

Newell Brands Inc. (NWL)

\$15.98 (As of 08/31/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Shares of Newell have outpaced the industry in the past three months. The stock's momentum is attributed to the company's fourth straight quarter of earnings beat reported in second-quarter 2020. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns. Moreover, e-commerce performed well with core sales growth in June. Also, it is progressing well with its turnaround plans, such as SKU reduction efforts, Project FUEL and other cost-cutting actions. However, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts, such as supply-chain disruptions, soft demand and macroeconomic headwinds. In fact, soft core sales and foreign currency headwinds weighed on the company's overall top line in the second quarter.

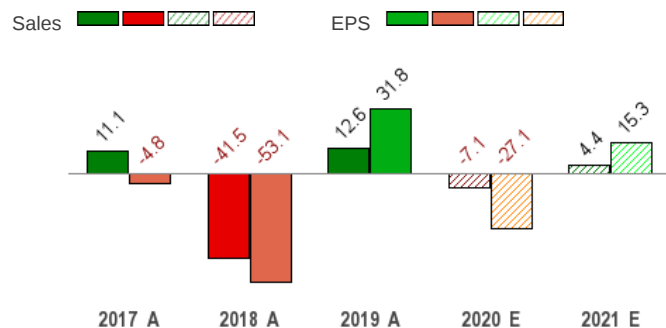
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$20.99 - \$10.44
20-Day Average Volume (Shares)	2,450,557
Market Cap	\$6.8 B
Year-To-Date Price Change	-16.9%
Beta	1.04
Dividend / Dividend Yield	\$0.92 / 5.8%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 44% (110 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	66.7%
Last Sales Surprise	4.0%
EPS F1 Estimate 4-Week Change	7.2%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	10.4
P/E F1	12.9
PEG F1	2.2
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,969 E	2,373 E	2,567 E	2,628 E	9,421 E
2020	1,886 A	2,111 A	2,437 E	2,571 E	9,024 E
2019	1,712 A	2,117 A	2,451 A	2,624 A	9,715 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.09 E	\$0.40 E	\$0.52 E	\$0.48 E	\$1.43 E
2020	\$0.09 A	\$0.30 A	\$0.42 E	\$0.44 E	\$1.24 E
2019	\$0.14 A	\$0.45 A	\$0.73 A	\$0.42 A	\$1.70 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 08/31/2020. The reports text is as of 09/01/2020.

Overview

Atlanta, GA-based Newell Brands Inc. is a global manufacturer and marketer of consumer and commercial products, including Paper Mate, Sharpie, Dymo, EXPO, Parker, Elmer's, Marmot, Oster, Rubbermaid, Sunbeam, FoodSaver, Graco, Baby Jogger, and others. The products cater to indoor and outdoor organizations and include food and home storage products, stationery, art supplies, power tool accessories, hardware, outdoor recreation products, household staples, aluminum and steel cookware, as well as infant care products.

Post restrucutral changes, teh company operates five segmets as of second-quarter 2002, which are as follows:

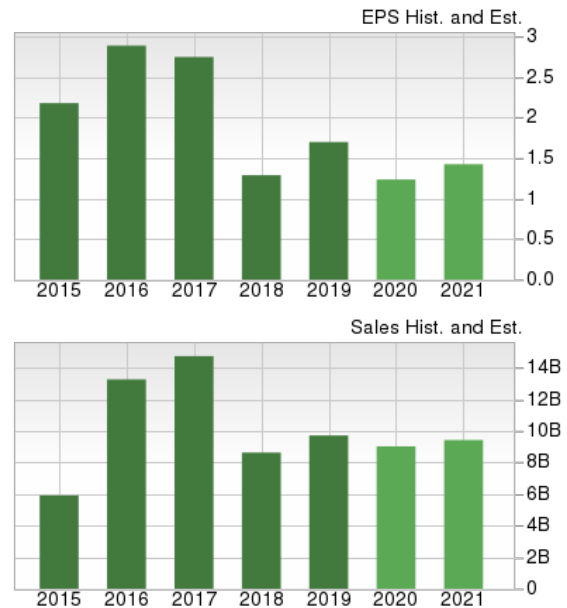
The **Home & Outdoor Living** segment (contributed 16.8% to net sales in second-quarter 2020) includes outdoor products, home fragrance products as well as connected home and security products. It comprises brands like Coleman, Contigo, ExOfficio, First Alert, Marmot, Chesapeake Bay Candle, WoodWick and Yankee Candle.

