

## Regal Beloit (RBC)

**\$96.66** (As of 10/26/20)

Price Target (6-12 Months): **\$111.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 08/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

## Summary

Over the past six months, Regal Beloit's shares have outperformed the industry. In the quarters ahead, the company is likely to benefit from business-restructuring initiatives, reorganization actions (80/20) and supply-chain efforts. Also, its multiple cost-saving measures are expected to yield total savings (including both permanent and temporary) of \$42 million in 2020. Moreover, its commitment toward rewarding shareholders handsomely through dividend payments adds to its strength. The company seems hopeful of the improving order trends and expects sales in the third quarter to decline 8-12%, whereas it witnessed a 27.4% fall in the second quarter of 2020. In the past 60 days, the company's earnings estimates have been increased by 3.3% for the third quarter, 1.5% for 2020 and 0.9% for 2021.

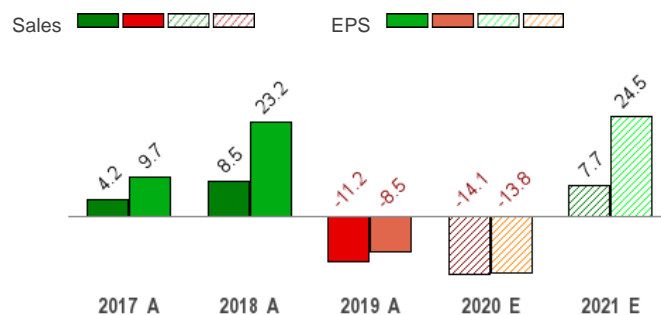
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$103.32 - \$51.99</b>
20-Day Average Volume (Shares)	<b>198,840</b>
Market Cap	<b>\$3.9 B</b>
Year-To-Date Price Change	<b>12.9%</b>
Beta	<b>1.39</b>
Dividend / Dividend Yield	<b>\$1.20 / 1.2%</b>
Industry	<b>Manufacturing - Electronics</b>
Zacks Industry Rank	<b>Top 28% (70 out of 248)</b>

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



Last EPS Surprise	<b>46.2%</b>
Last Sales Surprise	<b>-3.4%</b>
EPS F1 Estimate 4-Week Change	<b>1.7%</b>
Expected Report Date	<b>10/28/2020</b>
Earnings ESP	<b>3.2%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	773 E	708 E	785 E	788 E	2,995 E
2020	734 A	634 A	710 E	703 E	2,782 E
2019	854 A	874 A	772 A	738 A	3,238 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.58 E	\$1.32 E	\$1.60 E	\$1.60 E	\$5.89 E
2020	\$1.31 A	\$0.95 A	\$1.24 E	\$1.23 E	\$4.73 E
2019	\$1.43 A	\$1.52 A	\$1.35 A	\$1.25 A	\$5.49 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>19.9</b>
P/E F1	<b>20.4</b>
PEG F1	<b>2.0</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 10/26/2020. The reports text is as of 10/27/2020.

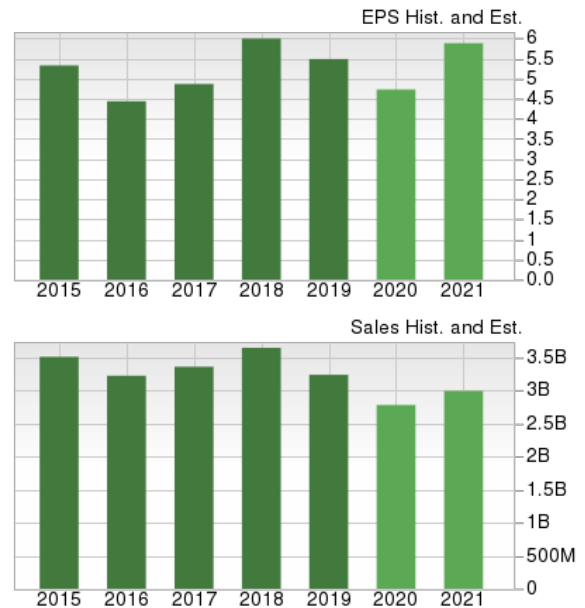
## Overview

Headquartered in Beloit, WI, Regal Beloit Corporation is a leading manufacturer of electrical and mechanical motion control products. The company offers an array of electric motors, blowers, electric generators, transfer switches, gearboxes, power generation components and controls.

