

## Red Robin (RRGB)

**\$11.83** (As of 09/08/20)

Price Target (6-12 Months): **\$12.50**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

## Summary

Shares of Red Robin Gourmet Burgers have underperformed the industry so far this year. The company reported second-quarter fiscal 2020 results, wherein the bottom line missed the Zacks Consensus Estimate but revenues beat the same. However, the top and the bottom line declined on a year-over-year basis. The dismal performance can be primarily attributed to the coronavirus outbreak. Although the company has reopened majority of its restaurants, it is likely to witness dismal traffic due to the social-distancing protocols. Moreover, increase in labor and other restaurant operating expenses is concerning. Of late, earnings estimates for 2020 have moved down. However, efforts to improve sales and regain market share via focus on increasing service speed and effective marketing strategy are likely to aid the company going forward.

## Price, Consensus & Surprise

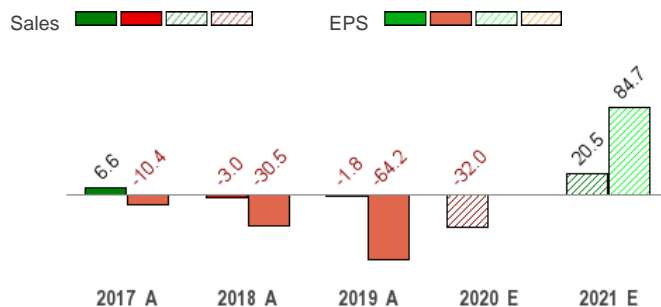


Source: Zacks Investment Research

## Data Overview

52-Week High-Low	\$37.29 - \$4.04
20-Day Average Volume (Shares)	1,286,681
Market Cap	\$183.9 M
Year-To-Date Price Change	-64.2%
Beta	2.53
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 48% (120 out of 251)

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



Last EPS Surprise	-11.5%
Last Sales Surprise	0.8%
EPS F1 Estimate 4-Week Change	-3.7%
Expected Report Date	11/03/2020
Earnings ESP	0.0%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	308 E	246 E	242 E	261 E	1,077 E
2020	306 A	161 A	190 E	227 E	894 E
2019	410 A	308 A	294 A	303 A	1,315 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.89 E	-\$0.41 E	-\$0.60 E	-\$0.04 E	-\$1.73 E
2020	-\$6.66 A	-\$3.31 A	-\$1.45 E	-\$0.75 E	-\$11.28 E
2019	\$0.19 A	\$1.03 A	-\$0.24 A	-\$0.36 A	\$0.62 A

\*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

The data in the charts and tables, except sales and EPS estimates, is as of 09/08/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/09/2020.

## Overview

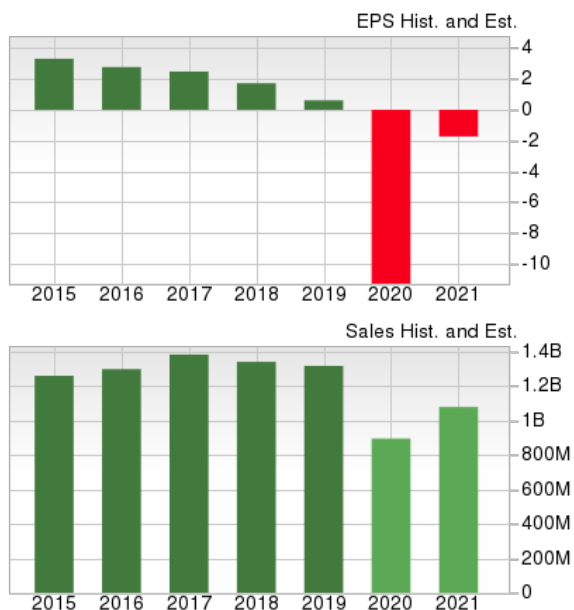
Founded in 1969 in Seattle, WA, and made public in 2002, Red Robin Gourmet Burgers, Inc. is a full-service casual dining restaurant chain that serves an assorted range of burgers. Along with its subsidiaries, the company develops, operates and franchises full-service restaurants in North America.

