

Mohawk Industries (MHK)

\$104.91 (As of 10/06/20)

Price Target (6-12 Months): **\$121.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 10/06/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Mohawk's shares have outperformed its industry so far this year. The company's dominant market share in the highly fragmented and competitive industry, acquisition strategy, and strong international presence are expected to drive growth. The firm is streamlining operations, merging facilities and removing higher-cost assets to combat cost woes. These will lower costs by \$110-120 million and boost EBITDA by 10%. It has been maintaining production rates, introducing new products and increasing promotions to address the ever-changing market needs. Although softness across the markets served (mainly U.S. businesses), and pressure on volumes and pricing are major headwinds, robust fundamentals of the U.S. housing industry is expected to be a boon for the company. Estimates for 2020 moved north, depicting analysts' optimism.

Data Overview

52-Week High-Low	\$153.05 - \$56.62
20-Day Average Volume (Shares)	542,957
Market Cap	\$7.5 B
Year-To-Date Price Change	-23.1%
Beta	1.46
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Textile - Home Furnishing
Zacks Industry Rank	Top 3% (7 out of 252)

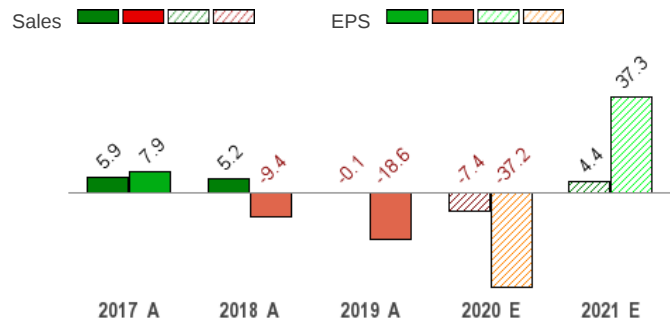
Last EPS Surprise	562.5%
Last Sales Surprise	7.9%
EPS F1 Estimate 4-Week Change	7.7%
Expected Report Date	10/22/2020
Earnings ESP	13.4%

P/E TTM	14.9
P/E F1	16.7
PEG F1	3.3
P/S TTM	0.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,438 E	2,388 E	2,581 E	2,418 E	9,640 E
2020	2,286 A	2,050 A	2,473 E	2,424 E	9,233 E
2019	2,442 A	2,584 A	2,519 A	2,425 A	9,971 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.21 E	\$2.01 E	\$2.54 E	\$2.17 E	\$8.65 E
2020	\$1.66 A	\$0.37 A	\$2.20 E	\$2.02 E	\$6.30 E
2019	\$2.13 A	\$2.89 A	\$2.75 A	\$2.25 A	\$10.04 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 10/06/2020. The reports text is as of 10/07/2020.

Overview

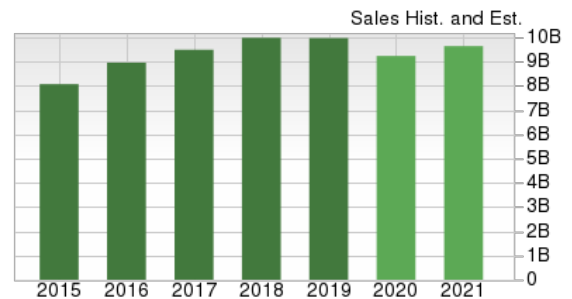
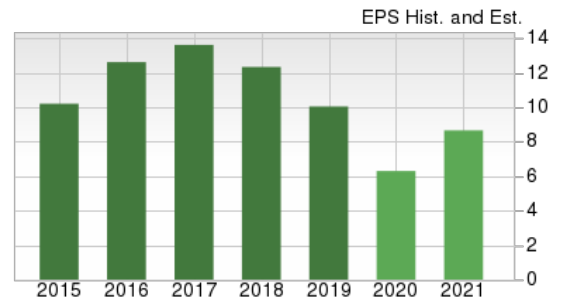
Mohawk Industries, Inc. is a leading global manufacturer of flooring products that enhance residential and commercial space. The company manufactures carpet, rugs, ceramic tile, laminate, wood, stone and vinyl flooring. It has a global presence with operations in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, Russia and the United States.

