

International Flavors (IFF)

\$118.64 (As of 10/12/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 06/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

International Flavors' earnings estimates for the current year and third quarter have been stable of late. The company has not provided any guidance for the current year on account of the uncertain impact of the pandemic. The company has witnessed a slowdown in demand in Fine Fragrance and Food Service categories due to travel and shelter-in-place restrictions and the closure of retail outlets. Therefore, Fine Fragrance and Food Service categories will be affected by market pressures in the current year. The company expects to incur additional manufacturing costs to support higher demand as well as higher raw material costs related to the coronavirus pandemic. Additionally, the company is experiencing disruption in supply of raw materials and transport logistics in certain markets. These headwinds will weigh on results.

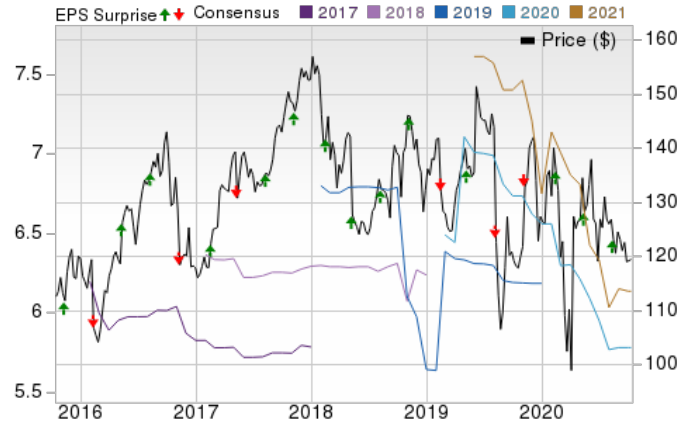
Data Overview

52-Week High-Low	\$143.87 - \$92.14
20-Day Average Volume (Shares)	1,009,810
Market Cap	\$12.7 B
Year-To-Date Price Change	-8.1%
Beta	0.97
Dividend / Dividend Yield	\$3.08 / 2.6%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 22% (56 out of 254)

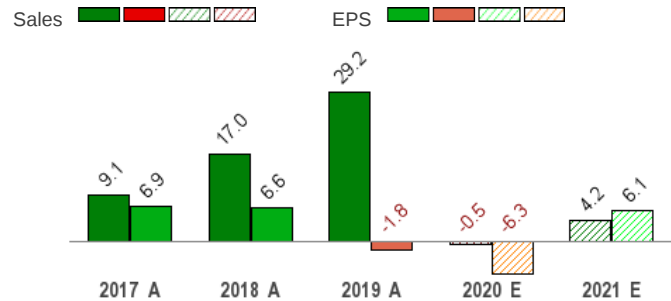
Last EPS Surprise	2.3%
Last Sales Surprise	-1.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/02/2020
Earnings ESP	0.0%

P/E TTM	19.9
P/E F1	20.5
PEG F1	NA
P/S TTM	2.5

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,329 E
2020	1,347 A	1,199 A	1,283 E	1,288 E	5,116 E
2019	1,297 A	1,292 A	1,267 A	1,284 A	5,140 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.15 E	\$1.37 E	\$1.55 E	\$1.48 E	\$6.13 E
2020	\$1.62 A	\$1.36 A	\$1.43 E	\$1.30 E	\$5.78 E
2019	\$1.57 A	\$1.30 A	\$1.53 A	\$1.46 A	\$6.17 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 10/12/2020. The reports text is as of 10/13/2020.

Overview

New York-based International Flavors & Fragrances Inc., together with its subsidiaries, engages in the creation and manufacture of fragrance and flavor products in the United States and internationally.

