Sep 03, 2020

WestRock Company (WRK)

$32.68 (As of 09/02/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/02/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: C | Momentum: B	**3-Hold** VGM:A

Summary

WestRock is poised to gain from strong growth in e-commerce activities amid the coronavirus-induced crisis. The company's consumer packaging business is gaining from sustainable packaging options as well as significant demand in food, food service, and beverage packaging categories. Corrugated packaging business is poised to gain from improved box shipment as well as increased demand from distribution, industrial and agricultural customers as the economy gradually recovers. Moreover, the company is taking steps to align supply with current demand and framed a Pandemic Action Plan to drive savings. However, weak demand across some of the company's end markets amid the coronavirus pandemic is likely to dent its results. WestRock expects costs related to maintenance downtime as well as higher recycled fiber costs to impact margins.

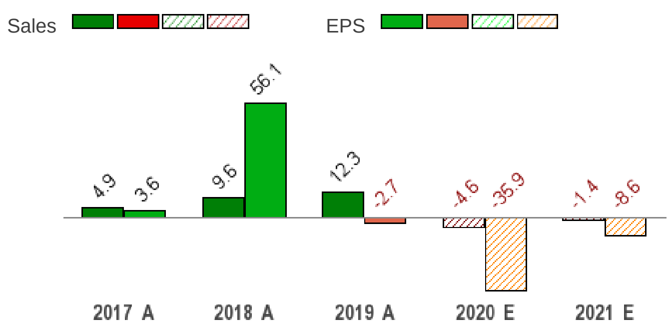
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$44.39 - $21.50**
20-Day Average Volume (Shares)	**2,095,571**
Market Cap	**$8.5 B**
Year-To-Date Price Change	**-23.8%**
Beta	**1.51**
Dividend / Dividend Yield	**$0.80 / 2.4%**
Industry	**Paper and Related Products**
Zacks Industry Rank	**Top 49% (124 out of 251)**
Last EPS Surprise	**72.7%**
Last Sales Surprise	**-2.8%**
EPS F1 Estimate 4-Week Change	**13.0%**
Expected Report Date	**11/05/2020**
Earnings ESP	**1.7%**
P/E TTM	**10.1**
P/E F1	**12.8**
PEG F1	**2.8**
P/S TTM	**0.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	4,242 E				17,217 E
2020	4,424 A	4,447 A	4,236 A	4,329 E	17,454 E
2019	4,327 A	4,620 A	4,690 A	4,652 A	18,289 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.38 E				$2.33 E
2020	$0.58 A	$0.67 A	$0.76 A	$0.67 E	$2.55 E
2019	$0.83 A	$0.80 A	$1.11 A	$1.24 A	$3.98 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/02/2020. The reports text is as of 09/03/2020.

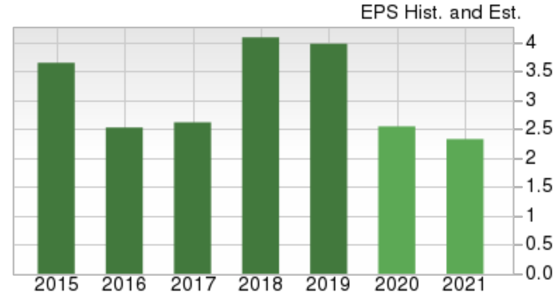
Overview

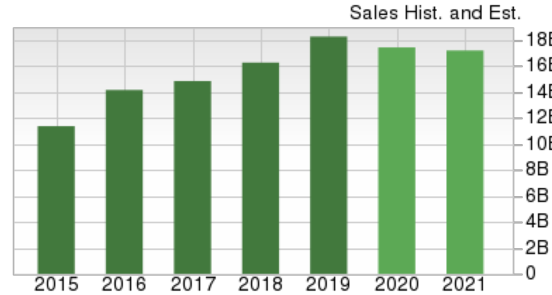
WestRock was formed as a result of the merger between MeadWestvaco Company and Rock-Tenn Company on Jul 1, 2015. Headquartered in Norcross, GA, WestRock is a multinational provider of paper and packaging solutions for consumer and corrugated packaging markets. The company is one of the largest integrated producers of containerboard by tons produced, and one of the largest producers of high-graphics preprinted linerboard on the basis of net sales in North America. It is also one of the largest paper recyclers in North America.

The company's operations outside the United States are conducted through subsidiaries located in Canada, Mexico, South America, Europe, Asia and Australia. Sales from non-U.S. operations accounted for 18.2% of net sales in fiscal 2019.

