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Oct 29, 2020

Norwegian Cruise Line(NCLH)

$15.03 (As of 10/28/20)

Price Target (6-12 Months): **$12.50**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/10/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: F	Momentum: B

Summary

Norwegian Cruise's shares have declined significantly so far this year. Notably, the cruise industry has been brought to a standstill by the coronavirus-induced crisis. Due to this, Norwegian has cancelled its voyages through Oct 31, 2020. Also, chances of further voyage suspension due to the pandemic cannot be ruled out. Markedly, the coronavirus-induced crisis is likely to affect its operations and global bookings in the near term. Also, costs are likely to rise in the near term due to the pandemic. Notably, earnings estimates for 2020 and 2021 have declined in the past 60 days, depicting analysts' concern regarding the stock's growth potential. Nonetheless, the company stated that it has sufficient liquidity to survive the current crisis for the next 12 months.

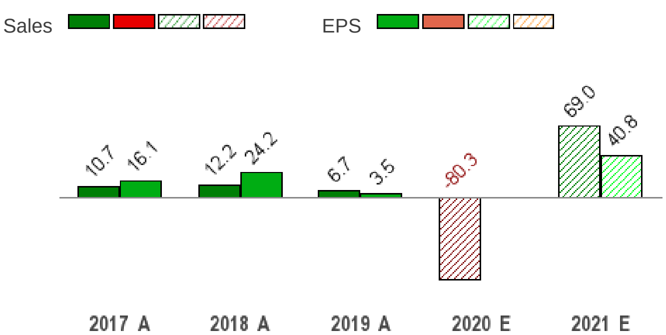
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$59.78 - $7.03**
20-Day Average Volume (Shares)	**19,618,150**
Market Cap	**$4.1 B**
Year-To-Date Price Change	**-74.3%**
Beta	**2.72**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Leisure and Recreation Services**
Zacks Industry Rank	**Bottom 6% (239 out of 254)**
Last EPS Surprise	**-26.9%**
Last Sales Surprise	**401.5%**
EPS F1 Estimate 4-Week Change	**-0.4%**
Expected Report Date	**11/05/2020**
Earnings ESP	**4.3%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**0.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	219 E	539 E	914 E	841 E	2,152 E
2020	1,247 A	17 A	1 E	45 E	1,273 E
2019	1,404 A	1,664 A	1,914 A	1,481 A	6,462 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$1.91 E	-$1.27 E	-$0.34 E	-$0.63 E	-$4.93 E
2020	-$0.99 A	-$2.78 A	-$2.24 E	-$2.18 E	-$8.33 E
2019	$0.83 A	$1.30 A	$2.23 A	$0.73 A	$5.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/28/2020. The reports text is as of 10/29/2020.

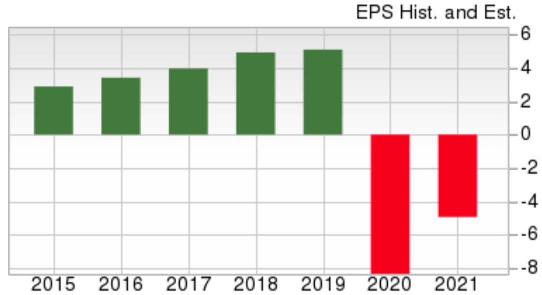
Overview

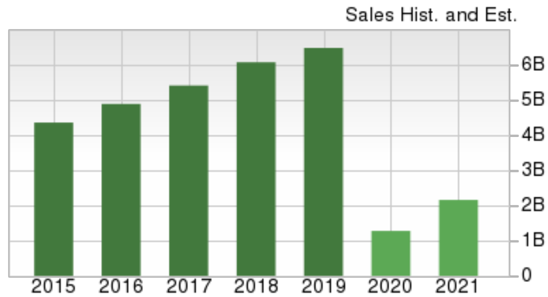
Norwegian Cruise Line Holdings Ltd., a Bermuda Limited company, is a leading cruise line operator. It owns and operates three brands — Oceania Cruises, Regent Seven Seas Cruises and Norwegian Cruise Line. The company, founded in 1966, is headquartered in Miami, FL.

