

Southwest Airlines(LUV)

\$62.27 (As of 04/29/21)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

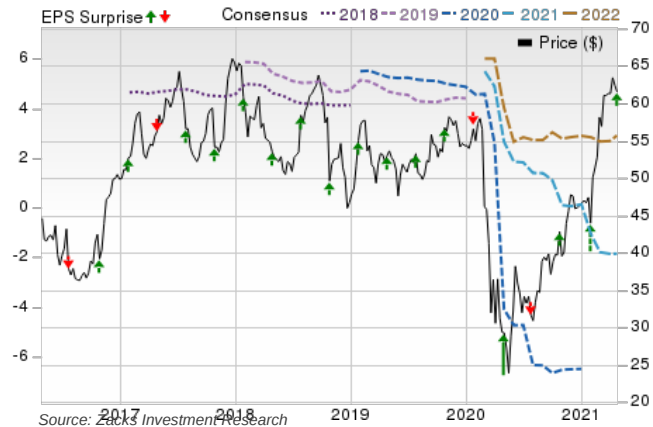
Growth: F

Momentum: A

Summary

Amid coronavirus-led suppressed air-travel demand, Southwest Airlines incurred its fifth consecutive quarterly loss in the first quarter of 2021 with passenger revenues declining 55.5% year over year. Despite having improved, travel demand continues to be below the pre-pandemic levels. Evidently, in March, the company's operating revenues declined 54% from the 2019 levels. Additionally, the recent uptick in fuel price does not bode well for the company. However, the carrier's cost-control measures are partly offsetting the adversities. This year, the airline expects to achieve savings of \$1.1 billion-\$1.2 billion from its voluntary employee leave programs. Further, Southwest Airlines' sound liquidity position is encouraging. Due to these positives, shares of the company have outperformed its industry in the past six months.

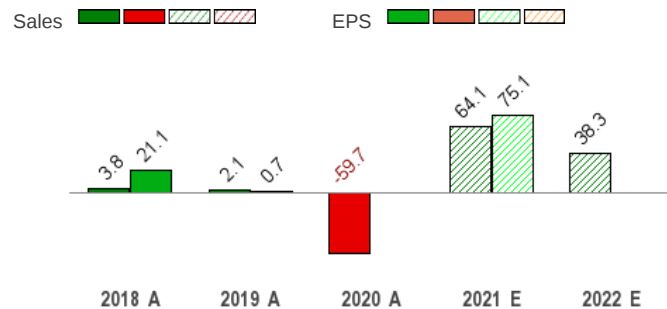
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$64.75 - \$22.47
20-Day Average Volume (Shares)	5,362,449
Market Cap	\$36.8 B
Year-To-Date Price Change	33.6%
Beta	1.26
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 13% (217 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.5%
Last Sales Surprise	1.0%
EPS F1 Estimate 4-Week Change	11.1%
Expected Report Date	07/22/2021
Earnings ESP	-2.1%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,318 E	5,014 E	5,253 E	5,485 E	20,532 E
2021	2,052 A	3,597 E	4,353 E	4,822 E	14,845 E
2020	4,234 A	1,008 A	1,793 A	2,013 A	9,048 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.14 E	\$0.73 E	\$0.85 E	\$1.03 E	\$3.12 E
2021	-\$1.72 A	-\$0.60 E	\$0.14 E	\$0.53 E	-\$1.55 E
2020	-\$0.15 A	-\$2.67 A	-\$1.99 A	-\$1.29 A	-\$6.22 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 04/29/2021. The report's text and the analyst-provided price target are as of 04/30/2021.

Overview

Based in Dallas, TX, Southwest Airlines is a passenger airline that provides scheduled air transportation in the United States and 'ten near-international' markets. The company, incorporated in Texas in 1967, commenced operations on Jun 18, 1971, with three Boeing 737 jets serving the cities of Dallas, Houston and San Antonio.

Per the U.S. Department of Transportation's latest available data, Southwest Airlines has emerged as the largest domestic air carrier (measured in terms of the number of domestic originating passengers boarded) in the United States. During 2018, the carrier commenced operating flights from Indianapolis, San Jose, Sacramento, Columbus, New Orleans, Pittsburgh, and Raleigh-Durham.

