

Sealed Air Corp (SEE)

\$44.88 (As of 12/07/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 10/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: D

Summary

Sealed Air's net sales guidance for 2020 is at \$4.85 billion, which indicates year-over-year growth of 1%. The company anticipates adjusted earnings per share to be around \$3.05 in 2020, which suggests an improvement of 8% from the prior year. Approximately 75% of Sealed Air's end markets are experiencing higher demand for food, medical supplies, consumer staples, and rise in e-commerce demand amid the COVID-19 pandemic. This will continue to drive its top-line performance this year. Sealed Air anticipates realizing around \$120 million of benefits from its Reinvent SEE program in the current year, which will bolster earnings. Reflecting these tailwinds, the earnings estimates for the company's ongoing quarter and current year have undergone positive revisions, lately. Acquisitions and product innovation will also favor its results.

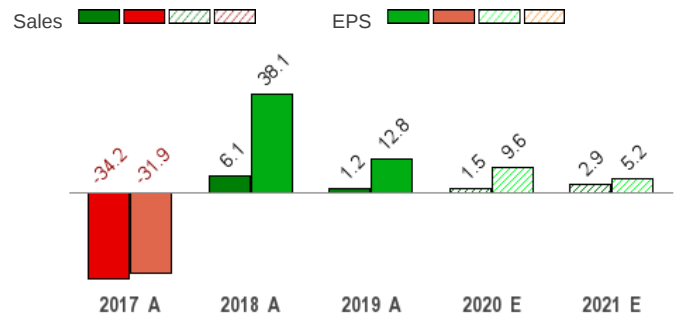
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$46.23 - \$17.06
20-Day Average Volume (Shares)	1,123,338
Market Cap	\$7.0 B
Year-To-Date Price Change	12.7%
Beta	1.22
Dividend / Dividend Yield	\$0.64 / 1.4%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Top 28% (71 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.4%
Last Sales Surprise	3.5%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/09/2021
Earnings ESP	0.0%
P/E TTM	14.5
P/E F1	14.5
PEG F1	2.2
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,195 E	1,233 E	1,286 E	1,348 E	5,002 E
2020	1,174 A	1,151 A	1,237 A	1,303 E	4,861 E
2019	1,113 A	1,161 A	1,219 A	1,299 A	4,791 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.79 E	\$0.84 E	\$0.91 E	\$3.25 E
2020	\$0.73 A	\$0.76 A	\$0.82 A	\$0.79 E	\$3.09 E
2019	\$0.59 A	\$0.80 A	\$0.64 A	\$0.78 A	\$2.82 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 12/07/2020. The reports text is as of 12/08/2020.

Overview

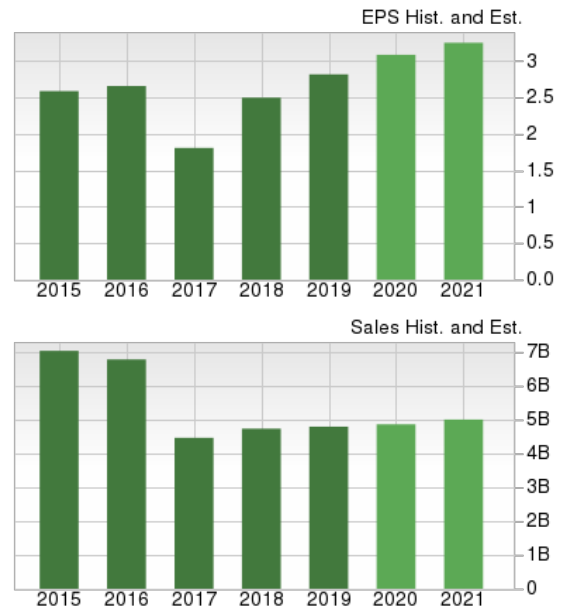
Charlotte, NC-based Sealed Air is a global leader in food safety and security and product protection. The company operates in the United States as well as globally. It caters to a diverse set of end markets including food and beverage processing, food service, retail, healthcare and industrial, and commercial and consumer applications. Its portfolio of widely recognized brands includes Cryovac food packaging and Bubble Wrap protective packaging which enable safer as well as efficient food supply chain and protect valuable goods shipped globally.

