

Ubiquiti Inc. (UI)

\$164.60 (As of 09/03/20)

Price Target (6-12 Months): **\$173.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/20)

Prior Recommendation:

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: D

Growth: A

Momentum: A

Summary

Ubiquiti reported relatively healthy fourth-quarter fiscal 2020 results, with the bottom and top line increasing year over year. Backed by a resilient global business model, the operating framework contributes significantly toward the expansion of its addressable market, thereby maintaining its dominant foothold in the industry. It is poised to benefit from steady R&D investments and enhanced inventory management techniques. The proprietary network communication platform is well equipped to fulfill end-market customers' needs. However, due to its geographically diverse scale of operations, Ubiquiti is susceptible to various macroeconomic challenges. Its supply chain and logistics have suffered considerably due to the COVID-19 pandemic. Price-competitive environment and dynamic market with rapidly-evolving technologies are other risks.

Data Overview

52-Week High-Low	\$199.91 - \$109.88
20-Day Average Volume (Shares)	82,481
Market Cap	\$10.5 B
Year-To-Date Price Change	-12.9%
Beta	1.14
Dividend / Dividend Yield	\$1.60 / 1.0%
Industry	Wireless Equipment
Zacks Industry Rank	Top 44% (111 out of 251)

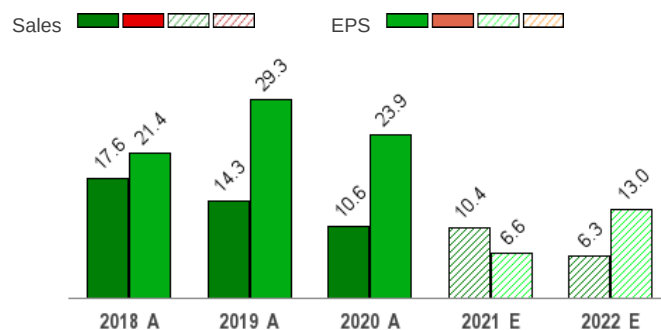
Last EPS Surprise	29.2%
Last Sales Surprise	-3.0%
EPS F1 Estimate 4-Week Change	-1.7%
Expected Report Date	11/13/2020
Earnings ESP	0.0%

P/E TTM	27.9
P/E F1	26.1
PEG F1	1.9
P/S TTM	8.2

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,508 E
2021	342 E	357 E	340 E	379 E	1,418 E
2020	323 A	308 A	337 A	316 A	1,285 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$7.12 E
2021	\$1.47 E				\$6.30 E
2020	\$1.44 A	\$1.40 A	\$1.61 A	\$1.46 A	\$5.91 A

*Quarterly figures may not add up to annual.

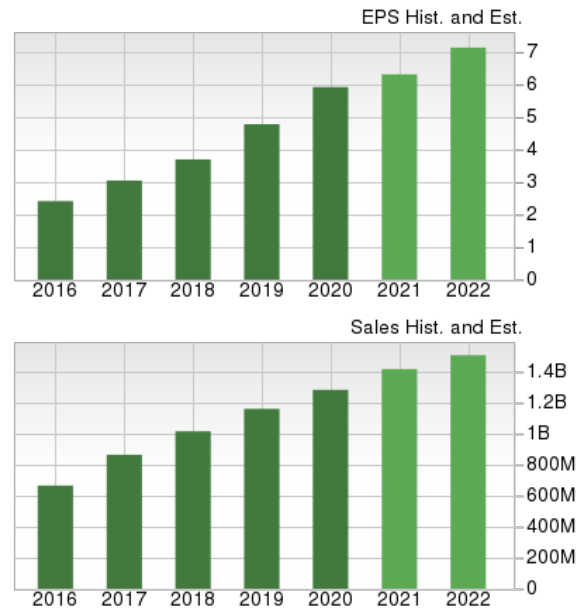
The data in the charts and tables, except sales and EPS estimates, is as of 09/03/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/04/2020.

