Mar 23, 2021

Roper Technologies (ROP)

$401.29 (As of 03/22/21)

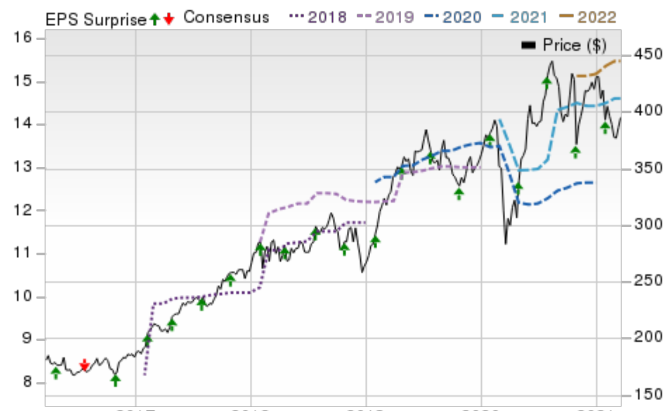
Price Target (6-12 Months): **$421.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/04/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D	Momentum: F

Summary

In the quarters ahead, Roper is poised to benefit from its unique niche market strategy, strong operational execution and product innovations. For 2021, the company's four segments are predicted to record year-over-year growth. Its total revenues are anticipated to grow in mid-teens, with organic sales rising in mid-single digits. Adjusted earnings are anticipated to be $14.35-$14.75. The company remains committed to rewarding shareholders handsomely through dividend payments. However, declines in Process Technologies and Network Software & Systems organic sales in the first quarter of 2021 are concerning. High costs and expenses as well as huge debts are headwinds. Its ability to meet debt obligations based on its current income has declined over the past quarter. In the past six months, Roper's stock has underperformed the industry

Price, Consensus & Surprise

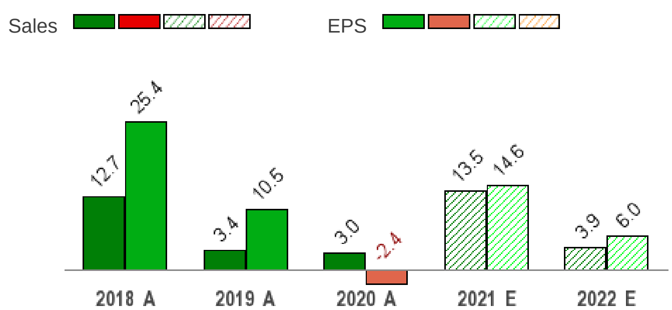


Source: Zacks Investment Research

Data Overview

52-Week High-Low	$455.72 - $263.01
20-Day Average Volume (Shares)	716,159
Market Cap	$42.1 B
Year-To-Date Price Change	-6.9%
Beta	1.02
Dividend / Dividend Yield	$2.25 / 0.6%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 45% (138 out of 253)
Last EPS Surprise	2.0%
Last Sales Surprise	-1.1%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	04/27/2021
Earnings ESP	0.0%
P/E TTM	31.6
P/E F1	27.5
PEG F1	2.5
P/S TTM	7.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,557 E	1,622 E	1,646 E	1,678 E	6,520 E
2021	1,509 E	1,547 E	1,587 E	1,630 E	6,274 E
2020	1,351 A	1,305 A	1,366 A	1,505 A	5,527 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$3.65 E	$3.82 E	$3.92 E	$4.00 E	$15.47 E
2021	$3.32 E	$3.59 E	$3.74 E	$3.90 E	$14.60 E
2020	$3.05 A	$2.94 A	$3.17 A	$3.56 A	$12.74 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 03/22/2021. The report's text and the analyst-provided price target are as of 03/23/2021.

