

Atmos Energy Corp. (ATO)

\$99.86 (As of 12/16/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Atmos Energy benefited from contributions from residential customers in fiscal 2020, which offset some of the decline in demand from other customer groups due to the pandemic. Its long-term capital spending plan will strengthen operations. The company generates returns within a year of investment, which continues to boost its performance. Steady performance allows the company to pay dividend. However, despite making investment in infrastructure, the mishap in Atmos Energy's Northwest Dallas operation is a reminder that distributing and transporting natural gas involve risks. Dependence on a single state for bulk of its revenues exposes it to the vagaries of weather and economic conditions of that state. Shares of Atmos Energy have underperformed the industry in the past three months.

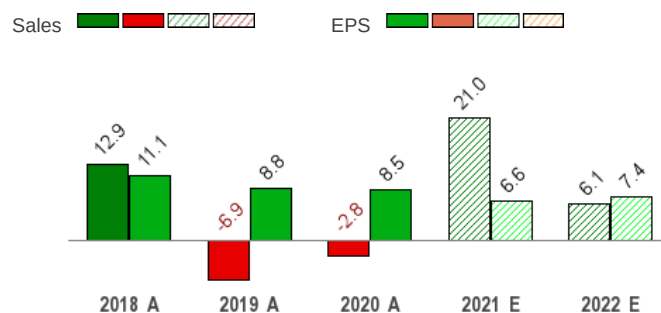
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$121.08 - \$77.92
20-Day Average Volume (Shares)	993,597
Market Cap	\$12.5 B
Year-To-Date Price Change	-11.2%
Beta	0.30
Dividend / Dividend Yield	\$2.50 / 2.5%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 15% (216 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	-16.8%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/02/2021
Earnings ESP	-0.3%
P/E TTM	21.0
P/E F1	19.9
PEG F1	3.1
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,621 E
2021	1,011 E	1,115 E	643 E	630 E	3,412 E
2020	876 A	978 A	493 A	475 A	2,821 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.66 E	\$2.17 E	\$0.97 E	\$0.69 E	\$5.40 E
2021	\$1.57 E	\$2.05 E	\$0.88 E	\$0.59 E	\$5.03 E
2020	\$1.47 A	\$1.95 A	\$0.79 A	\$0.53 A	\$4.72 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 12/16/2020. The reports text is as of 12/17/2020.

Overview

Founded in 1906, Atmos Energy Corporation, along with its subsidiaries, is engaged in regulated natural gas distribution and storage business. The company serves in excess of three million natural gas distribution customers in more than 1,400 communities in eight states from the Blue Ridge Mountains in the East to the Rocky Mountains in the West. The company operates more than 72,000 miles of transmission and distribution lines, as well as 5,700 miles of interstate pipelines.

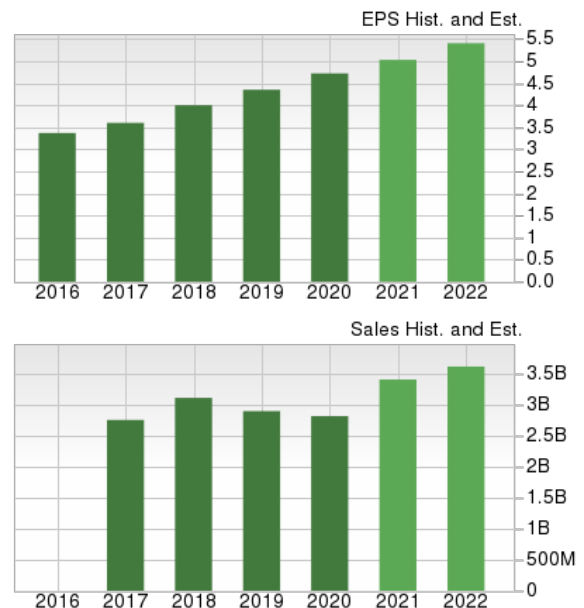
The company manages its operation through the following reportable segments.

Distribution segment is primarily comprised of the company's regulated natural gas distribution and related sales operations in eight states, and storage assets located in Kentucky and Tennessee. At the end of fiscal 2020, this segment contributed nearly \$2,626.9 million to its total revenues.

Pipeline and storage segment is primarily comprised of the pipeline and storage operations of Atmos Pipeline-Texas division, and the company's natural gas transmission operations in Louisiana. The company operates five storage facilities, having a combined storage capacity of 46 billion cubic feet. This segment contributed \$609.3 million to total fiscal 2020 revenues.

