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Williams-Sonoma, Inc.(WSM)

$89.82 (As of 11/09/20)

Price Target (6-12 Months): **$103.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/31/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: B	

Summary

Shares of Williams-Sonoma have outperformed the industry year to date. Estimates for fiscal 2020 have moved north over the past 30 days, depicting analysts' optimism over its prospects. The company has been mainly focusing on the e-commerce business. Defying the COVID_19 related disruptions, its comps grew 2.6% year over year in first-quarter fiscal 2020, buoyed by accelerated comps growth in the e-commerce business. Notably, Pottery Barn's e-commerce demand gained momentum throughout the quarter. Yet, lower occupancy leverage, higher shipping costs stemming from a greater mix of furniture sales and increased e-commerce sales weighed on its margins.

Price, Consensus & Surprise

Source: Zacks Investment Research

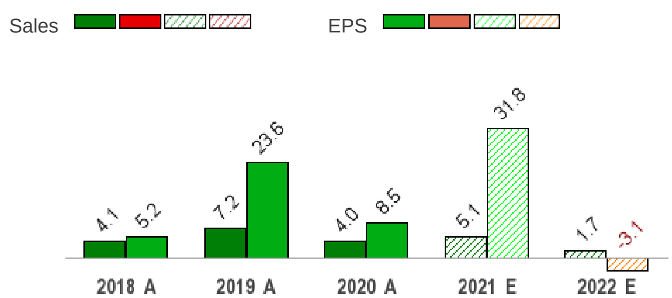
Data Overview

52-Week High-Low	**$107.09 - $26.01**
20-Day Average Volume (Shares)	**1,011,673**
Market Cap	**$7.0 B**
Year-To-Date Price Change	**22.3%**
Beta	**1.72**
Dividend / Dividend Yield	**$1.92 / 2.1%**
Industry	**Retail - Home Furnishings**
Zacks Industry Rank	**Top 4% (9 out of 251)**

Last EPS Surprise	**81.8%**
Last Sales Surprise	**4.5%**
EPS F1 Estimate 4-Week Change	**0.3%**
Expected Report Date	**11/19/2020**
Earnings ESP	**-0.7%**

P/E TTM	**15.8**
P/E F1	**14.1**
PEG F1	**2.0**
P/S TTM	**1.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,295 E	1,488 E	1,588 E	1,997 E	6,305 E
2021	1,235 A	1,491 A	1,544 E	1,928 E	6,201 E
2020	1,241 A	1,371 A	1,442 A	1,844 A	5,898 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.96 E	$1.41 E	$1.54 E	$2.64 E	$6.18 E
2021	$0.74 A	$1.80 A	$1.49 E	$2.33 E	$6.38 E
2020	$0.81 A	$0.87 A	$1.02 A	$2.13 A	$4.84 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 11/09/2020. The reports text is as of 11/10/2020.

Overview

Headquartered in San Francisco, CA, **Williams-Sonoma, Inc.** is a multi-channel specialty retailer of premium quality home products. Incorporated in 1973, the company has five brands and each of the brands are operating segments.

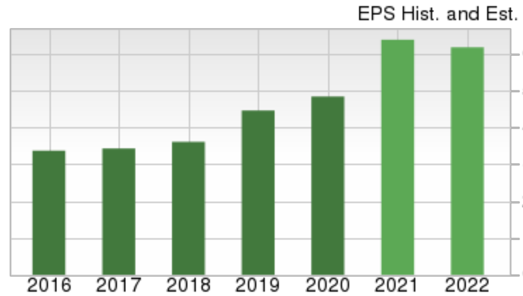
Pottery Barn (accounting for 37.5% of fiscal 2019 total revenues) is the largest brand of the company and offers premium quality furniture, lighting, tabletop, outdoor and decorative accessories.