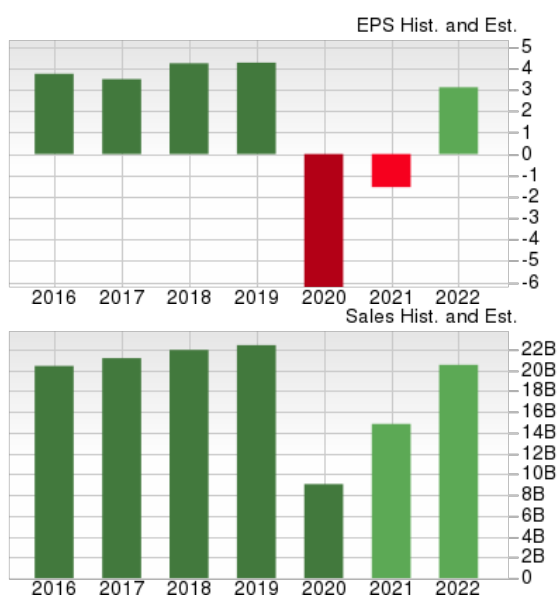
Additionally, during 2018, the carrier started shipping cargo to international destinations like Mexico City, Cancun, Cabo San Lucas/Los Cabos, Puerto Vallarta, Montego Bay, and San Jose, Costa Rica.

The company is constantly looking to modernize its fleet. At 2020-end, Southwest Airlines had 718 Boeing 737 jets in its fleet. The carrier used its fleet to serve 107 destinations in 40 states, the District of Columbia, the Commonwealth of Puerto Rico, and ten near-international countries: Mexico, Jamaica, The Bahamas, Aruba, Dominican Republic, Costa Rica, Belize, Cuba, the Cayman Islands, and Turks and Caicos. As part of its expansion efforts, Southwest Airlines started operating flights to Hawaii from March 2019.

Southwest Airlines provides short-haul, high frequency, point-to-point and low-fare services. The company's point-to-point route structure includes services to and from many secondary or downtown airports such as Dallas Love Field, Houston Hobby, Chicago Midway, Baltimore-Washington International and Ft. Lauderdale-Hollywood. In fact, roughly 72% of the carrier's passengers flew nonstop during 2020. The carrier served 667 non-stop city pairs as of Dec 31, 2020.

The company also offers long-haul nonstop service between markets like Oakland and Orlando, Los Angeles and Nashville, Las Vegas and Orlando, San Diego and Baltimore, Houston and New York LaGuardia, Los Angeles and Tampa, Oakland and Baltimore, San Diego and Newark.

Passenger revenues account for the bulk (84.7% in 2020) of the top line at Southwest Airlines. Freight revenues accounted for 1.8% and the remaining came from other sources.



Reasons To Buy:

- ▲ Thanks to improving leisure air-travel demand owing to increased vaccinations and easing coronavirus-led restrictions, Southwest's core cash burn forecast for the second quarter is encouraging. The carrier estimates average core cash burn to be in the range of \$2 million-\$4 million per day in the second quarter, compared with approximately \$13 million per day in the first quarter. Further, it expects average core cash flow to either break even or turn positive by June.
- ▲ Southwest Airlines' cost-reduction efforts to mitigate the effects of weak travel demand are encouraging. During 2020, the company realized cost savings of \$565 million from its voluntary leave programs for its employees. This year, the airline expects to achieve savings of \$1.1 billion-\$1.2 billion from these programs. In the first quarter of 2021, adjusted operating expenses (excluding profit sharing, special items, fuel and oil expenses) dropped 19.1% year over year, thanks to the company's cost-cutting measures and reduction in salaries, wages and benefits, among other expenses.
- ▲ With Boeing's 737 MAX aircraft having been cleared to fly again after being grounded for 20 months, Southwest Airlines began commercial operations on the aircraft from Mar 11 onward. The airline reached an agreement with The Boeing Company for an additional 100 737 MAX aircraft as it continues with its fleet modernization efforts and prepares to take advantage of the anticipated recovery in air-travel demand as more people get vaccinated. Of the 100 firm orders for the MAX 7 aircraft, the company expects the first 30 to be delivered in 2022. As part of the deal, the airline has also converted 70 MAX 8 firm orders to MAX 7 and added 155 MAX options for either MAX 7 or MAX 8 aircraft, scheduled to be delivered from 2022 through 2029. With these order book additions and revisions, Southwest now has a total of 349 MAX firm orders (200 MAX 7 and 149 MAX 8) and 270 MAX options for MAX 7 or MAX 8 aircraft, to be delivered from 2021 through 2031.
- ▲ Southwest Airlines' sound liquidity position raises optimism in the stock. At the end of the first quarter, the carrier's cash and cash equivalents stood at \$11,971 million, much higher than the current debt of \$225 million, implying that the company has sufficient cash to meet its current debt obligations. Moreover, the company received approximately \$1.7 billion under the Payroll Support Program Extension agreement with the U.S. Treasury Department. It is yet to receive its final distribution of \$259 million under the second round of payroll support program. In order to further boost liquidity, Southwest is finalizing an agreement with the U.S. treasury for additional \$1.9 billion under the third round of payroll support.