The company has manufacturing, sales and service facilities throughout the United States, Canada, Mexico, Europe, and Asia while it markets products to a diversified customer base across the globe — including OEMs, distributors and end users.

In December 2019, Regal Beloit restructured its business into four segments to improve transparency, focus and accountability. Currently, the company reports operations under these segments — Climate Solutions, Commercial Systems, Industrial Systems, and Power Transmission Solutions. Details on these segments are provided below:

- **Climate Solutions** (28.1% of revenues generated in second-quarter 2020) segment designs and manufactures small motors and controls for heating, ventilation, air conditioning (HVAC) applications for residential and light commercial industry; water heaters; and commercial refrigeration.
- **Commercial Systems** (27.7%) segment manufactures medium motors, commercial & industrial equipment and air moving solutions. Products are mainly used in water pumps, pool and spa, and commercial HVAC markets.
- **Industrial Systems** (19%) segment is engaged in manufacturing large motors, alternators, automatic transfer switches and switchgear solutions. These products are primarily used in general industrial equipment, agriculture, oil and gas, data center and power generation markets.
- **Power Transmission Solutions** (25.2%) segment manufactures modular plastic belts, helical and worm gearing, belt and chain drives, mounted and unmounted bearings, conveying chains, couplings, hydraulic pump drives and other products. These products are mainly used in special machinery, beverage, energy, aerospace, bulk handling, metals and general industrial markets.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ In the past six months, Regal Beloit's shares have gained 37.2% compared with the industry's growth of 31.6%. In second-quarter 2020, the company's earnings surpassed estimates by 46.15%. Despite the pandemic remaining a major concern, it is hopeful from improved order trends — with July order declining just 7% as compared with 14% in June, 27% in May and 31% in April. Also, its positivity is visible from sales projections for the third quarter, suggesting a year-over-year fall of 8-12% in net sales, whereas it recorded a 27.4% decline in the second quarter.
- ▲ Regal Beloit anticipates gaining from its cost-control measures that are essentially implemented to deal with the pandemic. Also, its existing business restructuring and supply-chain efforts as well as reorganization actions (80/20) might aid. Total cost savings — including both permanent and temporary — are anticipated to be \$42 million in 2020. Notably, total savings realized in the second quarter was \$14.5 million and the same is expected to be \$10 million in the third quarter. Looking at positive revision in earnings estimates, it seems that analysts have become increasingly bullish about Regal Beloit. In the past 60 days, the company's earnings estimates have been raised by 3.3% for the third quarter, 1.5% for 2020 and 0.9% for 2021.
- ▲ Regal Beloit remains committed toward rewarding shareholders handsomely through dividend payments. It distributed dividends worth \$24.3 million in the first half of 2020. Notably, its quarterly dividend rate currently stands at 30 cents per share (a hike of 7% was announced in April 2019). In addition to dividend, the company also rewards shareholders through the repurchase of its common shares. In the first half of 2020, it repurchased shares worth \$25 million (no buybacks were made in the second quarter as the company has temporarily halted buyback activities due to the pandemic). It is worth mentioning here that Regal Beloit has authorization up to \$210 million left under its \$250-million share buyback program approved in October 2019.

Improving order trends, business restructuring and simplification initiatives, and cost-control measures might be beneficial for Regal Beloit in the quarters ahead. Also, it has a policy of rewarding shareholders handsomely.

