

Kennametal Inc. (KMT)

\$38.21 (As of 12/09/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

In the past three months, Kennametal's shares have outperformed the industry. The company is poised to benefit from its exposure in multiple end markets, solid customer base, strong product offerings and innovation capabilities. Its three initiatives —growth, modernization and simplification — have been proving advantageous. For second-quarter fiscal 2021, it anticipates sales to grow in low- to mid-single digits on a sequential basis. Its simplification/modernization activities are predicted to yield savings of \$65-\$75 million in fiscal 2021. However, the company remains wary about the impacts of end-market challenges due to the coronavirus outbreak. Notably, it refrained from providing fiscal 2021 projections. Also, its ability to meet debt obligations based on its current income has declined in the past quarter.

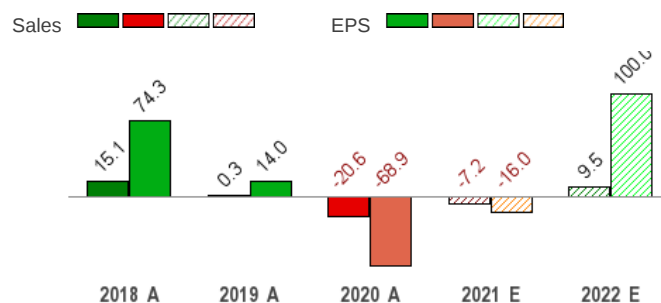
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$38.73 - \$14.45
20-Day Average Volume (Shares)	513,933
Market Cap	\$3.2 B
Year-To-Date Price Change	3.6%
Beta	2.17
Dividend / Dividend Yield	\$0.80 / 2.1%
Industry	Manufacturing - Tools & Related Products
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	50.0%
Last Sales Surprise	4.0%
EPS F1 Estimate 4-Week Change	-1.8%
Expected Report Date	02/01/2021
Earnings ESP	0.0%
P/E TTM	47.2
P/E F1	48.4
PEG F1	9.7
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	434 E	456 E	489 E	517 E	1,917 E
2021	400 A	425 E	472 E	467 E	1,750 E
2020	518 A	505 A	483 A	379 A	1,885 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.21 E	\$0.26 E	\$0.49 E	\$0.62 E	\$1.58 E
2021	\$0.03 A	\$0.08 E	\$0.31 E	\$0.39 E	\$0.79 E
2020	\$0.17 A	\$0.17 A	\$0.46 A	\$0.15 A	\$0.94 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/09/2020. The reports text is as of 12/10/2020.

Overview

Based in Latrobe, PA, Kennametal Inc. is a manufacturer, marketer and distributor of high-speed metal cutting tools, tooling systems and wear-resistant parts. It has operations in various countries, including the Americas, the Asia Pacific, and Europe, Middle East and Africa. Exiting fiscal 2020 (ended June 2020), it had approximately 9,000 employees.

Its products are marketed through a number of channels to the end users, comprising manufacturers of machine tools, transportation vehicles and various components, airframe, aerospace components, machinery (light and heavy), components (energy-related), and others. Also, the company's products are used by manufacturers and suppliers in the oil and gas exploration, road construction, and other industries.

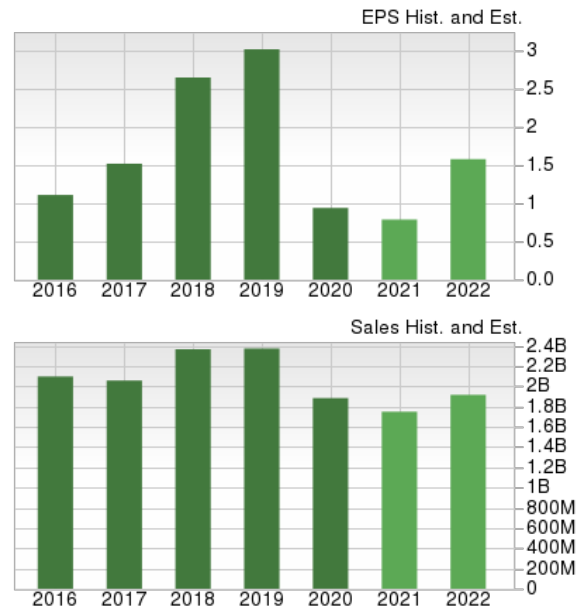
Effective Jul 1, the company started reporting its results under two business segments — Metal Cutting (comprising of the former Industrial and WIDIA segments) and Infrastructure (same as before). A brief discussion of the segments is provided below.