Effective second-quarter 2020, the company renamed its reporting segments from Food Care to Food and Product Care to Protective. However, there has been no change in the composition of the segments. While the Food segment generated 60% of the company's sales in 2019, the Protective segment contributed the remaining 40%.

The **Food** segment serves perishable food processors, predominantly in fresh red meat, smoked and processed meats, poultry and dairy (solids and liquids) markets worldwide, and maintains a leading position in target applications. The segment provides integrated packaging materials and equipment solutions to provide food safety, shelf life extension, and total cost optimization with innovative, sustainable packaging that enables customers to reduce costs and enhance brands in the marketplace.

Protective packaging solutions are utilized across several global markets and are especially valuable to e-commerce, electronics and industrial manufacturing. Protective solutions are designed to protect valuable goods in shipping, and drive operational excellence for its customers, increasing their order fulfillment velocity while minimizing material usage, dimensional weight and packaging labor requirements. A noteworthy acquisition for the segment was of Automated Packaging Systems, a manufacturer of automated bagging systems in 2019. The buyout offers opportunities to expand the company's automated solutions into adjacent markets.

Earlier, the company acquired AFP, Inc., which expanded its protective packaging solutions. The company had also acquired Fagerdala, to leverage its manufacturing footprint in Asia.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Many of Sealed Air's customers have been deemed by governmental entities as "critically essential" based on the U.S. Department of Homeland Security's and other international agencies' standards. Notably, around 64% of Sealed Air's revenues come from packaging of protein, foods, fluids and goods for the medical and life sciences industries. The food care business continues to benefit from the shift in demand for case ready, shrink bags and pre-packaged meals and snacks designed for home consumption amid the pandemic-induced restrictions. In the medical and life sciences portfolio, demand for protected packaging solutions for medical supplies, pharmaceuticals, and personal protective equipment, such as monitoring systems, ventilators, mask and COVID-19 test kits remains high.

Sealed Air is likely to benefit from demand for packaging for essential goods and e-commerce amid stay-at-home restrictions. Restructuring actions, acquisitions and innovation will also drive growth.

Further, e-commerce sales, which contribute around 14% to the company's sales, have been on the rise amid the stay-at-home scenario. Thus, with more than 75% of the company's revenues originating from end-markets that are deemed essential and supporting the stay-at-home environment amid the pandemic, the company is positioned well to sustain the top-line performance.

- ▲ In December 2018, Sealed Air announced a reformation plan — Reinvent SEE Strategy — along with a fresh restructuring program, in a move to drive its growth. The new strategy is focused on innovations, SG&A productivity, product-cost efficiency, channel optimization and customer-service enhancements. One of most vital aspects of this strategy involves investment in technology and resources focusing on new and existing high-growth markets.

The company also aims at simplifying its operational structure and expanding SEE Operational Excellence by upgrading end-to-end processes throughout the company. The new strategy will fuel Sealed Air's growth by supporting packaging innovations for fresh food and e-commerce, and increasing operating leverage target above 40% per year, beginning in 2019. In 2020, the company is on track to realize \$120 million of incremental benefits to adjusted EBITDA compared to last year. Over the 2019-2021 timeframe, the company has targeted approximately \$340 million of Reinvent SEE benefits. This will continue to boost bottom-line performance.

- ▲ Backed by the performance so far this year, the ongoing strength in e-commerce, and contributions from the Automated acquisition, Sealed Air hiked its earnings per share guidance to \$3.05 compared with the previous guidance of \$2.85 to \$2.95. The new outlook reflects an increase of 8% from earnings of \$2.82 in 2019. Net sales is expected at around \$4.85 billion, up from the prior-guided range of \$4.725 billion to \$4.775 billion. The guidance range reflects a year-over-year rise of 1% from \$4.8 billion of sales in 2019. Its Reinvent SEE initiatives will also aid earnings.

