

Reliance Steel(RS)

\$118.17 (As of 12/29/20)

Price Target (6-12 Months): **\$136.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Earnings estimates for Reliance Steel for the fourth quarter of 2020 have been going up over the past month. The company has outperformed the industry it belongs to over the past year. The company should benefit from acquisitions, broad and diversified product base and wide geographic footprint. The company's core business strategy is to enhance operating results by strategic acquisitions. The buyout of All Metals has strengthened the company's toll processing and logistics services businesses. Reliance Steel is also seeing a strong recovery in the automotive market and a rebound in non-residential construction. It is witnessing healthy bidding activities for new projects and a strong rebound of its toll processing services in the automotive market. Reliance Steel also remains committed to offer incremental returns to its shareholders.

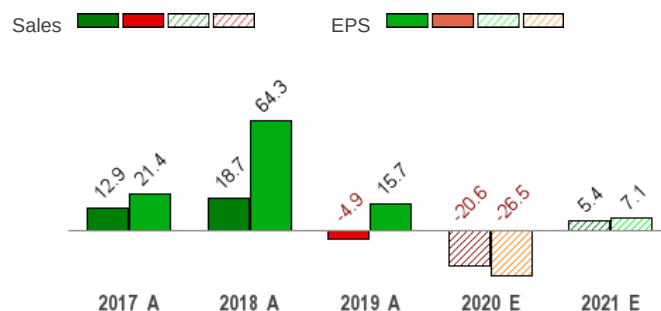
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$123.09 - \$70.57
20-Day Average Volume (Shares)	336,037
Market Cap	\$7.5 B
Year-To-Date Price Change	-1.3%
Beta	1.03
Dividend / Dividend Yield	\$2.50 / 2.1%
Industry	Metal Products - Distribution
Zacks Industry Rank	Top 38% (96 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	-0.9%
EPS F1 Estimate 4-Week Change	5.2%
Expected Report Date	02/18/2021
Earnings ESP	6.9%
P/E TTM	14.6
P/E F1	15.6
PEG F1	1.7
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,286 E	2,401 E	2,318 E	2,253 E	9,186 E
2020	2,573 A	2,019 A	2,086 A	2,033 E	8,713 E
2019	2,957 A	2,884 A	2,686 A	2,448 A	10,974 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.51 E	\$2.19 E	\$1.98 E	\$1.94 E	\$8.14 E
2020	\$2.45 A	\$1.36 A	\$1.87 A	\$1.73 E	\$7.60 E
2019	\$2.80 A	\$2.71 A	\$2.39 A	\$2.44 A	\$10.34 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 12/29/2020. The reports text is as of 12/30/2020.

Overview

Los Angeles, CA-based Reliance Steel & Aluminum Co. is a leading metals service center company engaged in value-added materials management and metals processing services. It also distributes over 100,000 metal products to more than 125,000 customers across a vast spectrum of industries. Reliance Steel is the biggest North American metals service center company based on revenues with more than 300 locations.

Reliance Steel recorded net sales of \$10,973.8 million in 2019. Its major products are carbon steel (53% of 2019 sales), aluminum (20%), stainless steel (14%) and alloy (6%).

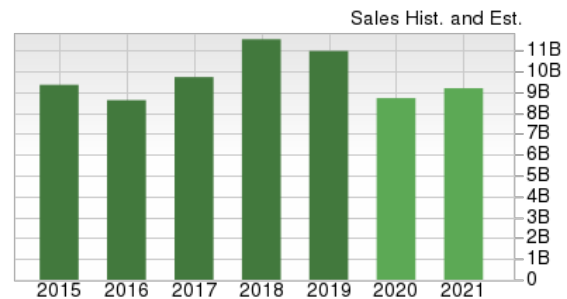
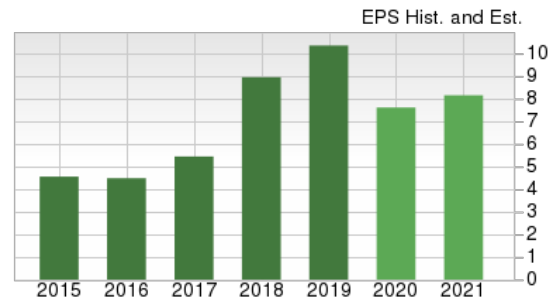
Reliance has 200 processing and distribution centers spread across 39 states in the United States and in foreign countries such as Belgium, Canada, China, Malaysia, Mexico, Singapore, South Korea and the United Kingdom. Although the company has a diverse geographic presence, the southeastern region of the United States generates majority of its sales.