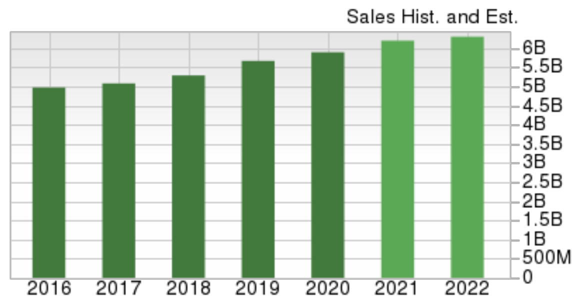
West Elm (24.9%) produces personalized products designed by the company's team of artists and designers.

Williams-Sonoma (17.5%) offers cookware, tools, cutlery, electrics, tabletop and bar, outdoor, furniture and cookbooks.

Pottery Barn Kids and Teen (15.4%) deals with products used for putting up nurseries, bedrooms and play spaces. It also caters to the teenage population with furniture, bedding, lighting and decorative accents for teen bedrooms, dorm rooms, study spaces and lounges.

Other segment (4.7%) primarily consists of international franchise operations, Rejuvenation and Mark and Graham. Rejuvenation offers premium quality products which are inspired from history and are manufactured in facilities in Portland, OR. Mark and Graham is known for personalized gift items. The brand manufactures women's and men's accessories, home décor and seasonal items.





Source: Zacks Investment Research

Reasons To Buy:

Continued enhancement of e-commerce channel, optimization of supply chain and the transformation of retail fleet by investing in new and remodeled stores are expected to drive growth

▲ **Leading E-commerce Retailer:** Williams-Sonoma is one of the largest e-commerce retailers in the United States. The company has a history of driving market share gains, supported by strong e-commerce websites, direct mail catalogs and retail stores, along with shipping fees received for the delivery of merchandise. Given these tailwinds, the company delivered a strong performance, surpassing the consensus mark in all the trailing 11 quarters.

Its innovative efforts have helped the company to drive e-commerce growth. In fiscal 2019, e-commerce revenues touched an all-time high of more than 56% of total revenues. The company's investment in merchandising of its brands, efficient catalog circulations and digital marketing boosts revenues from the e-commerce channel. Despite 616 stores being closed for more than half of the first quarter of fiscal 2020, its e-commerce revenue growth accelerated to more than 30%. Again, during second-quarter fiscal 2020, the company witnessed solid ecommerce sales growth of 46% that accounted for a record 74% of quarterly sales. This highlighted the digital-first nature of Williams-Sonoma's business.

Meanwhile, the company aims to maximize growth and boost profitability in the long term, given substantial growth engines. The company is expected to generate more revenues from the e-commerce channel, as it focuses to re-platform mobile sites to progressive web app technology, streamline checkout process and implement the next-generation of machine learning, on-site search as well as personalization experience. It intends to focus more on growth drivers that includes West Elm, newly launched Business-to-Business offering, its emerging brands — Williams Sonoma Home, Rejuvenation, and Mark and Graham — as well as its largest brand Pottery Barn and namesake brand Williams-Sonoma. The company registered above-industry average ROIC of 20.9% and non-GAAP ROIC of 22.4% in fiscal 2019.

▲ **Focus on Marketing & Digitalization:** Williams-Sonoma is focused on enhancing customer experience through technology innovation and operational improvement. In order to drive brand awareness and increase customer engagement as well as cross-selling opportunities, the company shifted its advertising spend toward social media campaigns and in cross-brand initiatives. Cross-brand initiatives such as The Key, Design Crew Room Planner and The One Registry are expected to be incremental growth drivers for all its brands in fiscal 2020 and beyond. To maximize online demand during this unprecedented time, it has expanded online services including Design Chat, Virtual Design appointment and Ask the Expert via leveraging the outward Inc. 3D visualization technology.

It has also been reworking on its marketing strategy, placing more emphasis on digital targeted marketing and investing in store remodeling. In digital advertising, the company is transitioning from catalog mailing to higher impact digital channels to drive short-term return on investment and long-term gains and customer growth. Higher digital marketing is driving incremental customer count. Its newest division, Williams-Sonoma Inc. Business-to-Business, made significant progress.

