

Owens Corning (OC)

\$65.91 (As of 09/03/20)

Price Target (6-12 Months): **\$76.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 07/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: C

Summary

Owens Corning's shares have outperformed its industry in the past three months. Earnings estimates for 2020 have moved north over the past 60 days, depicting analysts' optimism surrounding its bottom-line growth potential. The upside was primarily attributed to market leading businesses, innovative product and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage and strong cost controls helped it deliver solid results. Although the COVID-19 impacts continue to hurt, it expects to capitalize on near-term market demand and control costs. Also, it plans to maintain a strong conversion of adjusted earnings into free cash flow as residential, commercial and industrial markets are rebounding.

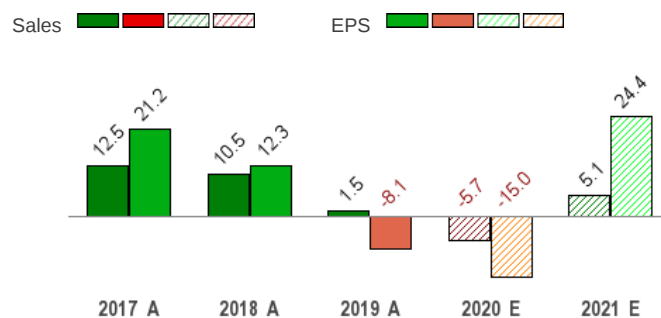
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$70.55 - \$28.56
20-Day Average Volume (Shares)	779,230
Market Cap	\$7.1 B
Year-To-Date Price Change	1.2%
Beta	1.59
Dividend / Dividend Yield	\$0.96 / 1.5%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 7% (18 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	238.5%
Last Sales Surprise	6.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/28/2020
Earnings ESP	5.4%

P/E TTM	15.6
P/E F1	17.1
PEG F1	2.0
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,692 E	1,754 E	1,958 E	1,742 E	7,094 E
2020	1,601 A	1,625 A	1,790 E	1,680 E	6,752 E
2019	1,667 A	1,918 A	1,883 A	1,692 A	7,160 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$1.31 E	\$1.67 E	\$1.26 E	\$4.80 E
2020	\$0.60 A	\$0.88 A	\$1.27 E	\$1.12 E	\$3.86 E
2019	\$0.54 A	\$1.31 A	\$1.63 A	\$1.13 A	\$4.54 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 09/03/2020. The reports text is as of 09/04/2020.

Overview

Owens Corning is a world leader in building materials systems and composite solutions. Since its inception in 1938, the company has evolved as a market-leading innovator of glass fiber technology. Its products include glass fiber that is used to support composite materials for transportation, electronics, marine, infrastructure, wind energy and other high-performance markets for insulation as well as roofing for residential, commercial and industrial applications.

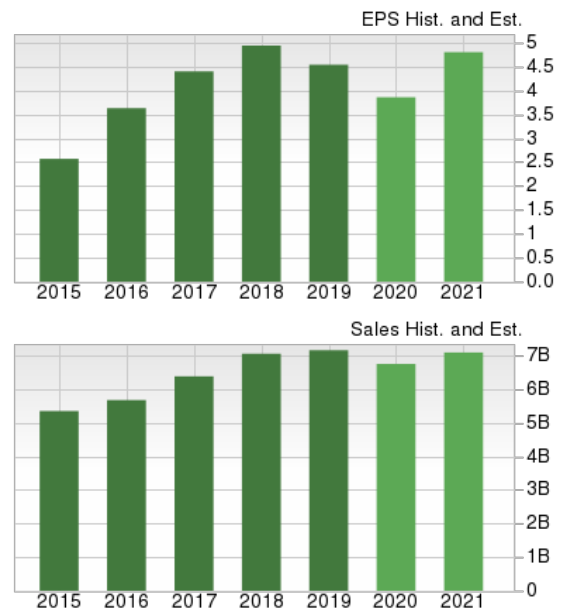
The company has three reportable segments — Composites, Insulation and Roofing.

Composites segment (accounting for 28.8% of total 2019 sales) includes vertically integrated downstream activities and specializes in the production of glass fiber reinforcement materials. Demand for composites is driven by general global economic activity and by the increasing replacement of traditional materials such as aluminum, wood and steel with composites that offer lighter weight, improved strength, lack of conductivity and corrosion resistance.

Insulation segment (37.3%) products include thermal and acoustical batts, loose-fill insulation, foam sheathing and accessories, glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation, cellular glass insulation as well as foam insulation. Demand for Owens Corning's insulating products is driven by new residential construction, remodeling and repair activity, commercial and industrial construction activity, increasingly stringent building codes and the growing need for energy efficiency.

