

The Home Depot Inc. (HD)

\$302.78 (As of 06/16/21)

Price Target (6-12 Months): **\$348.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/25/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

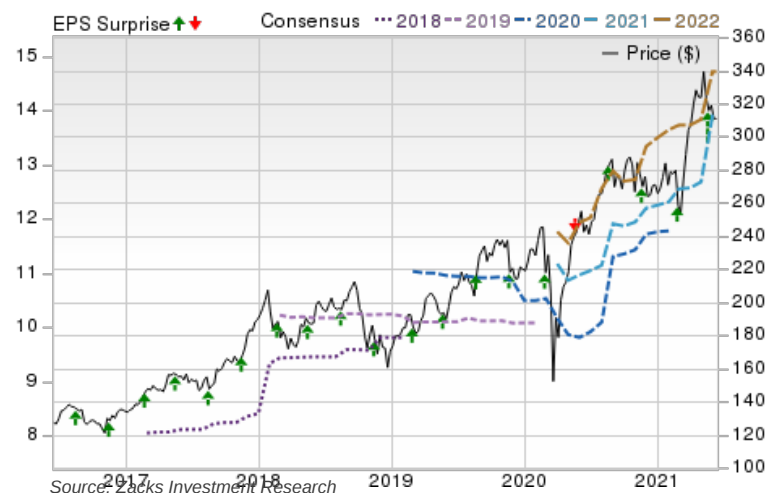
Growth: A

Momentum: C

Summary

Shares of Home Depot have risen and outpaced the industry in the past three months. The company boasts a robust surprise trend with fourth straight quarter of earnings and sales beat posted in first-quarter fiscal 2021. Results gained from the continued strong demand for home-improvement projects as well as its ongoing investments. The company is effectively adapting to the continued boom in renovations and construction activities, driven by investments in its business over the years and the dedication of its associates to serve customers. It also gained from strong growth in its Pro and DIY customer categories and continued digital momentum. However, increased penetration of lumber products in the company's sales mix continued to hurt gross margin. Also, continued pressure from shrink and higher transportation costs were headwinds.

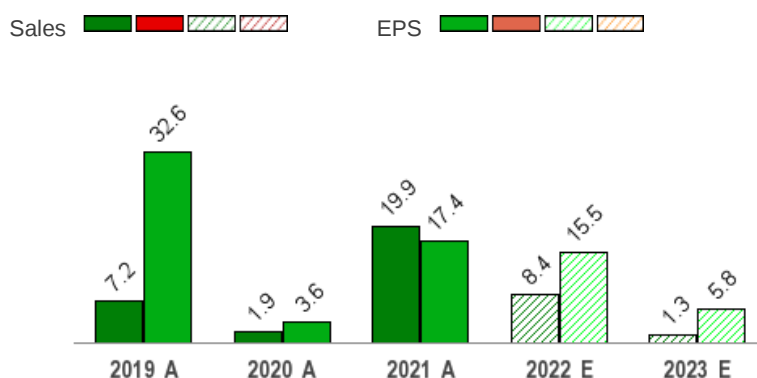
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$345.69 - \$240.25
20-Day Average Volume (Shares)	3,299,208
Market Cap	\$321.9 B
Year-To-Date Price Change	14.0%
Beta	1.05
Dividend / Dividend Yield	\$6.60 / 2.2%
Industry	Building Products - Retail
Zacks Industry Rank	Top 30% (75 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.0%
Last Sales Surprise	7.5%
EPS F1 Estimate 4-Week Change	7.9%
Expected Report Date	08/17/2021
Earnings ESP	2.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023	35,196 E	41,538 E	35,938 E	33,967 E	144,949 E
2022	37,500 A	40,048 E	33,852 E	32,085 E	143,148 E
2021	28,260 A	38,053 A	33,536 A	32,261 A	132,110 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023	\$3.51 E	\$4.70 E	\$3.66 E	\$3.17 E	\$14.71 E
2022	\$3.86 A	\$4.29 E	\$3.24 E	\$2.75 E	\$13.90 E
2021	\$2.08 A	\$4.02 A	\$3.18 A	\$2.74 A	\$12.03 A

*Quarterly figures may not add up to annual.

