

## Werner Enterprises (WERN)

**\$45.48** (As of 09/02/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**  
(Since: 07/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5) **2-Buy**

Zacks Style Scores: VGM:A

Value: A | Growth: A | Momentum: B

### Summary

Werner's efforts to reward shareholders via dividends and buybacks are impressive. The company's cost-control measures to combat the sluggish freight scenario are also appreciative. Strong free cash flow generation is an added positive. Despite coronavirus woes, free cash flow is expected to exceed \$150 million in 2020. The company's focus on investing in new trucks and trailers to improve operational efficiency and reduce fuel costs is also noteworthy. Partly owing to these tailwinds, shares of Werner have outperformed its industry in a year's time. Positivity surrounding the stock is evident from the Zacks Consensus Estimate for 2020 earnings being revised upward in the last 60 days. However, headwinds like softness in freight demand, weak pricing have been hurting Werner's performance over the past few quarters.

### Data Overview

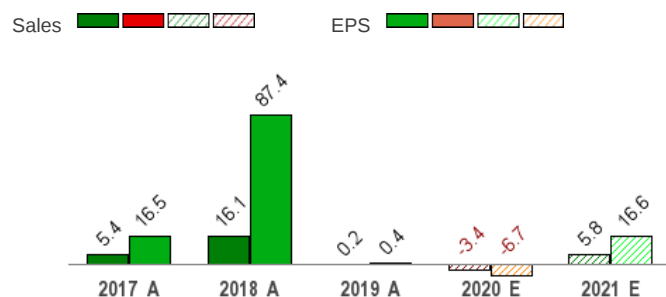
|                                |                                |
|--------------------------------|--------------------------------|
| 52-Week High-Low               | <b>\$47.40 - \$28.99</b>       |
| 20-Day Average Volume (Shares) | <b>763,009</b>                 |
| Market Cap                     | <b>\$3.1 B</b>                 |
| Year-To-Date Price Change      | <b>25.0%</b>                   |
| Beta                           | <b>0.78</b>                    |
| Dividend / Dividend Yield      | <b>\$0.36 / 0.8%</b>           |
| Industry                       | <b>Transportation - Truck</b>  |
| Zacks Industry Rank            | <b>Top 13% (32 out of 251)</b> |

|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>55.0%</b>      |
| Last Sales Surprise           | <b>-2.0%</b>      |
| EPS F1 Estimate 4-Week Change | <b>1.5%</b>       |
| Expected Report Date          | <b>10/22/2020</b> |
| Earnings ESP                  | <b>2.9%</b>       |
| P/E TTM                       | <b>20.1</b>       |
| P/E F1                        | <b>20.4</b>       |
| PEG F1                        | <b>1.6</b>        |
| P/S TTM                       | <b>1.3</b>        |

### Price, Consensus & Surprise



### Sales and EPS Growth Rates (Y/Y %)



### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 602 E | 618 E | 629 E | 651 E | 2,518 E |
| 2020 | 593 A | 569 A | 592 E | 611 E | 2,381 E |
| 2019 | 596 A | 628 A | 618 A | 622 A | 2,464 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.51 E | \$0.63 E | \$0.64 E | \$0.73 E | \$2.60 E |
| 2020 | \$0.40 A | \$0.62 A | \$0.59 E | \$0.68 E | \$2.23 E |
| 2019 | \$0.52 A | \$0.63 A | \$0.57 A | \$0.67 A | \$2.39 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 09/02/2020. The reports text is as of 09/03/2020.

## Overview

Werner Enterprises, Inc. is a transportation and logistics company founded in 1956. Headquartered in Omaha, NE, the company is primarily focused on transporting the truckload shipments such as retail store merchandise, consumer products, grocery products and manufactured products. The company operates mainly under two segments — Truckload and Werner Logistics.

