

Toll Brothers Inc.(TOL)

\$50.15 (As of 01/21/21)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Toll Brothers reported solid fourth-quarter fiscal 2020 results, wherein earnings and revenues topped the respective Zacks Consensus Estimate. Adjusted home sales gross margin improved annually due to a shift in the mix of deliveries and solid execution. Its Q4 orders grew 63% year over year in value and 68% in units. Potential revenues from backlog grew 21% year over year to \$6.37 billion for fiscal 2020, the highest year-end level in 15 years. Shares of Toll Brothers have outperformed the industry in the past six months. It has been benefiting from focus on affordable luxury offerings, acquisitions and favorable housing momentum. However, rising building material and labor costs have been concerns. Its initial fiscal 2021 outlook for gross margins and average prices are below market expectations.

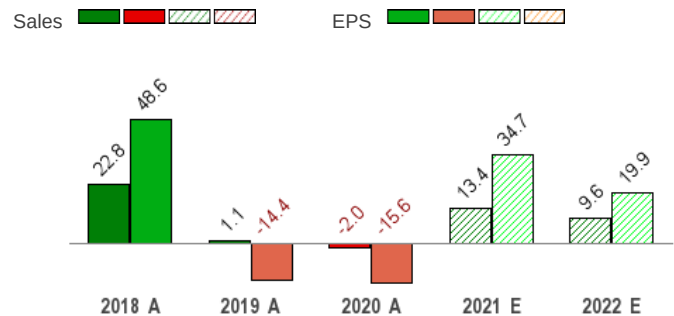
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$50.50 - \$13.28
20-Day Average Volume (Shares)	1,567,972
Market Cap	\$6.2 B
Year-To-Date Price Change	15.1%
Beta	1.64
Dividend / Dividend Yield	\$0.44 / 0.9%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 10% (25 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.0%
Last Sales Surprise	23.9%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/23/2021
Earnings ESP	-6.1%
P/E TTM	14.5
P/E F1	11.0
PEG F1	1.3
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,460 E	1,945 E	2,273 E	2,971 E	8,795 E
2021	1,325 E	1,846 E	2,128 E	2,701 E	8,023 E
2020	1,331 A	1,549 A	1,651 A	2,546 A	7,078 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.50 E	\$1.08 E	\$1.50 E	\$2.30 E	\$5.49 E
2021	\$0.49 E	\$0.90 E	\$1.22 E	\$1.94 E	\$4.58 E
2020	\$0.41 A	\$0.59 A	\$0.90 A	\$1.55 A	\$3.40 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 01/21/2021. The reports text is as of 01/22/2021.

Overview

Based in Horsham, PA, Toll Brothers Inc. builds single-family detached and attached home communities; master planned luxury residential resort-style golf communities; and urban low, mid, and high-rise communities, principally on the land it develops and improves.

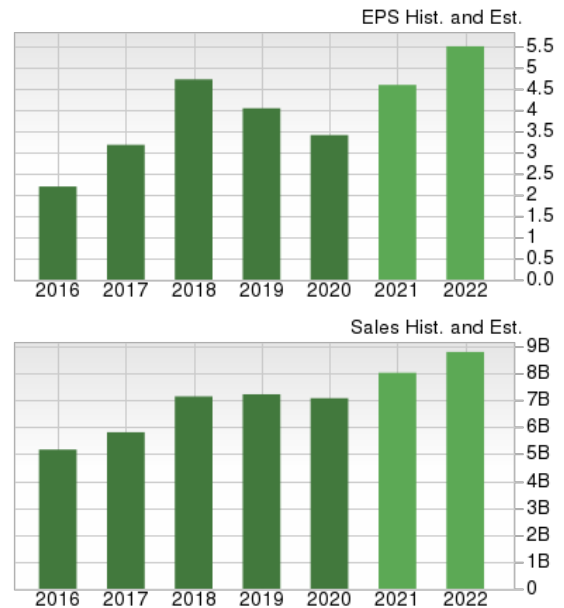
The company operates in Arizona, California, Florida, Delaware, Maryland, Pennsylvania, and South Carolina. Toll Brothers offers homes under two segments, namely Traditional Home Building Product and City Living.