In 2014, the company acquired Prestige Cruises International, thereby expanding its operations significantly. Through this move, the company acquired the Oceania Cruises and Regent Seven Seas Cruises brands.

As of Jun 30, 2020, the three brands operate a total of 28 ships with 59,150 berths in Alaska, the Bahamas, Bermuda, the Caribbean, Europe, Hawaii, Mexico, New England, Central and South America, North Africa, Scandinavia, among others.

The company is constantly looking to expand its fleet size. To this end, the company launched Norwegian Bliss in April 2018. Moreover, it introduced Norwegian Joy (cruise ship designed for Chinese travelers) in 2017. The ship, which can accommodate more than 3,500 passengers, started sailing from Shanghai in June 2017. It has plans to introduce 9 more ships through 2027. The company will receive the Norwegian Encore in fall 2019. The company has Allura Class Ships on order for delivery in the winter of 2022 and spring of 2025. With the project Leonardo, Norwegian Cruise will have an additional six ships with expected delivery dates from 2022 through 2027. This addition is likely to bring total berth count to roughly 82,000.





In a bid to facilitate travel for cruise passengers, the brands strive to provide an enhanced level of onboard service. To this end, they offer a wide range of features, amenities and activities like a variety of accommodations and multiple dining venues.

Revenues from passenger tickets account for bulk of the top line (81.7% in second-quarter 2020) at Norwegian Cruise Line. Balance (18.3%) comes from onboard and other sources.

Source: Zacks Investment Research

Reasons To Sell:

- **Coronavirus Outbreak to Hurt Results:** The cruise industry has been brought to a standstill by the coronavirus-induced crisis. Notably, the company has cancelled its voyages through Oct 31, 2020. Also, chances of further voyage suspension due to the pandemic cannot be ruled out. Markedly, the coronavirus-induced crisis is likely to affect its operations and global bookings in the near term.

- **Cash Burn Due to the Pandemic a Major Concern:** Norwegian Cruise is bearing the brunt of high expenses for quite some time now. Costs associated with the suspension of cruise voyages along with continued payment of protected commissions and crew salaries are adding to the downside. Currently, the company is experiencing a cash burn of approximately $160 million a month, on average. This includes $7 million of interest expenses associated with capital market transactions. However, cash refunds for cancelled sailings and cash inflows from new and existing bookings have been excluded from the same.

High costs and the coronavirus pandemic remain potential concerns. The company is witnessing significant cash burn due to the coronavirus pandemic.

- **Q2 Results Decline Sharply:** Norwegian Cruise reported second-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Moreover, both the top and the bottom line declined sharply year over year owing to coronavirus-induced shutdowns. The company has already withdrawn its 2020 guidance on account of the temporary suspension of sailings globally. The company stated the pandemic has impacted its financial position and believes that if suspension is further extended, its liquidity and financial position will get affected significantly.

- **Currency & Other Macro Economic Headwinds:** Norwegian Cruise is heavily investing in China, where a slowdown in the economy could limit discretionary spending. In fact, the rate of capacity growth in the Asia Pacific region is expected to slow considerably in the near term for the company and the industry. Further, in Europe, economic/political conditions are expected to be somewhat challenging after U.K.'s exit from the 28-member economic bloc.

  Also, the company generates a significant amount of its revenues from customers outside the United States where the majority pay with local currency. Hence, the company is highly exposed to the impact of negative currency translation. Thus, if the U.S. dollar continues to strengthen versus the company's basket of currencies, it is likely to prove detrimental to the company's earnings growth. Moreover, an increase in fuel prices may further hamper the company's performance. Meanwhile, Trump administration's policy change on travel to Cuba is concerning. Travel ban to Cuba will impact the cruise industry.

