

Amphenol Corporation (APH)

\$67.93 (As of 06/25/21)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/25/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

Amphenol is benefiting from its diversified business model that lowers volatility of individual-end markets and geographies. Higher sales in the mobile devices, automotive, IT datacom and industrial end-markets is likely to drive growth. Moreover, acquisitions are helping the company strengthen its product offerings and expand customer base. The MTS acquisition is expected to contribute five cents per share in earnings in the first year of completion. Moreover, Positronic and EI-Cab acquisition will boost its top-line growth in the long haul. These acquisitions will strengthen its product offerings and expand customer base. Further, Amphenol continues to generate solid free cash flow, which is a positive. However, significant competition in almost all areas of operation remains a headwind. Shares have underperformed the industry year to date.

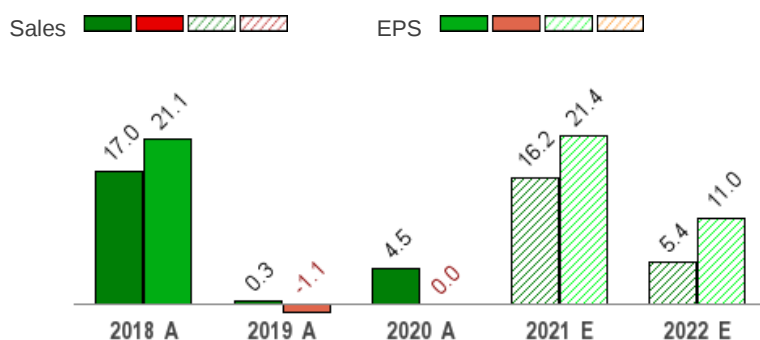
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$69.62 - \$46.50
20-Day Average Volume (Shares)	2,234,196
Market Cap	\$40.6 B
Year-To-Date Price Change	3.9%
Beta	1.24
Dividend / Dividend Yield	\$0.58 / 0.9%
Industry	Electronics - Connectors
Zacks Industry Rank	Top 4% (10 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.6%
Last Sales Surprise	9.5%
EPS F1 Estimate 4-Week Change	1.0%
Expected Report Date	07/28/2021
Earnings ESP	3.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,440 E	2,562 E	2,652 E	2,705 E	10,528 E
2021	2,377 A	2,461 E	2,519 E	2,579 E	9,991 E
2020	1,862 A	1,988 A	2,323 A	2,426 A	8,599 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.57 E	\$0.62 E	\$0.67 E	\$0.69 E	\$2.52 E
2021	\$0.52 A	\$0.55 E	\$0.58 E	\$0.60 E	\$2.27 E
2020	\$0.36 A	\$0.41 A	\$0.55 A	\$0.57 A	\$1.87 A

*Quarterly figures may not add up to annual.

P/E TTM	19.1
P/E F1	29.9
PEG F1	3.3
P/S TTM	4.5

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/25/2021. The report's text and the

analyst-provided price target are as of 06/28/2021.

Overview

Amphenol designs, manufactures and markets electrical, electronic and fiber optic connectors, interconnect systems, antennas, sensors and sensor-based products and coaxial and high-speed specialty cable.

Amphenol's manufacturing facilities are generally vertically integrated operations from the initial design stage through final design and manufacturing. The company's manufacturing presence is in more than 30 countries.

