

Carvana Co.(CVNA)

\$279.87 (As of 06/04/21)

Price Target (6-12 Months): **\$294.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

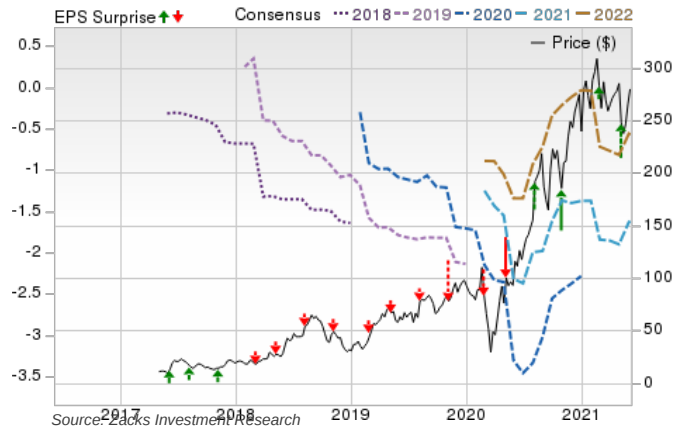
Growth: D

Momentum: A

Summary

Carvana's vertically integrated, online platform for buying and selling cars provides a seamless customer experience and vast vehicle selection. There is an accelerated shift to online used-car sales with consumers' increasing comfort in purchasing big ticket items online amid coronavirus woes. Carvana is witnessing impressive top-line growth on the back of the red-hot used car market and rising adoption of online shopping. The company's upbeat guidance for 2021 also sparks optimism. However, the company has not yet turned a profit amid rising capital and selling, general & administration (SG&A) expenses. Carvana's rising debt levels also play a spoilsport. Stiff competition in the used-car market may pose a threat to Carvana's long-term prospects. As such, the stock warrants a cautious stance at the moment.

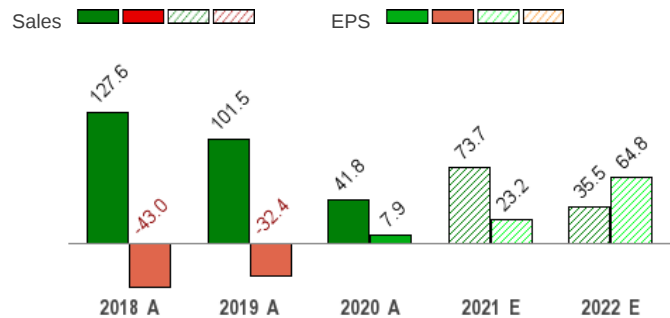
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$323.39 - \$106.56
20-Day Average Volume (Shares)	1,826,973
Market Cap	\$48.2 B
Year-To-Date Price Change	16.8%
Beta	2.40
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 8% (230 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.3%
Last Sales Surprise	15.2%
EPS F1 Estimate 4-Week Change	15.1%
Expected Report Date	08/04/2021
Earnings ESP	1.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,618 E	2,801 E	3,051 E	3,202 E	13,153 E
2021	2,245 A	2,385 E	2,521 E	2,633 E	9,707 E
2020	1,098 A	1,118 A	1,544 A	1,826 A	5,587 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.22 E	-\$0.05 E	\$0.10 E	\$0.13 E	-\$0.57 E
2021	-\$0.46 A	-\$0.41 E	-\$0.33 E	-\$0.45 E	-\$1.62 E
2020	-\$1.19 A	-\$0.62 A	-\$0.10 A	-\$0.41 A	-\$2.11 A

*Quarterly figures may not add up to annual.

