

McCormick & Company (MKC)

\$209.78 (As of 09/02/20)

Price Target (6-12 Months): **\$221.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

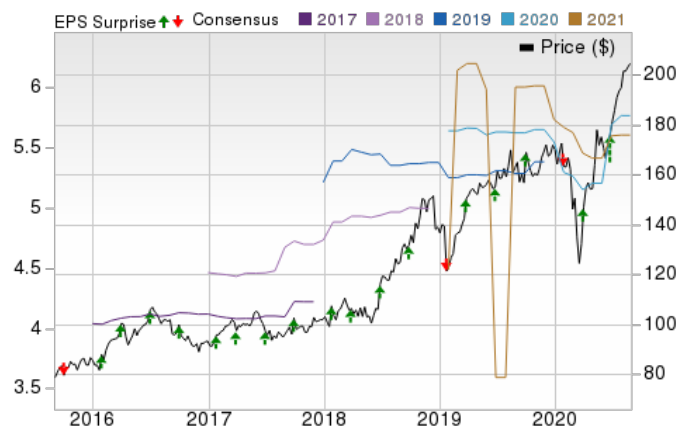
Growth: B

Momentum: B

Summary

McCormick has outperformed the industry in the past three months. The company has been gaining from demand due to the coronavirus-led higher at-home consumption. This boosted its second-quarter fiscal 2020 results, wherein the top and the bottom line increased year over year and beat the consensus mark. Sales were mainly backed by strength in Consumer segment. Apart from these, the company is gaining from its focus on cost savings and productivity enhancement through ongoing CCI program. Notably, cost savings from CCI boosted gross margin, which expanded 230 bps in second-quarter. Also, focus on product launches and marketing efforts bode well. However, COVID-19 marred the company's Flavor Solution unit. During second-quarter, sales in the segment fell 18%, thanks to weakness across all regions. Also, adverse currency rates were a drag.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$211.07 - \$112.23
20-Day Average Volume (Shares)	382,698
Market Cap	\$27.9 B
Year-To-Date Price Change	23.6%
Beta	0.39
Dividend / Dividend Yield	\$2.48 / 1.2%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 49% (122 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.7%
Last Sales Surprise	1.5%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	09/29/2020
Earnings ESP	0.0%
P/E TTM	37.3
P/E F1	36.4
PEG F1	4.6
P/S TTM	5.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,255 E	1,330 E	1,377 E	1,541 E	5,485 E
2020	1,212 A	1,401 A	1,394 E	1,521 E	5,528 E
2019	1,232 A	1,302 A	1,329 A	1,485 A	5,347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.10 E	\$1.23 E	\$1.45 E	\$1.77 E	\$5.60 E
2020	\$1.08 A	\$1.47 A	\$1.52 E	\$1.73 E	\$5.76 E
2019	\$1.12 A	\$1.16 A	\$1.46 A	\$1.61 A	\$5.35 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 09/02/2020. The reports text is as of 09/03/2020.

Overview

Founded in 1889 and based in Sparks, MD, McCormick & Company, Inc. is a leading manufacturer, marketer and distributor of spices, seasonings, specialty foods and flavors to the entire food industry across the globe.

The company's key sales, distribution and production facilities are located in North America and Europe. Furthermore, the company has facilities in China, Australia, Mexico, India, Singapore, Central America, Thailand and South Africa.

McCormick conducts its business through two segments – Consumer and Flavor Solutions.

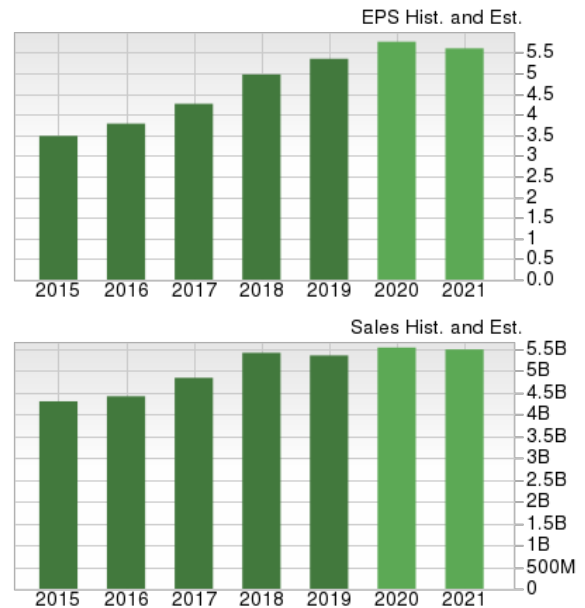
The **Consumer Business** segment offers spices, herbs, extracts, seasoning blends, sauces, marinades, and specialty foods to the consumer food market. This segment primarily caters to retail outlets like grocery, mass merchandise, warehouse clubs and discount and drug stores.

