

## Ashland Global(ASH)

**\$73.69** (As of 08/31/20)

Price Target (6-12 Months): **\$85.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Outperform

(Since: 07/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: C

Growth: B

Momentum: F

## Summary

Annual earnings estimates for Ashland have moved up over the past month. The company's restructuring actions have provided it with a diverse business portfolio focused on high-quality markets and better positioned it for future growth. The restructuring has provided it with a business portfolio with different value propositions with respect to the markets served. The company's actions to reduce operating costs should also support its margins. Ashland plans to employ part of the savings on growth initiatives. Moreover, Ashland remains committed to boost its free cash flows through a number of initiatives including reduction in capital spending and net working capital. The company also remains committed to maintain its dividend amid the challenging environment due to the coronavirus pandemic.

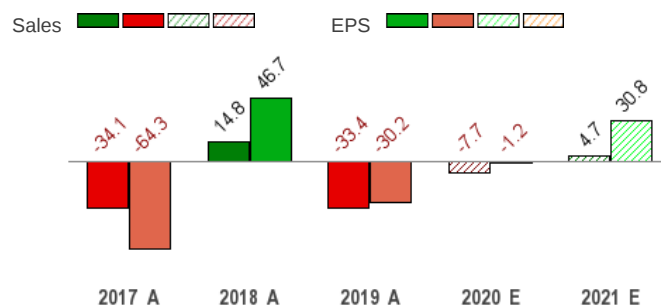
## Price, Consensus & Surprise



## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$81.82 - \$38.88</b>           |
| 20-Day Average Volume (Shares) | <b>360,291</b>                     |
| Market Cap                     | <b>\$4.5 B</b>                     |
| Year-To-Date Price Change      | <b>-3.7%</b>                       |
| Beta                           | <b>1.42</b>                        |
| Dividend / Dividend Yield      | <b>\$1.10 / 1.5%</b>               |
| Industry                       | <b>Chemical - Specialty</b>        |
| Zacks Industry Rank            | <b>Bottom 33% (167 out of 251)</b> |

## Sales and EPS Growth Rates (Y/Y %)



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>-1.2%</b>      |
| Last Sales Surprise           | <b>-0.0%</b>      |
| EPS F1 Estimate 4-Week Change | <b>-0.3%</b>      |
| Expected Report Date          | <b>11/16/2020</b> |
| Earnings ESP                  | <b>-4.1%</b>      |

|         |             |
|---------|-------------|
| P/E TTM | <b>28.6</b> |
| P/E F1  | <b>29.8</b> |
| PEG F1  | <b>2.8</b>  |
| P/S TTM | <b>1.9</b>  |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 532 E | 634 E | 639 E | 624 E | 2,409 E |
| 2020 | 533 A | 610 A | 574 A | 575 E | 2,301 E |
| 2019 | 576 A | 667 A | 641 A | 609 A | 2,493 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.42 E | \$0.97 E | \$1.04 E | \$1.05 E | \$3.23 E |
| 2020 | \$0.13 A | \$0.84 A | \$0.84 A | \$0.68 E | \$2.47 E |
| 2019 | \$0.14 A | \$0.83 A | \$0.77 A | \$0.77 A | \$2.50 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 08/31/2020. The reports text is as of 09/01/2020.

## Overview

Covington, KY-based Ashland Global Holdings Inc. is a leading specialty chemicals company serving a vast range of consumer and industrial markets including automotive, construction, architectural coatings, adhesives, energy, food & beverage and pharmaceutical. The company has a diverse business portfolio with different value propositions, with respect to the markets served. Ashland has a controlling interest in leading consumer-branded lubricant supplier, Valvoline Inc.

Ashland, in August 2019, completed the divestiture of its Composites unit and the butanediol (BDO) manufacturing facility in Marl, Germany, to London-based INEOS Enterprises in a deal worth around \$1 billion. The sale of these businesses is in sync with its strategy of having a more streamlined and focused product portfolio that will reduce earnings volatility and improve margins.

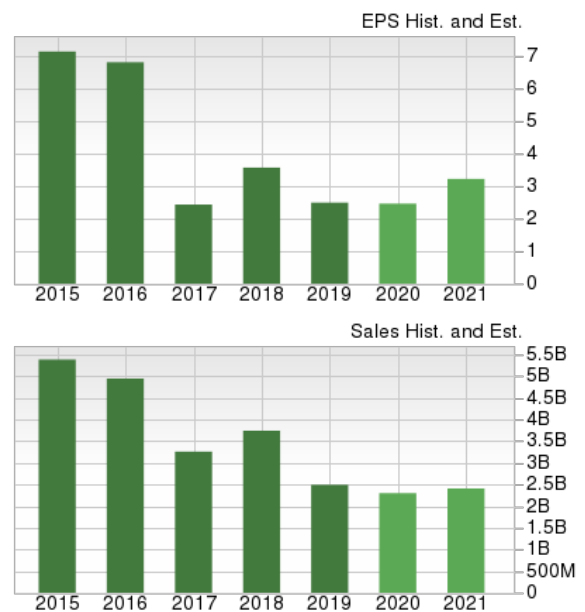
Effective second-quarter fiscal 2020, the company restructured its business into three primary external-reporting segments and a corporate reporting segment. The changes allow the company to align its resources, cost structure and business models with each business unit's specific needs.

