

International Paper (IP)

\$60.23 (As of 06/17/21)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/10/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: B

Summary

International Paper will benefit from the ongoing strong demand for essential products and the e-commerce channel amid the coronavirus pandemic. The Global cellulose fibers segment will gain on strong demand for absorbent hygiene and pulp products as paper-grade pulp demand recovers. Corrugated and containerboard packaging demand remains resilient in the current year on account of its critical role in supply chain to bring essential products to customers. In the Printing Paper business, the company continues to see steady demand recovery across all regions. International Paper expects improvement in demand, volume as well as price and mix across all segments. Furthermore, mergers and acquisitions also remain a key growth strategy for the company to strengthen its packaging business. The company's strong balance sheet will also stoke growth.

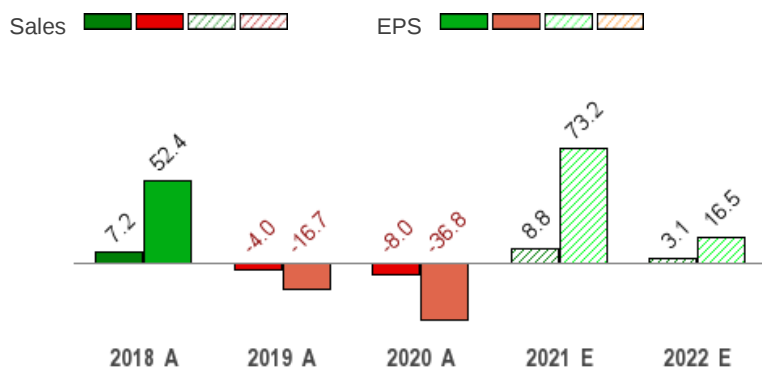
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$65.27 - \$32.59
20-Day Average Volume (Shares)	2,662,779
Market Cap	\$23.6 B
Year-To-Date Price Change	21.1%
Beta	1.06
Dividend / Dividend Yield	\$2.05 / 3.4%
Industry	Paper and Related Products
Zacks Industry Rank	Top 17% (44 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,768 E	5,826 E	5,732 E	5,912 E	23,081 E
2021	5,363 A	5,582 E	5,696 E	5,735 E	22,397 E
2020	5,352 A	4,866 A	5,123 A	5,239 A	20,580 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.29 E	\$1.32 E	\$1.63 E	\$1.60 E	\$5.65 E
2021	\$0.76 A	\$1.05 E	\$1.55 E	\$1.57 E	\$4.85 E
2020	\$0.57 A	\$0.77 A	\$0.71 A	\$0.75 A	\$2.80 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	28.8%
Last Sales Surprise	1.4%
EPS F1 Estimate 4-Week Change	3.2%
Expected Report Date	07/29/2021
Earnings ESP	-1.9%
P/E TTM	20.1
P/E F1	12.4
PEG F1	NA
P/S TTM	1.2

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/17/2021. The report's text and the

analyst-provided price target are as of 06/18/2021.

Overview

Incorporated in 1941, Headquartered in Memphis, TN, International Paper Company is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. The company employs approximately 50,000 people and is strategically located in more than 150 countries serving customers worldwide.

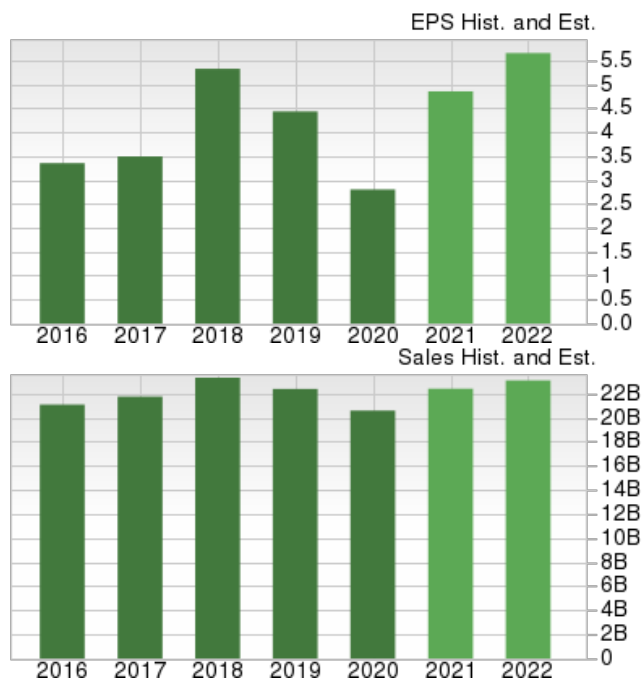
On Dec 3, 2020, the company announced its plan to spin-off its Printing Papers segment into a standalone, publicly-traded company ("SpinCo"). This move will enable International Paper to focus on its Industrial Packaging segment, and capitalize on the growing demand for corrugated packaging, cut costs and improve earnings.