Overview

Headquartered in New York, Ubiquiti Inc., along with its subsidiaries, offers a comprehensive portfolio of networking products and solutions for service providers and enterprises. Its service-provider product platforms offer carrier-class network infrastructure for fixed wireless broadband, wireless backhaul systems and routing; while enterprise product platforms provide wireless LAN infrastructure, video surveillance products and machine-to-machine communication components. The company was earlier known as Ubiquiti Networks Inc. and traded under the symbol "UBNT".

Ubiquiti offers high-performance radios, antennas, software, communications protocols and management tools that are designed to deliver carrier and enterprise class wireless broadband access and other services primarily in the unlicensed radio frequency spectrum. The company offers its products and solutions through disruptive price offering. They are also integrated as well as easy to deploy and manage. Moreover, Ubiquiti follows a scalable community-led approach based on product feedback of customers.

Broadly speaking, Ubiquiti has two different product categories, namely, Service Provider Technology (38.6% of total revenues in fourth-quarter fiscal 2020) and Enterprise Technology (61.4%). The Service Provider Technology segment includes airMAX, airFiber and EdgeMAX embedded radio and antenna product lines. This segment also includes products like base stations, radios, backhaul equipment and Customer Premise Equipment ("CPE"). The Enterprise Technology Segment includes UniFi and mFi product lines. This comprises UniFi Access Point ("UAP") products, UniFi Video Products, UniFi Voice Over IP ("VOIP") phones and UniFi switches.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Ubiquiti's excellent global business model, which is flexible and adaptable to evolving changes in markets, helps it to steer challenges and maximize growth. Its operating model is backed by a rapidly growing and highly engaged community of service providers, distributors, value-added resellers, systems integrators and corporate IT professionals (referred to as the Ubiquiti Community). Moreover, the company's effective management of its strong global network of more than 100 distributors and master resellers has improved its visibility for future demand as well as inventory management techniques. Periodic reporting by channel partners has added to operational strength. Ubiquiti expects its resilient business model to contribute significantly toward growth momentum in the coming quarters.
- ▲ During third-quarter fiscal 2020, Enterprise Technology revenues were \$193.6 million, up from \$185.7 million in the prior-year quarter despite coronavirus-induced global turmoil. Disruptive pricing and higher average selling price of products boosted the top line. The company believes that its global market share in Enterprise Technology will continue to grow, fueled by increasing adoption of UniFi products, including switches, security gateways, cameras and other complementary products.
- ▲ Ubiquiti spends significantly toward R&D activities for developing innovative products and state-of-the-art technology in order to expand its addressable market and remain at the cutting edge of networking technology. The company believes its new product pipeline will help it increase average selling prices for high performance, best value products, thus raising the top line. It upgraded the UniFi ecosystem, which includes hotspot analytics and high-density WLAN improvements, and added new features to the AmpliFi product family. The company's strategic product launches at disruptive prices helped it beat rivals to a great extent. Apart from launching products, reduction of labor-related costs also remains one of the chief highlights of the R&D initiatives. The company believes investments in R&D, inventory and operations management will help it expand the addressable market and maintain its dominant foothold in the industry.
- ▲ Ubiquiti boasts a proprietary network communication platform that is well equipped to meet end-market customer needs. In addition, the company is committed toward reducing its operational costs by using a self-sustaining mechanism for rapid product support and dissemination of information by leveraging the strength of the Ubiquiti Community. The company has made significant investments in inventory to reduce lead times, meet increasing demand and support the growing number of customers. These efforts have optimized Ubiquiti's inventory with market demand. In addition, Ubiquiti remains committed toward enhancing the value of its shareholders. During the fiscal third quarter, Ubiquiti repurchased nearly 1 million shares at an average price of \$138.25 per share.

