

Expedia, Inc. (EXPE)

\$162.78 (As of 02/24/21)

Price Target (6-12 Months): **\$171.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/08/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

Expedia's fourth quarter results were negatively impacted by coronavirus-led negative impacts on the worldwide travel activities. Nevertheless, the company has now started witnessing moderation in the cancellation of bookings. Further, improving performance of Vrbo remains a positive. Growing bookings via Vrbo is benefiting the company. Additionally, cost-saving initiatives of the company remain tailwinds. Also, Expedia's strengthening global lodging portfolio is a major positive. Further, its strong supply acquisition efforts, strategic investments and product innovation endeavors remain key catalysts. Notably, the stock has outperformed its industry over a year. However, headwinds in the global travel industry owing to the pandemic are primary concerns. Further, sluggishness in the company's travel segment remains an overhang.

Price, Consensus & Surprise

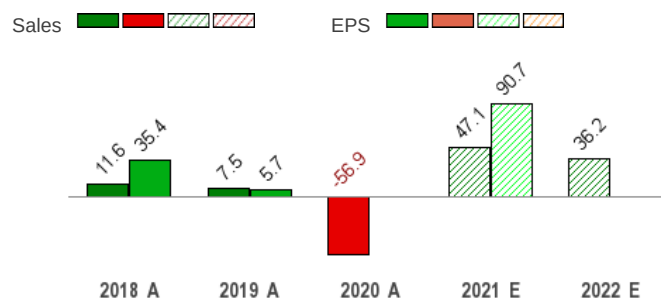


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$166.57 - \$40.76
20-Day Average Volume (Shares)	3,699,272
Market Cap	\$23.4 B
Year-To-Date Price Change	23.0%
Beta	1.70
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 20% (203 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-36.8%
Last Sales Surprise	-16.8%
EPS F1 Estimate 4-Week Change	-164.9%
Expected Report Date	05/19/2021
Earnings ESP	0.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,169 E	2,662 E	3,172 E	2,415 E	10,417 E
2021	1,124 E	1,823 E	2,550 E	2,089 E	7,649 E
2020	2,209 A	566 A	1,504 A	920 A	5,199 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.06 E	\$1.40 E	\$2.56 E	\$0.78 E	\$5.35 E
2021	-\$2.49 E	-\$0.48 E	\$2.14 E	\$0.21 E	-\$0.82 E
2020	-\$1.83 A	-\$4.09 A	-\$0.22 A	-\$2.64 A	-\$8.78 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 02/24/2021. The report's text and the analyst-provided price target are as of 02/25/2021.

Overview

Bellevue, Washington-based Expedia Group, Inc. is one of the largest online travel companies in the world. The company's web portals focus on travel planning, travel purchases and travel experience sharing thus bringing suppliers and consumers of travel-related services together.

Along with destination and flight plan choices, the websites also provide details of the places to be visited, maps, local restaurants, things to do, cruises, special offers and consumer reviews so prospective customers can view their options, partake in offers, check reviews and book according to their preferences.

The company generated \$5.2 billion of revenues in 2020, of which 76.8% was from the Retail segment. B2B and trivago accounted 18.1% and 5.4%, respectively. Further, Corporate segment comprising Bodybuilding.com, which was acquired in 2019 and sold in second-quarter 2020, accounted for 1.1% of total revenues.

Under the Merchant model (62.7% of revenues), the company takes over the marketing functions of its supplier and directly sells to customers. Under the Agency model (24.4%), the company acts as an agent accepting bookings from customers and transferring them to the relevant airline, hotel, car rental company or cruise line for a commission. The Advertising & Media (Trivago and the Media Solutions Group) segment contributed 12.9% of the revenues..

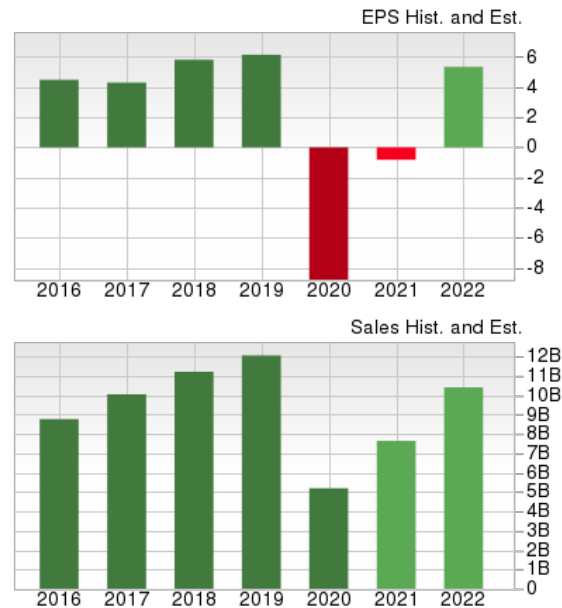
The most popular corporate brands include Expedia.com, Hotels.com, Hotwire.com, Venere, TripAdvisor.com, Classic Vacations, Expedia Local Expert, Egencia and Vrbo.

