DENTSPLY SIRONA (XRAY)

$45.73 (As of 09/02/20)

Price Target (6-12 Months): **$48.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/21/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: C | Momentum: F	

Summary

DENTSPLY SIRONA ended the second quarter on a weak note. Nonetheless, the company is optimistic of witnessing sustained improvement in sales trends with dental offices reopening and rise in patient visits. Per management, in order to position the company better in the future, DENTSPLY SIRONA is undertaking a range of additional restructuring actions, which will boost revenue growth, expand margins, and streamline the organizational structure. However, the company witnessed weak performance in its core segments in the quarter. Significant contraction in gross margin is a woe. Moreover, sales in the United States, Europe and rest of the world declined substantially in the reported quarter. DENTSPLY has underperformed the industry in a year's time.

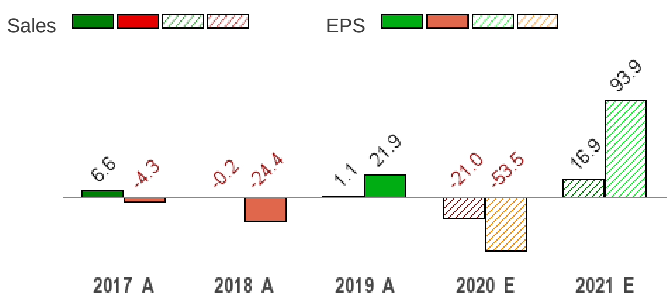
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$60.87 - $31.58**
20-Day Average Volume (Shares)	**1,848,442**
Market Cap	**$10.0 B**
Year-To-Date Price Change	**-19.2%**
Beta	**0.99**
Dividend / Dividend Yield	**$0.40 / 0.9%**
Industry	**Medical - Dental Supplies**
Zacks Industry Rank	**Top 25% (64 out of 251)**
Last EPS Surprise	**-500.0%**
Last Sales Surprise	**-3.9%**
EPS F1 Estimate 4-Week Change	**-19.1%**
Expected Report Date	**11/05/2020**
Earnings ESP	**-0.1%**
P/E TTM	**29.5**
P/E F1	**40.1**
PEG F1	**3.5**
P/S TTM	**2.9**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	892 E	834 E	915 E	1,095 E	3,719 E
2020	874 A	491 A	790 E	1,034 E	3,181 E
2019	946 A	1,009 A	962 A	1,112 A	4,029 A

EPS Estimates

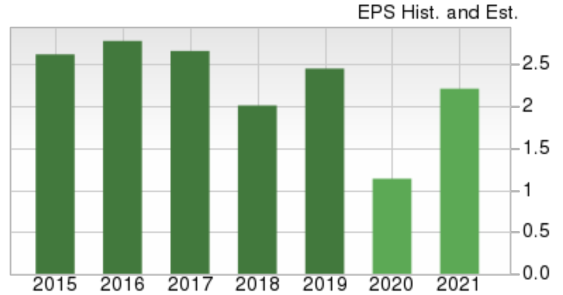
	Q1	Q2	Q3	Q4	Annual*
2021	$0.47 E	$0.47 E	$0.52 E	$0.78 E	$2.21 E
2020	$0.43 A	-$0.18 A	$0.22 E	$0.62 E	$1.14 E
2019	$0.49 A	$0.66 A	$0.57 A	$0.73 A	$2.45 A

*Quarterly figures may not add up to annual.

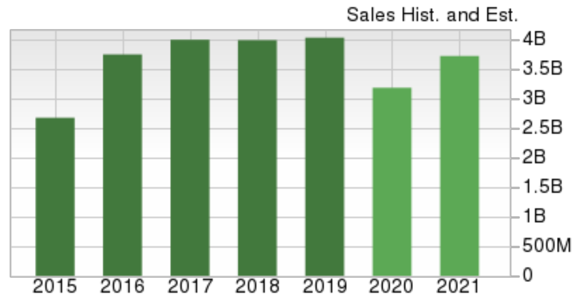
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/02/2020. The reports text is as of 09/03/2020.