Inter-segment elimination had an adverse impact of \$415.2 million on fiscal 2020 revenues.

Till Dec 31, 2016, the company had a non-regulated natural gas marketing business that was conducted by Atmos Energy Marketing (AEM). However, effective Jan 1, 2017, it sold all of the equity interests of AEM to a subsidiary of CenterPoint Energy Inc. As a result of the sale, Atmos Energy fully exited from the non-regulated natural gas marketing business. Accordingly, these operations have been reported as discontinued operations.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Atmos Energy has a sturdy capital expenditure plan, helping the company to increase safety and reliability of its natural gas pipelines. In fiscal 2019, the company invested \$1,693 million, out of which a major portion was utilized to improve the safety and reliability of distribution and transportation systems. During the period fiscal 2015 to 2019 the company invested \$6.4 billion on replacing aging infrastructure and modernizing the system. In fiscal 2020, the company invested \$1,936 million, out of which 88% was utilized for increasing the safety and reliability of its infrastructure. The company aims to invest in the range of \$2-\$2.2 billion in fiscal 2021.

Solid contribution from residential customers, returns within one year of investment, customer additions and positive regulatory outcomes will continue to boost the company's performance.

The company is planning to invest in the range of \$11-\$12 billion from fiscal 2021 through 2025, out of which 80% will be allocated to enhance the safety of the existing operations. The planned investment will result in 6-8% annual earnings growth over the same time frame. Maintenance and upgrade of the existing infrastructure is of utmost importance to the company. Atmos Energy aims to replace up to 6,000 miles of old transmission and distribution lines over the next five years to make its systems more reliable. The company will replace all old cast iron pipelines by 2021, which will make the distribution system more reliable. It is also replacing 100,000-150,000 steel service lines in the next five years to safeguard against gas leaks occurring in service lines.

- ▲ The planned capital investment will allow Atmos Energy to lower emissions from its system. It aims at reducing methane emissions by 10-15% in the next five years from the current levels. The company also aims at lowering methane emissions by 50% within 2035. It is carrying out investments for improving the quality of services. At present, a substantial amount of its revenues are generated from the residential customer group. The stay-at-home orders to control the spread of the novel coronavirus are expected to increase residential demand for gas, which in turn are likely to partly offset the decline in demand from other customer categories.
- ▲ More than 90% of Atmos Energy's annual capital investments start earning returns within six months and nearly 99% in no more than 12 months. Customers and investors gain from the constructive rate outcomes. Residential customers are expected to contribute 66% to the company's total revenues in fiscal 2021.

Owing to positive regulatory outcome, operating income of Atmos Energy for fiscal 2020 improved to \$160 million from \$117 million in the year-ago period. Atmos Energy expects the new rates to be implemented in fiscal 2021, which will increase operating income in the range of \$195-\$215 million.

- ▲ Steady performance of the company has enabled it to reward shareholders through consistent increase in annual dividend rates. The company has raised annual dividend for 37 consecutive years. Its board of directors has declared a quarterly dividend of 62.5 cents per common share. The new dividend for fiscal 2021 is \$2.50, which represents an 8.7% increase from fiscal 2020.

The company aims to increase dividend in the range of 6-8% per year, subject to approval of the board of directors. Given solid capital-expenditure plans, addition of customers and increase in consumption, it is expected that the company will continue with the annual dividend increase policy over the long run. The long-term payout target ratio is 50%.

- ▲ It has been assigned top-tier credit ratings by rating agencies. As of Sep 30, 2020, the company had \$2.6 billion available liquidity, which was enough to meet the current obligations. Apart from 2.29% notes worth \$200 million due 2022, the company does not have any substantial debt maturity till 2027, when \$500 million of notes with coupon rate of 3% are set to mature. Courtesy of efficient management of the outstanding long-term debt, the company was able to lower the average cost of long-term debt. Net interest charges for its debts are expected to drop to 3.9% in fiscal 2021 from 5.2% in fiscal 2017, which will definitely have a positive impact on margins.

At fiscal fourth quarter-end, times interest earned ratio of the company was 9.8, which improved from 7.6 at the end of fiscal first-quarter 2020. This ratio is much better than the industry average of 2.65. The strong ratio indicates that the company will be able to meet the current debt obligations without any difficulty. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, its times interest earned ratio is reassuring for investors.

