

Marriott Vacations (VAC)

\$161.50 (As of 07/01/21)

Price Target (6-12 Months): **\$170.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

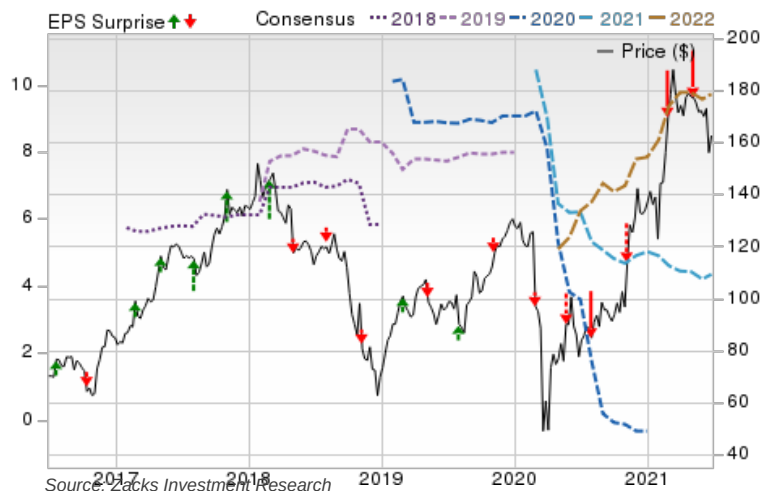
Growth: F

Momentum: A

Summary

Shares of Marriott Vacations have outperformed the industry so far this year. Of late the company witnessed improving occupancy rates, illustrating people's willingness to go on vacations. This along with increased focus on digitization is likely to benefit the company going forward. Robust revenue-building capacities and innovations are likely to boost the company's prospects. Also, the company has adequate liquidity to fund operations and debt service payments for some time. However, the coronavirus pandemic and high expenses remain a concern. Notably, earnings estimates for current year have moved up over the past 30 days, depicting analysts' optimism regarding its bottom-line growth potential.

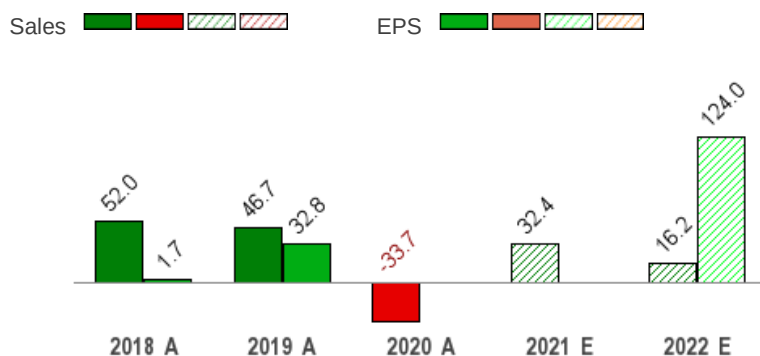
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$190.97 - \$78.85
20-Day Average Volume (Shares)	683,420
Market Cap	\$6.9 B
Year-To-Date Price Change	17.7%
Beta	2.59
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 27% (183 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-69.0%
Last Sales Surprise	-3.5%
EPS F1 Estimate 4-Week Change	3.4%
Expected Report Date	08/04/2021
Earnings ESP	13.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,079 E	1,037 E	1,118 E	1,160 E	4,438 E
2021	759 A	921 E	1,041 E	1,099 E	3,820 E
2020	1,010 A	480 A	649 A	747 A	2,886 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.74 E	\$2.50 E	\$2.63 E	\$2.70 E	\$9.72 E
2021	-\$0.49 A	\$0.82 E	\$1.79 E	\$2.18 E	\$4.34 E
2020	\$1.71 A	-\$1.76 A	-\$0.81 A	-\$0.05 A	-\$0.45 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	37.2
PEG F1	4.1
P/S TTM	2.6

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 07/01/2021. The report's text and the

analyst-provided price target are as of 07/02/2021.

