

## Honeywell (HON)

**\$179.21** (As of 11/03/20)

Price Target (6-12 Months): **\$188.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/23/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: A

## Summary

Honeywell's third-quarter 2020 earnings and revenues beat the Zacks Consensus Estimate by 4.7% and 1.8%, respectively. Strength in defense and space businesses as well as solid demand for warehouse automation products are likely to boost the company's revenues in the quarters ahead. Solid demand for personal protective equipment, along with a strong backlog conversion rate, will act as tailwinds. It is committed to rewarding shareholders handsomely. In the past three months, it has outperformed the industry. However, the company believes that the coronavirus outbreak-led market downturn and weak commercial aerospace will adversely impact its near-term results. Given its extensive geographic presence, its business is subject to political, economic and geopolitical issues. Rise in debt levels can increase its financial obligations.

## Price, Consensus & Surprise

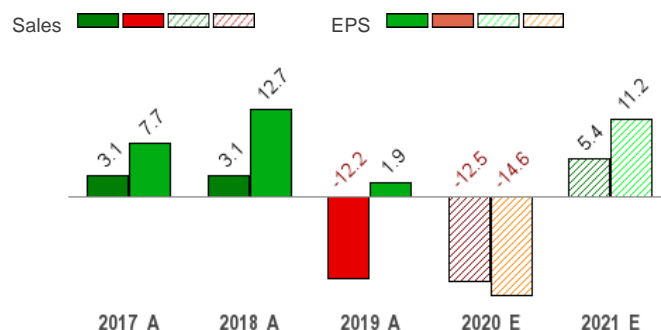


Source: Zacks Investment Research

## Data Overview

|                                |                          |
|--------------------------------|--------------------------|
| 52-Week High-Low               | \$184.06 - \$101.08      |
| 20-Day Average Volume (Shares) | 2,659,027                |
| Market Cap                     | \$125.7 B                |
| Year-To-Date Price Change      | 1.3%                     |
| Beta                           | 1.01                     |
| Dividend / Dividend Yield      | \$3.72 / 2.0%            |
| Industry                       | Diversified Operations   |
| Zacks Industry Rank            | Top 46% (114 out of 249) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 4.7%       |
| Last Sales Surprise           | 1.8%       |
| EPS F1 Estimate 4-Week Change | 1.9%       |
| Expected Report Date          | 01/29/2021 |
| Earnings ESP                  | 0.9%       |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 7,899 E | 8,185 E | 8,528 E | 8,982 E | 33,842 E |
| 2020 | 8,463 A | 7,477 A | 7,797 A | 8,350 E | 32,104 E |
| 2019 | 8,884 A | 9,243 A | 9,086 A | 9,496 A | 36,709 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.87 E | \$1.82 E | \$1.96 E | \$2.17 E | \$7.75 E |
| 2020 | \$2.21 A | \$1.26 A | \$1.56 A | \$1.98 E | \$6.97 E |
| 2019 | \$1.92 A | \$2.10 A | \$2.08 A | \$2.06 A | \$8.16 A |

\*Quarterly figures may not add up to annual.

|         |      |
|---------|------|
| P/E TTM | 25.3 |
| P/E F1  | 25.7 |
| PEG F1  | 2.8  |
| P/S TTM | 3.8  |

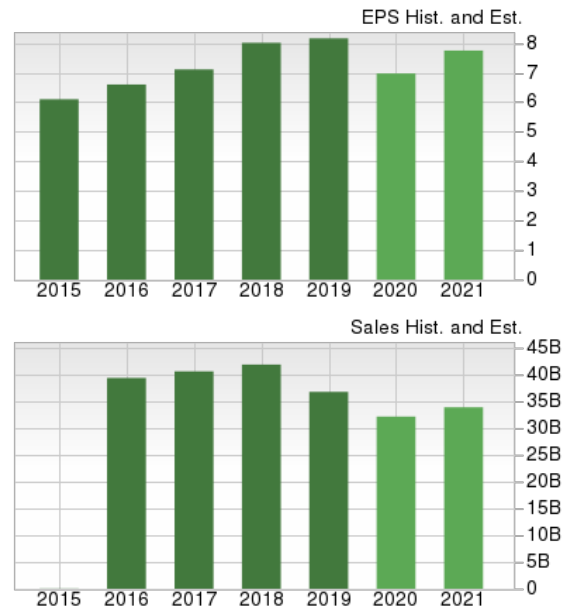
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/03/2020. The reports text is as of 11/04/2020.

