

## RH (RH)

**\$331.54** (As of 08/28/20)

Price Target (6-12 Months): **\$348.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

## Summary

RH's shares have outperformed the industry in the past year. The company has been benefiting from its strength of the multi-channel platform and membership model enabled it to engage with customers virtually and not chase demand through promotions. The company's core RH business, solid performance of new galleries, along with continued expansion of RH Hospitality despite adverse macro trends and higher tariffs is encouraging. Also, its strategic initiatives to evolve RH from a home furnishings retailer to a luxury lifestyle brand over time will drive growth. However, lower outlet and restaurant sales still remain a drag. Closed operations, low inventory and supply chain disruptions, and lower outlet sales are near-term headwinds.

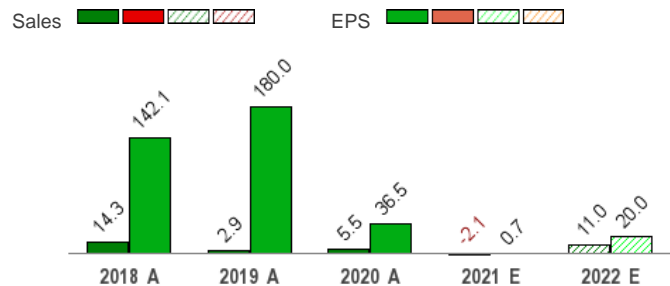
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$335.54 - \$73.14</b>
20-Day Average Volume (Shares)	<b>421,357</b>
Market Cap	<b>\$6.4 B</b>
Year-To-Date Price Change	<b>55.3%</b>
Beta	<b>2.57</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Retail - Home Furnishings</b>
Zacks Industry Rank	<b>Top 9% (22 out of 252)</b>

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



Last EPS Surprise	<b>58.8%</b>
Last Sales Surprise	<b>-0.9%</b>
EPS F1 Estimate 4-Week Change	<b>2.6%</b>
Expected Report Date	<b>09/08/2020</b>
Earnings ESP	<b>13.5%</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	543 E	768 E	774 E	749 E	2,877 E
2021	483 A	684 E	730 E	695 E	2,592 E
2020	599 A	707 A	677 A	665 A	2,647 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.76 E	\$3.97 E	\$3.79 E	\$4.60 E	\$14.09 E
2021	\$1.27 A	\$3.36 E	\$3.18 E	\$3.83 E	\$11.74 E
2020	\$1.85 A	\$3.20 A	\$2.79 A	\$3.72 A	\$11.66 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>30.2</b>
P/E F1	<b>28.2</b>
PEG F1	<b>2.3</b>
P/S TTM	<b>2.5</b>

The data in the charts and tables, except sales and EPS estimates, is as of 08/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 08/31/2020.

## Overview

**RH**, formerly known as Restoration Hardware, is a leading luxury retailer in the home furnishing space. The company offers dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bath ware, décor, outdoor and garden, tableware, and child and teen furnishings.

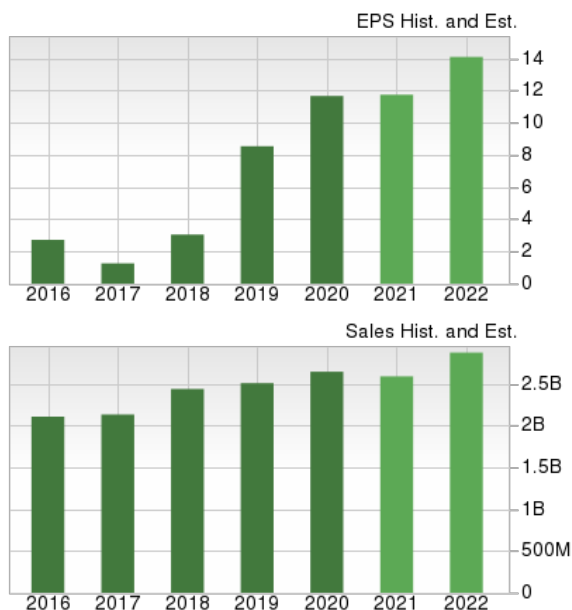
RH's business is fully integrated across its multiple channels of distribution, consisting of stores, Source Books and websites.

The company operates under two segments: RH Segment (comprising 95% of fiscal 2019 net revenues) and Waterworks (5%). The segments include all sales channels accessed by the company's customers, including sales through catalogs, the company's websites, stores, and commercial channels.

As of May 2, 2020, RH operated 69 RH Galleries and 38 RH outlet stores in 31 states, the District of Columbia and Canada, as well as 15 Waterworks showrooms throughout the United States and U.K., and had sourcing operations in Shanghai and Hong Kong.

