

## Taubman Centers, Inc. (TCO)

**\$38.17** (As of 08/28/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

### Summary

Shares of Taubman Centers have underperformed the industry it belongs to in the past three months. Moreover, Zacks Consensus Estimate for 2020 funds from operations (FFO) per share has moved marginally south in the past week. Notably, widespread center closures for most of the second-quarter reduced lease-cancellation income and sales-based rent. In fact, retail REITs, which were already battling store closures and tenant bankruptcy woes, have been impacted due to low footfall at properties amid the pandemic-led social-distancing mandates and higher e-commerce adoption. This has emerged as a pressing concern for Taubman Centers, as the trend is considerably bringing down the demand for the retail real estate space and hindering mall-tenant sales. Additionally, it is expected to have an adverse impact on the tenants' ability to pay rent.

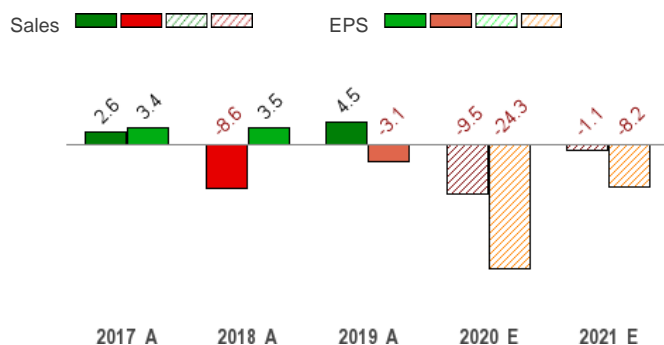
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	\$53.40 - \$26.24
20-Day Average Volume (Shares)	690,869
Market Cap	\$2.4 B
Year-To-Date Price Change	22.8%
Beta	-0.08
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 5% (240 out of 252)

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



Last EPS Surprise	-35.9%
Last Sales Surprise	-20.4%
EPS F1 Estimate 4-Week Change	-6.3%
Expected Report Date	11/03/2020
Earnings ESP	-11.9%
P/E TTM	12.2
P/E F1	13.6
PEG F1	3.4
P/S TTM	3.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	131 E	105 E	125 E	143 E	538 E
2020	147 A	114 A	122 E	139 E	544 E
2019	149 A	150 A	145 A	160 A	601 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.59 E	\$0.60 E	\$0.63 E	\$0.72 E	\$2.58 E
2020	\$0.88 A	\$0.41 A	\$0.59 E	\$0.67 E	\$2.81 E
2019	\$0.93 A	\$0.94 A	\$0.88 A	\$0.97 A	\$3.71 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 08/28/2020. The reports text is as of 08/31/2020.

## Overview

Bloomfield Hills, MI-based Taubman Centers Inc. is a retail real estate investment trust (REIT), which owns, develops, manages, acquires and operates regional and super-regional malls throughout the United States. The shopping centers are strategically located in major metropolitan areas, which include Denver, Detroit, Honolulu, Kansas City, Los Angeles, Miami, Nashville, New York City, Orlando, Salt Lake City, San Francisco, San Juan, Sarasota, St. Louis, Tampa and Washington, D.C.

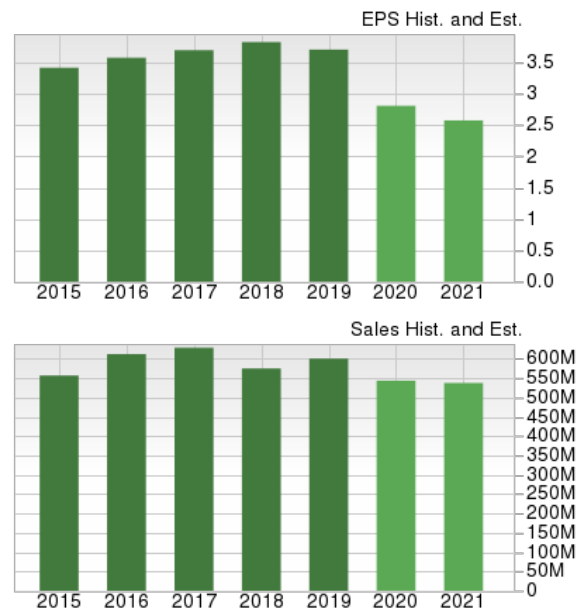
Moreover, the company has an operating arm, Taubman Properties Asia LLC and its subsidiaries (Taubman Asia). This arm, headquartered in Hong Kong, serves as the platform for Taubman Centers' expansion plans in China and South Korea.

Currently, Taubman Centers enjoys ownership, management and/or leasing of 26 regional, super-regional and outlet shopping centers in the United States, South Korea and China.

