

McDonalds Corp.(MCD)

\$226.11 (As of 10/12/20)

Price Target (6-12 Months): **\$238.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Shares of McDonald's have outperformed the industry so far this year. Notably, the company is benefiting from increase in drive-thru sales. McDonald's increased focus on delivery and accelerated deployment of EOTF restaurants in the United States is commendable. Additionally, the company is making every effort to drive growth in international markets as well. Of late, earning estimates for 2020 have increased. The company witnessed continued improvement in results throughout the second quarter. As of Jun 30, 2020, most of the company's restaurants are open globally. However, dismal comps and high debt is hurting the company. The company's comps declined for the second straight quarter after reporting positive comps in the preceding 19 quarters. Moreover, the company is witnessing dismal traffic due to the pandemic.

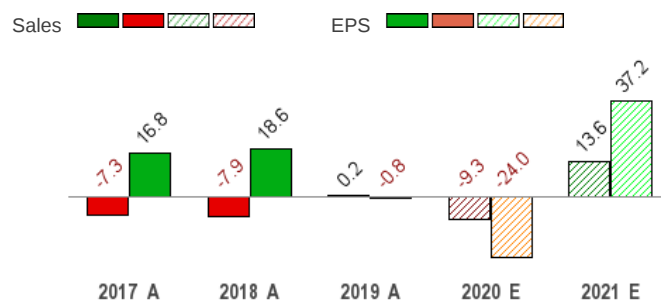
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$228.66 - \$124.23
20-Day Average Volume (Shares)	2,734,719
Market Cap	\$168.2 B
Year-To-Date Price Change	14.4%
Beta	0.67
Dividend / Dividend Yield	\$5.16 / 2.2%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 31% (78 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-13.2%
Last Sales Surprise	1.7%
EPS F1 Estimate 4-Week Change	1.9%
Expected Report Date	10/27/2020
Earnings ESP	2.8%
P/E TTM	36.4
P/E F1	37.9
PEG F1	5.2
P/S TTM	8.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,023 E	5,351 E	5,777 E	5,726 E	21,732 E
2020	4,714 A	3,762 A	5,303 E	5,410 E	19,122 E
2019	4,956 A	5,341 A	5,431 A	5,349 A	21,077 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.77 E	\$2.03 E	\$2.28 E	\$2.18 E	\$8.18 E
2020	\$1.47 A	\$0.66 A	\$1.89 E	\$1.92 E	\$5.96 E
2019	\$1.72 A	\$2.05 A	\$2.11 A	\$1.97 A	\$7.84 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 10/12/2020. The reports text is as of 10/13/2020.

Overview

Founded in 1948, Oak Brook, IL-based McDonald's is a leading fast-food chain that currently operates roughly 38,000 restaurants in more than 100 countries. The company mainly operates and franchises quick-service restaurants (QSRs) under the McDonald's brand. Nearly 93% of the company's restaurant worldwide are owned and operated by independent local business men as well as women. The company's revenues include sales by company-operated restaurants and fees from restaurants, which are managed by franchisees.

The business is managed as a distinct geographic segment.

Beginning Jan 1, 2019, the company had begun operating its results under a new organizational structure.

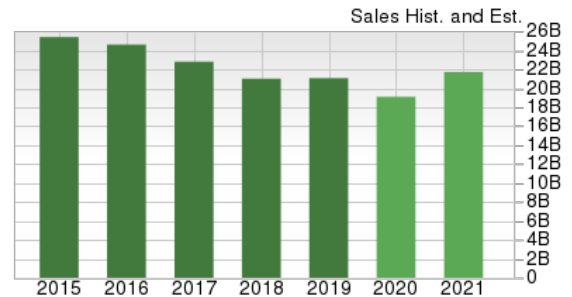
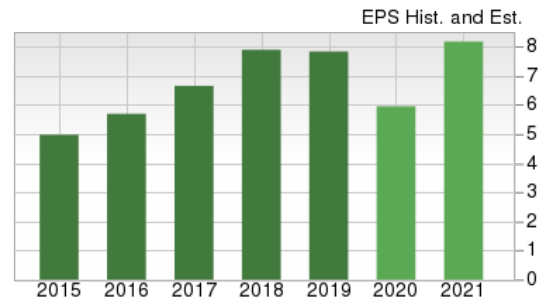
U.S. – This is the company's largest segment (accounting for 37.2% of total revenues in 2019). The segment remains unchanged despite the new organizational structure.

