State Street Corp. (STT)

$77.18 (As of 01/15/21)

Price Target (6-12 Months): **$82.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/25/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: F | Momentum: A	

Summary

State Street's shares have outperformed the industry over the past year. The company has an impressive earnings surprise history. The company's earnings surpassed the Zacks Consensus Estimate in each of the trailing four quarters. New business servicing wins, opportunistic buyouts, global reach, efforts to technologically upgrade operations and strong balance sheet position are expected to continue supporting the company's profitability. Its capital deployments reflects strong liquidity position through which it is expected to continue enhancing shareholder value. However, pressure on margins due to near-zero interest rates remains concerning. This, in turn, will hurt revenue growth in the upcoming quarters. Elevated expenses, due to the company's constant restructuring efforts, are expected to hurt the bottom line to an extent.

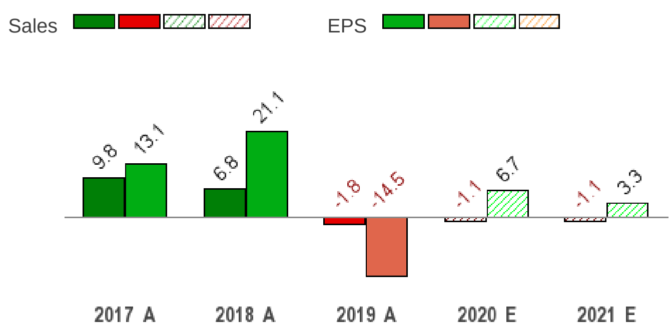
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	$85.89 - $42.10
20-Day Average Volume (Shares)	2,104,409
Market Cap	$27.2 B
Year-To-Date Price Change	6.1%
Beta	1.60
Dividend / Dividend Yield	$2.08 / 2.7%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 33% (83 out of 253)
Last EPS Surprise	2.1%
Last Sales Surprise	0.4%
EPS F1 Estimate 4-Week Change	2.1%
Expected Report Date	01/19/2021
Earnings ESP	0.0%
P/E TTM	11.1
P/E F1	11.4
PEG F1	1.1
P/S TTM	2.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,804 E	2,858 E	2,867 E	2,933 E	11,499 E
2020	3,065 A	2,937 A	2,784 A	2,831 E	11,622 E
2019	2,932 A	2,873 A	2,903 A	3,048 A	11,756 A

EPS Estimates

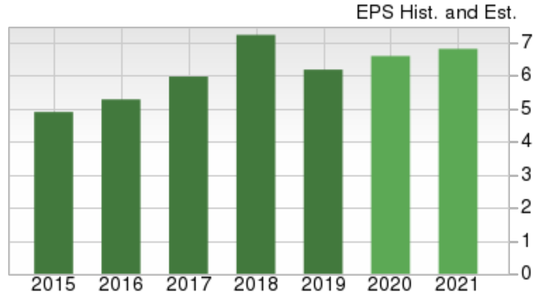
	Q1	Q2	Q3	Q4	Annual*
2021	$1.32 E	$1.72 E	$1.80 E	$1.99 E	$6.80 E
2020	$1.67 A	$1.88 A	$1.45 A	$1.57 E	$6.58 E
2019	$1.24 A	$1.45 A	$1.51 A	$1.98 A	$6.17 A

*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 01/15/2021. The reports text is as of 01/18/2021.

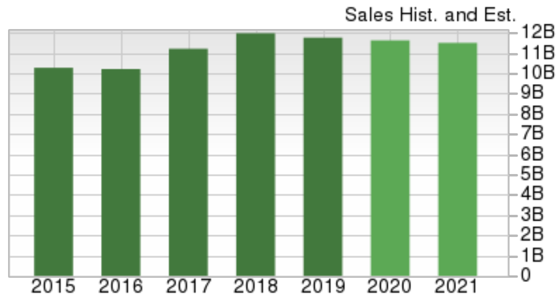
Overview

Incorporated in 1832 and headquartered in Boston, MA, State Street Corporation is a financial holding company. It provides a range of products and services for institutional investors worldwide through its subsidiaries.



The company primarily performs its business through its principal banking subsidiary, State Street Bank. Its customers include providers of mutual funds, managers of collective investment funds and other investment pools, providers of corporate and public retirement plans, insurance companies, foundations, endowments and investment managers.

State Street operates through the following two divisions:



The ***Investment Servicing*** division (constituting 83.8% of total revenues in 2019) offers a range of services, including custody, product-and participant-level accounting, daily pricing and administration; master trust and master custody; recordkeeping; shareholder accounting; foreign exchange, brokerage and other trading; securities finance; deposit and short-term investment facilities; loans and lease financing; outsourcing of investment manager and hedge fund manager operations, as well as performance, risk and compliance analytics.

