

## Weyerhaeuser Company (WY)

**\$34.46** (As of 12/17/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

### Summary

Shares of Weyerhaeuser have outperformed the industry in the past six months. Notably, the company has been benefitting from the recovery of single-family housing construction, and repair/remodel activities. Also initiatives to boost financial flexibility in order to generate solid cash flow and strengthen the balance sheet is noteworthy. Meanwhile, earnings estimates for 2021 have moved up in the past 30 days. However, jump in new COVID-19 cases, uncertainty on the duration of the pandemic and its impact on the economy are risks. For the fourth quarter 2020, the company expects earnings and adjusted EBITDA for Wood Products to be lower sequentially. Excluding the effects of changes in average sales realizations, it expects fourth quarter results to be significantly lower than the third quarter.

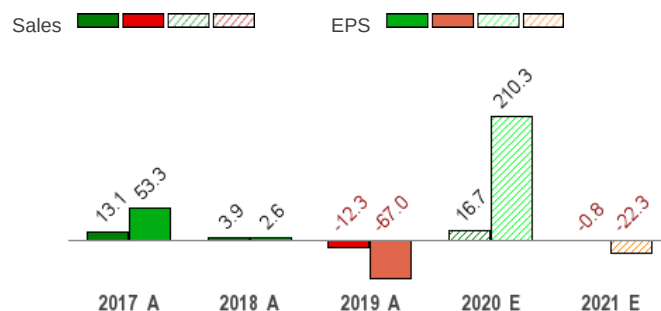
### Price, Consensus & Surprise



### Data Overview

|                                |                                 |
|--------------------------------|---------------------------------|
| 52-Week High-Low               | <b>\$34.71 - \$13.10</b>        |
| 20-Day Average Volume (Shares) | <b>4,272,962</b>                |
| Market Cap                     | <b>\$25.7 B</b>                 |
| Year-To-Date Price Change      | <b>14.1%</b>                    |
| Beta                           | <b>1.89</b>                     |
| Dividend / Dividend Yield      | <b>\$0.68 / 2.0%</b>            |
| Industry                       | <b>Building Products - Wood</b> |
| Zacks Industry Rank            | <b>Top 16% (40 out of 255)</b>  |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>33.3%</b>      |
| Last Sales Surprise           | <b>-0.6%</b>      |
| EPS F1 Estimate 4-Week Change | <b>10.6%</b>      |
| Expected Report Date          | <b>01/29/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>41.0</b>       |
| P/E F1                        | <b>28.5</b>       |
| PEG F1                        | <b>5.7</b>        |
| P/S TTM                       | <b>3.7</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,913 E | 1,865 E | 1,786 E | 1,585 E | 7,586 E |
| 2020 | 1,728 A | 1,631 A | 2,110 A | 2,007 E | 7,651 E |
| 2019 | 1,643 A | 1,692 A | 1,671 A | 1,548 A | 6,554 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.39 E | \$0.27 E | \$0.19 E | \$0.07 E | \$0.94 E |
| 2020 | \$0.18 A | \$0.11 A | \$0.52 A | \$0.46 E | \$1.21 E |
| 2019 | \$0.11 A | \$0.16 A | \$0.08 A | \$0.03 A | \$0.39 A |

\*Quarterly figures may not add up to annual.

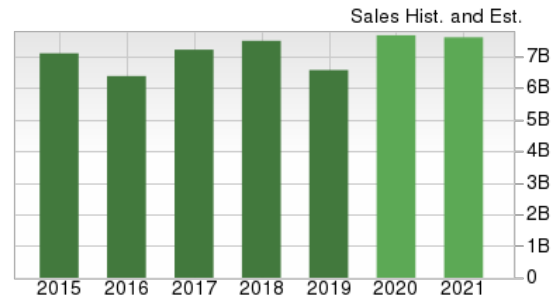
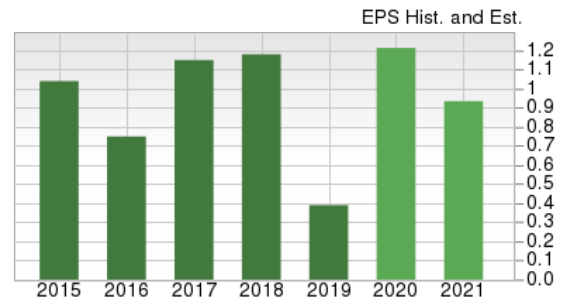
The data in the charts and tables, except sales and EPS estimates, is as of 12/17/2020. The reports text and the analyst-provided sales and EPS estimates are as of 12/18/2020.

