

Nutanix Inc. (NTNX)

\$27.98 (As of 08/28/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Nutanix is gaining from a steady expansion of its customer base as reflected by the fourth-quarter results. Moreover, adoption rate of the company's AHV hypervisor has been strong as customers continued to opt for it as a low-cost alternative to other vendor offerings. Further, a healthy pipeline of big deals is a tailwind. The company's transition to software-only sales will boost its margins over the long-run. Additionally, it is expected to benefit from the growth prospects of the hyper-converged infrastructure (HCI) market, over the long term. However, lower hardware revenues are expected to drag down the top line in the near term. Moreover, the ongoing transition to a subscription-based business model is expected to hurt the top line, at least in the near term. Notably, shares have underperformed the industry year to date.

Data Overview

52-Week High-Low	\$37.86 - \$11.31
20-Day Average Volume (Shares)	2,007,314
Market Cap	\$5.5 B
Year-To-Date Price Change	-10.3%
Beta	1.91
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Bottom 28% (181 out of 252)

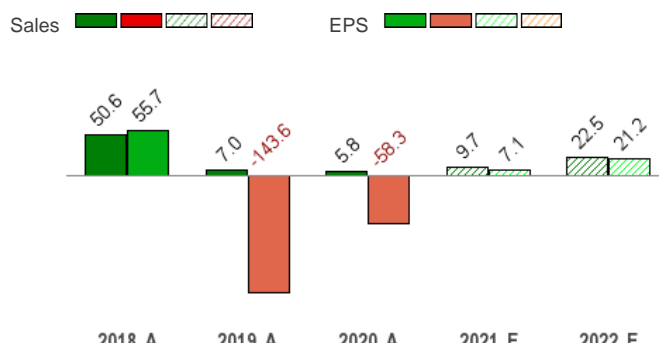
Last EPS Surprise	41.8%
Last Sales Surprise	2.1%
EPS F1 Estimate 4-Week Change	-0.9%
Expected Report Date	NA
Earnings ESP	2.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	4.2

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	395 E	425 E	456 E	492 E	1,758 E
2021	330 E	361 E	357 E	385 E	1,435 E
2020	315 A	347 A	318 A	328 A	1,308 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.50 E	-\$0.42 E	-\$0.42 E	-\$0.36 E	-\$1.75 E
2021	-\$0.61 E	-\$0.52 E	-\$0.57 E	-\$0.53 E	-\$2.22 E
2020	-\$0.71 A	-\$0.60 A	-\$0.69 A	-\$0.39 A	-\$2.39 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 08/28/2020. The reports text is as of 08/31/2020.

Overview

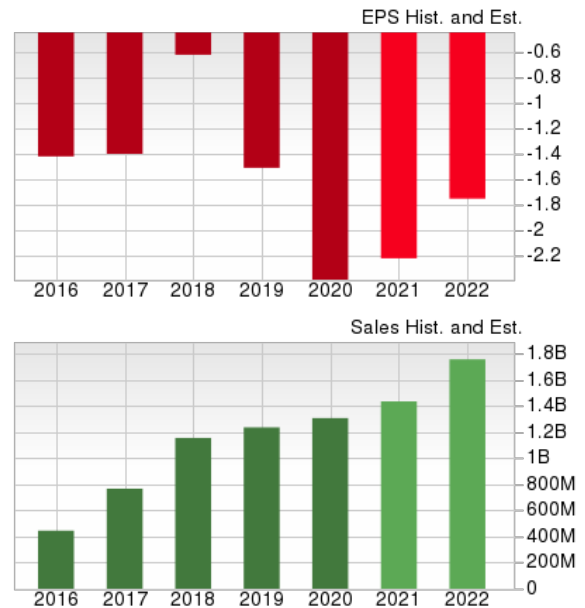
San Jose, CA-based Nutanix Inc. provides enterprise cloud operating system that combines server, storage, virtualization and networking software into one integrated solution. Nutanix's solution can be delivered either as an appliance that is configured to order or as software only. The company currently offers two software product families — Acropolis and Prism.

