

## Watsco Inc. (WSO)

**\$285.84** (As of 05/24/21)

Price Target (6-12 Months): **\$300.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: D

### Summary

Watsco reported impressive first-quarter 2021 results, wherein both the top and bottom lines beat the Zacks Consensus Estimate as well as increased from the prior year, respectively. The improvement was backed by strong sales growth, a richer sales mix of high-efficiency systems, improved selling margins and operating efficiencies. Notably, the e-commerce business is gaining traction in recent times owing to stay-at-home orders issued by the government. Shares of Watsco have outperformed the industry so far this year. However, price pressure on raw materials may impact the company's margins in future. This, along with competitive pressure, could result in price erosion or reduction in market acceptance, thereby negatively impacting its operations, cash flows, and liquidity.

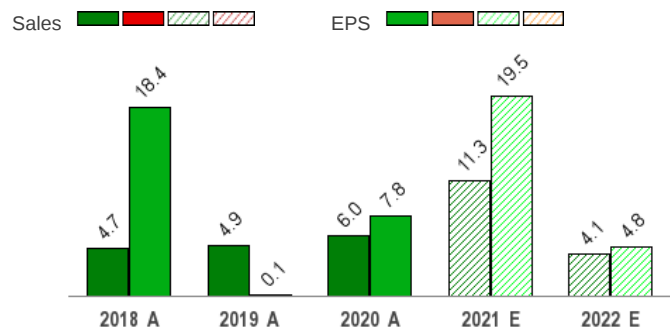
### Price, Consensus & Surprise



### Data Overview

|                                |                                                 |
|--------------------------------|-------------------------------------------------|
| 52-Week High-Low               | \$307.81 - \$167.79                             |
| 20-Day Average Volume (Shares) | 157,367                                         |
| Market Cap                     | \$11.1 B                                        |
| Year-To-Date Price Change      | 26.2%                                           |
| Beta                           | 0.77                                            |
| Dividend / Dividend Yield      | \$7.80 / 2.7%                                   |
| Industry                       | Building Products - Air Conditioner and Heating |
| Zacks Industry Rank            | Top 13% (32 out of 250)                         |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 52.8%      |
| Last Sales Surprise           | 5.6%       |
| EPS F1 Estimate 4-Week Change | 11.6%      |
| Expected Report Date          | 07/22/2021 |
| Earnings ESP                  | 1.0%       |
| P/E TTM                       | 37.9       |
| P/E F1                        | 34.1       |
| PEG F1                        | NA         |
| P/S TTM                       | 2.1        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 1,210 E | 1,782 E | 1,743 E | 1,238 E | 5,859 E |
| 2021 | 1,136 A | 1,633 E | 1,650 E | 1,243 E | 5,627 E |
| 2020 | 1,008 A | 1,355 A | 1,537 A | 1,155 A | 5,055 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.43 E | \$2.89 E | \$3.10 E | \$1.29 E | \$8.78 E |
| 2021 | \$1.39 A | \$2.97 E | \$2.96 E | \$1.23 E | \$8.38 E |
| 2020 | \$0.72 A | \$2.26 A | \$2.76 A | \$1.14 A | \$7.01 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 05/24/2021. The report's text and the analyst-provided price target are as of 05/25/2021.

## Overview

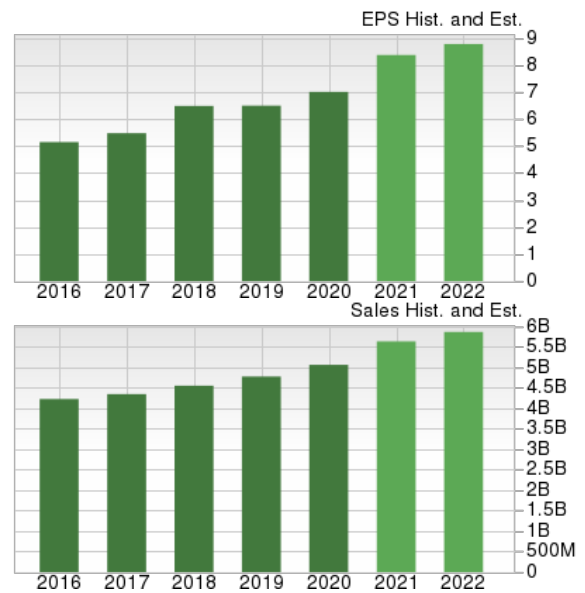
Incorporated in Florida in 1956, Watsco is the largest distributor of Heating, ventilation and air conditioning equipment, as well as related parts and supplies (HVAC/R) in North America. It distributes residential and commercial air conditioners; parts such as replacement compressors, evaporator coils and motors; as well as supplies such as thermostats, insulation materials, refrigerants, grills, registers, sheet metal, tools, concrete pads, tape, and adhesives. Its air conditioning and heating equipment is sold to the residential replacement market, the commercial market and residential new construction market.