Overview

Headquartered in York, PA, DENTSPLY SIRONA Inc. (XRAY) is a global leader in the design, development, manufacture and marketing of dental consumables, dental laboratory products, dental specialty products and consumable medical device products. In addition, it provides dental technology products, including dental implants and related scanning equipment, treatment software, and orthodontic appliances for dental practitioners and specialist; and dental equipment, such as treatment centers, imaging equipment, and computer aided design and machining systems for dental practitioners. Further, the company offers healthcare consumable products, such as urology catheters, medical drills, and other non-medical products.



Post the DENTSPLY-SIRONA merger, the business has been organized into two reporting segments: Dental & Healthcare Consumables and Technologies.



Dental & Healthcare Consumables comprises preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

Technologies consist of dental implants, CAD/CAM systems, imaging systems, treatment centers and orthodontic products.

2019 at a Glance

Full-year revenues were $4.03 billion, up 1.1%.

- Technologies & Equipment segment accounted for 56.7% of net revenues.
- The Consumables segment accounted for 43.3% of net revenues.

Source: Zacks Investment Research

Reasons To Buy:

▲ **New Digital-Implant Workflow in Dentistry**: In a bid to revolutionize digital-implant workflow in dental care, DENTSPLY recently launched a single tooth replacement solution — Azento — in the United States. It is also available in Canada and Europe now. Azento reduces the risk of complications in single-tooth replacement procedures. It revolutionizes the digital implant workflow by restructuring implant-planning service, purchase and delivery.A report by the Meticulous Research states that the global tooth replacement market is expected to reach $13,035.2 million by 2022, at a CAGR of 6.9%. Per the first-quarter 2020 preliminary results, digital dentistry and healthcare witnessed solid organic sales growth in the quarter under review, partially offset by decrease in organic sales in Equipment & Instruments and Implants. However, Digital Dentistry and Implants exhibited weak performance in the second quarter.

Strong focus in R&D is a key positive for DENTSPLY. This apart, DENTSPLY's CAD/CAM dental imaging platform is fortifying its foothold in the global dental markets.

▲ **R&D Boosts Product Innovation**: DENTSPLY's overall growth strategy rests on product innovation. The company's solid internal growth, despite challenging macroeconomic headwinds, is primarily driven by its innovative new products. The company pursues several research and development (R&D) initiatives to support technological development. By late 2018, management at DENTSPLY confirmed that the company's current R&D process begins with an exclusive top-down portfolio management process.

This allows the company to focus on developing larger and more impactful initiatives in the quarters ahead. It is encouraging to note that the company is successfully fortifying its foothold in the highly competitive MedTech space with high-end products like PrimeScan, GP Ortho software and many more. The company is also creating a comprehensive R&D portfolio program which is expected to be completed by 2019. This apart, new products like WaveOne GOLD, X-Smart iQ, VDW and CONNECT Drive are expected to drive the company's penetration in Europe. Growing preventive and restorative product portfolio is also expected to drive market expansion in the continent. The company's diversified product portfolio and recurring revenue base are key growth catalysts in the long run.

▲ **Product Launches**: In recent times, DENTSPLY launched PrimeScan, a digital impression scanner. Per management, it has been significantly boosting the company's top line. In January, DENTSPLY launched Primemill.

Other launches include Surefil One and a new generation of endodontic files — TruNatomy. Another critical piece of the company's sustainable foundation for growth is the differentiated clinical education program, which has been rolled out in the United States in recent times. Also, the launch of CEREC 5.1 software and OraCheck enables dentists to visualize 3-dimensional changes from virtual optical scans. Additionally, the Astra Tech EV implant system, new versions of the Orthophos, E, S and SL panoramic imaging lines have also been launched.

Over the past couple of years, the company has completed several portfolio shaping actions, which include FONA, 1-800-DENTIST, SICAT and the Surgical business of Wellspect. Additionally, per the second-quarter 2020 earnings call, management announced two portfolio shaping activities that will further consolidate its manufacturing footprint, boost productivity and lower fixed costs.