WestRock reports financial results in the following reportable segments:

Corrugated Packaging Segment (64.2% of total sales in fiscal 2019) operates an integrated corrugated packaging system that manufactures primarily containerboard, corrugated sheets, corrugated packaging and preprinted linerboard for sale to consumer, and industrial products manufacturers and corrugated box manufacturers. The full range of high-quality corrugated containers is designed to protect, ship, store and display products in accordance to customers' merchandising and distribution specifications. It converts corrugated sheets into corrugated products ranging from one-color protective cartons to graphically brilliant point-of-purchase packaging.





Consumer Packaging Segment (35.7% of total sales in fiscal 2019) operates integrated virgin and recycled fiber paperboard mills along with operations which convert items such as folding and beverage cartons, displays and interior partitions. The folding and beverage cartons are used to package items such as food, paper, beverages, dairy products, tobacco, confectionery, health and beauty and other household consumer, commercial and industrial products primarily for retail sale.

Land and Development Segment (0.1% of total sales in fiscal 2019) is responsible for maximizing the value of the various real estate holdings concentrated in the Charleston, SC region. The company expects the monetization of these holdings to be completed by fiscal 2020.

Source: Zacks Investment Research

Reasons To Buy:

WestRock is poised well on strong demand for food, beverage, household cleaning and e-commerce. A solid balance sheet, investment in growth projects and KapStone acquisition will drive growth.

- During fiscal 2018 and 2019, the company completed acquisitions of Schlüter, Plymouth Packaging and rival KapStone Paper and Packaging Corp that expanded its product offerings and geographic presence. The integration of KapStone Paper, the most notable acquisition among these, is on track. The company anticipates cost synergies and performance improvements of more than $200 million by the end of fiscal 2021. WestRock has already achieved $150 million of cumulative KapStone run-rate synergies and performance improvements through Jun 30, 2020. KapStone's corrugated packaging operations will enhance WestRock's North American corrugated packaging business and provide complementary products. The acquisition will help the company strengthen presence in Western United States and to compete better in the growing agricultural markets in the region. It also fast-tracks its target to improve margins of its North American corrugated packaging business. The company continues to evaluate potential acquisitions in the future.

- E-commerce demand remains strong across all channels and momentum will continue, particularly on account of the restrictions imposed to stem the spread of the coronavirus pandemic. WestRock's corrugated packaging business is poised to gain from improved box shipment, as well as increased demand from distribution, industrial and agricultural customers as the economy gradually recovers. Consumer packaging business is gaining from sustainable packaging options as well as significant demand in food, food service, and beverage packaging categories owing to the pandemic. Notably, this category represents 59% consumer packaging revenue.

- As of Jun 30, 2020, the company had more than $3.2 billion of availability under its long-term committed credit facilities and cash and cash equivalents. Total debt was $10.1 billion at Jun 30, 2020. Debt payable within a year is around $213 million and the company has around $505 million of bonds payable until 2022. Further, in June, the company issued $600 million in 13-year bonds to boost liquidity. In the fiscal third quarter, the company generated more than $500 million of adjusted free cash flow while investing in strategic capital projects. Moreover, WestRock's Pandemic Action Plan is expected to generate around $1 billion in cash, which will be utilized toward debt reduction through fiscal 2021. The company is on track to generate more than $350 million from this plan in the current fiscal. It is also well positioned to fulfill its debt obligations.

- During first-half fiscal 2020, WestRock invested $616 million in capital expenditures. The company has reduced fiscal 2020 capital expenditures to $950 million from the prior guidance of $1.1 billion. This includes $350 million for strategic capital projects at Florence, SC and TresBarras, Brazil mills. The company expects to start the Florence paper mill later this year and complete the TresBarras mill upgrade in the first half of fiscal 2021. Once completed, these projects are expected to contribute to the company's EBITDA. WestRock had announced that it is reconfiguring its North Charleston, SC, paper mill to improve the long-term competitiveness of the mill. The move is expected to increase the company's annual EBITDA by approximately $40 million, primarily owing to the reduction in operating costs from the shutdown of the paper machine and its associated infrastructure. It will also reduce linerboard capacity by approximately 288,000 tons and help balance supply with customer demand.

- In the wake of the uncertainty imposed by the coronavirus outbreak, WestRock is taking steps to align supply with demand and formulated a Pandemic Action Plan. The company has decreased salaries and retainers up to 25% for its senior executive team and board of directors. It is also trimming discretionary expenses.The company expects to use company stock to pay its annual incentive and company funded 401(k) contributions in 2020. It plans to lower capital investments. Further, per the recently enacted Coronavirus Aid, Relief, and Economic Security ("CARES") Act, employers can postpone paying their share of employment taxes incurred through the end of calendar year 2020. WestRock expects to postpone an estimated $120 million of such payments over the next three quarters and will be required to pay 50% of these amounts in December 2021 and the remaining 50% in December 2022. WestRock has also slashed annual dividend payout to 80 cents per share from the prior $1.86 per share. These actions will likely help contribute an additional $1 billion in cash.

