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Jun 24, 2021

Tesla, Inc.(TSLA)

$656.57 (As of 06/23/21)

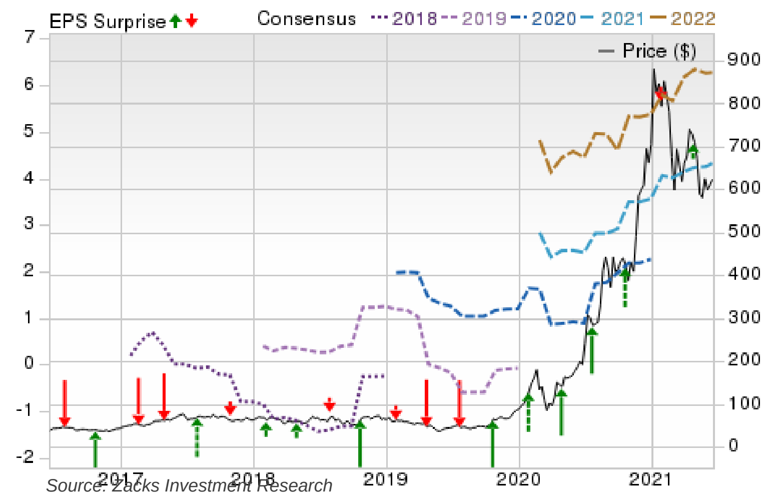
Price Target (6-12 Months): **$689.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/27/21) Prior Recommendation: Outperform	Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	3-Hold
	Zacks Style Scores:	VGM:C
	Value: F | Growth: A | Momentum: F	

Summary

Shares of Tesla have outperformed the industry over the past year. The company has a first-mover advantage in the e-mobility space, with high range vehicles, superior technology and software edge. Robust Model 3/Y demand, Shanghai Gigafactory prospects, amazing line-up of upcoming products and aggressive expansion efforts bode well for the firm. Importantly, Tesla posted the seventh straight quarterly profit in first-quarter 2021. However, an unclear 2021 vehicle delivery target is a cause of concern. As it is, the firm's high operating costs and massive capex owing to heavy investments related to the construction of gigafactories along with the development of battery tech might strain near-term financials. Waning margins for Model S/X, chip crunch and lofty valuation of the firm are other concerns. Thus, the stock warrants a cautious stance.

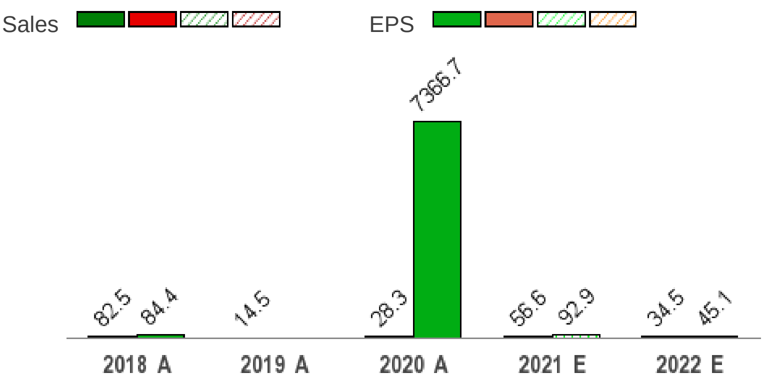
Price, Consensus & Surprise



Data Overview

52-Week High-Low	$900.40 - $187.43
20-Day Average Volume (Shares)	21,630,802
Market Cap	$632.5 B
Year-To-Date Price Change	-7.0%
Beta	1.99
Dividend / Dividend Yield	$0.00 / 0.0%
Industry	Automotive - Domestic
Zacks Industry Rank	Top 35% (88 out of 252)
Last EPS Surprise	17.7%
Last Sales Surprise	4.7%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	07/28/2021
Earnings ESP	0.0%
P/E TTM	140.6
P/E F1	152.0
PEG F1	4.1
P/S TTM	17.6

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	15,974 E	17,800 E	20,950 E	23,999 E	66,429 E
2021	10,389 A	11,382 E	12,891 E	14,625 E	49,389 E
2020	5,985 A	6,036 A	8,771 A	10,744 A	31,536 A