Reliance Steel provides metals processing services such as cutting-to-length, blanking, slitting, burning, plasma burning, and precision plate sawing, sawing, and shearing, among others, all to customer specifications. These services save time and labor and reduce overall manufacturing costs for the customer.

The company improves its operating results through strategic acquisitions and the expansion of its existing operations. It has made 59 acquisitions since its 1994 Initial public offering (IPO).

The company, in March 2018, completed its purchase of all of the issued and outstanding capital stock of DuBose National Energy Services, Inc. (DuBose Energy) and its affiliate, DuBose National Energy Fasteners & Machined Parts, Inc. (DuBose Fasteners) for an undisclosed price. DuBose Energy and DuBose Fasteners specialize in fabrication, supply and distribution of metal and metal products to the nuclear industry including utilities, component manufacturers and contractors.

Moreover, Reliance Steel, in November 2018, completed the purchase of all of the membership interests of All Metals Holding, LLC, including its operating subsidiaries, All Metals Processing & Logistics, Inc. ("AMPL") and All Metals Transportation and Logistics, Inc. ("AMTL"). AMPL specializes in toll processing for automotive, construction, appliance and other diverse-end markets.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Reliance Steel's shares are down 1.4% in the past year, outperforming the industry's decline of 28.5%. Reliance Steel's core business strategy is to enhance operating results by strategic acquisitions. With the acquisition of Metals USA, it added about 48 service centers, which are strategically located throughout the United States. The buyout of Tubular Steel also boosts the company's long-term growth strategy and strength by expanding its product portfolio and end market diversification. The acquisition of Best Manufacturing also highly complements the company's existing service center network with its specialty high margin products, value-added processing capabilities and strong focus on customer service. The Ferguson acquisition also diversifies its product portfolio. The buyout of All Metals also further strengthens the company's toll processing and logistics services businesses. The acquisition of Fry Steel Company supports its customer and product diversification strategy. Moreover, the buyout is in sync with the company's strategy of investing in high quality and high margin businesses.
- ▲ The company is witnessing a rebound in demand in the non-residential construction market (Reliance Steel's biggest end-market) of late due to the restart of numerous projects that were stalled earlier as a result of the coronavirus pandemic. It is also seeing healthy bidding activities for new projects. The company expects activities in this market to continue to improve moving ahead based on healthy backlogs. It is also seeing a strong rebound of its toll processing services in the automotive market. The recovery is being driven by a ramp up of production by automotive original equipment manufacturers (OEMs) as well as steel and aluminum mills following the pandemic-induced shutdowns in second-quarter 2020. The company is increasing toll processing volumes to support increased activities in the United States and Mexico.
- ▲ Reliance Steel remains committed to offer incremental returns to its shareholders. Its board, on Jul 21, 2020, declared a quarterly cash dividend of 62.5 cents per share. Notably, this marks the 62th consecutive year of quarterly dividend payment. The company generated cash flow from operations of roughly \$296 million in the last reported quarter. Reliance Steel has sufficient liquidity and cash flows to support dividend payouts and share buybacks moving ahead.

Reliance Steel should benefit from acquisitions, diversified product base and wide geographic footprint. It will also gain from a recovery in automotive and non-residential construction markets.

Risks

- Reliance Steel is seeing weaker demand in the energy space due to sluggish activities amid slumping crude oil prices. It expects reduced activity in this market in 2020. Soft drilling and completion activity are hurting demand in the energy market. Notably, the company has permanently closed three of its businesses, supporting the energy end market in the first quarter of 2020. A material improvement in demand is also not expected in Reliance Steel's heavy industry end-markets (including railcar, truck trailer, tank manufacturing, wind & transmission towers and shipbuilding) in the near term. The company is also seeing softness in commercial aerospace. While overall aerospace demand was fairly stable in the last reported quarter, commercial aerospace demand declined due to coronavirus-led air travel restrictions. The company expects commercial airplane build rates to continue at low levels over the near term. It also expects customer shutdowns to affect volumes in the fourth quarter of 2020.
 - Reliance Steel faces pressure on metal pricing. It is seeing pricing pressure as witnessed in the last reported quarter. Average prices per ton sold fell around 11% year over year in the quarter and hurt its top line. Lower sales in certain markets including aerospace and product mix changes are expected to hurt prices in the fourth quarter. Lower year over year prices will likely continue to put downward pressure on selling prices of Reliance Steel and crimp its margins.
 - The company's high debt level is a concern. At the end of the third quarter of 2020, its long-term debt was \$1,638.3 million, up from \$1,426.9 million in the sequentially prior quarter. Its total debt-to-total capital stood at 24.6% as of Sep 30, 2020, higher than 23.1% as of Jun 30, 2020. As such, the company appears to have a higher default risk.
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Last Earnings Report

Reliance Steel's Q3 Earnings Beat, Sales Miss Estimates

Reliance Steel posted profits of \$97.6 million or \$1.51 per share in the third quarter, down 40% from \$162.7 million or \$2.40 per share in the year-ago quarter.

