

Rockwell Automation (ROK)

\$209.08 (As of 09/21/20)

Price Target (6-12 Months): **\$230.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Rockwell Automation anticipates fiscal 2020 adjusted earnings per share between \$7.40 and \$7.60, indicating a year-over-year decline of 13% at the mid-point. Organic sales is expected to decline 8%. Weakness in the automotive, oil and gas and chemical markets, and impact of the coronavirus pandemic are likely to weigh on the company's fiscal 2020 results. Rockwell Automation has implemented temporary cost containment measures in the wake of uncertain market conditions, which is likely to generate \$150 million in savings in fiscal 2020. The earnings estimates for the company's fourth-quarter and fiscal 2020 have undergone positive revisions lately. Growth in Information Solutions and Connected Services segment, contribution from acquisitions and inorganic investments are likely to contribute to its performance in the days ahead.

Data Overview

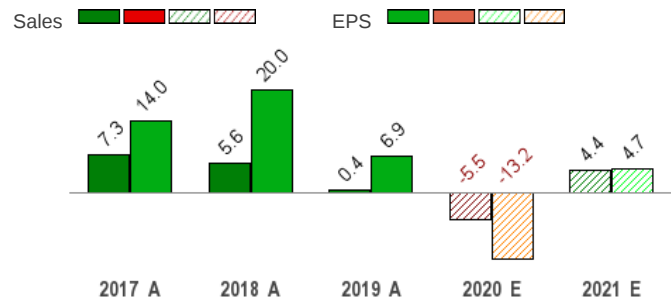
52-Week High-Low	\$238.49 - \$115.38
20-Day Average Volume (Shares)	509,949
Market Cap	\$24.2 B
Year-To-Date Price Change	3.2%
Beta	1.49
Dividend / Dividend Yield	\$4.08 / 2.0%
Industry	Industrial Automation and Robotics
Zacks Industry Rank	Bottom 16% (212 out of 251)

Last EPS Surprise	12.4%
Last Sales Surprise	0.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/10/2020
Earnings ESP	0.0%
P/E TTM	26.7
P/E F1	27.8
PEG F1	3.6
P/S TTM	3.7

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,596 E	1,668 E	1,678 E	1,801 E	6,609 E
2020	1,685 A	1,681 A	1,394 A	1,569 E	6,328 E
2019	1,642 A	1,657 A	1,665 A	1,730 A	6,695 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.67 E	\$2.18 E	\$1.93 E	\$2.41 E	\$7.88 E
2020	\$2.11 A	\$2.43 A	\$1.27 A	\$1.73 E	\$7.53 E
2019	\$2.21 A	\$2.04 A	\$2.40 A	\$2.01 A	\$8.67 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 09/21/2020. The reports text is as of 09/22/2020.

Overview

Based in Milwaukee, WI, Rockwell Automation provides industrial automation and information solutions worldwide. The company has a wide network spanning more than 80 countries. Outside the United States (which generated around 54% of total sales in fiscal 2019), the company's main markets are China, Canada, Mexico, Italy, the United Kingdom, Germany, and Brazil. Its brands include Rockwell Automation, Allen-Bradley and Rockwell Software.

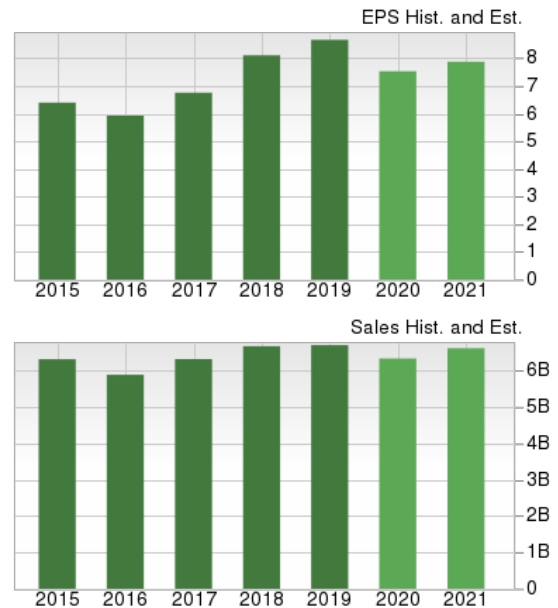
The company has two operating segments: Control Products & Solutions and Architecture & Software.

