

National Oilwell (NOV)

\$12.66 (As of 02/01/21)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

National Oilwell Varco is one of the biggest manufacturers of drilling equipment in the world. Banking on its successful cost cutting initiatives, the company delivered an impressive \$274 million in free cash flow in the third quarter and \$567 million so far in this difficult year. Ample cash, availability of \$2 billion under its revolving credit facility and an attractive debt maturity profile are other positives in the National Oilwell story. However, oilfield service market conditions continue to remain tough amid the plunge in crude prices and coronavirus-induced activity fall. Unsurprisingly, National Oilwell shares have underperformed the Zacks Oilfield Machineries & Equipment industry over the past year (-40.7% vs.+10.8%). With dearth of new orders and an unfavourable offshore investment scene, upside from current levels appears limited.

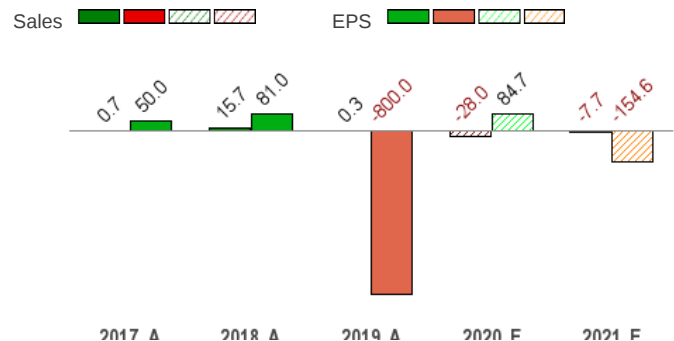
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$24.75 - \$7.70
20-Day Average Volume (Shares)	5,051,758
Market Cap	\$4.8 B
Year-To-Date Price Change	-9.8%
Beta	2.22
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Technology Services
Zacks Industry Rank	Bottom 19% (204 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	88.9%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	-2.0%
Expected Report Date	02/04/2021
Earnings ESP	-14.1%

P/E TTM	65.2
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,340 E	1,386 E	1,460 E	1,521 E	5,637 E
2020	1,883 A	1,496 A	1,384 A	1,327 E	6,107 E
2019	1,940 A	2,132 A	2,126 A	2,281 A	8,479 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.12 E	-\$0.08 E	-\$0.05 E	-\$0.02 E	-\$0.28 E
2020	\$0.14 A	-\$0.07 A	-\$0.01 A	-\$0.12 E	-\$0.11 E
2019	-\$0.20 A	-\$0.04 A	-\$0.61 A	\$0.13 A	-\$0.72 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/01/2021. The report's text and the analyst-provided price target are as of 02/01/2021.

Overview

Incorporated in 1995, Houston, TX based National Oilwell Varco, Inc., formerly National Oilwell, is a world leader in the design, manufacture, and sale of comprehensive systems, components, products, and equipment used in oil and gas drilling and production worldwide. The company's extensive portfolio of proprietary technologies is aimed at lowering the industry's marginal cost per barrel.

National Oilwell Varco operates in 620 locations across six continents. For the year ended Dec 31, 2019, the company reported operating loss of \$6,279 million on revenues of \$8.48 billion. National Oilwell Varco generates around 45% of its revenues in North America.

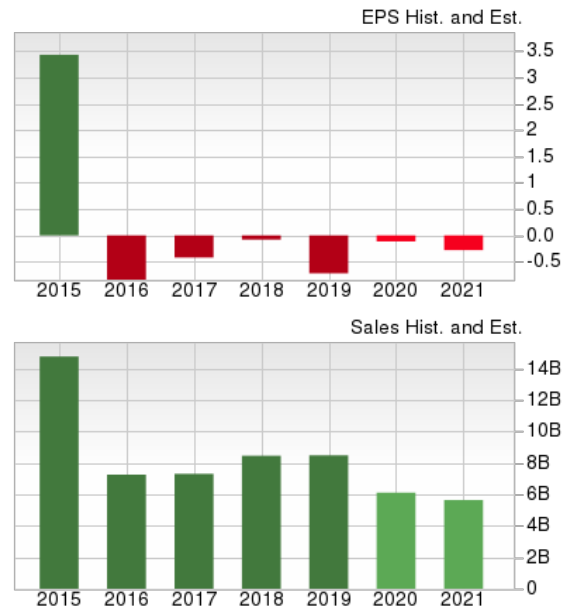
The company reached its current form following the March 2005 merger between National Oilwell and Varco International. National Oilwell Varco divides its operations into three major segments: Rig Technologies, Completion & Production Solutions, and Wellbore Technologies.