Watsco distributes products in more than 600 locations (as of Dec 31, 2020) in the United States, Canada, Mexico and Puerto Rico, and on an export basis to Latin America and the Caribbean. Of these, no single location accounts for more than 3% of total revenues. The company sources supply from main industry players including Rheem, Carrier, Nordyne, Goodman, Trane, and Lennox.

Revenues as disaggregated by the company per major product lines within single reporting segment are as follows:

HVAC equipment contributed 67% to first-quarter 2021 revenues, Other HVAC products accounted for 29% and Commercial refrigeration products constituted 4%.

On Apr 1, 2021, the company has raised annual dividend by 10% to \$7.80 per share, to be reflected from April 2021. On Apr 12, 2021, Watsco completed the acquisition of Temperature Equipment Corporation (TEC). Notably, TEC generated sales of \$291 million in 2020, providing a broad product offering including residential, light-commercial and applied HVAC systems from Carrier as well as parts, supplies and accessories



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## Reasons To Buy:

▲ **Technology Enhancement:** Watsco continues to aggressively invest in technologies to transform customer experience. As the digital era progresses, speed, productivity and efficiency will be more critical. Consequently, the company is investing to improve customer experience through e-commerce. Watsco is deploying technology that improves order fill rates with speed and accuracy. It has the industry's largest database of digitized product information, with more than 875,000 SKUs in 2020, showing an increase of 20% over 2019 levels. Driven by various technology platforms, the current run rate of e-commerce sales stands at 18% in first-quarter 2021 from comparable year ago period. E-commerce transactions in the quarter grew 30% from year ago level.

Continuous investment in industry-leading technologies, acquisitions along with a strong liquidity position are growth drivers.

Watsco is aggressively leveraging technology platforms to better serve, and protect customers and employees. The company launched "contactless" sales and servicing capabilities amid the current environment. Notably, average weekly users of its mobile apps surged 11% from a year ago in first quarter.

Watsco's digital sales platform for HVAC/R contractors — OnCall Air — generated \$105 million in gross merchandise value for customers in the first quarter, reflecting an 111% year-over-year increase. Also, its companion financing platform — CreditForComfort — processed more than 1000 financing applications, up 31% from last year.

Business intelligence and data analytics expertise will aid insightful assistance and decision-making by managers. The company remains optimistic about its innovative technology and expects to survive in this unprecedented period.

▲ **Strategic Acquisitions:** Acquisitions have been Watsco's preferred mode of solidifying its product portfolio and leveraging new business opportunities in a bid to increase the customer base and profitability. On Mar 16, 2021, Watsco and Carrier Global Corporation formed a joint venture to acquire the largest Carrier distributor in the Midwest — Temperature Equipment Corporation (TEC). However, the terms of the transaction have been kept under wraps. With this buyout, Watsco will debut the U.S. Midwest market.

Since 1989, Watsco has taken over 63 businesses as of 2020. The company focuses on partnering with great businesses focused on the HVAC/R industry. Watsco's revenues in HVAC/R distribution grew to \$5.1 billion in 2020 from \$64.1 million in 1989, mainly buoyed by strategic acquisition of companies with established market positions. It has been actively seeking more opportunities to invest and grow through acquisitions, given relative low market share of the estimated \$40 billion North American distribution marketplace for HVAC/R products.

▲ **Driving Shareholder Value:** Watsco has been paying cash dividends for 47 consecutive years. The company has increased dividends in 19 years out of the last 20 years. In February 2021, the board of directors raised annual dividend by 10% to \$7.80 per share, to be reflected from April 2021.

▲ **Enough Liquidity to Meet the Crisis:** Watsco has a strong balance sheet position and enough liquidity to manage the ongoing crisis. Meanwhile, the company ended first quarter 2021 with cash and cash equivalents of \$93.9 million versus and \$146.1 million at 2020-end. Although the current cash level is low sequentially, it is sufficient to meet the short-term obligation of \$72.8 million.

