California Water (CWT)

$57.17 (As of 04/05/21)

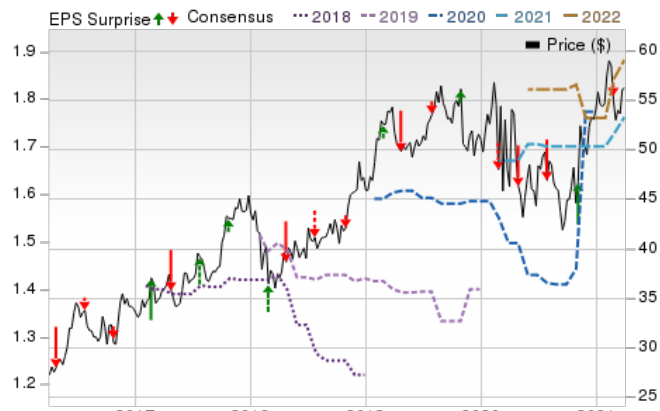
Price Target (6-12 Months): **$60.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/01/21) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: F	

Summary

California Water Service's fourth-quarter earnings miss estimates, while revenues beat the same. Investments in infrastructure will help it provide efficient water and wastewater services to customers. The utility continues to expand operations through buyouts. New rates coming into effect will continue to provide benefit. It has ample current liquidity to meet near-term debt obligations. Also, it continues to boost shareholder's value via regular dividend hikes. Shares of California Water Service have outperformed the industry in the past three months. However, changes in any existing environment-related laws could increase operational costs. Also, fluctuating weather conditions and risk of contamination of water are headwinds. Further, a significant part of its operations is concentrated in California, exposing it to various risks.

Price, Consensus & Surprise

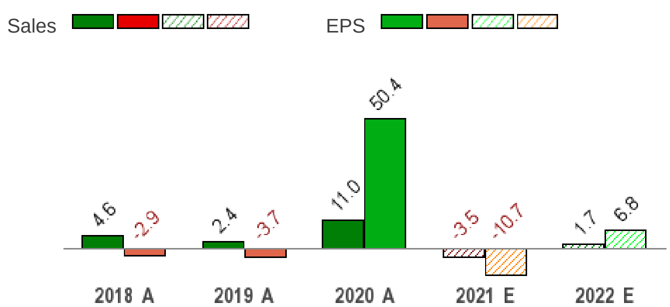


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$60.50 - $41.19**
20-Day Average Volume (Shares)	**247,323**
Market Cap	**$2.8 B**
Year-To-Date Price Change	**4.0%**
Beta	**0.09**
Dividend / Dividend Yield	**$0.92 / 1.6%**
Industry	**Utility - Water Supply**
Zacks Industry Rank	**Bottom 13% (221 out of 253)**
Last EPS Surprise	**-11.4%**
Last Sales Surprise	**2.8%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**04/29/2021**
Earnings ESP	**0.0%**
P/E TTM	**29.0**
P/E F1	**32.5**
PEG F1	**NA**
P/S TTM	**3.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	136 E	189 E	255 E	205 E	779 E
2021	131 E	187 E	252 E	197 E	766 E
2020	126 A	175 A	304 A	189 A	794 A

EPS Estimates

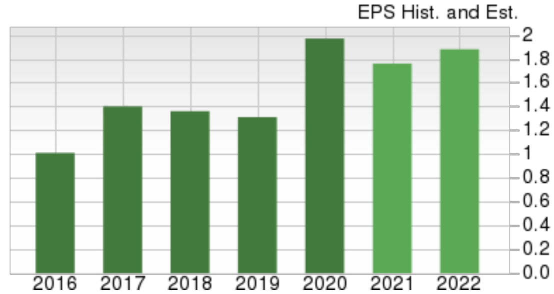
	Q1	Q2	Q3	Q4	Annual*
2022	-$0.04 E	$0.50 E	$0.95 E	$0.41 E	$1.88 E
2021	$0.00 E	$0.44 E	$0.90 E	$0.35 E	$1.76 E
2020	-$0.42 A	$0.11 A	$1.94 A	$0.31 A	$1.97 A

