

Cabot Corporation(CBT)

\$56.20 (As of 04/27/21)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/05/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

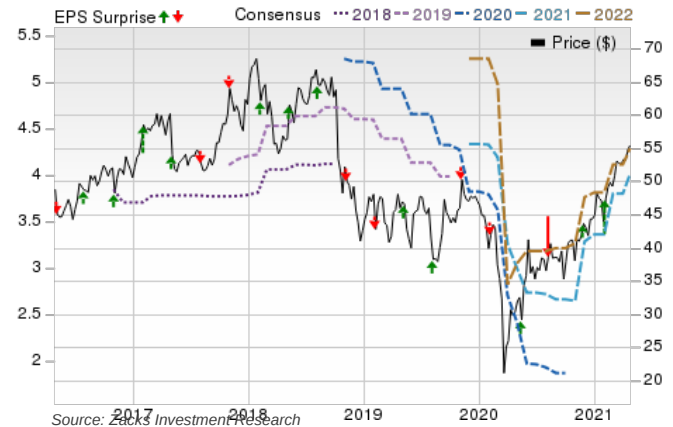
Growth: A

Momentum: C

Summary

Earnings estimates for Cabot for the fiscal second quarter have been stable over the past month. Cabot remains focused on boosting its specialty compounds business globally. The company has expanded its global footprint in black masterbatch and compounds. It will also gain from the carbon black plant buyout in China. The acquisition will help the company in meeting the growing demand for rubber and specialty carbons products. The company is also witnessing a recovery in its Reinforcement Materials and Performance Chemicals units driven by higher volumes. It will also gain from the Shenzhen Sanshun buyout. However, Cabot faces headwind from the softness in mercury removal applications. Higher raw material costs in specialty carbons and compounds product lines are also likely to hurt margins. High debt level is another concern.

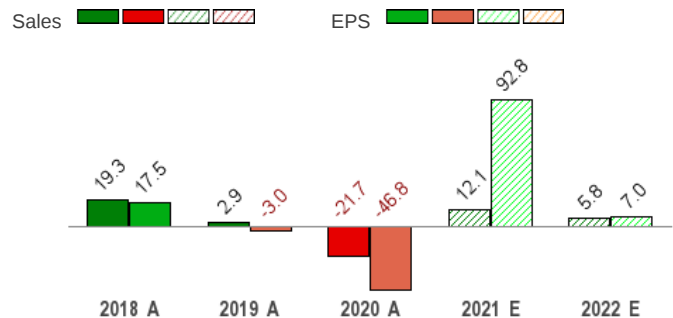
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$56.42 - \$26.95
20-Day Average Volume (Shares)	270,078
Market Cap	\$3.2 B
Year-To-Date Price Change	25.2%
Beta	1.68
Dividend / Dividend Yield	\$1.40 / 2.5%
Industry	Chemical - Diversified
Zacks Industry Rank	Top 28% (69 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	35.6%
Last Sales Surprise	7.9%
EPS F1 Estimate 4-Week Change	5.6%
Expected Report Date	05/03/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,100 E
2021	746 A	746 E	733 E	706 E	2,929 E
2020	727 A	710 A	518 A	659 A	2,614 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$4.29 E
2021	\$1.18 A	\$0.97 E	\$0.94 E	\$0.92 E	\$4.01 E
2020	\$0.69 A	\$0.77 A	-\$0.07 A	\$0.68 A	\$2.08 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 04/27/2021. The report's text and the analyst-provided price target are as of 04/28/2021.

Overview

Boston, MA-based Cabot Corporation is a leading global specialty chemicals and performance materials company. The company offer a broad range of products and solutions to customers in every corner of the planet, catering to major industries such as transportation, infrastructure, environment and consumer. Its major products include rubber and specialty grade carbon blacks, specialty compounds, activated carbons, fumed metal oxides, inkjet colorants, aerogel and cesium formate drilling fluids.

