

Maxim Integrated (MXIM)

\$90.63 (As of 02/01/21)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/29/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Maxim reported strong fiscal second-quarter results, with both the top and bottom lines surpassing the Zacks Consensus Estimate. Strength across all end markets served, including Consumer and Automotive and Industrial aided the results. Notably, solid automatic test equipment demand remains a positive. Furthermore, growing demand for 100G laser drivers and modules is aiding its performance in the communications and data center market. The company remains optimistic about the flexible manufacturing strategy and diversified product portfolio. Maxim is set to be acquired by Analog Devices for more than \$17 billion. Communications and Data Center remained weak in the quarter. Also, the coronavirus pandemic remains a concern. Nonetheless, the stock has outperformed the industry it belongs to over a year.

Price, Consensus & Surprise

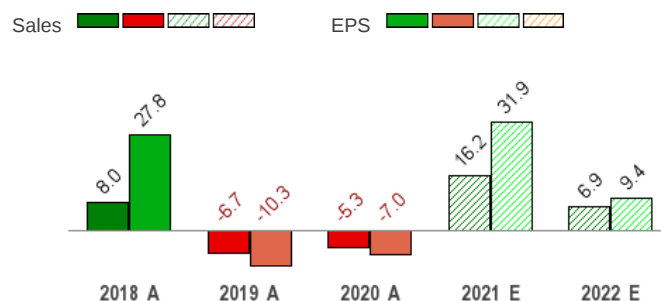


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$98.44 - \$41.93
20-Day Average Volume (Shares)	2,158,895
Market Cap	\$23.5 B
Year-To-Date Price Change	-1.1%
Beta	1.23
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Semiconductor - Analog and Mixed
Zacks Industry Rank	Top 36% (90 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	3.7%
EPS F1 Estimate 4-Week Change	5.7%
Expected Report Date	04/27/2021
Earnings ESP	0.0%
P/E TTM	33.2
P/E F1	30.5
PEG F1	2.6
P/S TTM	10.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	664 E	673 E	685 E	711 E	2,721 E
2021	619 A	628 A	641 E	664 E	2,545 E
2020	533 A	551 A	562 A	545 A	2,191 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.79 E	\$0.80 E	\$0.82 E	\$0.87 E	\$3.26 E
2021	\$0.72 A	\$0.73 A	\$0.75 E	\$0.80 E	\$2.98 E
2020	\$0.52 A	\$0.56 A	\$0.61 A	\$0.58 A	\$2.26 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 02/01/2021. The report's text and the analyst-provided price target are as of 02/02/2021.

Overview

San Jose, California based Maxim Integrated Products, Inc. is an original equipment manufacturer (OEM) of semiconductor analog and mixed signal integrated circuits (ICs).

The company has a broad product portfolio that includes analog-to-digital converters, amplifiers and comparators, communications devices, data converters and management components, sensors and wireless products.

Maxim's 70+ product lines are primarily sold in the consumer, computing, industrial, automotive (formerly part of the Industrial segment) and communications markets which are the five primary end markets.

Its products have very extensive application in consumer goods like cordless phones, digital cameras and PDAs; data processing; industrial products; instrumentation products; medical instruments; and various communications gear and networking equipment.

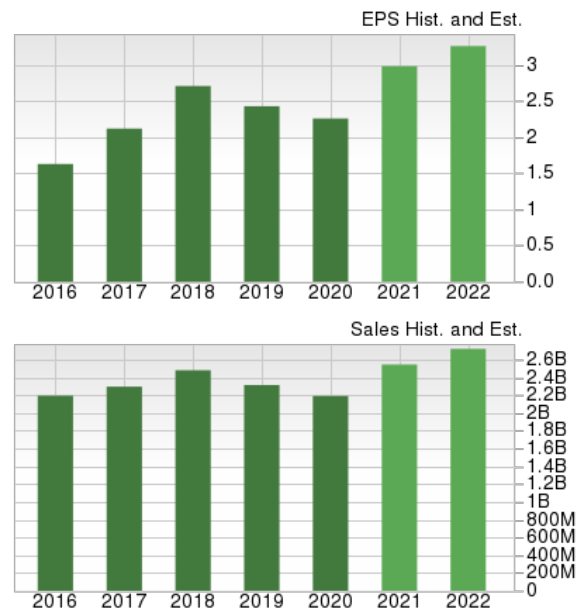
The company's products are sold in major five end-markets namely automotive, communications and data center, computing, consumer and industrial markets.

A significant percentage of the wafer manufacturing continues to be carried out at Maxim's three fabrication facilities, although increasing amounts are being outsourced to partner foundries — Epson, Powerchip and Maxchip.

