business segments remains a major positive. Further, its strong product lines are expected to aid its performance in the current quarter.

Segmental Details

Outdoor (30.2% of net sales): The segment generated sales of \$334.84 million during the reported quarter, improving 30% year over year. The year-over-year increase was primarily driven by robust demand for Garmin's adventure watches.

Fitness (29.6%): This segment generated sales of \$328.45 million, which increased 35% from the year-ago quarter. This can be primarily attributed to its well-performing advanced wearables and cycling products.

Aviation (13.6%): The segment generated sales of \$151.11 million, declining 19% on a year-over-year basis. This was due to sluggish contributions from ADS-B products. Also, weak shipments to OEM customers remained a headwind.

Marine (14.9%): Garmin generated sales of \$165.44 million from this segment, increasing 54% on a year-over-year basis. The company witnessed solid momentum across chartplotters during the reported quarter, which, in turn, drove the segment's revenues.

Auto (11.7%): This segment generated sales of \$129.36 million, down 6% from the prior-year quarter. The decline was primarily due to softness in the personal navigation device market. Nevertheless, Garmin witnessed strengthening momentum across specialty categories and new OEM programs.

Revenues by Geography

Americas: Garmin generated sales of \$521.87 million from this region during the reported quarter (47% of net sales), up 19% year over year.

EMEA: This region generated sales of \$407.86 million in the third quarter (36.8%), up 19% on a year-over-year basis.

APAC: The company generated sales of \$179.47 million from this region (16.2%), improving 19% from the year-ago quarter.

Operating Results

In the third quarter, gross margin was 60.2%, which contracted 50 basis points (bps) from the year-ago period.

The company's operating expenses of \$350.9 million were up 14.7% from the prior-year quarter. However, as a percentage of revenues, the figure contracted 110 bps year over year to 31.6%.

Operating margin of 28.6% in the reported quarter expanded 60 bps year over year.

Balance Sheet & Cash Flow

As of Sep 26, 2020, cash, cash equivalents and marketable securities came in at \$1.65 billion, lower than \$1.7 billion as of Jun 30, 2020.

In the third quarter, inventories were \$821.4 million compared with \$813.2 million in the second quarter. We note that the company had no long-term debt in the reported quarter.

Further, it generated \$274.3 million of cash from operations during the reported quarter compared with \$199.2 million in the previous quarter.

Further, the company generated free cash flow of \$235.5 million.

Further, Garmin paid out dividends worth \$117 million to shareholders in the third quarter.

2020 Guidance

The company projects net sales at \$4 billion, which is expected to be driven by growth in marine, outdoor and fitness segments. Notably, year-over-year growth in these segments is projected at 25%, 15% and 20%, respectively.

Garmin anticipates aviation and auto segments to exhibit year-over-year declines of 17% and 20%, respectively..

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	22.25%
EPS Surprise	56.44%
Quarterly EPS	1.58
Annual EPS (TTM)	4.69

Further, the company expects gross margin and operating margin of 59% and 24%, respectively.

Also, it projects pro-forma earnings at \$4.70 per share.

Recent News

On **Oct 14, 2020**, Garmin introduced Index S2 smart scale, which synchronizes the health data of users with the Garmin Connect app so that they can access their health and fitness information easily through the app.

On **Sep 30, 2020**, Garmin unveiled a GPS-enabled smartwatch namely D2 Air. This smartwatch is designed to provide enhanced situational awareness. This move expanded the company's smartwatch portfolio.

On **Sep 23, 2020**, Garmin rolled out GPSMAP 66sr and GPSMAP 65 Series handheld devices in an effort to expand its GPS devices portfolio.

On **Sep 22, 2020**, Garmin unveiled the Performance Edition MARQ watches —MARQ Athlete, MARQ Adventurer, MARQ Aviator and MARQ Driver, with stylish silicone rubber straps and additional features.

On **Sep 9, 2020**, Garmin introduced GMR Phantom 254/256 open-array radars, featuring a pulse compression power of 250W. The latest addition to the company's expanding product line is especially designed for marine-related activities.

Valuation

Garmin shares are up 18% in the year-to-date period and 14.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.3% and the Zacks Computer & Technology sector is up 32.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 3.4% but the sector is up 32.7%.

The S&P 500 index is up 9.5% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 21.32X forward 12-month earnings, which compares to 17.39X for the Zacks sub-industry, 26.25X for the Zacks sector and 22.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.16X and as low as 13.69X, with a 5-year median of 19.47X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$101 price target reflects 26.9X forward 12-month earnings.

