

CenterPoint Energy (CNP)

\$19.57 (As of 03/02/21)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

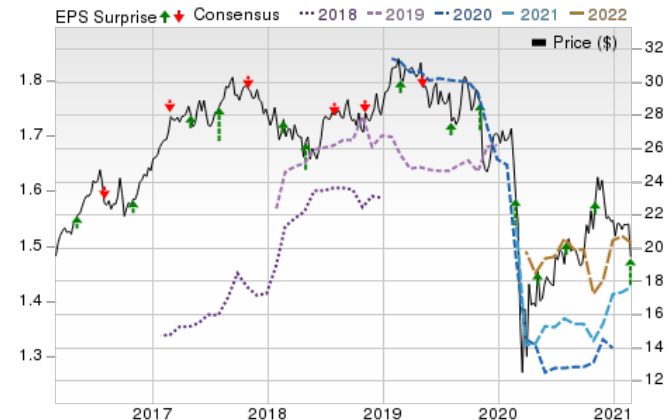
Growth: D

Momentum: A

Summary

CenterPoint Energy ended the fourth quarter of 2020 with earnings exceeding the Zacks Consensus Estimate while revenues missing the same. The company plans to spend \$16.73 billion on infrastructure upgrades and improve reliability during 2021-2025. It is investing substantially to expand its operations to meet increasing utility demand and upgrade infrastructure. It targets 6-8% annual EPS growth through 2025. Rate growth also boosted its operational results. However, it is experiencing COVID-19-led disruptions in its operations that might have an adverse impact on its results in the coming quarters. A winter storm event in February caused severe disruptions to its customers and markets, which may continue to have negative financial impacts on CenterPoint Energy, Houston Electric and CERC. Its shares underperformed the industry in the past year.

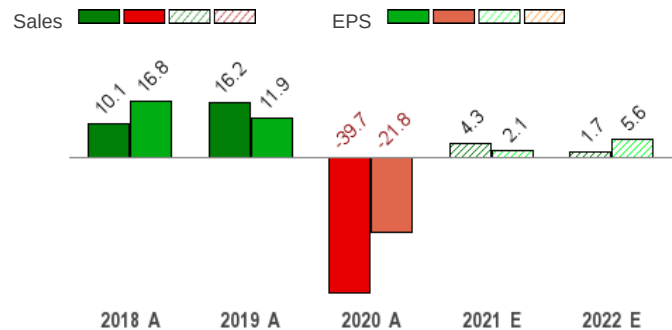
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$25.39 - \$11.58
20-Day Average Volume (Shares)	4,621,240
Market Cap	\$10.8 B
Year-To-Date Price Change	-9.6%
Beta	0.96
Dividend / Dividend Yield	\$0.64 / 3.3%
Industry	Utility - Electric Power
Zacks Industry Rank	Bottom 29% (181 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.1%
Last Sales Surprise	-2.0%
EPS F1 Estimate 4-Week Change	0.7%
Expected Report Date	05/06/2021
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	13.7
PEG F1	2.7
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					7,872 E
2021	2,025 E	1,689 E	1,782 E	2,591 E	7,740 E
2020	2,167 A	1,575 A	1,622 A	2,054 A	7,418 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$1.51 E
2021	\$0.39 E	\$0.25 E	\$0.41 E	\$0.40 E	\$1.43 E
2020	\$0.50 A	\$0.21 A	\$0.34 A	\$0.29 A	\$1.40 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 03/02/2021. The report's text, and the analyst-provided sales estimates, EPS estimates and price target are as of 03/03/2021.