- ▲ Expected benefits from reducing costs, driving operational excellence and commercializing new innovations along with favorable global business trends position the company well for improved results. Sealed Air's top-line will be supported by enhanced demand for its core product portfolio, recently-introduced innovations, strong fresh food markets and e-commerce sector. The company is witnessing increased demand for essential and high-performing packaging solutions that extend shelf life, reduce waste and drive customer productivity.

- ▲ Sealed Air's acquisition of Automated Packaging Systems, Inc., a leading manufacturer of high-reliability, automated bagging systems, expands breadth of the company's automated solutions and sustainable packaging offerings. Earlier, the company acquired AFP, Inc., which expanded its protective packaging solutions in the electronics, transportation and industrial markets with custom-engineered applications.

The company had also acquired Fagerdala, to leverage its manufacturing footprint in Asia, expertise in foam manufacturing and fabrication, and commercial organization to grow sales in the consumer electronics, medical equipment and devices, automotive, temperature assurance, and e-commerce fulfillment sectors. AFP and Fagerdala align well with the ship-in-own-container (SIOC) trend in e-commerce. This trend is transforming e-commerce packaging as more distributors want manufacturers to have their primary packaging parcel ready. These acquisitions and investments the company has been making in its core business will drive growth.

Risks

- The company has presence in 48 countries/regions, which are likely to have been impacted or will be impacted by COVID-19. Surge in cases, facility closures as a result of government orders in response to the pandemic and reduced production capacity due to local social distancing requirements might impact its results in the forthcoming quarters. Parts of the food industry including food service and restaurants have been impacted significantly. Over the next few quarters, the company's fluids portfolio, which consists of innovative vertical pouch packaging, for condiments, soups and sauces will be negatively impacted by the slowdown in the food service industry.
 - Around 35% of its sales serve consumer and industrial segments. Many of these end markets including general manufacturing, transportation, and non-essential goods, are facing slowdown or shut downs following government restrictions and a significant reduction in discretionary spending. A weak global industrial market and the U.S.-China trade war have been impacting Protective segment's volumes for some time. The pandemic adds to concerns.
 - The company's traditional packaging solutions, which include Bubble Wrap, standardized mailers, shrink film and void fill, generate around one-third of the Protective segment's sales. This part of the segment is bearing the brunt of the market's shift to automation and the global industrial manufacturing slowdown. Moreover, specialty industrial applications, which include the Instapak platform and integrated fabrication solutions, account for another one-third of Protective segment's sales, also remains weak thanks to lower global industrial demand and the U.S.-China trade war.
 - Sealed Air's net debt (total debt less cash and cash equivalents), was \$3.4 billion as of Sep 30, 2020, down from \$3.6 billion compared with Dec 31, 2019. Sealed Air's total debt-to-total capital ratio is currently at 0.99 - which is concerning. The company's times interest earned ratio has however been improving over the past few years and is at 4.2. Nevertheless, as of Sep 30, 2020 Sealed Air had approximately \$1.4 billion of liquidity available, which comprised \$317 million of cash, an undrawn committed credit facility of \$1,132 million. The company does not have any debt maturities until August 2022. Free cash flow is expected at around \$450 million, higher than its previous guidance of \$350 million to \$375 million.
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Last Earnings Report

Sealed Air's Q3 Earnings & Sales Top Estimates, View Up

Sealed Air reported third-quarter 2020 adjusted earnings per share of 82 cents, surpassing the Zacks Consensus Estimate of 67 cents. The bottom line also increased 28% year over year on higher adjusted EBITDA, lower adjusted tax rate and reduced net interest expense.

Including special items, the company delivered net earnings per share of 85 cents compared with the prior-year quarter figure of 51 cents.

Total revenues inched up 1.5% year over year to \$1,237 million in the reported quarter. The top line also beat the Zacks Consensus Estimate of \$1,195 million. Currency negatively impacted sales by 1%.

