

Sempra Energy (SRE)

\$137.77 (As of 06/18/21)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 08/12/20)
Prior Recommendation: Outperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:C
Value: B | Growth: B | Momentum: F

Summary

Sempra Energy continues with systematic investments in its infrastructure development projects. The company expects to make long-term investment of \$22.5 billion in infrastructural development. Sempra Energy is making notable progress in LNG development projects and expects to make an investment of \$2 billion in the 2021-2025 period. It targets a 50-60% dividend payout ratio, going ahead. However, Sempra Energy's current ratio was 0.61 as of Mar 31, 2021, which also declined sequentially. The ratio of less than 1 indicates that this utility may face difficulty in paying off short-term obligations. Impacts of the COVID-19 pandemic have been consistently hurting the stock. A comparative analysis of its forward 12-month price/sales ratio depicts a relatively gloomy picture. In the past year, its shares have underperformed the industry.

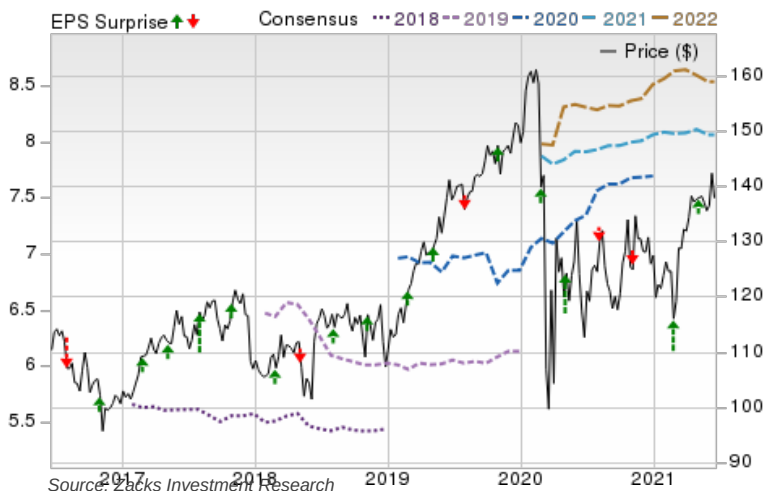
Data Overview

52-Week High-Low	\$144.93 - \$112.18
20-Day Average Volume (Shares)	2,020,280
Market Cap	\$41.7 B
Year-To-Date Price Change	8.1%
Beta	0.63
Dividend / Dividend Yield	\$4.40 / 3.2%
Industry	Utility - Gas Distribution
Zacks Industry Rank	Bottom 45% (139 out of 252)

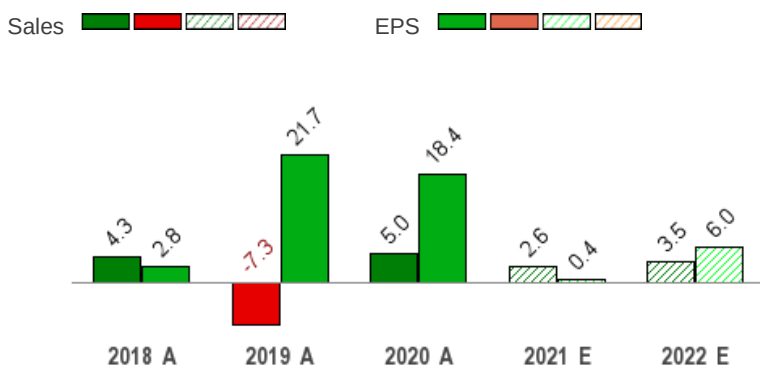
Last EPS Surprise	6.5%
Last Sales Surprise	3.1%
EPS F1 Estimate 4-Week Change	-0.2%
Expected Report Date	08/04/2021
Earnings ESP	10.1%

