

Royal Caribbean(RCL)

\$75.34 (As of 11/17/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 11/18/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: C

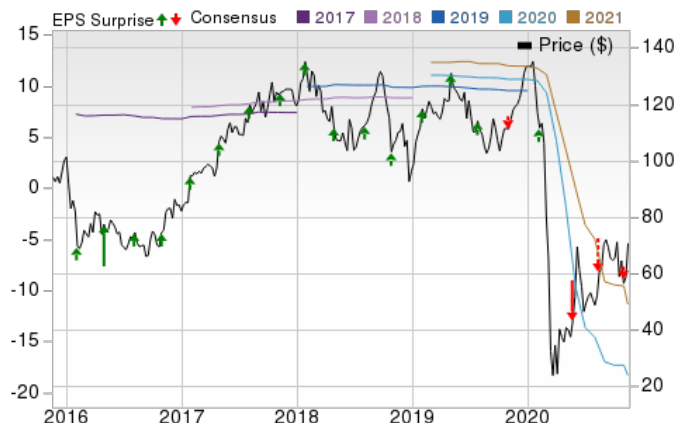
Growth: F

Momentum: C

Summary

Shares of Royal Caribbean have underperformed the industry in the past year. The dismal performance can primarily be attributed to the coronavirus outbreak that has compelled the company to cancel cruises. Notably, travel warnings and cruise cancellations are taking a toll on the company. Recently, the company reported third-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Bookings for 2020 have also declined significantly. Owing to the uncertainty of the crisis, the company has withdrawn 2020 guidance. Moreover, costs in the coming quarter are likely to increase due the suspension of operations. However, the company announced bookings for 2021 is within the historical range. In an effort to counter the current problem, it has formed a healthy sail panel.

Price, Consensus & Surprise

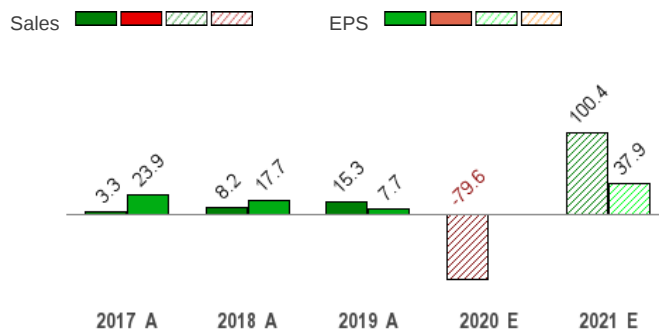


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$135.32 - \$19.25
20-Day Average Volume (Shares)	8,583,214
Market Cap	\$16.9 B
Year-To-Date Price Change	-43.6%
Beta	2.75
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 7% (236 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.2%
Last Sales Surprise	-160.5%
EPS F1 Estimate 4-Week Change	-6.3%
Expected Report Date	02/02/2021
Earnings ESP	0.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	178 E	1,230 E	1,758 E	1,667 E	4,480 E
2020	2,033 A	176 A	-34 A	80 E	2,236 E
2019	2,440 A	2,807 A	3,187 A	2,517 A	10,951 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$4.95 E	-\$2.48 E	-\$1.19 E	-\$1.41 E	-\$11.38 E
2020	-\$1.48 A	-\$6.13 A	-\$5.62 A	-\$5.05 E	-\$18.33 E
2019	\$1.31 A	\$2.54 A	\$4.27 A	\$1.42 A	\$9.54 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 11/17/2020. The reports text is as of 11/18/2020.

