ZACKS | Our Research. Your Success.

Sep 02, 2020

The Timken Company (TKR)

$56.59 (As of 09/01/20)

Price Target (6-12 Months): **$62.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Outperform**
(Since: 08/05/20)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **1-Strong Buy**
Zacks Style Scores: VGM:B
Value: C | Growth: C | Momentum: B

Summary

Timken anticipates revenues and margins to come in lower in the second half of 2020 compared to the first half due to the impact of the pandemic on its end markets. The company will nevertheless gain from its cost reduction actions and efforts to enhance liquidity. Strategic acquisitions to broaden portfolio and capabilities across diverse markets with a focus on bearings, adjacent power transmission products, and related services will drive growth. The company's diversity in terms of end market, customer and geography, product innovation, and engineering expertise provide it with a competitive edge. The Wind and Solar sectors continue to perform well. The company has built its presence in the renewable space to support growth beyond 2020. The sector is anticipated to become a significant part of the company's portfolio in the future.

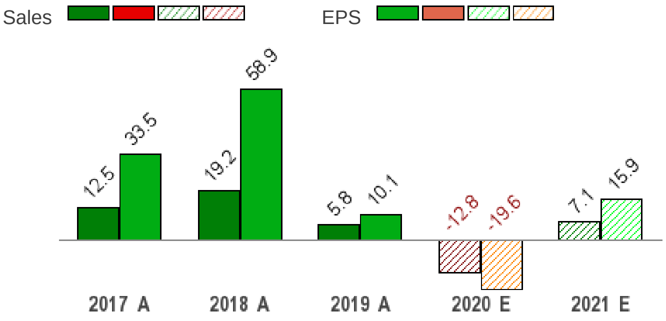
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$58.78 - $22.26**
20-Day Average Volume (Shares)	**518,189**
Market Cap	**$4.2 B**
Year-To-Date Price Change	**0.3%**
Beta	**1.87**
Dividend / Dividend Yield	**$1.12 / 2.0%**
Industry	**Metal Products - Procurement and Fabrication**
Zacks Industry Rank	**Bottom 29% (179 out of 251)**
Last EPS Surprise	**209.1%**
Last Sales Surprise	**13.9%**
EPS F1 Estimate 4-Week Change	**37.2%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**13.7**
P/E F1	**15.3**
PEG F1	**1.8**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	918 E	873 E	890 E	840 E	3,536 E
2020	923 A	804 A	814 E	809 E	3,303 E
2019	980 A	1,000 A	914 A	896 A	3,790 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.14 E	$1.19 E	$1.15 E	$0.84 E	$4.29 E
2020	$1.11 A	$1.02 A	$0.90 E	$0.68 E	$3.70 E
2019	$1.35 A	$1.27 A	$1.14 A	$0.84 A	$4.60 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 09/01/2020. The reports text is as of 09/02/2020.

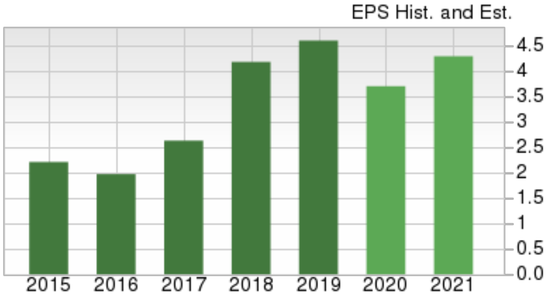
Overview

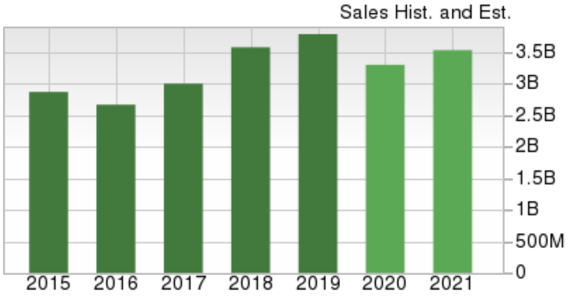
The Timken Company is a global manufacturer of bearings, friction management products, and mechanical power transmission components. The company serves a wide variety of end markets, including aerospace, automotive, construction, consumer, defense, energy, industrial equipment, health, heavy industry, machine tool, positioning control, power generation and rail markets.