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## Risks

- In second-quarter 2020, Regal Beloit's bottom line declined 36.2% year over year on weak sales performance and lower margins. Sales decreased 27.4% on a year-over-year basis, with organic sales declining 24.7% due to weakness in Climate Solutions, Commercial Systems, Industrial Systems, and Power Transmission Solutions segments. For 2020, the company remains wary of the adverse impacts of the coronavirus outbreak on its operations. It refrained from providing its financial projections for 2020. In addition, the company believes in making acquisitions to expand businesses, which, in turn, consume significant resources and expose it to integration risks. Divestments are done in the best interest of shareholders. However, business divestment may hurt near-term results. For instance, the divested businesses adversely impacted the company's first- and second-quarter 2020 sales by 3.5% and 1.5%, respectively.
  - High-debt levels can increase its financial obligations and dent profitability. In the past three years (2017-2019), the company's long-term debt increased 3% (CAGR). At the end of second-quarter 2020, the metric stood at \$1,125.1 million, reflecting a sequential fall of 17.5%. Its total debt to total capital was at 32.4% at the second-quarter end versus 37.2% at the end of the first quarter of 2020. Despite the fall, it is the company's ability to repay obligations that is more concerning. Regal Beloit's times interest earned was at 5.4X at the end of the second quarter of 2020, lower than 6.0X at the end of first-quarter 2020. Also, its cash and cash equivalents were just \$432 million at the end of the second quarter. In addition, return on capital too declined from 6.2% at the first-quarter end to 5.6% at the second-quarter end. Further, international businesses exposed Regal Beloit to risks arising from unfavorable movements in foreign currencies and geopolitical issues. In the first and the second quarters of 2020, negative foreign exchange impact lowered sales by 0.7% and 1.2%, respectively. Persistence of forex woes might be concerning.
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## Last Earnings Report

### Regal Beloit Q2 Earnings Top Estimates, Sales Miss

Regal Beloit delivered mixed results for the second quarter of 2020. Its earnings surpassed estimates by 46.15% — this being the fourth consecutive quarter of impressive earnings results. However, its quarterly sales lagged estimates by 3.39%.

Adjusted earnings in the reported quarter were 95 cents per share, surpassing the Zacks Consensus Estimate of 65 cents. However, the bottom line declined 36.2% from the year-ago quarter's figure of \$1.49 on weak sales performance and a fall in operating margins.

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	-3.39%
EPS Surprise	46.15%
Quarterly EPS	0.95
Annual EPS (TTM)	4.86

### Revenue Details

In the reported quarter, Regal Beloit's net sales were \$634.1 million, declining 27.4% year over year. Organic sales in the quarter fell 24.7%, while forex woes and divestments had adverse impacts of 1.2% and 1.5%, respectively.

Also, the top line lagged the Zacks Consensus Estimate of \$656 million.

Excluding the impacts of divested businesses, the company's adjusted net sales in the reported quarter were \$634.1 million, down 25.9% year over year.

Regal Beloit reports results under four segments — Climate Solutions, Commercial Systems, Industrial Systems and Power Transmission Solutions. The quarterly segmental results were adversely impacted by the pandemic. A brief discussion is provided below:

Revenues from Climate Solutions totaled \$178.2 million, declining 33.5% year over year. It represented 28.1% of net sales. The results were adversely impacted by an organic sales decline of 31.4%, forex woes of 0.7% and divestiture impact of 1.4%.

Commercial Systems' revenues, representing 27.7% of net sales, were \$175.9 million, down 28.6% year over year. Organic sales in the reported quarter declined 23.6%, while divestments resulted in an adverse impact of 3.8%. Also, forex woes lowered sales by 1.2%.

Industrial Systems generated revenues of \$120.6 million, reflecting a year-over-year decline of 22.4%. It represented 19% of the quarter's net sales. Organic sales decreased 19.8% year over year. Forex woes hurt results by 2.6%.

Power Transmission Solutions' revenues, representing 25.2% of net sales, were \$159.4 million, down 21.9% year over year. Organic sales dipped 21.1%. Forex woes and divestments had adverse impacts of 0.7% and 0.1%, respectively.