Overview

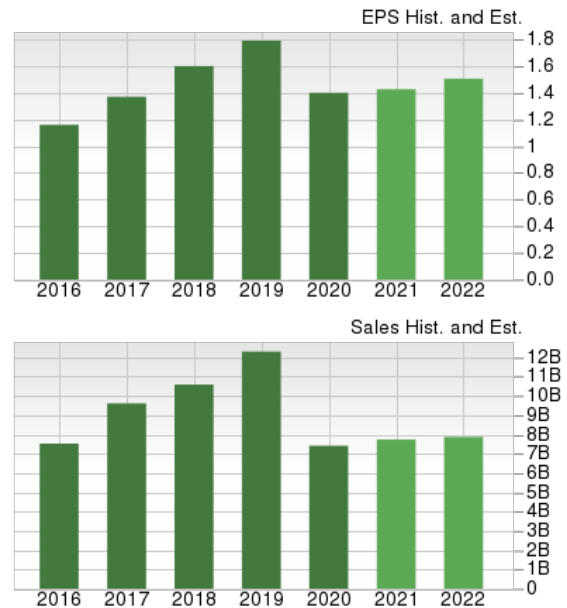
Incorporated in 2002, Houston, TX-based CenterPoint Energy Inc. is a domestic energy delivery company that provides electric transmission & distribution, natural gas distribution and competitive natural gas sales and services operations. The company maintains the wires, poles and electric infrastructure serving more than 2.5 million metered customers in the greater Houston area and in southwestern Indiana. CenterPoint Energy also owns and operates nearly 1,300 megawatts of electric generation capacity in Indiana. As of Dec 31, 2020, CNP Midstream owned approximately 53.7% of the common units representing limited partner interests in Enable, which owns, operates and develops natural gas and crude oil infrastructure assets. CNP Midstream also owned 50% of management rights and 40% of the incentive distribution rights in Enable GP. Its important subsidiaries include Houston Electric, CERC Corp. and Vectren.

CenterPoint Energy's reportable business segments include the following:

Electric: This segment offers electric transmission and distribution services in Houston and Indiana. The segment reported net income of \$230 million in 2020.

Natural Gas: The Natural Gas Distribution segment offers intrastate natural gas sales to and natural gas transportation and distribution for residential, commercial, industrial and institutional customers. The segment reported net income of \$278 million in 2020.

Midstream Investments: It consists of the company's equity investment in Enable. The segment reported net loss of \$1,116 million in 2020.



Source: Zacks Investment Research

Reasons To Buy:

▲ CenterPoint Energy's steady growth in customer count has primarily driven its performance over the last several quarters. Notably, in 2020, the company added 60,127 new meter customers under its Houston Electric Transmission & Distribution segment. CenterPoint Energy also added 76,222 users to its Natural Gas Distribution unit and 62,013 customers to the CERC Natural Gas Distribution segment during the quarter. This customer growth trend reflects a notable boost in utility demand, which in turn should bolster the utility provider's operating results, going ahead.

Substantial investments enable CenterPoint Energy to expand its operations and meet increasing utility demand.

▲ CenterPoint Energy is investing substantially to expand its operations to meet increasing utility demand. To this end, the company is currently focused on upgrading its infrastructure and improving reliability. Notably, CenterPoint Energy's capital expenditures totaled \$2,596 million in 2020, up 3.6% year over year. The company plans to invest \$16.73 billion from 2021 through 2025. These funds will be utilized primarily to maintain reliability and safety, increase resiliency and expand CenterPoint Energy's systems through value-added projects. The company's capital plan is expected to reflect a compound annual rate-based growth rate of approximately 10% through 2025, on account of these notable investment plans. On account of the capital expenditure plan, the company targets 6-8% annual EPS growth through 2025, including Midstream investments.

▲ In March 2020, CenterPoint Energy established a goal to reduce its operational emissions by 70% by 2035, and emissions attributable to natural gas usage in heating, appliances and equipment within the residential and commercial sectors by 20-30% within 2040. Its reduction goals are based on its 2005 emissions. The company expects to increase its renewable energy resources portfolio as part of its Integrated Resource Plan (IRP) process and continue optimizing technology advancements to modernize systems.