Acropolis includes Distributed Storage Fabric (DSF) that supports a wide variety of enterprise applications and has the capability to operate both virtualized and non-virtualized applications. The solution also includes Application Mobility Fabric (AMF), leading to increasing levels of application placement, conversion and migration across different hypervisors and public clouds. It also has a built-in Acropolis hypervisor (AHV), based on Linux KVM.

Prism helps in automating IT management. The solution enables efficient regulation of enterprise-wide deployments by serving as a central administration point to manage multiple clusters and hypervisors (including VMware ESXi environments) within a datacenter or across multiple sites. Prism is built with HTML5 and can be accessed from any connected device that is HTML5-enabled including smartphones and tablets.

Nutanix generated revenues of \$1.31 billion in fiscal 2020. Subscriptions, Non-Portable Software, Hardware and Professional Services accounted for 78.8%, 15.9%, 1.8% and 3.5% of revenues, respectively.

The company faces stiff competition from software providers, such as VMware; traditional IT systems vendors, namely Cisco Systems, Dell, Hewlett Packard Enterprise, Hitachi Data Systems, IBM and Lenovo; traditional storage array vendors like NetApp and providers of public cloud infrastructure and services, such as Amazon, Google and Microsoft.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Nutanix is considered a pioneer of hyper converged infrastructure (HCI) market, which is projected to grow rapidly in the long term. Market research firm, Gartner, has placed Nutanix as a leader in its “Magic Quadrant for Hyperconverged Infrastructure.” Strong adoption of its products and high customer satisfaction rate are expanding the customer base. This along with recurring revenue stream is expected to drive the momentum in top-line growth.
- ▲ Nutanix’s software-defined HCI solutions support multi-hypervisor and multi-cloud with unified management. Nutanix’s solutions are primarily deployed in large and centralized data centers. The company’s built-in hypervisor has been gaining significant traction as customers continue to select it as a low-cost alternative to other vendor offerings. Nutanix’s cloud-based deployment strategy is a differentiator. The company’s Xi Cloud Services is expected to challenge AWS, Microsoft Azure and Google Cloud in the IaaS market.
- ▲ Nutanix’s products like Beam, Era, and Flow are gaining traction in the hybrid cloud market. Flow helps customers in securing network traffic and monitor whether applications are running optimally. Era helps companies strengthen their enterprise PaaS offering by including database. Nutanix Beam or multi-cloud cost governance and security compliance application is the company’s first SaaS offering. Management expects Beam to become the policy engine that will drive mobility of applications between on-premise and off-premise, in the long haul.
- ▲ The company’s growing recurring revenue stream reflects customer loyalty to Nutanix’s solution, which improves visibility of revenue growth trajectory. Moreover, expanding customer base will continue to drive top-line growth. During fourth-quarter fiscal 2020, the company added 780 new customers, bringing the total client numbers to 17,360. Besides, its transition to software-only sales is expected to significantly boost gross margin. Notably, gross margin improved from 78% in fiscal 2019 to 81% in fiscal 2020.
- ▲ Nutanix is a cash rich company. As of Jul 31, 2020 the company had cash and cash equivalents of nearly \$719.8 million, which is higher than convertible senior notes worth \$490.2 million. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions and investment in growth initiatives.

Nutanix’s dominance in HCI market, new cloud-based products, expanding customer base and improving gross margin due to transition to software-only sales are key catalysts.

