Apr 06, 2021

# Texas Capital (TCBI)

**$69.50** (As of 04/05/21)

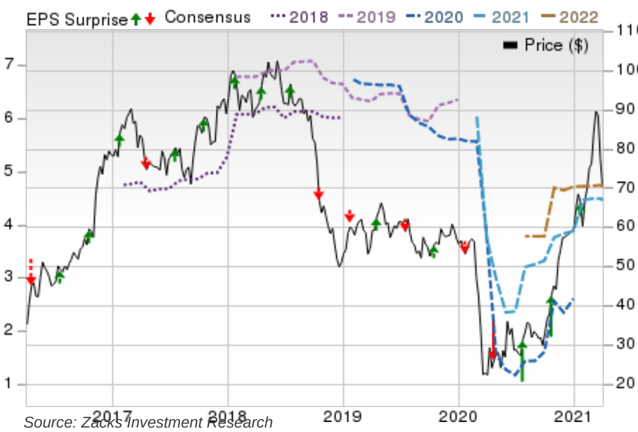
Price Target (6-12 Months): **$73.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 07/01/20) Prior Recommendation: Underperform | **Neutral** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:D |
| | Value: C \| Growth: D \| Momentum: D | |

## Summary

Shares of Texas Capital have outperformed the industry over the past three months. Also, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters and missed in the other. The company's diversified revenue base will continue to support the financials. Also, Texas Capital's rising loans and deposits balance suggest a strong capital position. Additionally, it has been benefiting from better fee pricing and improved loan yields. However, persistently rising expenses on efforts to expand the company's presence are likely to impede bottom-line expansion to some extent in the near term. Also, deterioration of credit quality is a headwind. Shrinking net interest margin on low interest rates and lack of geographical diversification remain concerns.

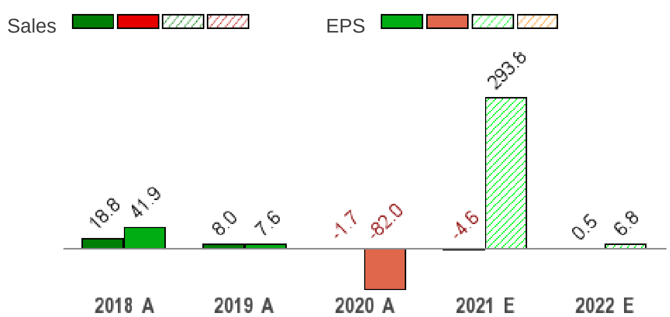
## Price, Consensus & Surprise




## Data Overview

| | |
|---|---|
| 52-Week High-Low | $93.26 - $20.75 |
| 20-Day Average Volume (Shares) | 1,638,985 |
| Market Cap | $3.5 B |
| Year-To-Date Price Change | 18.0% |
| Beta | 1.88 |
| Dividend / Dividend Yield | $0.00 / 0.0% |
| Industry | Banks - Southwest |
| Zacks Industry Rank | Top 26% (65 out of 253) |
| Last EPS Surprise | 0.9% |
| Last Sales Surprise | 6.6% |
| EPS F1 Estimate 4-Week Change | -1.7% |
| Expected Report Date | 04/28/2021 |
| Earnings ESP | 0.0% |
| P/E TTM | 29.6 |
| P/E F1 | 15.6 |
| PEG F1 | 1.5 |
| P/S TTM | 2.9 |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2022 | 246 E | 255 E | 261 E | 259 E | 1,010 E |
| 2021 | 252 E | 251 E | 252 E | 250 E | 1,005 E |
| 2020 | 240 A | 280 A | 268 A | 266 A | 1,054 A |

## EPS Estimates

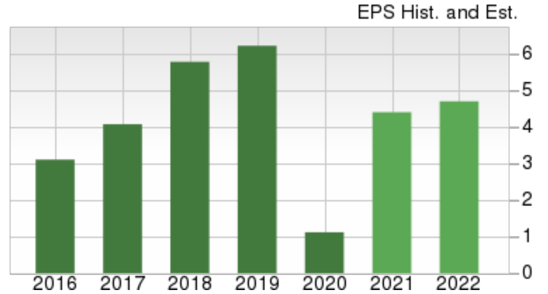
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2022 | $1.06 E | $1.17 E | $1.27 E | $1.22 E | $4.71 E |
| 2021 | $1.11 E | $1.12 E | $1.15 E | $1.10 E | $4.41 E |
| 2020 | -$0.11 A | $0.26 A | $1.08 A | $1.14 A | $1.12 A |