Rig Technologies: The Rig Technologies unit (accounted for 30% of the company's 2019 adjusted EBITDA) designs and manufactures integrated drilling systems and components for land and offshore drilling rigs. It is also engaged in the delivery of consumables, spares and other necessary services to maintain the usefulness of the assets.

Completion & Production Solutions: The Completion & Production Solutions segment (23%) primarily focuses on developing wellbore completions and achieving higher production through technological advancements. This segment mainly offers services to well intervention service providers and producers of oil and gas.

Wellbore Technologies: The Wellbore Technologies segment (47%) focuses on improving drilling performance at both land and offshore rigs through a vast array of tools and services.

National-Oilwell Varco has a solid track record of making and executing acquisitions. Over the last three years (2016-2018), the company paid approximately \$600 million in cash to complete a host of acquisitions. Since its merger with Varco International, the company has emerged as a major one-stop-shop for the drilling industry, providing both capital equipment and support and supply services.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The growing search for oil in deepwater frontiers has increased the demand for rigs capable of tackling the immense challenges of drilling in a mile or more of water. National Oilwell is well positioned to supply such equipment.
- ▲ National Oilwell Varco is one of the biggest manufacturers of drilling equipment in the world with an impressive business model. The company's large installed base of rigs worldwide provides a steady recurring revenue stream driven by demand for maintenance, parts and other expendable products. The company is also a global leader in solids control technology and waste management.
- ▲ The overall depth of National Oilwell Varco's global oilfield service franchise and its successful implementation of cost cutting initiatives delivered an impressive \$274 million in free cash flow in the third quarter and \$567 million so far in this difficult year. According to management, the company is likely to generate another \$100-\$200 million in free cash flow for the fourth quarter. The free cash flow boost should help National Oilwell Varco better navigate the ongoing tough operating difficult.
- ▲ National Oilwell Varco has ample liquidity with cash and cash equivalents of nearly \$1.5 billion and \$2 billion available in its revolving credit facility – enough to take care of its long-term debt of \$1.8 billion. Further, the company's debt maturity profile is in good shape with 183 million remaining on its December 2022 maturity following which the next maturity is in 2029.

National Oilwell Varco's large installed base of rigs worldwide provides a steady recurring revenue stream driven by demand for maintenance, parts and other expendable products.

Reasons To Sell:

- ▼ While National Oilwell's impressive portfolio of products and services is much appreciated, a tough operating environment and weakness in commodity prices are likely to hamper the company's performance in the coming quarters.
- ▼ The coronavirus-induced slump in oil prices has pushed drilling activity lower by introducing tremendous uncertainty around the exploration and production ('E&P') spending outlook. As supplier of technology, solution and parts to the E&P sector, the sentiment toward firms like National Oilwell Varco is rather pessimistic. In fact, this shift in customer strategy has resulted in declining demand for its oilfield services and put pressure on pricing.
- ▼ National Oilwell Varco admitted that bookings in the company's Rig Technologies segment remain under pressure, which led to a dearth of new orders. With a number of the company's large offshore clients going into restructuring mode, capital equipment bookings were down 23% sequentially with a book-to-bill ratio of just 0.29X.
- ▼ National Oilwell Varco saw revenue declines in each of its segments. Sales for Rig Technologies, Wellbore Technologies and Completion & Production Solutions fell 31%, 55% and 17% year over year, respectively. In particular, at around \$40 per barrel, oil price is certainly not enough to trigger investments in offshore programs. This slowdown in activity hurts overall demand for services and equipment across the industry spectrum and does not bode well for National Oilwell Varco – a firm that helps develop and produce offshore energy fields.

A tough operating environment and weakness in commodity prices are likely to hamper the company's performance in the coming quarters.

Last Earnings Report

National Oilwell Posts Narrower-Than-Expected Q3 Loss, Revenues Beat Mark

National Oilwell Varco reported adjusted loss of 1 cent per share for third-quarter 2020, narrower than the Zacks Consensus Estimate of a loss of 9 cents. Moreover, the bottom line improved from the year-ago loss of 61 cents. Particularly, better-than-expected revenues from the Completion & Production Solutions segment led to this outperformance.

Total revenues of \$1.38 billion outperformed the Zacks Consensus Estimate of \$1.37 billion. However, the top line plunged 34.9% from the year-ago number of \$2.13 billion due to weakness in the Rig Technologies and the Wellbore Technologies unit.