### Truckload

The truckload unit consists of Dedicated and One-Way Truckload. Dedicated offers truckload services by catering to the needs of a specific customer. At 2019-end, fleet size at the Dedicated unit was 4,630, up 2.9% year over year. Meanwhile, the One-Way Truckload comprises medium-to-long-haul van (Van) fleet, expedited (Expedited) fleet, regional short-haul (Regional) fleet and Temperature Controlled fleet. The medium-to-long-haul van transports various consumer nondurable products and other commodities while the expedited fleet delivers timely truckload services.

The regional short-haul fleet provides truckload van service across the United States. Meanwhile, the Temperature Controlled fleet renders truckload services for temperature-dependent products using temperature-controlled trailers. Trucks in service at the segment increased 3.2% year over year to 8,042 at the end of 2019.

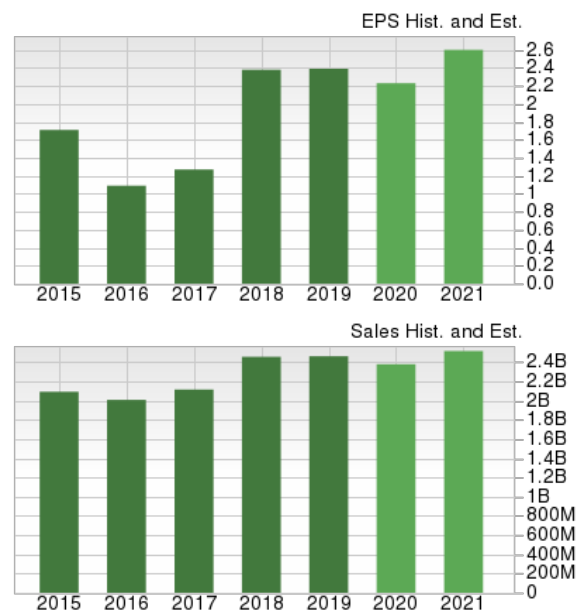
### Werner Logistics

The Werner logistics segment is a non-asset-based logistics service provider. The segment operates under five units: truck brokerage (Brokerage), freight management (Freight Management), intermodal (Intermodal), Werner Global Logistics international ("WGL") and Werner Final Mile ("Final Mile"). The Brokerage segment completes customer shipments utilizing contracted carriers while Freight Management provides single-source logistics management services.

The Intermodal unit offers rail transportation services conjointly with rail and drayage providers whereas the Werner Global Logistics international offers management of global shipments. Meanwhile, the Final Mile caters to home and business deliveries of bulky products.

During 2019, Truckload revenues accounted for 77% of the top line while Werner Logistics constituted 20% of the total revenues. Other sources of revenues accounted for the balance.

The company's financial year coincides with the calendar year.



Source: Zacks Investment Research

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### Reasons To Buy:

- ▲ Werner's efforts to add shareholder value via dividends and shares repurchases are commendable. The company has a consistent track record of paying dividends since 1987. The last dividend hike was in May 2018 when it raised the quarterly dividend by 29% to 9 cents per share (36 cents annually). With regard to buybacks, the company repurchased 1.3 shares for \$42.3 million during 2019.
- ▲ Werner's cost-cutting measures to combat the sluggish freight scenario are appreciative. We are also impressed by the company's ability to generate free cash flow. Free cash flow worth \$143 million was generated in 2019, up more than 100% year over year. The metric is expected to exceed \$150 million in 2020 despite coronavirus woes. Notably, \$180 million has already been achieved in the first half of 2020.
- ▲ The company focuses on investing in new trucks and trailers to improve its operational efficiency and reduce fuel costs. To this end, it aims at maintaining a relatively young fleet of trucks and trailers compared with the industry's standard. As of Jun 30, 2020, the average age of its truck fleet was 2 years compared with 1.9 years at 2019 end. The average age for its trailer fleet was 4.1 years at the end of the June quarter.

Strong free cash flow generation is a positive at Werner Enterprises.

