

Tesla, Inc.(TSLA)

\$407.00 (As of 09/03/20)

Price Target (6-12 Months): **\$427.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: C

Summary

Shares of Tesla have outperformed the industry over the past year. The red hot EV maker posted the fourth consecutive quarterly profit in July, which qualifies it for inclusion in the S&P 500 list. Tesla has a first-mover advantage in the EV space with high range vehicles, superior technology, and software edge. Robust Model 3 demand, ramp up of Model Y production, significant Shanghai Gigafactory progress, amazing line-up of upcoming products and aggressive expansion efforts bode well for the firm. However, high R&D, SG&A costs and massive capex may clip the margins. Tesla is investing heavily to increase production capacity, boost sales and construct Gigafactories, which are likely to strain its near-term prospects. Waning margins for Model S/X is another concern. Thus, investors are recommended to wait for a better entry point.

Data Overview

52-Week High-Low	\$502.49 - \$43.67
20-Day Average Volume (Shares)	84,530,424
Market Cap	\$377.2 B
Year-To-Date Price Change	386.5%
Beta	1.63
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 21% (53 out of 251)

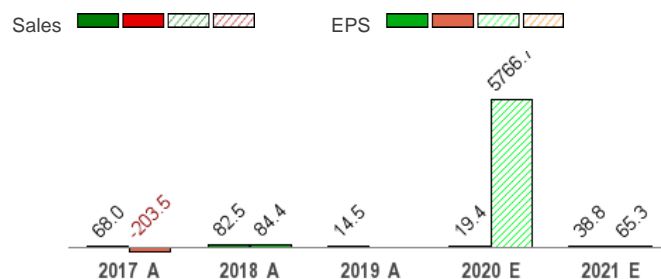
Last EPS Surprise	544.9%
Last Sales Surprise	21.6%
EPS F1 Estimate 4-Week Change	11.9%
Expected Report Date	10/28/2020
Earnings ESP	-4.8%

P/E TTM	54.9
P/E F1	231.3
PEG F1	6.3
P/S TTM	14.7

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,290 E	10,469 E	11,914 E	12,411 E	40,726 E
2020	5,985 A	6,036 A	7,641 E	8,937 E	29,343 E
2019	4,541 A	6,350 A	6,303 A	7,384 A	24,578 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.65 E	\$0.79 E	\$0.91 E	\$2.91 E
2020	\$0.25 A	\$0.44 A	\$0.45 E	\$0.59 E	\$1.76 E
2019	-\$0.58 A	-\$0.22 A	\$0.37 A	\$0.43 A	\$0.03 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 09/03/2020. The reports text is as of 09/04/2020.

Overview

Over the years, electric vehicle ('EV') maker Tesla has evolved into a dynamic technology innovator. It has transformed the EV market much the same way as Amazon changed the retail landscape and Netflix revolutionized entertainment. Tesla is the market leader in battery-powered electric car sales in the United States, owning around 60% of market share. In fact, the company's flagship Model 3 accounts for about half of the U.S. EV market. Tesla, which has managed to garner the reputation of a gold standard over the years, is now a far bigger entity than what it started off since its IPO in 2010, with a market capitalization almost double the combined value of top two U.S. auto giants General Motors and Ford.

Over the years, Tesla has shifted from developing niche products for affluent buyers to making more affordable EVs for the masses. The firm's three-pronged business model approach of direct sales, servicing, and charging its EVs sets it apart from other carmakers. Tesla, which is touted as the clean energy revolutionary automaker, is much more than just a car manufacturer. The firm also makes different kinds of technology like self-driving software, charging stations and battery development, et al. The technology titan has also made inroads into solar and energy storage business.

Tesla operates under two segments: Automotive and Energy Generation & Storage. While automotive revenues accounted for 93.7% of 2019 revenues, energy generation and storage revenues constituted 6.3% of the total sales.