Major markets served by both segments consist of **discrete end markets** (e.g., Automotive, Semiconductor, and General Industries), which contributed around 25% of the company's fiscal 2019 sales. **Hybrid end markets** including Food & Beverage, Life Sciences and Household and Personal Care, among others contributed around 40% to the company's sales in fiscal 2019, while **process end markets** such as Oil & Gas, Metals, Chemicals, Pulp & Paper, to name a few generated 35% of the company's sales in fiscal 2019.

Control Products & Solutions, (55% of revenues in fiscal 2019), provides a comprehensive portfolio of intelligent motor control, industrial control products, application expertise and project management capabilities. The product portfolio includes low and medium voltage electro-mechanical and electronic motor starters, motor and circuit protection devices, AC/DC variable frequency drives, push buttons, signaling devices, termination and protection devices, relays and timers.

The Architecture & Software division (55% of revenues in fiscal 2019), contains all elements of the company's integrated control and information architecture capable of connecting the customer's entire manufacturing enterprise. Architecture & Software's Integrated Architecture and Logix controllers perform multiple types of control and monitoring applications.

Beginning in fiscal year 2021, Rockwell Automation will report results based on three operating segments: Intelligent Devices, Software & Control, and Lifecycle Services. This change simplifies its structure and aligns with customer needs.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Rockwell Automation has announced temporary cost containment measures in the wake of weak demand and uncertain market conditions on account of the COVID-19 pandemic. Rockwell Automation is taking preemptive actions to align the company's cost structure with this uncertain environment. The company is trying to minimize workforce reductions. There will be no incentive compensation payouts for fiscal 2020. It is cutting down discretionary spending across the organization, and is introducing other temporary cost actions that will be effective across its locations by the beginning of May. Rockwell Automation also announced to cut salaries. These actions are expected to generate \$150 million of savings in fiscal 2020.
- ▲ The company falls under essential business to support critical infrastructure. Its global manufacturing facilities and distribution centers are operational. The company has implemented several measures to ensure the health and safety of its employees, while supporting few pharmaceutical and medical device companies to scale up their production of critical products and testing capacity during the current crisis. Moreover, demand for packaged food and beverages are spiking on travel restrictions imposed by governments around the world. Rockwell Automation's Food & Beverage business is roughly 70% retail for grocery stores and home delivery and 30% foodservice for restaurants. Further, the company is implementing freight surcharges to mitigate elevated supply-chain costs.
- ▲ The company will benefit from its focus on broadening the portfolio of hardware and software products, solutions and services. Further, significant investments to globalize manufacturing, product development and customer-facing resources will drive growth. The company is likely to witness above-market growth through a combination of share gains in core platforms, double-digit growth in Information Solutions and Connected Services segment, as well as contribution from acquisitions and inorganic investments. Moreover, focus on productivity and initiatives to mitigate the impact of tariffs are expected to drive growth.
- ▲ Growth in emerging markets will continue to create demand for semiconductor and other heavy industries. For Rockwell Automation, Original Equipment Manufacturers (OEMs) represent another area of addressed market expansion and an important growth opportunity. To remain competitive, OEMs need to find the optimal balance of machine cost and performance while reducing their time to market. Rockwell Automation's scalable integrated architecture and intelligent motor control offerings, along with design productivity tools and motion and safety products, can assist OEMs in addressing these business needs. The company has also developed a powerful network of channel partners, technology partners and commercial partners that act as amplifiers to internal capabilities. The company continues to see strong growth in core platforms like Independent Cart technology for motion control and Network Infrastructure.
- ▲ Rockwell Automation maintains a strong financial position with regard to capital structure, cost-containment actions and liquidity, while also being well positioned to sail through the current turbulent situation. The company had cash of \$910 million as of Jun 30, 2020. Total debt was at \$2.4 billion as of the quarter end. The company's total debt-to-total capital ratio has been declining persistently over the past few quarters and was at 0.67 as of end of third-quarter fiscal 2020, a tad higher than the industry's 0.64. Although the company's debt is on the higher side, the major portion of the debt is payable after 2025. The company has a \$1.25-billion existing credit facility to support its liquidity position. Current ratio currently stands at 1.35 and its times interest earned is at 9.6. This indicates that the company is in a good position to fulfill its short term debt obligations.
- ▲ In first quarter fiscal 2020, Rockwell Automation acquired MESTECH Services, a global provider of Manufacturing Execution Systems/Manufacturing Operations Management, digital solutions consulting, and systems integration services. The acquisition enhances the company's capabilities to profitably grow Information Solutions and Connected Services globally and accelerate its ability to help customers execute digital transformation initiatives. The company has also acquired Avnet Data Security, LTD, in a bid to boost its cybersecurity offerings, which is one of Rockwell Automation's fastest-growing businesses. This buyout will support the company's strategic objective to achieve double-digit growth in Information Solutions and Connected Services by expanding its IT/OT cyber and network expertise globally. In April, the company completed acquisitions of ASEM, a leading provider of digital automation technologies and Kalypso, a privately-held US-based software delivery and consulting firm specializing in the digital transformation of industrial companies with a strong client base in life sciences, consumer products and industrial high-tech.