On Feb 10, Simon Property Group agreed to acquire Taubman Centers in a deal valued at \$3.6 billion. Per the deal, Simon Property will buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Simon Property will acquire all of Taubman Centers' common stock for \$52.50 per share in cash. Moreover, the Taubman Centers family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG. However, on Jun 10, the company received a notice to terminate the deal.

On Feb 28, Taubman Centers announced completion of sale of 50% of Taubman Asia's interest in CityOn.Xi'an to real estate funds managed by Blackstone Group Inc. for \$91 million. The sale denotes Taubman Asia's third and final closing under the Blackstone transactions proclaimed last year.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

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## Reasons To Sell:

- ▼ Mall traffic continues to suffer amid rapid shift in customers' shopping preferences and patterns, with online purchases growing by leaps and bounds. These have made retailers reconsider their footprint and eventually opt for store closures. In addition, retailers unable to cope with competition have been filing bankruptcies. This has emerged as a pressing concern for retail REITs like Taubman Centers, as the trend is considerably bringing down demand for the retail real estate space and impacting occupancy rates. In fact, bankruptcy filings by the company's mall tenants have recently been higher. In addition, given its international presence, the company often faces unfavorable foreign currency movements, which hamper NOI growth.
- ▼ As of Jun 30, 2020, all of the company's U.S. centers reopened with the majority of stores resuming operations. However, due to the escalating number of the coronavirus cases, it temporarily closed two retail centers in California in mid-July. In fact, closures significantly affected second-quarter 2020 mall-tenant sales and reduced customer traffic. This is expected to have a significant adverse impact on the tenants' ability to pay rent obligations. As a result, the company received request for rent relief or deferrals from its tenants.
- ▼ Further, the regional shopping center industry is seasonal in nature, with the fourth quarter recording the highest levels of mall tenant sales due to the Christmas season, while in the first quarter most leases are slated to expire. In addition, bulk of new stores opening take place in the second half of the year. Moreover, maximum overage rents are recorded in the fourth quarter. Therefore, revenues and occupancy levels are usually highest in the fourth quarter.
- ▼ Over the past three months, shares of Taubman Centers have lost 7.7% against the industry's rally of 11.3%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company as estimates have been revised 3.8% downward over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Stiff competition, growing online sales, store closures and retailers' bankruptcies remain major concerns for Taubman Centers. Moreover, unfavorable foreign-currency movements add to its woes.

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## Risks

- Taubman Centers' dominant retail malls, located in posh regions, generally have high average sales productivity in the United States. The company boasts a high-quality roster of national retailers. This ensures a steady source of rental revenues for the company.
  - Taubman Centers has been focused on the development of retail properties and tenant improvements. In fact, the company partnered with Shinsegae Group to build a 1-million square foot shopping center in Anseong, South Korea — Starfield Anseong — which will open on Sep 25th. The property is 100% leased and marks Taubman Asia's fourth investment. Additionally, the company has been spending significant amounts in mall tenant allowances for tenant improvements. Such efforts will attract great retailers, thereby driving traffic and productivity to its centers as well as enhancing the long-term strategic position of properties. Moreover, it has introduced digitally native retailers, emerging brands, as well as co-working and entertainment concepts at its malls. These are likely to support net operating income (NOI) and FFO growth.
  - Taubman Centers undertook several liquidity enhancement initiatives amid the potential disruption related to the COVID-19 pandemic. The company exited second-quarter 2020 with consolidated cash of \$241 million and \$119 million available on its lines of credit. Moreover, in August it amended a \$1.1-billion primary unsecured revolving line of credit, \$275-million unsecured term loan, and \$250-million unsecured term loan agreements to waive compliance with quarterly financial covenants for the third-quarter 2020 through second-quarter 2021. Further, Taubman Centers decreased planned capital expenditure by \$100-\$110 million. This along with lower operating expenses and suspension of quarterly dividends provide the company ample liquidity for near-term operations.
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## Last Earnings Report

### Taubman Centers Q2 FFO and Revenues Lag Estimates

Taubman Centers reported second-quarter 2020 adjusted FFO (AFFO) per share of 41 cents, missing the Zacks Consensus Estimate of 64 cents. The figure also declined 56.4% from the year-ago quarter's reported number of 94 cents.

The pandemic-led interruptions, including widespread center closures during most of the second quarter, hindered results. In fact, the closure of properties negatively impacted lease cancellation income and sales-based rent.

Adjusted revenues (consisting of rental revenues, overage rents, and revenues from management, leasing, and development services for consolidated businesses) were \$113.8 million, lagging the Zacks Consensus Estimate of \$143 million. Moreover, the reported figure slid from \$149.6 million reported in second-quarter 2019.

