

Leggett & Platt Inc. (LEG)

\$54.65 (As of 06/04/21)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/05/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: C

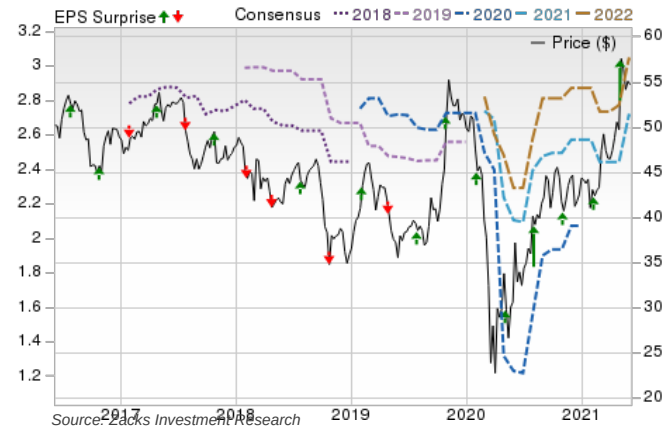
Growth: B

Momentum: F

Summary

Shares of Leggett have outperformed the industry over the so far this year. Strategies to enhance the business portfolio, disciplined capital allocation and strong demand in residential end markets are likely to benefit the company going forward. During the first quarter 2021, its organic sales were up 11% from the prior-year quarter. Also, raised view for 2021 earnings and sales along with dividend hike are encouraging. The company has successfully completed the first two parts of its strategic plan, of which, the first part was to divest low-performing businesses, and the second part comprised an improvement in margins and returns. Leggett intend to continue making investments to support expansion in the existing businesses and product lines. Notably, earnings estimates for 2021 have moved up over the past 60 days.

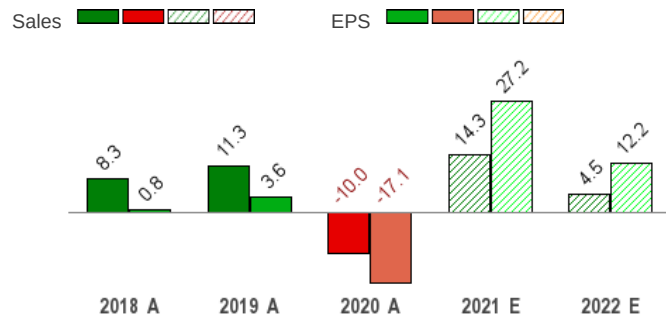
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$59.16 - \$31.10
20-Day Average Volume (Shares)	660,665
Market Cap	\$7.3 B
Year-To-Date Price Change	23.4%
Beta	1.49
Dividend / Dividend Yield	\$1.68 / 2.9%
Industry	Furniture
Zacks Industry Rank	Bottom 48% (131 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	56.1%
Last Sales Surprise	1.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	08/02/2021
Earnings ESP	22.4%
P/E TTM	23.2
P/E F1	20.2
PEG F1	2.2
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,220 E	1,267 E	1,347 E	1,279 E	5,114 E
2021	1,151 A	1,218 E	1,295 E	1,228 E	4,892 E
2020	1,046 A	845 A	1,208 A	1,182 A	4,280 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.68 E	\$0.64 E	\$0.87 E	\$0.85 E	\$3.04 E
2021	\$0.64 A	\$0.51 E	\$0.79 E	\$0.78 E	\$2.71 E
2020	\$0.41 A	\$0.16 A	\$0.80 A	\$0.76 A	\$2.13 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 06/04/2021. The report's text and the analyst-provided price target are as of 06/07/2021.