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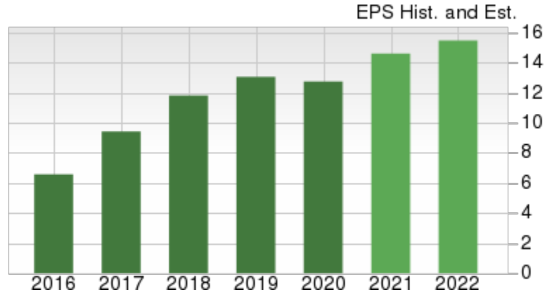
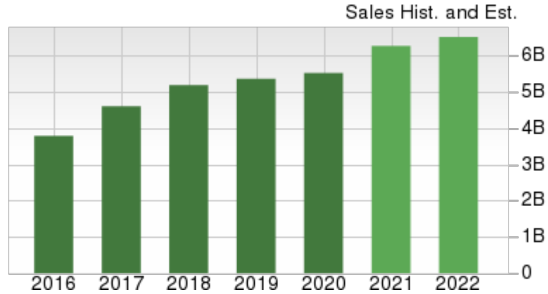
Overview

Roper Technologies, Inc. designs, manufactures, and distributes engineered products and solutions as well as softwares. It caters to selected segments of a broad range of markets, which include legal, healthcare, government, food, transportation, oil & gas, medical, and other niche industries. In March 2019, the company restructured its business segments and currently operates under these four segments — Application Software, Network Software & Systems, Measurement & Analytical Solutions, and Process Technologies. The new segments will support the company's diversified, niche market strategy by emphasizing business models.



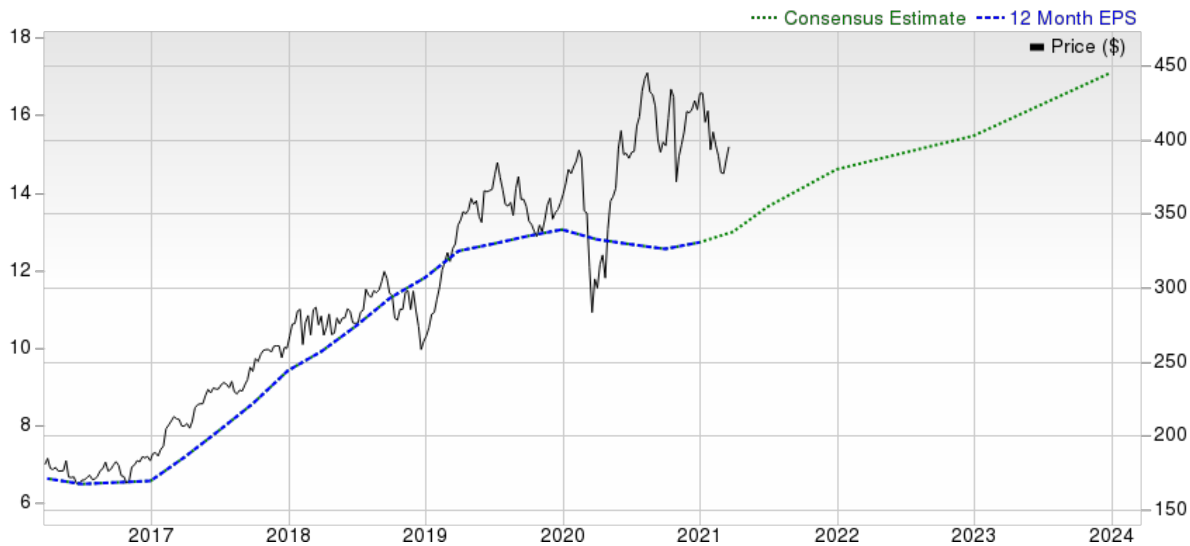


- **Application Software** (36.4% of revenues in the fourth quarter of 2020) segment offers application management software, integrated security solutions, commerce platforms, and housing management systems to government contractors, professional services firms, as well as law and other professional services firms.

- **Network Software & Systems** (29.8%) offers transportation management software, broker logistics software, fleet compliance, distribution and intermodal services that are designed to serve brokers, carriers, shippers in the United States and Canada. It also offers creative software technologies for design, visualization and entertainment industries.