International Operated segment (54.1% of total revenues in 2019) – The segment comprises wholly-owned markets, or countries where the company operates. It operates in Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K.

International Developmental Licensed Markets (8.7% of total revenues in 2019) – The segment comprises primarily developmental license and affiliate markets in the McDonald's system. Corporate activities are also part of this segment.

As of Jul 2, the company has reopened 14,000 restaurants out of 22,000 restaurants in the United States. However owing to the rising number of coronavirus cases, the company has halted the reopening of additional dining rooms by 21 days.

Coming to international markets, most of the restaurants in France, Italy, Spain, United Kingdom, Australia and Germany have resumed operations. Notably, the restaurants are operating with drive-thru and delivery services, and dining room access with limited capacity.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strong Brand Recognition:** McDonald's is the world's largest chain of fast-food restaurants with presence in more than 100 countries. Its offerings have reached the billion-dollar brand status through sustained product innovation and geographic expansion. With an almost 10% share of the global informal-eating-out market, there is ample scope for it to grow in the future as it boasts a scale advantage compared to its peers. Growing guest counts remains the company's top priority and it intends to regain customers by focusing on food quality, convenience and value. Moreover, McDonald's expects its velocity accelerators of Experience of the Future, digital and delivery to drive growth over the long term. Given various initiatives undertaken to drive growth, the stock has a decent upside potential.

McDonald's efforts to strengthen its position through various sales initiatives along with increased focus on franchising bode well

In 2018, McDonald's had completed the conversion of 4,500 restaurants to Experience of the Future' (EOTF) restaurants. Moreover, the company had completed the conversion of 2,000 restaurants to EOTF during 2019. Management announced that it has converted approximately 10,000 restaurants to EOTF or about 70% of the estate. For 2020, the company has reduced capital expenditure from \$2.4 billion to nearly \$1.6 billion. The company will spend nearly half of the amount for the U.S. business, which includes completion of approximately 900 EOTF projects.

- ▲ **Focuses on Delivery to Drive Sales:** During the coronavirus pandemic the company is focusing on drive-thru, delivery & take-away. Prior to the coronavirus outbreak, drive-thru accounted for about two-thirds of all sales in the United States. Drive-thru now accounts for approximately 90% of sales. Moreover, McDonald's continues to roll out mobile order and pay, with a new curbside check-in option. It has already launched the option in nearly all 20,000 U.S. restaurants. To provide enhanced experience and convenience to customers, McDonald's is increasingly focusing on delivery. The company provides delivery from more than 27,000 restaurants in above 75 countries. In third-quarter 2019, it partnered with Grubhub for the rollout of McDelivery to nearly 500 restaurants in the NYC and Tri-State area. It also partnered with DoorDash.

The company announced that Australia posted positive comps for May and June driven by strong drive-thru and delivery performance. The country has doubled its delivery sales mix to approximately 10% of sales. The company is witnessing increase in delivery and digital transactions per restaurants. It witnessed continued improvement in results throughout the second quarter. As of Jun 30, 2020, most of the company's restaurants are open globally.