The company has reorganized its business into three segments — Global Ceramic, Flooring North America (Flooring NA) and Flooring Rest of the World (Flooring ROW).

Global Ceramic (accounting for 36.4% of 2019 net sales): The Global Ceramic segment includes ceramic tile, porcelain tile and natural stone operations. Some of the brands included in this segment are American Olean, Daltile, KAI, Kerama Marazzi, Marazzi and Ragno.

Flooring NA segment (38.6%): The Flooring NA segment includes North American operations of various product categories, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products including LVT. The new segment combines the former Carpet segment, the North American operations of the former Laminate and Wood segment, and the North American operations of the newly acquired vinyl flooring businesses. Some of the brands in this segment include Aladdin, Bigelow, Columbia Flooring, Durkan, Horizon, IVC, Karastan, Lees, Mohawk, Pergo, Portico, QuickStep and SmartStrand.

The **Flooring ROW** segment (25%): The Flooring ROW segment includes laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard (MDF), chipboards, and vinyl flooring products, including LVT. The new segment combines the European and Rest of the World operations of the former Laminate and Wood segment and the European and Rest of the World operations of the vinyl flooring businesses acquired recently. Some of the brands in this segment include IVC, Moduleo, Pergo, Quick-Step and Unilin.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strategic/Restructuring Initiatives to Boost Performance:** Over the last few quarters, Mohawk has been experiencing various headwinds like softness across the business, inflationary pressure, lower volumes and pricing concerns.

It has undertaken various strategic initiatives to improve profitability. The most significant of these initiatives are aligning ceramic production with demand in the United States, realigning its North American carpet operations, optimizing LVT manufacturing and ramping up new plant. In addition, it has been focusing on new product categories, introducing innovative product extensions and optimizing the recent buyouts. Mohawk is also investing in more sales personnel and marketing to boost its penetration in new and existing products to address ever-changing market needs. In addition, the company is streamlining operations to enhance efficiencies and leveraging automation and process enhancements to lower costs.

Although mix and competitive pressure will offset the positive impact of the price rise in the near term, the above-mentioned initiatives are likely to help the company in the upcoming quarters.

Meanwhile, the company has been undertaking business restructuring measures to boost its performance that include reducing SG&A, headcount, and lower-performing products as well as SKUs. It has also been closing less efficient operations and investing in more productive equipment. The company expects these global actions to deliver annual savings of \$110-\$120 million, with an estimated cost of \$170 million, of which cash cost is \$44 million. It will take almost the entire 2021 to complete these initiatives and capture the full benefit.

- ▲ **Diverse Acquisitions:** An opportunistic approach to acquisitions is an important part of Mohawk's growth strategy. These acquisitions broaden Mohawk's product portfolio, expand its geographic footprint and market share. During 2019, Mohawk acquired two hard surface flooring distribution companies based in the Netherlands and Czech Republic.

In 2018, Mohawk acquired leading flooring companies in Australia, New Zealand and Brazil. In Europe, it bought two flooring distributors and a specialized mezzanine company. It entered into European porcelain slab and carpet tile markets during the year. The company expanded higher-quality ceramic in Eastern Europe, and initiated sheet vinyl production in Russia along with quartz countertop manufacturing in the United States. Much of the benefits from these capital investments will be realized in 2020 and beyond, as it starts to achieve higher volume, mix and productivity.

While these acquisitions have already started contributing to the top line, Mohawk has initiated new investments to enhance its capability and introduce new products.

- ▲ **Well-Positioned in the Sector:** Mohawk is one of the largest flooring manufacturers in the global market. The company holds a dominant market share in extremely fragmented and competitive industry. In addition, the company commands a competitive advantage in the laminate flooring channel backed by the Laminate and Wood segment's industry-leading design, patented technologies and brands.

Mohawk is making higher internal investments to boost capacity and enter new markets. Although higher inflation and slowing market conditions have been grappling Mohawk over the last few quarters, it selectively invested approximately \$1.5 billion to enhance its long-term performance, primarily in new product categories and geographies, with greenfield projects and acquisitions, cost-saving initiatives and share buyback.