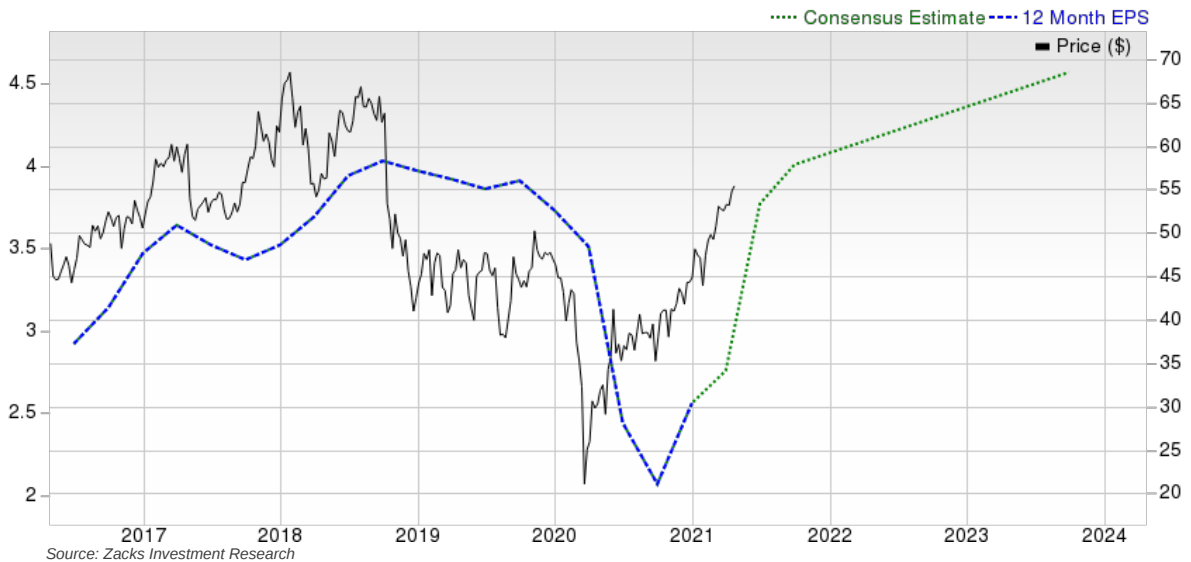
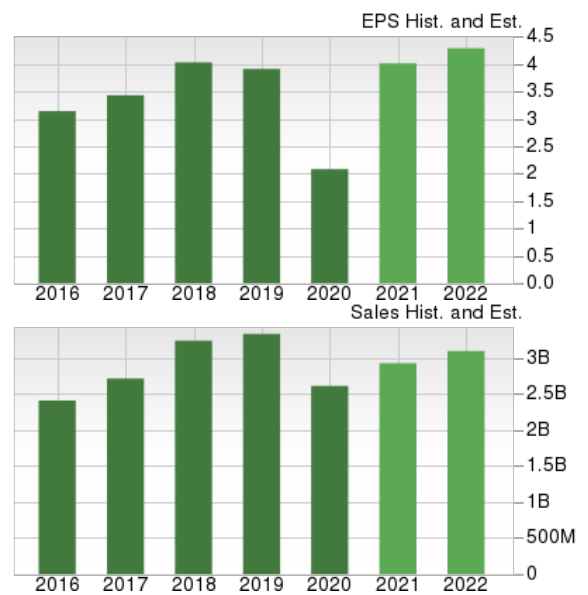
Cabot operates through three segments – Reinforcement Materials, Performance Chemicals and Purification Solutions. The company generated total sales of \$2,614 million in fiscal 2020, down 22% year over year.

Reinforcement Materials (48% of fiscal 2020 Sales): The segment makes rubber grade carbon blacks as well as compounds of carbon black and rubber using the company's patented elastomer composites manufacturing process.

Performance Chemicals (37%): The segment is comprised of specialty carbons and formulations business and metal oxides business. The specialty carbons and formulations business makes and markets specialty grades of carbon black, specialty compounds and inkjet colorants. The metal oxides business makes and markets fumed silica, fumed alumina and aerogel.

Purification Solutions (10%): The segment makes activated carbons that are used to remove contaminants from liquids and gases using a process called adsorption. These materials are used for the purification of water, air, food & beverages, pharmaceuticals and other liquids and gases.

In June 2019, the company successfully closed the divestiture of its Specialty Fluids business to Sinomine (Hong Kong) Rare Metals Resources Co. Limited for \$135 million. The transaction enables the company to focus on growth opportunities in core businesses and execute the 'Advancing the Core' strategy. Other businesses accounted for 5% of the company's sales in fiscal 2020.



