

Terex Corporation (TEX)

\$47.25 (As of 06/25/21)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/01/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

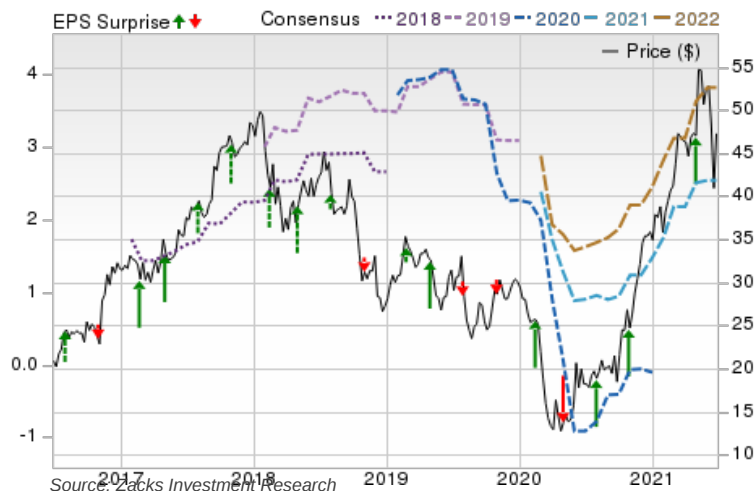
Growth: A

Momentum: C

Summary

Terex guides earnings per share in the range of \$2.35 to \$2.55 in 2021, which suggests a substantial improvement from earnings of 13 cents in 2020. Sales will be around \$3.7 billion indicating a year-over-year growth of 20%. This will be driven by improved end market demand and higher backlog. However, high input costs, incentive compensation and supply chain headwinds will impair results in the near term. Nevertheless, this will likely be offset by the company's cost control efforts. Terex is poised to grow on investment in innovative products, digital innovation and investment in expansion of manufacturing facilities. Terex is also progressing well on its "Execute, Innovate, Grow" strategy that will drive long-term growth. Earnings estimates for the current quarter and year have undergone positive revisions lately.

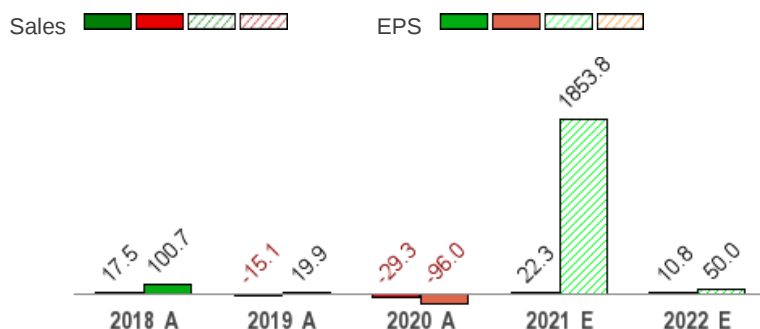
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$55.60 - \$17.19
20-Day Average Volume (Shares)	867,767
Market Cap	\$3.3 B
Year-To-Date Price Change	35.4%
Beta	1.71
Dividend / Dividend Yield	\$0.48 / 1.0%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Top 50% (127 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	980 E	1,101 E	1,043 E	992 E	4,168 E
2021	864 A	986 E	971 E	930 E	3,762 E
2020	834 A	691 A	766 A	787 A	3,076 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.81 E	\$1.08 E	\$1.02 E	\$0.88 E	\$3.81 E
2021	\$0.56 A	\$0.49 E	\$0.82 E	\$0.67 E	\$2.54 E
2020	-\$0.35 A	-\$0.05 A	\$0.31 A	\$0.21 A	\$0.13 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	154.6%
Last Sales Surprise	5.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	07/29/2021
Earnings ESP	0.0%
P/E TTM	45.9
P/E F1	18.6
PEG F1	NA
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/25/2021. The report's text and the

analyst-provided price target are as of 06/28/2021.

Overview

Incorporated in 1986, Terex Corporation is a global manufacturer of aerial work platforms, materials processing machinery and cranes. It designs, build and support products used in construction, maintenance, manufacturing, energy, minerals and materials management applications.

The company's manufacturing facilities are located in the United States, Canada, Europe, Australia, Asia and South America. Terex sells its products through a worldwide distribution network. Terex also offers a complete line of financial products and services to assist in the acquisition of equipment through Terex Financial Services.

