Morgan Stanley (MS)

$80.13 (As of 03/25/21)

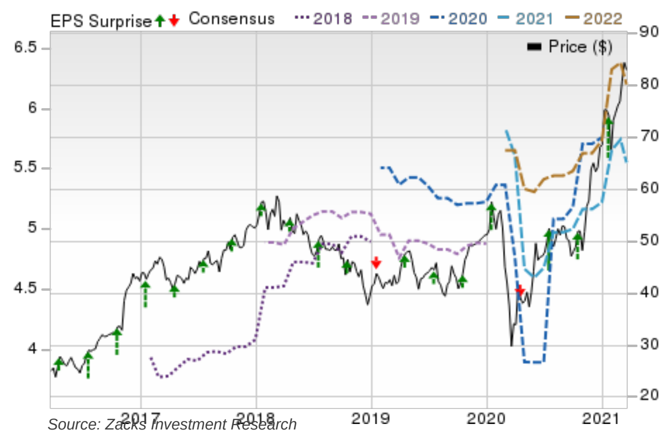
Price Target (6-12 Months): **$92.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/22/21) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: F	**2-Buy** VGM:F Momentum: B

Summary

Morgan Stanley's shares have outperformed the industry over the past year. The company's earnings have surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The acquisitions of Eaton Vance and E*Trade Financial are in sync with the company's efforts to focus less on capital markets driven revenue sources. These initiatives, along with increasing focus on corporate lending, are likely to continue supporting financials in the upcoming quarters. Although steadily increasing operating expenses, low interest rates and its significant dependence on capital-markets driven revenues make us apprehensive, a strong balance sheet is likely to support growth in the upcoming quarters. Furthermore, the company's robust capital deployments reflect solid liquidity position and will continue enhancing shareholder value.

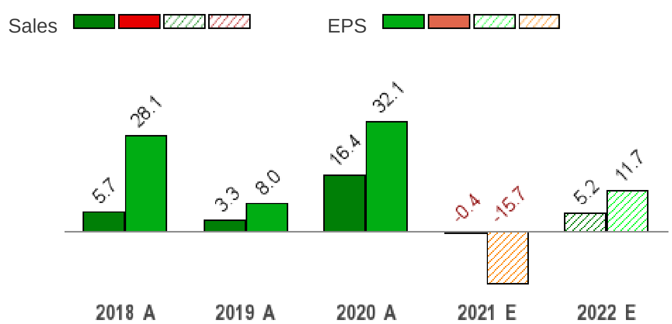
Price, Consensus & Surprise



Data Overview

52-Week High-Low	$86.64 - $31.16
20-Day Average Volume (Shares)	11,737,092
Market Cap	$145.2 B
Year-To-Date Price Change	16.9%
Beta	1.54
Dividend / Dividend Yield	$1.40 / 1.7%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 2% (5 out of 253)
Last EPS Surprise	48.8%
Last Sales Surprise	20.9%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	04/16/2021
Earnings ESP	0.0%
P/E TTM	12.3
P/E F1	14.4
PEG F1	1.5
P/S TTM	2.8

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	12,856 E	12,594 E	12,199 E	12,532 E	50,496 E
2021	12,318 E	11,857 E	11,827 E	12,017 E	48,020 E
2020	9,487 A	13,414 A	11,657 A	13,640 A	48,198 A

EPS Estimates

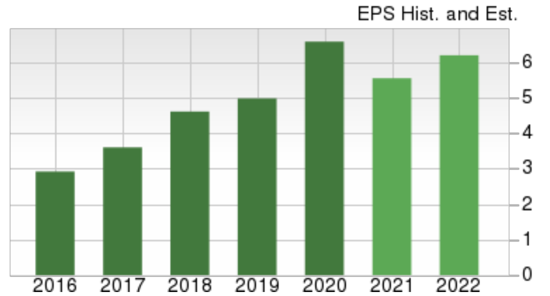
	Q1	Q2	Q3	Q4	Annual*
2022	$1.61 E	$1.57 E	$1.47 E	$1.46 E	$6.20 E
2021	$1.48 E	$1.39 E	$1.36 E	$1.34 E	$5.55 E
2020	$0.99 A	$2.04 A	$1.59 A	$1.92 A	$6.58 A