To achieve its reduction goals, CenterPoint Energy has invested in infrastructure modernization as well as research and development (R&D) projects in recent years to reduce emissions, including carbon capture technology, the piloting of renewable natural gas, and improved methods for identifying and eliminating methane leaks. Further, the company intends to focus on partnering with customers to offer affordable conservation and energy efficiency programs, and continue to develop alternative fuel programs.

Reasons To Sell:

- ▼ In February 2021, a winter storm event in Texas caused many electric generation facilities to shut-down, resulting in electricity generation shortages and high electricity prices in the wholesale generation market. Consequently, Houston Electric's sales of transmission and distribution services got interrupted for several days. Furthermore, the storm caused severe disruptions in markets from which CenterPoint Energy and CERC source a significant portion of their natural gas for utility operations, thereby resulting in extraordinary increases in the price of natural gas to CenterPoint Energy and CERC. Notably, the impacts from the winter storm event may continue to have, financial impacts on CenterPoint Energy, Houston Electric and CERC, including substantial increases in prices for natural gas, thereby hurting revenues at Houston Electric.
- ▼ Following the novel coronavirus outbreak, federal, state and local U.S. governments have imposed varying degrees of restrictions on business and social activities to contain the spread of the virus. Consequently, CenterPoint Energy has been experiencing some resulting disruptions in its business operations. It is imperative to mention in this context that during the fourth quarter, the company experienced mild demand impacts associated with COVID-19. The year-over-year downside in earnings can also be primarily attributed to COVID-19 pandemic-led impacts. Looking ahead, as the duration and severity of the pandemic remain uncertain, such an economic crisis might have a significant adverse impact on the company's overall results in the coming quarters. This might have caused the company to underperform its industry in the past six months. Evidently, the company's shares have declined 17.8% in the past year compared to the industry's fall of 16.4%.
- ▼ CenterPoint Energy's cash and cash equivalents were \$1,018 million at the end of fourth-quarter 2020 compared with \$1,021 million as of Sep 30, 2020. The company's long-term debt was \$11.52 billion as of Dec 31, 2020, while its current debt was \$1.91 billion at the end of the fourth quarter, up sequentially from \$1.38 billion. Therefore, both long-term and current debt values of the company lie much above its cash reserve. This looks discouraging from the perspective of the company's solvency position.

Moreover, the company's fourth-quarter 2020 interest coverage came in negative, which indicates that it is incurring losses. Also, the company's current ratio as of Dec 31, 2020, was 0.61, which being less than 1 indicates that this utility does not possess sufficient capital on hand to meet its short-term obligations. Such unfavorable financial ratios indicate that this utility may face difficulty in paying off its debt obligations, at least in the near term.

Impact of coronavirus outbreak and weak solvency position pose risk to CenterPoint's growth.

Last Earnings Report

CenterPoint Energy Q4 Earnings Top, EPS Guidance Up

CenterPoint Energy reported fourth-quarter 2020 adjusted earnings of 29 cents per share, which surpassed the Zacks Consensus Estimate of 23 cents by 26.1%. The bottom line, however, deteriorated 35.6% from the year-ago quarter's earnings.

The company reported GAAP earnings of 27 cents per share compared with 25 cents reported in the prior-year quarter.

Quarter Ending **12/2020**

Report Date	Feb 25, 2021
Sales Surprise	-1.96%
EPS Surprise	26.09%
Quarterly EPS	0.29
Annual EPS (TTM)	1.34

Revenues

CenterPoint Energy's total revenues in the quarter were \$2,054 million, which lagged the Zacks Consensus Estimate of \$2,095 million by 1.9%. However, the top line came in at 1.7% higher than the prior-year quarter's \$2,019 million.

The year-over-year improvement was primarily owing to higher contribution from the utility, which was marginally offset by lower contribution from its non-utility segment.

Utility revenues in the fourth quarter were \$1,962 million, up 2.3% year over year while Non-utility revenues were down 8.9% year over year to \$92 million.

Operational Results

Total expenses during the fourth quarter increased 1.4% to \$1,769 million.