The company has operations in the Asia/Pacific region, the U.S. and Europe. In fiscal 2020, the major part of total revenues came from China which accounted for 35% and the rest of Asia contributed 33%. The Europe and U.S. generated 18.5% and 11%, respectively. The rest of the world generated 2.5%.

Products are distributed in the U.S. and Canada through a direct sales force and support system. Products are sold through direct sales, applications organization and unaffiliated distributors.

Avnet was the primary global distributor, accounting for around 22% of the company's revenues. Samsung, the only customer generated 10% of revenues alone.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Maxim generates its revenues from the **analog market**, which comes with several inherent advantages. Analog products do not require leading edge manufacturing facilities, since the capacity can be used for longer periods of time than digital products. This reduces capital equipment costs, as large upfront costs are avoided, depreciation is less and profits are more stable when utilization rates drop lower. Being more differentiated, analog products are also less likely to become commoditized. The relatively longer life cycles ensure that older analog products can keep contributing to revenues for longer periods of time and generate higher margins (due to pricing power) than corresponding digital products. Moreover, Maxim's shifting to advanced node process technology development bodes well for its margin expansion.
- ▲ Multiple opportunities continue to unfold in the **industrial market**. Industrial automation, building controls, electrical meters, security devices and automobiles are not just the highest consumers of semiconductors, but also the areas with the greatest promise of growth. The company expects its factory automation product will continue to perform well in the long haul. Moreover, increasing deployment of Industry 4.0 control systems in factories across the world remains a key catalyst. Another segment that is currently showing promise is medical sector and is likely to aid Maxim's business growth. Utilities are moving toward greater automation and efficiencies in operation, another secular growth driver. Maxim's higher-integration smaller-footprint products have been popular in these markets. Maxim has also enhanced its capabilities in the industrial market through bolt-on acquisitions that have strengthened its position and offered more comprehensive solutions. Maxim's **consumer revenues** have picked up gradually due to diversification across customers, products and platforms. Revenues in this market have been improving due to diversification across a variety of markets. Management stated that new wins in the fast growing markets like fitness wearables, tablets and smartphones will continue to drive consumer revenues in the near term.
- ▲ Maxim has a solid balance sheet. As of Dec 30, 2020, the company's net cash amounted to \$692 million compared with \$790 million as of Jul 0, 2020. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul. Moreover, debt-to-total capital was 36.5% as of Dec 30, 2020 which is lower than the industry average of 43.3%. Further, the company had a solid cash balance of \$1.8 billion and cash flow from operations of \$210 million as of Dec 30, 2020. Maxim — which has a record of consistent earnings growth — has less credit risk and lower chances of default or bankruptcy if the economic situation worsens.
- ▲ Maxim's **automotive business** carries strategic importance, high growth opportunities. The increase in customer wins is particularly encouraging because it opens up possibilities of further design wins as new car models are prepped for the market. Infotainment, safety and driver assistance content, known as ADAS are long term drivers of the automotive business. The company's expertise in Automotive Safety Integrity Levels (ASIL) remains the key catalyst. Moreover, the company's ASIL compliant battery management system remains a market differentiator and will continue to sustain Maxim's momentum in the market. China is expected to bring further opportunities, as Chinese infrastructure spending boosts demand for its factory automation products. Recently, the company introduced a high-end version of BMS product for electric buses which has already gained momentum in China. Moreover, the company's ASIL compliant battery management system remains a market differentiator and will continue to sustain Maxim's momentum in the market. Management expects battery management systems to be a meaningful driver of revenue growth going forward. Additionally, there are **long term opportunities the communications and data center market**. Longer-term trends like the competitive nature of the communications service provider market that drive players to deploy more efficient and capable infrastructure are intact. It is now apparent that IP-based networks are better than traditional voice-based networks in this respect; therefore, there will be long-term demand for convergence technologies that could be beneficial for companies like Maxim. The company is focusing on communications interface circuits to drive growth in this segment. Maxim is also seeing growing customer wins in the cloud and data center market for its highly integrated, high-current power management solutions and 40-gig and 100-gig optical products. It is also poised to take advantage of a leading cloud computing customer's demand for smaller and more power-efficient solutions to reduce overall cost of ownership. Cloud and datacenters will likely be significant growth drivers for Maxim in the communications and data center market.

Maxim has a solid portfolio that generates steady design wins, a strong core business that is highly profitable and well-diversified, and returns cash to investors at regular intervals.