The company's portfolio features many strong brands, such as Timken, Philadelphia Gear, Drives, Cone Drive, Rollon, Lovejoy, Diamond, BEKA, and Groeneveld. Timken's global footprint consists of 125 manufacturing facilities, 21 technology and engineering centers, and 68 distribution centers and warehouses. The company employs more than 18,000 people across 42 countries.

Timken reports its operations through two segments: Mobile Industries and Process Industries.

Mobile Industries (54% of 2019 revenues) serves OEM customers that manufacture off-highway equipment for the agricultural, mining and construction markets; on-highway vehicles, including passenger cars, light trucks, and medium- and heavy-duty trucks; rail cars and locomotives; outdoor power equipment; rotorcraft and fixed-wing aircraft; and other mobile equipment. The segment also provides aftermarket sales and services.





Process Industries (55%) serves OEM and end-user customers in industries that place heavy demand on the fixed operating equipment they make or use in heavy and other general industrial sectors. This includes metals, cement and aggregate production; coal power generation and renewable energy sources; oil and gas extraction and refining; pulp and paper and food processing; automation and robotics; and health and critical motion control equipment. Other applications include marine equipment, gear drives, cranes, hoists and conveyors. This segment also supports after-market sales and service needs of customers.

During 2018, the company completed three acquisitions — ABC Bearings Limited, Apiary Investments Holdings Limited and Rollon S.p.A. In 2019, Timken completed the acquisition of BEKA Lubrication, and The Diamond Chain Company.

Source: Zacks Investment Research

Reasons To Buy:

▲ Timken continues to pursue strategic acquisitions to broaden its portfolio and capabilities across diverse markets, with a focus on bearings, adjacent power transmission products, and related services. In 2018, the company acquired Rollon, Cone Drive and ABC Bearings and divested the ICT Business. In 2019, Timken completed the acquisition of BEKA Lubrication and the Diamond Chain Company. The acquisition of BEKA Lubrication strengthened the company's global leadership in the automatic lubrication systems market sector. It also expanded its geographic reach in Europe and Asia. It enhanced the company's position in lucrative markets such as wind and food and beverage. Diamond Chain augments Timken's leadership in high-performance roller chains for industrial markets. These acquisitions have strengthened the company's global presence in growing markets, particularly China and Europe. These buyouts are expected to deliver significant cost and revenue synergies, going ahead.

> Timken will benefit from its actions to enhance liquidity, reduce costs and generate strong cash flow. Acquisitions and efforts to boost market share and market offerings will also contribute to growth.

▲ Timken continues to measure a balanced approach to stoke growth, margins, returns and cash flow through industrial cycles. During the second quarter of 2020, Timken paid its 392nd consecutive quarterly dividend. Due to uncertainty caused by COVID-19, the company suspended its share buyback program for the time being. Timken's net debt to capital ratio was 0.41 as of Jun 30, 2020 compared with 0.44 as of Dec 31, 2019. The company proactively amended debt agreements in second-quarter 2020 to boost financial flexibility. The company has no significant long-term maturity before September 2023. Timken had $416 million of cash on hand and over $400 million of availability under committed credit facilities as of Jun 30, 2020. Timken expects to generate strong free cash flow over the balance of the year aided by favorable working capital and cost saving initiatives, and continue to reduce net debt.

▲ Timken is taking actions to enhance liquidity, reduce costs and generate strong cash flow. During second-quarter 2020, it implemented temporary salary reductions, work furloughs and other actions to reduce costs. Recently, the company began expanding and accelerating certain structural cost reduction initiatives to align its costs with near-term demand expectations and improve its long-term profitability. Timken expects these structural cost reduction actions and other cost reduction initiatives to generate approximately $50-60 million of total year-on-year savings in the second half of 2020. These actions will help sustain margins amid lower volumes. Timken meanwhile continues to advance its ongoing strategy – footprint, acquisition integration, and driving operational excellence.

▲ Timken's products are essential for efficient and reliable operation of industrial equipment globally. Demand for the company's products will remain strong in the years to come. Its diversity in terms of end market, customer and geography, product innovation, and engineering expertise provide it with a competitive edge.

▲ The Wind and Solar sectors continue to perform well and experienced significant growth in second-quarter 2020. Timken's strong underlying market growth and share gains are driving sales. The outlook for the renewable energy sector remains strong for the balance of the year. The company has built its presence in the renewable space organically over the last decade, recently complemented through acquisitions. The company continues to make targeted investments to support growth beyond 2020. The renewable energy sector currently generates 7% of the company's revenues. It is anticipated to become bigger part of the company's portfolio in the future.