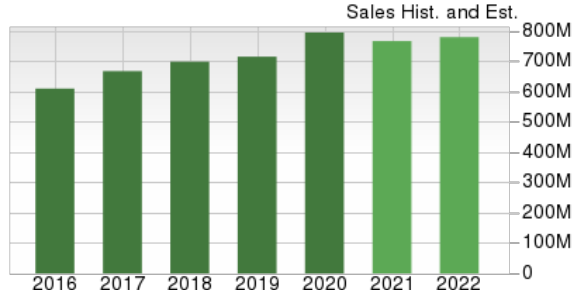
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/05/2021. The report's text and the analyst-provided price target are as of 04/06/2021.

Overview

California Water Service Group incorporated in 1999 is the third largest investor-owned water utility in the United States. The utility has six subsidiaries- California Water Service, Washington Water Service Company, New Mexico Water Service Company, Hawaii Water Service Company, CWS Utility Services, and HWS Utility Services. Along with its units, it provides regulated and non-regulated high-quality water and wastewater services to nearly 2 million people in 100 communities.





The Company only operates in one reportable segment, providing water and related utility services. The business operations consists of the production, purchase, storage, treatment, testing, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. In some areas, it also provides wastewater collections and treatment services, including treatment which allows water recycling. The company's non-regulated services include full water system operation, billing and meter reading services, lease of communication antenna sites, lab services and promotion of other non-regulated services.

Regulated Business: California Water operations are conducted by Cal Water, which provides service to nearly 492,600 customer connections in around 100 California communities through 21 separate districts. Its operations account for nearly 90.7% of total customer connections and 93.8% of total consolidated operating revenue.

Non-Regulated Activities: Under the non-regulated contract arrangements, the utility operates municipally owned water systems, privately owned water and recycled water distribution systems, but are not responsible for all operating costs. Non-regulated revenue received from water system operations is generally determined on a fee-per-customer basis.

Source: Zacks Investment Research

Reasons To Buy:

New water rates coming into effect, planned organic and inorganic initiatives, regular dividend hikes and increased liquidity will drive the company's long-term growth.

- Shares of California Water Service have gained 1.5% against the industry's fall of 1.1% in the past three months. California Water Service's primary focus is to expand operation in western United States and continues to explore new opportunities to expand regulated and non-regulated water and wastewater activities. Its customer base has increased by 4.3% year-over-year in 2020.

  New avenues to expand its current operations could include system acquisitions, lease arrangements similar to the City of Hawthorne and City of Commerce contracts, full service system operation and maintenance agreements, meter reading, billing contracts and other utility-related services.

- The utility has invested $298.7 million in the 2020 up from $273.8 million in 2019. The company's capital estimates for 2021 are $270-$300 million. It also began water main replacement project in Rolling Hills to maintain the reliability of its services. The utility is on a buyout spree to broaden its business scope. Recently, its arm, Hawaii Water Service has inked a deal to acquire Keauhou Community Services, Inc.'s wastewater system assets and to provide wastewater utility service to its customers in Keauhou on the island of Hawaii.

  The company is not only boosting its operations via inorganic activities but is also resorting to organic prospects. In October, the utility completed the Palos Verdes Peninsula Water Reliability Project, increasing the local residents' reliability on the drinking water infrastructure on the Palos Verdes Peninsula. Such strategic actions to upgrade its infrastructure are likely to boost its customer base in the future, by increasing the resilience and reliability of its operations.

- The consistent performance of the company helps it continue with its shareholder-friendly move. The utility has been increasing the dividend every year since the inception of the payment. Most recently, in January 2021, it increased the annual dividend by 8.2% to 92 cents per share from 85 cents, marking the utility's 54th consecutive annual dividend hike. On a long-term basis, California Water Service targets to achieve a dividend payout ratio of 60% of net income. The company's current dividend yield is 1.64%, better than the Zacks S&P 500 composite's 1.31%.

