

NCR Corporation (NCR)

\$34.68 (As of 02/10/21)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

NCR is benefiting from strong demand for its software and service solutions across banking and financial services, which have somewhat offsets the adverse impact of coronavirus. Moreover, the acquisition of D3 Technology is likely to drive the top-line. Besides, in Digital First Restaurant, the company continued to see traction in Aloha Essentials. Shares have outperformed the industry in the past year. Nonetheless, coronavirus-led business disruptions are likely to hurt NCR's near-term results. The company has also withdrawn its 2020 guidance as it is still assessing the potential impacts of the pandemic, which is discouraging. Decline in ATM revenues amid coronavirus crisis also remain a headwind. Foreign exchange headwinds remain an added woe. Moreover, growing competition from companies like Diebold and Fidelity is a persistent concern.

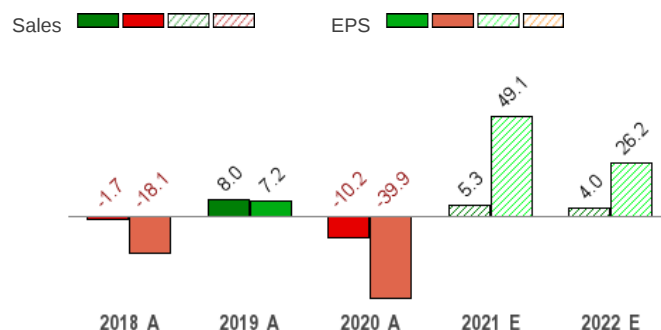
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$39.30 - \$10.55
20-Day Average Volume (Shares)	1,379,025
Market Cap	\$4.5 B
Year-To-Date Price Change	-7.7%
Beta	1.84
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computer - Integrated Systems
Zacks Industry Rank	Bottom 18% (207 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.6%
Last Sales Surprise	0.5%
EPS F1 Estimate 4-Week Change	2.1%
Expected Report Date	04/29/2021
Earnings ESP	0.0%
P/E TTM	20.3
P/E F1	13.8
PEG F1	3.4
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					6,799 E
2021					6,535 E
2020	1,503 A	1,484 A	1,589 A	1,631 A	6,207 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.18 E
2021	\$0.48 E	\$0.60 E	\$0.67 E	\$0.81 E	\$2.52 E
2020	\$0.31 A	\$0.27 A	\$0.54 A	\$0.59 A	\$1.69 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 02/10/2021. The report's text and the analyst-provided price target are as of 02/11/2021.

Overview

NCR Corporation offers payments processing, multi-vendor connected-device services, automated teller machines (ATMs), point of sale (POS) terminals and self-service technologies.

NCR reported revenues of \$6.21 billion in 2020. Americas, Europe, Middle East Africa (EMEA) and Asia Pacific (APJ) accounted for 60%, 27% and 13% of revenues, respectively.

Since Jan 1, 2019, the company started reporting operations into the following segments: Banking, Retail, Hospitality and Other.

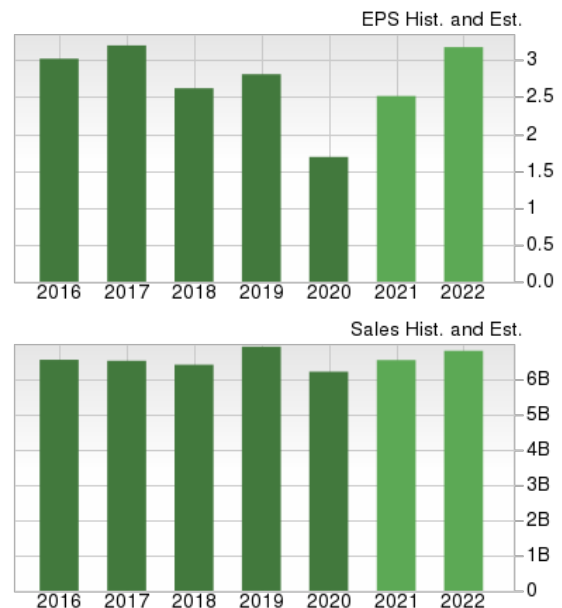
Banking accounted for 50% of 2020 revenues. The company provides customer-facing digital banking, branch transformation and digital connected services. Its software solutions include multi-vendor ATM-management systems software-application suite, payment-processing software, fraud- and loss-prevention applications, cash-management and video-banking software. Hardware solutions include multi-function ATMs, interactive teller machines (ITMs), thin-client ATMs, cash dispensers, cash recycling ATMs and hardware for check and image processing.