Roofing segment (36.8%) products include laminate and strip asphalt roofing shingles, roofing components, synthetic packaging materials and oxidized asphalt. Demand for products in the Roofing segment is generally driven by residential repair and remodeling activity and by new residential construction. Roofing damage from major storms can significantly increase demand in the segment.

[Note: In 2019, corporate eliminations constituted 2.9% of net sales]



Source: Zacks Investment Research

Reasons To Buy:

▲ **Strategic Initiatives to Drive Performance:** Owens Corning has implemented strategic initiatives to drive overall performance. Segment-wise, in the Insulation business, technical and other building insulation businesses look strong on the back of geographic and product expansion through acquisitions. Also, in the North American residential fiberglass business, the company is utilizing automation and additional investments in process technology to improve manufacturing efficiencies, as well as reduce costs.

Strategic initiatives, acquisitions and enough liquidity bode well for the company

In Composites, the segment has been generating higher volumes backed by its efforts on higher value applications for glass non-wovens and specific markets like India. Notably, the company focuses on improving low-cost manufacturing position through strategic supply agreements, accomplished large-scale furnace investments and additional productivity.

In the Roofing segment, Owens Corning is leveraging vertical integration, material science capabilities, and commercial strength to design as well as market unique roofing shingles and components that attract contractors, homeowners and distributors.

Apart from improving operational strength, the company undertook certain actions during the second quarter to reduce costs within its Composites segment, primarily through global workforce reductions. It lowered \$5 million of charges during the first six months of 2020 and expects to recognize additional \$5 million charges in the second half.

▲ **Acquisitions to Boost Top-line Growth:** Acquisitions are an important part of Owens Corning's growth strategy. The acquisition of Paroc — a leading producer of mineral wool insulation for building and technical applications in Europe — enabled the company to expand its geographic scope in Europe, and augment portfolio in a bid to include insulation products in all three major markets — North America, Europe and China.

▲ **Strength in Insulation Business:** Owens Corning's business experiences strong demand for insulating products. This is primarily driven by commercial and industrial construction activity, new residential construction, remodeling and repair activity, and increased energy efficiency. Although the peak season for home construction and remodeling in the markets served by the company generally corresponds with the second and third calendar quarters, the coronavirus pandemic remains a potent headwind. Nonetheless, its performance is expected to revive once the effects of this pandemic phase out.

In the second quarter, North American residential fiberglass insulation business witnessed year-over-year flat volumes and some favorable price realization despite coronavirus headwinds. Also, technical and other building Installation volumes grew sequentially. Notably, its mineral wool businesses in Europe and the United States still encourage us. Moreover, the company expects to realize margin improvement of approximately 50% from the second-quarter level.

▲ **Strong Liquidity Position:** In response to the unfavorable demand trends due to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. As of Jun 30, 2020, it had \$582 million cash and cash equivalents, significantly up from \$172 million at 2019-end and \$234 million at March-end. During the second quarter, it repaid \$210 million of revolving credit facility. It currently has approximately \$900 million available under the facility.

As of Jun 30, it had \$3.4 billion of long-term debt, net of current portion, slightly up from \$3.3 billion reported in the March quarter and \$3.1 billion at 2019 end. Although the company's long-term debt is marginally up sequentially, it has no significant debt maturing until February 2021.

Moreover, the company has total debt to capital ratio of 48.3, down from 48.7 sequentially. Notably, it plans to repay the remaining \$150 million term-loan balance in 2020.

Risks

- **Coronavirus to Hurt Near-Term Results:** Despite seeing a positive momentum in recent months, the company anticipates low Roofing demand in 2020. Also, it expects to face an increasing year-over-year pricing headwind due to lack of a higher spring price.

In the Insulation segment, the company expects soft year-over-year volumes for the third quarter. For Composites, management expects a greater impact of COVID-19 on demand. In fact, July volumes were down in low double digits from last-year levels. This trend is likely to continue in the near term as well. Moreover, the company expects pricing headwinds to persist due to contract negotiations completed last year.

- **Pricing Headwind & Input Cost Inflation:** The company expects some pricing weakness in insulation business. It reported a price decline of \$11 million in the first quarter and \$6 million in the second quarter. It further expects this trend to continue in third-quarter 2020.

Meanwhile, material costs are dampening Owens Corning's operating performance. In 2019, the Composites business witnessed higher input cost inflation, lower selling prices and negative foreign currency. Although the company has been working to recover higher commodity cost through price increases, we expect this ongoing volatility in material costs to continue in the near term as well.