The division markets its products under brand names like McCormick, Lawry's, Zatarain's, Thai Kitchen, Simply Asia and Club House in the U.S.; and Ducros, Vahine, Schwartz and Kamis in Europe; and the Middle East and Africa (EMEA). In Asia-Pacific, the primary brand is McCormick, while in India the company has a joint venture with Kohinoor.

Sales from the Consumer Business segment formed nearly 65% of the company's top line in fiscal 2019.

The **Flavor Solutions** segment sells seasoning blends, natural spices and herbs, wet flavors, coating systems, and compound flavors to food manufacturers and food service customers. The products are sold through distributors.

Sales from the Flavor Solutions segment formed nearly 35% of the company's top line in fiscal 2019.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Q2 Performance:** Shares of McCormick have gained 23.3% in the past three months compared with the industry's growth of 9%. The company posted robust second-quarter fiscal 2020 results. Adjusted earnings of \$1.47 per share increased 26.7% on a year-over-year basis, on the back of higher adjusted operating income along with reduced interest expense. Moreover, the metric surpassed the Zacks Consensus Estimate. The company generated sales of \$1,401.1 million, up 7.6% year over year and surpassing the consensus mark. On a constant-currency (cc) basis, sales increased 9.6%. Sales in the quarter were driven by major growth in the Consumer segment.

Speaking on Consumer segment, sales increased 26% year over year on the back of strength in the Americas and EMEA regions. The uptick was primarily caused by higher demand stemming from at home consumption and cooking more at home amid the coronavirus outbreak. In fact, the company is anticipating an overall increase in consumer demand in this segment during periods of greater cooking at home.

▲ **CCI Program Boosts Margin:** McCormick focuses on saving costs and enhancing productivity through its ongoing Comprehensive Continuous Improvement (CCI) program. Started in 2009, McCormick's CCI program has helped the company to focus on reducing costs and enhancing productivity. It has used CCI savings to increase investments, thereby leading to higher sales and profits. Notably, McCormick achieved cost-savings of \$119 million in fiscal 2019, courtesy of the CCI program. Taking this into account, the company has realized savings of at least \$463 million since fiscal 2016, exceeding its four-year goal of \$400 million.

Notably, cost savings from CCI boosted gross margin which expanded 230 basis points (bps) to 41.4% in second-quarter fiscal 2020. Prior to this, the metric expanded 90 bps in the first quarter. Further, savings from CCI also aided adjusted operating income during the second quarter. Cost savings are likely to enhance the company's profits in the future.

▲ **Product Innovation & Shift toward Healthy Products:** McCormick regularly enhances products through innovation to remain competitive and tap the evolving demand for new flavors, spices and herbs. Aided by a sturdy brand image, McCormick enjoys strong retail acceptance for its new products. Notably, new and renovated products drove the company's performance during the fiscal second quarter. In the month of June McCormick re-launched its Old Bay hot sauce. Further, the company plans to expand its Frank's brand portfolio to offer frozen appetizers, chicken bites and dips later this year.

McCormick focuses on product launches to boost revenue prospects. We note that in Feb 2019, McCormick entered into a partnership with IBM to boost artificial intelligence capabilities surrounding new product development. Additionally, the company is on track to augment robust marketing support for its products. Apart from this, management remains well aligned with consumer demand for flavorful healthy eating and has developed a range of natural and organic offerings. In this regard, the company's Flavor Real platform offers organic, non-GMO and gluten free products.

▲ **Expansion through Acquisitions:** McCormick has strategically increased its presence through acquisitions to grow its spices and seasonings portfolio. McCormick's acquisition of the food division of RB Foods (concluded in Aug 2017) is noteworthy in this regard. With iconic brands like Frank's RedHot, French's and Cattleman's, RB Foods is likely to continue being a profitable asset for McCormick's flavor portfolio. Notably, Frank's RedHot and French's Mustard hold important positions in the company's condiment portfolio. As a result, these brands position the company in the leading U.S. condiments category and place it well for international expansion.

Some of the other noteworthy acquisitions of the company are Italy-based Enrico GiottiSpA (Dec 2016) as well as Australia-based Botanical Food Company (April 2016). These takeovers have led to augmenting portfolio strength.

▲ **Sustainable Shareholder Returns:** McCormick looks well placed on the dividend-payout front. At a juncture where companies are suspending dividends to preserve financial flexibility, McCormick recently paid a quarterly dividend of 62 cents per share. We note that the company's current annualized dividend rate of \$2.48 a share reflects a 8.8% increase from the year-ago period's figure. Notably, McCormick has a dividend payout of 44.1%, dividend yield of 1.2% and free cash flow yield of 2.8%. With an annual free cash flow return on investment of 10.6%, ahead of the industry's 8.4%; the dividend payment is likely to be sustainable. Further, the company had cash and cash equivalents of \$185 million as of May 31, 2020 while current debt stands at \$173.4 million.