### Quarter in Detail

Comparable center net operating income at the company's beneficial interest (excluding lease cancellation income and using constant foreign exchange rates) declined 25.3% year over year.

Trailing 12-month sales per square foot in the United States was \$866. Also, average rent per square foot in U.S. comparable centers for the quarter was \$60.35; marking a 5.9% decrease from the year-ago period's \$64.13. In Asia, sales per square foot improved 4.3% in the second quarter.

As of Jun 30, 2020, leased space in U.S. comparable centers was 93.8%, down 1.1% from Jun 30, 2019. Additionally, ending occupancy in U.S. comparable centers of 91.5% was down 0.3% year over year at the end of the reported quarter.

### Liquidity

Taubman Centers exited second-quarter 2020 with consolidated cash of \$241 million and \$119 million available on its lines of credit.

In March, the company borrowed \$350 million on its \$1.1-billion primary unsecured revolving line of credit to boost its liquidity and improve financial flexibility. In late June, Taubman Centers repaid \$100 million, reducing the outstanding balance to \$870 million as of the second-quarter end.

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

Report Date	Aug 10, 2020
Sales Surprise	-20.43%
EPS Surprise	-35.94%
Quarterly EPS	0.41
Annual EPS (TTM)	3.14

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## Recent News

### Taubman Completely Reopens All Operating Properties – Jun 30, 2020

Taubman Centers announced the reopening of all of its operating properties in the United States and Asia. In fact, per management, around 85% of stores at the company's portfolio have reopened, while others continue to open every day.

In fact, as the pandemic eases its grip and the economy reopens, the company has gradually restarted operations at its shopping centers by complying with all local, state and federal laws, and adopting necessary enhanced safety protocols.

In addition to the 21 centers across the United States, Taubman Centers' three Asia shopping centers — CityOn.Xi'an, CityOn.Zhengzhou and Starfield Hanam (in Hanam, South Korea) — have been operating since the February end. In aggregate, around 95% of stores in Asia have reopened and this is driving comparable sales per square foot to match the 2019 level.

### Taubman Gets Shareholder Approval for Simon Property Merger – Jun 25, 2020

Following the merger termination notice that Taubman Centers received from Simon Property Group, the former held a special meeting of shareholders, asking them to approve the merger agreement as of Feb 9, 2020.

Its shareholders have approved and adopted the previously announced merger agreement among the company, The Taubman Realty Group Limited Partnership, Simon Property and certain other parties.

In fact, 99.7% of the total shares voted were in favor of the merger agreement and transactions, which comprised 84.7% of the outstanding shares entitled to vote. Moreover, shares that were voted in favor consisted of 78.3% of the outstanding shares entitled to vote that were held by shareholders other than the Taubman family members.

With the shareholder approval, the company has satisfied the final condition precedent to closing of the merger transaction. In fact, it is prepared to close the transactions with Simon Property on Jun 30, 2020.

Further, Taubman Centers is of the opinion that the acquirer's merger termination notice as of Jun 10 is invalid and without merit, and that Simon is bound to the transaction in all respects. In fact, the company plans to hold Simon to its obligations per the agreement, and will pursue to challenge Simon's termination and legal claims.

### Taubman Centers Receives Merger Termination Notice From Simon Property Group - Jun 10, 2020

Taubman Centers confirmed receiving a notice to terminate the previously-announced acquisition of Taubman, TRG and other parties by Simon Property Group.

Nonetheless, Taubman Centers is of the opinion that the acquirer's merger termination is invalid and without merit, and that Simon is bound to the transaction in all respects. In fact, the company plans to hold Simon to its obligations as per the agreement and will pursue to challenge Simon's termination and legal claims.

Taubman Centers intends to resort to remedies to implement its contractual rights under the agreement, including the right to monetary damages and specific performance.

### Dividend Update

On Mar 5, Taubman Centers announced a regular quarterly cash dividend of 67.50 cents per share of common stock. The dividend was paid on Mar 31, to shareholders of record as of Mar 16, 2020.

The company suspended the second-quarter dividend on its common stock, preserving \$60 million of additional cash.

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## Valuation

Taubman Centers' shares have been down 1.9% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 17.9% and 6.4%, respectively, over the past year.

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The S&P 500 Index has been up 19.3% over the trailing 12-month period.

The stock is currently trading at 14.36X forward 12-month FFO, which compares with the 13.40X for the Zacks sub-industry, 16.64X for the Zacks sector and 23.37X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 22.39X and as low as 7.08X, with a 5-year median of 15.05X. Our underperform recommendation indicates that the stock will perform worse than the market. Our \$33 price target reflects 12.41X FFO.

The table below shows summary valuation data for TCO.