- The company's current long term debt to capital is 45.88%, better than the Utilities sector's 51.39% and lower than 46.86% in the prior quarter. It has ample liquidity to meet near-term obligations. As of Dec 31, it had $44.6 million of cash and additional current capacity of more than $180 million on lines of credit, subject to meeting borrowing conditions. Further, in November, the California Public Utilities Commission (CPUC) approved the utility's request for an additional $700 million of authorization for debt and equity financing to fund its capital improvement program through 2025.

  Moreover, its times interest earned ratio has improved. It came in at 3.26 at the end of fourth-quarter 2020, up from 2.44 at the end of fourth-quarter 2019. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, this improving ratio is reassuring for investors.

- The company has been benefiting from rate increase since the beginning of 2014. Net income increased by $4.2 million to $15.5 million due to adoption of California GRC and lower income tax expenses due to repairs deductions for mainline replacements. The ongoing expansion of the rate base will have a positive impact on its earnings over the long term.

Reasons To Sell:

- The aging water infrastructure remains a concern for the company. Additions and improvement in the existing water infrastructure require huge capital investments. If the company fails to procure the required capital or at a desirable rate, it could hamper its operations.

  Moreover, in 2020, commercial and industrial customers accounted for 22.2% of the utility's revenues. Significant decrease in consumption of such customers could have material impact on its operating results.

- The utility operates in a highly regulated environment and any changes in existing laws and conditions could increase the operating costs, thereby having an adverse impact on the business of the company.

  The risk of contamination of water supplied by the company is a concern and could lead to interruption of services provided to customers, and result in losses and damages. This might lead to litigation issues damaging the utility's financial condition and reputation.

- Weather plays a significant role in the increase/decrease in demand of fresh water and wastewater services. Demand for water during the warmer and dry months is generally higher than during cooler or rainy months due primarily to increased water usage for irrigation systems, swimming pools, cooling systems and other applications.

- While the company has operations in various states, more than 93.8% of it is concentrated in California. This lack of diversification causes its operations to be subjected to weather, political, water supply, labor, energy cost, regulatory and economic risksof a single state. It might also need to purchase land for infrastructure and expansion, but property market in Californiais more volatile and costly compared with other states. This can adversely impact growth and financials.

Depending on a single state for the majority of its earnings, changes in regulations, an aging water infrastructure and the risk of water contamination could adversely impact its operations.

Last Earnings Report

California Water Q4 Earnings Lag, Revenues Beat Mark

Quarter Ending	12/2020
Report Date	Feb 25, 2021
Sales Surprise	2.80%
EPS Surprise	-11.43%
Quarterly EPS	0.31
Annual EPS (TTM)	1.94

California Water generated fourth-quarter 2020 earnings of 31 cents per share, which missed the Zacks Consensus Estimate of 35 cents by 11.4%. However, the bottom line improved 29.2% from 24 cents in the year-ago quarter.

Total Revenues

Operating revenues of $189.2 million beat the Zacks Consensus Estimate of $184 million by 2.8%. The top line also improved 6.9% from $176.9 million in the prior-year quarter.

Operational Update

In the quarter under review, California Water's total operating expenses were $164.1 million, up 4.9% year over year.

In the fourth quarter, net operating income was $25 million, up 23% from the year-ago quarter.

Interest expenses were $11.5 million, up 1% year over year.

Financial Update

As of Dec 31, 2020, the company had cash and cash equivalents of $44.6 million compared with $42.7 million as of Dec 31, 2019.

As of Dec 31, 2020, the company's net long-term debt was down to $781.1 million from $786.8 million as of Dec 31, 2019.

Guidance

The company expects to invest $270-$300 million in 2021.