McCormick focuses on saving costs and enhancing productivity through its Comprehensive Continuous Improvement program. Also, it has a solid brand portfolio and regularly undertakes innovations.

Reasons To Sell:

- ▼ **Sluggish Flavors Solution Unit:** During second-quarter fiscal 2020, sales in the Flavor Solution segment fell 18% from the prior-year quarter's figure, thanks to weakness across all regions. Sales in the Americas declined 15% due to major decline in sales to branded foodservice consumers as well as quick service restaurant customers. Sales in the EMEA region dropped 34% year over year. Sales in the Asia-Pacific region declined 11% due to coronavirus-induced restrictions across countries other than China.
- ▼ **Currency Volatility a Worry:** The company remains exposed to volatile foreign currency translations, as it has a widespread global business and undertakes business expansion efforts frequently. Evidently, adverse currency movements were a drag on McCormick's top line by 2% during the second quarter. Clearly, volatility in exchange rates is a threat to the company's performance.
- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, McCormick looks pretty overvalued when compared with the industry as well as the S&P 500 over a year. The stock has a trailing 12-month P/E ratio of 37.33X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 20.01X and 24.60X, respectively.
- ▼ **Intense Competition:** McCormick operates in the highly competitive food industry. The company mainly competed with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

Sluggish performance in the Flavor Solution segment along with unfavorable currency rates hurt McCormick's second-quarter fiscal 2020 results.

Last Earnings Report

McCormick Q2 Earnings Beat Estimates, Sales up

McCormick posted robust second-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, earnings and sales increased on a year-over-year basis. Given the current situation related to the coronavirus outbreak and its unpredictable impact on consumer demand globally, the company refrained from providing fiscal 2020 guidance.

Quarter in Detail

Adjusted earnings of \$1.47 per share increased 26.7% on a year-over-year basis, on the back of higher adjusted operating income along with reduced interest expense. Moreover, the metric surpassed the Zacks Consensus Estimate of \$1.16 per share.

This global leader of flavors and spices generated sales of \$1,401.1 million, up 7.6% year over year and including currency headwinds of 2%. On a constant-currency (cc) basis, sales increased 9.6%. Sales in the quarter were driven by major growth in the consumer segment. Also, sales in the quarter surpassed the Zacks Consensus Estimate of \$1,381 million.

Gross margin expanded 230 basis points (bps) to 41.4% on favorable product mix as well as savings from the Comprehensive Continuous Improvement (CCI) program.

Adjusted operating income rallied 21% to \$260 million and 23% at cc. Further, the adjusted operating margin expanded 210 bps to 18.6%.

Segment Details

Consumer Business: Sales increased 26% to \$962.6 million on the back of strength in the Americas and EMEA regions. Sales in the Americas surged 36% due to broad based growth across its portfolio as well as favorable pricing action. In the EMEA region, sales increased 22%. However, sales in the Asia-Pacific region declined 18% due to adverse impact from the COVID-19 outbreak in China.

Flavor Solutions: Sales in the segment fell 18% from the prior-year quarter's figure to \$438.5 million, thanks to weakness across all regions. Sales in the Americas declined 15% due to major decline in sales to branded foodservice consumers as well as quick service restaurant customers. Sales in the EMEA region dropped 34% year over year. Sales in the Asia-Pacific region declined 11% due to coronavirus-induced restrictions across countries other than China.

Financial Update

McCormick exited the quarter with cash and cash equivalents of \$185 million, long-term debt of \$4,113.6 million and total shareholders' equity of \$3,662.3 million. For six months ended May 31, net cash provided by operating activities was \$355.5 million.

Outlook

In the consumer segment, the company is anticipating an overall increase in consumer demand during periods of greater cooking at home. For its flavor segment, McCormick expects demand from packaged food companies to same as the pre COVID-19 levels. Moreover, the company is expecting demand from restaurant and other foodservice customers to gradually recover as coronavirus induced bans are being lifted in the second half of fiscal 2020. Also, the McCormick's long-term financial objectives as well as capital allocation plans remain the same.

Quarter Ending	05/2020
Report Date	Jun 25, 2020
Sales Surprise	1.47%
EPS Surprise	26.72%
Quarterly EPS	1.47
Annual EPS (TTM)	5.62

Recent News

McCormick Announces Dividend – Jun 24, 2020

McCormick's board announced quarterly dividend of 62 cents per share, payable on Jul 20 to shareholders of record as of Jul 6.

Valuation

McCormick's shares are up 24.6% in the year-to-date period and 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.3% in the year-to-date period, while the Zacks Consumer Staples sector is down 4%. Over the past year, the Zacks sub-industry is up 7.1%, while the sector declined 2.6%.