Ubiquiti expects its resilient business model to contribute significantly toward its growth momentum, helping it expand the addressable market and maintain its dominant foothold in the industry.

Reasons To Sell:

- ▼ Ubiquiti is susceptible to geopolitical instability on account of its geographically diverse scale of operations. The company is also prone to a number of intellectual property-related risks. Additionally, in emerging markets, namely China and South America, it is difficult for Ubiquiti to enforce IPR and this is particularly risky as a significant portion of demand is generated from this region. Unfortunately, for Ubiquiti, it operates in an industry where component suppliers are targets of extensive intellectual property litigation, which adds to its legal expenses. These factors are beyond its control and can weigh on its profitability in the short run.
- ▼ Ubiquiti operates in an extremely price-competitive environment, which includes big telecom service providers. The company operates in enterprise WLAN, solar, video surveillance, wireless backhaul and machine-to-machine communications markets, which are highly competitive in nature. Longer operating histories, greater brand recognition, larger customer bases and significantly greater resources of competitors add to its woes. As a result, the company needs to maintain competitive selling prices while continuously enhancing its product offerings. Moreover, this dynamic market is characterized by rapid technological changes, evolving standards, frequent product introductions and short product life cycles that make it crucial for Ubiquiti to maintain its human resource pool. It needs to make substantial investments in R&D. This will likely hurt its margin in the short term.
- ▼ Ubiquiti's offerings are subject to export control and economic sanctions laws in the United States and elsewhere, and failure to comply with these laws can adversely impact its reputation and financials. Additionally, as government regulations are typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction, Ubiquiti may find it increasingly difficult to sell products on account of delayed product launches and escalating product-launch costs.
- ▼ As of Jun 30, 2020, the company had \$142.6 million in cash and equivalents and \$628.4 million of long-term debt compared with respective tallies of \$85 million and \$677 million in the prior quarter. Although the liquidity levels have improved on a sequential basis, the stock looks relatively more leveraged than the sub-industry. Ubiquiti currently has a debt-to-capital ratio of 1.79 compared with 0.38 of the sub-industry. A highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. The times interest earned has remained flat sequentially at 17.1, although it has reduced significantly over the past few quarters. This indicates that Ubiquiti is less likely to clear its debt obligations in the near future. It is to be seen whether Ubiquiti can turn the tables in the coming days despite disruptions caused by the COVID-19 pandemic.

Ubiquiti operates in an intensely competitive market, which is highly price sensitive in nature.

Last Earnings Report

Ubiquiti Q4 Earnings Beat Estimates, Revenues Rise Y/Y

Ubiquiti reported relatively healthy fourth-quarter fiscal 2020 results, with the bottom and top lines increasing year over year. However, although non-GAAP earnings surpassed the Zacks Consensus Estimate, revenues missed the same. Notably, the company recorded solid revenue growth despite supply-chain disruptions due to the coronavirus pandemic.

Net Income

On a GAAP basis, net income in the June quarter was \$92.6 million or \$1.45 per share compared with \$70.9 million or \$1.01 in the prior-year quarter. The improvement can be primarily attributed to top-line growth. For fiscal 2020, GAAP earnings were \$380.3 million or \$5.80 per share compared with \$322.7 million or \$4.51 in fiscal 2019.

Non-GAAP net income came in at \$93.2 million or \$1.46 per share compared with \$83.6 million or \$1.19 per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 33 cents. For fiscal 2020, non-GAAP earnings improved to \$387.5 million or \$5.91 per share from \$341.7 million or \$4.77 in fiscal 2019.

Revenues

Quarterly revenues increased 10.1% year over year to \$315.5 million, backed by higher sales of enterprise technology products. Revenues from Service Provider Technology were \$121.9 million compared with \$100.9 million reported in the year-ago quarter. Enterprise Technology revenues were \$193.6 million, up from \$185.7 million in the prior-year quarter. The top line, however, missed the consensus mark of \$325 million. For fiscal 2020, revenues aggregated \$1,284.5 million compared with \$1,161.7 million in fiscal 2019.