- ▲ **Efforts to Attract Customers in International Markets:** McDonald's strategic efforts in the international markets continue to drive comps higher. McDonald's is consistently trying to improve its performance in the International Operated Markets including Australia, Canada, France, Germany and the UK. The company intends to drive comps growth in these markets through introduction of value meals, customizing the menu to local customer tastes, reimagining of restaurants, efficient marketing and promotions, improved service and increased convenience via delivery. With the roll-out of self-order kiosks, digital menu boards, table service, and the mobile app, customers are offered more choices and flexibility as the company progresses toward its Experience of the Future initiative, which is based on adding technology to its eateries. Notably, the converted restaurants are now seeing even stronger financial results than those who have not yet made the switch.
- ▲ **Solid Expansion Efforts:** McDonald's believes that there is a huge opportunity to grow all its brands globally by expanding its presence in existing markets and entering new markets. The company's expansion efforts continue to drive performance. Currently, it has more than 39,020 restaurants worldwide. Despite the coronavirus pandemic, the company opened about 150 restaurants through June. The company is also confident about the opening 400 new restaurants in China this year.
- ▲ **Re-franchising Strategy Safeguards Earnings:** Management's re-franchising strategy involves a shift to a greater percentage of franchised restaurants. Notably, in January 2017, the company entered into a strategic partnership and sold the control of its Chinese business, thereby reducing its own share to 20%. The company intends to add over 1,500 stores more in the region within the next five years. Currently, nearly 95% of the company's restaurants are franchised. In addition to the sale of its assets in China, McDonald's is looking for similar deals in markets of South Korea, Japan and South-east Asia. In fact, it has already completed several other important refranchising transactions since November 2016, including Singapore, Malaysia, the Nordics and Taiwan. These partnerships are part of the company's efforts to streamline its business and focus on the quality of its offerings, which should further increase the attractiveness of McDonald's business. Thus, these deals will have an upside impact on its earnings and margins as the company is expected to gain from trimming its overall cost of operations and preserving its capital. The reduction in ownership, i.e. re-franchising, weighs on near-term revenues, as it replaces company-operated sales by franchised sales. However, over the long term, it will reduce the company's capital requirements and facilitate earnings per share growth and ROE expansion. Going forward, the company aims to continue optimizing its ownership mix by refranchising restaurants in certain of its large mature markets, like the United States.

Reasons To Sell:

- ▼ **Coronavirus to Hurt Traffic:** McDonald's results in the coming quarters are likely to be impacted by the coronavirus outbreak. Although the company has reopened most of its restaurants, it is likely to witness dismal traffic due the social distancing protocols.
- ▼ **Comps Decline in Q2 Due to Coronavirus:** The company's comps declined for the second straight quarter after reporting positive comps in the preceding 19 quarters. In the second quarter, global comps declined 23.9%, against a gain of 6.5% in the prior-year quarter. In first-quarter 2020, comps were down 3.4%.
- ▼ **High Debt a Concern:** A strong balance sheet will help the company tide over the ongoing crisis. At the end of Jun 30, 2020, the company's long-term debt stands at \$34.7 billion, compared with \$38 billion as of Mar 31, 2020. Although debt has declined sequentially its is still very high. Moreover, the company ended second-quarter 2020 with cash and cash equivalent of \$3.3 billion, compared with \$5.3 billion at the end of first-quarter 2020, which may not be enough to manage the high-debt level.
- ▼ **Negative Currency Translation:** With about 55% of McDonald's operating income coming from the International operated segment, its earnings remain susceptible to negative currency translation. Meanwhile, foreign currency translation had a negative impact of 1 cent per share during the second-quarter 2020. Foreign currency headwinds had a negative impact of 21 cents in 2019.
- ▼ **High Costs:** Apart from minimum wage increases, additional health care costs related to 'Obamacare' in the United States also raise labor costs. Further, costs associated with brand positioning in all the key markets and ongoing investments in initiatives might weigh on margins, at least in the near term.
- ▼ **Macro-Economic Pressure:** The company is grappling with difficulties like decelerating growth in Asia along with weakness in some parts of Europe, where the economic/political conditions are expected to be further challenging post Brexit. Meanwhile, over the past few quarters, the U.S. restaurant space has not been too enticing for investors. Despite economic growth, somewhat lower energy prices and higher income, consumers increased their spending only modestly on dining out, which resulted in low consumption over the past few quarters. This is because, along with wage growth, inflation is also on the rise, which translates to lower real income and thus less disposable income. The situation has taken a worse turn, thanks to higher health care costs and tightened credit availability in the United States. Moreover, as consumers demand high-quality products at lower prices, it is pushing grocery stores to decrease their food prices in order to remain competitive. This is resulting in a bigger gap between food-at-home and food-away-from-home indices.
- ▼ **Cutthroat Competition:** Competition among fast-casual restaurants is expected to remain fierce with respect to price, service, location and concept, which may adversely impact McDonald's restaurant operating margins and profits. The company is facing competition from Wendy's that operate under almost similar business models and offer similar products. Chipotle Mexican Grill, a provider of healthier menu options, poses significant competition for McDonald's, especially when consumers in the United States are opting for healthier menu options instead of fast food. Moreover, other restaurateurs like Yum! Brands, Inc.'s Taco Bell, Dunkin' Brands Group, Inc. and Jack in the Box Inc. are also cashing in on the popularity of the breakfast platter thereby giving McDonald's a run for its money in this space also.