The **Learning & Development** segment (29.9%) encompasses writing instruments such as markers, highlighters, pens, pencils; art products; cutting products; activity-based adhesive and labeling solutions; baby gear and infant care products. The segment includes brands like Sharpie, Expo, Graco, Baby Jogger, Mr. Sketch, NUK, Paper Mate, Parker, Prismacolor, Tigex, Waterman and X-Acto.

The **Appliances & Cookware** segment (17%) includes household products such as kitchen appliances products, gourmet cookware, bakeware and cutlery products. The unit comprises brands like Mr. Coffee, Calphalon, Crock-Pot, Sunbeam and Oster.

The **Commercial Solution** segment (19.5%) encompasses food and home storage products as well as fresh preserving, vacuum sealing, commercial cleaning and maintenance solutions, hygiene systems and handling solutions products. The segment includes brands like Rubbermaid Commercial Products, Ball, FoodSaver, and Sistema.

The **Outdoor and Recreation** segment (16.7%) includes outdoor activities and sporting goods products, skiing and snowboarding equipment, skates and accessories as well as basketball and softball game-related product lines. The segment include brands such as Coleman, Contigo, Marmot to name a few.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Earnings Trend:** Shares of Newell have rallied 15.3% in the past three months against the industry's decline of 7%. The company has been witnessing steady bottom-line performance for a while now, recording the fourth straight quarter of earnings beat in second-quarter 2020. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns. Moreover, e-commerce performed well with core sales growth in June. Notably, the company is witnessing sales growth in a few categories, stemming from the ongoing crisis. This reflects that consumer preference has shifted to certain products, owing to which the company's Food, Commercial, Appliances & Cookware and Outdoor & Recreation categories are benefiting.

Consumers' shifting preference for essential items is benefiting Newell Brands' Food business segment. Also, robust e-commerce sales and Project FUEL plan act as growth drivers.

▲ **Focus Areas in 2020:** Post the success of the transformation plan, management is progressing well with its Project FUEL plan for 2020 that focuses on enhancing productivity in a bid to offset revenue declines. The company is working toward increasing efficiency in manufacturing plants, procurement and distribution centers. Also, it plans to leverage its robust e-commerce capabilities, which have remained strong for some time now. The company's global e-commerce penetration rose to 33% in the second quarter. Its online POS penetration was up 800 basis points on a year-over-year basis. With consumers increasingly shifting to online platform due to the ongoing COVID-19 pandemic, Newell witnessed double-digit growth online for yet another quarter. This positive trend is likely to continue in the near term. Also, the company remains well positioned to gain from consumers shifting preference to online channel.

▲ **Declining SG&A Trend:** Newell Brands has been witnessing improvement in SG&A expenses for quite some time now. Notably, SG&A fell 20.3% to \$488 million in second-quarter 2020, following a decline of 3.7% and 5% in the preceding two quarters. Persistence of this trend is likely to have a favorable impact on the company's bottom line in the near future.

Reasons To Sell:

▼ **Lower Core Sales:** Newell has been witnessing soft core sales for the past few quarters. In second-quarter 2020, core sales dropped 12.6%, led by declines of 23.5%, 1.9%, 6.8% and 21.6% in Learning & Development, Home & Outdoor Living, Commercial Solution, and Outdoor and Recreation segments, respectively. Additionally, soft core sales and foreign currency headwinds weighed on the company's overall top line, which declined 14.9% on a year-over-year basis. In fact, the metric declined more than 25% in the month of April, recording its worst performance. Moreover, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts such as supply-chain disruptions, soft demand and macroeconomic headwinds.

Newell Brands is reeling under soft core sales and currency headwinds remain. Also, management withdrew guidance as a result of uncertain COVID-19 impacts.

▼ **Debt Analysis:** Newell ended second-quarter 2020 with a total debt of \$5,781 million, down 7.6% from \$5,375 million in the prior quarter. Moreover, interest expenses rose 12.7% sequentially to \$71 million in the second quarter. Also, debt-to-capitalization ratio of 0.66 reflects a sequential increase from 0.65 at the end of the prior quarter. Further, the company's debt load appears too high when compared with cash and cash equivalents of \$619 million as of Jun 30. Higher debt level may adversely impact the company's creditworthiness and make it more susceptible to macro-economic factors and competitive pressures. Although the company has undertaken steps such as SKU reduction efforts, Project FUEL and other cost-cutting actions in a bid to overcome the hurdle, it is yet to bore fruits.

▼ **Currency Headwinds:** Newell remains exposed to the impacts of adverse currency due to its vast global operations. Notably, the company's net sales in the recent quarters reflect significant impacts of unfavorable foreign currency. Currency headwinds also hurt results at all of its operating segments. Going ahead, any significant unfavorable movement in foreign currency is likely to affect the company's profitability in the near term.

