

Zscaler, Inc. (ZS)

\$218.86 (As of 06/23/21)

Price Target (6-12 Months): **\$231.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: C

Summary

Zscaler is benefiting from the rising demand for cyber-security solutions owing to the slew of data breaches. Increasing demand for privileged access security on digital transformation and cloud-migration strategies is a key growth driver. Zscaler's portfolio strength boosts its competitive edge and helps add users. Moreover, a strong presence across verticals, such as banking, insurance, healthcare, public sector, pharmaceuticals, telecommunications services and education, is safeguarding Zscaler from the pandemic's negative impact. Also, Zscaler's recent acquisitions, Smokescreen and Trustdome, are expected to enhance its portfolio. However, aggressive investment toward sales & marketing and research & development might weigh on its near-term profitability. Moreover, intensifying competition poses a concern.&a

Price, Consensus & Surprise



Data Overview

52-Week High-Low **\$230.88 - \$103.05**

20-Day Average Volume (Shares) **2,220,151**

Market Cap **\$30.1 B**

Year-To-Date Price Change **10.0%**

Beta **0.80**

Dividend / Dividend Yield **\$0.00 / 0.0%**

Industry **Internet - Services**

Zacks Industry Rank **Bottom 24% (192 out of 252)**

Last EPS Surprise **114.3%**

Last Sales Surprise **7.3%**

EPS F1 Estimate 4-Week Change **9.6%**

Expected Report Date **09/08/2021**

Earnings ESP **0.0%**

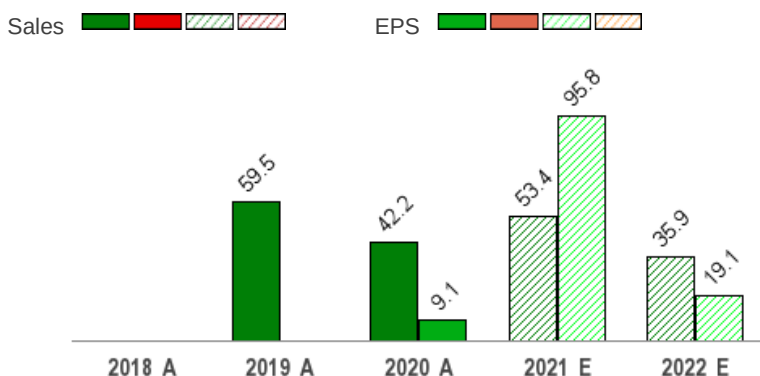
P/E TTM **499.1**

P/E F1 **465.7**

PEG F1 **9.2**

P/S TTM **50.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	200 E	215 E	234 E	250 E	898 E
2021	143 A	157 A	176 A	188 E	661 E
2020	94 A	101 A	111 A	126 A	431 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.15 E	\$0.14 E	\$0.16 E	\$0.16 E	\$0.56 E
2021	\$0.14 A	\$0.10 A	\$0.15 A	\$0.09 E	\$0.47 E
2020	\$0.03 A	\$0.09 A	\$0.07 A	\$0.05 A	\$0.24 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 06/23/2021. The report's text and the

analyst-provided price target are as of 06/23/2021.

Overview

Zscaler was founded in September 2007 as SafeChannel Inc., and the company's name was changed to Zscaler in August 2008. The company is one of the world's leading providers of cloud-based security solutions.

Zscaler offers a full range of enterprise network security services including web security, internet security, antivirus, vulnerability management, firewalls, and control over user activity in mobile, cloud computing, and Internet of things environments.

As a result of its wide-scale offerings, Zscaler is one shop for almost all types of security solutions. This provides a competitive advantage over other rivals that have mostly limited types of solutions, such as Proofpoint, which is specialized in identity theft protection, FireEye and F5 Networks, which offer cloud-based proxy, firewall, sandboxing and advanced threat protection.