As of Jun 3, 2020, the company reopened 74% of its gallery locations, 68% of its outlets and 50% of its Restaurants. The company is gradually reopening all of its retail locations in the United States and Canada.

In the first week of June, its core RH business demand further increased 11% despite business disruption due to the recent civil unrest in many markets served. The company remains optimistic that these trends will continue to improve with the reopening of the rest of the galleries. On Jun 16, the company revealed that it has opened RH Charlotte — The Gallery at Phillips Place.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Stellar Performance:** RH's shares have outperformed the industry in the past year. This trend is expected to continue in the near term, courtesy of its solid performance through fiscal 2019. The price performance was backed by the company's robust earnings surprise history, having surpassed the Zacks Consensus Estimate in all the trailing eight quarters.

In fiscal 2019, adjusted revenues increased 5.4% from the prior year, adjusted operating margins expanded 290 basis points (bps) to reach an industry best of 14.3%, and adjusted earnings per share advanced 49%. It also generated \$330 million of free cash flow in 2019. The company maintained solid performance even during the pandemic. RH posted stronger-than-expected fiscal first-quarter results supported by solid gross margin expansion. Although the top line was challenged, RH executed well in the quarter via avoiding promotions and controlling costs. The company's strength of the multi-channel platform and membership model enabled it to engage with customers virtually and not chase demand through promotions. Encouragingly, demand trends have improved after the fiscal first quarter, with core demand up 7% year over year in May and 11% in the first week of June.

RH has been exhibiting strong profitability, buoyed by its focus on improving profit margins, and creating a new and differentiating shopping experience with the addition of hospitality (restaurants and cafes) in new galleries. Focus on elevating the brand and architecting an integrated operating platform have aided RH in becoming one of the few retailers with expanding margins, rising operating earnings, while driving significantly higher returns on invested capital (industry-leading ROIC was 35.3% as of fiscal 2019).

- ▲ **Growth Initiatives to Drive Profitability:** Over the past three years, RH has been busy in architecting a new operating platform that includes transitioning from a promotional to membership model, distribution center network redesign, the redesign of reverse logistics and outlet business, and reconceptualization of its home delivery and customer experience. These initiatives have helped the company lower costs and inventory levels, while boosting earnings and inventory turns. Going forward, RH expects this multi-year effort to result in a dramatically improved customer experience, continued margin enhancement and significant cost savings over the next several years. During fiscal first-quarter earnings call, the company's management emphasized on a number of strategic initiatives to evolve RH from a home furnishings retailer to a luxury lifestyle brand over time including: 1) a transformation of the website to "The World of RH", 2) expansion of interior design services to include architecture and landscape architecture; 3) the launch of RH Residences, or furnished homes and condos; 4) launch of RH3, a luxury yacht that customers can rent for travel to the Caribbean and Mediterranean; and 5) international expansion in Europe, with the first three stores expected in the U.K. and France.

Notably, in 2016, the company transformed the business from a promotional to a membership model (RH Members Program), which is expected to enhance its brand, streamline operations and enhance customer experience. The membership model has eliminated the frantic buying patterns and associated returns, exchanges and canceled orders. This is expected to contribute to improved financial performance through higher conversion of demand into revenues, improved margins and lower costs. In fiscal 2019, RH's members, approximately 415,000 at the end of the year, drove roughly 95% of sales in the core RH business. Core RH business reflects the product categories to which membership discount can be applied. Hence, sales derived through Outlet, Contract, Hospitality or Waterworks are excluded.

- ▲ **Margin Expansion Initiatives:** From fiscal 2016 through fiscal 2019, RH significantly increased operating margins in its business. For the upcoming period, the company expects continued improvements in operating margins as a result of its focus on a number of strategic initiatives that include: (i) occupancy leverage that it expects to gain from real estate transformation (ii) product margin expansion as it continues to drive higher full price selling in core business and (iii) cost savings from improvements of its operating platform and organizational structure.

Impressively, CEO Friedman reaffirmed the company's ability to still deliver positive operating margin expansion in fiscal 2020 and highlighted a clear pathway to achieve an operating margin of approximately 20% in the next few years. Specifically, management expects Outlet margins to positively impact this fiscal year's operating margins by 100 bps, while cycling last year's elevated outlet sales. Management had anticipated at least 200 bps of operating margin expansion in fiscal 2020 before the COVID-19 crisis.

