

Raytheon Technologies (RTX)

\$61.24 (As of 10/20/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 10/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: F

Summary

In January 2020, President Trump signed a proclamation, increasing tariffs on derivative steel products by an additional 25% and boosting duties on derivative aluminum products by an additional 10%. This might have pushed up expenses for Raytheon Technologies. Given the significant reduction in air travel, increased numbers of planes temporarily grounded, and continued travel restrictions, Raytheon Technologies' future operating results, particularly those of its Aerospace businesses are expected to be significantly impacted during 2020. Its deteriorating financial ratios reflects a weak solvency position. The company has underperformed its industry in the past six months. However, thanks to its wide range of combat-proven defense products, Raytheon Technologies continues to receive ample orders from the Pentagon and its foreign allies.

Price, Consensus & Surprise

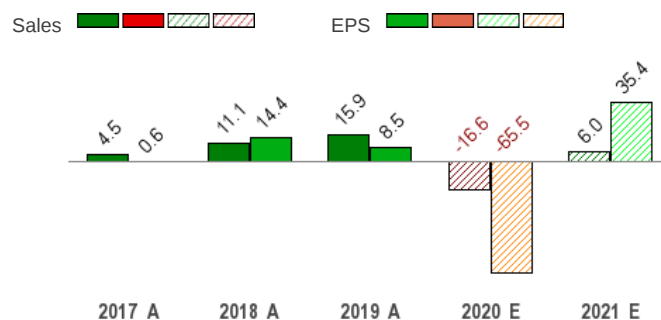


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$87.33 - \$38.04
20-Day Average Volume (Shares)	6,805,458
Market Cap	\$93.6 B
Year-To-Date Price Change	-59.1%
Beta	1.23
Dividend / Dividend Yield	\$1.90 / 3.1%
Industry	Aerospace - Defense Equipment
Zacks Industry Rank	Bottom 11% (227 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	300.0%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	-0.4%
Expected Report Date	10/27/2020
Earnings ESP	8.7%
P/E TTM	9.7
P/E F1	21.5
PEG F1	1.8
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	14,826 E	16,800 E	17,204 E	18,127 E	68,141 E
2020	18,210 A	14,061 A	15,132 E	15,949 E	64,278 E
2019	18,365 A	19,634 A	19,496 A	19,551 A	77,046 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.96 E	\$1.06 E	\$1.20 E	\$3.86 E
2020	\$1.78 A	\$0.40 A	\$0.48 E	\$0.69 E	\$2.85 E
2019	\$1.91 A	\$2.20 A	\$2.21 A	\$1.94 A	\$8.26 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 10/20/2020. The reports text is as of 10/21/2020.

Overview

On Apr 3, 2020, **Raytheon Technologies** was formed following the completion of merger between United Technologies and Raytheon Company. Based in Waltham, MA, Raytheon Technologies has emerged as an aerospace and defense company, with pro-forma combined annual revenues of \$74 billion as of the end of 2019, providing advanced systems and services for commercial, military and government customers worldwide. The company currently operates through the following four business segments:

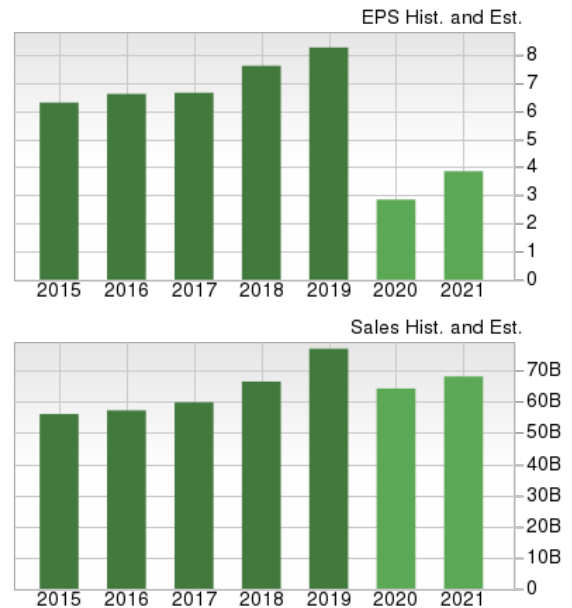
Collins Aerospace: It specializes in six strategic business units, namely, aerostructures, avionics, interiors, mechanical systems, mission systems, and power & control systems. It generated revenues worth \$4,202 million in the second quarter, representing 28.8% of total revenues.