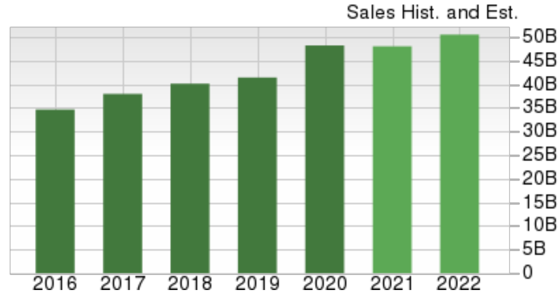
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/25/2021. The report's text and the analyst-provided price target are as of 03/26/2021.

Overview

Founded in 1935 and incorporated under the laws of the State of Delaware in 1981, Morgan Stanley is the leading financial services holding company headquartered in New York. With 68,097 employees, the company serves a diversified group of clients and customers — including corporations, governments, financial institutions and individuals — through more than 1,200 offices across 41 countries.





The company's businesses are divided into three segments:

- The ***Institutional Securities*** ("IS") segment (54% of net revenues in 2020) includes capital raising; financial advisory services that include advices on mergers and acquisitions (M&As), restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; benchmark indices and risk management analytics; and investment activities.

- The ***Wealth Management*** ("WM") segment (39%) provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income principal trading.

- The ***Investment Management*** ("IM") segment (7%) provides global asset management products and services in equity, fixed income, alternative investments that include hedge funds and funds of funds, and merchant banking including real estate, private equity and infrastructure, to institutional and retail clients through proprietary and third-party distribution channels. The segment also engages in investment.

In 2019, Morgan Stanley acquired Canada-based Solium Capital Inc. and renamed it as Shareworks by Morgan Stanley. In 2020, the company acquired E*Trade Financial. In March 2021, it acquired Eaton Vance.

Source: Zacks Investment Research

Reasons To Buy:

> Morgan Stanley's focus on less capital-market dependent operations and opportunistic buyouts to aid such efforts are commendable. Steady capital deployments reflect a strong balance sheet position.

- Morgan Stanley has been undertaking several initiatives to restructure operations, with a goal to increase reliable revenue sources. So, the company is focusing on segments – Wealth Management and Investment Management – as these are less dependent on capital markets. The company's recent strategic expansion efforts, including buyouts of Eaton Vance, E*Trade Financial and Shareworks, are steps in these directions. Driven by these efforts, both the segment's aggregate contribution to net revenues jumped from 26% in 2010 to 46% in 2020. Also, WM segment's total client assets witnessed a three-year compound annual growth rate (CAGR) of 31.8% (2018-2020), while IM segment's total assets balance recorded a four-year CAGR of 17.5% (ended 2020). Notably, the company's partnership with MUFG will also support profitability.

- Morgan Stanley has a solid balance sheet. As of Dec 31, 2020, the company had total borrowings of $217.1 billion, higher than the cash and cash equivalents balance of $105.7 billion. However, this year, borrowings worth only $24.2 billion are expected to mature. Moreover, the company's total debt to total capital of 67.8% at the end of the fourth quarter of 2020 declined sequentially and has remained steady in this range over the past several quarters. Thus, despite having higher debt burden, the company is expected to be able to meet near-term debt obligations even if the economic situation worsens owing to its sufficient liquidity position.

- Amid the coronavirus-induced economic slowdown, the Federal Reserve restricted dividends and share repurchases by major banks in order to conserve liquidity. Thus, Morgan Stanley paid dividend of 35 cents per share in the fourth quarter and did not repurchase shares last year. However, following the Fed's approval, the company will resume repurchases in first-quarter 2021. For 2021, the company has authorized to repurchase shares worth up to $10 billion. Given a solid liquidity position and earnings strength, Morgan Stanley is expected to continue to enhance shareholder value through efficient capital deployment activities in the future.

- Shares of Morgan Stanley have outperformed the industry over the past year. Also, the company's earnings estimates for 2021 have been revised 1.5% upward over the past 30 days. Further, the stock seems to be trading at a discount when compared with the broader industry as its current price-to-book and price-to-cash flow ratios are lower than the respective industry averages. Thus, given the strong fundamental and positive estimate revisions, the impressive price performance is expected to continue.