- **Measurement & Analytical Solutions** (24.8%) sells high-resolution cameras and sensors, rugged handheld computers and patient-centric radiotherapy solutions for medical industries. It also offers valves and controls for industrial refrigeration systems apart from optical and electromagnetic measurement systems for industrial test and measurement type businesses.

- **Process Technologies** (9%) offers control, safety solutions for engines, turbines, compressors, marine & other industrial applications. It also provides various flow meters, flow controllers, and ancillary electronics for automotive & industrial markets.



Source: Zacks Investment Research

Reasons To Buy:

Strength in segmental businesses, unique niche market strategy and acquisitions are likely to boost Roper's near-term results. Also, its policy of rewarding shareholders with dividends is encouraging.

- In the fourth quarter of 2020, Roper's earnings surpassed estimates by 2.01% and increased 5% on a year-over-year basis. Revenues grew 7.9% from the year-ago quarter on healthy businesses in Application Software, and Network Software & Systems. In the quarters ahead, the company's unique niche market strategy and strong operational execution will likely help it drive profitability and maintain a healthy margin performance. Also, the company's continued focus on investing for long-term and sustainable organic growth along with product innovations is likely to be beneficial. For 2021, it anticipates adjusted earnings of $14.35-$14.75 per share for 2021, up from $12.74 recorded in 2021. Earnings in the first quarter are predicted to be $3.26-$3.32 per share. In the past 60 days, the company's earnings estimates have improved 1.2% for 2021.

- Roper anticipates that growth in mid-single digits in both recurring and perpetual licenses revenues will aid the performance of the Application Software segment in 2021. Services revenues of the segment are predicted to be flat year over year. Organic sales of the Application Software segment are anticipated to grow in mid-single digits in 2021. For Network Software & Systems, organic sales are expected to increase in mid-single digits in 2021 on the back of mid-single-digit growth in network software as well as TransCore/Other revenues. Also, organic revenues for Measurement & Analytical Solutions are predicted to grow in mid-single digits in 2021, driven by low-single-digit growth in medical products, a high-single-digit increase in Neptune and a high-single-digit rise in industrial businesses revenues. For Process Technologies, organic sales are expected to grow in high-single digits on the back of resumption in deferred field service and projects as well as growth in oil & gas and other markets. For 2021, Roper's organic sales are anticipated to increase in mid-single-digit, while growth in mid-teens is expected for revenues.

- Strong cash flows allow Roper to effectively deploy capital for making acquisitions and paying out dividends. In 2020, the company generated adjusted free cash flow of $1.7 billion, reflecting growth of 16% on a year-over-year basis. Roper invested $6 billion on acquisitions in 2020, reflecting an increase from $2.4 billion invested in 2019. In June 2020, Roper acquired Team TSI Corporation and added Freight Market Intelligence Consortium. In September, Roper acquired WELIS and Impact Financial Systems. The buyouts are helping expand iPipeline's suite of SaaS-based solution offerings for the life insurance and financial services industry. Also, in September, Roper acquired Denver, CO-based Vertafore. The buyout will likely help generate revenues of $590 million and earnings before interest, tax, depreciation and amortization (EBITDA) of $290 million in 2021. In addition, cash accretion is predicted immediately from the buyout. Further, Roper closed the acquisition of EPSi in October 2020. The acquisition is helping enhance the company's Strata business' offerings in the healthcare industry. Roper expects these three bolt-on buyouts (WELIS, IFS and EPSi) to deliver about $75 million of revenues and $30 million of EBITDA in 2021. Notably, acquisitions had a positive contribution of 9% to sales growth in the fourth quarter of 2020. For 2021, the company anticipates synergistic gains from acquired assets to be favorable. Also, it believes that cash flow generation in the year will be impressive. In addition, the company remains committed to rewarding shareholders handsomely through dividend payments. In 2020, the company distributed $214.1 million as dividends, up from $191.7 million disbursed in 2019. It is worth mentioning here that it increased the quarterly dividend rate by 10% or 5 cents per share to 56.25 cents in November 2020. We believe that such initiatives are reflective of a strong cash position.