The largest investments during the 2017-2018 period have been the expansion of LVT in the United States and Europe; ceramic capacity increases in the United States, Mexico, Italy, Poland, Bulgaria and Russia; luxury laminate in the United States, Europe and Russia; carpet tile in Europe; sheet vinyl in Russia; countertops in the United States and Europe; and carpet and rugs in the United States.

The company is also adding unique capabilities to introduce differentiated products and anticipates higher productivity improvement in the days ahead.

- ▲ **Enough Liquidity to Tide Over COVID-19 Crisis:** As of Jun 27, 2020, the company had cash and cash equivalents of \$737.7 million (of which \$413 million was in the United States and \$324.7 million in foreign countries), higher than \$263.1 million at first quarter-end. The company's cash includes the remaining proceeds from the two bond offerings earlier this year, after paying down outstanding commercial paper. Mohawk has enough liquidity to pay the current debt of \$135 million. Meanwhile, its total debt to total capital decreased sequentially to 27% from 27.4%.

- ▲ **Strong International Presence:** Mohawk enjoys strong international presence, with higher net sales being generated outside the United States. The company has presence in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, and Russia. The strong international presence allows the company to capitalize on high demand in the lucrative global market.

The company is increasing utilization of new investments in the United States, Europe and Russia through more product offerings, expansion of customer base and increase in production.

Mohawk enjoys a leading position in the home furnishings industry, and its strategic acquisitions & restructuring efforts are encouraging

Risks

- **COVID-19 to Weigh on Near-Term Results:** While Mohawk is geographically quite diversified, the scope and suddenness of this pandemic is quite different from the housing recession in 2008-2009, which makes it difficult for manufacturers to respond to. Demand has dropped drastically across all the markets served by the company, with residential remodeling being impacted the most and DIY products having performed most impressively, as some people have started projects while staying home. Hence, given the uncertainty surrounding COVID-19, management did not provide its third-quarter EPS guidance.

Also, the class action lawsuit/SEC investigation is likely to remain a near-term overhang on the stock. Mohawk did not divulge much on the case other than citing intentions to "vigorously defend" the charges.

- **Challenging U.S. Ceramic Market:** Mohawk's operating backdrop had remained tough throughout 2018 and 2019. Specially, the U.S. ceramic market has been impacted by a decline in product mix, soft retail demand, a stronger dollar, shift of customers to LVT and excess inventories in the channel. Recently, the United States imposed 104% tariffs on Chinese imports. Further anti-dumping duties are anticipated going forward. Mohawk expects the U.S. ceramic market to remain soft in the upcoming period. During fourth-quarter 2019, total U.S. ceramic imports declined 17%, with Chinese ceramic imports falling 90% from the year-ago period.

Mohawk's European ceramic business is also being impacted by lower market demand. Hence, the company has been reducing inventory levels, expanding product offerings and entering new categories.

Its ability to offset these pressures is hindered by continuous inflation, more competitive imports due to a stronger dollar and substitution of LVT to other alternatives. In 2019, adjusted earnings decreased 18.6% year over year. Adjusted operating margin also contracted 250 basis points from a year ago, attributed to the above-mentioned headwinds.

- **Competitive Landscape:** The flooring industry is highly competitive with a number of players (large and small), including imports, offering products in the marketplace. The company needs to make significant investments in new products, distribution network and manufacturing facilities that could impact profitability.
 - **Business Sensitive to General Economic Conditions:** Mohawk's business is dependent on general economic conditions like consumer confidence, income and spending, corporate and government spending, interest rate levels plus availability of credit and demand for housing. Hence, any prolonged downturns in the United States and global economies are expected to leave a negative impact on the floor covering industry and in turn, the company's business.
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Last Earnings Report

Mohawk's Q2 Earnings and Revenues Beat Estimates

Mohawk Industries, Inc. reported solid second-quarter 2020 results, wherein earnings and revenues handily surpassed the Zacks Consensus Estimate.

As highlighted by Jeffrey S. Lorberbaum, chairman and CEO of Mohawk, "After the company's sales bottomed in April, our markets improved more than we expected, and shipments exceeded our production rates, reducing our inventories."

