

Hilton Worldwide (HLT)

\$109.16 (As of 12/03/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

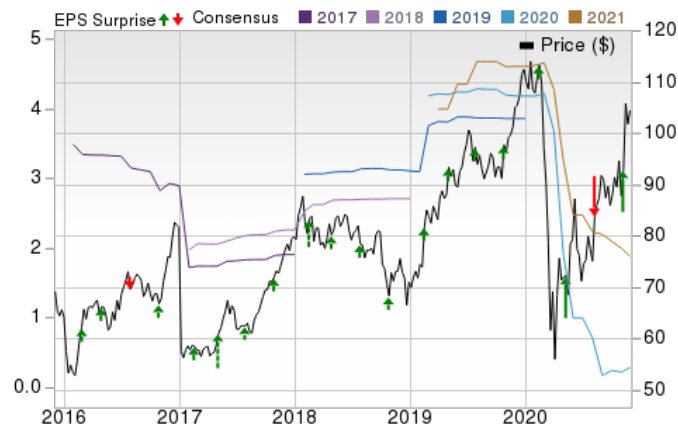
Growth: F

Momentum: B

Summary

Shares of Hilton have outperformed the industry in the past year. Recently, the company reported third-quarter 2020, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. Earnings estimates for 2020 have witnessed upward revisions over the past 30 days, indicating analyst optimism regarding growth potential. Although majority of the properties are in operation, the company is witnessing lower occupancy rates compared with the pre-pandemic levels. It is also witnessing significant declines in RevPAR in all regions. Due to rise in coronavirus cases in Europe, the company's positive summer momentum in the region has been hindered. However, the company's expansion initiatives, hotel conversions and digitalization efforts bode well. Also, increased focus on capital-light business model and loyalty program bode well.

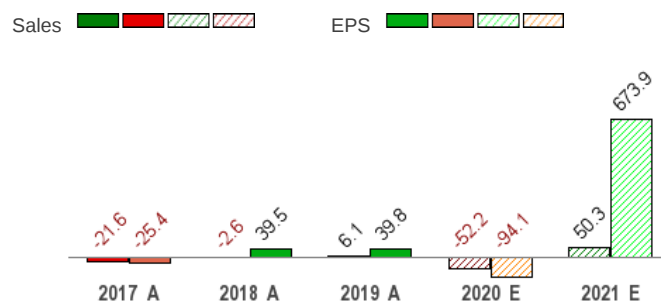
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$116.73 - \$44.30
20-Day Average Volume (Shares)	2,989,784
Market Cap	\$30.3 B
Year-To-Date Price Change	-1.6%
Beta	1.34
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	166.7%
Last Sales Surprise	0.4%
EPS F1 Estimate 4-Week Change	15.7%
Expected Report Date	02/09/2021
Earnings ESP	0.0%
P/E TTM	91.7
P/E F1	474.6
PEG F1	54.1
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,296 E	1,657 E	1,836 E	1,959 E	6,791 E
2020	1,920 A	564 A	933 A	1,075 E	4,518 E
2019	2,204 A	2,484 A	2,395 A	2,369 A	9,452 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.20 E	\$0.45 E	\$0.69 E	\$0.71 E	\$1.78 E
2020	\$0.74 A	-\$0.61 A	\$0.06 A	\$0.05 E	\$0.23 E
2019	\$0.80 A	\$1.06 A	\$1.05 A	\$1.00 A	\$3.90 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 12/03/2020. The reports text is as of 12/04/2020.

Overview

Founded in 1919 and headquartered in McLean, VA, Hilton Worldwide Holdings is a hospitality company that owns, leases, manages, develops, and franchises hotels and resorts. As of Sep 30, 2020, Hilton's development pipeline comprised more than 2,640 hotels, with roughly 408,000 rooms across 121 countries and territories — including 33 countries and territories where it currently does not have any running hotels. Moreover, 237,000 rooms in the development pipeline were located outside the United States and 217,000 rooms were under construction.

