

Ryanair Holdings plc (RYAAY)

\$110.03 (As of 06/23/21)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/01/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

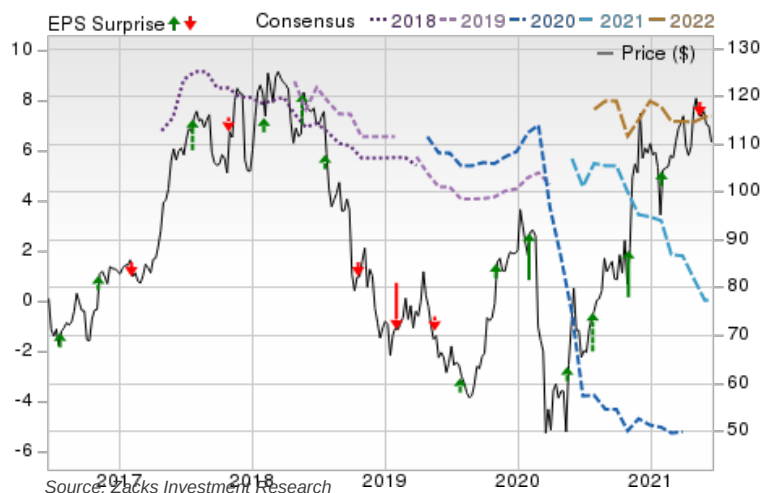
Growth: F

Momentum: F

Summary

Coronavirus-led travel demand woes are hurting Ryanair's operations. Traffic fell 81.5% in fiscal 2021 due to travel restrictions. The company incurred a net loss of €815 million in fiscal 2021, which it regarded as the most "challenging" in its 35-year history. Further, the carrier expects fiscal 2022 traffic to be hurt by slow vaccine rollout in the European Union. Amid these headwinds, shares of Ryanair have underperformed its industry in six months time. The Zacks Consensus Estimate for the company's fiscal 2022 earnings has been revised downward in the past 60 days. However, significant reduction in operating expenses (fell 66% in fiscal 2021) due to strict cost controls and reduced capacity are partly offsetting depressed revenues due to COVID-led woes. Ryanair's sound liquidity position is another positive.

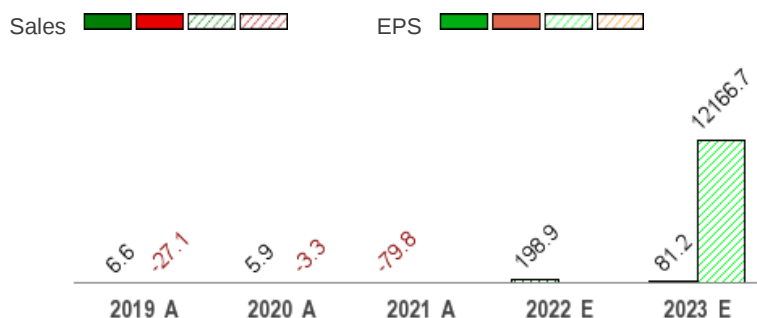
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$121.63 - \$63.85
20-Day Average Volume (Shares)	210,010
Market Cap	\$24.8 B
Year-To-Date Price Change	0.1%
Beta	1.66
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Transportation - Airline
Zacks Industry Rank	Bottom 7% (234 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.8%
Last Sales Surprise	16.6%
EPS F1 Estimate 4-Week Change	-88.3%
Expected Report Date	07/26/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023					10,342 E
2022	518 E	2,161 E	1,744 E	1,448 E	5,709 E
2021	138 A	1,228 A	407 A	143 A	1,910 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023					\$7.36 E
2022	-\$1.10 E	\$1.55 E	\$0.05 E	-\$0.60 E	\$0.06 E
2021	-\$0.93 A	-\$0.12 A	-\$1.62 A	-\$1.68 A	-\$4.29 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	1,833.8
PEG F1	114.5
P/S TTM	13.0

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/23/2021. The report's text and the

analyst-provided price target are as of 06/24/2021.