▲ **CAD/CAM Unit in Focus**: DENTSPLY's CAD/CAM is a dental imaging platform and a major foundation in global dental markets. CAD/CAM is a field of dental supplies and prosthodontics using computer-aided design and computer-aided manufacturing technologies. Per Technavio, the global dental CAD/CAM market will witness a CAGR of more than 8% by 2021. We believe that DENTSPLY is likely to benefit from the trends. In a bid to strengthen its CAD-CAM-based dental unit, DENTSPLY acquired OraMetrix — a leading industry provider of innovative 3-D technology solutions. The company also offers an advanced, CAD platform developed for dental professionals to deliver consistently predictable orthodontic outcomes. Post the acquisition, the company will be able to provide an end-to-end digital workflow to dental professionals and address the increasing demands for aesthetics. The acquisition of OraMetrix is likely to strengthen DENTSPLY's footprint in the global dental industry. In fact, the acquisition will introduce a comprehensive orthodontic offering that will include a 'full arch clear-aligner' solution for DENTSPLY. Wellspect, which serves the hydrophilic CIC market, has been driving DENTSPLY's Technology & Equipment revenues.

▲ **Restructuring Plan**: DENTSPLY announced a comprehensive plan to accelerate revenue growth, expand margins and simplify its business. The plan includes a restructuring that is anticipated to achieve $200-$225 million in net annual cost savings by 2021 through streamlining the organization and consolidating functions. Furthermore, this strategy is expected to boost the top line by 3-4% and deliver an adjusted operating income margin of 20% by the end of 2020 and 22% by 2022. Since announcing restructuring actions in late 2018, DENTSPLY SIRONA has advanced significantly toward the goals laid out by the company.

▲ **Emerging markets in Focus**: Emerging markets offer healthy growth opportunities on a long-term basis for DENTSPLY. This is because they remain vastly untapped with low dental products penetration. Growth in these markets is being driven by consumables, technology and equipment performance. DENTSPLY's exceptional strength in its products, brands, clinical education, direct sales and marketing efforts have been providing it with a competitive edge in these places.

▲ **Stable Liquidity Position**: DENTSPLY exited second quarter with cash and cash equivalents of $1.11 billion compared with $236 million in the preceding quarter. The company's long-term debt was $2.28 billion in the quarter under review, down from $1.53 billion sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the company ended the quarter with no current debt on its balance sheet. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

In the second quarter, the company's cash flow from operations was $175 million, up from $145 million in the year-ago period. A disciplined approach toward lowering expenses and reducing working capital without letting go of key strategic investments led to the solid cash flow generation. DENTSPLY's capital deployment policy is based on the return of shareholders' money through share repurchases and dividends. The company paid dividends worth $22 million in the second quarter, while returning a total of $184 million to shareholders in the first half of 2020.

Reasons To Sell:

Foreign exchange volatility is expected to present a major headwind in the coming quarters. The company's margins remains pressed at the moment.

- **Stock Performance**: Over the past year, shares of DENTSPLY have lost 11%, compared with the industry's decline of 4.8%. The company has seen softness in the Consumables arm recently. Also, foreign exchange headwind and the coronavirus outbreak weighed on its second-quarter results.

- **Consumables Down**: In second-quarter 2020, DENTSPLY's Consumables sales declined 58.6% year over year to $186.7 million. On an internal basis, sales fell 57.7%. Per management, decline in organic sales stemmed from lower demand across all three regions due to lower visits by dentists and customers and procedures on account of the COVID-19 pandemic. Lower sales of Endodontic, Restorative and Preventive products primarily led to the downside.

- **Foreign Exchange Headwinds**: DENTSPLY has significant international presence. Therefore, a strengthening U.S. dollar, especially against the euro, as well as emerging market currencies negatively impacts the company's results. The company faces significant pricing pressure due to intensifying competition. DENTSPLY conducts its operations, both domestic and foreign, under highly competitive market conditions. The size and number of the company's competitors vary by product line and from region to region.

  Foreign exchange reflected a headwind of 1% in the second quarter, primarily due to the strengthening of the U.S. dollar relative to the Euro.