The company currently has three operating segments-

The Industrial Packaging segment (accounting for 73% of 2020 revenues) manufactures containerboard in the United States. Products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. Additionally, the company recycles around \$1 million tons of OCC and mixed and white paper through 18 recycling plants. In EMEA, the company's operations include one recycled fiber containerboard mill in Morocco, a recycled containerboard mill in Spain and 26 container plants in France, Italy, Spain, Morocco and Turkey. Brazil operations include three containerboard mills and four box plants.

The Printing Papers segment (15%) produces papers for use in copiers, desktop and laser printers and digital imaging. The primary product in this segment is uncoated papers. End-use applications include promotional materials like brochures and pamphlets.

The Global Cellulose Fibers segment (12%) includes fluff and specialty pulps. The company is the largest producer of fluff pulp which is used to make absorbent hygiene products like baby diapers, feminine care, adult incontinence and other non-woven products. Its market pulp is used for tissue and paper products.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The company is witnessing strong demand driven by processed food, beverage, proteins, chemicals, paper tissue and towel. The company will continue to benefit from growing e-commerce demand as it has become a primary spending channel for customers owing to the containment measures amid the coronavirus pandemic. In the Industrial Packaging segment, the company continues to witness solid demand for corrugated and containerboard packaging as it plays a critical role in supply chain to bring essential products to consumers. Moreover, the Global cellulose fibers segment is riding on strong consumer demand for absorbent hygiene and pulp products as paper-grade pulp demand recovers. In the second quarter, the company anticipates improvement in demand, volume as well as price and mix across all segments.

International Paper will gain from strong demand for corrugated packaging and e-commerce activities in the wake of the coronavirus pandemic. A strong balance sheet and acquisitions also bode well.

International Paper is investing in its EMEA packaging business to achieve margin growth.

Thus, it is integrating its world-class lightweight recycled containerboard with box network in Southern Europe to provide customers with a wide range of packaging solutions. At the end of the first quarter, the company acquired two box plants in Spain to expand footprint and enhance commercial capabilities in the region. International Paper is also progressing well on ramping up of its Madrid mill. In the Printing Paper business, the company continues to see steady demand recovery across all regions.

- ▲ International Paper has taken initiatives in three areas. First, the company will streamline and simplify its organization to form a packaging-focused company. Second, it will redesign processes to increase efficiency and reduce costs in maintenance and reliability, distribution and logistics, as well as sourcing. Third, the company is identifying opportunities to optimize fleet of assets to make the right products and own the right assets to further fortify cost position. In fact, International Paper is committed to deliver \$350-\$400 million in incremental earnings by the end of 2023. The company will deliver \$50 million to \$100 million of incremental annual earnings growth in its businesses through commercial execution and investment excellence. It will also deliver \$300 million of structural cost reduction.
- ▲ International Paper continually evaluates its operations for improvement opportunities by focusing on its core businesses, realigning capacity to operate fewer facilities with the same revenue capability, closing high-cost facilities, and trimming costs. The company has strategically offloaded businesses in China to focus more on its U.S. operations. It believes that it could cater to the Chinese and Asian markets more effectively by supplying globally competitive products primarily through its Ilim joint venture in Russia and through exports from the United States and other parts of the world.

