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Mar 18, 2021

Barrick Gold Corp (GOLD)

$21.13 (As of 03/17/21)

Price Target (6-12 Months): **$22.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/03/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: B | Momentum: F	**3-Hold** VGM:B

Summary

Earnings estimates for Barrick for the first quarter of 2021 have been going down over the past month. The company is expected to gain from progress of its key growth projects that are likely to contribute to its production. Barrick's debt-reduction actions are also expected to lower its interest expenses. The company also has a strong liquidity position and remains focused on boosting shareholder returns leveraging solid cash flows. Moreover, its merger with Randgold and joint venture with Newmont provide additional upside. However, the company faces headwinds from higher expected costs and lower production in 2021. Expected fall in gold demand due to the coronavirus pandemic is also a worry. The recent weakness in gold prices is another concern. Also, Barrick has underperformed the industry it belongs to over the past year.

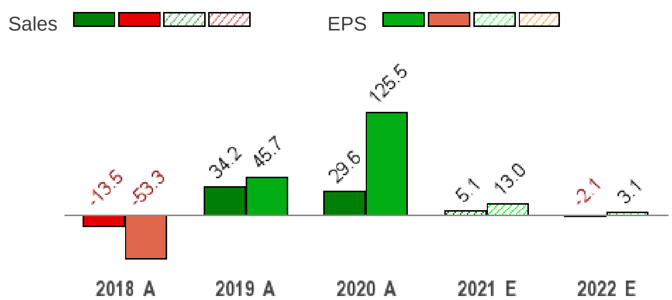
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$31.22 - $14.00**
20-Day Average Volume (Shares)	**22,121,812**
Market Cap	**$37.6 B**
Year-To-Date Price Change	**-7.2%**
Beta	**0.20**
Dividend / Dividend Yield	**$0.36 / 1.7%**
Industry	**Mining - Gold**
Zacks Industry Rank	**Bottom 26% (187 out of 254)**
Last EPS Surprise	**12.9%**
Last Sales Surprise	**1.8%**
EPS F1 Estimate 4-Week Change	**-6.7%**
Expected Report Date	**05/05/2021**
Earnings ESP	**0.0%**
P/E TTM	**18.4**
P/E F1	**16.3**
PEG F1	**8.1**
P/S TTM	**3.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	2,996 E	2,923 E	2,890 E	2,890 E	12,954 E
2021	3,153 E	3,520 E	3,272 E	3,261 E	13,236 E
2020	2,721 A	3,055 A	3,540 A	3,279 A	12,595 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.26 E	$0.24 E	$0.23 E		$1.34 E
2021	$0.30 E	$0.37 E	$0.32 E	$0.35 E	$1.30 E
2020	$0.16 A	$0.23 A	$0.41 A	$0.35 A	$1.15 A

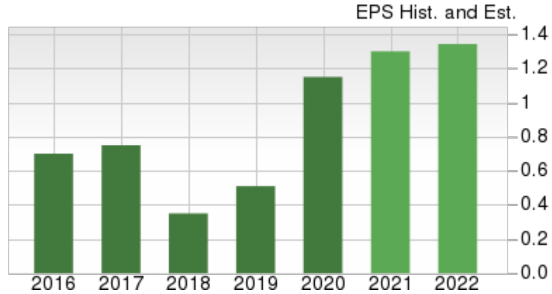
*Quarterly figures may not add up to annual.

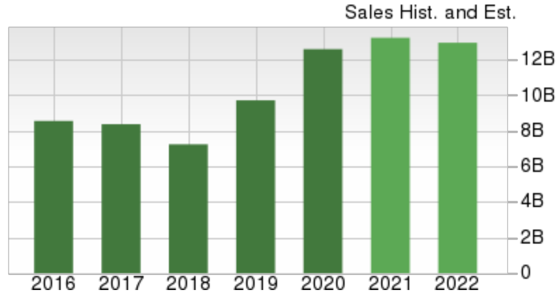
The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/17/2021. The report's text and the analyst-provided price target are as of 03/18/2021.

Overview

Barrick Gold Corporation, based in Toronto, Canada, is the largest gold mining company in the world. The company has many advanced exploration and development projects located across five continents.

Barrick is placed amongst the top gold producers with peers, such as Newmont (based in the United States) and AngloGold Ashanti (based in South Africa). The company produced 4.8 million ounces of gold and 457 million pounds of copper in 2020. Barrick had 68 million ounces (oz) of proven and probable gold reserves and 13 billion pounds of copper reserves at the end of 2020. The company generated total revenues of $12,595 million in 2020, up 30% year over year.





The company's strategy to create value for its shareholders is focused on the following key areas:

• Maximizing the benefits of rising metal prices by meeting operational and financial targets.

• Increasing gold and copper reserves and production through exploration and selective acquisitions.

