

Lincoln Electric (LECO)

\$127.92 (As of 05/20/21)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/05/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

Lincoln Electric's first-quarter 2021 adjusted earnings per share and revenues both beat the Zacks Consensus Estimate and improved from the prior-year quarter. Backed by improving demand across its end markets, the company expects current-year organic sales growth in low to mid-teens percentage. The company anticipates incremental margin to average in the high 20% range for 2021 to reflect increasing volume levels and operating leverage. Acquisitions and focus on developing new products and utilization of digital platforms to engage customers will continue to drive the company's top line. Lincoln Electric has been implementing cost control measures, which is likely to lead to incremental cost savings of \$25-\$30 million in 2021. However, escalating labor, freight and raw material costs and supply chain constraints remains headwinds.

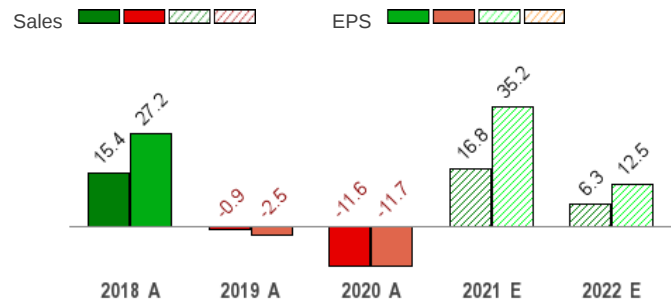
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$136.04 - \$78.62
20-Day Average Volume (Shares)	238,541
Market Cap	\$7.6 B
Year-To-Date Price Change	10.0%
Beta	1.17
Dividend / Dividend Yield	\$2.04 / 1.6%
Industry	Manufacturing - Tools & Related Products
Zacks Industry Rank	Top 25% (63 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	4.6%
EPS F1 Estimate 4-Week Change	9.9%
Expected Report Date	07/26/2021
Earnings ESP	1.0%
P/E TTM	28.4
P/E F1	22.8
PEG F1	2.1
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	827 E	822 E	823 E	824 E	3,295 E
2021	757 A	780 E	782 E	784 E	3,101 E
2020	702 A	591 A	669 A	694 A	2,655 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.59 E	\$1.58 E	\$1.56 E	\$1.57 E	\$6.31 E
2021	\$1.37 A	\$1.43 E	\$1.41 E	\$1.41 E	\$5.61 E
2020	\$1.00 A	\$0.80 A	\$1.10 A	\$1.24 A	\$4.15 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 05/20/2021. The report's text and the analyst-provided price target are as of 05/21/2021.

Overview

Headquartered in Cleveland, OH, Lincoln Electric has more than 59 manufacturing locations, including operations and joint ventures in 18 countries, and a worldwide network of distributors and sales offices covering more than 160 countries.

Lincoln is a full-line manufacturer and reseller of welding and cutting products with products ranging from welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumables and fluxes to regulators and torches used in cutting.

Lincoln Electric produces three types of arc welding electrodes, including stick electrodes, solid electrodes used for continuous feeding in mechanized welding, and cored electrodes that are also used for mechanized welding. Arc welding is carried out in many industries. The metal working field involves production of arc welding in transportation, construction, fabrication, petrochemical and other industries.

The company's business units are aligned into three operating segments-

The Americas Welding segment (60% of 2020 revenues) includes welding operations in North and South America.

