

## Nabors Industries Ltd. (NBR)

**\$39.57** (As of 09/01/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

### Summary

One of the leading drilling contractors in North America, Nabors is exposed to tepid oilfield service activities in North America with upstream energy companies choosing to remain conservative with their investment budgets. But the firm's initiatives to expand its geographic reach and diversify its operating assets beyond land rigs bode well for its Rig Technologies and Drilling Solutions segments. Nabors' JV with Saudi Aramco also brightens its prospects. However, its debt-to-capitalization of 69.9% restricts its financial flexibility. Further, the company is witnessing lower margins and tough operating environment in several markets which are expected to prevail in the near-term as well. Investors also need to factor the plunge in gas-related activities. As such, Nabors warrants a cautious stance from the investors at the moment.

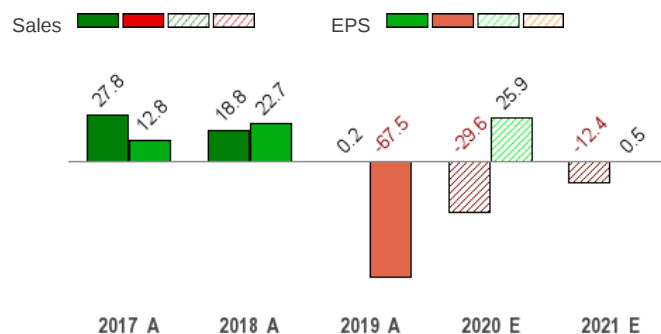
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$167.50 - \$9.79</b>           |
| 20-Day Average Volume (Shares) | <b>623,427</b>                     |
| Market Cap                     | <b>\$331.8 M</b>                   |
| Year-To-Date Price Change      | <b>-72.5%</b>                      |
| Beta                           | <b>3.24</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Oil and Gas - Drilling</b>      |
| Zacks Industry Rank            | <b>Bottom 28% (181 out of 251)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>45.3%</b>      |
| Last Sales Surprise           | <b>-0.9%</b>      |
| EPS F1 Estimate 4-Week Change | <b>10.2%</b>      |
| Expected Report Date          | <b>11/03/2020</b> |
| Earnings ESP                  | <b>-3.9%</b>      |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 454 E | 459 E | 486 E | 505 E | 1,884 E |
| 2020 | 715 A | 536 A | 455 E | 450 E | 2,151 E |
| 2019 | 809 A | 772 A | 757 A | 716 A | 3,054 A |

### EPS Estimates

|      | Q1         | Q2         | Q3         | Q4         | Annual*     |
|------|------------|------------|------------|------------|-------------|
| 2021 | -\$26.30 E | -\$25.73 E | -\$24.10 E | -\$22.70 E | -\$77.79 E  |
| 2020 | -\$19.86 A | -\$14.45 A | -\$25.63 E | -\$26.18 E | -\$78.21 E  |
| 2019 | -\$18.00 A | -\$20.50 A | -\$15.50 A | -\$12.00 A | -\$105.50 A |

\*Quarterly figures may not add up to annual.

|         |            |
|---------|------------|
| P/E TTM | <b>NA</b>  |
| P/E F1  | <b>NA</b>  |
| PEG F1  | <b>NA</b>  |
| P/S TTM | <b>0.1</b> |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/01/2020. The reports text is as of 09/02/2020.

## Overview

Incorporated in 1978, Hamilton-based Nabors Industries Ltd. is one of the largest land-drilling contractors in the world, conducting oil, gas, and geothermal land drilling operations. The American multinational company – active across 24 countries – primarily provides land-based and offshore drilling rigs that serves the oil and gas industry. The company has a 100% ownership interest in a venture in Saudi Arabia – Nabors Arabia – which actively markets rigs. As of year-end 2019, Nabors' fleet consisted of 366 actively marketed land-based operating rigs and 33 offshore rigs.

The company offers a number of ancillary wellsite services, including oilfield management, engineering, transportation, construction, maintenance, well logging, and other support services in select domestic and international markets.