P/E TTM	21.9
P/E F1	21.8
PEG F1	1.9
P/S TTM	2.3

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/16/2021. The report's text and the

analyst-provided price target are as of 06/17/2021.

Overview

Based on net sales, The Home Depot Inc. is the world's largest home improvement specialty retailer with 2,291 retail stores across the globe as of the end of fiscal 2019. It offers a diverse range of branded and proprietary home improvement items, building materials, lawn and garden products, décor products and related services.

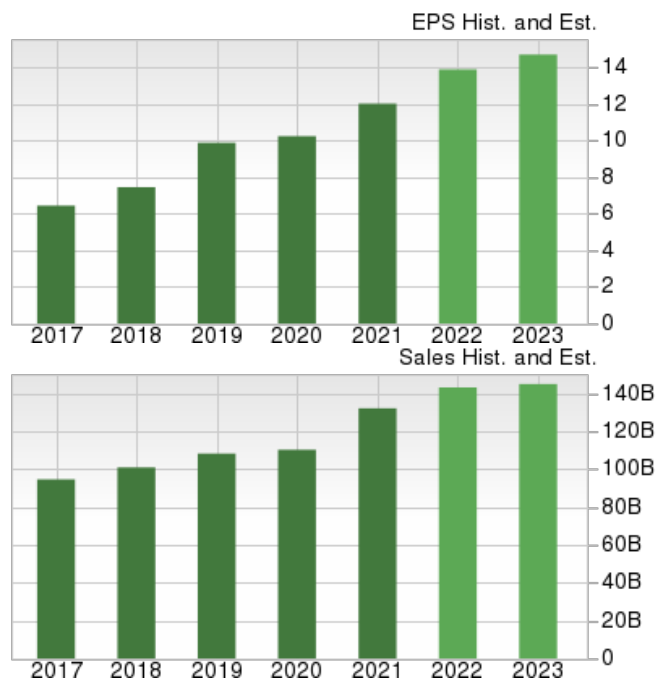
With the help of its stores, the company operates throughout the United States (including Puerto Rico and the territories of the Virgin Islands and Guam), Canada and Mexico and employs more than 300,000 associates. The company's average store area is almost 104,000 square feet with approximately 24,000 square feet of additional outside garden area. It also functions through a network of distribution and fulfillment centers, as well as a number of e-commerce websites.

The company typically serves three primary customer groups: Do-It-Yourself (DIY), Do-It-For-Me (DIFM), and Professional Customers.

DIY Customers: These customers are usually homeowners, who prefer purchasing products and completing installations on their own. The company engages these customers in various platforms to provide product and project knowledge.

DIFM Customers: These customers are usually homeowners, who purchase products on their own and employ third-parties to complete the projects and installations. The company offers a variety of installation services in stores, online, or in their homes through in-home consultations for DIFM customers.

Professional Customers: This customer segment mostly comprises professional remodelers, general contractors, repairmen, small business owners, and tradesmen. These customers build, renovate, remodel, repair and maintain residential properties, multifamily properties, hospitality properties and commercial facilities.



Reasons To Buy:

▲ **Robust Surprise Trend, Stock Outperforms:** Shares of Home Depot rallied 11.8% in the past three months, outpacing the industry's growth of 10.2%. The outperformance can be attributed to its robust surprise trend. The company reported sales and earnings beat for the fourth straight quarter in first-quarter fiscal 2021. Moreover, the top and bottom line improved year over year. Results gained from the continued strong demand for home-improvement projects as well as its ongoing investments. Adjusted earnings improved 85.6% year over year, while sales were up 32.7% mainly on continued boom in renovations and construction activities. The company is effectively adapting to the high-demand environment, driven by investments in its business over the years and the dedication of its associates to serve customers. Its overall comps grew 31%, with a 29.9% improvement in the United States. Comps were mainly aided by a 10.3% rise in average ticket and a 19.3% increase in customer transactions. Also, it witnessed strong double-digit growth from both the Pro and DIY customers.