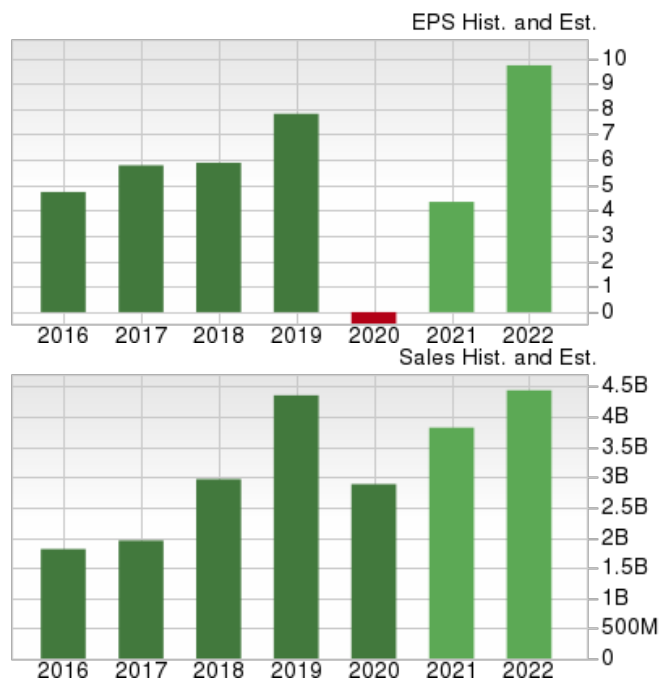
Overview

Marriott Vacations Worldwide Corporation, a leading global vacation company, offers vacation ownership, exchange, rental, resort and property management services. As of 2019-end, the company had more than 100 resorts, and 660,000 owners and members in a diverse portfolio of seven vacation ownership brands. It also has exchange networks and membership programs in more than 3,200 resorts in 80 countries.

Marriott Vacations' business is operated under two major segments — Vacation Ownership (accounting for 89% of total revenues in 2020) and Exchange & Third-Party Management (11%). The Vacation Ownership Exchange segment generates the major chunk of its revenues from four sources — selling vacation ownership products; managing vacation ownership resorts, clubs and owners' associations; financing consumer purchases of vacation ownership products; and renting vacation ownership inventory.

The company's Exchange & Third-Party Management segment revenues are fee-based and are derived from membership, exchange and rental transactions, property and owners' association management, and other related products and services.

In 2018, Marriott Vacations announced the completion of its merger with ILG, Inc., a renowned provider of vacation experiences. Marriott Vacations closed the deal on paying roughly \$4.6 billion. On the completion of the acquisition, Marriott Vacation's board of directors included two members from ILG's board.



Reasons To Buy:

▲ **Occupancy Increasing Gradually:** Following the reopening of resorts in May 2020, Marriott Vacations have been witnessing sequential improvement in occupancy rates, thereby highlighting people's willingness to go on vacations. During first-quarter 2021, the company witnessed strong occupancy rates at short-haul fly-to locations. Notably, occupancy rates at Florida Beach resorts increased in the high-80% range, while occupancy rates in South Carolina resorts as well as Colorado and Utah Mountain resorts rose 80% and 85%, respectively. Moreover, U.S. Virgin Island resorts reported occupancy rates of more than 85% during the quarter.

Strong revenue-building capacities along with digital innovations are likely to boost the company's prospects.

During the quarter, the company also witnessed improvement in occupancy rates in states that previously lagged the same. Notably, occupancy rates in Orlando represented more than 20% of North America keys, averaged nearly 60% occupancy during the quarter, including more than 75% during March 2021. Also, the company witnessed solid improvement in Hawaii occupancy rates (excluding Kauai), following the lifting of restrictions in October 2020. Notably, occupancy rates for Hawaii averaged nearly 70% during the quarter, with March 2021 averaging nearly 85%.

▲ **Cost Synergies From Acquisition:** Marriott Vacations completed the acquisition of ILG, Inc., a provider of professionally delivered vacation experiences in September 2018. Post the completion of the acquisition, Marriott Vacations' pipeline expanded to more than 100 resorts. By 2019-end, the company had generated more than \$60 million of disposal proceeds through the integration of ILG. During the third quarter 2020, it further realized \$15 million by disposing several parcels of land. Notably, the company expects to generate \$90-\$140 million by disposing the remaining assets over the upcoming years.

In 2020, Marriott Vacations run rate savings came in at approximately \$135 million, out of which \$85 million were realized in 2020 earnings while the remaining \$50 million, are yet to be realized. With the coronavirus-induced disruptions, the company is focusing on ways to drive more synergies and other cost savings. Resultantly, the company has raised its synergy and cost savings target to a minimum of \$200 million by 2021-end. On Apr 1, 2021, the company completed the acquisition of Welk Hospitality Group, Inc, one of the largest independent timeshare companies in North America. With the help of this acquisition, the company can leverage existing infrastructure to eliminate redundancies and deliver cost savings.

