

Textron Inc. (TXT)

\$32.95 (As of 10/27/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Textron has been innovating new products to capture more shares in the market place. Notably, Cessna SkyCourier completed a significant milestone with its first flight test in May 2020. Encouraging U.S. defense budget is expected to significantly boost growth prospects of defense primes like Textron. The company's shares have outperformed its industry in the past year. However, its commercial business unit continues to suffer, courtesy of the coronavirus pandemic impacts. Its aftermarket revenues slumped due to low overall aircraft utilization. Economic and other impacts of the pandemic may dampen demand for Textron's aviation and commercial helicopter products and services. Its poor financial ratio indicates that the firm might face difficulties to meet debt obligations in the near future.

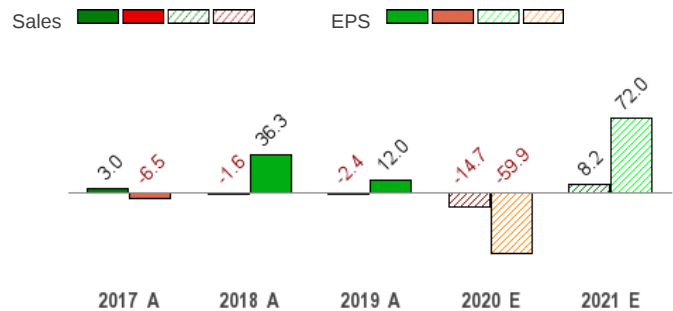
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$51.53 - \$20.26
20-Day Average Volume (Shares)	1,167,193
Market Cap	\$7.5 B
Year-To-Date Price Change	-26.1%
Beta	1.70
Dividend / Dividend Yield	\$0.08 / 0.2%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 9% (230 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	186.7%
Last Sales Surprise	5.2%
EPS F1 Estimate 4-Week Change	-1.1%
Expected Report Date	10/29/2020
Earnings ESP	-1.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,051 E	3,021 E	3,207 E	3,489 E	12,573 E
2020	2,777 A	2,472 A	2,822 E	3,446 E	11,621 E
2019	3,109 A	3,227 A	3,259 A	4,035 A	13,630 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.61 E	\$0.63 E	\$0.75 E	\$0.67 E	\$2.58 E
2020	\$0.35 A	\$0.13 A	\$0.35 E	\$0.60 E	\$1.50 E
2019	\$0.76 A	\$0.93 A	\$0.95 A	\$1.11 A	\$3.74 A

*Quarterly figures may not add up to annual.

P/E TTM	13.0
P/E F1	22.0
PEG F1	1.8
P/S TTM	0.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/27/2020. The reports text is as of 10/28/2020.

Overview

Textron Inc., incorporated in 1923, is a global multi-industry company that manufactures aircraft, automotive engine components and industrial tools. It also offers solutions and services for aircraft, fastening systems, and industrial products and components. Its products include commercial and military helicopters, light- and mid-size business jets, plastic fuel tanks, automotive trim products, golf carts and utility vehicles, turf-car equipment, industrial pumps and gears, engineered fastening systems and solutions, and other industrial products. It is also a commercial finance company in select markets. Textron is known globally for its most recognizable and valuable brand names, such as Bell Helicopter, Cessna Aircraft Company, Jacobsen, Kautex, E-Z-GO and Greenlee.

Textron operates through five segments – Bell, Textron Systems, Textron Aviation, Industrial and Finance.

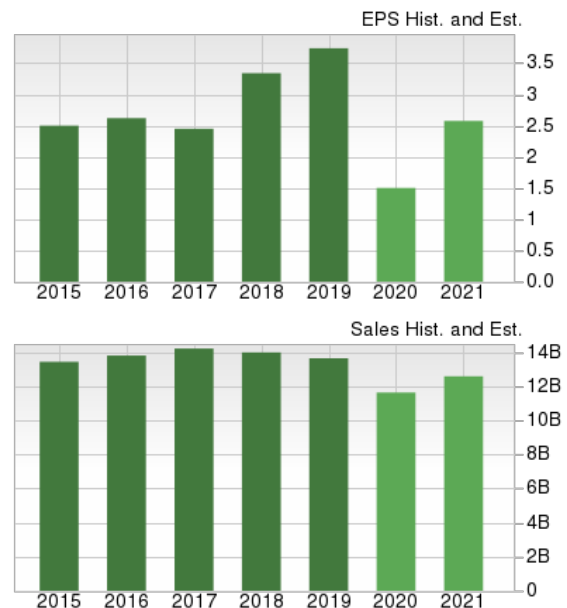
The **Bell** segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2019 were \$3,254 million, representing 23.9% of the top line.

The **Textron Systems** unit is a provider of integrated fastening systems solutions, which include fasteners, engineered assemblies and automation equipment. Segment revenues in 2019 were \$1,325 million, contributing 9.7% to the top line.