Reasons To Sell:

- ▼ Nutanix faces significant competition in most of the markets it operates. In the hypervisor market it faces intense competition from VMware. Moreover, in the hyperconverged infrastructure market it faces competition from VMware, Cisco, Hewlett Packard Enterprise, Dell and others. While NetApp has already launched its first hyper converged solution, Hewlett Packard Enterprise and Cisco has acquired SimpliVity and Springpath to enter the hyper converged market. Moreover, these well-established companies enjoy significant pricing power that doesn't bode well for Nutanix.
- ▼ Nutanix's Xi Cloud Service is expected to face intense competition in the public cloud infrastructure market, particularly from Amazon, which is the dominant player. Moreover, Microsoft and Google are also gaining ground in this fast-growing market.
- ▼ Nutanix continues to acquire a large number of companies. While this improves revenue opportunities, it significantly increases integration risks.
- ▼ Nutanix has reported losses since its inception. As of Jul 31, 2020, accumulated deficit was \$2.52 billion. Moreover, the company's increased level of investments is expected to hurt profitability, at least in the near term. In fiscal 2020, non-GAAP operating loss was \$828.9 million much wider than \$598 million reported in fiscal 2019. This doesn't bode well for investors.

Intense competition, delay in the Xi Cloud Service and integration risks related to frequent acquisitions are key concerns.

Last Earnings Report

Nutanix Surpasses Q4 Earnings & Revenue Estimates

Nutanix incurred fourth-quarter fiscal 2020 loss of 39 cents per share, beating the Zacks Consensus Estimate by 41.8%. Moreover, the figure was narrower than the year-ago quarter's loss of 57 cents.

Revenues increased 9.3% year over year to \$327.9 million and also beat the consensus mark by 2.1%.

Quarter Ending **07/2020**

Report Date	Aug 27, 2020
Sales Surprise	2.05%
EPS Surprise	41.79%
Quarterly EPS	-0.39
Annual EPS (TTM)	-2.39

Top-Line Details

Product revenues (54.6% of revenues) fell 3.9% year over year to \$179.1 million. Support, entitlements & other services revenues (45.4% of revenues) surged 31.1% to \$148.8 million.

Subscription revenues (86.9% of revenues) jumped 45.6% from the year-ago quarter to \$284.8 million. Professional services revenues (3.7% of revenues) grew 34.8% to \$12.2 million.

Non-Portable Software revenues (9% of revenues) plunged 64.1% year over year to \$29.5 million. Moreover, hardware revenues (0.4% of revenues) plummeted 89.2% to \$1.4 million.

Software and Support revenues were \$326.5 million, up 14% year over year.

Billings were up 4.5% year over year to \$388.5 million. Software and Support billings were \$387.1 million, up 7.9% year over year.

Annual Contract Value billings were \$139.9 million, up 13% year over year.

During the fiscal fourth quarter, the company added 780 new customers, bringing the total number of clients to 17,360. The company added 10 Global 2000 customers bringing the total count to 910. Global 2000 customers continued to be approximately 30% of Nutanix's business.

Notable customer wins in the reported quarter included AIB Group, Cadence Design Systems, Dongfeng Renault, MayBank Singapore, QBE Insurance, and more.

Moreover, the company launched Nutanix Hybrid Cloud Infrastructure on Amazon Web Services ("AWS"), the cloud arm of Amazon.

Nutanix added several new capabilities to its Desktop-as-a-Service solution, Xi Frame, including enhanced onboarding for on-premises desktop workloads on Nutanix AHV. The company also expanded support for user-profile management and the ability to convert Windows Apps into Progressive Web Apps and increased regional support to 69 regions across Microsoft Azure, GCP and AWS.

The company also launched new solutions that allow IT teams to deploy, upgrade and troubleshoot their cloud infrastructure while working from anywhere. These solutions are delivered through Nutanix Foundation Central, Insights and Lifecycle Manager - all of which are available as part of Nutanix software at no additional cost to customers.

Operating Details

In the fiscal fourth quarter, Nutanix's non-GAAP gross margin expanded 300 basis points (bps) year over year to 83%.

Sales & marketing, on a non-GAAP basis as percentage of revenues, declined 550 bps year over year to 70.1%. Research & development expenses as percentage of revenues fell 310 bps to 29.1%. Moreover, general & administrative expenses as percentage of revenues declined 90 bps to 6.2%.

