

AutoNation, Inc. (AN)

\$89.98 (As of 03/19/21)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 02/19/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

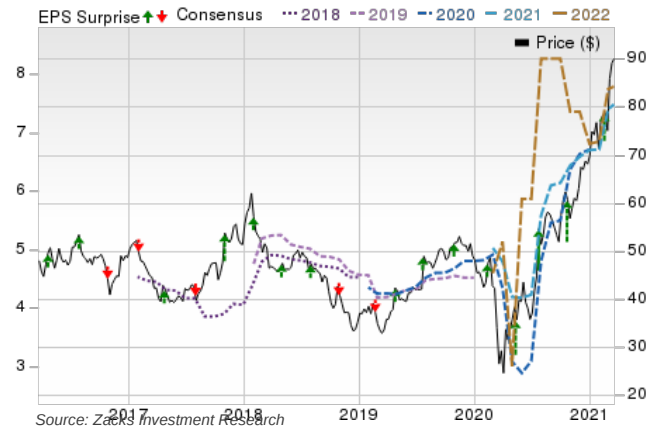
Growth: A

Momentum: C

Summary

AutoNation's diversified product mix and multiple streams of income reduce its risk profile and bode well for top and bottom-line growth. Strong footprint, large dealer network and store expansion efforts are expected to drive long term profitability. Increased focus on cost discipline is anticipated to aid margins. Further, enhanced digital solutions will help AutoNation to boost profitability. With the launch of its digital platform AutoNation Express—which enable customers to buy and sell vehicles online providing them a truly comprehensive and personal experience — the company has stepped up its digitization game. Strong balance sheet of the firm with low leverage and high liquidity is another positive. Encouragingly, AutoNation also boosted its stock buyback program lately. As such, the stock warrants a bullish stance now.

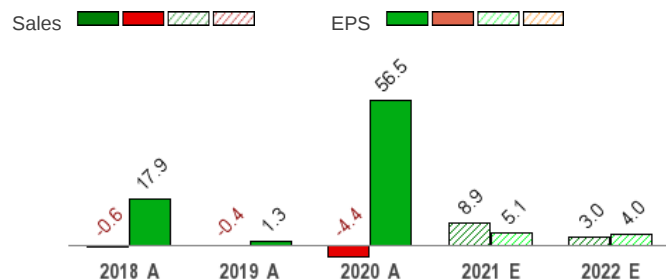
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$92.40 - \$23.12
20-Day Average Volume (Shares)	966,696
Market Cap	\$7.4 B
Year-To-Date Price Change	28.9%
Beta	1.49
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Automotive - Retail and Whole Sales
Zacks Industry Rank	Top 14% (36 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.5%
Last Sales Surprise	3.2%
EPS F1 Estimate 4-Week Change	10.3%
Expected Report Date	05/10/2021
Earnings ESP	-0.6%
P/E TTM	12.6
P/E F1	12.0
PEG F1	4.7
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,194 E	5,501 E	5,933 E	6,104 E	22,864 E
2021	5,080 E	5,390 E	5,735 E	5,994 E	22,198 E
2020	4,667 A	4,533 A	5,405 A	5,785 A	20,390 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.69 E	\$1.76 E	\$1.91 E	\$1.96 E	\$7.78 E
2021	\$1.80 E	\$1.89 E	\$1.93 E	\$1.87 E	\$7.48 E
2020	\$0.91 A	\$1.41 A	\$2.38 A	\$2.43 A	\$7.12 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 03/19/2021. The report's text and the analyst-provided price target are as of 03/22/2021.

Overview

Incorporated in Delaware in 1991, AutoNation, Inc. is the largest automotive retailer in the United States. The company also offers vehicle maintenance and repair services, vehicle parts, extended service contracts, vehicle protection products, and other aftermarket products. In addition, it arranges financing for vehicle purchases through third-party sources.

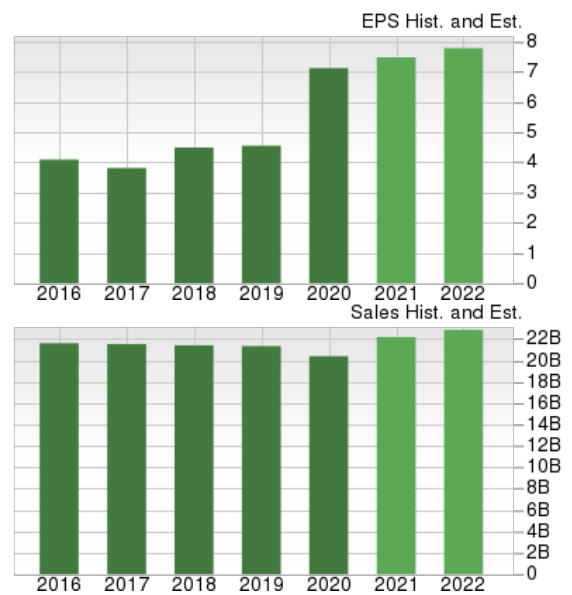
AutoNation owned and operated over 315 locations from coast to coast and has sold over 13 million vehicles. The company's stores offer vehicle maintenance, repair, and collision repair services, which are available only at franchised dealerships and customer-pay service work. The core brands offered by the company are — Toyota, Ford, Honda, General Motors, FCA US, Mercedes-Benz, Nissan, BMW and Volkswagen.