Reasons To Sell:

- ▼ **Revenue growth** is usually an area of concern for analog companies, since products take longer to design and stay relevant longer. Maxim is no different from others in this respect. While the business model supports stronger margins, the longer lead times for customized devices require a relatively longer sales cycle than digital products.
- ▼ **Customer concentration** is a big problem for Maxim. Being designed into Samsung devices means that the company is likely to see very strong growth rates when Samsung does well that skew its overall results. A typical analog company, especially one that has diversified end markets, usually sees moderate and steady growth rates if market conditions permit. However, Samsung is changing all that by generating 10% of the company's total revenues alone in fiscal 2019. No other customer has contributed this much. As a result, Samsung's projections and announcements, especially those related to its high-end models where Maxim has greater exposure, have a significant impact on it. On the positive side, Samsung has many new products scheduled to be launched, so there is a lot of opportunity for Maxim, if it is able to capitalize on it.
- ▼ Maxim derives a major portion of its revenues from outside the U.S. Thus, an economic condition which impacts foreign currency exchange rates does result in transaction exposure, which leads to profit fluctuation. Exposure to **foreign currency translation** impacts and poses a threat to its growth.

This problem with Maxim is that it is exacerbated by the concentration of its mobility revenue at Samsung, which could only be mitigated once its diversification strategy takes off.

Last Earnings Report

Maxim Q2 Earnings and Revenues Surpass Estimates

Maxim Integrated Products, Inc. reported second-quarter fiscal 2021 adjusted earnings of 73 cents per share, which beat the Zacks Consensus Estimate of 67 cents. The figure increased 30.4% year over year and 1.4% on a sequential basis.

Revenues of \$628.3 million outpaced the Zacks Consensus Estimate by 3.7%. Also, the top line increased 14% year over year and 1% on a sequential basis.

Revenues were driven by broad-based strength across most of its end markets, namely Consumer and Automotive and Industrial.

Analog Devices announced plans to acquire Maxim last July. During the quarter, the company stated that it is working well toward the closure of the deal.

End Market in Detail

Industrial: The company generated 33% of total revenues from this market for the reported quarter. Revenues in this market advanced 19% from the prior-year quarter, primarily owing to an uptick in test equipment demand.

Automotive: This market accounted for 30% of fiscal second-quarter revenues. Revenues were up 30% on a year-over-year basis, driven by strength in infotainment, driver assistance and electric vehicle content.

Consumer: Maxim generated 20% revenues from this market. Revenues in this market were up 13% year over year due to strength across smartphones, gaming, wearables, tablets and broad-based personal electronics in Consumer.

Communications and Data Center: Revenues from this market, which now includes computing, accounted for 17% of the total revenues. This reflects a decline of 11% from the year-ago quarter.

Operating Details

Non-GAAP gross margin was 67.4%, which expanded 140 basis points (bps) from the year-ago quarter.

Non-GAAP operating expenses of \$190.2 million increased 1.2% year over year. Further, as a percentage of revenues, the figure expanded 370 bps from the prior-year quarter.

Operating margin came in at 34%, up 330 bps from the year-ago quarter.

Balance Sheet & Cash Flow

As of Dec 26, 2020, cash, cash equivalents and short-term investments were \$1.8 billion, up \$194 million from the fiscal first quarter.

Long-term debt was \$994.7 million at fiscal second quarter-end compared with \$994.4 million at fiscal first quarter-end.

For the quarter under review, cash flow from operations was \$210 million, up from \$163 million in the prior quarter. Further, the company utilized \$16 million for capital expenditure during the fiscal second quarter.

Quarter Ending 12/2020

Report Date	Jan 26, 2021
Sales Surprise	3.71%
EPS Surprise	8.96%
Quarterly EPS	0.73
Annual EPS (TTM)	2.64

Recent News

On **Jan 14, 2021**, Maxim unveiled DeepCover automotive secure authenticator - DS28E40. DS28E40 comes in a compact, 4mm-x-3mm TDFN package and operates over a -40 to +125 degrees Celsius temperature range. It uses 1-Wire interface, combining power and communication on a single pin, thereby enabling better connectivity.

On **Oct 13, 2020**, Maxim unveiled the industry's smallest and lowest-cost solution - the MAX25430 100W USB Power Delivery (PD) buck-boost controller. The new solution can reduce design size up to 40% compared to competitive solutions and offer minimal cost for increasing the number of USB PD ports in vehicles.

Valuation

Maxim Integrated Products shares are up 31.6% in the six-month period and 43.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 32.4% and 39.7% in the six-month, respectively. Over the past year, the Zacks sub-industry is up 38% and the sector is up 42%.

The S&P 500 index is up 13.9% in the six-month period and 16.3% in the past year.

The stock is currently trading at 29.91X forward 12-month earnings, which compares to 27.14X for the Zacks sub-industry, 29.36X for the Zacks sector and 22.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.64X and as low as 15.27X, with a 5-year median of 20.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 27.18X forward 12-month earnings.

