

## Whirlpool Corporation (WHR)

**\$178.88** (As of 08/28/20)

Price Target (6-12 Months): **\$206.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:C

Value: A

Growth: D

Momentum: F

## Summary

Shares of Whirlpool have outpaced the industry year to date driven by robust earnings surprise trend. It reported earnings beat for the eighth straight quarter in the second quarter of fiscal 2020. Moreover, it witnessed solid recovery in demand across all regions in June. It is also poised to gain from rising demand for home and kitchen products. Notably, management issued positive sales view for 2020. The company has chalked out plans to protect margins and enhance liquidity position to navigate through this recent scenario. These endeavors are likely to generate more than \$500 million of net cost takeout. However, COVID-19 disruptions along with higher prices impacted margins in the second quarter. Also, both the top and bottom lines fell year over year with sales decline across all regions due to muted demand due to the COVID-19 crisis.

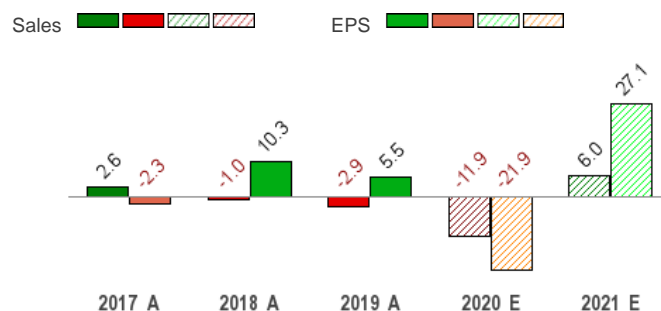
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$185.96 - \$64.00</b>
20-Day Average Volume (Shares)	<b>581,452</b>
Market Cap	<b>\$11.1 B</b>
Year-To-Date Price Change	<b>21.3%</b>
Beta	<b>2.05</b>
Dividend / Dividend Yield	<b>\$4.80 / 2.7%</b>
Industry	<b>Household Appliances</b>
Zacks Industry Rank	<b>Top 13% (34 out of 252)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>190.5%</b>
Last Sales Surprise	<b>13.2%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>12.9</b>
P/E F1	<b>14.3</b>
PEG F1	<b>2.7</b>
P/S TTM	<b>0.6</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,319 E	4,494 E	4,814 E	5,164 E	19,064 E
2020	4,325 A	4,042 A	4,547 E	5,074 E	17,988 E
2019	4,760 A	5,186 A	5,091 A	5,382 A	20,419 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.23 E	\$3.89 E	\$4.33 E	\$4.55 E	\$15.89 E
2020	\$2.82 A	\$2.15 A	\$3.50 E	\$4.20 E	\$12.50 E
2019	\$3.11 A	\$4.01 A	\$3.97 A	\$4.91 A	\$16.00 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/28/2020. The reports text is as of 08/31/2020.

## Overview

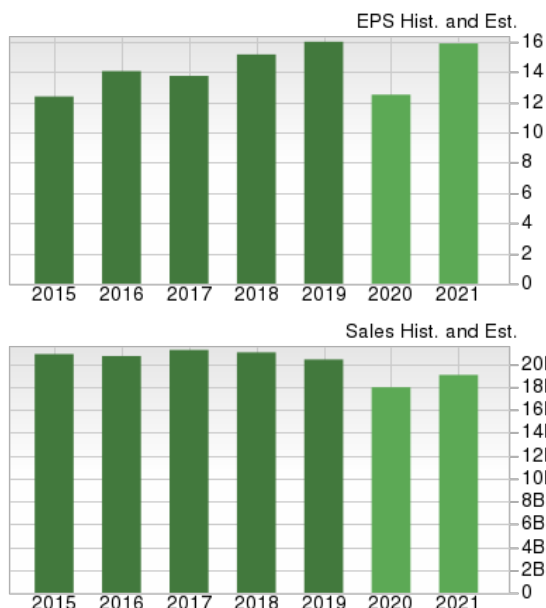
Benton Harbor, MI-based Whirlpool Corporation founded in 1955 is one of the largest manufacturers of home appliances in the world. The company manufactures products in 14 countries and markets products in nearly every country around the world.

Notably, the company's portfolio of products can be broadly classified into laundry appliances, refrigerators and freezers, cooking appliances, and other small household appliances such as dishwashers and mixers. It also produces hermetic compressors for refrigeration systems.

It markets brands including Whirlpool, KitchenAid, Maytag, Consul, Brastemp, Amana, Bauknecht, JennAir, Indesit and other major brand names. The company has the best brand portfolio in the industry, led by Whirlpool and KitchenAid. Of its brand portfolio, six brands generate more than \$1 billion in revenue.