Home Depot is witnessing significant benefits from the execution of its One Home Depot plan, which focuses on expanding supply chain, technology investments and digital enhancements.

▲ **Integrated Retail Strategy:** Home Depot is witnessing significant benefits from the execution of the "One Home Depot" investment plan, which focuses on expanding supply chain facilities, technology investments and enhancement to the digital experience. Amid the pandemic, customers have been increasingly blending of the physical and digital elements of the shopping experience, making the interconnected One Home Depot strategy most relevant. The interconnected retail strategy and underlying technology infrastructure have helped consistently boost web traffic for the past few quarters. Sales leveraging the digital platforms grew 27% year over year in the fiscal first quarter, with about 55% of the online orders being delivered from a store. Another key component of delivering an interconnected experience is enhanced delivery and fulfillment options. Over the years, the company has created the fastest, most efficient delivery network in home improvement through options like buy online pickup in store (BOPIS) with convenient pickup lockers, buy online deliver from store with express car and van delivery, and the curbside pickup.

In first-quarter fiscal 2021, it rolled out the new mixed-cart selling from store capability, eliminating the friction for both customers and associates. The mixed-cart feature enables customers to add products from both the website and store to a single transaction. This also enables associates to more efficiently serve the total project needs of customers. Moreover, it is looking to enhance interconnected facilities in the tool rental, through the expansion of rent online pilot chainwide. This will expand its rental footprint, with the rent online, pick up in store capabilities available across all 1,300-plus tool rental locations in the United States and Canada. Moreover, this capability is likely to enhance the experience for both Pro and DIY customers.

▲ **Strong DIY Sales:** The increased stay-at-home trends have led to a rise in repairs and home remodeling projects, with heightened engagement from new and existing customers. This has resulted in increased engagement in DIY projects. Notably, the strong demand trends witnessed in the back half of fiscal 2020 continued in to the first quarter of fiscal 2021. Categories from gardening to garage and organization have been witnessing strong demand trends. Additionally, the first quarter results gained significantly from a robust spring selling season, with strong demand across key outdoor and garden categories. Strength in gardening was more than just plants and shrubs, with record sales witnessed for categories like planters and hardscapes. Additionally, interior projects like countertops, vanities, blinds, and home decor all showed significant growth in the fiscal first quarter.

▲ **Focus on Pro Customers:** Home Depot's Pro segment has been a key growth driver, with Pro segment witnessing robust sales growth for the past several quarters. In the fiscal first quarter, its Pro customers sales accelerated on a sequential basis and grew double-digits year over year. Moreover, Pro sales growth slightly outpaced DIY sales in the fiscal first quarter. The company witnessed notable strength in pro customers, marking the fourth consecutive quarter of accelerated growth. The company expects continued sales growth from Pros as project demand is strong and their backlogs are growing. The company remains on track with its strategic investments to build a Pro ecosystem that includes professional grade product, exclusive brands, enhanced delivery, credit, digital capabilities, field sales support, HD rental and more. The company expects its differentiated Pro ecosystem will aid deeper engagement with Pro customers in the long term.

▲ **Financial Flexibility:** Home Depot enjoys strong financial status. Although the company's cash and cash equivalents at the end of first-quarter fiscal 2021 of \$6,648 million declined 15.8% from \$7,895 million at the end of fourth-quarter fiscal 2020, it remains sufficient to fund its short-term obligations of about \$1,164 million (current installments of long-term debt). As of May 2, 2021, the company had a long-term debt of \$34,697 million, which reflects a sequential decline of 3.1%. The company's debt-to-capitalization ratio of 0.95 has increased sequentially and is higher than the industry's 0.88 debt-to-capitalization. However, its times interest earned ratio of 15.3 versus the industry's 12.8 indicates that it is better positioned to meet its debt obligations, compared to its peers. Also, times earned ratio reflects a sequential improvement from 13.6 in the prior quarter, indicating better prospects to meet debt obligations.

