

## Extra Space Storage (EXR)

**\$111.35** (As of 01/11/21)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/11/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

## Summary

Extra Space Storage's shares have outperformed the industry over the past year. Also, the recent trends in estimate revisions for 2020 and 2021 funds from operations (FFO) per share indicate a favorable outlook for the company. The company is one of the top operators of self-storage spaces in the country with solid presence in key cities. The company focuses on expansion through accretive acquisitions and third-party management platform. Additionally, Extra Space Storage has a healthy balance-sheet position and is making investments through other channels in the storage sector, including preferred equity investments and bridge loan program. However, a development boom of self-storage units in many markets, a likely rise in vacate volumes with the abatement of the pandemic are likely to curb its pricing power and turn on discounting.

## Price, Consensus & Surprise

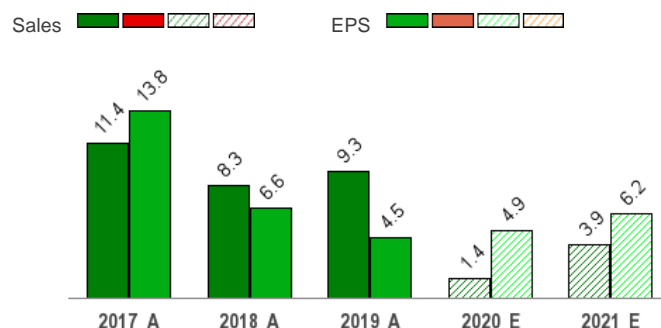


Source: Zacks Investment Research

## Data Overview

52-Week High-Low	<b>\$121.07 - \$72.70</b>
20-Day Average Volume (Shares)	<b>772,562</b>
Market Cap	<b>\$14.6 B</b>
Year-To-Date Price Change	<b>-3.9%</b>
Beta	<b>0.17</b>
Dividend / Dividend Yield	<b>\$3.60 / 3.2%</b>
Industry	<b>REIT and Equity Trust - Other</b>
Zacks Industry Rank	<b>Bottom 10% (228 out of 253)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>5.7%</b>
Last Sales Surprise	<b>3.8%</b>
EPS F1 Estimate 4-Week Change	<b>2.3%</b>
Expected Report Date	<b>02/16/2021</b>
Earnings ESP	<b>-2.1%</b>
P/E TTM	<b>22.1</b>
P/E F1	<b>20.5</b>
PEG F1	<b>4.2</b>
P/S TTM	<b>10.9</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	332 E	340 E	346 E	346 E	1,378 E
2020	332 A	327 A	343 A	341 E	1,326 E
2019	312 A	324 A	338 A	336 A	1,308 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.32 E	\$1.34 E	\$1.36 E	\$1.36 E	\$5.44 E
2020	\$1.24 A	\$1.23 A	\$1.31 A	\$1.35 E	\$5.12 E
2019	\$1.16 A	\$1.22 A	\$1.24 A	\$1.27 A	\$4.88 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 01/11/2021. The reports text is as of 01/12/2021.

## Overview

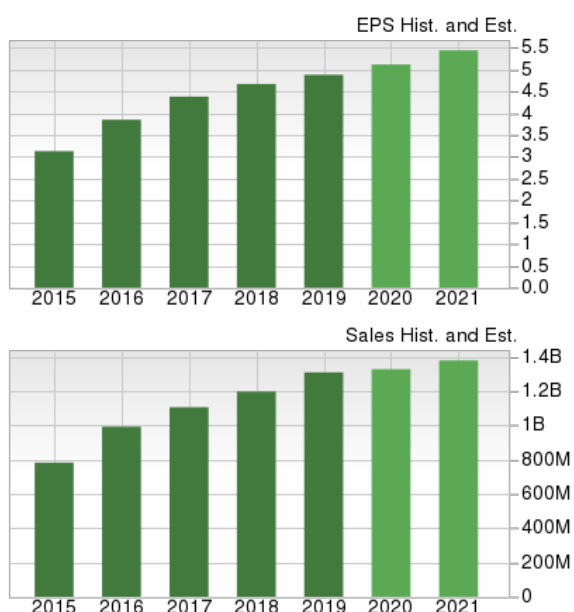
Headquartered in Salt Lake City, UT, Extra Space Storage Inc. is a notable name in the self-storage industry. This real estate investment trust (REIT) offers a vast array of well-located storage units to its customers, including boat storage, recreational vehicle storage and business storage.

As of Sep 30, 2020, Extra Space Storage had ownership stakes in or managed 1,906 stores in 40 states, Washington, DC, and Puerto Rico. Out of these 1,906 stores, the company wholly owned 935 stores. Moreover, it managed 718 stores for third-parties and 253 stores owned in joint ventures, with total stores under management reaching 971. The company is the largest self-storage management company in the United States.