Risks

- Morgan Stanley's Institutional Securities segment (mainly constituting trading and investment banking (IB) businesses) depends on the overall performance of the capital markets. Driven by the coronavirus outbreak-induced market volatility along with higher client activities, both businesses recorded impressive growth in 2020. Thus, overall segment revenues witnessed an increase last year. However, the segment's top-line performance was disappointing in 2019, as the challenging operating environment resulted in volatile client activities, and muted equity/debt issuances and M&As. The segment's future performance remains uncertain as it depends on market developments and client volumes.

- Despite Morgan Stanley's restructuring and streamlining efforts that resulted in achieving cost savings target of $1 billion in 2017, expenses have been increasing. Operating expenses recorded a four-year CAGR of 7.2% (till 2020). Overall costs are expected to remain elevated, given the steadily increasing revenues (leading to higher compensation costs), the company's investments in franchise and inorganic growth efforts.

- Also, Morgan Stanley's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 13.41% compares unfavorably with ROE of 15.06% for the industry. This reflects that it is less efficient in using shareholders' funds.

Last Earnings Report

Morgan Stanley Q4 Earnings Beat on Trading, Wealth Business

Quarter Ending	12/2020
Report Date	Jan 20, 2021
Sales Surprise	20.94%
EPS Surprise	48.84%
Quarterly EPS	1.92
Annual EPS (TTM)	6.54

Morgan Stanley's fourth-quarter 2020 adjusted earnings of $1.92 per share easily outpaced the Zacks Consensus Estimate of $1.29. Also, the bottom line improved 48% from the year-ago quarter. This was mainly driven by solid trading and investment banking (IB) performance, and E*Trade Financial deal (closed in October 2020) that provided support to the Wealth Management segment.

As anticipated, Morgan Stanley's trading business delivered a solid performance. Fixed income trading revenues grew 31% year over year and equity trading income rose 30%. Thus, overall trading revenues increased 32%.

Further, IB business was impressive despite weaknesses in fixed income underwriting (corresponding fees down 5%). Equity underwriting fees soared 137% from the prior-year quarter, while advisory fees were up 26%. Therefore, IB fees jumped 46%.

Additionally, higher net interest income, mainly driven by a rise in loan balance (up 22%) and plunge in interest expenses supported the top line.

However, mounting operating expenses hurt the results to some extent.

Results excluded integration-related expenses related to E*Trade Financial deal. Including this, net income applicable to common shareholders was $3.3 billion, which grew 57% from a year ago.

Trading, IB Aid Revenues Increase, Costs Rise

Net revenues were $13.6 billion, increasing 26% from the prior-year quarter. Also, the top line beat the Zacks Consensus Estimate of $10.3 billion.

Net interest income was $1.9 billion, which grew 31% from the year-ago quarter. This was largely due to an 85% plunge in interest expenses.

Total non-interest revenues of $11.8 billion surged 25% year over year.

Total non-interest expenses were $9.2 billion, up 13% from the prior-year number.

The company recorded provision for credit losses on loans and lending commitments of $5 million, down significantly from $57 million in the prior-year quarter. Allowance for credit losses on loans and lending commitments was $1.2 billion as of Dec 31, 2020, down 2% sequentially.

Decent Quarterly Segment Performance

Institutional Securities: Pre-tax income from continuing operations was $3.2 billion, surging significantly from $1.2 billion in the prior-year quarter. Net revenues were $7 billion, growing 39%. The rise was mainly driven by higher equity underwriting, advisory and trading revenues, partially offset by decline in fixed income underwriting revenues.

Wealth Management: The segment includes results of E*Trade Financial. Pre-tax income from continuing operations totaled $1.1 billion, down 8% from the year-ago figure. Net revenues were $5.7 billion, increasing 24% driven by higher transactional, net interest income and asset management revenues.

Investment Management: Pre-tax income from continuing operations was $196 million, falling 56% from the year-ago quarter. Net revenues were $1.1 billion, down 19%. The decline was mainly due to lower investment revenues, partly offset by a rise in asset management fees.