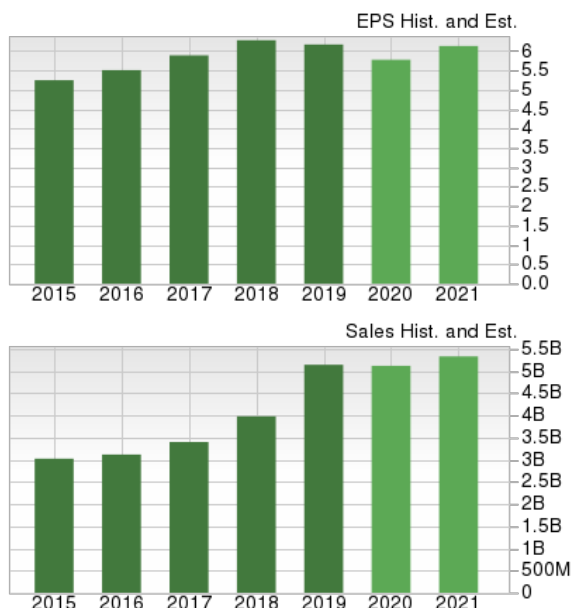
International Flavors acquired Frutarom in October 2018, creating a global leader in natural taste, scent and nutrition with a broader customer base, more diversified product offerings and more exposure to end markets, including those with a focus on naturals and health and wellness. It now has more than 90,000 products within its portfolio, serving customers across 195 countries.

Effective first-quarter 2020, International Flavors began reporting financial results in two segments, Taste and Scent.

Taste segment comprises a diversified portfolio across flavor compounds, savory solutions, inclusions and nutrition and specialty ingredients.

Flavor compounds provide flavors that are eventually utilized by customers in savory products, beverages, sweets, and dairy products. Savory solutions include marinades or powder blends of flavors, natural colors, seasonings, functional ingredients and natural anti-oxidants that are designed for the meat and fish industry. Inclusions provide taste and texture by, among other things, combining flavorings with fruit, vegetables, and other natural ingredients for a wide range of food products. Nutrition and specialty ingredients consist of natural health ingredients, natural food protection, natural colors and flavor ingredients.

Scent comprises Fragrance Compounds, Fragrance Ingredients and Cosmetic Active Ingredients. The Fragrance Compounds are used by customers in two broad categories — Fine Fragrances, including perfumes and colognes, and Consumer Fragrances, including fragrance compounds for personal care (soaps), household products (detergents and cleaning agents) and beauty care, including toiletries. Fragrance Ingredients includes synthetic and natural ingredients which can be combined with other materials to create unique fine fragrance and consumer compounds. Cosmetic Active Ingredients, consisting of active and functional ingredients, botanicals and delivery systems to support customers' cosmetic and personal care product lines.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ The company's sales slumped 7% on a reported basis and 4% on a currency neutral basis, year over year, during the June-end quarter. This downside can be attributed to the prevalent pressure in the Fine Fragrance and Food Service categories across emerging markets on account of the coronavirus pandemic. In the April-June period, currency neutral sales for Fine Fragrance and Food Service categories collectively plunged 38% year over year. The company expects that fine fragrances and food services will be hurt further by market pressure in the second half of the current year.
- ▼ Due to the pandemic, the company has witnessed a slowdown in demand in two categories — flavors used in retail food services and in its fine fragrances and cosmetic actives product categories. These declines are primarily a result of travel and shelter-in-place restrictions and the closure of retail outlets. Together, these categories generate around 15% of the company's revenues. Even though the company's fragrance ingredients business has started witnessing improvement since July as restrictions and closures have been eased, the recovery might be short-lived on further resurgence of coronavirus cases. International Flavors has not provided any guidance for the current year on account of the uncertain impact of the pandemic.
- ▼ The company is witnessing additional manufacturing and raw material costs related to COVID-19. The company has experienced disruption in supply of raw materials and transport logistics in markets where governments have implemented the strictest regulations including Italy, Spain and India. As a result, some shipments for some orders have been delayed. Although almost all of its manufacturing facilities remain operational, the company anticipates additional costs to be incurred from labor, shipping, and cleaning and higher raw material costs owing to potential COVID-19 supply chain disruptions. Manufacturing expenses are also expected to increase to support higher demand.
- ▼ Market for the flavors and fragrances segment is fragmented and highly competitive. The company might not be able to combat the raw material inflation with price increases given the aggressive price competition, which would negatively impact its profits. Further, the company's presence in international markets (accounting for 75% of its net sales) has exposed it to currency-translation risks. Another cause of concern is that increasing awareness of health and wellness are driving changes in the consumer products industry. Consumers in developed economies such as the United States and Western Europe, are now shifting away from products containing artificial ingredients to all natural, healthier alternatives.