Nabors reports its operations in five major segments: U.S. Drilling, Canadian Drilling, International Drilling, Drilling Solutions and Rig Technologies.

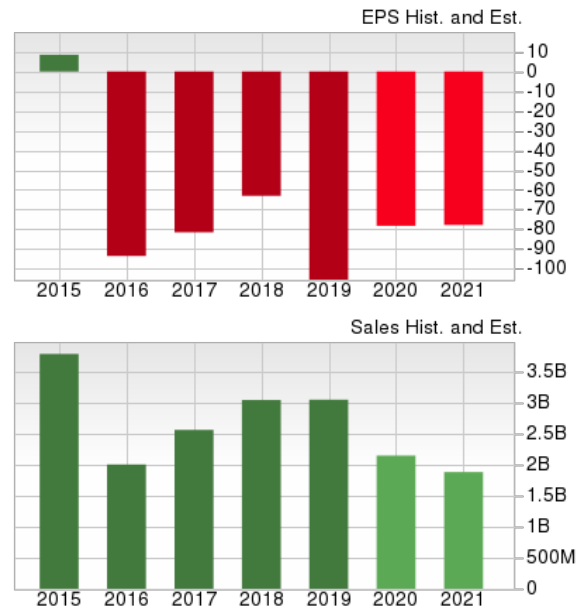
**US Drilling:** The firm's U.S. operations comprise of drilling activities in the Lower 48 and Alaska along with offshore activities in Gulf of Mexico. As of Dec 31, 2019, the U.S. fleet consisted of a total of 206 rigs. Revenues from this segment accounted for 40% of the total sales in 2019.

**Canadian Drilling:** As of Dec 31, 2019, the Canadian fleet consisted of a total of 35 rigs. Revenues from this segment accounted for 2% of the total sales in 2019.

**International Drilling:** Nabors has operations in almost every major energy-producing regions of the world. As of Dec 31, 2019, the Canadian fleet consisted of a total of 125 rigs. Revenues from this segment accounted for 42% of the total sales in 2019.

**Drilling Solutions:** The segment engages in providing specialized technology that optimizes drilling performance and wellbore placement. Revenues from this segment accounted for 8% of the total sales in 2019.

**Rig Technologies:** The segment deals in manufacturing drilling related equipment which are installed on both onshore and offshore drilling rigs. The unit also provides aftermarket sales and services for the installed base of its equipment. Revenues from this segment accounted for 8% of the total sales in 2019.



Source: Zacks Investment Research

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### Reasons To Buy:

- ▲ Nabors is one of the leading North American land drilling contractor, having a large, high-quality fleet of drilling rigs. The company is well positioned with a sound mix of high-performance rigs and new rigs working in the key shale plays like Bakken and Permian.
- ▲ Nabors' initiatives to expand its geographic reach and diversify its operating assets beyond land rigs bode well for its Rig Technologies and Drilling Solutions segments. Tesco Corporation, Robotic Drilling Systems and PetroMar's buyout have boosted the drilling operations and technology of Nabors, adding to the company's earnings and shareholder value. The firm's advanced technology and operational expertise along with additional penetration in the Drilling Solutions business will contribute in its future growth. Nabors' joint venture with Saudi Aramco also brightens its prospects.
- ▲ Nabors' efforts to lower costs and concentrate on cash flows also bodes well. The drilling contractor plans to limit 2020 capex to \$240 million, indicating \$185 million drop from the expenditure incurred in 2019. For the current year, Nabors expects to generate free cash flow of at least \$300 million.

Nabors is well positioned with a sound mix of high-performance rigs and new rigs working in the key shale plays like Bakken and Permian.