▲ **Sustained Shareholder Returns:** Home Depot has a disciplined capital allocation strategy, supported by solid free cash flow generation capability. This allows management to undertake shareholder-friendly moves. Clearly, the long-term targets of dividend payout ratio of about 55% of earnings and return on invested capital (ROIC) of more than 40% highlight its focus on this strategy. Based on the average of beginning and ending long-term debt and equity for the trailing 12 months, ROIC at the end of first-quarter fiscal 2021 was 45.1%, up from 40.8% in first-quarter fiscal 2020. In first-quarter fiscal 2021, the company paid out cash dividends of \$1,775 million and repurchased shares worth \$3,788 million. Moreover, it recently declared first-quarter cash dividend of \$1.65 per share, payable on Jun 17. Additionally, it authorized a new \$20 million share repurchase program, which replaces its existing authorization. Notably, Home Depot has a dividend payout ratio of 47.8%, annualized dividend yield of 2.1% and free cash flow yield of 4.99%. With an annual free cash flow return on

investment of 49.04%, ahead of the industry's nearly 45.33%; the dividend payment is likely to be sustainable.

Risks

- **Soft Margins:** Although Home Depot's gross profit increased 32.4% year over year in first-quarter fiscal 2021, gross margin of 34% contracted nearly 10 basis points (bps). The decrease was primarily driven increased penetration of lumber products in the company's sales mix. Negative mix from lumber alone hurt gross margin by 35 bps in the fiscal first quarter. Additionally, continued pressure from shrink and higher transportation costs hurt gross margin. Although operating margin expanded 380 bps, it was hurt by gross margin decline as well as higher SG&A and other operating expenses. In the fiscal first quarter, total operating increased 9.6% year over year. Moreover, SG&A expense rose 9.3% to \$6,374 million.
 - **High Interest Expense:** In first-quarter fiscal 2021, Home Depot recorded a \$26 million increase in interest expense to \$333 million, mainly due to increase in long-term debt position compared with the prior-year quarter. As of May 2, 2021, the company's long-term debt of \$34,697 million increased 9.7% year over year.
 - **Stiff Competition:** In the home improvement retailing business, Home Depot faces stiff competition from Lowe's, Sherwin-Williams Company and other home supply retailers on aspects such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Additionally, the company faces intense competition from online retailers. This may weigh upon the company's results.
-

Last Earnings Report

Home Depot Q1 Earnings & Sales Top Estimates

Home Depot posted first-quarter fiscal 2021 results, wherein earnings and sales beat the Zacks Consensus Estimate and improved year over year. The company gained from the continued strong demand for home-improvement projects as well as its ongoing investments.

Q1 Highlights

The company's earnings of \$3.86 per share improved 85.6% from \$2.08 registered in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate of \$3.04.

Net sales advanced 32.7% to \$37,500 million from \$28,260 million in the year-ago quarter and beat the Zacks Consensus Estimate of \$34,880 million. Sales benefited from the continued robust demand for home improvement projects.

The company is effectively adapting to the high-demand environment, driven by investments in its business over the years and the dedication of its associates to serve customers. Its overall comps grew 31%, with a 29.9% improvement in the United States.

In the reported quarter, comps were aided by a 10.3% rise in average ticket and a 19.3% increase in customer transactions. Moreover, sales per square foot rose 29.8%.

In dollar terms, gross profit increased 32.4% to \$12,742 million from \$9,625 million in the year-ago quarter, primarily driven by robust sales growth. Meanwhile, gross profit margin contracted almost 10 basis points (bps) from last year to 34%.

Operating income increased 76.5% to \$5,781 million, while operating margin expanded 380 bps to 15.4%. Operating margin benefited from top-line growth as well as flat gross margin, offset by higher SG&A and other operating expenses.

Balance Sheet and Cash Flow

Home Depot ended first-quarter fiscal 2021 with cash and cash equivalents of \$6,648 million, long-term debt (excluding current maturities) of \$34,697 million, and shareholders' equity of \$1,748 million. In first-quarter fiscal 2021, it generated \$6,310 million of net cash from operations.

