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Dec 23, 2020

Teradata Corporation (TDC)

$22.64 (As of 12/22/20)

Price Target (6-12 Months): **$24.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/30/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: B | Momentum: B	

Summary

Teradata's efforts to expand features of Vantage, both on premise and cloud, are noteworthy. Further, it generates significant revenues from sectors like financial services, government and healthcare, which remain stable despite the coronavirus crisis. This, in turn, provides an impetus to Teradata's top line. Completion of its transition to a subscription-based business model is expected to boost recurring revenues. The latest Vantage update on Amazon Web Services, Azure and Google Cloud is a positive. Expanding partner base is a positive. Nevertheless, increasing mix of low-margin cloud recurring revenues is expected to impede gross margin expansion in 2020. Moreover, coronavirus-led disruption is expected to hurt consulting revenues in the near term. Shares have underperformed the industry year to date.

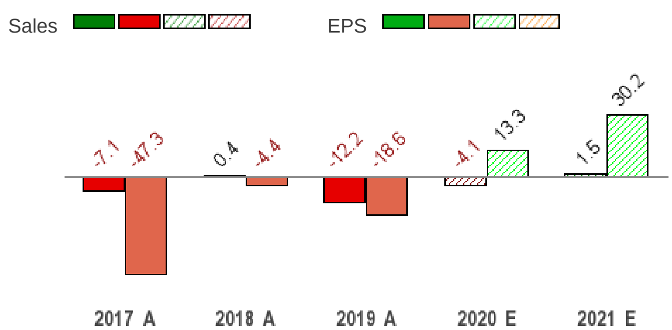
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$27.79 - $17.62**
20-Day Average Volume (Shares)	**967,117**
Market Cap	**$2.5 B**
Year-To-Date Price Change	**-15.4%**
Beta	**1.20**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Computer- Storage Devices**
Zacks Industry Rank	**Top 49% (126 out of 255)**
Last EPS Surprise	**38.7%**
Last Sales Surprise	**2.8%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**02/04/2021**
Earnings ESP	**0.0%**
P/E TTM	**19.5**
P/E F1	**19.0**
PEG F1	**1.5**
P/S TTM	**1.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	440 E	457 E	459 E	486 E	1,850 E
2020	434 A	457 A	454 A	479 E	1,822 E
2019	468 A	478 A	459 A	494 A	1,899 A

EPS Estimates

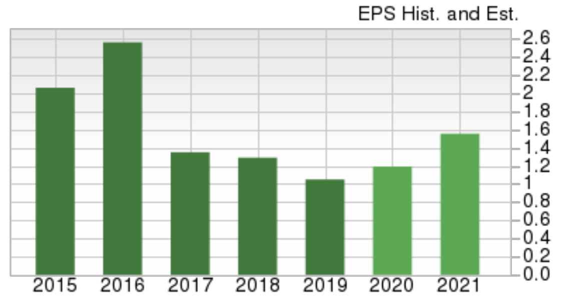
	Q1	Q2	Q3	Q4	Annual*
2021	$0.27 E	$0.34 E	$0.41 E	$0.40 E	$1.55 E
2020	$0.27 A	$0.24 A	$0.43 A	$0.25 A	$1.19 E
2019	$0.22 A	$0.29 A	$0.32 A	$0.22 A	$1.05 A

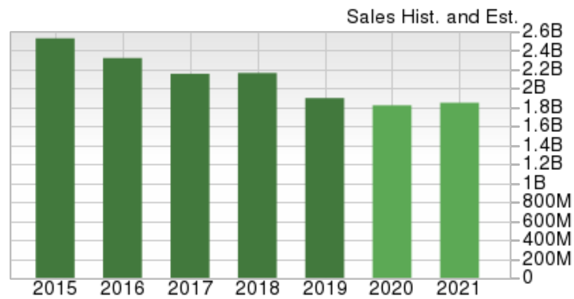
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/22/2020. The reports text is as of 12/23/2020.

Overview

Teradata Corporation is a leading provider of hybrid cloud analytics software. It has evolved from an enterprise database company to an enterprise analytics platform provider. The company was spun off from NCR Corporation in August 2007.





