

NETGEAR, Inc. (NTGR)

\$38.43 (As of 06/21/21)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/21/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

Summary

NETGEAR is well positioned to capitalize on technology inflections, create new categories and build recurring service revenues to drive future growth. Rising demand for connected home products, improved supply chain and accretive subscriber base are likely to bolster its momentum in 2021. It is confident of retaining a competitive edge in new product introductions, based on the Wi-Fi 6 standards. Solid work-from-home networking market, backed by a robust demand environment, is a major tailwind as well. However, the company operates in a rapidly evolving and fiercely competitive market, and expects competition to intensify on price. High technological obsolescence of product portfolio leads to lower return on capital. Its business is highly seasonal in nature, which leads to volatility in cash flow and reduces the predictability of earnings.

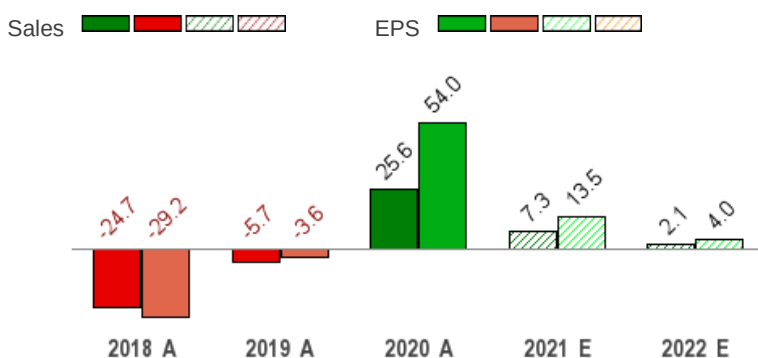
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$46.38 - \$23.50
20-Day Average Volume (Shares)	275,770
Market Cap	\$1.2 B
Year-To-Date Price Change	-5.4%
Beta	0.80
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computer - Networking
Zacks Industry Rank	Bottom 11% (225 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	322 E	331 E	355 E	366 E	1,374 E
2021	318 A	315 E	349 E	364 E	1,346 E
2020	230 A	280 A	378 A	367 A	1,255 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.90 E	\$0.84 E	\$0.87 E	\$0.93 E	\$3.40 E
2021	\$0.99 A	\$0.71 E	\$0.78 E	\$0.84 E	\$3.27 E
2020	\$0.21 A	\$0.54 A	\$1.13 A	\$0.99 A	\$2.88 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	50.0%
Last Sales Surprise	2.4%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	07/28/2021
Earnings ESP	0.0%
P/E TTM	10.5
P/E F1	11.8
PEG F1	NA
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/21/2021. The report's text and the

analyst-provided price target are as of 06/22/2021.

Overview

Incorporated in January 1996 and headquartered in San Jose, CA, NETGEAR, Inc. is a global telecommunications firm that offers innovative networking and Internet connected products for seamless networking, broadband access and network connectivity. The company's products are built on variety of proven technologies such as wireless (Wi-Fi and Long-Term Evolution or LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. These products are available in multiple configurations to address the evolving needs of customers in each geographic region where it operates. Leveraging its technological expertise, high volume manufacturing and engineering infrastructure, NETGEAR designs its products and services to meet the specific needs of consumer, business and service provider markets. The company customizes various elements of the software interface and product design, including component specification, physical characteristics such as casing, design and coloration to meet the individual needs of its clients.