The primary external-reporting segments are Consumer Specialties, Industrial Specialties, and Intermediates & Solvent.

The **Consumer Specialties** segment serves the Life Sciences business, and Personal Care & Household business units. The Life Sciences business consists of pharmaceuticals, nutrition, nutraceuticals, agricultural chemicals, advanced materials and fine chemicals. The Personal Care & Household unit comprises biofunctionals, preservatives, skin care, sun care, oral care, hair care and household. The segment accounted for 59% of fiscal third-quarter sales.

The **Industrial Specialties** segment caters to the Specialty Additives and Performance Adhesives business units. The segment accounted for 35% of fiscal third-quarter sales.

The **Intermediates & Solvents** segment comprises the production of 1,4 BDO and related derivatives, including nmethylpyrrolidone that are used as chemical intermediates and specialty process solvents. The segment accounted for 6% of fiscal third-quarter sales.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Ashland's shares are up 0.6% over the past year, outperforming its industry's decline of 9.2%. Ashland has restructured its businesses from a functionally led organization to a business-unit focused company to have a profitable, high-margin portfolio with focus on high-quality markets. The changes have provided the company with a diverse business portfolio with different value propositions with respect to the markets served. It also allows Ashland to create greater accountability and ownership for both short-term and long-term results. The company's new business model is designed to help it to sail through the current difficult environment and better position it for future growth.
- ▲ The company is taking a number of actions including reduction of operating costs to boost profitability. It has identified new cost-saving opportunities of more than \$40 million on an annual basis. Ashland expects to achieve run rate savings of around \$40 million by the end of fiscal 2020. The company plans to employ part of the savings on growth initiatives.
- ▲ Ashland remains committed to boost its free cash flows through several initiatives including reduction in capital spending and net working capital. Healthy cash flows are also expected to support its dividend payouts. The company raised its quarterly dividend by 10% in May 2019. It remains committed to maintain its dividend amid the challenging environment due to the coronavirus outbreak. It also has an \$800 million share repurchase authorization.

Ashland's restructuring actions have better positioned it for future growth. Its cost actions should also support its margins. The company also remains focused on boosting its free cash flows.

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## Risks

- Ashland faces headwind from weak demand in certain markets due to disruptions from coronavirus. It is seeing softer demand in global industrial markets. Lower demand across certain markets including construction and automotive hurt sales in the Industrial Specialties unit in the most recent quarter. Weak demand across a number of industrial markets is likely to continue to affect sales in the fiscal fourth quarter amid a challenging environment.
  - The company is taking actions to manage its high inventory levels, which are expected to help it generate additional cash in the second half of calendar year 2020. However, Ashland faces near-term headwinds associated with inventory management including pressure on its sales volumes and EBITDA margins. Inventory actions are likely to hurt volumes and margins in the fiscal fourth quarter. The company sees \$20-\$30 million of fixed cost absorption headwind in the quarter.
  - Ashland's high debt level is another concern. At the end of the fiscal third quarter, the company's total long-term debt was \$1,673 million, higher than \$1,666 million in the sequentially previous quarter. Its total debt-to-total capital stood at 42% as of Jun 30, 2020, flat compared with the sequentially prior quarter. The company also ended the fiscal third quarter with cash of \$416 million, lower than its current debt of \$469 million. As such, Ashland may not be able to meet its short-term debt obligations.
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## Last Earnings Report

### Ashland's Earnings Miss, Sales Meet Estimates in Q3

Ashland logged profit from continuing operations of \$50 million or 81 cents per share in the third quarter of fiscal 2020 (ended Jun 30, 2020), up from a profit of \$23 million or 37 cents per share in the prior-year quarter.

Barring one-time items, adjusted earnings were 84 cents per share, up from 77 cents in the year-ago quarter. It, however, missed the Zacks Consensus Estimate of 85 cents per share.

Sales fell 10% year over year to \$574 million, in line with the Zacks Consensus Estimate. Sales were hurt by the effects of the prior year's business losses and unfavorable foreign currency.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 28, 2020 |
| Sales Surprise   | -0.01%       |
| EPS Surprise     | -1.18%       |
| Quarterly EPS    | 0.84         |
| Annual EPS (TTM) | 2.58         |

### Segment Highlights

**Consumer Specialties:** Sales in the segment fell 1% year over year to \$344 million in the reported quarter, impacted by business losses as well as unfavorable currency swings.