P/E TTM	17.6
P/E F1	17.1
PEG F1	2.2
P/S TTM	3.6

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					12,076 E
2021	3,259 A	2,517 E	2,816 E	3,158 E	11,669 E
2020	3,029 A	2,526 A	2,644 A	3,171 A	11,370 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.91 E	\$1.78 E	\$1.64 E	\$2.43 E	\$8.54 E
2021	\$2.95 A	\$1.62 E	\$1.60 E	\$2.03 E	\$8.06 E
2020	\$3.08 A	\$1.65 A	\$1.31 A	\$1.90 A	\$8.03 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 06/18/2021. The report's text and the

analyst-provided price target are as of 06/21/2021.

Overview

Sempra Energy is a southern California-based energy services holding company involved in the sale, distribution, storage and transportation of electricity and natural gas. The company has recently reorganized its subsidiaries under two operating groups: Sempra Utilities and Sempra Infrastructure. The Sempra Utilities group includes the company's utility operations: Southern California Gas Co. (SoCalGas), San Diego Gas & Electric (SDG&E) and Sempra South American Utilities. The Sempra Infrastructure group includes the company's energy infrastructure development activities, investments and operations: Sempra Mexico, Sempra LNG & Midstream and Sempra Renewable.

San Diego Gas & Electric (SDG&E): SoCalGas is a regulated public utility that owns and operates a natural gas distribution, transmission and storage system that supplies natural gas to a population of approximately 22 million, covering a 24,000 square mile service territory that encompasses Southern California and portions of central California. Segment earnings amounted to \$824 million for 2020 compared with \$767 million in 2019.

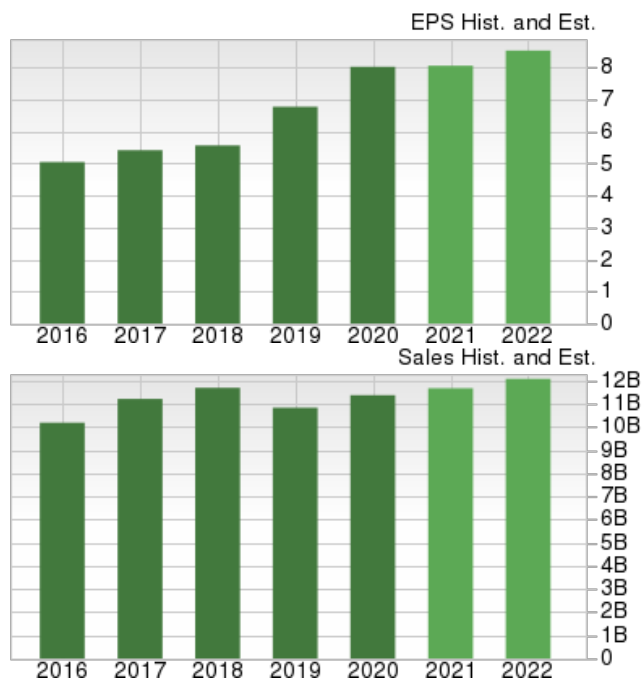
Southern California Gas Company (SoCalGas): SoCalGas is a regulated public utility that owns and operates a natural gas distribution, transmission and storage system that supplies natural gas to a population of approximately 22 million, covering a 24,000 square mile service territory that encompasses Southern California. Segment earnings amounted to \$504 million for 2020 compared with \$641 million in 2019.

Sempra Texas Utility: Segment earnings amounted to \$579 million for 2020 compared with \$528 million in 2019.

Sempra Mexico: Segment earnings amounted to \$259 million for 2020 compared with \$253 million in 2019.

Sempra LNG: The segment reported earnings of \$320 million for 2020 against a loss of \$6 million in 2019.

Parent and Other: The segment incurred a loss of \$562 million for 2020 compared with \$515 million loss in 2019.