Risks

- During the first quarter, Timken's operations in China were shut down for two weeks amid the coronavirus crisis. For major part of the second quarter, the company's operations were adversely impacted by lower global demand stemming from the COVID-19 pandemic, which included various customer shut-downs and government imposed operating restrictions in places like India and Italy. Timken's operations in China and across the rest of the world are now running at near-normal levels as government restrictions have been lifted. Notably, there is considerable uncertainty at this point regarding the overall impact of the pandemic on its business as a whole.

- COVID-19 has impacted most of Timken's end markets including — Heavy Truck, Automotive, Off-Highway and Industrial sectors. Considering persistent uncertainty surrounding the same, the company suspended sales and earnings guidance for 2020. Timken anticipates revenues to come in lower than the first half of 2020 in the second half due to decline in its end markets. Operating margins are anticipated to be lower in the second half of 2020 compared with the first half of 2020, due to the timing of realization with respect to cost reduction initiatives, normal seasonality, higher restructuring charges and other items.

- Among its diverse end market mix, the Industrial sector generates the highest proportion of revenues for Timken. The sector, which had been reeling under the protracted U.S.-China trade tensions and waning global demand, has now been hit hard by the coronavirus pandemic and energy market volatility. Per the Institute for Supply Management's report, the U.S Purchasing Managers' Index (PMI) came in at 41.5% for April — the lowest since April 2009 when it registered 39.9%. In May, the PMI came in at 43.1%. A reading below 50 denotes contraction. The index climbed to 52.6% in June followed by 54.2% in July and 56% in August. It remains to be seen whether the recovery in the past three months will sustain considering the surge in coronavirus cases. A sluggish industrial sector will weigh on Timken's results, particularly on the Process Industries segment. The Mobile Industries segment is expected to be hurt by significant declines in off highway and heavy truck as well as weakness in the automotive market in the current year.

- Timken expects to incur higher costs related to manufacturing footprint initiatives. In the Mobile Industries segment, Timken announced reorganization of its bearing plant in Gaffney, SC. The company will transfer its high-volume bearing production and roller production to other facilities, which is expected to occur by the end of the third quarter of 2020. Timken expects to incur $8-$10 million of pretax costs related to this reorganization. In the Process Industries segment, Timken announced the closure of its chain plant in Indianapolis, IN in February. This plant was part of the Diamond Chain acquisition completed on Apr 1, 2019. The company will transfer the manufacturing of its Diamond Chain product line to its chain facility in Fulton, IL. The chain plant is expected to close by the end of the fourth quarter of 2021. Timken expects to incur approximately $10 million to $12 million related to this closure. The imposition of tariffs on certain foreign goods, including steel and other raw materials have led to higher input costs for Timken. This, in turn, will dent margins if the company is not able to pass the price increases to customers.

Last Earnings Report

Timken Q2 Earnings and Revenues Surpass Estimates

Quarter Ending	06/2020
Report Date	Aug 03, 2020
Sales Surprise	13.93%
EPS Surprise	209.09%
Quarterly EPS	1.02
Annual EPS (TTM)	4.11

Timken reported second-quarter 2020 adjusted earnings per share of $1.02, which beat the Zacks Consensus Estimate of 33 cents by a wide margin. However, the bottom line declined 20% from the prior-year quarter due to lower volumes and related manufacturing utilization, and impact of unfavorable currency. However, lower selling, general and administrative expenses, favorable price/mix, and lower material and logistics costs somewhat mitigated the impact. Timken had implemented cost reduction actions in the quarter under review, which led to lower operating expenses.

On a reported basis, Timken delivered earnings per share of 82 cents in the reported quarter compared with $1.20 in the prior-year quarter.

Total revenues in the quarter were $804 million, down 20% from the year-ago quarter on account of lower demand due to the COVIS-19 situation and unfavorable currency impact, partially offset by the favorable impact of acquisitions. The top line, however, surpassed the Zacks Consensus Estimate of $705 million.

Costs and Margins

Cost of sales was down 17% to $573 million from the prior-year quarter. Gross profit slumped 25% year over year to $230 million. Gross margin was 28.7% compared with 30.6% in the year-ago quarter.