## Overview

Based in Washington, **Weyerhaeuser Company** is one of the leading U.S. forest product companies with operations primarily concentrated in Southern California, Nevada, Washington, Texas, Maryland and Virginia. The company caters to a diverse clientele spread over the United States, Canada, Japan, Europe and other regions. The company grows and harvests trees, builds homes and manufactures forest products worldwide, primarily to be used as lumber, pulp and paper, and other wood and building products. It offers logs, hardwood lumber, timber, poles and plywood, as well as minerals, oil, gas, seeds and seedlings.

The company operates through three business segments including:

- The **Timberlands** segment (contributing 24.7% to 2019 revenues) is engaged in the sale of logs, stumpage and pay-as-cut timber.
- The **Wood Products** segment (70.5%) deals with the sale of plywood, softwood lumber, engineered wood products, oriented strand board (OSB), fiberboard and building materials distribution.
- The **Real Estate, Energy and Natural Resources** segment (4.8%) deals with the results from an equity interest in Plum Creek Real Estate development joint ventures. Also, the segment is responsible for disposition of properties, non-core timberlands, and royalties related to minerals and oil and gas assets.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Strong Performance & Improving Housing Market:** Despite rapidly changing market conditions owing to the COVID-19 pandemic outbreak, the company's adjusted earnings grew 125% year over year and adjusted EBITDA was up 52% for the first nine months of 2020. The robust performance is reflective of improving housing market activity, which in turn led to improved demand during the period.

Markets have been showing resilience of late and housing is witnessing an impressive comeback on major data points, given low mortgage rates. With the opening of the economy, demand for housing and wood products has been improving amid broad economic disruption since late May 2020. Aside from remarkable recovery in single-family housing construction, repair/remodel activity also has been robust, supported by do-it-yourself and professional activity.

Operational Excellence initiatives, stable balance sheet & recovery of the U.S. housing market will benefit Weyerhaeuser's businesses

- ▲ **Operational Excellence Initiatives:** Weyerhaeuser's focus on operational excellence has been advantageous over time. It remains focused on operational excellence that includes merchandising for value, harvest and transportation efficiencies, along with flexing harvest to capture seasonal and short-term opportunities. The company reaped more than \$100 million benefits, collectively from Timberlands and Wood Products businesses, owing to operational excellence improvements in 2019. This initiative led to more than \$0.5 billion of company-wide margin improvement from 2014 through 2019.

In Timberlands, it achieved \$48 million of improvements in 2019, well within its \$40-\$50 million target, for a cumulative total of \$262 million since the initiation of the plan. This was primarily attributed to initiatives to further optimize silviculture, forestry and road activities, reduce costs, and improve log merchandising and marketing to maximize revenues from every log the company harvests. In Wood Products, the company captured \$52 million of improvements. The 2019 improvements in Wood Products came from its three primary initiatives: reducing unit manufacturing cost for Lumber and Oriented Strand Board, improving product mix in Lumber and distribution, and increasing log recovery across the mill system.

For 2020, Weyerhaeuser anticipates \$50-\$70 million of additional operational excellence improvements. Key focus areas include improving the productivity of harvesting and hauling operations, reducing road cost, optimizing forestry spending and maximizing revenues from every log Weyerhaeuser harvest.

- ▲ **Stable Balance Sheet:** The company's cash and cash equivalents at the end of third-quarter 2020 were \$787 million, up from \$643 million at second quarter-end. Its total debt decreased to \$5,974 million at third quarter-end from \$6,299 million at second quarter-end. Moreover, cash from operations for the third quarter was \$608 million, which marked the company's highest operating cash flow since fourth-quarter 2006. Weyerhaeuser used a major portion of this cash to strengthen the balance sheet by redeeming some of its 2023 debt maturities. Additionally, it intends to repay its \$150 million, 9% note when it matures in the fourth quarter of 2021. At third quarter-end, Weyerhaeuser had full \$1.5-billion capacity available on its revolver, without any short-term obligation.

Notably, its "Times Interest Earned" ratio of 2.7 reflects an improvement from the prior-quarter figure of 2. This shows that Weyerhaeuser is well positioned to meet debt obligations. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on the current income.

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## Reasons To Sell:

- ▼ **Dependence on Housing Market & Coronavirus-Related Woes:** The company's Timberlands and Wood Products segments are highly dependent on the U.S. housing market. Any untoward situation influencing the construction and housing sectors will impact the company's financials. Although the U.S. housing market witnessed a significant improvement, jump in new COVID-19 cases is a pressing concern.

