

## Huntington Ingalls(HII)

**\$158.04** (As of 11/11/20)

Price Target (6-12 Months): **\$168.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

## Summary

Huntington Ingalls ended third-quarter 2020 on a solid note, with both its earnings and revenues surpassing the respective Zacks Consensus Estimate. The company is the sole designer and manufacturer of nuclear-powered aircraft carriers in the United States. The shipbuilding business outlook remains strong, given the fiscal 2021 defense budget, thereby benefiting the stock. Its significant backlog indicates solid revenue growth for the company. However, the company is incurring expenses due to the COVID-19 pandemic that may impact its bottom-line performance. In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum. This is likely to disrupt the supply chain, thereby hurting the stock's growth prospects. Its shares have underperformed the industry in the year-to-date period.

## Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$279.71 - \$136.44</b>        |
| 20-Day Average Volume (Shares) | <b>381,850</b>                    |
| Market Cap                     | <b>\$6.4 B</b>                    |
| Year-To-Date Price Change      | <b>-37.0%</b>                     |
| Beta                           | <b>0.90</b>                       |
| Dividend / Dividend Yield      | <b>\$4.56 / 2.6%</b>              |
| Industry                       | <b>Aerospace - Defense</b>        |
| Zacks Industry Rank            | <b>Bottom 7% (230 out of 248)</b> |

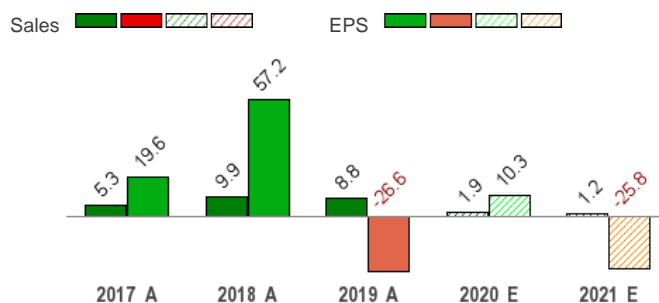
|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>30.4%</b>      |
| Last Sales Surprise           | <b>3.9%</b>       |
| EPS F1 Estimate 4-Week Change | <b>7.2%</b>       |
| Expected Report Date          | <b>02/11/2021</b> |
| Earnings ESP                  | <b>-2.4%</b>      |

|         |             |
|---------|-------------|
| P/E TTM | <b>11.7</b> |
| P/E F1  | <b>10.2</b> |
| PEG F1  | <b>0.3</b>  |
| P/S TTM | <b>0.7</b>  |

## Price, Consensus & Surprise



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



## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 2,208 E | 2,211 E | 2,302 E | 2,497 E | 9,179 E |
| 2020 | 2,263 A | 2,027 A | 2,314 A | 2,426 E | 9,070 E |
| 2019 | 2,080 A | 2,188 A | 2,219 A | 2,412 A | 8,899 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | \$2.99 E | \$2.98 E | \$3.09 E | \$3.49 E | \$11.47 E |
| 2020 | \$4.23 A | \$1.30 A | \$5.45 A | \$4.88 E | \$15.45 E |
| 2019 | \$2.85 A | \$3.07 A | \$3.74 A | \$4.36 A | \$14.01 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 11/11/2020. The reports text is as of 11/12/2020.

## Overview

Based in Newport News, VA, **Huntington Ingalls Industries** designs, builds and maintains nuclear-powered ships such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships for the U.S. Navy and Coast Guard and provides after-market services for military ships around the globe.

Currently, Huntington Ingalls operates through three segments: Ingalls division, Newport News Shipbuilding division and Technical Solutions division.