Risks

- **Sail Panel to Counter Current Crisis:** The cruise industry has been brought to a standstill by coronavirus. However, the pandemic has compelled companies to forget rivalries and come together to deal with the situation. Case in point, Royal Caribbean Cruises and Norwegian Cruise have teamed up to develop safety standards. Former Utah Governor Mike Leavitt and former FDA Commissioner Scott Gottlieb are serving as co-chairs of a newly-formed group of experts called the "Healthy Sail Panel." The expert panel, which has been working for approximately a month, will provide their initial recommendations by the end of August.

- **Fleet Size Expansion Encourages:** Norwegian Cruise is constantly looking to expand fleet size, which is currently at 28. It has plans to introduce nine more ships through 2027. Most of them are on order for Norwegian Cruise Line, while the rest are for Oceania Cruises and Regent Seven Seas Cruises.

  For the Regent brand, it has one Explorer Class Ship to be delivered in 2023. For the Oceania Cruises brand, the company has two Allura Class Ships to be delivered in 2023 and 2025. With the project Leonardo, Norwegian Cruise will have an additional six ships with expected delivery dates from 2022 through 2027.

- **Booking Environment:** The industry is witnessing dismal demand for cruise on account of the coronavirus-induced shutdowns. However, the company stated that demand for cruise beginning fourth-quarter 2020 and 2021 are on track, with overall booked position and pricing for 2021 within historical ranges. The company continues to take future bookings for 2020, 2021 and 2022.

  Higher demand for cruises has led Norwegian Cruise to expect a record book position in 2019. The company has particularly worked in improving book revenues. It has changed its payment policies and deposit structure. Also, air travel services booked through Norwegian's Air program is driving demand significantly. Coming to supply, the company has been able to successfully absorb new capacity that are coming online. Also, expansion of fleet enables the company to capture greater demand. Meanwhile, capacity growth is primarily generated from Norwegian Encore.

- **China A Major Market for Cruise Industry:** The company's focus on the lucrative Chinese market holds promise. To this end, the company announced a partnership with Alibaba Group in May 2017. The company introduced Norwegian Joy (cruise ship designed for Chinese travelers) in 2017. The ship, which can accommodate more than 3,500 passengers, started sailing from Shanghai in June 2017. By 2030, China is expected to become the world's second largest cruise market after the United States.

- **Sufficient Liquidity to Tide Over Coronavirus Pandemic:** Cash and cash equivalents as of Jun 30, 2020, were $2.3 billion, up from $252.9 million as of Dec 31, 2019. In an effort to boost liquidity, the company launched a series of capital markets transactions. As a result of high demand, oversubscription and the full exercise of options to purchase additional ordinary shares and exchangeable notes, the total amount of gross proceeds rose to roughly $1.5 billion. Following these transactions, the company’s total pro-forma liquidity was approximately $2.8 billion as of Jun 30, 2020. After costs reductions and cash conservation measure, the company’s cash burn is expected to be $160 million per month. Although total debt at the end of Jun 30, 2020, was $10.3 billion, it is confident that with the amount of liquidity it holds, it can survive in a zero-revenue scenario for 12 months.

Last Earnings Report

Norwegian Cruise Q2 Earnings Miss Estimates, Decline Y/Y

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	401.45%
EPS Surprise	-26.94%
Quarterly EPS	-2.78
Annual EPS (TTM)	-0.81

Norwegian Cruise reported second-quarter 2020 results, wherein the bottom line missed the Zacks Consensus Estimate but the top line surpassed the same. Moreover, both earnings and revenues declined sharply year over year owing to the coronavirus-induced shutdowns.

Earnings & Revenue Discussion

The company reported adjusted loss per share of $2.78, wider than the Zacks Consensus Estimate of a loss of $2.19. Notably, the company had reported earnings per share of $1.30 in the prior-year quarter.

Revenues of $16.9 million beat the consensus mark of $3 million. However, the figure declined 99% year over year. The downside can be attributed to 98.8% decline in passenger ticket revenues and decrease of 99.4% in onboard and other revenues.

