

ACADIA Pharmaceuticals (ACAD)

\$41.49 (As of 10/19/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

ACADIA's sole marketed drug Nuplazid recorded strong sales since launch. Its label expansion program also looks promising with several studies targeting various disorders currently being underway. A regulatory application seeking an approval of Nuplazid for dementia-related psychosis is under review in the United States. The decision is expected on Apr 3, 2021. If approved, not only the drug's eligible patient population will be expanded but sales will be driven higher as well. However, a heavy dependence on Nuplazid for revenues remains a concern. Any regulatory and developmental setback will too hurt the stock severely. Moreover, an acute competition remains a woe. Shares have underperformed the industry year to date. Loss estimates looks stable ahead of Q3 earnings. ACADIA has a mixed record of earnings surprises in recent quarters.

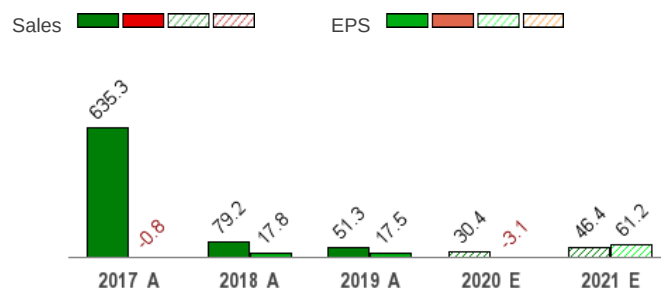
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$58.72 - \$30.22
20-Day Average Volume (Shares)	851,476
Market Cap	\$6.5 B
Year-To-Date Price Change	-3.0%
Beta	1.43
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Bottom 30% (177 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	38.6%
Last Sales Surprise	4.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	7.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	16.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	123 E	150 E	168 E	189 E	647 E
2020	90 A	110 A	119 E	124 E	442 E
2019	63 A	83 A	95 A	98 A	339 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.49 E	-\$0.34 E	-\$0.24 E	-\$0.13 E	-\$0.64 E
2020	-\$0.57 A	-\$0.27 A	-\$0.38 E	-\$0.45 E	-\$1.65 E
2019	-\$0.59 A	-\$0.38 A	-\$0.29 A	-\$0.34 A	-\$1.60 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 10/19/2020. The reports text is as of 10/20/2020.

Overview

San Diego, CA-based ACADIA Pharmaceuticals Inc. is a biopharmaceutical company focused on developing innovative medicines to address the unmet medical needs in central nervous system (CNS) disorders.

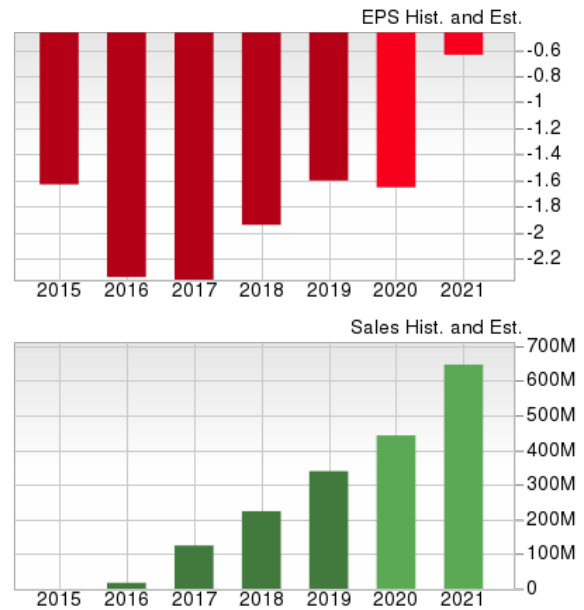
The company's sole marketed drug Nuplazid (pimavanserin) is the first and the only Food and Drug Administration (FDA)-approved treatment for hallucinations and delusions associated with Parkinson's disease (PD) psychosis. The drug was launched in May 2016. ACADIA's top-line consists of only net product sales of Nuplazid in the United States.

A supplemental new drug application (sNDA) seeking approval of Nuplazid for dementia-related psychosis has been filed in the United States.

Notably, several additional studies on Nuplazid n targeting different CNS indications, such as dementia-related psychosis, schizophrenia inadequate response, schizophrenia negative symptoms and as an adjunctive treatment of major depressive disorder (MDD) are currently underway.