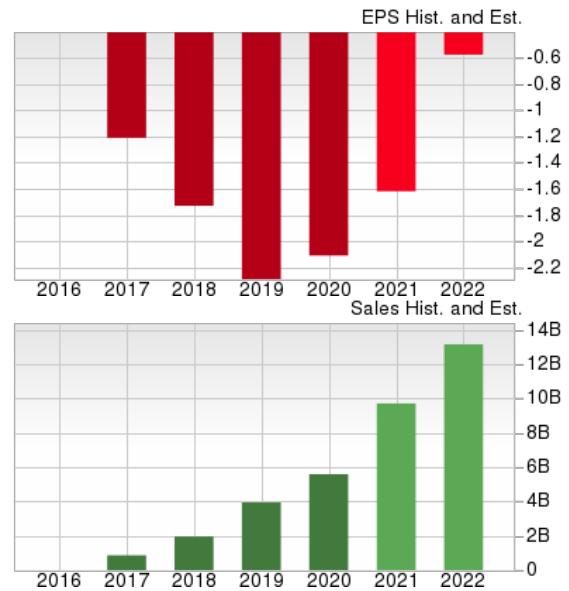
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	7.2

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/04/2021. The report's text and the analyst-provided price target are as of 06/07/2021.

Overview

Headquartered in Phoenix, AZ, Carvana Co. is a leading e-commerce platform for buying and selling used cars. The company, which had filed for its IPO in 2017, has had an amazing run ever since, with revenues jumping more than sixfold between 2017 and 2020. Carvana's end-to-end online business model that covers every aspect of used-car retailing — including sales, financing, logistics, inspection and repair centers, as well as software development — has transformed traditional used-car sales in several ways.

With a mission of changing the way people buy cars, Carvana is harnessing the power of digitization and applying it to the auto industry. It is changing customers' shopping experience by letting them find the perfect car from the comfort of homes without having to haggle with sales people. Thanks to advanced technology, customers can browse through its broad inventory — over 31,000 as of Dec 31, 2020 — of high-quality used cars and get a clear and complete view of the interior and exterior of each car. Once the customers make their selection, the vehicle is either delivered to their home as soon as the next day or available for pick up at a car vending machine. Importantly, the Carvana car vending machine is the first fully-automated, coin-operated car vending machine in the United States, offering a truly memorable pick-up experience for cars purchased through Carvana.com.



Starting from a single market in Atlanta in 2013, Carvana has now expanded to 266 markets as of 2020 end. The company's operating revenues are categorized into three components: used-vehicle sales, wholesale vehicle sales, and other sales and revenues. Used-vehicle sales (accounting for 84.8% of total revenues in 2020) include revenues generated through the sale of used vehicle to customers via website. Wholesale vehicle sales (8%) comprise proceeds from vehicles sold to wholesalers. Other sales and revenues (7.2%) include sales of automotive finance receivables that it originates and sells to third parties.

During the year ended Dec 31, 2020, the number of vehicles sold to retail customers grew 37% year over year to 244,111 units.



Reasons To Buy:

- ▲ Carvana's integrated e-commerce platform encompasses every aspect of used-car retailing. Its end-to-end compelling business model has disrupted traditional used-car sales by allowing consumers to complete shopping from the comfort of homes. The customer-centric operations provide the buyers best user experience, selection, and value. Acquisition of Car360 has enhanced Carvana's 360-degree photo capabilities with 3D computer vision and augmented reality. Moreover, Carvana's expansion efforts bode well for long term growth. As of Q1'21 end, the company has expanded to 288 markets, increasing its population coverage to more than 77% of the U.S. population. It expects to achieve 95% population coverage by opening smaller fill-in markets.
- ▲ Carvana's top-line growth has been super impressive. While the company's revenues have witnessed a compound annual growth rate (CAGR) of 86.7% during the 2017-2020 time frame, the company achieved gross profit per unit (GPU) of \$3,252 in 2020, implying a year over year growth of 14%. Moreover, in light of the encouraging progress made by Carvana on production capacity, management expects 2021 to witness accelerated growth in retail units sold and revenues earned along with GPU in the mid-\$3,000 level.
- ▲ In particular, there is an accelerated shift to online used-car sales, as consumers are increasingly becoming comfortable in purchasing big ticket items online amid coronavirus woes. Carvana's 90-day no loan payment promotion, contactless delivery service and more frequent marketing are also likely helping it boost sales amid the COVID-19 crisis. Used-car online retailers are positioned to thrive not only during the COVID-19 crisis but also in its aftermath amid the changing shopping patterns of consumers. The used-car market has gained traction over the past few years and is poised to witness strong demand going forward. Further, increased use of dedicated online sites to sell used cars is having a positive impact on the used-car market. These favorable trends bode well for Carvana's long-term growth trajectory.
- ▲ The company's next-day delivery in many markets and a seven-day money-back guarantee to help ease concerns about buying online enhance customers' faith and shopping experience. Moreover, its broad inventory of vehicles offers wide selection options. The company has managed to differentiate itself from other dealerships through the nine-storey trademark car vending machines. Carvana's capital- and labor-light business model as against the brick-and-mortar car retailer allows the company to rapidly expand market reach. With a less expensive and zippy approach to selling cars, Carvana is well positioned to further expand the business in the coming years.