Rockwell Automation will benefit from expanding portfolio of products, solutions and services, growth investments and acquisitions. Focus on productivity will drive margins.

Reasons To Sell:

- ▼ The company had been witnessing increase in order levels lately. The company has raised fiscal 2020 adjusted earnings per share guidance to the band of \$7.40-\$7.60 from its prior estimate of \$6.90-\$7.70. The mid-point of the new guidance indicates a year-over-year decline of 13%. Organic sales growth is expected to be a negative 8%. Reported sales growth is expected to be a negative 5.5%. Inorganic sales growth is projected at 4% for the fiscal year, while currency translation impact is expected to be a negative 1.5%. The company's guidance is based on the premise of a gradual recovery, with no increase in pandemic-related facility closures or disruptions to the supply chain. Resurgence in cases might impact the company's operations or hamper its supply chain.
- ▼ Rockwell Automation expects discrete end markets to be down mid-single digits in fiscal 2020 as the Automotive sector is expected to witness decline in the mid-single digits. The Hybrid industry is likely to be down in mid-single digits mainly dragged down by Tire, followed by Food & Beverage and Life Sciences. The Process industry will be down in the mid-teens as oil and gas market, Mining/Aggregate/Cement (MAC) and Chemical are all expected to go down in the double digits. Input cost inflation due to the implementation of tariffs as well as supply chain disruptions on coronavirus pandemic will limit Rockwell Automation's margins. Further, net interest expense, general corporate costs and currency are anticipated to remain headwinds in fiscal 2020.
- ▼ Sales in the domestic markets accounts for roughly 54% of Rockwell Automation's total sales. The U.S.-China trade war and waning global demand had already taken a toll on the U.S manufacturing sector, and the coronavirus pandemic has only aggravated the scenario. Per the Institute for Supply Management's report, the U.S Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. The index climbed to 52.6% in June followed by 54.2% in July and 56% in August. It remains to be seen whether the recovery in the past three months will sustain considering the surge in coronavirus cases.
- ▼ Rockwell Automation faces stiff competition in all of its market segments. The company, therefore, needs to continually develop advanced technologies for new products and product enhancements. Developing products requires high levels of innovation, and the process is often lengthy and expensive. The company's increased spending to support growth will continue to put pressure on margins in the near term.

Rockwell Automation's performance will be affected by the slowdown in U.S manufacturing activity, weakness in oil and gas, automotive, and chemical markets. It will bear the brunt of tariffs.

Last Earnings Report

Rockwell's Q3 Earnings & Sales Top Estimates, View Up

Rockwell Automation reported adjusted earnings of \$1.27 in third-quarter fiscal 2020, beating the Zacks Consensus Estimate of 1.13. The bottom line, however, plummeted 47% year over year, primarily on lower sales.