Red Robin's first franchised restaurant was opened in Yakima, WA, in 1979. It offers primarily burgers; various appetizers, salads, soups, seafood, and other entrees; and desserts, milkshakes, alcoholic and non-alcoholic specialty drinks, cocktails, wine, and beers. The company also runs limited service non-traditional prototype restaurants, named Red Robin's Burger Works.

The company primarily operates, franchises, and develops full-service restaurants with 552 locations in North America. As of Jul 12, 2020, the company owned 450 restaurants located in 38 states. It also had 102 franchised full-service restaurants in 16 states and one Canadian province. The company's franchisees are independent organizations but seek support from Red Robin. It operates its business as one operating as well as one reportable segment.

Red Robin's major source of revenues is sale of food and beverages at company-owned restaurants. The company earns from royalties and fees from franchised restaurants as well.

As of Jul 12, 2020, the company had cash and cash equivalents of \$26.1 million compared with \$30 million at the end of Dec 29, 2019. Inventories in the reported quarter declined 5.5% to \$24.9 million. As of Jul 12, 2020, its long-term debt was \$197.8 million compared with \$206.9 million as on Dec 29, 2019.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Dining Rooms Reopening:** After coronavirus-induced shutdowns the company is gradually reopening its dining rooms. As of Aug 9, 2020, the company had reopened 346 dining rooms with limited occupancy and operating hours. The company is witnessing encouraging trends and volume is also increasing at reopened dining rooms.
- ▲ **Loyalty Program:** A key long-term growth driver for the company is its guest loyalty program — Red Robin Royalty — initiated in 2011 with a goal to increase guest count. The company engages guests through this program with offers designed to increase the frequency of visits. The company has more than nine million Royalty members. It also informs its enrolled guests about new menu items to generate awareness and for trials. Also, one of the key benefits the company is realizing with off-premise on its loyalty program is the ability to reach guests on holidays. During fourth-quarter fiscal 2019, the company started testing marketing automation as part of its loyalty platform upgrade initiative with e-mail offers targeted by visit frequency and purchase behavior. Initial results are very encouraging as that continues to optimize the effectiveness and profitability of this functionality through testing.
- ▲ **Digital Initiatives to Boost Business:** The digital wave has hit the U.S. fast-casual restaurant space as more and more restaurants are deploying technology to enhance the guest experience. In line with this, Red Robin too has been investing more in technology and data infrastructure. The company is set to grow its off-premise, online-ordering business via carry-out, delivery and catering. The growing demand for off-premise orders is resulting in higher traffic. However, in 2018, the company failed to maintain its year-over-year traffic growth in off-premise businesses via carry-out, delivery and catering over the past several quarters. Red Robin's move of moving call-in ordering to a centralized call center is also yielding positive results and it is thus slowly expanding its reach to ensure quality experience. On the delivery front, the company partnered with Amazon, DoorDash and GrubHub. In fact, the company is working with each provider to better integrate into its POS and KDS systems, and ease the intricacy in operations teams.

Brand transformation and digital enhancements are expected to aid topline growth while margin expansion initiatives bode well for future profitability.

During October 2019, it completed the rollout of POS terminals, and headsets and printers that contain menu item details for off-premise orders, thereby enabling the company to deliver an improved guest experience. Also, third-party delivery is now available at most of its locations.

- ▲ **Off-Premise Sales a Major Growth Driver:** The company's off-premise sales have increased sharply compared with the pre-COVID-19 levels. During the second quarter of 2020, off-premise sales increased 208.7% and comprised 63.8% of total food and beverage sales. Notably, the increase was primarily attributed to its focus on all off-premise sales channels, carry-out, third-party and Red Robin delivery (or last mile). Also, reductions in menu along with refined operating processes resulted in the accuracy of timely pickup and delivery.
- ▲ **Strategic Plan to Enhance Profitability:** The company continues to focus on three areas — revenue growth, expense management and efficient capital deployment to drive profitability. On the expense front, the company is focusing on a new supply chain management software, replacing its older manual system. This might result in improved control of waste and cost of goods, significantly reducing inventory levels at its restaurants. It would also allow restaurant managers to interact more with guests, resulting in improved guest experience. With dining rooms reopened, the company has accelerated the implementation of its new hospitality model, TGX or Total Guest Experience, to boost customer experience. Moreover, to boost sales from its dine-in services, restaurant operators have initiated the opening and expansion of patios around the perimeter of its restaurants to attract more guests. Notably, the initiative enables the company to increase its seating capacity and serve more guests, while maintaining social-distancing protocols.