Region-wise, revenues from North America were \$160.1 million compared with \$147.5 million in the year-ago quarter, driven by higher revenues from Enterprise Technology products. Revenues from South America were \$20.8 million compared with \$20.7 million and that from the Asia Pacific totaled \$23.4 million, down from \$26.1 million in the year-ago quarter. The year-over-year decline was primarily caused by lower revenues from Service Provider Technology products, partially offset by higher revenues from Enterprise Technology products. Revenues from Europe, the Middle East and Africa were \$111.2 million, up from \$92.3 million in the prior-year quarter mainly on higher Enterprise Technology revenues.

Other Details

Overall gross profit increased to \$152.1 million from \$132.9 million in the year-ago quarter, driven by top-line growth. Gross margin improved to 48.2% from 46.4%, led by favorable mix of products sold and reduced inventory reserves. However, it was partly offset by higher tariffs and indirect costs. Total operating expenses were \$34 million compared with \$32.1 million in the year-earlier quarter due to higher R&D and SG&A expenses. Operating income increased to \$118.1 million from \$100.9 million, primarily driven by higher revenues.

Cash Flow & Liquidity

For fiscal 2020, Ubiquiti generated \$460.3 million of net cash from operating activities compared with \$259.3 million in the prior-year quarter. As of Jun 30, 2020, the company had \$142.6 million in cash and equivalents and \$628.4 million of long-term debt compared with respective tallies of \$238.1 million and \$464.7 million in the year-ago period.

During the reported quarter, Ubiquiti repurchased nearly 1 million shares at an average price of \$138.25 per share. In fiscal 2020, the company repurchased more than 5.8 million shares at an average price of \$119.45 per share.

Moving Ahead

Despite the uncertainties pertaining to the COVID-19 pandemic, Ubiquiti has emerged as a strong player by augmenting its proprietary network communication platform that is well equipped to meet end-market customers' needs. Backed by a resilient business model, the operating framework contributes significantly toward the expansion of its addressable market, thereby maintaining its dominant foothold in the industry. However, the global pandemic has taken a toll on Ubiquiti's supply chain and logistics, thereby disrupting the distribution of products and services globally. Nevertheless, the company is committed to increasing R&D investments and enhancing inventory management techniques to offset challenges and maximize growth.

Quarter Ending	06/2020
Report Date	Aug 21, 2020
Sales Surprise	-3.04%
EPS Surprise	29.20%
Quarterly EPS	1.46
Annual EPS (TTM)	5.91

Valuation

Ubiquiti shares are up 43.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 20.1% over the past year, and stocks in the Zacks Computer and Technology sector are up 28.7% in the same period.

The S&P 500 Index is up 11.8% in the past year.

The stock is currently trading at 22.03X trailing 12-month EV/EBITDA, which compares to 27.88X for the Zacks sub-industry, 12.94X for the Zacks sector and 12.49X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 29.59X and as low as 9.28X, with a 5-year median of 15.33X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$173 price target reflects 6.78X forward 12-month earnings.

The table below shows summary valuation data for UI

Valuation Multiples - UI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	22.03	27.88	12.94	12.49
	5-Year High	29.59	29.46	14.15	13.29
	5-Year Low	9.28	9.84	7.59	8.22
	5-Year Median	15.33	17.01	10.94	10.92
P/E F12M	Current	25.53	19.12	27.25	23.08
	5-Year High	43.52	30.47	27.25	23.08
	5-Year Low	12.98	13.61	16.72	15.25
	5-Year Median	21.42	18.72	19.7	17.6
P/S F12M	Current	7.44	3.7	4.41	4.24
	5-Year High	10.41	3.7	4.41	4.24
	5-Year Low	3.46	2.07	2.32	2.53
	5-Year Median	5.83	2.8	3.15	3.07