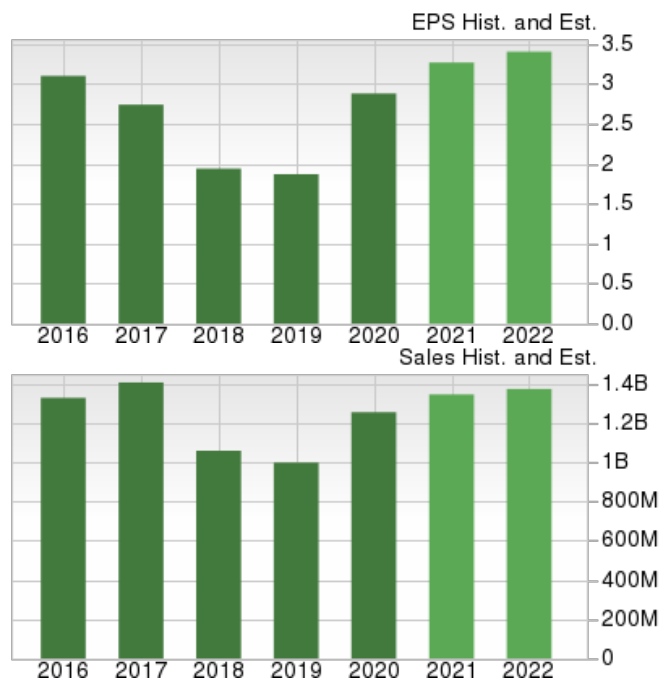
On Dec 31, 2018, NETGEAR completed the spin-off of the Arlo business through a distribution of 62,500,000 shares of Arlo Technologies stock to NETGEAR's shareholders. Prior to that, the company owned approximately 84.2% of Arlo's stock. Following the completion, the company no longer owns any shares of Arlo.

NETGEAR currently operates and reports under two segments: Connected Home, and Small and Medium Business (SMB).

Connected Home (accounting for 75.8% of net revenues in first-quarter 2021): Generating the lion's share of revenues, this segment offers high-performance, dependable and easy-to-use LTE and WiFi Internet networking solutions for consumers.

SMB (24.2%): Focused on small and medium-sized businesses, this segment comprises affordable business networking, storage and security solutions for enterprise-class functionality for small and medium-sized businesses.

The company conducts business across three geographic regions: Americas, Europe, Middle-East and Africa (EMEA) and Asia-Pacific (APAC).



Reasons To Buy:

- ▲ NETGEAR continues to capitalize on technology inflections, create new categories and build recurring service revenues to maintain its market leadership position and drive future growth. The company's revenues have been driven by the rapid increase in Internet connected devices such as smart phones, laptops, tablets and the advent of Smart Home and Internet of Things devices, which have boosted the need for robust networking solutions. An increased market demand for Smart Home and Internet-connected products such as Smart TVs, game consoles, High Definition (HD) streaming players, security cameras, thermostats and smoke detectors continues to drive innovations in networking. NETGEAR continues to focus on introducing products into growth areas which form the basis of Smart Homes as it strives to be the provider of industry-leading networking and smart connected products for consumers, business and service provider markets. Markedly, the company is on track to meet its goal of tapping 650,000 subscribers by the end of 2021, which indicates healthy potential for its long-term growth.
- ▲ NETGEAR intends to maintain a competitive edge with product launches, which hinge on affordability, reliability and ease of use, for consumer, business and service provider markets.
- ▲ NETGEAR is confident to retain a competitive edge in new product introductions, based on the Wi-Fi 6 standards. The company is excited to be part of AT&T's commitment to be the first to introduce mobile 5G services in the United States, and intends to launch more 5G related products. Furthermore, it has released Meural Canvas II. Notably, Meural is the world's leading smart digital canvas. NETGEAR also announced an exciting new Meural content partnership with National Geographic. In the last reported quarter, robust demand for work-from-home solutions like low port out switches supported by ProAV strength drove SMB's momentum.
- ▲ With an exponential growth in data traffic, consumers, businesses and service providers need a complete set of wired and wireless networking and broadband products that are tailored to their specific needs and budgets. The company's products are designed with an industrial appearance, including metal cases, the ability to mount the product within standard data networking racks as well as unique mounting solutions for other uses and targeting the business market. These products typically include higher port counts, higher data transfer rates and other performance characteristics designed to meet the needs of a business user, providing a competitive edge to outsmart its rivals. The company shipped nearly 4.1 million units, including 2.7 million nodes of wireless products in the first quarter.
- ▲ The company continues to introduce new products and services that hinge on affordability, reliability and ease of use. In order to capitalize on the increasing demand for cloud-based applications for small and medium-sized enterprises, NETGEAR is introducing next generation commercial products. These include Power over Ethernet (PoE) switches, Multi-gigabit Ethernet switches, high capacity local and remote unified storage, small to medium capacity campus wireless local area network (LAN), and security appliances. These products are likely to augment the effectiveness and efficiency of its hybrid cloud access network and strengthen its position in the market. With improved supply chain scenario, NETGEAR is likely to bolster positive cash flow and boost its paid subscriber base to drive the momentum in 2021. Solid work-from-home networking market backed by a robust demand environment is a major tailwind as well.