Furthermore, the company intends to reduce costs and improve efficiency at both the restaurant and corporate levels as well as redesign its restaurant prototype and remodel to enhance the off-premise experience. It also expects to roll out Donatos Pizzas to 31 restaurants in the Seattle market.

- ▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** As of Jul 12, 2020, Red Robin had cash and cash equivalent of \$26.1 million compared with \$88.9 million as on Apr 19, 2020. As of Aug 9, 2020, the company had more than \$103 million in total liquidity including cash and cash equivalents and available borrowing capacity under its revolving line of credit. Although the company is experiencing cash burn of \$2 million per week, it stated that it has sufficient liquidity to maintain operations at the current scenario for some time. As of Jul 12, the company's total debt stands at \$197.8 million compared with \$281.2 million as of Apr 19, 2020. At the end of second-quarter fiscal 2020, the company had a debt-to-capital ratio of 0.8, which indicates that its debt levels are manageable.

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## Reasons To Sell:

- ▼ **Coronavirus Likely to Hurt 2020 Results:** The recent outbreak of the coronavirus in China now became a global crisis. The Retail - Restaurants industry is currently grappling with the situation and Red Robin isn't immune to the trend either.

Although the company has reopened majority of its restaurants, it is likely to witness dismal traffic due to the social-distancing protocols. Moreover, with increased state and local restrictions, dining rooms in California have been closed again. We believe that the coronavirus pandemic will continue to hurt traffic and sales through the remainder of fiscal 2020.

- ▼ **Dismal Q2 Earnings & Comps:** Red Robin's second-quarter earnings missed the Zacks Consensus Estimate. The company reported adjusted loss per share of \$3.31, wider than the Zacks Consensus Estimate of a loss of \$2.97. In the year-ago quarter, the company had reported adjusted earnings of \$1.03. Notably, estimates for 2020 have been revised downward over the past 30 days, indicating analysts' concern for the stock.

Comparable restaurant revenues declined 41.4% year over year owing to a 38.5% fall in guest count and a 2.9% decrease in average guest check. The decline in average guest check can be attributed to a 5.7% fall in menu mix, partially offset by a 2.2% increase in pricing and 0.6% rise owing to lower discounting. Guest count in the quarter was hurt by a decline of 36.2% owing to the pandemic.

- ▼ **Higher Costs Continue to Hurt Margins:** Red Robin has been witnessing rising costs and expenses in the recent quarters. The Affordable Care Act, commonly known as Obamacare, would continue to have an adverse impact on restaurant operators. Meanwhile, Red Robin is investing heavily in several sales building initiatives like advertising and technical upgrades, which will result in elevated costs. Remodeling and restaurant maintenance also add to the already rising expenses. In second-quarter fiscal 2020, restaurant-level operating profit margin came in at 2% in the quarter compared with 18.2% growth in the year-ago period. Restaurant labor costs (as a percentage of restaurant revenue) rose 400 basis points year over year to 39.2% in the fiscal second quarter. The increase was primarily driven by sales deleverage and higher wage rates, partially offset by lower restaurant manager incentive compensation.

- ▼ **Limited Focus on Franchising:** Unlike most of its peers, Red Robin remains focused on the company-owned restaurants that allow it to have total control over operations and also keep generating profits. However, this limited focus on franchising burdens the company with increased costs, which could have been transferred on to franchisees had there been a franchise business model. As of Jul 12, 2020, the company had 102 franchised full-service restaurants.
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Coronavirus-related woes, soft comps, high expenses and limited international presence poses concern for the company.