Pratt & Whitney: It designs, manufactures and services the world's most advanced aircraft engines and auxiliary power systems for commercial, military and business aircraft. It generated revenues worth \$3,487 million in the second quarter, representing 24.6% of total revenues.

Raytheon Intelligence & Space (RIS): It develops advanced sensors and also offers training, and cyber and software solutions. It generated revenues worth \$3,317 million in the second quarter, representing 22.8% of total revenues.

Raytheon Missiles and Defense (RMB): It manufactures a broad portfolio of advanced technologies, including air and missile defense systems, precision weapons, radars, and command and control systems. It generated revenues worth \$3,590 million in the second quarter, representing 24.6% of total revenues.

Total revenues include \$532 million of intersegmental eliminations.



Source: Zacks Investment Research

Reasons To Sell:

▼ Rising costs of raw materials like steel are pushing up expenses of defense manufacturers like Raytheon Technologies. Moreover, the tariffs imposed by the U.S. administration on import of steel and aluminum may create or exacerbate existing materials shortages. Adding to these woes, in January 2020, President Trump signed a proclamation increasing tariffs on derivative steel products by an additional 25% and boosting duties on derivative aluminum products by an additional 10%, saying the existing tariffs had not proved as effective as he had hoped in reviving American production. This, in turn, is expected to have made it even more expensive for defense primes like Raytheon to manufacture valuable defense equipment, as America remains the world's largest steel importer. So, even if the company generates solid revenues, rising raw material cost might hurt all those gains and in turn weigh on Raytheon's bottom line. Thus, we remain skeptical as to whether the new trade tariffs will be able to aid the U.S. defense industry or remain as a prominent headwind.

Increasing tariff on imports of steel and aluminum, impact of coronavirus pandemic on commercial aerospace, delayed delivery and unfavorable financial ratios remain concerns.

▼ Since March 2020, the novel coronavirus outbreak started to significantly affect the U.S. and global economy, disrupted global supply chains and financial markets, and resulted in significant travel restrictions, including mandated facility closures and shelter-in-place orders in numerous jurisdictions around the world. Consequently, Raytheon Technologies began to experience issues related to COVID-19 starting from the first quarter, primarily related to a number of facility closures, less than full staffing, and disruptions in supplier deliveries, most significantly in its Aerospace businesses.

With the pandemic still looming large, continued disruption in air travel is affecting Raytheon Technologies' airline and airframer customers, and their demand for products and services of its Aerospace businesses. To tackle this crisis, the company has been incurring a number of incremental expenditures, including enhanced facility cleaning, employee temperature scanning, higher freight cost and other COVID related inefficiencies. These costs are expected to hurt its earnings by 8 cents during the second half of 2020.

▼ As of Apr 14, 2020, the International Air Transport Association estimated that revenue passenger miles (RPMs) for the year ended Dec 31, 2020 could decline by 48% in comparison to the prior year due to the pandemic. As a result, the company's airline customers reported significant reductions in fleet utilization, aircraft grounding and unplanned retirements, and deferred and, in some cases, cancelled new aircraft deliveries. Airlines are shifting to cash conservation behaviors such as deferring engine maintenance, requesting extended payment terms, deferring delivery of new aircraft and spare engines and requesting discounts on engine maintenance. Additionally, purchase order declines are experienced in line with publically communicated aircraft production volumes as OEM customers delay and cancel orders.

Given the significant reduction in air travel, increased numbers of planes temporarily grounded, and continued travel restrictions, Raytheon Technologies' future operating results, particularly those of its Aerospace businesses are expected to be significantly impacted during 2020. This must have caused investors to lose confidence in this stock. In the past six months, shares of Raytheon have lost 3.5% against the industry's 13.2% gain.

