

Pool Corp. (POOL)

\$359.40 (As of 02/08/21)

Price Target (6-12 Months): **\$377.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: B

Summary

Although, shares of Pool Corp have underperformed the industry in the past six-month period, solid demand across swimming pool maintenance supplies is likely to aid the company going forward. Also, the company's expansion initiatives is noteworthy. The company's strong balance sheet should help it tide over the ongoing crisis. Earnings estimates for 2021 have moved up over the past 30 days, depicting analysts optimism regarding the stock growth potential. However, the company's business has been negatively impacted by new stay-at-home orders (or government mandates) along with unfavourable economic conditions owing to the coronavirus pandemic. Moreover, rise in labor and delivery costs along with increased investments in information technology systems and hardware, remain concerns.

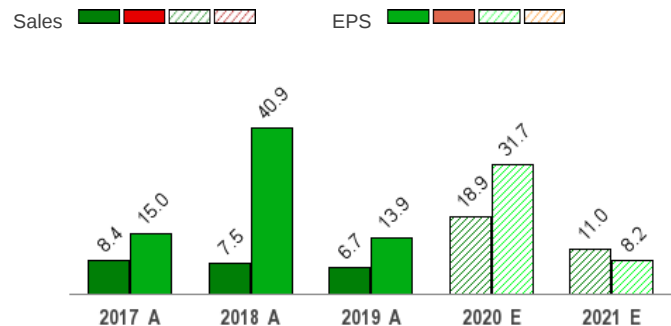
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$401.29 - \$160.35
20-Day Average Volume (Shares)	273,031
Market Cap	\$14.4 B
Year-To-Date Price Change	-3.5%
Beta	0.77
Dividend / Dividend Yield	\$2.32 / 0.6%
Industry	Leisure and Recreation Products
Zacks Industry Rank	Top 10% (24 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.6%
Last Sales Surprise	15.1%
EPS F1 Estimate 4-Week Change	1.1%
Expected Report Date	02/11/2021
Earnings ESP	0.0%
P/E TTM	46.5
P/E F1	39.4
PEG F1	1.7
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	805 E	1,481 E	1,200 E	739 E	4,225 E
2020	677 A	1,281 A	1,139 A	709 E	3,806 E
2019	597 A	1,121 A	899 A	582 A	3,200 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.08 E	\$4.32 E	\$2.91 E	\$0.72 E	\$9.12 E
2020	\$0.71 A	\$3.87 A	\$2.71 A	\$0.77 E	\$8.43 E
2019	\$0.59 A	\$3.22 A	\$1.84 A	\$0.44 A	\$6.40 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/08/2021. The report's text and the analyst-provided price target are as of 02/09/2021.

Overview

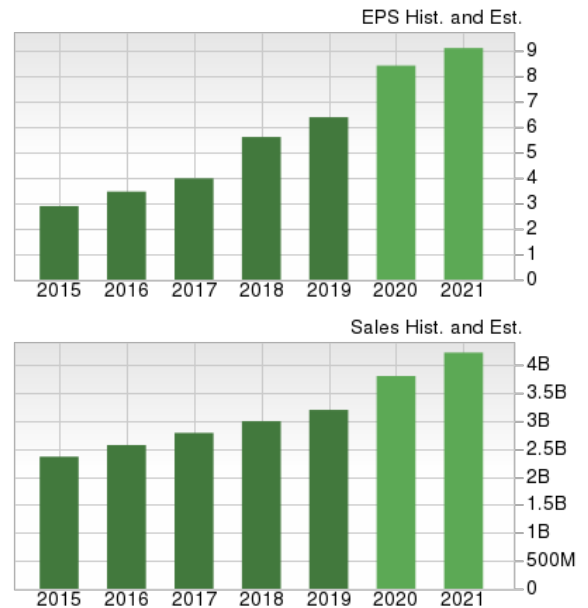
Based in Covington, LA, Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment and related products. In addition, the company is a leading regional wholesale distributor of irrigation and landscape products. The company was incorporated in the State of Delaware in 1993 and grew from a regional distributor to a multi-national, multi-network distribution company.

