

Roku, Inc. (ROKU)

\$255.67 (As of 11/19/20)

Price Target (6-12 Months): **\$269.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: F

Growth: A

Momentum: A

Summary

Roku's third-quarter 2020 results benefited from increased ARPU and user engagement owing to the coronavirus-led lockdown. Premium subscriptions in The Roku Channel witnessed a surge in signups. Content distribution benefited from a surge in subscription signups, movie rentals and purchases and increased device sales. Moreover, streaming hours growth is likely to boost TV streaming advertising on Roku's platform. Roku is benefiting from robust growth in advertising driven by monetized video ad impressions on increasing popularity of The Roku Channel. Shares have outperformed the industry year-to-date. However, video ad campaign cancellations or delayed starts from categories like travel, theatrical and automotive among others were an overhang. Notably, the company scrapped its 2020 guidance due to coronavirus-led uncertainties.

Data Overview

52-Week High-Low	\$261.99 - \$58.22
20-Day Average Volume (Shares)	5,709,097
Market Cap	\$32.5 B
Year-To-Date Price Change	90.9%
Beta	1.79
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Broadcast Radio and Television
Zacks Industry Rank	Top 37% (93 out of 254)

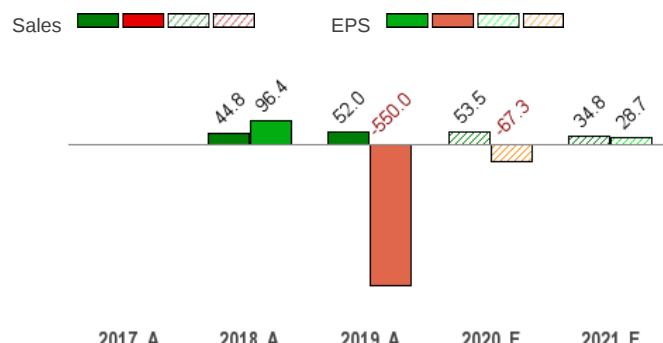
Last EPS Surprise	123.1%
Last Sales Surprise	20.1%
EPS F1 Estimate 4-Week Change	39.5%
Expected Report Date	02/11/2021
Earnings ESP	0.0%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	21.1

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	439 E	510 E	592 E	821 E	2,336 E
2020	321 A	356 A	452 A	606 E	1,733 E
2019	207 A	250 A	261 A	411 A	1,129 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.34 E	-\$0.22 E	-\$0.05 E	\$-0.00 E	-\$0.62 E
2020	-\$0.45 A	-\$0.35 A	\$0.09 A	-\$0.09 E	-\$0.87 E
2019	-\$0.09 A	-\$0.08 A	-\$0.22 A	-\$0.13 A	-\$0.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/19/2020. The reports text is as of 11/20/2020.

Overview

Roku is the leading TV streaming platform provider in the United States based on hours streamed.

The company reported 39.8 million active accounts as of Mar 31, 2020, a net increase of nearly 3 million since Dec 31, 2019 attributed to sale of stand-alone streaming devices, partnerships with TV brand partners like TCL, JVC, Sharp and other leading TV-makers who license the Roku OS to manufacture and sell Roku TV models, and licensing of Roku OS to certain service operators.

Moreover, Roku is benefiting from growth in advertising driven by monetized video ad impressions on increasing popularity of The Roku Channel. The acquisition of dataxu, a Boston-based advertising technology company in 2019 is expected to strengthen Roku's over-the-top (OTT) advertising roadmap.

Roku reported revenues of \$1.12 billion in 2019. The Los Gatos, CA-based company operates through two reportable segments: Platform and Player.

The Platform segment generates revenues from advertising sales, subscription and transaction revenue shares, the sale of branded channel buttons on remote controls and licensing arrangements with TV brands and service operators. In 2019, Platform revenues increased 78% year over year to \$740.8 million.

The Player segment derives revenues from the sale of streaming players through consumer retail distribution channels, including major brick and mortar retailers, such as Best Buy and Walmart, and online retailers, primarily Amazon.

In 2019, Roku generated \$388.1 million player revenues with 29% year-over-year increase in volume of players sold. Nearly one in three smart TVs sold in the United States were Roku TVs.