Cost and Margins

Cost of sales inched up 0.7% year over year to \$833 million. Gross profit improved 3.3% year over year to \$405 million. Gross margin was 32.7% compared with the prior-year quarter's 32.2%.

SG&A expenses slid 10.4% to \$199 million year over year. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) came in at \$259 million in the quarter, up 7.5% from the prior-year quarter. Adjusted EBITDA margin was 21% compared with the prior-year quarter's 19.8%, driven by the company's Reinvent SEE initiatives and favorable price cost spread.

Segment Performance

Food: Net sales declined 3.4% year over year to \$705 million. Adjusted EBITDA was down 4.5% year over year to \$152.4 million.

Protective: The segment reported net sales of \$533 million in the reported quarter, up 9% from the prior-year quarter. Adjusted EBITDA climbed 29.7% year over year to \$109 million.

Financial Updates

Cash and cash equivalents were around \$317 million as of Sep 30, 2020, up from the \$262 million as of Dec 31, 2019. Cash flow from operating activities was around \$410 million in the first nine months of 2020 compared with the \$251 million witnessed in the prior-year period. As of Sep 30, 2020, Sealed Air's net debt was \$3.4 billion, down from \$3.6 billion as of Dec 31, 2019.

2020 Guidance

For 2020, Sealed Air now expects net sales of \$4.85 billion, up from the prior-guided range of \$4.725 billion to \$4.775 billion. Foreign currency is now expected to have a negative impact on net sales of approximately \$90 million compared with the previous estimate of \$120 million.

Adjusted EBITDA is now projected at \$1.04 billion, up from the prior guidance of \$1.01-\$1.03 billion. Foreign currency is now expected to have a negative impact of approximately \$20 million, lower than the earlier expectation of an unfavorable impact of \$25 million. Adjusted earnings per share is now expected at \$3.05 compared with the previous guidance of \$2.85 to \$2.95. Free cash flow is estimated to be \$450 million compared with the previously-guided range of \$350 million to \$375 million.

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	3.52%
EPS Surprise	22.39%
Quarterly EPS	0.82
Annual EPS (TTM)	3.09

Valuation

Sealed Air Corporation's shares are up 12.7% in the year-to-date period and 15.3% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are up 10.2% and 15.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 11.7% and 18.5%, respectively.

The S&P 500 index is up 14.9% in the year-to-date period and 18.0% in the past year.

The stock is currently trading at 13.84X forward 12-month earnings, which compares with 16.32X for the Zacks sub-industry, 22.98X for the Zacks sector and 22.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.38X and as low as 5.93X, with a 5-year median of 15.90X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$53 price target reflects 15.97X forward 12-month earnings.

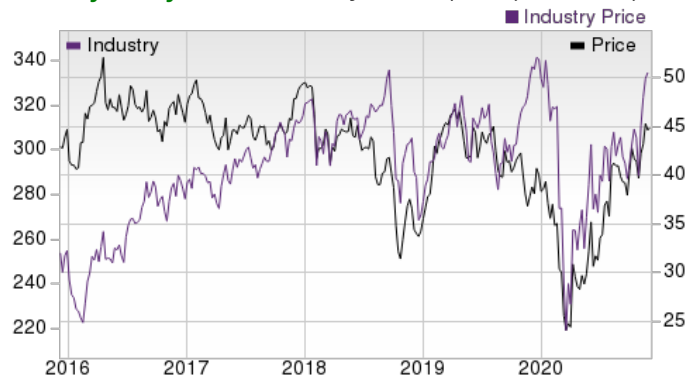
The table below shows summary valuation data for SEE:

Valuation Multiples - SEE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.84	16.32	22.98	22.86
	5-Year High	27.38	18.95	23.12	23.47
	5-Year Low	5.93	7.13	12.61	15.27
	5-Year Median	15.9	16	17.76	17.77
P/S F12M	Current	1.4	2.73	3.3	4.3
	5-Year High	2.39	5.06	3.3	4.3
	5-Year Low	0.55	1.46	1.6	3.17
	5-Year Median	1.32	1.86	2.11	3.68
EV/EBITDA TTM	Current	10.88	21.24	22.28	16.49
	5-Year High	14.21	28.55	22.57	16.52
	5-Year Low	6.91	12.28	11.1	9.54
	5-Year Median	10.95	15.78	15.12	13.14