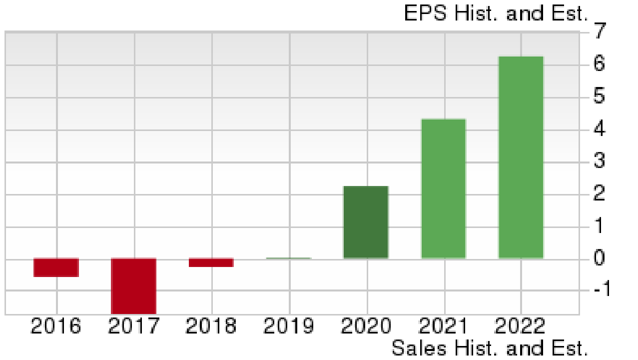
EPS Estimates

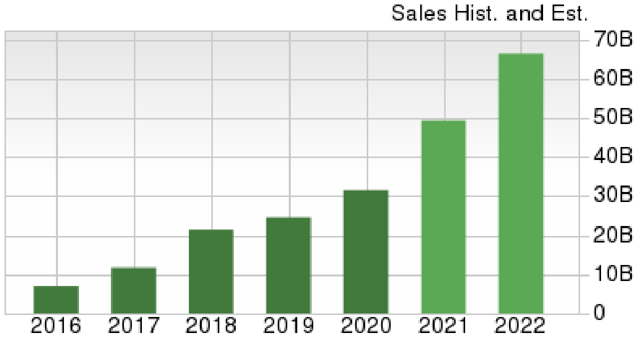
	Q1	Q2	Q3	Q4	Annual*
2022	$1.71 E	$1.78 E	$2.41 E	$2.76 E	$6.27 E
2021	$0.93 A	$0.89 E	$1.10 E	$1.36 E	$4.32 E
2020	$0.25 A	$0.44 A	$0.76 A	$0.80 A	$2.24 A

*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 06/23/2021. The report's text and the analyst-provided price target are as of 06/24/2021.

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 that 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 and Energy Generation/Storage operations accounted for 86.4% and 6.3% of the total sales in 2020, respectively, revenues from Services and Others constituted the rest.

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, second and third Gigafactory are located in Nevada, New York and Shanghai, respectively. While production in these three factories are going on a full swing, production from Tesla's 5th and 6th Gigafactory in Berlin and New York, respectively, is expected to begin this year.

Source: Zacks Investment Research

Reasons To Buy:

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

- 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. Higher volumes are aiding 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 are likely to witness significant growth aided by the positive reception of Megapack and Powerwall products.

- Rising Model 3 delivery, which forms a major chunk of the automaker's overall deliveries, is aiding the company's top line. In addition to Model 3, Model Y is also boosting Tesla's prospects. It is making persistent efforts to increase vehicle deliveries. The company is on track to ramp up Model Y capacity at both Texas and Berlin Gigafactories, with deliveries expected to start this year from both the locations. Significant construction progress in Gigafactory 4 in Berlin and Gigafactory 5 in Austin is underway, with production from both the plants expected to start this year. These developments provide it with ample growth visibility.

- With China being the biggest EV market, Tesla's ambitious production plans in the country bode well. Robust production of Model 3 from the new Gigafactory in Shanghai bodes well for its future growth. The Shanghai factory is ramping up well and commands a higher market share in the China EV market. Tesla has started the delivery of Shanghai-manufactured Model Y. The plant is operating at full capacity and the firm will continue the expansion of the Gigafactory, which in turn will buoy top-line prospects.

- Over a multi-year horizon, Tesla anticipates achieving 50% average annual growth in vehicle deliveries. Meanwhile, low leverage of Tesla offers it with financial flexibility. Its long-term debt-to-capital ratio stands at 0.29, declining from 0.31 in the prior quarter and the industry's 0.54. The company also fares well in the free cash flow (FCF) parameter. In 2020, the EV maker posted FCF of $2,786 million, up 158% year over year. In first-quarter 2021, the firm generated FCF of $293 million versus negative FCF of $895 recorded in the year-ago period.

Reasons To Sell:

- The company's high research and development (R&D) and selling, general and administrative (SG&A) costs raise concerns. During the last reported quarter, R&D and SG&A costs were up both yearly and sequentially. For the full year of 2020, operating costs increased 12% on a year-over-year basis. The trend is likely to continue, as Tesla is investing heavily to increase production capacity, boost Model 3/Y sales, construct Gigafactories, develop battery tech and enhance the Supercharger infrastructure. These initiatives are likely to strain near-term financial prospects of the firm. Capex is also on the rise, thereby denting cash flow and margins.

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

- 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 firm's profits. During the last reported quarter, Model S/X production and deliveries witnessed year-over-year drop of 100% and 83%, respectively. The declining trend is likely to result in lost revenues. With the global chip crunch, the situation is going to get worse.

- Tesla's excessive reliance on credit sales remains a concern. Importantly, revenues from regulatory credit sales have been outpacing GAAP income over the trailing four quarters. In the absence of $518 million worth of regulatory credit sales during the last reported quarter, Tesla would have posted a net loss of $80 million. In 2020, it posted a net GAAP income of $721 million. Without regulatory credit sales, the firm would have incurred a loss of $859 million.