Operating expenses on a non-GAAP basis as percentage of revenues declined 940 bps to 105.5%.

As a result, non-GAAP operating loss narrowed from \$104.6 million to \$73.6 million in the reported quarter.

Balance Sheet & Cash Flow

As of Jul 31, 2020, cash and cash equivalents plus short-term investments were \$719.8 million compared with \$732 million as of Apr 30, 2020.

Cash flow from operations was \$3.6 million compared with the outflow of \$163.5 million in the previous quarter.

Free-cash outflow was \$13.8 million compared with the prior quarter's \$17.5 million.

Deferred revenues surged 30% year over year to \$1.18 billion at the end of the reported quarter.

Debt Deal With Bain Capital

Nutanix announced that Bain Capital Private Equity has agreed to invest \$750 million in convertible notes. The company plans to use the investment to support its growth initiatives.

Moreover, in connection with the investment, David Humphrey and Max de Groen, managing directors of Bain Capital, will join the Nutanix's board of directors following the close of this transaction, which is expected to occur in late September.

Management Change

Nutanix also announced that Chairman and CEO Dheeraj Pandey plans to retire from the management team upon the selection and appointment of the next CEO.

Recent News

On Aug 26, Nutanix announced that Korea Western Power Co., Ltd. has deployed the company's hyper-converged infrastructure software.

On Aug 19, Nutanix announced the launch of a first-of-its-kind joint innovation lab in collaboration with Intel.

On Aug 11, Nutanix announced general availability of Nutanix Clusters on AWS. This extends the flexibility and ease of use of the company's hyper-converged infrastructure software to bare metal Amazon Elastic Compute Cloud (Amazon EC2) instances on AWS.

On Aug 5, Nutanix revealed that one of China's largest robotics manufacturers, has implemented Nutanix HCI software to modernize its IT infrastructure.

On Jul 15, Nutanix announced that its Nutanix Files product has been implemented by the University of Reading which will enable the university to simplify IT management and increase ease of scalability.

On Jul 8, Nutanix revealed that that Birmingham City Council's Information, Technology and Digital Service (IT&D) has teamed up with Nutanix to migrate its legacy hardware to a hybrid cloud infrastructure.

On May 21, Nutanix announces new automation capabilities to its Nutanix Calm product to help customers simplify IT operations and costs during the coronavirus crisis.

On May 20, Nutanix revealed that Delaware Valley Community Health selected its private cloud infrastructure that will enable approximately 75% of the latter's workforce to work remotely and provide telehealth to the patients.

On May 13, Nutanix announced promoting Christian Alvarez to Senior Vice President of Worldwide Channels.

The company also revealed that SMART Technology selected Nutanix to help consolidate and replace its legacy IT systems to optimize performance, cost and resources.

Valuation

Nutanix's shares have lost 10.3% so far this year while have gained 15.6% over the trailing 12 months. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector have increased 26.5% and 28.7% in the year-to-date period (YTD), respectively. Over the past year, the Zacks sub-industry and the sector have gained 28.3% and 44.2%, respectively.

The S&P 500 Index has increased 9% YTD and 20.2% in the past year.

The stock is currently trading at 3.95X forward 12-month sales, which compares to 6.13X for the Zacks sub-industry, 4.32X for the Zacks sector and 3.84X for the S&P 500 index.

Over the past three years, the stock has traded as high as 8.16X and as low as 1.57X, with a 3-year median of 4.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 4.15X forward 12-month sales.