The company's stores comprised 1.4 million units and 147.5 million square feet of rentable space. The stores are located in Atlanta, GA; Baltimore, MD; Washington, D.C.; Boston, MA; Chicago; Dallas, TX; Houston, TX; Las Vegas, NV; Los Angeles; Miami, FL; New York City; Orlando, FL; Philadelphia PA; Phoenix AZ; St. Petersburg/Tampa, FL and San Francisco/Oakland, CA.

Extra Space Storage had an encouraging external growth in 2019, acquiring 47 stores with an additional 177 stores added to its third-party management platform. The company banked on several ways for external growth, including redevelopment and net lease transaction with W. P. Carey, a preferred equity investment with SmartStop, and the launch of a bridge loan program. Moreover, during third-quarter 2020, the company closed to put under contract an additional \$140 million of acquisitions, bringing Extra Space Storage's total expected investment in 2020 to approximately \$287 million.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Extra Space Storage is the second-largest self-storage operator and the largest self-storage management company in the United States. The company significantly expanded its business in recent years, growing its branded-store count from 820 in 2010 to 1,906 in the third quarter. Also, total stores managed for third-party owners increased from 160 to 718 over the same period. Moreover, the majority of its stores are gathered around large population centers. Apart from having above-average population, these markets enjoy favorable income demographics for stores. Therefore, with a geographically diversified portfolio and significant scale, the company is poised for long-term growth.
- ▲ The company also made concerted efforts to consistently grow its business and achieve geographical diversity through accretive acquisitions, mutually beneficial joint-venture partnerships and third-party management services. Over the past 10 years, Extra Space Storage has spent \$6.8 billion in acquisitions. Moreover, during third-quarter 2020, the company has closed to put under contract an additional \$140 million of acquisitions, bringing Extra Space Storage's total expected investment in 2020 to approximately \$287 million. The company gained an increased scale in several core markets on these acquisitions as well as fortified its presence in a number of new markets. With focus on both primary and secondary markets, the company remains well poised to capitalize on favorable trends. In addition to acquisitions, the company is making strategic investments through other channels in the storage sector, including preferred equity investments and bridge loan program.
- ▲ The self-storage asset category is basically need-based and recession-resilient in nature. This asset class has low capital-expenditure requirements and generates high operating margins. Additionally, the self-storage industry continues to benefit from favorable demographic changes. Specifically, migration and downsizing trend, and increase in the number of people renting homes have escalated the needs of consumers to rent space at a storage facility to park their possessions. Further, demand for self-storage space has increased amid the flexible working environment as well as improving housing market, while move-outs remain low amid the health crisis, resulting in improved year-over-year occupancy trends.
- ▲ Extra Space Storage is focused on improving its balance sheet. The company exited third-quarter 2020 with \$74.8 million of cash and cash equivalents, up from the \$65.7 million recorded at the end of 2019. Notably, as of Sep 30, 2020 the company's percentage of fixed-rate debt to total debt was 77.7%. The company had \$298.6 million available for issuance under its ATM program as of Sep 30, 2020. The company made efforts to deleverage its balance sheet and achieved a BBB stable rating from S&P in 2019. With solid balance-sheet strength, the company remains well poised to capitalize on external growth opportunities which will likely increase going forward.
- ▲ Furthermore, the industry is characterized by fragmented ownership and only around 30% of the total self-storage square footage is under REIT's ownership. This creates solid scope for consolidation at some level in the future and with a solid balance sheet, Extra Space Storage remains well poised to compete for acquisitions.
- ▲ Moreover, solid dividend payouts are arguably the biggest enticement for REIT investors and Extra Space Storage remains committed to increasing shareholders' wealth. In May 2019, the company announced a 4.7% hike in quarterly dividend payout. The company has achieved a five-year total increase of 52.5% in dividend. Such shareholder-friendly efforts are encouraging.
- ▲ Shares of Extra Space Storage have gained 3% over the past year against the industry's decline of 7.7%. Moreover, the recent trends in estimate revisions for 2020 and 2021 FFO per share indicate a favorable outlook for the company. The Zacks Consensus Estimate for 2020 and 2021 FFO per share have been revised marginally upward over the past week. Therefore, given the progress on fundamentals and northbound estimate revisions, the stock has decent upside potential in the near term.

High brand value, strategic acquisitions, robust presence in key cities and healthy balance sheet serve as growth drivers. Moreover, consolidation opportunities offer scope for future growth.