- ▲ **Enough Liquidity & Active Management of Cash Flows:** RH ended the fiscal first quarter with cash and cash equivalents of \$17.2 million, current debt of \$295.6 million (convertible notes due Jul 15, 2020), and long-term debt of \$578.7 million. The company has plans to pay the convertible notes due Jul 15, 2020 with cash on hand and borrowings from the revolving asset-based credit facility. Even after the redemption of the notes, it would still have \$170 million available under its revolver.

RH's initiatives have been providing a major opportunity to optimize the allocation of capital in business, including generation of free cash flow, optimization of balance sheet, and deployment of capital to repay debt and repurchase shares.

RH pursues an aggressive share repurchase strategy. During fiscal 2019, RH repurchased approximately 2.2 million shares for roughly \$250 million. There were no share repurchases under the \$950-million buyback plan during first-quarter fiscal 2020. As of May 2, 2020, there was \$450 million remaining for future share repurchases under this program.

Share repurchases benefit the company's earnings per share, book value as well as shareholder equity as shares outstanding reduce. Thus, share repurchase programs raise optimism among investors and boost their confidence in the stock. The company generated \$330 million, \$163 million and \$415 million of free cash flow in fiscal 2019, 2018 and 2017, respectively.

The transformation to a membership model, rationalization of product offerings and the expansion of its chain of restaurants are expected to boost growth

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## Reasons To Sell:

- ▼ **Coronavirus Outbreak Hurts Near-Term Prospects:** In the fiscal second quarter, the company expects sales growth to lag demand growth by 10-12% due to supply chain disruptions and reduced inventory purchases. However, RH projects this lag effect to neutralize in the second half of fiscal 2020, given the anticipated normalization of manufacturing and inventory purchases. In 2020, it continues to expect a 400-bps headwind to sales growth from lower outlet sales.

Although demand trends after the fiscal first quarter have improved, lower outlet and restaurant sales are still serving as a drag on the business. Closed operations, low inventory and supply chain disruptions, as well as lower outlet sales are near-term headwinds.

In view of the major disruption in financial markets and retail business operations due to the COVID-19 outbreak, RH has withdrawn all prior guidance pertaining to fiscal 2020.

- ▼ **Softness in the High-End Housing Market & Impact of Exit From Unprofitable Business:** Continued softness in the high-end housing market over the last few quarters is a cause of concern. The home furnishing industry is highly sensitive to strength of the economy.

Housing fundamentals in the United States were exceptionally strong through February 2020 before the crisis began. The picture has altered drastically since then. Most expensive housing markets in the country like New York, Seattle, San Francisco and Los Angeles are experiencing tough times due to the pandemic. This may further disrupt the demand-side scenario of the home furnishing industry.

Also, RH's ongoing exit from unprofitable and non-strategic businesses added to the woes. The company's fiscal 2019 guidance includes approximately 3 point revenue reduction as a result of exiting unprofitable and non-strategic businesses, i.e. the elimination of the remaining holiday business and fringe promotions (1 point each), as well as the transition of rug business from a single source importer to a direct sourcing model (1 point). Notably, the drag was approximately 2 points, 4 points and 2 points in the fiscal first, second and third quarters, respectively.

- ▼ **Dependence on Foreign Manufacturing and Imports:** RH's business highly depends on the successful operation of a global supply chain. In fiscal 2019, the company sourced approximately 86% of its merchandise from outside the United States, including 70% from Asia, majorly from China (38%). Thus, any economic or regulatory changes in the foreign countries will affect RH's business. Implementation of tax or tariffs may lead to an increase in the cost of goods sold and in turn higher product prices. This might also lead to a decline in consumer demand, denting the company's financial performance. RH noted that a major section of its products sourced from China has been affected by higher level of tariffs that were imposed in 2018 and 2019.

The presence of the COVID-19 virus and response to the health crisis in various countries are likely to have a continuing impact on its supply chain in the near term. RH expects the amount of products that it sources from China to be lower in fiscal 2020 than fiscal 2019.

- ▼ **Competition in Home Furnishings Sector:** The home furnishings sector is highly competitive. RH competes with interior design trade and specialty stores, antique dealers, national and regional home furnishing retailers and department stores. In addition, the company competes with mail order catalogs and online retailers focused on home furnishings. Increased catalog mailings by its competitors may affect response rates to RH's Source Book mailings. Increased competition has resulted in potential or actual litigation between RH and its competitors related to a variety of activities.

Coronavirus-related woes, slowing high-end U.S. housing market, its exit from unprofitable businesses, higher tariff, and higher dependence on foreign manufacturing and imports raise concerns

## Last Earnings Report

### RH's Q1 Earnings Top Estimates, Recent Sales Trends Improve

RH reported first-quarter fiscal 2020 results (ended May 2, 2020), wherein adjusted earnings handily beat the Zacks Consensus Estimate but revenues missed the same.