Textron Aviation's principal markets are general aviation aircraft, business jets and commercial transportation. Segment revenues in 2019 were \$5,187 million, contributing 38% to the top line.

The **Industrial** segment manufactures and sells miscellaneous industrial products, such as golf carts, off- road utility vehicles, plastic fuel systems, and industrial pumps and gears. Segment revenues in 2019 were \$3,798 million, accounting for 27.9% of the top line.

Textron Financial Corporation (TFC) is a commercial finance business with operations in aircraft finance, asset-based lending and structured finance. Segment revenues in 2019 were \$66 million, constituting 0.5% of the top line.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Although the COVID-19 pandemic had an adverse impact on Textron's operating results, the company continues to witness notable order inflows, which in turn should boost its future revenues. In the second quarter, Textron Systems won two FMS contracts for five Aerosonde systems, including initial spares, new equipment trading and logistics support, totaling \$44 million. In April 2020, the company won an \$820 million follow-on production contract for the next 15 aircraft to be built by Textron Systems. Moreover, in July, Textron was selected for two task orders on the U.S. Air Force CAPCAS program worth up to \$240 million. These order flows not only strengthen Textron's revenue generating capacity but also expands its footprint across the world, courtesy of solid demand for its products outside the domestic market. Looking ahead, Textron expects a ramp up of its commercial deliveries, which should further boost its top line.
- ▲ Textron has been innovating new products to capture more shares in the market place. In this regard, it is imperative to mention that Textron Marine & Land Systems unit successfully completed both builders and acceptance trials for the next Ship to Shore Connector Craft 101 in the second quarter. Management expects to deliver this unit to the U.S. Navy in the third quarter of 2020. Meanwhile, Cessna SkyCourier completed a significant milestone with its first flight test in May 2020. Further, during the quarter, Textron achieved a number of milestones on the V-22 program, including delivery of the 400th V-22, the first delivery to the U.S. Navy of the CMV variant for the Carrier Onboard Delivery Mission, and the first international V-22 delivery to Japan. Such steady innovations are expected to boost the company's future operating results significantly and must have boosted investors' confidence in this stock. Evidently, the company's shares have declined 30% in the past year compared with its industry's 35.4% decline.
- ▲ The fiscal 2021 budget proposal includes \$740.5 billion as funding for the Pentagon, reflecting 3% growth over the approved fiscal 2020 President's budget. Such encouraging spending plans by the U.S. administration are expected to significantly boost growth prospects of defense primes like Textron. Notably, the company's Bell and Textron Systems units have maintained steady operational performance during the second quarter amid the pandemic-induced crisis and can be expected to generate similar performance in the days ahead. In particular, Bell executed very well in the second quarter with increased revenues from higher military volume and a 14.4% operating margin.

New product launch and favorable U.S. Defense budget will improve Textron's growth trajectory.

Reasons To Sell:

- ▼ The COVID-19 pandemic adversely impacted revenues and segment profit for Textron's commercial businesses in the second quarter. Notably, on the commercial side of Bell, Textron delivered 27 helicopters, down 49.1% year over year due to lower demand for the 505 Jet Ranger X model and to a lesser extent delivery delays, due to COVID-19 travel restrictions. The company witnessed substantial decline in demand and order cancellations for flight simulators in light of the expected long-term impact of the pandemic on the commercial air transport business.

Unfavorable financial ratio and adverse impact of the COVID-19 pandemic on the stock's operating results might be a cause of concern for investors

On the other hand, Textron's aftermarket revenues slumped 31% due to low overall aircraft utilization. Moreover, its Industrial revenues were down from last year's second quarter owing to the temporary closures of Textron's manufacturing facilities across the globe. With no sign of any near-term respite from the ongoing crisis associated with the pandemic, we expect Textron's operating results to be affected by these impacts, at least in the near future.

- ▼ Economic and other impacts of the pandemic may result in weak demand for Textron's aviation and commercial helicopter products and services, delay or cancellation of existing orders by its customers and lower flight hours, and consequently, lower demand for parts and maintenance. In addition, new regulations by U.S. or foreign governments and government agencies for the aviation or travel industry could adversely impact demand for aircraft and rotorcraft or significantly reduce hours flown. As a result, the company's costs may increase. These cost increases may not be fully recoverable, which in turn might negatively impact Textron's profitability, and may continue even after the business environment has improved.
- ▼ Textron's cash and cash equivalents were \$2.3 billion at the end of second-quarter 2020, while its long-term debt was \$3 billion as of Jun 30, 2020, slightly higher than the long-term debt value. Meanwhile, the company's short-term debt and current portion of long-term debt as of Mar 31, 2020 was \$1.1 billion. Although the difference between long-term debt value and cash reserve is not much and its current debt is also lower than the cash balance, the company's financial ratio does not seem very impressive.