Southwest's cost-cutting measures are supporting its bottom line. Its sound liquidity position is also encouraging.

Reasons To Sell:

- ▼ Amid coronavirus-led suppressed air-travel demand, Southwest Airlines incurred an annual loss in 2020, for the first time since 1972. Net loss (excluding special items) was \$3.5 billion in the year. Due to significant decline in travel demand, passenger revenues fell 63.1% year over year in 2020, in turn leading to 59.7% drop in operating revenues. With demand continually weak, the company incurred its fifth consecutive quarterly loss in the first quarter of 2021 with passenger revenues declining 55.5% year over year. Despite having improved, air-travel demand continues to be below the pre-pandemic levels. This weak travel demand is weighing on the company's top line. Evidently, in March, Southwest's operating revenues declined 54% from the 2019 levels. For April, the carrier estimates operating revenues to decline 40-45% from the 2019 levels. In May, the same is predicted to decrease 35-40%.

Despite having improved air-travel demand continues to be below the pre-pandemic levels. This in turn is weighing on the top line.
 - ▼ While leisure travel demand is gradually improving, there is significant lag in business travel demand recovery. Southwest Airlines management stated that revenues for corporate managed travel were down 88% in the first quarter of 2021 from the 2019 levels. The carrier expects business travel to be down 50-60% even at the end of 2021.
 - ▼ The recent increase in fuel prices do not bode well for the company. With fuel expenses comprising a major chunk of airline expenditures, rise in fuel costs may hurt the bottom line. For the second quarter, the company forecasts economic fuel costs per gallon to be between \$1.85 and \$1.95, higher than \$1.33 reported in the year-ago period. For the full year, economic fuel costs per gallon are expected to be in the range of \$1.85-\$1.95 (\$1.49 was reported in 2020).
-

Last Earnings Report

Narrower Than Expected Loss in Q1

Southwest Airlines incurred a loss of \$1.72 per share (excluding \$1.91 from non-recurring items) in the first quarter of 2021, narrower than the Zacks Consensus Estimate of a loss of \$1.82. In the year-ago period, the company incurred a loss of 15 cents per share. Results were affected by significant decline in passenger revenues as a consequence of persistent weakness in air-travel demand amid coronavirus concerns.

Meanwhile, operating revenues of \$2,052 million surpassed the Zacks Consensus Estimate of \$2,031.7 million. The top line declined 51.5% year over year, with passenger revenues accounting for bulk (83.4%) of the same, sliding 55.5%.

Quarter Ending 03/2021

Report Date	Apr 22, 2021
Sales Surprise	1.00%
EPS Surprise	5.49%
Quarterly EPS	-1.72
Annual EPS (TTM)	-7.67

Operating Statistics

Airline traffic, measured in revenue passenger miles, declined 37.9% year over year to 14.87 billion in the quarter under review. With reduced passenger demand, capacity or available seat miles (ASMs) fell 34.5% to 23.15 billion. Load factor (percentage of seats filled by passengers) came in at 64.3%, down 340 basis points on a year-over-year basis as the decline in traffic was wider than the capacity contraction.

Passenger revenue per available seat mile (PRASM: a key measure of unit revenues) dropped 32% to 7.4 cents. Moreover, revenue per available seat mile (RASM) declined 26% year over year to 8.86 cents, owing to decline in load factor and passenger revenue yield.

Operating Expenses & Income

In the first quarter, operating income (as reported) totaled \$199 million against operating loss of \$110 million in the year-ago quarter. The company, however, incurred operating loss of \$1,269 million on an adjusted basis (excluding special items). Total adjusted operating expenses (excluding profit sharing, special items, fuel and oil expenses) dropped 19.1%, thanks to the company's cost-cutting measures and reduction in salaries, wages and benefits, among other expenses.

Fuel cost per gallon (inclusive of fuel tax: economic) was down 10.5% to \$1.7. However, consolidated unit cost or cost per available seat mile (CASM) excluding fuel, oil and profit-sharing expenses, and special items, increased 23.4% year over year to 12.13 cents due to significant reduction in capacity.

Liquidity

This company had cash and cash equivalents of \$11,971 million at the end of the first quarter, compared with \$11,063 million at the end of December 2020. As of Mar 31, 2021, the company had long-term debt (less current maturities) of \$10,546 million compared with \$10,111 million at the end of December 2020.