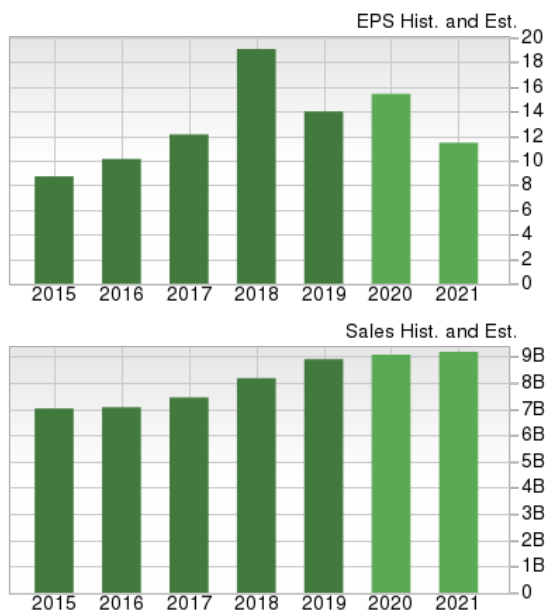
**Ingalls** – The company's Ingalls segment manufactures amphibious assault and expeditionary ships for the U.S. Navy. The division is the only builder of National Security Cutters ("NSCs") for the U.S. Coast Guard and one of only two companies that builds the Navy's current fleet of DDG-51 Arleigh Burke -class destroyers. It generated revenues of \$2,555 million in 2019, representing 28.2% of total revenues.

Through its **Newport News** segment, the company is the nation's sole designer, builder and refueler of nuclear-powered aircraft carriers. It is also one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy. The segment generated revenues of \$5,186 million in 2019, representing 57.3% of total revenues.

The **Technical Solutions** segment provides a wide range of professional services through its fleet support, integrated missions solutions, nuclear and environmental, and oil and gas operations. It generated revenues of \$1,309 million in the 2019, representing 14.5% of total revenues.

Total revenues included intersegment eliminations worth \$151 million.

As of Dec 31, 2019, Huntington Ingalls' total backlog was \$46.5 billion, significantly higher than \$23 billion registered at the end of 2018.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Largest U.S. Military Shipbuilder & Recent Uptick:** Huntington Ingalls is the prime industrial employer in Virginia. It is the sole designer and manufacturer of nuclear-powered aircraft carriers in the U.S. Over 70% of the active U.S. Navy fleet consists of Huntington Ingalls ships. Coming to the quarterly updates, the company's CVN 79 Kennedy is approximately 76% complete and it remains focused on compartment completion and key propulsion plant milestone. Its CVN 73 USS George Washington is consistently progressing through its final outfitting and test phase and is approximately 81% complete.

The company is the largest player of the nation's shipbuilding industry. Its stable financials, impressive backlog count and solid budget outlook are added positives.

In the DDG program, DDG 121, Frank E. Petersen, Jr., is focused on system completion and support of trials next year, while DDG 125, Jack H. Lucas continues to move through important production milestones and is scheduled to be launched in the first half of 2021. In the submarine program, SSN 794 Montana is approximately 89% complete and scheduled for delivery in late 2021. SSN 796 New Jersey remains on track to achieve the pressure hull complete and float-off milestones in 2021 as planned. On the other hand, NSC 9 Stone continues to progress through the test program and remains on track to be delivered by end of 2020. Structural work on LHA 8 Bougainville is on track and the ship is nearly 40% erected. On successful completion, such notable programs should boost the company's top line.

- ▲ **Positive Budget & Backlog:** The shipbuilding business outlook remains strong, given the fiscal 2021 defense budget inclusion of a solid spending plan worth \$32.3 billion on shipbuilding. Additionally, the proposed fiscal 2021 budget includes funding worth \$4.4 billion for one Columbia Class Ballistic Missile Submarine and \$3 billion for one CVN-78 FORD Class Aircraft Carrier. No doubt, Huntington Ingalls will be significant beneficiaries of such spending proposals. For more than 100 years, this company has been building ships, aircraft carriers and submarines for the U.S. Navy at their shipyards in Virginia and Mississippi.

The value of new contract awards that the company won in third-quarter 2020 was approximately \$1.6 billion, which resulted in a total backlog of \$45.3 billion as of Sep 30, 2020, of which approximately \$21.9 billion is funded. Such significant backlog count indicates solid revenue growth for the company.

- ▲ **Stable Financials:** Huntington Ingalls' cash and cash equivalents at the end of third quarter 2020 were \$744 million, up 18% sequentially. The company's long-term debt as of Jun 30, 2020, was \$2,278 million, almost flat compared with the prior-quarter figure. Although the long-term debt level lies much above the company's cash reserve, the company holds no current debt. This reflects a favorable solvency position for Huntington Ingalls, at least over the short term.

Moreover, the company's current ratio of 1.29, as of Sep 30, 2020, being more than 1 indicates that it has sufficient capital in hand to meet its short-term obligations. Further, Huntington Ingalls' debt-to-capital ratio of 0.55 declined sequentially from 0.58 and also remained below the industry's level of 0.89. These favorable ratios make us optimistic about the company's ability to meet debt obligations in the near future.