As of 12/07/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 28% (71 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Avery Dennison Corporation (AVY)	Outperform	2
Crown Holdings, Inc. (CCK)	Outperform	2
Packaging Corporation of America (PKG)	Outperform	1
AptarGroup, Inc. (ATR)	Neutral	2
Greif, Inc. (GEF)	Neutral	3
Graphic Packaging Holding Company (GPK)	Neutral	3
Silgan Holdings Inc. (SLGN)	Neutral	2
Sonoco Products Company (SON)	Neutral	3

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

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SEE	X Industry	S&P 500	CCK	GEF	GPK
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	B	-	-	B	A	A
Market Cap	6.96 B	6.34 B	26.33 B	13.24 B	2.42 B	4.36 B
# of Analysts	8	6	13	8	4	9
Dividend Yield	1.43%	1.91%	1.5%	0.00%	3.52%	1.86%
Value Score	B	-	-	C	A	A
Cash/Price	0.04	0.04	0.06	0.05	0.04	0.01
EV/EBITDA	14.69	9.90	14.68	12.31	8.37	7.92
PEG F1	2.24	1.95	2.79	3.44	1.43	0.59
P/B	284.21	3.44	3.61	5.71	2.04	2.38
P/CF	11.76	10.11	13.93	11.06	5.49	6.60
P/E F1	14.52	16.96	22.05	17.20	14.35	14.69
P/S TTM	1.43	1.17	2.84	1.16	0.53	0.68
Earnings Yield	6.89%	5.92%	4.36%	5.81%	6.97%	6.84%
Debt/Equity	151.43	1.34	0.70	3.47	2.13	1.74
Cash Flow (\$/share)	3.82	5.42	6.94	8.88	9.12	2.44
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	3.85%	10.62%	9.69%	9.53%	15.15%	7.66%
Projected EPS Growth (F1/F0)	9.53%	10.79%	1.00%	11.77%	10.36%	25.93%
Current Cash Flow Growth	10.79%	10.92%	5.22%	7.40%	31.14%	3.10%
Historical Cash Flow Growth (3-5 Years)	-2.40%	7.51%	8.33%	12.67%	8.37%	6.65%
Current Ratio	1.27	1.43	1.38	1.19	1.43	1.17
Debt/Capital	99.34%	57.28%	42.00%	77.62%	68.27%	63.55%
Net Margin	9.57%	5.81%	10.40%	4.52%	2.82%	2.12%
Return on Equity	-453.43%	18.39%	14.99%	33.90%	18.39%	15.24%
Sales/Assets	0.84	0.84	0.50	0.74	0.82	0.85
Projected Sales Growth (F1/F0)	1.39%	0.87%	0.35%	-1.60%	0.71%	5.42%
Momentum Score	D	-	-	F	B	D
Daily Price Change	-2.31%	-0.77%	-0.49%	0.01%	-1.38%	-0.62%
1-Week Price Change	3.17%	2.05%	1.73%	2.81%	1.91%	4.05%
4-Week Price Change	4.69%	4.56%	4.72%	7.56%	12.12%	10.89%
12-Week Price Change	14.29%	12.04%	13.55%	29.73%	36.53%	12.60%
52-Week Price Change	15.28%	13.30%	6.52%	33.11%	12.40%	-2.90%
20-Day Average Volume (Shares)	1,123,338	145,147	1,975,294	674,550	124,181	2,663,552
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.02%	0.00%	0.04%	3.03%	0.00%
EPS F1 Estimate 12-Week Change	5.73%	3.65%	3.94%	10.01%	-1.13%	2.92%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.19%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	A
Momentum Score	D
VGM Score	B

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

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.

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.