Reasons To Sell:

- ▼ NETGEAR's business is affected by geopolitical and economic conditions, and changes in the overall demand for networking and smart home product. The company's operating results are likely to be impacted by introduction of new products by competitors, slow growth in the networking product, personal computer and Internet infrastructure. A seasonal shift in end market demand for products, particularly in Connected Home business segment, is expected to impair growth. Moreover, the outbreak of coronavirus in China, an important region for its supply chain and end market sales, as well as in other countries doesn't bode well for near-term growth.
- ▼ The company functions in a rapidly evolving and fiercely competitive market and expects competition to intensify on price. Furthermore, it depends on a limited number of third-party manufacturers for substantially all of its manufacturing needs, primarily based in low-cost countries like China and Vietnam. With potential trade restrictions on China, NETGEAR is likely to lose its cost advantage and products can become pricier. The company's business is highly seasonal. It experiences increased sales in the third and fourth fiscal quarters primarily due to seasonal demand from consumer markets relating to the beginning of the school year and holiday season. This leads to volatility in cash flow and reduces the predictability of earnings.
- ▼ NETGEAR operates in a highly competitive and dynamic environment. Hence, its future success depends on its ability to develop new products that have broad market acceptance. In order to differentiate its products, the company has to continually invest in research and development activities, which strain its margins. In addition, high technological obsolescence of its product portfolio has led to lower return on capital.
- ▼ As of Mar 28, 2021, the company had \$363.5 million in cash and cash equivalents with \$361.3 million of total current liabilities. This compares with the respective tallies of \$353 million and \$365 million in the previous quarter. Although the company has favorable cash and cash equivalents, NETGEAR's dividend payout rate has reduced sequentially compared with 50.2% of the sub-industry. The rate has declined over the past few quarters, which indicates that the company is sharing less of its earnings with stockholders. It is to be seen how NETGEAR handles its business operations in the near future.

NETGEAR's business is highly seasonal and causes volatility in cash flow. The company operates in a dynamic environment that further strains its margins.

Last Earnings Report

NETGEAR Q1 Earnings Top Estimates, Outlook Raised

NETGEAR reported impressive first-quarter 2021 results, with the top and bottom lines surpassing the respective Zacks Consensus Estimate. Also, earnings and revenues increased significantly on a year-over-year basis backed by improved inventory position and growing subscriber base.

Net Income

On a GAAP basis, net income in the March quarter was \$23 million or 72 cents per share against net loss of \$4.2 million or loss of 14 cents per share in the year-ago quarter. The year-over-year improvement was mainly attributable to higher revenues.

Quarterly non-GAAP net income was \$31.6 million or 99 cents per share compared with \$6.4 million or 21 cents per share in the year-earlier quarter. The bottom line beat the Zacks Consensus Estimate by 33 cents.

Revenues

NETGEAR generated net revenues of \$317.9 million, up 38.3% year over year, primarily driven by strong demand for Wi-Fi 6 offerings. Exceptional growth in the connected home products (CHP) business in the retail channel and better-than-expected SMB further drove the performance. Also, the top line surpassed the consensus estimate of \$310 million. The company shipped nearly 4.1 million units, including 2.7 million nodes of wireless products in the first quarter.

Region wise, net revenues from the Americas were \$219.2 million (68.9% of net revenues), up 38.5% year over year. EMEA revenues were \$61.1 million (19.2%), up 44.9%. APAC revenues grew 27.2% to \$37.7 million (11.9%). Significant growth in the regions can be attributed to higher demand for premium mesh products in CHP business and accretive paid subscriber base, fueled by the work-from-home trend and improved shipments.

The number of registered app users in the reported quarter was 10 million. Notably, NETGEAR ended the quarter with 481,000 paid subscribers. With a recurring revenue stream, the company is on track to meet its goal of tapping 650,000 subscribers by the end of 2021, which indicates healthy potential for its long-term profitability growth.