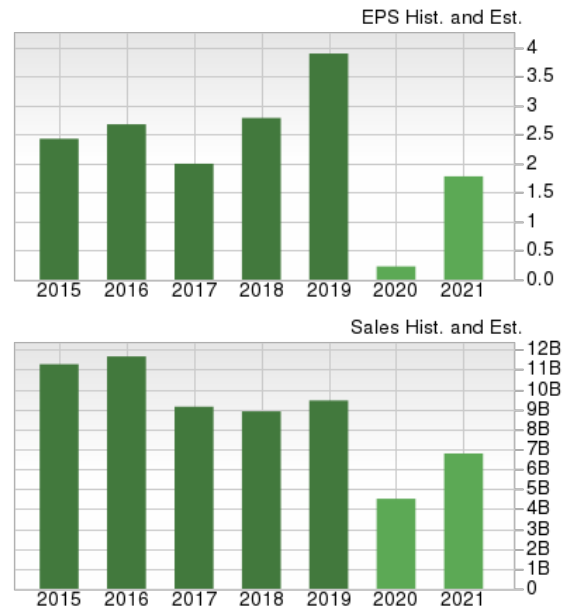
The company's operations are organized in two distinct operating segments: (i) management and franchise (accounting for 82% of total segmental revenues in third quarter 2020), and (ii) ownership (18%).

The management and franchise segment include all the hotels that the company manages for third-party owners, as well as all franchised hotels. As of Sep 30, 2020, this segment included 700 managed hotels and 5,516 franchised hotels, consisting of 969,546 total rooms.

Terms of management contract differ but the company's fee mostly consists of base management, depending on the hotel's monthly gross revenues.

Ownership segment includes hotels that are company-owned and entirely managed by the company. As of Sep 30, 2020, the company had 62 hotels and 19,780 rooms under the ownership segment.

Hilton boasts an award-winning guest loyalty program, known as Hilton Honors. As of Sep 30, 2020, the loyalty program had more than 110 million members.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Expansion a Major Growth Driver:** In a bid to maintain its position as the fastest-growing global hospitality company, Hilton is continuing to drive unit growth. During 2019, Hilton opened nearly 470 new hotels. It achieved net unit growth of 58,300 rooms, marking an improvement of 6.6% from the prior-year quarter. During the year, Hilton expanded to six new countries and territories, and opened its 6,000th hotel. During the second and third quarter of 2020, the company opened 60 and 133 new hotels, respectively. As of Sep 30, 2020, Hilton's development pipeline comprised more than 2,640 hotels, with roughly 408,000 rooms across 121 countries and territories — including 33 countries and territories where it currently does not have any running hotels. Moreover, 237,000 rooms in the development pipeline were located outside the United States and 217,000 rooms were under construction. In 2020, the company anticipates net unit growth in the range of 4.5% to 5%.

Aggressive expansion strategies, industry-leading loyalty program coupled with an asset-light business model, bode well for Hilton.

Hilton's broad geographic diversity lowers the effect of volatility in individual markets. More than half of the company's pipeline is located outside the United States. More than 30% of the pipeline is located in the Asia Pacific region, where demand has been high. Notably, the company continues to make great progress in its luxury development strategy, anticipating double-digit luxury growth in the next several years.

- ▲ **Luxury Deals to Drive Growth:** During second-quarter 2020, the company signed several luxury deals, which include the Waldorf-Astoria Tokyo, the Conrad Costa del Sol in Spain, and the Oceana in Santa Monica. It also entered into a management license agreement with Country Garden to launch and develop Home2 Suites properties in China. Notably, the company looks forward to expanding this partnership in China's market and produce as many as 1000 hotels over the upcoming periods.

Moreover, Hilton is emphasising on hotel conversion opportunities to mitigate the impact of construction delays caused by the ongoing pandemic. In this regard, the company is witnessing positive momentum across its Doubletree, Curio and Tapestry brands. Markedly, its industry leading brands, powerful commercial engines and innovative technology platforms are likely to prove beneficial in the years to come.