Last Earnings Report

Newell Brands Beats Q2 Earnings & Sales Estimates

Newell Brands reported better-than-expected second-quarter 2020 results. However, both the bottom and top lines declined year over year. Despite the challenging economic situation surrounding the coronavirus outbreak, the company has witnessed an improving top-line trend and robust consumption patterns.

Moreover, e-commerce performed well with core sales growth in June. Also, it is progressing well with its turnaround plans such as SKU reduction efforts, Project FUEL and other cost-cutting actions.

However, Newell Brands withdrew its 2020 outlook due to uncertain COVID-19 impacts such as supply-chain disruptions, soft demand and macroeconomic headwinds.

Q2 Highlights

Newell's second-quarter normalized earnings per share were 30 cents, which outpaced the Zacks Consensus Estimate of 18 cents. However, the metric fell 30.2% from 43 cents earned in the year-ago period.

Net sales declined 14.9% year over year to \$2,111 million but surpassed the Zacks Consensus Estimate of \$2,030 million. The year-over-year fall resulted from foreign-currency headwinds, supply-chain disruptions stemming from COVID-19 and soft core sales, which dropped 12.6%.

Normalized gross margin and operating margin contracted 330 basis points (bps) and 200 bps to 31.6% and 10.2% in the quarter under review, respectively.

Segmental Performance

The **Appliances & Cookware** segment (including Writing and Baby) recorded net sales of \$359 million in the second quarter, down 0.8% from the prior-year number. The downside can be attributable to unfavorable foreign currency, which more than offset the segment's core sales growth of 6.1%.

Net sales at the **Home & Outdoor Living** segment (including Outdoor & Recreation, Home Fragrance, and Connected Home & Security) totaled \$355 million, declining 4.6% from the prior-year period. The segment's top line was hurt by unfavorable currency and a 1.9% decline in core sales. Despite positive core sales growth in the Food business unit, a decline in Home Fragrance as a result of temporary closure of all North American retail stores due to the COVID-19 pandemic hurt segmental growth.

The **Learnings and Development** segment recorded net sales of \$631 million, which fell 25.7% from the prior-year number. This resulted from a 23.5% decline in core sales and currency headwinds.

Net sales at the **Commercial Solution** segment were \$413 million, which fell 9% on core sales decline of 6.8% and adverse currency. Further, sluggishness in Connected Home & Security more than offset the positive core sales trend at the Commercial business unit.

The **Outdoor and Recreation** segment recorded net sales of \$353 million, which decreased 20.3% from the prior-year number. This resulted from a 21.5% decline in core sales and currency headwinds.

Other Financial Details

Newell ended the quarter with cash and cash equivalents of \$619 million, long-term debt of \$5,781 million and shareholders' equity of \$3,516 million, excluding non-controlling interests of \$24 million.

During the quarter, the company generated operating cash flow of \$132 million.

Updates on COVID-19

Management witnessed significant supply-chain disruptions during the first half of the second quarter. Majority of the 20 manufacturing and distribution centers, which were closed previously, have resumed operations. Further, the company is seeing sales growth in a few categories, stemming from the ongoing crisis. This reflects that consumer preference has shifted to certain products, owing to which the company's Food, Commercial, Appliances & Cookware and Outdoor & Recreation categories are benefiting. Such trends continued in July as well.

Apart from these, the company launched a restructuring plan in order to lower overhead costs and streamline the business. Due to this plan, Newell Brands incurred costs of \$8 million in the quarter under review. Going ahead, it is anticipated to incur roughly \$10 million in 2020.

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	3.99%
EPS Surprise	66.67%
Quarterly EPS	0.30
Annual EPS (TTM)	1.54

Recent News

Newell Approves Quarterly Dividend – Aug 6, 2020

Newell's board has approved a dividend of 23 cents per share, which is payable on Sep 15 to shareholders of record as on Aug 31.

Valuation

Newell shares are down 16.8% in the year-to-date period and 3.7% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 0.5% but the Zacks Consumer Staples sector is down 4.9%, in the year-to-date period. Over the past year, the Zacks sub-industry is up 0.9% and the sector is down 3.2%.

The S&P 500 index is up 9% in the year-to-date period and 20.3% in the past year.

The stock is currently trading at 11.72X forward 12-month earnings, which compares to 22.06X for the Zacks sub-industry, 20.45X for the Zacks sector and 23.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.21X and as low as 6.94X, with a 5-year median of 13.02X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$17 price target reflects 12.47X forward 12-month earnings.