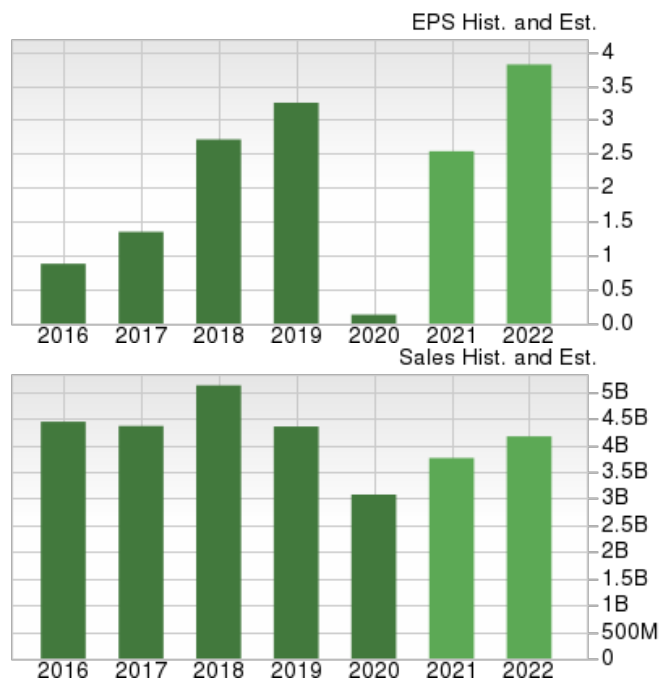
On Jul 31, 2019, Terex completed the previously announced disposition of Demag to Tadanos. Products divested are Demag all terrain cranes and large lattice boom crawler cranes. In addition to selling Demag, Terex sold its boom truck, truck crane and crossover product lines and related inventory, previously manufactured in its Oklahoma City facility, on Apr 24, 2019.

Terex engages with customers through all stages of the product life cycle, from initial specification and financing to parts and service support. The company manages and report business in the following segments: Aerial Work Platforms (AWP) and Materials Processing (MP).

Aerial Work Platforms (approximately 59% of 2020 revenues): This segment designs, manufactures, and markets aerial work platform equipment, telehandlers, power equipment, construction trailers and utility equipment.

Products include portable material lifts, portable aerial work platforms, as well as their related components and replacement parts. Customers use these products to construct and maintain industrial, commercial and residential buildings and facilities and for other commercial operations, as well as in a wide range of infrastructure projects. The company market AWP products under the Terex and Genie brand names.

Material Processing (approximately 41% of 2020 revenues): This segment designs and manufactures materials processing equipment, including crushers, washing systems, screens, apron feeders and chippers. Terex recently announced that its Tower and Rough Terrain Cranes businesses have become part of the MP segment.



Reasons To Buy:

- ▲ Terex delivered year-over-year growth in earnings in first-quarter 2021 after five consecutive quarters of decline in the same. Its backlog has been improving over the past three quarters and was up 104% year over year to \$2,019 million in first-quarter 2021. Backlog in the AWP segment was up 82% year over year to \$1,306 million in the first quarter with increase in both Genie and Utilities businesses. Backlog in the MP segment soared 162% year over year to \$713 million aided by improvement across all of its businesses. Bookings in the first quarter surged 101% year over year. Notably, bookings have been improving over the last three quarters in both the AWP and MP segments.

Terex will gain from focus on the Execute, Innovate, Grow strategy and introducing innovative products. Its disciplined capital-allocation strategy and backlog strength will fuel growth.

Due to improved market conditions and operational execution, Terex now guides earnings per share for 2021 in the range of \$2.35 to \$2.55, higher than the previous expectation in the band of \$1.95 to \$2.35. The guidance suggests a substantial improvement from earnings of 13 cents reported in 2020. The company expects sales to be around \$3.7 billion in 2021, up from its previous expectation of \$3.45 billion in 2021. The updated sales growth guidance indicates year-over-year growth of 20%.

- ▲ Terex has made considerable progress in its Focus, Simplify and Execute to Win strategy over the 2016-2019 timeframe. With the Focus and Simplify elements of this strategy been met, it is making progress toward the process improvement objectives associated with Execute to Win. In sync with the Focus element that calls for increased investments on high performing businesses, Terex completed the sale of the Demag Mobile Cranes business and certain US Crane product lines. The company's business portfolio now comprises businesses that have the ability to earn more than their cost of capital consistently through the business cycles. Also over the past few years, Terex has transformed into a structurally simpler company that is committed to becoming more process-driven in order to achieve operational excellence.