Reasons To Sell:

- ▼ Operations of the company are capital intensive, and despite making significant investment to upgrade and maintain infrastructure, there is always a possibility of accident and mishap. Sudden and unexplained leakage leading to three gas-related accidents in 1.5 square mile area of company's operation in Northwest Dallas is a reminder that despite undertaking precaution at the time of distributing, transporting and storing natural gas, there will be a possibility of mishap. In the past three months, Atmos Energy's shares have gained 8.6%, compared with the industry's 14.7% gain.
- ▼ Courtesy of regulated operations, it does not face direct competition from any other distributor of natural gas to residential and commercial customers within its service areas. However, the company has to compete with other suppliers of natural gas and alternative fuels for sales to industrial customers. In addition, the company has to compete with electric utilities like natural gas, as well as electricity used for space and water heating, and cooking market.
- ▼ Nearly 70% of Atmos Energy's consolidated operations are located in the State of Texas. Its operations and financial results are vulnerable to state economic conditions, weather patterns and regulatory decisions. More than 50% of the company's distribution customers and most of its pipeline and storage assets and operations are located in the State of Texas.

Competition from other fuel sources, dependence on a single state and the possibility of accident in gas pipelines are headwinds.

Last Earnings Report

Atmos Energy Q4 Earnings Beat Estimates, Revenues Lag

Atmos Energy Corporation posted fourth-quarter fiscal 2020 earnings of 53 cents per share, which surpassed the Zacks Consensus Estimate of 52 cents by 1.9%.

The reported earnings also improved 8.2% from the prior-year figure. The year-over-year improvement in earnings was due to positive rate outcomes in both the segments and customer growth in its distribution segment.

Total Revenues

Total revenues of \$474.9 million missed the Zacks Consensus Estimate of \$571 million by 16.8%. However, the top line increased 7% from the year-ago figure of \$443.7 million.

Segment Revenues

Distribution: Revenues from the segment increased 6.5% to \$430.2 million from \$403.9 million in the prior-year quarter.

Pipeline and Storage: Revenues from the segment increased 6.2% to \$156.9 million from \$147.7 million in the year-ago quarter. The improvement was driven by an increase in rates.

Quarterly Highlights

Purchased gas cost for the quarter was \$18.1 million, up 32.1% from the year-ago period. Operation and maintenance expenses for the quarter were \$180.1 million, up 1.3% from the year-ago period.

Operating income for the reported quarter was up 12.4% year over year to \$100.8 million.

The company incurred interest expenses of \$15.5 million, down 46.2% from the year-ago period.

Financial Highlights

As of Sep 30, 2020, Atmos Energy had cash and cash equivalents of \$20.8 million compared with \$24.6 million on Sep 30, 2019.

Long-term debt was \$4.53 billion as of Sep 30, 2020, up from \$3.53 billion on Sep 30, 2019.

The company's cash flow from operating activities for fiscal 2020 was \$1,037.9 million, up from \$968.8 million recorded in the comparable year-ago period.

It invested \$1,925.5 million in fiscal 2020 to strengthen operations. The figure was up 14% from the year-ago period. Nearly 88% of the capital spending was related to system safety and increased reliability of its services.

Guidance

Atmos Energy expects fiscal 2021 earnings in the range of \$4.90-\$5.10 per share. The Zacks Consensus Estimate for fiscal 2021 earnings is \$5.03 per share. It expects capital expenditure in the range of \$2-\$2.2 billion for fiscal 2021.

Quarter Ending	09/2020
Report Date	Nov 11, 2020
Sales Surprise	-16.81%
EPS Surprise	1.92%
Quarterly EPS	0.53
Annual EPS (TTM)	4.74

Valuation

Atmos Energy shares are down 0.8% in the past six months period, and down 7.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utility sector are up 5.2% and 8.3% in the past six months period, respectively. Over the past year, the Zacks sub-industry and sector are down 20.4% and 3.9% respectively.

The S&P 500 index is up 19.7% in the past six months period and up 18.3% in the past year.

The stock is currently trading at 19.49X of forward 12 months earnings, which compares to 15.49X for the Zacks sub-industry, 13.98X for the Zacks sector and 22.68X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.07X and as low as 16.59X, with a 5-year median of 21.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 20.4X of forward 12 months earnings.

