

Arista Networks, Inc. (ANET)

\$263.00 (As of 11/06/20)

Price Target (6-12 Months): **\$282.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

Summary

Arista reported decent third-quarter 2020 results, wherein the top and the bottom lines beat the Zacks Consensus Estimate. The company expanded its cognitive campus portfolio with new platforms. It introduced a new enterprise-grade Software-as-a-Service offering for the flagship CloudVision platform. Arista acquired Awake Security, a Network Detection and Response platform provider. It announced unified edge innovations across wired and wireless networks for its Cognitive Campus Edge portfolio for Enterprise Workspaces. However, Arista is facing extended lead times and shipment constraints resulting from the COVID-19 operating environment. It expects near-term volatility to persist in the cloud business despite the underlying strength of its business model. Intense competition, legal troubles and stretched valuation are other major concerns.

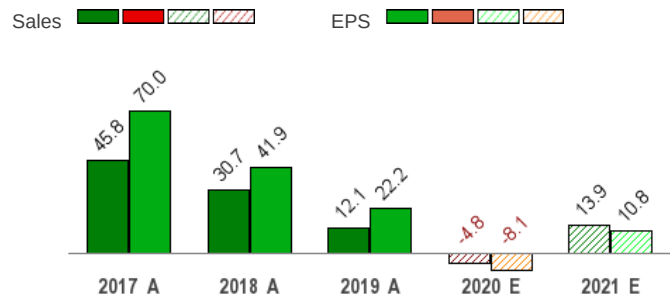
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$268.85 - \$156.63
20-Day Average Volume (Shares)	907,203
Market Cap	\$19.9 B
Year-To-Date Price Change	29.3%
Beta	1.04
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Communication - Components
Zacks Industry Rank	Top 21% (53 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.2%
Last Sales Surprise	4.3%
EPS F1 Estimate 4-Week Change	2.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	29.8
P/E F1	29.4
PEG F1	3.1
P/S TTM	9.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	610 E	634 E	673 E	699 E	2,614 E
2020	523 A	541 A	605 A	627 E	2,296 E
2019	595 A	608 A	555 A	553 A	2,411 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.28 E	\$2.39 E	\$2.56 E	\$2.65 E	\$9.91 E
2020	\$2.02 A	\$2.11 A	\$2.42 A	\$2.39 E	\$8.94 E
2019	\$2.31 A	\$2.44 A	\$2.69 A	\$2.29 A	\$9.73 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 11/06/2020. The reports text is as of 11/09/2020.

Overview

Santa Clara, CA-based Arista Networks, Inc. is engaged in providing cloud networking solutions for data centers and cloud computing environments. The company offers 10/25/40/50/100 Gigabit Ethernet switches and routers optimized for next generation data center networks.

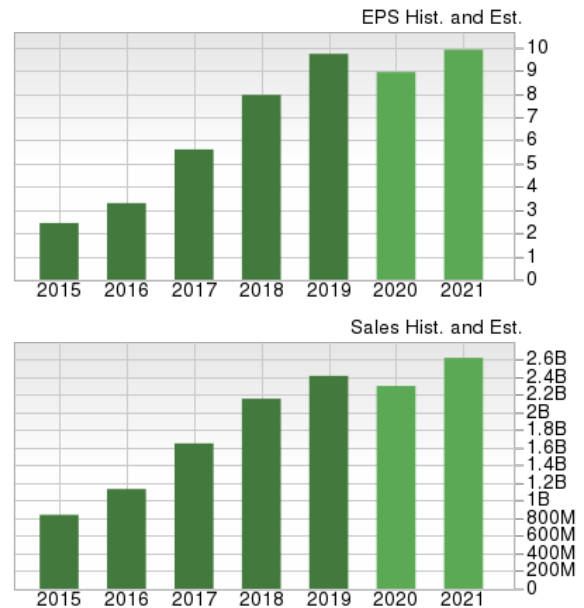
Arista uses multiple silicon architectures across its products. At the core of the company's cloud networking solutions is the Linux-based Extensible Operating System (EOS), which was architected to be fully programmable and highly modular.

EOS supports leading cloud and virtualization solutions, including Microsoft System Center, OpenStack and other cloud management frameworks. The company co-authored the Virtual Extensible LAN (VXLAN) protocol specification with VMware and was the first to demonstrate VXLAN integration. Moreover, it has now expanded VXLAN routing and integration.

In 2019, Arista introduced 10 new 400G platforms. In the Leaf/Spine High Network Radix category, it offers two new fixed 32 port 400G switches, and a 128 port 100G/32 port 400G modular switch. For the Universal Leaf and Spine category of switching, the company introduced R3 series 100G and 400G products supporting up to 2.5M routes on its 7280R3 series fixed and 7500R3 series modular platforms.