Overview

Ryanair Holdings is the parent company of Ryanair Designated Activity Company (formerly known as Ryanair Limited). Ryanair, which commenced its flight operations in 1985, is based in Swords, Ireland.

This ultra-low fare carrier offers scheduled-passenger airline service in Ireland, the UK, Continental Europe, Morocco and Israel. Also, it serves short-haul, point-to-point routes. In fact, Ryanair is growing steadily in Germany, Italy and the UK.

Ryanair's new Polish charter airline, Ryanair Sun (now rebranded as Buzz), commenced operations in April 2018. In December 2018, it purchased the remaining 25% of Austrian airline Laudamotion.

In Jun 2019, Ryanair purchased Malta Air — a start-up carrier — in a bid to expand its presence in Malta. Apart from strengthening the carrier's foothold in Malta, the acquisition has allowed the company to operate flights from Malta to non-EU markets (North Africa).

The company is also making constant efforts to expand its fleet size. The carrier boasts of more than 460 planes in its fleet. As of Mar 31, 2020, Ryanair's operating fleet consisted of 440 Boeing 737 aircraft and 26 Airbus A320 aircraft compared with 455 and 16 respectively in 2019.

Moreover, the company has agreed to buy up to 210 (130 firm and 75 options) Boeing 737-Max-200 planes from Boeing in the next few years.

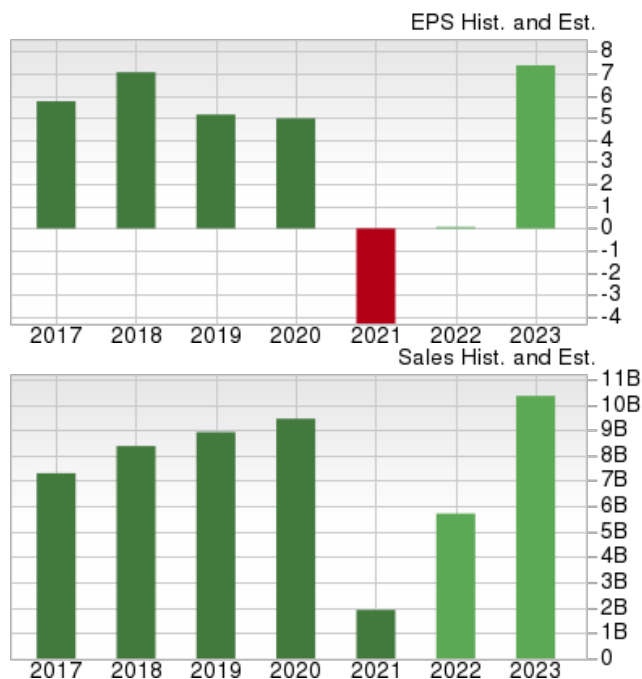
Despite coronavirus woes, Ryanair's fiscal 2020 traffic increased 4% to 149 million. However, the carrier expects to transport less than 80 million passengers in fiscal 2021 due to weak travel demand amid coronavirus concerns.

Revenues increased 10% to €8.5 billion in fiscal 2020, with scheduled revenues accounting for bulk (65.5%) of the top line. Ancillary revenues accounted for the balance.

In February 2019, Ryanair announced a structural overhaul. The carrier announced that it is moving to a group structure with each group having its own CEO and management team.

Michael O'Leary is the group's CEO. Eddie Wilson is the CEO of the group's biggest airline, Ryanair DAC.

The company's fiscal year ends on Mar 31.



Source: Zacks Investment Research

Reasons To Sell:

▼ Due to the coronavirus-led reduced air-travel demand, Ryanair's fiscal 2020 profits were hurt by more than €40 million. Additionally, the airline's traffic decreased to 107.2 million in the period due to travel restrictions and aircraft groundings. On the same ground, traffic dropped 81.5% year over year in fiscal 2021. The company incurred a net loss of €815 million in fiscal 2021. Amid coronavirus-led travel-demand woes, the airline regarded fiscal 2021 as the most "challenging" in its 35-year history. The airline anticipates first-quarter fiscal 2022 traffic to be only between 5 million and 6 million guests.