▼ Raytheon Technologies' cash and cash equivalents were \$6.98 billion as of Jun 30, 2020, compared with \$8.01 billion as of Mar 31, 2019. Its long-term debt of \$32.93 billion as of Jun 30, 2020, remained well above the cash balance. This reflects a weak solvency position for the stock, amid the ongoing economic downturn caused by the COVID-19 pandemic.

Moreover, the company's second-quarter 2020 interest coverage was 2.5%, lower than the prior-quarter level of 5.7% and the lowest in the past four quarters. Additionally, the company's current ratio of 1.20, as of Jun30, 2020, also deteriorated sequentially from 1.23. Such unfavorable financial ratios indicate that this defense major might not have sufficient capital for paying off its short-term obligations.

Risks

- In late 2018, legacy United Technologies acquired Rockwell Collins. During the second quarter, the Collins Aerospace unit captured positive synergies worth approximately \$30 million, bringing the year-to-date figure to \$90 million on top of the \$300 million that was realized last year. This segment remains on track to achieve a total synergy of \$600 million for Raytheon Technologies.

Following the latest merger, Raytheon Technologies can be expected to benefit significantly from the technological upgrades in which both legacy Raytheon and United Technologies have been investing for long. Notably, at Pratt & Whitney, on the commercial aftermarket side, GTF overhaul activity continues as the company aims to upgrade engines to the latest configuration. Although the commercial part of its businesses has taken a hit lately, courtesy of the COVID-19 impact, in the military business of Collins and Pratt, Raytheon Technologies continues to see strength in sales and still expects to see mid-single-digit growth, excluding the impact of the two pending Collins divestitures.

- Thanks to its wide range of combat-proven defense products, Raytheon Technologies continues to receive ample orders from the Pentagon and its foreign allies. During the second quarter, the company won a handful of notable contracts. Consequently, it witnessed record bookings of \$10.16 billion, which translated into a solid backlog of \$73.13 billion. These impressive results make us optimistic of the revenue growth prospects of the company, which, in turn, will boost its bottom line, over the long run. Notably, long-term earnings growth rate of the company is currently projected at 12% compared with its industry's rate of 6.8%.
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Last Earnings Report

Raytheon Technologies Q2 Earnings Beat, Sales Fall Y/Y

Raytheon Technologies second-quarter 2020 adjusted earnings per share (EPS) of 40 cents outpaced the Zacks Consensus Estimate of 10 cents by 300%.

However, the bottom-line figure declined 67.7% from the year-ago quarter's \$1.24.

Including one-time items, the company reported loss of \$2.56 against earnings of \$1.37 per share in the year-ago quarter.

The year-over-year deterioration in bottom line is attributable to charges related to the current economic environment primarily attributable to the COVID-19 pandemic.

Operational Performance

Raytheon Technologies' first-quarter sales of \$14,061 million declined 24.1% on a year-over-year basis. The top line, however, beat the Zacks Consensus Estimate of \$13,983 million by 0.6%.

Total costs and expenses increased 46.3% year over year to \$14,720 million. The company incurred operating loss of \$3,760 million against operating income of \$1,386 million in the year-ago quarter.

Segmental Performance

Collins Aerospace: Adjusted sales at this segment declined 35% year over year to \$4,298 million in second-quarter 2020 due to commercial sales decline attributable to lower in-flight hours, aircraft fleet utilization and commercial OEM deliveries. Its adjusted operating income came in at \$24 million compared with the year-ago quarter's level of \$1,293 million.

Pratt & Whitney: Adjusted sales at this segment declined 30% year over year to \$3,607 million due to a significant reduction in shop visits and related spare part sales as well as lower commercial engine deliveries. Its adjusted operating loss was \$151 million against the year-ago quarter's operating income of \$452 million.

Raytheon Intelligence & Space: This segment recorded second-quarter adjusted sales of \$3,314 million and recorded \$311 million of adjusted operating profit in the quarter.