High labor costs and currency headwinds are major concerns. Moreover, revenues have been under pressure for quite some time due to strategic refranchising initiative.

Last Earnings Report

McDonald's Q2 Earnings Miss Estimates, Comps Down

McDonald's reported mixed second-quarter 2020 results, wherein the bottom line missed the Zacks Consensus Estimate but the top line beat the same. However, both earnings and revenues declined year over year. Results in the quarter were impacted by the coronavirus pandemic. Limited operations and change in consumer behavior also hurt the company's performance.

However, robust drive-thru presence and its investments in delivery and digital over the past few years have aided the company during the current scenario. The company witnessed continued improvement in results throughout the second quarter. As of Jun 30, 2020, most of the company's restaurants are open globally.

The company reported adjusted earnings of 66 cents per share, which missed the consensus of 76 cents. Moreover, the bottom line declined 68% year over year. Meanwhile, foreign currency translation had a negative impact of 1 cent per share on earnings in the quarter under review.

Revenues & Comps Discussion

In the second quarter, revenues of \$3,761.5 million beat the Zacks Consensus Estimate of \$3,698 million. However, the figure declined 30% year over year. This downtrend can primarily be attributed to the coronavirus pandemic. Moreover, on a constant-currency basis, the top line decreased 29% on a year-over-year basis.

At company-operated restaurants, revenues came in at \$1,593.7 million, down 34% year over year. Moreover, the same at franchise-operated restaurants slumped 29% to \$2,088 million.

In the quarter global comps declined 23.9%, against a gain of 6.5% in the prior-year quarter. Comps declined for the second straight quarter after reporting positive comps in the trailing 19 quarters. In first-quarter 2020, comps were down 3.4%.

Solid Comps Across Segments

U.S.: Comps at this segment declined 8.7% in the second quarter, against a gain of 5.7% rise in the prior-year quarter. However, the company witnessed sequentially improvement in comps throughout the quarter. At the end of April, May and June comps were down 19.2%, 5.1% and 2.3%, respectively.

International Operated Markets: Comps at this segment declined 41.4% year over year, against a gain of 6.6% in the year-ago quarter. Comps were hurt by temporary restaurant closures and limited operations, particularly in the U.K. and France. However, the company witnessed positive comps in Australia in May and June driven by drive-thru performance.

International Developmental Licensed Segment: The segment's comparable sales decreased 24.2% in the second quarter. In the prior-year quarter, the segment's comps had risen 6.5%. Comps were negatively impacted by temporary restaurant closures across nearly all geographies, primarily in Latin America.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	1.73%
EPS Surprise	-13.16%
Quarterly EPS	0.66
Annual EPS (TTM)	6.21

Recent News

McDonald's Halts Reopening of Dining Rooms for 21 Days – Jul 1, 2020

McDonald's recently halted the reopening of additional dining rooms in the United States by 21 days on account of rising number of coronavirus cases. Over the last two weeks, the country has witnessed an increase of 65% in coronavirus cases. However, restaurants with reopened dining rooms are likely to consult local and state officials on whether to cease the dining rooms services again.

McDonald's Provides Business Update Amid Coronavirus Pandemic – Jun 16, 2020

McDonald's recently provided an update on financial performance amid the COVID-19 pandemic. Notably, with dining rooms reopening and strong digital and delivery system, the company is optimistic about its response to the global crisis. With 95% of the restaurants operating all over the world, McDonald's has been witnessing sequential improvement in comparable sales.

Valuation

McDonald's shares have gained 14.5% in year-to-date period and 8.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and the sector are up 8.2% and 39.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 6.3% and the sector is up by 48.4%.

The S&P 500 index is up by 9.8% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 29.55X forward 12-month earnings, which compares to 31.52X for the Zacks sub-industry, 33.34X for the Zacks sector and 22.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.15X and as low as 15.78X, with a 5-year median of 22.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$238 price target reflects 31.11X trailing 12-month earnings.

The table below shows summary valuation data for MCD.