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## Reasons To Sell:

▼ **Tariff Impact:** In January 2020, the Trump administration announced plans to expand its existing tariffs on imports of steel and aluminum, starting Feb 8. Steel and aluminum derivatives will also come under the tariff mandate. This tariff expansion is expected to deal a heavy blow to the U.S. aerospace and defense industry, which relies heavily on imported aluminum. In 2018, when the initial tariff was imposed, the AIA had expressed concerns by saying that such a tariff will raise costs and disrupt the supply chain. Now that tariffs are being imposed on derivatives as well, the growth prospects for manufacturing-oriented stocks like Huntington Ingalls seem bleak.

Competitive pressure and impact of the coronavirus outbreak may hurt Huntington Ingalls' profit.

▼ **Intense Competition:** In its primary business of designing, building, overhauling, and repairing military ships, the company primarily competes with General Dynamics Corp. Among the six major private U.S. shipyards, Huntington Ingalls owns three while there are numerous smaller private shipyards that compete for contracts. Again, Huntington Ingalls' products, such as aircraft carriers, submarines, amphibious assault ships, surface combatants, and other ships, compete for funding with each other, as well as with other defense products and services. More competitive pressure is brewing up for future shipbuilding programs that might have a negative impact on the company's profit.

▼ **COVID-19 Impacts:** Huntington Ingalls incurred and expects to incur costs related to COVID-19 events, including paid leave, quarantining employees and recurring facility cleaning. This might weigh on its bottom-line performance. While its shipyards and other facilities remain open and productive, the company experienced a decrease in workforce attendance. This impacted its operations given the lack of availability of critical skills and out-of-sequence work. For the first nine months of 2020, the company recognized across all its programs an aggregate unfavorable impact on operating margin of \$61 million for delay and disruption attributable to COVID-19 events.

Moreover, the company fears that continued lower staffing levels and lower employee productivity might impact its ability to achieve anticipated milestones and further affect its financial results in 2020 and beyond. To tackle the situation, the company has also been forced to temporarily halt stock repurchases and will continue to reassess when to initiate repurchases. Since the pandemic is unlikely to die out anytime soon, its impacts are expected to be a major growth inhibitor for the company going ahead. As a result, Huntington Ingalls underperformed the industry in the year-to-date time. Shares of the company have lost 37% compared with the industry's 22.8% decline.

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## Last Earnings Report

### Huntington Ingalls Q3 Earnings Beat, Revenues Up Y/Y

Huntington Ingalls' third-quarter 2020 earnings of \$5.45 per share surpassed the Zacks Consensus Estimate of \$4.18 by 30.4%. Moreover, the bottom line improved 45.7% from \$3.74 reported in the prior-year quarter.

#### Total Revenues

Total revenues came in at \$2,314 million, exceeding the Zacks Consensus Estimate of \$2,228 million by 3.9%. The top line also improved 4.3% from \$2,219 million in the year-ago quarter. The increase was driven by growth in both Newport News and Ingalls Shipbuilding divisions.

#### Operational Performance

Huntington Ingalls reported total operating income of \$222 million compared to the operating income of \$1214 million in the third quarter of 2019. The increase in operating income was mainly the result of higher operating FAS/CAS adjustments.

Huntington Ingalls received orders worth \$1.6 billion during the third quarter. As a result, the company's total backlog reached \$45.3 billion as of Sep 30, 2020.

#### Segmental Performance

**Newport News Shipbuilding:** Revenues totaled \$1,358 million in this segment, up 6.6% year over year on account of higher revenues in submarine and

aircraft carrier construction as well as fleet support services.

Meanwhile, the segment reported operating earnings of \$79 million in the quarter, which declined 34.7% year over year. The segment's operating margin contracted 368 basis points (bps) to 5.6%.

**Ingalls Shipbuilding:** Revenues in this segment totaled \$675 million, up 4.3% year over year on account of higher revenues of surface combatants and the Legend-class National Security Cutter (NSC) program.

Also, operating income improved 1.6% year over year to \$62 million, while operating margin contracted 24 bps to 9.2%.

**Technical Solutions:** Revenues in this segment slipped 1.8% to \$320 million on account of lower revenues from the San Diego Shipyard due to the conclusion of several repair contracts.

