

RLI Corp.(RLI)

\$83.62 (As of 10/14/20)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of RLI Corp. have outperformed its industry year to date. The company is one of the industry's most profitable property and casualty writers with an impressive record of underwriting profits. Strong local branch-office network, broad range of product offerings, focus on specialty insurance lines contribute to its profits. Underwriting discipline helps maintain combined ratios at favorable levels. Solid net investment income aid revenue growth. The company's decision to drop underperforming products from property business bodes well. Strong capital position provides financial flexibility to operating subsidiaries. Also, its second-quarter bottom line beat estimates. However, exposure to catastrophe losses inducing underwriting volatility and high cost are concerns for RLI Corp. High leverage and poor times interest earned pose risk.

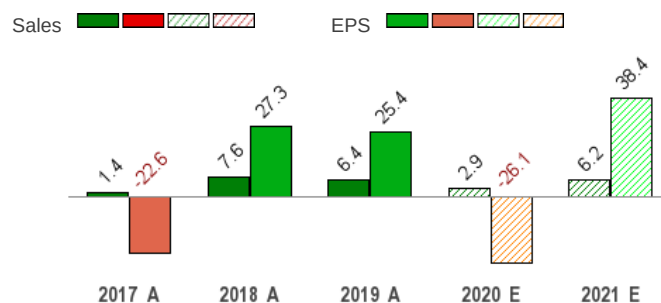
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$99.93 - \$66.02
20-Day Average Volume (Shares)	154,156
Market Cap	\$3.8 B
Year-To-Date Price Change	-7.1%
Beta	0.37
Dividend / Dividend Yield	\$0.96 / 1.1%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 7% (230 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	71.1%
Last Sales Surprise	-3.3%
EPS F1 Estimate 4-Week Change	-24.8%
Expected Report Date	10/21/2020
Earnings ESP	0.0%
P/E TTM	31.8
P/E F1	44.0
PEG F1	NA
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	239 E	240 E	241 E	242 E	962 E
2020	233 A	226 A	236 E	239 E	934 E
2019	221 A	225 A	229 A	233 A	908 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.67 E	\$0.60 E	\$0.66 E	\$2.63 E
2020	\$0.66 A	\$0.77 A	-\$0.10 E	\$0.57 E	\$1.90 E
2019	\$0.71 A	\$0.66 A	\$0.57 A	\$0.63 A	\$2.57 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 10/14/2020. The reports text is as of 10/15/2020.

Overview

Headquartered in Peoria, IL, RLI Corp. is a specialty property-casualty (P&C) underwriter that caters primarily to niche markets through its main operating subsidiary, RLI Insurance Company. Other subsidiaries include Mt. Hawley Insurance Company and RLI Indemnity Company. The company, founded in 1965, serves 50 states and the District of Columbia.

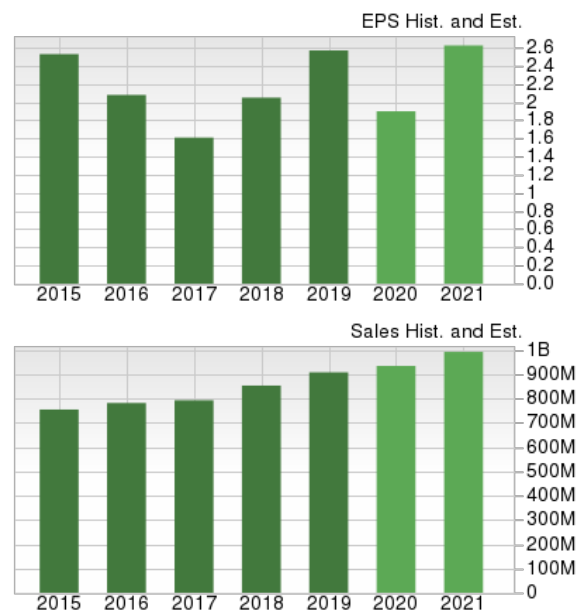
RLI Corp. classifies its operations into three distinct segments ? Casualty, Property, and Surety.

- **Casualty (66.6% of 2019 net premiums earned)** – The segment comprises general liability, personal umbrella, transportation, executive products, commercial umbrella, multi-peril program business, and other specialty coverage. In addition, the segment provides employers' indemnity and in-home business owners' coverage.

- **Property (19.5%)** – The segment provides commercial property coverage, including excess and surplus (E&S) lines and specialty insurance such as fire, earthquake, flood and inland marine. Marine operations include cargo, hull, protection and indemnity, primary and excess liabilities, yachts, and other marine coverage.