Teradata's analytics platform helps customers integrate and simplify their analytics ecosystem, access and manage data, and use analytics to extract answers and derive business value from data. The company's target market includes companies, which are the world's most demanding, large-scale users of data. These companies are experiencing a massive increase in data due to the digital revolution and an increase in the complexity, cost, and risk associated with managing the large number of data silos across heterogeneous environments.

Teradata believes that these companies need an integrated analytical solution that can accommodate massive scale and speed across secure, cloud architectures. The company's data warehouse and analytics platform, Teradata Vantage, addresses the challenges faced by these companies, whether on premises, in public or private clouds, or in a hybrid environment.

Teradata generated revenues of $1.90 billion in 2019. At the end of 2019, annual recurring revenues (ARR) were $1.43 billion, up 9% from 2018.

In the first quarter of 2018, the San Diego, CA-based company changed its reporting segments to – Recurring (comprising revenues from subscription-based transactions and services and perpetual license related software upgrade rights and maintenance), Perpetual software licenses & hardware (which include revenues from on-premise perpetual transactions) and Consulting services.

Recurring, Perpetual software licenses & hardware and Consulting services accounted for 71.7%, 5.6% and 2.7% of total revenues, respectively, in 2019.

Effective Jan 1, 2019, Teradata manages its business under three geographic regions — the Americas region (North America and Latin America), the EMEA region (Europe, Middle East and Africa) and the APAC region (Asia Pacific and Japan).

Americas, EMEA and APAC accounted for 55.7%, 25.9% and 18.4% of total revenues, respectively, in 2019.

Teradata competes with large players such as Oracle, IBM, Microsoft, SAP and Dell to name a few.

Source: Zacks Investment Research

Reasons To Buy:

Teradata's premier market position, growing traction of Teradata Vantage, gross margin expansion opportunities and solid partner base are positives.

- Teradata has significant presence in the key verticals of financial services, government and healthcare that are steadily strong despite the coronavirus crisis, thereby aiding the company's top line. Customers from these sectors contribute to more than 60% of the company's revenues. Moreover, backlog was roughly $2.7 billion as of Dec 31, 2019, of which $1.4 billion is expected to be recognized as revenues in 2020..

- Teradata has largely completed its transition to a subscription-based business model, which is expected to be a long-term growth driver. The company's expanding cloud clientele (public cloud customers more than doubled in 2019), and growing recurring bookings (90%) and revenues are major growth drivers. Notably, subscription and cloud-related Annual Recurring Revenues (ARR) comprised 49% or nearly half of the company's total ARR in 2019. Teradata's solid portfolio of solutions is also expected to drive its share in the lucrative big data market.

- Moreover, gross margin expanded in 2019, up 270 basis points (bps), driven by revenue mix shift from lower-margin consulting and perpetual revenue to higher-margin recurring revenues. The trend is expected to continue in 2020. Additionally, improving operational efficiency due to the completion of the transition to a subscription business model is expected to help Teradata focus on investing more aggressively on cloud. Management expects cloud gross margin to expand substantially over the next 18 to 24 months.

- We expect long-term growth to come from strategic partnerships with companies such as Accenture, Capgemini, Deloitte, Cognizant, IBM, Wipro Limited, among others in the same niche market. We believe strengthening relationships with large vendors will drive revenues and bottom line over the long term.

- Teradata's analytics platform, Teradata Vantage, continues to gain momentum among megadata customers, having huge chunks of data. Notably, backlog grew 7% year over year in 2019, reflecting continued adoption. Further, 40% of the company's customer base is now on Vantage. The company continues to add features to the Vantage platform, both cloud and on-premise, to address customer needs for a high performance and massively scale hybrid analytics offering.

Reasons To Sell:

Focus on getting high margin “metadata” business, increasing mix of low-margin subscription-based revenues and intensifying competition are negatively impacting Teradata’s growth.

- Teradata’s focus on high margin “megadata” consumers is hurting consulting revenues. This is expected to continue at least in the near term. The company is prioritizing higher value, higher margin, business-related consulting that leads to increasing adoption of Teradata Vantage. This strategy is also expected to hurt consulting profitability in the near term.