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## Last Earnings Report

### Red Robin Q2 Earnings Miss Estimates, Decline Y/Y

Red Robin reported second-quarter fiscal 2020 results, wherein the bottom line missed the Zacks Consensus Estimate while revenues beat the same. However, the top and the bottom line declined on a year-over-year basis.

The company reported adjusted loss per share of \$3.31, wider than the Zacks Consensus Estimate of a loss of \$2.97. In the year-ago quarter, the company had reported adjusted earnings of \$1.03.

**Quarter Ending** **06/2020**

Report Date	Aug 11, 2020
Sales Surprise	0.81%
EPS Surprise	-11.45%
Quarterly EPS	-3.31
Annual EPS (TTM)	-10.57

### Revenue Discussion

Quarterly revenues of \$160.1 million surpassed the consensus mark of \$159.8 million by 1%. However, the top line declined 47.7% year over year due to limited dining room capacity operations at re-opened restaurants and operating off-premise only at restaurants with closed dining rooms, resulting in lower sales of beverages and burgers.

Comparable restaurant revenues declined 41.4% year over year owing to a 38.5% fall in guest count and a 2.9% decrease in average guest check. The decline in average guest check can be attributed to a 5.7% fall in menu mix, partially offset by a 2.2% increase in pricing and 0.6% rise owing to lower discounting. Guest count in the quarter was hurt by a decline of 36.2% owing to the pandemic.

### Operating Results

Restaurant-level operating profit margin came in at 2% for the fiscal second quarter compared with 18.2% in the year-ago period.

Restaurant labor costs (as a percentage of restaurant revenue) rose 400 basis points (bps) year over year to 39.2% in the fiscal second quarter. The increase was primarily driven by sales deleverage and higher wage rates, partially offset by lower restaurant manager incentive compensation.

Other restaurant operating costs increased 730 bps year over year to 21.6%. The increase was primarily driven by rise in third-party delivery fees owing to higher off-premise sales volumes and sales deleverage impacts on restaurant supply, utility, and technology costs. However, this was partially offset by a decrease in restaurant maintenance costs.

Cost of sales rose 30 bps year over year to 24.2%. The increase was primarily attributed to rise in beef prices, partially offset by discounts and lower waste. Occupancy costs increased 460 bps year over year to 13% due to sales deleverage impacts on rent expenses and other real estate costs.

Adjusted earnings before interest, taxes and amortization came in at (\$15.3) million against earnings of \$25.5 million reported in the year-ago quarter.

### Other Financial Information

As of Jul 12, 2020, the company had cash and cash equivalents of \$26.1 million compared with \$30 million at the end of Dec 29, 2019. Inventories in the reported quarter declined 5.5% to \$24.9 million. As of Jul 12, 2020, its long-term debt was \$197.8 million compared with \$206.9 million as on Dec 29, 2019.

## Valuation

Red Robin's shares have declined 64.2% in year-to-date period and 66.2% in the trailing 12-month period. Stocks in the Zacks sub-industry is up 3.9% and stocks in the Zacks Retail-Wholesale sector are up 32.8%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 0.8% while sector is up by 38.3%.

The S&P 500 index is up 6.6% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 0.18X forward 12-month sales, which compares to 3.89X for the Zacks sub-industry, 1.3X for the Zacks sector and 4.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.86X and as low as 0.05X, with a 5-year median of 0.46X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12.5 price target reflects 0.19X forward 12-month sales.

The table below shows summary valuation data for RRGB.

