

Cincinnati Financial(CINF)

\$80.39 (As of 08/28/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Cincinnati Financial continues to grow premiums through a disciplined expansion of Cincinnati Re that contributes to the overall earnings. Commitment toward executing its strategic initiatives will help improve pricing precision. The insurer is focused on earning new business through appointing new agencies and believes agent-focused business model will drive long term premium growth. The company boasts a solid capital position based on which it engages in returning value to shareholders. Low leverage, generation, favorable reserve release should drive its growth. Consistent cash flow and sufficient cash balances to continue boosting liquidity. Shares of Chubb have underperformed the industry year to date. However, exposure to catastrophe loss makes earnings volatile. Higher expenses can also put strain on margin expansion.

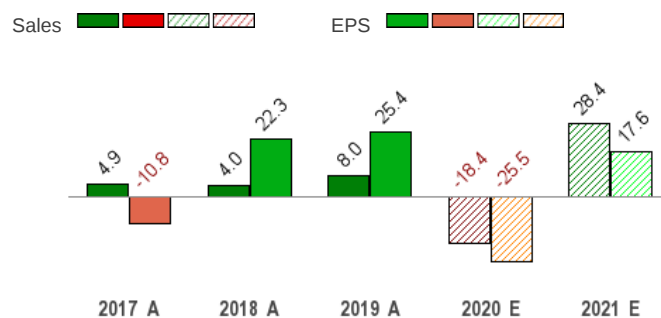
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$118.19 - \$46.07
20-Day Average Volume (Shares)	718,445
Market Cap	\$12.9 B
Year-To-Date Price Change	-23.6%
Beta	0.58
Dividend / Dividend Yield	\$2.40 / 3.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 34% (167 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	0.8%
EPS F1 Estimate 4-Week Change	1.6%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	22.4
P/E F1	25.7
PEG F1	NA
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,606 E	1,633 E	1,656 E	1,680 E	6,574 E
2020	1,626 A	1,654 A	1,582 E	1,589 E	5,121 E
2019	1,496 A	1,549 A	1,614 A	1,615 A	6,274 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.08 E	\$0.65 E	\$0.78 E	\$1.18 E	\$3.68 E
2020	\$0.84 A	\$0.44 A	\$0.71 E	\$1.13 E	\$3.13 E
2019	\$1.05 A	\$0.85 A	\$1.08 A	\$1.23 A	\$4.20 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 08/28/2020. The reports text is as of 08/31/2020.

Overview

Cincinnati Financial Corporation, formed in 1968 with its headquarters in Fairfield, OH, markets property and casualty insurance. Cincinnati Financial owns three subsidiaries: The Cincinnati Insurance Company, CSU Producer Resources Inc. and CFC Investment Company. In addition, the parent company has an investment portfolio. The Cincinnati Insurance Company owns four additional insurance subsidiaries. The standard market property casualty insurance group includes two of those subsidiaries – The Cincinnati Casualty Company and The Cincinnati Indemnity Company. This group writes a broad range of business, homeowner and auto policies. The Cincinnati Insurance Company also conducts the business of our reinsurance assumed operations, known as Cincinnati Re. Other subsidiaries of The Cincinnati Insurance Company include: The Cincinnati Life Insurance Company providing life insurance policies and fixed annuities and The Cincinnati Specialty Underwriters Insurance Company offering excess and surplus lines insurance products.

The company presents its results through five separate operating segments:

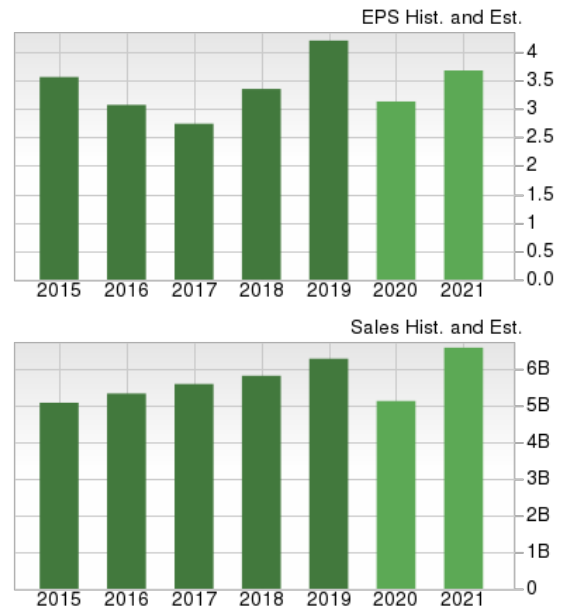
Commercial Lines Insurance segment (61.2% of 2019 revenues) provides property and casualty insurance through five commercial business lines – Commercial casualty, Commercial property, Commercial auto, Workers' compensation and other commercial lines.