Overview

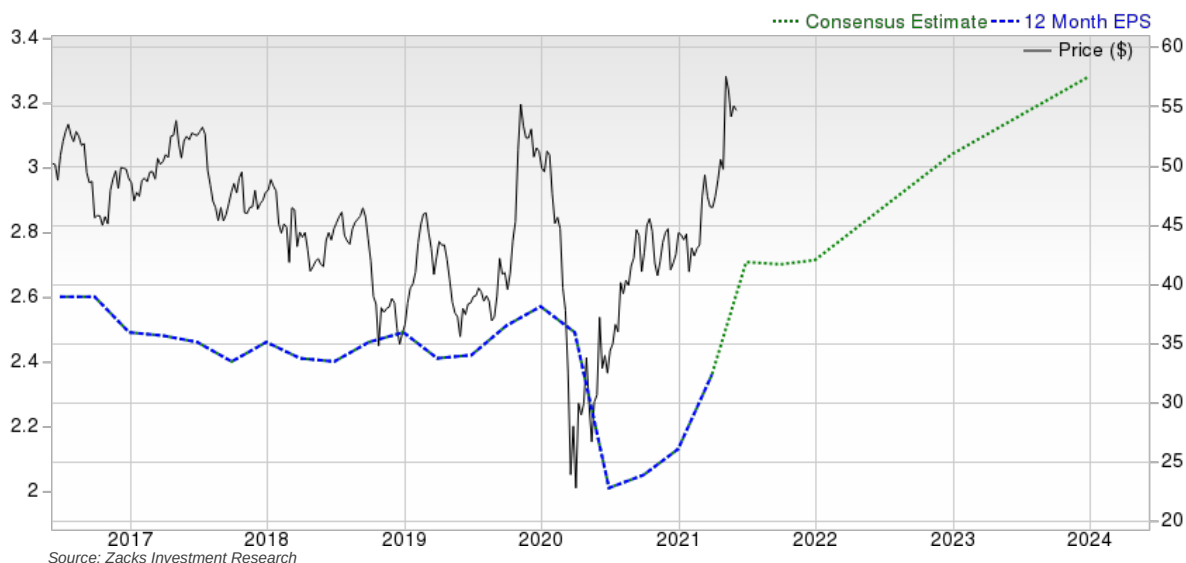
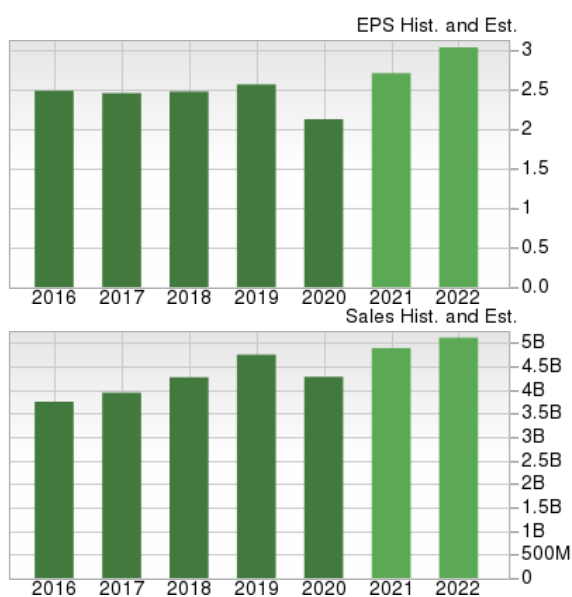
Headquartered in Carthage, MO, Leggett and Platt Inc. is a global manufacturer that conceives, designs, and produces a wide variety of engineered components and products found in many homes, offices, and automobiles.

The company's product lines include components for bedding, automotive seat and lumber systems, specialty bedding foams and private-label finished mattresses, residential as well as office furniture, flooring underlayment, adjustable beds, along with bedding industry machinery. The company operates under three segments, seven groups and 15 business units.

Bedding Products (accounted for 47.6% of total 2020 revenues) segment supplies a variety of components and machinery used by bedding manufacturers in the production and assembly of their finished products. Also, it produces private-label finished mattresses for bedding brands and adjustable bed bases. Additionally, it produces and supplies specialty foam chemicals, steel rod and drawn steel wire to its own operations and customers.

