

AGCO Corporation (AGCO)

\$93.20 (As of 11/25/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: C

Summary

AGCO's third-quarter 2020 earnings and revenues increased year over year. The company beat the Zacks Consensus Estimates on both counts. It expects adjusted earnings per share (EPS) for the current year to be \$5.00, up from the prior guided range of \$3.50 to \$3.75. Improved farm income, stabilization of U.S farm sector and increasing replacement demand will drive AGCO's near-term results. Global crop production remains healthy and is set for another record crop year. Industry demand for farm equipment is expected to be relatively flat year over year in the current year, on improved demand in North and South America. Moreover, AGCO's investments in technology, product innovations, smart farming solutions and cost-control initiatives to drive margins will also stoke growth. AGCO's effort to reduce debt levels also bode well.

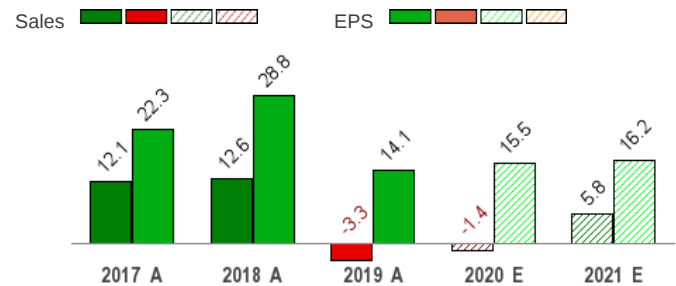
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$99.74 - \$35.33
20-Day Average Volume (Shares)	827,885
Market Cap	\$7.0 B
Year-To-Date Price Change	20.7%
Beta	1.15
Dividend / Dividend Yield	\$0.64 / 0.7%
Industry	Manufacturing - Farm Equipment
Zacks Industry Rank	Top 4% (10 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	104.9%
Last Sales Surprise	15.7%
EPS F1 Estimate 4-Week Change	30.0%
Expected Report Date	02/04/2021
Earnings ESP	0.0%

P/E TTM	18.6
P/E F1	18.2
PEG F1	1.4
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,997 E	2,294 E	2,431 E	2,601 E	9,434 E
2020	1,928 A	2,007 A	2,498 A	2,481 E	8,916 E
2019	1,996 A	2,423 A	2,109 A	2,514 A	9,041 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.03 E	\$1.62 E	\$1.66 E	\$1.55 E	\$5.96 E
2020	\$0.86 A	\$1.11 A	\$2.09 A	\$1.07 E	\$5.13 E
2019	\$0.86 A	\$1.82 A	\$0.82 A	\$0.94 A	\$4.44 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 11/25/2020. The reports text is as of 11/26/2020.

Overview

Established in 1990, headquartered in Duluth, GA, AGCO Corporation is a leading manufacturer and distributor of agricultural equipment and related replacement parts. The company offers a full product line of farm equipment through a wide network of dealers and distributors across 140 countries. Its full range of agricultural equipment, include tractors (generated 57% of 2019 sales), combines (3%), application equipment including self-propelled sprayers (3%), hay tools and forage equipment, implements and other equipment (12%), and grain storage and protein production systems (10%). Sales of replacement parts generated around 14% of the company's sales in 2018.

The tractor business sells compact tractors (below 40 horsepower) typically used on small farms and specialty agricultural industries such as dairies, landscaping, and residential areas. In addition, the company provides utility tractors (40-100 horsepower) and high horsepower tractors (100-650 horsepower) used on large acreage farms.

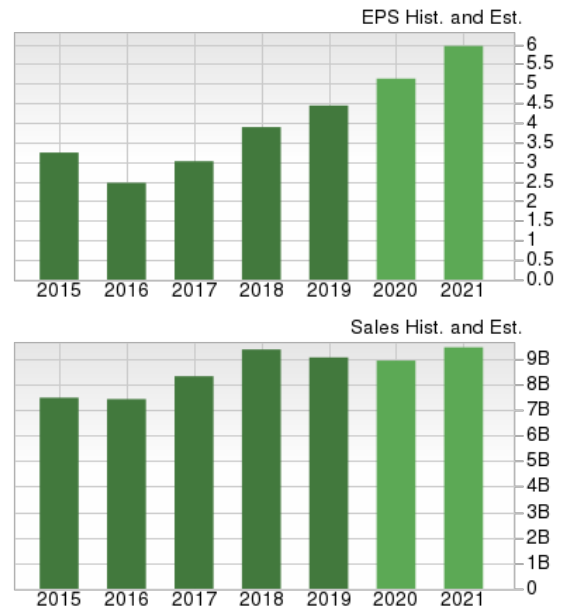
AGCO manufactures and sells combines with a variety of threshing technologies and complemented by a variety of crop-harvesting heads; which are utilized in harvesting grain crops such as corn, wheat, soybeans and rice.