In the fiscal first quarter, the company paid out cash dividends of \$1,775 million and repurchased shares worth \$3,788 million.

Quarter Ending	04/2021
Report Date	May 18, 2021
Sales Surprise	7.51%
EPS Surprise	26.97%
Quarterly EPS	3.86
Annual EPS (TTM)	13.80

Recent News

Home Depot Declares Dividend & Authorizes Share Repurchase – May 21, 2021

Home Depot declared first-quarter cash dividend of \$1.65 per share, payable on Jun 17, 2021 to shareholders with record as on Jun 3. Additionally, the company authorized a new \$20 million share repurchase program, which replaces its existing authorization.

Home Depot Enhances Deliveries in Florida With Three Distribution Centers – Apr 15, 2021

In a bid to provide speedy deliveries to customers in South Florida, Home Depot opened three new distribution centers in Florida, spanning from West Palm Beach and Miami to Fort Myers. Additionally, the company has plans to open two more Miami distribution centers in 2022. On a combined basis, these five distribution centers are expected to create significant job opportunities in Florida, with more than 150 full-and-part time positions.

The new 332,000-square-foot facility in Miami is capable of delivering big and bulky construction materials and other oversized product directly to Pro and DIY customers. Meanwhile, the West Palm and Fort Myers facilities are likely to expand the company appliance delivery capability in those regions. The new additional facilities planned for opening in 2022 in Miami are expected to enhance the appliance delivery and same-day and next-day parcel delivery capabilities in the region.

These openings are a part of the company's previously announced plan to invest \$1.2 billion in supply-chain in 2017. This plan is on track to build a network of 150 new facilities nationwide to scale up deliveries to customers.

Valuation

The Home Depot shares are up 14% in the year-to-date period and 21.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 12.1% but the Zacks Retail-Wholesale sector is down 1.6% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 24.6% and 18.1%, respectively.

The S&P 500 index is up 13.8% in the year-to-date period and 38.4% in the past year.

The stock is currently trading at 21.31X forward 12-month earnings, which compares to 19.91X for the Zacks sub-industry, 27.88X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.11X and as low as 14.42X, with a 5-year median of 20.32X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$348 price target reflects 24.49X forward 12-month earnings.

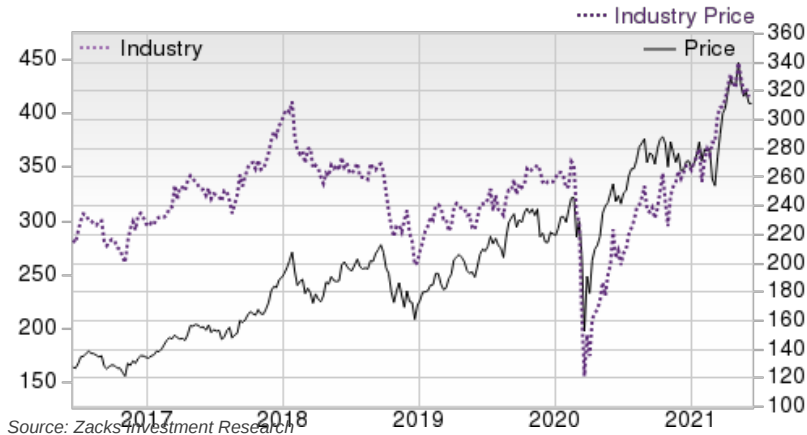
The table below shows summary valuation data for HD

Valuation Multiples - HD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.31	19.91	27.88	21.82
	5-Year High	27.11	23.66	34.07	23.83
	5-Year Low	14.42	16.06	19.13	15.31
	5-Year Median	20.32	19.03	23.96	18.05
P/S F12M	Current	2.24	1.61	1.32	4.72
	5-Year High	2.68	1.8	1.41	4.74
	5-Year Low	1.44	1.08	0.84	3.21
	5-Year Median	2	1.37	1.02	3.72
EV/EBITDA TTM	Current	14.95	12.72	19.18	17.44
	5-Year High	18.31	15.16	20.82	17.74
	5-Year Low	10.77	8.21	11.18	9.63
	5-Year Median	14.07	11.14	13.47	13.47