▲ **Digital Innovation:** Hoteliers are adopting aggressive technological ways to sustain competition and meet the changing nature of consumer demand. Marriott Vacation has also been focusing on digital expansion and innovation of latest techniques. In the second quarter 2019, the company launched its digital marketing program with Marriott, which will allow users of Marriott.com to receive attractive offers and promotions. Marriott Vacations is also pursuing opportunities in other social media and digital advertising platforms. Management is optimistic about integrating further data analytics into its marketing strategy.

▲ **Enough Liquidity to Tide Over Pandemic:** Marriott Vacations has sufficient liquidity to temporarily survive the current scenario of unpredictability. As of Mar 31, 2021, cash and cash equivalents were \$643 million compared with \$524 million as of Dec 31, 2020. Also, the company ended the first quarter of 2021, with liquidity of nearly \$1.4 billion, inclusive of cash and cash equivalents, \$240 million of gross notes receivable and \$598 million of available revolving credit facility. The company's long-term debt at the end of first-quarter 2021 stood at \$4.4 billion, slightly up from \$4.3 billion as of Dec 31, 2020. However, the company stated that it has no corporate debt maturities before late 2022. At the end of the fourth quarter, the company had debt-to-capital ratio of 0.6x, almost flat sequentially.

Reasons To Sell:

- ▼ **Coronavirus Impact:** Given the widespread and profound nature of the business, Marriott Vacations suffered downfalls in occupancy, rentals and contract sales due to “stay-at-home” recommendations (or requirements), quarantines and the reluctance of consumers to travel. Notably, the company also suspended its share repurchase programs and dividends payment for the foreseeable future. Although during the first quarter of 2021 the company is still reopening many of its sales centers, it witnessed lower contract sales performance due to the impact of the COVID-19 pandemic. Also, comparable store sales at Marriott Vacations’ hotels slowed down due to the impact of the COVID-19 pandemic.
- ▼ **Q1 Results Decline Sharply:** The company reported first-quarter 2021 results, with earnings and revenues missing the Zacks Consensus Estimate. Also, the metrics declined sharply year over year. Earnings missed the consensus estimate for the seven consecutive quarter. In the quarter under review, adjusted loss per share came in at 49 cents, wider than the Zacks Consensus Estimate of a loss of 29 cents. In the prior-year quarter, the company reported adjusted earnings of \$1.71 per share. Total revenues of \$759 million missed the consensus mark of \$786 million by 3.5%. The top line declined 24.9% on a year-over-year basis.
- ▼ **High Expenses:** Despite cost synergies from the ILG acquisition, the company has been bearing the brunt of steep expenses. Despite limited operations in 2020 owing to the pandemic total expenses came in at \$2,984 million compared with \$3,801 million in 2019. Although during the first quarter of 2021 total expenses reduced to \$759 million from \$1,010 million in the prior quarter, the company is still witnessing some wage inflations and general and marketing cost hikes. Notably, escalated marketing and sales expenses along with management and exchange costs affected total costs. Going forward, costs are likely to shoot up due to the coronavirus impact.
- ▼ **Cyclical Nature of the Industry Poses Concern:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Marriott Vacations’ revenues and profits. Consumer demand for services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. Declines in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower the revenues and profitability of the company owned properties.
- ▼ **Cutthroat Competition:** The hotel industry is highly competitive as major hospitality chains, with well-established and recognized brands, are continuously expanding global presence. Marriott Vacations is continuously facing intense competition from large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry. Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google and peer-to-peer inventory sources. These allow travelers to book stays on websites that facilitate short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms, such as Airbnb and HomeAway.

Coronavirus outbreak and high expenses remain potent headwinds.

Last Earnings Report

Marriott Vacations Q1 Earnings & Revenues Lag Estimates

Marriott Vacations reported dismal first-quarter 2021 results, wherein both earnings and revenues not only missed the Zacks Consensus Estimate but also declined sharply year over year.

Stephen P. Weisz, CEO said "Our results this quarter are evidence of the continued recovery in our business and the resiliency of our business model. We generated \$226 million in contract sales in the first quarter, a 27% sequential increase, and currently expect contract sales to increase to \$320 million to \$340 million in the second quarter.