Zscaler offers two tools — Zscaler Internet Access and Zscaler Private Access. With the Zscaler Internet Access tool, users securely connect to externally managed applications, such as Salesforce and Microsoft Office 365. The Zscaler Private Access provides access to internally managed applications, either hosted internally in data centers or in public or private clouds.

Zscaler operates in an industry which is characterized by the existence of a large number of patents. Here, more than 80 issued and 50 pending patents for the company's cloud platform provide a competitive advantage.

The company has adopted a joint-sales approach, per which Zscaler's sales team develops relationships directly between channel sales partners and customers. The approach helps facilitate client acquisition process, improving account coordination, and developing sales and overall market.

The company distributes its cloud-based solutions to more than 150 data centers across five continents. It process approximately 70 billion requests per day from users across more than 185 countries. At fiscal 2020-end, the company had more than 4,500 customers globally, which includes more than 450 of the Forbes Global 2000.

In fiscal 2020, Zscaler's revenues increased 42% year over year to approximately \$431 million, of which 51% was contributed from customers outside the United States



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Zscaler is benefiting from the rising demand for security and networking products amid the COVID-19 crisis. In an effort to contain the spread of the virus, a huge global workforce is working remotely. But more people logging into employers' networks means a greater need for security. This trend is positively impacting demand for Zscaler's products. Moreover, the company's Edge cloud for policy enforcement, multi-tenancy, proxy for SSL or TLS inspection and zero trust network access are well poised to gain adoption amid the thriving remote work culture.
- ▲ Growing adoption of Software-Defined Wide Area Network (SD-WAN) solutions could be a key growth driver for Zscaler over the long run. Research firm MarketsandMarkets, predicts that the market size for SD-WAN solutions could grow to \$8.4 billion by 2025 from \$1.9 billion in 2020, indicating a CAGR of 34.5%. As there are only few vendors that offer security and SD-WAN solutions, Zscaler is well positioned to capitalize on the increasing opportunities in the market. Additionally, the company's collaboration with both VMware and Silver Peak is helping it secure SD WAN deployments.
- ▲ Zscaler has made strategic acquisitions to boost growth. In May 2021, the company acquired Smokescreen that will enhance Zscaler's Zero Trust Exchange and Advanced Active Defense capabilities. Prior to this, the company purchased Trustdome in April 2021, which will help Zscaler provide a comprehensive solution for reducing public cloud attack surfaces and improve security posture. In May 2020, the company acquired Edgewise, which focuses on securing communications among applications running in cloud and datacenter networks. Prior to this, in April 2020, the company bought a Cloud Security Posture Management (CSPM) company Cloudneeti. Cloudneeti prevents and remediates application misconfigurations and compliance violations in SaaS, IaaS and PaaS. We believe these acquisitions have not only strengthened the data-protection capabilities of Zscaler but have expanded its customer base as well.
- ▲ Zscaler has a strong balance sheet with ample liquidity position and less debt obligations. Cash and short-term investments were \$1.47 billion, while total debt (including current maturities) was \$900 million as of Apr 30, 2021. During first nine months of fiscal 2021, the company generated operating cash flow of \$157.3 million and free cash flows of \$116 million. Moreover, in fiscal 2020, the company generated \$79 million of operating cash flows compared with \$58 million in fiscal 2019. It is to be noted that the company has been able to regularly increase its cash and marketable securities, as well as cash from operations in the last three fiscal years. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, since it carries a low long-term debt, the excess cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Zscaler is benefiting from rising demand for cyber-security solutions owing increased data breaches. Also, its sustained focus on launching new products, acquisitions and partnerships will continue to drive top-line.

