

Capital One Financial (COF)

\$83.21 (As of 11/11/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Shares of Capital One have underperformed the industry so far this year. Its earnings have surpassed the Zacks Consensus Estimate in two and lagged in two of the trailing four quarters. The company's third-quarter 2020 results were aided by growth in revenues and lower costs. Its robust card business, inorganic growth efforts and a solid liquidity position are likely to continue to aid profits. Further, as consumers gradually regain confidence in the economic recovery, there is likely to be a rise in demand for consumer loans, which will likely support non-interest income going forward. However, near-zero interest rates are likely to continue to hamper margins and top line. Also, deteriorating credit quality and elevated expenses are the key near-term woes and might hurt financials. The company cut its dividend by 75%, which is concerning.

Price, Consensus & Surprise

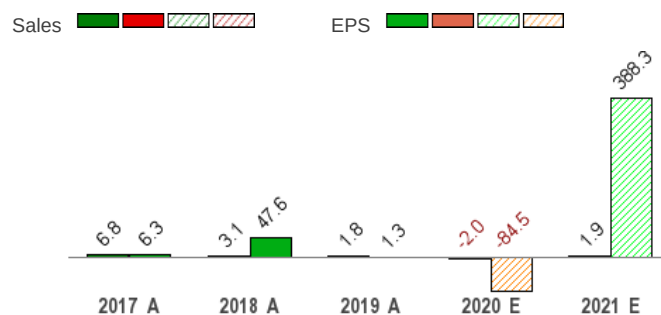


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$107.59 - \$38.00
20-Day Average Volume (Shares)	3,780,223
Market Cap	\$38.7 B
Year-To-Date Price Change	-17.7%
Beta	1.71
Dividend / Dividend Yield	\$0.40 / 0.5%
Industry	Financial - Consumer Loans
Zacks Industry Rank	Top 23% (57 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	153.8%
Last Sales Surprise	10.0%
EPS F1 Estimate 4-Week Change	401.4%
Expected Report Date	01/19/2021
Earnings ESP	3.3%
P/E TTM	29.1
P/E F1	48.7
PEG F1	5.4
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,935 E	6,981 E	7,276 E	7,432 E	28,559 E
2020	7,249 A	6,556 A	7,381 A	7,026 E	28,031 E
2019	7,083 A	7,124 A	6,959 A	7,427 A	28,593 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.52 E	\$2.21 E	\$1.96 E	\$1.73 E	\$8.35 E
2020	-\$3.02 A	-\$1.61 A	\$5.05 A	\$2.30 E	\$1.71 E
2019	\$2.90 A	\$3.37 A	\$3.32 A	\$2.49 A	\$11.02 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 11/11/2020. The reports text is as of 11/12/2020.

Overview

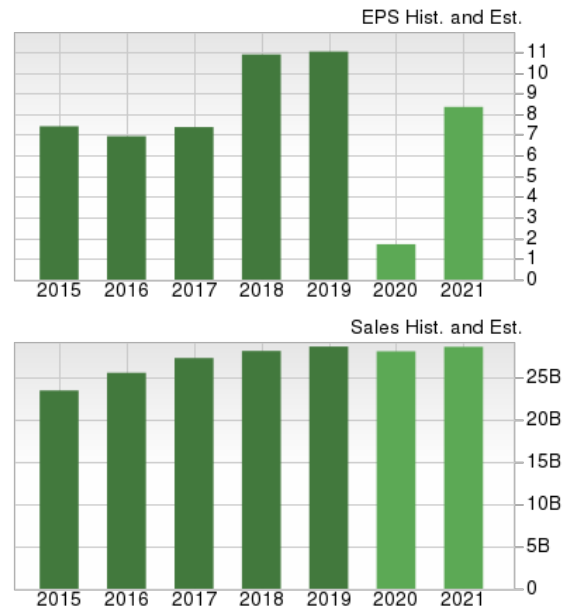
Headquartered in McLean, VA, Capital One Financial Corporation is primarily focused on consumer and commercial lending as well as deposit origination. Through its banking and non-banking subsidiaries, the company, founded in 1988, provides various financial products and services to consumers, small businesses and commercial clients in the United States.

Capital One's principal subsidiaries include Capital One Bank (USA), National Association (COBNA) and Capital One, National Association (CONA). The company reports results of its business through the following operating segments:

- The **Credit Card** segment (contributed 64.2% of total net revenues in 2019) includes domestic consumer and small business card lending, domestic national small business lending, national closed end installment lending and the international card lending businesses in Canada and the U.K.
- The **Commercial Banking** segment (9.8%) includes lending, deposit gathering and treasury management services to commercial real estate and middle-market customers. The segment also includes the financial results of a national portfolio of small ticket commercial real estate loans that are in run-off mode. The commercial and industrial customers include companies with annual revenues between \$10 million–\$1.0 billion.
- The **Consumer Banking** segment (25.8%) comprises branch-based lending and deposit gathering activities for small businesses and retail customers, national deposit gathering, consumer mortgage lending and servicing activities as well as national automobile lending.

