

Harley-Davidson, Inc (HOG)

\$36.00 (As of 11/18/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

In sync with long-term growth objectives to streamline product portfolio and expand customer base, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends. The firm's turnaround plan, dubbed as 'Rewire', and the five-year strategic plan 'Hardwire' that is expected to be shared in fourth-quarter 2020, boosts optimism. While the initiatives to optimise portfolio will yield long term benefits, Harley-Davidson is expected to witness sluggish sales in the near-term. Aging core customer base and industry demographics along with coronavirus woes have marred the near-term prospects of the firms. Elevated leverage and lower profits at the financing arm are other headwinds. Thus, the stock warrants a cautious stance at the moment.

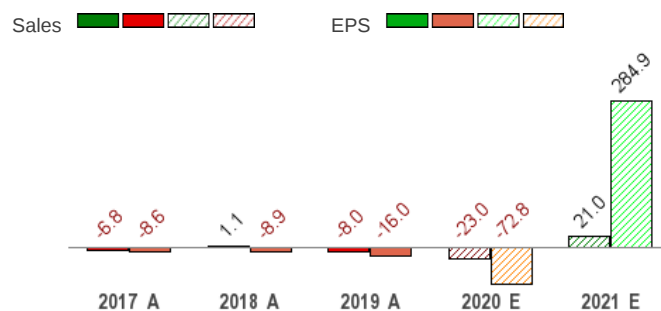
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$38.63 - \$14.31
20-Day Average Volume (Shares)	4,544,705
Market Cap	\$5.5 B
Year-To-Date Price Change	-3.2%
Beta	1.52
Dividend / Dividend Yield	\$0.08 / 0.2%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 10% (25 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	254.6%
Last Sales Surprise	8.4%
EPS F1 Estimate 4-Week Change	118.3%
Expected Report Date	01/26/2021
Earnings ESP	0.0%
P/E TTM	50.0
P/E F1	49.3
PEG F1	6.2
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,193 E	1,273 E	986 E	806 E	4,258 E
2020	1,100 A	669 A	964 A	787 E	3,520 E
2019	1,196 A	1,434 A	1,069 A	874 A	4,573 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.96 E	\$1.18 E	\$0.70 E	\$0.26 E	\$2.81 E
2020	\$0.45 A	-\$0.60 A	\$0.78 A	\$0.10 E	\$0.73 E
2019	\$0.80 A	\$1.23 A	\$0.55 A	\$0.09 A	\$2.68 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 11/18/2020. The reports text is as of 11/19/2020.

Overview

Milwaukee, WI-based Harley-Davidson, Inc. is the parent entity of company groups doing business as Harley-Davidson Motor Company (HDMC) and Harley-Davidson Financial Services (HDFS). The two reportable segments of the company are:

The **Motorcycles and Related Products** segment (accounting for 87% of total revenues in 2019) consists of HDMC that designs, manufactures and sells Harley-Davidson motorcycles (currently comprising cruiser and touring models among others) along with motorcycle parts, accessories, general merchandise and related services. HDMC has presence across the globe and segregates regional markets like the United States, Canada, Latin America, Europe/Middle East/Africa (EMEA) and the Asia Pacific.

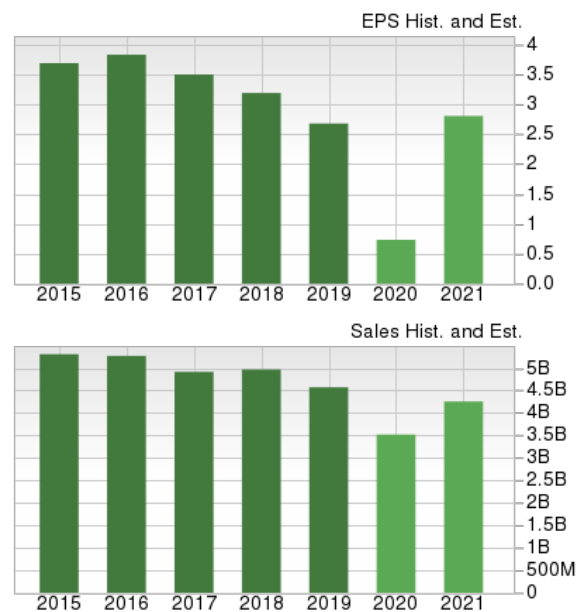
Beside motorcycles, the segment offers a complete line of Harley-Davidson Parts & Accessories (P&A) and General Merchandise. P&A products are replacement parts while General Merchandise includes MotorClothes apparel and riding gear.

