

## Owens Corning (OC)

**\$94.67** (As of 04/08/21)

Price Target (6-12 Months): **\$109.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 04/08/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:A

Value: B

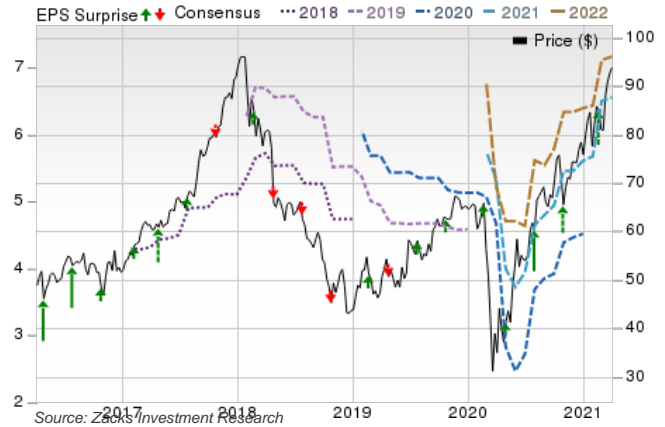
Growth: A

Momentum: B

### Summary

Owens Corning's shares have outperformed its industry in the year-to-date period. The company has reported better-than-expected earnings in the past seven quarters. The company is benefiting from market leading businesses, innovative product and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage, while strong cost controls helped it deliver solid results. However, COVID-19 impacts continue to hurt the margins and rise in labor and material costs raises concern. This is likely to exert pressure on the company's upcoming quarters as well. Notably, earnings estimates for 2021 have moved north over the past 30 days, depicting analysts' optimism regarding its bottom-line growth potential.

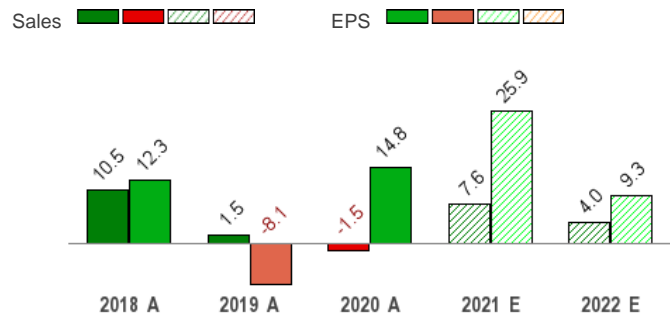
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$96.94 - \$35.97</b>
20-Day Average Volume (Shares)	<b>951,514</b>
Market Cap	<b>\$10.2 B</b>
Year-To-Date Price Change	<b>27.8%</b>
Beta	<b>1.57</b>
Dividend / Dividend Yield	<b>\$1.04 / 1.1%</b>
Industry	<b>Building Products - Miscellaneous</b>
Zacks Industry Rank	<b>Top 30% (75 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>36.7%</b>
Last Sales Surprise	<b>6.6%</b>
EPS F1 Estimate 4-Week Change	<b>0.8%</b>
Expected Report Date	<b>04/28/2021</b>
Earnings ESP	<b>-1.5%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,848 E	1,863 E	2,103 E	1,914 E	7,890 E
2021	1,814 E	1,830 E	2,021 E	1,883 E	7,589 E
2020	1,601 A	1,625 A	1,904 A	1,925 A	7,055 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.31 E	\$1.75 E	\$2.15 E	\$1.81 E	\$7.17 E
2021	\$1.42 E	\$1.67 E	\$1.95 E	\$1.61 E	\$6.56 E
2020	\$0.60 A	\$0.88 A	\$1.70 A	\$1.90 A	\$5.21 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>19.1</b>
P/E F1	<b>14.4</b>
PEG F1	<b>1.7</b>
P/S TTM	<b>1.4</b>

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/08/2021. The report's text and the analyst-provided price target are as of 04/09/2021.

## Overview

Owens Corning is a world leader in building materials systems and composite solutions. Since its inception in 1938, the company has evolved as a market-leading innovator of glass fiber technology. Its products include glass fiber that is used to support composite materials for transportation, electronics, marine, infrastructure, wind energy and other high-performance markets for insulation as well as roofing for residential, commercial and industrial applications.