The table below shows summary valuation data for NTNX

Valuation Multiples - NTNX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.95	6.13	4.32	3.84
	5-Year High	8.16	10.11	4.32	3.84
	5-Year Low	1.57	3.9	2.62	2.76
	5-Year Median	4.39	5.58	3.24	3.19
EV/Sales TTM	Current	4.08	6.33	5.05	3.45
	5-Year High	9.6	6.33	5.05	3.46
	5-Year Low	1.39	3.59	3.05	2.24
	5-Year Median	4.86	5.45	3.84	3.04

As of 08/28/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (181 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
CDW Corporation (CDW)	Neutral	1
Cisco Systems, Inc. (CSCO)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
Hewlett Packard Enterprise Company (HPE)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
NetApp, Inc. (NTAP)	Neutral	4
VMware, Inc. (VMW)	Neutral	3

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

Industry Comparison Industry: Computers - It Services				Industry Peers		
	NTNX	X Industry	S&P 500	CDW	HPE	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	1	3	3
VGM Score	F	-	-	B	A	B
Market Cap	5.46 B	3.18 B	23.71 B	16.46 B	12.63 B	61.22 B
# of Analysts	11	5	14	7	6	11
Dividend Yield	0.00%	0.00%	1.63%	1.32%	4.88%	0.00%
Value Score	F	-	-	B	A	D
Cash/Price	0.18	0.07	0.07	0.06	0.43	0.10
EV/EBITDA	-10.53	10.10	13.37	14.07	4.98	24.81
PEG F1	NA	2.31	3.08	1.53	1.49	1.83
P/B	NA	3.98	3.22	15.59	0.78	8.25
P/CF	NA	13.15	12.90	14.32	2.59	21.87
P/E F1	NA	34.88	21.82	19.98	7.44	24.30
P/S TTM	4.17	2.61	2.52	0.90	0.47	5.50
Earnings Yield	-7.92%	2.15%	4.41%	5.00%	13.43%	4.11%
Debt/Equity	-3.29	0.24	0.74	3.66	0.85	0.78
Cash Flow (\$/share)	-2.48	1.13	6.94	8.05	3.79	6.68
Growth Score	D	-	-	C	B	B
Historical EPS Growth (3-5 Years)	NA%	17.84%	10.41%	22.51%	-3.21%	13.76%
Projected EPS Growth (F1/F0)	7.04%	-3.34%	-4.94%	-5.36%	-25.33%	-3.67%
Current Cash Flow Growth	121.11%	13.18%	5.22%	10.39%	-2.58%	0.87%
Historical Cash Flow Growth (3-5 Years)	NA%	15.72%	8.50%	13.51%	-3.09%	13.69%
Current Ratio	1.54	1.50	1.35	1.47	0.99	0.87
Debt/Capital	NA%	31.36%	43.86%	78.53%	45.87%	43.71%
Net Margin	-66.75%	2.73%	10.25%	4.09%	0.00%	15.94%
Return on Equity	-1,175,319.00%	9.12%	14.66%	94.36%	11.51%	29.11%
Sales/Assets	0.71	0.74	0.50	2.23	0.50	0.44
Projected Sales Growth (F1/F0)	9.75%	1.50%	-1.43%	-2.27%	-8.45%	11.83%
Momentum Score	F	-	-	D	A	C
Daily Price Change	29.17%	0.75%	0.71%	0.44%	2.72%	2.23%
1-Week Price Change	-1.04%	-0.83%	-1.45%	-2.09%	-3.52%	2.21%
4-Week Price Change	26.38%	2.97%	4.59%	-0.30%	2.18%	5.19%
12-Week Price Change	15.44%	15.44%	4.86%	-1.21%	-6.20%	-1.34%
52-Week Price Change	16.74%	11.82%	3.09%	0.56%	-28.14%	7.63%
20-Day Average Volume (Shares)	2,007,314	464,452	1,887,168	743,049	10,883,052	1,178,593
EPS F1 Estimate 1-Week Change	-0.64%	0.00%	0.00%	0.00%	5.45%	0.00%
EPS F1 Estimate 4-Week Change	-0.90%	0.23%	0.79%	6.95%	5.45%	0.00%
EPS F1 Estimate 12-Week Change	-0.90%	0.64%	3.43%	5.79%	6.16%	0.00%
EPS Q1 Estimate Monthly Change	-0.97%	0.14%	0.00%	5.33%	6.39%	0.00%

Source: Zacks Investment Research

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.