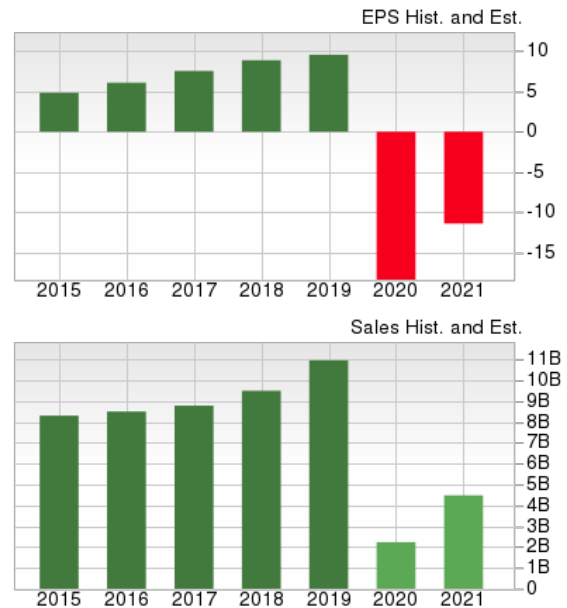
Overview

Based in Miami and incorporated in 1985, Royal Caribbean Cruises is a cruise company. It owns and operates three global brands — Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises. Additionally, it has 50% investment in a joint venture with TUI AG, which operates the brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur along with a 36% interest in the Chinese brand SkySea Cruises.

The company's cruise brands primarily serve the contemporary, premium and deluxe segments of the cruise vacation industry, which also includes the budget and luxury segments. These brands operate 60 ships, with an additional 16 on order as of Dec 31, 2018. The ships operate on a selection of diverse itineraries worldwide that include roughly 540 destinations on all seven continents.

The company reports revenues under the following segments — Passenger ticket revenues (71.7% of total revenues in 2019), and Onboard and other revenues (28.3%).

Owing to the unprecedented impact of the coronavirus pandemic, Royal Caribbean and Cruises Investment Holding recently filed for the reorganization of their Spanish Joint Venture - Pullmantur Cruceros. With sailings cancelled through Nov 15 due to the global crisis, filings were made with the respective authorities under the terms of Spanish insolvency laws. However, Royal Caribbean stated that its assets related to the JV had already been included in the non-cash asset impairment charges while reporting their first quarter 2020 results on May 3.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ **Coronavirus to Hurt 2020 Results:** The leisure industry is currently grappling with the coronavirus pandemic and Royal Caribbean isn't immune to the trend. Travel warnings and cruise cancellations are starting to take a toll on the company. In fact, the outbreak has persuaded management to suspend 2020 guidance. The coronavirus outbreak has compelled the company to cancel cruises. Notably, it has suspended all voyages since mid-March. Due to the pandemic, bookings for 2020 have declined significantly. It expects to report net loss on both a GAAP and adjusted basis for the fourth quarter and 2020 fiscal year.
- ▼ **Q3 Results Decline Sharply:** The company reported third-quarter 2020 results, wherein both earnings and revenues declined sharply year over year. The company reported adjusted loss per share of \$5.62, wider than the Zacks Consensus Estimate of a loss of \$4.92. In the prior-year quarter, it had reported adjusted earnings per share of \$4.27 per share. Total revenues were (\$33.7) million, against the consensus mark of \$56 million. In the prior-year quarter, the company had reported revenues of \$3,187 million.
- ▼ **Travel Ban to Cuba a Concern:** Meanwhile, Trump administration's policy change on travel to Cuba is concerning. Travel ban to Cuba will have a huge impact on cruise industry at the beginning of summer vacation season as demand for sailings in the region is very high. Notably, the company anticipates itinerary changes owing to Cuba to impact yields during first-half 2020. It also expects to witness the most significant impact during the first quarter, when three of its brands including Silversea and Azamara — its high-yielding brands — are scheduled to visit the island.
- ▼ **Increasing Costs Hurt:** The company is shifting its deployment toward Asia, Australia and certain areas of Europe to curtail capacity in areas with geopolitical risks. The changes related to international distribution system and a shift in deployment for strategic purposes will likely improve yields. However, it will also increase costs. Moreover, higher-than-anticipated load factors, timing and investment in revenue-generating activities are further adding to the company's costs. In 2018 and 2019, net cruise costs, excluding fuel, were up 4.1% and 11.4% in constant currency, respectively. Moreover, costs in the coming quarter are likely to increase due the suspension of operations.
- ▼ **Currency & Other Macro Economic Headwinds:** Royal Caribbean is heavily investing in China, where a slowdown in the economy could limit discretionary spending. In fact, the rate of capacity growth in the Asia Pacific region is expected to slow considerably in the near-term for both the company and the industry. The company's business in Latin America is also suffering due to the economic slowdown. Moreover, Australia and Southeast Asia are experiencing lower pricing, due to a significant increase in industry capacity. Further, in Europe, economic/political conditions are expected to be somewhat challenging after U.K.'s exit from the 28-member economic bloc.