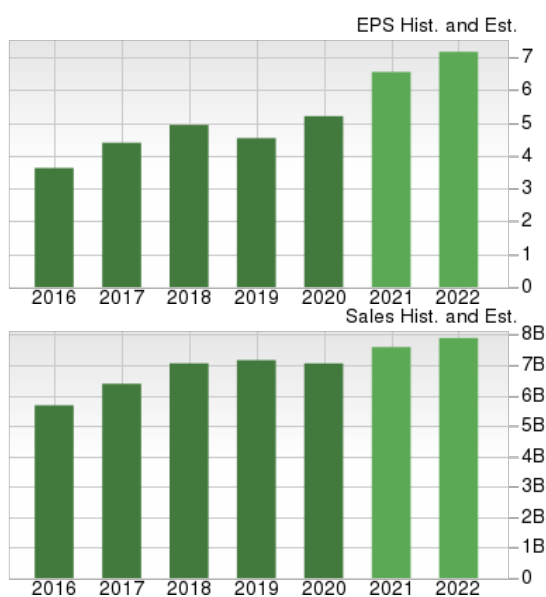
The company has three reportable segments — Composites, Insulation and Roofing.

Composites segment (accounting for 27.8% of total 2020 sales) includes vertically integrated downstream activities and specializes in the production of glass fiber reinforcement materials. Demand for composites is driven by general global economic activity and by the increasing replacement of traditional materials such as aluminum, wood and steel with composites that offer lighter weight, improved strength, lack of conductivity and corrosion resistance.

Insulation segment (37%) products include thermal and acoustical batts, loose-fill insulation, foam sheathing and accessories, glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation, cellular glass insulation as well as foam insulation. Demand for Owens Corning's insulating products is driven by new residential construction, remodeling and repair activity, commercial and industrial construction activity, increasingly stringent building codes and the growing need for energy efficiency.

Roofing segment (38.2%) products include laminate and strip asphalt roofing shingles, roofing components, synthetic packaging materials and oxidized asphalt. Demand for products in the Roofing segment is generally driven by residential repair and remodeling activity and by new residential construction. Roofing damage from major storms can significantly increase demand in the segment.

[Note: In 2019, corporate eliminations constituted 2.9% of net sales]



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## Reasons To Buy:

- ▲ **Strategic Initiatives to Drive Performance:** Owens Corning has implemented strategic initiatives to drive overall performance. Segment-wise, in the Insulation business, technical and other building insulation businesses look strong on the back of geographic and product expansion through acquisitions. The company's focus on network optimization and manufacturing performance drove earnings growth in this business. Also, in the North American residential fiberglass business, the company is utilizing automation and additional investments in process technology to improve manufacturing efficiencies, as well as reduce costs.

Strategic initiatives, acquisitions and enough liquidity bode well for the company

In Composites, the segment has been generating higher volumes backed by its efforts on higher value applications for glass non-wovens and specific markets like India. It is expanding or adding a new production line to its current facility in Fort Smith, AR. For composite business, the company has a two-fold focus. First, it is focused on key markets and geographies where it has a market-leading position like North America, Europe and India. Second, the company is focused on making composite business the most cost-effective network, mainly focusing on productivity and manufacturing performance. Notably, the company focuses on improving low-cost manufacturing position through strategic supply agreements, accomplished large-scale furnace investments and additional productivity.

In the Roofing segment, Owens Corning is leveraging vertical integration, material science capabilities, and commercial strength to design as well as market unique roofing shingles and components that attract contractors, homeowners and distributors. Capital investments in roofing business over the past two years have increased incremental capacity at several of its manufacturing facilities.

Apart from improving operational strength, the company undertook certain actions during the second quarter to reduce costs within its Composites segment, primarily through global workforce reductions.

- ▲ **Acquisitions to Boost Top-line Growth:** Acquisitions are an important part of Owens Corning's growth strategy. The company is assessing its investment in bolt-on acquisitions that leverage its commercial, operational and geographic strength and expand its functional areas of offering. The acquisition of Paroc — a leading producer of mineral wool insulation for building and technical applications in Europe — enabled the company to expand its geographic scope in Europe, and augment portfolio in a bid to include insulation products in all three major markets — North America, Europe and China.