Personal Lines Insurance segment (26%) functions through three separate lines of business – Personal auto, Home owners and other personal lines.

Life Insurance segment (7.8%) offers insurance products through its subsidiary, the Cincinnati Life Insurance Company. Four lines of business within this segment – Term life insurance, Universal life insurance, Worksite products and Whole life insurance ? account for most part of the segment revenues. In addition, Cincinnati Life markets Disability income insurance, Deferred annuities and Immediate annuities.

Excess and Surplus Insurance segment (5%) covers small to mid-sized business risks with unique characteristics that are difficult to profitably insure in the standard commercial lines market. Its coverages include Commercial casualty and Commercial property.

The Investments segment invests in publicly traded fixed-maturity, equity and short-term investments.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Shares of Cincinnati Financial have lost 23.5% year to date, wider than the industry's decline of 6.6%. Nevertheless, higher premiums, continued strong performance at Commercial Lines segment and a robust capital position are likely to drive the shares higher in the near term.
- ▲ Cincinnati Financial's Commercial Lines Insurance segment has been consistently witnessing top-line growth over the past several quarters, led by several growth initiatives and price increases. In the first half of 2020, total revenues grew 6% year over year on the back of solid premiums earned. Additionally, the company implemented the use of predictive analytics to improve its pricing precision while leveraging local relationships with its agents.
- ▲ The company's net written premiums have been increasing over the past many years, evident from its 2014-2019 CAGR of 4.7%, primarily attributable to premium growth initiatives, price increases and a higher level of insured exposures. In the first half of 2020, net written premiums grew 8% year over year driven by strong renewal pricing and premium growth initiatives. Also, Cincinnati Financial continues to grow premiums through a disciplined expansion of Cincinnati Re while the division makes a nice contribution to the company's overall earnings. We expect Cincinnati Re to continue delivering a favorable performance which might help the insurer diversify its business for a much smoother performance over a period of time.
- ▲ Cincinnati Financial remains committed toward executing its strategic initiatives that will help improve pricing precision. Since its inception in 2008, Cincinnati Financial's Excess and Surplus (E&S) line has been performing well. Over the past five years, E&S net written premiums have nearly doubled. In the first half of 2020, total revenues grew 20% year over year, aided by higher earned premiums. Despite a soft market environment, the segment has been able to achieve rate increases consistently for the last few years. We expect this trend to continue, given the improving excess and surplus lines market.
- ▲ Appointing new agencies was one of the several strategic initiatives adopted by the company. Given Cincinnati Financial's agent-centered business model, its relationship with local insurance agencies is a primary strategic advantage. In 2020, it plans to appoint approximately 125 independent agencies that offer most of the property casualty insurance products. These agencies as well as others, appointed in recent years continue to present the company with opportunities to increase its market share. The company is focused on earning new business through such agencies from a combination of quality service and expansion of insurance products for clients of those agencies. The insurer is also confident that its agent-focused business model will drive long term premium growth just as it has for more than 60 years.
- ▲ Despite a still low interest rate environment, Cincinnati Financial has been witnessing net investment income growth for the last few years. In the last five years, the P&C insurer saw net investment income grow 3.2%. Continuing with this trend, the company's net investment income rose 4% in the first half of 2020. Moreover, cash flow from operating activities consistently helps the company boost investment income.
- ▲ Cincinnati Financial's consistent cash flow and sufficient cash balances to continue boosting liquidity. In terms of capital management, Cincinnati Financial has returned capital to shareholders through regular cash dividends as well as special dividends. In January 2020, the company's board of directors hiked regular cash dividend by 7.1%. This reflects the company's strong capital position, its financial and liquidity flexibility as well as its operational performance. Over the past 59 years, the shareholders have benefited from dividend hikes, and this action sets the stage for a 60th consecutive year. Its dividend yield of 3% is better than the industry average of 0.5%, making the stock an attractive pick for yield-seeking investors.

Strong performance at Commercial Lines segment, low leverage, ample capital, consistent cash flow generation, favorable reserve release, share repurchases should drive growth for Cincinnati Financial.