The company's operating income improved 4% year over year to \$285 million in the fourth quarter.

Interest expenses and other finance charges decreased 18.7% year over year to \$113 million from \$139 million in the fourth quarter of 2019.

Financial Condition

As of Dec 31, 2020, CenterPoint Energy had cash and cash equivalents of \$147 million, down from \$241 million as of Dec 31, 2019.

Total long-term debt was \$11,521 million as of Dec 31, 2020 compared with \$14,244 million as of Dec 31, 2019.

In 2020, the company's net cash from operating activities was \$1,995 million, up from \$1,638 million in 2019.

Further, CenterPoint Energy's total capital expenditure was \$647 million in the fourth quarter, down from \$759 million in the year-ago quarter.

Guidance

CenterPoint Energy raises its 2021 Utility EPS outlook to the \$1.24-\$1.26 range from the prior expectation of \$1.23-\$1.25. The company delivered earnings of \$1.40 per share in 2020.

The Zacks Consensus Estimate for 2021 earnings is pegged at \$1.42 per share, which lies above the guided range. The capital plan of \$16.7 billion for the 2021-2025 time period will further strengthen the company's electric and natural gas operations.

Recent News

On **Feb 23, 2021**, CenterPoint Energy announced its Indiana-based electric and natural gas business, CenterPoint Energy Indiana South, is seeking approval from the Indiana Utility Regulatory Commission (IURC) to enter into an agreement on the acquisition of a 300-megawatt (MW) solar array as part of the company's long-term electric generation transition plan announced in June 2020. The company is also requesting approval to enter into a power purchase agreement (PPA) for an additional 100 MWs of solar energy.

Valuation

CenterPoint Energy's shares are down 1.5% in the past six months period and 17.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 1.5% and 4.8% in the past six months, respectively. Over the past year, the Zacks sub-industry is down 16.4% whereas the sector is down 12.6%.

The S&P 500 index is up 13.8% in the past six months and 26% in the past year.

The stock is currently trading at 13.6X forward 12-month earnings, which compares to 14.3X for the Zacks sub-industry, 12.9X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.1X and as low as 8.3X, with a 5-year median of 17.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$21 price target reflects 14.6X forward 12-month earnings.

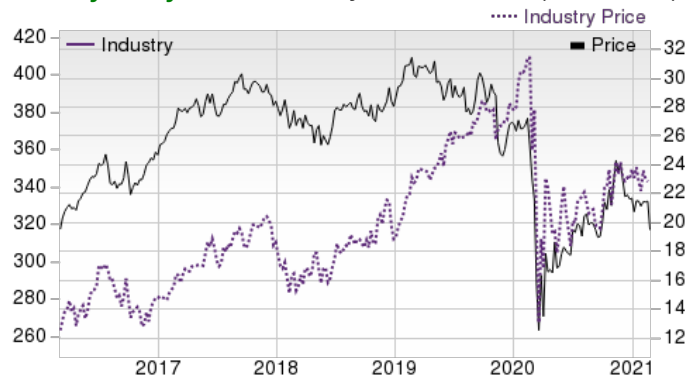
The table below shows summary valuation data for CNP

Valuation Multiples - CNP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.6	14.25	12.91	22.32
	5-Year High	22.11	15.4	15.39	23.8
	5-Year Low	8.33	11.83	11.39	15.3
	5-Year Median	17.28	13.52	13.91	17.87
P/S F12M	Current	1.39	2.13	2.62	4.51
	5-Year High	1.81	2.56	3.2	4.51
	5-Year Low	0.5	1.79	1.79	3.21
	5-Year Median	1.26	2.09	2.16	3.68
EV/EBITDA F12M	Current	8.8	9.87	9.49	17.25
	5-Year High	12.36	11.23	14.82	18.85
	5-Year Low	6.38	8.56	7.19	13.05
	5-Year Median	8.95	10.04	8.89	15.79