- **Currency Headwinds:** Owens Corning is witnessing negative foreign currency translation, which is dampening overall bottom-line results. Owens Corning is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and Asia-Pacific.
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Last Earnings Report

Owens Corning Q2 Earnings Beat Estimates, Fall Y/Y

Owens Corning reported impressive results for second-quarter 2020. The top and the bottom line surpassed the Zacks Consensus Estimate on the back of its market leading businesses, innovative product and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage and strong cost controls helped it deliver solid results.

The company is confident about the remainder of this year and 2021 by focusing on four key areas: safety of employees and other key stakeholders; close connection with customers, suppliers and markets; adapting to rapid changes in businesses to overcome near-term challenges while positioning well for long-term success; and a strong balance sheet.

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	5.95%
EPS Surprise	238.46%
Quarterly EPS	0.88
Annual EPS (TTM)	4.24

Inside the Headlines

The company reported adjusted earnings of 88 cents per share, surpassing the consensus mark of 26 cents by a whopping 238.5%. However, the said metric declined 31.8% year over year.

Net sales of \$1.63 billion topped the consensus mark of \$1.53 billion by 6% but declined 15.3% year over year. Also, the metric declined 14% on a constant-currency (cc) basis. The downside was mainly due to significant drop in order volumes. Nonetheless, it has started seeing recovery, mainly in U.S. residential market and parts of Europe.

Segment Details

Net sales in the Composites segment dropped 26% year over year to \$398 million. Segment sales were down 23% on a constant-currency basis, primarily due to soft volumes. Also, unfavorable customer mix and slightly lower selling prices added to the woes. Earnings before interest and taxes (EBIT) margin of 2% contracted 1100 basis points (bps) from the year-ago quarter's 13%. Reduced sales and production volumes along with negative impacts from production curtailments, lower selling prices and foreign currency translation impacted the results.

Insulation segment's net sales came in at \$595 million, down 10% year over year and 9% on a constant-currency basis. The downside was mainly due to COVID-19-impacted volumes and lower selling prices. Within Insulation umbrella, North American residential fiberglass insulation volumes remained flat year over year with favorable price realization. Volume in mineral wool businesses, in Europe and United States, also remained flat with the year-ago period. However, technical and other building Installation's volumes were down from prior year. EBIT margin also contracted 100 bps to 5%.

The Roofing segment's net sales declined 13% year over year to \$677 million, thanks to lower shingle volumes stemming from destocking at distribution early in the second quarter as well as lower out-the-door demand in April. Additionally, lower selling prices and third-party asphalt sales led to the downside. EBIT margin, however, expanded 300 bps year over year as low marketing and administrative expenses offset the volume and production curtailments woes.

Operating Highlights

Adjusted EBIT during the quarter totaled \$167 million, indicating a 27.7% decline on a year-over-year basis due to decline in Composites.

Balance Sheet

As of Jun 30, 2020, the company had cash and cash equivalents of \$582 million compared with \$172 million at 2019-end. Long-term debt, net of current portion totaled \$3.3 billion, rose from \$3 billion at 2019-end. The company has \$1.5 billion of available liquidity at the end of the second quarter. During the quarter, it repaid \$210 million in revolving credit facility. Meanwhile, its \$150-million term loan is likely to mature in February 2021. In the first six months of 2020, net cash used in operating activities was \$229 million, down from \$287 million a year ago. Free cash flow came in at \$233 million, down from \$323 million a year ago. Through June, the company returned \$133 million to shareholders in the form of share repurchases and dividends. At quarter-end, 2.3 million shares were available under the current authorization.

Updated 2020 Outlook

Owens Corning's businesses are witnessing negative trends in global industrial production, U.S. housing starts as well as global commercial and industrial construction activity. It expects continuation of COVID-19 impacts to hurt its end markets. Nonetheless, it expects to capitalize on near-term market demand, control costs and maintain strong conversion of adjusted earnings into free cash flow, as residential, commercial, and industrial markets are rebounding. The company narrowed general corporate expense expectation to \$105-\$115 million from \$100-\$120 million expected earlier. Capital additions are now expected in the range of \$250-\$300 million versus \$150-\$200 expected earlier. Interest expenses are projected within \$125-\$130 million, compared with \$120-\$125 million projected earlier. Owens Corning estimates an effective tax rate of 26-28%.

Valuation

Owens Corning's shares are up 1.2% in the year-to-date period 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 9.5% and 5.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 26.1% and 16.4%, respectively.

The S&P 500 index is up 3.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 14.65X forward 12-month earnings, which compares to 17.2X for the Zacks sub-industry, 17.98X for the Zacks sector and 23.08X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.71X and as low as 6X, with a 5-year median of 14.35X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$76 price target reflects 16.89X forward 12-month earnings.