In January 2021, International Paper entered into an agreement to divest its 90.38% shareholding in Olmuksan International Paper to Mondi Group for approximately €66 million (\$80.8 million). The divestiture includes Turkey-based corrugated packaging facilities. The deal is expected to close in the first half of the current year. Previously, the company completed the divestiture of its consumer packaging business in North America to Graphic Packaging. The divestiture helped the company to maximize the value of North American Consumer Packaging business by combining it with Graphic Packaging while also focusing on its core businesses and strengthen its balance sheet.

- ▲ Mergers and acquisitions are a key strategy for International Paper to strengthen its packaging business. In North America, the company envisions a large opportunity within its industrial packaging businesses, which continue to generate the best margins in the industry. The company is taking initiatives to drive further margin expansion over time across the business. International Paper also announced its plan to spin-off the company's Printing Papers segment into a standalone, publicly-traded company ("SpinCo"). This move will enable International Paper to focus on its Industrial Packaging segment, and capitalize on the growing demand for corrugated packaging, cut costs and improve earnings. The transaction will be implemented through the distribution of SpinCo shares to shareholders of International Paper. The transaction is expected to close in the third quarter of the current year.
- ▲ The company's efforts to reduce its debt levels appear encouraging. International Paper's total debt has gone down from \$11 billion at the end of 2016 to \$8.1 billion as of Dec 31, 2020. The company reduced \$108 million of debt in the first quarter to further strengthen balance sheet. In the quarter, International Paper generated \$423 million of free cash flow aided by strong commercial and operational performance, and cost management actions. In the first quarter, the company returned \$331 million to shareholders. Moreover, cash and temporary investments aggregated \$787 million as of Mar 31, 2021 compared with \$595 million as of Dec 31, 2020.

Risks

- The coronavirus pandemic has affected paper consumption in schools, offices and businesses due to stay-at-home measures implemented to stem the spread of the coronavirus. This has strained demand for paper. Even though demand for printing papers is improving, it remained below than prior year levels. Challenges related to the printing paper demand will prevail until offices and schools resumes. The company has also experienced unprecedented decline in commercial printing segments due to the significant pullback in print advertising. This will weigh on the Printing Paper segment's performance in the near term. Further, the transition to digital media has led to declines in demand for paper and remains a persistent woe. Paperless communication, increased use of email, less print advertising, more electronic billing and fewer catalogs have dented paper demand. This remains a concern.
 - The company expects escalating recovered fiber, energy, chemicals and distribution costs in the second quarter. It is experiencing significant rail, truck and ocean transportation congestion due to challenging transportation conditions. In the Industrial Packaging segment, planned maintenance outages costs might hurt the segment's margin in the second quarter. Also, surging input costs driven by higher OCC, recovered fiber, seasonal energy and distribution costs might dent the company's performance during the quarter.
 - In global cellulose fibers segment higher operations and costs are likely to dent the segment's bottom-line results in the second quarter. Moreover, maintenance outage expense is expected to be up \$22 million, and input costs might rise \$5 million in the segment.
 - Demand for processed foods is normalizing as shopping activity is picking up. There has been a modest improvement in fresh produce and beverage as restaurants and food service activity are slowly reopening. However, this recovery may not sustain considering the resurgence in coronavirus cases in many areas as this might lead to the governments imposing further shutdowns.
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Last Earnings Report

International Paper Q1 Earnings & Sales Top Estimates, Up Y/Y

International Paper reported first-quarter 2021 adjusted earnings of 76 cents per share, which beat the Zacks Consensus Estimate of 59 cents. The bottom line also increased 33.3% year over year.

Including one-time items, the company posted earnings per share of 88 cents in first-quarter 2021 as against the loss per share of 36 cents seen in the year-ago quarter.

Net sales came in at \$5.36 billion in the first quarter compared with the year-ago quarter's \$5.35 billion. The top line also topped the Zacks Consensus Estimate of \$5.29 billion.

Adjusted cost of sales came in at \$3,847 million, up 4.6% from the prior-year quarter's \$3,677 million. Gross profit declined 9.5% year over year to \$1,516 million. Adjusted selling and administrative expenses fell 19.6% year over year to \$336 million during the reported quarter. Adjusted operating profit was \$299 million, reflecting year-over-year growth of 32.3%.