- ▲ **Strength in Insulation Business:** Owens Corning's business has been experiencing strong demand for insulating products. This is primarily driven by commercial and industrial construction activity, new residential construction, remodeling and repair activity, and increased energy efficiency. Although the peak season for home construction and remodeling in the markets served by the company generally corresponds with the second and third calendar quarters, the coronavirus pandemic remains a potent headwind. Nonetheless, its performance is expected to revive once the effects of this pandemic phase out.

During the fourth quarter, insulation's EBIT margin expanded 300 bps points year over year to 15%. Positive manufacturing performance and higher selling prices in North American residential drove margins. Moreover, the company expects first-quarter 2021 insulation EBIT to double from a year ago.

- ▲ **Strong Liquidity Position:** Owens Corning maintains a strong balance sheet, liquidity and a well-structured debt maturity profile. In response to the unfavorable demand trends due to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. As of Dec 31, 2020, it had \$717 million cash and cash equivalents, significantly up from \$172 million at 2019-end and \$647 million at September 2020-end. It currently has approximately \$1.1 billion available under the bank debt facility.

As of Dec 31, 2020, it had \$3.1 billion of long-term debt, net of current portion, unchanged from September 2020 and up from \$3 billion at 2019-end. The company has a total debt-to-capital ratio of 44.2, down from 44.5 sequentially. During 2020, the company repaid \$200 million on its outstanding term loan and contributed \$122 million.

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## Risks

- **Coronavirus to Hurt Near-Term Results:** Owens Corning's businesses are witnessing negative trend in global industrial production, U.S. housing starts, and global commercial and industrial construction activity. It anticipates persistence of COVID-19 impacts to hurt its end markets. For 2020, composites sales came in at \$2 billion, down 5% from 2019. The decline was due to weaker volumes, primarily because of COVID-19 in the second quarter. The company expects COVID-related uncertainties to continue beyond 2020.
- **Pricing Headwind & Input Cost Inflation:** The company expects some pricing weakness in insulation business in the upcoming quarters. For 2020, it reported a price decline of \$12 million in insulation business and \$27 million in composites business.

Meanwhile, the company is facing some inflationary headwinds with respect to transportation cost, material cost and energy cost. This is dampening Owens Corning's operating performance. Also, the company expects asphalt costs to increase. In 2020, the Composites business witnessed higher input cost inflation, lower selling prices and negative foreign currency translation. Although the company has been working to recover higher commodity cost through price increases, but it expects this ongoing volatility in material costs to persist in the near term as well.

- **Currency Headwinds:** Owens Corning is witnessing negative foreign currency translation, which is hurting overall bottom-line results. Owens Corning is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and Asia-Pacific.
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## Last Earnings Report

### Owens Corning (OC) Q4 Earnings & Revenues Beat Estimates

Owens Corning reported fourth-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. While earnings beat the consensus estimate for the seventh straight quarter, revenues outpaced the same for the third consecutive quarter. Moreover, both the metrics improved year over year for the fourth quarter.

The company's results benefited from improving customer demand in most of the end markets served. Its residential market, primarily in the United States, was driven by strong demand for new single-family housing, and a rise in repair and remodeling investments. Moreover, market-leading businesses, innovative product and process technologies, as well as capabilities also contributed to the results. Its commercial and industrial markets are also registering improvements. Notably, all three of its businesses delivered double-digit EBIT margins for the second consecutive quarter.

Quarter Ending 12/2020

Report Date	Feb 17, 2021
Sales Surprise	6.59%
EPS Surprise	36.69%
Quarterly EPS	1.90
Annual EPS (TTM)	5.08

### Inside the Headlines

The company reported adjusted earnings of \$1.90 per share, surpassing the Zacks Consensus Estimate of \$1.13 by 36.7%. Moreover, the bottom line improved 68.1% year over year.

Net sales of \$1.93 billion outpaced the consensus mark of \$1.81 billion by 6.6% and increased 14% year over year. The upside was driven by robust revenue growth in Roofing and Composites businesses, partially overshadowed by soft sales growth in the Insulation business.

### Segment Details

Net sales in the Composites segment gained 14% year over year to \$547 million. The company's focus on higher-value downstream businesses and key geographies wherein it has a strong market position, as well as increasing manufacturing productivity continues to drive growth. However, earnings before interest and taxes (EBIT) margin of 11% contracted 100 basis points (bps) from the year-ago quarter's 12%.