- Moreover, increasing mix of cloud recurring revenues, which have a low margin compared with overall recurring revenue gross margin, is expected to hurt gross margin expansion in 2020.

- Teradata competes with the likes of IBM and Oracle in the analytic data solutions markets. These IT bellwethers have a lot of financial flexibility and diverse revenue streams. These competitors are well-equipped to provide data warehousing and analytical services at a much lower cost. As a result, Teradata faces severe pricing pressure that is negatively impacting profitability.

- Teradata’s cash-flow generation ability suffered in recent times. Free cash flow, which indicates the company’s capacity to invest in its existing businesses, and pursue acquisitions and repurchases declined to $89 million in 2019 from $204 million reported in 2018. Sluggish top-line growth amid stiff competition is expected to remain a drag on Teradata’s ability to generate cash flow in the near term. Moreover, total debt (including current portion) as of Sep 30, 2020, was $461 million compared with $467 million as of Jun 30, 2020. Including financial lease obligations, total debt was $608 million. The company suspended its share buyback program.

Last Earnings Report

Teradata Q3 Earnings Beat Estimates, Revenues Fall Y/Y

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	2.84%
EPS Surprise	38.71%
Quarterly EPS	0.43
Annual EPS (TTM)	1.16

Teradata reported third-quarter 2020 adjusted earnings of 43 cents per share, which beat the Zacks Consensus Estimate by 38.7%. Moreover, the figure increased 34.4% year over year.

Revenues of $454 million beat the consensus mark by 2.8%. However, the top line declined 1.1% year over year. At constant currency (cc), revenues were down 2%.

Total backlog at the end of the third quarter was $2.6 billion.

Top-Line Details

Recurring revenues (80.4% of revenues) grew 6.4% year over year (up 6% at cc) to $365 million.

Perpetual software license and hardware revenues (3.7% of revenues) rose 6.3% from the year-ago quarter (up 5% at cc) to $17 million.

Consulting services' revenues (15.9% of revenues) dropped 28% from the year-ago quarter (down 29% at cc) to $72 million, primarily due to coronavirus-related impacts, especially on activities that are conducted on-site.

Revenues from the Americas increased 2% year over year (up 3% at cc) to $261 million. Europe, the Middle East & Africa ("EMEA") revenues declined 2.5% from the year-ago quarter (down 6% at cc) to $115 million. Revenues from the Asia-Pacific ("APAC") were down 8.2% from the year-ago quarter (down 9% at cc) to $78 million.

Total annual recurring revenues (ARR) at the end of the third quarter increased 8.1% year over year (up 7% at cc) to $1.5 billion.

Operating Details

Gross margin on a non-GAAP basis expanded 500 basis points (bps) year over year to 61%, primarily driven by a higher mix of recurring revenues.

Americas and APAC gross margins expanded 150 bps and 1160 bps to 63.2% and 55.1%, respectively. EMEA gross margin surged to 60% from 52.5% reported in the year-ago quarter.

Recurring revenues' gross margin on a non-GAAP basis expanded 70 bps on a year-over-year basis to 70.4%. The growth benefited from favorable forex revaluation.

However, perpetual software license and hardware margin on a non-GAAP basis soared to 58.8% from 43.8% reported in the year-ago quarter.

Consulting services' gross profit was $2 million compared with $7 million in the year-ago quarter.

Selling, general & administrative (SG&A), and research & development (R&D) expenses, as a percentage of revenues, increased 300 bps and 110 bps, respectively, on a year-over-year basis.

Non-GAAP operating margin expanded 540 bps on a year-over-year basis to 14.8%.

Balance Sheet & Other Details

As of Sep 30, 2020, Teradata had cash and cash equivalents of $533 million compared with $494 million as of Jun 30, 2020.

Total debt (including current portion) as of Sep 30, 2020, was $461 million compared with $467 million as of Jun 30, 2020. Including financial lease obligations, total debt was $608 million.