Quarter Ending 03/2021

Report Date	May 05, 2021
Sales Surprise	-3.47%
EPS Surprise	-68.97%
Quarterly EPS	-0.49
Annual EPS (TTM)	-3.11

Q1 Earnings and Revenues

The company reported adjusted loss per share of 49 cents in the quarter under review, wider than the Zacks Consensus Estimate of a loss of 29 cent. In the year-ago quarter, the company had reported adjusted earnings of \$1.71 per share.

Total revenues of \$759 million missed the consensus mark of \$786 million by 3.5%. Moreover, the top line declined 24.9% on a year-over-year basis.

Segmental Performances

Vacation Ownership: During the first quarter, the segment's revenues declined 27.2% year over year to \$661 million compared with \$908 million in the prior-year quarter. Revenues, excluding cost reimbursements fell 30% year over year. However, the figure improved 14% compared with fourth-quarter 2020. Moreover, in the first quarter, revenues from sale of vacation ownership products, rentals, and management and exchange increased 19%, 29%, and 5%, respectively, quarter over quarter.

The segment's adjusted EBITDA came in at \$68 million compared with \$147 million in the prior-year quarter.

Exchange & Third-Party Management: The segment's revenues totaled \$86 million in the first quarter, down 19.6% from \$107 million in the prior-year quarter. The downside was primarily due to reduced exchange and rental transactions as well as lower management fees on account of the coronavirus pandemic.

During the first quarter, total Interval Network active members declined 3% (compared with the previous quarter's levels) to 1.5 million, while interval International average revenue per member rose 14% to \$47.13. The segment's adjusted EBITDA amounted to \$41 million, flat year over year.

Corporate and Other results

During the first quarter, General and administrative costs declined \$24 million year over year, courtesy of synergy savings, lower costs related to the furlough and reduced work week programs.

Expenses & EBITDA

Total expenses in the quarter declined 30.3% year over year to \$739 million compared with \$1060 million reported in the year-ago quarter.

The company's adjusted EBITDA in the first quarter amounted to \$69 million compared with \$138 million reported in the year-ago quarter.

Balance Sheet

As of Mar 31, 2021, cash and cash equivalents were \$643 million compared with \$524 million as of Dec 31, 2020.

The company had \$4.4 billion in debt outstanding (net of unamortized debt issuance costs) at the end of the first quarter, up \$0.1 billion from 2020-end. This includes \$3 billion of corporate debt and \$1.4 billion of non-recourse debt related to its securitized notes receivable.

Due to uncertainties related to the pandemic, the company temporarily suspended its share repurchases and dividend payouts.

Valuation

Marriott Vacations' shares are up 17.7% in the year-to-date period and 93.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 4.4% and the Zacks Consumer Discretionary sector is up by 12.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 47.1% and 49.9%, respectively.

The S&P 500 index is up 15.8% in the year-to-date period and 41.3% in the past year.

The stock is currently trading at 22.95X forward 12-month earnings, which compares to 41X for the Zacks sub-industry, 29.21X for the Zacks sector and 21.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.36X and as low as 3.81X, with a 5-year median of 16.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$170 price target reflects 24.09X forward 12-month earnings.

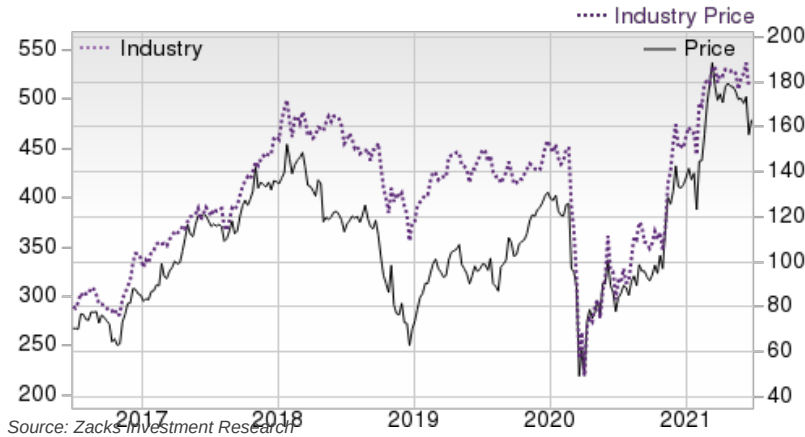
The table below shows summary valuation data for VAC.