The segment's operating income soared 133.3% year over year to \$21 million, whereas operating margin expanded 380 bps to 6.6%.

#### Financial Update

Cash and cash equivalents as of Sep 30, 2020 were \$744 million, significantly up from \$75 million as of Dec 31, 2019.

Long-term debt as of Sep 30, 2020, was \$2,278 million compared with the 2019-end level of \$1,286 million.

Cash from operating activities at the end of third-quarter 2020 grossed \$491 million, up from the previous year's \$330 million.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 05, 2020 |
| Sales Surprise   | 3.88%        |
| EPS Surprise     | 30.38%       |
| Quarterly EPS    | 5.45         |
| Annual EPS (TTM) | 15.34        |

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## Recent News

On **Nov 3, 2020**, Huntington Ingalls announced that its Board of Directors has declared a quarterly cash dividend of \$1.14 per share, up by 11 cents over the \$1.03 per share dividend paid in each of the prior four quarters. The \$1.14 per share dividend will be payable on Dec. 11, 2020, to shareholders of record as of the close of business on Nov. 27, 2020.

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## Valuation

Huntington Ingalls' shares are down 37% in the year to date period and 37.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 22.8% and 31% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 31.6% and the Zacks Aerospace sector witnessed a 35% decline.

The S&P 500 index is up 11.2% in the year to date period and 16% in the past year.

The stock is currently trading at 11.9X forward 12-month earnings, which compares to 19.1X for the Zacks sub-industry, 19.6X for the Zacks sector and 23.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.3X and as low as 8X, with a 5-year median of 14.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$168 price target reflects 13.9X earnings value.

The table below shows summary valuation data for HII

| Valuation Multiples - HII |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 12.97 | 20.28        | 21.42  | 22.51   |
|                           | 5-Year High   | 21.32 | 22.54        | 21.42  | 23.47   |
|                           | 5-Year Low    | 8.02  | 14.52        | 14.17  | 15.27   |
|                           | 5-Year Median | 14.26 | 17.9         | 17.56  | 17.72   |
| P/S F12M                  | Current       | 0.71  | 1.29         | 1.74   | 4.19    |
|                           | 5-Year High   | 1.6   | 1.54         | 1.74   | 4.3     |
|                           | 5-Year Low    | 0.62  | 0.95         | 0.93   | 3.17    |
|                           | 5-Year Median | 1.11  | 1.28         | 1.25   | 3.67    |
| EV/EBITDA TTM             | Current       | 8.02  | 41.28        | 17.45  | 15.8    |
|                           | 5-Year High   | 12.58 | 41.79        | 17.73  | 15.8    |
|                           | 5-Year Low    | 5.74  | 8.46         | 7.61   | 9.52    |
|                           | 5-Year Median | 9.02  | 11.88        | 10.8   | 13.1    |

As of 11/11/2020

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Bottom 7% (230 out of 248)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                   | Rec          | Rank |
|------------------------------------|--------------|------|
| General Dynamics Corporation (GD)  | Neutral      | 3    |
| Leidos Holdings, Inc. (LDOS)       | Neutral      | 3    |
| Lockheed Martin Corporation (LMT)  | Neutral      | 3    |
| Northrop Grumman Corporation (NOC) | Neutral      | 4    |
| Ardmore Shipping Corporation (ASC) | Underperform | 5    |
| Bae Systems PLC (BAESY)            | Underperform | 4    |
| Euronav NV (EURN)                  | Underperform | 5    |
| Hexcel Corporation (HXL)           | Underperform | 5    |