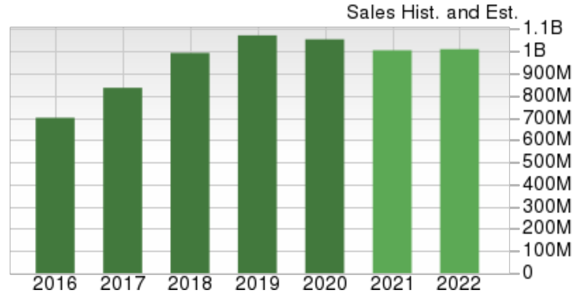
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/05/2021. The report's text and the analyst-provided price target are as of 04/06/2021.

## Overview

Texas Capital Bancshares Inc., a financial holding company, is the parent company of Texas Capital Bank, a Texas-based bank headquartered in Dallas. The company focuses on leveraging local business and community ties to the five major metropolitan areas of Texas — Dallas, Houston, Fort Worth, Austin and San Antonio. All of its business activities are conducted through its bank subsidiary. The company was founded in November 1996, and commenced operations in December 1998.




While the Texas market continues to be central to the company's growth and success, it has developed several lines of business, including mortgage finance, mortgage correspondent aggregation ("MCA"), homebuilder finance, insurance premium finance, lender finance and asset-based lending, that offer specialized loan and deposit products to businesses regionally and across the nation.

Texas Capital focuses primarily on middle-market business customers and high-net-worth individuals in each of the five major metropolitan markets of Texas. For its business customers, the company offers commercial loans for general corporate purposes including financing for working capital, internal growth, acquisitions and financing for business insurance premiums. Additionally, the company provides real estate term and construction loans, equipment leasing, cash management services, trust and escrow services and letters of credit.

The company also provides complete banking services for its individual customers, including personal trust and wealth management services, certificates of deposit, interest bearing and non-interest bearing checking accounts with optional features such as Visa debit/ATM cards and overdraft protection, traditional money market and savings accounts, consumer loans (both secured and unsecured), branded Visa credit card accounts including gold-status accounts and internet banking.

As of Dec 31, 2020, Texas Capital had total assets of $37.7 billion, loans of $24.5 billion and deposits of $31 billion.


*Source: Zacks Investment Research*

## Reasons To Buy:

Texas Capital is poised for top-line growth with support from diversified fee income base and rise in average earnings assets. Also, the company continues to benefit from rising loans and deposits.

- Organic growth is a key strength at Texas Capital, as reflected by its revenue-growth story. Revenues witnessed a compound annual growth rate (CAGR) of 3.5% over the last five years (2016-2020), primarily due to elevated net interest income, driven by rise in average earning assets, as well as rise in non-interest income. Further, a diversified fee income base and rising average earning assets will keep supporting revenue growth in the near term.
- Growth remains the key story at Texas Capital, and it continues to perform well on a variety of metrics. The company continued to experience growth in total loans held for investment (CAGR of around 4.3%) and deposits (CAGR of 16.2%) over the last five years (2016-2020), with some annual volatility. We believe this growth has stemmed from a gain in market share from the company's economizing competitors which struggled against Texas Capital's relationship-based model.
- The company's capital ratios remain above the levels required to be considered well capitalized and have been enhanced with the additional capital raised since 2008. As of Dec 31, 2020, the ratio of tangible common equity to total tangible assets was 7.1%. We believe its strong capital position would help it undertake opportunistic expansions in the foreseeable future.

## Reasons To Sell:

Deterioration in credit quality and lack of geographical diversification remain concerns for Texas Capital. Additionally, escalating expenses on hiring of experienced bankers is a near term headwind.