Arista introduced a modular family called the 7800R3, a high density 100G and 400G platform supporting up to 460 Tbps of system throughput. Also, it launched the 720XP Series of fixed Power over Ethernet (PoE) leaf switches with 60W PoE, enabling it to offer a complete end-to-end solution for cognitive campus Ethernet as well as the introduction of WiFi-6 wireless Access Points (APs).

In 2015, Arista introduced CloudVision, a network-wide approach for workload orchestration and workflow automation delivering a turnkey solution for cloud networking. The company serves five verticals namely – cloud titans (customers that deploy more than one million servers), cloud specialty providers, service providers, financial services and rest of enterprise. Arista's customers include six of the largest cloud service providers based on annual revenues.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Arista delivered a trailing four-quarter positive earnings surprise of 9.5%, on average. It acquired Awake Security, a Network Detection and Response platform provider that combines artificial intelligence with human expertise to autonomously hunt and respond to insider and external threats. The company expanded its cognitive campus portfolio with new platforms, including the 750 Series modular chassis and the 720 Series 96 port fixed switch. Arista announced unified edge innovations across wired and wireless networks for its Cognitive Campus Edge portfolio for Enterprise Workspaces. It introduced a new enterprise-grade Software-as-a-Service offering for the flagship CloudVision platform.
- ▲ The company holds a leadership position in 100-gigabit Ethernet switching share in port for the high-speed datacenter segment. Arista integrated two M&A transactions — Mojo Networks for Cognitive Wi-Fi in the campus and Metamako for ultra-low latency networking — which are tailwinds for business growth. Moreover, it is earning a strategic role with customers deploying transformative cloud networking. The company announced several additions to its multi-cloud and cloud-native software product family with CloudEOS Edge. It introduced new cognitive Wi-Fi software that delivers intelligent application identification, automated troubleshooting and location services. This supports video conferencing applications like Google Hangouts, Microsoft Teams and Zoom.
- ▲ Arista continues benefiting from the expanding cloud networking market, driven by strong demand for scalable infrastructure. In addition to high capacity and easy availability, its cloud networking solutions promise predictable performance along with programmability that enables integration with third-party applications for network management, automation and orchestration. The company's product portfolio facilitates the implementation of high performance, highly scalable and appropriate solutions for every environment. It offers one of the broadest product lines of datacenter and campus 1/2.5/5/10/25/40/50/100/400 Gigabit Ethernet switches and routers in the industry. Arista provides routing and switching platforms with industry-leading capacity, low latency, port density and power efficiency. The company also innovated in areas such as deep packet buffers, embedded optics and reversible cooling.
- ▲ Arista's strategy of leveraging merchant silicon from multiple suppliers has expanded its product portfolio and increased its ability to offer products at cheaper prices. This has also helped it to focus on developing software like EOS and CloudVision. While EOS is core to the company's cloud networking solutions for next-generation data centers and cloud networks, CloudVision is a network-wide approach for workload orchestration, workflow automation and real-time telemetry as a turnkey solution for cloud networking. Arista is well positioned to benefit from strong demand for its data center switches. Continued spending on IT infrastructure products (server, enterprise storage and Ethernet switches) for deployment in cloud environments is likely to benefit the company. Notably, its switches and routers support the high-end cloud networking market that require fast throughput at low cost. As of Sep 30, 2020, Arista had \$2,846 million in cash and cash equivalents with zero long-term debt.

Arista expanded its cognitive campus portfolio with new platforms. It introduced a new enterprise-grade Software-as-a-Service offering for the flagship CloudVision platform.

Reasons To Sell:

- ▼ Arista must continue to enhance its existing product line and develop new technologies and products that address emerging technological trends, evolving industry standards and changing end-customer needs. In the third quarter of 2020, total revenues declined 7.5% year over year to \$605.4 million. This was due to extended lead times and shipment constraints resulting from the COVID-19 operating environment. Product revenues declined to \$480.2 million from \$555.1 million year over year. Total operating expenses were \$196.6 million compared with \$188.7 million in the prior-year quarter. The company recognized incremental COVID-19-related costs, including elevated freight and component costs. Non-GAAP operating income declined to \$231.5 million from \$258.2 million in the year-ago quarter with a margin of 38.2% and 39.4%, respectively.
- ▼ Intense competition, legal troubles and stretched valuation are primary concerns. Redesigning of products and their supply chain mechanism has eroded the company's margins. Arista faces stiff competition in the cloud networking solutions, particularly in the 10-gigabit Ethernet and above. Cisco is the dominant player in the data center networking market, driven by its diverse portfolio of IP based networking products. Apart from Cisco, Arista faces significant competition from large network equipment and system vendors such as Brocade, Dell, Hewlett-Packard, Juniper Networks (in the routing platform), Extreme Networks and Mellanox Technologies.
- ▼ A significant portion of Arista's business depends on the growth and evolution of the cloud networking market. The company expects near-term volatility to continue due to the pandemic despite the underlying strength of its resilient business model and diligent execution of operational strategies. The company expects 2020 to be quite turbulent, with a pause in cloud titan set of orders leading to muted growth compared with the previous years. Arista has seen annual revenue growth rates of 12.1%, 30.7% and 45.8% in 2019, 2018 and 2017, respectively. In the future, it expects revenues to decline as it has become more penetrated with the existing customer base and product markets. The markets, in which it competes, including the markets for data center and campus networking, are intensely competitive.