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### Reasons To Sell:

- ▼ Extra Space Storage operates in a highly fragmented market in the United States, with intense competition from numerous private, regional and local operators. In addition, there is a development boom of self-storage units in many markets. This high supply is likely to fuel competition, curb its power to raise rents and turn on more discounting.
- ▼ For Extra Space Storage, vacates are still down and are helping occupancy level to remain high. However, such factors are likely to moderate as tenants revert to more normal move-out behavior as the impact of the pandemic abates, leading to upward pressure on vacate trends, and resulting in negative pressure on revenue trends and occupancy.
- ▼ Self-storage spaces are leased on a month-to-month basis. Therefore, tenants have the flexibility to vacate the properties in times of distress. Moreover, the company's operating results would be affected if the storage units are not relet promptly or if rates upon re-letting fall substantially.

Development boom of self-storage units in many markets, likely rise in vacate volumes with the abatement of the pandemic are likely to curb Extra Space's pricing power and turn on discounting.

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## Last Earnings Report

### Extra Space Storage Q3 FFO & Revenues Beat Estimates

Extra Space Storage reported third-quarter 2020 core FFO per share of \$1.31, beating the Zacks Consensus Estimate of \$1.24. The figure comes in 5.6% higher than the prior-year quarter's \$1.24.

Results reflect strong occupancy and increased rental rates to new customers, partly offset by lower late fees, decline in rental rates for existing customers and higher bad-debt expenses related to non-paying tenants.

Healthy occupancy trend continued in October also with same-store square-foot occupancy of 95.9% as of Oct 31, 2020, up 260 bps year on year.

Quarterly revenues came in at \$343 million, up 1.6% year over year. Moreover, the revenue figure surpassed the Zacks Consensus Estimate of \$330.6 million.

### Quarter in Detail

Same-store rental revenues edged down 1.5% year over year to \$271.7 million during the third quarter. This drop in same-store revenues resulted from decline in rental rates for existing customers, lower late fees collected and higher bad-debt expenses related to non-paying tenants. However, higher occupancy provided support with same-store square-foot occupancy up 210 basis points (bps) year on year to 95.9% as of Sep 30, 2020.

Same-store expenses flared up 1.5% year on year to \$79.3 million and reflect increases in marketing expenses and property taxes. Same-store NOI fell 2.7% year over year to \$192.5 million.

### Balance Sheet

Extra Space Storage exited third-quarter 2020 with \$74.8 million of cash and cash equivalents, up from the \$65.7 million recorded at the end of 2019. Notably, as of Sep 30, 2020 the company's percentage of fixed-rate debt to total debt was 77.7%.

During the September-end quarter, the company did not sell any shares of common stock using its ATM program. Extra Space Storage had \$298.6 million available for issuance under its ATM program as of Sep 30, 2020.

### Portfolio Activity

During the July-September quarter, Extra Space Storage, in conjunction with its joint-venture partners, acquired two stores at completion of construction for a total cost of \$19.6 million. Of this, the company invested \$9.8 million.

In the reported quarter, Extra Storage acquired eight operating stores for a total cost of \$87.4 million.

Extra Space Storage added 42 stores (gross) to its third-party management platform. As of Sep 30, 2020, it managed 718 stores for third-parties and 253 stores owned in joint ventures, with total stores under management reaching 971.

Quarter Ending	09/2020
Report Date	Nov 04, 2020
Sales Surprise	3.75%
EPS Surprise	5.65%
Quarterly EPS	1.31
Annual EPS (TTM)	5.05

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## Recent News

### Extra Space Announces \$300M Preferred Equity Investment in Jernigan Capital - Nov 9, 2020

Extra Space Storage announced a \$300 million investment in preferred stock of Jernigan Capital, Inc. (JCAP) in connection with the acquisition of JCAP by affiliates of NexPoint Advisors, L.P. The move comes as part of the company's capital investment in the storage sector.

Preferred stock investment comprises a \$200-million tranche, which will yield 10% per annum and a \$100 million tranche which will yield 12% per annum, for a blended yield of 10.7% per annum. The move also results in the addition of 37 JCAP stores to the Extra Space Storage operating platform.

### Dividend Update

On Nov 12, Extra Space Storage announced a cash dividend of 90 cents per share for the fourth quarter. The dividend was paid on Dec 31, to stockholders of record as of Dec 15, 2020.

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## Valuation

Extra Space Storage's shares have been up 3% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector declined 7.7% and 0.3%, over the past year, respectively.

The S&P 500 Index is up 18.3% over the past year.

The stock is currently trading at 20.44X forward 12-month FFO, which compares with the 18.84X for the Zacks sub-industry, 17.32X for the Zacks sector and 23.37X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.76X and as low as 14.68X, with a 5-year median of 19.95X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$118 price target reflects 21.66X FFO.

The table below shows summary valuation data for EXR.