Under the application equipment/sprayers group, AGCO provides self-propelled three-and-four-wheeled vehicles and related equipment for use in the application of liquid and dry fertilizers, and crop-protection chemicals.

Under hay tools and forage equipment, implements and other equipment, the company sells round and rectangular balers and other equipment utilized for the harvesting and packaging of vegetative feeds used in the cattle, dairy, horse and renewable fuel industries. It also includes planting equipment as well as loaders for lifting and transporting hay crops.

Grain Storage and Protein Production Systems include grain storage bins and related drying and handling equipment systems; seed-processing systems; swine and poultry feed storage and delivery, ventilation and watering systems; and egg production systems and broiler production equipment.

The replacement parts business supplies replacement parts for all the products AGCO sells.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The U.S. farm sector seems to be showing early signs of stabilization following the passage of The United States Mexico Canada Agreement (USMCA) and the phase 1 trade agreement with China. The agricultural sector had, so far, been grappling with low commodity prices, sluggish farm incomes and the impact of the trade war. Per the U.S. Department of Agriculture's (USDA) latest available projections, net farm income is anticipated to increase 22.7% to \$102.7 billion in 2020. In inflation-adjusted terms, the projected net farm income in 2020, if realized, would be 13.8% higher than 2000-19 average (\$90.2 billion). This will make farmers resume spending on agricultural equipment, which will drive the company's performance. Farmers are replacing their aged fleet. This will drive farm equipment demand in the near term. Moreover, AGCO is likely to witness stellar growth from its grain and protein business, driven by protein production and increased protein consumption in the days ahead.

AGCO's margins will benefit from pricing and cost reduction, acquisitions, capital-allocation plan and focus on strategic investments.

- ▲ The company's focus on operational performance aided the company to ramp up production and recover from supply-chain disruptions in the second quarter. AGCO witnessed strong order in the third quarter and lower inventory levels. It is poised to benefit from solid order in the fourth quarter as well. Global crop production remains healthy and is set for another record crop year. Global grain consumption is recovering on improving economic activities and increased grain exports to China. Global industry demand for farm equipment is now expected to be relatively flat year over year in 2020 versus 2019, on improved retail industry demand in North and South America.

The company expects the North American industry tractor sales to be up about 9% in 2020 year on year primarily on higher sales of low horsepower tractors. Solid crop production in Brazil and Argentina, as well as favorable exchange rates have been supporting positive economics in South America. Following two years of supportive farm income and lower levels of industry demand, industry sales in Brazil and Argentina are expected to increase as farmers replace their aged fleet. Stellar grain export demand and supportive wheat prices are driving favorable farm economics for Western European farmers. The EU farm economics are expected to remain supportive in 2020.

- ▲ AGCO continues to invest in products, premium technology and smart farming solutions to improve distribution and enhance digital capabilities in order to drive margins and strengthen product offerings. Operating margins in the current year are expected to improve compared to the 2019 levels owing to the benefits of positive pricing, favorable material costs and cost-control initiatives in light of the pandemic. The company also continues to make investments to upgrade system capabilities, expand product lines and improve factory productivity. AGCO completed two acquisitions in the past few years. It acquired Precision Planting which is a leading manufacturer of high-tech planting equipment. The acquisition helped expand the company's precision farming technology offerings on a global basis. AGCO purchased the forage division of the Lely Group, which significantly enhanced its hay and forage product line in Europe and will drive additional growth in this market. The company expects capital expenditures to be approximately \$250 million for the current year.
- ▲ The company is focused on reducing its debt levels and strengthen balance sheet. During the second quarter, AGCO completed a new term loan facility that provided additional liquidity of approximately \$542.4 million. As of Sep 30, 2020, AGCO's total liquidity stands at \$1.6 billion, consisting cash of \$503.3 million and available borrowing capacity of about \$1.1 million. The company's long term debt was \$1,429 million at the end of the third quarter compared to \$1,652 million in the prior quarter. Its total debt to total capital stands at 35.4%, lower than its industry's 78.2%. The company's times interest earned ratio was 18.4 in third-quarter 2020, better than the industry's 3.7. This, along with the company's strong cash position underscores AGCO's ability to meet debt obligations. AGCO expects free cash flow in between \$300 million and \$350 million for the current year. The company is implementing cost-cutting actions in order to preserve liquidity in the current turbulent situation.