Roku faces immense competition from existing local traditional pay TV services and products. Companies such as Amazon, Apple and Google offer TV streaming devices that compete with Roku streaming players and Roku TV. Additionally, Google and Amazon license their respective OS for integration into smart TVs.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Roku generates revenues from subscriptions and advertising, with the latter boasting long-term potential for sustainable growth. Roku monetized video ad impressions more than doubled in 2019. The company is the market leader in ad-supported streaming space with 14.8 billion hours of streamed content reported in third-quarter 2020. The Roku Channel reached active accounts with an estimated 54 million viewers in third-quarter 2020 and more than 55 live linear channels.
- ▲ Roku's acquisition of demand-side platform, Dataxu will position the streaming service provider to compete more fiercely for ad dollars as it shifts from the \$70 billion linear TV market to digital platform. The acquisition will enhance and automate services provided to marketers on Roku's advertising platform. dataxu's software will provide marketers on Roku the ability to automate how they purchase video ads across platforms, including online video TV and over-the-top (OTT), on Roku's owned and operated properties using a self-serve interface.
- ▲ Roku brings value to TV brands, offering lower hardware cost, more content, low return rates, automatic software updates, wide retail distribution and the strength of the Roku brand. The range of sizes and features at affordable price points is appealing to a broad range of consumers. In 2019, the company added many TV brands and retailers to the Roku TV ecosystem including Walmart's house brand, onn. The first onn. Roku TV, announced in fall, was sold exclusively in Walmart U.S. stores over the Black Friday weekend.
- ▲ International expansion is key to Roku's top-line growth. In September 2019, the company announced the launch of Roku TV in UK with Hisense. Roku partnered with TPV in Brazil, bringing locally built AOC Roku TV models to market. Moreover, the company also launched streaming service Globoplay for Roku customers in partnership with Brazil-based media powerhouse Globo. Notably, more than one in four smart TVs sold in Canada were Roku TVs in 2019.
- ▲ Roku's improved liquidity makes the stock attractive to investors. As of Sep 30, 2020, cash, cash equivalents including short-term investments were \$1.04 billion compared with \$887 million as of Jun 30, 2020. The improved liquidity will help Roku to meet its working capital requirements. The company's total debt of \$91 million as of Sep 30, 2020, which decreased from \$97.1 million as of Jun 30, 2020, should not be a bother for Roku due to its solid cash balance.

Roku benefits from the growing popularity of The Roku Channel, dominance in ad-supported streaming space, expanding TV-brands & retailer partner base and international expansion.

Reasons To Sell:

- ▼ Increased competition carries risk of lower sales volume, revenues and operating margins. Roku faces immense competition from existing local traditional pay TV services and products, including those provided by incumbent pay TV service providers and mobile streaming platforms. Competitors with more extensive product lines and stronger brand identity such as Apple or Google possess greater bargaining power with retailers. Companies such as Amazon, Apple and Google offer TV streaming devices that compete with Roku streaming players and Roku TV. Additionally, Google and Amazon license their respective OS for integration into smart TVs. Roku's Smart Soundbar and Roku Wireless Subwoofer face additional competition from makers of TV audio speakers and sound bars, as well as makers of other TV peripheral devices.
- ▼ Evolving TV standards such as 4K, 8K, HDR and technology upgrades require continued investments in the development of Roku players, Roku TV and other platforms putting margins under pressure, thereby increasing operating cost. In third-quarter 2020, research and development expenses (19.6% of total revenues) increased 29.1% year over year to \$84.4 million.
- ▼ International expansion and content additions resulted in cost escalations in the form of marketing expenses. Sales and marketing expenses increased 52.1% year over year to \$71 million in third-quarter 2020, a trend likely to continue in the rest of 2020.
- ▼ Roku has been incurring operating losses since inception and reported an operating loss of \$42.2 million for second-quarter 2020. The company does not expect to generate profit sooner amid growing investments on sales & marketing and research & development. Despite the increasing top line, mounting losses doesn't augur well for investor confidence in our view.

Increasing competition in the streaming space from the likes of Amazon, Apple and Google and higher sales & marketing expenses are major concerns.

Last Earnings Report

ROKU Q3 Earnings Top Estimates, Advertising Revenues Rebound

Roku reported third-quarter 2020 earnings of 9 cents per share. The Zacks Consensus Estimate was pegged at a loss of 39 cents per share. The company had reported loss of 22 cents per share in the year-ago quarter.

Revenues soared 73.1% from the year-ago quarter's level to \$451.6 million and beat the consensus mark by 21.7%.

Active accounts jumped 43% year over year to 46 million driven by strong sales of players and Roku TVTM models in both the United States and international markets. Moreover, average revenue per user (ARPU) grew 20% to \$27 (on a trailing 12-month basis).

Top-Line Details

Platform revenues (70.7% of revenues) surged 78% year over year to \$319.2 million driven by popularity for the new live TV channel guide, which now includes over 115 channels.