Whirlpool, with its manufacturing and technology research centers spread globally, conducts its business through four reportable geographic segments. These are – North America; Latin America; Europe, Middle East and Africa (EMEA); and Asia. These regions contributed 56%, 16%, 21% and 7%, respectively, to total revenues in 2019.

The company is on track with its cost-based price increments and cost-reduction initiatives, which focus on improving business efficiency and boosting margins. Apart from these, the company remains well positioned to capture increasing demand of customers for the home and kitchen products. One home appliance that might boost the company's performance is the HEPA Air Purifier, which is capable of removing as much as 99.97% of particles from the air.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Earnings Surprise Trend:** Shares of Whirlpool have gained 21.2% year to date, outperforming the industry's growth of 18.2%. The stock benefited from its robust earnings surprise trend for the eighth straight quarter in second-quarter 2020. The company delivered adjusted earnings of \$2.15 per share that surpassed the Zacks Consensus Estimate of 74 cents. The better-than-expected bottom line results reflect the company's resilience toward the crisis mainly driven by the cost containment efforts, which are providing cushion.
- ▲ **Upbeat Sales View:** Although sales declined 22.1% year over year during second-quarter 2020, the metric surpassed the Zacks Consensus Estimate. Further, the company witnessed solid recovery in demand across all regions in June, which contributed to year-over-year global margin expansion for the month. Driven by the positive trend, management favorably revised its sales view for 2020. It now envisions 2020 sales decline of roughly 10-15%, compared with the earlier projection of 13-18% decline. Meanwhile, organic sales are likely to drop 7-12% as compared to the prior view of a decline of 10-15%.
- ▲ **Action Plan to Mitigate COVID-19 Impact:** Whirlpool has chalked out plans to protect margins and enhance liquidity position to navigate through this difficult time. Year-to-date, it has generated roughly \$180 million in cost savings. Moving ahead, the company targets more than \$500 million of net cost takeout from actions like curtailing structural and discretionary costs, capturing raw material deflation opportunity, effectively managing working capital and syncing supply chain and labor levels with demand. The company remains well positioned to capture increasing customer demand for the home and kitchen products. The company is focused on enhancing e-commerce and improving direct-to-consumer capabilities.
- ▲ **Financial Flexibility:** Whirlpool looks financially stable amid the coronavirus pandemic with no current maturities of long-term debt and enough cash and cash equivalents to meet any obligations. As of Jun 30, 2020, the company had cash and cash equivalents of \$2,546 million, which reflects an increase of about 30.4% on a sequential basis. Additionally, the company has roughly \$2 billion available in remaining committed credit facilities. This includes recently executed \$500 million short-term credit facility. Although, the company's long-term debt increased 18% sequentially to \$4,866 million as of Jun 30, its debt to capitalization ratio stands at 0.50, which is below the company's maximum limit of 0.65. While the company's interest coverage ratio requires a minimum of three times, it is currently above 10 times. Also, the company has no bond maturities for the remainder of 2020. Its next bond maturity of \$300 million is due in the second quarter of 2021.

Whirlpool expects more than \$500 million of net cost takeout through cost-saving endeavors. It also remains well positioned to capture increasing demand for the home and kitchen products.

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## Risks

- **Stock Valuation Looks Stretched:** Considering Price-to-Earnings (P/E) ratio, Whirlpool looks pretty overvalued when compared with the broader industry. The stock has a trailing 12-month P/E of 12.92x compared with 12.57x for the industry. Its trailing 12-month P/E ratio is above the median level of 9.2x while it is below the high level of 13.31x scaled in the past year. These factors profess that the stock's valuation is quite stretched.
  - **EBIT Decline Y-o-Y:** During second-quarter 2020, adjusted operating profit (EBIT) decreased 42.1% year over year to \$210 million. We note that adjusted operating margin contracted 180 basis points (bps) to 5.2%. This can be attributed to COVID-19-related disruptions of about 300 bps, which more than offset the company's stringent cost saving initiatives. Further, unfavorable price impacted the margin to the tune of 75 bps owing to negative product mix stemming from changes in consumer spending amid the COVID-19.
  - **Stiff Competition:** Whirlpool operates in a highly competitive home appliance industry having rivals namely Arcelik, Bosch, Electrolux, Haier, Kenmore, LG, Mabe, Midea, Panasonic and Samsung. The company faces competition on attributes such selling price, product features and design, consumer taste, performance, innovation, reputation, energy efficiency, service, quality, cost, distribution, and financial incentives. Moreover, with more and more companies adopting e-commerce channel and direct-to-consumer business models the competition has increased. Definitely, this may hurt the company's market share.
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## Last Earnings Report

### Whirlpool Beats on Q2 Earnings, Updates 2020 View

Whirlpool Corporation posted better-than-expected second-quarter 2020 results. The quarter marked a positive earnings surprise for the company for the eighth straight quarter. However, both top and bottom lines fell year over year. Although strict cost-containment actions provided some cushion to the stock.