Reasons To Buy:

▲ Sempra Energy appears to be well positioned, given its stable earnings from utility subsidiaries. Moreover, the company continues with systematic investments in its infrastructure development projects. For the 2021-2025 period, the company expects to make an investment of \$22.5 billion including \$9.6 billion for SDG&E, \$9.2 billion for SoCalGas, \$0.6 billion for Sempra Texas Utility, \$1.1 billion for Sempra Mexico and \$2 billion for Sempra LNG. Through these investments, the company aims at vigorously modernizing its electric transmission lines and substation infrastructure. It believes that persistent investments in maintaining the safety and reliability of its infrastructure will lead to strong rate base growth of approximately 9% annually from 2020 to 2025. By 2025, Sempra Energy's combined total rate base is projected to be \$56 billion.

Systematic investments in infrastructure development should bode well for Sempra Energy's growth. Also the company's progress in LNG projects are appreciating

▲ As significant worldwide demand growth for LNG continues to rise, Sempra Energy is well positioned with strategically-located opportunities in North America. Sempra Energy is engaged in advance commercial discussions with potential partners for its LNG development projects. In November 2020, the company reached a final investment decision on ECA LNG Phase 1. The ECA LNG Phase 1 has a definitive 20-year LNG sale and purchase agreement with Mitsui & Co., Ltd. and an affiliate of TOTAL SE for approximately 0.8 Mtpa of LNG and 1.7 Mtpa of LNG, respectively. Sempra Energy's share of full run-rate earnings from the Phase 1 project is expected between \$400 million and \$450 million annually, with no commodity or volumetric exposure.

Looking ahead, it is imperative to mention that the U.S. Energy Information Administration expects U.S. LNG exports to average 8.5 Bcf/d in 2021 and exceed natural gas exports by pipeline. Sempra will certainly play an important role in achieving this target, since all the trains of the Cameron LNG facility started commercial operations in 2020, with an export capacity of approximately 1.7 Bcf per day.

▲ Sempra Energy has consistently been paying dividends at increasing rates, courtesy of its solid cash flow from operations. Notably, its cash flow from operating activities came in at \$2,591 million at the end of 2020. Furthermore, the company hiked dividend by 5.2% in February 2021, which marked the 11th consecutive year of increase in the same. Currently, the company targets a 50-60% dividend payout ratio, going ahead. Its efforts to maximize shareholder value through the payment of regular dividends will likely boost investors' interest in the stock.

Reasons To Sell:

- ▼ Sempra Energy' long-term debt was \$22,023 million as of Mar 31, 2021, higher than \$21,781 million on Dec 31, 2020. As of Mar 31, 2021, its cash equivalents were \$763 million, much lower than \$982 million on Dec 31, 2020. Its current debt was \$2,322 million. So, both long-term and current debts exceeded the company's cash balance. This reflects a weak solvency position on the company's part and makes us skeptical about its ability to duly meet its obligations.

Impact of Covid-19 pandemic and unfavorable financial ratios could hurt the company's performance in the future.

Moreover, the company's current ratio was 0.61 as of Mar 31, 2021, which declined sequentially from 0.66. The ratio of less than 1 indicates that this utility may face difficulty in paying off short-term obligations. Such an unfavorable financial ratio makes us all the more skeptical about the firm's ability to meet debt obligations in the near future. This might have caused its investors to lose interest in this stock. Notably, Sempra Energy's shares have gained 15.4% in the past year, underperforming the industry's 18.6% growth.

- ▼ A comparative analysis of the company's forward 12-month Price/Sales ratio indicates a relatively gloomy picture that might be a cause for investors' concern. Consequently, the stock currently has a trailing 12-month price/sales ratio of 3.66. This compares unfavorably with its historical levels and is below the high end of its range, 4.30. Also, the company's price/sales ratio has been above the industry's 2.41 in the past year.
- ▼ The impacts caused by the COVID-19 pandemic have been consistently hurting Sempra Energy. Notably, all energy companies under the California Public Utilities Commission's jurisdiction are required to take actions for implementing several emergency customer protection measures to support California customers. These measures include suspending service disconnections due to nonpayment, waiving late payment fees and offering flexible payment plans to customers experiencing difficulty in paying electric or gas bills. Resultantly, Sempra Energy has been witnessing a reduction in payments from customers and an increase in uncollectible accounts. Any inability or delay in recovering all or a substantial portion of these costs may have a materially adverse effect on cash flows, financial condition and results of operations for Sempra Energy, SDG&E and SoCalGas.