The **Other** category (0.2%) includes management of corporate investment portfolio and asset/liability management by centralized Corporate Treasury group.

As of Sep 30, 2020, Capital One had total assets worth \$421.9 billion, total loans held for investment of \$248.2 billion, total deposits of \$305.7 billion and shareholders' equity of \$58.4 billion.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Revenue growth remains a major positive for Capital One. The company's top line depicts a five-year (2015-2019) compound annual growth rate (CAGR) of 6.4%. Steady loan growth and opportunistic acquisitions over the past years have driven revenues. In 2019, the company acquired KippsDeSanto and thus, forayed into the merger and acquisitions (M&As) market. Moreover, acquisitions of Beech Street Capital and GE's healthcare unit reflect the company's revenue diversifying efforts. Notably, even during the first nine months of 2020, revenues improved marginally despite the coronavirus-induced economic slowdown. Revenue prospects look encouraging on the back of the company's solid credit card and online banking businesses.
- ▲ As of Sep 30, 2020, Capital One had total debt (securitized debt obligations plus other debt) worth \$42.8 billion, down 4.7% sequentially. Moreover, total debt was lower than the cash and cash equivalents balance of \$44.1 billion as of the same date. Also, the company's times interest earned of 2.4 at the end of the third quarter of 2020 improved sequentially. Thus, it seems to be well-positioned in terms of its liquidity profile and hence is expected to be able to continue to meet debt obligations in the near term, even if the economic situation worsens.
- ▲ Capital One's Credit Card segment is likely to continue showing strength. In the first nine months of 2020, Domestic Card, which accounted for almost 92% of the Credit Card net revenues, reflected strong loans held for investment balance. Further, the Walmart partnership and the 2017 acquisition of Cabela's Incorporated's credit card operations consistently bode well. Strong growth opportunities in card loans and purchase volumes are expected despite an intense competitive environment.
- ▲ Shares of Capital One have underperformed the industry so far this year. However, the company's current-year earnings estimates have been revised significantly upward over the past 30 days. Further, the stock seems undervalued when compared with the broader industry. Its current price/cash flow and price/book ratios are lower than the respective industry averages. Also, it has a Value Score of A. Thus, given the strength in fundamentals and positive estimate revisions, the price performance is expected to improve in the future.

Strength in credit card and online-banking operations, decent loan growth, robust balance sheet position and strategic inorganic expansion initiatives will support Capital One's profitability.

Reasons To Sell:

- ▼ After slashing rates thrice last year, the Federal Reserve cut the rates to near zero in March 2020 with an aim to cushion the U.S. economy from coronavirus-induced mayhem. However, this has hindered Capital One's net interest income (NII) growth and contracted net interest margin (NIM) over the last several quarters. Both NII and NIM witnessed a declining trend in the first nine months of 2020. In fact, a similar trend is expected to continue in the near term as the central bank signaled no rate hike at least until 2023.
- ▼ Capital One's asset quality has been deteriorating. Provision for credit losses and net charge-offs (NCOs) have been steadily rising. Though provisions and NCOs declined in 2018, these witnessed a CAGR of 8.3% and 14.1%, respectively, over the last five years (2015-2019). Amid the uncertainty caused by the coronavirus outbreak, provisions increased in the first nine months of 2020 as well while NCOs witnessed a decline. The company's overall credit quality is likely to remain under pressure in the near term.
- ▼ While Capital One's capital plan included maintaining the quarterly dividend at 40 cents per share, it lowered the same to 10 cents in July based on the Fed's new cumulative earnings rule. This represented a cut of 75% from the prior payout. Also, the company has currently suspended its share buyback program. These actions will likely hurt shareholder value in the near term.
- ▼ Capital One has been witnessing a persistent rise in expenses, which witnessed a CAGR of 4.5% for the last five years (ended 2019). The increase was mainly due to a rise in marketing costs. While expenses declined in the first nine months of 2020, the same is expected to remain elevated in the quarters ahead, given the company's continued investments in technology and infrastructure.
- ▼ Capital One's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 3.05% compares unfavorably with ROE of 17.39% for the industry and 15.07% for the S&P 500, reflecting that it is less efficient in using shareholders' funds compared with its peers.

Near-zero interest rates and deteriorating asset quality are major near-term headwinds and might affect Capital One's finances. Also, mounting expenses are expected to limit bottom-line growth.