Raytheon Missiles & Defense: This unit recorded second-quarter adjusted sales of \$3,590 million and \$397 million of adjusted operating profit in the quarter.

Financial Update

Raytheon Technologies ended Jun 30, 2020 with cash and cash equivalents of \$6,975 million, up from \$4,937 million as of Dec 31, 2019.

Long-term debt was \$31,210 million, as of Jun 30, 2020, down from \$37,701 million as of Dec 31, 2019.

Net cash inflow from operating activities amounted to \$1,342 million at the end of second-quarter 2020 compared with \$2,769 million in the year-ago period.

Its free cash flow came in at \$559 million compared with \$2,091 million at the end of second-quarter 2019.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	0.56%
EPS Surprise	300.00%
Quarterly EPS	0.40
Annual EPS (TTM)	6.33

Recent News

On **Oct 6, 2020**, Raytheon Technologies announced that its business unit, Raytheon Intelligence & Space, is launching a new hardware emulation and software analysis tool called DejaVM that provides a virtualized environment to evaluate and reduce cyber threats against mission-critical systems in a modern networked space. DejaVM enables system-level cyber testing without requiring access to the limited number of highly specialized physical hardware assets.

On **Sep 9, 2020**, Raytheon announced that it has secured a contract worth \$125 million for upgrading the advanced medium range air to air missile (AMRAAM) system. Work related to the deal will be executed in Tucson, AZ.

In particular, the company will deliver software development activities for the AMRAAM. The deal, awarded by the Air Force Life Cycle Management Center, Eglin Air Force Base, FL, is scheduled to be completed by Sep 30, 2026.

On **Sep 8, 2020**, Raytheon's Pratt and Whitney Military Engines unit clinched a \$580 million contract for delivering propulsion system spare parts, spare engines and modules, in support of the F-135 propulsion initial spares requirements. The deal has been awarded by the Air Systems Command, Patuxent River, MD.

The contract is projected to be completed by December 2024.

On **Aug 3, 2020**, Raytheon Technologies announced that its business unit, Raytheon Missiles & Defense and RAFAEL Advanced Defense Systems Ltd., an Israeli-based defense technology company, have signed a joint venture to establish an Iron Dome Weapon System production facility in the United States. The new partnership, called Raytheon RAFAEL Area Protection Systems, anticipates finalizing a site location before the end of the year.

The new facility will produce both the Iron Dome Weapon System, which consists of the Tamir interceptor and launcher, and the SkyHunter missile, a U.S. derivative of Tamir. Both Tamir and SkyHunter intercept incoming cruise missiles, unmanned aerial systems and short-range targets such as rockets, artillery, mortars and other aerial threats.

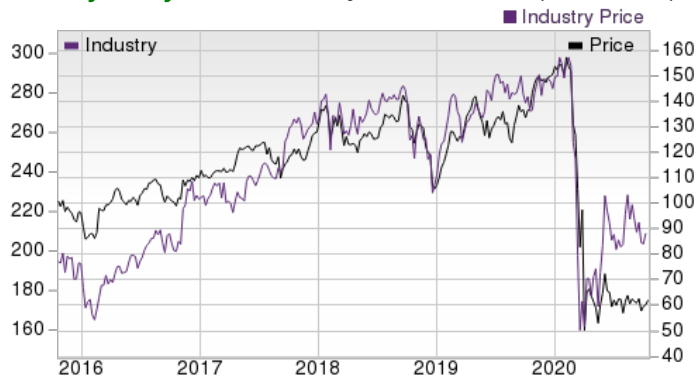
Valuation

Raytheon's shares are down 3.5% in the last six months. Stocks in the Zacks sub-industry are up 13.2%, while the Zacks Aerospace sector went down 0.6% in the six months period. The S&P 500 index is up 23% in the said period.

The stock is currently trading at 16.7X of forward 12-month earnings, which compares to 22.5X for the Zacks sub-industry, 19.5X for the Zacks sector and 22.2X for the S&P 500 index.