Reasons To Sell:

Weakness in Network Software & Systems as well as Process Technologies performances is likely to hurt first-quarter results. Also, high cost of sales and debt level is concerning.

- In the past six months, Roper's shares have gained 2.5% compared with the industry's growth of 120.1%. For the first quarter of 2021, Roper predicts organic sales decline of 3-5% year over year for Network Software & Systems. High-teens decline in revenues from TransCore/Other will more than offset low-single digit growth in network software revenues. For Measurement & Analytical Solutions, organic sales in the first quarter are expected to hurt from a decline in Neptune and industrial businesses. Also, organic sales of Process Technologies are expected to decrease 10% in the quarter.

- Over time, Roper has been dealing with the adverse impacts of high cost of sales and operating expenses. From 2018 to 2020, the company's cost of sales increased 1.2% (CAGR) and operating expenses rose 3.9% (CAGR). Notably, in the fourth quarter of 2020, its cost of sales recorded a year-over-year increase of 7.3%. Also, its selling, general and administrative expenses rose 18.5% from the year-ago quarter. Notably, earnings before interest, tax, depreciation and amortization margin in the quarter decreased 40 bps from the year-ago quarter. Escalation in costs and operating expenses, if not controlled, can severely affect margins and profitability in the quarters ahead.

- Roper has a highly leveraged balance sheet. In the last three years (2018-2020), the company's long-term debt jumped 22.4% (CAGR). At the end of the fourth quarter of 2020, its long-term debt (net of current portion) was $9,064.5 million, up from $4,673.1 million at 2019-end and down 0.4% from the previous quarter. Also, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Exiting the fourth quarter, its times interest earned ratio was 6.5, lower than 11 recorded at the end of the previous quarter. We believe that further issuances of long-term debts will make the company more leveraged and can also inflate its financial obligations, hurting profitability.

Last Earnings Report

Roper Earnings Surpass Estimates in Q4, Sales Miss

Quarter Ending	12/2020
Report Date	Jan 29, 2021
Sales Surprise	-1.07%
EPS Surprise	2.01%
Quarterly EPS	3.56
Annual EPS (TTM)	12.72

Roper has reported mixed results for fourth-quarter 2020, with earnings surpassing estimates by 2.01% and sales lagging the same by 1.07%.

The company's adjusted earnings in the fourth quarter were $3.56 per share, surpassing the Zacks Consensus Estimate of $3.49. On a year-over-year basis, earnings expanded 5% from $3.39 recorded in the fourth quarter of 2019.

For 2020, the company's adjusted earnings were $12.74, lower than the year-ago figure of $13.05. However, the bottom line surpassed the Zacks Consensus Estimate of $12.65 per share.

Revenue Details

In the reported quarter, Roper's net revenues amounted to $1,505.3 million, up 7.9% year over year. Notably, adjusted revenues increased 8% year over year to $1,510 million. Organic sales in the quarter decreased 2%, while acquisitions/divestitures and foreign currency translation had positive impacts of 9% and 1%, respectively.

However, Roper's top line lagged the Zacks Consensus Estimate of $1,522 million.

The company reports revenues under four segments. A brief discussion of the quarterly results is provided below:

Application Software's revenues totaled $548.5 million, representing 36.4% of the quarter's top line. On a year-over-year basis, the segment's revenues grew 33.5%.

Network Software & Systems generated revenues of $448.2 million, accounting for 29.8% of fourth-quarter revenues. The top line grew 5.3% year over year.

Measurement & Analytical Solutions generated revenues of $372.9 million, accounting for 24.8% of the quarter's revenues. Sales declined 3.9% year over year.

Process Technologies generated revenues of $135.7 million, accounting for 9% of the quarter's revenues. Sales were down 20.2% year over year.

For 2020, the company's revenues totaled $5.53 billion, increasing 3% from the previous year. However, the top line lagged the Zacks Consensus Estimate of $5.55 billion.