To support these brands, the company operates many technology platforms. Its Brand Expedia platform supports Orbitz, Travelocity, Wotif Group, CheapTickets, ebookers, Expedia Local Expert and certain parts of Hotwire.

The Hotels.com technology platform supports Hotels.com and EAN, the hotel-only offerings of the company.

Around 67.5% of total revenues were generated domestically, with the international locations contributing 32.5%.

The largest peer companies are Priceline.com, as well as international players like MakeMyTrip, Ctrip and Qunar.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Expedia has an effective quantitative model which holds promise. It helps to study customer behavior and spending patterns, as well as the company's success rates. These success rates are used for winning suppliers which in turn strengthens the Expedia's offering to the customers. These offerings help in attracting more customers, which in turn generates revenue for the company. It is this platform that hotels and other travel providers are attracted to. Further, the company has a very strong position in the domestic market and continues to consolidate its strengths here, making it all the more important for hotels to share inventory with it.
- ▲ With trade and cultural barriers receding in many countries and increased outsourcing activity, the number of travelers moving across the world has risen significantly. The company is capitalizing on this opportunity by adding inventory, collaborating with local players and stepping up its own marketing efforts. All these factors are helping the company to make the most of travel opportunities worldwide, which in turn are strengthening its international footprints. Notably, Expedia holds a broad multi-product supply portfolio — with nearly 1.6 million properties, including over 765,000 of Vrbo's over 2.1 million online bookable alternative accommodations listings, in 200 countries and territories, over 500 airlines, packages, rental cars, cruises, and insurance.
- ▲ Expedia has been snapping up companies to increase its penetration in existing markets, expand in others. The buyouts of Wotif, Travelocity, Orbitz and Vrbo will continue to drive growth in the online travel space. Wotif continues to aid the company's presence in Australia and New Zealand. The Travelocity acquisition appears to have been brewing for some time now. Orbitz has added some important flights technology, particularly on the business side and helped the company consolidate its leading position in the domestic market. Notably, both Travelocity and Orbitz are full-service travel brands with websites in seven European nations. Further, the acquisition of Vrbo has added vacation rental apartments to the company's hotels portfolio. This is a completely new area with significant growth prospects. We believe Vrbo will continue to perform well and drive the gross bookings and stayed room nights. This will in turn, boost the top-line growth of the company.

A solid travel booking platform, a stronger travel market, contribution from a series of acquisitions and management execution are positives.

Reasons To Sell:

- ▼ Expedia continues to see a significant amount of litigation. This is mainly because there seems to be a doubt about whether its revenue is taxable under the tax ordinances applicable to hotels. It has been argued that had the hotels charged customers directly, they would have charged higher rates than the online travel companies who acquire inventory at wholesale prices. Therefore, a higher amount would have come under the ambit of occupancy tax. Additionally, it appears that the online travel companies have been collecting cash from customers in the name of occupancy taxes on the retail value of rooms sold, but remitting taxes on wholesale prices to hotels. Online travel companies have been winning some cases and losing some, but they have paid significant amount of taxes in some states.
- ▼ Since the proliferation of smartphones and app usage to search for travel information have reduced dependence on search engines, Expedia's relationship with Google has turned problematic. Google's venture into the online travel market has increased competition and costs for Expedia. Google allows users to compare airline tickets across various travel sites on its search platform, thus putting online travel agencies, such as Expedia at risk. Google Travel, which combines Google Flights, Google Hotels, vacation packages and a variety of trip-planning tools and recommendations under one umbrella, remains a major headwind for Expedia.
- ▼ Expedia Group also has a leveraged balance sheet. As of Dec 31, 2020, the company's net debt was \$4.8 billion compared with \$3.8 billion as of Sep 30, 2020. Moreover, debt-to-capital stands at 73.2% as of Dec 31, 2020 which is up from 72.4% as of Sep 30, 2020. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates.

We think that increasing competition across geographies and litigation issues remain major concerns.

Last Earnings Report

Expedia Reports Loss in Q4

Expedia Group reported fourth-quarter 2020 adjusted loss of \$2.64 per share, wider than the Zacks Consensus Estimate of a loss of \$1.93. Further, the bottom line is wider than the prior quarter's loss of 22 cents per share. Notably, the company reported earnings of \$1.24 per share in the year-ago quarter.