• Maximizing the value of its existing mines and properties by leveraging its expertise and regional infrastructure.

• Growing production by investing in and developing high return projects.

• Continuing to improve corporate social responsibility practices to maintain and strengthen its incense to operate.

• By executing on this strategy, the company expects to increase earnings and cash flow and enhance its shareholders' leverage to metal prices.

In September 2018, Barrick entered into a share-for-share merger agreement with Randgold Resources Limited. The merger was successfully completed on Jan 1, 2019. The deal formed an industry-leading gold company and strengthened Barrick's position.

Post-merger, Barrick has the ability to generate strong cash flow to support robust investment and return cash to shareholders. Higher operating metrics, including lowest total cash cost position as well as highest adjusted EBITDA margin are likely to support sustainable investment in growth and shareholder returns.

Source: Zacks Investment Research

Reasons To Buy:

Barrick should gain from actions to cut debt and progress of its key projects. It also has a strong liquidity position. Moreover, the merger with Randgold and JV with Newmont provides additional upside.

- Barrick remains committed to de-leverage its balance sheet. The company has cut its total debt by more than 50% over the past three years. Its long-term debt was $5,135 million at the end of the fourth quarter of 2020, down from $5,140 million in the sequentially prior quarter. Notably, Barrick achieved its target of zero net debt at the end of 2020. The company's debt reduction actions should lower its interest expenses. Also, Barrick has a strong liquidity position and generates healthy cash flows, which positions it well to take advantage of attractive development, exploration and acquisition opportunities. At the end of 2020, Barrick's cash and cash equivalents surged 57% year over year to around $5.2 billion while cash flow from operation shot up 91% year over year to $5.4 billion in 2020. It also achieved record free cash flow of $3.4 billion in 2020. The company also announced a 12.5% dividend hike to 9 cents per share. It plans to return $750 million to shareholders in 2021.

- The company continues to make high return investments in its businesses. Barrick is expected to benefit from major exploration programs. The company maintains a significant focus on Nevada for growth opportunities. A significant portion of its exploration budget has been allocated to the Americas. The company's growth projects — Turquoise Ridge third shaft, Goldrush and the Pueblo Viejo plant and tailings expansion are currently in execution. These projects are advancing as per schedule as well as within budget, which underpins the next generation of profitable production from the core region. Also, the combination of Turquoise Ridge and Twin Creeks delivers a tier one asset with another in the making at Goldrush. Presently, Nevada Gold Mines boasts 10 underground mines and 12 open pit mines, which have proven and probable reserves of more than 48 million ounces.

- Barrick should gain from its merger with Randgold, which formed an industry-leading gold company and fortified Barrick's position among senior gold peers such as Newmont and Agnico Eagle. Barrick now owns five of the industry's top 10 tier one gold assets, including the Cortez and Goldstrike in Nevada. Also, it has the lowest total cash cost position among senior gold peers along with high-quality gold reserves. Barrick also has extensive regional presence across many of the world's most prolific gold districts. These factors are likely to support the company's sustainable growth and create long-term value. Moreover, Barrick and Newmont inked an implementation deal to form a joint venture (JV) in Nevada. Barrick is the operator of the JV and own 61.5% and Newmont owns the remaining 38.5%. The JV combines their respective mining operations, assets, reserves and resources. The Nevada Gold Mines joint venture is expected to deliver synergies of $450-$500 million per year over the first five years of the full production of the project. This is projected to capture total pre-tax net present value of $5 billion over a period of 20 years. Following the completion of the JV, the Nevada complex is expected to become the single-largest gold producer globally.

Reasons To Sell:

- Barrick's shares are up 31.4% in the past year, underperforming the industry's rise of 42.5%. The company faces headwinds from lower gold production and higher expected costs on a year-over-year basis. Its gold production fell around 16% year over year in the fourth quarter and also declined 13% in 2020. The company's gold production guidance of 4.4-4.7 million ounces for 2021 also reflects a year-over-year decline. Production is expected to be impacted by the absence of the Porgera mine which has been placed on care and maintenance since April 2020 as the company continues its negotiation with the government of Papua New Guinea. Also, Barrick's all-in sustaining costs (AISC) rose around 8% year over year in 2020. The company also projects AISC in the range of $970-$1,020 per ounce for 2021. The projected figure is higher than $967 per ounce recorded in 2020. As such, higher costs may exert pressure on the company's margins.

Barrick faces headwinds from higher expected costs and lower production. Expected fall in gold demand due to coronavirus and the recent weakness in gold prices are other concerns.