As of 06/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Lumber Liquidators Holdings, Inc. (LL)	Outperform	1
Tecnoglass Inc. (TGLS)	Outperform	2
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Builders FirstSource, Inc. (BLDR)	Neutral	3
Fastenal Company (FAST)	Neutral	3
GMS Inc. (GMS)	Neutral	3
Lowes Companies, Inc. (LOW)	Neutral	2
Travis Perkins PLC (TVPKF)	Underperform	5

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

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	HD	X Industry	S&P 500	BLDR	LOW	TVPKF
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	3	2	5
VGM Score	B	-	-	B	A	-
Market Cap	321.93 B	1.82 B	29.96 B	8.98 B	131.62 B	NA
# of Analysts	14	7.5	12	7	14	3
Dividend Yield	2.18%	0.00%	1.3%	0.00%	1.29%	%
Value Score	C	-	-	B	B	D
Cash/Price	0.02	0.08	0.05	0.00	0.05	NA
EV/EBITDA	16.79	13.77	17.13	15.99	14.38	NA
PEG F1	1.86	1.26	2.12	NA	1.26	NA
P/B	184.17	2.99	4.17	1.80	295.78	NA
P/CF	21.06	11.43	17.46	10.67	16.51	NA
P/E F1	21.78	16.67	21.27	10.86	17.31	NA
P/S TTM	2.28	0.82	3.46	0.82	1.40	NA
Earnings Yield	4.59%	6.00%	4.62%	9.21%	5.78%	NA%
Debt/Equity	19.85	1.09	0.66	0.33	49.23	NA
Cash Flow (\$/share)	14.38	2.92	6.83	4.06	11.27	2.91
Growth Score	A	-	-	F	A	A
Historical EPS Growth (3-5 Years)	17.55%	16.28%	9.44%	34.98%	20.76%	NA
Projected EPS Growth (F1/F0)	15.54%	22.72%	21.49%	32.56%	21.40%	62.98%
Current Cash Flow Growth	14.36%	27.43%	0.86%	35.97%	40.74%	36.59%
Historical Cash Flow Growth (3-5 Years)	12.01%	11.56%	7.28%	37.95%	12.12%	3.97%
Current Ratio	1.11	2.04	1.39	1.92	1.17	NA
Debt/Capital	95.20%	51.57%	41.51%	24.96%	98.01%	NA
Net Margin	10.45%	5.37%	11.95%	4.36%	7.23%	NA
Return on Equity	963.88%	27.49%	16.48%	27.49%	296.41%	NA
Sales/Assets	2.07	1.63	0.51	2.05	1.88	NA
Projected Sales Growth (F1/F0)	8.35%	2.99%	9.41%	91.61%	2.26%	-20.61%
Momentum Score	C	-	-	A	B	-
Daily Price Change	-1.20%	-0.73%	-0.54%	-0.07%	-0.89%	0.00%
1-Week Price Change	-0.08%	-0.08%	0.10%	2.72%	0.47%	NA%
4-Week Price Change	-3.71%	-2.37%	2.62%	-2.89%	-2.37%	NA%
12-Week Price Change	3.43%	5.76%	8.60%	2.27%	3.06%	NA
52-Week Price Change	20.70%	82.40%	35.66%	94.65%	37.26%	NA
20-Day Average Volume (Shares)	3,299,208	394,094	1,734,994	2,870,520	3,655,449	0
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	7.86%	0.00%	0.05%	5.96%	7.50%	-8.95%
EPS F1 Estimate 12-Week Change	10.76%	10.92%	3.39%	22.93%	10.92%	-24.75%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	6.76%	:	0.15%	:	0.00%	:	0.00%	:	3.41%	NA
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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