- Texas Capital continues to see a rise in expenses, witnessing a CAGR of 16.5% over the last five years (2016-2020). Though the company's efforts to hire experienced bankers, improve technology and expand its presence are encouraging, the resultant expenses, which continue to rise at the rate higher than the revenues, negate the incremental effects of business expansion.

- Texas Capital's net interest margin (NIM) was stable in 2016 and witnessed improvement in 2017 and 2018. However, amid the Fed's accommodative monetary-policy stance and the prevailing low interest rate environment, NIM shrunk through 2019 and 2020. Although the company is seeing decent loan growth, margins are likely to be under pressure in the quarters ahead as the Fed signaled no rate hikes till 2023.

- Deterioration in credit quality metrics remain a headwind for Texas Capital. The company witnessed an increase in non-performing assets and higher charge-offs primarily related to energy loans during 2016, and while those levels have moderated in 2017 and 2018, they still remain elevated compared to the overall loan portfolio. Furthermore, the metrics have increased in 2019 and 2020 with some quarterly volatility.

- As of Dec 31, 2020, the company held a debt level of $3.5 billion which has increased in the past few quarters. This along with a volatile times-interest-earned ratio of 4.6 over the past few quarters, which indicates the company's ability to meet its debt obligations based on current income, we believe Texas Capital has a higher likelihood of default of interest and debt repayments, if the economic situation worsens.

- Texas Capital's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 4.89% compares unfavorably with ROE of 8.68% for the industry, reflecting that it is less efficient in using shareholder funds.

- Shares of Texas Capital have outperformed the industry over the past three months. Despite this favorable trend, the company's current-year earnings estimates have been revised 1% downward over the past 30 days. Also, the stock seems overvalued as compared with broader industry. Its price-earnings (F1) and price-to-book value ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited potential.

## Last Earnings Report

### Texas Capital Q4 Earnings, Revenues Surpass Estimates

| Quarter Ending | 12/2020 |
| --- | --- |
| Report Date | Jan 21, 2021 |
| Sales Surprise | 6.62% |
| EPS Surprise | 0.88% |
| Quarterly EPS | 1.14 |
| Annual EPS (TTM) | 2.37 |

Texas Capital reported adjusted earnings per share of $1.14 in fourth-quarter 2020, inching past the Zacks Consensus Estimate of $1.13. However, results compare unfavorably with the prior-year quarter’s $1.23.

Rise in fee income and lower expenses were driving factors. Yet, fall in net interest income along with pressure on margin were deterrents. Further, results reflect decline in both loans and deposit balances. Moreover, provision for credit losses escalated.

Net income available to common stockholders came in at $57.7 million, down 7% year over year.

For full-year 2020, earnings per share came in at $1.12 per share comparing unfavorably with the year-ago earnings of $5.99 per share. Net income available to common shareholders was $56.5 million, down a whopping 81.3% year over year.

### Revenues Down, Loans & Deposits Decrease, Costs Decline

For 2020, the company reported revenues of $1.05 billion, down 1.9% year on year. The top-line figure, however, beat the Zacks Consensus Estimate of $1.04 billion.

Total revenues (net of interest expense) declined slightly year on year to $265.9 million in the fourth quarter, as higher non-interest income was offset by lower net interest income. Revenues, however, surpassed the Zacks Consensus Estimate of $249.4 million.

Texas Capital’s net interest income was $223 million, down 10.2% year over year, as lower interest income was partly muted by decreased interest expenses. Net interest margin, however, shrunk 63 basis points (bps) year over year to 2.32%.

Non-interest income more than doubled on a year-over-year basis to $42.9 million. This significant upside primarily resulted from increased brokered loan fees and servicing income, other non-interest income and gain on sale of loans held for sale (LHS).

Non-interest expenses declined 10.3% year over year to $150.9 million. This decrease mainly resulted from fall in almost all components of expenses, partly negated by higher servicing-related expenses.

As of Dec 31, 2020, total loans declined 3.9% on a sequential basis to $24.8 billion, while deposits dropped 3.1% sequentially to $31 billion.

### Credit Quality: A Mixed Bag

Non-performing assets totaled 0.50% of the loan portfolio, plus other real estate-owned assets, compared with the prior-year quarter’s figure of 0.91%. Total non-performing assets plummeted 45.9% year on year to $122 million.

