

Middleby Corporation (MIDD)

\$99.82 (As of 08/28/20)

Price Target (6-12 Months): **\$105.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/16/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

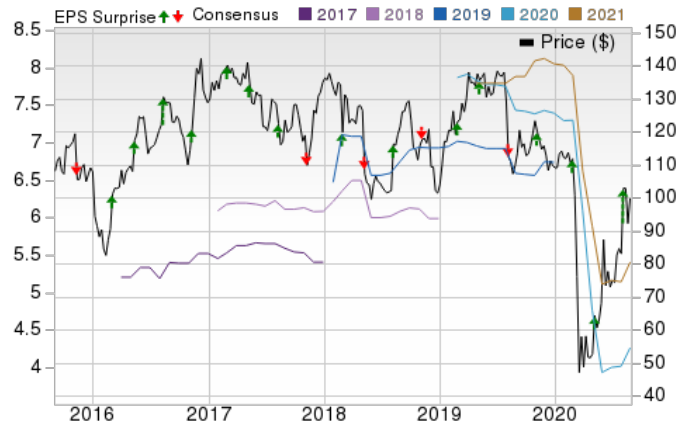
Growth: D

Momentum: D

Summary

Middleby is poised to benefit from the efforts to broaden the product portfolio, cost-saving actions in the wake of the pandemic, supply-chain initiatives and healthy liquidity position. Synergistic gains from acquired assets might be beneficial in the quarters ahead. Notably, acquired assets boosted its sales by 2.3% in the second quarter of 2020. Going forward, improving orders and solid backlog level are likely to benefit its Residential Kitchen Equipment Group and Food Processing Equipment Group segments. However, low demand environment, stemming from the pandemic, might hurt its Commercial Foodservice Equipment segment. High debt levels, and rising costs of sales and expenses have been concerning for Middleby. Foreign exchange headwinds might also affect its performance. In the past six months, its shares have underperformed the industry.

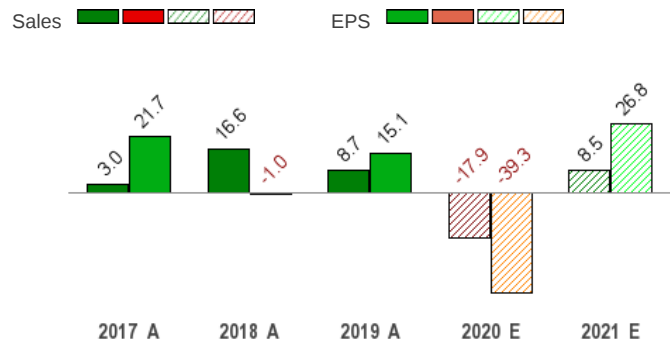
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$128.48 - \$41.73
20-Day Average Volume (Shares)	931,704
Market Cap	\$5.6 B
Year-To-Date Price Change	-8.9%
Beta	1.62
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 49% (128 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.2%
Last Sales Surprise	4.6%
EPS F1 Estimate 4-Week Change	6.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	17.4
P/E F1	23.4
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	663 E	586 E	695 E	768 E	2,634 E
2020	677 A	472 A	586 E	692 E	2,428 E
2019	687 A	761 A	724 A	788 A	2,959 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.28 E	\$1.14 E	\$1.47 E	\$1.76 E	\$5.40 E
2020	\$1.46 A	\$0.55 A	\$0.95 E	\$1.35 E	\$4.26 E
2019	\$1.38 A	\$1.70 A	\$1.72 A	\$2.00 A	\$7.02 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 08/28/2020. The reports text is as of 08/31/2020.

Overview

Elgin, IL-based The Middleby Corporation (MIDD) provides cooking, warming, food preparation and packaging equipment to commercial, industrial processing and residential markets. Formerly known as Oven Company, it was acquired by TMC Industries Ltd. in 1983. Post the acquisition, the company's name was changed to Middleby Corporation in 1985.