## Overview

Honeywell International Inc. has solid footprints in the aerospace industry, with commercial aviation and defense being two major business sources. Opportunities within unmanned aerial systems (UAS) and urban air mobility (UAM) industries are encouraging too. Newly formed unit — Unmanned Aerial Systems — is working to leverage from these promising markets. Launch of SATCOM — by far smallest and lightest satellite communication system for unmanned aerial vehicles — is a step forward in the direction.

Based in Morris Township, NJ, Honeywell is a global diversified technology and manufacturing company, with a wide range of aerospace products and services. The company has operations in the United States, Europe, Canada, Asia and Latin America. Honeywell operates through four business segments as discussed hereunder:

- Aerospace (34.1% revenues came from this segment in third-quarter 2020) is a leading global provider of integrated avionics, engines, systems and service solutions for aircraft manufacturers, airlines, business and general aviation, military, space and airport operations. In April 2018, the segment announced its decision to develop laser communication products for satellite communication in collaboration with market partners.
- Performance Materials and Technologies segment (29%) offers leading technologies and high-performance materials, including hydrocarbon processing technologies, catalysts, adsorbents, equipment and services. This segment includes its wholly owned subsidiary, Honeywell UOP, which is an international supplier and licensor of process technology, and consulting services to the petrochemical and petroleum refining industries.
- Honeywell Building Technologies segment (16.7%) offers environmental & energy solutions, security and fire, and building solutions. Some of the notable products offered by the segment include sensors, switches, control systems and instruments for energy management as well as advanced software applications for building control and optimization.
- Safety and Productivity Solutions (20.2%) includes sensing & productivity solutions and industrial safety, as well as the recently acquired Intelligrated business.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Honeywell's strength across its defense and space business, supported by strong U.S. government defense budgets, is likely to act as a tailwind in the quarters ahead. In third-quarter 2020, its defense and space business reported double digit organic sales growth on a year-over-year basis. Also, signs of recovery in business aviation aftermarket bodes well for its aerospace segment. Moreover, it is set to benefit from solid product offerings and growing opportunities within UAS and UAM markets. Notably, it launched SATCOM — the smallest and lightest satellite communication system for unmanned aerial vehicles — in June 2020. Going forward, strong demand for warehouse automation products and all-time high backlog level will likely support its Intelligrated business. In addition, a surge in demand for personal protective equipment along with strong backlog conversion rate will act as tailwinds for its Safety and Productivity Solutions segment. Also, in the third quarter, it witnessed double digit year-over-year organic sales growth in Intelligrated and personal protective equipment businesses. For fourth quarter, the company expects similar growth in these businesses. Notably, its pro-active steps to expand manufacturing operations at its Smithfield and Phoenix facilities beside the Newhouse site in Scotland for the production of personal protective equipment has been supporting its top-line performance. Moreover, Honeywell's focus on investing in product introductions, and growth opportunities across building solutions and safety products businesses through partnership with SAP will likely be beneficial over the long term. Over the past three months, Honeywell's shares have gained 18.8% compared with the industry's increase of 11.3%.
- ▲ In response to the coronavirus crisis, the company has been undertaking several cost-control measures to maintain a healthy capital structure. Some of the actions include the reduction of discretionary expenses, a hiring freeze and repositioning actions. Notably, these steps enabled it to reduce costs by approximately \$1,050 million year over year in the first nine months of 2020, with an additional cost savings of \$400-\$500 million expected in the fourth quarter. In the quarters ahead, these measures, along with commercial and operational excellence initiatives, will likely help the company to maintain a healthy margin performance amid the crisis. In addition, its three transformation initiatives — the Connected Enterprise, Integrated Supply Chain and Honeywell Digital — will drive its profitability.
- ▲ Strong cash flows allow the company to effectively deploy capital for making acquisitions, repurchasing shares and paying out dividend. Notably, in the first nine months of 2020, it paid out dividends worth \$1,921 million to shareholders, higher than \$1,798 million paid out in the year-ago period. Also, the company repurchased shares worth \$2,149 million during the same time frame. It is worth noting that the quarterly dividend rate was hiked 3.3% in September 2020, marking its 11th increment since 2010. Such diligent capital deployment strategies boost shareholders' wealth.
- ▲ Honeywell has been steadily strengthening business through acquisitions. For instance, in October 2020, it acquired Ballard Unmanned Systems. The buyout will enhance growth scopes for Honeywell in the UAS market. Also, its acquisition of Rocky Research in the same month will enhance growth opportunities for its existing offerings in the energy storage, power and thermal management, and power generation arenas. This apart, in December 2019, the company acquired the Rebellion Photonics, which has been augmenting its portfolio of automation, process technologies and gas detection solutions. Also, the company's buyout of TruTrak Flight Systems (July 2019) has been expanding its capabilities in the aviation market.