The table below shows summary valuation data for ATO

Valuation Multiples - ATO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.49	15.49	13.98	22.68
	5-Year High	26.07	23.03	15.39	23.47
	5-Year Low	16.59	13.24	11.42	15.27
	5-Year Median	21.75	20.61	13.92	17.77
P/S F12M	Current	3.63	1.82	2.76	4.28
	5-Year High	4.24	2.41	3.21	4.29
	5-Year Low	1.3	1.07	1.74	3.17
	5-Year Median	2.88	1.8	2.13	3.68
P/B TTM	Current	1.81	1.96	3.75	6.27
	5-Year High	2.51	2.73	3.89	6.28
	5-Year Low	1.61	1.43	2.13	3.74
	5-Year Median	2.19	2.26	2.58	4.92

As of 12/16/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
CenterPoint Energy, Inc. (CNP)	Neutral	3
MDU Resources Group, Inc. (MDU)	Neutral	3
National Fuel Gas Company (NFG)	Neutral	3
ONE Gas, Inc. (OGS)	Neutral	3
Spire Inc. (SR)	Neutral	3
Southwest Gas Corporation (SWX)	Neutral	3
UGI Corporation (UGI)	Neutral	3
NewJersey Resources Corporation (NJR)	Underperform	5

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

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	ATO	X Industry	S&P 500	MDU	NJR	SWX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	D	-	-	A	D	B
Market Cap	12.51 B	3.77 B	26.40 B	5.20 B	3.36 B	3.59 B
# of Analysts	5	3	14	1	2	1
Dividend Yield	2.52%	3.28%	1.51%	3.28%	3.81%	3.59%
Value Score	D	-	-	B	C	B
Cash/Price	0.00	0.03	0.06	0.01	0.04	0.01
EV/EBITDA	13.37	12.17	14.41	9.83	15.27	10.86
PEG F1	3.05	2.88	2.80	2.88	3.64	3.27
P/B	1.80	1.81	3.58	1.73	1.82	1.37
P/CF	11.99	8.94	13.86	8.79	10.60	6.72
P/E F1	19.85	16.80	21.99	14.41	21.83	16.34
P/S TTM	4.43	1.93	2.77	0.94	1.72	1.11
Earnings Yield	5.06%	5.64%	4.33%	6.94%	4.58%	6.12%
Debt/Equity	0.67	1.01	0.70	0.75	1.22	1.03
Cash Flow (\$/share)	8.28	4.07	6.94	2.95	3.30	9.47
Growth Score	F	-	-	A	C	B
Historical EPS Growth (3-5 Years)	8.95%	7.57%	9.69%	13.97%	2.89%	7.57%
Projected EPS Growth (F1/F0)	6.48%	5.00%	1.00%	6.51%	-22.33%	-1.27%
Current Cash Flow Growth	12.01%	11.53%	5.22%	20.75%	18.54%	19.86%
Historical Cash Flow Growth (3-5 Years)	11.56%	8.52%	8.33%	7.61%	8.23%	5.91%
Current Ratio	0.60	0.81	1.38	1.41	1.17	0.87
Debt/Capital	40.02%	50.22%	42.00%	42.96%	55.05%	51.60%
Net Margin	21.32%	8.25%	10.44%	6.75%	9.93%	6.82%
Return on Equity	9.04%	9.37%	14.99%	12.87%	10.61%	9.18%
Sales/Assets	0.19	0.27	0.50	0.70	0.37	0.39
Projected Sales Growth (F1/F0)	20.96%	0.00%	0.35%	0.00%	8.05%	4.03%
Momentum Score	A	-	-	A	F	D
Daily Price Change	-2.29%	-1.32%	-0.25%	-0.35%	-0.91%	-2.12%
1-Week Price Change	1.85%	0.00%	-1.29%	-1.71%	-0.50%	-3.19%
4-Week Price Change	3.31%	3.42%	3.00%	4.18%	-1.97%	-5.95%
12-Week Price Change	6.98%	16.29%	18.91%	18.78%	32.88%	5.83%
52-Week Price Change	-9.80%	-19.36%	6.25%	-12.64%	-23.00%	-17.06%
20-Day Average Volume (Shares)	993,597	270,380	1,961,038	832,604	510,186	270,380
EPS F1 Estimate 1-Week Change	0.08%	0.00%	0.00%	9.44%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.04%	0.00%	0.00%	9.44%	-31.33%	0.00%
EPS F1 Estimate 12-Week Change	-0.12%	0.15%	3.94%	12.57%	-31.77%	-2.31%
EPS Q1 Estimate Monthly Change	0.32%	0.00%	0.00%	NA	-46.15%	-1.41%

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	F
Momentum Score	A
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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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.