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### Reasons To Sell:

- ▼ Oilfield service activities are expected to remain weak in North America with upstream energy companies choosing to remain conservative with their investment budgets. This is expected to hamper Nabors' near-term prospects.
- ▼ Nabors has also been hit hard by weak natural gas prices. No major commodity had a worse 2019 than natural gas. The fuel endured a torrid year, registering its worst annual decline since 2014. Prices tumbled more than 25% last year, as buyers fled the market over growing worries about record output and concerns of an ongoing supply glut. Natural gas continues to face bearish pressure in 2020 with warmer-than-expected winter weather playing spoilsport and taking the price below the psychologically important level of \$2. The price plunge led to sharply lower activity in gas-dominated basins like the Rockies, Haynesville, Mid-Continent and Marcellus, affecting the fortunes of Nabors.
- ▼ Nabors' total debt is currently \$3.3 billion, with only \$494.3 million in cash & cash equivalents. Importantly, the company's debt-to-capitalization as of the end of the second quarter was 69.9%, deteriorating from 68.5% a quarter ago. Moreover, Nabors' debt-to-capitalization is quite high versus 45.1% for the sub industry to which it belongs.

Nabors' balance sheet looks stretched with debt-to-capitalization of more than 69%.

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## Last Earnings Report

### Nabors' Reports Narrower-Than-Expected Q2 Loss

Nabors Industries Ltd.'s second-quarter 2020 loss from continuing operations (excluding special items) of \$14.45 per share is narrower than the Zacks Consensus Estimate of a loss of \$26.40 as well as the year-ago loss of \$20.50. This outperformance can be attributed to a strong contribution from the Rig Technologies segment.

However, quarterly revenues of \$535.97 million missed the Zacks Consensus Estimate \$541 million and also declined from the year-ago level of \$809 million, primarily due to weak performance at the U.S. drilling and Drilling Solutions segments.

Notably, year over year, Nabors' adjusted EBITDA fell from \$198.4 million to \$153.8 million.

### Segmental Performance

**U.S. Drilling** generated quarterly operating revenues of \$173.8 million, down 46.3% from the year-ago level of \$323.4 million. The segment recorded an operating loss of \$23.4 million against the year-ago income of \$20.4 million due to a drop in the rig count at Lower 48.

**Canadian Drilling's** revenues of \$3.56 million in the quarter under review tumbled from the year-ago figure of \$11.4 million. Moreover, the segment's operating loss came in at \$5.8 million, wider than the year-ago quarter's loss of \$5.5 million due to weak activity across several markets and coronavirus-induced market distortions.

**International Drilling's** operational revenues of \$301.1 million decreased from the year-ago quarter's sales of \$326.9 million. However, the segmental operating income came in at \$276 thousand in the reported quarter against the prior-year loss of \$6.9 million.

Revenues from the **Drilling Solutions** were 48.7% down to \$33.1 million in the second quarter from \$64.6 million a year ago and the same further missed the Zacks Consensus Estimate of \$36.1 million. Moreover, the unit's operating income of \$1.73 million slumped from \$13.8 million due to diminished activity across service lines and an increased price competition.

Revenues from the **Rig Technologies** segment plunged 53.8% to \$33.6 million from the prior-year level of \$72.75 million. However, the metric surpassed the Zacks Consensus Estimate of \$29.5 million. Moreover, the segment's operating income marginally improved to \$3.17 million from the prior-year figure of \$3.16 million. This upside is owing to robust sales in international markets and solid cost-saving measures.

### Financials

Total costs and expenses declined to \$669.5 million from \$953.3 million in the year-ago quarter, reflecting lower depreciation costs and impairment charges.

As of Jun 30, 2020, the company had \$494.3 million in cash and short-term investments and a long-term debt of \$3.3 billion with total debt to total capital of 69.9%.

### Guidance

Nabors reiterates its previously announced 2020 capex guidance cut to \$240 million, indicating a \$185 million decrease from the year-earlier reported figure.

This Hamilton-based entity's third-quarter average Lower 48 rig count is anticipated to fall by two to three rigs from the second-quarter figure of 49 rigs. Additionally, the company projects its drilling margins to shrink between \$9,000 and \$9,500, implying more normal costs and the continued impact of soft pricing.