The Specialized Products (20.8%) segment supplies lumbar support and seat suspension systems, motors and actuators, as well as control cables used by automotive manufacturers. Also, it produces and distributes tubing and tube assemblies for the aerospace industry, as well as engineered hydraulic cylinders used in the material-handling and construction industries.

The Furniture, Flooring & Textile Products (31.5%) segment supplies a wide range of components for residential and work furniture manufacturers, as well as selected private-label finished furniture. It also sells carpet cushion, hard surface flooring underlayment, and textile and geo components.



Reasons To Buy:

▲ **Long-Term Strategic Plan on Track:** Leggett remains on track with its long-term strategic plan, which was announced in November 2007. The company has successfully completed the first two parts of its strategic plan, of which, the first part was to divest low-performing businesses, and the second part comprised an improvement in margins and returns. The company is now working on the third part of the plan that aims to achieve top-line growth of 6-9% annually. This long-term revenue target assumes 6% organic growth, coupled with growth from acquisitions.

Leggett is gaining from strategies to enhance business portfolio, disciplined capital allocation and progress on long-term goals

Moreover, we believe Leggett has significant operating leverage to accomplish the third part of its plan as it has a considerable amount of retained spare production to meet the demand of \$4 billion. Although the recent market slowdown arising from COVID-19-induced shutdowns may compel the company to carry out the plan at a slower pace, it will certainly gain traction as the effects of the pandemic gradually phase out. Meanwhile, the company remains focused on the long-term EBIT margin target of 11.5-12.5%. It has plans to maintain these cost efficiencies in 2021.

▲ **Acquisitions to Boost Growth:** Notably, no businesses were acquired during 2020. Nonetheless, it intends to continue making investments to support expansion in the existing businesses and product lines, wherein sales are growing profitably. The company envisions periodic acquisitions that add capabilities in these businesses or provide opportunities to enter more diverse, faster-growing, and higher margin markets. It expects all acquisitions to have a clear strategic rationale and a sustainable competitive advantage. The acquisitions should be a strategic fit, and in attractive and growing markets. An Aerospace acquisition completed on Jan 30, 2021 added 1% to sales growth for the first quarter of 2021.

In December 2019, Leggett acquired a manufacturer and distributor of a wide range of geosynthetic fabrics, grids and erosion control products for \$21 million in cash. The acquisition was part of its Geo Components unit within the Residential Products segment.

In January 2019, Leggett & Platt concluded the acquisition of Elite Comfort Solutions or ECS — the largest buyout in its history — for \$1.25 billion. With a vertically integrated model and 16 facilities across the United States, ECS is a leader in proprietary specialized foam technology, primarily for bedding and furniture industries. Its products include finished mattresses sold through both traditional and online channels, mattress components, mattress toppers and pillows, as well as furniture foams.

With this acquisition, Leggett is benefiting from critical capabilities in proprietary foam technology and scale in the production of private-label finished mattresses. The combined entity has become a leading provider of differentiated products for the bedding industry on a worldwide basis. This is aiding the company to reap benefits from the current market trends that include growth of hybrid spring and specialty foam mattresses, improvement of the e-commerce mattress channel, higher demand for compressed mattresses (both online and retail channels), along with the emergence of numerous compressed mattress brands.

▲ **Strong Liquidity Position & Enhancing Shareholders' Return:** Leggett has enough liquidity to manage the ongoing crisis. As of Mar 31, 2021, the company had \$1.4 billion in total liquidity, including cash and equivalents of \$333.8 million. Total debt at March-end was \$2,004 million, slightly up from \$1,900 million at 2020-end. There are no significant maturities until August 2022. Notably, the company's current liquidity is more than enough to meet the short-term obligation (including current debt maturities and operating lease liabilities) of \$93.6 million.

Moreover, net debt was 2.46x trailing 12-month adjusted EBITDA for the company for the first quarter of 2021.