Selling, general and administrative expenses went down 30% to $112 million from the prior-year quarter. Adjusted EBITDA declined 17% year over year to $164.2 million. Adjusted EBITDA margin in the quarter was 20.4% compared with 19.7% in the prior-year quarter.

Segmental Performance

The Mobile Industries segment revenues declined to $343 million from $494 million in the year-ago quarter. This downside was primarily due to lower shipments across the board, partly offset by the benefit of acquisitions. The segment's adjusted EBITDA plunged 47% year over year to $42 million.

The Process Industries segment revenues decreased 9% year over year to $461 million in the quarter, due to lower revenues across all sectors and unfavorable currency-translation impact. The segment's adjusted EBITDA dipped 1% year over year to $129 million.

Financial Position

Timken generated free cash flow of $223 million in second-quarter 2020 compared with $135 million in the prior-year quarter. Cash flow from operations was around $247 million in the reported quarter compared with $158 million in the previous-year quarter.

As of the second quarter end, the company had $416 million of cash on hand and over $400 million of availability under committed credit facilities. The company's net debt to capital ratio stood at 0.41 as of Jun 30, 2020.

Considering the ongoing uncertainty surrounding COVID-19, the company has not provided sales and earnings guidance for 2020.

Timken has accelerated and expanded structural cost reduction initiatives to align both its costs with near-term demand expectations and improve margins of the company longer-term. Cost reduction actions are expected to generate year-over-year savings of approximately $50 to $60 million in the second half of 2020.

Valuation

Timken's shares are up 0.3% in the year-to-date period and 40.6% over the trailing 12-month period. Stocks in the Zacks Metal Products – Procurement and Fabrication industry are down 1.5% while the Industrial Products sector are up 0.8%. Over the past year, the Zacks sub-industry and the sector are up 8.2% and 15.5%, respectively.

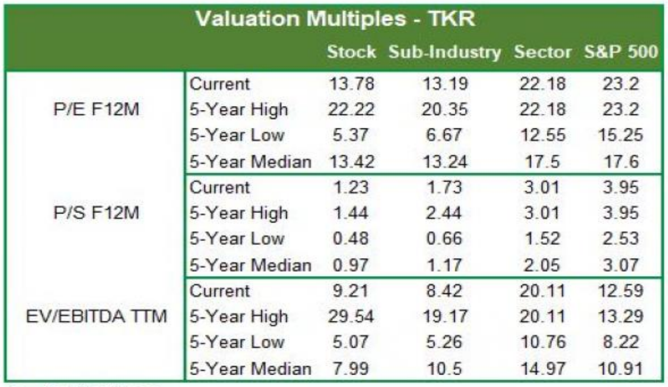
The S&P 500 index is up 3.8% in the year-to-date period and up 14.5% in the past year.

The stock is currently trading at 13.78X forward 12-month earnings, which compares to 13.19X for the Zacks sub-industry, 22.18X for the Zacks sector and 23.20X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.22X and as low as 5.37X, with a 5-year median of 13.42X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our $62 price target reflects 15.77X forward 12-month earnings per share.

The table below shows summary valuation data for TKR:

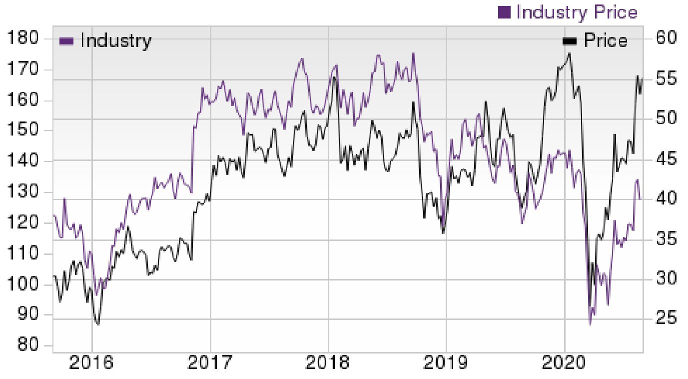


Valuation Multiples - TKR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.78	13.19	22.18	23.2
	5-Year High	22.22	20.35	22.18	23.2
	5-Year Low	5.37	6.67	12.55	15.25
	5-Year Median	13.42	13.24	17.5	17.6
P/S F12M	Current	1.23	1.73	3.01	3.95
	5-Year High	1.44	2.44	3.01	3.95
	5-Year Low	0.48	0.66	1.52	2.53
	5-Year Median	0.97	1.17	2.05	3.07
EV/EBITDA TTM	Current	9.21	8.42	20.11	12.59
	5-Year High	29.54	19.17	20.11	13.29
	5-Year Low	5.07	5.26	10.76	8.22
	5-Year Median	7.99	10.5	14.97	10.91