The coronavirus pandemic, increased cost of operations and a cyclical industry are primary concerns.

Also, Royal Caribbean generates just under 50% of its revenues from customers outside the United States where a majority pay with local currency. Hence, the company is highly exposed to the impact of negative currency translation. Thus, if the U.S. dollar continues to strengthen versus the company's basket of currencies, it is likely to prove detrimental to the company's earnings growth. Moreover, an increase in fuel prices may further hamper the company's performance.

Risks

- **Healthy Sail Panel to Counter Current Crisis:** The cruise industry has been driven to a standstill by the coronavirus-induced crisis. However, the ongoing pandemic has compelled companies to forget rivalries and come together to counter the scenario. Case in point, Royal Caribbean Cruises and Norwegian Cruise have teamed up to develop safety standards. Former Utah Governor Mike Leavitt and former U.S. Food and Drug Administration Commissioner Scott Gottlieb, are serving as co-chairs of a newly formed group of experts called the "Healthy Sail Panel." During the third-quarter 2020 conference call, the company announced that its team along with healthy sail panel has worked to produce a health protocol to resume operations. The panel has made 74 specific recommendations to help reduce any risk out of the coronavirus pandemic.
 - **Overall Bookings and Capacity Growth:** Since 2017, Royal Caribbean has been consistently witnessing strong demand from its key markets of operations. In 2018 and 2019, demand for the company's all brands and itineraries increased sharply. The company commenced 2020 on a strong note. However, demand started declining in mid-February. Due to the coronavirus pandemic, the company had to cancel sailings. The bookings still remain constrained but it is now better than it was in mid-April. Management stated that it continues to witness steady improvement in bookings for 2021 as summer sailing driving the rise in demand. The company further announced that bookings for second half of 2021 are within the historical ranges. Bookings for 2021 are benefiting from rebooking activities related to Future Cruise Credit (FCC) and [indiscernible] program. The company stated that nearly 80% of its bookings of 2021 to date are new and more than 65% of bookings made since early August have been new.
 - **Technological & Other Innovation:** Royal Caribbean continues to make use of digital tools for marketing, product development and to enhance the consumer experience. These include revamped websites, new vacation packaging capabilities, support for mobile apps and increased bandwidth onboard to help its guests remain well-connected while at sea. With busier customers preferring more digital devices that help to save time, introduction of superior Internet bandwidth, online check-in accompanied with radio-frequency identification technology should continue to increase occupancy. Meanwhile, Royal Caribbean introduces new technological capabilities under its Project Excalibur. The company rolled out a smartphone app to increase convenience and better serve guests. In fact, the app is so broadly deployed that more than 60% of Royal Caribbean's current guests can avail it. In addition to industry-wide trends, there are several unique factors that are boosting the company's numbers. Streaming WiFi and customized destination experiences, as well as other ship upgrades, are also paying off.
 - **Strong Liquidity Position:** As of Sep 30, 2020, the company had cash and cash equivalents of approximately \$3 billion, compared with \$4.1 billion at the end of Jun 30, 2020. On May 19, 2020, the company completed its \$3.3 billion senior secured notes offering. Further, the company announced that during suspension of its operations, its estimated cash burn is likely in the range of \$250 million to \$290 million per month. This includes ongoing ship operating expenses, administrative expenses, debt service, hedging costs and anticipated necessary CapEx. Although the company's long-term debt at the end of third-quarter 2020 stands at \$17.6 billion, its anticipated debt maturities for the remainder of 2020 and 2021 are \$0.3 billion and \$1.3 billion, respectively. At the end of third-quarter 2020, the company had debt-to-capital ratio of 0.7, this gives an indication that its debt level is manageable.
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Last Earnings Report

Royal Caribbean Q3 Earnings & Revenues Lag Estimates

Royal Caribbean reported third-quarter 2020 results, wherein both top and bottom lines missed the Zacks Consensus Estimate. Notably, the bottom line missed the consensus estimate for the second straight quarter. Moreover, both the metrics declined sharply year over year due to the coronavirus pandemic.

