

ConocoPhillips (COP)

\$38.66 (As of 11/18/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: F

Summary

ConocoPhillips holds a bulk of acres in the unconventional plays of Eagle Ford shale, Delaware basin and Bakken shale. Significant opportunities are still there for ConocoPhillips in the Eagle Ford shale, where it owns about 3,800 undrilled locations that could lend access to huge reserves. Notably, ConocoPhillips is buying Concho Resources in an all-stock transaction, valued at \$9.7 billion. Following the transaction closure, the combined firm will be able to save cost and capital of \$500 million, annually. Also, ConocoPhillips' balance sheet is significantly less leveraged than the industry. However, weak oil prices, owing to the coronavirus pandemic, is affecting its bottom line. It missed third-quarter earnings estimates on lower commodity prices and production volumes. Also, exploration costs will likely rise with production restoration.

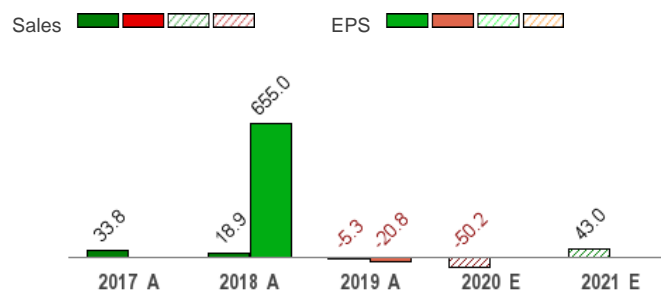
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$67.13 - \$20.84
20-Day Average Volume (Shares)	14,911,416
Market Cap	\$42.0 B
Year-To-Date Price Change	-39.8%
Beta	1.70
Dividend / Dividend Yield	\$1.72 / 4.4%
Industry	Oil and Gas - Integrated - United States
Zacks Industry Rank	Bottom 11% (227 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.3%
Last Sales Surprise	-8.7%
EPS F1 Estimate 4-Week Change	-6.5%
Expected Report Date	02/02/2021
Earnings ESP	-8.7%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	5,575 E	6,393 E	6,845 E	7,252 E	26,104 E
2020	4,811 A	4,016 A	4,380 A	4,935 E	18,251 E
2019	10,057 A	8,380 A	10,093 A	8,140 A	36,670 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.12 E	\$0.15 E	\$0.22 E	\$0.31 E	\$0.54 E
2020	\$0.45 A	-\$0.92 A	-\$0.31 A	-\$0.10 E	-\$0.90 E
2019	\$1.00 A	\$1.01 A	\$0.82 A	\$0.76 A	\$3.59 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 11/18/2020. The reports text is as of 11/19/2020.

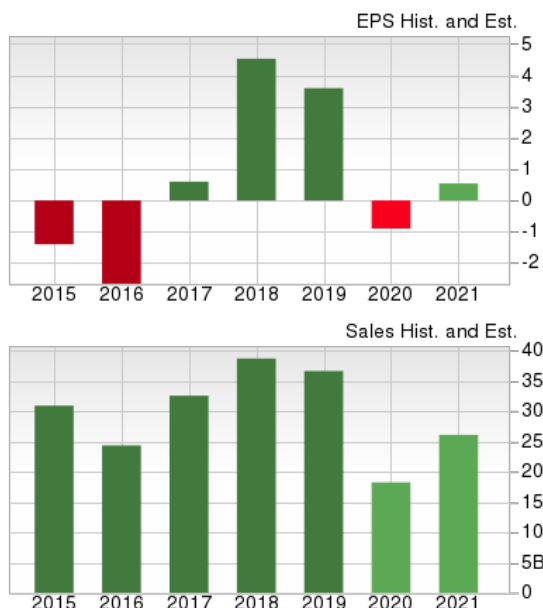
Overview

Headquartered in Houston, TX, ConocoPhillips is primarily involved in the exploration and production of oil and natural gas. Considering proved reserves and production, the company is the largest explorer and producer in the world. The company, founded in 1875, has strong presence across conventional and unconventional plays in 16 countries. ConocoPhillips' low risk and cost-effective operations spread across North America, Asia, Australia and Europe. The upstream energy player also has foothold in Canada's oil sand resources and has exposure to developments related to liquefied natural gas (LNG).