Strength in Intelligrated, defense and safety products businesses, cost control and operational excellence initiatives, acquisitions and strong cash flow are likely to drive Honeywell's competency.

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## Reasons To Sell:

- ▼ In the third quarter, Honeywell's revenues declined 14% on an organic basis on account of weakness across most of its end markets due to the coronavirus outbreak. Notably, the company expects headwinds across its commercial original equipment business due to lower air transport, slowdown in original equipment build rates and lower business jet demand to continue affecting its revenues in the near-term. Also, persistent low global air transport flight hours, owing to the coronavirus outbreak-led issues, will affect its commercial aftermarket business in the quarters ahead. The company expects the Performance Materials and Technologies segment's revenues to remain challenged in the fourth quarter, owing to the weak outlook for oil and gas capital expenditure, the coronavirus outbreak-related issues, weakness in its UOP business and automation project delays in process solutions business. Moreover, persistent weakness in its IoT and gas sensing businesses remain concerning for its top-line performance. Notably, for fourth-quarter 2020, the company expects revenues to be between \$8.2 billion and \$8.5 billion, with organic revenues expected to be down 11-14% on a year-over-year basis. For 2020, it anticipates revenues to lie in the range of \$31.9-\$32.2 billion, with organic revenues expected to be down 12-13% on a year-over-year basis.
- ▼ Honeywell's long-term debt in the last five years (2015-2019) increased 14.9% (CAGR). At the end of the third quarter of 2020, the company's long-term debt was \$17,687 million, up 0.5% sequentially. Notably, it had cash and cash equivalents of \$14,036 million. Also, the company's ability of repaying the financial obligations seems to have weakened in the quarter, with times interest earned declining from 20.7 in the second quarter of 2020 to 18.1 in the third quarter. High-debt levels can increase its financial obligations and prove detrimental to profitability in the quarters ahead.
- ▼ Although Honeywell's repositioning initiatives hold good for aligning its business to pandemic-related market conditions, it will negatively impact its short-term earnings. For instance, the company incurred repositioning charges of \$124 million in the third quarter for executing cost savings actions for 2020 and into 2021. Notably, this adversely impacted earnings in the third quarter. Also, it incurred \$249 million of capital expenditures in the quarter, up 29.7% on a year-over-year basis. High capital expenditure incurred will negatively impact its short-term liquidity.
- ▼ The company operates across diverse geographies, which exposes it to certain political, economic and geopolitical issues. Although foreign exchange had no impact on the company's third-quarter sales, it adversely impacted sales in both the first and second quarters of 2020 by 1%. Fluctuations in foreign exchange rates may affect the company's top line in the quarters ahead.

The coronavirus outbreak-led market downturn, high-debt levels and unfavorable movements in foreign currencies remain concerning for Honeywell.

## Last Earnings Report

### Honeywell Q3 Earnings & Revenues Top Estimates, Down Y/Y

Honeywell has reported better-than-expected third-quarter 2020 results, wherein both earnings and revenues surpassed estimates.

#### Earnings & Revenues

Adjusted earnings were \$1.56 per share, surpassing the Zacks Consensus Estimate of \$1.49. However, the bottom line declined 25% year over year on account of lower sales.

Honeywell's third-quarter revenues were \$7,797 million, beating the consensus estimate of \$7,656 million. The top line recorded a decline of 14% year over year, both on reported and organic basis on account of weakness in end markets due to the coronavirus outbreak-led issues.