The company reports operations under two segments — the Base Business segment (99.5% of the third-quarter 2020 revenues) and the Excluded segment i.e. sale centers excluded from base business (0.5%). As of Sep 30, 2020, Pool Corp operated 381 sales centers in North America, Europe and Australia, through which it distributes more than 200,000 national brand and private-label products to roughly 120,000 wholesale customers.

The company serves five types of customers: a) swimming pool remodelers and builders, b) retail swimming pool stores, c) swimming pool repair and service businesses, d) landscape construction and maintenance contractors, and e) golf courses. Most of its customers include small, family-owned businesses.

The company offers customers products in the following categories: 1) Pool maintenance — including a wide array of chemicals, supplies and repair parts, 2) Pool construction and renovation — such as pool pumps, filters, heaters and cleaners, pool surfacing materials, pool tile, coping, deck equipment, pool control systems, lighting and above-ground pool kits, 3) Irrigation and landscape — including a complete line of commercial and residential irrigation products, landscape maintenance and equipment products and parts, 4) Outdoor living — such as outdoor lighting, grills, outdoor kitchen components and hardscape products.

Pool operates through three distribution networks: the SCP Distributors (SCP) network, the Superior Pool Products (Superior) network and the Horizon network. Swimming pool supplies, equipment and related leisure products are distributed through the SCP and Superior networks, while irrigation and landscape products are distributed through Horizon. The SCP and Superior channels are referred to as the Blue side, while Horizon is referred to as the Green side.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Solid Brand Presence:** Pool Corp benefits from its market-leading position that offers cost advantage and allows it to generate higher return on investment than smaller companies. Further, the housing market continues to boost demand for Pool Corp's products despite numerous competitors and low barriers to entry. Moreover, solid demand for swimming pool maintenance supplies, above ground pools, spas, and automatic pool cleaners, heaters, pumps, lights, chemicals and filters drove the company's results in third-quarter 2020. The company also witnessed healthy demand for construction materials and products. Notably, earnings and revenues in the third quarter increased 47.3% and 26.8% on a year-over-year basis, respectively.

The company's large market presence along with strategic expansions through acquisitions are the key revenue drivers

▲ **Opportunistic Expansion Strategy Bodes Well:** Pool Corp is focused on expansion to drive revenues. It is foraying in newer geographic locations, expanding in existing markets and launching innovative product categories that will boost its market share. To this end, the company is also trying to expand through various acquisitions. In the first nine months of 2020, the company added two facilities. The company closed two of its acquisitions, namely Master Tile Network and Northeastern Swimming Pool Distributors, in February and September, respectively. Meanwhile, in October, the company acquired Jet Line Products, Inc., thereby adding three locations in New Jersey, three in New York, two in Texas and one in Florida. Notably, the acquisitions along with the new locations are likely to boost customer relationship and services, thereby enhancing the top line.

We believe Pool Corp will continue to capture market share from regional pool and irrigation distributors, given its economies of scale, which drives higher rebates, better sourcing, IT resources, and product availability. Additionally, there are opportunities to acquire share from other distributors that are not pool-focused.

▲ **Existing Pools Provide Regular Income:** Pool Corp generates a large portion of its earnings from existing pools. More than half of its gross profits are generated from products related to maintenance and repair of pools, while the remainder is derived from construction and installation of pools and landscaping. Over the past five years, the pool industry has been showing signs of recovery, mostly supported by gradual improvement in remodeling and replacement activities. The company's existing pool business witnessed revenue growth throughout 2016, 2017, 2018 and 2019. The growth continued in the third quarter. The trend is expected to continue going forward.

In the third quarter of 2020, building materials sales grew 29% on the back of strong demand in construction and remodel markets. Equipment and chemical sales increased 36% and 8% year over year, respectively, for the same quarter. The increase was primarily backed by solid demand for swimming pool heaters, pumps, lights, filters and pool remodeling.