Meanwhile, in August 2018, ACADIA entered into a license agreement with Australian biopharmaceutical company Neuren Pharmaceuticals Limited and obtained exclusive North American rights to develop and commercialize trofinetide for Rett syndrome and other indications.

ACADIA's top line mainly comprises U.S. sales of Nuplazid. The company recognized revenues worth \$339.1 million in 2019 compared with \$223.8 million in 2018.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Nuplazid Spurs Sales Growth:** The FDA approval of Nuplazid was a huge boost to the company. Sales of the drug have improved steadily since its launch in May 2016. In 2019, Nuplazid recorded sales of \$339.1 million reflecting a surge of 52% year-over-year.

Given Nuplazid's strong performance in 2019, the company now expects total net sales from the drug in the range of \$430-\$450 million for 2020.

- ▲ **Nuplazid's (pimavanserin) Label Expansion Program Looks Promising:** Several additional studies on Nuplazid targeting different types of neurological and psychiatric disorders are presently ongoing.

Nuplazid is being evaluated in the phase III HARMONY study for treating dementia-related psychosis (DRP). Other studies on Nuplazid include schizophrenia inadequate response (phase III ENHANCE study), schizophrenia negative symptoms (phase II ADVANCE study) and as an adjunctive treatment of major depressive disorder (phase III CLARITY study).

In June 2020, the company submitted a supplemental new drug application to the FDA, seeking an approval for Nuplazid to treat hallucinations and delusions associated with DRP. In July, the FDA accepted the sNDA for Nuplazid and set an action date of Apr 3, 2021. If approved, this will be a potential second indication for Nuplazid.

In November 2019, ACADIA's phase II ADVANCE study on Nuplazid met the primary endpoint. The company recently initiated a second pivotal study, ADVANCE-2, on Nuplazid for treating the negative symptoms of schizophrenia. Currently, there is no FDA-approved treatment option for the given condition. Per the company, this is a potential fourth indication for Nuplazid while MDD is a potential third indication for Nuplazid.

A potential approval for any of the above indications will be a significant boost to the company.

- ▲ **Trofinetide Studies Progressing Well:** ACADIA is evaluating its investigational candidate trofinetide in the phase III LAVENDER study for the treatment of Rett syndrome, a rare neurodevelopmental congenital CNS disorder for girls aged between five and 20 years. Top-line outcomes from the same are expected in the second half of 2021. Currently, there are no approved medicines for the treatment of Rett syndrome. In March 2020, the FDA granted Rare Pediatric Disease designation to trofinetide for the given indication. Notably, this tag is granted by the FDA in case of serious or life-threatening diseases, which affect less than 200,000 people in the United States, primarily individuals aged 18 years and below.

- ▲ **Target Market Holds Potential:** Nuplazid is the first and the only FDA-approved treatment for hallucinations and delusions associated with Parkinson's disease psychosis. ACADIA believes that the drug has the potential to address important unmet medical needs and rare diseases in neurological and psychiatric disorders in addition to PD Psychosis. Given the way Nuplazid is growing along with probable label expansions, the company expects it to become a blockbuster product as the target market has immense commercial potential.

- ▲ **Favorable Debt Profile:** ACADIA has a favorable debt profile. As of Jun 30, 2020, the company's total debt (current and long-term debt) was approximately \$6 million. The company's cash, cash equivalents and marketable securities worth approximately \$659 million at June-end should be sufficient to meet its debt obligations in case of insolvency. Meanwhile, the company's total debt to total capital of 0.9% as of June end has remained flat quarter-over-quarter.

ACADIA's only marketed drug Nuplazid has been generating steady sales since its launch in 2016 in the United States. Its label expansion studies also look promising.

Reasons To Sell:

- ▼ **Share Price Performance:** Shares of ACADIA have underperformed the industry in the year so far.
- ▼ **Overdependence on Nuplazid:** ACADIA has no approved product in its portfolio other than Nuplazid at the moment. Hence, due to the lack of a strong pipeline, the company is totally reliant on Nuplazid for growth, which does not bode well.
- ▼ **Stiff Competition:** Competition looms large on ACADIA as many companies are developing treatments to address various CNS disorders. One such company is Axsome Therapeutics, which has five core CNS product candidates, namely AXS-05, AXS-07, AXS-09, AXS-12 and AXS-14 that are being developed for multiple CNS indications. A prospective approval for any of these candidates will induce acute competition for ACADIA and its products.
- ▼ **Lack of Collaborations/Pipeline Setbacks:** ACADIA's portfolio is devoid of collaboration contracts for product development/commercialization, which is a concern. In absence of future collaboration partners in the United States and other countries, it might not be able to realize the full value of Nuplazid alone.