Insulation segment's net sales were \$728 million, up 1% year over year. Sales were impacted by slightly lower volumes owing to supply constraints and limited inventories, offset by higher U.S. residential new construction demand and increase in price realization. In technical and other insulation businesses, volumes improved on a sequential and year-over-year basis (marginally), driven primarily by strong performance in U.S. FOAMULAR and global mineral wool businesses. EBIT margin expanded 300 bps points year over year to 15% for the quarter. Positive manufacturing performance and higher selling prices in North American residential benefited the margin.

The Roofing segment's net sales increased 33% year over year to \$702 million driven by 36% volume growth, which was offset by lower third-party asphalt sales. Pricing in the quarter was flat. For the quarter under review, the company registered growth in the asphalt shingle market in the United States. EBIT margin expanded 1,000 bps year over year to 26% due to higher sales volumes in both shingles and roofing components, along with persistent deflationary impact of asphalt.

### Operating Highlights

Adjusted EBIT for the quarter totaled \$306 million, reflecting growth of 50% on a year-over-year.

### 2020 Highlights

Earnings came in at \$5.21 per share for the year, up 14.8% from 2019. Net sales were \$7.1 billion, down 1% from 2019. Adjusted EBIT was 878 million, marking a 6% improvement from 2019. Higher demand for products, combined with strong manufacturing performance and improved operating efficiencies, resulted in earnings growth for 2020 despite lower revenues.

### Balance Sheet

As of Dec 31, 2020, the company had cash and cash equivalents of \$717 million compared with \$172 million at 2019-end. Long-term debt — net of current portion — totaled \$3.13 billion, up from \$2.99 billion at 2019-end.

Owens Corning had \$1.8 billion of available liquidity at 2020-end. During 2020, it repaid the \$200 million remaining on its term loan and contributed \$122 million to global pension plans.

In the fourth quarter of 2020, net cash provided in operating activities was \$418 million, down from \$441 million a year ago. In 2020, the metric was \$1.14 billion, up from \$1.04 billion in 2019.

Free cash flow came in at \$314 million for the quarter, up from \$308 million a year ago. For the full year, the metric was \$828 million, up from \$590 million in 2019.

Through 2020, the company returned \$396 million to shareholders in the form of share repurchases and dividends. At Dec 31, 2020, 9.5 million shares were available under the current authorization. On Dec 3, 2020, Owens Corning's board of directors approved a share repurchase authorization for up to 10 million shares of the company's common stock.

### 2021 Outlook

Owens Corning's businesses are dependent on residential repair and remodeling activity, U.S. housing starts, global commercial construction activity, as well as global industrial production. Although the company expects the COVID-19 pandemic to continue to create market uncertainty,

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it anticipates persistent strength in the U.S. residential housing market, and recovery of commercial and industrial markets at a slower pace.

General corporate expenses are expected between \$135 million and \$145 million. Capital additions will be approximately \$460 million, below depreciation and amortization of \$480 million. Interest expense is estimated between \$120 million and \$130 million. The company estimates an effective tax rate of 26-28% and a cash tax rate of 18-20%, both on adjusted pre-tax earnings.

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## Valuation

Owens Corning's shares are up 25% in the year-to date period 114.6% and over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 13.5% and 17.2% in the year-to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 75.6.5% and 83%, respectively.

The S&P 500 index is up 9.2% in the year-to date period and 49.3% in the past year.

The stock is currently trading at 14.08X forward 12-month earnings, which compares to 18.11X for the Zacks sub-industry, 17.24X for the Zacks sector and 22.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.71X and as low as 6X, with a 5-year median of 13.86X. Our Outperform recommendation indicates that the stock will perform better-than with the market. Our \$109 price target reflects 16.19X forward 12-month earnings.

The table below shows summary valuation data for OC.