It distributes motorcycles and related products through the network of independent dealers present in roughly 100 countries worldwide. At the end of 2018, the company' independent dealerships in the United States, Canada, Latin America, EMEA and the Asia Pacific were 691, 69, 64, 412 and 299, respectively.

As of 2018, the U.S. and European markets accounted for roughly 76% of total independent dealer retail sales of new Harley-Davidson motorcycles. Apart from these two major markets, other markets that drove the company's retail sales were Japan, Australia and Canada.

The **Financial Services** segment (13% of the total revenues in 2019) operates HDFS that provides financing and servicing wholesale inventory receivables and retail consumer loans majorly to buy Harley-Davidson motorcycles. The segment primarily operates in the United States and Canada.

Harley-Davidson is undertaking strategies to grow its rider base worldwide. In sync with the strategy, the company plans to launch 100 motorcycles, add two million Harley-Davidson riders in the United States and grow international business to 50% of its total annual volume. In March, it acquired California-based StaCyc Inc., an entity that designs and sells electric-powered two-wheeled bikes for children.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ To pull out the company from the sales slump, Harley Davidson's CEO Jochen Zeitz laid out a turnaround plan, dubbed as 'Rewire', and is working on a five-year (2021-2025) strategic plan 'Hardwire' that is expected to be shared in fourth-quarter 2020. The plan aims to overhaul its operating model and revamp the organization powered by the strength of its legacy brands, optimization of dealer network and prudent inventory management. It should be noted that Harley-Davidson expects 2020 cash savings of \$250 million, including SG&A and capex reductions under the Rewire plan. Also, the company anticipates achieving \$115 million annual savings from restructuring actions taken starting in 2021.
- ▲ To drive the brand desirability, the firm aims to reinvigorate product launch efforts via collaborations with key influencers. The firm's efforts to up its marketing game bode well for its turnaround. In sync with long-term growth objectives to streamline product portfolio and expand customer base, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends and the taste of younger generations.
- ▲ Putting quality over quantity, the company is focused on clearing excess inventory and streamlining the model line-up by 30%. It is also assessing plans to exit unprofitable international markets and emphasize on 50 markets, primarily in North America, Europe and the regions in Asia-Pacific that hold high potential. Nonetheless, the firm will concentrate on expanding product offerings of the best-selling motorcycles. These initiatives to optimise its business are likely to yield profits in long term.
- ▲ The firm's front foot approach to innovation including touring traction control with advanced ABS and H-D Connect is boosting Harley-Davidson's U.S. leadership in Touring and Cruiser motorcycle markets. In 2019, the firm forayed into electric motorcycles with the launch of LiveWire. Harley-Davidson can certainly benefit from early market entry into the world of electric bikes. It will be able to leverage its already existing network, as the current electric motorcycle brands are mainly startups that lack solid distribution and ability to scale. In 2019, the firm also acquired StaCyc, a maker of electric-powered two wheelers for kids, in sync with its objective to adapt to the changing dynamics of the industry.

In sync with long-term growth objectives to streamline product portfolio, Harley-Davidson will be focusing on motorcycle models and technologies that better align with market trends.