- **Surety (13.9%)** – The segment specializes in writing small-to-large commercial and small contract surety coverage, as well as those for the energy (plugging and abandonment of oil wells), petrochemical and refining industries.

RLI Corp. distributes its products through branch offices to wholesale and retail brokers, independent agents and e-commerce channels throughout the United States including Puerto Rico, the Virgin Islands and Guam.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Shares of the company have lost 7% year to date against the industry's decline of 9.8%. Improving top line and a solid capital position would likely help the stock bounce back.
- ▲ RLI Corp. has been witnessing a consistent improvement in revenues. Total revenues are primarily driven by higher premiums and net investment income over the years. In first half of 2020, net premiums earned improved 2.9% year over year to \$424.3 million. Given diversified and compelling product portfolio, focus on introducing new products, re-underwriting several of its products, sturdy business expansion, sustained rate increase, expanded distribution and operational strength we expect revenue growth to continue.
- ▲ RLI Corp. is one of the industry's most profitable P&C writers with an impressive track record of underwriting profits. Underwriting income increased 10.8% year over year to \$41.4 million in the first half of 2020. A strong local branch-office network, broad range of product offerings and focus on specialty insurance lines are contributors to its superior profitability. It has also diversified into crop and other assumed property reinsurance and expanded its underwriting team. Moreover, to stay focused on new markets and product expansion opportunities, RLI Corp. has been ramping up its inorganic profile. Notable buyouts include Contractors Bonding Insurance Company, Rockbridge Underwriting Agency as well as a 20% stake in Prime Holdings Insurance Services, a specialty E&S company.
- ▲ RLI Corp. has been witnessing improvement in investment income since 2014 on the back of a larger invested asset base. In first half of 2020, the company's net investment income grew 3.4% year over year to \$34.7 million. Growing investment income should continue to aid top line improvement.
- ▲ The company's combined ratio, which reflects its underwriting profitability, has been exemplary. The company has maintained combined ratio below 100 for 23 consecutive years and below 90 for 12 straight years. This solid track record of maintaining the combined ratio at favourable levels even in the toughest operating environment reflects the company's superior underwriting discipline. Combined ratio in the second quarter of 2020 was 88.4%, which improved 440 basis points year over year. The improvement in combined ratio was backed by contributions from all major product segments. Moreover, in its effort to boost underwriting results, the company has decided to drop the underperforming products from its property business.
- ▲ RLI Corp. has been paying dividends for 170 consecutive quarters and increased regular dividends in the last 43 straight years. In addition, the insurer has also been paying special dividends to its shareholders for the last few years. In May 2020, the company made a 4.3% dividend hike, reflecting a five-year (2015-2020) CAGR of 5.9%. Its dividend yield of 1.1% is better than the industry average of 0.4%, making the stock an attractive pick for yield-seeking investors.
- ▲ RLI Corp. has a sound capital structure, helping it meet the interests of its policyholders, enhance operations in the insurance sector and aid growth in its book value for the long term. The insurer's 12% return on equity was also better than the industry average of 6.2%. RLI Corp. maintains a conservative underwriting and reserving policy and continues to achieve favorable reserve releases from the prior years. Such a robust capital position provides significant financial flexibility to the operating subsidiaries.

RLI's strong local branch office network, broad range of product offerings, focus on specialty insurance lines and impressive record of underwriting profits poise the company for growth.

Reasons To Sell:

- ▼ RLI Corp. has exposure to catastrophe loss, stemming from earthquakes that primarily hit the West Coast and from damages to commercial properties throughout the Gulf and East Coast, as well as to homes, which were damaged by hurricanes in the Gulf and East Coast and Hawaii. Certain storm-related events resulted in a moderate amount of catastrophe losses for the quarter. However, exposure to catastrophes is a lingering concern as natural disasters are unpredictable and induce volatility in a company's earnings.
- ▼ RLI Corp. has been witnessing higher expenses, primarily on increase in loss and settlement expenses, interest expense on debt plus policy acquisition costs. In the first half of 2020, expenses increased 1.4% year over year to \$390.5 million. Net margin contracted 90 bps year over year. Such increase in expenses weighs on margins.
- ▼ RLI Corp.'s debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$149.4 million, up 0.1% from the 2019-end level. Also, long-term debt to capital of 12.4% compares unfavorably with the industry's measure of 1.3%. However, as of Jun 30, 2020 the company's total debt/total capital of 12.4 is lower than its figure of 13 at 2019-end. The company's cash and cash equivalents of \$84.4 million as of Jun 30, 2020 was not sufficient for the company to meet its debt obligations. Also, the company's times interest earned of 19 as on Jun 30, 2020 was poor when compared with the 2019-end figure of 31.7, implying that its earnings are not sufficient to cover interest obligations.
- ▼ RLI Corp.'s valuation looks expensive at the current level. Looking at the company's price-to-book (P/B) ratio, investors may not want to pay any further premium. It currently has a trailing P/B ratio of 3.58, higher than the industry average of 1.28.