Mohawk reported adjusted earnings of 37 cents per share against the consensus mark of a loss of 8 cents. However, the metric declined 87.2% year over year.

Net sales of \$2 billion surpassed the consensus estimate of \$1.9 billion by 7.9% but fell 20.7% from the year-ago figure. On a constant-currency and days basis, net sales were down 19% year over year.

Operating Highlights

Adjusted gross profit of \$439.4 million was down 40.9% year over year. Adjusted selling, general and administrative expenses decreased 13.5% from the prior-year level. Adjusted operating income totaled \$35.8 million, which declined 87.1% year over year.

Segment Details

Global Ceramic: Sales in the segment totaled \$753.3 million, down 21% year over year. Also, the metric declined 19% on a constant currency and days basis. Adjusted operating income decreased to \$3.9 million from \$117.7 million a year ago due to lower volume, unfavorable price and mix, as well as COVID-19-induced shutdown.

Flooring North America: Net sales at the segment came in at \$800 million, down 19% year over year. Moreover, the segment registered adjusted operating loss of \$17.3 million for the quarter versus an operating profit of \$65.4 million a year ago. Improvement in productivity and reduction in inflation were offset by lower volume, price, mix and the COVID-19 outbreak.

Flooring Rest of the World: Net sales in the segment fell 23% year over year to \$496.4 million. On a constant-currency and days basis, sales were down 20% from the year-ago level. Adjusted operating income was \$59.1 million, down from \$105.7 million a year ago. The downside was due to lower price and mix, and volume and shutdown costs, partially offset by reduced inflation along with increased productivity.

Financial Highlights

As of Jun 27, 2020, cash and cash equivalents were \$737.7 million compared with \$128.1 million in the comparable year-ago period. For the second quarter, it generated free cash flow of almost \$500 million and issued more than \$1 billion of new bonds.

Net debt was \$1.97 billion at second quarter-end, down from \$2.46 billion in the first quarter.

Efforts to Combat COVID-19

The company has been undertaking business restructuring measures to boost its performance that include reducing SG&A, headcount, and lower-performing products as well as SKUs. It has also been closing less efficient operations and investing in more productive equipment. The company expects these global actions to deliver annual savings of \$110-\$120 million, with an estimated cost of \$170 million, of which cash cost is \$44 million. It will take almost the entire 2021 to complete these initiatives and capture the full benefit.

Third-Quarter View

Although Mohawk was unable to provide guidance for the third quarter due to uncertainties associated with the COVID-19 outbreak, it expects a significant improvement in the quarterly results from the second quarter.

The residential remodeling and new construction channels have recovered more than commercial, wherein businesses are maintaining a cautious approach to investment. Notably, its July sales were almost flat with the prior year.

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	7.85%
EPS Surprise	562.50%
Quarterly EPS	0.37
Annual EPS (TTM)	7.03

Valuation

Mohawk shares are down 23.1% in the year-to-date period and 14.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 26% and 3.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 17.4% but the sector is up 9.2%.

The S&P 500 index is up 4.5% in the year-to-date period and 16.5% in the past year.

The stock is currently trading at 13.13X forward 12-month earnings, which compares to 10.84X for the Zacks sub-industry, 33.11X for the Zacks sector and 22.28X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.06X and as low as 5.67X, with a 5-year median of 14.57X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$121 price target reflects 15.14X forward 12-month earnings.

The table below shows summary valuation data for MHK.

Valuation Multiples - MHK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.13	10.84	32.11	22.28
	5-Year High	21.06	19.41	34.94	23.47
	5-Year Low	5.67	6.86	16.13	15.27
	5-Year Median	14.57	14.13	19.86	17.7
P/S F12M	Current	0.79	0.47	2.33	4.09
	5-Year High	2.16	1.58	2.95	4.3
	5-Year Low	0.42	0.33	1.68	3.18
	5-Year Median	1.51	1.11	2.47	3.67
EV/EBITDA TTM	Current	8.08	5.74	11.07	14.91
	5-Year High	13.75	11.27	17.81	15.66
	5-Year Low	4.6	3.8	8.26	9.53
	5-Year Median	10.08	8.27	12.2	13.07