ACADIA's sole dependence on Nuplazid for growth is a concern. Stiff competition in the target market is another woe.

Meanwhile, in July 2019, ACADIA suffered a major pipeline setback when Nuplazid failed in the phase III ENHANCE study evaluating it as an adjunctive treatment of schizophrenia patients with inadequate response to existing therapies. In the study, Nuplazid did not achieve any statistical significance in terms of either the primary endpoint or the key secondary endpoint. Also, in July 2020, ACADIA announced top-line results from the phase III CLARITY study evaluating Nuplazid for the adjunctive treatment of major depressive disorder. The study did not achieve any statistical significance in relation to the primary endpoint. Such setbacks are detrimental to the company and can affect the stock in the future.

Last Earnings Report

ACADIA Beat Earnings Estimates in Q2, Nuplazid Drives Sales

ACADIA reported second-quarter 2020 loss of 27 cents per share, narrower than the Zacks Consensus Estimate of a loss of 44 cents as well as the year-ago loss of 38 cents.

Total revenues comprising net sales of the company's sole marketed drug Nuplazid soared 32% year over year to \$110.1 million in the second quarter. The top line also surpassed the Zacks Consensus Estimate of \$106 million.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	4.22%
EPS Surprise	38.64%
Quarterly EPS	-0.27
Annual EPS (TTM)	-1.47

Quarter in Detail

Sales of Nuplazid grew steadily both year over year and sequentially. driven by a strong commercial execution. The drug saw a solid uptake ever since its launch in 2016.

Research and development (R&D) expenses were \$64.3 million in the quarter, down 4.4% from the year-ago period owing to lower development costs of Nuplazid for additional indications.

Selling, general and administrative (SG&A) expenses rose 23.9% year over year to \$84.3 million due to increased advertising and promotional costs, and higher personnel costs.

As of Jun 30, 2020, ACADIA had cash, cash equivalents and investments worth \$658.6 million compared with \$651.4 million as of Mar 31, 2020.

2020 Guidance

Owing to the strong adoption of Nuplazid, ACADIA raised the lower end of its net sales guidance for the drug. The company now expects total revenues in the range of \$430-\$450 million for the full year, tightened from the previous guidance of \$420-\$450 million.

Meanwhile, the R&D expenses are now expected within \$265-\$280 million, down from the previous guided range of \$270-\$285 million. SG&A expenses are projected in the band of \$400-\$420 million, lower than the earlier forecast of \$425-\$445 million

Recent News

Appoints New Board of Director – Oct 1

ACADIA announced that it has appointed Dr. Elizabeth Garofalo to the company's board of directors.

Acquires CerSci Therapeutics to Boost Pain Portfolio – Aug 25

ACADIA announced that it has acquired CerSci Therapeutics and worldwide rights to a portfolio of novel compounds developed for neurological conditions, including non-opioid therapies for acute and chronic pain.

FDA Accepts sNDA for Nuplazid — Jul 20

ACADIA announced that the FDA accepted the sNDA for Nuplazid to treat hallucinations and delusions associated with dementia-related psychosis (DRP). The regulatory body set an action date of Apr 3, 2021. If approved, Nuplazid will get a potential second indication on its label and become the first and the only treatment indicated for DRP.

Posts Top-line Results From MDD Study on Nuplazid — Jul 20

ACADIA announced top-line results from the phase III CLARITY study evaluating Nuplazid for the adjunctive treatment of major depressive disorder (MDD). The study did not achieve any statistical significance in relation to the primary endpoint. However, positive results were observed pertaining to the key secondary endpoint.

Files sNDA for Nuplazid in Dementia-Related Psychosis – Jun 15

ACADIA announced that it has submitted a supplemental new drug application (sNDA) to the FDA seeking approval for its marketed drug Nuplazid to treat hallucinations and delusions associated with dementia-related psychosis (DRP). If approved, this will be a potential second indication for Nuplazid.