AutoNation's business is divided into three operating segments — Domestic (accounted for about 33% of the company's revenues in 2020), Import (30.4%) and Premium Luxury (36.6%).

The Domestic segment includes stores that sell vehicles manufactured by General Motors, Ford and Fiat Chrysler; whereas the Import segment comprises stores that sell vehicles manufactured by Toyota, Honda, Nissan, Hyundai and others.

The Premium Luxury segment includes stores that sell vehicles manufactured by Daimler (Mercedes Benz division), BMW, Toyota (Lexus division), Audi and others. Its diversified set of automotive retail franchises supports the automotive retailer's business, which is sensitive to macroeconomic conditions.

In 2020, new vehicle sales generated 51% of revenues, used vehicle sales accounted for 27.4%, parts and services (also referred as "customer care") added 16%, finance & insurance (also referred to as "customer financial services") constituted 5.2%, and other revenues accounted for 0.4%. In terms of gross profit, the largest contributor was parts and services with 41%, followed by finance & insurance with 29.7%, new vehicle with 16.4%, and used-vehicle with 12.9%.



Reasons To Buy:

- ▲ The company's diversified product mix and multiple streams of income reduce risk profile and augur well for top and bottom line growth. Strong footprint, large dealer network and aggressive store expansion efforts along with brand extension strategy and alliances are praiseworthy. AutoNation intends to build in excess of 100 stand-alone pre-owned vehicle stores, with more than 50 by 2025-end. It is on track to open five new stores this year, which is expected to bolster revenues.
- ▲ Increased focus on cost discipline is anticipated to aid margins. AutoNation is committed to operate below 68% SG&A as a percentage of gross profit, below its 71%-73% range over the last several years. Its adjusted SG&A as a percentage of gross profit was 63.8% in the last reported quarter, representing an 820 basis point improvement year over year.
- ▲ Enhanced digital solutions will help AutoNation to further boost profitability and market presence. Ship-to-home next day, curb-side pick-up option, and buy online, pick-up in stores options are picking pace, driving additional traffic to the company's online site. In fact, omni-channel remains a key component of the company's long-term strategy and is likely to boost revenues in the future. With the launch of its digital platform AutoNation Express—which enable customers to buy and sell vehicles online providing them a truly comprehensive and personal experience — the company has stepped up its digitization game.
- ▲ Strong balance sheet of the firm with low leverage and high liquidity is another positive. The firm's debt-to-capital ratio stands at 0.38, lower than its industry's 0.41. The company's liquidity position at the end of 2020 was \$2.3 billion, including \$1.8 billion in credit revolver and \$570 million in cash balance. Thanks to solid income generation and healthy financials, the firm increased share-buyback authorization to \$1 billion, boosting investors' confidence further.

AutoNation's brand extension strategy of investing in technology, and adding distribution centres will drive sales.

Risks

- Highly cyclic nature of the auto industry is a major concern. Amid economic slowdown, people are more likely to put off big-ticket purchases like cars, which may affect the earnings of the firm. Coronavirus scare and economic uncertainty may weigh on the near term prospects of the auto retailer. Additionally, shortage of semiconductor supply may pose problems for the auto retailer in the near future. In fact, AutoNation expects the demand for new vehicles to exceed supply as inventory levels remain constrained, which may induce lost revenues.
 - Despite the uncertain economic environment, the company is not pulling back on store expansion. While the company's store expansion plans is likely to boost long term growth, it may strain the near term financials of the firm. The firm's plan to enhance its omni-channel marketing strategies may increase expenses even more, thereby clipping profit margins.
 - AutoNation competes with publicly and privately-owned dealerships, along with Internet-based vehicle brokers. Some of its competitors are larger, and have greater financial and marketing resources. AutoNation's finance and insurance business faces strong competition from various financial institutions, and other third parties. Rising competition— especially in the used car market owing to the fragmented nature of the industry— and increasing price transparency can result in lower selling prices, thereby affecting the company's profits.
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Last Earnings Report

AutoNation Q4 Earnings Results Impress

AutoNation reported reported fourth-quarter 2020 adjusted earnings of \$2.43 per share, increasing 94% year over year and topping the Zacks Consensus Estimate of \$2.00. Higher-than-expected new and used vehicle sales led to the outperformance. Precisely, revenues from new and used vehicles came in at \$3,127 million and \$1,511.2 million, outpacing the Zacks Consensus Estimate of \$2,932 million and \$1,404 million, respectively.