Last Earnings Report

Capital One Q3 Earnings and Revenues Beat, Costs Decline Y/Y

Capital One's third-quarter 2020 adjusted earnings of \$5.05 per share easily outpaced the Zacks Consensus Estimate of \$1.99. Also, the figure was 52% above the year-ago quarter level.

The results reflect an improvement in non-interest income and lower expenses. Further, credit costs declined mainly due to reserve releases during the quarter. However, decline in loan balance and lower interest rates were headwinds.

After taking into consideration non-recurring items, net income available to common shareholders was \$2.32 billion or \$5.06 per share, up from \$1.27 billion or \$2.69 per share in the prior-year quarter.

Revenues Improve, Expenses Down

Total adjusted net revenues were \$7.35 billion, up 3% from the prior-year quarter. The figure also beat the Zacks Consensus Estimate of \$6.71 billion.

NII fell 3% from the prior-year quarter to \$5.56 billion. NIM also declined 105 basis points (bps) to 5.68% due to lower yields on interest-earning assets.

Non-interest income of \$1.83 billion jumped 49% from the prior-year quarter.

Non-interest expenses were \$3.55 billion, down 8% from the year-ago number. Rise in other costs, and salaries and associate benefit expenses were more than offset by fall in marketing costs and amortization of intangibles.

Efficiency ratio was 48.07%, down from 55.64% in the year-ago quarter. A fall in efficiency ratio indicates improvement in profitability.

As of Sep 30, 2020, loans held for investment were \$248.2 billion, down 1% from the prior quarter. Total deposits, as of the same date, were on par sequentially at \$305.7 billion.

Credit Quality: Mixed Bag

Provision for credit losses plunged 76% on a year-over-year basis to \$331 million. The fall was largely due to \$742 million reserve release. Further, the 30-plus day performing delinquency rate declined 131 bps to 1.97%.

However, allowance, as a percentage of reported loans held for investment was 6.50%, up 368 bps. Also, net charge-off rate decreased 10 bps year over year to 2.38%.

Capital Ratios Improve

As of Sep 30, 2020, Tier 1 risk-based capital ratio was 14.8%, up from 14.4% a year ago. Further, common equity Tier 1 capital ratio was 13% as of Sep 30, 2020, up from 12.5% as of Sep 30, 2019.

Outlook

The company expects to redeem its outstanding preferred stock Series F in the fourth quarter of 2020. This will result in a one-time charge, which will likely reduce net income available to common shareholders by \$17 million in the quarter.

Quarter Ending	09/2020
Report Date	Oct 22, 2020
Sales Surprise	9.97%
EPS Surprise	153.77%
Quarterly EPS	5.05
Annual EPS (TTM)	2.91

Recent News

Capital One to Pay \$80M Penalty Over Data Breach Incident - Aug 6, 2020

Capital One has agreed to pay \$80 million in fine to U.S. banking regulator over a data breach incident that occurred last year. The cyberattack exposed personal information of 106 million credit card holders of the bank in the United States and Canada.

In the consent order, the Office of the Comptroller of the Currency (OCC) stated that Capital One did not “establish effective risk assessment processes prior to migrating significant information technology operations to the public cloud environment.” The OCC also noted that even after concerns related to cyber security were raised during an internal audit, the top management didn't take proper action.

Under the terms of the OCC order, Capital One is required to take adequate steps to ensure that its computer system has sufficient security and submit the plans for review. The company faces a similar oversight from the Federal Reserve.

Capital One in a statement said, “Safeguarding our customers’ information is essential to our role as a financial institution. In the year since the incident, we have invested significant additional resources into further strengthening our cyber defenses, and have made substantial progress in addressing the requirements of these orders.”

The cyberattack — one of the largest data breach incidents in the recent past — on Capital One's system compromised nearly 140,000 Social Security numbers and 80,000 bank account numbers.

Dividend Update

On Oct 29, Capital One announced a quarterly cash dividend of 10 cents per share. The dividend will be paid out on Nov 19 to shareholders of record at the close of business on Nov 9.

Valuation

Capital One's shares are down 17.7% in the year-to-date period and 12.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 11.4% and 9.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 10% and 5.7%, respectively.

The S&P 500 index is up 10.4% in the year-to-date period and 15.1% in the past year.

The stock is currently trading at 11.36X forward 12 months earnings, which compares to 8.49X for the Zacks sub-industry, 17.18X for the Zacks sector and 22.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.97X and as low as 3.69X, with a 5-year median of 9.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$89 price target reflects 11.95X forward earnings.