The company's strength of the multi-channel platform and membership model enabled it to engage with customers virtually and not chase demand through promotions. While fiscal first-quarter adjusted revenues were lower than expected, adjusted earnings topped the same for the 10th consecutive quarter as it continues to manage the business with a bias for earnings over revenue growth.

Quarter Ending **04/2020**

Report Date	Jun 04, 2020
Sales Surprise	-0.87%
EPS Surprise	58.75%
Quarterly EPS	1.27
Annual EPS (TTM)	10.98

### Earnings, Revenue & Margin Discussion

Adjusted earnings of \$1.27 per share surpassed the consensus mark of 80 cents by 58.8%. However, the reported figure dropped 35.5% from the year-ago level.

Adjusted revenues (including recall accrual) of \$482.9 million missed the consensus mark by 0.9%. The figure also declined 19.3% from the year-ago level of \$598.4 million.

Adjusted gross margin increased 270 bps to 41.8% in the quarter. However, the company's adjusted operating margin contracted 180 bps year over year to a record 10%. Adjusted EBITDA also dropped 22.9% year over year to \$77.4 million in the quarter.

### Store Update & Balance Sheet

As of May 2, 2020, RH operated 69 RH Galleries and 38 RH outlet stores in 31 states, the District of Columbia and Canada, as well as 15 Waterworks showrooms throughout the United States and U.K., and had sourcing operations in Shanghai and Hong Kong.

RH's cash and cash equivalents were \$17.2 million as of May 2, 2020 compared with \$47.7 million on Feb 1, 2020. The company ended the quarter with merchandise inventories worth \$494.3 million compared with \$438.7 million as of Feb 1, 2020. Net cash used in operating activities was \$16.9 million in the fiscal first quarter versus \$38.8 million cash provided by operating activities.

### Fiscal 2020 View

Given uncertainties in the overall market, RH did not provide any guidance for fiscal 2020. Nonetheless, it highlighted that the company experienced a strong rebound in performance in the second quarter and remains optimistic that these business trends will continue as it reopens Galleries, Outlets and Restaurants. As of Jun 3, 2020, RH had reopened approximately 74% of Galleries, 68% of Outlets and 50% of Restaurants.

Its business had been strong in May, with core RH business demand increasing 7% year over year, with significantly higher product margins. In the first week of June, core RH business demand further increased 11% despite business disruption due to the recent civil unrest in many markets served. The company remains optimistic that these trends will continue to improve with the reopening of the rest of the galleries during the quarter and new Design Galleries in Charlotte and Marin from mid to late June, along with expected positive response to the mailing of RH Interiors and RH Modern Sourcebooks that are arriving in home in June.

Owing to reduced inventory receipts and disruption across the global supply chain, it expects revenue improvement to lag demand growth by approximately 10-12 points in the fiscal second quarter. The company expects a positive impact on revenues in the second half of the fiscal year as manufacturing recovers and inventory receipts catch up to demand.

Meanwhile, it continues to expect operating margins to expand in fiscal 2020 despite the current setbacks from COVID-19. Also, it expects capital expenditures of \$125-\$150 million net of landlord contributions and asset sales for fiscal 2020. Additionally, it has plans to reinvest \$80-\$90 million of the previously announced \$150 million of expense reductions.

## Valuation

RH's shares are up 55.3% in the year-to-date period but up 131.4% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Retail-Wholesale sector are up 15% and 36.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 30.6% and 44.5%, respectively.

The S&P 500 index is up 8.9% in the year-to-date period and 20.3% in the past year.

The stock is currently trading at 25.29X forward 12-month earnings, which compares to 17.78X for the Zacks sub-industry, 34.06X for the Zacks sector and 23.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.59X and as low as 5.85X, with a 5-year median of 16.14X. Our Neutral recommendation indicates that the stock will perform better than the market. Our \$348 price target reflects 26.5X forward 12-month earnings.