Exposure to cat loss inducing volatility in underwriting profit and increasing expenses from higher losses and settlement expenses and policy acquisition costs weighing on margin expansion concerns.

Last Earnings Report

RLI Corp. Q2 Earnings Beat Estimates, Revenues Miss

RLI Corp.'s second-quarter 2020 operating earnings of 77 cents per share outpaced the Zacks Consensus Estimate by 71.1%. The bottom line also improved 16.7% from the prior-year quarter.

The company's results benefited from higher revenues and reduced expenses.

Operational Performance

Operating revenues for the reported quarter totaled \$226 million, up 0.4% year over year. This upside can be attributed to higher net premiums earned, partially offset by reduced net investment income. However, the top line missed the Zacks Consensus Estimate by 3.3%.

Gross premiums written inched up 1.4% year over year to \$287.2 million. This uptick can be attributed to solid performance of Casualty and Property segments. However, net premiums written of \$230.1 million declined 0.4% on a year-over year basis, which is primarily due to lower premiums written in the Casualty and Surety segments.

However, net investment income declined 0.5% year over year to \$16.9 million.

Nevertheless, total expenses declined 4.7% year over year to \$188.5 million, primarily due to lower loss and settlement expenses, policy acquisition costs, insurance operating expenses and general corporate expenses.

The company reported underwriting income of \$24.2 million, which surged 62.4% from the year-ago period courtesy of robust performance of Casualty and Property segments, partially offset by weak performance of the Surety segment.

Combined ratio improved 440 basis points (bps) year over year to 88.4%.

Financial Update

The company exited the second quarter with total investments and cash of \$2.6 billion, up 3.3% from 2019 end.

Book value was \$23.39 per share as of Jun 30, 2020, up 5.5% from the figure as of Dec 31, 2019.

Long-term debt was \$149.4 million, which inched up marginally from 2019 end.

Statutory surplus decreased 0.9% to \$1.02 billion as of Jun 30, 2020 from the figure as of Dec 31, 2019.

Return on equity was 17%, reflecting a contraction of 370 bps year over year.

Net cash flow from operations was \$89.5 million in the quarter under review, up 20.1% from the year-ago period.

Dividend Update

On Jun 19, the company paid out a cash dividend of 24 cents per share, which indicates a hike of 4.3% from the prior dividend payout of 23 cents. Dividends totaled more than \$529 million in the last five years.

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	-3.28%
EPS Surprise	71.11%
Quarterly EPS	0.77
Annual EPS (TTM)	2.63

Recent News

RLI Corp. Estimates Q3 Catastrophe Loss of \$35M to \$45M - Sep 30, 2020

RLI Corp. estimates third-quarter 2020 catastrophe loss of about \$35 million to \$45 million before taxes, net of reinsurance. The loss can be attributed to Hurricane Hanna, Hurricane Isaias, Hurricane Laura and Hurricane Sally.

RLI Corp. Declares Quarterly Dividend — Aug 21, 2020

The board of directors of RLI Corp. declared a quarterly dividend of 24 cents per share. The dividend was paid out on Sep 18 to shareholders of record as of Aug 31.

Valuation

RLI Corp's shares are down 7% and 9% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 9.8% and 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4.5% and 9.9%, respectively.

The S&P 500 index are up 8.5% in the year-to-date period and 16.9% in the past year.

The stock is currently trading at 3.58x trailing 12-month book value, which compares to 2.4x for the Zacks sub-industry, 2.54x for the Zacks sector and 6.07x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.48x and as low as 2.56x, with a 5-year median of 3.4x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 3.79x trailing 12- month book value.