- **Metal Cutting** (61.9% of revenues generated in first-quarter fiscal 2021) segment is engaged in manufacturing tooling and metal cutting products as well as provides related services. Also, the segment provides metal cutting solutions (both customized and standard).

End markets served include transportation, aerospace, energy and general engineering. The main product brands under the segment are Kennametal, WIDIA Hanita, WIDIA and WIDIA GTD.

- **Infrastructure** (38.1% of revenues generated in first-quarter fiscal 2021) segment deals in earth-cutting tools, ceramic and tungsten carbide components as well as metallurgical powders. The segment serves end users in the energy, general engineering and earthworks markets. These players, in turn, support mining, oil and gas, petrochemical, process, aerospace, packaging, and other industries.

The main product brand offered under the segment is Kennametal.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ In the past three months, Kennametal's shares have gained 27.3% compared with the industry's growth of 15.5%. In first-quarter fiscal 2021, the company's earnings and sales surpassed estimates by 50% and 4%, respectively. Sales in the quarter increased 6% from the previous quarter's levels on the back of improvements in general engineering, transportation and other end markets. In the quarters ahead, the company anticipates gaining from simplification/modernization activities (discussed below), innovation capabilities, and solid product offerings. In the second quarter of fiscal 2021, the company anticipates sales to grow in low- to mid-single digits on a sequential basis. Also, the company's temporary cost actions and lower raw material costs are expected to aid earnings in the first half of fiscal 2021.
- ▲ Kennametal's three initiatives — including growth, modernization and simplification — have been proving advantageous. The growth initiative is helping boost the company's sales through improvement in commercial execution. The simplification initiative is improving operational efficiency and reducing costs. The modernization initiative is contributing to strong operating leverage. Compared with the year-ago quarter, the initiatives boosted the company's bottom line by 20 cents per share in the first quarter of fiscal 2021. Kennametal stated that its fiscal 2020 simplification/modernization measures generated savings of \$35 million since inception in first-quarter fiscal 2019. Also, the fiscal 2021 initiatives are expected to yield savings of \$65-\$75 million.
- ▲ Kennametal remains committed to rewarding its shareholders through dividend payments. In first-quarter fiscal 2021, the company distributed dividends totaling 20 cents per share or \$16.6 million to its shareholders. Also, the company's diversified customer base in various end markets enables it to avoid customer concentration risks. Prime end-markets served include aerospace, automotive, and machine tool and farm machinery industries as well as manufacturers and suppliers in the highway construction, coal mining, quarrying, and oil and gas exploration industries.

Kennametal is well-positioned to gain from simplification/modernization activities, diversified business structure, cost-saving measures and innovations capabilities. Its shareholder-friendly policies might also aid.

Reasons To Sell:

- ▼ In first-quarter fiscal 2021, Kennametal's earnings declined 82.4%, while sales fell 23%. The company is wary about the impacts of end-market challenges due to the coronavirus outbreak. It refrained from providing projections for fiscal 2021. In addition, weakness in gross and operating profits can be dragging for the company. In first-quarter fiscal 2021, the company recorded a 24% year-over-year decline in adjusted gross profit, while adjusted gross margin was down 50 basis points (bps). Also, adjusted operating income plunged 53% year over year on a decline in organic sales, restructuring charges and lower absorption of costs (including fixed and volume-related labor costs). Notably, charges related to simplification/modernization initiatives (pre-tax) were \$29 million in the fiscal first quarter. Notably, the company incurred pre-tax restructuring charges of \$55 million for its fiscal 2020 actions, while that for fiscal 2021 actions are likely to be \$90-\$100 million.
- ▼ Kennametal's business is exposed to risks related to foreign currency translation, given its strong presence in international markets. Though international diversity increases business scope, it also exposed the company to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In this regard, foreign currency translation had an adverse impact of 1% on revenues and 2 cents per share on earnings in first-quarter fiscal 2021. Fluctuations in foreign exchange rates may continue to affect the company's top and bottom lines in the quarters ahead.
- ▼ Exiting the first-quarter fiscal 2021, Kennametal's long-term debt stood at \$593.3 million, reflecting decline of 0.1% from the previous quarter. It is the company's ability to repay its financial obligations (not its debts) that are more concerning presently. Its times interest earned was 0.1x at the end of first quarter fiscal 2021, down compared with 1.1x at the end of the fourth quarter. We believe that further rise in debts as well as worsening ability to repay debts might be dragging in the quarters ahead. Further, its earnings estimates have been lowered, reflecting bearish sentiments toward the stock. Notably, earnings estimates for the second quarter of fiscal 2021 has been decreased by 55.6% in the past 60 days, while that for fiscal 2021 and fiscal 2022 have been lowered by 17.7% and 4.2%, respectively.

Challenging end-market conditions caused by the pandemic remain concerning for Kennametal. Also, restructuring charges and forex woes might be dragging in the quarters ahead.

Last Earnings Report

Kennametal Beats Q1 Earnings and Sales Estimates

Kennametal reported better-than-expected results for first-quarter fiscal 2021 (ended Sep 30, 2020). Its earnings in the quarter surpassed estimates by 50%, while sales beat the same by 4%.

The machinery company's adjusted earnings in the reported quarter were 3 cents, surpassing the Zacks Consensus Estimate of 2 cents. However, the bottom line decreased 82.4% from the year-ago figure of 17 cents on weak sales and margin results.

Quarter Ending **09/2020**

Report Date	Nov 02, 2020
Sales Surprise	4.00%
EPS Surprise	50.00%
Quarterly EPS	0.03
Annual EPS (TTM)	0.81

Revenue Details

Kennametal generated revenues of \$400.3 million, declining 23% year over year. While organic sales fell 21% in the quarter, forex woes had an adverse impact of 1% and divestitures hurt results by 1%. The quarterly results suffered from weakness in end markets, including energy, aerospace, earthworks, transportation and general engineering.

However, Kennametal's top line surpassed the Zacks Consensus Estimate of \$385 million.

It is worth noting here that the company's quarterly top line improved 6% on a sequential basis.

On a geographical basis, its revenues from America operations decreased 31% year over year, while that from the Europe, the Middle East and Africa (EMEA) region declined 20%. Sales from the Asia Pacific dropped 7%.

Metal Cutting revenues of \$247.9 million were down 24% year over year. The results were adversely impacted by a 23% decline in organic revenues and a 1% impact from forex woes.

Infrastructure revenues totaled \$152.4 million, declining 21% year over year. The results were affected by an 18% decline in organic sales and a 4% adverse impact of divestitures. However, business days' impact was a positive 1%.

Margin Profile

Kennametal's cost of goods sold in the reported quarter dipped 22.1% year over year to \$295.2 million. It represented 73.8% of revenues compared with 73.2% in the year-ago quarter. Adjusted gross profit deteriorated 24% year over year to \$108.1 million, wherein margin contracted 50 basis points (bps) to 27%. Operating expenses summed \$93.3 million in the quarter under review, decreasing 18.3% year over year. As a percentage of revenues, operating expenses were 23.3% compared with 22% a year ago.

Adjusted operating income in the reported quarter slumped 53% year over year to \$11.5 million. Notably, the downside is caused by a decline in organic sales, lower absorption of costs (including fixed and volume-related labor costs) and restructuring charges. However, the adverse impacts were partly offset by the benefits of simplification/modernization actions, gains from cost-reduction actions and a fall in raw material costs. Adjusted operating margin slipped 180 bps to 2.9%.

Adjusted effective tax rate was 33.4% in the quarter, up from 22.5% in the prior-year quarter.