The ***Investment Management*** division (17.2%) provides a range of services for managing financial assets such as investment research services and investment management, including both passive and active U.S. and non-U.S. equity as well as fixed-income strategies, in addition to other related services such as securities finance.

In 2016, State Street acquired GE Asset Management. In 2018, the company acquired Charles River Development (CRD).

As of Sep 30, 2020, State Street had assets under custody and administration of $36.6 trillion, and assets under management (AUM) of $3.1 trillion.

Source: Zacks Investment Research

Reasons To Buy:

> State Street is well poised for growth on the back of new business wins and a strong balance sheet position. Synergies from strategic buyouts and its global footprint are expected to aid profitability.

- Organic growth remains a key positive for State Street. Though the company's total fee revenues declined in 2019 owing to challenging industry conditions and foreign exchange (FX) volatility, the same witnessed a four-year compound annual growth rate (CAGR) of 3.7% (2016-2019). The uptrend continued in the first nine months of 2020, mainly driven by a rise in client activity and significant market volatility. The company remains well positioned with respect to fundamental business activities, given its global exposure and a broad array of innovative products and services. Continuous investments in new products, new business servicing wins and inorganic growth strategy are expected to keep supporting revenues, going forward.

- As of Sep, 2020, State Street had total debt of $26.9 billion, down sequentially. Its cash and due from banks balance was $4.8 billion. Nevertheless, its time-interest-earned ratio of 6.1 at the end of third-quarter 2020 has improved over the last few quarters. Further, the company's total debt/total capital of 35.2% is lower than the industry average of 50.6% and has declined sequentially. Hence, given the record of consistent earnings growth, State Street has lower credit risk and lesser likelihood of default of interest and debt repayments if the economic situation worsens.

- Amid the coronavirus-induced mayhem, the Federal Reserve restricted dividends and share repurchases by major banks in order to conserve liquidity. Thus, State Street is paying a dividend of 52 cents per share in the fourth quarter 2020 and did not repurchase shares until December-end. Nonetheless, following the Fed's second round of stress test and subsequent approval, now the company will resume repurchases in first-quarter 2021. Thus, given a solid liquidity position and earnings strength, State Street is expected to continue to enhance shareholder value through efficient capital deployment activities.

- Shares of State Street have outperformed the industry over the past year. Also, the company's earnings estimates for 2020 have been revised marginally upward over the past 30 days. Moreover, the stock seems undervalued than the broader industry. Its current price-to-sales and price-to-earnings (F1) ratios are below the respective industry averages. It has a Value Score of B. Hence, given the strength in fundamentals and positive estimate revisions, the upbeat price performance is expected to continue.

Reasons To Sell:

Persistently increasing expenses and a decline in margins due to lower rates will likely hurt State Street's profitability. Additionally, a tough operating backdrop is a major near-term concern.

- Near-zero interest rates and the Fed's accommodative monetary policy stance are expected to continue to hurt State Street's net interest income (NII) and net interest margin (NIM). Both the metrics have been witnessing a declining trend over the last several quarters (on a year-over-year basis), with the trend continuing in the first nine months of 2020.

- Elevated operating expenses are expected to continue to hurt State Street's bottom line to some extent in the quarters ahead. Driven by the company's cost-saving efforts, total expenses declined in the first nine months of 2020. However, the same witnessed a CAGR of 2.9% over the five-year period ended 2019. Higher Information systems and communications expenses, as well as acquisition and restructuring costs were the primary reasons for the rise. While the company has been successful in achieving expense savings targets in 2019 and 2018 through high cost location workforce reduction and restructuring initiatives, overall costs are likely to remain elevated in the quarters ahead.

- State Street's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 12.24% compares unfavorably with 15.40% for the S&P 500, highlighting that it is less efficient in using shareholder funds.

Last Earnings Report

State Street's Q3 Earnings Beat on Fee Income, Costs Dip

Quarter Ending	09/2020
Report Date	Oct 16, 2020
Sales Surprise	0.36%
EPS Surprise	2.11%
Quarterly EPS	1.45
Annual EPS (TTM)	6.98

State Street's third-quarter 2020 adjusted earnings of $1.45 per share outpaced the Zacks Consensus Estimate of $1.42. Also, the figure was 2.1% higher than the prior-year level.

The results reflected new investment servicing wins of $249 billion, improvement in fee income and successful implementation of its cost-saving initiatives. However, lower NII, mainly due to lower rates, was the major headwind.

Results included certain non-recurring items. After considering those, net income available to common shareholders was $517 million, down 2.1% from the year-ago quarter.

Revenues & Expenses Down

Total revenues were $2.78 billion, decreasing 4.1% year over year. However, the top line beat the Zacks Consensus Estimate of $2.77 billion.