- ▲ **Signs of Recovery in Global Markets:** With restrictions being lifted and more than 97% of its properties operating, Hilton's business is likely to pick up on improved demand post the summer period. The company is also likely to benefit from gradual improvement in travel demand. Increase in leisure demand in China drove occupancy rate to nearly 70% in August — the highest since December 2019. Most of the hotels globally are operating at breakeven levels or better. The company announced that in the United States occupancy increased 5 points month-over-month in both July and August. Over Labor Day weekend, the company's nearly half of the properties witnessed occupancy levels of 80% or more.

- ▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** At the end of third-quarter 2020, the company's long-term debt stood at \$10.6 billion, compared with \$10.4 billion as of Jun 30, 2020. Hence, the company's debt to capitalization came in at 114.4% as of Sep 30 2020, compared with 114.1% as on Jun 30, 2020. However, the company stated that it has enough liquidity to survive the scenario for quite some time. Also, the company's cash balance as of Sep 30, 2020 totaled \$3.5 billion, almost flat year over year. Due to gradual improvement in macro environment cash burn has also improved in the third quarter.

- ▲ **Capital-Light Business Model:** Hilton has transformed into a capital-light operating business backed by the spin-offs of a portfolio of hotels and resorts as well as its timeshare business. Post-spinoff, the company expects to be a resilient, fee-driven business with disciplined strategies. In fact, the focus is expected to be on growing market share, units, free cash flow per share as well as preserving the company's strong balance sheet and accelerating return of capital. Furthermore, as Hilton's unit growth is mostly financed by third parties, the company is capable of generating substantial returns on minimal capital investment.

- ▲ **Strong Loyalty Program:** Hilton has created one of the largest loyalty programs — Hilton Honors. With more than 110 million members, this network created an extremely valuable asset for the company. In the meantime, innovations such as the Hilton Honors app continue to drive growth. In addition to being the company's fastest growing and lowest cost distribution channel, this app, launched in December 2017, also enables a differentiated customer experience.

Reasons To Sell:

▼ **Coronavirus Outbreak:** The coronavirus pandemic has had a material adverse impact on the company's results for the three months ended Sep 30, 2020. The company's performance continues to be impacted by the lack of meetings and events and dismal international travels and coronavirus protocols. Although 97% of the properties are in operation, the company is witnessing significantly lower occupancy rates compared with the pre-pandemic levels. Due to rise in coronavirus cases in Europe, the company's positive summer momentum in the region has been hindered.

Challenging economic conditions in some key operating regions, the outbreak of coronavirus and stiff competition remain concerns for Hilton

▼ **Dismal RevPar:** During the third quarter, the company experienced significant declines in RevPAR in all regions, primarily due to decline in occupancy resulting from the COVID-19 pandemic. RevPAR was down across all regions, with the weakest results in Europe. For the three months ended Sep 30, 2020, system-wide comparable revenue per available room (RevPAR) plunged 59.9% on a currency-neutral basis due to a decline in occupancy, and average daily rate (ADR). The downtrend can be attributed to decrease in travel and tourism.

▼ **Cutthroat Competition:** The hotel industry is highly competitive, as major hospitality chains with well-established and recognized brands are continuously expanding their global presence. Hilton is continuously facing intense competition from both large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry.

Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google and peer-to-peer inventory sources such as Airbnb and HomeAway that allow travelers to book stays on websites that facilitate the short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms. Unless Hilton counters these competitions with appropriate strategies, it may pose a concern to the company's future profitability.

▼ **Cyclical Nature of the Industry & Other Macro Woes Pose Concerns:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Hilton's revenues and profits. Consumer demand for services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. The decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower the revenues and profitability of Hilton owned properties. These factors can also reduce the company's management and franchise fee revenues.

Last Earnings Report

Hilton Q3 Earnings & Revenues Beat Estimates, Fall Y/Y

Hilton reported third-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. However, both the metrics declined sharply year over year. Following the results, the company's shares gained 1.1% in pre-market trading session.