  Per the fourth-quarter 2019 earnings call, foreign exchange headwinds are expected to impact the company's top line by $30 million in 2020.

Last Earnings Report

DENTSPLY SIRONA Q2 Earnings & Revenues Miss Estimates

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	-3.86%
EPS Surprise	-500.00%
Quarterly EPS	-0.18
Annual EPS (TTM)	1.55

DENTSPLY SIRONA Inc. reported second-quarter 2020 adjusted loss per share of 18 cents, wider than the Zacks Consensus Estimate for loss of 3 cents. Notably, the company had reported adjusted EPS of 66 cents in the prior-year quarter.

The company reported revenues of $490.6 million, which plunged 51.4% from the year-ago quarter due to the impact from the COVID-19 pandemic. Moreover, the top line missed the Zacks Consensus Estimate by 3.9%. Per management, internal sales declined 49.9%.

Business Details

Consumables

Consumable revenues were down 58.6% year over year and 57.7% on an internal basis in the first quarter to $186.7 million. Per management, decline in organic sales stemmed from lower demand across all three regions due to lower visits by dentists and customers and procedures on account of the COVID-19 pandemic. Lower sales of Endodontic, Restorative and Preventive products primarily led to the downside.

Technologies & Equipment

Technologies & Equipment revenues plunged 45.6% year over year to $303.9 million in the reported quarter. On an internal basis, sales declined 43.6%. Per management, decline in organic sales in in Equipment & Instruments, Digital Dentistry and Implants business was responsible for the downside.

Revenues by Geography

In the United States, revenues fell 60.3% to $130.9 million and 60% internally. Rest of World revenues declined 44% year over year to $144.4 million. Revenues in the geography decreased 41.9% on an internal sales growth basis. European revenues slumped 49% year on year to $215.3 million. On an internal sales growth basis, European revenues declined 46.9%.

Margin Analysis

Adjusted gross profit in the reported quarter amounted to $206.5 million, down 64.5% on a year-over-year basis. Adjusted gross margin was 42.1%, down 1560 basis points (bps).

Adjusted operating loss came in at $42.3 million, against the year-ago quarter's adjusted operating income of $201.8 million.

Financial Condition

DENTSPLY SIRONA exited the second quarter with cash and cash equivalents of $1.11 billion, up from $235.9 million on a sequential basis. Cumulative net cash provided by operating activities was $164.4 million, down 5.7% from the prior-year period.

2020 Guidance

Due to the continued uncertainty regarding the duration and impact of the COVID-19 pandemic on the company's business, the company has not issued 2020 guidance.

Valuation

DENTSPLY SIRONA's shares are down 19.2% and 10.9% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 2.3% and 0.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4.8% while sector is up 8.8%.

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

The stock is currently trading at 24.6X Forward 12-months earnings, which compares to 18.1X for the Zacks sub-industry, 22.1X for the Zacks sector and 23.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.4X and as low as 11.9X, with a 5-year median of 20.7X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $48 price target reflects 25.8X forward 12-months earnings.

The table below shows summary valuation data for XRAY.

Valuation Multiples - XRAY

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.59	18.11	22.07	23.18
	5-Year High	29.37	19.84	23.2	23.18
	5-Year Low	11.97	13.63	15.89	15.25
	5-Year Median	20.68	16.45	18.99	17.6
P/S F12M	Current	2.82	0.36	2.8	3.95
	5-Year High	4.54	0.38	3.25	3.95
	5-Year Low	1.72	0.23	2.23	2.53
	5-Year Median	3.08	0.28	2.89	3.07
P/B TTM	Current	2.16	4.11	3.87	4.53
	5-Year High	3.87	4.73	5.07	4.76
	5-Year Low	1.39	2.54	2.94	2.83
	5-Year Median	1.91	3.45	4.29	3.76