Operational efficiency also aided the bottom line. Adjusted SG&A expenses as a percentage of gross profit were 63.8% for the quarter under review, marking an 820-basis point increase from the corresponding period of 2019. For the reported quarter, AutoNation's revenues amounted to \$5,785.1 million, up 4% year over year. The top line also surpassed the Zacks Consensus Estimate of \$5,607 million.

Quarter Ending 12/2020

Report Date	Feb 16, 2021
Sales Surprise	3.19%
EPS Surprise	21.50%
Quarterly EPS	2.43
Annual EPS (TTM)	7.13

Key Takeaways

For the quarter under review, new-vehicle revenues edged up 3.3% year over year to \$3,127 million. Used-vehicle revenues rose 12.4% from the year-ago figure to \$1,511.2 million. Revenues from the parts and service business, however, slid 5.9% from the prior-year quarter to \$838.4 million. Net revenues in the finance and insurance business amounted to \$295.9 million, up from \$264.4 million recorded in the year-ago quarter.

AutoNation intends to build in excess of 100 stand-alone pre-owned vehicle stores, with more than 50 by 2025-end. It is on track to open five new stores by 2021-end in Phoenix, Austin, San Antonio and Denver. The company will open 10 additional new stores next year. The automotive retailer has sharpened focus on ramping up digital capabilities in response to changing buying behaviors of consumers amid the pandemic.

It should be noted that AutoNation sold its stake in online retailer Vroom. During the quarter under review, AutoNation sold 3.1 million shares of its stake in Vroom for \$105 million, which resulted in a cash gain of \$78 million. Early this year, it sold the remaining stake in Vroom for \$109 million, which led to a cash gain of \$87 million. Overall, AutoNation realized a cash gain of \$165 million from the Vroom investment.

Segmental Details

Revenues in the Domestic segment increased 7.2% year over year to \$1,786.6 million. The segment's income jumped 64.3% year over year to \$107.1 million for the quarter under review. The segment comprises stores that sell vehicles manufactured by General Motors, Ford and FCA US.

Revenues in the Import segment were up 3.5% from the prior-year quarter to \$1,679.1 million. The segment's income climbed 39.9% year over year to \$108.7 million for the reported quarter. The segment consists of outlets that sell vehicles manufactured primarily by Toyota, Honda, Subaru, Hyundai and Nissan.

The Premium Luxury segment comprises stores that sell retail vehicles manufactured by Mercedes-Benz, BMW, Lexus, Jaguar Land Rover and Audi. Sales in the segment grew 4.5% from a year ago to \$2,151.2 million. Segmental income also rose 16.6% year over year to \$164.9 million for the reported quarter.

Financial Tidbits

AutoNation's cash and cash equivalents were \$569.6 million as of Dec 31, 2020. The company's liquidity position at year-end was \$2.3 billion, including \$1.8 billion in credit revolver. The firm's inventory was valued at \$2,598.5 million. At fourth quarter-end, non-vehicle debt was \$2,101.8 million. Capital expenditure for the quarter amounted to \$45.3 million.

During the reported quarter, AutoNation bought back 4.7 million shares worth \$302 million. From Jan 1, 2021 through Feb 12, it repurchased an additional \$1.3 million shares worth \$95 million. Encouragingly, the company increased the share-buyback authorization to \$1 billion. AutoNation now has \$1.1 billion remaining under the current share-repurchase authorization.

Valuation

AutoNation's shares are up 28.9% and 233.1% year to date and in the trailing 12-month period, respectively. On a year-to-date basis, stocks in the Zacks Automotive - Retail and Whole Sales industry and the Zacks Auto sector are up 31.2% and 1.2%, respectively. Over the past year, the Zacks sub industry and sector are up 295.9% and 182.1%, respectively.

The S&P 500 index is up 4.5% and 76.6% year to date and in the past year, respectively.

The stock is currently trading at 11.93X forward 12-month earnings, which compares to 12.1X for the Zacks sub-industry, 23.28X for the Zacks sector and 22.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.53X and as low as 4.56X, with a 5-year median of 10.26X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$103 price target reflects 13.66X forward 12-month earnings.