### Margin Picture

In the reported quarter, Regal Beloit's cost of sales declined 27.5% year over year to \$463.8 million. It represented 73.1% of net sales versus 73.2% recorded in the year-ago quarter. Gross profit decreased 27.2% year over year to \$170.3 million, while margin increased 10 basis points (bps) to 26.9%. Operating expenses of \$121.6 million decreased 11.9% year over year and represented 19.2% of net sales in the quarter.

Adjusted operating profit was \$59.5 million, down 36.6% year over year, while margin declined 160 bps to 9.4%. Interest expenses in the quarter were down 20.9% year over year to \$10.6 million.

Adjusted effective tax rate in the quarter was 22.4% versus 20.4% in the year-ago quarter.

### Balance Sheet and Cash Flow

Exiting the second quarter of 2020, Regal Beloit had cash and cash equivalents of \$432.2 million, reflecting a 28.5% decline from \$604.5 million recorded in the last reported quarter. Long-term debt decreased 17.5% sequentially to \$1,125.1 million.

In the quarter, the company's net repayments under revolving credit facility totaled \$239.5 million.

In the first half of 2020, Regal Beloit generated net cash of \$189.6 million from operating activities, reflecting year-over-year growth of 45.2% from \$130.6 million reported in the year-ago period. The company's capital investment for purchasing property, plant and equipment decreased 63.7% from the year-ago figure to \$20.4 million. Free cash flow was \$169.2 million in the quarter versus \$74.4 million in the year-ago period.

Free cash flow (as a % of adjusted net income) was 255.4% in the second quarter and 219.2% in the first half of 2020.

During the first half of 2020, the company paid out dividends totaling \$24.3 million to shareholders and repurchased shares worth \$25 million (no buybacks were made in the second quarter).

### Outlook

In the quarters ahead, the company anticipates gaining from its cost-control measures that are essentially implemented to deal with the pandemic. Total cost savings are anticipated to be \$42 million in 2020. Also, its existing restructuring and supply-chain efforts as well as reorganization actions (80/20) might aid.

The company is wary about the impacts of uncertainties related to the pandemic on its near- and mid-term demand for products. For now, it refrained from providing earnings and sales projections for 2020. However, the company predicts a year-over-year sales decline of 8-12% for the third quarter. Deleveraging on net sales will likely be 12-18%.

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Capital expenditure in the year is expected to be \$50 million; adjusted effective tax rate will likely be 21%, and restructuring and related costs will probably be \$25 million. Free cash flow (as a % of adjusted net income) will likely be more than 125%.

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## Recent News

### Dividend

On **Oct 22, 2020**, Regal Beloit's board of directors approved the payment of a quarterly cash dividend of 30 cents per share to shareholders of record as of Dec 31, 2020. The disbursement will be made on Jan 15, 2021.

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### Valuation

Regal Beloit's shares have increased 12.9% and 27.9% in the year to date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry have increased 3.8%, while the Zacks Industrial Products sector grew 7.5% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 12.6% and 13.5%, respectively.

The S&P 500 Index has moved up 7.9% year to date and 14.4% in the past year.

The stock is currently trading at 17.02x forward 12-month earnings per share, which compares to 23.72x for the Zacks sub-industry, 23.41x for the Zacks sector and 22.28x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.26x and as low as 8.78x, with a 5-year median of 13.14x. Our Outperform recommendation indicates that the stock will perform better than the market. Our price target of \$111 reflects 19.55x forward 12-month earnings.

The table below shows summary valuation data for RBC.

Valuation Multiples - RBC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.02	23.72	23.41	22.28
	5-Year High	20.26	23.72	23.41	23.47
	5-Year Low	8.78	13.63	12.59	15.27
	5-Year Median	13.14	17.65	17.68	17.68
P/Sales F12M	Current	1.33	2.98	3.15	4.14
	5-Year High	1.44	2.99	3.15	4.31
	5-Year Low	0.62	1.53	1.6	3.18
	5-Year Median	0.97	2.07	2.06	3.67