As of 09/03/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Aviat Networks, Inc. (AVNW)	Outperform	1
Comtech Telecommunications Corp. (CMTL)	Neutral	3
CommScope Holding Company, Inc. (COMM)	Neutral	4
PCTEL, Inc. (PCTI)	Neutral	4
Sonim Technologies, Inc. (SONM)	Neutral	4
Sierra Wireless, Inc. (SWIR)	Neutral	3
Viasat Inc. (VSAT)	Neutral	3
InterDigital, Inc. (IDCC)	Underperform	5

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

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	UI	X Industry	S&P 500	CMTL	COMM	SWIR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	A	A	C
Market Cap	10.48 B	410.06 M	23.52 B	395.02 M	2.04 B	425.10 M
# of Analysts	1	3	14	2	5	3
Dividend Yield	0.97%	0.00%	1.62%	2.50%	0.00%	0.00%
Value Score	D	-	-	A	A	D
Cash/Price	0.01	0.17	0.07	0.12	0.40	0.14
EV/EBITDA	22.30	9.78	13.12	6.23	40.72	-16.19
PEG F1	1.85	1.87	2.97	NA	2.87	NA
P/B	NA	1.64	3.20	0.72	6.80	1.22
P/CF	26.08	13.94	12.72	5.12	1.70	NA
P/E F1	25.11	19.78	21.67	16.06	7.74	NA
P/S TTM	8.16	1.37	2.49	0.61	0.23	0.65
Earnings Yield	3.83%	4.86%	4.40%	6.26%	12.93%	-8.21%
Debt/Equity	-2.19	0.19	0.70	0.29	33.18	0.19
Cash Flow (\$/share)	6.31	0.49	6.93	3.12	6.09	-0.10
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	26.05%	-6.20%	10.41%	21.11%	-6.25%	-28.57%
Projected EPS Growth (F1/F0)	6.60%	10.81%	-4.75%	696.00%	-37.77%	-9,466.70%
Current Cash Flow Growth	15.77%	-8.77%	5.22%	18.78%	53.52%	-108.17%
Historical Cash Flow Growth (3-5 Years)	17.65%	5.53%	8.49%	14.59%	11.92%	NA
Current Ratio	2.22	1.88	1.35	1.67	1.75	1.25
Debt/Capital	NA%	22.60%	42.95%	22.60%	97.34%	15.88%
Net Margin	29.61%	2.76%	10.25%	1.87%	-12.19%	-10.68%
Return on Equity	-131.03%	4.86%	14.59%	4.46%	33.85%	-11.21%
Sales/Assets	1.85	0.73	0.50	0.69	0.61	1.01
Projected Sales Growth (F1/F0)	10.40%	0.00%	-1.42%	8.88%	1.88%	-12.13%
Momentum Score	A	-	-	B	A	C
Daily Price Change	-12.21%	-2.83%	-2.14%	-2.44%	-5.47%	-6.55%
1-Week Price Change	-1.18%	0.67%	2.59%	1.98%	0.77%	-2.33%
4-Week Price Change	-15.56%	-5.19%	2.25%	-5.72%	-6.41%	-5.34%
12-Week Price Change	-1.43%	1.99%	11.04%	-4.60%	9.28%	33.60%
52-Week Price Change	43.35%	-3.35%	2.01%	-41.51%	-4.69%	8.54%
20-Day Average Volume (Shares)	82,481	91,819	1,827,096	187,578	2,808,474	207,752
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.72%	-0.13%	0.00%	0.00%	23.46%	-4.33%
EPS F1 Estimate 12-Week Change	-1.72%	3.85%	3.89%	0.00%	-13.30%	-4.33%
EPS Q1 Estimate Monthly Change	NA%	0.00%	0.00%	0.00%	-9.57%	-42.86%

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	D
Growth Score	A
Momentum Score	A
VGM Score	A

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

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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.