Segmental Performance

Connected Home, which includes Nighthawk, Orbi, Nighthawk Pro Gaming and Meural brands, generated net revenues of \$240.9 million, up 46.3% year over year owing to robust product demand for premium Wi-Fi 6 solutions in the retail channel. Markedly, NETGEAR continues to hold about 43% share in U.S. retail Wi-Fi market, which includes mesh, routers, gateways and extenders.

Driven by recovering switching business, revenues from **SMB** improved 17.9% year over year to \$77 million. Robust demand for work-from-home solutions like low port out switches supported by ProAV strength drove the momentum. The company continues to hold about 56% share in U.S. retail switch market.

Other Details

Adjusted gross margin increased to 35.2% from 29.2% due to higher revenues. Non-GAAP operating margin was 13.3% compared with 3.6% in the year-ago quarter owing to higher operating income.

Cash Flow & Liquidity

During the first quarter, NETGEAR generated \$13.7 million in cash from operations, driven by robust liquidity position and strong operational execution. As of Mar 28, 2021, the company had \$363.5 million in cash and cash equivalents with \$361.3 million of total current liabilities.

Q2 Outlook

For the second quarter of 2021, NETGEAR anticipates revenues in the range of \$305 million to \$320 million compared with \$300 million to \$315 million in the prior quarter. GAAP operating margin is estimated between 6.5% and 7.5%, up from 4.5-5.5% in the first quarter. Non-GAAP operating margin is expected between 9% and 10% compared with 8% and 9% in the previous quarter.

Moving Forward

With improved supply chain scenario, NETGEAR is poised to witness recurring top-line growth. It remains confident of maintaining its leadership in new product introduction, based on the Wi-Fi 6 standards. This, in turn, is likely to drive positive cash flow amid competitive macro environment. NETGEAR aims to emerge as a pioneer of best-in-class networking technologies like Wi-Fi 6 and Pro AV, thereby benefiting from advanced technological innovations. It intends to capitalize on technology inflections, create new categories, build recurring service revenues and boost its paid subscriber base to drive the momentum in 2021.

Quarter Ending	03/2021
Report Date	Apr 21, 2021
Sales Surprise	2.42%
EPS Surprise	50.00%
Quarterly EPS	0.99
Annual EPS (TTM)	3.65

Recent News

On May 25, 2021, NETGEAR announced the availability of its Smart Parental Controls service on select Nighthawk Wi-Fi routers and Orbi Mesh Wi-Fi systems. Smart Parental Controls allows parents to manage and monitor the content their young children see online. It provides the tools to create schedules to automatically shut down online access and set up time limits for specific applications. The service is expected to be available in a phased manner across Wi-Fi 6 Orbi Mesh systems and Nighthawk Wi-Fi 6 products later this year.

On Apr 27, 2021, NETGEAR unveiled Insight Managed Wi-Fi 6 AX3600 Dual-band Multi-gig Access Point (WAX620). The device is specifically designed to cater to the networking requirements of small and medium businesses with enhanced Wi-Fi experience.

Valuation

NETGEAR's shares are up 2.2% and 51.3% over the past six months and trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 18.6% over the past six months, while stocks in the Zacks Computer and Technology sector are up 15.5% in the same period. Over the past year, the Zacks sub-industry is up 17.2% and the sector is up 43.9%.

The S&P 500 Index is up 13.3% in the past six months, and up 35.1% in the past year.

The stock is currently trading at 6.39X trailing 12-month EV/EBITDA, which compares to 11.2X for the Zacks sub-industry, 16.38X for the Zacks sector and 17.1X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.09X and as low as 5.31X, with a 5-year median of 9.21X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$42 price target reflects 25.93X trailing 12-month book value.