Moreover, the company reached a final investment decision with respect to ECA LNG Phase 1 in November 2020. The delay in reaching the decision was partly due to the COVID-19 pandemic. The company has begun engineering construction of ECA Phase 1 and continue to progress its LNG development projects. If other projects under development are further delayed due to the ongoing crisis caused by the COVID-19 pandemic or other related factors, the performance and prospects of Sempra Energy's LNG export business could be materially affected. Since the pandemic is still ongoing, chances of a stark rebound from this crisis in the near term seem very bleak.

Last Earnings Report

Sempra Energy Q1 Earnings Top Estimates, Revenues Miss

Sempra Energy's first-quarter 2021 adjusted earnings per share (EPS) came in at \$2.95, surpassing the Zacks Consensus Estimate of \$2.77 by 6.5%. The bottom line also improved 19.4% from \$2.47 in the prior-year quarter.

Barring one-time items, the company generated GAAP earnings of \$2.87 per share compared with \$2.53 in first-quarter 2020. This year-over-year upside was driven by a solid top-line performance.

Quarter Ending

03/2021

Report Date	May 05, 2021
Sales Surprise	3.08%
EPS Surprise	6.50%
Quarterly EPS	2.95
Annual EPS (TTM)	7.81

Total Revenues

In the quarter under review, total revenues of \$3,259 million increased 7.6% year over year on higher contributions from the Utilities business (up 6%) and Energy-related businesses (up 13.7 %). The top line, moreover, missed the consensus mark of \$3,162 million by 3.1%.

Segment Update

San Diego Gas & Electric (SDG&E): Quarterly earnings amounted to \$212 million compared with the year-ago quarter's \$262 million.

Southern California Gas Company (SoCalGas): In this segment, quarterly earnings totaled \$407 million in the first quarter of 2021 compared with \$303 million reported in the prior-year quarter.

Sempra Texas Utility: Earnings in this segment came in at \$135 million in the reported quarter compared with \$105 million in the year-ago quarter.

Sempra Mexico: The segment recorded net earnings of \$57 million compared with \$191 million in the year-ago quarter.

Sempra LNG: The segment reported earnings of \$146 million compared with the year-ago quarter's \$75 million.

Parent and Other: Quarterly loss at this division declined to \$83 million from the year-ago quarter's loss of \$248 million.

Financial Update

As of Mar 31, 2021, Sempra Energy's cash and cash equivalents totaled \$725 million compared with \$960 million, as of Dec 31, 2020.

Long-term debt and finance leases amounted to \$22,023 million, as of Mar 31, 2021, compared with \$21,781 million at 2020-end.

Cash flow from operating activities was \$1,502 million at the end of first-quarter 2021, up from \$1,318 million at the end of first-quarter 2020.

In the reported quarter, the company's capital expenditures, investments and acquisitions summed \$1,296 million compared with \$1,096 million in the first quarter of 2020.

2021 Guidance

Sempra Energy reaffirmed its adjusted EPS guidance for 2021. The company expects to generate earnings of \$7.50-\$8.10 per share. The Zacks Consensus Estimate for full-year earnings stands at \$8.05 per share, lies at the higher end of the company-projected view.