Retail accounted for 34% of 2020 revenues. NCR offers software-defined solutions including retail-oriented technologies such as comprehensive API-point of sale retail software platforms and applications, hardware terminals, self-service kiosks including self-checkout ("SCO"), payment-processing solutions, and bar-code scanners.

Hospitality accounted for 11% of 2020 revenues. Software solutions include processing solutions for quick-service and table-service restaurants, convenience and fuel retailers, back-office inventory and store- and restaurant-management applications, including cloud-based loss-prevention video technology and services for the hospitality industries. Hardware products include POS terminals, SCO kiosks, order and payment kiosks, bar-code scanners, printers and peripherals.

Other accounted for 5% of revenues. NCR offers maintenance, managed and professional services using solutions such as remote-management and monitoring services.

NCR faces significant competition from the likes of Fidelity, Fiserv, Diebold Nixdorf, Hyosung TNS, Cardtronics plc, Euronet Worldwide, Oracle, HP Inc., and Square, among others.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The demand for NCR's POS solution is increasing in retailers and hospitality industries as it facilitates the automation of bill payment and accounting. As a result, managers get ample time for customer interaction, leading to increased productivity. NCR strengthened its position in the POS market through the acquisition of Radiant Systems in Aug 2011. According to Global Market Insights, the global market size for POS terminals will reach \$140 billion by 2025, witnessing a CAGR of 13%. The cloud segment is expected to expand at the highest CAGR over the forecast period. The report also states that the retail segment led the market in 2018 and is likely to maintain its dominance throughout the prediction period. Thus, NCR with its varied offerings of POS terminals and solutions should be able to capitalize on these growth opportunities.
- ▲ Given the popularity of the self-service concept, management has decided to expand beyond its traditional financial services markets to new industry verticals such as insurance, entertainment and gaming, healthcare, travel and hospitality, and the public and government sectors. NCR already provides self-service kiosks for the financial services, retail, hospitality, travel and gaming industries. The kiosks are well-equipped to support numerous retail self-service functions, including self-check in/out, way-finding, bill payment and gift registries. These solutions create pleasant and convenient experiences for consumers and enable NCR's customers to reduce costs. The kiosks for the hospitality industry provide consumers the ability to order and pay at restaurants while enabling restaurant owners to streamline order processing and reduce operating costs. The kiosks for the travel industry help passengers to buy tickets, book seats and to check-in/out without hassle. With a diverse self-service portfolio and associated benefits (cost and time savings), we believe that NCR is poised for solid growth.
- ▲ The company has supplemented its business growth through acquisitions. In the past two decades, NCR has acquired over 20 companies which has helped it in enhancing capabilities in different areas. The buyout of CimpleBox Inc. in March 2016 has enhanced its abilities in providing simplified SaaS-based back-office software to restaurant operators and retailers. January 2014 acquisition of Digital Insight strengthened NCR's online and mobile banking solutions offerings while the Alaric Systems solidified its online transaction security software and fraud prevention solutions portfolio. Apart from this, NCR's acquisitions of POS Integrated Solutions Do Brasil Comercio E Servicos De Informatica S.A., RDS South America Comercio E Servicos De Informatica S.A., Wyse Sistemas de Informatica Ltda., Transoft, Inc. and uGenius Technology, Inc. in 2012 have also strengthened its product and service offerings across the financial services, hospitality and retail verticals. With the acquisition of Radiant Systems Inc. in 2011, NCR became a key provider of retail and hospitality POS terminals. We believe that further acquisitions will add to NCR's growth.

NCR's growing exposure in the self-service kiosk space is encouraging. Continuous product launches, growing popularity of its self-service offerings and synergies from acquisitions are the catalysts.