The company announced that its third-quarter results were materially impacted by the coronavirus pandemic. However, with restrictions lifting and properties reopening, the company is witnessing sequential improvement in occupancy. Christopher J. Nassetta, president & CEO of Hilton, said "While a full recovery will take time, we are well positioned to capture rising demand and execute on growth opportunities." The company said 97% of Hilton's system-wide properties were open, as of Nov 2, 2020.

Quarter Ending	09/2020
Report Date	Nov 04, 2020
Sales Surprise	0.40%
EPS Surprise	166.67%
Quarterly EPS	0.06
Annual EPS (TTM)	1.19

Q3 in Detail

In the quarter under review, Hilton's adjusted earnings per share was 6 cents, comparing favorably with the Zacks Consensus Estimate of a loss of 9 cents. In the prior-year quarter, the company reported adjusted earnings of \$1.05 per share.

Quarterly revenues of \$933 million beat the consensus mark of \$929 million. However, the top line declined 61% from the year-ago quarter. Both the top and bottom lines were negatively impacted by the coronavirus outbreak.

RevPAR and Adjusted EBITDA

In the quarter under review, system-wide comparable revenue per available room (RevPAR) slumped 59.9% on a currency-neutral basis due to a decline in occupancy, and average daily rate (ADR). The downtrend can be attributed to decrease in travel and tourism.

During the quarter under review, management fee and franchise and licensing fee revenues were down 53%. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$224 million compared with \$605 million in the prior-year quarter.

Cash, Debt and Share Repurchase

As of Sep 30, 2020, cash and cash equivalent balance (inclusive of restricted cash) amounted to \$3,468 million. The company had \$10.6 billion of long-term debt outstanding, excluding deferred financing costs and discount, with a weighted average interest rate of 3.86%.

Following the suspension of share repurchase program and dividend payouts in March, no transactions were made during the third quarter (ended Sep 30, 2020). Notably, the company has \$2.2 billion under its stock repurchase program.

Business Updates

Notably, Hilton opened 133 new hotels in third-quarter 2020. It also achieved net unit growth of roughly 14,800 rooms.

As of Sep 30, 2020, Hilton's development pipeline comprised more than 2,640 hotels, with roughly 408,000 rooms across 121 countries and territories — including 33 countries and territories where it currently does not have any running hotels. Moreover, 237,000 rooms in the development pipeline were located outside the United States and 217,000 rooms were under construction.

Valuation

Hilton's shares are down 1.6% year-to-date, but up 4% in the trailing 12-month period. Stocks in the Zacks sub-industry are down by 7.7%, but the Zacks Consumer Discretionary sector are up by 9.6% in the year-to-date period. Over the past year, the Zacks sub-industry was up by 0.1%, while sector was up by 13.5%.

The S&P 500 index is up 14.2% in the year-to-date period and 18% in the past year.

The stock is currently trading at 62.07X forward 12-month earnings, which compares to 56.97X for the Zacks sub-industry, 32.71X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 63.52x and as low as 13.27x, with a 5-year median of 26.2x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$115 price target reflects 65.71x forward 12-month earnings.

The table below shows summary valuation data for HLT.

Valuation Multiples - HLT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	62.07	56.97	32.71	22.7
	5-Year High	63.52	59.65	35.4	23.47
	5-Year Low	13.27	15.39	16.2	15.27
	5-Year Median	26.2	20.78	19.95	17.75
P/S F12M	Current	4.57	2.93	2.63	4.28
	5-Year High	4.61	2.93	2.9	4.3
	5-Year Low	1.37	1.17	1.7	3.17
	5-Year Median	2.42	1.77	2.5	3.67
EV/EBITDA TTM	Current	31.4	32.97	12.39	16.4
	5-Year High	39.51	33.39	17.89	16.4
	5-Year Low	8.94	8.97	8.29	9.55
	5-Year Median	17.2	14.71	12.21	13.15