Including one-time items, the company's earnings came in at \$2.73 per share compared with the \$2.20 reported in the year-ago quarter.

Total revenues came in at \$1,394 million, down 16.3% from the prior-year quarter. Moreover, the top-line figure outpaced the Zacks Consensus Estimate of \$1,390 million. Organic sales in the quarter were down 17.6%, while foreign-currency translations had a negative impact of 1.9%. However, acquisitions contributed 3.2% to the increase in sales.

Operational Update

Cost of sales decreased 10.2% year over year to \$839.8 million. Gross profit declined 24% year over year to \$554.2 million. Selling, general and administrative expenses flared up 2.2% year over year to \$370 million.

Consolidated segment operating income totaled \$229 million, down 42.1% from the prior-year quarter. Segment operating margin was 16.5% in the fiscal third quarter compared with the prior-year quarter's 23.8%.

Segment Results

Architecture & Software: Net sales came in at \$621.4 million in the fiscal third quarter, registering a year-over-year decline of 16.9%. Organic sales were down 15.9%, and currency translation had a negative impact of 1.8%. However, acquisitions contributed 0.8%. Segment operating earnings came in at \$148 million compared with the \$223 million reported in the prior-year quarter. Segment operating margin contracted 23.8% in the quarter compared with the year-ago quarter's 29.8%.

Control Products & Solutions: Net sales declined 15.8% year over year to \$773 million in the reported quarter. Organic sales slid 18.9%, while inorganic investments boosted sales by 5.1%. Currency translation, however, reduced sales by 2%. Segment operating earnings slumped 52.6% year over year to \$82 million. Segment operating margin was 10.6% compared with the year-earlier quarter's 18.9%.

Financials

As of Jun 30, 2020, cash and cash equivalents totaled \$909.8 million, down from \$1,018.4 million as of Sep 30, 2019. As of Jun 30, 2020, total debt was \$2.4 billion, up from \$2.3 billion as of Sep 30, 2019.

Cash flow from operations for the nine-month period ended Jun 30, 2020 was \$795 million compared with the \$707 million generated in the prior-year comparable period. Return on invested capital was 27.9% as of Jun 30, 2020, compared with the 39% witnessed in the prior-year period.

During the fiscal third quarter, Rockwell repurchased 0.3 million shares for \$48.5 million. As of the quarter end, \$853.7 million was available under the existing share-repurchase authorization.

Fiscal 2020 Guidance

The company anticipates fiscal 2020 adjusted earnings per share in the band of \$7.40-\$7.60, up from prior estimate of \$6.90-\$7.70. Organic sales growth is expected to be a negative 8%. Reported sales growth is expected to be a negative 5.5%. Inorganic sales growth is projected at 4% for the fiscal year, while currency translation impact is expected to be a negative 1.5%.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	0.30%
EPS Surprise	12.39%
Quarterly EPS	1.27
Annual EPS (TTM)	7.82

Valuation

Rockwell Automation's shares have gone up 5% in the year-to-date period and up 29.7% over the trailing 12-month period. Stocks in the Zacks Industrial Automation and Robotics industry are up 4.3% while the Zacks Industrial Products sector are down 4.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 24.2% and 5.4%, respectively.

The S&P 500 index is up 1.7% in the year-to-date period and up 10.0% in the past year.

The stock is currently trading at 26.57X forward 12-month earnings, which compares with 24.88X for the Zacks sub-industry, 20.99X for the Zacks sector and 21.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.63X and as low as 13.48X, with a 5-year median of 20.37X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$230 price target reflects 27.91X forward 12-month earnings per share.