Revenues of \$920 million missed the Zacks Consensus Estimate of \$1.1 billion. Further, the top line declined 38.8% sequentially and 67% year over year.

Disruptions caused by the ongoing pandemic remained a major woe. Increasing number of COVID-19 cases worldwide resulting in the shutdown of several travel markets hurt the performance of the company in the fourth quarter.

Expedia's gross bookings were \$7.6 billion, which fell 12.3% from the previous quarter and 67% year over year. Further, the figure missed the Zacks Consensus Estimate of \$7.7 billion.

Headwinds in the global travel industry due to the coronavirus outbreak are major concerns for the company in the days ahead.

Nevertheless, optimism regarding the widespread availability of coronavirus vaccines remains a tailwind.

Further, the improving performance of Vrbo remains a positive. The growing momentum of Vrbo in room nights stayed is likely to contributed well in the near term. Additionally, proper execution of the company's cost-saving strategies remained a tailwind.

Revenues by Segment

Retail: The company generated \$720 million in revenues (76.3% of total revenues) from the segment, which declined 64% year over year.

B2B: The segment yielded revenues of \$186 million (20.2% of total revenues), which fell 71% from the year-ago quarter.

trivago: Revenues from the segment totaled \$38 million (4.1% of revenues), down 78% year over year.

Revenues by Business Model

The Merchant model generated revenues of \$521 million (56.6% of revenues), down 67% year over year. Merchant gross bookings were \$4.2 billion, down 63% from the prior-year quarter.

The Agency division generated revenues of \$271 million (29.5% of revenues), slumping 67% from the prior-year quarter. Agency gross bookings were \$3.4 billion, down 72% year over year.

Advertising & Media and other generated \$128 million of revenues (13.9% of the top line), decreasing 62% from the year-ago quarter. This can primarily be attributed to sluggishness in Expedia Group Media Solutions and trivago.

Revenues by Geography

Expedia generated \$698 million revenues (75.9% of total revenues) from domestic regions, down 56% from the prior-year quarter.

Further, revenues generated from international regions totalled \$222 million (24.1% of revenues), down 81% on a year-over-year basis.

Revenues by Product Line

Lodging revenues, which accounted for 86% of total revenues, declined 58% from the prior-year quarter. Although the company witnessed a 6% rise in revenues per room night, stayed room nights declined 61%.

Air revenues accounted for 4% of revenues. The metric was down 80% year over year. Notably, air tickets sold and revenue per ticket plunged 69% and 35% year over year, respectively.

Operating Details

Adjusted EBITDA was (\$160) million in the reported quarter compared with \$478 million in the year-ago quarter.

Further, adjusted selling and marketing expenses were \$500 million, down 60.2% year over year. Additionally, adjusted general and administrative expenses were \$105 million, down 42.3% year over year. Adjusted technology and content expenses were \$207 million, down 31.7% from the year-ago quarter.

The company reported fourth-quarter operating loss of \$463 million against the operating income of \$160 million in the year-ago quarter.

Balance Sheet & Cash Flow

As of Dec 31, 2020, cash and cash equivalents were \$3.4 billion, down from \$4.3 billion as of Sep 30, 2020. Short-term investments totaled \$24 million, up from \$23 million in the previous quarter.

Additionally, long-term debt was \$8.2 billion at the end of the fourth quarter compared with \$8.1 billion at the end of the third quarter.

Quarter Ending	12/2020
Report Date	Feb 11, 2021
Sales Surprise	-16.80%
EPS Surprise	-36.79%
Quarterly EPS	-2.64
Annual EPS (TTM)	-8.78

Further, Expedia utilized \$385 million of cash in operations in the reported quarter compared to \$819 million of cash used in operations in the last quarter. Moreover, free cash flow was (\$513) million in the fourth quarter.

Recent News

On **Feb 17, 2021**, Expedia Group priced \$1 billion aggregate principal amount worth unsecured 2.950% Senior Notes due 2031, which will be issued at a price of 99.081% of the aggregate principal amount.

Valuation

Expedia Group shares are up 66% in the six-month period and 55.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 9.7% while the same in the Zacks Retail And Wholesale sector are up 0.7% in the six-month period. Over the past year, the Zacks sub-industry and the sector are up 49.2% and 38.3%, respectively.

The S&P 500 index is up 13.5% in the six-month period and 26.2% in the past year.

The stock is currently trading at 2.89X forward 12-month sales, which compares to 4.48X for the Zacks sub-industry, 1.33X for the Zacks sector and 4.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.97X and as low as 0.5X, with a 5-year median of 1.64X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$171 price target reflects 3.04X forward 12-month sales.