Reasons To Sell:

- ▼ The company has been battling challenging demographic trends over the past few years, as its core audience grows past the age at which people generally buy motorcycles. As the company lacks youth appeal and a fewer people are riding motorcycles, sales of Harley Davidson are on the decline. With millennial consumers preferring convenient modes of transportation and ridesharing services, they are of the opinion that owning a motorcycle might simply not be an attractive option. Hence, the company's aging core customer base and industry demographics shift seem to be the most pressing issue for Harley-Davidson. Further, in June 2020, Harley Davidson was removed from S&P 500 Index, which is seen as a hit to the company's image and prestige.
- ▼ Harley-Davidson's sales have been on declining since past few years. Coronavirus just added to the woes. Thanks to economic shutdown as a result of the spread of COVID-19, the company suffered a massive blow. During third-quarter 2020, sales of Harley-Davidson declined in all major markets served. Amid the coronavirus-led uncertainty, Harley-Davidson has not provided 2020 annual view. It also slashed quarterly dividend by 94.7% and suspended share repurchases, which dampened investors' confidence further.
- ▼ Harley-Davidson has a stretched balance sheet, which restricts its financial flexibility. As of Sep 30, the motorcycle maker \$6,171.7 million, which rose from the year-ago period's \$5,124.8 million. Total debt-to-capital ratio of the company stands at around 0.84, higher than the industry's 0.78. The high leverage, both in absolute and relative terms, restricts the firm's ability to tap onto growth opportunities. Further, rising costs due to tariffs on steel and aluminum, along with tariffs levied on bikes sold in international markets are likely to dent profit margins of Harley-Davidson.
- ▼ Weak results in the financial services division is also a concern. Operating income from the firm's financing arm decreased 8.6% year over year in 2019. In the first nine months of 2020, the operating income of the segment witnessed a year over year plunge of 43%, respectively. Even though the financing division of the firm forms a small portion of its overall profits, it could be a potential red flag if consumers struggle to make payments. Lower profits at the financing arm are expected to weigh on overall results, going forward.

Amid the lack of youth appeal and with fewer people riding motorcycles, sales of Harley Davidson's motorbikes are on the decline. High debt level also remains a concern.

Last Earnings Report

Harley-Davidson Posts Q3 Profit

Harley-Davidson reported third-quarter 2020 financial results, delivering the strongest third quarter net income since 2015, reflecting initial positive impacts of The Rewire efforts. Importantly, the firm managed to post profits in the third quarter of 2020 as against the loss of 60 cents per share recorded in the prior quarter.

It posted third-quarter 2020 adjusted diluted earnings of 78 cents per share, widely surpassing the Zacks Consensus Estimate of earnings of 22 cents per share.

This outperformance resulted from higher-than-anticipated revenues across both the segments of the company. Notably, revenues from Motorcycles and Related Products segment and Financial Services segment came in at \$964 million and \$202 million, respectively, beating the consensus mark of \$890 million and \$199 million. Moreover, the bottom line surged 50% year on year from the year-ago quarter's profit of 55 cents per share.

The iconic motorcycle manufacturer reported consolidated revenue (including motorcycle sales and financial services revenues) of \$1,166 million, down 8% from the year-ago level of \$1,273 million.

Segmental Highlights

Motorcycles and Related Products: Total revenues from Motorcycle and Related products segment, which constitute bulk of the firm's overall revenues, declined 10% year over year to \$964 million in the reported quarter. The decline was primarily due to the company's shift in timing of the launch of new model year motorcycles from August each year to early first-quarter to better align with seasonality.

Nonetheless, the segment incurred an operating income of \$47 million on par with the reported figure in the year-ago period.

For the September-end quarter, the revenue from sale of motorcycles came in at \$684.3 million, declining 12% year on year. The company shipped 42,983 motorcycles worldwide, down 6% year over year.

For the quarter under review, Harley-Davidson retailed 53,802 motorcycle units globally, down 8% year over year. The company's retail motorcycle units sold in the United States declined 10% from the year-ago quarter to 31,304. Sales in the Middle East and Africa surged 7%, while in Asia Pacific, Canada and Latin America declined 6%, 25% and 29%, respectively, from the year-ago period.

Revenues for Parts & Accessories (P&A) rose 3% from the prior year to \$209.8 million. However, revenues for General Merchandise (GM) — including Motor Clothes apparel and accessories — plunged 18% from the prior-year quarter to \$49.4 million.