The company reported adjusted loss per share of \$5.62, wider than the Zacks Consensus Estimate of a loss of \$4.92. In the prior-year quarter, it had reported adjusted earnings per share of \$4.27 per share.

Total revenues were (\$33.7) million, against the consensus mark of \$56 million. In the prior year quarter, the company had reported revenues of \$3,187 million. Due to the pandemic, the company suspended its global cruise operation beginning Mar 13, 2020, which resulted in the cancellation of third-quarter sailings.

During suspension of operations, the company anticipates cash burn in the range of nearly \$250 million to \$290 million per month.

Quarterly Highlights

Passenger ticket revenues decreased 99.9% to \$107 million, while onboard and other revenues declined to (\$36.9) million from \$3,186.9 million in the prior-year quarter.

Total cruise operating expenses were \$308.6 million, compared with \$1,623 million at the end of third-quarter 2019.

Other Financial Information

As of Sep 30, 2020, the company had cash and cash equivalents of approximately \$3 billion. As of Sep 30, 2020, the company's long-term debt was \$17.6 billion, compared with \$8.4 billion at the end of Dec 31, 2019.

The company announced that as of Sep 30, 2020, the anticipated debt maturities for the remainder of 2020 and 2021 are \$0.3 billion and \$1.3 billion, respectively.

Capital expenditure for remainder of 2020 and 2021 are anticipated to be \$0.5 billion and \$2.1 billion, respectively.

Guidance

Due to the pandemic, the company has withdrawn guidance. The company is unable to estimate the financial losses owing to the coronavirus as the magnitude and duration of the same remains uncertain.

The company anticipates to report net loss on both GAAP and adjusted basis for the fourth quarter and the fiscal 2020.

The pandemic has significantly impacted the bookings for remainder of 2020. However, booking for sailings in the second half of 2021 is within historical ranges.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	-160.54%
EPS Surprise	-14.23%
Quarterly EPS	-5.62
Annual EPS (TTM)	-11.81

Recent News

Royal Caribbean Boosts Liquidity With New \$700M Loan – Aug 12, 2020

Royal Caribbean is leaving no stone unturned to boost liquidity in a bid to counter the coronavirus crisis, which has driven the cruise industry to standstill. The company has secured a \$700 million term loan facility from Morgan Stanley. The company can withdraw the loan at any time prior to Aug 12, 2021.

Valuation

Royal Caribbean's shares are down 43.6% year-to-date and 36.6% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 32.4%, but Zacks Consumer Discretionary sector is up by 5.1% in the year-to-date period. Over the past year, the Zacks sub-industry were down by 27.1% while sector was up by 9.5%.

The S&P 500 index is up by 12.5% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 4.02X forward 12-month sales, which compares to 2.43X for the Zacks sub-industry, 2.53X for the Zacks sector and 4.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.07X and as low as 0.4X, with a 5-year median of 2.24X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$64 price target reflects 3.41X forward 12-month sales.

The table below shows summary valuation data for RCL.

Valuation Multiples - RCL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.02	2.43	2.53	4.23
	5-Year High	4.07	2.45	2.9	4.3
	5-Year Low	0.4	0.7	1.7	3.17
	5-Year Median	2.24	1.72	2.48	3.67
P/B TTM	Current	2.03	1.33	3.52	6.13
	5-Year High	2.97	1.71	4.84	6.17
	5-Year Low	0.38	0.43	2.23	3.74
	5-Year Median	2.12	1.37	4.18	4.9
EV/EBITDA TTM	Current	NA	18.34	11.92	16.1
	5-Year High	20.05	18.34	17.89	16.17
	5-Year Low	NA	4.45	8.31	9.54
	5-Year Median	11.25	8.93	12.26	13.11