As of Dec 31, 2020, total assets under management or supervision were $781 billion, up 41% on a year-over-year basis.

Strong Capital Position

As of Dec 31, 2020, book value per share was $51.13, up from $45.82 in the corresponding period of 2019. Tangible book value per share was $41.95, up from $40.01 on Dec 31, 2019. Morgan Stanley's Tier 1 capital ratio was 19.8% compared with 19.2% in the year-ago quarter. Tier 1 common equity ratio was 17.7%, up from 16.9%.

Two-year Objective (Includes Eaton Vance Deal)

Management expects to WM segment's pre-tax margin to be in the range of 26-30%. Further, the company's adjusted efficiency ratio is projected to be 69-72% and return on tangible common equity (ROTCE) 14-16%.

Long-term Outlook

WM segment's pre-tax margin to be more than 30%. Further, the company's adjusted efficiency ratio is projected to be less than 70% and ROTCE in excess of 17%.

Recent News

Morgan Stanley Closes Buyout of Eaton Vance, Boosts AUM - Mar 1, 2021

Morgan Stanley completed the acquisition of the Boston, MA-based Eaton Vance. The stock-cash deal, announced in October 2020, will position Morgan Stanley as a leader in the Wealth Management industry across all channels and segments, with significant increase in the scale and breadth of its franchise.

Now, IM segment will have $1.2 trillion of assets under management (AUM) and more than $5 billion of combined revenues.

Morgan Stanley's chairman and CEO, James P. Gorman, stated, "This acquisition further advances our strategic transformation by continuing to add more fee-based revenues to complement our world-class, integrated investment bank."

He added, "With the addition of Eaton Vance, Morgan Stanley will oversee $5.4 trillion of client assets across its Wealth Management and Investment Management segments. The Morgan Stanley Investment Management and Eaton Vance businesses are delivering strong growth and their complementary investment and distribution capabilities will deliver significant incremental value to our investment management clients."

Notably, the chairman and CEO of Eaton Vance, Thomas E. Faust, Jr., will now become the chairman of MSIM.

Deal Consideration & Benefits

Eaton Vance shareholders have been offered 0.5833 of Morgan Stanley's shares for each of their own shares held and $28.25 per share in cash.

At the time of deal announcement, it was decided that Eaton Vance shareholders will get the option to choose for all cash or all stock, subject to a proration and adjustment mechanism.

Per the terms of the deal, shareholders of Eaton Vance have also received a one-time special cash dividend of $4.25 per share.

At the time of announcement of the deal, both firms were projecting long-term financial benefits, attractive for shareholders. The transaction is expected to help Morgan Stanley generate stellar financial returns through increased scale, improved distribution, cost savings of $150 million and Eaton Vance expense and revenue opportunities.

Moreover, it was projected that the transaction would result in a break-even to earnings per share immediately. Also, it is likely to be marginally accretive to earnings, with fully phased-in cost synergies.

Morgan Stanley Concludes E*TRADE Acquisition Deal - Oct 2, 2020

Morgan Stanley has closed the acquisition of E*TRADE Financial in an all-stock deal worth $13 billion and now holds $3.3 trillion in assets. The deal, which was announced this February, is likely to position the company as a leader in the Wealth Management industry across all channels and segments, with significant increase in the scale and breadth of its franchise.

Per James P. Gorman, chairman and chief executive officer of Morgan Stanley, "E*TRADE has built a best-in-class, direct-to-consumer digital channel and a strong brand over the past 38 years. The addition of their premier offering will provide enhanced capabilities to all our clients and Financial Advisors."

Terms of the Deal

Per terms of the deal, each common shareholder of E*TRADE will get stock equivalent to 1.0432 of Morgan Stanley shares for every E*TRADE share held. This represents a per share value of $58.74 based on the closing price of Morgan Stanley common stock as of Feb 19, 2020.

Strategically, the combined entity will enhance through advanced technologies, innovative products and create a competitive edge with financial stability. Remarkably, on completion of the acquisition, online brokerage and digital banking services will enhance clients' experience.