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## Reasons To Sell:

▼ **Higher Tariff is a Pressing Concern:** Any upward price pressure on raw materials may pressurize the company's margins. In first-quarter 2021, the company's cost of sales increased 10.6% from a year ago. Notably, HVAC equipment and component manufacturers, including Carrier and Rheem, source component parts from China or assemble a significant number of products for residential and light-commercial applications from Mexico. Now that trade tensions have crept up, any restrictions or significant increases in tariffs related to such products sourced or assembled from Mexico and China would compel the company to raise prices. This may result in cost inflation and loss of customers, and harm business.

Persistent disruptions due to the pandemic, raw material inflation and disproportionate seasonality hurt the business.

▼ **Seasonal Sales:** Sales of residential central air conditioners, heating equipment, and parts and supplies have historically been seasonal. Watsco's profitability will be impacted favorably or unfavorably, based on the severity or mildness of weather patterns during the summer or winter selling seasons. The company's fourth quarter of each calendar is disproportionately affected by seasonality due to the nature and timing of HVAC systems replacement. Notably, in June 2019, the company witnessed extreme weather conditions in certain markets served, somewhat offsetting the positives generated from technology enhancement and acquisitions.

Historically, demand for the residential central air conditioning replacement market is comparatively low during first and fourth quarters. Similarly, demand for its heating equipment is generally impacted in the second and third quarters.

▼ **Cutthroat Competition:** The HVAC/R distribution industry is highly competitive. Watsco competes with other distributors, and several air conditioning and heating equipment manufacturers that distribute a major portion of their products through their own distribution organizations in certain markets. Competitive pressures could result in price erosion or reduction in market acceptance, all of which would have an adverse impact on its operations, cash flows, and liquidity.

Watsco's top ten suppliers accounted for 85% of its purchases during 2020, including 63% from Carrier and 11% from Rheem. Given the significant concentration of its supply chain, particularly with Carrier and Rheem, any significant interruption by any of the key manufacturers or a termination of a relationship could temporarily disrupt the operations of certain of our subsidiaries.

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## Last Earnings Report

### Watsco Q1 Earnings Beat Estimates, Margins Up Y/Y

Watsco, Inc. came up with stellar performance for first-quarter 2021. Both earnings and sales topped the respective Zacks Consensus Estimate as well as grew impressively on a year-over-year basis. The solid results were mainly backed by strong sales growth, a richer sales mix of high-efficiency systems, improved selling margins and operating efficiencies.

Solid first-quarter results also reflect continued investments in products, technology, and people to drive sales as well as innovation throughout the business.

Quarter Ending 03/2021

|                  |              |
|------------------|--------------|
| Report Date      | Apr 22, 2021 |
| Sales Surprise   | 5.57%        |
| EPS Surprise     | 52.75%       |
| Quarterly EPS    | 1.39         |
| Annual EPS (TTM) | 7.55         |

### Inside the Numbers

Watsco's quarterly earnings of \$1.39 per share surpassed the consensus estimate of 91 cents. The reported earnings also improved 93% year over year.

Total sales of \$1.14 billion topped the consensus mark of \$1.08 billion by 5.6% and increased 14% from the year-ago period. The upside stemmed from strong HVAC equipment business. Persistent investment in technologies designed to revolutionize customer experience added to the positives. Notably, e-commerce sales for the quarter grew 18% year over year on 30% increased e-commerce transactions.

Sales of HVAC equipment (heating, ventilating and air conditioning; comprising 67% of sales) were up 14% year over year, including 18% growth in U.S. residential markets. Sales of other HVAC products (29% of sales) increased 11% from the prior-year quarter. Sales from commercial refrigeration products (4% of sales) rose 10% year over year.

### Operating Highlights

Gross margin expanded 130 basis points (bps) to 25.9%. SG&A expenses, however, increased 7% year over year. Nonetheless, SG&A expenses — as a percentage of sales — reduced 100 bps year over year. Operating margin expanded 270 bps year over year to 7.2%.

### Financial Operations

As of Mar 31, 2021, cash and cash equivalents were \$93.9 million compared with \$146.1 million at 2020-end. Cash used in operations were \$37.7 million for the first three months of 2021 versus \$41.9 million cash provided from operations in the comparable year-ago period.

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## Recent News

### Watsco Boosts Shareholders' Return With Dividend Hike - Apr 6, 2021

In a shareholder-friendly move, Watsco, Inc. raised its quarterly dividend by 10%. The move underscores the company's sound and stable financial position and its commitment to reward shareholders.