#### Segmental Breakup

Aerospace's revenues were \$2,662 million, down 24.9% year over year. Honeywell Building Technologies' revenues declined 7.8% to \$1,305 million. Performance Materials and Technologies' revenues totaled \$2,252 million, down 15.7%, while that for Safety and Productivity Solutions increased 8.3% to \$1,578 million.

#### Costs/Margins

The company's total cost of sales for the reported quarter was \$5,383 million, down 10.8% year over year. Selling, general and administrative expenses declined 14.9% to \$1,103 million. Interest expenses and other financial charges were \$101 million compared with \$96 million a year ago.

Operating income margin in the third quarter was 16.8%, down 250 basis points year over year.

#### Balance Sheet/Cash Flow

Exiting the third quarter, Honeywell had cash and cash equivalents of \$14,036 million compared with \$9,067 million as of Dec 31, 2019. Long-term debt was \$17,687 million, higher than \$11,110 million recorded at the end of 2019.

During the first nine months of 2020, the company generated \$3,426 million in cash from operating activities compared with \$4,283 million in the year-ago period. Capital expenditure was \$615 million compared with \$504 million incurred a year ago.

Adjusted free cash flow in the quarter was \$758 million, down 41.1% year over year.

#### Outlook

Honeywell provided guidance for fourth-quarter and full-year 2020. For fourth quarter of 2020, it anticipates adjusted earnings to be in the range of \$1.97-\$2.02 per share. It expects revenues to be between \$8.2 billion and \$8.5 billion, with organic revenues expected to be down 11-14% on a year-over-year basis.

For full-year 2020, the company anticipates adjusted earnings to be in the range of \$7.00 to \$7.05 per share. It anticipates revenues to be between \$31.9 billion and \$32.2 billion, with organic revenues expected to be down 12-13% on a year-over-year basis.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 30, 2020 |
| Sales Surprise   | 1.84%        |
| EPS Surprise     | 4.70%        |
| Quarterly EPS    | 1.56         |
| Annual EPS (TTM) | 7.09         |

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## Recent News

Oct **Oct 20, 2020**, Honeywell introduced the first tools from its new suite of Connected Life Safety Services.

On **Oct 15, 2020**, Honeywell announced that it acquired Southborough, MA-based fuel cell system manufacturer Ballard Unmanned Systems. The financial terms of the transaction have not been disclosed.

The products/solutions provided by Ballard Unmanned Systems will enhance growth scopes for Honeywell in the UAS market. Going forward, Honeywell wishes to expand its product offerings of fuel-cell systems and also work on opportunities in the aviation market with Ballard Power Systems.

On **Oct 14, 2020**, Honeywell announced that it has teamed up with Vertiv Holdings Co. to develop integrated solutions for improving sustainability and operational performance of data centers. The solutions are anticipated to be rolled out this year.

On **Oct 12, 2020**, Honeywell announced that it has clinched an "IDIQ" (Indefinite Delivery, Indefinite Quantity) deal from the U.S. Army. The five-year contract will require the company to provide repair and overhaul services for its advanced T55-GA-714A engines, deployed on CH-47 Chinook helicopters of the U.S. Army.

On **Oct 8, 2020**, Honeywell announced that it acquired Boulder City, NV-based technology firm Rocky Research. The financial terms of the transaction have not been disclosed.

The solutions provided by Rocky Research as well as its expertise in research and development will enhance growth scopes for Honeywell's existing offerings in the energy storage, power and thermal management, and power generation arenas. In all, the buyout will assist Honeywell to deliver a complete range of products and services — including prototyping, demonstration, product delivery, support and others — to its customers.

On **Sep 25, 2020**, Honeywell's board of directors approved a 3.3% hike in the annual dividend rate. This is its 11th consecutive yearly increase. Notably, the rate now stands at \$3.72 per share. The previous annual dividend rate was \$3.60. On a quarterly basis, the dividend rate now stands at 93 cents per share, up from the previous rate of 90 cents.

The company will pay the revised quarterly dividend on Dec 4, 2020, to shareholders of record as of Nov 13. This dividend pertains to the fourth quarter of 2020.