**Industrial Specialties:** Sales in the division slipped 23% year over year to \$205 million, hurt by reduced industrial demand and unfavorable currency.

**Intermediates & Solvents:** Sales in the segment dropped 10% year over year to \$37 million, impacted by reduced pricing on intercompany sales of butanediol and merchant-derivative sales.

### Financials

The company ended the quarter with cash and cash equivalents of \$416 million, a roughly 215% increase year over year. Long-term debt was \$1,547 million at the end of the quarter, down 32% year over year.

Cash provided by operating activities from continuing operations was \$140 million, up from \$87 million in the prior-year quarter.

### Outlook

Ashland said that its cost-reduction plans remain on track to generate \$40 million of run-rate savings by the end of fiscal 2020. Additionally, the company intends to incur \$20-\$30 million of the earlier-disclosed reduced fixed-cost absorption associated with inventory-control measures during the fiscal fourth quarter.

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## Recent News

### Ashland to Sell Maleic Anhydride Business to AOC Materials

Ashland, on **Jul 27, 2020**, inked a deal to divest its maleic anhydride business and manufacturing facility in Neal, WV, to AOC Materials LLC, for \$100 million. The move is in line with the company's strategy to streamline its portfolio and focus on specialty ingredients. The deal, which is subject to customary regulatory approvals and standard closing conditions, is expected to complete before the end of calendar year 2020.

## Valuation

Ashland's shares are down 3.7% in the year-to-date period and up 0.6% over the trailing 12-month period. Stocks in the Zacks Chemicals-Specialty industry and Zacks Basic Materials sector are down 10.9% and up 0.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.2% and up 11.1%, respectively.

The S&P 500 index is up 9% in the year-to-date period and up 20.3% in the past year.

The stock is currently trading at 23.24X forward 12-month earnings, which compares to 22.12X for the Zacks sub-industry, 14.39X for the Zacks sector and 23.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.91X and as low as 11.91X, with a 5-year median of 20.4X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$85 price target reflects 26.81X forward 12-month earnings per share.

The table below shows summary valuation data for ASH:

| Valuation Multiples - ASH |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                 | Current       | 23.24 | 22.12        | 14.39  | 23.47   |
|                           | 5-Year High   | 34.91 | 33.84        | 21.05  | 23.47   |
|                           | 5-Year Low    | 11.91 | 14.59        | 9.84   | 15.25   |
|                           | 5-Year Median | 20.4  | 18.03        | 13.49  | 17.6    |
| EV/EBITDA TTM             | Current       | 10.53 | 25.07        | 7.53   | 13.29   |
|                           | 5-Year High   | 12.91 | 36.35        | 15.38  | 13.29   |
|                           | 5-Year Low    | 5.92  | 14.7         | 6.49   | 8.22    |
|                           | 5-Year Median | 9.76  | 22.48        | 10.3   | 10.91   |
| P/B TTM                   | Current       | 1.48  | 7.07         | 2.24   | 4.76    |
|                           | 5-Year High   | 2.8   | 10.63        | 3.07   | 4.76    |
|                           | 5-Year Low    | 0.66  | 4.22         | 1.23   | 2.83    |
|                           | 5-Year Median | 1.46  | 7.45         | 2.2    | 3.76    |

As of 08/31/2020

## Industry Analysis Zacks Industry Rank: Bottom 33% (167 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                   | Rec          | Rank |
|------------------------------------|--------------|------|
| Albemarle Corporation (ALB)        | Neutral      | 4    |
| Axalta Coating Systems Ltd. (AXTA) | Neutral      | 3    |
| Celanese Corporation (CE)          | Neutral      | 3    |
| Ferro Corporation (FOE)            | Neutral      | 3    |
| W.R. GraceCo. (GRA)                | Neutral      | 3    |
| Huntsman Corporation (HUN)         | Neutral      | 3    |
| Valvoline Inc. (VVV)               | Neutral      | 2    |
| Cabot Corporation (CBT)            | Underperform | 3    |