Michael Pizzi, CEO of E*TRADE, joined Morgan Stanley, looking after the E*TRADE business within Morgan Stanley and will co-lead the equity administration business. Moreover, one of E*TRADE's independent directors is joining Morgan Stanley's board.

Financial Benefits

Catering huge funding benefits to Morgan Stanley, the deal comes with around $56 billion of low-cost deposits. The acquisition move follows the bank's efforts to record revenues from balance-sheet light and more lasting sources of revenues. Markedly, post integration, the combined wealth and investment management businesses are likely to contribute about 57% of the bank's pre-tax profits, excluding potential synergies, above the 26% recorded in 2010.

Post combination, significant cost savings worth $400 million are anticipated, with the optimization of technology infrastructure and shared corporate services, along with funding synergies of $150 million from E*TRADE's around $56 billion of deposits. In addition, $7.3 trillion of combined current customer assets will likely generate significant revenue opportunities.

Per Morgan Stanley, the acquisition is likely to be accretive, once the fully phased-in estimated cost and funding synergies are realized. Furthermore, the bank's common equity tier 1 ratio is estimated to expand by more than 30 basis points (bps) on closure and augment its return on tangible common equity by more than 100 bps, with fully phased-in cost and funding synergies. Apart from this, Wealth Management's pre-tax profit margin is expected to be up more than 30%.

Rating Action by Moody's on Completion

Following the completion of the transaction, Moody's Investors Service upgraded Morgan Stanley's long- and short-term ratings to A2 (senior unsecured)/Prime-1 from A3 (senior unsecured)/Prime-2. Also, the long-term ratings and assessments of the bank's principal U.S. bank subsidiary — Morgan Stanley Bank, N.A. (MSBNA) — was upgraded by one notch, including its deposit rating to Aa3 from A1, baseline credit assessment (BCA) to baa1 from baa2, and adjusted BCA to a3 from baa1. The rating outlook has been retained at 'stable'.

Dividend Update

On Jan 20, Morgan Stanley announced a quarterly cash dividend of 35 cents per share. The dividend was paid out on Feb 12 to shareholders on record as of Jan 29.

Valuation

Morgan Stanley's shares are up 16.9% in the year to date period and 135.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 20.3% and 8.8%, respectively, so far this year. Over the past year, the Zacks sub-industry and sector are up 108.4% and 45%, respectively.

The S&P 500 index is up 3.9% in the year to date period and 50% in the past year.

The stock is currently trading at 14.06X forward 12 months earnings, which compares to 13.92X for the Zacks sub-industry, 16.82X for the Zacks sector and 22.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.94X and as low as 5.21X, with a 5-year median of 10.39X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $92 price target reflects 16.14X forward earnings.

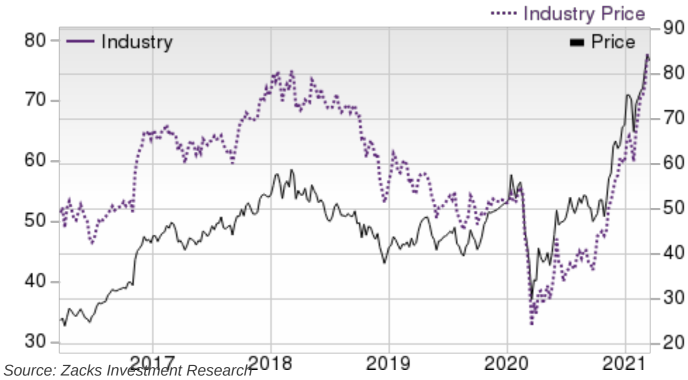
The table below shows summary valuation data for MS

Valuation Multiples - MS

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.06	13.92	16.82	22.13
	5-Year High	15.94	14.84	17.13	23.8
	5-Year Low	5.21	5.59	11.6	15.3
	5-Year Median	10.39	11.32	14.58	17.9
P/TB TTM	Current	1.87	2.96	3.5	16.62
	5-Year High	1.97	3.21	4.05	16.89
	5-Year Low	0.69	1.35	2.05	8.07
	5-Year Median	1.24	2.29	3.54	11.22
P/S F12M	Current	2.99	4.81	7.6	4.52
	5-Year High	3.15	4.81	7.6	4.52
	5-Year Low	1.06	2.7	5.02	3.21
	5-Year Median	2.01	3.51	6.13	3.69