Traditional Home Building (accounting for 96.3% of fiscal 2020 revenues) include detached and attached homes for move-up, empty-nester, active-adult, age-qualified, as well as second-home buyers. Within Traditional Home Building Products, Toll Brothers operates in four geographical segments, North, Mid Atlantic, South and West. City Living (1.7%) includes homes built and sold in urban infill markets.

Since November 2018, the company started reporting land sale activities under the Land sales category (2%).

Toll Brothers is also building homes for rental apartment projects. Toll Brothers Apartment Living, Toll Brothers Realty Trust and Toll Brothers Campus Living are brands offered under this rental apartment projects. These rental projects operate in lucrative markets like metro-Boston to metro-Washington, D.C. corridor and Atlanta.

At fiscal fourth quarter-end, Toll Brothers had \$3.16 billion of total liquidity, comprising \$1.37 billion in cash and \$1.79 billion in revolver capacity. The revolving bank credit facility will not mature until November 2025. Notably, it has no significant debt maturities until fiscal 2022.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Favorable Housing Market Backdrop:** Similar to other homebuilders, Toll Brothers witnessed a pause in homebuyer demand in mid-March that extended through the end of April due to widespread stay-at-home orders and surging national unemployment. Nonetheless, since then, new single-family homes' demand has seen a v-shaped recovery throughout the country and Toll Brothers is not an exception to benefit from the same. A combination of lower interest rates and rising need for more work-at-home space positively impacted affordability, thereby helping the company to deliver solid performance.

Favorable housing backdrop, lack of competition in the luxury new home market and buyout synergies are expected to drive growth

In fiscal fourth-quarter 2020, the number of net signed contracts or orders was 3,407 units, up 68% year over year. The value of net signed contracts was \$2.74 billion, reflecting a 63% increase from the year-ago quarter. At fiscal 2020-end, it had a backlog of 7,791 homes, representing a 24.3% year-over-year increase. Potential revenues from backlog also grew 21% year over year to \$6.37 billion. Its backlog attained the highest year-end level in 15 years. Overall, net signed contracts were \$8.00 billion and 9,932 units during fiscal 2020 compared with \$6.71 billion and 8,075 units in fiscal 2019. This provides more visibility for strong top-line growth going forward.

▲ **Limited Competition in the Luxury Housing Market & Focus on Affordable Luxury Offerings:** Toll Brothers mostly offers luxury homes and its communities are located in prosperous suburban areas with easy access to major cities. Luxury homes generally face limited competition. The company mostly caters to luxury move up buyers, who already possess a residence and are looking for a shift to larger and better homes. These homebuyers are less sensitive to price changes. Toll Brothers enjoys greater pricing power than other homebuilding companies.

The company continues to look for opportunities to expand its luxury brand to new product lines and price points, in a bid to maintain leadership in the luxury segment. At the same time, the company has been strategically adding more affordable luxury communities in view of the current demographic trends, and expanding footprint and customer base. These communities are expected to be more capital efficient.

Also, the company improved the option-to-owned land ratio at fiscal fourth quarter-end to 43% optioned and 57% owned versus 38% optioned and 52% owned at fiscal 2019-end. It has been focusing on lower price and higher volume communities, which generate increased return on investment.

▲ **Significant Land Positions, Boosting Presence:** Given the significant pent up housing demand, Toll Brothers has secured some of the most sought-after urban locations in the country, where land is scarce and approvals are not easy to obtain. Toll Brothers is using its strong liquidity position to secure the most sought-after urban locations in the country like New York City Market, Northern New Jersey, Washington D.C. and Philadelphia. The company's solid land position places it well to meet growing demand in these regions, thus giving it a competitive edge over its peers who are presently facing land availability constraints.