The table below shows summary valuation data for NWL

Valuation Multiples - NWL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.72	22.06	20.45	23.47
	5-Year High	20.21	23	22.37	23.47
	5-Year Low	6.94	13.32	16.63	15.25
	5-Year Median	13.02	18.07	19.62	17.6
P/S F12M	Current	0.73	0.8	9.71	3.84
	5-Year High	2.11	2.06	11.15	3.84
	5-Year Low	0.47	0.79	8.12	2.53
	5-Year Median	1.05	1.82	9.89	3.07
EV/EBITDA TTM	Current	4.37	10.62	38.64	13.29
	5-Year High	77.41	19.17	45.11	13.29
	5-Year Low	1.21	3.43	27.25	8.22
	5-Year Median	14.1	12.5	38.43	10.91

As of 08/31/2020

Industry Analysis Zacks Industry Rank: Top 44% (110 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Outperform	2
Spectrum Brands Holdings Inc. (SPB)	Outperform	1
Energizer Holdings, Inc. (ENR)	Neutral	4
KimberlyClark Corporation (KMB)	Neutral	3
LION CORP (LIOPF)	Neutral	3
WD40 Company (WDFC)	Neutral	3
Edgewell Personal Care Company (EPC)	Underperform	5
International FlavorsFragrances Inc. (IFF)	Underperform	3

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

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	NWL	X Industry	S&P 500	EPC	IFF	LIOPF
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	3
VGM Score	A	-	-	C	B	B
Market Cap	6.78 B	3.17 B	23.72 B	1.56 B	13.24 B	6.74 B
# of Analysts	7	5	14	5	4	1
Dividend Yield	5.76%	0.00%	1.65%	0.00%	2.42%	0.00%
Value Score	B	-	-	C	C	C
Cash/Price	0.09	0.10	0.07	0.32	0.04	0.14
EV/EBITDA	9.69	9.69	13.28	-9.77	16.60	15.17
PEG F1	2.15	2.54	3.03	10.14	NA	NA
P/B	1.93	3.38	3.17	1.14	2.20	3.28
P/CF	2.70	16.40	12.87	5.50	12.92	23.64
P/E F1	12.89	20.51	21.63	10.55	21.43	26.67
P/S TTM	0.75	1.31	2.53	0.78	2.60	2.09
Earnings Yield	7.76%	4.21%	4.39%	9.47%	4.67%	3.75%
Debt/Equity	1.64	0.70	0.70	0.90	0.70	0.03
Cash Flow (\$/share)	5.91	1.32	6.93	5.22	9.58	0.98
Growth Score	B	-	-	C	B	A
Historical EPS Growth (3-5 Years)	-8.10%	2.16%	10.41%	-4.83%	2.89%	0.71%
Projected EPS Growth (F1/F0)	-27.23%	0.00%	-4.75%	-21.78%	-6.36%	33.85%
Current Cash Flow Growth	-76.91%	15.07%	5.22%	-2.28%	40.43%	-8.33%
Historical Cash Flow Growth (3-5 Years)	28.55%	5.06%	8.49%	-13.82%	15.13%	NA
Current Ratio	1.47	1.56	1.35	2.38	2.24	1.77
Debt/Capital	62.18%	41.63%	42.92%	47.49%	41.63%	2.78%
Net Margin	-11.39%	1.59%	10.25%	4.39%	8.27%	8.72%
Return on Equity	16.20%	15.05%	14.66%	12.13%	11.26%	13.89%
Sales/Assets	0.61	1.10	0.50	0.59	0.39	0.95
Projected Sales Growth (F1/F0)	1.36%	4.04%	-1.40%	-9.81%	0.10%	2.91%
Momentum Score	B	-	-	C	B	D
Daily Price Change	-1.48%	-0.55%	-0.82%	-1.81%	-0.55%	0.00%
1-Week Price Change	0.75%	0.00%	2.59%	2.20%	3.25%	0.00%
4-Week Price Change	-2.50%	-0.60%	3.55%	-6.91%	-0.60%	0.00%
12-Week Price Change	-8.27%	12.64%	-0.44%	-12.28%	-8.69%	19.59%
52-Week Price Change	-3.73%	12.45%	2.80%	3.13%	12.79%	19.59%
20-Day Average Volume (Shares)	2,450,557	758,001	1,839,384	595,649	759,993	137
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.16%	0.00%
EPS F1 Estimate 4-Week Change	7.18%	0.00%	0.20%	-8.23%	0.22%	0.00%
EPS F1 Estimate 12-Week Change	14.95%	0.77%	3.87%	-8.16%	-5.08%	0.00%
EPS Q1 Estimate Monthly Change	-2.95%	0.00%	0.00%	-12.30%	-2.05%	NA

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	B
Growth Score	B
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.

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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.