Margin Profile

In the reported quarter, Roper's cost of sales increased 7.3% year over year to $538.7 million. Cost of sales was 35.8% of the quarter's net sales. Gross profit (adjusted) in the quarter grew 8% year over year to $972 million, while adjusted gross margin increased 20 basis points (bps) year over year to 64.3%.

Selling, general and administrative expenses increased 18.5% year over year to $585.9 million. It represented 38.9% of net sales in the reported quarter. Adjusted EBITDA were $552 million, reflecting year-over-year growth of 7%. Margin decreased 40 bps year over year to 36.6%. Interest expenses expanded 30% year over year to $63.7 million.

Balance Sheet & Cash Flow

Exiting the fourth quarter, Roper had cash and cash equivalents of $308.3 million, up 2.1% from $302.1 million recorded in the last reported quarter. Long-term debt edged down 0.4% sequentially to $9,064.5 million.

During the year, the company's repayment of senior notes amounted to $600 million, while proceeds raised from the issuance of senior notes totaled $3,300 million. Also, borrowings under the revolving line of credit were $1,620 million.

The company generated net cash of $4,407.6 million from operating activities in 2020, reflecting an increase of 6.9% from the previous year. Capital expenditure totaled $31.2 million compared with $52.7 million in 2019. Free cash flow (adjusted) increased 16% year over year to $1,668 million.

The company rewarded shareholders with a dividend payout of $214.1 million. The amount represents growth from $191.7 million distributed in 2019.

Outlook

The company anticipates that cash flow generation will be impressive in 2021 and its businesses, generating recurring revenues, are predicted to remain strong. Also, favorable services and license pipelines as well as any improvement in product (high-margin) businesses are expected to aid. Further, synergistic gains from acquired assets are expected to be favorable.

For 2021, the company anticipates adjusted earnings of $14.35-$14.75 per share, while the same is projected to be $3.26-$3.32 per share for the first quarter.

Recent News

Dividend

On **Mar 19, 2021**, Roper's board of directors approved the payout of a quarterly cash dividend of 56.25 cents per share to shareholders of record as of Apr 5, 2021. The disbursement will be made on Apr 22, 2021.

Valuation

Roper shares are down 6.9% in the year-to-date period but increased 41.9% over the trailing 12-month period. In the year-to-date period, the Zacks sub-industry and the Zacks Industrial Products sector increased 82.3% and 31.1%, respectively. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector increased 213.6% and 128.7%, respectively.

The S&P 500 Index has increased 5.3% in the year-to-date period and 62.7% in the past year.

The stock is currently trading at 27.12X forward 12-month earnings per share, which compares to 45.77X for the Zacks sub-industry, 27.52X for the Zacks sector and 22.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.31X and as low as 18.81X, with a 5-year median of 25.28X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $421 price target reflects 28.45X forward 12-month earnings per share.

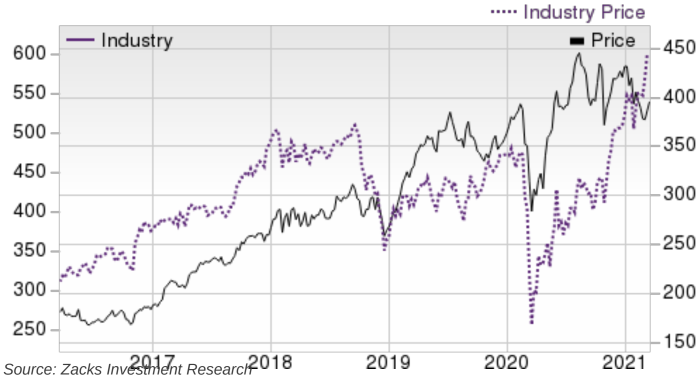
The table below shows summary valuation data for ROP.