The company ended 2019 with proved reserves of around 5.3 billion barrels of oil equivalent (BOE) and reserve replacement ratio of 100%. Through 2019, the upstream energy player produced 1,348 thousand BOE per day, comprising more than 52.3% oil.

ConocoPhillips is strongly dedicated to returning cash to shareholders through dividend payments and share buybacks. In 2019, the company paid dividend of \$1.5 billion and repurchased \$3.5 billion worth of shares. The company has approval from the board of directors to buy back a total of \$25 billion of common stock. On top of that, ConocoPhillips has achieved a strong balance sheet by lowering debt burden, months ahead of plan.

As part of measures against the impact of coronavirus-induced lockdowns and demand destructions, ConocoPhillips has announced a new capital budget for 2020 of \$4.3 billion, showing an additional reduction of \$1.6 billion. Hence, as compared to the initial guidance, the upstream energy firm has slashed capital budget by a total of \$2.3 billion. This also reflects a reduction of 35% from the original estimate. Importantly, the upstream major is planning to pay dividends of \$20 billion and make \$30 billion of share repurchases over the coming decade. It resumed share repurchase of \$1 billion in the fourth quarter, following a five-month hiatus. It will use the cash available on the balance sheet to fund the stock buybacks. Earlier, it slowed down the pace of the 2020 stock buy-back program due to market uncertainties.



Source: Zacks Investment Research

Reasons To Buy:

▲ The bulk of acres that ConocoPhillips holds in the three big unconventional plays, namely Eagle Ford shale, Delaware basin and Bakken shale, are rich in oil. The company has long-term plans to spend almost \$4 billion per annum on the shale plays and operate around 20 rigs across four major fields. This is expected to ramp up production from the regions from more than 400,000 barrels a day to more than 900,000 barrels by the end of the next decade. The remaining significant opportunities for ConocoPhillips in the Eagle Ford shale, wherein it owns about 3,800 undrilled locations, could lend the company an access to huge oil equivalent potential reserves.

Huge inventory of drilling locations in the Eagle Ford Shale will contribute to ConocoPhillips' production.

▲ As of Sep 30, 2020, the company had \$2,490 million in total cash and cash equivalents, and total long-term debt of nearly \$14,905 million. Its massive liquidity position will enable it to pay off short-term debt of only \$482 million. Also, it has a debt to capitalization of 33%, lower than the industry average of 44%. As such, the balance sheet of ConocoPhillips is significantly less leveraged than the industry it belongs to.

▲ ConocoPhillips resumed share repurchase of \$1 billion in the fourth quarter, following a five-month hiatus. It will use the cash available on the balance sheet to fund the stock buybacks. Earlier, it slowed down the pace of the 2020 stock buy-back program due to market uncertainties. Moreover, it boosted quarterly dividend payments as a shareholder-friendly measure.

▲ ConocoPhillips has confirmed its decision to buy Concho Resources Inc. in an all-stock transaction, valued at \$9.7 billion. During the coronavirus pandemic, this has been the largest oil accord in the United States. Importantly, by 2022, the combined firm will be able to save cost and capital of \$500 million, annually, as estimated by both ConocoPhillips and Concho. Thus, it has become increasingly evident that the oil industry is turning to acquisitions and mergers with an aim of cutting costs that will help combat the pandemic-induced stretch of oil price slump.