Amid coronavirus-led woes, Ryanair incurred a net loss of €815 million in fiscal 2021.

▼ The resurgence of coronavirus cases in some parts of Europe had worsened the already weak travel demand scenario as a result of fresh travel-related restrictions. Evidently, the airline's March traffic declined a whopping 91% year over year to merely 0.5 million guests. The carrier's load factor (percentage of seats filled with passengers) in the month was 77% compared with 91% a year ago. In April, load factor (% of seats filled by passengers) fell further to 67%.

▼ Ryanair anticipates slow vaccine rollout in the European Union to affect its fiscal 2022 traffic. The airline estimates its fiscal 2022 traffic to be at the low end of the guided range of 80 million-120 million passengers, as a result of "Easter travel restrictions/lockdowns and a delayed traffic recovery into the peak summer 21 season, due to the slow rollout in the EU of COVID-19 vaccines". Additionally, the carrier expects to just about break even in fiscal 2022.

Risks

- Ryanair has implemented cost-reduction initiatives such as pay cuts for its workers, to combat the coronavirus-related challenges. Thanks to cost-cutting efforts as well as low capacity, the company's operating expenses declined 66% year over year in the fiscal 2021. Significant reduction in costs is helping to partly offset adversities.
 - With the European government's acceleration of vaccine roll out and the gradual easing of coronavirus-led restrictions, the carrier expects to benefit from pent-up demand for air travel in the second half of 2021. Moreover, Ryanair hopes to return to pre-coronavirus levels of growth in summer 2022.
 - With Boeing's 737 MAX aircraft having received U.S. approval, a major hurdle has been removed for the company. Notably, the aircraft was grounded in 2019 following two fatal air crashes which killed more than 300 people onboard. A 20-month grounding of the aircraft had caused Ryanair to adjust its capacity plans in the past. Now that the aircraft have been cleared to fly again, Ryanair, which had 135 firm orders for the MAX 200, ordered an additional 75 Boeing 737 MAX jets. The airline expects to receive the first delivery in May-end. Ryanair expects these fuel-efficient MAX jets to generate substantial growth, starting from the first quarter of fiscal 2022.
 - Ryanair's sound liquidity position is encouraging. At the end of fiscal 2021, the company's cash and cash equivalents stood at €2,650.7 million, higher than the current debt of €1,725.9 million. This indicates that the company has sufficient cash to meet its current debt obligations.
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Last Earnings Report

Ryanair's Q4 Loss Wider Than Expected

Ryanair incurred a loss (excluding 16 cents from non-recurring items) of \$1.68 per share in the fourth quarter of fiscal 2021 (ended Mar 31, 2021), wider than the Zacks Consensus Estimate of a loss of \$1.65. Moreover, the amount of loss increased year over year. Results reflect coronavirus-induced disruptions to air-travel demand.

However, quarterly revenues of \$142.7 million surpassed the Zacks Consensus Estimate of \$122.4 million. The top line plunged 89.2% year over year.

Quarter Ending

03/2021

Report Date	May 17, 2021
Sales Surprise	16.61%
EPS Surprise	-1.82%
Quarterly EPS	-1.68
Annual EPS (TTM)	-4.35

Fiscal 2021 Results

Ryanair's net loss came in at €815 million in fiscal 2021 against a profit of €1 billion in the year-ago period. Amid coronavirus-led travel-demand woes, the airline regarded fiscal 2021 as the most "challenging" in its 35-year history. Total revenues declined 81% year over year to €1.64 billion. Traffic dropped 81% year over year to 27.5 million due to travel restrictions and lockdowns imposed by several European governments. Load factor in the period was 71% compared with 95% in fiscal 2020.

Ancillary revenues fell 80% year over year in fiscal 2021 due to significant decline in traffic. The airline's fuel costs declined 80% year over year due to reduced flying amid coronavirus-related fleet groundings as well as improved fuel burn. Total operating expenses declined 66% year over year. Ryanair had cash of €3.15 billion at the end of Mar 31, 2021.