That said, management highlighted that the company witnessed solid recovery in demand across all regions in June. Impressively, this contributed to year-over-year global margin expansion for the month. Notably, the company also revised its full year outlook.

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	13.20%
EPS Surprise	190.54%
Quarterly EPS	2.15
Annual EPS (TTM)	13.85

### An Insight Into Q2

The company delivered adjusted earnings of \$2.15 per share that surpassed the Zacks Consensus Estimate of 74 cents but declined 46.4% from the year-ago quarter's \$4.01. On a GAAP basis, it reported earnings of 55 cents per share, significantly down from \$1.04 registered in the prior-year period.

Net sales of \$4,042 million declined 22.1% from the year-ago period but exceeded the Zacks Consensus Estimate of \$3,571 million. Organic net sales fell 13.8% to \$4,191 million.

Adjusted operating profit (EBIT) decreased 42.1% to \$210 million from \$363 million in the year-ago quarter. We note that adjusted operating margin contracted 180 basis points to 5.2%. This can be attributed to COVID-19-related disruptions of about 300 basis points, which more than offset the company's stringent cost discipline.

### Regional Performance

Net sales from North America dropped 12.5% year over year to \$2,501 million. On a currency-neutral basis, sales for the region declined 12.3%. The segment's operating profit fell 10.6% to \$316 million, while operating margin expanded 20 basis points to 12.6%. The uptick can be attributable to aggressive cost actions and deferred marketing spend, which more than offset the muted demand.

Net sales from EMEA (Europe, Middle East and Africa) declined 19% to \$836 million. On a currency-neutral basis, sales for the region fell 17%. Notably, the segment's operating loss for the quarter under review came in at \$66 million wider than the loss of \$16 million in the year-ago period, due to adverse impacts of reduced volumes. However, improved demand in June is helping the segment get back on track.

Net sales from Latin America plunged 51.1% to \$434 million. On a currency-neutral basis, sales for the region declined 39%. However, the segment's organic net sales fell 4.1% due to soft demand in Mexico, which somewhat offset gain in share. The segment reported an operating profit of \$11 million, down from \$56 million in the year-ago period. Moreover, operating margin contracted 380 bps to 2.5%. Management stated that unfavorable currency and reduced volumes offset cost-containment efforts. The region's operating profit includes \$23 million related to the Embraco compressor business.

Net sales from Asia decreased 37.1% to \$271 million from the prior-year quarter's figure due to shut down in India in April/May with recovery taking place in the month of June.. On a currency-neutral basis, sales for the region fell 33.7%. The segment reported an operating loss of \$18 million against an operating profit of \$15 million in the prior-year period. The downside mainly resulted from sluggish demand in the region, which more than offset cost-cutting efforts.

### Financial Position

As of Jun 30, 2020, Whirlpool had cash and cash equivalents of \$2,546 million, long-term debt of \$4,886 million and shareholders' equity of \$3,018 million, excluding non-controlling interest of \$907 million. Management highlighted that the company has roughly \$2 billion available in remaining committed credit facilities. The company generated negative free cash flow of \$873 million during six-month period ended on Jun 30.

### Guidance

The company has updated its 2020 guidance. It envisions 2020 sales to fall roughly 10-15% as compared to the earlier guided view of a sales decline of 13-18%. Meanwhile, organic sales are likely to drop 7-12% as compared to the prior view of a decline of 10-15%.

Also, management highlighted that it is on track to generate cost savings of \$500 million in 2020, driven by strategies undertaken in the wake of the ongoing COVID-19 crisis.

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## Recent News

### Whirlpool's Board Approves Dividend – Aug 18, 2020

Whirlpool Corporation's board has approved its quarterly cash dividend of \$1.2 per share, to be payable Sep 15, 2020 to shareholders of record as on Aug 28.

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## Valuation

Whirlpool shares are up 21.2% in the year-to-date period and nearly 28.6% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 18.2% but the Zacks Consumer Discretionary sector is down 0.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 25.3% and 9.3%, respectively.

The S&P 500 index is up 8.9% in the year-to-date period and 20.2% in the past year.

The stock is currently trading at 12.12X forward 12-month earnings, which compares to 11.16X for the Zacks sub-industry, 34.97X for the Zacks sector and 23.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.18X and as low as 4.17X, with a 5-year median of 10.15X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$206 price target reflects 13.96X forward 12-month earnings.