Terex is now committed to its next phase of "Execute, Innovate, Grow." Per the "Execute" theme, the company continues the progress made with "Execute to Win" by intensifying process discipline and implementing several new operational processes, among other initiatives. The "Innovate" theme seeks to continuously develop its product offerings and applying technology. The company has invested in connected assets and digital capabilities to better serve customers. The "Grow" aspect focuses on increasing inorganic investment and adding scope through acquisitions. This strategy will drive growth in the years to come.

- ▲ Terex is focused on aligning production and cost structure across its segments in response to the customer demand environment while also aggressively managing cost and working capital. Its AWP segment will gain from right-sizing cost structure to align with customer demand, operational execution, strengthening global footprint and innovative new products in the long haul. For the AWP segment, the company anticipates net sales in 2021 to be around \$2,125 million, up 19% from \$1,783 million in 2020 on improving end markets. Operating margin is expected at 7%, a substantial improvement from break-even margin in the prior year aided by the company's cost reduction actions.

In the MP segment, strong product pipeline, expansion into new geographies, delivering innovative, new products and consistent strong execution positions the segment well for future growth. Driven by strong end-market demand, the MP segment is anticipated to report net sales of around \$1,550 million, reflecting year-over-year growth of 23%. The segment's operating margin is projected at 13% compared with 11.4% in 2020, reflecting the segment's strong operating performance.

- ▲ Terex is focused on maintaining strong liquidity and cash position, placing it well to sail through the current unprecedented situation. Through aggressive working capital management, Terex generated \$40 million of free cash flow in first-quarter 2021. It prepaid \$196 million of term loans. As of the first quarter 2021, the company had around \$1.2 billion of total available liquidity. The company's total debt-to-total capital ratio has gone down over the past few quarters and was at 0.51 as of Mar 31, 2021, lower than the industry's 0.70. The company's times interest earned ratio was at 2.3 at first-quarter 2021 end. In April, the company refinanced a large portion of its capital structure. Substantially all debt has been fixed at a rate of 5% or below and majority of debt matures after 10 years. It will also reduce annual cash interest expense by approximately \$4 million. Also, Terex's board of directors had earlier reinstated its quarterly dividend for 2021.

The company has implemented several cost reductions actions to preserve cash in response to the current turbulent situation. Terex also reduced capital expenditure while continuing to fund growth capital projects. The company has been executing company-wide SG&A cost reduction initiatives. The company has a targeted to lower SG&A expense as a percentage of sales to around 12.5% compared with 15.3% in 2020. During the first quarter, Terex announced the planned move of its Oklahoma City Telehandler production to Monterrey, Mexico. This action will provide the company cost competitive telehandler products for the North American market.

- ▲ Terex continues to invest in innovative products and expansion of manufacturing facilities to ensure future growth. It has brought online new manufacturing capabilities, including Campsie facility in Northern Ireland and expanded the Hosur, India facility. This will enable the company to cater to global demand. Terex's Utilities business has moved into its new, state-of-the-art facility, which will improve production efficiency and enable future growth. The company is investing in the expansion of the Changzhou manufacturing facility in China to accommodate the market growth in the country for aerial products, will be another growth driver. Additionally, MP and utility product lines will be added to the facility. Driving parts and service growth is one key element of its Execute to Win initiative. To deliver industry-leading customer service, the company is providing distribution partners easy-to-use digital tools that help them to service their customers more efficiently. This maximizes their opportunity to win business. This will provide Terex a competitive edge and accelerate parts growth.

Reasons To Sell:

- ▼ Terex bore the brunt of low customer demand in its end markets amid the coronavirus pandemic. Even though the global economic activity continues to recover and the company is witnessing improvement in backlog lately, it remains below the pre-pandemic levels. This will persist as a headwind until the situation stabilizes.
- ▼ While material input costs were generally stable in 2020, steel prices increased considerably beginning in fourth-quarter 2020. This is likely to continue in 2021 and lead to higher input costs and dent margins. Further, Section 301 tariffs on certain Chinese origin goods continue to put pressure on input costs. While the company has been able to mitigate a portion of the effects of tariffs through the U.S. government's duty draw back mechanism and from tariff exclusions. Nearly all tariff exclusions have expired and there is no indication that expired tariff exclusions will be reinstated. Increase in the cost of these materials and components, and the elimination of tariff exclusions have an adverse impact on material costs and may impact Terex's margins.
- ▼ Higher incentive compensation is expected to dent margins this year. Further, while the end-market demand environment has improved significantly, supply chain headwinds persist. The company also anticipates a 30 cents per share charge associated with capital structure refinancing.