Valuation Multiples - EXR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.44	18.84	17.32	23.37
	5-Year High	24.76	19.54	17.32	23.79
	5-Year Low	14.68	14.31	11.59	15.30
	5-Year Median	19.95	16.31	14.53	17.83
P/S F12M	Current	10.60	7.28	7.14	4.56
	5-Year High	11.99	7.45	7.14	4.56
	5-Year Low	6.98	5.19	5.02	3.20
	5-Year Median	9.70	6.30	6.12	3.68
P/B TTM	Current	5.20	2.22	2.93	6.58
	5-Year High	5.57	2.73	2.94	6.58
	5-Year Low	3.31	1.63	1.74	3.73
	5-Year Median	4.35	2.33	2.58	4.94

As of 01/11/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 10% (228 out of 253)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
CubeSmart ( <b>CUBE</b> )	Neutral	3
Innovative Industrial Properties, Inc. ( <b>IIPR</b> )	Neutral	3
Iron Mountain Incorporated ( <b>IRM</b> )	Neutral	3
Gladstone Land Corporation ( <b>LAND</b> )	Neutral	4
Life Storage, Inc. ( <b>LSI</b> )	Neutral	3
National Storage Affiliates Trust ( <b>NSA</b> )	Neutral	3
Public Storage ( <b>PSA</b> )	Neutral	3
Safhold Inc. ( <b>SAFE</b> )	Neutral	3

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	EXR	X Industry	S&P 500	CUBE	LSI	PSA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	D	D
Market Cap	14.63 B	2.56 B	26.91 B	6.53 B	5.76 B	38.68 B
# of Analysts	7	4	13	6	5	8
Dividend Yield	3.23%	3.66%	1.43%	4.06%	3.67%	3.62%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.04	0.06	0.00	0.02	0.01
EV/EBITDA	22.39	14.71	14.87	20.60	17.93	22.19
PEG F1	4.21	3.72	2.62	8.26	5.05	6.89
P/B	5.20	1.33	3.80	3.72	2.52	8.02
P/CF	21.11	11.88	14.45	19.31	14.70	18.98
P/E F1	20.52	15.35	20.68	18.84	18.44	20.32
P/S TTM	10.93	5.18	2.97	9.81	9.64	13.46
Earnings Yield	4.89%	6.12%	4.70%	5.32%	5.43%	4.92%
Debt/Equity	1.91	0.95	0.70	1.13	1.02	0.52
Cash Flow (\$/share)	5.27	2.03	6.93	1.73	7.92	11.66
Growth Score	D	-	-	D	D	D
Historical EPS Growth (3-5 Years)	9.69%	0.38%	9.72%	6.05%	3.15%	4.15%
Projected EPS Growth (F1/F0)	6.34%	6.30%	12.43%	6.01%	7.68%	4.08%
Current Cash Flow Growth	1.87%	3.15%	5.22%	8.38%	18.22%	-7.35%
Historical Cash Flow Growth (3-5 Years)	17.88%	12.69%	8.37%	16.69%	21.23%	5.16%
Current Ratio	0.52	1.59	1.38	0.04	1.18	0.68
Debt/Capital	65.61%	48.55%	41.97%	53.88%	50.43%	22.82%
Net Margin	34.54%	9.87%	10.44%	24.83%	25.67%	43.37%
Return on Equity	16.54%	3.53%	15.37%	9.30%	7.09%	26.59%
Sales/Assets	0.16	0.12	0.50	0.17	0.14	0.24
Projected Sales Growth (F1/F0)	3.90%	6.37%	5.96%	8.70%	7.85%	2.52%
Momentum Score	B	-	-	C	A	B
Daily Price Change	-0.62%	-1.02%	-0.23%	-0.74%	-0.54%	-0.62%
1-Week Price Change	-3.29%	-2.03%	2.23%	0.30%	-1.91%	-3.60%
4-Week Price Change	1.34%	-1.94%	4.89%	2.67%	2.92%	-1.11%
12-Week Price Change	-2.09%	12.47%	15.32%	-0.30%	2.23%	-4.30%
52-Week Price Change	2.99%	-18.31%	7.72%	7.73%	5.46%	2.06%
20-Day Average Volume (Shares)	772,562	620,462	1,724,388	1,194,613	454,252	767,588
EPS F1 Estimate 1-Week Change	0.21%	0.00%	0.00%	0.00%	0.21%	0.08%
EPS F1 Estimate 4-Week Change	2.30%	0.00%	0.06%	1.83%	2.31%	0.62%
EPS F1 Estimate 12-Week Change	7.89%	0.00%	2.55%	5.93%	4.48%	1.54%
EPS Q1 Estimate Monthly Change	1.21%	0.00%	0.00%	1.90%	1.90%	0.57%

Source: Zacks Investment Research

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## 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.

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### 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	D
Momentum Score	B
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.

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## 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 forward-looking 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 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.

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**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.

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**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.

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**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.