Lower demand for flavors used in retail food services and fine fragrances and cosmetic actives products and high costs due to the COVID-19 pandemic remains a concern.

Risks

- Given the pandemic-induced crisis, the company is witnessing significant demand for packaged food, beverage and hygiene and disinfection, which represents approximately 85% of its total 2019 revenues. Moreover, as restrictions and closures have been eased, it remains optimistic for further market improvements in the third quarter and beyond as the company is showing signs of stabilization in its business. Focus to drive greater efficiencies throughout the business through costs and productivity initiatives, margin improvement, acquisition-related synergies and favorable taxes continue to drive overall profits. The company's productivity initiatives will enable the company to check costs, make strategic investments and expand businesses globally. The company is also lowering capital expenditures and prioritizing projects that generate high returns within a short time while delaying longer-term investment that are unnecessary at this time.
 - The global market for Taste and Scent continues to grow propelled by increasing in demand for a variety of consumer products containing flavors and fragrances. The market is projected to grow approximately 2-3% by 2021, primarily driven by anticipated growth in emerging markets. Consequently, International Flavors is focused on gaining share in emerging markets. In Taste segment, the company is witnessing robust double-digit growth in health-oriented products as well as an improvement in natural colors. Over the past five years, the company's currency neutral sales growth rate in emerging markets has outpaced that of developed markets. Backed by the company's global presence, diversified business platform, broad product portfolio, global and regional customer base, it will be able to capitalize on the expansion in flavors and fragrances markets and deliver long-term growth.
 - New business wins and a diversified product portfolio have worked in favor of International Flavors & Fragrances. Over time, the company has made meaningful acquisitions, which have helped expand offerings and in turn profitability. Last October, the company completed the acquisition of Frutarom, the largest deal in the industry to date. Together, International Flavors and Frutarom created a global leader in natural taste, scent and nutrition with a broader customer base, more diversified product offerings and more exposure to end markets, including those with a focus on naturals and health and wellness. It expects to complete majority of the Frutarom integration by the end of this year. The company continues to anticipate generating cost synergies of more than \$145 million over the long haul. Synergies are expected to come from procurement, footprint optimization and streamlining of overhead expenses.
 - At the end of 2019, International Flavors entered into a definitive merger agreement with DuPont's Nutrition & Biosciences ("N&B") business unit to form a new entity, focused on creating a leading global integrated solution. The company is well poised to grow on this merger deal. The transaction is likely to close by the end of first-quarter 2021 upon approval by International Flavors' shareholders. Moreover, International Flavors expects to realize cost savings of around \$300 million on a run-rate basis by after closing the transaction.
 - International Flavors & Fragrances continues to maintain a disciplined approach to capital allocation even as it focuses on accelerating growth through organic investments and strategic acquisitions, while returning significant capital to shareholders. Although the company's debt level has gone up following the Frutarom acquisition, it continues to effectively manage its balance sheet by taking necessary actions to generate strong cash flow and maintain ample liquidity by reducing operational and capital expenses. The company's cash position at the end of the quarter was \$508 million. During the June-end quarter, it generated strong free cash flow of \$128 million, up 94% from the year-ago period. The company expects to generate robust free cash flow in the near term and thus, hiked the quarterly dividend by 3% to 77 cents per share. This marks the 11th consecutive year of increase in quarterly dividend payment.
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Last Earnings Report

International Flavors Q2 Earnings Top Estimates, Down Y/Y

International Flavors reported adjusted earnings of \$1.36 per share in second-quarter 2020, surpassing the Zacks Consensus Estimate of \$1.33. The bottom-line figure, however, declined 15.5% from the year-ago quarter.

Including one-time items, earnings per share in the quarter came in at 74 cents per share compared with the \$1.20 per share recorded in the year-ago quarter.

In the reported quarter, International Flavors' net sales were \$1.20 billion, reflecting a year-over-year fall of 7%. The top-line figure also missed the Zacks Consensus Estimate of \$1.21 billion. In the second quarter, currency neutral sales decreased 4% on pressure in the Fine Fragrance and Food Service categories across emerging markets due to the coronavirus pandemic.