Reasons To Sell:

- ▼ Though Cincinnati Financial has a diversified geographic profile, its business is significantly concentrated in the Midwest region, which is prone to catastrophes. As such, the company's operations have substantial catastrophe loss, which make its earnings volatile. Significant catastrophic events in the near future might widen the company's loss further, keeping the combined ratio under pressure. The company incurred \$231 million of catastrophe-related losses, plus \$65 million of pandemic-related loss and expense effects, resulted in an underwriting loss of \$41 million in the second quarter. Combined ratio deteriorated 660 bps in the second quarter of 2020. Exposure to cat occurrences will always remain a concern as natural disasters can potentially affect results.
- ▼ Cincinnati Financial's debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$967 million, up 9.3% from the 2019-end level. However, as of Jun 30, 2020 the company's total debt/total capital ratio of 10.4 was higher than 8.9 at 2019-end. The company's cash and cash equivalents of \$706 million as of Jun 30, 2020 are not sufficient for the company to meet its debt obligations. Also, the company's times interest earned of 12.9 as on Jun 30, 2020 was poor when compared with the 2019-end figure of 47.6, implying that its earnings are not sufficient to cover interest obligations.
- ▼ The company has been witnessing an increase in expenses over the past many years due to a rise in insurance loss and policyholder benefits as well as underwriting, acquisition and insurance expenses. In the first half of 2020, expenses increased 13.9% due to higher insurance losses and contract holders' benefits plus underwriting, acquisition and insurance expenses. The rise in expenses resulted in net margin contraction of 970 bps in the second quarter of 2020.

Exposure to catastrophes making earnings volatile, higher expenses weighing on margins, continued turmoil in group benefits associated with the Affordable Care Act remain a challenge.

Last Earnings Report

Cincinnati Financial Q2 Earnings & Revenues Beat

Cincinnati Financial reported second-quarter 2020 operating income of 44 cents per share, which beat the Zacks Consensus Estimate by 7.3%. However, the bottom line decreased 48.2% year over year.

The company's results reflected higher net written premiums, which boosted revenues across all its segments, offset by higher catastrophe losses and expenses.

Quarter Ending	06/2020
Report Date	Jul 27, 2020
Sales Surprise	0.82%
EPS Surprise	7.32%
Quarterly EPS	0.44
Annual EPS (TTM)	3.59

Operational Update

Total operating revenues in the quarter under review were \$1.7 billion, up 6.8% year over year. This improvement was driven by higher premiums earned and increase in investment income. Revenues surpassed the Zacks Consensus Estimate by 0.8%.

Net written premiums increased 6% year over year to \$1.6 billion, owing to an increase in agency renewal written premiums and other written premiums.

Total benefits and expenses of Cincinnati Financial increased 13.4% year over year to \$1.6 billion, primarily due to higher insurance loss and contract holders' benefits, increased underwriting, acquisition and insurance expenses plus interest expense and other operating expenses.

Cincinnati Financial witnessed underwriting loss of \$41 million against underwriting gain of \$48 million in the year-earlier period, primarily due to higher catastrophe losses of \$231 million and \$65 million of pandemic-related loss and expense effects.

Combined ratio — a measure of underwriting profitability — deteriorated 660 basis points (bps) year over year to 103.1%.

Quarterly Segment Update

Commercial Lines Insurance: Total revenues of \$871 million grew 5.7% year over year. This upside was primarily driven by solid premiums earned. Underwriting profit of \$8 million dropped 33.3% year over year. Combined ratio deteriorated 50 bps year over year to 99.1%.

Personal Lines Insurance: Total revenues of \$365 million rose 4.6% year over year owing to 5% increase in premiums earned. The segment reported underwriting loss of \$43 million, against the year-ago profit of \$5 million. Combined ratio deteriorated 1340 bps year over year to 112.3%.

Excess and Surplus Lines Insurance: Total revenues of \$78 million rose 16% year over year, aided by 16% higher earned premiums. The segment's underwriting loss was \$1 million against the year-ago profit of \$17 million. Combined ratio deteriorated 2590 bps year over year to 102%.

Life Insurance: Total revenues were \$120 million, up 14% year over year, aided by 18% higher earned premiums. Total benefits and expenses increased 9.5% year over year to \$104 million due to higher contract holders' benefits incurred and underwriting expenses.

Financial Update

As of Jun 30, 2020, Cincinnati Financial had total assets worth \$25.5 billion, up nearly 0.2% from the level at 2019 end.

Cincinnati Financial's debt-to-capital ratio was 8.9% as of Jun 30, 2020, up 120 bps from end of 2019.

As of Jun 30, 2020, Cincinnati Financial's book value per share was at \$57.56, down 5% from 2019 end.

Recent News

Cincinnati Financial Announces Dividend— Aug14, 2020

The board of directors of Cincinnati Financial announced 60 cents per share regular quarterly cash dividend. The dividend will be paid on Oct 15, 2020, to shareholders of record on Sep 16, 2020.

Valuation

Cincinnati Financial shares are down nearly 23.5% and 28.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 6.6% and 14.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.3% but down 5.1%, respectively.

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

The stock is currently trading at 1.4x trailing 12-month book value, which compares to 1.32x for the Zacks sub-industry, 2.57x for the Zacks sector and 4.76x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.09x and as low as 0.97x, with a 5-year median of 1.63x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 1.48x book value.