The table below shows summary valuation data for RLI

Valuation Multiples - RLI					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	3.58	1.28	2.54	6.07
	5-Year High	4.48	1.67	2.9	6.2
	5-Year Low	2.56	0.93	1.72	3.75
	5-Year Median	3.4	1.46	2.54	4.89
P/S F12M	Current	3.84	1.69	6.14	4.17
	5-Year High	4.61	11.3	6.66	4.31
	5-Year Low	2.8	1.4	4.96	3.18
	5-Year Median	3.55	1.83	6.06	3.67
P/E F12M	Current	32.11	24.81	16.02	22.64
	5-Year High	41.82	31.56	16.74	23.47
	5-Year Low	23.68	21.02	11.6	15.27
	5-Year Median	30.48	25.72	14.41	17.68

As of 10/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 7% (230 out of 248)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Argo Group International Holdings, Ltd. (ARGO)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	3
Hallmark Financial Services, Inc. (HALL)	Neutral	2
Markel Corporation (MKL)	Neutral	4
ProAssurance Corporation (PRA)	Neutral	2
Selective Insurance Group, Inc. (SIGI)	Neutral	3
The Hanover Insurance Group, Inc. (THG)	Neutral	4

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	RLI	X Industry	S&P 500	AXS	MKL	SIGI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	D	-	-	C	B	B
Market Cap	3.76 B	1.27 B	23.88 B	3.83 B	13.63 B	3.13 B
# of Analysts	1	2	14	2	1	2
Dividend Yield	1.15%	1.15%	1.61%	3.61%	0.00%	1.76%
Value Score	D	-	-	C	B	B
Cash/Price	0.02	0.28	0.07	0.43	0.48	0.12
EV/EBITDA	15.39	5.74	13.59	8.35	4.13	7.78
PEG F1	NA	2.16	2.87	73.67	NA	NA
P/B	3.58	0.98	3.53	0.81	1.26	1.36
P/CF	30.17	10.06	13.42	10.17	16.89	9.73
P/E F1	43.68	14.23	22.16	368.35	53.48	15.03
P/S TTM	4.09	0.78	2.64	0.78	1.69	1.12
Earnings Yield	2.27%	5.91%	4.34%	-0.22%	1.87%	6.65%
Debt/Equity	0.14	0.23	0.70	0.35	0.33	0.24
Cash Flow (\$/share)	2.77	3.12	6.93	4.47	58.60	5.38
Growth Score	B	-	-	C	B	C
Historical EPS Growth (3-5 Years)	0.41%	4.33%	10.41%	-22.66%	4.32%	11.01%
Projected EPS Growth (F1/F0)	-26.07%	-13.71%	-2.95%	-103.97%	-52.45%	-20.80%
Current Cash Flow Growth	25.36%	3.77%	5.49%	-8.72%	13.53%	21.30%
Historical Cash Flow Growth (3-5 Years)	0.86%	4.81%	8.51%	-11.78%	9.05%	13.47%
Current Ratio	0.38	0.43	1.35	0.59	0.68	0.31
Debt/Capital	12.44%	19.02%	42.91%	23.85%	25.08%	19.32%
Net Margin	12.70%	4.92%	10.28%	-0.41%	2.66%	6.73%
Return on Equity	12.03%	6.89%	14.80%	-1.85%	3.31%	9.90%
Sales/Assets	0.26	0.31	0.51	0.19	0.22	0.31
Projected Sales Growth (F1/F0)	2.91%	0.00%	-0.53%	-6.60%	9.67%	1.00%
Momentum Score	F	-	-	D	B	B
Daily Price Change	-1.81%	-0.38%	-0.25%	2.32%	-0.02%	-0.81%
1-Week Price Change	1.62%	2.15%	4.06%	2.35%	0.90%	2.60%
4-Week Price Change	-4.36%	-0.86%	1.91%	-1.47%	-3.73%	-2.31%
12-Week Price Change	-0.14%	0.00%	5.03%	11.54%	3.20%	-7.47%
52-Week Price Change	-8.99%	-17.86%	4.66%	-28.06%	-13.02%	-29.80%
20-Day Average Volume (Shares)	154,156	100,036	2,074,743	601,244	47,170	282,877
EPS F1 Estimate 1-Week Change	-24.75%	0.00%	0.00%	-68.38%	4.67%	0.00%
EPS F1 Estimate 4-Week Change	-24.75%	0.00%	0.00%	-68.38%	4.67%	0.00%
EPS F1 Estimate 12-Week Change	-15.56%	-0.88%	3.54%	-70.16%	51.95%	3.31%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	3.33%	-1.22%	0.00%

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	D
Growth Score	B
Momentum Score	F
VGM Score	D

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

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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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.