As of 03/25/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 2% (5 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Evercore Inc **(EVR)**	Outperform	1
The Goldman Sachs Group, Inc. **(GS)**	Outperform	2
Jefferies Financial Group Inc. **(JEF)**	Outperform	1
Moelis & Company **(MC)**	Outperform	1
Bank of America Corporation **(BAC)**	Neutral	3
JPMorgan Chase & Co. **(JPM)**	Neutral	2
Raymond James Financial, Inc. **(RJF)**	Neutral	2
The Charles Schwab Corporation **(SCHW)**	Neutral	3

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

Industry Comparison Industry: Financial - Investment Bank

				Industry Peers		
	MS	**X Industry**	**S&P 500**	**GS**	**JPM**	**SCHW**
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	2	3
VGM Score	F	-	-	A	C	D
Market Cap	145.18 B	1.80 B	28.95 B	114.30 B	465.51 B	117.43 B
# of Analysts	6	2	13	8	10	6
Dividend Yield	1.75%	0.00%	1.39%	1.51%	2.36%	1.11%
Value Score	D	-	-	B	D	D
Cash/Price	2.22	0.35	0.06	3.41	2.80	0.76
EV/EBITDA	2.05	6.43	15.96	-4.66	-10.65	7.40
PEG F1	1.50	1.99	2.34	0.55	2.86	1.99
P/B	1.55	2.43	3.89	1.34	1.87	2.43
P/CF	9.71	13.05	16.21	7.69	12.32	19.68
P/E F1	14.44	13.89	21.41	10.95	14.31	22.56
P/S TTM	2.79	2.14	3.27	2.14	3.59	10.04
Earnings Yield	6.93%	7.20%	4.59%	9.13%	6.99%	4.44%
Debt/Equity	2.31	0.23	0.67	2.52	1.13	0.28
Cash Flow ($/share)	8.25	2.13	6.78	42.98	12.38	3.31
Growth Score	F	-	-	A	C	F
Historical EPS Growth (3-5 Years)	22.04%	16.60%	9.32%	10.27%	11.12%	22.77%
Projected EPS Growth (F1/F0)	-15.68%	20.84%	14.86%	21.99%	20.07%	17.82%
Current Cash Flow Growth	31.92%	12.20%	0.61%	45.40%	-14.28%	30.71%
Historical Cash Flow Growth (3-5 Years)	15.80%	16.62%	7.32%	8.00%	6.04%	29.00%
Current Ratio	0.73	1.24	1.39	0.75	0.86	0.37
Debt/Capital	67.79%	18.52%	41.42%	69.00%	51.72%	19.56%
Net Margin	21.13%	10.28%	10.59%	21.65%	22.48%	28.22%
Return on Equity	13.41%	15.06%	14.75%	14.20%	12.19%	12.23%
Sales/Assets	0.05	0.21	0.51	0.05	0.04	0.03
Projected Sales Growth (F1/F0)	-0.37%	4.69%	7.02%	-9.58%	-4.00%	44.02%
Momentum Score	B	-	-	B	B	C
Daily Price Change	1.01%	0.40%	1.19%	0.58%	1.28%	1.58%
1-Week Price Change	-1.66%	-0.08%	-0.30%	-1.32%	-0.65%	-2.37%
4-Week Price Change	2.17%	0.69%	3.48%	0.85%	0.91%	3.22%
12-Week Price Change	16.93%	21.98%	6.97%	25.35%	20.05%	22.79%
52-Week Price Change	124.39%	86.95%	53.41%	99.38%	55.47%	90.66%
20-Day Average Volume (Shares)	11,737,092	168,955	2,415,072	3,022,181	17,750,130	7,741,642
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.22%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	1.59%	0.45%	0.50%
EPS F1 Estimate 12-Week Change	11.52%	19.35%	2.09%	19.35%	15.34%	13.32%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	1.31%	0.68%	0.20%

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

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	F

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.

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm 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 mostrecent 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.