The table below shows summary valuation data for NTGR

Valuation Multiples - NTGR					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	6.39	11.2	16.38	17.1
	5-Year High	19.09	13.96	17.15	17.74
	5-Year Low	5.31	5.14	9.07	9.63
	5-Year Median	9.21	8.05	12.46	13.47
P/B TTM	Current	1.62	5.17	9.99	6.93
	5-Year High	3.27	6.17	10.09	7.08
	5-Year Low	0.76	2.16	4.44	3.84
	5-Year Median	1.83	4.38	5.86	5.02
P/S F12M	Current	0.86	3.96	4.87	4.63
	5-Year High	1.58	4.28	4.87	4.74
	5-Year Low	0.46	2.76	2.8	3.21
	5-Year Median	0.99	3.43	3.53	3.72

As of 06/21/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Cisco Systems, Inc. (CSCO)	Neutral	4
Digi International Inc. (DGII)	Neutral	4
Extreme Networks, Inc. (EXTR)	Neutral	2
Infinera Corporation (INFN)	Neutral	4
Intrusion Inc. (INTZ)	Neutral	3
Lantronix, Inc. (LTRX)	Neutral	3
NetScout Systems, Inc. (NTCT)	Neutral	3
Radcom Ltd. (RDCM)	Neutral	4

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

Industry Comparison Industry: Computer - Networking				Industry Peers		
	NTGR	X Industry	S&P 500	EXTR	INFN	NTCT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	3
VGM Score	A	-	-	B	B	B
Market Cap	1.17 B	195.05 M	29.97 B	1.35 B	2.03 B	2.17 B
# of Analysts	4	2	12	3	6	2
Dividend Yield	0.00%	0.00%	1.35%	0.00%	0.00%	0.00%
Value Score	A	-	-	C	C	B
Cash/Price	0.32	0.17	0.06	0.15	0.12	0.22
EV/EBITDA	8.92	5.32	17.02	-88.74	-87.28	14.74
PEG F1	NA	3.40	2.08	NA	NA	3.40
P/B	1.62	1.97	4.11	38.28	5.14	1.08
P/CF	15.07	20.26	17.39	23.12	33.65	11.36
P/E F1	11.68	18.09	20.94	19.17	NA	17.00
P/S TTM	0.87	1.94	3.39	1.42	1.49	2.62
Earnings Yield	8.51%	2.43%	4.67%	5.25%	-0.10%	5.90%
Debt/Equity	0.00	0.07	0.66	9.18	1.16	0.17
Cash Flow (\$/share)	2.55	0.46	6.83	0.46	0.29	2.60
Growth Score	A	-	-	A	A	C
Historical EPS Growth (3-5 Years)	-21.52%	-6.90%	9.59%	-18.96%	NA	-7.14%
Projected EPS Growth (F1/F0)	13.45%	7.14%	21.57%	456.67%	94.74%	2.06%
Current Cash Flow Growth	70.86%	-19.16%	0.99%	-19.16%	-632.64%	-0.96%
Historical Cash Flow Growth (3-5 Years)	-5.06%	2.14%	7.28%	8.29%	-15.70%	-5.58%
Current Ratio	2.58	2.38	1.39	1.01	1.81	1.76
Debt/Capital	0.00%	7.83%	41.51%	90.17%	53.65%	14.86%
Net Margin	6.36%	-2.65%	11.95%	-3.13%	-11.49%	2.33%
Return on Equity	12.82%	-3.95%	16.48%	71.36%	-8.51%	4.44%
Sales/Assets	1.28	0.84	0.51	0.99	0.84	0.27
Projected Sales Growth (F1/F0)	7.23%	3.20%	9.41%	5.26%	5.47%	2.31%
Momentum Score	C	-	-	D	B	D
Daily Price Change	0.60%	0.60%	1.40%	2.50%	1.13%	1.24%
1-Week Price Change	-6.81%	-5.64%	-0.71%	-9.32%	-7.39%	-5.64%
4-Week Price Change	1.32%	-0.39%	0.66%	-5.74%	5.56%	5.59%
12-Week Price Change	-5.86%	1.86%	6.39%	25.97%	1.86%	4.72%
52-Week Price Change	50.94%	42.41%	35.50%	142.50%	62.77%	18.67%
20-Day Average Volume (Shares)	275,770	99,042	1,885,424	816,180	1,936,391	363,126
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.01%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-13.59%	-9.09%	3.59%	36.07%	-50.60%	0.00%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	0.00%	0.00%	0.00%
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	A
Momentum Score	C
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 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.