▲ **Strong Financial Position:** Williams Sonoma has a strong liquidity to navigate through the current environment that is impacted by the COVID-19 outbreak. The company ended the fiscal second quarter with a solid liquidity, including $947.8 million cash and cash equivalents, along with $200 million of unsecured revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of $221.6 million.

Long-term debt obligations totaled $1.38 billion, down sequentially from $1.4 billion. Notably, it strengthened the liquidity position by one-year extension of the $300-million term loan to January 2022. The company has no significant debt maturity in the near future.

▲ **West Elm & Emerging Businesses Continue to Shine:** West Elm's accelerated growth trajectory continued in the fiscal first quarter. This is evident from 3.3% and 7% comps growth in the fiscal first and second quarters, respectively, despite coronavirus-related disruptions, followed by the 10th consecutive year of double-digit comps growth in fiscal 2019. The growth was primarily driven by strong e-commerce and broad-based strength across the product categories, mostly in made-to-order upholstery, along with key customer acquisition categories of textiles and decorative accessory.

Meanwhile, its emerging businesses, Rejuvenation and Mark and Graham, continue to expand product offerings. In the fiscal first quarter, comps grew 2.4% in the said brand. Encouragingly, during the fiscal second quarter, its emerging brands Rejuvenation, and Mark and Graham delivered another quarter of double-digit growth.

▲ **Focus on Innovation:** Williams-Sonoma is focused on enhancing customer experience through technology innovation and operational improvement. In order to drive brand awareness and increase customer engagement as well as cross-selling opportunities, the company shifted its advertising spend toward social media campaigns and in cross-brand initiatives. Cross-brand initiatives such as The Key, Design Crew Room Planner and The One Registry are expected to be incremental growth drivers for all its brands in fiscal 2020 and beyond. During fiscal 2019, more than 9 million members were added to its cross-brand loyalty program, The Key, which continued approximately half of its sales in stores. Ongoing rise of members is an important contributor to growth.

In technology innovation, the company launched its machine-learning search engine across the brands and improved mobile site speed to deliver a faster and more compelling experience. The company is constantly testing new technologies to enhance the shopping experience. These technologies include additional design chart capabilities, product recommendations, payments, financing solutions and improvements to its Outward room planner in Pottery Barn children's businesses.

Risks

- **Margin Pressure:** Higher shipping costs from a larger mix of furniture, lower occupancy leverage and tariffs have been putting pressure on gross margins of the company. In fiscal 2019, adjusted gross profit contracted 80 basis points (bps) year over year. Again, in first-quarter fiscal 2020, the metric fell 140 bps year over year. Non-GAAP operating margin also contracted 60 bps to 6.4% in the fiscal first quarter.

- **Intense Competition:** The specialty e-commerce and retail businesses are highly competitive. Williams-Sonoma competes with other retailers that market same kind of merchandises. The company also competes with national, regional and local businesses that follow a similar retail store strategy, and also with traditional furniture stores, department and specialty stores. The substantial sales growth in the e-commerce industry in the last decade has encouraged the entry of new competitors and business models as well. Increased competition can reduce Williams-Sonoma's sales and harm its operating results and business.

- **Dependent on Foreign Vendors:** Williams-Sonoma's business is highly dependent on foreign countries, predominantly Asia and Europe. In fiscal 2018, the company sourced approximately 66% of its merchandise from outside the United States. Thus, any economic or regulatory changes in foreign countries will affect Williams-Sonoma's business. Implementation of tax or tariffs may lead to an increase in the cost of goods sold and in turn result in higher product prices. This might also cause a decline in consumer demand, denting the company's financial performance.

Last Earnings Report

Williams-Sonoma Q2 Earnings Beat on E-commerce Sales

Quarter Ending	07/2020
Report Date	Aug 26, 2020
Sales Surprise	4.54%
EPS Surprise	81.82%
Quarterly EPS	1.80
Annual EPS (TTM)	5.69

Williams-Sonoma Inc. reported better-than-expected second-quarter fiscal 2020 results, courtesy of accelerated e-commerce growth.