In the third quarter, Teradata generated $71 million of cash from operating activities compared with the previous quarter's $130 million. Cash used in operating activities was $10 million in the year-ago quarter.

The company's quarterly free cash flow was $58 million compared with $115 million in the previous quarter. Teradata had posted free cash outflow of $27 million in the year-ago quarter.

Guidance

For fourth-quarter 2020, recurring revenues are expected between $371 million and $373 million. Non-GAAP earnings are expected between 23 cents and 25 cents per share.

Management expects a higher mix of cloud ARR and recurring revenues to drive the top line in the fourth quarter.

However, increased cloud momentum is expected to hurt recurring revenue gross margin, which is likely to remain flat year over year in the fourth quarter. Perpetual gross margin is also expected to remain unchanged year over year.

Moreover, consulting gross margin is expected to expand sequentially.

Recent News

On Dec 15, Teradata announced the latest release of Teradata QueryGrid that extends the hybrid multi-cloud capability of Vantage. The solution helps Teradata customers to connect to a vast array of new data sources regardless of where the data resides – in the cloud, on multiple clouds, on premises, or any combination thereof – for timely and cost-effective analytics. Teradata Vantage with QueryGrid is certified on all of the major cloud platforms including Google Cloud, AWS and Azure. It also has native integration with key cloud-native technologies such as Google Cloud Dataproc, Azure HDInsight, and Amazon EMR.

On Nov 16, Teradata announced the availability of Teradata DataDNA – an automated service that produces data lineage and usage analytics.

On Oct 13, Teradata announced general availability of Teradata Vantage on Google Cloud.

On Sep 9, Teradata announced enhancements to its Vantage platform in order to make it more popular among data scientists. The platform now offers support for R and Python, with the ability to call more Vantage-native analytic functions, as well as the ability to execute a wide range of open-source analytic algorithms. Moreover, the platform now supports automatic generation of SQL from R and Python code. Teradata also added support for JupyterHub for Python, R and SQL, in addition to the existing support for popular development environments such as JupyterLab and RStudio.

Valuation

Teradata shares are down 15.4% in the year-to-date period and 15.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1.8%, while the same in the Zacks Computer & Technology sector are up 39.9% in the year-to-date period. Over the past year, while the Zacks sub-industry is down 1.6%, the sector is up 39.7%.

The S&P 500 index is up 16.7% in the year-to-date period and 16.8% in the past year.

The stock is currently trading at 14.65X forward 12-month earnings compared with 17.54X for the Zacks sub-industry, 28.12X for the Zacks sector and 22.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 62.84X and as low as 10.65X, with a 5-year median of 30.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $24 price target reflects 15.38X forward 12-month earnings.

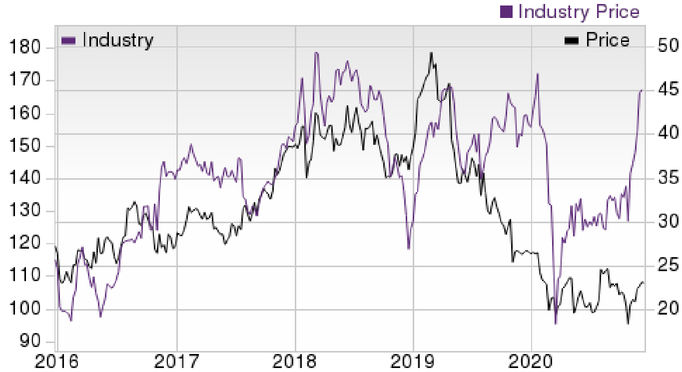
The table below shows summary valuation data for TDC

Valuation Multiples - TDC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.65	17.54	28.12	22.95
	5-Year High	62.84	18.49	28.12	23.79
	5-Year Low	10.65	9.94	16.94	15.30
	5-Year Median	30.53	12.67	19.95	17.81
P/S F12M	Current	1.34	1.29	4.51	4.34
	5-Year High	2.81	1.41	4.51	4.34
	5-Year Low	1.06	0.8	2.77	3.17
	5-Year Median	1.81	1.12	3.47	3.67
EV/Sales TTM	Current	1.28	1.56	5.39	4.38
	5-Year High	2.58	1.71	5.39	4.41
	5-Year Low	1.03	0.55	2.83	2.62
	5-Year Median	1.54	1.35	3.88	3.58