Recent News

On **Jun 10, 2021**, Sempra Energy announced that it has signed a Memorandum of Understanding (MOU) with the U.S. Department of Energy's (DOE's) National Renewable Energy Laboratory (NREL), providing a framework for a joint effort to advance future net-zero energy systems. The MOU, which builds off nearly 10 years of ongoing collaboration, will continue current work researching and developing innovative solutions to help shape a lower-carbon future through technology and applications capable of withstanding increasing energy demand and broad adoption while advancing future innovation.

On **Apr 5, 2021**, Sempra Energy announced that it has entered into a definitive agreement to sell a non-controlling, 20% interest in Sempra Energy's new business platform, Sempra Infrastructure Partners, to KKR for \$3.37 billion in cash. KKR is a leading global investment firm. This transaction values Sempra Infrastructure Partners at approximately \$25.2 billion, including expected asset-related debt at closing of \$8.37 billion.

On **Mar 23, 2021**, Southern California Gas Co. (SoCalGas), the largest gas utility in the U.S., today announced the company's bold commitment to achieve net zero greenhouse gas (GHG) emissions in its operations and delivery of energy by 2045.

This commitment makes SoCalGas the largest gas distribution utility in North America to set a net zero target including scopes 1, 2, and 3 GHG emissions, which would eliminate not only its own direct emissions, but also those generated by customers' energy delivered by SoCalGas' energy infrastructure.

Valuation

Sempra Energy's shares are up 8.1% in the year-to-date period and 15.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Utilities sector are up 16.4% and 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 18.6%, whereas the sector is up by 8.8%.

The S&P 500 index is up 11.7% in the year-to-date period and 35.7% in the past year.

The stock is currently trading at 16.6X of forward 12-month earnings, which compares to 16.6X for the Zacks sub-industry, 13.6X for the Zacks sector and 21.4X for the S&P 500 index.

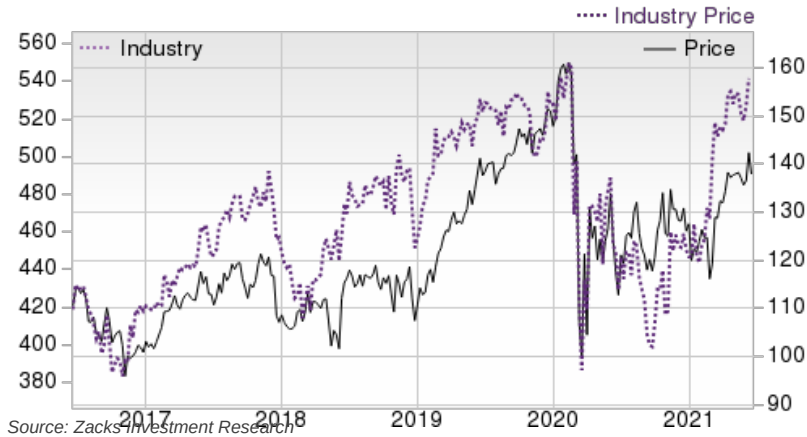
Over the past five years, the stock has traded as high as 24.9X and as low as 12.2X, with a 5-year median of 19.8X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 17.6X forward 12-month earnings.

The table below shows summary valuation data for SRE

Valuation Multiples - SRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.63	16.57	13.57	21.36
	5-Year High	24.92	23.33	15.34	23.83
	5-Year Low	12.18	13.43	11.37	15.31
	5-Year Median	19.81	20.44	13.82	18.05
P/S F12M	Current	3.52	2.03	2.82	4.63
	5-Year High	4.02	2.36	3.17	4.74
	5-Year Low	1.72	1.53	1.78	3.21
	5-Year Median	2.66	1.83	2.2	3.72
EV/SALES TTM	Current	5.56	3.69	5.11	4.78
	5-Year High	6.43	4.02	5.43	4.88
	5-Year Low	3.66	2.59	2.91	2.65
	5-Year Median	5.24	3.09	3.21	3.64