The company has manufacturing and distribution operations in Europe, Asia and Latin America.

The company operates in three main segments.

- **Commercial Foodservice Equipment Group** (56.7% of total revenues in second-quarter 2020) manufactures cooking equipment for restaurants and institutional kitchens. The products include conveyor ovens, proofing ovens, speed cooking ovens and induction cooking equipment. The equipment in this segment are sold under brands like Combi, Lang, MPC, PrefectFry, CookTek, Southbend and Wells.

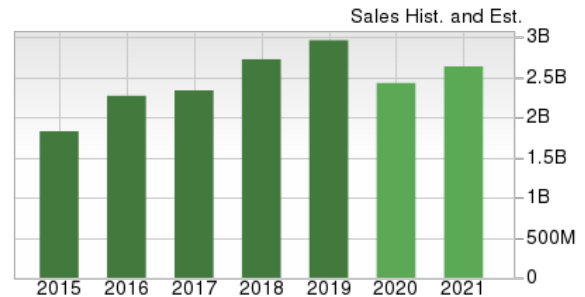
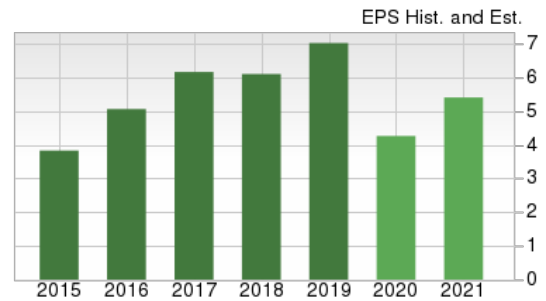
Notably, this segment's manufacturing operations are based in Arkansas, Illinois, California, Michigan, North Carolina, Texas, Washington, Australia, China, Denmark and Italy, among others.

- **Food Processing Equipment Group** (21.8%) manufactures equipment for the food processing industry. It offers a variety of products including batch ovens, processing ovens, defrosting and packaging equipment among others. The products are sold under various brands such as Auto-Bake, Alkar, Cozzini and RapidPak.

This segment's manufacturing operations are located in Georgia, North Carolina, Illinois, Iowa, Oklahoma, Washington, Denmark, France, Germany, India, and the United Kingdom, among others.

- **Residential Kitchen Equipment Group** (21.5%) manufactures equipment for the residential market, recording the revenues for Viking and Brigade. It offers ovens, dishwashers, cooktops, microwaves and other outdoor equipment.

Notably, this segment's manufacturing facilities are located in California, Mississippi, Michigan, Wisconsin, France, Ireland and the United Kingdom.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ For the Residential Kitchen Equipment Group, Middleby is witnessing improving orders across its residential businesses in both the U.S. and the U.K. markets. The incoming orders for July 2020 in the segment were up 28% on a year-over-year basis. For the Food Processing Equipment Group, strong backlog level (about \$138 million at the end of July 2020) along with increasing demand from food processing customers will likely support its top-line performance in the quarters ahead. Notably, incoming orders for July 2020 in the segment surged 83%, reflecting signs of recovery in core markets. Also, over the past year, the company has made significant investments in targeted growth segments, research and development programs to focus on technology initiatives, and products as per industry trends. Notably, it developed and launched the COVID-19 containment-related products for restaurants and retail locations, which will ultimately boost its top-line performance in the quarters ahead. Moreover, some of the actions being taken by the company include the reduction of discretionary expenses, eliminating unnecessary investments, strengthening supply-chain, and execution of working capital initiatives. Going forward, the measures will help it maintain a healthy margin performance amid the crisis.
- ▲ Middleby's robust liquidity position adds to its strength. In the last three years (2017-2019), the company's cash flow from operations increased 8.7% (CAGR). Notably, in the second quarter of 2020, its cash flow from operations increased 14.8% on a year-over-year basis to \$77.6 million. Notably, in the quarter, the company's free cash flow recorded an increase of 35.8% to \$73.5 million on a year-over-year basis. Also, it stated that for the past year, its free cash flow has surpassed \$400 million, marking a record level. In addition, its cash and cash equivalents increased to \$649.7 million, up from \$81.7 million in the year-ago quarter. Notably, the company's healthy liquidity position might help it tide over the difficult operating conditions caused by the pandemic.
- ▲ Middleby is currently following an acquisition-based growth strategy. In 2019, it acquired Synesso, Evo, Powerhouse Dynamics, Ss Brewtech and Cooking Solutions Group for its Commercial Foodservice Equipment Group, whereas it acquired Brava for its Residential Kitchen Equipment Group and Pacproinc for its Food Processing Equipment Group. Also, the company acquired RAM Fry Dispensers in January 2020. The buyout strengthened Middleby's product offerings in the restaurant automation platform. In addition, the company's Deutsche Beverage buyout (March 2020) is helping it strengthen its product offerings in the beverage platform. Notably, acquired assets boosted its sales by 5.2% and 2.3% in the first and second quarters of 2020, respectively. In the past 60 days, the company's earnings estimates have increased 25% for third-quarter 2020, 12.7% for 2020 and 4.7% for 2021.