Expenses & Operating Results

Total cruise operating expenses decreased 68.5% in the quarter under review from the year-ago quarter. However, expenses were associated with suspension of cruise voyages, continued payment of protected commissions and crew costs, which include salaries, food and repatriation costs, and fuel.

Gross cruise costs per capacity day declined 0.2%. Adjusted Net cruise costs (excluding fuel) per Capacity Day were down 0.3% at cc. Fuel price per metric ton (net of hedges) was up 20.5% to $594 in the quarter under review.

Net interest expenses were $114.5 million in the first quarter, up from $66 million in the year-ago quarter.

Balance Sheet

Cash and cash equivalents as of Jun 30, 2020, were $2.3 billion, up from $252.9 million as of Dec 31, 2019. Long-term debt at the end of the second quarter totaled $10.3 billion, higher than $6.1 billion at the end of 2019.

Due to the pandemic, the company's targeted monthly cash burn is on average, nearly $160 million per month. The cash burn estimate is at the high end of previously estimated range due to additional interest expenses.

Outlook

The company has already withdrawn 2020 guidance on account of the temporary suspension of sailings globally. The company stated the pandemic has impacted its financial position and believes that if suspension is further extended its liquidity and financial position will be affected significantly.

The company expects to report net loss both on GAAP and adjusted basis for the third quarter and 2020. Since the beginning of the coronavirus outbreak, the company's booking remain below historical levels. However, overall cumulative booked position and pricing for 2021 are within historical ranges.

Valuation

Norwegian Cruise shares are down 74.3% year-to-date and 71.4% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 48.3%, and Zacks Consumer Discretionary sector is down by 6.5% in the year-to-date period. Over the past year, the Zacks sub-industry were down by 42.5%, while sector was up by 1.5%.

The S&P 500 index is up 1.4% in the year-to-date period and 7.4% in the past year.

The stock is currently trading at 2.53X forward 12-month sales, which compares to 1.85X for the Zacks sub-industry, 2.22X for the Zacks sector and 3.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.94X and as low as 0.24X, with a 5-year median of 1.88X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our $12.5 price target reflects 1.84X forward 12-month sales.

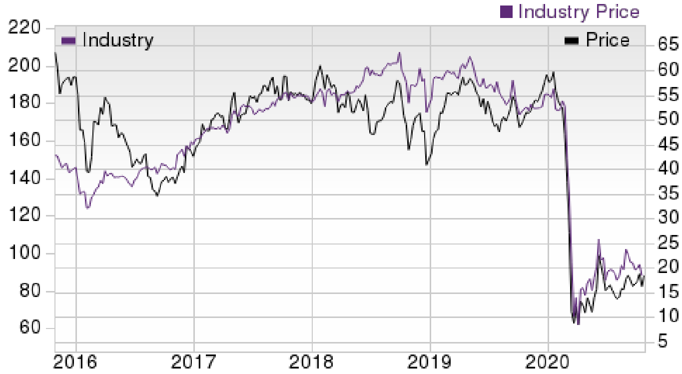
The table below shows summary valuation data for NCLH.

Valuation Multiples - NCLH

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.53	1.85	2.22	3.89
	5-Year High	2.94	2.94	2.96	4.31
	5-Year Low	0.24	0.24	1.7	3.18
	5-Year Median	1.88	1.88	2.48	3.67
P/B TTM	Current	1.17	1.01	3.23	5.67
	5-Year High	3.73	1.71	4.84	6.2
	5-Year Low	0.25	0.43	2.23	3.75
	5-Year Median	2.08	1.38	4.19	4.91
EV/EBITDA TTM	Current	16.95	10.69	10.29	14.24
	5-Year High	17.09	17.86	17.63	15.68
	5-Year Low	2.78	8.3	8.26	9.55
	5-Year Median	10.69	12.22	12.22	13.13