Earnings & Revenues

Non-GAAP adjusted earnings of $1.80 per share surpassed the Zacks Consensus Estimate of 99 cents by 81.8%. The figure also increased from 87 cents per share a year ago.

Revenues of $1,490.8 million beat the consensus mark of $1,426 million by 4.5% and grew 8.8% year over year. The better-than-expected revenues were driven by 46% notable acceleration in net comps growth of the e-commerce business, which includes purchases made through the company's omnichannel services such as curbside pickup and shipping from stores. E-commerce penetration reached an all-time high of almost 76% of total revenues, buoyed by content-rich online experience and marketing strategies.

Comps increased 10.5%, higher than 2.6% growth in the fiscal first quarter and 6.5% in the year-ago period. Comps in Williams Sonoma increased an impressive 29.4% against 1.1% decline registered in the prior-year quarter. Comps in the Pottery Barn brand grew 8.1% compared with 4.2% growth in the prior-year quarter. Pottery Barn Kids and Teen's comps rose 4.8% compared with 3.7% growth in the year-ago quarter. The West Elm brand's comps rose 7% versus 17.5% growth in the year-ago quarter.

Operating Highlights

Non-GAAP gross margin was 37%, up 160 basis points (bps) from the year-ago period. The upside was primarily caused by higher merchandise and occupancy leverage in the quarter.

Non-GAAP selling, general and administrative expenses accounted for 23.9% of net revenues compared with 28.9% in the year-ago quarter, reflecting an improvement of 460 bps. The upside was driven by advertising leverage owing to gradual shift in advertising spend from catalog to more efficient digital initiatives. The company also generated solid returns from advertising investments due to strength of the multi-channel model. Furthermore, non-GAAP operating margin nearly doubled from the year-ago period to 13.1% for the quarter.

Financials

Williams-Sonoma reported cash and cash equivalents of $947.8 million as of Aug 2, 2020 compared with $432.2 million on Feb 2, 2020. Recently, it also improved financial flexibility by adding $0.5 billion of liquidity through the $300-million term loan extension to January 2022 and addition of a $200-million, 364-day unsecured revolving credit facility.

Notably, the company generated more than $216 million in operating cash flow for first-half fiscal 2020.

It also declared quarterly cash dividend of 48 cents per common share, reflecting strong commitment to return value to shareholders.

Fiscal 2020 Guidance Suspended

Given unpredictability stemming from the coronavirus outbreak, it did not provide its full-year guidance.

Valuation

Williams-Sonoma's shares are up 22.3% in the year-to-date period and 25.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 18.7% and 34.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 24.7% and 39.3%, respectively.

The S&P 500 index is up 10.6% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 14.44X forward 12-month earnings, which compares to 14.91X for the Zacks sub-industry, 31.4X for the Zacks sector and 22.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.36X and as low as 6.14X, with a 5-year median of 13.89X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $103 price target reflects 16.56X forward 12-month earnings.

The table below shows summary valuation data for WSM.

Valuation Multiples - WSM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.44	14.91	31.4	22.23
	5-Year High	24.36	25.45	34.05	23.47
	5-Year Low	6.14	11.83	19.09	15.27
	5-Year Median	13.89	15.19	23.6	17.72
P/S F12M	Current	1.11	1.04	1.33	4.12
	5-Year High	1.31	1.11	1.33	4.3
	5-Year Low	0.39	0.48	0.84	3.17
	5-Year Median	0.86	0.85	1.01	3.67
EV/EBITDA TTM	Current	8.35	9.02	18.32	15.52
	5-Year High	10.18	11.67	20.74	15.63
	5-Year Low	3.34	4.09	11.16	9.52
	5-Year Median	7.24	8.14	13.02	13.09