The table below shows summary valuation data for COF

Valuation Multiples - COF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.36	8.49	17.18	22.33
	5-Year High	52.97	13.16	17.18	23.47
	5-Year Low	3.69	4.39	11.59	15.27
	5-Year Median	9.19	8.69	14.45	17.72
P/TB TTM	Current	0.89	0.84	3.62	17.72
	5-Year High	1.5	1.49	4	17.75
	5-Year Low	0.46	0.49	2.01	7.43
	5-Year Median	1.12	1.18	3.48	10.74
P/S F12M	Current	1.36	1.15	6.06	4.15
	5-Year High	1.8	1.79	6.66	4.3
	5-Year Low	0.64	0.72	4.96	3.17
	5-Year Median	1.44	1.46	6.05	3.67

As of 11/11/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 248)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Ally Financial Inc. (ALLY)	Outperform	1
Discover Financial Services (DFS)	Outperform	1
Santander Consumer USA Holdings Inc. (SC)	Outperform	2
MR. COOPER GROUP INC (COOP)	Neutral	2
JPMorgan ChaseCo. (JPM)	Neutral	3
Navient Corporation (NAVI)	Neutral	3
SLM Corporation (SLM)	Neutral	3
Wells FargoCompany (WFC)	Neutral	3

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

Industry Comparison Industry: Financial - Consumer Loans				Industry Peers		
	COF	X Industry	S&P 500	ALLY	DFS	SC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	1	1	2
VGM Score	A	-	-	C	D	A
Market Cap	38.73 B	962.83 M	24.85 B	10.76 B	22.76 B	6.83 B
# of Analysts	6	3	14	6	8	6
Dividend Yield	0.47%	0.00%	1.52%	2.64%	2.37%	3.94%
Value Score	A	-	-	A	D	A
Cash/Price	1.27	0.55	0.07	1.91	0.48	0.37
EV/EBITDA	2.99	8.45	14.28	3.16	7.42	9.95
PEG F1	5.41	3.40	2.75	NA	12.10	NA
P/B	0.66	1.10	3.54	0.76	2.47	1.34
P/CF	4.21	4.50	13.53	3.61	7.83	2.60
P/E F1	48.66	10.85	21.77	11.82	24.69	10.08
P/S TTM	1.19	1.03	2.82	1.69	1.71	0.85
Earnings Yield	2.02%	8.45%	4.44%	8.45%	4.05%	9.90%
Debt/Equity	0.72	1.66	0.70	1.82	2.38	8.12
Cash Flow (\$/share)	20.13	3.97	6.92	7.96	9.48	8.57
Growth Score	B	-	-	D	D	C
Historical EPS Growth (3-5 Years)	-8.40%	10.91%	9.77%	9.70%	1.62%	-3.03%
Projected EPS Growth (F1/F0)	-84.45%	-7.86%	0.37%	-34.59%	-66.88%	-22.61%
Current Cash Flow Growth	17.70%	12.54%	5.29%	-1.59%	7.14%	20.07%
Historical Cash Flow Growth (3-5 Years)	7.85%	10.29%	8.33%	-4.75%	4.70%	25.86%
Current Ratio	0.92	2.59	1.38	0.97	0.98	59.10
Debt/Capital	41.88%	62.31%	42.01%	64.53%	68.06%	89.04%
Net Margin	4.08%	8.75%	10.44%	12.22%	7.89%	6.66%
Return on Equity	3.05%	17.39%	15.07%	6.43%	11.00%	9.54%
Sales/Assets	0.08	0.23	0.50	0.03	0.11	0.17
Projected Sales Growth (F1/F0)	-1.96%	0.00%	0.23%	-0.26%	-3.38%	2.58%
Momentum Score	B	-	-	C	D	B
Daily Price Change	-2.32%	-0.18%	-0.12%	-1.20%	-2.74%	-0.58%
1-Week Price Change	6.42%	4.67%	5.72%	4.57%	4.46%	3.79%
4-Week Price Change	7.64%	7.12%	5.01%	5.04%	15.42%	10.77%
12-Week Price Change	28.87%	14.99%	8.82%	29.19%	46.13%	29.24%
52-Week Price Change	-12.09%	-12.46%	5.93%	-6.23%	-11.93%	-7.88%
20-Day Average Volume (Shares)	3,780,223	405,119	2,124,074	5,333,182	3,371,274	588,935
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	401.43%	17.35%	1.87%	49.28%	70.88%	479.91%
EPS F1 Estimate 12-Week Change	223.01%	18.47%	4.07%	197.96%	201.13%	1,852.94%
EPS Q1 Estimate Monthly Change	53.52%	7.01%	0.86%	44.25%	35.70%	340.52%

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	A
Growth Score	B
Momentum Score	B
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.

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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.