Presently, the company produces and sells three fully electric vehicles: The Model S sedan, the Model X sport utility vehicle ("SUV") and the Model 3 sedan. Tesla's equally impressive future product lineup includes Model Y, Cybertruck, Semi truck and Roadster. The firm manufactures its vehicles primarily at facilities located in Fremont, California, Lathrop, California, Tilburg, Netherlands. Tesla's first and second Gigafactory are located in Nevada and New York (Gigafactory 2). While the firm's Gigafactory 3 in Shanghai started deliveries this year, Tesla aims fourth Gigafactory in Berlin to further boost output. Car production in the Berlin Gigafactory is expected to begin in late 2021.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Although electric cars occupy a small portion of the global automobile market, Tesla has acquired a substantial market share within this niche segment. With Model 3 sedan being its flagship vehicle, Tesla has established itself as a leader in the EV segment. Strong performance and impressive design of the firm's products are ramping up sales volumes. On an encouraging note, the red hot EV maker smashed forecasts and posted the fourth consecutive quarterly profit in the latest quarter, which qualifies it for inclusion in the S&P 500 list.
- ▲ Rising Model 3 delivery, which forms a major chunk of the automaker's overall deliveries, is aiding the company's top-line. Revenues are likely to rise further as it expects to make good progress on Model 3 going forward. Along with Model 3, Model Y is also set to boost Tesla's prospects, going forward. Notably, rising deliveries of the Model Y is also contributing to the company's revenues. Moreover, model 3/Y installed capacity in Fremont is expected to extend from 400,000 to 500,000 units per year by the end of 2020, which further boosts optimism.
- ▲ Tesla is making continued efforts to increase vehicle deliveries. In full-year 2019, Tesla delivered 367,500 vehicles, reflecting an increase of 50%, year over year. For full-year 2020, Tesla maintains the target of exceeding 500,000 vehicle deliveries despite the recent production interruptions amid coronavirus woes. Higher volumes should enable Tesla to achieve cost and production efficiencies, thereby strengthening margins. Along with increasing automotive revenues, the firm's energy generation and storage revenues are also boosting Tesla's prospects. Notably, both solar and storage deployments will be up at least 50% in 2020.
- ▲ With China being the biggest EV market, Tesla's ambitious plans to start production in the country bode well. Robust production levels from the new Gigafactory in Shanghai bode well for its future growth. The Shanghai factory is ramping up well and commands a higher market share in the Chinese EV market. The plant is operating at full capacity, and will continue to generating solid revenues for the firm. Accelerated production from Gigafactory 4 in Berlin will also add to the top-line, going forward. Further, the company announced during the second quarter earnings call that it has chosen Austin to build the fifth Gigafactory and preparations for that are underway.
- ▲ Low leverage of Tesla offers financial flexibility. Notably, its long-term debt-to-capital ratio stands at 0.51, lower than its industry's 0.54. This favorable reading indicates that the firm is not a very leveraged company

Rising Model 3 delivery, which forms a major chunk of the automaker's overall deliveries, is aiding the company's prospects.

Reasons To Sell:

- ▼ The company's high R&D and SG&A costs, may clip the margins, going forward. Both R&D and SG&A expenses had increased in 2015, 2016, 2017 and 2018. Though the company is focusing operational efficiency this year, it is yet to be seen if it can continue the trend amid high spending plans and new launches. Tesla is investing heavily to increase production capacity, boost Model 3/Y sales, construct Gigafactories and enhance Supercharger infrastructure. These initiatives are likely to strain near-term financial prospects of the firm.
- ▼ High capital spending is marring Tesla's cash flows. Capital expenses in the second quarter of 2020 increased both yearly and sequentially and the trend is expected to continue, thereby marring cash flow and profit levels. Also, even though the company has progressed well so far this year, concerns regarding economic slowdown and spike in coronavirus infections loom large. To this end, Tesla refrained from providing any profit forecast.
- ▼ While Models 3 and Y are aiding the company's growth, production and margins for Models S and X are on the decline. Ebbing demand for Model S/X are denting the profits of the firm. During the second quarter, Model S/X deliveries declined 13% and 40% on a quarterly and yearly basis, respectively. This resulted in lower year over year total deliveries in the latest quarter. The declining trend is likely to result in lost revenues.
- ▼ Notably, the company had generated negative FCF in 2018. While it posted positive FCF in 2019, high spending plans may threaten Tesla's aim of generating positive cash flow in 2020. Notably, in the first six months of 2020, the EV maker reported negative FCF of \$477 million. As the company intends to invest heavily in product and capacity expansion even amid coronavirus mayhem, it has put a hold on its cash flow guidance for 2020 as of now.
- ▼ Stretched valuation of Tesla is a concern. The stunning gains in the stock price of Tesla have pushed its market value exuberantly. Going by the EV/EBITDA (Enterprise Value/ Earnings before Interest, Tax, Depreciation and Amortization) multiple, which is often used to value auto stocks, Tesla is currently trading at a trailing 12-month EV/EBITDA multiple of 104.5, considerably higher than the industry average of 29.03. As such, the stock appears to be pricey and investors might not want to pay more for it at the moment.

High R&D and SG&A costs and massive capex plans are likely to hurt margins and cash flows of the firm.

Last Earnings Report

Tesla Posts Q2 Profit, Tops Sales Estimates

Tesla reported earnings per share of 44 cents in second-quarter 2020 against the Zacks Consensus Estimate of a loss of 10 cents. This outperformance stemmed from higher-than-anticipated revenues, which came in at \$6,036 million, beating the consensus mark of \$4,964 million. While the bottom line improved significantly from the prior-year quarter's loss of \$1.12 per share, the top line recorded a decline of 5%.