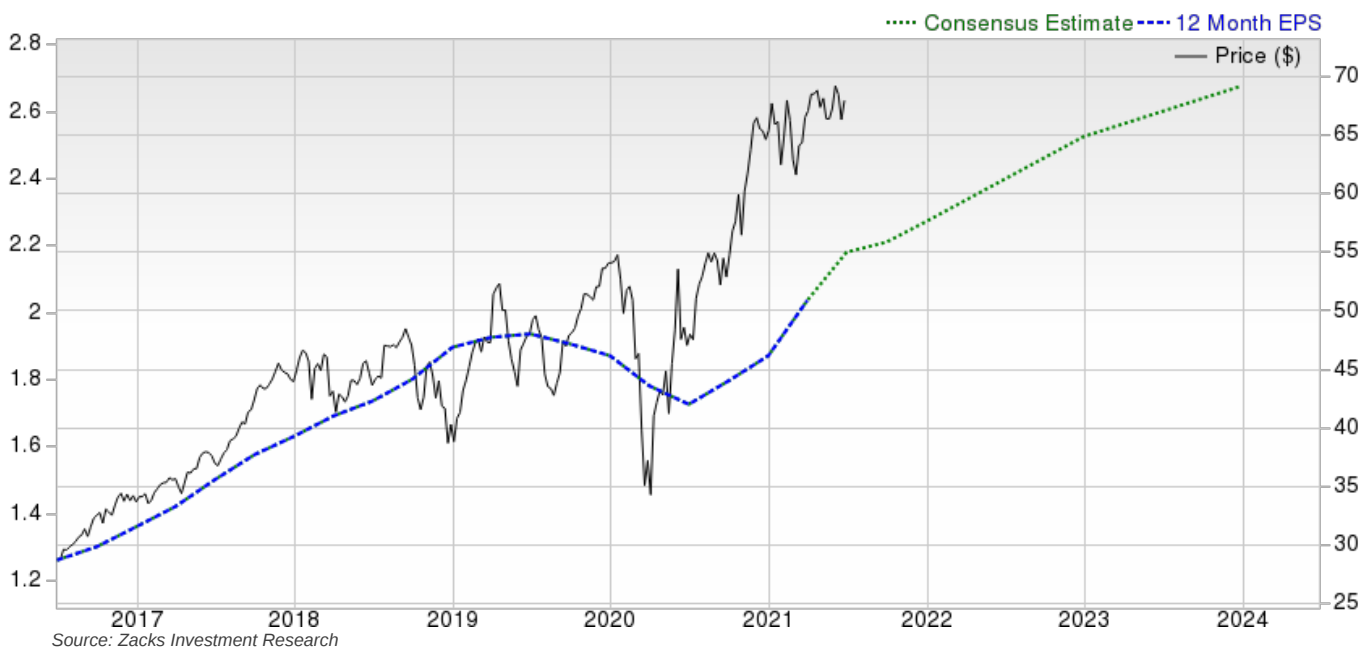
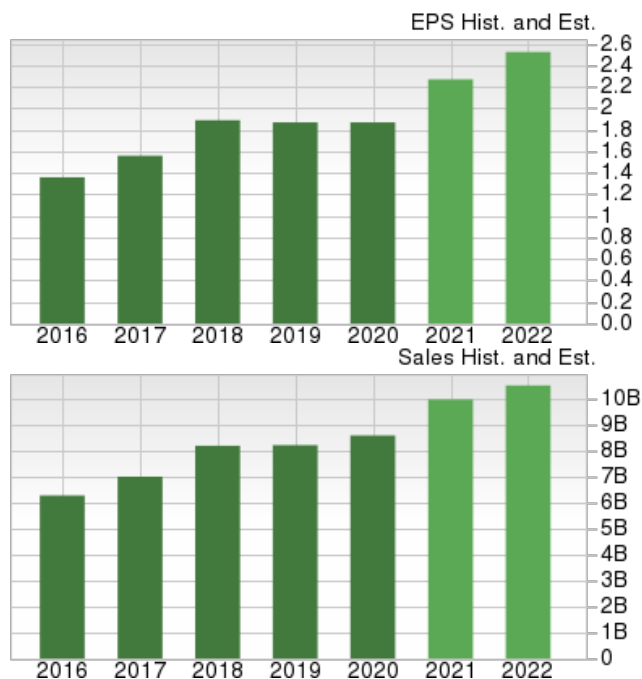
Amphenol reported net sales of \$8.60 billion in 2020. The Wallingford, CT-based company has two reportable business segments: Interconnect Products & Assemblies and Cable Products & Solutions.

Interconnect Products & Assemblies (95.7% of 2020 revenues): Amphenol produces a wide range of connector and connector systems, value-added products and other products, including antennas and sensors, used in a broad range of applications in a diverse set of end markets. Interconnect products include connectors, which when attached to an electrical, electronic or fiber optic cable, a printed circuit board or other device, facilitate transmission of power or signals. Value-added systems generally consist of a system of cable, flexible circuits or printed circuit boards and connectors for linking electronic equipment.

Automotive, Broadband Communications, Commercial Aerospace, Industrial, Information Technology and Data Communications, Military, Mobile Devices, and Mobile Networks are the primary end markets served by this segment.

Cable Products & Solutions (4.3% of 2020 revenues): Amphenol designs, manufactures and markets cable (coaxial, power and specialty), value-added products and components for addressing the needs of broadband communications and information technology markets as well as certain applications in other markets.

Amphenol's primary competitors include Carlisle, Commscope, Delphi, Sensata, TE Connectivity, 3M, among others.