Business acquisitions, healthy liquidity position and focus on supply-chain initiatives will likely benefit Middleby in the quarters ahead. Also, its cost-saving measures might help deal with the pandemic-related financial stress.

Reasons To Sell:

- ▼ In second-quarter 2020, Middleby's organic sales declined 39.8% year over year, with a fall of 49.4% for the Commercial Foodservice Equipment Group. For 2020, the Commercial Foodservice Equipment Group will likely suffer from challenged demand environment and lower restaurant activities, particularly at the travel-related and dine-in only spaces on account of the coronavirus outbreak. For instance, in July 2020, incoming orders in the segment declined 17% on a year-over-year basis. Notably, in the second quarter, the company's operating margin fell 10 percentage points year over year to 8.3%. Rising costs, if unchecked, will likely continue to dent its margins in the quarters ahead. In the last six months, Middleby's shares lost 10.8% compared with the industry's growth of 2.1%.
- ▼ The company's long-term debt in the last three years (2017-2019) rose 22.2% (CAGR). Also, at the end of the second quarter of 2020, the metric grew 9% sequentially to \$2,373 million. Also, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.55, higher than the industry's 0.48. Also, the company's ability of repay the financial obligations seems to have weakened in the quarter, with times interest earned declining from 7 in the first quarter of 2020 to 5.8 in the second quarter. Also, in August 2020, the company amended its senior credit facility. With this amendment, the company's secured senior credit facility will be worth \$3.1 billion, which comprises of a term loan of \$350 million and revolving credit facility (multiple currencies) of \$2.75 billion. In addition, it offered \$650 million worth of convertible senior notes. We believe such types of transactions are expected to increase its debts and in turn, are likely to inflate financial obligations and hurt profitability.
- ▼ International businesses have exposed Middleby to risks arising from geopolitical issues, unfavorable movements in foreign currencies and others. For instance, in the first and second quarters of 2020, forex woes had negative impacts of 0.6% and 0.5%, respectively, on revenues. We believe that due to large international exposure, the company might continue facing hurdles from forex woes.

Weak demand environment due to the coronavirus outbreak, rising costs, forex woes and high debts might weigh on Middleby's performance in the quarters ahead.

Last Earnings Report

Middleby Q2 Earnings Surpass Estimates, Decline Y/Y

Middleby reported better-than-expected results for second-quarter 2020, with earnings surpassing estimates by 34.15%. This is the company's fourth consecutive quarter of impressive results. Also, sales in the second quarter surpassed estimates by 4.59%.

The company's adjusted earnings in the reported quarter were 55 cents per share, surpassing the Zacks Consensus Estimate of \$1.72. However, the bottom line decreased 69.4% from the year-ago quarter figure of \$1.80 due to weak sales generation and lower margins.