Carvana's compelling end-to-end online business model and trademark vending car machine are transforming the shopping experience of buyers and driving top-line growth.

Reasons To Sell:

- ▼ While the company's revenue growth has been impressive, it has not yet turned a profit. In fact, its net loss is widening every year since it went public in 2017. Notably, net loss incurred in 2017, 2018, 2019 and 2020 was \$164.3 million, \$254.7 million, \$364.6 million and \$462.2 million, respectively. The loss can be attributed to the firm's persistently rising capital investments to expand the business. While the company is still in the early stage of development, it is unlikely that it will achieve the necessary scale to turn profitable or even breakeven in the near future.
- ▼ The company's stretched balance sheet is a major headwind. As of Mar 31, 2021, Carvana's long-term debt rose to \$2,254 million, up from the \$936.1 million recorded as of Mar 31, 2020. Its debt to capital ratio stands at 0.77 compared with the industry's 0.15. Elevated leverage, both in absolute and relative terms, restricts the firm's flexibility to tap onto growth opportunities. The firm's debt is also quite high when compared to its cash and cash equivalents of \$370 million. Its weak liquidity is reflected in its cash ratio of 0.6, lower than the industry's 1.11.
- ▼ Carvana is bearing the brunt of escalating selling, general and administrative expenses since its inception and the trend is likely to continue. SG&A costs had amounted to \$223.4 million, \$425.2 million, \$786.7 million and \$1,126 million in 2017, 2018, 2019 and 2020, respectively. The firm's 2020 SG&A were higher than the gross profit of \$793.7 million and up 43% year on year. With SG&A expenses surpassing gross profit in every quarter, the firm has always been in the red. Amid the net losses, high capex and other expenses, the firm hasn't recorded positive free cash flow. Quite obviously, it has not paid any dividend yet and does not intend to resort to investor-friendly moves in the foreseeable future.
- ▼ Stiff competition is another cause of concern. The highly-fragmented nature of the used-car industry makes it competitive, with even the biggest used-car retailer holding 2% of the market share in the industry. This offers opportunity for new players to enter the market easily. Despite swift expansion, Carvana accounts for less than 1% of the used-car sales market. The company faces competition from major franchised dealerships like AutoNation and CarMax, online sellers like Vroom, as well as other independent dealerships. Increased use of ride-hailing services such as Uber and Lyft could also lead to a rise in competition. Moreover, big internet players with a longer track record and greater financial resources may also enter the industry, which might pose threat to its long-term prospects.

High capex and SG&A expenses are hurting the margins of Carvana. Elevated leverage is also a major cause of concern.

Last Earnings Report

Carvana's Q1 Loss Narrows Y/Y, Sales Beat Estimates

Carvana posted first-quarter 2021 loss per share of 46 cents, narrower than the Zacks Consensus Estimate of a loss of 70 cents. Higher-than-anticipated gross profit from the wholesale vehicle segment led to this narrower-than-expected loss. The reported loss is also significantly narrower than the year-ago quarter's loss of \$1.19 per share.