The table below shows summary valuation data for OC.

Valuation Multiples - OC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.65	17.2	17.98	23.08
	5-Year High	21.71	19.28	19.19	23.08
	5-Year Low	6	7.15	10.74	15.25
	5-Year Median	14.35	13.75	15.86	17.6
P/S F12M	Current	1.03	1.33	2.06	4.24
	5-Year High	1.67	3.59	2.13	4.24
	5-Year Low	0.46	0.69	1.18	2.53
	5-Year Median	0.97	0.91	1.64	3.07
EV/EBITDA TTM	Current	4.37	21.67	18.94	12.49
	5-Year High	10.72	30.62	21.27	13.29
	5-Year Low	2.92	13.61	12.4	8.22
	5-Year Median	7.96	22.72	17.89	10.92

As of 09/03/2020

Industry Analysis Zacks Industry Rank: Top 7% (18 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Installed Building Products, Inc. (IBP)	Outperform	1
Lumber Liquidators Holdings, Inc (LL)	Outperform	2
Masco Corporation (MAS)	Outperform	2
Gibraltar Industries, Inc. (ROCK)	Outperform	2
Simpson Manufacturing Company, Inc. (SSD)	Outperform	1
United Rentals, Inc. (URI)	Outperform	2
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Armstrong World Industries, Inc. (AWI)	Underperform	5

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC	X Industry	S&P 500	AWI	MAS	URI
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	5	2	2
VGM Score	B	-	-	B	B	B
Market Cap	7.12 B	1.27 B	23.52 B	3.43 B	14.95 B	12.57 B
# of Analysts	7	2	14	4	8	8
Dividend Yield	1.46%	0.00%	1.62%	1.12%	0.94%	0.00%
Value Score	B	-	-	D	C	A
Cash/Price	0.08	0.10	0.07	0.03	0.07	0.01
EV/EBITDA	8.36	8.90	13.12	9.50	13.05	5.23
PEG F1	2.01	1.87	2.97	10.05	1.42	0.95
P/B	1.94	1.61	3.20	8.51	404.03	3.22
P/CF	7.49	8.92	12.72	11.15	19.99	3.63
P/E F1	17.08	20.72	21.67	20.01	21.21	11.43
P/S TTM	1.05	1.32	2.49	3.51	2.16	1.40
Earnings Yield	5.86%	4.72%	4.40%	5.00%	4.71%	8.75%
Debt/Equity	0.90	0.42	0.70	1.51	64.11	2.46
Cash Flow (\$/share)	8.80	2.31	6.93	6.43	2.86	47.99
Growth Score	D	-	-	B	B	C
Historical EPS Growth (3-5 Years)	12.75%	20.08%	10.41%	21.40%	20.08%	26.03%
Projected EPS Growth (F1/F0)	-15.01%	-3.28%	-4.75%	-25.05%	19.78%	-21.83%
Current Cash Flow Growth	-2.64%	-3.66%	5.22%	15.31%	-13.53%	17.38%
Historical Cash Flow Growth (3-5 Years)	13.33%	13.97%	8.49%	3.83%	8.58%	13.02%
Current Ratio	1.87	2.19	1.35	2.04	1.50	0.84
Debt/Capital	47.50%	35.74%	42.95%	60.13%	98.46%	71.07%
Net Margin	-8.79%	2.67%	10.25%	-5.64%	19.23%	12.37%
Return on Equity	11.35%	10.76%	14.59%	56.59%	-1,729.19%	37.16%
Sales/Assets	0.71	1.04	0.50	0.64	1.34	0.48
Projected Sales Growth (F1/F0)	-5.69%	0.00%	-1.42%	-8.80%	-11.61%	-11.20%
Momentum Score	C	-	-	A	C	D
Daily Price Change	-5.42%	-3.01%	-2.14%	-2.75%	-4.46%	-5.52%
1-Week Price Change	1.45%	0.00%	2.59%	2.59%	-0.27%	4.27%
4-Week Price Change	1.49%	-0.24%	2.25%	-0.89%	-0.47%	3.40%
12-Week Price Change	28.18%	12.48%	11.04%	-6.03%	25.54%	22.77%
52-Week Price Change	16.14%	2.04%	2.01%	-25.13%	38.54%	49.70%
20-Day Average Volume (Shares)	779,230	167,895	1,827,096	331,904	1,476,673	757,281
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.04%
EPS F1 Estimate 4-Week Change	0.00%	0.22%	0.00%	0.00%	0.00%	-0.04%
EPS F1 Estimate 12-Week Change	56.30%	30.59%	3.89%	-10.83%	34.58%	31.12%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

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	B
Growth Score	D
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.

Disclosures

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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.