Customer's cautious stance amid the prolonged pandemic, and higher steel costs and input costs due to the implementation of tariffs will weigh on Terex's near-term results.

Last Earnings Report

Terex Q1 Earnings & Revenues Beat Estimates, Ups '21 View

Terex reported first-quarter 2021 adjusted earnings per share of 56 cents, which beat the Zacks Consensus Estimate of 22 cents. This also marked a turnaround from a loss of 35 cents per share in the prior-year quarter. The improved performance can be attributed to rising demand, margin expansion at its segments and its cost reduction efforts.

Operational Update

Revenues in the reported quarter rose 4% year over year to \$864 million and surpassed the Zacks Consensus Estimate of \$821 million. The company witnessed a whopping improvement of 101% in bookings and growth of 104% in backlog, both on a year-over-year basis.

Cost of goods sold fell 1.2% year over year to \$689 million. Gross profit increased 28% year over year to \$175 million. Selling, general and administrative expenses (SG&A) was \$114 million in the quarter under review, down 21% from \$144 million in the prior-year quarter, reflecting the company's aggressive management of SG&A expenses. Terex reported an operating profit of \$61.5 million against an operating loss of \$7.1 million in the last-year quarter.

Segmental Performance

The Aerial Work Platforms segment generated revenues of \$477 million in the first quarter, down 7% from the year-ago quarter. The segment reported an operating profit of \$27 million against the prior-year quarter's loss of \$6 million.

The Material Processing segment's revenues totaled \$378 million, reflecting year-over-year growth of 20%. The segment reported an operating income of \$49 million, up 96% year over year.

Financial Position

Terex had cash and cash equivalents of \$572.9 million as of Mar 31, 2021, compared with \$665 million as of Dec 31, 2020. The company generated \$138 million of cash from operating activities in the reported quarter compared with an usage of \$88.7 million in the prior-year quarter. Long-term debt was \$973.5 million as of Mar 31, 2021, compared with \$1,166 million as of Dec 31, 2020. During the quarter, Terex refinanced a large portion of its capital structure, including its revolving credit facility and \$600 million of bonds.

Guidance

Due to improved market conditions and operational execution, Terex now anticipates earnings per share for 2021 in the range of \$2.35 to \$2.55, higher than the previous expectation in the band of \$1.95 to \$2.35. The guidance suggests a substantial improvement from earnings of 13 cents reported in 2020. It includes a charge of 30 cents associated with capital structure refinancing.

The company expects sales to be around \$3.7 billion in 2021, up from its previous expectation of \$3.45 billion in 2021. The updated sales growth guidance indicates year-over-year growth of 20%.

Quarter Ending	03/2021
Report Date	Apr 29, 2021
Sales Surprise	5.24%
EPS Surprise	154.55%
Quarterly EPS	0.56
Annual EPS (TTM)	1.03

Valuation

Terex's shares are up 37.4% in the six-month period and 152% over the past year. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are up 23.0% and 13.0% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 74.3% and 52.5%, respectively.

The S&P 500 index is up 15.2% in the the trailing six-month period and 42.4% in the past year.

The stock is currently trading at 0.83X forward 12-month sales, which compares with 1.88X for the Zacks sub-industry, 3.49X for the Zacks sector and 4.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.00X and as low as 0.23X, with a 5-year median of 0.57X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 0.88X forward 12-month sales.

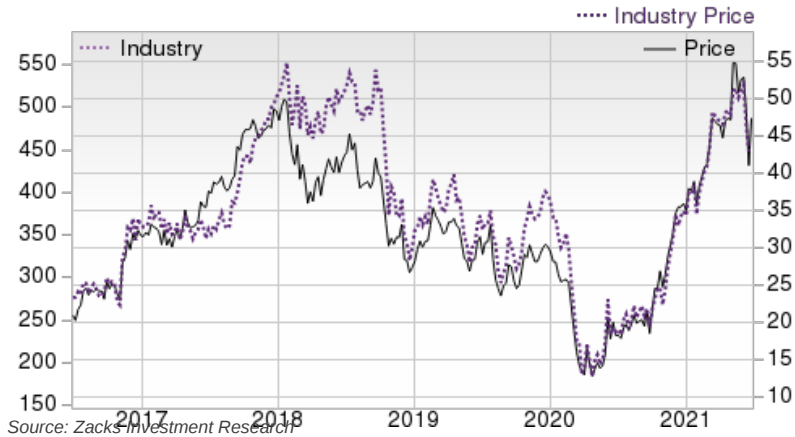
The table below shows summary valuation data for TEX.