During the first quarter, total revenues came in at \$2,245 million, surpassing the Zacks Consensus Estimate of \$1,948 million. Moreover, the top-line figure increased from the year-ago sales of \$1,098 million.

During the March-end quarter, the number of used vehicles sold to retail customers jumped 76.4% to 92,457 compared with the prior-year period's 52,427. Total gross profit amounted to \$338 million, up a whopping 145% year over year. SG&A expenses came in at \$397 million, flaring up 43.8% year on year.

Segmental Performance

Used vehicle sales totaled \$1,800 million in the first quarter, surging 86.7% year over year. The sales figure also beat the Zacks Consensus Estimate of \$1,673 million. Gross profit for used vehicle amounted to \$112 million, climbing 34.9% year over year. However, the reported figure missed the Zacks Consensus Estimate of \$122 million.

For the reported quarter, wholesale vehicle sales summed \$240 million, soaring 200% year over year. The figure also topped the consensus mark of \$167 million. Gross profit for wholesale vehicle came in at \$21 million, up an outstanding 2,000% year over year. The metric also outpaced the consensus mark of \$11 million.

For the January-March period, other sales and revenues skyrocketed 279.6% year over year to \$205 million. The figure also trumped the Zacks Consensus Estimate of \$151 million. Gross profit came in at \$205 million, surging from the year-ago period's \$54 million. In addition, the metric outpaced the Zacks Consensus Estimate of \$143 million.

Financial Position

Notably, the company had cash and cash equivalents of \$370 million as of Mar 31, 2021, as compared with \$72.4 million as on Mar 31, 2020. Long-term debt amounted to \$2,254 million as of Mar 31, 2021, up from the \$936.1 million recorded as of Mar 31, 2020.

In light of the encouraging progress made by Carvana on production capacity, management projects robust growth throughout this year. The company estimates gross profit per unit in the mid-\$3,000 level in 2021 as compared with \$3,252 recorded in 2020.

Quarter Ending	03/2021
Report Date	May 06, 2021
Sales Surprise	15.22%
EPS Surprise	34.29%
Quarterly EPS	-0.46
Annual EPS (TTM)	-1.59

Valuation

Carvana's shares are up 16.8% and up 146.3% year to date and in the trailing 12-month period, respectively. Year to date, stocks in the Zacks E-Commerce industry and the Zacks Auto-Tires-Trucks sector are down 18.5% and up 1%. Over the past year, the Zacks sub industry and sector are down 4.3% and up 69.8%, respectively.

The S&P 500 index is up 13.3% and 33.2% year to date and in the past year, respectively.

The stock is currently trading at 4.31X forward 12-month sales, which compares to 3.6X for the Zacks sub-industry, 1.13X for the Zacks sector and 4.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.47X and as low as 0.72X, with a 5-year median of 2.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$294 price target reflects 4.53X forward 12-month sales.

The table below shows summary valuation data for CVNA:

Valuation Multiples - CVNA					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.31	3.6	1.13	4.72
	5-Year High	6.47	5.96	1.24	4.74
	5-Year Low	0.72	3.17	0.47	3.21
	5-Year Median	2.22	4.47	0.61	3.72
EV/Sales TTM	Current	7.44	4.11	1.56	4.85
	5-Year High	10.48	8.5	1.66	4.85
	5-Year Low	1.32	3.91	0.65	2.65
	5-Year Median	4	6.26	0.85	3.64
P/B TTM	Current	66.9	6.66	4.52	7.03
	5-Year High	1,465.20	11.19	4.67	7.03
	5-Year Low	NA	5.26	1.09	3.84
	5-Year Median	31.42	8.04	1.7	5.02