On **Sep 23, 2020**, Honeywell unveiled a software platform, Pro-Watch Integrated Security Suite. The software facilitates in monitoring and managing security events apart from optimizing productivity and ensuring compliance with industry regulations.

On **Sep 9, 2020**, Honeywell announced new offerings for its Healthy Buildings Safety & Security solution portfolio to facilitate owners and operators of buildings to conform to mask use and social distancing rules. The company's latest offerings — Honeywell Pro-Watch and MAXPRO Network Video Recorders and Video Management Systems — leverage video analytics, enabled with advanced artificial intelligence. These latest solutions can utilize prevailing cameras for tracking incidences of non-observance of mask use and social distancing guidelines.

On **Aug 12, 2020**, Honeywell announced that it has been collaborating with iTRACE Technologies, Inc. for the integration of product verification technology with industrial printers. This will offer real-time verification, authentication and track-and-trace of printed labels.

On **Aug 05, 2020**, Honeywell announced that it has been working on digitizing aircraft records by integrating aircraft record generation into its digital blockchain ledger. This will facilitate the task of recordkeeping in the aerospace industry.

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## Valuation

Honeywell shares are up 1.3% in the year-to-date period while decreased 0.8% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are up 0.3% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are up 3.2%.

The S&P 500 Index has moved up 3.2% year to date and 8.3% in the past year.

The stock is currently trading at 23.55x forward 12-month P/E, which compares to 25.58x for both the Zacks sub-industry and the Zacks sector, and 21.05x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.55x and as low as 12x, with a 5-year median of 18.26x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$188 price target reflects 24.71x forward 12-month earnings per share.

The table below shows summary valuation data for HON.

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### Valuation Multiples - HON

|              |               | Stock | Sub-Industry | Sector | S&P 500 |
|--------------|---------------|-------|--------------|--------|---------|
| P/E F12M     | Current       | 23.55 | 25.58        | 25.58  | 21.05   |
|              | 5-Year High   | 23.55 | 26.31        | 26.31  | 23.47   |
|              | 5-Year Low    | 12    | 15.76        | 15.76  | 15.27   |
|              | 5-Year Median | 18.26 | 18.49        | 18.49  | 17.7    |
| P/Sales F12M | Current       | 3.75  | 4.23         | 4.23   | 3.89    |
|              | 5-Year High   | 3.75  | 4.23         | 4.23   | 4.3     |
|              | 5-Year Low    | 1.82  | 2.29         | 2.29   | 3.17    |
|              | 5-Year Median | 2.65  | 3.05         | 3.05   | 3.67    |

As of 11/03/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 46% (114 out of 249)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                      | Rec          | Rank |
|---------------------------------------|--------------|------|
| Danaher Corporation (DHR)             | Outperform   | 2    |
| Emerson Electric Co. (EMR)            | Neutral      | 3    |
| General Electric Company (GE)         | Neutral      | 3    |
| Garmin Ltd. (GRMN)                    | Neutral      | 2    |
| 3M Company (MMM)                      | Neutral      | 2    |
| ParkerHannifin Corporation (PH)       | Neutral      | 2    |
| Zebra Technologies Corporation (ZBRA) | Neutral      | 3    |
| Safran SA (SAFRY)                     | Underperform | 5    |