*As of 10/26/2020* *Source: Zacks Investment Research*

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## Industry Analysis Zacks Industry Rank: Top 28% (70 out of 248)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
ABB Ltd (ABB)	Neutral	3
Altra Industrial Motion Corp. (AIMC)	Neutral	2
Cummins Inc. (CMI)	Neutral	3
IIVI Incorporated (IIVI)	Neutral	3
Nidec Corp. (NJDCY)	Neutral	2
Rexnord Corporation (RXN)	Neutral	2
Timken Company The (TKR)	Neutral	3
Panasonic Corp. (PCRFY)	Underperform	3

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

Industry Comparison Industry: Manufacturing - Electronics				Industry Peers		
	RBC	X Industry	S&P 500	ABB	AIMC	RXN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	2
VGM Score	C	-	-	C	A	D
Market Cap	3.92 B	2.99 B	24.22 B	56.39 B	2.82 B	3.86 B
# of Analysts	4	4	14	3	3	2
Dividend Yield	1.24%	0.36%	1.61%	1.99%	0.37%	1.00%
Value Score	B	-	-	C	B	C
Cash/Price	0.11	0.09	0.07	0.08	0.08	0.09
EV/EBITDA	9.39	12.03	13.53	19.20	11.64	12.12
PEG F1	2.04	2.56	2.78	5.20	1.28	2.74
P/B	1.67	3.02	3.51	3.31	1.56	2.85
P/CF	10.81	15.09	13.40	15.43	8.87	11.54
P/E F1	20.44	27.30	21.48	32.24	19.15	18.44
P/S TTM	1.36	2.17	2.64	2.17	1.65	1.92
Earnings Yield	4.89%	3.53%	4.42%	3.11%	5.22%	5.42%
Debt/Equity	0.48	0.17	0.70	0.37	0.85	0.85
Cash Flow (\$/share)	8.94	1.93	6.93	1.69	4.92	2.78
Growth Score	D	-	-	D	B	C
Historical EPS Growth (3-5 Years)	3.98%	5.28%	10.39%	0.70%	16.44%	8.99%
Projected EPS Growth (F1/F0)	-13.80%	-12.00%	-2.06%	-34.95%	-20.28%	-13.43%
Current Cash Flow Growth	-9.82%	-0.69%	5.49%	-3.96%	74.66%	5.35%
Historical Cash Flow Growth (3-5 Years)	1.95%	3.59%	8.50%	-2.99%	29.14%	4.56%
Current Ratio	2.90	2.34	1.37	1.42	2.27	2.52
Debt/Capital	32.40%	14.19%	42.22%	27.06%	45.92%	45.89%
Net Margin	5.57%	7.16%	10.35%	21.33%	-1.13%	8.42%
Return on Equity	8.55%	8.56%	14.80%	15.47%	9.85%	17.52%
Sales/Assets	0.64	0.78	0.50	0.56	0.41	0.59
Projected Sales Growth (F1/F0)	-14.09%	-5.58%	-0.53%	-10.46%	-9.62%	0.00%
Momentum Score	D	-	-	A	A	F
Daily Price Change	-3.54%	-2.18%	0.57%	-0.46%	-2.61%	-1.69%
1-Week Price Change	-0.76%	-0.18%	0.02%	-2.28%	9.80%	1.75%
4-Week Price Change	0.81%	2.45%	7.98%	2.44%	16.31%	9.78%
12-Week Price Change	1.87%	5.81%	6.01%	1.01%	24.82%	9.22%
52-Week Price Change	27.91%	10.73%	4.67%	23.15%	40.94%	10.73%
20-Day Average Volume (Shares)	198,840	198,840	1,824,341	1,630,379	352,088	527,481
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	54.65%	21.05%	0.00%
EPS F1 Estimate 4-Week Change	1.66%	1.82%	0.17%	55.94%	24.89%	2.96%
EPS F1 Estimate 12-Week Change	17.80%	10.92%	3.36%	65.60%	24.89%	9.43%
EPS Q1 Estimate Monthly Change	2.94%	0.00%	0.00%	NA	21.19%	-4.25%

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.

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### 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>D</b>
Momentum Score	<b>D</b>
VGM Score	<b>C</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

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**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 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.