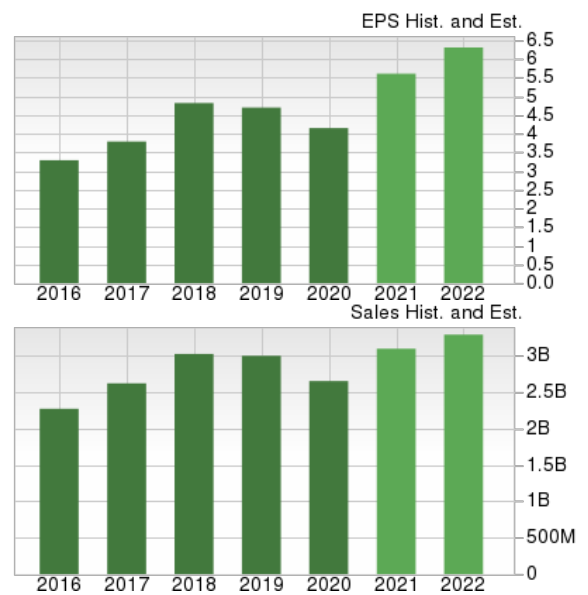
The International Welding (30%) segment includes welding operations in Europe, Africa, Asia and Australia.

The Harris Products Group (10%) includes the company's global cutting, soldering and brazing businesses, and retail business in the United States.

In April 2021, the company acquired Zeman Bauelemente Produktionsgesellschaft m.b.H. ("Zeman Bauelemente"), a division of the Zeman Group. Based in Vienna, Austria Zeman Bauelemente, is a leading designer and manufacturer of robotic assembly and arc welding systems that automate the tacking and welding of steel beams.

During July 2019, the company acquired the controlling stake of Turkey-based Askaynak, which is a supplier and manufacturer of welding consumables, arc welding equipment, including plasma and oxy-fuel cutting equipment and robotic welding systems. Earlier in April 2019, the company acquired Detroit, MI-based Baker Industries, a provider of custom tooling, parts and fixtures primarily serving automotive and aerospace markets.

In 2018, the company acquired the soldering business of Worthington Industries and Coldwater Machine Company and Pro System.



Reasons To Buy:

▲ Lincoln Electric has witnessed improving order rates across all segments, lately, as its end markets continue to recover. Notably, 80% of first-quarter 2021 revenues were generated from growing end markets led by mid-teens percent organic sales growth in automotive and heavy industries where mining, agriculture, and construction equipment demand increased above expectations. The company entered the second quarter with strong momentum and record order and backlog levels for equipment. This along with acquisitions are expected to benefit the company's performance in the back half of the year. Lincoln Electric anticipates current-year organic sales growth in low to mid-teens percentage. Incremental margin is expected to average in the high 20% range for 2021 reflecting increasing volume levels and operating leverage.

Focus on acquisitions, innovative product launches and execution of higher standard 2025 strategy will drive Lincoln Electric's growth. Improving demand and cost cutting actions will aid results.

▲ As of Mar 31, 2021, Lincoln Electric had liquidity of \$720 million. The company ended the first quarter with cash in hand of \$242 million. Total debt as of Mar 31, 2021 was \$719 million. Its total debt to total capital ratio was 0.47 as of Mar 31, 2021. Further, its times interest earned ratio was 14 at the end of first-quarter 2021, better than the industry's 8.4. Lincoln Electric expects strong cash flow generation and cash conversion in excess of 90% in 2021. Lincoln Electric has a balanced capital allocation strategy, prioritizing growth investment while returning cash to shareholders.

The company's board of directors declared a 4.1% increase in the quarterly cash dividend — its 25th consecutive annual dividend increase. The company invested \$10 million in capital spending and returned \$59 million to shareholders through dividend and share repurchases in first-quarter 2021. During the first quarter, the company repurchased 0.2 million shares at an average cost per share of \$120.55. As of Mar 31, 2021, 11.2 million common shares remained available for repurchase under these programs. Lincoln Electric expects capital expenditures between \$65 million and \$75 million for 2021 and will plans to repurchase shares opportunistically. The company will also continue to evaluate M&A options focused primarily on tuck-in assets, supporting its Higher Standard 2025 strategy.

▲ Lincoln Electric is focused on cost reduction actions and lowered discretionary spending to sustain margins. It has closed three facilities and initiated two facility rationalizations in 2020. It is evaluating additional contingency measures, which will be implemented if the situation demands. After yielding cost savings benefits of \$88 million in 2020 from these cost actions, the company expects incremental cost savings between \$25 million and \$30 million in the current year. The company is also implementing pricing actions in response to mitigate raw material and freight inflation.