Reasons To Sell:

- ▼ To survive in the highly competitive cyber-security market, each player must continuously invest in broadening its capabilities. Over the past few years, Zscaler has invested heavily to enhance its sales and marketing capabilities, particularly by increasing the sales force. Additionally, investment in R&D is a top priority for Zscaler. Over the last couple of years, the company has almost doubled its R&D expenses to improve the design, architecture, operation and quality of its cloud platform. Though the company foresees these investments to garner benefits over the long run, we note that there is uncertainty about the payback period. Also, higher sales and marketing, and R&D expenses might weigh on the company's bottom-line results.
- ▼ Zscaler faces competition from numerous big and small companies in the security application market. As Internet threats and attacks increase, stiff competition will follow suit. Competing firms must deliver prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. Moreover, we believe Zscaler's dominance could be challenged by new entrants. This could lead the company to resort to competitive pricing to maintain and capture market share.
- ▼ A substantial portion of the company's sales is derived from outside the United States. During fiscal 2020, 2019, 2018 and 2017 approximately 51%, 51%, 55% and 54%, respectively, of total revenues was garnered in currencies other than the U.S. dollar. This exposes the company to exchange-rate fluctuations and counterparty default risk. Thus, an economic condition, which impacts foreign currency-exchange rates, does result in transaction exposure, which leads to profit fluctuation.
- ▼ Zscaler currently has a trailing 12 month Price/Book Value (P/B) ratio of 56. This level compares unfavorably with what the industry saw over the last year. Hence, valuation looks slightly stretched from a P/B perspective.

Since Zscaler continues to invest in sales and marketing, we anticipate this to remain a drag on the company's bottom line in the near term.

Last Earnings Report

Zscaler Q3 Earnings Beat, Outlook Raised

Zscaler reported better-than-expected fiscal third-quarter results and raised outlook for fiscal 2021. The company's fiscal third-quarter adjusted earnings jumped more than two-fold to 15 cents per share from the 7 cents reported in the year-ago period. Moreover, quarterly earnings beat the Zacks Consensus Estimate of 7 cents per share.

Top-Line Performance

Revenues of \$176.4 million jumped 60% year over year on rise in adoption of the company's cloud platform security solutions by global enterprises. The figure surpassed the consensus mark of \$164.4 million.

Americas accounted for 51% of revenues, while the EMEA contributed 38%. The remaining 11% came in from the Asia Pacific and Japan.

Calculated billings surged 71% year over year to \$225 million during the reported quarter.

Zscaler's quarterly results benefited from continued solid demand for its products, given the healthy environment of the global security market.

Also, a huge global workforce is working remotely in an effort to contain the spread of coronavirus. However, an increasing number of people logging into employers' networks has been prompting a greater need for security. This trend spurred demand for Zscaler's products during the fiscal third quarter.

Customer Details

Zscaler continued to win customers and its net dollar retention rate was outstanding at 126% compared with the previous quarter's 127% and the year-ago quarter's 119%.

Remaining Performance Obligations (RPO), which represent Zscaler's committed non-cancelable future revenues, were \$1.2 billion as of Apr 30, significantly up 85% year over year.

Operating Details

In the reported quarter, non-GAAP gross margin expanded 100 basis points (bps) year over year to 81%. Sequentially, non-GAAP gross margin remained flat. The company noted that gross margin remained under pressure during the second half of fiscal 2021 due to the increased use of public cloud to meet the ten time surge in ZPA traffic as pandemic lockdowns began.

Non-GAAP research & development (R&D), sales & marketing (S&M) and general & administrative (G&A) expenses flared up 55%, 56% and 33% to \$25.9 million, \$80.9 million and \$12.9 million, respectively.

Total non-GAAP operating expenses shot up 53% to \$119.7 million year over year. However, as a percentage of revenues, operating expenses shrunk 300 bps to 68% mainly due to lower T&E, partially offset by increased hiring and M&A expenses.

As a result of higher gross margin and lower operating expenses as a percentage of sales, non-GAAP operating margin improved 400 bps to 13%. Non-GAAP operating income was \$22.9 million in the fiscal third quarter compared with the year-ago quarter's \$9.7 million.