Balance Sheet and Cash Flow

Exiting the fiscal first quarter, Kennametal's cash and cash equivalents was \$98.3 million, down 83.8% from the previous quarter's figure of \$606.7 million. Long-term debt and capital leases edged down 0.1% sequentially to \$593.3 million.

In the fiscal first quarter, the company generated net cash of \$9.6 million from operating activities, declining 65.1% from the previous year. Capital invested in purchasing property, plant and equipment (net of the amount received on disposals) came in at \$39 million, below \$72.1 million reported in the year-ago quarter. Free cash outflow was \$29.4 million, down from an outflow of \$44.5 million in the first quarter of fiscal 2020.

Restructuring Actions

The company predicts annualized savings of \$65-\$75 million from its restructuring actions in fiscal 2021. Pre-tax charges in the year will be \$90-\$100 million. Inception to date, the company has realized savings of \$40 million (including \$10 million in the first quarter of fiscal 2021) and incurred costs of \$70 million (including \$27 million in the reported quarter).

As part of the fiscal 2021 program, the company will cease operations in its Johnson City, TN-based manufacturing facility by the end of fiscal 2021 (ending June 2021).

In addition, restructuring actions for fiscal 2020 resulted in savings of \$35 million (including \$7 million in the first quarter of fiscal 2021) and pre-tax expenses of \$55 million (including \$2 million in the first quarter of fiscal 2021). Measures under this program are substantially complete.

Notably, the company's incremental benefits from simplification/modernization actions were \$22 million in the quarter under review.

Outlook

In the quarters ahead, Kennametal anticipates gaining from simplification/modernization activities, solid product offerings, cost-reduction actions and growth initiatives. However, end-market uncertainties related to the pandemic and a lack of visibility remain concerning. It refrained from issuing financial projections for fiscal 2021.

For the fiscal second quarter (ended December 2020), the company anticipates a year-over-year sales increase in low- to mid-single digits. Capital spending is predicted to be \$110-\$130 million in fiscal 2021.

Recent News

Dividend

On **Nov 24, 2020**, Kennametal paid a quarterly cash dividend of 20 cents per share to its shareholders of record as of Nov 10, 2020.

Valuation

Kennametal shares are up 6.5% in the year to date period and up 7.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 7.2% and up 19.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4.1%, while the sector increased 21.8%.

The S&P 500 Index has moved up 16.3% in the year-to-date period and 19.3% in the past year.

The stock is currently trading at 33.46x forward 12-month earnings per share, which compares to 17.13x for the Zacks sub-industry, 23.19x for the Zacks sector and 22.7x for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.46x and as low as 8.68x, with a 5-year median of 17.24x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$41 price target reflects 35.9x forward 12-month earnings per share.

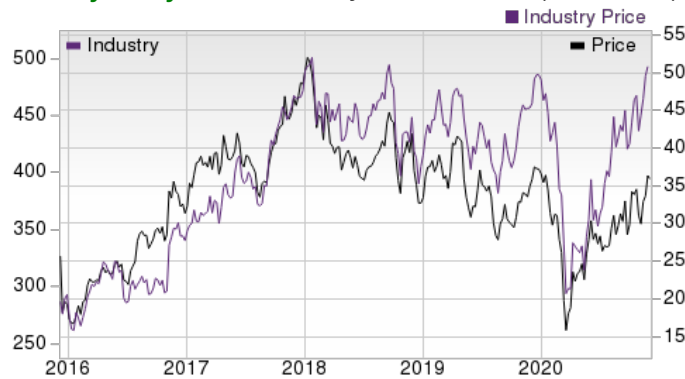
The table below shows summary valuation data for KMT.