Provisions for credit losses summed $32 million, up 88.2% year on year. The company’s net charge-offs rose significantly on a year-over-year basis to $65.4 million.

### Steady Capital and Profitability Ratios

The company’s capital ratios displayed a steady position during the October-December quarter. As of Dec 31, 2020, return on average equity was 8.5%, and return on average assets was 0.61% compared with the 9.26% and 0.74%, respectively, recorded in the year-ago quarter. Tangible common equity to total tangible assets came in at 7.1% compared with the year-earlier quarter’s 8.1%.

Common equity Tier 1 ratio was 9.4%, up from the prior-year quarter’s 8.9%. Leverage ratio was 7.5% compared with 8.4% as of Dec 31, 2019.

Stockholders’ equity was up 3.6% year over year to $2.9 billion as of Dec 31, 2020. The uptrend chiefly allied with the retention of net income.

### Outlook

Management anticipates gain on sale margins to remain strong through the first half of 2021 though some continued compression is likely.

## Recent News

**Texas Capital's (TCBI) Ratings Affirmed, Outlook Upgraded - Feb 22, 2021**

Texas Capital and its bank subsidiary, Texas Capital Bank, National Association’s ratings have been affirmed by Moody’s Investors Service, a rating arm of Moody’s Corporation. The outlook for both Texas Capital Bancshares and Texas Capital Bank N.A. has been changed to stable from negative.

Texas Capital Bancshares’s long-term issuer rating is Baa3 and its bank subsidiary, Texas Capital Bank N.A.’s long term and short-term deposits have been affirmed at A3/ Prime-2. Additionally, its standalone baseline credit assessment (“BCA”) is baa2.

**Reason for Ratings Affirmation**

Per Moody’s, Texas Capital Bancshares displays a healthy funding and liquidity profile on the back of improving capitalization and asset concentration, which supports its ratings.

The bank has progressed to diminish its exposure to the energy sector, which accounted for 29% of the company’s tangible common equity (TCE) base at year-end 2020, marking a plunge from 54% at year-end 2019. Additionally, it has succeeded in trimming its leveraged loan portfolio.

Notably, the ratings that Moody’s has assigned, take into consideration Texas Capital’s decline in commercial real estate loans, which now stand below two times the TCE threshold of Moody’s. However, the bank has a high concentration of construction lending, which was approximately the size of its TCE base at year-end of 2020.

The ratings affirmation also reflects Moody's outlook about Texas Capital's improved capitalization and liquidity position that would alleviate execution risks associated with the recent management changes. Though the bank’s growing capitalization remains below its similarly-rated peers, its Moody’s TCE ratio was 8.95% as of Sep 30, 2020, up from 8.88%, at year-end 2019.

Texas Capital’s bottom line is dependent on spread income, so it stays vulnerable on the low rate environment and its inability to curtail costs amid the need for ongoing business investments in the pandemic-induced economic disruptions. However, its funding profile gains from a low dependence on confidence-sensitive market funding due to the huge deposit base.

Additionally, Texas Capital is concentrated in single-client credit exposures and a lack of granularity in its loan portfolio that presents a potential for rapid decline in credit quality should many large credits become a concern at the same time. Nonetheless, Moody’s believes in Texas Capital’s past competence to handle such concentrations as indicated by its robust asset quality. Texas Capital's on balance sheet liquidity in 2020 advanced to 32% of tangible banking assets at year-end 2020, up from 14% at year-end 2019.

The alteration in Moody’s outlook to stable from negative reflects the rating agency’s view that Texas Capital will continue upgrading its asset quality and capitalization over the next year. Also, Moody’s assigned a stable outlook to the ratings because it is of the opinion that the company’s liquidity profile will remain stronger than it has been in the past.

**What Could Lead to a Rating Upgrade?**

Texas Capital's ratings could be upgraded if that bank materially improves its capitalization, demonstrates a lower asset risk appetite, and improves the granularity and size of its core deposit base.