Financial Services: Revenues for Harley-Davidson Financial Services decreased to \$202 million, down by a marginal 1% year on year. Operating income elevated 25% to \$91 million from the year-ago quarter's \$73 million due to decreasing provision driven by lower actual losses at the end of the third quarter compared to the previous quarter.

Financial Position

Notably, during the September-end quarter, selling, general and administrative expenses dropped to \$196.9 million from the \$265.5 million witnessed in third-quarter 2019.

Harley-Davidson had cash and cash equivalents of \$3,560 million as of Sep 27, 2020. Net long-term debt increased to \$6,171.7 million from the year-ago period's \$5,124.8 million.

The firm generated \$525.1 million of cash from operating activities during the reported quarter compared to \$352.6 million in the comparable year-ago quarter. Capital expenditure during the July-September period totaled \$25.3 million compared to \$38 million recorded in corresponding period of 2019.

While the company continues to suspend discretionary share repurchases, it will pay a cash dividend of 2 cents per share during fourth-quarter 2020, in line with its second and third-quarter dividends. The dividend will be paid on Dec 18 to shareholders of record as of Dec 4, 2020.

Given coronavirus-induced uncertainty, Harley-Davidson continues to refrain from providing any outlook and forecast for full-year 2020.

Quarter Ending	09/2020
Report Date	Oct 27, 2020
Sales Surprise	8.35%
EPS Surprise	254.55%
Quarterly EPS	0.78
Annual EPS (TTM)	0.72

Recent News

Harley-Davidson to Team Up With Hero MotoCorp for Indian Market

On **Oct 27**, Harley-Davidson and Hero MotoCorp, the world's largest maker of motorcycles and scooters in terms of unit volumes, entered into a distribution agreement for the Indian market. Per the agreement, Hero MotoCorp will sell and service Harley-Davidson motorcycles and sell parts & accessories and general merchandise riding apparel through a network of brand-exclusive Harley-Davidson dealers and Hero MotoCorp's existing dealership network in India.

Valuation

Harley-Davidson's shares are down 3.2% and up 1.3% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks Automotive – Domestic industry and the Zacks Automotive sector are up 155.3% and up 54.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 177.5% and up 59.8% respectively.

The S&P 500 index is up 12.5% and up 16.6% in the year-to-date period and over the past year, respectively.

The stock is currently trading at 13.58X forward 12-month earnings, which compares to 37.96X for the Zacks sub-industry, 21.87X for the Zacks sector and 22.68X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.47X and as low as 4.78X, with a 5-year median of 11.56X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 14.34X forward 12-month earnings per share.

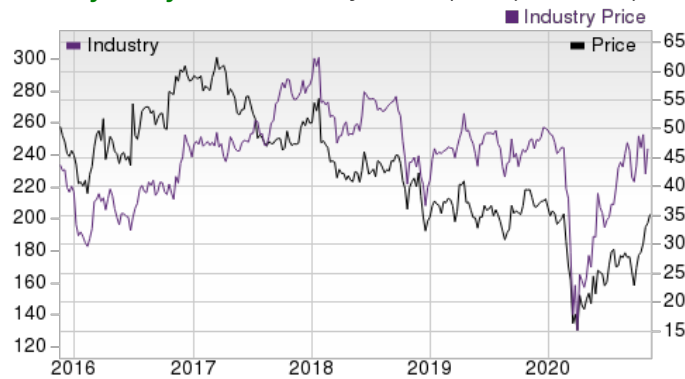
The table below shows summary valuation data for HOG:

Valuation Multiples - HOG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.58	37.96	21.87	22.68
	5-Year High	16.47	76.55	27.38	23.47
	5-Year Low	4.78	7.95	8.22	15.27
	5-Year Median	11.56	10.84	10.14	17.72
EV/EBITDA TTM	Current	21.31	33.69	18.07	16.1
	5-Year High	21.49	33.69	18.07	16.17
	5-Year Low	8.81	5.91	6.72	9.54
	5-Year Median	11.4	11.62	9.23	13.11
P/S F12M	Current	1.32	1.82	1.07	4.23
	5-Year High	2.07	2.01	1.07	4.3
	5-Year Low	0.52	0.49	0.48	3.17
	5-Year Median	1.42	0.6	0.6	3.67