Valuation Multiples - KMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.46	17.13	23.19	22.7
	5-Year High	33.46	21.45	23.19	23.47
	5-Year Low	8.68	12.49	12.61	15.27
	5-Year Median	17.24	16.92	17.76	17.77
P/Sales F12M	Current	1.74	1.13	3.33	4.27
	5-Year High	1.82	1.52	3.33	4.3
	5-Year Low	0.59	0.84	1.6	3.17
	5-Year Median	1.26	1.19	2.11	3.68

As of 12/09/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Lincoln Electric Holdings, Inc. (LECO)	Outperform	2
Allegheny Technologies Incorporated (ATI)	Neutral	3
Colfax Corporation (CFX)	Neutral	3
SPX FLOW, Inc. (FLOW)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	3
Sandvik AB (SDVKY)	Neutral	3
Stanley Black & Decker, Inc. (SWK)	Neutral	3
Energypac Tool Group Corp. (EPAC)	Underperform	4

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

Industry Comparison Industry: Manufacturing - Tools & Related Products				Industry Peers		
	KMT	X Industry	S&P 500	CFX	EPAC	LECO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Outperform
Zacks Rank (Short Term)	4	-	-	3	4	2
VGM Score	F	-	-	B	D	C
Market Cap	3.18 B	3.35 B	25.77 B	4.46 B	1.45 B	7.14 B
# of Analysts	6	6	14	9	4	8
Dividend Yield	2.09%	1.29%	1.49%	0.00%	0.16%	1.63%
Value Score	D	-	-	C	C	C
Cash/Price	0.03	0.08	0.06	0.01	0.11	0.02
EV/EBITDA	23.42	13.84	14.68	16.21	30.88	16.28
PEG F1	9.63	4.85	2.77	4.87	NA	3.03
P/B	2.51	3.56	3.55	1.29	4.04	10.05
P/CF	15.94	15.36	13.89	8.11	42.83	19.53
P/E F1	48.14	30.34	22.00	27.38	43.91	30.34
P/S TTM	1.80	2.36	2.84	1.42	2.94	2.65
Earnings Yield	2.07%	3.30%	4.38%	3.64%	2.27%	3.30%
Debt/Equity	0.47	0.50	0.70	0.63	0.71	1.01
Cash Flow (\$/share)	2.40	2.40	6.94	4.64	0.57	6.15
Growth Score	D	-	-	B	D	C
Historical EPS Growth (3-5 Years)	8.51%	6.36%	9.69%	6.93%	-18.66%	8.74%
Projected EPS Growth (F1/F0)	-16.14%	-3.42%	1.00%	-41.01%	206.94%	-15.80%
Current Cash Flow Growth	-45.40%	-7.68%	5.22%	27.59%	-48.93%	-3.32%
Historical Cash Flow Growth (3-5 Years)	-7.39%	4.54%	8.33%	3.20%	-26.49%	0.03%
Current Ratio	2.25	2.35	1.38	1.64	3.23	1.92
Debt/Capital	31.90%	31.44%	42.00%	38.80%	41.52%	50.17%
Net Margin	-1.91%	6.87%	10.40%	-0.24%	0.15%	7.59%
Return on Equity	5.19%	5.59%	14.99%	6.04%	3.02%	34.42%
Sales/Assets	0.66	0.62	0.50	0.43	0.57	1.19
Projected Sales Growth (F1/F0)	-7.17%	0.00%	0.35%	-15.93%	5.96%	-12.03%
Momentum Score	F	-	-	B	D	B
Daily Price Change	1.70%	0.42%	-0.24%	-0.03%	1.51%	0.49%
1-Week Price Change	3.42%	-0.30%	1.73%	2.48%	4.70%	2.53%
4-Week Price Change	17.14%	7.52%	4.03%	11.66%	16.35%	6.92%
12-Week Price Change	16.35%	10.74%	12.51%	8.76%	12.99%	29.38%
52-Week Price Change	4.37%	11.72%	6.69%	6.93%	-4.86%	26.93%
20-Day Average Volume (Shares)	513,933	142,165	1,945,847	848,866	325,558	215,611
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.81%	0.00%	0.00%	0.65%	-0.63%	0.00%
EPS F1 Estimate 12-Week Change	-11.99%	-0.19%	3.87%	1.66%	-15.52%	9.97%
EPS Q1 Estimate Monthly Change	-2.78%	0.00%	0.00%	0.23%	0.00%	0.12%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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.