Outlook

Southwest has been seeing improvement in leisure passenger demand and bookings for April and May. With this, the company estimates operating revenues to decline 40-45% (previous expectation: down 45-55%) in April from the 2019 levels. In May, the same is predicted to decrease 35-40% from the 2019 levels.

Load factor is estimated to be 75-80% for both April and May. The company forecasts economic fuel costs per gallon to be between \$1.85 and \$1.95 in the second quarter of 2021. In the year-ago period, the same was \$1.33. For the full year, economic fuel costs per gallon are expected to be in the range of \$1.85-\$1.95 (\$1.49 was reported in 2020).

Southwest anticipates operating expenses, excluding fuel and oil expenses, special items and profitsharing, to increase 10-15% year over year in the second quarter. Additionally, the carrier estimates average core cash burn to be in the range of \$2 million-\$4 million per day in the second quarter, compared with approximately \$13 million per day in the first quarter. The company anticipates average core cash flow to either break even or turn positive by June.

Recent News

Pilots, Flight Attendants Recalled — Apr 9, 2021

Southwest has reportedly recalled more than 2,700 flight attendants and 209 pilots from a voluntary extended leave program as it prepares to meet the anticipated increase in travel demand during the summer season. The pilots and flight attendants will reportedly resume work on Jun 1.

Pre-Clearance on Travel to Hawaii — Mar 31, 2021

Southwest Airlines has joined the Hawaii Safe Travels program, which would allow passengers travelling to Honolulu (Oahu) and Kahului (Maui) to bypass the mandatory 10-day quarantine on arrival in Hawaii.

Customers traveling to Honolulu and Kahului from five gateway airports in California can now avail the Hawaii Safe Travels program, by virtue of which they can avoid airport screening on arrival, simply by uploading a negative COVID-19 test result, filling up a healthcare questionnaire and providing required travel information before departing the mainland.

Expansion Update — Mar 25, 2021

Southwest Airlines announced a major service expansion for the summer travel period. The airline will begin flights to Myrtle Beach, SC; connect Austin, TX with several new destinations, and introduce nonstop services to popular places.

Effective May 23, 2021, Southwest will connect Myrtle Beach with Baltimore, MD; Chicago, IL and Nashville, TN. Moreover, from May 29 onward, the carrier will begin nonstop service to Myrtle Beach from Dallas, TX and Pittsburgh, PA. These services will be available only on Saturdays. Further, Jun 6 onward, the carrier will connect Myrtle Beach with Atlanta, GA; Columbus, OH and Indianapolis, IN.

Southwest will begin nonstop service to 37 cities from Austin this summer. Some of these destinations include Sacramento, CA (beginning May 9); Burbank, CA; Miami, FL; Minneapolis/St. Paul, MN; Orange County, CA and Salt Lake City, UT. These services, except the one to Sacramento, are set to begin from Jun 6 onward. Starting the same day, the airline will also offer nonstop service on weekends to Destin/Fort Walton Beach, FL from Austin.

Effective May 9, Southwest will begin daily service between Denver, CO and Richmond, VA; Las Vegas and Palm Springs, CA as well as Miami and St Louis, MO. Some other services include Nashville, TN-Long Island, NY and Chicago-Portland, ME.

Valuation

Southwest Airlines shares are up 33.6% and 113% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 15.8% and 12.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 91.5% and 68% respectively.

The S&P 500 index is up 13.2% and 51.9% in the year-to-date period and in the past year respectively.

The stock is currently trading at 2.27X forward 12-month price to sales, which compares to 0.98X for the Zacks sub-industry, 1.65X for the Zacks sector and 4.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.45X and as low as 0.69X, with a 5-year median of 1.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$65 price target reflects 2.37X forward 12-month sales.

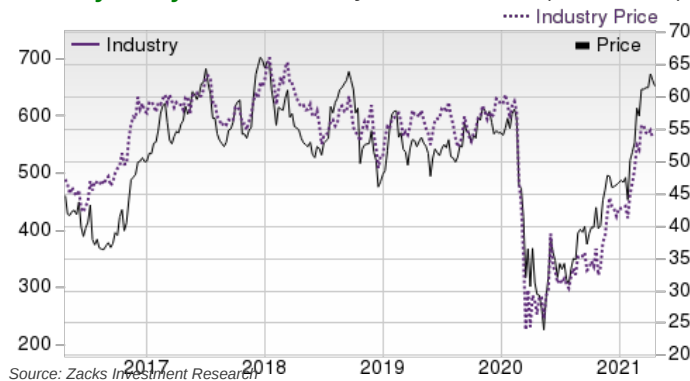
The table below shows summary valuation data for LUV