Balance Sheet & Cash Flow

As of Apr 30, Zscaler had \$1.47 billion in cash, cash equivalents and short-term investments compared with the previous quarter's \$1.44 billion. Notably, the company had issued convertible senior notes worth \$1.15 billion in June 2020.

In the reported quarter, the company generated operating cash flow of \$73.4 million and \$55.8 million of free cash flow. In the first nine months of fiscal 2021, it generated operating and free cash flows of \$157.3 million and \$116 million, respectively.

Deferred revenues surged 65% year on year to \$495.4 million.

Guidance

For fiscal 2021, Zscaler raised the revenue guidance to \$660-\$664 million from the \$634-\$638 million projected earlier.

Non-GAAP income from operations is now expected to be \$71-\$72 million, up from the previous forecast of \$59-\$61 million. The non-GAAP earnings estimate has been revised upward to 47 cents per share from the earlier range of 39-40 cents per share.

The company's fiscal 2021 calculated billings are estimated now between \$878 million and \$880 million, up from the prior projection of \$820-\$825 million.

For fourth-quarter fiscal 2021, Zscaler projects revenues between \$185 million and \$187 million. Non-GAAP income from operations is estimated

Quarter Ending	04/2021
Report Date	May 25, 2021
Sales Surprise	7.31%
EPS Surprise	114.29%
Quarterly EPS	-0.30
Annual EPS (TTM)	0.44

between \$13.5 million and \$14.5 million. Non-GAAP earnings are projected in the range of 8-9 cents per share.

Recent News

On May 25, Zscaler announced that it has entered into a definitive agreement to acquire Smokescreen Technologies, a leader in active defense and deception technology.

On Apr 15, Zscaler announced that it has entered into a definitive agreement to acquire Trustdome, a leading innovator in Cloud Infrastructure Entitlement Management (CIEM).

On Mar 29, Zscaler announced collaborating with CrowdStrike Holdings to deliver end-to-end security protection from the endpoint to the application.

On Feb 2, Zscaler announced that Zscaler Internet Access (ZIA) has been selected to be prioritized for Joint Authorization Board (JAB) FedRAMP certification at the High Impact Level through the FedRAMP Connect program.

On Dec 23, Zscaler launched its security assessment program to assist organizations to study the potential impact of SolarWinds' supply-chain attack across their enterprise.

On Dec 14, Zscaler announced that it was recognized a Leader in the Gartner December 2020 Magic Quadrant for Secure Web Gateways for the 10th consecutive year.

On Dec 8, Zscaler introduced Zscaler Cloud Protection, a portfolio of solutions that enhances protection for cloud workloads on any cloud platform.

On Nov 12, Zscaler announced the appointment of Chris Kozup as Chief Marketing Officer.

Valuation

Zscaler shares are up 4.1% in the YTD period while has gained 98.8% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have rallied 29.2% and 15%, respectively, in the YTD period. Over the past year, while the Zacks sub-industry has increased 56.2%, the sector increased 50%.

The S&P 500 Index has increased 13.9% in the YTD period and 40.6% in the past year.

The stock is currently trading at 32.82X forward 12-month sales, which compares to 7.59X for the Zacks sub-industry, 4.95X for the Zacks sector and 4.72X for the S&P 500 index.

Over the past two years, the stock has traded as high as 42.61X and as low as 10.38X, with a 2-year median of 26.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$231 price target reflects 6.69X forward 12-month sales.

The table below shows summary valuation data for ZS

Valuation Multiples - ZS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	32.82	7.59	4.95	4.72
	2-Year High	42.61	7.62	4.95	4.74
	2-Year Low	10.38	5.28	2.80	3.21
	2-Year Median	26.94	6.47	3.53	3.72
P/B TTM	Current	56.02	7.05	9.72	7.03
	2-Year High	61.24	7.06	9.81	7.03
	2-Year Low	16.01	4.10	4.44	3.84
	2-Year Median	35.80	5.74	5.86	5.02
EV/Sales TTM	Current	44.85	8.86	5.54	4.84
	2-Year High	57.78	8.87	5.80	4.85
	2-Year Low	13.12	4.52	3.09	2.65
	2-Year Median	34.87	6.73	3.99	3.64