As of 06/04/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 8% (230 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
ASOS PLS ADR (ASOMY)	Neutral	3
Booking Holdings Inc. (BKNG)	Neutral	3
Expedia Group, Inc. (EXPE)	Neutral	3
OCADO GROUP PLC (OCDDY)	Neutral	3
Overstock.com, Inc. (OSTK)	Neutral	3
ContextLogic Inc. (WISH)	Neutral	4
ZALANDO SE ADRS (ZLNDY)	Neutral	3
MercadoLibre, Inc. (MELI)	Underperform	4

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	CVNA	X Industry	S&P 500	ASOMY	BKNG	EXPE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	A	F	C
Market Cap	48.24 B	3.89 B	30.49 B	6.98 B	95.07 B	25.19 B
# of Analysts	15	3	12	2	10	8
Dividend Yield	0.00%	0.00%	1.29%	0.00%	0.00%	0.00%
Value Score	F	-	-	B	D	D
Cash/Price	0.01	0.13	0.06	0.02	0.13	0.25
EV/EBITDA	-200.98	1.23	17.32	NA	37.20	-39.49
PEG F1	NA	2.01	2.16	NA	4.14	NA
P/B	66.90	5.53	4.24	5.53	19.95	9.37
P/CF	NA	33.35	17.90	23.59	53.34	33.35
P/E F1	NA	56.35	21.66	32.28	68.27	NA
P/S TTM	7.17	3.86	3.52	NA	16.83	5.95
Earnings Yield	-0.58%	0.90%	4.47%	3.09%	1.46%	-0.33%
Debt/Equity	3.13	0.02	0.66	0.34	2.28	3.15
Cash Flow (\$/share)	-0.32	0.29	6.83	2.96	43.41	5.14
Growth Score	D	-	-	A	F	C
Historical EPS Growth (3-5 Years)	NA%	7.70%	9.44%	NA	-15.18%	13.97%
Projected EPS Growth (F1/F0)	23.28%	25.76%	21.30%	33.64%	620.17%	93.62%
Current Cash Flow Growth	-81.82%	4.29%	0.98%	140.32%	-64.37%	-61.12%
Historical Cash Flow Growth (3-5 Years)	-18.04%	9.42%	7.34%	NA	-10.67%	-6.83%
Current Ratio	3.78	2.18	1.39	0.99	2.18	1.01
Debt/Capital	75.76%	8.00%	41.53%	25.09%	69.50%	69.53%
Net Margin	-2.19%	-1.24%	11.95%	NA	12.44%	-44.59%
Return on Equity	-13.10%	-4.03%	16.36%	NA	-3.81%	-46.52%
Sales/Assets	2.23	0.85	0.51	NA	0.26	0.21
Projected Sales Growth (F1/F0)	73.76%	24.62%	9.30%	30.90%	35.34%	57.37%
Momentum Score	A	-	-	B	D	B
Daily Price Change	2.18%	0.00%	0.34%	2.28%	0.87%	0.39%
1-Week Price Change	5.58%	0.35%	0.58%	1.19%	-1.94%	-3.13%
4-Week Price Change	12.94%	-0.89%	0.29%	-0.23%	-0.49%	-1.18%
12-Week Price Change	-2.38%	-10.07%	8.01%	-6.50%	-3.55%	-1.82%
52-Week Price Change	141.54%	51.13%	33.62%	67.00%	27.75%	84.20%
20-Day Average Volume (Shares)	1,826,973	319,946	1,797,059	987	319,946	2,295,055
EPS F1 Estimate 1-Week Change	1.02%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	15.08%	0.00%	0.07%	1.64%	-10.36%	6.73%
EPS F1 Estimate 12-Week Change	12.31%	-1.94%	3.32%	14.55%	-16.89%	14.78%
EPS Q1 Estimate Monthly Change	-4.02%	0.00%	0.00%	NA	-205.70%	-15.63%

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	F
Growth Score	D
Momentum Score	A
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.