The company has been expanding geographically via selective acquisitions. In September 2020, Toll Brothers expanded into the Colorado Springs market through the acquisition of Keller Homes, one of the top private home building companies in Colorado Springs. Colorado Springs is a dynamic housing market, which complements Toll Brothers' operations in metro Denver and Fort Collins. The said market is rated as "#1 Hottest U.S. Housing Market" by USA Today and #3 "Best Place to Live" by U.S. News & World Report in 2020 and 2019, respectively. Importantly, Toll Brothers has also acquired the rights to purchase more than 300 lots that Keller controls throughout Colorado Springs.

Toll Brothers acquired all assets and operations of Thrive Residential — an urban in-fill builder with operations in Atlanta, Georgia and Nashville, Tennessee — during second-quarter fiscal 2020. Management is now targeting community count growth of at least 10% year over year for fiscal 2021, which will reflect accelerating land acquisition and development to meet the resurgence in homebuyer demand.

▲ **Enough Liquidity to Tide Over the Pandemic:** At fiscal fourth quarter-end, Toll Brothers had \$3.16 billion of total liquidity, comprising \$1.37 billion in cash and cash equivalents and \$1.79 billion of revolver capacity. The revolving bank credit facility will not mature until November 2025. Notably, it has no significant debt maturities until fiscal 2022.

Reasons To Sell:

- ▼ **Margin-Related Woes:** Rising building materials and labor costs are growing concerns for the company's margin. Land prices are inflating due to limited availability. This could eat into homebuilders' margins in the forthcoming quarters. Moreover, tariff-related woes are also pressing concern. In order to mitigate top-line related woes, the company has been making investments that comprise implementation of IT system upgrades. This is causing increased SG&A, as a percentage of revenues, in fiscal 2020.
- ▼ **Federal Government Actions:** The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn, could hurt both the economy and the housing market.
- ▼ **Overvalued Compared to Peers:** Toll Brother's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 14.5, which is higher than the industry's 11.4. This implies that the stock is overvalued than its peers.
- ▼ **Lower ROE:** The company's trailing 12-month return on equity is 9.4%, lower than the industry's 13.9%.

Gross margin pressure, stretched valuation and lower ROE are raising concerns.

Last Earnings Report

Toll Brothers (TOL) Q4 Earnings, Revenues Beat on Solid Demand

Toll Brothers, Inc. reported stellar fourth-quarter fiscal 2020 results, beating analysts' earnings and revenue expectations by 26% and 23.9%, respectively.

Douglas C. Yearley, Jr., chairman and chief executive officer, said, "We are currently experiencing the strongest housing market I have seen in my 30 years at Toll Brothers and we continue to increase prices in nearly all of our communities as we focus on driving profitability and managing growth."

Quarter Ending	10/2020
Report Date	Dec 07, 2020
Sales Surprise	23.90%
EPS Surprise	26.02%
Quarterly EPS	1.55
Annual EPS (TTM)	3.45

Earnings & Revenue Discussion

The country's leading luxury homebuilder reported earnings of \$1.55 per share for the quarter under review, which beat the Zacks Consensus Estimate of \$1.23 by 26%. The figure also grew 9.9% from the year-ago level of \$1.41 per share as a result of higher revenues and margins.

Consolidated revenues of \$2.55 billion topped the consensus mark of \$2.08 billion by 23.9%. The reported figure also increased 7% year over year due to higher deliveries.

Segment Detail

Toll Brothers operates under two reportable segments, namely Traditional Home Building and Urban Infill ("City Living").

Revenues from Traditional Home Building grew 9.5% year over year to \$2.48 billion but that of City Living decreased 37.1% to \$18 million for the quarter.