For the fourth quarter 2020, the company expects earnings and adjusted EBITDA for Wood Products to be lower sequentially. Excluding the effects of changes in average sales realizations, it expects fourth quarter results to be significantly lower than the third quarter. We expect a modest seasonal reduction in sales volume, as well as higher Western and Canadian log costs and higher raw material costs for engineered wood products.

- ▼ **Currency Headwind:** Weyerhaeuser is exposed to risks from unfavorable movement of foreign currencies. Also, any economic unrest in countries served by Weyerhaeuser, especially China and Japan, will adversely impacts the company's export business.
- ▼ **Stiff Competition:** The company faces stiff competition from North American and global producers who have greater financial resources and lower production costs.
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Weyerhaeuser faces near-term headwinds from volatile wood products markets, adverse foreign currency movements, uncertain economic conditions and stiff market competition

## Last Earnings Report

### Weyerhaeuser's (WY) Q3 Earnings Top, Revenues Miss Estimates

Weyerhaeuser Company reported decent third-quarter 2020 results, wherein earnings comfortably surpassed the Zacks Consensus Estimate but revenues missed the same. The company delivered strong performance across businesses despite disruptions from severe weather, unprecedented forest fires and the ongoing COVID-19 pandemic.

Devin W. Stockfish, president and chief executive officer of Weyerhaeuser said, "Entering the fourth quarter, Weyerhaeuser is operating from a strong financial position, and we are increasingly confident that the recent strength in U.S. housing will continue notwithstanding ongoing macroeconomic headwinds."

Quarter Ending 09/2020

| Report Date      | Oct 30, 2020 |
|------------------|--------------|
| Sales Surprise   | -0.61%       |
| EPS Surprise     | 33.33%       |
| Quarterly EPS    | 0.52         |
| Annual EPS (TTM) | 0.84         |

### Inside the Headlines

The company reported adjusted earnings of 52 cents per share, which surpassed the consensus mark of 39 cents by 33.3% and increased by a whopping 550% from the year-ago figure of 8 cents.

Net sales of \$2,110 million missed the consensus mark by 0.6%. The reported figure, however, grew 26.3% from \$1,671 million reported in the prior-year quarter.

Adjusted EBITDA came in at \$745 million for the quarter, up 141.9% from \$308 million in the year-ago period.

### Segments Details

**Timberlands:** Net sales (including inter-segment sales of \$107 million) in the segment came in at \$452 million, down 13.6% from the year-ago figure of \$523 million. In the West, fee harvest volumes were down 15% sequentially as wildfire conditions restricted harvest activity. This was largely offset by higher average sales realizations for domestic logs. Domestic log sales volumes were down modestly and export log sales volumes were significantly lower sequentially as the company shifted volume to the domestic market for taking advantage of higher-margin opportunities. Meanwhile, in the South, fee harvest volumes dropped 5% as the company continued to reduce 2020 fee harvest volumes. Average log sales realizations remained on par with the second quarter and forestry spending increased seasonally. Adjusted EBITDA came in at \$130 million, down 15.6% from \$154 million in the year-ago quarter.

**Real Estate, Energy and Natural Resources:** Segment's net sales amounted to \$69 million, which was unchanged from the year-ago level. Adjusted EBITDA of \$60 million also remained same as the year-ago level.

**Wood Products:** Sales in the segment totaled \$1,696 million, up 40.9% from \$1,204 million in the prior-year quarter. Adjusted EBITDA came in at \$615 million, up 400% from the year-ago figure of \$123 million. Market demand for wood products has been improving post April. Also, a 54% sequential increase in average sales realizations for lumber and 65% growth for oriented strand board are positives. Sales volumes for engineered wood products also increased significantly from a year ago.

### Financial Highlights

The company had ample liquidity, including \$787 million in cash and cash equivalents, along with \$1.5 billion of undrawn revolver capacity as of Sep 30, 2020. In the second quarter, Weyerhaeuser had cash and cash equivalents of \$643 million. Long-term debt was \$5,974 million at quarter-end versus \$6,147 million at 2019-end.

Net cash from operations was \$1,085 million for the first nine months of 2020 compared with \$674 million in the comparable year-ago period.

Weyerhaeuser's board of directors reinitiated quarterly cash dividend. The board is also implementing a new dividend framework to enhance its ability of returning cash to shareholders.