Reasons To Buy:

- ▲ Cabot remains committed to boost its specialty compounds business globally. The buyout of Tech Blend and commissioning of a new production line at its manufacturing facility in Belgium will help the company expand its global footprint in black masterbatch and compounds. It will also help beef up manufacturing capacity to better serve customers globally and grow in advanced polymeric materials. The company now has a complete range of black masterbatches from five manufacturing locations throughout Europe, Middle East, Asia and North America. The company expects the conductive carbon additives market, which is currently valued between \$350 million and \$400 million, to grow 20% over the next five years.
- ▲ Cabot's performance in the last reported quarter benefited from improved demand trends, strong unit margins, disciplined execution of operations and its targeted growth initiatives. In first-quarter fiscal 2021, strong volumes were witnessed in the tire and automotive markets. This was led by the continued recovery momentum globally from the pandemic-induced slowdown. The company expects the momentum to continue going forward on the back of a strengthening economy. It saw improved results in the Performance Chemicals unit in the first quarter driven by higher volumes, strong product mix from automotive applications and specialty carbons and compounds. The momentum is expected to continue in the fiscal second quarter on higher volumes.
- ▲ The company completed the negotiation of its Reinforcement Materials customer agreements in the fiscal first quarter. The segment saw higher profits in the quarter due to both improved pricing and product mix both in Asia and from 2020 global customer agreements. Moreover, higher volumes were driven by demand increase in Americas and Europe. The segment is benefiting from a recovery in end markets. The company expects a strong increase in profits in the fiscal second quarter on the back of higher volumes.
- ▲ Cabot's buyout of the NSCC Carbon (Jiangsu) Co., Ltd. carbon black plant in China from Nippon Steel Carbon Co., Ltd. will support growth of specialty carbons and formulations business. This acquisition will support its growth objectives and broaden capabilities as the company convert a 50,000 metric ton plant to support specialty carbons product lines. These investments will keep helping the company in meeting the growing demand for rubber and specialty carbons products. Moreover, the acquisition of a newly-commissioned carbon nanotube plant in China provides additional upside. The company expects that the plant has sufficient capacity to support growth over the next several years. The acquisition of Shenzhen Sanshun Nano New Materials has also strengthened the company's market position and formulation capabilities in the high-growth batteries market, especially in China. It is also expected to boost Cabot's global leadership position in carbon additives.

Cabot remains focused on boosting its specialty compounds business. It will also gain from the carbon plant buyout in China and a recovery in demand.

Reasons To Sell:

- ▼ The company's Purification Solutions unit faces headwind from the softness in mercury removal. Profits from the unit was flat in the fiscal first quarter. The results were hurt by decreased demand in mercury removal applications and increased costs associated with the reduction of inventory levels. Demand weakness is likely to continue moving ahead.
- ▼ Despite a recovery of late, the economic environment is likely to remain uncertain over the near term given the recent resurgence in coronavirus cases. Moreover, global logistics is facing some issues in terms of availability and cost of transportation in the company's supply chain. The company also faces headwind from higher raw material and fixed costs. The movement of pricing and raw material costs, especially in the spot markets in Asia, can affect its margins. The company sees higher input costs in specialty carbons and compounds product lines in the second quarter.
- ▼ Cabot's high debt level is also a concern. At the end of the fiscal first quarter, its long-term debt was at a high level of \$1,085 million, although down 1% year over year. The company's low cash balance coupled with a weak revenue stream may affect its ability to meet its debt obligations.

Cabot faces headwinds in the Purification Solutions unit. Higher raw material and fixed costs may impact margins. High debt level is also a matter of concern.

Last Earnings Report

Cabot Surpasses Earnings and Revenue Estimates in Q1

Cabot recorded a profit of \$60 million or \$1.06 per share in the first quarter of fiscal 2021 (ended Dec 31, 2020) compared with a profit of \$41 million or 70 cents per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share were \$1.18 in the reported quarter, up from 69 cents in the year-ago quarter. The figure topped the Zacks Consensus Estimate of 87 cents.

Net sales increased 2.6% year over year to \$746 million in the quarter. It beat the Zacks Consensus Estimate of \$691.6 million. The company saw strength in volumes and strong unit margins in the Reinforcement Materials segment.

Quarter Ending **12/2020**

Report Date	Feb 01, 2021
Sales Surprise	7.87%
EPS Surprise	35.63%
Quarterly EPS	1.18
Annual EPS (TTM)	2.56

Segment Highlights

Reinforcement Materials' sales fell 1.1% year over year to \$375 million in the reported quarter. Earnings before interest and tax (EBIT) in the segment were \$88 million, up from \$47 million in the year-ago quarter. The upside can be attributed to improved pricing and product mix in Asia and from Cabot's calendar 2020 global customer agreements. Additionally, the segment witnessed lower costs and 1% higher volumes due to rise in demand in Europe and Americas.

Sales in the Performance Chemicals unit went up around 10.3% year over year to \$267 million in the reported quarter. EBIT increased 31.7% year over year to \$54 million mainly due to increased volumes and improved product mix in specialty carbons and compounds product lines, courtesy of higher sales in automotive applications.