Furthermore, Leggett has been actively managing cash flows, returning considerable free cash to investors through share repurchases and dividends. On May 3, 2021, the company announced that it has increased second-quarter dividend to 42 cents per share, reflecting a 5% increase from first-quarter 2020. This marks its 50th year of consecutive annual dividend increase and places the company among 31 other companies, known as "Dividend Kings", with at least 50 years of consecutive annual dividend increases. Notably, its long-term targeted dividend payout ratio is approximately 50% of adjusted EPS.

Risks

- **Weakness in Aerospace Business:** The company has been witnessing sales declines in the Aerospace business. It expects the Aerospace industry to remain challenged for the next few years, given disruption in air travel, and the resultant buildup of aircraft and supply chain inventories.
 - **Dismal Sales Surprise History:** The company has a dismal sales surprise history. It missed the consensus mark for sales in nine of the last 14 quarters owing to lower deliveries across the business. Its exit from Fashion Bed and Drawn Wire, along with demand decline in Aerospace and Work Furniture are concerns for the company.
 - **Currency Headwinds:** Leggett has been witnessing lower sales volumes, primarily due to negative foreign currency translation, which are dampening overall top-line results. The company is exposed to foreign exchange rate fluctuation risks due to its operations across the world.
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Last Earnings Report

Leggett (LEG) Beats on Q1 Earnings, Ups '21 View & Q2 Dividend

Leggett & Platt, Incorporated reported impressive first-quarter 2021 results. On a year-over-year basis, both the top and bottom lines grew on the back of strong demand in residential end markets and the Automotive business, raw material-related selling price increase as well as favorable currency.

Notably, the company raised second-quarter dividend by 5% to 42 cents per share from 40 cents. The dividend will be payable on Jul 15, 2021 to its shareholders of record as of Jun 15, 2021. Impressively, it has been increasing dividend for 50 consecutive years.

Quarter Ending 03/2021

Report Date	May 03, 2021
Sales Surprise	0.95%
EPS Surprise	56.10%
Quarterly EPS	0.64
Annual EPS (TTM)	2.36

Quarter in Details

The company reported adjusted earnings of 64 cents per share, which surpassed the Zacks Consensus Estimate of 41 cents by 56.1%. Also, the metric grew an impressive 94% from the year-ago period backed by improved EBIT, lower tax rate and reduced interest expense.

Net trade sales totaled \$1.151 billion, which topped the consensus mark of \$1.140 billion by 1% and increased 10.1% from the prior-year level. Organic sales were up 11% year over year. Of the organic growth, volume contributed 4%, raw material-related selling price added 5% and currency accounted for 2%. Divestitures (of small operations in Drawn Wire and the former Fashion Bed business) reduced sales by 1% from the year-ago quarter. Also, weakness in Aerospace ailed total volume.

Adjusted EBIT rose 41% from the prior-year figure to \$127.7 million. The upside stemmed from strong volume growth, lower fixed costs, the absence of impairment charge and stock write-off associated with a prior year divestiture. Adjusted EBIT margin also expanded 240 basis points (bps) to 11.1% from the year-ago figure of 8.7%. Adjusted EBITDA margin improved 190 bps year over year to 15.1%.

Segment Details

Net trade sales in Bedding Products (excluding inter-segment sales) increased 9% from the year-ago level to \$535.8 million. Volume growth of 2% was driven by solid ECS, European Spring and U.S. Spring businesses. Increased prices contributed 9% and currency added 1%, while divestiture reduced sales by 3%.

Adjusted EBIT margin expanded a notable 440 bps to 11.9%. Adjusted EBITDA margin also grew 390 bps year over year to 16.8%.

The Specialized Products segment's trade sales improved 10% from the prior-year figure to \$257.6 million. Growth in Automotive and Hydraulic Cylinders drove volume to 3%, partially offset by weak demand in Aerospace. Positive currency and the Aerospace acquisition further added 6% and 1%, respectively, to sales.

EBIT margin expanded 190 bps to 13.7%. EBITDA margin also grew 140 bps year over year.