As of 06/22/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Etsy, Inc. (ETSY)	Neutral	3
Fortinet, Inc. (FTNT)	Neutral	3
LivePerson, Inc. (LPSN)	Neutral	3
RumbleON, Inc. (RMBL)	Neutral	3
Sify Technologies Limited (SIFY)	Neutral	3
21Vianet Group, Inc. (VNET)	Neutral	3
Cango Inc. Sponsored ADR (CANG)	Underperform	4
Upwork Inc. (UPWK)	Underperform	4

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

Industry Comparison Industry: Internet - Services				Industry Peers		
	ZS	X Industry	S&P 500	FTNT	RMBL	UPWK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	B	D	C
Market Cap	30.08 B	978.48 M	30.14 B	39.51 B	132.19 M	6.86 B
# of Analysts	8	3	12	10	1	2
Dividend Yield	0.00%	0.00%	1.35%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	D	D
Cash/Price	0.05	0.16	0.06	0.08	0.02	0.03
EV/EBITDA	-519.86	0.40	17.08	50.13	-11.44	-819.86
PEG F1	9.20	2.00	2.05	4.53	NA	NA
P/B	59.21	3.53	4.08	40.28	49.12	22.43
P/CF	NA	15.38	17.37	63.64	NA	NA
P/E F1	465.66	28.95	20.93	64.61	NA	NA
P/S TTM	49.98	3.96	3.37	14.50	0.35	16.99
Earnings Yield	0.21%	0.27%	4.67%	1.55%	-7.88%	-0.48%
Debt/Equity	1.77	0.11	0.66	1.01	17.41	0.00
Cash Flow (\$/share)	-0.29	0.09	6.83	3.80	-7.69	-0.07
Growth Score	B	-	-	A	C	A
Historical EPS Growth (3-5 Years)	NA%	21.67%	9.59%	103.93%	NA	NA
Projected EPS Growth (F1/F0)	97.50%	24.19%	21.62%	11.76%	67.62%	-36.84%
Current Cash Flow Growth	-373.53%	3.46%	0.99%	23.85%	-51.40%	27.03%
Historical Cash Flow Growth (3-5 Years)	NA%	17.06%	7.28%	57.79%	NA	NA
Current Ratio	3.02	2.03	1.39	2.01	1.00	1.74
Debt/Capital	63.92%	17.31%	41.51%	50.16%	94.57%	0.41%
Net Margin	-38.30%	-4.50%	11.95%	17.96%	-1.97%	-5.12%
Return on Equity	-36.46%	0.53%	16.48%	54.85%	-210.20%	-7.15%
Sales/Assets	0.31	0.49	0.51	0.67	4.37	0.78
Projected Sales Growth (F1/F0)	53.24%	9.17%	9.48%	19.75%	0.00%	27.36%
Momentum Score	C	-	-	D	B	F
Daily Price Change	1.48%	0.00%	0.51%	1.67%	2.53%	11.04%
1-Week Price Change	5.20%	0.00%	0.00%	2.06%	-3.07%	-5.63%
4-Week Price Change	27.13%	1.93%	1.39%	12.74%	0.67%	23.91%
12-Week Price Change	32.46%	-5.92%	7.27%	33.40%	-5.94%	28.30%
52-Week Price Change	99.08%	46.43%	35.61%	76.48%	285.74%	304.54%
20-Day Average Volume (Shares)	2,220,151	166,097	1,876,146	800,813	36,726	1,437,287
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	9.60%	0.00%	0.03%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	9.60%	0.21%	3.59%	2.24%	59.60%	-88.41%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	7.30%	:	0.00%	0.00%	:	0.00%	NA	0.00%
Source: Zacks Investment Research								

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

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.

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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.

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 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.