▲ **Robust Base Business Encourages:** Pool Corp generates the majority of its revenues from the base business, which excludes sales centers that are acquired, closed or opened in new markets for a period of 15 months. In third-quarter 2020, the company's base business segment contributed 99.5% to total revenues. Pool Corp's sincere efforts to boost the base business are reflected in high demand in end markets. In the third quarter, revenues from base business increased 26.6% year over year to \$1,133.6 million.

▲ **Healthy Balance Sheet:** The company's strong balance sheet should help it tide over the ongoing crisis. At the end of third-quarter 2020 (ended Sep 30), the company had a debt-to-total capital ratio of 0.4 compared with 0.5 in the second quarter, thereby indicating that its debt level is manageable. Moreover, the company's leverage ratio, as measured on a trailing 12-month debt to EBITDA basis, improved to 1.01 in third-quarter 2020 from 1.26 at the end of second-quarter 2020. Moreover, the company expects cash flow from operations to remain strong in order to support the business amid such trying times.

▲ **Boosts Shareholder Return Regularly:** Pool is committed toward returning more value to shareholders. Apart from share buybacks, there is a dividend distribution program in place. Since 2004, the company has raised its dividend repeatedly. For the nine months ended Sep 30, 2020, the company paid out cash dividends worth \$68.6 million compared with \$61.8 million in the prior-year quarter. Moreover, recently, the company's share repurchase program was expanded by \$150 million. In 2016, 2015, 2014 and 2013, the company returned almost \$228 million, \$136 million, \$169 million and \$128 million, respectively, through stock repurchases and dividends. In 2017 and 2018, the company repurchased 1.3 million and 140,000 shares at an average price of \$108 and \$148, respectively. In 2019, the company repurchased 149,000 shares at an average price of \$148, amounting to approximately \$21 million.

▲ **Upbeat Views:** During the third-quarter earnings call, the company raised its expectations for 2020. Pool Corp expects earnings per share in the range of \$8.20-\$8.50 (excluding the impact of non-cash impairments) for the full year compared with the prior guidance of \$7.05-\$7.45. However, the earnings guidance assumes average weather conditions and no adverse impacts from a resurgence of COVID-19 and related government responses. Net sales growth for 2020 is anticipated in the range of 18% to 20%.

Reasons To Sell:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The COVID-19 pandemic has significantly impacted economic activity and markets throughout the world. Going forward, risks arising from resurgence of COVID-19 cases in some markets, new stay-at-home orders or government mandates as well as unfavorable economic conditions on account of the pandemic could negatively impact the business.
- ▼ **Rising Costs a Concern:** Pool Corp has been witnessing increased expenses, lately. Higher labor and delivery costs and investments in information technology systems and hardware are leading to higher expenses. During third-quarter 2020, cost of sales increased 26.5% from the prior-year quarter's number. Selling and administrative expenses also increased 18% year over year. In fact, we believe that the company has to work hard toward cutting expenses in order to achieve high margins.
- ▼ **Unfavorable Seasonality to Affect Business:** Pool Corp's business is susceptible to weather changes. Normally, sales are favored by weather conditions in the second and third quarters of a calendar year while unseasonably warm conditions in spring or early winters affect sales. Meanwhile, roughly 50% of the company's branches and sales are in California, Florida, Texas and Arizona. This reflects a high degree of concentration and dependence on these areas and their weather conditions.
- ▼ **Macroeconomic Headwinds:** Pool Corp conducts business internationally which increases its dependence on other economies. Thus, unfavorable political and regulatory conditions in the market where it functions, as well as negative currency translation, might dent the company's international sales. Additionally, any restrictions placed on water usage due to government ruling or ethical standards, during drought conditions, remains a major cause of concern for the swimming pool market.

Unfavorable seasonality along with macroeconomic headwinds remain potent headwinds for the company

Last Earnings Report

Pool Corp Q3 Earnings Beat Estimates, Increase Y/Y

Pool Corporation reported solid third-quarter 2020 results, wherein earnings and revenues not only surpassed the Zacks Consensus Estimate but also increased on a year-over-year basis. While the bottom line beat the consensus estimate for the sixth straight quarter, the top line surpassed the same for the fifth consecutive time.