Valuation Multiples - LUV					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	2.27	0.98	1.65	4.81
	5-Year High	2.45	1.05	1.66	4.81
	5-Year Low	0.69	0.37	0.87	3.21
	5-Year Median	1.35	0.72	1.29	3.71
EV/S TTM	Current	4.86	2.43	2.63	5.04
	5-Year High	5.02	2.65	2.63	5.04
	5-Year Low	0.42	0.45	1.13	2.63
	5-Year Median	1.45	0.94	1.64	3.61

As of 04/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 13% (217 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Allegiant Travel Company (ALGT)	Neutral	4
Alaska Air Group, Inc. (ALK)	Neutral	3
Delta Air Lines, Inc. (DAL)	Neutral	4
Hawaiian Holdings, Inc. (HA)	Neutral	3
JetBlue Airways Corporation (JBLU)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
United Airlines Holdings Inc (UAL)	Neutral	4
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral	3

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	LUV	X Industry	S&P 500	HA	JBLU	SAVE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	F	C
Market Cap	36.82 B	4.22 B	30.59 B	1.27 B	6.30 B	3.49 B
# of Analysts	13	4.5	12	5	8	7
Dividend Yield	0.00%	0.00%	1.28%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	D	C
Cash/Price	0.39	0.46	0.05	0.67	0.48	0.53
EV/EBITDA	-12.41	-3.77	17.18	-6.00	-6.43	-21.62
PEG F1	NA	NA	2.33	NA	NA	NA
P/B	4.05	1.87	4.21	2.07	1.58	1.67
P/CF	NA	5.48	17.57	NA	NA	NA
P/E F1	NA	68.64	22.12	NA	NA	NA
P/S TTM	5.36	1.58	3.45	2.71	3.00	2.32
Earnings Yield	-2.49%	-6.57%	4.42%	-24.51%	-12.26%	-9.01%
Debt/Equity	1.20	1.22	0.66	3.23	1.12	1.46
Cash Flow (\$/share)	-3.82	-0.89	6.78	-6.27	-3.31	-4.39
Growth Score	F	-	-	F	F	D
Historical EPS Growth (3-5 Years)	3.44%	1.39%	9.70%	-1.31%	-9.35%	4.50%
Projected EPS Growth (F1/F0)	75.10%	63.82%	17.90%	49.16%	57.06%	62.18%
Current Cash Flow Growth	-164.14%	-100.03%	0.72%	-175.71%	-195.24%	-173.53%
Historical Cash Flow Growth (3-5 Years)	NA%	-1.35%	7.37%	NA	NA	NA
Current Ratio	1.97	0.88	1.38	1.81	1.25	1.51
Debt/Capital	54.49%	56.28%	41.51%	76.38%	52.76%	59.29%
Net Margin	-41.71%	-44.61%	11.34%	-91.32%	-63.83%	-34.21%
Return on Equity	-46.10%	-28.06%	15.46%	-103.19%	-49.12%	-39.67%
Sales/Assets	0.19	0.24	0.50	0.11	0.15	0.18
Projected Sales Growth (F1/F0)	64.07%	51.45%	8.16%	100.16%	90.64%	79.12%
Momentum Score	A	-	-	F	F	A
Daily Price Change	0.81%	-0.06%	0.95%	0.32%	-0.55%	1.68%
1-Week Price Change	-1.38%	-0.93%	0.47%	0.20%	-0.10%	1.19%
4-Week Price Change	1.58%	-1.89%	4.28%	-7.46%	-2.26%	-4.60%
12-Week Price Change	26.75%	12.92%	13.31%	12.52%	24.83%	17.93%
52-Week Price Change	99.26%	76.46%	51.32%	72.29%	104.42%	137.28%
20-Day Average Volume (Shares)	5,362,449	198,264	1,724,478	666,795	7,158,471	4,007,670
EPS F1 Estimate 1-Week Change	21.43%	0.00%	0.00%	-10.79%	-6.90%	7.61%
EPS F1 Estimate 4-Week Change	11.08%	-7.30%	0.41%	-16.61%	-6.32%	3.90%
EPS F1 Estimate 12-Week Change	-32.05%	-52.46%	2.24%	-20.35%	-37.01%	-234.58%
EPS Q1 Estimate Monthly Change	24.89%	-6.72%	0.33%	-24.23%	-3.17%	-26.89%

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	F
Momentum Score	A
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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.