Barring one-time items, adjusted earnings per share were \$1.87, beating the Zacks Consensus Estimate of \$1.53.

Reliance Steel recorded net sales of \$2,085.6 million, down around 22% year over year. The figure missed the Zacks Consensus Estimate of \$2,103.5 million.

Quarter Ending 09/2020

Report Date	Oct 22, 2020
Sales Surprise	-0.85%
EPS Surprise	22.22%
Quarterly EPS	1.87
Annual EPS (TTM)	8.12

Volumes and Pricing

Shipments rose roughly 6% sequentially in the third quarter, owing to improved demand in many of the company's end markets as the economy gradually reopened following customer shutdowns and project delays related to the pandemic. However, shipments were down around 13% on a year-over-year basis.

Demand in non-residential construction, the company's biggest market, slowly increased during the reported quarter on healthy bidding activity for new projects and the restart of projects that were earlier put on hold. Moreover, the company witnessed a significant rebound in demand for the toll processing services that it provides to the automotive market as automotive original equipment manufacturers and steel and aluminum mills ramped up production following shutdowns in the second quarter.

Average prices per ton sold in the third quarter fell roughly 11% year over year to \$1,609. Prices also declined roughly 4% on a sequential comparison basis.

Financials

Reliance Steel ended the quarter with cash and cash equivalents of \$591.6 million, a more than three-fold year-over-year increase. Long-term debt was \$1,638.3 million, up around 4% year over year.

The company generated cash flow from operations of \$296.3 million in the quarter, down around 40% year over year.

Reliance Steel also repurchased shares worth \$0.2 million during the third quarter.

Outlook

Moving ahead, Reliance Steel sees overall demand to continue to slowly improve in the fourth quarter. However, it expects shipping volumes to decline due to normal seasonal factors including customer holiday-related shutdowns and fewer shipping days in the fourth quarter vis-à-vis the third quarter. However, the company expects the impact of seasonal factors to be less than the prior years.

Reliance Steel expects tons sold to be down 4-6% in the fourth quarter compared to the prior quarter. Moreover, it envisions metals pricing, mainly for carbon steel products, to improve in the fourth quarter due to mill price increases, partly offset by the company's diverse product mix and falling sales in certain markets such as aerospace. Reliance Steel expects its average selling price per ton sold for the fourth quarter to be flat to up 2% on a sequential comparison basis.

Factoring in these expectations, the company expects adjusted earnings per share in the band of \$1.30-\$1.40 for the fourth quarter.

Recent News

Reliance Steel Amends Credit Facility to Boost Liquidity

Reliance Steel, on **Sep 8, 2020**, stated that it has entered into an amended and restated \$1.5-billion five-year unsecured revolving credit facility. The move will replace the existing credit agreement.

The amended facility enables prepayments and includes an option to increase for up to an additional \$1 billion. Reliance Steel plans to use the funds borrowed under the facility for general corporate purpose as well as growth and stockholder return activities.

The company stated that the amended facility along with the net proceeds from its \$900 million senior notes offering announced in July has considerably boosted its liquidity position. The move enables the company to successfully operate in unprecedented times and help to execute its capital allocation strategies.

Valuation

Reliance Steel's shares are down 1.4% over the trailing 12-month period. Over the past year, the Zacks Metal Products – Distribution industry and the Zacks Basic Materials sector are down 28.5% and up 18%, respectively.

The S&P 500 index is up 18% in the past year.

The stock is currently trading at 8.9X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 8.99X for the Zacks sub-industry, 22.74X for the Zacks sector and 16.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.1X and as low as 5.03X, with a 5-year median of 8.62X.

Our Outperform recommendation indicates that the stock will perform above the market. Our \$136 price target reflects 17.28X forward 12-month earnings per share.