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	4.59%
EPS Surprise	34.15%
Quarterly EPS	0.55
Annual EPS (TTM)	5.73

Revenue Picture

In the quarter under review, Middleby's sales were \$472 million, reflecting a year-over-year decline of 38%. Organic revenues in the quarter declined 39.8% year over year due mainly to difficulties caused by the pandemic. Acquired assets grew sales by 2.3%, while unfavorable movements in foreign currencies had a negative impact of 0.5%.

However, its net sales surpassed the Zacks Consensus Estimate of \$451 million.

The company reports net sales under three segments. A brief discussion of those segments is provided below:

Sales from the **Commercial Foodservice Equipment Group** (representing 56.7% of the reported quarter's net sales) were \$267.5 million, decreasing 47.9% year over year. Sales, excluding the impact of forex woes and buyouts, fell 49.4% year over year in the quarter.

Sales from the **Residential Kitchen Equipment Group** (representing 21.8% of the reported quarter's net sales) totaled \$102.9 million, declining 31.3% year over year. Sales (excluding the impact of forex woes, end of non-core businesses and buyouts) in the quarter declined 32.2% year over year.

Sales from the **Food Processing Equipment Group** (representing 21.5% of the reported quarter's net sales) were \$101.6 million, increasing 3.8% year over year. Excluding the impact of forex woes and buyouts, sales decreased 1.2% year over year.

Margin Profile

In the quarter under review, Middleby's cost of sales decreased 32.8% year over year to \$318.9 million. It represented 67.6% of sales compared with 62.4% in the year-ago quarter. Gross profit fell 46.5% year over year to \$153.1 million. Gross margin decreased 520 basis points (bps) to 32.4%.

Selling, general and administrative expenses decreased 22.7% year over year to \$111.8 million. It represented 23.7% of sales in the reported quarter. Operating income in the quarter under review decreased 72% year over year to \$39.1 million. Operating margin fell 10 percentage points year over year to 8.3%.

Net interest expenses and deferred financing amortization totaled \$21.8 million, down from \$22 million in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the second quarter, Middleby had cash and cash equivalents of \$649.7 million, surging 70.5% from \$381 million at the end of the last reported quarter. Long-term debt grew 9% sequentially to \$2,373 million.

In the second quarter, the company generated net cash of \$77.6 million from operating activities, reflecting growth of 14.8% from the year-ago quarter. Capital expenditure totaled \$4.2 million versus \$13.5 million in second-quarter 2019. Free cash flow increased 35.8% year over year to \$73.5 million.

Outlook

In the quarters ahead, Middleby anticipates gaining from product launches, innovation efforts, focus on strengthening supply chain and cost-saving actions. Also, the company anticipates generating positive cash flows in the rest of 2020, while also cut down on its capital spending.

For the Commercial Foodservice Equipment Group, the company expects to benefit from improved demand from healthcare and retail end markets. Also, demand pick-up is expected from convenience stores, pizza and quick-serve restaurants.

For the Residential Kitchen Equipment Group, the company expects improved demand, especially in the U.K. and the U.S. markets, to be beneficial and drive performances.

For the Food Processing Equipment Group, innovation investment and improved backlog will likely aid its performance. However, disruptions caused by the pandemic might hurt near-term orders.

Recent News

Middleby Prices \$650M Worth of Senior Notes Offering

On **Aug 21, 2020**, Middleby announced an increase of \$100 million in its previous offering of \$550 million worth of convertible senior notes.

The \$650-million senior notes offering is for qualified institutional buyers — as defined under the Securities Act of 1933. Also, the initial buyers have been given the facility to purchase extra \$97.5 million (upside from the previously offered \$82.5 million) notes in 13 days.

The above-mentioned notes — to be considered the company's senior unsecured obligations — carry a coupon rate of 1% and will mature on Sep 1, 2025. Interest payments on them will be done twice annually, on Mar 1 and Sep 1. The first interest payment will be made on Mar 1, 2021.