Per management, The Roku Channel reached households with an estimated 54 million people in the third quarter and grew streaming hours faster than any other top 10 channel on the Roku platform on a year-over-year basis.

Markedly, The Roku Channel grew more than twice as fast as the Roku platform overall, on both streaming hours and active account reach basis. Roku users streamed 14.8 billion hours in the third quarter, up 54% year over year.

Additionally, content distribution benefited from a surge in subscription signups, movie rentals and purchases as well as elevated revenues from increased device sales.

During the quarter, the company reached a mutually beneficial agreement with Comcast (CMCSA) owned NBCUniversal to distribute the latter's Peacock streaming services that include collaboration around marketing, advertising, and content for The Roku Channel.

Building on that partnership, Roku launched NBC News in The Roku Channel in time for the final presidential debate, expanding the overall reach and monetization for NBC News alongside its standalone NBC News app on the Roku platform.

Moreover, Roku benefited from advertising spend reallocation towards TV streaming as marketers accelerated their shift out of traditional TV and into TV streaming, precipitated by a 17% year-over-year drop in linear TV viewing among adults 18-49.

In the third quarter, monetized video ad impressions grew almost 90% year over year compared with more than 50% reported in the year-ago quarter. Product innovation in solutions like the Shopper Data Program with Kroger continued to drive growth.

First-time advertiser clients more than doubled year over year, driven by performance marketers using Roku's OneView ad platform, as well as TV advertisers focused on new products offered by the company such as incremental reach guarantees.

Markedly, 97% of TV advertisers that spent \$1 million or more with Roku in the third quarter of 2019 continued to invest in the reported quarter.

Player revenues (29.3% of revenues) increased 62.3% from the year-ago quarter's levels to \$132.4 million. Player unit sales were up 57% year over year, resulting in the strongest year-over-year player revenue growth in over seven years. Player sales in both Canada and the U.K. more than doubled year over year.

Operating Details

Gross margin expanded 220 basis points (bps) on a year-over-year basis to 47.6%.

Operating expenses, as a percentage of revenues, decreased to 44.9% from the year-ago quarter's 55.6%. Growth in headcount and sales & marketing (S&M) expenses led to higher operating expenses.

S&M, research & development (R&D) and general & administrative (G&A) expenses contracted 220 bps, 670 bps and 180 bps, respectively.

In the third quarter, adjusted EBITDA came in at \$56.2 million compared to negative \$0.43 million in the year-ago quarter.

Operating income was \$12 million in the reported quarter. The company had reported an operating loss of \$26.5 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Sep 30, 2020, cash and cash equivalents including short-term investments were \$1.04 billion compared with \$887 million, as of Jun 30, 2020.

Guidance

The company expects fourth quarter year-over-year revenue growth in the mid-40% range while platform revenues are expected to account for roughly two-thirds of total revenues.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	20.06%
EPS Surprise	123.08%
Quarterly EPS	0.09
Annual EPS (TTM)	-0.84

Moreover, fourth-quarter platform gross margin is expected to be in the mid-50% to 60% range.

Roku expects sequential expense growth rate to be in line with last year driven primarily by headcount and sales and marketing expense growth.

Roku withdrew its 2020 guidance due to the economic uncertainty stemming from the coronavirus outbreak.

Recent News

On Oct 19, Roku announced that RTE Player, the on-demand service provided by Irish broadcaster RTE, is officially available on Roku streaming devices in Ireland.

On Sep 28, Roku announced the launch of Roku Streambar in the United Kingdom. Roku Streambar is a two-in-one entertainment upgrade that adds 4K HDR streaming and cinematic sound to any TV.

On Sep 19, Roku announced reaching a carriage distribution deal with NBC Universal. The deal will keep NBC News, NBC Sports, E!, Bravo and the rest of NBCUniversal's apps on Roku. Moreover, the new Peacock streaming service will be available to Roku customers.

On Jul 1, Roku announced the addition of Peloton app, Peloton Interactive's virtual fitness platform for Roku streamers. The Peloton Roku app is available in the United States from Jul 1 and in Canada from Jul 2.

Valuation

Roku shares are up 91% in the year-to-date period and 63.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 19.1% and 5.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 22% and 10.7%, respectively.

The S&P 500 index is up 11.7% in the year-to-date period and 16% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 20.09X, which compares to 9.52X for the Zacks sub-industry, 3.48X for the Zacks sector and 4.18X for the S&P 500 index.

Over the past two years, the stock has traded as high as 20.84X and as low as 4.13X, with a 2-year median of 12.45X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$269 price target reflects 15.03X forward 12-month sales.