Valuation Multiples - TCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.36	13.40	16.64	23.37
	5-Year High	22.39	19.44	16.64	23.37
	5-Year Low	7.08	9.72	11.6	15.25
	5-Year Median	15.05	14.70	14.26	17.58
P/S F12M	Current	4.36	7.32	6.23	3.81
	5-Year High	8.13	13.91	6.67	3.81
	5-Year Low	2.61	5.43	4.97	2.53
	5-Year Median	5.68	8.17	6.06	3.05

As of 08/27/2020

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## Industry Analysis Zacks Industry Rank: Bottom 5% (240 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
CBLAssociates Properties, Inc. (CBL)	Neutral	3
Kimco Realty Corporation (KIM)	Neutral	3
Macerich Company The (MAC)	Neutral	4
Pennsylvania Real Estate Investment Trust (PEI)	Neutral	3
Washington Prime Group Inc. (WPG)	Neutral	3
Federal Realty Investment Trust (FRT)	Underperform	5
Tanger Factory Outlet Centers, Inc. (SKT)	Underperform	5
Simon Property Group, Inc. (SPG)	Underperform	4

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	TCO	X Industry	S&P 500	MAC	SPG	WPG
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	3
VGM Score	F	-	-	C	C	B
Market Cap	2.36 B	1.45 B	23.71 B	1.21 B	22.39 B	130.47 M
# of Analysts	5	6.5	14	7	8	1
Dividend Yield	0.00%	2.37%	1.63%	7.42%	7.45%	0.00%
Value Score	D	-	-	A	B	A
Cash/Price	0.11	0.11	0.07	0.46	0.16	0.96
EV/EBITDA	20.50	11.66	13.37	11.28	11.11	8.01
PEG F1	3.40	6.21	3.08	NA	1.39	NA
P/B	NA	1.08	3.22	0.45	9.76	0.23
P/CF	5.96	6.50	12.90	2.56	6.40	0.47
P/E F1	13.58	10.15	21.82	3.17	6.94	0.95
P/S TTM	3.82	3.60	2.52	1.38	4.21	0.22
Earnings Yield	7.36%	9.86%	4.41%	31.52%	14.42%	104.29%
Debt/Equity	-15.07	1.09	0.74	2.22	11.89	5.66
Cash Flow (\$/share)	6.41	2.19	6.94	3.15	10.91	1.49
Growth Score	F	-	-	F	D	F
Historical EPS Growth (3-5 Years)	0.16%	-0.36%	10.41%	-3.44%	3.82%	-12.28%
Projected EPS Growth (F1/F0)	-24.20%	-16.38%	-4.94%	-27.93%	-16.38%	-38.14%
Current Cash Flow Growth	65.38%	0.37%	5.22%	5.81%	-7.76%	-18.05%
Historical Cash Flow Growth (3-5 Years)	-16.80%	5.61%	8.50%	-2.91%	5.60%	-5.54%
Current Ratio	1.62	2.29	1.35	2.78	3.91	0.98
Debt/Capital	NA%	52.55%	43.86%	68.94%	92.16%	80.70%
Net Margin	30.09%	17.83%	10.25%	6.34%	32.88%	-8.92%
Return on Equity	-94.88%	4.88%	14.66%	2.00%	65.60%	-7.77%
Sales/Assets	0.13	0.12	0.50	0.10	0.16	0.14
Projected Sales Growth (F1/F0)	-9.84%	-7.72%	-1.43%	-6.39%	-14.00%	-18.47%
Momentum Score	F	-	-	C	C	C
Daily Price Change	0.00%	0.09%	0.71%	4.25%	3.36%	0.53%
1-Week Price Change	-5.24%	-5.64%	-1.45%	-7.13%	-5.37%	0.09%
4-Week Price Change	-0.03%	1.17%	4.59%	-0.86%	9.78%	-10.05%
12-Week Price Change	-6.79%	-15.12%	4.86%	-13.57%	-8.98%	-15.43%
52-Week Price Change	-1.85%	-37.88%	3.09%	-71.31%	-52.88%	-80.05%
20-Day Average Volume (Shares)	690,869	953,906	1,887,168	5,062,896	6,079,786	3,449,991
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-6.34%	0.00%	0.79%	4.26%	-2.78%	0.00%
EPS F1 Estimate 12-Week Change	-20.19%	-6.50%	3.43%	-15.32%	-6.50%	2.82%
EPS Q1 Estimate Monthly Change	-18.62%	0.00%	0.00%	1.97%	-4.45%	0.00%

Source: Zacks Investment Research



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## Zacks Style Scores

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

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

Value Score	D
Growth Score	F
Momentum Score	F
VGM Score	F

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

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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