Reasons To Buy:

- ▲ Amphenol's top-line growth is expected to benefit from stable industrial end-market and favorable military spending environment. The company's broad end-market diversification with a consistent focus on innovation and customer support through all phases of the economic cycle is expected to aid sales. Moreover, efforts in developing industry-leading high-speed and power products are expected to help the company gain customers in IT data communications space. The company booked orders worth \$2.512 billion in the fourth quarter of 2020. Moreover, a balanced organic and inorganic growth model, a lean and flexible cost structure, and an agile and entrepreneurial management team augur well for its long-term growth perspectives.
- ▲ Amphenol remains encouraged by its expanding presence in the fast-growing commercial aerospace market and is well positioned to capitalize on the proliferation of electronics content on next-generation planes. These advanced electronic systems also require new higher technology interconnect solutions to enhance fuel efficiency and improve passenger experience, all of which creates excellent opportunities for Amphenol. In order to fuel further growth, Amphenol aims to acquire on a global basis in the high-growth segments that have complementary capabilities from a product, customer and/or geographic standpoint.
- ▲ Acquisitions have helped the company strengthen product offerings and expand customer base. For instance, the buyout of MTS Systems is expected to strengthen its sensor business. The addition of Cablescon further strengthens the company's value-add interconnect offerings for a wide range of harsh environment applications. Moreover, XGiga strengthens the company's offering for high-speed applications by adding active fiber optic interconnect to Amphenol's passive fiber optic and high-speed copper solutions. The acquisition of EXA Thermometrics bolsters Amphenol's overall sensor portfolio and expands its sensor manufacturing footprint in India.
- ▲ Amphenol generates solid cash flow, which allows management the opportunity to invest in product innovations, acquisitions and business development. At the same time, the company has historically returned significant cash through a combination of share repurchases and dividend. In 2020, Amphenol generated record operating and free cash flow of \$1.59 billion and \$1.33 billion, respectively. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout level, at least in the near term.

Amphenol is benefiting from improved end-market demand and strategic acquisitions. Solid free cash flow generating ability is expected to help it sustain current dividend payout level.

Risks

- Bulk of Amphenol's revenues comes from sales to the communications industry, demand for which is subject to rapid technological change. Declining demand for smartphones is a concern. Additionally, the smartphone market is dominated by several large manufacturers and operators who exert significant price pressure on Amphenol. Furthermore, increasing cost of raw materials is also a matter of concern and is likely to be an additional drag on its profitability.
 - Moreover, the company faces significant competition in almost all areas of operation that hurts growth. Also, it has significant exposure to China (28% of 2019 revenues). Hence, sluggish macro-economic environment in China doesn't bode well for the company's growth prospects. Further, the lockdowns and movement-restrictions related to the coronavirus globally are expected to hurt Amphenol's results in the near-term.
 - Notably, non-U.S. business accounted for 69% of Amphenol's revenues in 2019. Since, the company conducts businesses in major foreign currencies, unfavorable movement in foreign currency exchange rates often adversely impact sales. Amphenol attempts to minimize currency exposure risk by producing its products in the same country or region in which the products are sold. Despite these attempts, the company is susceptible to volatility in foreign exchanges, which undermines its growth potential to some extent.
 - Amphenol also has a leveraged balance sheet. As of Mar 31, 2021, the company's net debt was \$2.3 billion compared with \$2.13 billion as of Dec 31, 2020. The significant debt burden might hinder growth prospects in the near term.
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Last Earnings Report

Amphenol Q1 Earnings Miss Estimates, Revenues Rise Y/Y

Amphenol's first-quarter 2021 adjusted earnings of 52 cents per share missed the Zacks Consensus Estimate by 49%. The figure increased 48.6% year over year.

Net sales increased 27.7% year over year to \$2.377 billion and beat the consensus mark by 103.5%. Organically, net sales increased 23%.

The top line benefited from robust growth in the mobile devices, automotive, IT datacom and industrial end-markets.

Quarterly Details

Interconnect Products and Assemblies' (95.9% of net sales) sales were up 28.2% from the year-ago quarter to \$2.28 billion. Moreover, Cable Products and Solutions sales were \$97.1 million, up 17% year over year.

Gross margin on a GAAP basis expanded 50 basis points (bps) to 30.6% on a year-over-year basis.

Selling, general and administrative expenses (SG&A) as a percentage of revenues decreased 200 bps on a year-over-year basis to 11.1%.

Adjusted operating margin expanded 250 bps on a year-over-year basis to 19.6%.