The table below shows summary valuation data for AN:

Valuation Multiples - AN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.93	12.1	23.28	22.17
	5-Year High	14.53	12.1	27.86	23.8
	5-Year Low	4.56	6.19	8.23	15.3
	5-Year Median	10.26	9.52	10.41	17.9
EV/EBITDA TTM	Current	6.84	9.92	19.16	17.39
	5-Year High	8.22	10.17	20.91	17.68
	5-Year Low	3.31	4.29	6.97	9.62
	5-Year Median	6.48	7.31	9.54	13.33
P/S F12M	Current	0.33	0.32	1.18	4.52
	5-Year High	0.33	0.32	1.28	4.52
	5-Year Low	0.1	0.11	0.47	3.21
	5-Year Median	0.2	0.18	0.61	3.69

As of 03/19/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Rush Enterprises, Inc. (RUSHA)	Outperform	1
Asbury Automotive Group, Inc. (ABG)	Neutral	3
Group 1 Automotive, Inc. (GPI)	Neutral	3
CarMax, Inc. (KMX)	Neutral	3
Lithia Motors, Inc. (LAD)	Neutral	3
Penske Automotive Group, Inc. (PAG)	Neutral	2
Sonic Automotive, Inc. (SAH)	Neutral	3
Titan Machinery Inc. (TITN)	Neutral	3

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

Industry Comparison Industry: Automotive - Retail And Whole Sales				Industry Peers		
	AN	X Industry	S&P 500	GPI	LAD	PAG
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	A	-	-	A	B	A
Market Cap	7.42 B	2.65 B	28.48 B	2.97 B	10.53 B	6.55 B
# of Analysts	8	5	13	5	6	7
Dividend Yield	0.00%	0.00%	1.38%	0.75%	0.31%	2.11%
Value Score	A	-	-	A	B	A
Cash/Price	0.08	0.02	0.06	0.03	0.02	0.01
EV/EBITDA	7.03	8.35	15.90	7.58	14.17	8.19
PEG F1	4.68	1.00	2.36	0.89	0.87	1.20
P/B	2.44	2.29	3.90	2.08	3.94	1.97
P/CF	6.86	9.67	15.91	7.32	18.73	10.07
P/E F1	12.03	12.79	21.22	9.13	19.46	10.90
P/S TTM	0.36	0.47	3.30	0.27	0.80	0.32
Earnings Yield	8.31%	7.82%	4.61%	10.95%	5.14%	9.18%
Debt/Equity	0.55	0.43	0.67	0.89	0.78	0.48
Cash Flow (\$/share)	13.12	7.15	6.78	22.44	21.11	8.10
Growth Score	A	-	-	A	C	C
Historical EPS Growth (3-5 Years)	8.45%	17.36%	9.32%	17.36%	17.94%	8.46%
Projected EPS Growth (F1/F0)	5.00%	18.39%	14.54%	-0.35%	11.68%	12.63%
Current Cash Flow Growth	92.99%	19.33%	0.72%	51.29%	43.73%	19.25%
Historical Cash Flow Growth (3-5 Years)	14.52%	9.60%	7.32%	13.68%	19.70%	9.80%
Current Ratio	1.00	1.12	1.39	1.09	1.35	0.94
Debt/Capital	35.65%	34.08%	41.42%	47.18%	43.69%	32.51%
Net Margin	1.87%	2.53%	10.59%	2.63%	3.58%	2.66%
Return on Equity	20.07%	20.51%	14.75%	25.46%	23.86%	17.75%
Sales/Assets	2.07	1.79	0.51	2.13	2.03	1.54
Projected Sales Growth (F1/F0)	8.87%	13.42%	7.02%	11.61%	39.89%	15.23%
Momentum Score	C	-	-	B	B	A
Daily Price Change	-0.31%	-1.14%	-0.12%	-0.94%	-1.21%	-1.14%
1-Week Price Change	3.76%	10.69%	2.96%	10.42%	5.45%	9.11%
4-Week Price Change	15.49%	17.15%	3.72%	14.14%	6.65%	28.15%
12-Week Price Change	32.23%	38.37%	8.75%	38.37%	36.34%	41.27%
52-Week Price Change	244.75%	255.79%	72.55%	280.00%	477.23%	249.49%
20-Day Average Volume (Shares)	966,696	264,808	2,394,762	185,050	306,166	278,984
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	10.29%	2.48%	0.00%	0.75%	0.96%	3.72%
EPS F1 Estimate 12-Week Change	11.71%	3.27%	2.10%	0.46%	2.46%	10.77%
EPS Q1 Estimate Monthly Change	6.09%	-0.55%	0.00%	-1.10%	0.47%	-1.33%

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	A
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.

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 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.