However, its Canada Drilling segment estimates its third-quarter adjusted EBITDA to grow on the back of seasonal activity recovery. Also, the rig count is expected to rise by four rigs in the third quarter.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 28, 2020 |
| Sales Surprise   | -0.88%       |
| EPS Surprise     | 45.27%       |
| Quarterly EPS    | -14.45       |
| Annual EPS (TTM) | -61.81       |

## Valuation

Nabors' shares are down 72.6% in the year-to-date period and 52.6% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 66.8% and 37.7% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 55.4% and 32.1%, respectively.

The S&P 500 index is up 3.1% in the year-to-date period and up 15.3% in the past year.

The stock is currently trading at 3.87X trailing 12-month EV/EBITDA, which compares to 8.54X for the Zacks sub-industry, 4.32X for the Zacks sector and 12.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.6X and as low as 3.74X, with a 5-year median of 7.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 0.18X F12M sales.

The table below shows summary valuation data for NBR

| Valuation Multiples - NBR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM             | Current       | 3.87  | 8.54         | 4.32   | 12.5    |
|                           | 5-Year High   | 15.6  | 15.3         | 10.48  | 13.29   |
|                           | 5-Year Low    | 3.74  | 4            | 3.05   | 8.22    |
|                           | 5-Year Median | 7.58  | 8.87         | 6.49   | 10.91   |
| P/S F12M                  | Current       | 0.17  | 0.64         | 0.71   | 3.93    |
|                           | 5-Year High   | 2.24  | 3.43         | 1.47   | 3.93    |
|                           | 5-Year Low    | 0.03  | 0.37         | 0.59   | 2.53    |
|                           | 5-Year Median | 0.65  | 1.92         | 0.99   | 3.07    |
| P/B TTM                   | Current       | 0.19  | 0.19         | 0.98   | 4.5     |
|                           | 5-Year High   | 1.58  | 0.89         | 1.55   | 4.76    |
|                           | 5-Year Low    | 0.05  | 0.11         | 0.52   | 2.83    |
|                           | 5-Year Median | 0.64  | 0.61         | 1.32   | 3.76    |

As of 09/01/2020

## Industry Analysis Zacks Industry Rank: Bottom 28% (181 out of 251)



## Top Peers

| Company (Ticker)                           | Rec     | Rank |
|--------------------------------------------|---------|------|
| HelmerichPayne, Inc. (HP)                  | Neutral | 3    |
| Independence Contract Drilling, Inc. (ICD) | Neutral | 3    |
| Key Energy Services, Inc. (KEGX)           | Neutral | 3    |
| Noble Corporation (NE)                     | Neutral | 3    |
| Precision Drilling Corporation (PDS)       | Neutral | 3    |
| PattersonUTI Energy, Inc. (PTEN)           | Neutral | 3    |
| Transocean Ltd. (RIG)                      | Neutral | 3    |
| KONINKLIJKE VPK (VOPKY)                    | Neutral | 3    |