As of 09/01/2020

Industry Analysis **Zacks Industry Rank:** Bottom 29% (179 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
TriMas Corporation **(TRS)**	Outperform	2
Mueller Industries, Inc. **(MLI)**	Neutral	3
NN, Inc. **(NNBR)**	Neutral	3
Rockwell Automation, Inc. **(ROK)**	Neutral	3
Worthington Industries, Inc. **(WOR)**	Neutral	3
Century Aluminum Company **(CENX)**	Underperform	4
CIRCOR International, Inc. **(CIR)**	Underperform	5
GrafTech International Ltd. **(EAF)**	Underperform	4

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

Industry Comparison Industry: Metal Products - Procurement And Fabrication

				Industry Peers		
	TKR	**X Industry**	**S&P 500**	**CENX**	**MLI**	**WOR**
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	4	3	3
VGM Score	B	-	-	B	A	A
Market Cap	4.24 B	755.39 M	23.95 B	910.06 M	1.73 B	2.33 B
# of Analysts	5	2	14	1	1	1
Dividend Yield	1.98%	0.00%	1.61%	0.00%	1.31%	2.25%
Value Score	C	-	-	D	B	C
Cash/Price	0.10	0.15	0.07	0.20	0.07	0.06
EV/EBITDA	7.88	7.00	13.32	45.47	8.29	9.14
PEG F1	1.80	3.66	3.05	NA	NA	NA
P/B	2.16	1.77	3.21	1.40	2.51	2.47
P/CF	8.27	7.06	12.92	NA	10.44	7.78
P/E F1	15.29	17.58	21.84	NA	NA	21.85
P/S TTM	1.20	0.82	2.52	0.58	0.77	0.76
Earnings Yield	6.55%	4.76%	4.39%	-6.98%	-0.39%	4.58%
Debt/Equity	0.88	0.45	0.70	0.47	0.49	0.75
Cash Flow ($/share)	6.83	2.51	6.93	-0.52	2.92	5.47
Growth Score	C	-	-	A	A	A
Historical EPS Growth (3-5 Years)	23.38%	3.24%	10.41%	NA	10.01%	3.24%
Projected EPS Growth (F1/F0)	-19.52%	-25.72%	-4.75%	47.41%	-105.48%	-17.02%
Current Cash Flow Growth	8.64%	-11.05%	5.22%	-159.66%	13.44%	15.25%
Historical Cash Flow Growth (3-5 Years)	6.82%	3.93%	8.49%	NA	3.93%	5.91%
Current Ratio	3.02	2.92	1.35	2.13	2.93	2.53
Debt/Capital	46.79%	31.94%	42.92%	31.94%	32.75%	42.87%
Net Margin	9.06%	0.32%	10.25%	-3.49%	5.22%	2.58%
Return on Equity	16.41%	5.60%	14.66%	-9.50%	15.69%	14.13%
Sales/Assets	0.73	0.83	0.50	1.04	1.63	1.28
Projected Sales Growth (F1/F0)	-12.85%	-5.56%	-1.40%	-11.11%	-27.18%	-15.79%
Momentum Score	B	-	-	F	D	A
Daily Price Change	4.23%	0.00%	0.29%	3.04%	2.76%	2.58%
1-Week Price Change	3.73%	2.77%	2.59%	9.15%	1.90%	3.32%
4-Week Price Change	15.12%	8.07%	3.53%	6.21%	7.73%	9.04%
12-Week Price Change	17.64%	7.20%	2.09%	29.89%	7.73%	3.10%
52-Week Price Change	45.57%	3.17%	4.31%	93.35%	17.02%	24.74%
20-Day Average Volume (Shares)	518,189	111,082	1,816,754	1,074,955	150,614	208,099
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	37.20%	0.00%	0.20%	-86.84%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	37.03%	0.08%	3.86%	-25.66%	0.00%	-14.29%
EPS Q1 Estimate Monthly Change	31.68%	0.00%	0.00%	-162.50%	NA	0.00%

Source: Zacks Investment Research

Zacks Style Scores

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

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

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

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

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

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.