### Outlook

For the fourth quarter, the company expects sequentially higher earnings and adjusted EBITDA in the Timberland segment. Geographically, in the West, the company expects higher average sales realizations for domestic and Japanese export logs, as well as improved log sales volumes as Oregon harvest activity resumes and salvage operations begin. In the South, it expects slightly higher forestry expense and marginally lower average log sales realizations due to mix.

In the Real Estate, Energy and Natural Resources segment, Weyerhaeuser anticipates sequentially lower earnings and adjusted EBITDA for the fourth quarter. This is due to the timing of real estate transactions. For 2020, it expects adjusted EBITDA to be \$235 million.

Within the Wood Products segment, the company predicts earnings and adjusted EBITDA to be significantly lower on a sequential basis. It expects a modest seasonal reduction in sales volumes, higher Western and Canadian log costs, as well as lower operating rates for some product lines due to planned maintenance outages.

## Valuation

Weyerhaeuser's shares are up 16.2% in the year-to-date period and 17% over the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Construction sector is up 30.6% and 18.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 31.2% and 21%, respectively.

The S&P 500 index is up 17% in the year-to-date period and 17.8% in the past year.

The stock is currently trading at 36.47X forward 12-month earnings, which compares to 24.17X for the Zacks sub-industry, 16.75X for the Zacks sector and 22.67X for the S&P 500 index.

Over the past five years, the stock has traded as high as 74.88X and as low as 15.35X, with a 5-year median of 29.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 39.24X forward 12-month earnings.

The table below shows summary valuation data for WY.

| Valuation Multiples - WY |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                 | Current       | 36.47 | 24.17        | 16.75  | 22.67   |
|                          | 5-Year High   | 74.88 | 41.06        | 18.98  | 23.47   |
|                          | 5-Year Low    | 15.35 | 16.74        | 10.76  | 15.27   |
|                          | 5-Year Median | 29.17 | 24.03        | 16.04  | 17.77   |
| P/S F12M                 | Current       | 3.39  | 3.46         | 2.1    | 4.28    |
|                          | 5-Year High   | 3.96  | 3.46         | 2.13   | 4.29    |
|                          | 5-Year Low    | 1.44  | 1.41         | 1.17   | 3.17    |
|                          | 5-Year Median | 3.2   | 2.72         | 1.68   | 3.68    |
| EV/EBITDA TTM            | Current       | 18.2  | 20.32        | 24.46  | 16.5    |
|                          | 5-Year High   | 24.51 | 25.6         | 24.52  | 16.53   |
|                          | 5-Year Low    | 10.31 | 9.82         | 12.38  | 9.54    |
|                          | 5-Year Median | 16.63 | 16.93        | 17.95  | 13.17   |

As of 12/17/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 16% (40 out of 255)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                       | Rec        | Rank |
|----------------------------------------|------------|------|
| Boise Cascade, L.L.C. (BCC)            | Outperform | 2    |
| JELDWEN Holding, Inc. (JELD)           | Outperform | 2    |
| Louisiana-Pacific Corporation (LPX)    | Outperform | 1    |
| Trex Company, Inc. (TREX)              | Outperform | 2    |
| Floor & Decor Holdings, Inc. (FND)     | Neutral    | 3    |
| Norbord Inc. (OSB)                     | Neutral    | 2    |
| Potlatch Corporation (PCH)             | Neutral    | 3    |
| Universal Forest Products, Inc. (UFPI) | Neutral    | 3    |