Key Takeaways

During the second quarter, Tesla reported delivery and production of 90,891 and 82,272 vehicles, respectively, reflecting a year-over-year decrease of 5% for both metrics. The downside mainly resulted from a decline in the level of production due to coronavirus-led shutdown of its main factory in Fremont during the quarter. Though delivery was down from the year-ago quarter, the figure beat analysts' estimates and was higher than 88,496 deliveries recorded in the first quarter.

Model 3/Y registered production and deliveries of 75,946 vehicles and 80,277, pointing to a year-over-year increase of 5% and 3%, respectively. While the production rate and deliveries of Model 3/Y persistently improved, Model S/X production and deliveries totaled 6,326 and 10,614 vehicles, down 56% and 40% year over year, respectively.

Total automotive revenues slid 4% year over year to \$5,179 million in the reported quarter. This included \$428 million from the sale of regulatory credits for electric vehicles, which increased a whopping 286% year over year. Tesla expects regulatory credit revenues to double year over year in 2020. Tesla's second-quarter 2020 automotive gross margin was 25.4%, improving 653 basis points (bps) from second-quarter 2019.

Energy generation and storage revenues came in at \$370 million in second-quarter 2020 compared with \$369 million in the year-ago period. Services and other revenues were down 19.5% year over year to \$605 million.

Total operating expenses totaled \$940 million during the quarter under review, down from \$1,088 million in the corresponding period of 2019.

Financials

Tesla had cash and cash equivalents of \$8,615 million as of Jun 30, 2020 compared with \$8,080 million on Mar 31, 2020. Net cash provided by operating activities amounted to \$964 million in second-quarter 2020 compared with \$864 million in prior-year period. Capital expenditure increased to \$546 million from the year-ago quarter's \$250 million. Importantly, the firm generated free cash flow (FCF) of \$418 million during the quarter. The prior-quarter FCF was negative 895 million. However, the reported figure declined 32% from the year-ago level.

Outlook

Tesla maintains the target of exceeding 500,000 vehicle deliveries despite the recent production interruptions. However, amid coronavirus-related setbacks, Tesla refrained from providing any profit or cash flow forecast. Nonetheless, the company's progress in the first half of 2020 has positioned it well for the second half of the year.

Model 3/Y installed capacity in Fremont is expected to extend from 400,000 to 500,000 units per year by the end of 2020. The construction of Model Y lines in Shanghai and Berlin Gigafactories are progressing well, and deliveries are expected to begin in 2021. Furthermore, deliveries for Tesla Semi are anticipated to begin in 2021. The company announced that it has chosen Austin to build the fifth Gigafactory.

Quarter Ending	06/2020
Report Date	Jul 22, 2020
Sales Surprise	21.59%
EPS Surprise	544.90%
Quarterly EPS	0.44
Annual EPS (TTM)	1.48

Recent News

Tesla to Raise Up to \$5B in Equity Financing Post Stock Split

On **Sep 1**, Tesla announced its intention to raise up to \$5 billion via share offering, capitalizing on the recent 5-for-1 stock split, which has made the shares more affordable for individual investors. Per a SEC filing, the red-hot electric vehicle maker will sell shares 'from time to time' and 'at the market' prices through an agreement with several banks. The company aims to use the proceeds to solidify financials and for other general corporate purposes.

Tesla Announces Stock Split

On **Aug 11**, Tesla announced its decision to split its shares in a 5-for-1 exchange. Its shareholders of record on Aug 21 will receive four additional shares at the close of trading on Aug 28. Post-split trading will begin on Aug 31. The stock split is a timely decision to capitalize on Tesla's crazy run on the bourses of late, which has pushed its valuation to lofty levels despite cash burn concerns. Tesla stock price has reached such meteoric levels that even purchasing one share of the firm seems too pricey for small investors. The move to split its premium valued stock into smaller chunks is going to make its shares more accessible to retail investors.

Valuation

Tesla shares are up 386.4% in the year-to-date period and up 786.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Auto-Tires-Trucks sector are up 124.4% and 38.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 174.5% and 57.6%, respectively.

The S&P 500 index is up 6.8% in the year-to-date period and 15.9% in the past year.

The stock is currently trading at 2.05X forward 12-month price to sales ratio, which compares to 1.89X for the Zacks sub-industry, 1X for the Zacks sector and 4.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.52X and as low as 0.22X, with a 5-year median of 0.62X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$427 price target reflects 2.15X forward 12-month sales.