Recent News

California Water's Arm to Maintain Stroh's Water System- Mar 31, 2021

A subsidiary of California Water Washington Water Service inked a deal to operate and maintain Stroh's Water Company's water system. This operation and maintenance (O&M) agreement will run for a two-year term and provide with an opportunity to purchase the system in the future.

Notably, the water system serves 1,000 customer connections near the unit's existing service areas. Washington Water aims to improve the reliability of Stroh's Water services by interconnecting the East Pierce system with its own. Per the agreement, Washington Water will also provide billing, customer service and emergency services to Stroh's Water customers.

California Water to Buy Skylonda Mutual Water's Assets- Mar 15, 2021

California Water's unit California Water Service inked a deal to acquire the water system assets of Skylonda Mutual Water Company. The deal is expected to close in 2022 and is subject to the approval of the California Public Utilities Commission.

Following the closure of the agreement, the subsidiary will provide water services to Skylonda Mutual Water Company's customers through the Bear Gulch District where the buyer's water lines run parallel to the seller's 176 customer connections. The unit will invest in Skylonda's water system infrastructure to maintain and upgrade its services as well as to enhance the reliability of the same.

California Water's Unit Gets Nod to Buy Water Assets- Mar 11, 2021

California Water's unit Hawaii Water Service received necessary permission from The Hawaii Public Utilities Commission to acquire the assets of Kapalua Water Company and Kapalua Waste Treatment Company from Maui Land and Pineapple Company (ML&P).

If the acquisition succeeds, the water utility will provide water and wastewater services to 1,000 service connections in the Kapalua, Maui resort area along with the expansion areas of Kapalua, which are developed by ML&P.

Valuation

California Water shares are up 5.8% in the year-to-date period, and 16.4% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 1.8% but the Zacks Utility sector was up 3.3% in the year-to-date period. Over the past year, the Zacks sub-industry are up 21% and the sector is up 18.3%.

The S&P 500 index is up 7.4% in the year-to-date period and 53.8% in the past year.

The stock is currently trading at 31.91X of forward 12 months earnings, which compares to 17.82X for the Zacks sub-industry, 13.79X for the Zacks sector and 22.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.05X and as low as 23.50X, with a 5-year median of 29.85X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our $60 price target reflects 33.49X of forward 12 months earnings.

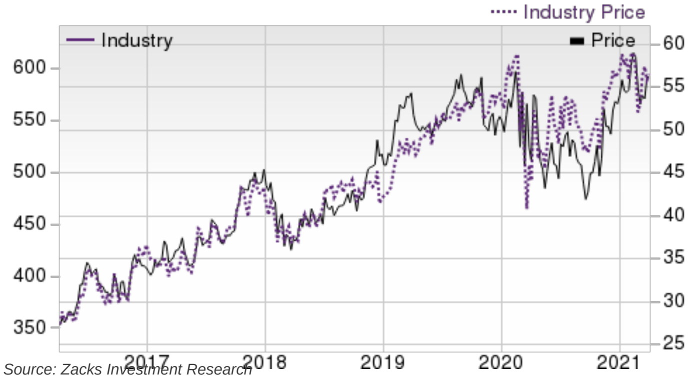
The table below shows summary valuation data for CWT

Valuation Multiples -CWT

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	31.91	17.82	13.79	22.66
	5-Year High	39.05	25.2	15.17	23.83
	5-Year Low	23.5	16.83	11.39	15.3
	5-Year Median	29.85	18.71	13.54	18
P/S F12M	Current	3.74	7.04	2.65	4.64
	5-Year High	3.94	7.74	3.23	4.64
	5-Year Low	2.07	2.49	1.81	3.21
	5-Year Median	2.95	3.97	2.2	3.69
P/B TTM	Current	3.12	3.94	3.58	6.79
	5-Year High	3.8	4.37	3.92	6.79
	5-Year Low	2.02	2.5	2.37	3.83
	5-Year Median	2.88	3.08	2.75	4.98