As of 12/03/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Choice Hotels International, Inc. (CHH)	Neutral	4
Hilton Grand Vacations Inc. (HGV)	Neutral	3
Marriott International, Inc. (MAR)	Neutral	3
ORIENTAL LAND (OLCLY)	Neutral	3
Extended Stay America, Inc. (STAY)	Neutral	3
Marriot Vacations Worldwide Corporation (VAC)	Neutral	3
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral	3
Hyatt Hotels Corporation (H)	Underperform	4

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

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	HLT	X Industry	S&P 500	CHH	H	MAR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	F	-	-	C	F	F
Market Cap	30.29 B	3.70 B	26.33 B	5.77 B	7.55 B	42.92 B
# of Analysts	7	6	13	7	8	10
Dividend Yield	0.00%	0.00%	1.49%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	C	D
Cash/Price	0.12	0.14	0.07	0.03	0.29	0.04
EV/EBITDA	18.18	15.98	14.58	18.23	5.61	21.29
PEG F1	54.57	33.40	2.76	NA	NA	NA
P/B	NA	3.56	3.53	NA	2.25	187.40
P/CF	20.26	13.89	13.76	20.05	11.85	17.91
P/E F1	478.57	59.27	21.83	44.90	NA	NA
P/S TTM	5.23	2.86	2.81	6.80	2.59	3.12
Earnings Yield	0.21%	-0.25%	4.41%	2.23%	-6.69%	-0.17%
Debt/Equity	-7.91	0.86	0.70	-49.44	0.89	42.27
Cash Flow (\$/share)	5.39	2.99	6.94	5.19	6.29	7.39
Growth Score	F	-	-	C	F	F
Historical EPS Growth (3-5 Years)	2.27%	2.23%	9.72%	13.01%	11.13%	2.19%
Projected EPS Growth (F1/F0)	-94.14%	-104.24%	0.83%	-46.36%	-343.48%	-103.70%
Current Cash Flow Growth	24.59%	6.05%	5.23%	7.52%	5.97%	-2.82%
Historical Cash Flow Growth (3-5 Years)	2.71%	2.66%	8.33%	17.19%	2.61%	21.40%
Current Ratio	1.99	1.65	1.38	1.65	2.72	0.59
Debt/Capital	NA%	63.46%	42.00%	NA	47.06%	97.69%
Net Margin	-5.46%	-4.07%	10.40%	12.92%	-6.14%	1.28%
Return on Equity	-34.02%	-1.07%	14.99%	-419.83%	-8.79%	188.71%
Sales/Assets	0.36	0.34	0.50	0.53	0.34	0.54
Projected Sales Growth (F1/F0)	-52.20%	-34.49%	0.35%	-29.62%	-58.03%	-48.92%
Momentum Score	B	-	-	A	D	B
Daily Price Change	2.26%	1.70%	0.20%	1.84%	1.28%	2.80%
1-Week Price Change	2.60%	2.97%	2.18%	3.92%	6.52%	7.60%
4-Week Price Change	16.03%	18.07%	6.65%	10.99%	31.33%	31.13%
12-Week Price Change	22.16%	19.73%	14.39%	7.84%	31.70%	31.82%
52-Week Price Change	4.05%	0.00%	6.09%	7.40%	-6.68%	-5.69%
20-Day Average Volume (Shares)	2,989,784	528,398	2,053,456	272,417	918,619	3,491,715
EPS F1 Estimate 1-Week Change	-20.00%	0.00%	0.00%	0.50%	0.00%	-2.78%
EPS F1 Estimate 4-Week Change	15.73%	0.00%	0.00%	3.84%	-9.55%	12.60%
EPS F1 Estimate 12-Week Change	34.45%	2.15%	3.77%	4.31%	-17.61%	8.64%
EPS Q1 Estimate Monthly Change	-63.16%	-10.27%	0.00%	28.44%	-25.99%	-30.16%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	F

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.