Valuation Multiples - ROP

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.12	45.77	27.52	22.31
	5-Year High	35.31	45.77	27.52	23.8
	5-Year Low	18.81	15.57	12.69	15.3
	5-Year Median	25.28	20.07	18.02	17.9
P/Sales F12M	Current	6.65	10.14	4.57	4.55
	5-Year High	8.54	10.14	4.57	4.55
	5-Year Low	4.13	3.28	1.89	3.21
	5-Year Median	5.7	4.25	2.47	3.69

As of 03/22/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 45% (138 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
EnPro Industries **(NPO)**	Outperform	1
Applied Industrial Technologies, Inc. **(AIT)**	Neutral	2
Colfax Corporation **(CFX)**	Neutral	3
Dover Corporation **(DOV)**	Neutral	2
Flowserve Corporation **(FLS)**	Neutral	4
The Middleby Corporation **(MIDD)**	Neutral	2
Regal Beloit Corporation **(RBC)**	Neutral	2
Xylem Inc. **(XYL)**	Neutral	4

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

Industry Comparison Industry: Manufacturing - General Industrial

Industry Peers

	ROP	X Industry	S&P 500	AIT	FLS	XYL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	4
VGM Score	D	-	-	A	A	B
Market Cap	42.11 B	2.16 B	28.72 B	3.55 B	5.14 B	18.47 B
# of Analysts	6	3	13	2	7	7
Dividend Yield	0.56%	0.00%	1.39%	1.44%	2.03%	1.09%
Value Score	D	-	-	B	B	C
Cash/Price	0.01	0.08	0.06	0.08	0.21	0.10
EV/EBITDA	25.95	15.69	15.94	13.98	16.71	28.44
PEG F1	2.53	2.26	2.35	NA	2.07	3.32
P/B	4.02	2.71	3.89	4.03	2.92	6.20
P/CF	22.40	15.67	15.85	10.24	15.66	27.03
P/E F1	27.80	28.48	21.46	23.83	25.39	39.81
P/S TTM	7.62	1.99	3.28	1.16	1.38	3.79
Earnings Yield	3.64%	3.33%	4.58%	4.20%	3.93%	2.51%
Debt/Equity	0.86	0.45	0.67	0.89	0.97	0.83
Cash Flow ($/share)	17.92	2.40	6.78	8.92	2.52	3.79
Growth Score	D	-	-	A	B	A
Historical EPS Growth (3-5 Years)	19.05%	6.72%	9.32%	12.04%	-3.76%	6.33%
Projected EPS Growth (F1/F0)	14.60%	22.15%	14.75%	0.66%	-10.67%	24.90%
Current Cash Flow Growth	4.66%	-4.22%	0.61%	28.52%	-17.01%	-28.26%
Historical Cash Flow Growth (3-5 Years)	16.19%	7.43%	7.32%	16.72%	-9.43%	7.81%
Current Ratio	0.72	1.99	1.39	2.70	2.54	1.80
Debt/Capital	46.38%	32.62%	41.42%	47.07%	49.35%	45.49%
Net Margin	17.18%	3.57%	10.59%	-0.76%	3.11%	5.21%
Return on Equity	13.41%	9.27%	14.75%	16.73%	13.52%	12.97%
Sales/Assets	0.26	0.73	0.51	1.35	0.75	0.59
Projected Sales Growth (F1/F0)	13.51%	5.50%	7.15%	-4.07%	-4.61%	6.45%
Momentum Score	F	-	-	C	B	B
Daily Price Change	1.59%	-0.49%	0.23%	-1.90%	-1.47%	-1.52%
1-Week Price Change	2.23%	-0.30%	-0.30%	-2.15%	-3.26%	2.10%
4-Week Price Change	4.52%	2.05%	3.47%	6.84%	0.82%	2.97%
12-Week Price Change	-5.17%	23.04%	8.23%	16.66%	7.55%	2.05%
52-Week Price Change	57.80%	129.28%	87.53%	152.32%	105.09%	80.84%
20-Day Average Volume (Shares)	716,159	103,584	2,475,557	178,259	2,578,224	972,350
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.26%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.26%	-11.53%	0.00%
EPS F1 Estimate 12-Week Change	1.21%	5.92%	2.10%	11.65%	-9.89%	-0.33%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-0.51%	-20.40%	0.00%

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	D
Momentum Score	F
VGM Score	D

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

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm 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 mostrecent 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.