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

| Industry Comparison Industry: Diversified Operations |           |            |           | Industry Peers |           |         |
|--|-----------|------------|-----------|----------------|-----------|---------|
|  | HON       | X Industry | S&P 500   | GE             | MMM       | PH      |
| Zacks Recommendation (Long Term)                     | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                              | 3         | -          | -         | 3              | 2         | 2       |
| VGM Score  | D         | -          | -         | B              | C         | C       |
| Market Cap   | 125.75 B  | 3.97 B     | 22.78 B   | 68.76 B        | 95.47 B   | 29.08 B |
| # of Analysts  | 10        | 3          | 13        | 7              | 7         | 8       |
| Dividend Yield                                       | 2.01%     | 1.25%      | 1.63%     | 0.51%          | 3.55%     | 1.56%   |
| Value Score  | C         | -          | -         | B              | C         | C       |
| Cash/Price   | 0.13      | 0.30       | 0.07      | 1.32           | 0.05      | 0.03    |
| EV/EBITDA  | 14.26     | 9.87       | 13.27     | 5.08           | 14.97     | 15.26   |
| PEG F1   | 2.78      | 3.02       | 2.59      | NA             | 2.03      | 1.79    |
| P/B  | 6.87      | 1.07       | 3.35      | 1.98           | 7.99      | 4.73    |
| P/CF   | 18.12     | 6.97       | 12.76     | 6.09           | 13.76     | 14.96   |
| P/E F1   | 25.71     | 18.66      | 20.60     | NA             | 19.29     | 21.15   |
| P/S TTM  | 3.78      | 1.12       | 2.55      | 0.82           | 3.01      | 2.12    |
| Earnings Yield                                       | 3.89%     | 4.78%      | 4.70%     | -0.38%         | 5.18%     | 4.73%   |
| Debt/Equity  | 0.97      | 0.72       | 0.70      | 2.10           | 1.54      | 1.25    |
| Cash Flow (\$/share)                                 | 9.89      | 2.28       | 6.92      | 1.29           | 12.02     | 15.12   |
| Growth Score   | D         | -          | -         | D              | C         | B       |
| Historical EPS Growth (3-5 Years)                    | 6.09%     | 10.73%     | 10.07%    | -30.57%        | 2.90%     | 17.12%  |
| Projected EPS Growth (F1/F0)                         | -14.55%   | -7.14%     | -0.59%    | -104.84%       | -5.71%    | -0.85%  |
| Current Cash Flow Growth                             | -1.43%    | 6.22%      | 5.45%     | -8.00%         | -11.15%   | -2.94%  |
| Historical Cash Flow Growth (3-5 Years)              | 5.69%     | 7.02%      | 8.38%     | -12.27%        | 1.67%     | 7.19%   |
| Current Ratio  | 1.64      | 1.73       | 1.37      | 2.31           | 1.90      | 1.55    |
| Debt/Capital   | 49.14%    | 41.71%     | 41.67%    | 67.73%         | 60.68%    | 55.53%  |
| Net Margin   | 14.99%    | 3.78%      | 10.37%    | 4.52%          | 15.65%    | 8.81%   |
| Return on Equity                                     | 27.69%    | 10.37%     | 14.93%    | 5.37%          | 44.77%    | 22.54%  |
| Sales/Assets   | 0.55      | 0.72       | 0.50      | 0.32           | 0.70      | 0.68    |
| Projected Sales Growth (F1/F0)                       | -12.54%   | -0.26%     | -0.11%    | -25.42%        | -0.53%    | -6.24%  |
| Momentum Score                                       | A         | -          | -         | A              | D         | D       |
| Daily Price Change                                   | 3.23%     | 1.27%      | 2.25%     | 4.39%          | 1.58%     | 3.75%   |
| 1-Week Price Change                                  | -6.03%    | -3.76%     | -5.63%    | -2.75%         | -5.80%    | -7.87%  |
| 4-Week Price Change                                  | 7.38%     | 1.70%      | -1.47%    | 27.23%         | 2.02%     | 7.80%   |
| 12-Week Price Change                                 | 11.81%    | -2.77%     | -1.17%    | 16.64%         | 1.30%     | 8.47%   |
| 52-Week Price Change                                 | -0.81%    | -19.47%    | -0.65%    | -28.44%        | -5.57%    | 13.86%  |
| 20-Day Average Volume (Shares)                       | 2,659,027 | 48,858     | 1,910,259 | 114,930,352    | 2,149,913 | 716,821 |
| EPS F1 Estimate 1-Week Change                        | 2.90%     | 0.00%      | 0.00%     | 21.43%         | 1.38%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                        | 1.94%     | 0.27%      | 0.76%     | 31.25%         | 3.66%     | 1.83%   |
| EPS F1 Estimate 12-Week Change                       | 1.60%     | 4.76%      | 2.79%     | 42.86%         | 4.27%     | 11.55%  |
| EPS Q1 Estimate Monthly Change                       | 4.17%     | 0.00%      | 0.22%     | 0.00%          | 2.98%     | 3.62%   |

Source: Zacks Investment Research



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

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

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

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## Disclosures

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## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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