Sales in Purification Solutions remained stable year over year at \$59 million in the quarter. Loss for the segment was \$2 million, same as prior year quarter. The decrease in fixed costs was offset by reduced mercury removal demand and increased costs owing to reduction of inventory levels.

Financial Position

Cabot had cash and cash equivalents of \$147 million at the end of the fiscal first quarter, down around 15% year over year. The company's long-term debt fell around 1% from the year-ago quarter's figure to \$1,085 million.

Cash flow from operating activities was \$21 million for the quarter, down 80% year over year.

Outlook

Cabot stated that it expects near-term conditions to remain favorable while long term visibility is limited. It forecasts strength in demand in the second quarter with January levels higher than the prior year. It expects an increase in raw material and fixed costs sequentially and less customer inventory replenishment compared to the first quarter. On the basis of these factors, adjusted EPS is projected to be in the range of 90 cents to \$1. The company expects that the pandemic resurgence or related factors will not have a significant disruption impact on the ongoing business environment.

Recent News

Cabot Wraps Up Air Emission Control Project at Franklin

Cabot, on **Apr 1, 2021**, announced the completion of a major air emissions control project at its carbon black production site located in Franklin, LA. Cabot has invested \$85 million in emissions control technology that will lead to improved air quality through the substantial removal of NOX and SO2 emissions. More than 20 tons of combined emissions are eliminated per day. Moreover, waste heat is recovered from Cabot's plant and utilized to generate up to 50 megawatts of power, without the creation of additional emissions.

Cabot's proven knowledge and experience implementing best-in-class emission control technologies at other sites in its network, coupled with the team's ability to rapidly adapt to the changing environment enabled it to complete this project on schedule. This project will ensure cleaner air for the citizens of Louisiana and continuity of reliable, high quality supply to customers throughout North America, the company noted.

Cabot Introduces ENERMAX Carbon Nanotube Solutions

Cabot, on **Mar 16, 2021**, announced the launch of the ENERMAX 6 carbon nanotube ("CNT") series – the latest development in high-performance CNTs. Given its high-aspect ratio, it is the most conductive multi-walled CNT product in Cabot's portfolio.

The latest ENERMAX 6 carbon nanotube series can effectively improve battery performance at lower loadings facilitating a higher energy density of battery. The product series reduces direct current internal resistance of the battery cell while using the same CNT loading compared with older generations of CNT products. Also, it lowers the total loading of conductive carbon additives, while still attaining a comparable conductivity of electrodes.

Cabot expanded its product offering to include carbon nanotubes with the buyout of Shenzhen Sanshun Nano New Materials Co. Ltd ("SUSN") in January 2020. It is the only high-performance carbon additive supplier with a comprehensive commercially proven product range including carbon blacks, graphenes, CNTs, carbon nanostructures and dispersion and formulation capabilities.

Valuation

Cabot's shares are up 60.8% over the trailing 12-month period. Over the past year, the Zacks Chemical - Diversified industry and the Zacks Basic Materials sector are up 59.1% and up 61.5%, respectively.

The S&P 500 index is up 45.3% in the past year.

The stock is currently trading at 13.48X forward 12-month earnings, which compares to 15.71X for the Zacks sub-industry, 11.19X for the Zacks sector and 22.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.35X and as low as 5.51X, with a 5-year median of 13.68X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$59 price target reflects 14.15X forward 12-month earnings per share.

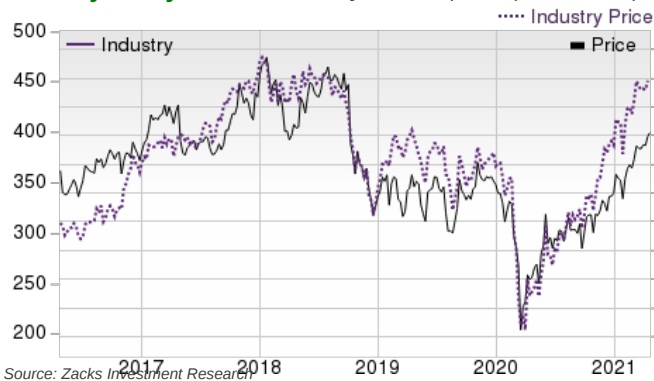
The table below shows summary valuation data for CBT:

Valuation Multiples - CBT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	13.48	15.71	11.19	22.98
	5-Year High	19.35	19.31	21.08	23.83
	5-Year Low	5.51	8.97	10.23	15.3
	5-Year Median	13.68	13.39	13.15	18.01
EV/EBITDA TTM	Current	7.15	12.2	10.14	18.8
	5-Year High	50.13	13.42	18.31	18.8
	5-Year Low	4.18	5.19	6.54	9.62
	5-Year Median	7.77	7.73	9.58	13.37
P/B TTM	Current	3.31	2.16	3.08	7.12
	5-Year High	3.31	2.82	3.09	7.12
	5-Year Low	1.04	0.87	1.22	3.83
	5-Year Median	2.32	1.75	2.27	4.99

As of 04/27/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 28% (69 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Olin Corporation (OLN)	Outperform	1
Ashland Global Holdings Inc. (ASH)	Neutral	4
Axalta Coating Systems Ltd. (AXTA)	Neutral	3
Ferro Corporation (FOE)	Neutral	3
W.R. Grace & Co. (GRA)	Neutral	3
Ingevity Corporation (NGVT)	Neutral	2
Orion Engineered Carbons S.A (OEC)	Neutral	2
Tronox Holdings PLC (TROX)	Neutral	3

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

Industry Comparison Industry: Chemical - Diversified				Industry Peers		
	CBT	X Industry	S&P 500	FOE	OEC	OLN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	3	2	1
VGM Score	A	-	-	B	A	B
Market Cap	3.18 B	4.05 B	30.14 B	1.41 B	1.17 B	6.67 B
# of Analysts	4	3	12	4	3	5
Dividend Yield	2.49%	1.27%	1.27%	0.00%	0.00%	1.90%
Value Score	B	-	-	B	A	B
Cash/Price	0.05	0.09	0.05	0.12	0.06	0.03
EV/EBITDA	23.15	13.44	17.03	18.95	10.79	19.08
PEG F1	1.40	1.68	2.36	1.76	NA	NA
P/B	3.31	2.37	4.18	3.19	6.48	4.58
P/CF	11.45	11.45	17.33	13.03	7.27	6.30
P/E F1	14.01	16.65	22.20	16.70	12.27	10.72
P/S TTM	1.21	1.21	3.42	1.47	1.03	1.07
Earnings Yield	7.14%	5.98%	4.44%	5.97%	8.15%	9.32%
Debt/Equity	1.13	0.56	0.66	1.80	3.62	2.65
Cash Flow (\$/share)	4.91	3.00	6.78	1.31	2.67	6.67
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	-2.13%	0.76%	9.70%	-2.20%	0.48%	15.34%
Projected EPS Growth (F1/F0)	92.91%	41.84%	17.01%	26.23%	51.92%	390.67%
Current Cash Flow Growth	-27.16%	-9.87%	0.72%	-13.74%	-23.61%	51.56%
Historical Cash Flow Growth (3-5 Years)	-17.14%	2.01%	7.37%	-1.44%	0.15%	26.98%
Current Ratio	1.97	1.83	1.38	2.40	1.54	1.43
Debt/Capital	53.00%	36.62%	41.19%	64.22%	78.37%	72.57%
Net Margin	-8.32%	4.26%	11.20%	4.46%	1.60%	-10.34%
Return on Equity	15.05%	9.69%	15.33%	17.38%	38.19%	5.73%
Sales/Assets	0.89	0.71	0.51	0.52	0.86	0.74
Projected Sales Growth (F1/F0)	12.06%	10.28%	7.74%	9.24%	14.51%	29.89%
Momentum Score	C	-	-	B	D	D
Daily Price Change	0.93%	0.00%	0.13%	-1.44%	0.41%	1.13%
1-Week Price Change	1.19%	-0.14%	0.47%	-1.98%	0.26%	-2.50%
4-Week Price Change	7.03%	2.07%	4.43%	0.65%	-0.87%	10.25%
12-Week Price Change	21.38%	11.79%	13.70%	17.55%	14.61%	57.85%
52-Week Price Change	70.51%	69.25%	52.18%	74.64%	120.23%	176.10%
20-Day Average Volume (Shares)	270,078	104,704	1,759,028	240,753	253,112	1,298,496
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	5.59%	0.64%	0.17%	2.59%	1.07%	21.64%
EPS F1 Estimate 12-Week Change	19.33%	7.14%	1.95%	-1.45%	17.04%	443.49%
EPS Q1 Estimate Monthly Change	11.42%	0.55%	0.07%	3.85%	0.00%	29.39%

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	B
Growth Score	A
Momentum Score	C
VGM Score	A

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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