- The recent weakness in gold prices is another concern. Gold had a stellar run in 2020 as fears over the coronavirus pandemic made it the most attractive safe-haven asset. Concerns regarding the global economic growth fueled safe haven demand for the yellow metal through the year. The ultra-low interest rate environment, fears over supply crunch and geopolitical tensions also spurred up demand for gold. However, gold lost momentum in the fourth quarter as the introduction of vaccines boosted market sentiment and brightened the prospects for global economic recovery. Prices of the yellow metal are on a downswing in the recent months on expectations of an economic recovery this year following the roll-out of vaccines. Gold prices are expected to remain volatile over the near term.

- The coronavirus pandemic may impact gold demand in the short term. Demand for gold may witness a slowdown from two major consumers, China and India. Notably, gold demand hit a 11-year low in 2020 on declines in jewelry demand in China and India, particularly in the fourth quarter, partly due to disruptions associated with the pandemic. A meaningful rebound is not expected over the near term given continued uncertainties surround the pandemic and its impacts on the consumer behavior. As such, an expected slowdown in demand may have an impact on the company's performance.

Last Earnings Report

Barrick's Earnings and Sales Surpass Estimates in Q4

Quarter Ending	12/2020
Report Date	Feb 18, 2021
Sales Surprise	1.81%
EPS Surprise	12.90%
Quarterly EPS	0.35
Annual EPS (TTM)	1.15

Barrick recorded net earnings (on a reported basis) of $685 million or 39 cents per share in fourth-quarter 2020, down from $1,387 million or 78 cents per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share surged 105.9% year over year to 35 cents. The figure also beat the Zacks Consensus Estimate of 31 cents.

Barrick recorded total sales of $3,279 million, up 13.7% year over year. The figure topped the Zacks Consensus Estimate of $3,220.7 million.

Operational Highlights

Total gold production amounted to around 1.2 million ounces in the fourth quarter, down 16.2% year over year from 1.4 million ounces. Average realized price of gold was $1,871 per ounce in the quarter, up 26.2% year over year.

Cost of sales increased 1.8% year over year to $1,065 per ounce. AISC moved up around 1% year over year to $929 per ounce in the quarter.

Copper production increased 1.7% year over year to 119 million pounds. Average realized copper price was $3.39 per pound, up 22.8% year over year.

FY20 Results

Earnings (as reported) for full-year 2020 were $1.31 per share compared with earnings of $2.26 per share a year ago. Net sales rose 30% year over year to around $12,595 million.

Financial Position

At the end of the year, Barrick had cash and cash equivalents of $5,188 million, up 57% year over year. The company's long-term debt was $5,135 million at the end of the quarter, down 0.5% year over year.

Net cash provided by operating activities surged 91.2% year over year to $5,417 million.

Guidance

For 2021, Barrick anticipates attributable gold production in the range of 4.4-4.7 million ounces. AISC is expected in the range of $970-$1,020 per ounce and cost of sales is expected in the range of $1,020-$1,070 per ounce.

The company expects copper production in the range of 410-460 million pounds at AISC of $2.00-$2.20 per pound and cost of sales of $1.90-$2.10 per pound.

Capital expenditures are projected between $1,800 million and $2,100 million.

Recent News

Barrick Attains Production Target for FY20

Barrick, on **Jan 14, 2021**, said that it achieved its 2020 guidance targets, with the preliminary gold production for the full year at 4.8 million ounces. This is within the guidance range of 4.6-5 million ounces. The preliminary copper production of 457 million pounds for the year is also within the guidance range of 440-500 million pounds.

Valuation

Barrick's shares are up 31.4% over the trailing 12-month period. Over the past year, the Zacks Mining - Gold industry and the Zacks Basic Materials sector are up 42.5% and 108.4%, respectively.

The S&P 500 index is up 66.4% in the past year.

The stock is currently trading at 1.19X trailing 12-month tangible book value, which compares to 1.47X for the Zacks sub-industry, 2.59X for the Zacks sector and 6.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.79X and as low as 0.93X, with a 5-year median of 1.53X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $22 price target reflects 1.24X tangible book value.

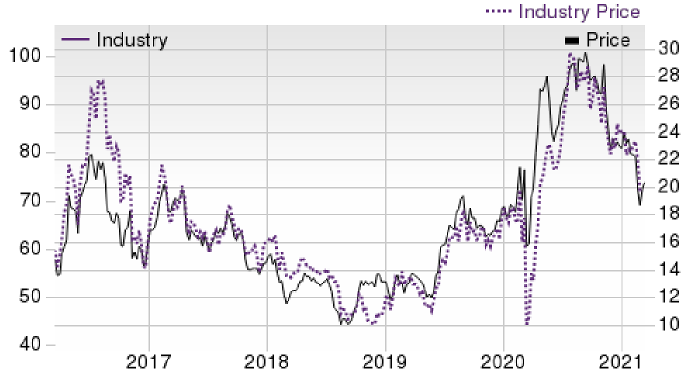
The table below shows summary valuation data for GOLD:

Valuation Multiples - GOLD

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.19	1.47	2.59	6.69
	5-Year High	2.79	2.42	3.08	6.7
	5-Year Low	0.93	1.06	1.22	3.83
	5-Year Median	1.53	1.58	2.26	4.97
P/E F12M	Current	16.14	14.28	10.92	22.52
	5-Year High	42.26	56.42	21.05	23.8
	5-Year Low	13.12	12.04	10.24	15.3
	5-Year Median	21.98	22.75	13.17	17.9
P/S TTM	Current	2.98	3.26	3.26	5.07
	5-Year High	4.85	5.27	3.35	5.08
	5-Year Low	1.49	2.06	1.4	2.83
	5-Year Median	2.46	2.89	2.64	3.9

As of 03/17/2021 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Agnico Eagle Mines Limited **(AEM)**	Neutral	4
AngloGold Ashanti Limited **(AU)**	Neutral	5
Yamana Gold Inc. **(AUY)**	Neutral	3
B2Gold Corp **(BTG)**	Neutral	3
Eldorado Gold Corporation **(EGO)**	Neutral	4
Iamgold Corporation **(IAG)**	Neutral	3
Kinross Gold Corporation **(KGC)**	Neutral	3
Gold Fields Limited **(GFI)**	Underperform	5

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

Industry Comparison Industry: Mining - Gold

	GOLD	X Industry	S&P 500	AEM	IAG	KGC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	B	-	-	A	A	A
Market Cap	37.57 B	425.66 M	29.07 B	14.95 B	1.60 B	8.90 B
# of Analysts	8	2	13	6	5	8
Dividend Yield	1.70%	0.00%	1.38%	2.28%	0.00%	1.70%
Value Score	A	-	-	B	A	A
Cash/Price	0.14	0.09	0.06	0.03	0.62	0.14
EV/EBITDA	5.00	3.21	16.09	10.85	2.85	3.31
PEG F1	8.03	2.95	2.38	18.58	3.07	NA
P/B	1.18	2.24	3.95	2.63	0.63	1.33
P/CF	8.84	8.94	16.19	13.45	4.50	4.91
P/E F1	16.07	11.02	21.47	18.58	9.21	9.07
P/S TTM	2.98	2.88	3.30	4.77	1.29	2.11
Earnings Yield	6.15%	3.21%	4.54%	5.39%	10.98%	11.05%
Debt/Equity	0.16	0.00	0.67	0.29	0.18	0.21
Cash Flow ($/share)	2.39	0.20	6.78	4.56	0.75	1.44
Growth Score	B	-	-	A	A	A
Historical EPS Growth (3-5 Years)	4.42%	23.13%	9.32%	32.82%	4.52%	76.71%
Projected EPS Growth (F1/F0)	13.04%	20.00%	14.54%	77.78%	92.63%	1.14%
Current Cash Flow Growth	44.85%	22.41%	0.72%	43.13%	37.71%	56.74%
Historical Cash Flow Growth (3-5 Years)	14.98%	12.30%	7.32%	11.89%	29.68%	17.53%
Current Ratio	3.67	3.55	1.39	2.42	4.17	1.82
Debt/Capital	13.94%	0.61%	41.42%	22.66%	15.27%	17.61%
Net Margin	18.45%	17.38%	10.59%	16.30%	3.43%	31.86%
Return on Equity	6.56%	2.25%	14.75%	8.42%	3.56%	16.44%
Sales/Assets	0.28	0.29	0.51	0.33	0.31	0.41
Projected Sales Growth (F1/F0)	5.09%	8.91%	7.15%	30.48%	4.86%	8.45%
Momentum Score	F	-	-	F	F	F
Daily Price Change	2.03%	2.29%	0.38%	3.73%	2.43%	2.62%
1-Week Price Change	2.42%	4.47%	2.96%	3.39%	5.21%	2.75%
4-Week Price Change	1.44%	0.96%	4.61%	-0.39%	0.90%	3.07%
12-Week Price Change	-7.45%	-2.76%	9.57%	-13.48%	-5.34%	-4.34%
52-Week Price Change	33.06%	78.95%	74.91%	68.92%	58.96%	73.89%
20-Day Average Volume (Shares)	22,121,812	501,780	2,356,256	1,582,575	6,611,101	17,535,518
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-6.73%	0.00%	0.00%	-9.94%	-16.06%	-9.32%
EPS F1 Estimate 12-Week Change	-2.15%	-2.27%	2.00%	-13.50%	-34.64%	-14.56%
EPS Q1 Estimate Monthly Change	-9.90%	0.00%	0.00%	-11.11%	-8.33%	-9.52%

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

Value Score	A
Growth Score	B
Momentum Score	F
VGM Score	B

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.

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 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.