Risks

- The company expects net sales for the current year to be \$8.9 billion, reflecting flat demand in its end-markets and unfavorable foreign-currency translation impact. The company expected net sales of \$9.3 billion in the year-ago quarter. Based on these, AGCO expects adjusted EPS for the current year to be \$5.00. The company expected EPS of \$5.10 in the year-ago quarter.
 - Consumption of grain for food, fuel and livestock feed was being negatively impacted by the economic constraints caused by the pandemic earlier this year. Despite supportive farm economics, industry demand in the EU is expected to be lower than 2019 in the current year as milk prices are at lower levels. However, the European dairy and livestock markets have stabilized after weakening earlier this year.
 - AGCO expects COVID-19 pandemic to negatively impact its operations. Additional factory closures and production constraints due to government mandates and supply-chain disruptions might significantly hurt the company's top and bottom-line results. Moreover, the prevailing uncertainty regarding industry demand and other macroeconomic impacts of the pandemic might mar the company's performance. Further, in response to the pandemic, it remains to be seen whether or not China will be able to honor its terms of the Phase 1 trade agreement. This will remain an overhang on the company.
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Last Earnings Report

AGCO Corp's Q3 Earnings & Sales Top Estimates, View Up

AGCO delivered third-quarter 2020 adjusted earnings per share of \$2.09, up a whopping 155% year over year. The reported figure beat the Zacks Consensus Estimate of \$1.02 per share. The company's quarterly results reflect sales growth and margin expansion across all segments.

Revenues increased 18.4% year over year to \$2,498 million during the September-end quarter. The top-line figure also beat the Zacks Consensus Estimate of \$2,159 million. Excluding the unfavorable currency-translation impact of 1.6%, net sales increased 20% year over year.

Quarter Ending 09/2020

Report Date	Nov 03, 2020
Sales Surprise	15.70%
EPS Surprise	104.90%
Quarterly EPS	2.09
Annual EPS (TTM)	5.00

Operational Update

Cost of sales grew 15.6% year over year to \$1,919 million in the third quarter. Gross profit was up 28.6% year over year to \$579 million during the reported quarter. Gross margin came in at 23.2% compared with the prior-year period's 21.3%.

Selling, general and administrative expenses flared up to \$251 million from the year-ago quarter's \$245 million. Adjusted income from operations surged 110% year over year to \$225 million. Consequently, operating margin came in at 9% compared with the year-earlier quarter's 5%.

Segment Performance

Sales in the North America segment were up 8.6% year over year to \$582 million during the July-September period. The segment reported an operating income of \$58 million compared with the prior-year quarter's \$33million.

Sales in the South America segment climbed 14.6% year over year to \$274 million. The segment reported an operating profit of \$16.7 million, as against the prior-year quarter's operating loss of \$5.6 million.

The EME (Europe/Middle East) segment's sales came in at \$1,406 million compared with the \$1,146 million recorded in the year-ago period. The EME's operating income jumped 54% year over year to \$188 million.

Sales in the Asia/Pacific segment were up 25.5% year on year to \$236 million. The segment reported an operating profit of \$24 million compared with the year-ago quarter's \$12 million.

Financial Update

AGCO reported cash and cash equivalents of \$511 million as of Sep 30, 2020, up from the \$433 million recorded as of Dec 31, 2019. The company generated \$224 million of cash from operating activities during the nine-month period ended Sep 30, 2020 as against the cash utilization of \$80 million in the comparable period last year.

Guidance

The company expects net sales for the ongoing year to be \$8.9 billion, reflecting flat demand in its end-markets and unfavorable foreign currency translation impact. However, this will be partly offset by the benefit of positive pricing. Adjusted operating margins are expected to be better than the 2019 levels on positive pricing and lower expenses. Based on these, AGCO expects adjusted earnings per share (EPS) for the current year to be \$5.00, up from the prior guided range of \$3.50 to \$3.75.

Global crop production remains strong and is set for another record crop year despite the pandemic. Global grain consumption is recovering with improving economic activities and increased grain exports to China. Industry demand for farm equipment is expected to be relatively flat year over year in 2020, on improved demand in North and South America. Solid crop production in Brazil and Argentina, as well as favorable exchange rates, have been supporting positive economics in South America. Apart from this, AGCO is focused on investing in premium technology, smart farming solutions and enhanced digital capabilities for customers.

Valuation

AGCO's shares are up 20.7% in the year-to-date period and 18% over the trailing 12-month period. Stocks in the Zacks Manufacturing - Farm Equipment industry and Zacks Industrial Products sector are up 46.9% and 17.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 50.2% and 19.6%, respectively.

The S&P 500 index is up 13.2% in the year-to-date and 15.6% in the past year.

The stock is currently trading at 15.85X forward 12-month earnings, which compares to 23.11X for the Zacks sub-industry, 23.88X for the Zacks sector and 22.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.93X and as low as 7.09X, with a 5-year median of 17.21X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$107 price target reflects 18.19X Forward 12-month earnings per share.