The table below shows summary valuation data for ROKU

Valuation Multiples - ROKU					
		Stock	Sub-Industry	Sector	S&P 500
EV/Sales TTM	Current	20.09	9.52	3.48	4.18
	2-Year High	20.84	11.96	3.58	4.23
	2-Year Low	4.13	6.90	2.3	2.62
	2-Year Median	12.45	9.34	3.21	3.60
P/S F12M	Current	14.31	8.55	2.54	4.2
	2-Year High	15.24	9.88	2.54	4.3
	2-Year Low	3.06	6.39	1.7	3.21
	2-Year Median	9.35	8.03	2.24	3.72
P/B TTM	Current	26.21	18.02	3.26	6.09
	2-Year High	41.82	38.18	4	6.17
	2-Year Low	10.96	12.06	2.23	3.83
	2-Year Median	22.38	17.78	3.45	5.15

As of 11/19/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	3
Amazon.com, Inc. (AMZN)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
Facebook, Inc. (FB)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	2
Netflix, Inc. (NFLX)	Neutral	3
ViacomCBS Inc. (VIAC)	Neutral	4
The Walt Disney Company (DIS)	Underperform	5

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

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	ROKU	X Industry	S&P 500	AAPL	AMZN	GOOGL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	C	B	B
Market Cap	32.45 B	563.61 M	25.47 B	2,017.09 B	1,563.97 B	1,189.54 B
# of Analysts	9	2	14	12	17	14
Dividend Yield	0.00%	0.00%	1.51%	0.69%	0.00%	0.00%
Value Score	F	-	-	D	D	C
Cash/Price	0.04	0.34	0.06	0.04	0.04	0.11
EV/EBITDA	-729.64	4.53	14.60	25.91	40.91	20.83
PEG F1	NA	1.25	2.77	2.69	3.18	2.04
P/B	26.21	1.11	3.50	30.87	18.89	5.59
P/CF	NA	4.44	13.70	29.46	46.49	25.32
P/E F1	NA	8.72	21.91	29.56	91.60	34.50
P/S TTM	21.08	0.77	2.80	7.35	4.49	6.93
Earnings Yield	-0.34%	1.29%	4.41%	3.38%	1.09%	2.90%
Debt/Equity	0.07	1.07	0.70	1.51	0.40	0.07
Cash Flow (\$/share)	-0.37	1.76	6.92	4.03	67.05	69.45
Growth Score	A	-	-	B	A	B
Historical EPS Growth (3-5 Years)	NA%	14.88%	9.79%	11.10%	85.35%	21.02%
Projected EPS Growth (F1/F0)	-67.31%	-11.00%	0.36%	22.36%	47.88%	3.68%
Current Cash Flow Growth	5,300.00%	-3.98%	5.39%	0.98%	31.33%	12.62%
Historical Cash Flow Growth (3-5 Years)	NA%	13.54%	8.31%	1.15%	49.26%	19.91%
Current Ratio	3.29	1.90	1.38	1.36	1.11	3.41
Debt/Capital	6.97%	57.08%	41.97%	60.16%	28.46%	6.13%
Net Margin	-6.53%	-4.19%	10.41%	20.91%	4.99%	20.80%
Return on Equity	-11.15%	-0.65%	14.92%	75.15%	24.49%	17.31%
Sales/Assets	0.88	0.39	0.50	0.84	1.41	0.61
Projected Sales Growth (F1/F0)	53.49%	0.00%	0.20%	16.53%	35.22%	10.54%
Momentum Score	A	-	-	B	C	B
Daily Price Change	10.21%	0.32%	0.29%	0.52%	0.37%	1.03%
1-Week Price Change	-9.97%	6.75%	4.23%	0.48%	-5.51%	0.71%
4-Week Price Change	14.98%	11.03%	5.77%	2.50%	-1.87%	9.45%
12-Week Price Change	58.83%	8.97%	8.35%	-5.10%	-8.32%	7.99%
52-Week Price Change	63.99%	-22.38%	6.43%	81.12%	79.68%	35.26%
20-Day Average Volume (Shares)	5,709,097	405,467	2,232,918	114,123,760	5,156,176	1,949,230
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	39.54%	12.68%	1.57%	0.21%	7.52%	13.43%
EPS F1 Estimate 12-Week Change	44.31%	13.56%	3.66%	0.35%	6.81%	13.83%
EPS Q1 Estimate Monthly Change	47.35%	6.76%	0.44%	1.30%	-21.26%	10.63%

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	F
Growth Score	A
Momentum Score	A
VGM Score	B

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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