Segment Performance

Industrial Packaging: Sales in this segment came in at \$3.95 billion compared with the prior-year quarter's \$3.82 billion. Operating profit fell 4.8% year over year to \$447 million.

Global Cellulose Fibers: In the reported quarter, the segment's sales climbed 2.3% to \$581 million from the prior-year quarter. The segment incurred an operating loss of \$82 million in the reported quarter compared with the year-ago quarter's loss of \$54 million.

Printing Papers: Sales of this segment amounted to \$781 million, reflecting a decline of 14% from the year-earlier quarter. The segment's operating profit fell 16.7% year over year to \$80 million.

Financial Position

Cash and temporary investments aggregated \$787 million as of Mar 31, 2021 compared with \$595 million as of Dec 31, 2020. In the first quarter, the company returned \$331 million to shareholders and reduced debt by \$108 million. At the end of the first quarter, the company's long-term debt came in at \$7.9 billion.

Cash flow from operating activities was \$512 million in first-quarter 2021 compared with the prior-year quarter's \$649 million. Free cash flow was \$423 million in the January-March period compared with the \$363 million witnessed in the year-ago period.

The company anticipates strong demand for corrugated packaging and absorbent pulp, and the supply demand scenario to improve in the printing papers business. These are likely to aid the company's current-year performance.

Quarter Ending	03/2021
Report Date	Apr 29, 2021
Sales Surprise	1.39%
EPS Surprise	28.81%
Quarterly EPS	0.76
Annual EPS (TTM)	2.99

Recent News

International Paper Divests Turkish Corrugated Packaging

On **May 31, 2021**, International Paper has completed the sale of its 90.38% shareholdings interest in Olmuksan International Paper to Mondi Group for roughly €66 million (\$81 million). This Olmuksan business includes five corrugated packaging facilities in Turkey, with an annual converting capacity of three hundred thousand tons.

The Olmuksan corrugated packaging business generates annual revenues of approximately €150 million (\$185 million). This business serves food, agriculture, heavy-duty and industrial sector customers.

In January 2021, the company entered into this diversification agreement. Notably, the deal supports International Paper's strategy to serve markets from an advantageous position. The company is focused on expanding its strategic corrugated packaging business in the EMEA region over the long haul.

International Paper Announces Quarterly Dividend

On **May 11, 2021** International Paper's board has declared a second-quarter 2021 dividend of 51 cents per share, inclusive, on its common stock, par value \$1.00. The dividend is payable on Jun 15, to shareholders of record at the close of business on May 27, 2021.

International Paper Buys Corrugated Box Plants in Spain

On **Mar 30, 2021**, International Paper acquired Spain-based two state-of-the-art corrugated box plants in a bid to expand its capabilities in the country's largest industrial regions, Madrid and Catalonia. The terms of the deal have been kept under wraps.

Corrugated packaging business provides strategic growth scope for International Paper in the EMEA region. It offers customers with high-quality packaging solutions in the industrial, vegetable and fresh fruit, as well as e-commerce markets. The acquired packaging plants will become part of International Paper effective Apr 1.

Valuation

International Paper's shares are up 24% in trailing six-month period and 80.4% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basics Materials sector are up 21.5% and 17.7% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 78.3% and 51% respectively.

The S&P 500 index is up 15.5% in the trailing six-month period and 40.6% in the past year.

The stock is currently trading at 11.64X forward 12-month earnings, which compares with 6.28X for the Zacks sub-industry, 9.61X for the Zacks sector and 21.70X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.66X and as low as 6.59X, with a 5-year median of 12.65X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$69 price target reflects 13.33X Forward 12-month earnings.