▲ Lincoln Electric is focused on new product development and using digital platforms to engage customers. Lincoln Electric's product launches in the automation solutions market are likely to aid growth. The company is focused on its new additive services business, which will position Lincoln Electric as a manufacturer of large scale 3D-printed metal parts, prototypes and tooling for industrial customers. This is likely to be growth opportunity for Lincoln Electric. The company continues to expand brand's geographic and channel reach into attractive areas such as automation in sync with its strategy initiatives.

▲ Lincoln Electric is benefiting from several acquisitions. In 2018, the company acquired Inovatech Engineering Corporation and Coldwater Machine Company, Pro Systems LLC, boosting its automated cutting solutions and application expertise. Further, Lincoln Electric acquired the soldering business of Worthington Industries. This broadened the Harris Products Group's portfolio of industry-leading consumables with the addition of premium solders and fluxes. In 2019, Lincoln Electric acquired Baker Industries to expand automation and additive strategies. It also acquired a controlling interest in Askaynak, a leading Turkish producer of welding consumables and equipment. The buyout advances the company's regional growth strategy in Europe, the Middle East and Africa.

In April 2021, Lincoln Electric acquired Zeman Group's unit, Zeman Bauelemente Produktionsgesellschaftm.b.H. in a bid to drive automation growth in structural steel applications. It will boost Lincoln Electric's annual automation sales by around 10% and expands its international automation capabilities to support the company's Higher Standard 2025 Strategy. The buyout is expected to be accretive to earnings on an adjusted basis by 3 cents to 5 cents this year.

Reasons To Sell:

- ▼ Uncertain impact of the COVID-19 pandemic might affect the company's results until the situation stabilizes. Moreover, Lincoln Electric's oil and gas market, which accounts for around 15% of its sales, will remain challenged in the current year. Lincoln Electric expects inflationary headwinds in 2021 stemming from escalating labor, freight and raw material costs to dent its margins.
- ▼ Even though many of the company's customers have begun to re-open or increase operating levels, such customers may be forced to close or limit operations due to resurgence of COVID-19 cases. In addition, continued risk of possible supply chain disruptions are expected to result in lower operating activity and higher inefficiencies in the business.
- ▼ Even though the company continues to announce new pricing actions, incremental margins could be impacted due to the timing of its response. Given its focus on innovation as a key value proposition, Lincoln Electric continued to increase investment in product development with higher year-over-year R&D spending. Though this has long-term benefits, it will impede margins in the near term. Also, a stronger U.S. dollar will affect the company's exports.

Escalating freight and material costs might dent Lincoln Electric's margins in the current year. Moreover, uncertain impacts of coronavirus pandemic on its supply chain is another concern.

Last Earnings Report

Lincoln Electric Q1 Earnings Beat Estimates, Up Y/Y

Lincoln Electric Holdings reported record first-quarter 2021 adjusted earnings of \$1.37 per share, which beat the Zacks Consensus Estimate of \$1.18. The bottom line also improved 37% year over year. The upbeat performance can be attributed to the company's execution of strategic initiatives, cost reduction actions and recovery in its end markets.

Including one-time items, the bottom line was \$1.23 compared with 91 cents in the prior-year quarter.

Total revenues increased 7.8% year over year to \$757 million. Moreover, the top line surpassed the Zacks Consensus Estimate of \$724 million. The improvement in revenues was owing to growth of 6.4% in organic sales and a favorable impact of 1.4% from foreign exchange.

Costs and Margins

Cost of goods sold went up 8% to \$503 million from the prior-year quarter. Gross profit rose 7% to \$254 million from \$237 million reported in the prior-year quarter. Gross margin came in at 33.5% compared with 33.8% in the year-ago quarter.