As of 06/18/2021 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 45% (139 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Atmos Energy Corporation (ATO)	Neutral	3
Consolidated Edison Inc (ED)	Neutral	3
NewJersey Resources Corporation (NJR)	Neutral	2
ONE Gas, Inc. (OGS)	Neutral	4
ONEOK, Inc. (OKE)	Neutral	3
Public Service Enterprise Group Incorporated (PEG)	Neutral	3
Southwest Gas Corporation (SWX)	Neutral	3
UGI Corporation (UGI)	Neutral	2

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

Industry Comparison Industry: Utility - Gas Distribution				Industry Peers		
	SRE	X Industry	S&P 500	ATO	OGS	OKE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	F	F	B
Market Cap	41.71 B	3.97 B	29.25 B	12.79 B	3.97 B	23.62 B
# of Analysts	5	3	12	5	4	7
Dividend Yield	3.19%	3.08%	1.38%	2.55%	3.11%	7.05%
Value Score	B	-	-	D	C	B
Cash/Price	0.02	0.03	0.06	0.07	0.18	0.02
EV/EBITDA	15.21	13.44	16.74	15.12	14.84	17.60
PEG F1	2.23	2.78	2.04	2.64	3.95	2.66
P/B	1.73	1.98	3.99	1.60	1.73	3.87
P/CF	9.90	9.56	16.91	11.82	10.13	19.78
P/E F1	17.14	16.78	20.66	19.37	19.75	15.94
P/S TTM	3.60	2.09	3.31	4.00	2.44	2.46
Earnings Yield	5.85%	5.85%	4.76%	5.16%	5.06%	6.28%
Debt/Equity	0.91	1.08	0.66	0.94	1.78	2.24
Cash Flow (\$/share)	13.92	3.37	6.83	8.28	7.37	2.68
Growth Score	B	-	-	F	F	C
Historical EPS Growth (3-5 Years)	11.71%	7.88%	9.59%	9.08%	7.88%	15.43%
Projected EPS Growth (F1/F0)	0.40%	9.65%	21.58%	7.08%	2.72%	134.20%
Current Cash Flow Growth	13.99%	8.23%	0.99%	12.01%	6.58%	-32.11%
Historical Cash Flow Growth (3-5 Years)	9.44%	9.44%	7.28%	11.56%	9.20%	12.10%
Current Ratio	0.61	1.00	1.39	1.86	1.32	0.98
Debt/Capital	46.24%	53.17%	41.51%	48.33%	64.00%	69.11%
Net Margin	34.58%	11.01%	11.95%	21.79%	12.31%	11.88%
Return on Equity	10.55%	10.79%	16.48%	9.57%	8.98%	18.61%
Sales/Assets	0.17	0.27	0.51	0.19	0.25	0.42
Projected Sales Growth (F1/F0)	2.63%	8.32%	9.41%	17.67%	6.73%	62.89%
Momentum Score	F	-	-	D	D	B
Daily Price Change	-2.00%	-2.62%	-1.31%	-2.41%	-4.42%	-2.10%
1-Week Price Change	-3.14%	-3.97%	-1.91%	-3.84%	-3.72%	-3.71%
4-Week Price Change	0.58%	-0.24%	0.25%	-0.31%	0.85%	-0.45%
12-Week Price Change	4.26%	0.48%	4.83%	0.66%	-0.47%	3.60%
52-Week Price Change	17.50%	14.14%	34.50%	-1.85%	0.17%	50.75%
20-Day Average Volume (Shares)	2,020,280	257,918	1,830,063	823,405	243,194	3,149,414
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.34%
EPS F1 Estimate 4-Week Change	-0.21%	0.00%	0.01%	0.00%	0.00%	0.69%
EPS F1 Estimate 12-Week Change	-1.24%	0.40%	3.48%	0.40%	-1.18%	5.58%

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	-3.39%	0.00%	0.00%	-0.40%	0.00%	-0.36%
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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	B
Growth Score	B
Momentum Score	F
VGM Score	C

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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