Reasons To Sell:

> Weak demand in some of its markets owing to the impact of the coronavirus pandemic is likely to impact WestRock's near-term results. Further, higher recycled fiber costs will dent margins.

- The pandemic has disrupted demand patterns across few of WestRock's businesses. Demand in foodservice impacted by uncertainty in timing of reopening of restaurants, schools and other services. Commercial print demand is also likely to be restrained due to limited public events and reduced retail and direct mail advertising. Luxury goods and industrial products have also been hit hard. This will continue until the situation stabilizes. Further, resurgence of COVID-19 cases in many markets has created uncertainties. Based on these current market trends, WestRock expects fourth fiscal quarter's adjusted segment EBITDA to be slightly lower than the fiscal third quarter.

- WestRock noted that end markets are changing quickly and recycled fiber costs have gone up dramatically. Recycled fiber costs have gone up more than $50 per ton since December while other input costs have gone down. However, the company expects recycled fiber cost to be approximately $25 per ton lower than the average in the fiscal third quarter. In the fiscal fourth quarter, the company plans to take 112,000 tons of maintenance downtime.This will impact margins in the quarter.

- The folding carton markets remain challenged by weak primary demand for processed, frozen, and dry foods. This is in line with the ongoing consumer preference for fresh foods and the shrinking center of the supermarket. Moreover, demand for carbonated drinks continues to remain weak, particularly in North America.

- In the consumer packaging segment, Specialty SBS paperboard for tobacco, commercial print and liquid packaging accounts for about 10% of the segment sales. The segment is bearing the brunt of bleak demand in commercial print business. Volume declines in commercial print and tobacco have declined more than 20% since fiscal 2016. Also, pulp and other business which accounts for 4% of the segment sales continue to be negatively impacted by low global pulp prices. These factors continue to impact the segment.

Last Earnings Report

WestRock's Earnings Beat Estimates in Q3, Down Y/Y

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-2.77%
EPS Surprise	72.73%
Quarterly EPS	0.76
Annual EPS (TTM)	3.25

WestRock delivered third-quarter fiscal 2020 adjusted earnings of 76 cents per share, surpassing the Zacks Consensus Estimate of 44 cents. However, earnings plunged 31.5% from the prior-year quarter.

Including one-time items, the company reported earnings per share of 69 cents in the reported quarter, down 29.6% from the prior-year quarter.

Operational Update

WestRock's total revenues slid 9.7% year over year to $4,236 million. Moreover, the revenue figure missed the Zacks Consensus Estimate of $4,357 million.

Cost of sales was down 6.3% year over year to $3,466 million in the fiscal third quarter. Gross profit declined 22.1% year over year to $770 million. Gross margin came in at 18% compared with the 21% reported in the prior-year period. Adjusted segment EBITDA was $708 million compared with the $858 million witnessed in the year-earlier quarter. Total segment income was around $323 million, down from the year-ago quarter's $485 million.

Segmental Performance

Corrugated Packaging: Sales in the segment dipped 11.2% year over year to $2,729 million in the June-end quarter primarily on lower corrugated selling price/mix, lower volumes, and unfavorable impact of the coronavirus pandemic and foreign currency. Adjusted segment EBITDA decreased 25.2% year over year to $482 million.

Consumer Packaging: Sales in the segment were down 5.8% year over year to $1,553 million. This downside resulted from lower selling price/mix, dismal volumes, and unfavorable impact of the pandemic and foreign-currency translation. Adjusted segment EBITDA climbed 4.3% year over year to $243 million.

Financial Position

As of Jun 30, 2020, cash and cash equivalents were $292 million, significantly up from $152 million as of Sep 30, 2019. As of Jun 30, 2020, total debt was $10.1 billion, unchanged compared with total debt as of Sep 30, 2019. Cash flow from operations was $740 million during the fiscal third quarter compared with the year-earlier quarter's $735 million. WestRock invested $244 million in capital expenditure and paid out $52 million in dividends in the reported quarter.

WestRock is focused on meeting customer demand and executing strategies for financial strength and substantial liquidity to counter the pandemic-related setbacks.

Valuation

WestRock's shares are down 23.8% in the year-to-date period and 3.9% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basic Materials sector are down 15.1% and up 3.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 6.5% and 13%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 14% in the past year.

The stock is currently trading at 13.93X forward 12-month earnings, which compares with 9.20X for the Zacks sub-industry, 15X for the Zacks sector and 23.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.17X and as low as 6.66X, with a five-year median of 13.33X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $35 price target reflects 14.91X Forward 12-month earnings.