Inside the Headline Numbers

Homebuilding deliveries during the quarter were up 10% year over year to 2,940 units. Except North and Mid-Atlantic, deliveries increased in all other regions served by the company. Deliveries in Citi Living declined to 11 units from 28 units a year ago.

The average price of homes delivered was \$849,000 for the quarter, down 1% from the year-ago level of \$857,800.

The number of net signed contracts or orders during the reported quarter was 3,407 units, up 68% year over year. The value of net signed contracts was \$2.74 billion, reflecting a 63% increase from the year-ago quarter.

At fiscal 2020-end, it had a backlog of 7,791 homes, representing a 24.3% year-over-year increase. Potential revenues from backlog also grew 21% year over year to \$6.37 billion. Its backlog attained the highest year-end level in 15 years.

Cancellation rate for the reported quarter was 5.4%, reflecting a decrease from 8.9% in the prior-year period.

Margins

The company's adjusted home sales gross margin was 24%, which expanded 10 basis points (bps).

SG&A expenses — as a percentage of home sales revenues — were 9.9%, down 120 bps from the year-ago quarter. Operating margin of 10.2% was up 70 bps for the quarter.

Financials

Toll Brothers had \$1.37 billion cash and cash equivalents as of Oct 31, 2020 compared with \$1.29 billion at fiscal 2019-end.

Total debt at fiscal 2020-end was \$3.96 billion, slightly up from \$3.92 billion at fiscal 2019-end. Debt to capital was 44.8% at fiscal 2020-end versus 43.6% a year ago.

Fiscal 2020 Highlights

Earnings came in at \$3.40 per share, down from \$4.03 a year ago. Total revenues of \$5.66 billion were also down 0.1% from a year ago. Homebuilding deliveries during the quarter were up 4.8% year over year to 8,496 units. The average price of homes delivered was \$816,500 for the quarter, down from the year-ago level of \$873,400.

First-Quarter Fiscal 2021 Guidance

For the quarter, home deliveries are anticipated to be 1,675 units at an average price of \$780,000-\$800,000 (suggesting a decrease from the year-ago figure of \$805,300). Home deliveries in the year-ago period were 1,611 units.

Toll Brothers expects adjusted home sales gross margin of 22.4%, implying growth from 20.9% recorded in the year-ago period. SG&A expenses, as a percentage of home sales revenues, are projected at 15.8% (indicating 100-bps increase from 14.8% a year ago).

Fiscal 2021 Guidance

The company expects deliveries between 9,600 and 10,200 homes at an average price of \$790,000-\$810,000. Toll Brothers expects adjusted home sales gross margin of 22.4%. SG&A expenses, as a percentage of home sales revenues, are projected at 12.2%.

Valuation

Toll Brothers shares are up 36.7% in the past six-month period and 8.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 19.6% and 28.4% in the past six-month period. Over the past year, the Zacks sub-industry and sector are up 17.8% and 22.7%, respectively.

The S&P 500 index is up 20.1% in the past six-month period and 17.8% in the past year.

The stock is currently trading at 10.46X forward 12-month earnings, which compares to 9.15X for the Zacks sub-industry, 17.65X for the Zacks sector and 23.34X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.4X and as low as 3.52X, with a 5-year median of 9.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$53 price target reflects 11.1X forward 12-month earnings.

The table below shows summary valuation data for TOL

Valuation Multiples - TOL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.46	9.15	17.65	23.34
	5-Year High	15.4	14.36	18.99	23.79
	5-Year Low	3.52	6.31	10.77	15.3
	5-Year Median	9.67	10.64	16.07	17.83
P/B TTM	Current	1.28	1.59	5.29	6.63
	5-Year High	1.89	2.29	6.75	6.63
	5-Year Low	0.38	0.65	1.73	3.73
	5-Year Median	1.16	1.47	3.33	4.94
P/S F12M	Current	0.76	0.96	2.3	4.59
	5-Year High	1.3	1.15	2.3	4.59
	5-Year Low	0.23	0.56	1.18	3.2
	5-Year Median	0.81	0.91	1.69	3.68