Segment-wise, Interconnect Products and Assemblies' operating margin grew 230 bps on a year-over-year basis to 20.6%. Cable Products and Solutions' operating margin remained unchanged on a year-over-year basis at 0.4%.

Balance Sheet and Cash Flow

As of Mar 31, 2021, Amphenol had cash and cash equivalents worth \$2.32 billion, higher than \$1.70 billion as of Dec 31, 2020.

During the quarter, the company purchased 2.4 million shares of its common stock for \$153 million, bringing total share repurchases under the 2018 stock repurchase program to 40.3 million shares, or \$1.95 billion.

In April 2021, the company purchased the remaining authorized amount of common stock under its existing three-year, \$2 billion stock repurchase plan. As a result, on Apr 27, 2021, the company's board of directors approved a new three-year, \$2 billion open market stock repurchase plan.

The company also paid dividends of \$87 million, resulting in total capital returned to shareholders during the first quarter of \$240 million.

Acquisitions

Amphenol completed the acquisitions of Euromicron and Cabelcon in the reported quarter. Based in Germany and with annual sales of around \$25 million, Euromicron is a manufacturer of highly engineered fiber optic interconnect solutions for the mobile networks and IT datacom markets.

Based in Denmark with annual sales of around \$25 million, Cabelcon is a designer and manufacturer of high-technology connectors and interconnect assemblies primarily for the broadband market.

On Apr 7, Amphenol completed the acquisition of MTS Systems, a leading global supplier of advanced test systems, motion simulators and precision sensors. The acquisition is expected to be 5 cents accretive to Amphenol's earnings per share in the first 12 months after closing.

Guidance

Amphenol expects second-quarter 2021 earnings between 53 cents and 55 cents per share, indicating 33% to 38% year-over-year growth. Revenues are anticipated between \$2.415 and \$2.475 billion, indicating 22-25% year-over-year growth.

The Zacks Consensus Estimate for second-quarter earnings is pegged at 51 cents, implying 24.3% growth from the figure reported in the year-ago quarter. The consensus mark for revenues stands at \$2.28 billion, suggesting 14.6% growth from the year-ago quarter's reported figure.

Quarter Ending	03/2021
Report Date	Apr 28, 2021
Sales Surprise	9.45%
EPS Surprise	10.64%
Quarterly EPS	0.52
Annual EPS (TTM)	2.04

Recent News

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On Jan 19, Amphenol and Illinois Tool Works announced that they have entered into an agreement under which the latter will acquire MTS Systems Test & Simulation business, following the closing of Amphenol's acquisition of MTS.

Valuation

Amphenol shares are up 3.9% in the year-to-date period and 42.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 4.6% and 17.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 43.2% and 51%, respectively.

The S&P 500 index is up 14.7% in the year-to-date period and 42.4% in the past year.

The stock is currently trading at 28.37X forward 12-month earnings, which compares to 27.04X for the Zacks sub-industry, 27.89X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33X and as low as 17.52X, with a 5-year median of 24.61X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$78 price target reflects 32.63X forward 12-month earnings.

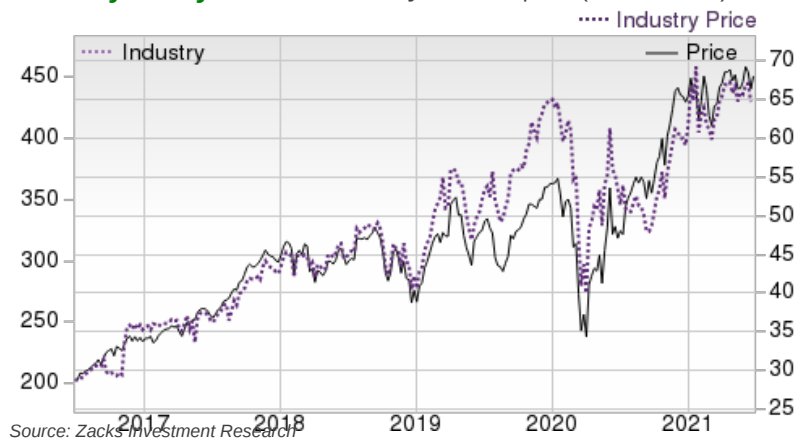
The table below shows summary valuation data for APH