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

| Industry Comparison Industry: Building Products - Wood |           |            |           | Industry Peers |            |            |
|--------------------------------------------------------|-----------|------------|-----------|----------------|------------|------------|
|                                                        | WY        | X Industry | S&P 500   | FND            | LPX        | TREX       |
| Zacks Recommendation (Long Term)                       | Neutral   | -          | -         | Neutral        | Outperform | Outperform |
| Zacks Rank (Short Term)                                | 2         | -          | -         | 3              | 1          | 2          |
| VGM Score                                              | B         | -          | -         | A              | B          | F          |
| Market Cap                                             | 25.72 B   | 3.45 B     | 26.46 B   | 10.21 B        | 4.25 B     | 9.55 B     |
| # of Analysts                                          | 3         | 3          | 14        | 10             | 4          | 9          |
| Dividend Yield                                         | 1.97%     | 0.41%      | 1.49%     | 0.00%          | 1.49%      | 0.00%      |
| Value Score                                            | D         | -          | -         | D              | D          | F          |
| Cash/Price                                             | 0.03      | 0.06       | 0.06      | 0.03           | 0.10       | 0.00       |
| EV/EBITDA                                              | 45.79     | 18.22      | 14.51     | 43.50          | 38.28      | 46.79      |
| PEG F1                                                 | 5.70      | 0.86       | 2.83      | 2.55           | NA         | NA         |
| P/B                                                    | 3.02      | 3.34       | 3.61      | 10.96          | 3.72       | 17.56      |
| P/CF                                                   | 32.30     | 21.11      | 13.93     | 51.25          | 27.15      | 60.63      |
| P/E F1                                                 | 28.48     | 16.50      | 22.22     | 66.87          | 9.96       | 53.46      |
| P/S TTM                                                | 3.67      | 1.76       | 2.79      | 4.58           | 1.72       | 11.69      |
| Earnings Yield                                         | 3.51%     | 5.79%      | 4.29%     | 1.50%          | 10.04%     | 1.87%      |
| Debt/Equity                                            | 0.70      | 0.66       | 0.70      | 0.22           | 0.30       | 0.00       |
| Cash Flow (\$/share)                                   | 1.07      | 1.67       | 6.94      | 1.92           | 1.43       | 1.36       |
| Growth Score                                           | A         | -          | -         | A              | B          | D          |
| Historical EPS Growth (3-5 Years)                      | -13.80%   | 5.39%      | 9.69%     | 18.62%         | 5.39%      | 29.59%     |
| Projected EPS Growth (F1/F0)                           | 211.10%   | 77.88%     | 1.21%     | 27.65%         | 954.05%    | 24.96%     |
| Current Cash Flow Growth                               | -42.27%   | -27.92%    | 5.22%     | 30.45%         | -67.52%    | 1.83%      |
| Historical Cash Flow Growth (3-5 Years)                | -8.57%    | 21.03%     | 8.33%     | 48.52%         | 32.59%     | 22.86%     |
| Current Ratio                                          | 2.46      | 2.14       | 1.38      | 1.57           | 3.70       | 3.11       |
| Debt/Capital                                           | 41.20%    | 39.56%     | 42.00%    | 18.17%         | 23.92%     | 0.00%      |
| Net Margin                                             | 7.00%     | 4.90%      | 10.44%    | 7.77%          | 7.79%      | 20.53%     |
| Return on Equity                                       | 7.57%     | 16.48%     | 14.99%    | 16.23%         | 26.04%     | 35.52%     |
| Sales/Assets                                           | 0.42      | 1.13       | 0.50      | 0.87           | 1.27       | 1.25       |
| Projected Sales Growth (F1/F0)                         | 16.74%    | 13.67%     | 0.35%     | 17.05%         | 15.06%     | 16.38%     |
| Momentum Score                                         | A         | -          | -         | A              | A          | D          |
| Daily Price Change                                     | 1.65%     | 2.09%      | 0.62%     | 2.56%          | 2.37%      | 1.35%      |
| 1-Week Price Change                                    | 4.17%     | 4.17%      | -1.29%    | 7.53%          | 8.19%      | 4.31%      |
| 4-Week Price Change                                    | 18.75%    | 10.06%     | 3.50%     | 24.27%         | 11.81%     | 9.50%      |
| 12-Week Price Change                                   | 27.72%    | 27.68%     | 19.48%    | 37.19%         | 30.52%     | 21.29%     |
| 52-Week Price Change                                   | 14.83%    | 30.87%     | 6.72%     | 94.96%         | 30.87%     | 87.07%     |
| 20-Day Average Volume (Shares)                         | 4,272,962 | 313,765    | 1,976,201 | 802,053        | 1,403,674  | 610,001    |
| EPS F1 Estimate 1-Week Change                          | 0.00%     | 0.00%      | 0.00%     | 0.82%          | 0.00%      | 0.00%      |
| EPS F1 Estimate 4-Week Change                          | 10.64%    | 0.88%      | 0.00%     | 3.02%          | 4.35%      | 0.69%      |
| EPS F1 Estimate 12-Week Change                         | 27.72%    | 16.51%     | 3.94%     | 23.08%         | 34.95%     | 6.85%      |
| EPS Q1 Estimate Monthly Change                         | 43.75%    | 0.00%      | 0.00%     | 2.59%          | 2.70%      | 0.00%      |

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.

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | D |
| Growth Score   | A |
| Momentum Score | A |
| VGM Score      | B |

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

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## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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