Valuation Multiples - OC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.08	18.11	17.24	22.89
	5-Year High	21.71	19.29	19.03	23.83
	5-Year Low	6	7.1	10.82	15.3
	5-Year Median	13.86	13.71	16.21	18
P/S F12M	Current	1.3	1.66	2.36	4.71
	5-Year High	1.67	3.58	2.36	4.71
	5-Year Low	0.46	0.74	1.23	3.21
	5-Year Median	1.02	1.05	1.66	3.71
EV/EBITDA TTM	Current	5.41	23.21	25.26	18.2
	5-Year High	10.72	30.49	25.51	18.2
	5-Year Low	2.92	12.56	11.56	9.62
	5-Year Median	7.6	22.68	17.59	13.35

As of 04/08/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 30% (75 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries, Inc. (AWI)	Neutral	3
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Installed Building Products, Inc. (IBP)	Neutral	2
Lumber Liquidators Holdings, Inc (LL)	Neutral	3
Masco Corporation (MAS)	Neutral	2
United Rentals, Inc. (URI)	Neutral	2
Gibraltar Industries, Inc. (ROCK)	Underperform	5
Simpson Manufacturing Company, Inc. (SSD)	Underperform	4

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC	X Industry	S&P 500	AWI	MAS	URI
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	2
VGM Score	A	-	-	C	B	C
Market Cap	10.16 B	2.31 B	29.78 B	4.55 B	15.51 B	23.29 B
# of Analysts	6	2.5	12	4	7	10
Dividend Yield	1.07%	0.00%	1.34%	0.88%	0.92%	0.00%
Value Score	B	-	-	D	B	B
Cash/Price	0.07	0.07	0.06	0.03	0.08	0.01
EV/EBITDA	9.10	12.08	16.88	-270.54	12.12	8.40
PEG F1	1.70	2.07	2.37	6.76	2.18	1.64
P/B	2.66	2.46	3.98	10.10	37.98	5.12
P/CF	5.01	15.19	16.79	17.24	16.79	7.08
P/E F1	14.43	23.30	21.91	24.89	18.10	17.39
P/S TTM	1.44	2.04	3.39	4.86	2.16	2.73
Earnings Yield	6.78%	4.01%	4.48%	4.02%	5.53%	5.75%
Debt/Equity	0.79	0.32	0.66	1.57	6.63	1.98
Cash Flow (\$/share)	18.90	2.00	6.78	5.41	3.66	45.35
Growth Score	A	-	-	B	C	D
Historical EPS Growth (3-5 Years)	8.04%	17.97%	9.39%	20.11%	18.35%	24.60%
Projected EPS Growth (F1/F0)	25.85%	21.58%	15.24%	5.37%	8.20%	6.16%
Current Cash Flow Growth	113.79%	2.09%	0.61%	-16.93%	17.24%	-8.28%
Historical Cash Flow Growth (3-5 Years)	27.64%	10.66%	7.37%	1.26%	11.44%	10.06%
Current Ratio	1.81	2.04	1.39	1.81	1.80	1.07
Debt/Capital	44.23%	29.06%	41.26%	61.14%	86.90%	66.39%
Net Margin	-5.43%	5.31%	10.59%	-10.58%	17.03%	10.43%
Return on Equity	14.75%	11.66%	14.86%	42.72%	514.20%	31.32%
Sales/Assets	0.75	0.96	0.51	0.58	1.34	0.47
Projected Sales Growth (F1/F0)	7.57%	6.20%	7.33%	8.62%	8.34%	3.47%
Momentum Score	B	-	-	D	A	B
Daily Price Change	-2.22%	0.00%	0.03%	-1.97%	0.69%	-0.23%
1-Week Price Change	1.22%	1.17%	0.35%	-0.11%	1.57%	0.56%
4-Week Price Change	10.26%	-0.08%	3.57%	-0.16%	7.84%	3.37%
12-Week Price Change	13.50%	5.56%	8.22%	10.41%	8.67%	23.38%
52-Week Price Change	114.67%	58.47%	51.47%	10.71%	52.39%	198.26%
20-Day Average Volume (Shares)	951,514	225,631	2,047,782	344,021	1,803,645	721,814
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.21%	0.22%
EPS F1 Estimate 4-Week Change	0.77%	0.00%	0.00%	-1.01%	0.21%	0.28%
EPS F1 Estimate 12-Week Change	16.78%	3.76%	2.24%	0.13%	4.35%	7.33%
EPS Q1 Estimate Monthly Change	1.09%	0.00%	0.00%	0.00%	0.32%	0.59%

Source: Zacks Investment Research

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## 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	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</b>

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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## Disclosures

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## Additional Disclosure

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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.

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**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.

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**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.

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**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.