As of 03/02/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 29% (181 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Electric Power Company, Inc. (AEP)	Neutral	3
The AES Corporation (AES)	Neutral	3
DTE Energy Company (DTE)	Neutral	3
Edison International (EIX)	Neutral	3
FirstEnergy Corporation (FE)	Neutral	3
Vistra Corp. (VST)	Neutral	3
Xcel Energy Inc. (XEL)	Neutral	4
Consolidated Edison Inc (ED)	Underperform	5

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

Industry Comparison Industry: Utility - Electric Power				Industry Peers		
	CNP	X Industry	S&P 500	DTE	ED	EIX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	B	-	-	C	D	C
Market Cap	10.79 B	9.61 B	27.65 B	22.73 B	22.97 B	20.82 B
# of Analysts	5	2	13	5	4	5
Dividend Yield	3.27%	3.31%	1.4%	3.68%	4.62%	4.83%
Value Score	B	-	-	B	C	B
Cash/Price	0.09	0.05	0.06	0.02	0.06	0.00
EV/EBITDA	26.80	10.66	15.61	11.03	10.04	10.53
PEG F1	2.72	2.95	2.34	2.92	7.88	3.92
P/B	1.78	1.56	3.83	1.81	1.18	1.30
P/CF	4.98	7.48	15.50	7.92	6.77	5.13
P/E F1	13.59	16.50	20.73	16.56	15.77	12.24
P/S TTM	1.46	1.86	3.18	1.87	1.88	1.53
Earnings Yield	7.31%	6.04%	4.73%	6.04%	6.35%	8.18%
Debt/Equity	1.92	1.08	0.67	1.51	1.07	1.23
Cash Flow (\$/share)	3.93	4.33	6.77	14.90	9.91	10.70
Growth Score	D	-	-	C	D	D
Historical EPS Growth (3-5 Years)	8.39%	4.78%	9.32%	7.00%	1.55%	2.99%
Projected EPS Growth (F1/F0)	1.86%	6.01%	14.54%	-0.95%	1.79%	-0.75%
Current Cash Flow Growth	-4.19%	5.59%	0.86%	15.31%	6.31%	14.11%
Historical Cash Flow Growth (3-5 Years)	7.93%	6.81%	7.37%	10.26%	7.37%	3.93%
Current Ratio	0.61	0.81	1.39	1.30	0.72	0.49
Debt/Capital	57.99%	52.08%	41.42%	60.15%	51.67%	55.18%
Net Margin	-10.42%	7.81%	10.59%	11.23%	8.99%	6.19%
Return on Equity	14.84%	9.61%	14.75%	11.36%	7.50%	11.10%
Sales/Assets	0.23	0.21	0.51	0.28	0.20	0.20
Projected Sales Growth (F1/F0)	4.34%	4.16%	7.02%	2.82%	4.46%	1.81%
Momentum Score	A	-	-	B	D	D
Daily Price Change	-0.15%	-0.24%	-0.34%	-0.95%	0.06%	-0.02%
1-Week Price Change	-9.29%	-3.75%	-1.51%	-2.05%	-3.71%	-2.23%
4-Week Price Change	-8.98%	-3.99%	3.38%	-1.46%	-4.53%	-7.22%
12-Week Price Change	-13.02%	-4.43%	5.67%	-5.34%	-10.03%	-11.29%
52-Week Price Change	-15.28%	-13.48%	24.18%	4.38%	-19.99%	-19.62%
20-Day Average Volume (Shares)	4,621,240	437,684	1,998,609	1,014,247	2,438,835	2,126,936
EPS F1 Estimate 1-Week Change	0.71%	0.00%	0.00%	-0.02%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.71%	0.00%	0.32%	-0.07%	-4.82%	-0.27%
EPS F1 Estimate 12-Week Change	5.01%	0.00%	2.13%	1.79%	-5.99%	0.45%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-5.30%	1.03%	0.00%

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	D
Momentum Score	A
VGM Score	B

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.