Trade sales in the Furniture, Flooring & Textile Products segment jumped 12% from the prior-year level to \$357.5 million, mainly due to an 8% rise in volume, given strong demand in Geo Components, Home Furniture and Flooring Products' residential businesses. Price increase and currency contributed 3% and 1% to sales, respectively.

EBIT margin of 7.9% was down 20 bps from the prior year. EBITDA margin also contracted 60 bps year over year to 9.6%.

Financials

As of Mar 31, 2021, the company had \$1.4 billion of liquidity. It had \$333.8 million of cash and cash equivalents at quarter-end compared with \$505.8 million in the comparable year-ago period.

Long-term debt at March-end was \$1.95 billion, down 19% from the corresponding period of last year's \$2.42 billion. Trailing 12-month debt-to-adjusted EBITDA was 2.46.

Cash provided to operations in the first three months of 2021 totaled \$10.6 million versus cash from operations of \$10.4 million a year ago.

Raised 2021 Guidance

Backed by strong demand and cost-control measures, Leggett raised its full-year 2021 guidance. The company now expects sales in the range of \$4.8-\$5 billion versus \$4.6-\$4.9 billion expected earlier. This indicates year-over-year growth of 12-17%. Raw material-related price increase, currency benefits and mid-to-high single-digit volume growth are likely to boost sales.

EPS for 2021 is now expected between \$2.55 and \$2.75 (compared with \$2.30 and \$2.60 projected earlier). The company now expects EBIT margin between 11% and 11.5% compared with prior anticipation of 10.5-11%.

Meanwhile, capital expenditures, depreciation and amortization costs, operating cash flow, dividend and net interest expense for 2021 are estimated at \$150 million, \$195 million, \$500 million, \$220 million and \$75 million, respectively. Also, effective tax rate is projected at 23%.

Valuation

Leggett shares are up 24.4% in the year-to-date period but up 47.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 20.3% and the sector is up 0.4% for the Zacks Consumer Discretionary sector in the year-to-date period. Over the past year, the Zacks sub-industry is up 51.3% and but sector is up 23.9%.

The S&P 500 index is up 14% in the year-to-date period and 35.2% in the past year.

The stock is currently trading at 19.14X forward 12-month earnings, which compares to 18.64X for the Zacks sub-industry, 30.07X for the Zacks sector and 21.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24X and as low as 8.81X, with a 5-year median of 17.38X. Our Outperform recommendation indicates that the stock will perform better-than with the market. Our \$63 price target reflects 22X forward 12-month earnings.

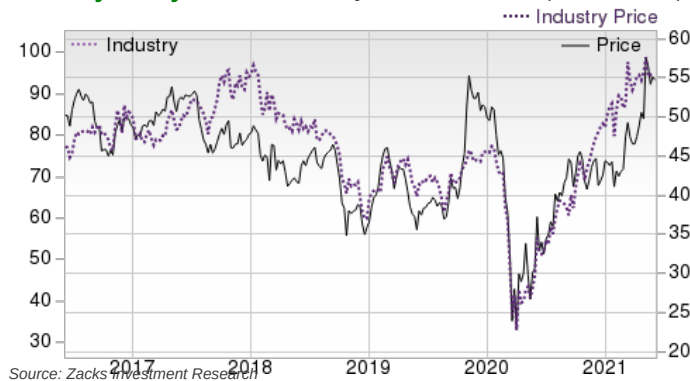
The table below shows summary valuation data for LEG.