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## Risks

- Due to weakness in the used truck market, truck sales are likely to be lower in 2020 on a year-over-year basis. New truck purchases are also expected to be lower in 2020. The company has withdrawn its 2020 guidance for gains on sales of equipment due to weak demand in used truck market. The company anticipates 2020 truck growth (in the truckload transportation services segment) to decline between 1% and 3% year over year.
  - Cash and equivalents stood at \$65.4 million for Werner at the end of the June quarter, less than the long-term debt (net of current portion) figure of \$175 million. This implies that the company does not have enough cash to meet its debt obligations.
  - The company continues to struggle with driver shortages amid the current labor market conditions. While the impact of coronavirus-related issues was limited in first-quarter 2020, supply-chain disruptions due to the pandemic hurt its second-quarter results more severely due to low one-way truckload and logistics freight demand. Notably, both earnings per share and revenues declined year over year.
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## Last Earnings Report

### Earnings Beat at Werner Enterprises in Q2

Werner Enterprise reported second-quarter 2020 earnings per share (excluding 6 cents from non-recurring items) of 62 cents, which surpassed the Zacks Consensus Estimate of 40 cents. However, the bottom line declined 1.6% year over year.

However, total revenues of \$569 million missed the Zacks Consensus Estimate of \$580.8 million and dropped 9.3% year over year due to lower fuel surcharge and logistics revenues.

Operating income (adjusted) came in at \$57.7 million in the reported quarter, down 3%. Moreover, adjusted operating margin improved 70 basis points (bps) to 10.1%. Operating expenses declined 9.3% to \$516.1 million.

| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Jul 29, 2020 |
| Sales Surprise   | -2.04%       |
| EPS Surprise     | 55.00%       |
| Quarterly EPS    | 0.62         |
| Annual EPS (TTM) | 2.26         |

### Segmental Results

Truckload Transportation Services (TTS) segment's revenues fell \$445.1 million, from \$479.9 million in the year-ago quarter. The downside can be attributed to \$28.3 million fall in fuel surcharge revenues and 2.2% decline in average trucks in service. Adjusted operating income inched up 7% to \$56.1 million in the quarter. Additionally, adjusted operating margin expanded 170 bps to 12.6%. Adjusted operating ratio increased 170 bps to 87.4%. Notably, lower the metric, the better.

Werner Logistics segment's revenues totalled \$110.2 million, down 16% year over year. Segmental results were hampered by softer freight market, which reduced volumes by 9%. Operating income plunged 39% to \$3.1 million in the quarter under discussion. Further, operating margin fell 120 bps to 2.8%. The Other segment accounted for the rest of the top line.

### Liquidity

As of Jun 30, the company had cash and cash equivalents of \$65.38 million compared with \$26.41 million at 2019 end. Long-term debt (net of current portion) totalled \$175 million at the end of the second quarter compared with \$225 million at 2019 end.

### 2020 Guidance

Werner anticipates truck growth to decline between 3% and 1% compared with its previous guidance where the metric was expected to either remain flat or decline up to 5%. The company did not provide any guidance pertaining to gains on sales of equipment for the current year. Additionally, net capital expenditures (estimated between \$260 million and \$300 million) are in line with its previous guidance.

During the second half of 2020, one-way truckload revenues per total mile are projected to rise 2% or decline up to 1% compared with previous expectation where the metric is expected to decline 5-7%. Effective tax rate is now anticipated between 24.5% and 25.5% compared with the previous guidance in the 25-26% band.

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## Recent News

### Dividend Update — Aug 17, 2020

Werner's board declared a regular quarterly cash dividend of 9 cents per share, payable to shareholders on Oct 20, 2020. of record as of Oct 5. The company has paid dividends every quarter since July 1987.

### Update on Board Changes — Jun 2, 2020

Clarence Werner has quit as the executive chairman of the board. He will, however, continue to serve as the as the chairman until his term expires in May next year. The company's CEO, Derek Leathers, has been appointed as the board's vice chairman with immediate effect.

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## Valuation

Werner's shares are up 25% and 47.5% in the year-to-date period and over the trailing 12-month period respectively. Stocks in the Zacks sub-industry are up 32.5% and those in the Zacks Transportation sector are up 1.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 44.1% and 9.1%, respectively.

