Wheaton Precious (WPM)

$44.52 (As of 06/21/21)

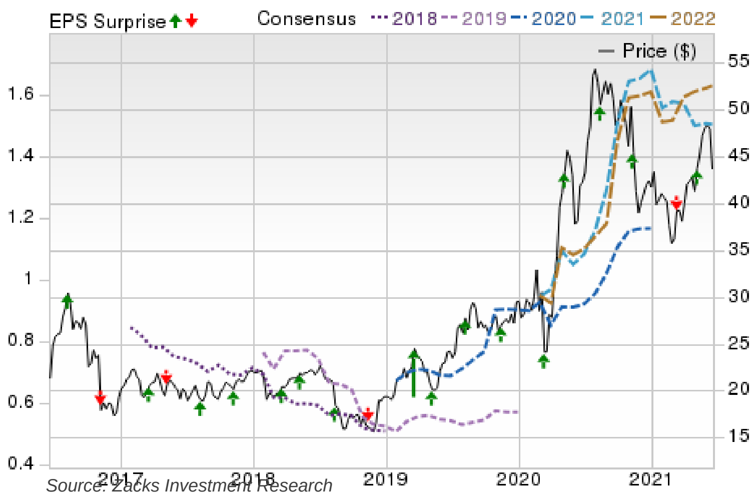
Price Target (6-12 Months): **$47.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 11/10/20)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A	Momentum: D

Summary

Wheaton's earnings estimates for the current year have been stable of late. It projects current-year production within 720,000 gold equivalent ounces (GEOs) and 780,000 GEOs, indicating year-over-year growth of 12% at the midpoint. This will be driven by higher gold production at Salobo, San Dimas and Constancia mines as well as higher silver ounces from the Cozamin acquisition. Moreover, Wheaton's strong cash position, operating cash flows and available credit capacity provide scope for investments to acquire additional accretive precious metals. The company's focus on corporate development front and growing high-quality portfolio of assets will drive growth in the near term. However, changes in market price of commodities and pandemic related uncertainties will likely hurt Wheaton's results until the situation stabilizes.

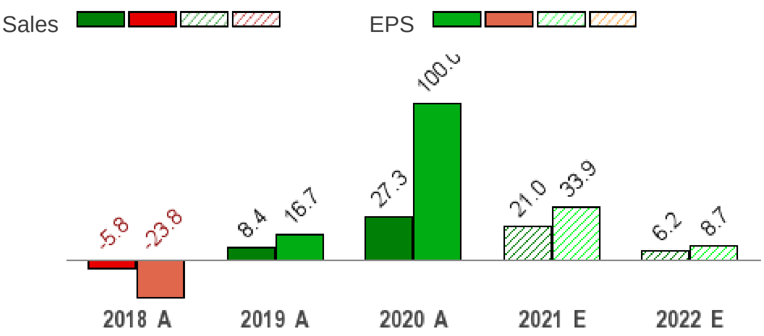
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$57.89 - $34.85**
20-Day Average Volume (Shares)	**1,955,155**
Market Cap	**$20.0 B**
Year-To-Date Price Change	**6.7%**
Beta	**0.35**
Dividend / Dividend Yield	**$0.22 / 0.5%**
Industry	**Mining - Miscellaneous**
Zacks Industry Rank	**Bottom 25% (188 out of 252)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**3.5%**
EPS F1 Estimate 4-Week Change	**-0.2%**
Expected Report Date	**08/11/2021**
Earnings ESP	**0.0%**
P/E TTM	**35.6**
P/E F1	**29.7**
PEG F1	**5.9**
P/S TTM	**17.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	339 E	343 E	343 E	347 E	1,408 E
2021	324 A	322 E	330 E	341 E	1,326 E
2020	255 A	248 A	307 A	286 A	1,096 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.38 E	$0.39 E	$0.39 E	$0.40 E	$1.63 E
2021	$0.36 A	$0.37 E	$0.38 E	$0.41 E	$1.50 E
2020	$0.22 A	$0.22 A	$0.34 A	$0.33 A	$1.12 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 06/21/2021. The report's text and the analyst-provided price target are as of 06/22/2021.