Reasons To Sell:

- ▼ Lower oil and gas prices are currently haunting the exploration and production industry. Due to global economic slowdown owing to the coronavirus pandemic, demand for hydrocarbons are not expected to rise anytime soon. This, in turn, will affect oil and gas prices. The low-price environment will likely keep ConocoPhillips' profits under pressure.
- ▼ ConocoPhillips has downwardly revised 2020 capital budget in the wake of a weak crude pricing scenario. The company's revised capital budget for this year is roughly 35% lower than the prior guidance. In its latest operational update, ConocoPhillips revealed its plan of slowing down development operations in the Lower 48 owing to lower capital budget. The upstream firm is also planning to defer drilling activities in Alaska.
- ▼ Reduced operating activities also compelled the firm to lower its production capacity for this year. Full-year 2020 production will likely be within 1,115-1,125 MBoe/d, indicating a decrease from 1,348 MBoe/d in 2019. This can result in lower profit levels for the company during this period.
- ▼ ConocoPhillips' exploration costs more than doubled to \$743 million in 2019 from \$369 million recorded in 2018. Even though, in first nine months of 2020, the upstream energy player's exploration expenses came in at \$410 million, lower than year-ago period's \$592 million due to curtailed activities, it might rise again with the production restoration process.

ConocoPhillips' expectations for comparatively higher production costs and operating expenses are concerning.

Last Earnings Report

ConocoPhillips Misses Q3 Earnings Estimates on Low Crude Prices

ConocoPhillips reported third-quarter 2020 adjusted loss per share of 31 cents, wider than the Zacks Consensus Estimate of a loss of 30 cents. The company recorded adjusted earnings of 82 cents per share a year ago.

Based in Houston, TX, one of the world's largest independent oil and gas producers, ConocoPhillips' quarterly revenues of \$4,380 million declined from third-quarter 2019 sales of \$10,093 million. Moreover, the figure missed the Zacks Consensus Estimate of \$4,797 million.

The weak third-quarter results stemmed from lower realized commodity prices and production volumes. During the September quarter, the company executed production curtailment of 90 thousand barrels of oil equivalent per day (MBoe/d).

Production Falls

Total production averaged 1,067 MBoe/d, down from the year-ago quarter's 1,366 MBoe/d. Of the total output, 51.4% was crude oil. Overall production was lower than the year-ago period, primarily due to planned curtailments and normal field decline. Contributions from Lower 48 Big 3 unconventional resources partially offset the production decline. Libya production remained under force majeure during the third quarter.

ConocoPhillips' production of crude oil came in at 548 thousand barrels per day (MBD), lower than the year-ago quarter's 710 MBD. Moreover, the company's production of natural gas liquids totaled 97 MBD, lower than the year-ago period's 114 MBD. Bitumen production for the quarter was recorded at 49 MBD, lower than the third-quarter 2019 figure of 63 MBD. Also, natural gas output came in at 2,235 million cubic feet per day (MMcf/d), lower than the year-ago level of 2,871 MMcf/d.

Realized Prices Decline

The average realized crude oil price for the third quarter was \$39.45 per barrel, reflecting a decline from the year-ago realization of \$59.57. Realized natural gas liquids price was recorded at \$15.29 per barrel, lower than the year-ago quarter's \$15.59. Average realized natural gas price for third-quarter 2020 was \$2.70 per thousand cubic feet, down from the year-ago period's \$4.74. As such, average realized oil equivalent prices fell to \$30.94 per barrel from the year-ago level of \$47.07.

Total Expenses Fall

ConocoPhillips' third-quarter total expenses contracted to \$4,892 million from \$6,600 million in the corresponding period of 2019. Production and operating expenses fell to \$963 million for the reported quarter from \$1,331 million a year ago. Also, exploration costs decreased to \$125 million for third-quarter 2020 from \$360 million in the comparable period of 2019.

Balance Sheet & Capital Spending

As of Sep 30, 2020, the oil giant had \$2,490 million in total cash and cash equivalents, down from the second-quarter level of \$2,907 million. The company had a total long-term debt of \$14,905 million, up sequentially from \$14,852 million. It had a debt-to-capitalization ratio of 0.33. At third quarter-end, the company had a short-term debt of \$482 million.