The table below shows summary valuation data for EXPE

Valuation Multiples - EXPE					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.89	4.48	1.33	4.58
	5-Year High	5.97	5.97	1.33	4.58
	5-Year Low	0.5	3.19	0.84	3.21
	5-Year Median	1.64	4.67	1.02	3.68
P/B TTM	Current	7.25	7.2	5.64	6.95
	5-Year High	7.25	11.19	6.49	6.97
	5-Year Low	1.18	5.27	3.8	3.84
	5-Year Median	3.35	8.05	5.12	4.97
EV/Sales TTM	Current	7.8	5.64	1.5	4.51
	5-Year High	7.8	8.5	1.61	4.51
	5-Year Low	1.18	3.94	0.97	2.63
	5-Year Median	3.36	6.34	1.19	3.57

As of 02/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
eBay Inc. (EBAY)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	3
Booking Holdings Inc. (BKNG)	Neutral	4
Carnival Corporation (CCL)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
MakeMyTrip Limited (MMYT)	Neutral	3
TripAdvisor, Inc. (TRIP)	Neutral	3
Alibaba Group Holding Limited (BABA)	Underperform	5

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	EXPE	X Industry	S&P 500	AMZN	BKNG	TRIP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	F	-	-	A	F	F
Market Cap	23.42 B	4.50 B	27.72 B	1,591.03 B	100.07 B	6.67 B
# of Analysts	10	3.5	13	18	15	8
Dividend Yield	0.00%	0.00%	1.45%	0.00%	0.00%	0.00%
Value Score	F	-	-	D	D	F
Cash/Price	0.18	0.09	0.06	0.05	0.12	0.08
EV/EBITDA	-39.63	11.00	15.30	30.12	14.91	-33.06
PEG F1	NA	2.78	2.37	2.37	4.14	NA
P/B	7.80	7.75	3.89	17.03	20.37	7.52
P/CF	31.67	30.72	15.89	34.15	20.50	NA
P/E F1	NA	52.91	21.11	63.88	46.93	216.66
P/S TTM	4.50	3.25	3.19	4.12	14.73	11.04
Earnings Yield	-0.50%	1.10%	4.65%	1.57%	2.13%	0.46%
Debt/Equity	2.74	0.15	0.66	0.34	2.39	0.63
Cash Flow (\$/share)	5.14	0.33	6.64	92.50	119.22	-0.93
Growth Score	F	-	-	A	D	D
Historical EPS Growth (3-5 Years)	15.10%	5.29%	9.34%	78.50%	4.35%	-6.29%
Projected EPS Growth (F1/F0)	90.64%	31.57%	13.95%	18.25%	1,005.52%	118.45%
Current Cash Flow Growth	-61.12%	1.20%	1.21%	39.56%	1.20%	-144.79%
Historical Cash Flow Growth (3-5 Years)	-6.83%	11.27%	7.62%	46.61%	11.28%	NA
Current Ratio	1.04	1.67	1.38	1.05	3.17	2.37
Debt/Capital	67.11%	18.09%	41.22%	25.41%	70.52%	38.81%
Net Margin	-50.24%	-0.12%	10.59%	5.53%	0.87%	-48.01%
Return on Equity	-41.39%	2.99%	14.82%	27.07%	4.57%	-27.91%
Sales/Assets	0.26	0.85	0.51	1.43	0.33	0.28
Projected Sales Growth (F1/F0)	47.12%	22.55%	6.82%	22.28%	46.25%	46.45%
Momentum Score	F	-	-	A	F	F
Daily Price Change	1.93%	0.00%	1.31%	-1.09%	3.57%	7.62%
1-Week Price Change	8.47%	-1.01%	-0.16%	-0.85%	6.62%	6.80%
4-Week Price Change	32.12%	3.93%	6.83%	-2.26%	29.55%	46.02%
12-Week Price Change	27.30%	19.60%	9.51%	-1.37%	17.57%	73.17%
52-Week Price Change	60.87%	63.69%	18.76%	59.60%	45.60%	109.91%
20-Day Average Volume (Shares)	3,699,272	488,100	2,013,595	3,537,545	366,397	3,297,539
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-207.69%
EPS F1 Estimate 4-Week Change	-164.94%	0.00%	0.62%	10.48%	-1.71%	-175.86%
EPS F1 Estimate 12-Week Change	-254.01%	0.00%	1.91%	10.45%	-3.32%	-181.69%
EPS Q1 Estimate Monthly Change	-40.77%	0.00%	0.15%	15.59%	-55.83%	-68.18%

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	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.

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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.