Adjusted earnings of \$2.71 per share in the quarter topped the Zacks Consensus Estimate of \$2.14 and increased 47.3% from the year-ago quarter's tally. Quarterly net revenues of \$1,139.2 million surpassed the consensus mark of \$990 million and increased 26.8% year over year.

Notably, the upside can be primarily attributed to solid performance by the Base business segment and Excluded segment. Moreover, the company witnessed solid demand for residential pool products along with product categories, including maintenance, replacement, refurbishment and construction activities.

Segmental Performance

Pool Corp reports operations under two segments — The Base Business (constituting majority of the business) and the Excluded (sale centers excluded from the Base business).

Revenues at the Base Business segment increased 26.6% year over year to \$1,133.6 million. Operating income rose 41% year over year to \$147.9 million. Moreover, operating margin expanded 130 basis points (bps) from the year-ago quarter's number to 13%.

The Excluded segment delivered net revenues of \$5.6 million, up from \$3 million registered in the prior-year quarter. The segment reported operating income of \$0.3 million against the year-ago quarter's loss of \$0.4 million. The segment's operating margin came in at 5.6% against a negative 11.8% in the prior-year quarter.

Operating Highlights & Expenses

Cost of sales in the third quarter increased 26.5% from the prior-year quarter's figure. Gross profit, as a percentage of net sales, increased 20 basis points (bps) year over year to 28.9% from 28.7% reported in the year-ago quarter. Selling and administrative expenses rose 18% year over year to \$180.5 million.

During the third quarter, operating income increased 42% year over year to \$148.2 million, while operating margin rose 140 bps to 13% from the prior-year quarter's level.

Nonetheless, net income totaled \$119.1 million, up from \$79.5 million in the year-ago quarter.

Balance Sheet

As of Sep 30, 2020, Pool Corp's cash and cash equivalents amounted to \$74.7 million compared with \$36.7 million as on Sep 30, 2019. Total net receivables, including pledged receivables, rose 19% year over year, while inventory levels declined 1% year over year. Its net long-term debt amounted to \$328.2 million, down 39% from the prior-year quarter's level. Goodwill increased to \$199.4 million from \$188.1 million reported in the prior-year quarter.

During third-quarter 2020, net cash provided by operating activities came in at \$167.7 million compared with \$145.8 million in the year-ago quarter.

For the nine months ended Sep 30, 2020, the company paid out cash dividends worth \$68.6 million compared with \$61.8 million in the prior-year quarter.

2020 Guidance

For 2020, Pool Corp expects earnings per share in the range of \$8.20-\$8.50 compared with the prior guidance of \$7.05-\$7.45. The Zacks Consensus Estimate for 2020 is currently pegged at \$7.25.

Quarter Ending	09/2020
Report Date	Oct 22, 2020
Sales Surprise	15.11%
EPS Surprise	26.64%
Quarterly EPS	2.71
Annual EPS (TTM)	7.73

Valuation

Pool Corp's shares are up by 10.5% in the past six-month period and 58% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 44.2% and the Zacks Consumer Discretionary sector are up by 24.9% in the past six-month period. Over the past year, the Zacks sub-industry was up by 120.9% and sector was up by 18.5%.

The S&P 500 index is up 17.3% in the past six-month period and 18.2% in the past year.

The stock is currently trading at 39.15x forward 12-month earnings, which compares with 36.61x for the Zacks sub-industry, 34.34x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.34x and as low as 21.75x, with a 5-year median of 27.57x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$377 price target reflects 41.06x forward 12-month earnings.

The table below shows summary valuation data for POOL.