Quarter Ending 09/2020

Report Date	Oct 26, 2020
Sales Surprise	0.59%
EPS Surprise	88.89%
Quarterly EPS	-0.01
Annual EPS (TTM)	0.19

Segmental Performance

Rig Technologies: Revenues summed \$449 million, which missed the Zacks Consensus Estimate of \$451 million and also compared unfavorably with the year-ago quarter's \$647 million, thanks to a drop in rig capital equipment sales and depressed aftermarket revenues. The unit's adjusted EBITDA of \$28 million decreased from the year-earlier quarter's \$105 million.

Wellbore Technologies: Segmental revenues of \$361 million lagged the Zacks Consensus Estimate of \$364 million and also fell 54.5% year over year as a result of reduced drilling operations in North America. Meanwhile, the unit's adjusted EBITDA of \$21 million deteriorated from the prior-year's \$133 million.

Completion & Production Solutions: Revenues of \$601 million outperformed the Zacks Consensus Estimate of \$590 million but dropped 17.44% from \$728 million in the year-earlier quarter. This upside could be attributed to dwindling situations in the shorter-cycle businesses, partially offset by a strong execution of the existing backlog. The unit recorded adjusted EBITDA of \$63 million, down from the year-ago figure of \$82 million.

Backlog

Capital equipment order backlog for Rig Technologies was \$2.66 billion as of Sep 30, 2020 including \$57 million worth of new orders.

Meanwhile, the Completion & Production Solutions' backlog for capital equipment orders totalled \$789 million at the end of the third quarter. The figure included \$169 million of new orders.

Balance Sheet

As of Sep 30, 2020, the company had cash and cash equivalents of \$1.49 billion and long-term debt of \$1.82 billion. The total debt-to-total capitalization was 24.8%.

Outlook

Despite soft bookings in the third quarter and tough market conditions, the company is witnessing a few signs of hope in the market. The drilling activity in North America is expected to pick up fairly from the current lows. Further, the international markets see lesser coronavirus-related logistical disruptions. Hence, both the company's Rig Technologies and Completion & Production Solutions segments saw significant ramp-ups in tendering activity, hinting at the possibility of a higher order intake in the fourth quarter.

Recent News

NOV Gives Update on Fourth-Quarter 2020 Operational Guidance

On **Jan 19** NOV revised its guidance for fourth-quarter 2020. It expects revenues of \$1.33 billion and anticipated a GAAP operating loss of \$327 million for the December quarter, both below the previously provided projections. Further, adjusted EBITDA is estimated to be \$17 million.

Softness in international markets and lower demand for capital equipment offset the ramp-up in North American activity levels that led to higher revenues in the United States for its shorter-cycle businesses. This, in turn, hurt the fourth-quarter performance of its three units, namely Rig Technologies, Wellbore Technologies and Completion & Production Solutions, which fell below the company's expectations.

The renewed spike in COVID-19 cases forced customers to delay orders, inducing a slowdown in bookings during the latter half of the final quarter. However, NOV managed to attain a sequential uptick of 27% in orders for its Completion & Production Solutions segment and a 105% surge in book-to-bill for its Rig Technologies segment.

Notwithstanding the tough operating landscape of the company's later-cycle business and its continuing investments in developing new products and technologies, a healthy free cash flow was successfully generated, in line with its expectations. .

Clay Williams, NOV's CEO, chairman and president says, "While we expect continued softness in our first quarter 2021 results, we are optimistic that improving commodity prices, rising activity, and the actions we are taking to position NOV for the future will result in improved profitability over the course of 2021."

Valuation

Shares of National Oilwell decreased 9.8% and 40.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub industry and Zacks Oil-Energy sector are up 4.3% and 2.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 10.8% and down 20%, respectively.

The S&P 500 index is down 0.9% and up 16.1% in the year-to-date period and over last year, respectively.

The stock is currently trading at 2.2X trailing 12-month EV/EBITDA, which compares to 4.04X for the Zacks sub-industry, 4.97X for the Zacks sector and 16.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.26X and as low as 0.87X, with a 5-year median of 5.95X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 0.88X F12M sales.