The table below shows summary valuation data for MXIM

Valuation Multiples - MXIM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	29.91	27.14	29.36	22.47
	5-Year High	32.64	28.1	29.36	23.8
	5-Year Low	15.27	13.42	16.94	15.3
	5-Year Median	20.49	18.44	19.93	17.82
P/S F12M	Current	9.26	6.03	5.05	4.45
	5-Year High	10.09	6.03	5.05	4.45
	5-Year Low	3.88	2.81	2.77	3.2
	5-Year Median	6.15	3.84	3.47	3.67
EV/EBITDA TTM	Current	27.61	17.97	17.4	17.04
	5-Year High	30.15	19.67	17.4	17.54
	5-Year Low	8.95	8.14	8.25	9.53
	5-Year Median	13.37	11.98	12.14	13.23

As of 02/01/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Semtech Corporation (SMTC)	Outperform	2
Texas Instruments Incorporated (TXN)	Outperform	1
Analog Devices, Inc. (ADI)	Neutral	3
Cirrus Logic, Inc. (CRUS)	Neutral	3
Monolithic Power Systems, Inc. (MPWR)	Neutral	3
MaxLinear, Inc (MXL)	Neutral	3
Skyworks Solutions, Inc. (SWKS)	Neutral	2
Silicon Laboratories, Inc. (SLAB)	Underperform	5

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

Industry Comparison Industry: Semiconductor - Analog And Mixed				Industry Peers		
	MXIM	X Industry	S&P 500	SLAB	SMTC	TXN
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	5	2	1
VGM Score	C	-	-	D	D	C
Market Cap	23.51 B	12.05 B	26.43 B	5.75 B	4.61 B	152.09 B
# of Analysts	9	8	13	7	6	12
Dividend Yield	0.00%	0.00%	1.47%	0.00%	0.00%	2.46%
Value Score	D	-	-	D	F	F
Cash/Price	0.08	0.07	0.06	0.13	0.06	0.04
EV/EBITDA	29.85	35.88	14.74	41.90	50.74	21.95
PEG F1	2.61	2.03	2.38	2.59	3.29	2.65
P/B	12.21	6.09	3.59	4.91	6.82	16.56
P/CF	33.37	28.64	14.94	36.12	48.49	24.03
P/E F1	30.52	27.72	19.57	38.91	41.13	24.75
P/S TTM	9.98	6.86	2.86	6.66	8.11	10.52
Earnings Yield	3.39%	3.62%	4.98%	2.57%	2.44%	4.04%
Debt/Equity	0.52	0.68	0.68	0.48	0.27	0.68
Cash Flow (\$/share)	2.72	2.82	6.83	3.80	1.53	7.18
Growth Score	C	-	-	C	D	B
Historical EPS Growth (3-5 Years)	8.19%	8.11%	9.46%	7.86%	8.03%	16.36%
Projected EPS Growth (F1/F0)	31.37%	34.13%	12.64%	16.26%	0.00%	12.13%
Current Cash Flow Growth	-8.10%	-5.80%	4.97%	-16.69%	-28.03%	8.57%
Historical Cash Flow Growth (3-5 Years)	-0.43%	18.60%	8.19%	13.23%	-5.21%	10.34%
Current Ratio	5.67	2.01	1.38	6.20	4.23	4.28
Debt/Capital	34.06%	39.83%	41.49%	32.44%	21.30%	40.48%
Net Margin	30.66%	6.09%	10.61%	1.54%	8.30%	38.69%
Return on Equity	41.31%	16.34%	15.23%	7.34%	9.60%	68.04%
Sales/Assets	0.64	0.52	0.50	0.46	0.54	0.80
Projected Sales Growth (F1/F0)	16.12%	11.84%	5.74%	9.77%	0.00%	15.32%
Momentum Score	A	-	-	B	A	B
Daily Price Change	3.33%	4.14%	1.27%	4.71%	4.86%	4.09%
1-Week Price Change	-6.31%	-7.69%	-4.02%	-7.86%	-14.33%	-4.12%
4-Week Price Change	3.58%	5.19%	1.41%	8.71%	4.52%	6.31%
12-Week Price Change	11.79%	17.85%	5.46%	18.73%	14.53%	10.40%
52-Week Price Change	48.96%	48.56%	8.48%	36.49%	48.15%	39.76%
20-Day Average Volume (Shares)	2,158,895	719,619	2,080,548	306,733	432,490	4,719,743
EPS F1 Estimate 1-Week Change	5.66%	0.00%	0.00%	0.00%	0.00%	11.71%
EPS F1 Estimate 4-Week Change	5.66%	0.53%	0.30%	-0.77%	0.58%	14.53%
EPS F1 Estimate 12-Week Change	5.87%	1.84%	1.44%	-0.77%	6.67%	15.14%
EPS Q1 Estimate Monthly Change	6.64%	0.77%	0.12%	-0.71%	0.57%	19.93%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

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.