The table below shows summary valuation data for CINF

Valuation Multiples -CINF					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.4	1.32	2.57	4.76
	5-Year High	2.09	1.67	2.91	4.76
	5-Year Low	0.97	0.93	1.72	2.83
	5-Year Median	1.63	1.45	2.54	3.76
P/S F12M	Current	2.12	1.8	6.23	3.84
	5-Year High	2.99	11.26	6.67	3.84
	5-Year Low	1.2	1.39	4.97	2.53
	5-Year Median	2.10	1.84	6.06	3.05
P/E F12M	Current	23.02	26.15	16.92	23.49
	5-Year High	31.47	31.55	16.92	23.49
	5-Year Low	13.88	21.01	11.6	15.25
	5-Year Median	24.51	25.67	14.26	17.58

As of 08/28/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (167 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
The Allstate Corporation (ALL)	Outperform	1
Arch Capital Group Ltd. (ACGL)	Neutral	3
Chubb Limited (CB)	Neutral	3
CNA Financial Corporation (CNA)	Neutral	3
Markel Corporation (MKL)	Neutral	3
The Travelers Companies, Inc. (TRV)	Neutral	4
W.R. Berkley Corporation (WRB)	Neutral	3

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	CINF	X Industry	S&P 500	ALL	CB	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	4
VGM Score	C	-	-	B	C	A
Market Cap	12.93 B	1.32 B	23.71 B	29.45 B	57.05 B	29.34 B
# of Analysts	2	2	14	8	7	8
Dividend Yield	2.99%	1.27%	1.63%	2.29%	2.47%	2.93%
Value Score	C	-	-	A	B	A
Cash/Price	0.06	0.29	0.07	0.20	0.10	0.24
EV/EBITDA	5.08	5.42	13.37	4.49	10.00	3.36
PEG F1	NA	2.16	3.08	0.99	1.76	2.04
P/B	1.40	0.97	3.22	1.18	1.04	1.09
P/CF	17.15	10.50	12.90	6.94	10.72	3.79
P/E F1	25.32	14.10	21.82	7.42	17.57	13.58
P/S TTM	1.63	0.83	2.52	0.67	1.59	0.93
Earnings Yield	3.89%	5.66%	4.41%	13.49%	5.70%	7.36%
Debt/Equity	0.10	0.24	0.74	0.27	0.25	0.26
Cash Flow (\$/share)	4.69	3.12	6.94	13.58	11.78	30.61
Growth Score	C	-	-	D	D	C
Historical EPS Growth (3-5 Years)	3.37%	3.85%	10.41%	21.39%	-1.69%	-5.11%
Projected EPS Growth (F1/F0)	-25.48%	-3.84%	-4.94%	21.92%	-28.83%	-11.11%
Current Cash Flow Growth	25.16%	3.77%	5.22%	30.84%	0.06%	3.77%
Historical Cash Flow Growth (3-5 Years)	9.30%	4.81%	8.50%	9.17%	8.77%	-1.19%
Current Ratio	0.28	0.43	1.35	0.30	0.31	0.40
Debt/Capital	9.46%	20.03%	43.86%	19.73%	20.32%	20.74%
Net Margin	25.20%	5.15%	10.25%	10.28%	6.10%	5.81%
Return on Equity	6.46%	6.81%	14.66%	17.25%	5.98%	7.20%
Sales/Assets	0.32	0.31	0.50	0.37	0.20	0.28
Projected Sales Growth (F1/F0)	-18.38%	0.00%	-1.43%	0.04%	2.60%	-0.03%
Momentum Score	D	-	-	A	D	A
Daily Price Change	-0.09%	0.24%	0.71%	0.18%	-1.07%	-1.10%
1-Week Price Change	-3.46%	-2.02%	-1.45%	-1.70%	-6.32%	-5.71%
4-Week Price Change	0.73%	4.38%	4.59%	2.41%	-2.78%	-0.03%
12-Week Price Change	24.38%	2.58%	4.86%	-7.42%	-6.05%	-1.79%
52-Week Price Change	-28.66%	-12.34%	3.09%	-7.75%	-19.69%	-21.13%
20-Day Average Volume (Shares)	718,445	140,961	1,887,168	1,708,664	1,598,624	1,224,796
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	1.69%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.62%	5.60%	0.79%	16.21%	6.57%	0.00%
EPS F1 Estimate 12-Week Change	-8.83%	-0.52%	3.43%	16.46%	-27.05%	-9.33%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	36.42%	3.92%	0.00%

Source: Zacks Investment Research

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	C
Momentum Score	D
VGM Score	C

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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