Valuation Multiples - TEX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.83	1.88	3.49	4.75
	5-Year High	1.00	2.21	3.58	4.75
	5-Year Low	0.23	0.92	1.60	3.21
	5-Year Median	0.57	1.26	2.10	3.72
EV/EBITDA TTM	Current	19.74	14.68	23.64	17.59
	5-Year High	32.74	16.84	27.94	17.74
	5-Year Low	3.73	5.95	11.11	9.63
	5-Year Median	11.99	9.55	15.43	13.48
P/B TTM	Current	3.49	5.89	7.39	7.12
	5-Year High	4.09	6.83	8.36	7.12
	5-Year Low	0.95	2.25	3.34	3.84
	5-Year Median	2.42	4.30	4.59	5.02

As of 06/25/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Caterpillar Inc. (CAT)	Outperform	2
CNH Industrial N.V. (CNHI)	Outperform	1
Deere & Company (DE)	Outperform	2
Oshkosh Corporation (OSK)	Outperform	1
AGCO Corporation (AGCO)	Neutral	2
Crane Co. (CR)	Neutral	2
The Manitowoc Company, Inc. (MTW)	Neutral	3
Astec Industries, Inc. (ASTE)	Underperform	5

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

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	TEX	X Industry	S&P 500	CAT	CR	MTW
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	A	-	-	A	C	C
Market Cap	3.30 B	2.39 B	30.37 B	118.49 B	5.38 B	891.65 M
# of Analysts	8	3.5	12	11	2	5
Dividend Yield	1.02%	0.85%	1.33%	1.90%	1.87%	0.00%
Value Score	A	-	-	C	B	C
Cash/Price	0.17	0.14	0.06	0.10	0.11	0.18
EV/EBITDA	29.22	15.63	17.25	17.73	13.86	15.63
PEG F1	NA	1.72	2.09	1.88	NA	5.63
P/B	3.49	1.84	4.15	7.13	3.35	1.41
P/CF	55.78	14.79	17.53	19.56	15.14	33.22
P/E F1	18.41	19.30	21.20	22.52	15.95	56.29
P/S TTM	1.06	1.06	3.42	2.76	1.81	0.61
Earnings Yield	5.38%	5.19%	4.61%	4.44%	6.28%	1.79%
Debt/Equity	1.03	0.47	0.66	1.59	0.53	0.47
Cash Flow (\$/share)	0.85	3.15	6.86	11.06	6.08	0.77
Growth Score	A	-	-	A	D	C
Historical EPS Growth (3-5 Years)	-11.28%	1.69%	9.59%	21.27%	3.09%	1.69%
Projected EPS Growth (F1/F0)	1,851.00%	71.27%	21.79%	46.40%	50.39%	230.29%
Current Cash Flow Growth	-79.27%	-27.22%	1.02%	-31.90%	-26.11%	-74.38%
Historical Cash Flow Growth (3-5 Years)	-29.38%	2.40%	7.28%	0.67%	2.68%	-29.62%
Current Ratio	2.27	1.93	1.39	1.60	1.59	1.90
Debt/Capital	50.71%	32.16%	41.51%	61.33%	34.54%	32.16%
Net Margin	1.75%	1.75%	12.06%	7.99%	7.62%	-0.98%
Return on Equity	8.34%	6.62%	16.59%	26.63%	16.81%	-1.30%
Sales/Assets	1.06	0.70	0.51	0.55	0.65	0.91
Projected Sales Growth (F1/F0)	21.83%	14.65%	9.56%	17.54%	3.26%	8.39%
Momentum Score	C	-	-	A	C	F
Daily Price Change	1.59%	0.16%	0.33%	-1.38%	1.68%	4.01%
1-Week Price Change	15.47%	4.68%	2.74%	3.57%	6.47%	13.94%
4-Week Price Change	-9.78%	-9.97%	1.82%	-10.28%	-3.55%	-0.58%
12-Week Price Change	2.12%	-5.57%	6.49%	-7.06%	-3.07%	24.55%
52-Week Price Change	159.76%	61.08%	42.26%	76.74%	63.44%	145.18%
20-Day Average Volume (Shares)	867,767	210,018	1,881,795	4,671,908	301,529	290,371
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%	0.02%	0.63%	0.00%	-1.58%
EPS F1 Estimate 12-Week Change	16.68%	12.54%	3.59%	18.97%	12.65%	60.94%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	0.00%	-1.18%	-14.00%
Source: Zacks Investment Research								

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	A
Momentum Score	C
VGM Score	A

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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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 forward-looking 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 medium-term price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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