Valuation Multiples - MCD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.55	31.52	33.34	22.97
	5-Year High	31.15	34.04	33.99	23.47
	5-Year Low	15.78	20.49	19.09	15.27
	5-Year Median	22.37	23.09	23.59	17.68
P/S F12M	Current	7.98	3.77	1.37	4.23
	5-Year High	8.02	3.93	1.37	4.31
	5-Year Low	3.97	2.81	0.84	3.18
	5-Year Median	6.15	3.34	1.01	3.67
EV/EBITDA TTM	Current	22.76	21.43	21.04	15.52
	5-Year High	22.79	21.43	21.04	15.68
	5-Year Low	12.56	10.64	10.7	9.55
	5-Year Median	14.94	14.39	12.98	13.09

As of 10/12/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Bloomin Brands, Inc. (BLMN)	Outperform	1
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
Darden Restaurants, Inc. (DRI)	Neutral	3
Papa Johns International, Inc. (PZZA)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Starbucks Corporation (SBUX)	Neutral	2
Yum Brands, Inc. (YUM)	Neutral	2
Yum China Holdings Inc. (YUMC)	Neutral	3

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	MCD	X Industry	S&P 500	SBUX	WING	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	D	B	B
Market Cap	168.25 B	541.12 M	23.69 B	106.12 B	3.91 B	20.33 B
# of Analysts	16	6	13	15	10	6
Dividend Yield	2.21%	0.00%	1.59%	1.81%	0.42%	0.45%
Value Score	D	-	-	D	F	C
Cash/Price	0.02	0.13	0.07	0.04	0.01	0.08
EV/EBITDA	18.56	13.03	13.64	18.66	83.38	13.03
PEG F1	5.17	4.24	2.95	2.35	8.80	4.90
P/B	NA	2.63	3.55	NA	NA	6.20
P/CF	22.37	9.50	13.58	22.01	135.01	17.51
P/E F1	37.94	31.18	22.44	33.72	105.56	46.53
P/S TTM	8.74	0.98	2.67	4.41	17.39	2.54
Earnings Yield	2.64%	0.95%	4.29%	2.96%	0.95%	2.15%
Debt/Equity	-3.66	0.54	0.70	-1.70	-1.61	0.01
Cash Flow (\$/share)	10.11	1.81	6.93	4.12	0.98	3.08
Growth Score	F	-	-	F	A	B
Historical EPS Growth (3-5 Years)	10.16%	2.98%	10.41%	8.80%	14.01%	1.84%
Projected EPS Growth (F1/F0)	-24.03%	-23.22%	-2.99%	174.32%	71.23%	-38.39%
Current Cash Flow Growth	-0.99%	3.60%	5.49%	5.49%	-7.19%	10.09%
Historical Cash Flow Growth (3-5 Years)	1.88%	4.61%	8.51%	12.19%	18.99%	25.34%
Current Ratio	0.91	1.01	1.35	0.95	1.42	1.34
Debt/Capital	NA%	52.36%	42.91%	NA	NA	1.09%
Net Margin	24.78%	-1.44%	10.28%	5.56%	12.73%	6.33%
Return on Equity	-52.78%	-10.64%	14.79%	-22.26%	-14.61%	16.35%
Sales/Assets	0.40	0.87	0.51	0.93	1.24	1.18
Projected Sales Growth (F1/F0)	-9.27%	0.00%	-0.59%	19.75%	25.08%	-8.91%
Momentum Score	A	-	-	A	A	B
Daily Price Change	0.57%	0.00%	0.65%	0.86%	0.53%	-0.17%
1-Week Price Change	0.97%	2.48%	4.06%	3.97%	-8.09%	1.91%
4-Week Price Change	2.52%	1.70%	3.76%	4.79%	-2.11%	3.32%
12-Week Price Change	18.00%	20.85%	8.70%	21.10%	-3.95%	1.39%
52-Week Price Change	8.51%	-14.93%	6.31%	4.80%	49.10%	24.77%
20-Day Average Volume (Shares)	2,734,719	319,212	2,117,216	6,608,001	871,274	1,779,908
EPS F1 Estimate 1-Week Change	1.49%	0.00%	0.00%	0.55%	0.32%	0.00%
EPS F1 Estimate 4-Week Change	1.87%	0.00%	0.00%	2.20%	0.48%	0.00%
EPS F1 Estimate 12-Week Change	2.48%	11.46%	3.69%	2.38%	21.71%	3.73%
EPS Q1 Estimate Monthly Change	2.17%	0.00%	0.00%	0.02%	2.93%	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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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.

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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.