Net interest revenues declined 25.8% from the year-ago quarter to $478 million. The fall was mainly due to lower market rates, partially offset by higher investment portfolio and loan balances.

NIM decreased 57 basis points year over year to 0.85%.

Total fee revenues grew 2.1% from the prior-year quarter to $2.31 billion. The rise was mainly driven by improving servicing and management fees, robust CRD revenues and FX trading services, partly offset by a fall in securities finance revenues.

Non-interest expenses were $2.1 billion, down 3.5% from a year ago. The decline was attributed to the company's cost-savings efforts. Excluding notable items, adjusted expenses decreased 1.8% to $2.09 billion.

Provision for credit losses was nil in the reported quarter against $4 million in the prior-year quarter.

Assets Balance

As of Sep 30, 2020, total assets under custody and administration were $36.6 trillion, up 11.4% year over year. The rise was mainly due to higher market levels, net new business growth and client flows.

Also, AUM was $3.1 trillion, up 6.6% from the prior-year figure. The growth was driven largely by higher market level and net inflows from ETFs, partly offset by institutional net outflows.

Strong Capital and Profitability Ratios

Under Basel III (Standardized approach), estimated Tier 1 common ratio was 12.4% as of Sep 30, 2020 compared with 11.3% in the corresponding period of 2019.

Return on common equity was 8.9% compared with 9.7% in the year-ago quarter.

2020 Outlook

The company's outlook is based on certain assumptions. These include short-term rates and average equity market levels for the remainder of 2020 to remain at the current levels.

The company anticipates the impact of money market fee waivers (net of distribution expenses) to be $10-$15 million.

CRD revenue growth is expected in the low double-digits.

Given the impact of continued lower long end rates on the investment portfolio, management expects NII to decline 15%.

Fee revenues are expected to increase 2.5-3%, supported by a 2% year-over-year rise in servicing fees. This is improvement from the prior outlook of a rise of 1.5-2%.

Excluding notable items, overall expenses are expected to decline 2%.

Tax rate is expected to be closer to the low end of 11-19%.

Medium-Term Targets

Including the impact of the CRD buyout, the company expects revenue increase of 4-5%. Pre-tax margin is expected to improve 2%. Management expects earnings per share growth of 10-15% and ROE of 12-15%. Total payout ratio is expected to be greater than or equal to 80%.

Recent News

State Street and FNZ to Offer Wealth Manager Servicing – Jul 7, 2020

State Street is collaborating with FNZ Group on a new wealth manager servicing venture. Per the terms of the agreement, FNZ will acquire a majority interest in State Street's Wealth Manager Services business, with the latter retaining a minority stake.

The financial terms of the deal, still subject to regulatory approvals and other closing conditions, are not disclosed yet. The transaction is expected to close in fourth-quarter 2020.

FNZ is one of the leading "global platform-as-a-service provider" that offers digital, personalized, high-quality and low-cost wealth management services in collaboration with financial firms. It serves approximately 8,000 wealth management and financial advice firms across the U.K., Europe, and the Asia Pacific regions, and has more than $700 billion in assets under administration.

Thus, the new venture will combine State Street's custody expertise with the international platform operated by FNZ. Notably, State Street will act as a sub-custodian to the custody assets belonging to Wealth Manager Services' clients.

Lee Jones, senior vice president of State Street, will join the new venture as CEO upon the transaction's closure. He said, "We will benefit from a significant investment in technology and people in order to expedite our growth strategy, and we are excited about the future."

CEO of FNZ, Adrian Durham, said, "This is the first step in a long-term strategy to expand our platform into the North American market. In the US, we see similar long-term drivers in relation to cost, transparency, digitization and personalization in asset and wealth management as other markets in which we operate."

Dividend Update

On Dec 18, 2020, State Street declared a quarterly dividend of 52 cents per share. The dividend will be paid out on Jan 19, 2021 to shareholders of record as of Jan 4.

Valuation

State Street's shares are up 27.9% in the past six months and down 6.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 39.2% and 23.8% in the past six months, respectively. Over the past year, the Zacks sub-industry and the sector are down 9.7% and 0.7%, respectively.

The S&P 500 index is up 16.5% in the past six months and 14.9% in the past year.

The stock is currently trading at 11.26X forward 12 months earnings, which compares to 13.41X for the Zacks sub-industry, 17.20X 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 16.12X and as low as 6.47X, with a 5-year median of 11.54X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $82 price target reflects 11.97X forward earnings.