Notably, the company's times interest earned ratio has declined sequentially. It came in at 3.4 at the end of second-quarter 2020, down from the previous quarter's 5.7. The notable decline in this ratio indicates that the firm might face difficulties to meet debt obligations in the near future. Anticipating further adverse impacts of the pandemic and the new term loan of \$500 million that it took in April, Textron has kept its share repurchase program temporarily suspended. This may cause its investors to further lose confidence in the stock.

Last Earnings Report

Textron Q2 Earnings Beat Estimates, Revenues Fall Y/Y

Textron reported second-quarter 2020 adjusted earnings of 13 cents per share against the Zacks Consensus Estimate of a loss of 15 cents.

Including one-time items, the company posted GAAP loss of 40 cents per share against income of 93 cents generated in the year-ago quarter.

This year-over-year deterioration can be attributed to COVID-19, which led the company to witness lower commercial volume and idle facility cost.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	5.15%
EPS Surprise	186.67%
Quarterly EPS	0.13
Annual EPS (TTM)	2.54

Revenues

Total revenues came in at \$2,472 million, which surpassed the Zacks Consensus Estimate of \$2,351 million by 5.1%. However, the reported figure decreased 23.5% from the year-ago quarter's \$3,227 million on lower contributions from the company's Aviation and Industrial segments.

Manufacturing revenues decreased 23.5% to \$2,472 million, while revenues at the Finance division declined 6.3% to \$15 million.

Segmental Performance

Textron Aviation: In the quarter under review, revenues at this segment plunged 33.5% to \$747 million from \$1,123 million in the year-ago quarter. The decline was primarily due to lower Citation jet volume, delays in the acceptance of aircraft related to COVID-19 travel restrictions, and lower aftermarket volume, reflecting lower aircraft utilization.

The company delivered 23 jets, down from 46 in the year-ago quarter. It also delivered 15 commercial turboprops, down from 34 in first-quarter 2019.

The segment incurred loss of \$66 million in the quarter, down from loss of \$105 million in the year-ago quarter, owing to lower volume and mix. The order backlog at the end of the quarter was \$1.4 billion.

Bell: Revenues from this segment were \$822 million, up 6.6% from the year-ago quarter's \$771 million, primarily due to higher military volume. The segment delivered 27 commercial helicopters in the quarter, down from 53 last year.

Segment profits were up 14.6% to \$118 million on account of higher military volume. Bell's order backlog at the end of the quarter was \$5.8 billion, down \$0.6 billion sequentially.

Textron Systems: Revenues at this segment came in at \$326 million, up from \$308 million in the year-ago period. The upside can be primarily attributed to higher volume at this unit's unmanned systems product line.

Segmental profits decreased 24.5% year over year to \$37 million in the second quarter.

Textron Systems' backlog at the end of the second quarter was \$1.9 billion, higher than \$1.4 billion at the end of the previous quarter.

Industrial: Revenues at this segment declined a huge 44.3% to \$562 million, due to lower revenues from Fuel Systems and Functional Components as well as Textron Specialized Vehicles.

Moreover, segmental loss was \$11 million compared to loss of \$76 million in the previous quarter owing to lower volume and mix.

Finance: Revenues at this segment decreased to \$15 million from \$16 million in the year-ago quarter.

Financials

As of Jul 4, 2020, cash and cash equivalents totaled \$2,176 million compared with \$1,181 million as of Jan 4, 2020.

Cash outflow from operating activities amounted to \$148 million at the end of the second quarter compared with cash outflow of \$33 million at the end of the prior-year period.

Capital expenditures were \$46 million in second-quarter 2020 compared with \$76 million in second-quarter 2019.

Long-term debt was \$2,955 million as of Jul 4, 2020, compared with \$2,563 million as of Jan 4, 2020.

Recent News

On **Sept. 4, 2020**, Textron's Bell segment clinched a contract for manufacturing eight UH-1Y and four AH-1Z helicopters. The majority of the work related to the deal is scheduled to be completed in Fort Worth, TX.

Valued at \$272.2 million, the contract was awarded by the Naval Air Systems Command, Patuxent River, MD. Post completion, these helicopters will be delivered to the government of the Czech Republic. Textron is expected to complete the deal by November 2023.

Valuation

Textron's shares are down 26.1% in the year to date period and 30% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 29.3% and 37.6% in the year to date period, respectively. Over the past year, the Zacks sub-industry is down 35.4% and the Zacks Aerospace sector witnessed a 39.8% decline.

The S&P 500 index is up 5.2% in the year to date period and 11.8% in the past year.