The table below shows summary valuation data for NOV

Valuation Multiples - NOV					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	2.2	4.04	4.97	16.86
	5-Year High	34.26	48.04	10.53	17.54
	5-Year Low	0.87	2.47	3.1	9.53
	5-Year Median	5.95	11.35	6.13	13.24
P/S F12M	Current	0.84	0.86	0.8	4.34
	5-Year High	2.12	1.53	1.46	4.34
	5-Year Low	0.39	0.43	0.6	3.2
	5-Year Median	1.44	0.9	0.98	3.68
P/B TTM	Current	0.87	1.19	1.12	6.4
	5-Year High	1.33	2.28	1.57	6.64
	5-Year Low	0.42	0.48	0.54	3.73
	5-Year Median	0.91	1.43	1.33	4.95

As of 01/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DATATEC (DTTLY)	Neutral	3
NOMURA RESH LTD (NRILY)	Neutral	2
Spotify Technology SA (SPOT)	Neutral	3
Thomson Reuters Corp (TRI)	Neutral	3
WARTSILA OYJ (WRTBY)	Neutral	3
Amadeus IT Group SA (AMADY)	Underperform	5
IQVIA Holdings Inc. (IQV)	Underperform	4
ATOS ORIGIN SA (AEXAY)	NA	NA

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

Industry Comparison Industry: Technology Services				Industry Peers		
	NOV	X Industry	S&P 500	DNOW	FTI	WFTIQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	A	A	-
Market Cap	4.81 B	421.74 M	26.06 B	906.76 M	4.79 B	NA
# of Analysts	7	2	13	2	14	1
Dividend Yield	0.00%	0.00%	1.48%	0.00%	0.00%	%
Value Score	C	-	-	A	B	C
Cash/Price	0.29	0.09	0.06	0.36	0.84	NA
EV/EBITDA	-2.32	-0.37	14.72	7.65	-3.58	NA
PEG F1	NA	2.82	2.42	NA	0.70	NA
P/B	0.87	5.69	3.60	1.24	1.13	NA
P/CF	1.23	17.41	14.66	4.63	5.70	NA
P/E F1	NA	32.48	19.64	NA	15.66	NA
P/S TTM	0.68	3.73	2.86	0.47	0.36	NA
Earnings Yield	-2.26%	0.41%	4.98%	-3.62%	6.36%	NA%
Debt/Equity	0.33	0.01	0.69	0.00	0.77	2.32
Cash Flow (\$/share)	10.03	-0.04	6.85	1.79	1.88	4.85
Growth Score	A	-	-	A	A	B
Historical EPS Growth (3-5 Years)	NA%	6.81%	9.69%	NA	-55.30%	NA
Projected EPS Growth (F1/F0)	-144.26%	18.75%	12.80%	52.15%	91.74%	20.78%
Current Cash Flow Growth	487.41%	7.44%	4.88%	143.75%	-9.41%	158.27%
Historical Cash Flow Growth (3-5 Years)	0.71%	1.89%	8.07%	7.32%	-1.24%	17.70%
Current Ratio	2.85	1.68	1.38	3.33	1.10	2.33
Debt/Capital	24.77%	2.90%	41.57%	0.00%	43.73%	69.85%
Net Margin	-36.63%	-13.52%	10.56%	-26.92%	-42.41%	86.38%
Return on Equity	1.13%	-10.05%	15.23%	-5.78%	1.56%	269.52%
Sales/Assets	0.63	0.63	0.51	1.58	0.65	0.67
Projected Sales Growth (F1/F0)	-7.69%	13.47%	5.92%	-9.73%	0.02%	-5.75%
Momentum Score	C	-	-	B	A	-
Daily Price Change	-1.90%	-0.58%	-1.88%	2.60%	-2.37%	NA%
1-Week Price Change	-9.08%	2.30%	-0.02%	-8.11%	-5.40%	NA%
4-Week Price Change	-9.83%	6.75%	-1.48%	15.46%	13.72%	NA%
12-Week Price Change	33.12%	28.68%	6.91%	74.16%	76.99%	NA
52-Week Price Change	-41.10%	18.11%	5.65%	-19.20%	-35.05%	NA
20-Day Average Volume (Shares)	5,051,758	359,074	1,962,643	1,280,719	8,570,114	0
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.12%	0.00%
EPS F1 Estimate 4-Week Change	-2.02%	0.00%	0.26%	3.78%	0.32%	0.00%
EPS F1 Estimate 12-Week Change	3.74%	0.96%	1.63%	17.21%	-0.58%	0.00%
EPS Q1 Estimate Monthly Change	-11.11%	0.00%	0.05%	0.00%	-0.98%	NA

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.