The S&P 500 index is up 3.8% and 14% in the year-to-date period and in the past year respectively.

The stock is currently trading at 20.12X trailing 12-month price-to-earnings, which compares to 30.04X for the Zacks sub-industry, 33.25X for the Zacks sector and 23.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.48X and as low as 10.98X, with a 5-year median of 16.8X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$52 price target reflects 23X trailing 12-month earnings.

The table below shows summary valuation data for WERN

| Valuation Multiples - WERN |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E TTM                    | Current       | 20.12 | 30.04        | 33.25  | 23.86   |
|                            | 5-Year High   | 34.48 | 32.85        | 33.25  | 23.86   |
|                            | 5-Year Low    | 10.98 | 13.97        | 11.74  | 15.98   |
|                            | 5-Year Median | 16.8  | 20.03        | 15.49  | 19.35   |
| EV/EBITDA TTM              | Current       | 6.86  | 12.44        | 9.97   | 12.59   |
|                            | 5-Year High   | 12.62 | 21.94        | 11.08  | 13.29   |
|                            | 5-Year Low    | 4.02  | 5.8          | 5.18   | 8.22    |
|                            | 5-Year Median | 6.05  | 8.64         | 7.24   | 10.92   |
| P/S F12M                   | Current       | 1.27  | 2.1          | 1.39   | 3.95    |
|                            | 5-Year High   | 1.36  | 2.1          | 1.41   | 3.95    |
|                            | 5-Year Low    | 0.7   | 0.83         | 0.85   | 2.53    |
|                            | 5-Year Median | 0.94  | 1.3          | 1.2    | 3.07    |

As of 09/02/2020

## Industry Analysis Zacks Industry Rank: Top 13% (32 out of 251)



## Top Peers

| Company (Ticker)                             | Rec        | Rank |
|----------------------------------------------|------------|------|
| ArcBest Corporation (ARCB)                   | Outperform | 1    |
| Landstar System, Inc. (LSTR)                 | Outperform | 1    |
| Marten Transport, Ltd. (MRTN)                | Outperform | 2    |
| Saia, Inc. (SAIA)                            | Outperform | 2    |
| Covenant Transportation Group, Inc. (CVLG)   | Neutral    | 3    |
| Forward Air Corporation (FWRD)               | Neutral    | 3    |
| Universal Logistics Holdings, Inc. (ULH)     | Neutral    | 2    |
| Roadrunner Transportation Systems, Inc (RTS) | NA         | NA   |