The table below shows summary valuation data for WRK:

Valuation Multiples - WRK

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.93	9.2	15	23.18
	5-Year High	22.17	13.89	21.05	23.18
	5-Year Low	6.66	4.15	9.84	15.25
	5-Year Median	13.33	10.3	13.49	17.6
EV/EBITDA TTM	Current	6.37	4.53	7.72	12.59
	5-Year High	33.59	14.57	18.38	13.29
	5-Year Low	5.07	4	6.49	8.22
	5-Year Median	8.33	7.6	10.29	10.92
P/B TTM	Current	0.72	5.33	2.31	4.53
	5-Year High	3.43	6.73	3.07	4.76
	5-Year Low	0.48	1.5	1.23	2.83
	5-Year Median	1.05	2.31	2.21	3.76

As of 09/02/2020

Industry Analysis **Zacks Industry Rank:** Top 49% (124 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Clearwater Paper Corporation **(CLW)**	Outperform	2
International Paper Company **(IP)**	Neutral	3
Neenah Paper, Inc. **(NP)**	Neutral	3
Packaging Corporation of America **(PKG)**	Neutral	3
Domtar Corporation **(UFS)**	Neutral	3
Verso Corporation **(VRS)**	Neutral	3
Veritiv Corporation **(VRTV)**	Neutral	4
Mercer International Inc. **(MERC)**	Underperform	4

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

Industry Comparison Industry: Paper And Related Products

	WRK	X Industry	S&P 500	IP	PKG	UFS
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	B	A
Market Cap	8.48 B	755.53 M	24.30 B	15.27 B	10.16 B	1.62 B
# of Analysts	7	1.5	14	6	6	4
Dividend Yield	2.45%	0.42%	1.6%	5.28%	2.95%	4.66%
Value Score	A	-	-	A	B	A
Cash/Price	0.04	0.10	0.07	0.06	0.10	0.08
EV/EBITDA	5.84	6.53	13.46	7.01	8.04	5.97
PEG F1	2.84	10.13	3.09	NA	4.05	NA
P/B	0.72	1.26	3.25	2.16	3.24	0.71
P/CF	3.30	5.76	13.12	4.95	8.92	3.50
P/E F1	12.82	16.23	22.15	16.54	20.25	119.67
P/S TTM	0.48	0.60	2.57	0.72	1.51	0.34
Earnings Yield	7.80%	5.61%	4.29%	6.05%	4.94%	0.85%
Debt/Equity	0.84	0.94	0.70	1.34	0.80	0.48
Cash Flow ($/share)	9.89	1.75	6.93	7.84	12.01	8.39
Growth Score	C	-	-	B	B	C
Historical EPS Growth (3-5 Years)	9.01%	-0.51%	10.41%	8.39%	14.75%	-2.83%
Projected EPS Growth (F1/F0)	-35.93%	-39.91%	-4.75%	-46.99%	-30.83%	-91.83%
Current Cash Flow Growth	9.85%	-11.50%	5.22%	-13.00%	-3.69%	-20.37%
Historical Cash Flow Growth (3-5 Years)	23.04%	-1.02%	8.49%	2.55%	5.99%	-5.05%
Current Ratio	1.80	1.74	1.35	0.79	3.89	2.34
Debt/Capital	45.62%	50.99%	42.92%	57.19%	44.31%	32.35%
Net Margin	4.37%	-0.05%	10.25%	2.98%	7.65%	0.21%
Return on Equity	7.24%	5.27%	14.66%	19.18%	19.99%	3.54%
Sales/Assets	0.58	0.73	0.50	0.64	0.93	0.99
Projected Sales Growth (F1/F0)	-4.57%	0.00%	-1.42%	-8.20%	-6.94%	-14.81%
Momentum Score	B	-	-	C	C	B
Daily Price Change	1.90%	0.99%	1.82%	3.52%	2.80%	1.63%
1-Week Price Change	9.14%	2.74%	2.59%	4.97%	6.58%	5.97%
4-Week Price Change	9.52%	7.03%	4.80%	9.16%	11.77%	35.05%
12-Week Price Change	7.57%	2.69%	6.31%	5.63%	1.73%	28.54%
52-Week Price Change	-3.85%	-1.69%	5.43%	0.47%	6.99%	-10.77%
20-Day Average Volume (Shares)	2,095,571	129,064	1,788,967	2,633,603	725,022	1,290,454
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	12.98%	0.69%	0.00%	0.00%	0.00%	156.32%
EPS F1 Estimate 12-Week Change	14.26%	5.46%	3.89%	16.71%	0.38%	150.51%
EPS Q1 Estimate Monthly Change	24.88%	0.00%	0.00%	0.00%	0.00%	6.03%

Source: Zacks Investment Research

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	C
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 mediumterm price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every $1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.