Valuation Multiples - AGCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.85	23.11	23.88	22.69
	5-Year High	25.93	23.45	23.88	23.47
	5-Year Low	7.09	11.9	12.59	15.27
	5-Year Median	17.21	18.7	17.72	17.72
P/S F12M	Current	0.74	1.71	3.31	4.18
	5-Year High	0.77	1.71	3.31	4.3
	5-Year Low	0.3	0.87	1.6	3.17
	5-Year Median	0.59	1.1	2.09	3.67
EV/EBITDA TTM	Current	7.58	14.68	22.08	15.92
	5-Year High	11.45	14.68	22.08	16.17
	5-Year Low	3.5	9	11.07	9.54
	5-Year Median	7.85	11.22	15.07	13.12

As of 11/25/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 4% (10 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alamo Group, Inc. (ALG)	Outperform	2
Deere & Company (DE)	Outperform	1
Terex Corporation (TEX)	Outperform	2
Eaton Corporation, PLC (ETN)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	3
Lindsay Corporation (LNN)	Neutral	2
ParkerHannifin Corporation (PH)	Neutral	2
Titan International, Inc. (TWI)	Neutral	3

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

Industry Comparison Industry: Manufacturing - Farm Equipment				Industry Peers		
	AGCO	X Industry	S&P 500	ALG	CAT	DE
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	2	3	1
VGM Score	A	-	-	B	C	C
Market Cap	6.98 B	769.39 M	26.28 B	1.62 B	94.87 B	80.36 B
# of Analysts	7	2.5	14	1	11	10
Dividend Yield	0.69%	0.00%	1.48%	0.38%	2.36%	1.19%
Value Score	C	-	-	C	B	D
Cash/Price	0.07	0.11	0.07	0.06	0.10	0.11
EV/EBITDA	10.83	10.83	14.65	15.07	9.66	13.77
PEG F1	1.35	2.60	2.76	2.47	2.69	2.73
P/B	2.45	1.89	3.57	2.68	6.33	6.21
P/CF	8.90	16.14	13.72	16.14	10.85	16.50
P/E F1	18.17	23.68	21.80	24.66	32.28	23.68
P/S TTM	0.78	0.80	2.83	1.38	2.17	2.26
Earnings Yield	5.50%	4.14%	4.40%	4.06%	3.10%	4.22%
Debt/Equity	0.50	0.39	0.70	0.59	1.74	2.53
Cash Flow (\$/share)	10.47	3.29	6.93	8.46	16.10	15.54
Growth Score	A	-	-	A	C	B
Historical EPS Growth (3-5 Years)	15.46%	11.61%	9.72%	11.61%	29.69%	18.49%
Projected EPS Growth (F1/F0)	15.44%	-3.54%	0.45%	-6.42%	-51.09%	24.64%
Current Cash Flow Growth	31.75%	0.32%	5.23%	7.08%	-6.65%	-6.44%
Historical Cash Flow Growth (3-5 Years)	1.73%	1.56%	8.33%	11.93%	4.31%	3.09%
Current Ratio	1.38	2.03	1.38	3.60	1.54	2.24
Debt/Capital	33.40%	27.93%	41.99%	37.23%	63.52%	71.66%
Net Margin	2.27%	2.27%	10.44%	4.95%	7.60%	7.74%
Return on Equity	13.58%	8.15%	14.99%	10.91%	25.24%	22.17%
Sales/Assets	1.15	0.97	0.50	0.97	0.57	0.47
Projected Sales Growth (F1/F0)	-1.38%	-0.18%	0.23%	0.00%	-22.92%	3.77%
Momentum Score	C	-	-	C	F	A
Daily Price Change	-3.13%	-3.49%	-0.56%	-4.57%	-1.28%	-1.94%
1-Week Price Change	-0.45%	1.03%	0.21%	1.03%	0.30%	2.69%
4-Week Price Change	21.93%	14.83%	14.04%	14.83%	15.53%	14.80%
12-Week Price Change	26.27%	18.11%	8.89%	17.51%	16.99%	18.11%
52-Week Price Change	18.00%	18.00%	5.87%	16.47%	19.86%	51.68%
20-Day Average Volume (Shares)	827,885	507,447	2,256,422	51,442	3,608,298	1,737,546
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.02%	2.99%
EPS F1 Estimate 4-Week Change	29.95%	2.91%	1.00%	7.78%	1.73%	4.75%
EPS F1 Estimate 12-Week Change	37.63%	7.59%	3.64%	7.78%	2.00%	7.40%
EPS Q1 Estimate Monthly Change	14.54%	2.25%	0.00%	NA	-1.48%	4.51%

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	C
Growth Score	A
Momentum Score	C
VGM Score	A

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.