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

| Industry Comparison Industry: Transportation - Truck |            |            |           | Industry Peers |         |            |
|------------------------------------------------------|------------|------------|-----------|----------------|---------|------------|
|                                                      | WERN       | X Industry | S&P 500   | ARCB           | ODFL    | SAIA       |
| Zacks Recommendation (Long Term)                     | Outperform | -          | -         | Outperform     | Neutral | Outperform |
| Zacks Rank (Short Term)                              | 2          | -          | -         | 1              | 3       | 2          |
| VGM Score                                            | A          | -          | -         | B              | B       | B          |
| Market Cap                                           | 3.14 B     | 1.20 B     | 24.30 B   | 876.32 M       | 23.89 B | 3.64 B     |
| # of Analysts                                        | 9          | 4          | 14        | 6              | 9       | 9          |
| Dividend Yield                                       | 0.79%      | 0.00%      | 1.6%      | 0.93%          | 0.29%   | 0.00%      |
| Value Score                                          | A          | -          | -         | A              | D       | B          |
| Cash/Price                                           | 0.02       | 0.05       | 0.07      | 0.65           | 0.02    | 0.01       |
| EV/EBITDA                                            | 6.80       | 7.03       | 13.46     | 4.43           | 21.77   | 13.78      |
| PEG F1                                               | 1.62       | 2.41       | 3.09      | 1.70           | 4.27    | 2.49       |
| P/B                                                  | 2.77       | 2.46       | 3.25      | 1.12           | 8.05    | 4.16       |
| P/CF                                                 | 7.55       | 8.49       | 13.12     | 4.65           | 28.05   | 15.65      |
| P/E F1                                               | 20.39      | 25.52      | 22.15     | 16.87          | 40.47   | 31.55      |
| P/S TTM                                              | 1.31       | 1.24       | 2.57      | 0.31           | 6.06    | 2.05       |
| Earnings Yield                                       | 4.90%      | 3.33%      | 4.29%     | 5.92%          | 2.47%   | 3.17%      |
| Debt/Equity                                          | 0.15       | 0.16       | 0.70      | 0.61           | 0.03    | 0.16       |
| Cash Flow (\$/share)                                 | 6.02       | 4.97       | 6.93      | 7.40           | 7.26    | 8.91       |
| Growth Score                                         | A          | -          | -         | D              | A       | B          |
| Historical EPS Growth (3-5 Years)                    | 15.64%     | 13.09%     | 10.41%    | 27.73%         | 24.61%  | 24.33%     |
| Projected EPS Growth (F1/F0)                         | -6.69%     | -15.81%    | -4.75%    | -29.11%        | -1.48%  | 4.41%      |
| Current Cash Flow Growth                             | 3.80%      | -0.06%     | 5.22%     | -10.86%        | 3.97%   | 11.52%     |
| Historical Cash Flow Growth (3-5 Years)              | 8.62%      | 8.82%      | 8.49%     | 6.82%          | 15.99%  | 15.99%     |
| Current Ratio                                        | 1.73       | 1.68       | 1.35      | 2.05           | 1.96    | 1.09       |
| Debt/Capital                                         | 13.35%     | 20.88%     | 42.92%    | 37.94%         | 3.24%   | 13.89%     |
| Net Margin                                           | 6.23%      | 4.23%      | 10.25%    | 1.01%          | 14.95%  | 6.25%      |
| Return on Equity                                     | 14.22%     | 10.09%     | 14.66%    | 8.99%          | 19.66%  | 13.12%     |
| Sales/Assets                                         | 1.13       | 1.33       | 0.50      | 1.61           | 0.99    | 1.19       |
| Projected Sales Growth (F1/F0)                       | -3.37%     | -4.69%     | -1.42%    | -6.33%         | -4.69%  | -0.31%     |
| Momentum Score                                       | B          | -          | -         | F              | A       | D          |
| Daily Price Change                                   | -1.41%     | -0.08%     | 1.82%     | -0.92%         | -0.25%  | -0.65%     |
| 1-Week Price Change                                  | -0.11%     | 0.12%      | 2.59%     | 7.35%          | 1.56%   | -0.42%     |
| 4-Week Price Change                                  | 7.90%      | 7.90%      | 4.80%     | 11.06%         | 9.82%   | 11.51%     |
| 12-Week Price Change                                 | 5.79%      | 19.42%     | 6.31%     | 34.79%         | 23.17%  | 23.37%     |
| 52-Week Price Change                                 | 37.53%     | 25.34%     | 5.43%     | 15.73%         | 89.33%  | 58.69%     |
| 20-Day Average Volume (Shares)                       | 763,009    | 166,505    | 1,788,967 | 166,505        | 678,121 | 170,861    |
| EPS F1 Estimate 1-Week Change                        | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%      |
| EPS F1 Estimate 4-Week Change                        | 1.52%      | 0.25%      | 0.00%     | 3.90%          | 2.89%   | 0.25%      |
| EPS F1 Estimate 12-Week Change                       | 16.08%     | 18.96%     | 3.89%     | 116.21%        | 10.17%  | 11.57%     |
| EPS Q1 Estimate Monthly Change                       | 4.27%      | 0.00%      | 0.00%     | -2.77%         | 3.06%   | 0.41%      |

Source: Zacks Investment Research

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## 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    | A |
| Growth Score   | A |
| Momentum Score | B |
| 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.

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**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.

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**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.

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**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.