The table below shows summary valuation data for TSLA:

Valuation Multiples - TSLA					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.05	1.89	1	4.4
	5-Year High	2.52	1.89	1	4.4
	5-Year Low	0.22	0.52	0.49	2.53
	5-Year Median	0.62	0.65	0.61	3.07
EV/EBITDA TTM	Current	104.5	29.03	16.8	13
	5-Year High	511	31.09	17.13	13.29
	5-Year Low	NA	6.37	6.94	8.22
	5-Year Median	71.27	12.15	9.37	10.92
P/B TTM	Current	35.36	7.08	2.39	4.66
	5-Year High	46.65	7.81	2.47	4.76
	5-Year Low	5.69	1.97	1.13	2.83
	5-Year Median	10.58	2.7	1.71	3.76

As of 09/03/2020

Industry Analysis Zacks Industry Rank: Top 21% (53 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Fox Factory Holding Corp. (FOXF)	Outperform	2
General Motors Company (GM)	Outperform	1
Polaris Inc. (PII)	Outperform	1
Autobytel Inc. (AUTO)	Neutral	3
HarleyDavidson, Inc. (HOG)	Neutral	3
IAA, Inc. (IAA)	Neutral	3
PACCAR Inc. (PCAR)	Neutral	3
Toyota Motor Corporation (TM)	Neutral	3

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

Industry Comparison Industry: Automotive - Domestic				Industry Peers		
	TSLA	X Industry	S&P 500	HOG	PCAR	PII
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	C	-	-	C	A	A
Market Cap	377.23 B	6.57 B	23.52 B	4.34 B	29.58 B	6.10 B
# of Analysts	10	5.5	14	8	8	7
Dividend Yield	0.00%	0.00%	1.62%	0.28%	1.50%	2.50%
Value Score	F	-	-	A	B	B
Cash/Price	0.02	0.09	0.07	0.93	0.14	0.09
EV/EBITDA	160.49	9.64	13.12	7.48	7.50	9.64
PEG F1	6.33	4.26	2.97	12.52	2.57	NA
P/B	35.36	4.66	3.20	2.67	3.03	8.09
P/CF	247.84	9.10	12.72	5.15	8.53	9.68
P/E F1	231.25	30.91	21.67	75.10	25.71	15.10
P/S TTM	14.67	0.96	2.49	0.96	1.43	0.95
Earnings Yield	0.43%	1.88%	4.40%	1.34%	3.89%	6.62%
Debt/Equity	0.98	0.69	0.70	4.00	0.76	1.85
Cash Flow (\$/share)	1.64	2.76	6.93	5.50	10.02	10.27
Growth Score	A	-	-	C	B	B
Historical EPS Growth (3-5 Years)	NA%	-1.64%	10.41%	-9.11%	11.45%	3.19%
Projected EPS Growth (F1/F0)	6,669.23%	-42.18%	-4.75%	-85.91%	-51.62%	4.11%
Current Cash Flow Growth	36.54%	7.98%	5.22%	-13.75%	6.65%	-0.38%
Historical Cash Flow Growth (3-5 Years)	54.29%	7.39%	8.49%	-5.50%	11.72%	1.56%
Current Ratio	1.25	1.44	1.35	1.46	2.48	0.99
Debt/Capital	50.80%	46.97%	42.95%	79.98%	43.14%	64.88%
Net Margin	1.43%	1.45%	10.25%	1.72%	7.95%	-0.83%
Return on Equity	4.19%	4.19%	14.59%	9.55%	16.85%	32.38%
Sales/Assets	0.72	0.74	0.50	0.40	0.75	1.42
Projected Sales Growth (F1/F0)	19.39%	-14.22%	-1.42%	-23.62%	-35.39%	-1.96%
Momentum Score	C	-	-	F	B	B
Daily Price Change	-9.02%	-3.04%	-2.14%	-3.04%	-2.77%	-6.86%
1-Week Price Change	7.97%	5.03%	2.59%	3.04%	-0.61%	3.37%
4-Week Price Change	36.62%	-0.47%	2.25%	9.21%	-2.19%	-4.31%
12-Week Price Change	109.18%	19.32%	11.04%	19.32%	17.73%	7.29%
52-Week Price Change	786.40%	22.26%	2.01%	-12.98%	25.29%	19.22%
20-Day Average Volume (Shares)	84,530,424	1,442,953	1,827,096	1,827,503	1,442,953	582,234
EPS F1 Estimate 1-Week Change	-0.23%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	11.86%	0.00%	0.00%	-12.01%	0.95%	0.00%
EPS F1 Estimate 12-Week Change	21,912.46%	22.30%	3.89%	-40.29%	17.86%	87.82%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-5.88%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	C
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.

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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.