Conversion conditions are separate, if the conversion option is exercised before Jun 1, 2025, and on or after Jun 1, 2025. Cash equivalent of the principal amount of the notes to be converted will be paid by Middleby. Also, the company may use cash or common shares or both cash and shares for the payment of any amount exceeding the principal amount of the notes to be converted. For each \$1,000 principal amount of senior notes, the company will exchange 7.7746 of its common shares.

Middleby's Capital Structure Reframing

On **Aug 17, 2020**, Middleby announced that it undertook multiple financial transactions to reshape its capital structure. The company opted to amend its senior credit facility and hence, entered an agreement with other related parties. A brief of the amendments is provided below.

With this, Middleby's senior credit facility (secured) will be worth \$3.1 billion —comprising of a term loan of \$350 million and revolving credit facility (multiple currencies) of \$2.75 billion. The secured credit facility's date of maturity will be Jan 31, 2025.

The threshold leverage ratio will likely be 5.50:1.00. Borrowing costs will likely be the same at pre-amendment level. The agreement also provides for secured net debt leverage ratio of 3.50:1.00. This ratio can reach up to 4.50:1.00 by the end of first-quarter 2021 and to 4.25:1.00 at the end of second-quarter 2021.

Notably, the agreement is conditioned upon the prepayment of \$400 million worth of term loan by Middleby.

In addition to the above, the company announced its intention to offer convertible senior notes worth \$550 million. The private offering of notes will be for qualified institutional buyers — defined under the Securities Act of 1933. Also, the initial buyers will likely have the facility to purchase extra \$82.5 million notes in 13 days.

The company noted that the senior notes will mature on Sep 1, 2025, and interest payments on them will be done twice annually. Conversion conditions are separate, if the conversion option is exercised before Jun 1, 2025, and on or after Jun 1, 2025. Proceeds from the offering will be used for the prepayment of term loan and satisfy general corporate needs. Also, the company might fund expenses related to capped call transactions with the note offering proceeds.

Notably, the capped call transactions, when implemented, will help Middleby nullify the dilutive impact of notes conversion into shares.

Valuation

Middleby shares are down 8.9% in the year-to-date period and 9% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 2.6% and up 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry increased 10.1%, while the sector increased 14.7%.

The S&P 500 Index has moved up 8.9% year to date and increased 20.2% in the past year.

The stock is currently trading at 19.88x forward 12-month earnings per share, which compares to 27.93x for the Zacks sub-industry, 22.1x for the Zacks sector and 23.49x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.93x and as low as 5.91x, with a 5-year median of 19.26x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$105 reflects 20.87x forward 12-month earnings per share.

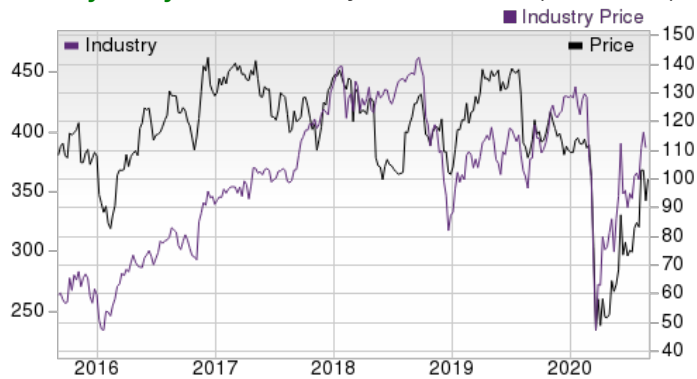
The table below shows summary valuation data for MIDD.