Watsco raised the dividend payout to \$1.95 per share (or \$7.80 annually) from \$1.77 per share (or \$7.08 annually). The amount will be paid on Apr 30, 2021, to shareholders of record as of Apr 15.

### Watsco-Carrier JV to Acquire Temperature Equipment - Mar 17, 2021

Watsco and Carrier Global Corporation formed a joint venture (JV) to acquire the largest Carrier distributor in the Midwest — Temperature Equipment Corporation (TEC). However, the terms of the transaction — which is expected to close within the next 30 days — have been kept under wraps. With this buyout, Watsco will debut the U.S. Midwest market.

Watsco and Carrier have been working closely over the last several years, which provided growth and value for both the companies. The latest buyout of TEC will be an addition to the highly-successful group of joint ventures between Watsco and Carrier.

TEC is a distributor of Carrier, Bryant and Payne brands and offers residential, light commercial and applied HVAC equipment. Notably, Watsco will own 80% of TEC and Carrier will own the remaining 20%.

## Valuation

Watsco's shares are up 27.7% in the year-to-date period and 72.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Construction sector are up 5.9% and 20.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.2% but sector is up 65.2%.

The S&P 500 index is up 13.1% in the year-to-date period and 44.5% in the past year.

The stock is currently trading at 33.48X forward 12-month earnings, which compares to 37.34X for the Zacks sub-industry, 16.2X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.02X and as low as 18.86X, with a 5-year median of 25.25X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$300 price target reflects 35.14X forward 12-month earnings.

The table below shows summary valuation data for WSO.

| Valuation Multiples - WSO |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 33.48 | 37.34        | 16.2   | 21.9    |
|                           | 5-Year High   | 40.02 | 39.88        | 19.03  | 23.83   |
|                           | 5-Year Low    | 18.86 | 19.42        | 10.81  | 15.3    |
|                           | 5-Year Median | 25.25 | 24.52        | 16.19  | 18.02   |
| P/S F12M                  | Current       | 1.93  | 3.96         | 2.36   | 4.7     |
|                           | 5-Year High   | 2.13  | 4.68         | 2.36   | 4.74    |
|                           | 5-Year Low    | 1.04  | 1.17         | 1.23   | 3.21    |
|                           | 5-Year Median | 1.29  | 1.87         | 1.68   | 3.71    |
| EV/EBITDA TTM             | Current       | 27.86 | 31.87        | 21.81  | 17.2    |
|                           | 5-Year High   | 29.76 | 35.27        | 24.88  | 17.73   |
|                           | 5-Year Low    | 15.66 | 13.55        | 11.56  | 9.62    |
|                           | 5-Year Median | 19.08 | 18.06        | 17.66  | 13.42   |

As of 05/24/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 13% (32 out of 250)



## Top Peers

| Company (Ticker)                 | Rec        | Rank |
|----------------------------------|------------|------|
| Comfort Systems USA, Inc. (FIX)  | Outperform | 2    |
| AAON, Inc. (AAON)                | Neutral    | 2    |
| The AZEK Company Inc. (AZEK)     | Neutral    | 2    |
| Colfax Corporation (CFX)         | Neutral    | 3    |
| Chart Industries, Inc. (GTLS)    | Neutral    | 3    |
| Hudson Technologies, Inc. (HDSN) | Neutral    | 3    |
| Lennox International, Inc. (LII) | Neutral    | 2    |
| Tecogen Inc. (TGEN)              | Neutral    | 3    |