Outlook

Ryanair expects first-quarter fiscal 2022 traffic to be between 5 million and 6 million guests. The airline anticipates its fiscal 2022 traffic to be in the low end of the previously-guided range of 80 million-120 million passengers. The carrier expects to benefit from pent-up demand for air travel in the second half of 2021 on hopes of successful vaccine roll outs and easing of European governments' travel restrictions. Consequently, it expects to break-even in fiscal 2022. On a further positive note, Ryanair hopes to return to pre-coronavirus levels of growth in summer 2022.

Recent News

May Traffic — Jun 2, 2021

Ryanair's May traffic surged to 1.8 million guests from a mere 0.07 million in the year-ago period. On a rolling-annual basis, total traffic dived 75% to 30.2 million guests. The airline operated more than 12,000 flights in May with a load factor of 79%.

Teesside-Faro Flights — May 19, 2021

Ryanair announced a new service from Teesside, United Kingdom to Faro, Portugal as part of its UK Summer 2021 Schedule. The move follows the United Kingdom's green list announcement, which allows England residents to visit certain countries without having to quarantine on their return. Portugal being one of the green-listed countries, people of England have been allowed entry into the country since May 17, when the relaxation went into effect and Portuguese authorities also opened its borders for tourists from the United Kingdom. Visitors will have to show a negative coronavirus test result upon arrival in Portugal. Ryanair's Teesside-Faro flights will be operational twice a week from Jun 16 onward. From Teesside, the carrier will also begin services to Alicante and Palma de Mallorca in Spain this June, and to Corfu, Greece in July. As part of the UK Summer 2021 Schedule, Ryanair has also announced a new service connecting Manchester, United Kingdom with Verona, Italy. These flights will be operational twice weekly from July.

Expanded U.K. Summer Schedule — Mar 25, 2021

Ryanair announced an expanded U.K. summer 2021 schedule despite concerns over rising coronavirus cases in many European countries. The airline attributed this decision to the successful vaccine rollout program in the U.K., based on which it expects government to allow travel during the summers. As part of the expanded schedule, Ryanair will operate more than 2,300 weekly flights across 480 routes. The airline will add 26 new routes to popular holiday destinations in France, Greece, Italy, Portugal and Spain.

Valuation

Ryanair's shares gained 0.1% and 64% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 11.5% and 9.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 58% and 45.8% respectively.

The S&P 500 index is up 13.8% and 39.8% in the year-to-date period and in the past year, respectively.

The stock is currently trading at 3.66X forward 12-month price to sales, which compares to 0.85X for the Zacks sub-industry, 1.55X for the Zacks sector and 4.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.29X and as low as 1.05X, with a 5-year median of 2.65X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$94 price target reflects 3.12X forward 12-month sales.

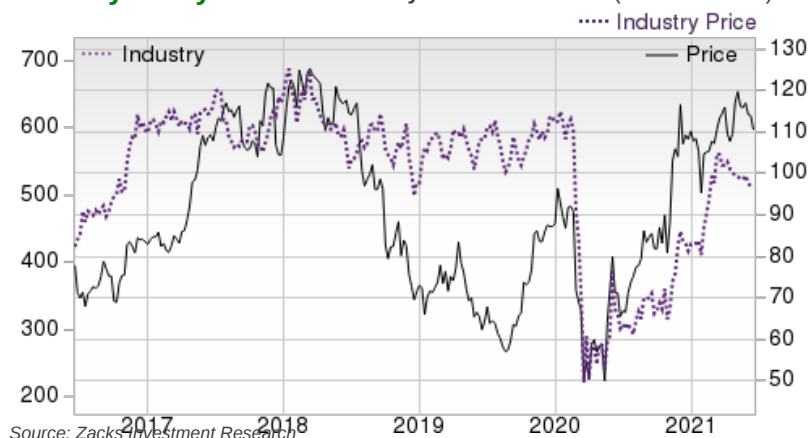
The table below shows summary valuation data for RYAAY

Valuation Multiples - RYAAY					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.66	0.85	1.55	4.72
	5-Year High	13.29	1.01	1.67	4.74
	5-Year Low	1.05	0.37	0.91	3.21
	5-Year Median	2.65	0.74	1.36	3.72
EV/S TTM	Current	13.11	2.93	2.63	4.87
	5-Year High	14.41	3.1	2.75	4.88
	5-Year Low	1.11	0.45	1.18	2.65
	5-Year Median	2.57	0.94	1.73	3.64