Arista is facing extended lead times and shipment constraints resulting from the COVID-19 operating environment.

Last Earnings Report

Arista Q3 Earnings & Revenues Top Estimates, Down Y/Y

Arista reported decent third-quarter 2020 results, wherein the top and the bottom lines beat the respective Zacks Consensus Estimate. However, both figures declined on a year-over-year basis.

Net Income

On a GAAP basis, net income in the September quarter declined to \$168.4 million or \$2.12 per share from \$208.8 million or \$2.59 per share in the prior-year quarter, primarily caused by lower operating income.

Non-GAAP net income came in at \$192 million or \$2.42 per share compared with \$217.1 million or \$2.69 per share in the year-ago quarter. The bottom line, however, beat the Zacks Consensus Estimate by 19 cents, delivering a positive surprise of 8.5%.

Revenues

Quarterly total revenues declined 7.5% year over year to \$605.4 million (but surpassed the company's guidance of \$570-\$590 million). This was due to extended lead times and shipment constraints resulting from the COVID-19 operating environment. The top line, however, surpassed the consensus estimate of \$580 million.

Arista generated 75% of total revenues from the Americas and the remainder from international operations. Almost 37% of the vertical mix was driven by cloud titans, 37% from enterprise and financials, and 26% from cloud service providers. Product revenues declined to \$480.2 million from \$555.1 million year over year, while Service revenues grew to \$125.2 million from \$99.3 million supported by renewals and subscriptions.

Other Details

Non-GAAP gross profit contracted to \$390.9 million from \$421.2 million, with the respective margins of 64.6% and 64.4%. The non-GAAP gross margin was above the midpoint of the company's guidance of 63-65%, reflecting the software and services mix.

Total operating expenses were \$196.6 million compared with \$188.7 million in the prior-year quarter. The company recognized incremental COVID-19-related costs, including elevated freight and component costs. Non-GAAP operating income declined to \$231.5 million from \$258.2 million in the year-ago quarter with a margin of 38.2% and 39.4%, respectively.

Cash Flow & Liquidity

In the first nine months of 2020, Arista generated \$548.2 million of net cash from operating activities compared with \$635.9 million in the prior-year period. As of Sep 30, the cloud networking company had \$970.3 million in cash and cash equivalents with \$247.7 million of non-current deferred tax liabilities.

Q4 Outlook

For the fourth quarter of 2020, Arista expects revenues of \$615-\$635 million. It anticipates a non-GAAP gross margin of 63-65% and a non-GAAP operating margin of around 37%.

Quarter Ending	09/2020
Report Date	Nov 02, 2020
Sales Surprise	4.31%
EPS Surprise	13.16%
Quarterly EPS	2.42
Annual EPS (TTM)	7.58

Recent News

On Nov 2, 2020, Arista announced the expansion of its Cognitive Campus portfolio with new platforms. This includes the 750 Series modular chassis for enhanced security solutions and simplified automation workflows.

On Sep 30, 2020, Arista announced unified edge innovations across wired and wireless networks for its Cognitive Campus portfolio. The Cognitive Campus is the next-generation, analytics-driven approach to delivering advanced security, visibility and location-based services while optimizing the client to cloud experience. The solutions will help businesses simplify and secure their operational experiences across evolving enterprise workspaces.

Valuation

Arista's shares have moved up 37.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 14.7% over the past year, and stocks in the Zacks Computer and Technology sector are up 38.3% in the same period.

The S&P 500 Index is up 14.3% in the past year.

The stock is currently trading at 26.91X forward 12-month earnings, which compares to 23.05X for the Zacks sub-industry, 27.55X for the Zacks sector and 22.24X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 54.78X and as low as 19.89X, with a 5-year median of 31.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$282 price target reflects 10.5X forward 12-month earnings.