The stock is currently trading at 13.8X forward 12-month earnings, which compares to 18.1X for the Zacks sub-industry, 18.6X for the Zacks sector and 21.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.3X and as low as 5.9X, with a 5-year median of 14.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 14.6X earnings value.

The table below shows summary valuation data for TXT

Valuation Multiples - TXT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.81	18.08	18.63	21.75
	5-Year High	23.29	22.54	20.96	23.47
	5-Year Low	5.9	14.52	14.17	15.27
	5-Year Median	14.94	17.86	17.54	17.68
P/S F12M	Current	0.61	1.17	1.54	4.03
	5-Year High	1.22	1.64	1.69	4.31
	5-Year Low	0.35	0.95	0.93	3.18
	5-Year Median	0.83	1.28	1.24	3.67
EV/EBITDA TTM	Current	8.26	15.28	16.1	15.27
	5-Year High	14.91	16.69	16.69	15.68
	5-Year Low	5.03	7.61	7.61	9.55
	5-Year Median	10.15	10.76	10.74	13.1

As of 10/27/2020 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Airbus Group (EADSY)	Neutral	NA
General Dynamics Corporation (GD)	Neutral	4
Leidos Holdings, Inc. (LDOS)	Neutral	3
L3Harris Technologies Inc (LHX)	Neutral	3
Lockheed Martin Corporation (LMT)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	4
The Boeing Company (BA)	Underperform	4
Embraer Empresa Brasileira de Aeronautica (ERJ)	Underperform	5

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

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	TXT	X Industry	S&P 500	GD	LMT	NOC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	4
VGM Score	A	-	-	A	A	A
Market Cap	7.51 B	10.73 B	23.55 B	38.70 B	101.40 B	50.37 B
# of Analysts	6	5.5	13	8	9	7
Dividend Yield	0.24%	0.01%	1.68%	3.26%	2.65%	1.92%
Value Score	A	-	-	B	B	C
Cash/Price	0.29	0.10	0.07	0.06	0.03	0.10
EV/EBITDA	5.75	12.05	13.09	8.54	12.05	14.57
PEG F1	1.71	2.23	2.67	2.35	2.23	NA
P/B	1.36	2.94	3.35	2.79	20.34	4.81
P/CF	5.85	9.75	12.78	9.06	13.78	10.95
P/E F1	21.46	14.70	20.70	12.22	14.85	13.32
P/S TTM	0.60	1.00	2.55	1.00	1.58	1.43
Earnings Yield	4.55%	5.57%	4.54%	8.19%	6.73%	7.50%
Debt/Equity	0.66	0.72	0.70	0.75	2.34	1.36
Cash Flow (\$/share)	5.63	2.73	6.92	14.89	26.30	27.58
Growth Score	B	-	-	B	A	A
Historical EPS Growth (3-5 Years)	7.59%	14.85%	10.10%	6.15%	18.98%	23.34%
Projected EPS Growth (F1/F0)	-59.85%	-1.80%	-1.78%	-7.85%	11.16%	6.90%
Current Cash Flow Growth	0.31%	11.64%	5.49%	3.16%	18.08%	2.21%
Historical Cash Flow Growth (3-5 Years)	3.22%	7.38%	8.50%	6.36%	9.70%	14.43%
Current Ratio	2.19	1.32	1.37	1.27	1.33	1.44
Debt/Capital	39.61%	42.98%	42.02%	42.98%	70.07%	57.67%
Net Margin	3.01%	4.38%	10.41%	8.47%	10.18%	6.94%
Return on Equity	10.60%	10.92%	14.92%	24.10%	173.43%	40.02%
Sales/Assets	0.82	0.79	0.50	0.76	1.30	0.82
Projected Sales Growth (F1/F0)	-14.74%	0.00%	-0.46%	-2.41%	8.94%	5.61%
Momentum Score	B	-	-	B	B	A
Daily Price Change	-3.12%	-2.31%	-1.23%	-2.63%	-1.66%	-2.49%
1-Week Price Change	-2.98%	-0.54%	0.01%	-1.08%	-3.15%	-2.47%
4-Week Price Change	-10.39%	-5.25%	1.76%	-2.66%	-6.77%	-7.12%
12-Week Price Change	-8.24%	-7.64%	1.86%	-8.40%	-4.12%	-7.04%
52-Week Price Change	-30.06%	-20.74%	-0.11%	-23.38%	-2.34%	-12.98%
20-Day Average Volume (Shares)	1,167,193	513,725	1,803,058	1,362,183	1,100,908	1,061,828
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.35%	0.96%
EPS F1 Estimate 4-Week Change	-1.10%	0.00%	0.28%	0.00%	0.59%	0.96%
EPS F1 Estimate 12-Week Change	8.03%	-0.14%	3.06%	-0.27%	0.61%	2.52%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.12%	0.33%	1.60%	0.02%

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	B
Momentum Score	B
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 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.