Reasons To Sell:

- ▼ NCR's near-term growth prospects likely to hurt by the coronavirus-led demand delays. The company expects all its segments to be negatively impacted by the COVID-19 pandemic. Moreover, it hasn't provided guidance for 2021 as it is still assessing the potential impacts of the pandemic, which is discouraging. Decline in ATM revenues amid coronavirus crisis also remain a headwind.
- ▼ NCR operates in the intensely competitive technology industry, which is characterized by rapidly changing technology, disruptive technological innovation, evolving industry standards, frequent new product introductions, price and cost reductions, and increasingly greater commoditization of products, making differentiation difficult. Competition with bigwigs in the industry, such as Fidelity, Fiserv, First Data Corporation, HP, Diebold, Nautilus Hyosung, Toshiba Tec, Oracle among others exposes the company to significant pricing pressure.
- ▼ NCR also has a leveraged balance sheet. The company's current total debt to total capital ratio of 0.82 is significantly higher than the industry average of 0.63. Moreover, the times interest earned ratio of 2.2 is way lower than the industry average of 6.9. Additionally, the long-term debt level of \$3.27 billion as of Dec 31, 2020 is much more than cash and cash equivalents of \$338 million. This makes us slightly cautious about the company's liquidity position and debt serving capabilities.

NCR's near-term growth prospects likely to hurt by the coronavirus-led demand delays. Intense competition and a high debt burden remain added concerns.

Last Earnings Report

NCR Q4 Earnings Miss, Revenues Beat Estimates, Down Y/Y

NCR fourth-quarter 2020 non-GAAP earnings of 59 cents per share missed the Zacks Consensus Estimate of 66 cents. Moreover, the reported figure plunged 30.6% on lower revenues, year over year.

The company's revenues of \$1.63 billion surpassed the consensus mark of \$1.62 billion. The top-line figure, however, decreased 14% year over year on a reported basis. Management noted that the foreign-currency fluctuations did not impact the fourth-quarter results.

The coronavirus pandemic has hurt the company's hardware business. NCR's hardware revenues plunged 30% on a 36% decline in ATM hardware and 23% fall in SCO/POS (Self-Checkout/Point-of-Sale) sales.

During the earnings conference call, the company noted that approximately \$203 million or 80% of the decline in total revenues resulted from a weak hardware business performance. In addition, a shift from selling perpetual software licenses to recurring revenues hurt quarterly revenues by \$32 million.

Quarter Details

Banking revenues slid 16% on a reported as well as on constant currency (cc) basis year over year, due to the pandemic-induced 36% decline in ATM hardware revenues. Shift from selling perpetual software licenses to recurring revenues also affected the year-over-year comparison. Unfavorable currency exchange rates did not impact the Banking segment's top-line performance during the fourth quarter.

Retail revenues decreased 7% on a reported basis and 8% on cc basis, mainly due to decrease in SCO and POS revenues, partially offset by higher service revenues. However, favorable foreign currency-exchange rates aided the Retail division's revenues by 1%.

Hospitality revenues slipped 22% on a reported and 21% on a cc basis, primarily on a decline in hardware revenues. Unfavorable currency-exchange rates hurt the segment's top-line performance by 1%.

The company's Digital Banking Solution witnessed solid momentum and added five new customers. Digital banking's registered users grew 12% year over year.

Margins

Non-GAAP gross profit of \$465 million was down 14% year over year. Non-GAAP gross margin contracted 20 basis points to 28.5%. Lower revenues due to the pandemic and shift to recurring revenues are the key reasons behind these declines in gross profit and margin.

Non-GAAP operating expenses declined 3.4% year on year to \$313 million, chiefly on the company's cost-cutting initiatives to address the pandemic's impact on the business. Its cost-cutting measures, included salary reductions, curtailing travels, and elimination of certain contractors.

Non-GAAP operating income declined to \$152 million from the year-ago quarter's \$217 million. Non-GAAP operating margin shrunk 220 basis points to 9.3% from the year-earlier quarter's 11.5%.

Other Financial Details

NCR ended the December-end quarter with cash and cash equivalents of \$338 million compared with the \$1.61 billion reported during the September-end quarter.