Valuation Multiples - MIDD

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.88	27.93	22.1	23.49
	5-Year High	26.93	27.93	22.1	23.49
	5-Year Low	5.91	15.6	12.55	15.25
	5-Year Median	19.26	19.79	17.48	17.58
P/S F12M	Current	2.16	3.54	2.99	3.84
	5-Year High	3.46	3.54	2.99	3.84
	5-Year Low	0.8	1.58	1.52	2.53
	5-Year Median	2.52	2.25	2.04	3.05

As of 08/28/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (128 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Altra Industrial Motion Corp. (AIMC)	Outperform	2
Flowserve Corporation (FLS)	Outperform	3
Colfax Corporation (CFX)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Nordson Corporation (NDSN)	Neutral	3
Welbilt, Inc. (WBT)	Neutral	3
Applied Industrial Technologies, Inc. (AIT)	Underperform	5
Ingersoll Rand Inc. (IR)	Underperform	5

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	MIDD	X Industry	S&P 500	CFX	IEX	IR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	D	-	-	C	D	F
Market Cap	5.55 B	1.32 B	23.71 B	3.98 B	13.66 B	14.91 B
# of Analysts	4	3	14	10	6	4
Dividend Yield	0.00%	0.00%	1.63%	0.00%	1.11%	0.00%
Value Score	C	-	-	C	D	F
Cash/Price	0.13	0.11	0.07	0.02	0.06	0.08
EV/EBITDA	11.22	12.51	13.37	15.43	21.29	38.34
PEG F1	NA	3.27	3.08	4.81	3.86	3.58
P/B	2.86	2.11	3.22	1.17	6.04	1.73
P/CF	11.33	11.33	12.90	7.24	26.34	21.70
P/E F1	23.12	25.87	21.82	24.85	38.58	28.38
P/S TTM	2.09	1.31	2.52	1.25	5.72	4.57
Earnings Yield	4.27%	3.49%	4.41%	4.02%	2.59%	3.52%
Debt/Equity	1.22	0.50	0.74	0.69	0.46	0.44
Cash Flow (\$/share)	8.81	2.49	6.94	4.64	6.87	1.65
Growth Score	D	-	-	D	B	C
Historical EPS Growth (3-5 Years)	12.43%	10.00%	10.41%	8.33%	13.05%	NA
Projected EPS Growth (F1/F0)	-39.28%	-25.32%	-4.94%	-41.97%	-19.17%	-20.75%
Current Cash Flow Growth	13.23%	-0.29%	5.22%	27.59%	4.80%	-25.03%
Historical Cash Flow Growth (3-5 Years)	16.08%	7.19%	8.50%	3.20%	7.29%	5.38%
Current Ratio	3.27	2.06	1.35	1.62	3.48	2.25
Debt/Capital	55.03%	34.31%	43.86%	40.92%	31.60%	30.64%
Net Margin	10.75%	4.34%	10.25%	-0.33%	15.71%	-4.51%
Return on Equity	16.66%	9.59%	14.66%	6.54%	18.15%	-2.80%
Sales/Assets	0.52	0.73	0.50	0.40	0.61	0.33
Projected Sales Growth (F1/F0)	-17.97%	-7.90%	-1.43%	-17.27%	-9.11%	109.53%
Momentum Score	D	-	-	A	F	B
Daily Price Change	3.33%	0.36%	0.71%	0.30%	1.20%	1.33%
1-Week Price Change	-10.34%	-2.53%	-1.45%	-3.76%	1.22%	-1.95%
4-Week Price Change	16.94%	6.23%	4.59%	12.30%	9.90%	12.42%
12-Week Price Change	23.33%	7.27%	4.86%	11.81%	10.33%	16.56%
52-Week Price Change	-9.35%	-2.09%	3.09%	25.94%	9.42%	25.52%
20-Day Average Volume (Shares)	931,704	51,386	1,887,168	855,036	363,398	2,170,804
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	6.12%	0.00%	0.79%	15.65%	-2.18%	-775.00%
EPS F1 Estimate 12-Week Change	8.37%	4.42%	3.43%	11.74%	0.58%	-5,500.00%
EPS Q1 Estimate Monthly Change	20.36%	0.00%	0.00%	19.56%	-3.28%	NA

Source: Zacks Investment Research

Zacks Style Scores

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

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

Value Score	C
Growth Score	D
Momentum Score	D
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 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.