Capital expenditures and investments totaled \$1,132 million, and dividend payments grossed \$454 million. Net cash provided by operating activities was recorded at \$868 million, down from the year-ago figure of \$2,337 million.

Outlook

Owing to weak commodity prices due to coronavirus pandemic, the upstream energy player voluntarily curtailed production volumes for a while. With improving crude prices, it has brought back production online. Notably, its Montney third pad is expected to commence in first-quarter 2021. Moreover, the Tor II project in Norway is expected to produce first oil in the fourth quarter.

The company expects fourth-quarter production in the range of 1,125-1,165 MBoe/d. As such, full-year 2020 production will likely be within 1,115-1,125 MBoe/d. The figures exclude production from Libya. It expects operating plan capital for this year to be \$4.3 billion.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	-8.70%
EPS Surprise	-3.33%
Quarterly EPS	-0.31
Annual EPS (TTM)	-0.02

Recent News

ConocoPhillips Confirms \$9.7B Acquisition Deal With Concho – Oct 20, 2020

ConocoPhillips has confirmed its decision to buy Concho Resources Inc. in an all-stock transaction, valued at \$9.7 billion. During the coronavirus pandemic, this has been the largest oil accord in the United States.

Per the agreement, each shareholder of will get 1.46 shares of ConocoPhillips. Thus, the transaction has valued Concho at a 15% premium to its closing price on Oct 13. Once the deal closes in the first quarter of 2021, ConocoPhillips will be able to expand its foot print in the Permian, the most prolific basin in the United States. Importantly, the deal will make the combined entity the largest independent oil firm in America. Per JPMorgan Chase & Co. analysis, the combined firm will be the second-largest producer of oil and gas in Permian, following Occidental Petroleum Corporation.

Importantly, by 2022, the combined firm will be able to save cost and capital of \$500 million, annually, as estimated by both ConocoPhillips and Concho. Thus, it has become increasingly evident that the oil industry is turning to acquisitions and mergers with an aim of cutting costs that will help combat the pandemic-induced stretch of oil price slump.

Overall, the premium that ConocoPhillips will pay for the acquisition is modest, as believed by many analysts. Apart from the all-stock nature of the transaction and the modest premium, another important point that is making most analysts favor the deal is the low debt levels of both ConocoPhillips and Concho. This is because energy players with strong balance sheets are better-positioned to weather the low oil pricing scenario.

Valuation

ConocoPhillips shares are down 39.8% in the year-to-date period, and 34% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Oils-Energy sector are down 48% and 35.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 42.9% and 31.8%, respectively.

The S&P 500 index is up 12.4% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 7.04X trailing 12-month EV/EBITDA, which compares to 7.53X for the Zacks sub-industry, 4.65X for the Zacks sector and 16.10X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.55X and as low as 2.13X, with a 5-year median of 8.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41.00 price target reflects 1.80X F12M sales.

The table below shows summary valuation data for COP.

Valuation Multiples - COP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.04	7.53	4.65	16.1
	5-Year High	23.55	21.78	10.55	16.17
	5-Year Low	2.13	3.3	3.08	9.54
	5-Year Median	8.77	7.8	6.39	13.11
P/S F12M	Current	1.72	1.24	0.74	4.23
	5-Year High	2.63	2.54	1.47	4.3
	5-Year Low	0.83	0.87	0.6	3.17
	5-Year Median	1.88	1.85	0.97	3.67
P/B TTM	Current	1.37	1.05	1.01	6.13
	5-Year High	2.91	2.45	1.57	6.17
	5-Year Low	0.71	0.47	0.53	3.74
	5-Year Median	1.76	1.54	1.33	4.9