Free cash inflow was \$149 million compared with the prior quarter's \$302 million. Net cash provided by operating activities was \$146 million during the fourth quarter. In fiscal 2021, the company generated operating and free cash flows of \$641 million and \$448 million, respectively.

Notably, NCR suspended its share-repurchase program and merger and acquisition activities, and cut senior employee salaries among other cost-cutting steps during first-quarter 2020, in order to strengthen the company's liquidity position.

Additionally, on Mar 24, 2020, the company withdrew the remaining available funds of \$630 million from its five-year, \$1.1-billion revolving credit facility. Also, on Apr 13, 2020, the company issued \$400 million of senior unsecured notes.

Furthermore, the company deleveraged its balance sheet by \$200 million in August 2020 through redeeming \$1.3 billion of debt and issuing \$1.1 billion of debt.

Quarter Ending	12/2020
Report Date	Feb 09, 2021
Sales Surprise	0.53%
EPS Surprise	-10.61%
Quarterly EPS	0.59
Annual EPS (TTM)	1.71

Recent News

On Jan 11, NCR confirmed that it has submitted an offer to acquire for \$39 per share in an all-cash deal.

On Jan 6, NCR announced the acquisition of Freshop, a grocery e-commerce solution provider.

On Jan 4, NCR announced that it was listed among the top providers of Worldwide Unified Commerce SaaS and Software and SaaS for the retail industry, per the Unified Commerce Market Research Report conducted by the IHL Retail Executive Advisory Program (REAP).

On Dec 29, NCR announced that it was named a global leader in the global restaurant point-of-sale (POS) software market according to research and consulting firm RBR.

On Dec 22, NCR announced that its retail cloud-based POS platform was selected by Big Y, an independent retailer.

On Dec 10, NCR announced that it was selected by Jumbo Supermarkten, to deliver self-checkout solutions for its more than 680 retail stores in Holland and Belgium.

On Dec 9, NCR announced that its Advanced Store Point of Sale (POS) and Loyalty software was selected by Best Buy Canada to provide flexible purchase options to the customers.

On Dec 2, NCR announced that its Digital First Banking platform, including its Channel Services Platform (CSP) and NCR D3 Digital Banking solutions, was selected by Wintrust Financial Corporation.

On Nov 5, NCR announced that it was ranked 8th in the 2020 IDC FinTech Rankings, a list of the financial services industry's leading technology providers.

On Oct 22, NCR announced that First Horizon Bank had migrated its clients to NCR D3 platform to enhance their digital banking experience.

On Oct 12, NCR revealed that A.S. Watson Group has chosen its technology solutions to provide self-checkout software, services and hardware for its subsidiary, Kruidvat.

On Oct 5, NCR launches the next-generation ATM software platform, NCR Activate Enterprise NextGen.

Valuation

Shares of NCR have gained 62% in the 6-month period and 4.2% over the trailing 12-month time frame. Stocks in the Zacks sub-industry are up 4.2% in 6 months, while the Zacks Computer & Technology sector gained 27.6%. Over the past year, while the Zacks sub-industry decreased 17.2%, the sector gained 40.6%.

The S&P 500 Index has increased 17.2% in 6 months, and 17.8% in the past year.

The stock is currently trading at 13.43X forward 12-month earnings, comparing with 14.28X for the Zacks sub-industry, 29.05X for the Zacks sector and 22.87X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 15.41X and as low as 4.15X with a 5-year median of 10.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 14.10X forward 12-month earnings.

The table below shows the summary valuation data for NCR

Valuation Multiples - NCR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.43	14.28	29.05	22.87
	5-Year High	15.41	14.28	29.05	23.80
	5-Year Low	4.15	7.96	16.95	15.30
	5-Year Median	10.19	10.57	19.96	17.85
P/S F12M	Current	0.68	1.41	5.04	4.56
	5-Year High	0.92	1.84	5.04	4.56
	5-Year Low	0.22	1.10	2.78	3.20
	5-Year Median	0.57	1.45	3.49	3.68
EV/EBITDA TTM	Current	8.74	7.81	17.75	16.73
	5-Year High	13.22	10.74	17.75	16.96
	5-Year Low	5.18	5.61	8.26	9.55
	5-Year Median	7.21	8.40	12.22	13.25