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

| Industry Comparison Industry: Oil And Gas - Drilling |          |            |           | Industry Peers |           |            |
|------------------------------------------------------|----------|------------|-----------|----------------|-----------|------------|
|                                                      | NBR      | X Industry | S&P 500   | HP             | PTEN      | RIG        |
| Zacks Recommendation (Long Term)                     | Neutral  | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                              | 3        | -          | -         | 3              | 3         | 3          |
| VGM Score                                            | A        | -          | -         | A              | B         | C          |
| Market Cap                                           | 331.83 M | 96.06 M    | 23.95 B   | 1.80 B         | 729.01 M  | 768.27 M   |
| # of Analysts                                        | 2        | 2          | 14        | 5              | 6         | 4          |
| Dividend Yield                                       | 0.00%    | 0.00%      | 1.61%     | 5.97%          | 2.06%     | 0.00%      |
| Value Score                                          | A        | -          | -         | B              | A         | B          |
| Cash/Price                                           | 1.44     | 1.17       | 0.07      | 0.27           | 0.33      | 2.35       |
| EV/EBITDA                                            | 5.96     | 2.60       | 13.32     | 3.32           | 2.60      | 14.48      |
| PEG F1                                               | NA       | NA         | 3.05      | NA             | NA        | NA         |
| P/B                                                  | 0.19     | 0.13       | 3.21      | 0.53           | 0.33      | 0.07       |
| P/CF                                                 | 0.60     | 0.92       | 12.92     | 2.41           | 0.92      | 4.93       |
| P/E F1                                               | NA       | 9.05       | 21.84     | NA             | NA        | NA         |
| P/S TTM                                              | 0.12     | 0.16       | 2.52      | 0.81           | 0.41      | 0.24       |
| Earnings Yield                                       | -197.65% | -57.70%    | 4.39%     | -24.60%        | -57.07%   | -75.20%    |
| Debt/Equity                                          | 2.17     | 0.60       | 0.70      | 0.14           | 0.44      | 0.77       |
| Cash Flow (\$/share)                                 | 66.31    | 0.38       | 6.93      | 6.94           | 4.23      | 0.25       |
| Growth Score                                         | A        | -          | -         | B              | C         | B          |
| Historical EPS Growth (3-5 Years)                    | NA%      | -25.14%    | 10.41%    | -3.35%         | NA        | NA         |
| Projected EPS Growth (F1/F0)                         | 25.87%   | -20.17%    | -4.75%    | -335.20%       | -123.74%  | 35.52%     |
| Current Cash Flow Growth                             | -4.60%   | -21.95%    | 5.22%     | 25.65%         | -21.95%   | -72.37%    |
| Historical Cash Flow Growth (3-5 Years)              | -20.25%  | -14.88%    | 8.49%     | -8.86%         | -2.53%    | -44.46%    |
| Current Ratio                                        | 2.20     | 1.90       | 1.35      | 4.09           | 1.90      | 2.07       |
| Debt/Capital                                         | 68.49%   | 37.65%     | 42.92%    | 12.39%         | 30.77%    | 43.56%     |
| Net Margin                                           | -33.84%  | -53.13%    | 10.25%    | -17.81%        | -52.19%   | -54.06%    |
| Return on Equity                                     | -21.14%  | -13.13%    | 14.66%    | 0.61%          | -12.67%   | -5.92%     |
| Sales/Assets                                         | 0.41     | 0.23       | 0.50      | 0.41           | 0.43      | 0.14       |
| Projected Sales Growth (F1/F0)                       | -29.54%  | -0.17%     | -1.40%    | -37.67%        | -55.88%   | 0.07%      |
| Momentum Score                                       | D        | -          | -         | C              | F         | F          |
| Daily Price Change                                   | -1.03%   | 0.00%      | 0.29%     | 1.64%          | 1.04%     | 2.46%      |
| 1-Week Price Change                                  | 22.34%   | 0.00%      | 2.59%     | 0.65%          | 6.72%     | 18.42%     |
| 4-Week Price Change                                  | -16.78%  | -7.85%     | 3.53%     | -9.70%         | -7.38%    | -43.95%    |
| 12-Week Price Change                                 | -43.10%  | -33.25%    | 2.09%     | -36.65%        | -29.27%   | -56.29%    |
| 52-Week Price Change                                 | -52.61%  | -69.38%    | 4.31%     | -53.93%        | -53.91%   | -72.10%    |
| 20-Day Average Volume (Shares)                       | 623,427  | 220,295    | 1,816,754 | 1,529,876      | 3,259,068 | 28,568,266 |
| EPS F1 Estimate 1-Week Change                        | 0.00%    | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%      |
| EPS F1 Estimate 4-Week Change                        | 10.20%   | 0.00%      | 0.20%     | 13.66%         | -1.94%    | -6.86%     |
| EPS F1 Estimate 12-Week Change                       | 16.47%   | 0.66%      | 3.86%     | 23.25%         | -1.27%    | 6.73%      |
| EPS Q1 Estimate Monthly Change                       | -2.81%   | 0.00%      | 0.00%     | -3.37%         | 0.20%     | 12.37%     |

Source: Zacks Investment Research

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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    | A |
| Growth Score   | A |
| Momentum Score | D |
| VGM Score      | A |

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.

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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 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.