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

| Industry Comparison Industry: Chemical - Specialty |            |            |           | Industry Peers |         |          |
|----------------------------------------------------|------------|------------|-----------|----------------|---------|----------|
|                                                    | ASH        | X Industry | S&P 500   | CE             | GRA     | VVV      |
| Zacks Recommendation (Long Term)                   | Outperform | -          | -         | Neutral        | Neutral | Neutral  |
| Zacks Rank (Short Term)                            | 2          | -          | -         | 3              | 3       | 2        |
| VGM Score                                          | D          | -          | -         | B              | B       | B        |
| Market Cap                                         | 4.46 B     | 1.58 B     | 23.72 B   | 11.97 B        | 2.69 B  | 3.77 B   |
| # of Analysts                                      | 4          | 2          | 14        | 10             | 3       | 6        |
| Dividend Yield                                     | 1.49%      | 0.39%      | 1.65%     | 2.45%          | 2.95%   | 2.22%    |
| Value Score                                        | C          | -          | -         | B              | B       | C        |
| Cash/Price                                         | 0.09       | 0.09       | 0.07      | 0.05           | 0.35    | 0.19     |
| EV/EBITDA                                          | 11.86      | 9.91       | 13.28     | 9.86           | 10.24   | 13.05    |
| PEG F1                                             | 2.79       | 3.99       | 3.03      | 5.04           | NA      | 3.99     |
| P/B                                                | 1.48       | 1.76       | 3.17      | 4.17           | 7.71    | NA       |
| P/CF                                               | 9.72       | 8.76       | 12.87     | 7.83           | 6.92    | 11.85    |
| P/E F1                                             | 29.83      | 17.63      | 21.63     | 14.73          | 14.63   | 14.75    |
| P/S TTM                                            | 1.92       | 1.48       | 2.53      | 2.11           | 1.48    | 1.62     |
| Earnings Yield                                     | 3.35%      | 5.39%      | 4.39%     | 6.79%          | 6.83%   | 6.76%    |
| Debt/Equity                                        | 0.51       | 0.62       | 0.70      | 1.04           | 5.70    | -11.62   |
| Cash Flow (\$/share)                               | 7.58       | 2.37       | 6.93      | 12.92          | 5.88    | 1.72     |
| Growth Score                                       | B          | -          | -         | B              | B       | B        |
| Historical EPS Growth (3-5 Years)                  | -23.34%    | 6.47%      | 10.41%    | 13.47%         | 0.06%   | 3.10%    |
| Projected EPS Growth (F1/F0)                       | -1.20%     | -8.79%     | -4.75%    | -27.93%        | -36.45% | -0.48%   |
| Current Cash Flow Growth                           | -10.53%    | 4.04%      | 5.22%     | -15.99%        | 3.41%   | 5.19%    |
| Historical Cash Flow Growth (3-5 Years)            | -11.65%    | 6.38%      | 8.49%     | 5.47%          | -2.23%  | 9.06%    |
| Current Ratio                                      | 1.78       | 2.52       | 1.35      | 1.20           | 1.26    | 3.19     |
| Debt/Capital                                       | 33.92%     | 39.46%     | 42.92%    | 51.02%         | 85.08%  | NA       |
| Net Margin                                         | -4.39%     | 4.41%      | 10.25%    | 11.13%         | 3.31%   | 9.53%    |
| Return on Equity                                   | 4.79%      | 9.07%      | 14.66%    | 33.49%         | 58.55%  | -121.96% |
| Sales/Assets                                       | 0.33       | 0.61       | 0.50      | 0.60           | 0.45    | 0.91     |
| Projected Sales Growth (F1/F0)                     | -7.70%     | -3.27%     | -1.40%    | -15.41%        | -11.24% | -3.08%   |
| Momentum Score                                     | F          | -          | -         | B              | D       | B        |
| Daily Price Change                                 | -2.31%     | -1.97%     | -0.82%    | -2.68%         | -4.37%  | -2.86%   |
| 1-Week Price Change                                | 0.27%      | 1.43%      | 2.59%     | 4.14%          | 2.48%   | -1.55%   |
| 4-Week Price Change                                | -4.15%     | 2.74%      | 3.55%     | 4.84%          | -9.87%  | -3.18%   |
| 12-Week Price Change                               | -0.39%     | -2.55%     | -0.44%    | 2.45%          | -30.45% | 1.75%    |
| 52-Week Price Change                               | 0.61%      | 3.67%      | 2.80%     | -10.78%        | -39.88% | -9.73%   |
| 20-Day Average Volume (Shares)                     | 360,291    | 119,610    | 1,839,384 | 680,813        | 523,835 | 939,992  |
| EPS F1 Estimate 1-Week Change                      | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%    |
| EPS F1 Estimate 4-Week Change                      | -0.27%     | 0.00%      | 0.20%     | -0.15%         | -2.91%  | 4.48%    |
| EPS F1 Estimate 12-Week Change                     | 14.75%     | 0.48%      | 3.87%     | 1.75%          | -0.12%  | 9.57%    |
| EPS Q1 Estimate Monthly Change                     | -1.02%     | 0.00%      | 0.00%     | -0.60%         | -6.19%  | 0.09%    |

Source: Zacks Investment Research

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## Zacks Style Scores

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

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

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

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

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## 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.

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**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.

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**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.