As of 10/28/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 6% (239 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cinemark Holdings Inc **(CNK)**	Neutral	4
Royal Caribbean Cruises Ltd. **(RCL)**	Neutral	4
Carnival Corporation **(CCL)**	Underperform	4
Lindblad Expeditions Holdings Inc. **(LIND)**	Underperform	4
Las Vegas Sands Corp. **(LVS)**	Underperform	4
Vail Resorts, Inc. **(MTN)**	Underperform	5
Marriott Vacations Worldwide Corporation **(VAC)**	Underperform	5
Wynn Resorts, Limited **(WYNN)**	Underperform	5

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

Industry Comparison Industry: Leisure And Recreation Services

	NCLH	X Industry	S&P 500	CCL	LIND	RCL
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	4
VGM Score	D	-	-	C	F	D
Market Cap	4.14 B	714.58 M	22.55 B	8.86 B	388.40 M	11.85 B
# of Analysts	7	3	13.5	7	2	7
Dividend Yield	0.00%	0.00%	1.72%	0.00%	0.00%	0.00%
Value Score	D	-	-	B	D	D
Cash/Price	0.45	0.27	0.07	0.74	0.21	0.29
EV/EBITDA	6.49	6.63	12.83	3.61	10.67	7.02
PEG F1	NA	0.86	2.59	NA	NA	NA
P/B	0.89	1.13	3.21	0.44	4.62	1.24
P/CF	1.83	5.57	12.37	1.25	7.75	3.36
P/E F1	NA	13.08	20.16	NA	NA	NA
P/S TTM	0.89	0.98	2.47	0.86	1.16	1.50
Earnings Yield	-55.42%	-20.05%	4.69%	-60.08%	-24.26%	-32.47%
Debt/Equity	2.31	0.50	0.70	0.97	4.71	1.98
Cash Flow ($/share)	8.22	2.48	6.92	9.87	1.01	15.81
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	16.24%	11.06%	10.10%	-10.12%	104.96%	16.90%
Projected EPS Growth (F1/F0)	-263.65%	-281.69%	-1.76%	-267.92%	-773.21%	-280.81%
Current Cash Flow Growth	4.56%	1.34%	5.54%	3.07%	35.06%	11.91%
Historical Cash Flow Growth (3-5 Years)	18.35%	8.45%	8.50%	10.47%	7.81%	15.91%
Current Ratio	1.06	1.05	1.37	0.91	0.79	0.99
Debt/Capital	69.78%	59.69%	41.80%	49.24%	82.85%	67.17%
Net Margin	-43.46%	-10.74%	10.50%	-73.40%	-0.87%	-24.36%
Return on Equity	-4.47%	-9.23%	14.93%	-15.57%	-31.22%	-3.68%
Sales/Assets	0.28	0.39	0.50	0.21	0.58	0.25
Projected Sales Growth (F1/F0)	-80.30%	-37.14%	-0.39%	-72.79%	-69.50%	-79.06%
Momentum Score	B	-	-	A	B	A
Daily Price Change	-9.07%	-2.49%	-3.08%	-10.61%	-8.68%	-7.42%
1-Week Price Change	13.27%	2.03%	0.01%	9.09%	3.33%	9.60%
4-Week Price Change	-12.16%	-5.81%	-2.07%	-18.97%	-8.46%	-17.94%
12-Week Price Change	9.55%	-1.84%	-1.88%	-12.27%	4.28%	7.25%
52-Week Price Change	-70.64%	-51.35%	-3.31%	-71.53%	-48.17%	-51.45%
20-Day Average Volume (Shares)	19,618,150	152,055	1,770,490	33,657,752	479,735	7,603,235
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.43%	0.00%	0.36%	0.65%	0.00%	0.45%
EPS F1 Estimate 12-Week Change	-22.53%	-30.93%	2.98%	-2.21%	-41.25%	-18.11%
EPS Q1 Estimate Monthly Change	-1.56%	0.00%	0.23%	1.42%	0.00%	0.18%

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	F
Momentum Score	B
VGM Score	D

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

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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.