Valuation Multiples - APH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.37	27.04	27.89	21.82
	5-Year High	33	30.2	28.34	23.83
	5-Year Low	17.52	18.98	16.97	15.31
	5-Year Median	24.61	23.3	20.22	18.05
P/S F12M	Current	3.96	3.88	4.97	4.75
	5-Year High	4.5	4.28	4.97	4.75
	5-Year Low	2.41	2.65	2.8	3.21
	5-Year Median	3.45	3.41	3.52	3.72
EV/Sales TTM	Current	4.65	4.55	5.75	4.91
	5-Year High	5.06	4.92	5.79	4.91
	5-Year Low	2.74	2.69	3.13	2.65
	5-Year Median	3.84	3.8	4	3.64

As of 06/25/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 4% (10 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Jabil, Inc. (JBL)	Outperform	2
Vishay Intertechnology, Inc. (VSH)	Outperform	2
CommScope Holding Company, Inc. (COMM)	Neutral	3
Littelfuse, Inc. (LFUS)	Neutral	2
Plexus Corp. (PLXS)	Neutral	4
Sensata Technologies Holding N.V. (ST)	Neutral	3
Skyworks Solutions, Inc. (SWKS)	Neutral	3
TE Connectivity Ltd. (TEL)	Neutral	3

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

Industry Comparison Industry: Electronics - Connectors				Industry Peers		
	APH	X Industry	S&P 500	COMM	JBL	PLXS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	4
VGM Score	D	-	-	B	A	A
Market Cap	40.60 B	1.86 B	30.37 B	4.36 B	8.55 B	2.60 B
# of Analysts	8	7	12	7	4	3
Dividend Yield	0.85%	0.43%	1.33%	0.00%	0.56%	0.00%
Value Score	F	-	-	A	A	A
Cash/Price	0.06	0.09	0.06	0.07	0.15	0.11
EV/EBITDA	21.71	15.68	17.25	18.10	8.29	12.00
PEG F1	3.34	2.49	2.09	0.42	0.86	NA
P/B	7.35	2.03	4.15	20.96	4.00	2.59
P/CF	27.85	10.93	17.53	3.66	10.19	14.91
P/E F1	29.93	21.99	21.20	11.38	10.38	17.92
P/S TTM	4.45	1.71	3.42	0.51	0.29	0.75
Earnings Yield	3.34%	5.23%	4.61%	8.81%	9.63%	5.58%
Debt/Equity	0.74	0.49	0.66	45.65	1.34	0.19
Cash Flow (\$/share)	2.44	1.96	6.86	5.84	5.64	6.11
Growth Score	C	-	-	C	A	A
Historical EPS Growth (3-5 Years)	8.64%	8.07%	9.59%	-15.85%	-2.38%	12.44%
Projected EPS Growth (F1/F0)	21.39%	25.07%	21.79%	20.24%	90.86%	17.94%
Current Cash Flow Growth	-0.21%	-0.21%	1.02%	-1.84%	-19.87%	12.54%
Historical Cash Flow Growth (3-5 Years)	9.17%	7.22%	7.28%	12.47%	-0.55%	4.56%
Current Ratio	2.43	2.73	1.39	1.73	1.04	1.88
Debt/Capital	42.67%	31.19%	41.51%	98.07%	57.35%	15.69%
Net Margin	14.16%	12.70%	12.06%	-6.03%	2.02%	4.35%
Return on Equity	24.16%	19.47%	16.59%	132.51%	29.25%	15.55%
Sales/Assets	0.75	0.75	0.51	0.62	1.95	1.53
Projected Sales Growth (F1/F0)	16.19%	13.55%	9.56%	2.14%	8.34%	2.55%
Momentum Score	B	-	-	D	A	D
Daily Price Change	-0.16%	-2.94%	0.33%	4.00%	-0.17%	0.57%
1-Week Price Change	2.49%	-1.25%	2.74%	6.65%	3.22%	4.35%
4-Week Price Change	1.00%	-0.19%	1.82%	5.07%	1.77%	-7.80%
12-Week Price Change	1.31%	-3.32%	6.49%	37.06%	8.46%	-2.54%
52-Week Price Change	44.58%	53.05%	42.26%	156.49%	87.87%	36.17%
20-Day Average Volume (Shares)	2,234,196	123,330	1,881,795	2,163,505	973,661	129,311
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.00%	0.50%	0.02%	0.00%	12.56%	-5.04%

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

EPS F1 Estimate 12-Week Change	12.38%	:	6.77%	3.59%	:	10.50%	12.56%	4.81%
EPS Q1 Estimate Monthly Change	0.66%	:	0.66%	0.00%	:	0.00%	26.92%	-15.25%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

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This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is

proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.