The table below shows summary valuation data for RS:

Valuation Multiples - RS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.9	8.99	22.74	16.96
	5-Year High	13.1	13.48	22.74	16.96
	5-Year Low	5.03	3.29	11.08	9.56
	5-Year Median	8.62	6.34	15.16	13.18
P/E F12M	Current	15.02	16.19	23.01	23.06
	5-Year High	18.73	42.82	23.09	23.79
	5-Year Low	7.26	8.48	12.61	15.3
	5-Year Median	13.11	13.51	17.76	17.81
P/B TTM	Current	1.49	1.7	6.46	6.43
	5-Year High	1.59	2.73	6.46	6.43
	5-Year Low	0.91	0.85	3.33	3.74
	5-Year Median	1.3	1.3	4.57	4.93

As of 12/29/2020 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alcoa Corp. (AA)	Neutral	3
Allegheny Technologies Incorporated (ATI)	Neutral	3
Constellium SE (CSTM)	Neutral	3
Haynes International, Inc. (HAYN)	Neutral	2
Lawson Products, Inc. (LAWS)	Neutral	3
Mitsui & Co. (MITSY)	Neutral	3
Worthington Industries, Inc. (WOR)	Neutral	2
Olympic Steel, Inc. (ZEUS)	Neutral	2

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

Industry Comparison Industry: Metal Products - Distribution				Industry Peers		
	RS	X Industry	S&P 500	AA	CSTM	LAWS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	B	A	B
Market Cap	7.53 B	3.15 B	26.16 B	4.10 B	1.84 B	478.61 M
# of Analysts	4	2	13	5	2	2
Dividend Yield	2.12%	0.00%	1.48%	0.00%	0.00%	0.00%
Value Score	B	-	-	B	A	C
Cash/Price	0.08	0.27	0.06	0.43	0.28	0.04
EV/EBITDA	6.96	7.10	14.71	12.37	7.09	28.49
PEG F1	1.73	1.73	2.81	NA	NA	1.48
P/B	1.49	1.49	3.65	0.82	NA	3.95
P/CF	8.55	7.73	13.91	7.73	5.19	32.93
P/E F1	15.55	25.85	22.17	NA	1,337.00	25.85
P/S TTM	0.83	0.53	2.84	0.44	0.33	1.40
Earnings Yield	6.43%	2.06%	4.37%	-5.76%	-3.14%	3.87%
Debt/Equity	0.32	0.42	0.70	0.51	-14.82	0.00
Cash Flow (\$/share)	13.82	2.85	6.93	2.85	2.58	1.61
Growth Score	B	-	-	C	A	A
Historical EPS Growth (3-5 Years)	22.71%	24.08%	9.71%	NA	5.45%	102.28%
Projected EPS Growth (F1/F0)	-26.47%	-36.89%	1.26%	-28.08%	-189.36%	-12.02%
Current Cash Flow Growth	6.75%	6.86%	5.23%	-62.43%	6.98%	0.78%
Historical Cash Flow Growth (3-5 Years)	9.18%	9.18%	8.33%	-2.71%	30.49%	37.37%
Current Ratio	5.04	1.70	1.38	1.76	1.29	1.49
Debt/Capital	24.50%	33.58%	41.97%	33.58%	NA	0.00%
Net Margin	4.44%	3.22%	10.40%	-5.03%	-0.43%	3.47%
Return on Equity	10.72%	6.79%	14.99%	-5.83%	-23.21%	7.18%
Sales/Assets	1.14	1.08	0.50	0.67	1.16	1.61
Projected Sales Growth (F1/F0)	-20.61%	-12.84%	0.35%	-11.13%	-14.55%	-5.10%
Momentum Score	D	-	-	A	C	F
Daily Price Change	-0.20%	-0.41%	0.26%	-0.90%	-2.12%	2.46%
1-Week Price Change	0.32%	-0.11%	-0.44%	-0.23%	-4.88%	1.37%
4-Week Price Change	-1.72%	0.48%	2.25%	0.96%	4.05%	10.42%
12-Week Price Change	10.93%	30.39%	12.66%	88.86%	67.13%	19.10%
52-Week Price Change	-1.33%	3.23%	6.46%	2.46%	NA	1.73%
20-Day Average Volume (Shares)	336,037	174,534	1,838,365	4,940,118	619,817	13,032
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	5.15%	0.10%	0.00%	11.82%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	10.42%	-11.41%	3.72%	-9.69%	103.51%	-13.14%
EPS Q1 Estimate Monthly Change	4.01%	0.00%	0.00%	478.57%	0.00%	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	A
Growth Score	A
Momentum Score	D
VGM Score	A

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

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 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.