Valuation Multiples - POOL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	39.15	36.61	34.34	22.8
	5-Year High	46.34	46.8	35.27	23.8
	5-Year Low	21.75	12.9	16.19	15.3
	5-Year Median	27.57	15.68	20.17	17.85
P/S F12M	Current	3.4	3.51	2.93	4.54
	5-Year High	3.83	3.51	2.93	4.54
	5-Year Low	1.3	0.88	1.7	3.2
	5-Year Median	1.91	1.05	2.49	3.68
P/B TTM	Current	24.48	10.62	3.97	6.66
	5-Year High	33.76	11.48	4.85	6.66
	5-Year Low	12.87	2.52	2.25	3.73
	5-Year Median	22.19	3.21	4.13	4.95

As of 02/08/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 10% (24 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Brunswick Corporation (BC)	Outperform	2
Callaway Golf Company (ELY)	Outperform	1
OneWater Marine Inc. (ONEW)	Outperform	2
Vista Outdoor Inc. (VSTO)	Outperform	2
DOMETIC GP AB (DTCGF)	Neutral	2
Acushnet Holdings Corp. (GOLF)	Neutral	3
Peloton Interactive, Inc. (PTON)	Neutral	3
Shimano Inc. Un-sponsored ADR (SMNNY)	NA	NA

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

Industry Comparison Industry: Leisure And Recreation Products				Industry Peers		
	POOL	X Industry	S&P 500	CLAR	ELY	GOLF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	B	-	-	B	C	B
Market Cap	14.43 B	1.10 B	27.64 B	535.53 M	2.90 B	3.41 B
# of Analysts	3	4.5	13	3	7	4
Dividend Yield	0.65%	0.00%	1.41%	0.58%	0.00%	1.35%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.05	0.06	0.03	0.10	0.03
EV/EBITDA	39.64	15.60	15.06	28.86	15.60	16.04
PEG F1	1.68	1.92	2.41	NA	NA	NA
P/B	24.48	4.12	3.71	2.66	4.21	3.44
P/CF	53.82	19.40	15.62	19.42	16.09	21.20
P/E F1	39.38	15.73	20.33	18.94	29.31	26.09
P/S TTM	3.92	2.06	3.02	2.56	1.90	2.19
Earnings Yield	2.54%	5.92%	4.83%	5.28%	3.41%	3.83%
Debt/Equity	0.56	0.22	0.68	0.19	0.95	0.32
Cash Flow (\$/share)	6.68	1.73	6.76	0.91	1.97	2.21
Growth Score	A	-	-	C	A	A
Historical EPS Growth (3-5 Years)	21.68%	16.31%	9.27%	300.44%	33.13%	10.94%
Projected EPS Growth (F1/F0)	8.19%	32.79%	13.66%	35.82%	32.67%	57.97%
Current Cash Flow Growth	1.90%	-0.65%	4.21%	5.40%	49.58%	17.05%
Historical Cash Flow Growth (3-5 Years)	16.13%	16.80%	7.74%	27.48%	37.35%	16.80%
Current Ratio	2.21	2.36	1.38	3.85	2.49	2.17
Debt/Capital	35.76%	18.30%	41.31%	15.95%	48.60%	24.28%
Net Margin	8.85%	5.91%	10.59%	5.20%	-7.57%	5.91%
Return on Equity	70.48%	22.63%	14.81%	6.81%	9.87%	11.38%
Sales/Assets	2.27	1.43	0.51	0.87	0.77	0.84
Projected Sales Growth (F1/F0)	11.01%	18.44%	6.23%	19.49%	12.73%	11.69%
Momentum Score	B	-	-	A	F	D
Daily Price Change	0.02%	2.35%	0.91%	2.55%	3.12%	1.85%
1-Week Price Change	1.45%	5.37%	4.58%	7.35%	10.36%	12.59%
4-Week Price Change	-6.71%	8.41%	1.10%	8.80%	19.46%	10.66%
12-Week Price Change	5.46%	30.44%	7.16%	17.55%	79.42%	25.40%
52-Week Price Change	57.94%	57.94%	9.44%	30.28%	54.08%	52.48%
20-Day Average Volume (Shares)	273,031	166,492	2,082,825	139,486	1,583,997	206,798
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	1.76%	-2.33%	0.00%
EPS F1 Estimate 4-Week Change	1.13%	1.13%	0.49%	1.76%	3.14%	0.00%
EPS F1 Estimate 12-Week Change	0.15%	8.40%	1.50%	1.76%	9.52%	8.40%
EPS Q1 Estimate Monthly Change	1.89%	0.00%	0.00%	0.00%	-1.19%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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