The table below shows summary valuation data for ROK:

Valuation Multiples - ROK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.57	24.88	20.99	21.58
	5-Year High	30.63	27.74	21.85	23.44
	5-Year Low	13.48	14.13	12.55	15.26
	5-Year Median	20.37	19.51	17.51	17.63
EV/EBITDA TTM	Current	19.3	15.25	19.23	14.15
	5-Year High	21.8	17.02	20.37	15.61
	5-Year Low	8.23	6.55	10.74	9.51
	5-Year Median	12.96	10.52	14.97	13.01
P/B TTM	Current	22.26	11.54	5.94	4.63
	5-Year High	59.48	19.24	6.35	6.17
	5-Year Low	5.26	3.93	3.34	3.75
	5-Year Median	11.09	7.64	4.52	4.85

As of 09/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 16% (212 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Timken Company The (TKR)	Outperform	1
ABB Ltd (ABB)	Neutral	2
Dover Corporation (DOV)	Neutral	2
Emerson Electric Co. (EMR)	Neutral	3
Eaton Corporation, PLC (ETN)	Neutral	3
Flowserve Corporation (FLS)	Neutral	3
Honeywell International Inc. (HON)	Neutral	3
Micron Technology, Inc. (MU)	Underperform	5

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

Industry Comparison Industry: Industrial Automation And Robotics				Industry Peers		
	ROK	X Industry	S&P 500	ABB	EMR	MU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	5
VGM Score	C	-	-	D	B	B
Market Cap	24.25 B	1.80 B	22.78 B	54.68 B	38.83 B	54.61 B
# of Analysts	9	3	13	3	8	7
Dividend Yield	1.95%	0.23%	1.7%	2.05%	3.08%	0.00%
Value Score	D	-	-	D	C	B
Cash/Price	0.04	0.12	0.07	0.08	0.06	0.15
EV/EBITDA	21.98	7.47	12.89	18.60	10.86	4.13
PEG F1	3.62	3.38	2.91	5.08	2.57	1.37
P/B	22.26	2.96	3.17	4.35	4.93	1.44
P/CF	20.60	17.56	12.48	14.96	12.83	4.32
P/E F1	28.09	29.41	20.84	31.52	19.71	14.02
P/S TTM	3.74	1.79	2.44	2.08	2.26	2.70
Earnings Yield	3.60%	3.41%	4.53%	3.17%	5.08%	7.14%
Debt/Equity	1.81	0.02	0.70	0.50	0.70	0.17
Cash Flow (\$/share)	10.15	2.95	6.93	1.69	5.07	11.36
Growth Score	C	-	-	D	B	C
Historical EPS Growth (3-5 Years)	9.65%	3.96%	10.41%	2.54%	4.48%	69.37%
Projected EPS Growth (F1/F0)	-13.11%	-22.42%	-4.56%	-35.48%	-10.67%	26.86%
Current Cash Flow Growth	-0.65%	-11.13%	5.26%	-3.96%	7.06%	-35.35%
Historical Cash Flow Growth (3-5 Years)	3.18%	3.18%	8.49%	-2.99%	-0.68%	15.84%
Current Ratio	1.31	2.45	1.35	1.19	1.32	2.89
Debt/Capital	64.45%	14.30%	42.95%	33.15%	41.11%	14.58%
Net Margin	11.85%	11.85%	10.25%	5.83%	11.39%	11.16%
Return on Equity	105.45%	8.21%	14.66%	18.45%	26.12%	6.31%
Sales/Assets	0.95	0.88	0.50	0.57	0.81	0.40
Projected Sales Growth (F1/F0)	-5.56%	0.00%	-1.44%	-10.91%	-9.16%	6.33%
Momentum Score	A	-	-	B	C	D
Daily Price Change	-4.51%	0.00%	-2.45%	-2.47%	-4.23%	-3.13%
1-Week Price Change	-1.48%	-1.48%	0.79%	-1.11%	-0.10%	10.09%
4-Week Price Change	-9.41%	-3.09%	-3.66%	-3.19%	-6.71%	12.32%
12-Week Price Change	0.20%	-9.25%	5.24%	13.81%	5.87%	0.01%
52-Week Price Change	27.36%	5.36%	-2.08%	26.73%	0.08%	-0.91%
20-Day Average Volume (Shares)	509,949	34,629	2,038,285	1,675,369	2,338,664	17,997,058
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.70%
EPS F1 Estimate 12-Week Change	4.96%	1.82%	4.10%	14.83%	7.81%	1.45%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	-2.65%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.

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.