As of 11/18/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 11% (227 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Equitrans Midstream Corporation (ETRN)	Outperform	3
Antero Midstream Corporation (AM)	Neutral	3
Hess Corporation (HES)	Neutral	3
Marathon Oil Corporation (MRO)	Neutral	3
Occidental Petroleum Corporation (OXY)	Neutral	4
Tidewater Inc. (TDW)	Neutral	4
Cactus, Inc. (WHD)	Neutral	3
Rattler Midstream LP (RTLRL)	Underperform	4

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

Industry Comparison Industry: Oil And Gas - Integrated - United States				Industry Peers		
	COP	X Industry	S&P 500	HES	MRO	OXY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	D	-	-	D	D	D
Market Cap	42.03 B	330.11 M	25.46 B	14.13 B	4.33 B	11.98 B
# of Analysts	8	5	14	7	11	8
Dividend Yield	4.39%	0.16%	1.51%	2.17%	2.19%	0.31%
Value Score	B	-	-	C	A	B
Cash/Price	0.19	0.16	0.06	0.10	0.28	0.18
EV/EBITDA	2.97	3.09	14.42	7.84	2.84	7.70
PEG F1	NA	0.28	2.76	NA	NA	NA
P/B	1.37	0.89	3.55	2.05	0.40	1.19
P/CF	4.11	3.05	13.64	7.62	1.45	1.60
P/E F1	NA	7.51	21.83	NA	NA	NA
P/S TTM	1.97	1.54	2.79	2.78	1.25	0.61
Earnings Yield	-2.30%	-3.41%	4.41%	-5.28%	-22.77%	-28.59%
Debt/Equity	0.48	0.39	0.70	1.24	0.50	3.56
Cash Flow (\$/share)	9.53	1.89	6.92	6.04	3.78	8.02
Growth Score	D	-	-	D	F	D
Historical EPS Growth (3-5 Years)	147.06%	138.34%	9.79%	NA	NA	129.63%
Projected EPS Growth (F1/F0)	-125.00%	-68.17%	0.36%	-156.24%	-267.27%	-354.06%
Current Cash Flow Growth	-10.21%	-9.26%	5.39%	7.85%	-1.12%	-8.32%
Historical Cash Flow Growth (3-5 Years)	-7.49%	-11.83%	8.31%	-16.17%	-6.25%	-2.26%
Current Ratio	2.38	1.88	1.38	2.20	1.23	1.02
Debt/Capital	32.62%	32.62%	41.97%	55.27%	33.17%	64.38%
Net Margin	-5.66%	-36.71%	10.41%	-63.27%	-32.64%	-76.17%
Return on Equity	-0.02%	-2.42%	15.05%	-11.18%	-6.64%	-15.55%
Sales/Assets	0.33	0.29	0.50	0.25	0.18	0.20
Projected Sales Growth (F1/F0)	-50.23%	-8.76%	0.16%	-22.26%	-40.21%	-18.24%
Momentum Score	F	-	-	F	F	F
Daily Price Change	0.85%	0.00%	-1.09%	-2.71%	-0.18%	-0.92%
1-Week Price Change	21.14%	12.34%	4.23%	18.99%	22.52%	17.88%
4-Week Price Change	27.87%	8.71%	5.95%	23.77%	33.90%	33.23%
12-Week Price Change	4.31%	2.06%	8.63%	-0.58%	3.58%	-0.69%
52-Week Price Change	-34.00%	-37.01%	5.46%	-31.43%	-53.04%	-66.55%
20-Day Average Volume (Shares)	14,911,416	585,867	2,211,978	2,477,862	34,678,728	26,601,516
EPS F1 Estimate 1-Week Change	-0.56%	0.00%	0.00%	0.00%	-0.88%	-1.87%
EPS F1 Estimate 4-Week Change	-6.48%	1.91%	1.67%	-26.88%	-3.45%	-6.20%
EPS F1 Estimate 12-Week Change	-26.86%	3.75%	3.56%	-46.20%	-1.17%	-11.40%
EPS Q1 Estimate Monthly Change	-132.68%	4.65%	0.63%	-123.58%	-13.14%	-8.84%

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	F
VGM Score	D

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

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.