Valuation Multiples - RRGB					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.18	3.89	1.3	4.19
	5-Year High	0.86	3.93	1.32	4.29
	5-Year Low	0.05	2.81	0.82	3.11
	5-Year Median	0.46	3.32	1.01	3.66
P/B TTM	Current	0.97	N/A	6.1	5.9
	5-Year High	2.98	177.03	6.43	6.17
	5-Year Low	0.19	N/A	3.7	3.75
	5-Year Median	1.7	14.88	5.05	4.83
EV/EBITDA TTM	Current	3.4	20.79	19.69	14.87
	5-Year High	9.94	21.28	20.72	15.6
	5-Year Low	2.25	10.65	11.15	9.51
	5-Year Median	6.68	14.35	12.96	13

As of 09/08/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 48% (120 out of 251)



## Top Peers

Company (Ticker)	Rec	Rank
Dunkin Brands Group, Inc. (DNKN)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
McDonalds Corporation (MCD)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Starbucks Corporation (SBUX)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Yum Brands, Inc. (YUM)	Neutral	3
Yum China Holdings Inc. (YUMC)	Neutral	3

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	RRGB	X Industry	S&P 500	SBUX	YUM	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	B	B
Market Cap	183.85 M	532.50 M	22.91 B	99.84 B	28.24 B	19.73 B
# of Analysts	4	6	14	14	9	6
Dividend Yield	0.00%	0.00%	1.66%	1.92%	2.01%	0.46%
Value Score	B	-	-	D	D	C
Cash/Price	0.13	0.12	0.07	0.04	0.04	0.08
EV/EBITDA	10.17	13.18	12.82	17.66	19.40	12.61
PEG F1	NA	3.79	2.90	6.40	2.40	4.75
P/B	0.97	2.43	3.15	NA	NA	6.01
P/CF	1.53	9.54	12.45	20.71	23.20	17.00
P/E F1	NA	33.99	21.08	87.99	29.59	45.17
P/S TTM	0.17	0.82	2.43	4.15	5.14	2.47
Earnings Yield	-95.35%	0.94%	4.52%	1.14%	3.38%	2.22%
Debt/Equity	4.13	0.91	0.70	-1.70	-1.39	0.01
Cash Flow (\$/share)	7.72	1.81	6.93	4.12	4.04	3.08
Growth Score	C	-	-	D	C	A
Historical EPS Growth (3-5 Years)	-24.46%	3.03%	10.41%	8.80%	0.02%	1.84%
Projected EPS Growth (F1/F0)	-1,919.03%	-65.84%	-4.73%	-65.70%	-10.83%	-38.39%
Current Cash Flow Growth	-15.30%	3.07%	5.22%	5.49%	3.60%	10.09%
Historical Cash Flow Growth (3-5 Years)	-0.74%	5.23%	8.49%	12.19%	-6.71%	25.34%
Current Ratio	0.52	1.06	1.35	0.95	1.63	1.34
Debt/Capital	80.51%	64.38%	42.95%	NA	NA	1.09%
Net Margin	-22.56%	-0.23%	10.25%	5.56%	18.78%	6.33%
Return on Equity	-52.03%	-10.35%	14.59%	-22.26%	-12.42%	16.35%
Sales/Assets	0.92	0.87	0.50	0.93	0.97	1.18
Projected Sales Growth (F1/F0)	-32.02%	-5.49%	-1.42%	-12.00%	-0.22%	-9.32%
Momentum Score	F	-	-	C	A	B
Daily Price Change	-6.48%	-0.32%	-1.95%	-1.00%	-1.62%	-2.79%
1-Week Price Change	12.85%	-0.64%	-1.28%	1.49%	-2.29%	-4.74%
4-Week Price Change	8.53%	4.12%	-1.93%	8.29%	1.06%	-2.73%
12-Week Price Change	-1.74%	11.64%	3.73%	9.73%	1.98%	10.68%
52-Week Price Change	-66.22%	-21.27%	-0.29%	-5.47%	-18.73%	13.86%
20-Day Average Volume (Shares)	1,286,681	323,966	1,798,028	7,499,142	1,403,656	1,774,488
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.56%	0.00%
EPS F1 Estimate 4-Week Change	-3.68%	0.00%	0.00%	0.00%	1.64%	0.00%
EPS F1 Estimate 12-Week Change	-30.98%	19.98%	3.98%	19.92%	15.32%	7.42%
EPS Q1 Estimate Monthly Change	12.60%	0.00%	0.00%	0.00%	-0.14%	0.00%

Source: Zacks Investment Research

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## 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.

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### Zacks Style Scores

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

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

Value Score	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</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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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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