As of 12/22/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 49% (126 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Microsoft Corporation **(MSFT)**	Outperform	2
Amazon.com, Inc. **(AMZN)**	Neutral	3
salesforce.com, inc. **(CRM)**	Neutral	3
Alphabet Inc. **(GOOGL)**	Neutral	3
International Business Machines Corporation **(IBM)**	Neutral	4
Oracle Corporation **(ORCL)**	Neutral	3
SAP SE **(SAP)**	Neutral	4
Verint Systems Inc. **(VRNT)**	Neutral	2

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

Industry Comparison Industry: Computer- Storage Devices

	TDC	X Industry	S&P 500	Industry Peers: GOOGL	ORCL	VRNT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	B	-	-	A	B	C
Market Cap	2.47 B	900.50 M	26.07 B	1,163.60 B	191.80 B	4.21 B
# of Analysts	5	5	13	14	14	3
Dividend Yield	0.00%	0.00%	1.49%	0.00%	1.47%	0.00%
Value Score	B	-	-	C	B	C
Cash/Price	0.21	0.19	0.06	0.11	0.20	0.16
EV/EBITDA	14.94	10.81	14.52	20.33	12.73	21.01
PEG F1	1.48	4.86	2.81	1.95	1.67	1.34
P/B	6.43	6.43	3.62	5.47	22.26	3.31
P/CF	11.69	10.99	13.87	24.77	13.93	15.23
P/E F1	19.17	17.92	22.02	33.08	15.03	18.82
P/S TTM	1.35	1.60	2.83	6.78	4.87	3.33
Earnings Yield	5.26%	5.26%	4.36%	3.02%	6.65%	5.31%
Debt/Equity	1.28	0.48	0.70	0.07	7.37	0.32
Cash Flow ($/share)	1.94	0.08	6.93	69.45	4.68	4.20
Growth Score	B	-	-	A	F	D
Historical EPS Growth (3-5 Years)	-29.88%	-7.79%	9.71%	21.02%	10.83%	10.79%
Projected EPS Growth (F1/F0)	13.52%	-8.43%	1.22%	5.79%	12.56%	-5.29%
Current Cash Flow Growth	-7.74%	-28.62%	5.23%	12.62%	-2.42%	10.44%
Historical Cash Flow Growth (3-5 Years)	-17.98%	1.84%	8.33%	19.91%	-0.39%	0.84%
Current Ratio	1.08	1.84	1.39	3.41	2.17	1.12
Debt/Capital	56.21%	49.57%	41.97%	6.13%	88.06%	21.51%
Net Margin	5.49%	-2.16%	10.40%	20.80%	26.34%	1.39%
Return on Equity	15.12%	7.73%	14.99%	17.31%	101.26%	13.89%
Sales/Assets	0.87	0.89	0.50	0.61	0.36	0.40
Projected Sales Growth (F1/F0)	-4.04%	0.00%	0.39%	11.06%	2.46%	-4.46%
Momentum Score	B	-	-	A	A	C
Daily Price Change	-0.61%	0.00%	-0.77%	-0.83%	1.04%	3.23%
1-Week Price Change	-0.73%	1.02%	0.87%	-2.74%	7.34%	7.28%
4-Week Price Change	4.38%	4.42%	1.83%	-2.48%	13.17%	11.56%
12-Week Price Change	-0.75%	17.39%	14.52%	17.34%	9.55%	35.59%
52-Week Price Change	-15.65%	7.09%	5.55%	27.95%	21.91%	17.61%
20-Day Average Volume (Shares)	967,117	318,492	2,035,313	1,384,287	14,301,094	452,193
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	2.18%	1.44%
EPS F1 Estimate 12-Week Change	-14.00%	1.15%	3.79%	16.33%	2.73%	6.03%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	5.40%	-26.39%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	B
Momentum Score	B
VGM Score	B

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

Disclosures

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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.