The table below shows summary valuation data for GRMN

Valuation Multiples - GRMN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.32	17.39	26.25	22.04
	5-Year High	28.16	18.7	27.99	23.47
	5-Year Low	13.69	12.61	16.95	15.27
	5-Year Median	19.47	15.95	19.94	17.68
P/S F12M	Current	4.82	1.47	4.24	4.1
	5-Year High	5.35	1.59	4.48	4.3
	5-Year Low	2.22	0.65	2.77	3.17
	5-Year Median	3.66	1.15	3.44	3.66
EV/EBITDA TTM	Current	19.04	18.38	14.28	13.66
	5-Year High	20.17	19.49	15.78	15.63
	5-Year Low	7.81	8.61	8.25	9.52
	5-Year Median	14.31	14.02	11.89	13.11

As of 11/06/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 47% (117 out of 249)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	3
FUJITSU GENERAL (FGELF)	Neutral	3
Fitbit, Inc. (FIT)	Neutral	4
Alphabet Inc. (GOOGL)	Neutral	2
Hoya Corp. (HOCY)	Neutral	3
SPECTRIS PLC (SEPJY)	Neutral	3
Smc Corporation (SMCAY)	Neutral	3
Trimble Inc. (TRMB)	Neutral	2

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

Industry Comparison Industry: Electronics - Miscellaneous Products				Industry Peers		
	GRMN	X Industry	S&P 500	FIT	SMCAY	TRMB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	2
VGM Score	D	-	-	D	D	D
Market Cap	22.03 B	298.26 M	23.64 B	1.72 B	38.29 B	14.01 B
# of Analysts	5	1.5	13	3	1	9
Dividend Yield	2.12%	0.00%	1.56%	0.00%	0.48%	0.00%
Value Score	D	-	-	F	F	D
Cash/Price	0.08	0.14	0.07	0.26	0.14	0.02
EV/EBITDA	18.63	8.56	13.75	-5.19	20.63	23.97
PEG F1	3.27	2.36	2.71	NA	NA	3.83
P/B	4.32	2.06	3.33	4.43	3.32	4.18
P/CF	23.89	8.52	13.32	NA	32.65	21.45
P/E F1	24.05	22.34	21.18	NA	34.66	28.70
P/S TTM	5.59	1.23	2.63	1.31	7.91	4.46
Earnings Yield	4.16%	4.31%	4.53%	-6.96%	2.89%	3.48%
Debt/Equity	0.00	0.16	0.70	0.00	0.01	0.41
Cash Flow (\$/share)	4.82	1.66	6.92	-0.64	0.87	2.61
Growth Score	D	-	-	C	C	C
Historical EPS Growth (3-5 Years)	15.05%	-1.82%	10.07%	NA	NA	17.50%
Projected EPS Growth (F1/F0)	7.69%	10.05%	0.26%	-128.00%	-69.63%	10.86%
Current Cash Flow Growth	19.85%	0.92%	5.29%	82.30%	-12.14%	0.92%
Historical Cash Flow Growth (3-5 Years)	7.04%	4.01%	8.38%	NA	NA	3.41%
Current Ratio	2.98	1.82	1.38	1.40	10.22	0.92
Debt/Capital	0.00%	16.01%	41.97%	0.00%	0.62%	29.33%
Net Margin	25.89%	0.84%	10.44%	-19.70%	21.01%	15.56%
Return on Equity	18.38%	6.87%	14.96%	-45.57%	8.91%	14.84%
Sales/Assets	0.63	0.89	0.50	1.11	0.38	0.47
Projected Sales Growth (F1/F0)	6.58%	0.00%	0.00%	-15.98%	-0.34%	-7.48%
Momentum Score	C	-	-	A	B	D
Daily Price Change	1.70%	0.00%	-0.23%	0.00%	-0.28%	0.30%
1-Week Price Change	3.15%	-2.49%	-5.63%	1.29%	-1.58%	-3.89%
4-Week Price Change	17.39%	0.38%	0.00%	2.47%	2.56%	9.59%
12-Week Price Change	10.10%	-0.26%	2.80%	11.04%	0.93%	11.87%
52-Week Price Change	21.30%	-2.05%	2.05%	0.86%	23.03%	37.15%
20-Day Average Volume (Shares)	910,799	59,985	1,955,785	4,600,559	43,607	1,054,963
EPS F1 Estimate 1-Week Change	3.45%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	17.97%	3.59%	1.27%	0.00%	8.61%	0.00%
EPS F1 Estimate 12-Week Change	17.97%	8.61%	3.13%	-1.73%	8.61%	4.16%
EPS Q1 Estimate Monthly Change	15.03%	0.00%	0.51%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	D

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

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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.