Given the pandemic-induced crisis, the company is witnessing significant demand for packaged food, beverage and hygiene and disinfection, which represents approximately 85% of its total 2019 revenues.

Operational Highlights

In the June-end quarter, International Flavors' cost of goods sold was down 3% year over year to \$717 million. Adjusted gross profit declined 12% year over year to \$482 million. Adjusted gross margin came in at 40.2% compared with the 42.3% witnessed in the year-ago quarter.

Research and development expenses declined 5% year over year to \$81 million. Adjusted selling and administrative expenses slid 3% year on year to \$194 million during the second quarter. Adjusted operating profit declined 26% year over year to \$158 million. Adjusted operating margin came in at 13.2% compared with the year-earlier quarter's 16.6%.

Segmental Performances

The company has reported financial results in two segments, Taste and Scent, incorporating nearly all of the Frutarom business into the Taste segment.

Revenues in the Taste segment slipped 7.8%, year over year, to \$748 million during the April-June period. On a constant-currency basis, revenues declined 5% year over year. Food Service witnessed pressure, declining 36% year over year on a currency neutral basis. Operating profit fell 18.3% year on year to \$107 million.

Revenues generated in the Scent segment came in at \$450 million, down 6.3% year over year. On a constant-currency basis, revenues were down 4% year over year. Fine Fragrance plunged 40% year on year on a currency neutral basis, thanks to the temporary disruptions of consumer access to retail markets due to the pandemic. Operating profit decreased 25.5% year over year to \$70 million.

Financial Position

International Flavors had cash and cash equivalents of \$508 million as of Jun 30, 2020, down from the \$624 million as of Dec 31, 2019. Long-term debt rose to \$4,182 million as of Jun 30, 2020, from \$3,997 million as of Dec 31, 2019.

International Flavors generated \$208 million of cash from operating activities during the first half of the current year compared with \$185 million recorded in the first half of 2019. Capital invested in purchasing property, plant and equipment totaled \$80 million in the first half of 2020.

Dividend paid summed \$160 million in the first half of the ongoing year. On Aug 10, the company's board authorized and hiked the quarterly dividend by 3% to 77 cents per share. This marks the 11th consecutive year of increase in quarterly dividend payment. The dividend is payable on Oct 5 to shareholders of record as of Sep 24, 2020.

Guidance

International Flavors has not provided any guidance for the current year on account of the uncertain impact of the coronavirus pandemic. The company will continue to effectively manage its balance sheet by taking necessary actions to generate strong cash flow and maintain ample liquidity.

Quarter Ending	06/2020
Report Date	Aug 10, 2020
Sales Surprise	-1.27%
EPS Surprise	2.26%
Quarterly EPS	1.36
Annual EPS (TTM)	5.97

Valuation

International Flavors' shares are down 8.1% in the year-to-date period and up 0.3% over the trailing 12-month period. Stocks in Consumer Products – Staples industry and the Zacks Consumer Staples sector are up 0.9% and down 3.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 5.4% and down 0.1%, respectively.

The S&P 500 index is up 9.8% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 19.59X forward 12-month earnings, which compares with 21.98X for the Zacks sub-industry, 20.21X for the Zacks sector and 22.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.92X and as low as 14.65X, with a 5-year median of 21.15X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$101 price target reflects 16.67X forward 12-month earnings per share.

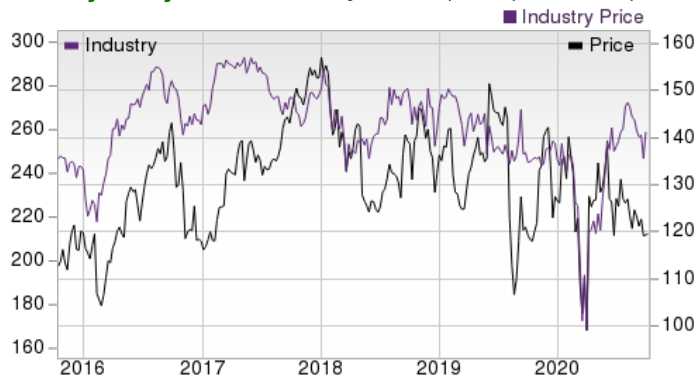
The table below shows summary valuation data for IFF:

Valuation Multiples - IFF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.59	21.98	20.21	22.97
	5-Year High	26.92	23	22.37	23.47
	5-Year Low	14.65	13.32	16.62	15.27
	5-Year Median	21.15	18.11	19.64	17.68
EV/EBITDA TTM	Current	13.63	10.61	38.21	15.52
	5-Year High	20.49	19.17	45.1	15.68
	5-Year Low	11.27	3.4	27.23	9.55
	5-Year Median	14.9	12.35	38.46	13.09
P/B TTM	Current	2.11	13.04	13.42	6.14
	5-Year High	7.33	24.27	20.29	6.2
	5-Year Low	1.62	2.99	9.23	3.75
	5-Year Median	5.68	6.49	16.46	4.89

As of 10/12/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
e.l.f. Beauty Inc. (ELF)	Outperform	1
Conagra Brands Inc. (CAG)	Neutral	3
ChurchDwight Co., Inc. (CHD)	Neutral	3
The Clorox Company (CLX)	Neutral	4
Campbell Soup Company (CPB)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	4
Hershey Company The (HSY)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3

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

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	IFF	X Industry	S&P 500	CAG	CHD	CPB
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	A	C	B
Market Cap	12.69 B	2.83 B	23.69 B	18.57 B	23.07 B	14.85 B
# of Analysts	4	4	13	8	10	7
Dividend Yield	2.60%	0.00%	1.59%	2.24%	1.03%	2.85%
Value Score	C	-	-	C	D	C
Cash/Price	0.04	0.09	0.07	0.02	0.02	0.06
EV/EBITDA	16.06	7.66	13.64	14.64	23.86	13.19
PEG F1	NA	2.35	2.95	2.15	3.74	11.65
P/B	2.11	3.64	3.55	2.26	7.69	5.78
P/CF	12.38	15.94	13.58	12.31	28.62	12.11
P/E F1	20.37	18.75	22.44	15.08	33.13	16.78
P/S TTM	2.49	1.35	2.67	1.64	5.02	1.71
Earnings Yield	4.87%	4.87%	4.29%	6.63%	3.02%	5.96%
Debt/Equity	0.70	0.65	0.70	1.09	0.60	1.94
Cash Flow (\$/share)	9.58	1.32	6.93	3.09	3.26	4.06
Growth Score	B	-	-	B	A	A
Historical EPS Growth (3-5 Years)	2.89%	2.16%	10.41%	-0.75%	12.34%	-2.54%
Projected EPS Growth (F1/F0)	-6.36%	17.78%	-2.99%	10.58%	13.97%	-0.78%
Current Cash Flow Growth	40.43%	15.07%	5.49%	22.57%	12.70%	7.36%
Historical Cash Flow Growth (3-5 Years)	15.13%	5.06%	8.51%	4.34%	9.63%	2.72%
Current Ratio	2.24	1.56	1.35	0.95	1.28	0.78
Debt/Capital	41.63%	41.63%	42.91%	52.04%	37.66%	66.03%
Net Margin	8.27%	1.59%	10.28%	8.77%	15.70%	18.73%
Return on Equity	11.26%	15.05%	14.79%	15.77%	25.58%	40.53%
Sales/Assets	0.39	1.10	0.51	0.51	0.66	0.70
Projected Sales Growth (F1/F0)	-0.46%	4.39%	-0.59%	-1.23%	9.44%	-3.98%
Momentum Score	A	-	-	A	D	D
Daily Price Change	-0.64%	0.00%	0.65%	1.85%	0.55%	1.34%
1-Week Price Change	0.20%	3.78%	4.06%	1.19%	1.74%	-0.70%
4-Week Price Change	-3.53%	3.29%	3.76%	9.89%	0.59%	7.20%
12-Week Price Change	-7.83%	7.23%	8.70%	5.00%	10.65%	-0.20%
52-Week Price Change	0.26%	14.77%	6.31%	36.83%	26.59%	4.89%
20-Day Average Volume (Shares)	1,009,810	593,345	2,117,216	3,160,362	1,376,730	2,746,216
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	5.33%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-2.84%	5.29%	3.69%	5.33%	3.08%	2.35%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	2.10%	0.00%	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.