**When can Ratings be Downgraded?**

Downward pressure on ratings could arise if there is a continued decline in Texas Capital’s capitalization or liquidity position that is inconsistent with Moody's current expectations. The bank should maintain Moody’s TCE ratio of 9% or more, to avoid a breach and focus on reducing asset concentrations or any strategic missteps.

## Valuation

Texas Capital’s shares are up 16.8% in the year-to-date period and 181.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 28.3% and 11.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 73.3% and 52%, respectively.

The S&P 500 Index is up 7.4% and 53.8% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 15.39X forward 12 months earnings, which compared to 16.16X for the Zacks sub-industry, 17.15X for the Zacks sector and 22.66X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 26.43X and as low as 3.92X, with a 5-year median of 14.54X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $73 price target reflects 16.17X forward earnings.

The table below shows summary valuation data for TCBI

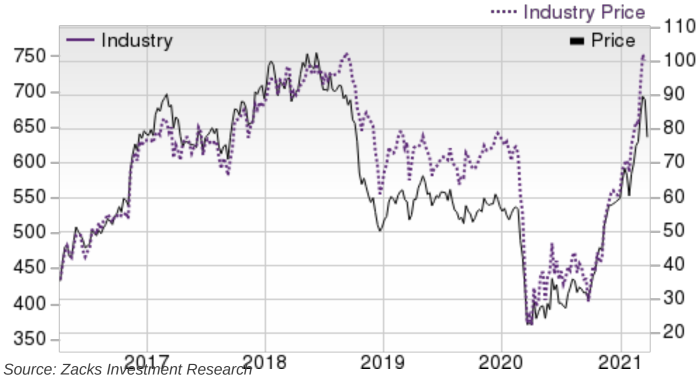
**Valuation Multiples - TCBI**

| | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| P/E F12M | Current | 15.39 | 16.16 | 17.15 | 22.66 |
| | 5-Year High | 26.43 | 18.33 | 17.16 | 23.83 |
| | 5-Year Low | 3.92 | 9.74 | 11.6 | 15.3 |
| | 5-Year Median | 14.54 | 14.45 | 14.81 | 18 |
| P/TB TTM | Current | 1.36 | 3.13 | 3.6 | 17.12 |
| | 5-Year High | 2.58 | 3.64 | 4.06 | 17.12 |
| | 5-Year Low | 0.38 | 1.28 | 2.05 | 8.07 |
| | 5-Year Median | 1.47 | 2.65 | 3.55 | 11.26 |
| P/S F12M | Current | 3.49 | 6.16 | 7.89 | 4.64 |
| | 5-Year High | 5.71 | 6.16 | 7.89 | 4.64 |
| | 5-Year Low | 0.98 | 2.37 | 5.03 | 3.21 |
| | 5-Year Median | 3.18 | 4.62 | 6.16 | 3.71 |

*As of 04/05/2021* *Source: Zacks Investment Research*

## Industry Analysis **Zacks Industry Rank:** Top 26% (65 out of 253)




*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Bank OZK **(OZK)** | Outperform | 2 |
| Associated BancCorp **(ASB)** | Neutral | 3 |
| BankUnited, Inc. **(BKU)** | Neutral | 3 |
| BancorpSouth Bank **(BXS)** | Neutral | 2 |
| Hancock Whitney Corporation **(HWC)** | Neutral | 3 |
| New York Community Bancorp, Inc. **(NYCB)** | Neutral | 2 |
| Prosperity Bancshares, Inc. **(PB)** | Neutral | 3 |
| Zions Bancorporation, N.A. **(ZION)** | Neutral | 3 |