- Stretched valuation of Tesla is a concern. 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 130.54, considerably higher than the industry average of 31.45. The firm's P/S ratio of 10.99 compares unfavorably with the industry's 2.23. As such, the stock appears to be pricey and investors might not want to pay more for it at the moment.

Last Earnings Report

Tesla Posts 7th Consecutive Profit in Q1'21

Quarter Ending	03/2021
Report Date	Apr 26, 2021
Sales Surprise	4.72%
EPS Surprise	17.72%
Quarterly EPS	0.93
Annual EPS (TTM)	2.93

Tesla reported first-quarter 2021 earnings of 93 cents, which surpassed the Zacks Consensus Estimate of 79 cents per share. Higher-than-expected automotive gross profit resulted in the outperformance. Precisely, automotive gross profit came in at $2,385 million, topping the consensus mark of $2,090 million. The bottom line also compared favorably with the year-ago earnings of 25 cents a share. Total revenues came in at $10,389 million, surpassing the consensus mark of $9,920 million. The top line also witnessed year-over-year growth of 74%.

Key Takeaways

Delivery and production totaled 184,877 and 180,338 vehicles, reflecting a year-over-year increase of 109% and 76%, respectively. Tesla reported stellar first-quarter 2021 production and deliveries despite global chip shortage, thanks to increasing popularity of green vehicles, preference for personal mobility, easier credit conditions, and hopes of economic recovery buoyed by accelerated vaccination drive as well as fiscal stimulus.

Model 3/Y registered production and deliveries of 180,338 and 182,847 vehicles, reflecting a year-over-year increase of 107% and 140%, respectively. Meanwhile, the company did not produce any Model S/X during the quarter under review. Nonetheless, it delivered 2,030 units of the same, down 83% year over year.

Total automotive revenues surged 75% year over year to $9,002 million for the reported quarter. This included $518 million from the sale of regulatory credits for electric vehicles, which increased 46% year over year. Automotive gross margin was 26.5%, improving 95 basis points from first-quarter 2020.

Energy generation and storage revenues came in at $494 million for first-quarter 2021 compared with $293 million in the year-ago period. Services and other revenues were up 59.4% year over year to $893 million.

Operating expenses totaled $1,621 million for the quarter under review, up from $951 million in the corresponding period 2020.

While Tesla has not provided any clear delivery target for 2021, it just released a statement saying that it anticipates achieving 50% average annual growth in vehicle deliveries over a multi-year horizon.

Financials

Tesla had cash and cash equivalents of $17,141 million as of Mar 31, 2021 compared with $19,384 million on Dec 31, 2020. Net cash provided by operating activities amounted to $1,641 million for first-quarter 2021. Capital expenditure totaled $1,348 million. Importantly, firm generated free cash flow of $293 million during the quarter.

Valuation

Tesla shares are down 6.9% and up 232.9% year to date and in the trailing 12-month period, respectively. Stocks in the Zacks Automotive - Domestic industry and the Zacks Auto-Tires-Trucks sector are down 3.7% and up 1.8%, respectively, year to date. Over the past year, the Zacks sub industry and sector are up 148.5% and up 78.7%, respectively.

The S&P 500 index is up 13.8% and 39.6% year to date and in the past year, respectively.

The stock is currently trading at 10.99X forward 12-month price to sales ratio, which compares to 2.23X for the Zacks sub-industry, 1.08X 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 18.73X and as low as 1.1X, with a 5-year median of 3.15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $689 price target reflects 11.53X forward 12-month sales.

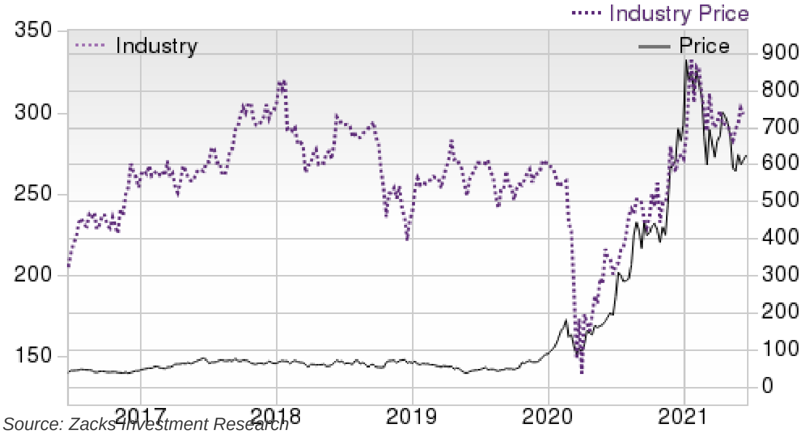
The table below shows summary valuation data for TSLA:

Valuation Multiples - TSLA

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	10.99	2.23	1.08	4.72
	5-Year High	18.73	2.41	1.23	4.74
	5-Year Low	1.1	0.49	0.47	3.21
	5-Year Median	3.15	0.61	0.61	3.72
EV/EBITDA TTM	Current	130.54	31.45	15.5	17.44
	5-Year High	510.95	46.18	20.1	17.74
	5-Year Low	NA	6.97	6.97	9.63
	5-Year Median	71.21	12.18	9.67	13.47
P/B TTM	Current	26.5	7.92	4.49	7.03
	5-Year High	43.3	10.78	4.65	7.08
	5-Year Low	5.69	1.79	1.09	3.84
	5-Year Median	10.58	2.57	1.7	5.02

As of 06/23/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 35% (88 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Fox Factory Holding Corp. **(FOXF)**	Outperform	2
HarleyDavidson, Inc. **(HOG)**	Outperform	1
Polaris Inc. **(PII)**	Outperform	2
Autobytel Inc. **(AUTO)**	Neutral	3
Blue Bird Corporation **(BLBD)**	Neutral	3
IAA, Inc. **(IAA)**	Neutral	2
PACCAR Inc. **(PCAR)**	Neutral	3
Vroom, Inc. **(VRM)**	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	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	1	3	2
VGM Score	C	-	-	C	A	A
Market Cap	632.49 B	5.74 B	29.87 B	7.01 B	30.46 B	7.99 B
# of Analysts	10	4	12	3	8	8
Dividend Yield	0.00%	0.00%	1.35%	1.32%	1.55%	1.93%
Value Score	F	-	-	C	A	A
Cash/Price	0.03	0.05	0.06	0.37	0.16	0.05
EV/EBITDA	141.78	-12.59	17.12	35.02	11.68	10.44
PEG F1	4.05	1.26	2.05	0.60	1.51	NA
P/B	26.50	7.65	4.07	3.54	2.84	7.53
P/CF	193.10	17.93	17.35	17.93	12.95	7.16
P/E F1	151.98	14.96	20.98	14.71	15.14	14.08
P/S TTM	17.60	1.63	3.36	1.68	1.57	1.05
Earnings Yield	0.66%	1.66%	4.69%	6.80%	6.60%	7.11%
Debt/Equity	0.38	0.01	0.66	2.80	0.70	1.22
Cash Flow ($/share)	3.40	-0.07	6.83	2.54	6.78	18.23
Growth Score	A	-	-	C	B	A
Historical EPS Growth (3-5 Years)	NA%	5.67%	9.59%	-19.72%	5.67%	14.75%
Projected EPS Growth (F1/F0)	92.99%	39.43%	21.62%	30,900.00%	54.91%	19.72%
Current Cash Flow Growth	117.77%	-2.13%	0.99%	-54.07%	-32.26%	79.00%
Historical Cash Flow Growth (3-5 Years)	234.13%	3.87%	7.28%	-18.03%	-1.34%	13.11%
Current Ratio	1.66	1.45	1.39	1.50	2.64	1.15
Debt/Capital	28.80%	1.12%	41.51%	73.69%	41.24%	54.90%
Net Margin	3.18%	3.49%	11.95%	4.56%	7.26%	3.49%
Return on Equity	6.13%	6.13%	16.48%	16.84%	13.72%	63.13%
Sales/Assets	0.76	0.76	0.51	0.34	0.70	1.66
Projected Sales Growth (F1/F0)	56.61%	19.92%	9.54%	33.61%	29.92%	19.92%
Momentum Score	F	-	-	B	B	B
Daily Price Change	5.27%	0.81%	-0.11%	-0.93%	0.42%	-2.48%
1-Week Price Change	2.20%	-3.44%	0.43%	-7.66%	-5.77%	-0.08%
4-Week Price Change	6.05%	0.40%	1.09%	-4.92%	-3.36%	-0.47%
12-Week Price Change	-1.70%	4.63%	6.77%	13.74%	-5.57%	-2.27%
52-Week Price Change	241.66%	63.53%	39.06%	95.00%	20.99%	42.65%
20-Day Average Volume (Shares)	21,630,802	1,096,602	1,889,295	1,536,395	1,582,633	1,045,455
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.01%	3.27%	0.00%	0.61%
EPS F1 Estimate 12-Week Change	-4.81%	3.80%	3.54%	34.43%	1.31%	6.29%

EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	5.75%	0.00%	0.53%

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

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	C

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.

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 mediumterm 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 mostrecent 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.