As of 02/10/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 18% (207 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Agilysys, Inc. (AGYS)	Neutral	3
Cardtronics PLC (CATM)	Neutral	3
Diebold Nixdorf, Incorporated (DBD)	Neutral	2
FARO Technologies, Inc. (FARO)	Neutral	3
PAR Technology Corporation (PAR)	Neutral	3
USA Technologies, Inc. (USAT)	Neutral	3
International Business Machines Corporation (IBM)	Underperform	3
Iteris, Inc. (ITI)	Underperform	5

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

Industry Comparison Industry: Computer - Integrated Systems				Industry Peers		
	NCR	X Industry	S&P 500	FARO	PAR	USAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	C	C
Market Cap	4.47 B	1.29 B	27.72 B	1.42 B	1.80 B	660.69 M
# of Analysts	6	3	13	1	1	3
Dividend Yield	0.00%	0.00%	1.42%	0.00%	0.00%	0.00%
Value Score	A	-	-	D	F	F
Cash/Price	0.34	0.10	0.06	0.12	0.03	0.05
EV/EBITDA	7.04	-20.76	14.81	-30.19	-250.77	-20.76
PEG F1	3.54	1.40	2.38	NA	NA	NA
P/B	4.25	4.40	3.81	4.54	22.78	7.16
P/CF	7.30	8.99	15.29	46.68	NA	NA
P/E F1	14.15	46.54	20.64	69.38	NA	NA
P/S TTM	0.72	2.12	3.04	4.52	8.65	4.38
Earnings Yield	7.27%	1.44%	4.77%	1.44%	-1.43%	-1.58%
Debt/Equity	3.11	0.09	0.68	0.00	1.57	0.15
Cash Flow (\$/share)	4.75	0.00	6.77	1.71	-0.13	-0.27
Growth Score	C	-	-	C	B	A
Historical EPS Growth (3-5 Years)	-5.26%	-4.35%	9.27%	-15.81%	NA	NA
Projected EPS Growth (F1/F0)	48.82%	50.35%	13.85%	470.97%	23.23%	52.94%
Current Cash Flow Growth	-19.53%	-18.41%	3.46%	13.79%	621.28%	-22.75%
Historical Cash Flow Growth (3-5 Years)	0.23%	-4.05%	7.74%	-4.05%	NA	NA
Current Ratio	1.19	1.50	1.38	3.05	3.05	1.06
Debt/Capital	77.12%	14.10%	41.31%	0.00%	61.10%	12.72%
Net Margin	-1.37%	-1.88%	10.58%	-24.28%	-14.14%	-20.03%
Return on Equity	21.20%	-0.04%	14.86%	-1.58%	-22.99%	-20.80%
Sales/Assets	0.66	0.75	0.51	0.68	0.96	0.84
Projected Sales Growth (F1/F0)	5.29%	1.99%	6.30%	25.53%	17.26%	0.13%
Momentum Score	B	-	-	D	B	D
Daily Price Change	-6.77%	0.06%	0.21%	-2.35%	2.70%	1.50%
1-Week Price Change	10.91%	6.48%	4.58%	11.11%	27.18%	-0.81%
4-Week Price Change	-0.86%	12.11%	1.11%	9.62%	25.36%	0.40%
12-Week Price Change	38.28%	37.38%	8.61%	21.95%	63.78%	17.26%
52-Week Price Change	4.24%	12.37%	8.77%	41.62%	165.21%	15.66%
20-Day Average Volume (Shares)	1,379,025	232,262	2,095,832	85,611	238,528	224,288
EPS F1 Estimate 1-Week Change	0.94%	0.00%	0.00%	0.00%	13.13%	-1.43%
EPS F1 Estimate 4-Week Change	2.10%	0.00%	0.59%	0.00%	13.13%	-1.43%
EPS F1 Estimate 12-Week Change	4.86%	-1.43%	1.77%	0.00%	13.13%	-1.43%
EPS Q1 Estimate Monthly Change	0.52%	-2.03%	0.22%	NA	0.00%	-50.00%

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	A
Growth Score	C
Momentum Score	B
VGM Score	A

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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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.