As of 11/18/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Ford Motor Company (F)	Outperform	2
Fiat Chrysler Automobiles N.V. (FCAU)	Outperform	1
General Motors Company (GM)	Outperform	1
LKQ Corporation (LKQ)	Outperform	2
PACCAR Inc. (PCAR)	Outperform	1
Honda Motor Co., Ltd. (HMC)	Neutral	1
Toyota Motor Corporation (TM)	Neutral	3
Tesla, Inc. (TSLA)	Neutral	3

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

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	HOG	X Industry	S&P 500	F	GM	HMC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	2	1	1
VGM Score	B	-	-	A	A	A
Market Cap	5.52 B	5.09 B	25.46 B	35.09 B	61.15 B	49.35 B
# of Analysts	7	6	14	6	6	3
Dividend Yield	0.22%	0.00%	1.51%	0.00%	0.00%	2.05%
Value Score	C	-	-	B	A	A
Cash/Price	0.69	0.14	0.06	1.32	0.63	0.57
EV/EBITDA	8.78	11.06	14.42	10.88	5.03	4.59
PEG F1	6.16	4.25	2.76	NA	0.97	0.98
P/B	3.12	3.34	3.55	1.06	1.27	0.63
P/CF	6.54	8.97	13.64	2.73	2.88	4.64
P/E F1	49.32	26.87	21.83	NA	9.55	17.75
P/S TTM	1.25	1.05	2.79	0.27	0.53	0.41
Earnings Yield	2.03%	2.19%	4.41%	-2.49%	10.46%	5.63%
Debt/Equity	3.49	0.55	0.70	3.20	1.70	0.55
Cash Flow (\$/share)	5.50	2.30	6.92	3.24	14.84	6.15
Growth Score	B	-	-	A	B	B
Historical EPS Growth (3-5 Years)	-12.84%	5.92%	9.79%	-24.91%	-10.54%	-2.63%
Projected EPS Growth (F1/F0)	-72.65%	1.81%	0.36%	-118.07%	-7.23%	-32.64%
Current Cash Flow Growth	-13.75%	9.32%	5.39%	-2.64%	-8.62%	-11.48%
Historical Cash Flow Growth (3-5 Years)	-5.50%	7.39%	8.31%	1.90%	9.37%	1.06%
Current Ratio	1.46	1.46	1.38	1.20	1.11	1.30
Debt/Capital	77.71%	39.90%	41.97%	76.22%	63.01%	35.28%
Net Margin	2.53%	2.25%	10.41%	-0.12%	2.92%	1.93%
Return on Equity	12.61%	7.36%	15.05%	2.48%	9.78%	2.99%
Sales/Assets	0.37	0.72	0.50	0.50	0.49	0.64
Projected Sales Growth (F1/F0)	-23.01%	-10.01%	0.16%	-19.02%	-11.48%	-15.59%
Momentum Score	A	-	-	B	A	B
Daily Price Change	-0.44%	0.97%	-1.09%	0.80%	1.76%	-2.09%
1-Week Price Change	4.46%	0.26%	4.23%	9.63%	9.93%	7.02%
4-Week Price Change	23.37%	6.70%	5.95%	12.36%	19.43%	15.19%
12-Week Price Change	28.25%	17.83%	8.63%	29.33%	44.91%	11.12%
52-Week Price Change	1.35%	21.09%	5.46%	1.03%	21.09%	0.56%
20-Day Average Volume (Shares)	4,544,705	1,972,595	2,211,978	74,669,952	18,343,948	686,796
EPS F1 Estimate 1-Week Change	0.42%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	118.28%	10.52%	1.67%	65.04%	71.99%	129.30%
EPS F1 Estimate 12-Week Change	79.28%	12.75%	3.56%	69.86%	83.39%	136.45%
EPS Q1 Estimate Monthly Change	191.38%	13.86%	0.63%	41.84%	55.88%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	B

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

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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.