As of 09/02/2020

Industry Analysis **Zacks Industry Rank:** Top 25% (64 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation **(DHR)**	Outperform	2
AmerisourceBergen Corporation **(ABC)**	Neutral	3
Align Technology, Inc. **(ALGN)**	Neutral	3
Henry Schein, Inc. **(HSIC)**	Neutral	3
Integra LifeSciences Holdings Corporation **(IART)**	Neutral	3
IDEXX Laboratories, Inc. **(IDXX)**	Neutral	3
3M Company **(MMM)**	Neutral	3
Patterson Companies, Inc. **(PDCO)**	Neutral	3

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

Industry Comparison Industry: Medical - Dental Supplies

				Industry Peers		
	XRAY	**X Industry**	**S&P 500**	**ALGN**	**HSIC**	**PDCO**
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	F	C	A
Market Cap	9.99 B	2.65 B	24.30 B	25.56 B	9.55 B	2.79 B
# of Analysts	9	5	14	5	9	8
Dividend Yield	0.87%	0.00%	1.6%	0.00%	0.00%	3.59%
Value Score	B	-	-	D	B	A
Cash/Price	0.11	0.09	0.07	0.02	0.03	0.03
EV/EBITDA	15.80	15.30	13.46	39.21	10.66	15.40
PEG F1	3.46	3.23	3.09	11.66	4.20	2.13
P/B	2.16	4.72	3.25	8.98	2.64	3.32
P/CF	11.62	15.14	13.12	53.74	13.85	3.04
P/E F1	39.66	37.45	22.15	143.93	26.86	20.65
P/S TTM	2.91	2.89	2.57	11.83	1.03	0.51
Earnings Yield	2.49%	2.49%	4.29%	0.69%	3.72%	4.83%
Debt/Equity	0.47	0.43	0.70	0.00	0.14	0.76
Cash Flow ($/share)	3.94	1.35	6.93	6.04	4.83	9.54
Growth Score	C	-	-	F	F	B
Historical EPS Growth (3-5 Years)	-6.73%	9.48%	10.41%	52.39%	3.81%	-13.56%
Projected EPS Growth (F1/F0)	-53.65%	1.47%	-4.75%	-59.24%	-29.06%	-9.43%
Current Cash Flow Growth	-53.28%	3.87%	5.22%	4.59%	-9.03%	327.70%
Historical Cash Flow Growth (3-5 Years)	12.09%	12.65%	8.49%	23.79%	2.76%	27.55%
Current Ratio	3.10	1.53	1.35	1.22	1.48	1.44
Debt/Capital	31.97%	32.99%	42.92%	0.00%	18.00%	43.26%
Net Margin	-1.40%	0.23%	10.25%	78.75%	6.35%	-10.72%
Return on Equity	7.13%	11.36%	14.66%	81.50%	11.51%	11.20%
Sales/Assets	0.41	0.90	0.50	0.67	1.28	1.69
Projected Sales Growth (F1/F0)	-21.04%	0.00%	-1.42%	-14.23%	-8.85%	-2.19%
Momentum Score	F	-	-	F	B	A
Daily Price Change	1.96%	1.96%	1.82%	6.22%	2.65%	0.21%
1-Week Price Change	6.38%	0.00%	2.59%	2.14%	0.44%	13.82%
4-Week Price Change	-2.39%	-1.07%	4.80%	8.68%	-0.36%	3.39%
12-Week Price Change	-1.68%	1.17%	6.31%	21.25%	13.72%	53.96%
52-Week Price Change	-10.91%	9.55%	5.43%	83.94%	9.55%	79.73%
20-Day Average Volume (Shares)	1,848,442	337,706	1,788,967	568,574	1,098,572	905,840
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	1.26%
EPS F1 Estimate 4-Week Change	-19.08%	0.36%	0.00%	0.00%	18.07%	3.12%
EPS F1 Estimate 12-Week Change	-21.06%	5.46%	3.89%	-18.04%	17.02%	22.83%
EPS Q1 Estimate Monthly Change	-22.61%	0.00%	0.00%	0.00%	51.38%	8.20%

Source: Zacks Investment Research

Zacks Style Scores

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

Value Score	B
Growth Score	C
Momentum Score	F
VGM Score	C

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.

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

Disclosures

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

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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