As of 10/06/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 3% (7 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Woodmark Corporation (AMWD)	Outperform	2
Beacon Roofing Supply, Inc. (BECN)	Outperform	1
Fortune Brands HomeSecurity, Inc. (FBHS)	Outperform	2
BMC Stock Holdings, Inc. (BMCH)	Neutral	3
Culp, Inc. (CULP)	Neutral	2
FloorDecor Holdings, Inc. (FND)	Neutral	2
SELECT INT CONC (SIC)	Neutral	3
Interface, Inc. (TILE)	Neutral	2

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

Industry Comparison Industry: Textile - Home Furnishing				Industry Peers		
	MHK	X Industry	S&P 500	BECN	FND	TILE
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	1	2	2
VGM Score	B	-	-	A	C	A
Market Cap	7.47 B	176.05 M	23.33 B	2.37 B	7.58 B	394.03 M
# of Analysts	8	2	14	7	11	2
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.59%
Value Score	B	-	-	B	D	A
Cash/Price	0.10	0.11	0.07	0.46	0.02	0.24
EV/EBITDA	6.52	5.64	13.33	11.91	32.81	4.77
PEG F1	3.27	3.80	2.84	NA	2.63	NA
P/B	0.94	1.32	3.43	1.40	8.91	1.52
P/CF	5.52	5.52	13.07	5.16	38.24	2.57
P/E F1	16.65	18.24	21.41	14.89	61.40	5.90
P/S TTM	0.80	0.50	2.59	0.34	3.67	0.32
Earnings Yield	6.01%	5.05%	4.47%	6.72%	1.62%	16.94%
Debt/Equity	0.32	0.70	0.70	1.98	0.24	2.28
Cash Flow (\$/share)	19.01	0.90	6.92	6.66	1.92	2.62
Growth Score	C	-	-	A	C	A
Historical EPS Growth (3-5 Years)	-3.63%	-3.24%	10.45%	5.47%	18.11%	10.83%
Projected EPS Growth (F1/F0)	-37.30%	-25.33%	-2.97%	10.57%	3.71%	-28.30%
Current Cash Flow Growth	-5.69%	-5.69%	5.47%	11.78%	30.45%	-12.37%
Historical Cash Flow Growth (3-5 Years)	7.62%	6.26%	8.50%	40.23%	48.52%	15.06%
Current Ratio	2.53	2.42	1.35	2.25	1.56	2.29
Debt/Capital	24.51%	38.09%	42.90%	61.58%	19.57%	69.53%
Net Margin	5.20%	1.92%	10.28%	-1.80%	7.04%	-4.44%
Return on Equity	6.40%	4.50%	14.79%	9.45%	13.31%	29.22%
Sales/Assets	0.69	1.24	0.51	1.02	0.86	0.91
Projected Sales Growth (F1/F0)	-7.40%	-0.25%	-0.62%	2.61%	12.01%	-16.98%
Momentum Score	A	-	-	A	A	D
Daily Price Change	-1.93%	-1.05%	-1.00%	5.33%	-1.63%	-0.74%
1-Week Price Change	8.44%	7.66%	2.13%	9.39%	4.53%	6.62%
4-Week Price Change	13.37%	0.00%	1.65%	8.90%	4.27%	-1.90%
12-Week Price Change	41.37%	21.77%	6.15%	31.35%	22.37%	-6.53%
52-Week Price Change	-14.23%	-14.23%	5.99%	12.56%	56.29%	-49.78%
20-Day Average Volume (Shares)	542,957	67,016	2,153,235	590,274	1,021,582	602,180
EPS F1 Estimate 1-Week Change	1.41%	0.00%	0.00%	0.39%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	7.70%	0.00%	0.00%	1.09%	0.31%	0.00%
EPS F1 Estimate 12-Week Change	55.90%	31.03%	3.50%	17.79%	49.25%	37.35%
EPS Q1 Estimate Monthly Change	5.76%	0.00%	0.00%	1.63%	0.66%	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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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 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.