As of 11/17/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 7% (236 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cinemark Holdings Inc (CNK)	Neutral	4
Camping World Holdings Inc. (CWH)	Neutral	3
Lindblad Expeditions Holdings Inc. (LIND)	Neutral	3
Live Nation Entertainment, Inc. (LYV)	Neutral	3
AMC Entertainment Holdings, Inc. (AMC)	Underperform	4
Carnival Corporation (CCL)	Underperform	4
H.I.S. Co., Ltd. (HISJF)	Underperform	4
Norwegian Cruise Line Holdings Ltd. (NCLH)	Underperform	4

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

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	RCL	X Industry	S&P 500	CCL	LYV	NCLH
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	4	3	4
VGM Score	D	-	-	D	F	F
Market Cap	16.90 B	710.44 M	26.21 B	13.01 B	14.93 B	6.08 B
# of Analysts	7	3	14	7	3	7
Dividend Yield	0.00%	0.00%	1.5%	0.00%	0.00%	0.00%
Value Score	C	-	-	B	D	C
Cash/Price	0.19	0.28	0.06	0.71	0.18	0.43
EV/EBITDA	8.69	7.40	14.53	4.38	19.25	7.75
PEG F1	NA	0.98	2.80	NA	NA	NA
P/B	2.03	1.39	3.60	0.65	60.45	1.49
P/CF	4.77	7.12	13.74	1.83	27.04	2.68
P/E F1	NA	25.95	22.02	NA	NA	NA
P/S TTM	2.14	1.27	2.85	1.26	3.31	2.21
Earnings Yield	-24.33%	-15.69%	4.32%	-41.11%	-12.39%	-39.44%
Debt/Equity	2.12	0.54	0.70	0.97	19.63	2.56
Cash Flow (\$/share)	15.81	2.48	6.92	9.87	2.54	8.22
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	15.37%	10.73%	9.79%	-10.12%	NA	15.73%
Projected EPS Growth (F1/F0)	-292.18%	-204.68%	0.36%	-268.73%	-42,483.50%	-270.84%
Current Cash Flow Growth	11.91%	-0.39%	5.39%	3.07%	-0.65%	4.56%
Historical Cash Flow Growth (3-5 Years)	15.91%	8.45%	8.31%	10.47%	0.08%	18.35%
Current Ratio	0.76	1.02	1.38	0.91	1.08	1.14
Debt/Capital	67.92%	54.12%	41.97%	49.24%	95.41%	71.91%
Net Margin	-24.36%	-15.77%	10.41%	-73.40%	-32.49%	-114.59%
Return on Equity	-25.20%	-17.08%	15.05%	-15.57%	-161.81%	-28.18%
Sales/Assets	0.25	0.37	0.50	0.21	0.40	0.16
Projected Sales Growth (F1/F0)	-79.58%	-38.57%	0.16%	-72.79%	-83.14%	-80.33%
Momentum Score	C	-	-	D	F	F
Daily Price Change	-0.21%	0.00%	-0.35%	2.73%	0.67%	3.52%
1-Week Price Change	20.56%	10.87%	4.23%	15.85%	17.92%	18.21%
4-Week Price Change	21.93%	16.63%	6.91%	23.55%	23.62%	29.16%
12-Week Price Change	17.59%	5.71%	9.73%	13.59%	28.13%	31.70%
52-Week Price Change	-36.62%	-40.53%	6.44%	-59.43%	0.82%	-58.89%
20-Day Average Volume (Shares)	8,583,214	191,802	2,205,801	61,808,564	3,430,933	26,316,912
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.15%	0.00%	-5.50%
EPS F1 Estimate 4-Week Change	-6.29%	-0.45%	1.73%	-0.48%	-9.09%	-5.50%
EPS F1 Estimate 12-Week Change	-7.85%	-4.15%	3.56%	-1.35%	-32.04%	-5.96%
EPS Q1 Estimate Monthly Change	-7.78%	-11.26%	0.58%	0.00%	-17.98%	-11.26%

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	C
Growth Score	F
Momentum Score	C
VGM Score	D

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.

Disclosures

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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.