The table below shows summary valuation data for WHR

Valuation Multiples - WHR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.12	11.16	34.97	23.49
	5-Year High	13.18	11.35	34.97	23.49
	5-Year Low	4.17	5.61	16.13	15.25
	5-Year Median	10.15	9.5	19.84	17.6
P/S F12M	Current	0.6	0.35	2.5	3.84
	5-Year High	0.71	0.46	2.95	3.84
	5-Year Low	0.2	0.33	1.68	2.53
	5-Year Median	0.52	0.38	2.5	3.05
EV/EBITDA TTM	Current	6.68	5.7	11.42	13.29
	5-Year High	8.37	8	17.83	13.29
	5-Year Low	3	2.64	8.3	8.22
	5-Year Median	6.76	5.9	12.23	10.91

As of 08/28/2020

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## Industry Analysis Zacks Industry Rank: Top 13% (34 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Best Buy Co., Inc. (BBY)	Outperform	2
Hamilton Beach Brands Holding Company (HBB)	Outperform	1
Target Corporation (TGT)	Outperform	1
AO WORLD PLC (AOWDF)	Neutral	3
Electrolux AB (ELUXY)	Neutral	3
Illinois Tool Works Inc. (ITW)	Neutral	3
Walmart Inc. (WMT)	Neutral	3
HOWDEN JOINERY (HWDJY)	Underperform	4

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

Industry Comparison Industry: Household Appliances				Industry Peers		
	WHR	X Industry	S&P 500	ELUXY	HBB	HWDJY
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	1	-	-	3	1	4
VGM Score	C	-	-	B	C	A
Market Cap	11.14 B	2.35 B	23.71 B	6.77 B	284.88 M	3.88 B
# of Analysts	5	1	14	2	1	2
Dividend Yield	2.68%	1.11%	1.63%	3.31%	1.73%	0.68%
Value Score	A	-	-	B	C	C
Cash/Price	0.23	0.24	0.07	0.28	0.01	0.08
EV/EBITDA	6.12	9.61	13.37	7.66	9.09	11.08
PEG F1	2.68	2.79	3.08	4.72	NA	NA
P/B	2.84	3.83	3.22	3.83	4.63	5.33
P/CF	7.01	8.98	12.90	8.01	9.95	12.82
P/E F1	14.31	22.88	21.82	38.60	9.47	32.72
P/S TTM	0.59	0.57	2.52	0.57	0.45	NA
Earnings Yield	6.99%	4.43%	4.41%	2.58%	10.56%	3.08%
Debt/Equity	1.43	0.47	0.74	0.98	0.00	0.83
Cash Flow (\$/share)	25.53	2.19	6.94	5.47	2.09	2.03
Growth Score	D	-	-	C	A	A
Historical EPS Growth (3-5 Years)	4.90%	-3.98%	10.41%	-6.91%	NA	NA
Projected EPS Growth (F1/F0)	-21.88%	-44.12%	-4.94%	-46.46%	20.22%	-55.34%
Current Cash Flow Growth	-33.06%	-1.55%	5.22%	-7.73%	11.58%	5.59%
Historical Cash Flow Growth (3-5 Years)	1.93%	-0.14%	8.50%	-2.39%	NA	NA
Current Ratio	0.98	1.08	1.35	1.03	1.13	2.15
Debt/Capital	58.91%	45.48%	43.86%	49.39%	0.00%	45.48%
Net Margin	4.42%	4.42%	10.25%	3.20%	4.47%	NA
Return on Equity	22.08%	9.90%	14.66%	4.43%	55.16%	NA
Sales/Assets	1.00	1.00	0.50	1.11	2.27	NA
Projected Sales Growth (F1/F0)	-11.91%	0.00%	-1.43%	-11.02%	0.00%	-17.28%
Momentum Score	F	-	-	D	F	A
Daily Price Change	0.59%	0.24%	0.71%	0.48%	1.46%	0.00%
1-Week Price Change	-0.08%	-2.11%	-1.45%	2.03%	-4.14%	0.00%
4-Week Price Change	9.74%	4.87%	4.59%	15.20%	32.74%	-9.97%
12-Week Price Change	32.61%	29.43%	4.86%	26.25%	75.86%	-9.97%
52-Week Price Change	30.08%	15.02%	3.09%	-1.56%	50.80%	-0.04%
20-Day Average Volume (Shares)	581,452	7,292	1,887,168	2,930	60,946	7
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.79%	0.00%	4.76%	0.63%
EPS F1 Estimate 12-Week Change	26.85%	26.76%	3.43%	180.25%	18.92%	-46.64%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	14.29%	NA

Source: Zacks Investment Research

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## 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>A</b>
Growth Score	<b>D</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</b>

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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## 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.

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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**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.