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

| Industry Comparison Industry: Building Products - Air Conditioner And Heating |         |            |           | Industry Peers |            |          |
|-------------------------------------------------------------------------------|---------|------------|-----------|----------------|------------|----------|
|                                                                               | WSO     | X Industry | S&P 500   | AAON           | FIX        | LII      |
| Zacks Recommendation (Long Term)                                              | Neutral | -          | -         | Neutral        | Outperform | Neutral  |
| Zacks Rank (Short Term)                                                       | 2       | -          | -         | 2              | 2          | 2        |
| VGM Score                                                                     | D       | -          | -         | C              | A          | C        |
| Market Cap                                                                    | 11.06 B | 3.50 B     | 30.19 B   | 3.48 B         | 2.93 B     | 12.95 B  |
| # of Analysts                                                                 | 8       | 2          | 12        | 1              | 2          | 17       |
| Dividend Yield                                                                | 2.73%   | 0.28%      | 1.3%      | 0.57%          | 0.57%      | 0.90%    |
| Value Score                                                                   | D       | -          | -         | F              | B          | D        |
| Cash/Price                                                                    | 0.01    | 0.02       | 0.06      | 0.03           | 0.02       | 0.00     |
| EV/EBITDA                                                                     | 25.64   | 25.48      | 17.47     | 26.67          | 11.70      | 25.48    |
| PEG F1                                                                        | NA      | 3.09       | 2.19      | NA             | NA         | NA       |
| P/B                                                                           | 6.14    | 5.54       | 4.16      | 9.32           | 4.05       | NA       |
| P/CF                                                                          | 36.99   | 33.34      | 17.45     | 33.34          | 14.84      | 28.80    |
| P/E F1                                                                        | 34.17   | 40.26      | 21.83     | 50.66          | 20.95      | 29.10    |
| P/S TTM                                                                       | 2.13    | 2.16       | 3.51      | 7.06           | 1.04       | 3.37     |
| Earnings Yield                                                                | 2.93%   | 2.16%      | 4.49%     | 1.97%          | 4.78%      | 3.44%    |
| Debt/Equity                                                                   | 0.03    | 0.03       | 0.66      | 0.00           | 0.24       | -6.27    |
| Cash Flow (\$/share)                                                          | 7.68    | 2.00       | 6.82      | 2.00           | 5.45       | 11.90    |
| Growth Score                                                                  | D       | -          | -         | A              | B          | B        |
| Historical EPS Growth (3-5 Years)                                             | 7.82%   | 10.51%     | 9.39%     | 9.18%          | 23.50%     | 11.90%   |
| Projected EPS Growth (F1/F0)                                                  | 19.51%  | 22.25%     | 20.29%    | -12.08%        | -5.75%     | 18.47%   |
| Current Cash Flow Growth                                                      | 9.25%   | 9.25%      | 0.74%     | 36.87%         | 21.51%     | -10.82%  |
| Historical Cash Flow Growth (3-5 Years)                                       | 10.62%  | 11.44%     | 7.37%     | 12.64%         | 22.11%     | 8.94%    |
| Current Ratio                                                                 | 2.69    | 2.69       | 1.39      | 3.68           | 1.10       | 1.34     |
| Debt/Capital                                                                  | 2.95%   | 5.18%      | 41.55%    | 0.00%          | 19.19%     | NA       |
| Net Margin                                                                    | 5.52%   | 5.53%      | 11.70%    | 14.92%         | 5.62%      | 11.13%   |
| Return on Equity                                                              | 16.08%  | 13.35%     | 16.07%    | 21.14%         | 21.51%     | -343.80% |
| Sales/Assets                                                                  | 1.98    | 1.76       | 0.51      | 1.09           | 1.66       | 1.87     |
| Projected Sales Growth (F1/F0)                                                | 11.32%  | 5.47%      | 9.14%     | 0.00%          | 1.72%      | 9.21%    |
| Momentum Score                                                                | D       | -          | -         | B              | D          | C        |
| Daily Price Change                                                            | -0.11%  | -0.05%     | 0.09%     | -0.12%         | 0.25%      | -0.13%   |
| 1-Week Price Change                                                           | -4.67%  | -2.25%     | -0.49%    | -2.68%         | -2.44%     | -2.31%   |
| 4-Week Price Change                                                           | -2.83%  | -2.83%     | 0.85%     | -4.30%         | 0.32%      | 2.47%    |
| 12-Week Price Change                                                          | 16.83%  | 0.17%      | 12.34%    | -13.36%        | 30.59%     | 22.50%   |
| 52-Week Price Change                                                          | 71.37%  | 72.05%     | 46.29%    | 29.21%         | 139.32%    | 72.72%   |
| 20-Day Average Volume (Shares)                                                | 157,367 | 145,089    | 1,936,476 | 132,812        | 162,872    | 197,495  |
| EPS F1 Estimate 1-Week Change                                                 | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%      | 0.00%    |
| EPS F1 Estimate 4-Week Change                                                 | 11.63%  | 5.04%      | 1.65%     | 9.17%          | 5.04%      | 8.14%    |
| EPS F1 Estimate 12-Week Change                                                | 12.71%  | 9.19%      | 2.64%     | 9.17%          | 32.47%     | 9.21%    |
| EPS Q1 Estimate Monthly Change                                                | 10.59%  | 2.35%      | 0.83%     | NA             | NA         | 4.34%    |

Source: Zacks Investment Research

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## 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    | D |
| Growth Score   | D |
| Momentum Score | D |
| VGM Score      | D |

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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## 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 forward-looking 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 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 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.