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

| Industry Comparison Industry: Aerospace - Defense |         |            |           | Industry Peers |           |           |
|---|---------|------------|-----------|----------------|-----------|-----------|
|   | HII     | X Industry | S&P 500   | GD             | LMT       | NOC       |
| Zacks Recommendation (Long Term)                  | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                           | 4       | -          | -         | 3              | 3         | 4         |
| VGM Score   | A       | -          | -         | A              | A         | A         |
| Market Cap  | 6.40 B  | 12.76 B    | 24.85 B   | 43.13 B        | 103.32 B  | 51.68 B   |
| # of Analysts                                     | 4       | 7          | 14        | 8              | 9         | 7         |
| Dividend Yield                                    | 2.61%   | 0.01%      | 1.52%     | 2.93%          | 2.60%     | 1.87%     |
| Value Score                                       | A       | -          | -         | B              | B         | C         |
| Cash/Price  | 0.12    | 0.11       | 0.07      | 0.04           | 0.04      | 0.10      |
| EV/EBITDA   | 7.84    | 12.27      | 14.28     | 9.40           | 12.27     | 14.89     |
| PEG F1  | 0.26    | 2.27       | 2.75      | 2.47           | 2.27      | NA        |
| P/B   | 3.40    | 3.24       | 3.54      | 2.93           | 20.72     | 4.94      |
| P/CF  | 7.70    | 11.24      | 13.53     | 10.09          | 14.04     | 11.24     |
| P/E F1  | 10.27   | 15.67      | 21.77     | 13.60          | 15.09     | 13.67     |
| P/S TTM   | 0.71    | 1.13       | 2.82      | 1.13           | 1.61      | 1.46      |
| Earnings Yield                                    | 9.78%   | 5.29%      | 4.44%     | 7.35%          | 6.63%     | 7.31%     |
| Debt/Equity                                       | 1.21    | 0.68       | 0.70      | 0.68           | 2.34      | 1.36      |
| Cash Flow (\$/share)                              | 20.51   | 2.73       | 6.92      | 14.89          | 26.30     | 27.58     |
| Growth Score                                      | A       | -          | -         | B              | A         | A         |
| Historical EPS Growth (3-5 Years)                 | 13.87%  | 13.87%     | 9.77%     | 5.46%          | 18.98%    | 23.34%    |
| Projected EPS Growth (F1/F0)                      | 10.26%  | 1.95%      | 0.37%     | -7.74%         | 11.51%    | 6.90%     |
| Current Cash Flow Growth                          | -19.56% | 11.64%     | 5.29%     | 3.16%          | 18.08%    | 2.21%     |
| Historical Cash Flow Growth (3-5 Years)           | 6.79%   | 7.38%      | 8.33%     | 6.36%          | 9.70%     | 14.43%    |
| Current Ratio                                     | 1.29    | 1.31       | 1.38      | 1.29           | 1.33      | 1.44      |
| Debt/Capital                                      | 54.79%  | 40.52%     | 42.01%    | 40.41%         | 70.07%    | 57.67%    |
| Net Margin  | 6.61%   | 4.30%      | 10.44%    | 8.33%          | 10.18%    | 6.94%     |
| Return on Equity                                  | 36.94%  | 8.69%      | 15.07%    | 23.00%         | 173.43%   | 40.02%    |
| Sales/Assets                                      | 1.15    | 0.76       | 0.50      | 0.75           | 1.30      | 0.82      |
| Projected Sales Growth (F1/F0)                    | 1.92%   | 0.00%      | 0.23%     | -2.48%         | 9.25%     | 5.61%     |
| Momentum Score                                    | A       | -          | -         | B              | B         | B         |
| Daily Price Change                                | -2.17%  | -1.20%     | -0.12%    | -0.67%         | -0.54%    | -1.45%    |
| 1-Week Price Change                               | 3.55%   | 8.73%      | 5.72%     | 6.08%          | 3.18%     | 3.98%     |
| 4-Week Price Change                               | 4.30%   | 6.89%      | 5.01%     | 5.18%          | -5.49%    | -1.57%    |
| 12-Week Price Change                              | -2.91%  | 3.36%      | 8.82%     | -1.44%         | -5.33%    | -8.27%    |
| 52-Week Price Change                              | -37.90% | -10.94%    | 5.93%     | -18.64%        | -4.75%    | -12.37%   |
| 20-Day Average Volume (Shares)                    | 381,850 | 999,002    | 2,124,074 | 1,620,203      | 1,460,352 | 1,113,718 |
| EPS F1 Estimate 1-Week Change                     | 7.24%   | 0.00%      | 0.00%     | 0.00%          | 0.28%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                     | 7.24%   | 0.96%      | 1.87%     | 0.11%          | 0.95%     | 0.96%     |
| EPS F1 Estimate 12-Week Change                    | 7.24%   | 1.06%      | 4.07%     | 0.02%          | 0.97%     | 1.15%     |
| EPS Q1 Estimate Monthly Change                    | -2.50%  | 0.13%      | 0.86%     | -0.68%         | 3.30%     | 0.26%     |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | A |
| Momentum Score | A |
| VGM Score      | A |

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

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## Disclosures

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## Additional Disclosure

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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