The table below shows summary valuation data for STT

Valuation Multiples - STT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.26	13.41	17.2	22.86
	5-Year High	16.12	14.2	17.2	23.79
	5-Year Low	6.47	8.01	11.59	15.3
	5-Year Median	11.54	11.56	14.53	17.83
P/TB TTM	Current	2.03	1.99	3.73	16.66
	5-Year High	3.68	2.68	4.06	16.93
	5-Year Low	1.33	1.21	2.05	7.42
	5-Year Median	2.36	2.11	3.55	10.94
P/S F12M	Current	2.37	3.76	7.14	4.48
	5-Year High	3.41	4.59	7.14	4.48
	5-Year Low	1.3	2.39	5.02	3.2
	5-Year Median	2.33	3.59	6.12	3.68

As of 01/15/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 33% (83 out of 253)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
The Bank of New York Mellon Corporation **(BK)**	Neutral	3
Comerica Incorporated **(CMA)**	Neutral	3
Fifth Third Bancorp **(FITB)**	Neutral	3
KeyCorp **(KEY)**	Neutral	3
M&T Bank Corporation **(MTB)**	Neutral	3
Northern Trust Corporation **(NTRS)**	Neutral	3
The PNC Financial Services Group, Inc **(PNC)**	Neutral	3
Truist Financial Corporation **(TFC)**	Neutral	3

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

Industry Comparison Industry: Banks - Major Regional

	STT	X Industry	S&P 500	BK	NTRS	TFC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	F	C
Market Cap	27.23 B	40.38 B	27.23 B	40.38 B	20.07 B	70.06 B
# of Analysts	8	8	13	8	5	4
Dividend Yield	2.69%	2.97%	1.44%	2.72%	2.90%	3.46%
Value Score	B	-	-	B	D	C
Cash/Price	3.17	1.57	0.06	4.33	2.39	0.63
EV/EBITDA	-8.95	0.76	14.76	-10.40	-7.92	13.47
PEG F1	1.06	1.74	2.58	1.38	NA	1.74
P/B	1.18	1.18	3.73	0.99	1.88	1.13
P/CF	7.24	8.76	14.32	7.95	10.14	16.65
P/E F1	11.35	13.56	20.57	11.07	14.92	13.95
P/S TTM	2.18	2.81	2.98	2.16	3.11	3.08
Earnings Yield	8.81%	7.38%	4.78%	9.02%	6.70%	7.18%
Debt/Equity	0.60	0.79	0.70	0.65	0.48	0.66
Cash Flow ($/share)	10.66	6.63	6.92	5.74	9.51	3.12
Growth Score	F	-	-	C	F	D
Historical EPS Growth (3-5 Years)	8.11%	9.00%	9.72%	8.87%	14.34%	11.66%
Projected EPS Growth (F1/F0)	3.29%	24.93%	12.26%	3.88%	10.88%	2.77%
Current Cash Flow Growth	-5.72%	2.66%	5.20%	-5.62%	-5.52%	12.42%
Historical Cash Flow Growth (3-5 Years)	5.53%	9.49%	8.37%	5.07%	10.90%	9.49%
Current Ratio	0.50	0.88	1.38	0.65	0.64	0.93
Debt/Capital	35.15%	42.22%	41.97%	37.17%	30.70%	36.95%
Net Margin	20.75%	18.68%	10.44%	23.09%	20.72%	16.95%
Return on Equity	12.24%	7.87%	15.40%	9.89%	13.07%	7.76%
Sales/Assets	0.04	0.04	0.50	0.04	0.04	0.05
Projected Sales Growth (F1/F0)	-1.06%	-1.69%	6.01%	-1.61%	1.03%	-4.23%
Momentum Score	A	-	-	A	A	B
Daily Price Change	-3.02%	-2.88%	-0.59%	-2.06%	-3.26%	-2.20%
1-Week Price Change	5.98%	7.04%	2.23%	5.56%	4.03%	5.67%
4-Week Price Change	9.10%	12.77%	2.58%	12.77%	4.71%	10.34%
12-Week Price Change	17.65%	34.22%	11.96%	21.33%	12.45%	19.61%
52-Week Price Change	-4.88%	-5.15%	5.71%	-2.46%	-10.65%	-6.96%
20-Day Average Volume (Shares)	2,104,409	4,328,278	1,749,628	4,199,409	725,689	5,092,881
EPS F1 Estimate 1-Week Change	1.63%	0.36%	0.00%	1.64%	1.91%	0.27%
EPS F1 Estimate 4-Week Change	2.10%	10.10%	0.06%	3.10%	3.29%	5.03%
EPS F1 Estimate 12-Week Change	4.88%	10.73%	2.44%	5.75%	5.95%	6.14%
EPS Q1 Estimate Monthly Change	4.97%	3.92%	0.00%	2.79%	5.20%	3.49%

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	F
Momentum Score	A
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.

Disclosures

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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