The table below shows summary valuation data for ANET

Valuation Multiples - ANET					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.91	23.05	27.55	22.24
	5-Year High	54.78	32.87	27.99	23.47
	5-Year Low	19.89	15.16	16.95	15.27
	5-Year Median	31.92	21.89	19.94	17.72
P/B TTM	Current	6.45	3.8	8.07	6.21
	5-Year High	13.55	3.8	8.31	6.22
	5-Year Low	4.15	1.12	4.09	3.74
	5-Year Median	7.28	2.52	5.6	4.9
P/S F12M	Current	7.75	2.02	4.3	4.12
	5-Year High	10.63	2.95	4.48	4.3
	5-Year Low	3.3	1.54	2.77	3.17
	5-Year Median	6.7	2.06	3.44	3.67

As of 11/06/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 249)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Plantronics, Inc. (PLT)	Outperform	1
Acacia Communications, Inc. (ACIA)	Neutral	3
Harmonic Inc. (HLIT)	Neutral	3
Knowles Corporation (KN)	Neutral	2
Spirent Communications PLC (SPMY)	Neutral	3
TESSCO Technologies Incorporated (TESS)	Neutral	3
Viavi Solutions Inc. (VIAV)	Neutral	2
EXFO Inc (EXFO)	Underperform	5

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

Industry Comparison Industry: Communication - Components				Industry Peers		
	ANET	X Industry	S&P 500	KN	PLT	VIAV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	1	2
VGM Score	C	-	-	C	D	B
Market Cap	19.90 B	157.27 M	23.64 B	1.45 B	1.02 B	2.98 B
# of Analysts	11	3	13	5	4	5
Dividend Yield	0.00%	0.00%	1.56%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	B	C
Cash/Price	0.18	0.16	0.07	0.11	0.29	0.19
EV/EBITDA	19.27	9.76	13.75	10.62	24.98	11.79
PEG F1	3.16	3.43	2.71	2.81	NA	NA
P/B	6.45	3.24	3.33	1.15	NA	4.17
P/CF	27.56	14.43	13.32	10.03	1.00	11.16
P/E F1	30.20	26.73	21.18	28.11	8.21	18.52
P/S TTM	8.96	1.51	2.63	1.92	0.65	2.66
Earnings Yield	3.40%	3.06%	4.53%	3.54%	12.19%	5.38%
Debt/Equity	0.00	0.00	0.70	0.17	-10.95	0.84
Cash Flow (\$/share)	9.54	0.21	6.92	1.58	24.52	1.17
Growth Score	B	-	-	C	D	B
Historical EPS Growth (3-5 Years)	44.83%	3.59%	10.07%	4.67%	-3.26%	25.28%
Projected EPS Growth (F1/F0)	2.90%	-0.62%	0.26%	251.89%	50.63%	-66.73%
Current Cash Flow Growth	22.40%	-1.54%	5.29%	8.28%	171.96%	4.86%
Historical Cash Flow Growth (3-5 Years)	57.99%	14.62%	8.38%	-9.73%	50.11%	0.90%
Current Ratio	5.50	2.38	1.38	3.15	1.38	3.92
Debt/Capital	0.00%	0.69%	41.97%	14.41%	NA	45.79%
Net Margin	32.06%	-3.99%	10.44%	-0.33%	-53.39%	3.23%
Return on Equity	20.37%	-1.82%	14.96%	3.41%	70.65%	18.42%
Sales/Assets	0.52	0.69	0.50	0.45	0.65	0.62
Projected Sales Growth (F1/F0)	-0.65%	0.00%	0.00%	-13.58%	-5.01%	0.60%
Momentum Score	C	-	-	C	C	C
Daily Price Change	2.33%	0.00%	-0.23%	-1.80%	-2.50%	-0.23%
1-Week Price Change	-2.43%	-2.72%	-5.63%	-12.47%	7.67%	-5.87%
4-Week Price Change	18.21%	-0.98%	0.00%	2.33%	80.82%	0.85%
12-Week Price Change	21.58%	-7.52%	2.80%	-0.38%	24.80%	-7.41%
52-Week Price Change	35.26%	3.97%	2.05%	-28.80%	-0.69%	-17.88%
20-Day Average Volume (Shares)	907,203	46,846	1,955,785	744,496	1,062,812	2,235,340
EPS F1 Estimate 1-Week Change	2.63%	0.00%	0.00%	0.66%	100.53%	0.00%
EPS F1 Estimate 4-Week Change	2.63%	3.97%	1.27%	25.41%	100.53%	1.92%
EPS F1 Estimate 12-Week Change	2.63%	11.70%	3.13%	25.41%	100.53%	4.61%
EPS Q1 Estimate Monthly Change	1.85%	0.92%	0.51%	15.39%	120.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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.