Selling, general and administrative expenses declined 3% year over year to \$146 million from the prior-year quarter. Adjusted operating profit increased 24% year over year to \$109 million in the quarter. Adjusted operating margin was 14.4% in the reported quarter compared with 12.6% in the year-ago quarter.

Segment Performance

Americas Welding: Sales in the segment increased to \$456 million from \$443 million reported in the year-earlier period. Adjusted operating for the segment totaled \$76 million in the quarter compared with \$71 million witnessed in the prior-year quarter.

International Welding: This segment's revenues increased 12% year over year to \$227 million in the reported quarter. The segment reported adjusted operating profit of \$19 million compared with the year-ago quarter's \$6.6 million.

The Harris Products Group: The segment's first-quarter sales amounted to around \$111 million, indicating year-over-year improvement of 27%. The segment's adjusted operating profit was \$18.7 million compared with \$12.5 million in the prior-year quarter.

Financial Update

Lincoln Electric had cash and cash equivalents of around \$242 million at the end of the first quarter of 2021 compared with \$257 million at the end of the 2020. The company generated cash flow from operations of \$45 million during the reported quarter compared with \$22 million in the prior-year quarter. The company's debt to invested capital was at 47.2% at the end of the first quarter of 2021 compared with 47.6% as of the end of 2020.

Quarter Ending	03/2021
Report Date	Apr 27, 2021
Sales Surprise	4.60%
EPS Surprise	16.10%
Quarterly EPS	1.37
Annual EPS (TTM)	4.51

Valuation

Lincoln Electric's shares are up 12.2% in the trailing six-month period and up 61.2% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Tool & Related Products industry are down 1.3% while the Zacks Industrial Products sector are up 15.4% in the trailing six-month period. Over the past year, the Zacks sub-industry and sector are up 23.3% and 64.7%, respectively.

The S&P 500 index is up 15.5% in the trailing six-month period and 41.4% in the past year.

The stock is currently trading at 21.76X forward 12-month earnings, which compares with 14.12X for the Zacks sub-industry, 22.28X for the Zacks sector and 21.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.44X and as low as 12.33X, with a 5-year median of 19.03X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$135 price target reflects 22.96X forward 12-month earnings.

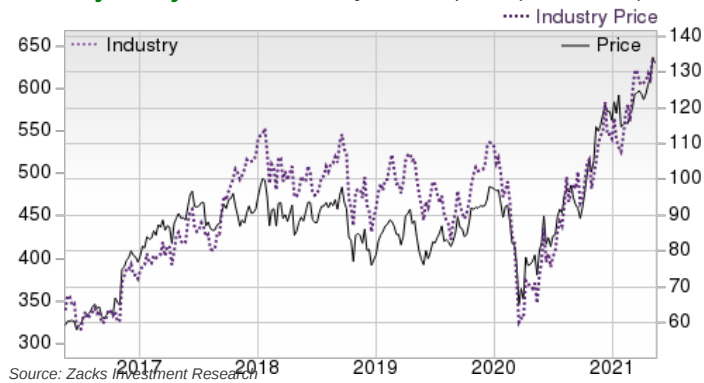
The table below shows summary valuation data for LECO:

Valuation Multiples - LECO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.76	14.12	22.28	21.74
	5-Year High	26.44	21.45	23.65	23.83
	5-Year Low	12.33	12.49	12.65	15.3
	5-Year Median	19.03	16.77	18.2	18.02
P/S F12M	Current	2.4	1.24	3.6	4.66
	5-Year High	2.6	1.52	3.6	4.74
	5-Year Low	1.2	0.84	1.61	3.21
	5-Year Median	1.91	1.2	2.11	3.71
EV/EBITDA TTM	Current	18.8	10.05	23.45	16.99
	5-Year High	23.58	13	28.04	17.71
	5-Year Low	9.21	6.25	11.1	9.62
	5-Year Median	14.18	10.25	15.57	13.42