Valuation Multiples - LEG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.14	18.64	30.07	21.85
	5-Year High	24	19.25	35.4	23.83
	5-Year Low	8.81	9.4	16.24	15.31
	5-Year Median	17.38	15.35	20.33	18.05
P/S F12M	Current	1.46	2.24	2.71	4.72
	5-Year High	1.79	2.25	2.94	4.74
	5-Year Low	0.61	0.56	1.73	3.21
	5-Year Median	1.32	0.96	2.52	3.72
EV/EBITDA TTM	Current	13.05	14.21	14.41	17.35
	5-Year High	13.74	17.53	18.08	17.74
	5-Year Low	6.7	6.18	8.34	9.63
	5-Year Median	11.27	10.11	12.37	13.45

As of 06/04/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 48% (131 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Bassett Furniture Industries, Incorporated (BSET)	Outperform	1
Sleep Number Corporation (SNBR)	Outperform	2
Masonite International Corporation (DOOR)	Neutral	2
LaZBoy Incorporated (LZB)	Neutral	3
Virco Manufacturing Corporation (VIRC)	Neutral	4
WillScot Mobile Mini Holdings Corp. (WSC)	Neutral	3
American Woodmark Corporation (AMWD)	Underperform	5
Kimball International, Inc. (KBAL)	Underperform	4

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

Industry Comparison Industry: Furniture				Industry Peers		
	LEG	X Industry	S&P 500	AMWD	SNBR	WSC
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	5	2	3
VGM Score	C	-	-	A	A	B
Market Cap	7.28 B	499.13 M	30.49 B	1.44 B	2.73 B	6.32 B
# of Analysts	3	2	12	1	5	7
Dividend Yield	2.93%	0.00%	1.29%	0.00%	0.00%	0.00%
Value Score	C	-	-	A	A	C
Cash/Price	0.05	0.06	0.06	0.06	0.00	0.00
EV/EBITDA	14.40	8.19	17.32	7.27	11.06	21.85
PEG F1	2.22	1.33	2.16	NA	1.24	1.42
P/B	5.00	1.97	4.24	1.94	NA	3.15
P/CF	14.38	12.39	17.90	9.49	14.10	16.97
P/E F1	20.16	18.75	21.66	11.04	16.46	34.52
P/S TTM	1.66	0.86	3.52	0.83	1.40	4.11
Earnings Yield	4.96%	5.35%	4.47%	9.06%	6.07%	2.91%
Debt/Equity	1.34	0.00	0.66	0.69	0.00	1.22
Cash Flow (\$/share)	3.80	1.90	6.83	8.93	7.91	1.64
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	-2.95%	-2.95%	9.44%	13.75%	39.57%	NA
Projected EPS Growth (F1/F0)	27.38%	31.08%	21.30%	19.84%	38.24%	96.86%
Current Cash Flow Growth	-6.62%	16.19%	0.98%	-36.31%	39.69%	66.28%
Historical Cash Flow Growth (3-5 Years)	2.41%	11.25%	7.34%	14.84%	10.74%	13.73%
Current Ratio	1.80	1.48	1.39	1.78	0.23	0.90
Debt/Capital	57.28%	0.37%	41.53%	40.87%	NA	55.02%
Net Margin	6.60%	1.59%	11.95%	3.37%	8.54%	5.12%
Return on Equity	24.02%	7.97%	16.36%	14.66%	-81.06%	7.97%
Sales/Assets	0.93	1.05	0.51	1.05	2.46	0.30
Projected Sales Growth (F1/F0)	14.30%	7.04%	9.30%	7.04%	20.30%	29.74%
Momentum Score	F	-	-	B	D	C
Daily Price Change	-0.55%	0.22%	0.34%	-0.83%	2.01%	-0.46%
1-Week Price Change	-0.69%	3.05%	0.58%	-2.55%	0.04%	-3.93%
4-Week Price Change	-5.01%	2.49%	0.29%	-18.85%	-0.24%	-5.14%
12-Week Price Change	11.10%	3.43%	8.01%	-20.37%	-21.59%	0.43%
52-Week Price Change	47.11%	108.78%	33.62%	13.71%	181.71%	78.13%
20-Day Average Volume (Shares)	660,665	46,829	1,797,059	95,246	352,690	1,474,693
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.07%	-5.72%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	11.20%	0.00%	3.32%	-5.72%	11.05%	-1.74%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-20.35%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	F
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.