As of 6/23/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 7% (234 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Alaska Air Group, Inc. (ALK)	Neutral	3
AZUL SA (AZUL)	Neutral	4
easyjet PLC (EJTF)	Neutral	3
Gol Linhas Aereas Inteligentes S.A. (GOL)	Neutral	4
Mesa Air Group, Inc. (MESA)	Neutral	3
Spirit Airlines, Inc. (SAVE)	Neutral	3
SkyWest, Inc. (SKYW)	Neutral	3
Controladora Vuela Compania de Aviacion, S.A.B. de C.V. (VLRS)	Neutral	3

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

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	RYAAY	X Industry	S&P 500	ALK	SAVE	SKYW
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	D	C	A
Market Cap	24.82 B	3.69 B	29.87 B	7.94 B	3.57 B	2.31 B
# of Analysts	3	5	12	8	7	3
Dividend Yield	0.00%	0.00%	1.35%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	C	A
Cash/Price	0.15	0.41	0.06	0.45	0.54	0.36
EV/EBITDA	-44.45	-4.12	17.12	-5.08	-22.03	7.15
PEG F1	115.42	31.58	2.05	NA	NA	NA
P/B	4.57	2.31	4.07	2.76	1.54	1.06
P/CF	NA	4.96	17.35	NA	NA	4.94
P/E F1	1,737.32	31.35	20.98	NA	NA	23.75
P/S TTM	12.95	1.85	3.36	2.91	2.38	1.20
Earnings Yield	0.05%	-6.90%	4.69%	-3.92%	-9.56%	4.20%
Debt/Equity	0.76	0.94	0.66	0.81	1.46	1.26
Cash Flow (\$/share)	-1.26	-0.78	6.83	-6.76	-4.39	9.30
Growth Score	F	-	-	F	C	A
Historical EPS Growth (3-5 Years)	-4.16%	-3.88%	9.59%	-10.36%	4.50%	14.51%
Projected EPS Growth (F1/F0)	101.48%	62.37%	21.62%	75.43%	62.84%	1,237.24%
Current Cash Flow Growth	-114.64%	-128.60%	0.99%	-168.47%	-173.53%	-32.32%
Historical Cash Flow Growth (3-5 Years)	NA%	4.36%	7.28%	NA	NA	4.91%
Current Ratio	0.98	0.89	1.39	0.90	1.51	1.05
Debt/Capital	43.09%	55.01%	41.51%	44.71%	59.29%	55.75%
Net Margin	-62.22%	-55.43%	11.95%	-44.22%	-34.21%	-0.13%
Return on Equity	-17.71%	-33.46%	16.48%	-48.26%	-39.67%	-0.12%
Sales/Assets	0.12	0.23	0.51	0.19	0.18	0.28
Projected Sales Growth (F1/F0)	197.96%	18.64%	9.54%	69.17%	79.12%	21.80%
Momentum Score	F	-	-	A	B	C
Daily Price Change	-0.69%	-0.30%	-0.11%	-0.67%	-1.76%	-0.73%
1-Week Price Change	-2.96%	-3.31%	0.43%	-3.31%	-3.49%	-6.14%
4-Week Price Change	-3.24%	-3.55%	1.09%	-8.41%	-7.65%	-5.59%
12-Week Price Change	-4.32%	-3.03%	6.77%	-7.85%	-10.68%	-15.71%
52-Week Price Change	65.29%	65.43%	39.06%	85.46%	94.80%	54.56%
20-Day Average Volume (Shares)	210,010	210,010	1,889,295	1,576,901	2,920,788	302,199
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	2.30%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-88.34%	0.00%	0.01%	2.20%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-96.58%	-30.67%	3.54%	23.26%	3.37%	76.16%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	:	0.00%	:	5.56%	:	0.00%	:	0.00%
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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	F
Momentum Score	F
VGM Score	F

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.