As of 05/20/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Caterpillar Inc. (CAT)	Outperform	2
Deere & Company (DE)	Outperform	2
Sandvik AB (SDVKY)	Outperform	2
Energpac Tool Group Corp. (EPAC)	Neutral	3
John Bean Technologies Corporation (JBT)	Neutral	3
Kennametal Inc. (KMT)	Neutral	3
The Manitowoc Company, Inc. (MTW)	Neutral	3
Stanley Black & Decker, Inc. (SWK)	Neutral	3

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

Industry Comparison Industry: Manufacturing - Tools & Related Products				Industry Peers		
	LECO	X Industry	S&P 500	CMI	CNHI	KMT
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	1	3
VGM Score	C	-	-	A	A	C
Market Cap	7.62 B	3.80 B	30.13 B	37.39 B	22.46 B	3.20 B
# of Analysts	8	6.5	12	11	7	6
Dividend Yield	1.59%	1.47%	1.29%	2.12%	0.00%	2.09%
Value Score	D	-	-	B	B	C
Cash/Price	0.03	0.07	0.05	0.09	0.35	0.03
EV/EBITDA	22.07	17.70	17.33	12.11	28.48	23.43
PEG F1	2.07	2.00	2.18	1.43	NA	8.32
P/B	9.48	3.07	4.14	4.14	4.11	2.43
P/CF	23.02	20.61	17.39	15.14	14.44	15.97
P/E F1	22.80	22.81	21.81	15.99	14.91	41.61
P/S TTM	2.81	2.49	3.53	1.79	0.80	1.88
Earnings Yield	4.39%	4.39%	4.50%	6.25%	6.69%	2.40%
Debt/Equity	0.89	0.39	0.66	0.40	4.36	0.45
Cash Flow (\$/share)	5.56	1.92	6.82	16.85	1.15	2.40
Growth Score	B	-	-	A	B	C
Historical EPS Growth (3-5 Years)	7.54%	-1.65%	9.39%	10.99%	1.10%	-6.17%
Projected EPS Growth (F1/F0)	35.12%	41.11%	20.15%	32.89%	297.46%	-2.13%
Current Cash Flow Growth	-12.14%	-27.21%	0.74%	-17.67%	-35.19%	-45.40%
Historical Cash Flow Growth (3-5 Years)	0.38%	3.42%	7.37%	3.01%	-0.87%	-7.39%
Current Ratio	1.95	2.19	1.39	1.82	5.12	2.27
Debt/Capital	47.10%	26.35%	41.58%	28.61%	81.36%	30.99%
Net Margin	8.29%	4.57%	11.70%	9.00%	-0.07%	0.60%
Return on Equity	36.67%	4.27%	16.06%	22.10%	17.13%	4.30%
Sales/Assets	1.19	0.62	0.50	0.96	0.60	0.63
Projected Sales Growth (F1/F0)	16.77%	0.00%	9.14%	21.49%	18.73%	-2.49%
Momentum Score	C	-	-	A	A	A
Daily Price Change	-0.35%	-0.30%	0.69%	-1.57%	0.42%	-2.37%
1-Week Price Change	-1.20%	-1.44%	-0.87%	-0.27%	0.89%	0.05%
4-Week Price Change	2.18%	-0.22%	1.58%	-2.28%	11.19%	-4.61%
12-Week Price Change	8.75%	6.45%	10.52%	-0.14%	12.63%	-0.03%
52-Week Price Change	61.21%	61.21%	46.94%	61.96%	200.54%	48.31%
20-Day Average Volume (Shares)	238,541	114,949	1,929,084	933,308	3,099,644	589,880
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	1.42%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	9.90%	6.10%	1.84%	13.60%	33.62%	22.67%
EPS F1 Estimate 12-Week Change	10.57%	8.33%	2.57%	15.01%	42.15%	26.03%
EPS Q1 Estimate Monthly Change	14.72%	10.42%	0.94%	14.90%	17.10%	15.64%

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	B
Momentum Score	C
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 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.