Over the past six months, the stock has traded as high as 20.4X and as low as 14X, with a 5-year median of 17X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$52 price target reflects 14.2X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Bottom 11% (227 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Bae Systems PLC (BAESY)	Neutral	4
Elbit Systems Ltd. (ESLT)	Neutral	3
Meggitt PLC Un-sponsored ADR (MEGGY)	Neutral	NA
Moog Inc. (MOG.A)	Neutral	4
RollsRoyce Holdings PLC (RYCEY)	Neutral	3
Transdigm Group Incorporated (TDG)	Neutral	3
Teledyne Technologies Incorporated (TDY)	Neutral	3
Spirit Aerosystems Holdings, Inc. (SPR)	Underperform	4

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

Industry Comparison Industry: Aerospace - Defense Equipment				Industry Peers		
	RTX	X Industry	S&P 500	BAESY	RYCEY	SPR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	4	3	4
VGM Score	C	-	-	A	F	C
Market Cap	93.55 B	1.82 B	23.69 B	20.05 B	5.58 B	2.06 B
# of Analysts	7	3	14	3	3	7
Dividend Yield	3.10%	0.00%	1.63%	5.54%	0.00%	0.21%
Value Score	B	-	-	B	B	B
Cash/Price	0.07	0.16	0.07	0.17	1.03	0.96
EV/EBITDA	8.64	8.44	13.50	NA	NA	3.13
PEG F1	1.78	8.28	2.79	11.00	NA	NA
P/B	1.36	1.90	3.49	3.44	NA	1.62
P/CF	4.84	8.03	13.13	8.03	2.67	2.45
P/E F1	21.31	28.33	21.95	11.11	NA	NA
P/S TTM	1.31	1.25	2.66	NA	NA	0.37
Earnings Yield	4.65%	2.62%	4.40%	8.99%	-47.06%	-23.79%
Debt/Equity	0.45	0.36	0.70	0.90	-0.86	2.40
Cash Flow (\$/share)	12.65	2.26	6.93	3.10	1.08	7.97
Growth Score	D	-	-	A	F	C
Historical EPS Growth (3-5 Years)	4.37%	9.93%	10.39%	NA	NA	8.10%
Projected EPS Growth (F1/F0)	-65.50%	-16.64%	-2.47%	9.97%	-781.65%	-183.70%
Current Cash Flow Growth	26.99%	12.73%	5.49%	8.10%	15.24%	-10.39%
Historical Cash Flow Growth (3-5 Years)	5.99%	5.99%	8.50%	-3.36%	-10.95%	3.45%
Current Ratio	1.20	2.71	1.35	1.07	1.02	2.71
Debt/Capital	31.20%	32.58%	42.79%	47.50%	NA	70.61%
Net Margin	-2.28%	4.46%	10.27%	NA	NA	-3.93%
Return on Equity	11.59%	7.84%	14.78%	NA	NA	-6.11%
Sales/Assets	0.49	0.73	0.51	NA	NA	0.79
Projected Sales Growth (F1/F0)	-16.57%	-1.97%	-0.53%	17.97%	-26.27%	-60.32%
Momentum Score	F	-	-	B	F	F
Daily Price Change	-0.36%	0.36%	0.56%	-0.04%	3.96%	1.67%
1-Week Price Change	3.07%	-0.97%	0.02%	-4.28%	-6.75%	-0.98%
4-Week Price Change	2.43%	2.50%	5.10%	-3.60%	35.69%	2.58%
12-Week Price Change	0.39%	0.23%	5.75%	-0.52%	-15.74%	-9.39%
52-Week Price Change	-56.69%	-15.45%	2.89%	-11.31%	-69.16%	-74.47%
20-Day Average Volume (Shares)	6,805,458	167,382	1,913,901	142,426	2,725,637	5,527,848
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.62%
EPS F1 Estimate 4-Week Change	-0.41%	0.00%	0.09%	0.00%	0.00%	-0.84%
EPS F1 Estimate 12-Week Change	-6.23%	0.25%	3.31%	6.83%	-948.72%	-71.01%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	NA	NA	-6.45%

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	B
Growth Score	D
Momentum Score	F
VGM Score	C

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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