The table below shows summary valuation data for IP:

Valuation Multiples - IP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.64	6.28	9.61	21.7
	5-Year High	18.66	13.88	18	23.83
	5-Year Low	6.59	4.11	9.61	15.31
	5-Year Median	12.65	9.14	12.86	18.05
EV/EBITDA TTM	Current	8.87	10.49	8.19	17.34
	5-Year High	11.55	15.57	18.12	17.74
	5-Year Low	4.14	3.95	6.54	9.63
	5-Year Median	6.99	7.88	9.35	13.47
P/B TTM	Current	3.04	7.19	3.36	7.03
	5-Year High	5.47	7.91	3.72	7.08
	5-Year Low	1.35	1.72	1.22	3.84
	5-Year Median	2.79	2.51	2.27	5.02

As of 06/17/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 17% (44 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Mercer International Inc. (MERC)	Outperform	1
Veritiv Corporation (VRTV)	Outperform	1
Clearwater Paper Corporation (CLW)	Neutral	4
D S SMITH PLC (DITHF)	Neutral	3
MONDI PLC UNS (MONDY)	Neutral	2
Stora Enso Oyj (SEOAY)	Neutral	3
SMURFIT KAPPA (SMFKY)	Neutral	2
WestRock Company (WRK)	Neutral	3

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

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	IP	X Industry	S&P 500	SEOAY	SMFKY	WRK
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	3
VGM Score	C	-	-	C	B	B
Market Cap	23.59 B	1.56 B	29.66 B	14.24 B	13.87 B	14.05 B
# of Analysts	7	1	12	1	1	7
Dividend Yield	3.40%	0.00%	1.35%	1.07%	2.78%	1.82%
Value Score	C	-	-	B	B	A
Cash/Price	0.03	0.11	0.05	0.11	0.08	0.02
EV/EBITDA	12.92	9.63	16.95	9.63	NA	8.21
PEG F1	NA	0.64	2.09	NA	NA	0.64
P/B	3.04	1.47	4.06	1.36	3.20	1.27
P/CF	9.89	9.89	17.27	12.91	10.76	3.87
P/E F1	12.42	13.45	20.99	16.57	17.56	15.29
P/S TTM	1.15	0.68	3.39	1.41	NA	0.80
Earnings Yield	8.05%	6.87%	4.65%	6.04%	5.70%	6.54%
Debt/Equity	1.02	0.82	0.66	0.42	0.83	0.76
Cash Flow (\$/share)	6.09	1.55	6.83	1.40	4.98	13.62
Growth Score	D	-	-	B	B	D
Historical EPS Growth (3-5 Years)	1.38%	-4.97%	9.44%	-0.53%	NA	4.70%
Projected EPS Growth (F1/F0)	73.21%	69.93%	21.49%	113.73%	13.81%	25.11%
Current Cash Flow Growth	-22.12%	-3.68%	0.99%	-39.26%	-3.68%	39.12%
Historical Cash Flow Growth (3-5 Years)	-3.29%	-3.70%	7.28%	-10.51%	6.80%	20.84%
Current Ratio	1.45	2.04	1.39	1.32	1.46	1.52
Debt/Capital	50.58%	45.06%	41.51%	29.40%	45.21%	43.13%
Net Margin	4.72%	-1.79%	11.95%	7.16%	NA	-4.06%
Return on Equity	15.84%	6.27%	16.48%	5.92%	NA	6.27%
Sales/Assets	0.65	0.76	0.51	0.54	NA	0.60
Projected Sales Growth (F1/F0)	8.83%	0.00%	9.41%	13.33%	14.05%	3.76%
Momentum Score	B	-	-	F	D	A
Daily Price Change	-3.21%	-1.75%	-0.04%	-1.26%	-2.76%	-4.49%
1-Week Price Change	-1.55%	0.00%	-0.41%	-0.94%	3.56%	-2.76%
4-Week Price Change	-4.20%	-2.51%	1.51%	-3.40%	0.04%	-8.75%
12-Week Price Change	10.84%	1.64%	7.99%	-6.74%	11.86%	1.77%
52-Week Price Change	71.69%	49.77%	35.52%	43.92%	66.46%	86.17%
20-Day Average Volume (Shares)	2,662,779	203,490	1,771,802	17,287	8,827	1,608,709
EPS F1 Estimate 1-Week Change	0.30%	0.00%	0.00%	-3.54%	0.00%	0.08%
EPS F1 Estimate 4-Week Change	3.22%	0.00%	0.03%	0.00%	11.72%	0.08%
EPS F1 Estimate 12-Week Change	24.95%	6.00%	3.37%	-4.39%	5.90%	-1.63%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	-11.11%	NA	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	D
Momentum Score	B
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.

Disclosures

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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.