As of 11/09/2020 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Top 4% (9 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Ethan Allen Interiors Inc. **(ETH)**	Outperform	1
Haverty Furniture Companies, Inc. **(HVT)**	Outperform	1
Lowes Companies, Inc. **(LOW)**	Outperform	2
RH **(RH)**	Outperform	1
Tempur Sealy International, Inc. **(TPX)**	Outperform	2
The Home Depot, Inc. **(HD)**	Neutral	3
At Home Group Inc. **(HOME)**	Neutral	3
The Lovesac Company **(LOVE)**	Neutral	3

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

Industry Comparison Industry: Retail - Home Furnishings

Industry Peers

	WSM	X Industry	S&P 500	ETH	RH	TPX
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	1	1	2
VGM Score	A	-	-	A	C	A
Market Cap	6.99 B	448.44 M	24.57 B	413.63 M	7.25 B	4.51 B
# of Analysts	9	5.5	13	3	9	7
Dividend Yield	2.14%	0.00%	1.51%	5.09%	0.00%	0.00%
Value Score	B	-	-	B	D	B
Cash/Price	0.12	0.15	0.07	0.15	0.00	0.05
EV/EBITDA	9.95	5.51	14.21	11.16	16.85	12.28
PEG F1	1.95	0.72	2.73	NA	1.02	0.41
P/B	5.24	4.22	3.52	1.24	55.78	10.08
P/CF	12.38	13.87	13.46	14.10	16.89	13.87
P/E F1	14.08	13.60	21.50	13.00	21.74	13.13
P/S TTM	1.16	0.71	2.74	0.73	2.86	1.29
Earnings Yield	7.10%	6.32%	4.43%	7.69%	4.60%	7.62%
Debt/Equity	0.22	0.00	0.70	0.00	9.02	3.34
Cash Flow ($/share)	7.26	1.42	6.92	1.17	22.00	6.30
Growth Score	A	-	-	A	B	A
Historical EPS Growth (3-5 Years)	10.97%	4.74%	9.77%	-15.95%	61.84%	4.74%
Projected EPS Growth (F1/F0)	31.86%	41.23%	0.37%	144.23%	46.54%	65.98%
Current Cash Flow Growth	6.05%	-6.24%	5.29%	-50.34%	-8.66%	22.94%
Historical Cash Flow Growth (3-5 Years)	4.89%	4.89%	8.33%	-12.84%	24.44%	5.02%
Current Ratio	1.36	1.24	1.38	1.24	0.79	1.12
Debt/Capital	18.32%	0.00%	41.97%	0.00%	90.02%	77.07%
Net Margin	6.83%	3.13%	10.44%	0.73%	8.53%	7.17%
Return on Equity	36.53%	10.47%	14.92%	3.88%	1,201.65%	106.94%
Sales/Assets	1.42	1.12	0.50	0.88	1.04	1.07
Projected Sales Growth (F1/F0)	5.13%	8.36%	0.14%	10.91%	5.81%	16.31%
Momentum Score	B	-	-	B	F	B
Daily Price Change	-9.99%	-5.16%	2.76%	-0.90%	-4.44%	-10.25%
1-Week Price Change	9.41%	5.98%	5.72%	3.80%	15.99%	9.42%
4-Week Price Change	-9.91%	-1.75%	3.51%	5.63%	1.66%	-5.08%
12-Week Price Change	-7.86%	-4.21%	7.01%	20.07%	18.11%	-0.57%
52-Week Price Change	25.85%	30.35%	5.23%	-14.55%	112.66%	0.94%
20-Day Average Volume (Shares)	1,011,673	318,920	2,079,064	304,501	549,518	835,481
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.30%	7.01%	1.67%	122.81%	-0.64%	13.72%
EPS F1 Estimate 12-Week Change	40.27%	37.23%	3.62%	145.81%	49.31%	22.12%
EPS Q1 Estimate Monthly Change	0.10%	4.89%	0.81%	41.75%	-0.77%	11.12%

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	A
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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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.