Valuation

ACADIA's shares are down 3.1% in the year-to-date period and 4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 2% and 1.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15.1% and the sector is up 9.4%.

The S&P 500 index is up 6.4% in the year-to-date period and up 14.2% in the past year.

The stock is currently trading at 9.87X trailing 12-month book value, which compares to 3.33X for the Zacks sub-industry, 3.80X for the Zacks sector and 5.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.85X and as low as 4.22X, with a 5-year median of 9.18X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44.00 price target reflects 10.46X trailing 12-month tangible book value.

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Axsome Therapeutics, Inc. (AXSM)	Neutral	3
Biogen Inc. (BIIB)	Neutral	4
Catalyst Pharmaceuticals, Inc. (CPRX)	Neutral	3
Exelixis, Inc. (EXEL)	Neutral	3
IntraCellular Therapies Inc. (ITCI)	Neutral	2
Minerva Neurosciences, Inc (NERV)	Neutral	3
Sage Therapeutics, Inc. (SAGE)	Neutral	3
Voyager Therapeutics, Inc. (VYGR)	Neutral	4

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

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	ACAD	X Industry	S&P 500	AXSM	CPRX	VYGR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	D	-	-	D	A	D
Market Cap	6.54 B	305.04 M	23.41 B	2.69 B	336.26 M	430.46 M
# of Analysts	11	3	14	8	5	8
Dividend Yield	0.00%	0.00%	1.62%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	A	C
Cash/Price	0.10	0.24	0.07	0.07	0.34	0.50
EV/EBITDA	-25.01	-3.77	13.44	-37.78	6.56	-4.52
PEG F1	NA	1.55	2.81	NA	NA	NA
P/B	9.87	4.12	3.48	17.32	3.02	5.56
P/CF	NA	15.54	13.20	NA	10.41	NA
P/E F1	NA	25.10	22.11	NA	7.97	NA
P/S TTM	16.64	14.86	2.64	NA	2.81	4.31
Earnings Yield	-3.98%	-13.89%	4.45%	-3.68%	12.62%	-16.00%
Debt/Equity	0.00	0.00	0.70	0.09	0.00	0.00
Cash Flow (\$/share)	-1.53	-1.09	6.93	-1.96	0.31	-1.20
Growth Score	C	-	-	C	A	C
Historical EPS Growth (3-5 Years)	NA%	19.03%	10.39%	NA	NA	NA
Projected EPS Growth (F1/F0)	-3.29%	15.09%	-2.93%	-31.59%	36.00%	-51.86%
Current Cash Flow Growth	-2.74%	11.25%	5.49%	121.54%	-194.72%	-49.72%
Historical Cash Flow Growth (3-5 Years)	NA%	6.94%	8.50%	NA	33.37%	NA
Current Ratio	8.51	6.03	1.35	8.30	6.49	3.65
Debt/Capital	0.00%	0.00%	42.91%	8.18%	0.00%	0.00%
Net Margin	-57.29%	-209.67%	10.28%	NA	34.87%	-60.61%
Return on Equity	-33.49%	-58.27%	14.79%	-76.42%	44.37%	-66.46%
Sales/Assets	0.51	0.19	0.51	NA	1.05	0.30
Projected Sales Growth (F1/F0)	30.48%	0.00%	-0.53%	NA	23.02%	-2.80%
Momentum Score	B	-	-	F	B	D
Daily Price Change	-2.63%	-1.18%	-1.38%	-2.29%	-0.61%	-6.35%
1-Week Price Change	-0.28%	-0.88%	0.02%	-1.15%	-0.61%	6.04%
4-Week Price Change	0.41%	0.00%	4.94%	-8.55%	1.25%	-0.09%
12-Week Price Change	-6.41%	-3.90%	4.68%	-6.65%	-32.99%	-6.12%
52-Week Price Change	-4.05%	18.48%	2.67%	227.20%	-40.37%	-25.13%
20-Day Average Volume (Shares)	851,476	240,654	1,946,784	338,515	1,668,135	176,531
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.08%	-3.72%	2.43%	-14.13%
EPS F1 Estimate 12-Week Change	13.17%	0.31%	3.36%	2.97%	8.80%	32.53%
EPS Q1 Estimate Monthly Change	-0.28%	0.00%	0.00%	-1.12%	2.94%	-63.45%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

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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 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.