As of 01/21/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
D.R. Horton, Inc. (DHI)	Outperform	2
KB Home (KBH)	Outperform	1
Lennar Corporation (LEN)	Outperform	1
PulteGroup, Inc. (PHM)	Outperform	2
Beazer Homes USA, Inc. (BZH)	Neutral	3
Meritage Homes Corporation (MTH)	Neutral	2
NVR, Inc. (NVR)	Neutral	3
Taylor Morrison Home Corporation (TMHC)	Neutral	3

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

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	TOL	X Industry	S&P 500	DHI	LEN	NVR
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	1	3
VGM Score	A	-	-	A	B	C
Market Cap	6.25 B	3.46 B	27.31 B	27.92 B	26.14 B	16.56 B
# of Analysts	7	5	13	21	7	2
Dividend Yield	0.88%	0.00%	1.42%	1.04%	1.20%	0.00%
Value Score	A	-	-	A	B	B
Cash/Price	0.25	0.19	0.06	0.18	0.11	0.20
EV/EBITDA	13.47	11.39	14.84	8.99	11.75	14.13
PEG F1	1.26	0.68	2.56	0.75	1.13	1.17
P/B	1.28	1.40	3.81	2.30	1.44	5.65
P/CF	12.25	11.43	14.61	11.75	13.79	18.21
P/E F1	10.95	9.51	20.74	9.54	9.84	13.97
P/S TTM	0.88	0.89	2.99	1.37	1.16	2.36
Earnings Yield	9.15%	10.52%	4.70%	10.47%	10.17%	7.16%
Debt/Equity	0.80	0.46	0.70	0.35	0.33	0.52
Cash Flow (\$/share)	4.09	3.99	6.93	6.52	6.06	244.50
Growth Score	A	-	-	A	A	C
Historical EPS Growth (3-5 Years)	16.38%	20.07%	9.72%	24.63%	17.02%	24.12%
Projected EPS Growth (F1/F0)	34.66%	28.40%	12.61%	25.18%	8.24%	38.88%
Current Cash Flow Growth	-22.15%	4.21%	5.05%	39.35%	-6.27%	10.03%
Historical Cash Flow Growth (3-5 Years)	5.25%	21.78%	8.36%	23.65%	22.34%	24.62%
Current Ratio	5.82	5.01	1.38	6.70	11.44	6.08
Debt/Capital	44.55%	34.26%	41.88%	26.11%	24.76%	34.21%
Net Margin	6.31%	8.27%	10.40%	11.69%	10.96%	12.16%
Return on Equity	9.42%	13.94%	15.37%	20.67%	14.17%	33.14%
Sales/Assets	0.66	0.98	0.50	1.15	0.76	1.56
Projected Sales Growth (F1/F0)	13.59%	17.09%	6.15%	26.01%	10.79%	26.12%
Momentum Score	D	-	-	B	F	D
Daily Price Change	2.82%	1.54%	-0.49%	1.94%	1.30%	4.04%
1-Week Price Change	3.84%	2.33%	-0.33%	3.58%	4.36%	2.03%
4-Week Price Change	9.67%	5.50%	3.53%	6.57%	3.94%	5.58%
12-Week Price Change	14.77%	21.49%	18.73%	12.55%	16.76%	11.39%
52-Week Price Change	8.08%	10.51%	6.82%	29.80%	24.27%	10.51%
20-Day Average Volume (Shares)	1,567,972	202,564	1,623,841	2,622,840	2,186,972	21,683
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%	0.78%	0.13%	1.26%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-1.82%	9.74%	2.09%	17.00%	13.36%	0.00%
EPS Q1 Estimate Monthly Change	-1.01%	1.07%	0.00%	1.07%	0.00%	NA

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	D
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.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.