As of 4/5/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 13% (221 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Water Works Company, Inc. **(AWK)**	Neutral	3
American States Water Company **(AWR)**	Neutral	3
Consolidated Water Co. Ltd. **(CWCO)**	Neutral	4
Middlesex Water Company **(MSEX)**	Neutral	3
Essential Utilities Inc. **(WTRG)**	Neutral	3
The York Water Company **(YORW)**	Neutral	3
Global Water Resources, Inc. **(GWRS)**	Underperform	5
SJW Group **(SJW)**	Underperform	4

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

Industry Comparison Industry: Utility - Water Supply

Industry Peers

	CWT	X Industry	S&P 500	AWR	MSEX	SJW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	F	-	-	D	D	B
Market Cap	2.83 B	1.61 B	29.75 B	2.80 B	1.38 B	1.79 B
# of Analysts	4	1.5	13	2	2	3
Dividend Yield	1.64%	1.55%	1.31%	1.77%	1.38%	2.17%
Value Score	D	-	-	D	D	B
Cash/Price	0.02	0.02	0.06	0.01	0.00	0.01
EV/EBITDA	14.83	19.22	16.95	19.22	26.58	14.41
PEG F1	NA	4.32	2.35	NA	NA	NA
P/B	3.04	2.27	3.95	4.36	3.99	1.95
P/CF	14.38	15.62	16.86	22.75	23.52	11.76
P/E F1	32.48	31.56	21.87	31.56	34.71	27.46
P/S TTM	3.56	6.49	3.39	5.74	9.77	3.17
Earnings Yield	3.13%	3.16%	4.49%	3.16%	2.88%	3.64%
Debt/Equity	0.85	0.86	0.66	0.90	0.79	1.40
Cash Flow ($/share)	3.98	2.30	6.78	3.35	3.39	5.44
Growth Score	F	-	-	D	F	C
Historical EPS Growth (3-5 Years)	8.70%	7.82%	9.39%	7.82%	13.89%	-4.76%
Projected EPS Growth (F1/F0)	-10.66%	6.65%	15.24%	3.22%	4.59%	6.54%
Current Cash Flow Growth	27.73%	8.68%	0.44%	7.97%	15.93%	30.52%
Historical Cash Flow Growth (3-5 Years)	12.70%	12.52%	7.37%	3.61%	12.35%	14.15%
Current Ratio	0.45	0.86	1.39	1.33	0.60	0.36
Debt/Capital	45.88%	46.31%	41.26%	47.24%	43.96%	58.40%
Net Margin	12.19%	14.95%	10.59%	17.70%	27.14%	10.90%
Return on Equity	11.57%	9.43%	14.86%	13.83%	11.39%	7.05%
Sales/Assets	0.24	0.17	0.51	0.28	0.15	0.17
Projected Sales Growth (F1/F0)	-3.56%	3.33%	7.36%	3.33%	2.41%	2.98%
Momentum Score	F	-	-	C	B	D
Daily Price Change	1.71%	1.40%	1.04%	0.47%	0.82%	2.24%
1-Week Price Change	0.27%	0.81%	0.35%	0.61%	-0.08%	0.40%
4-Week Price Change	7.16%	6.89%	5.47%	6.61%	11.44%	1.93%
12-Week Price Change	3.27%	2.83%	9.17%	-5.51%	13.32%	-7.69%
52-Week Price Change	12.61%	15.56%	61.87%	-10.36%	31.06%	4.90%
20-Day Average Volume (Shares)	247,323	171,391	2,120,273	224,274	102,025	184,560
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.58%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.58%
EPS F1 Estimate 12-Week Change	3.53%	0.26%	2.19%	0.84%	3.40%	-4.34%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	-2.70%

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	D
Growth Score	F
Momentum Score	F
VGM Score	F

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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Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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 mediumterm 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 mostrecent 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.