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

## Industry Comparison Industry: Banks - Southwest

| | | | | Industry Peers | | |
|---|---|---|---|---|---|---|
| | **TCBI** | **X Industry** | **S&P 500** | **HWC** | **OZK** | **PB** |
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Neutral | Outperform | Neutral |
| **Zacks Rank (Short Term)** | 3 | - | - | 3 | 2 | 3 |
| **VGM Score** | D | - | - | C | D | D |
| Market Cap | 3.54 B | 304.12 M | 29.75 B | 3.65 B | 5.25 B | 7.08 B |
| # of Analysts | 9 | 2 | 13 | 8 | 6 | 9 |
| Dividend Yield | 0.00% | 1.28% | 1.31% | 2.56% | 2.73% | 2.57% |
| **Value Score** | C | - | - | B | C | B |
| Cash/Price | 2.60 | 0.80 | 0.06 | 0.51 | 0.46 | 0.19 |
| EV/EBITDA | -11.21 | 4.52 | 16.95 | -506.41 | 8.45 | 7.87 |
| PEG F1 | 1.49 | 1.97 | 2.35 | 1.40 | NA | 1.43 |
| P/B | 1.30 | 1.25 | 3.95 | 1.06 | 1.23 | 1.15 |
| P/CF | 17.97 | 12.69 | 16.86 | 121.43 | 14.41 | 12.05 |
| P/E F1 | 15.40 | 14.34 | 21.87 | 11.23 | 12.34 | 14.34 |
| P/S TTM | 2.85 | 2.86 | 3.39 | 2.64 | 4.43 | 5.55 |
| Earnings Yield | 6.34% | 6.98% | 4.49% | 8.90% | 8.10% | 6.98% |
| Debt/Equity | 1.25 | 0.24 | 0.66 | 0.11 | 0.26 | 0.00 |
| Cash Flow ($/share) | 3.87 | 1.92 | 6.78 | 0.35 | 2.83 | 6.26 |
| **Growth Score** | D | - | - | D | F | F |
| Historical EPS Growth (3-5 Years) | 6.78% | 10.30% | 9.39% | 27.24% | 0.62% | 8.17% |
| Projected EPS Growth (F1/F0) | 297.03% | 32.14% | 15.24% | 600.17% | 45.65% | -6.42% |
| Current Cash Flow Growth | -45.99% | 0.97% | 0.44% | -93.15% | -24.64% | 38.40% |
| Historical Cash Flow Growth (3-5 Years) | 3.88% | 11.23% | 7.37% | -33.00% | 12.86% | 9.60% |
| Current Ratio | 1.10 | 0.95 | 1.39 | 0.80 | 0.99 | 0.77 |
| Debt/Capital | 54.19% | 19.01% | 41.26% | 9.91% | 20.40% | 0.00% |
| Net Margin | 5.34% | 21.45% | 10.59% | -3.27% | 24.63% | 41.47% |
| Return on Equity | 4.89% | 8.68% | 14.86% | -1.87% | 7.01% | 8.60% |
| Sales/Assets | 0.03 | 0.04 | 0.51 | 0.04 | 0.05 | 0.04 |
| Projected Sales Growth (F1/F0) | -4.62% | 0.00% | 7.36% | -1.04% | 3.40% | -3.73% |
| **Momentum Score** | D | - | - | C | C | D |
| Daily Price Change | -1.00% | 0.00% | 1.04% | -0.17% | 0.49% | -1.02% |
| 1-Week Price Change | -9.42% | -0.86% | 0.35% | -0.73% | -2.87% | -1.63% |
| 4-Week Price Change | -18.73% | -0.02% | 5.47% | -0.45% | -7.86% | -3.31% |
| 12-Week Price Change | 5.46% | 15.41% | 9.17% | 7.74% | 18.81% | 4.78% |
| 52-Week Price Change | 197.77% | 65.52% | 61.87% | 114.65% | 149.30% | 61.08% |
| 20-Day Average Volume (Shares) | 1,638,985 | 24,224 | 2,120,273 | 465,839 | 825,677 | 431,989 |
| EPS F1 Estimate 1-Week Change | -1.51% | 0.00% | 0.00% | 0.13% | 0.05% | -0.06% |
| EPS F1 Estimate 4-Week Change | -1.71% | 0.03% | 0.00% | -0.37% | 0.05% | 0.57% |
| EPS F1 Estimate 12-Week Change | 10.91% | 14.27% | 2.19% | 21.40% | 10.76% | 4.52% |
| EPS Q1 Estimate Monthly Change | -2.46% | 0.00% | 0.00% | 1.33% | -0.49% | 0.37% |

*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

| | |
|---|---|
| Value Score | C |
| Growth Score | D |
| Momentum Score | D |
| VGM Score | D |

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.

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.