The S&P 500 index is up 5.1% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 37.19X forward 12-month earnings, which compares to 19.36X for the Zacks sub-industry, 20.27X for the Zacks sector and 23.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.19X and as low as 19.38X, with a 5-year median of 24.31X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$221 price target reflects 39.14X forward 12-month earnings.

The table below shows summary valuation data for MKC

Valuation Multiples - MKC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.19	19.36	20.27	23.18
	5-Year High	37.19	22.9	22.37	23.18
	5-Year Low	19.38	14.82	16.63	15.25
	5-Year Median	24.31	18.54	19.62	17.6
P/S F12M	Current	5.09	1.74	9.63	3.95
	5-Year High	5.09	2.05	11.15	3.95
	5-Year Low	2.26	1.41	8.12	2.53
	5-Year Median	2.78	1.75	9.89	3.07
EV/EBITDA F12M	Current	27.27	13.79	35.62	13.9
	5-Year High	27.27	14.68	37.28	14.11
	5-Year Low	13.85	10.91	25.87	9.15
	5-Year Median	16.74	13.16	33.72	11.04

As of 09/02/2020

Industry Analysis Zacks Industry Rank: Top 49% (122 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Flowers Foods, Inc. (FLO)	Outperform	2
TreeHouse Foods, Inc. (THS)	Outperform	2
BG Foods, Inc. (BGS)	Neutral	2
Ingredion Incorporated (INGR)	Neutral	4
The Kraft Heinz Company (KHC)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	4
TateLyle PLC (TATYY)	Neutral	3
Post Holdings, Inc. (POST)	Underperform	5

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MKC	X Industry	S&P 500	BGS	INGR	POST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	4	5
VGM Score	B	-	-	A	A	B
Market Cap	27.95 B	3.83 B	24.30 B	1.99 B	5.43 B	6.02 B
# of Analysts	6	3	14	3	1	4
Dividend Yield	1.18%	0.00%	1.6%	6.13%	3.11%	0.00%
Value Score	D	-	-	B	A	B
Cash/Price	0.01	0.08	0.07	0.09	0.19	0.18
EV/EBITDA	27.88	13.28	13.46	13.27	7.39	13.64
PEG F1	4.47	3.68	3.09	NA	NA	NA
P/B	7.63	2.39	3.25	2.43	2.04	2.10
P/CF	31.82	12.75	13.12	11.02	8.10	8.68
P/E F1	35.73	18.63	22.15	13.99	12.85	30.87
P/S TTM	5.15	1.39	2.57	1.08	0.92	1.05
Earnings Yield	2.75%	5.00%	4.29%	7.16%	7.78%	3.24%
Debt/Equity	1.12	0.56	0.70	2.29	0.80	2.35
Cash Flow (\$/share)	6.59	2.81	6.93	2.81	10.01	10.24
Growth Score	B	-	-	A	B	B
Historical EPS Growth (3-5 Years)	12.19%	5.17%	10.41%	-0.35%	0.68%	27.01%
Projected EPS Growth (F1/F0)	7.73%	3.71%	-4.75%	35.16%	-5.11%	-41.34%
Current Cash Flow Growth	7.80%	3.40%	5.22%	-0.56%	-10.22%	5.71%
Historical Cash Flow Growth (3-5 Years)	9.99%	6.08%	8.49%	4.81%	2.71%	34.52%
Current Ratio	1.02	1.62	1.35	3.12	2.20	2.85
Debt/Capital	52.90%	36.13%	42.92%	69.64%	44.53%	70.18%
Net Margin	13.74%	2.97%	10.25%	6.22%	5.92%	-2.05%
Return on Equity	21.34%	9.81%	14.66%	15.65%	15.63%	8.53%
Sales/Assets	0.52	1.02	0.50	0.55	0.96	0.48
Projected Sales Growth (F1/F0)	3.38%	0.00%	-1.42%	16.17%	0.00%	0.48%
Momentum Score	B	-	-	D	C	C
Daily Price Change	1.87%	0.53%	1.82%	1.57%	1.32%	3.04%
1-Week Price Change	0.71%	0.86%	2.59%	4.29%	3.28%	4.38%
4-Week Price Change	6.35%	3.27%	4.80%	2.21%	3.29%	-2.81%
12-Week Price Change	21.67%	6.76%	6.31%	22.38%	-6.15%	-1.44%
52-Week Price Change	27.01%	3.84%	5.43%	79.56%	2.97%	-14.85%
20-Day Average Volume (Shares)	382,698	188,202	1,788,967	875,643	415,266	445,482
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-5.88%
EPS F1 Estimate 12-Week Change	10.83%	2.56%	3.89%	3.10%	-2.17%	-15.85%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	NA	-26.33%

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	D
Growth Score	B
Momentum Score	B
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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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