Valuation Multiples - VAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.95	41	29.21	21.86
	5-Year High	34.36	66.15	31.88	23.83
	5-Year Low	3.81	16.71	14.49	15.31
	5-Year Median	16.37	23.58	18.13	18.2
P/S F12M	Current	1.67	3	2.72	4.76
	5-Year High	2.27	3.53	2.72	4.76
	5-Year Low	0.33	1.35	1.56	3.21
	5-Year Median	1.17	1.84	2.26	3.73
EV/EBITDA TTM	Current	55.21	79.55	18.81	17.63
	5-Year High	59.7	85.16	20.68	17.74
	5-Year Low	5.99	9.3	9.43	9.63
	5-Year Median	13.41	15.54	14.18	13.48

As of 07/01/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 27% (183 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Choice Hotels International, Inc. (CHH)	Neutral	3
Civeo Corporation (CVEO)	Neutral	3
Hyatt Hotels Corporation (H)	Neutral	3
Hilton Grand Vacations Inc. (HGV)	Neutral	3
China Lodging Group, Limited (HTHT)	Neutral	3
Marriott International, Inc. (MAR)	Neutral	3
Wyndham Hotels & Resorts Inc. (WH)	Neutral	3
Intercontinental Hotels Group (IHG)	Underperform	4

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

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	VAC	X Industry	S&P 500	HGV	MAR	WH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	D	B
Market Cap	6.90 B	6.68 B	30.67 B	3.65 B	45.17 B	6.82 B
# of Analysts	5	4.5	12	2	10	7
Dividend Yield	0.00%	0.00%	1.32%	0.00%	0.00%	0.88%
Value Score	B	-	-	C	C	C
Cash/Price	0.17	0.08	0.06	0.14	0.01	0.08
EV/EBITDA	-226.07	-12.10	17.30	-28.75	118.01	160.78
PEG F1	4.12	1.05	2.10	NA	NA	NA
P/B	2.43	5.71	4.16	9.90	193.04	6.88
P/CF	52.63	36.32	17.60	33.66	84.10	35.04
P/E F1	37.07	39.69	21.12	36.82	66.53	32.02
P/S TTM	2.62	5.71	3.46	4.70	5.50	5.71
Earnings Yield	2.69%	1.45%	4.65%	2.72%	1.50%	3.12%
Debt/Equity	1.63	1.12	0.66	5.02	40.11	2.09
Cash Flow (\$/share)	3.07	1.27	6.86	1.27	1.66	2.08
Growth Score	F	-	-	B	F	B
Historical EPS Growth (3-5 Years)	-0.08%	-0.80%	9.59%	-47.12%	-1.52%	NA
Projected EPS Growth (F1/F0)	1,064.44%	131.16%	21.04%	149.15%	1,062.78%	121.22%
Current Cash Flow Growth	-75.20%	-56.68%	1.02%	-56.68%	-77.76%	-54.46%
Historical Cash Flow Growth (3-5 Years)	-3.00%	-2.72%	7.34%	-11.68%	-11.44%	-2.13%
Current Ratio	3.31	1.40	1.38	6.09	0.45	1.11
Debt/Capital	61.94%	63.27%	41.48%	83.40%	97.57%	67.69%
Net Margin	-7.48%	-10.89%	12.06%	-27.76%	-3.77%	-10.89%
Return on Equity	-4.73%	-4.73%	16.63%	0.96%	-57.49%	8.62%
Sales/Assets	0.29	0.24	0.51	0.23	0.33	0.25
Projected Sales Growth (F1/F0)	32.38%	33.96%	9.72%	35.00%	25.18%	20.69%
Momentum Score	A	-	-	C	A	A
Daily Price Change	1.38%	0.27%	0.52%	3.19%	1.99%	0.94%
1-Week Price Change	4.18%	0.78%	1.25%	-0.59%	0.94%	-0.30%
4-Week Price Change	-3.59%	-3.04%	3.03%	-6.81%	-0.83%	-2.37%
12-Week Price Change	-4.99%	-5.03%	5.44%	10.73%	-6.83%	1.02%
52-Week Price Change	93.07%	58.59%	38.02%	111.64%	58.59%	66.37%
20-Day Average Volume (Shares)	683,420	538,024	1,969,078	608,201	2,141,837	600,760
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.44%
EPS F1 Estimate 4-Week Change	3.43%	0.00%	0.00%	0.00%	0.00%	0.44%

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

EPS F1 Estimate 12-Week Change	-2.16%	:	4.67%	3.81%	:	-6.70%	22.04%	14.34%
EPS Q1 Estimate Monthly Change	4.44%	:	0.00%	0.00%	:	0.00%	0.00%	0.36%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	F
Momentum Score	A
VGM Score	C

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

Disclosures

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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.