The table below shows summary valuation data for RH

Valuation Multiples - RH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.29	17.78	34.06	23.49
	5-Year High	37.59	25.45	34.84	23.49
	5-Year Low	5.85	11.83	19.09	15.25
	5-Year Median	16.14	15.23	23.53	17.6
P/S F12M	Current	2.32	1.04	1.32	3.84
	5-Year High	2.32	1.22	1.32	3.84
	5-Year Low	0.38	0.48	0.82	2.53
	5-Year Median	0.83	0.85	0.98	3.05
EV/EBITDA TTM	Current	13.14	12.24	20.2	13.29
	5-Year High	14.67	12.58	20.2	13.29
	5-Year Low	2.63	5.22	11.15	8.22
	5-Year Median	7.08	8.27	12.96	10.91

As of 08/28/2020

## Industry Analysis Zacks Industry Rank: Top 9% (22 out of 252)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
At Home Group Inc. (HOME)	Outperform	1
Lowes Companies, Inc. (LOW)	Outperform	3
Tempur Sealy International, Inc. (TPX)	Outperform	1
The Home Depot, Inc. (HD)	Neutral	3
Haverty Furniture Companies, Inc. (HVT)	Neutral	3
The Lovesac Company (LOVE)	Neutral	3
WilliamsSonoma, Inc. (WSM)	Neutral	2
Ethan Allen Interiors Inc. (ETH)	Underperform	3

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

Industry Comparison Industry: Retail - Home Furnishings				Industry Peers		
	RH	X Industry	S&P 500	HD	HOME	WSM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	1	2
VGM Score	D	-	-	A	F	A
Market Cap	6.40 B	388.55 M	23.71 B	308.18 B	1.20 B	6.96 B
# of Analysts	10	5	14	14	5	10
Dividend Yield	0.00%	0.00%	1.63%	2.10%	0.00%	2.14%
Value Score	C	-	-	B	D	A
Cash/Price	0.00	0.14	0.07	0.05	0.04	0.11
EV/EBITDA	15.65	0.82	13.37	17.92	-30.51	11.75
PEG F1	2.22	1.27	3.08	2.17	0.32	1.51
P/B	334.29	4.76	3.22	NA	4.76	5.22
P/CF	15.07	12.34	12.90	23.07	11.26	12.34
P/E F1	27.78	19.72	21.82	25.33	12.52	15.06
P/S TTM	2.53	0.80	2.52	2.58	0.96	1.16
Earnings Yield	3.54%	3.91%	4.41%	3.95%	7.98%	6.64%
Debt/Equity	73.90	0.75	0.74	-78.19	6.32	1.04
Cash Flow (\$/share)	22.00	1.98	6.94	12.41	1.66	7.26
Growth Score	F	-	-	A	F	A
Historical EPS Growth (3-5 Years)	55.02%	2.05%	10.41%	17.96%	8.49%	9.68%
Projected EPS Growth (F1/F0)	0.68%	14.37%	-4.94%	10.25%	161.75%	22.91%
Current Cash Flow Growth	-8.66%	1.12%	5.22%	0.60%	9.90%	6.05%
Historical Cash Flow Growth (3-5 Years)	24.44%	4.89%	8.50%	11.22%	38.17%	4.89%
Current Ratio	0.65	1.34	1.35	1.30	0.82	1.36
Debt/Capital	98.67%	50.86%	43.86%	NA	86.34%	50.86%
Net Margin	7.17%	1.51%	10.25%	9.91%	-47.03%	6.83%
Return on Equity	-507.50%	0.44%	14.66%	-583.91%	-0.66%	36.53%
Sales/Assets	1.05	1.21	0.50	2.12	0.46	1.42
Projected Sales Growth (F1/F0)	-2.09%	2.47%	-1.43%	13.30%	11.02%	2.03%
Momentum Score	A	-	-	A	A	A
Daily Price Change	1.60%	-0.17%	0.71%	-0.81%	6.68%	-1.72%
1-Week Price Change	2.27%	8.20%	-1.45%	0.96%	14.66%	4.78%
4-Week Price Change	14.44%	16.21%	4.59%	7.50%	48.25%	2.18%
12-Week Price Change	33.46%	25.00%	4.86%	15.00%	201.29%	5.35%
52-Week Price Change	132.11%	25.65%	3.09%	25.94%	178.81%	39.59%
20-Day Average Volume (Shares)	421,357	446,363	1,887,168	3,538,708	3,412,683	1,244,172
EPS F1 Estimate 1-Week Change	1.65%	0.00%	0.00%	0.13%	0.00%	3.41%
EPS F1 Estimate 4-Week Change	2.58%	11.43%	0.79%	12.03%	1,426.22%	7.19%
EPS F1 Estimate 12-Week Change	54.63%	59.13%	3.43%	15.25%	451.89%	10.14%
EPS Q1 Estimate Monthly Change	0.03%	30.68%	0.00%	16.65%	309.80%	9.89%

Source: Zacks Investment Research

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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	C
Growth Score	F
Momentum Score	A
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.

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## 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.

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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