Overview

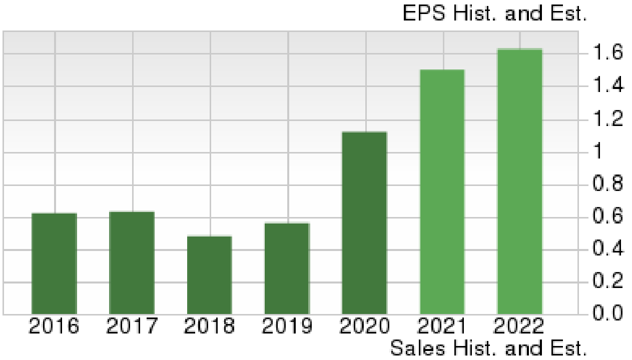
Wheaton Precious Metals is one of the largest precious metal streaming companies in the world that generates its revenues primarily from the sale of gold, silver and palladium.

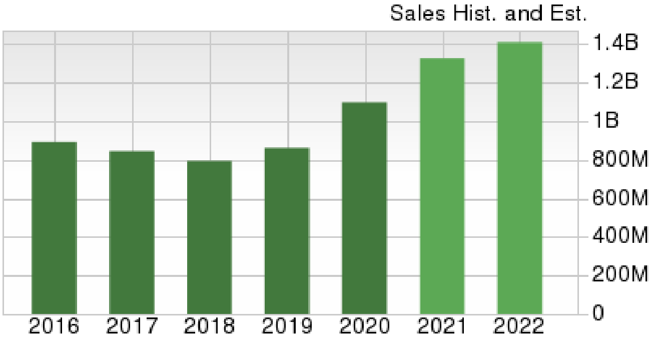
As of December 31, 2020, the Company has entered into 25 long-term purchase agreements with 19 different mining companies, for the purchase of precious metals and cobalt relating to 24 mining assets which are currently operating. Following the PMPAs, Wheaton acquires metal production from the counterparties for an initial upfront payment plus an additional cash payment for each ounce or pound delivered that is fixed by contract, generally at or below the prevailing market price. The company's production profile is driven by the volume of metal production at its various mining assets.

The primary drivers of the company's financial results are the volume of metal production at the various mines to which the PMPAs relate and the price realized by Wheaton upon the sale of the metals received.

The company offers investors leverage to increasing precious metals prices, a sustainable dividend payout as well as organic and acquisition growth opportunities.

Wheaton's operating costs are contractually set at the time the stream is entered into, which enables investors to benefit from cost predictability and strong margin growth amid rising metal prices.





Wheaton was very active on the corporate development front in 2018. It has added two new low-cost, long-life assets to high-quality portfolio — the Voisey's Bay mine and the Stillwater mines.

Source: Zacks Investment Research

Reasons To Buy:

> Wheaton is poised to gain from diversified portfolio of high-quality and long-life assets, mine expansions and acquisitions. Further, strong cash position will drive growth.

- Wheaton generates its revenues primarily from the sale of precious metals that includes gold, silver and palladium. It reported record revenues of $324 million during the first quarter, driven by an increase in the average realized gold equivalent price. The company projects production within 720,000 GEOs and 780,000 GEOs in 2021, which indicates year-over-year growth of 12% at the midpoint. For the current year, Wheaton expects gold production to be within 370,000 ounces to 400,000 ounces. The mid-point of the guidance indicates 5% year-over-year growth. Silver production guidance for 2021 is at 22.5-24 million ounces, indicating 1% year-over-year growth at the mid-point. Production of Palladium & Cobalt is expected in the range of 40,000 GEOs to 45,000 GEOs in 2021. Palladium production is expected to remain stable in 2021. The company has also provided a five-year (2021-2025) guidance averaging 810,000 GEOs.

- Wheaton remains focused on mine exploration and expansion activities. In October, Vale invested in the Salobo III mine expansion, wherein 73% expansion has been completed at the end of first-quarter 2021. Vale anticipates that the Salobo expansion is scheduled to commence in the first half of 2022. This will increase mill throughput capacity by 50% and will add to gold production in 2023. Per the precious metals purchase agreement with Vale, effective Jan 1, 2021, Wheaton reported first production of cobalt from Vale's Voisey's Bay mine in Canada. Palladium and gold production from Stillwater is expected to increase with the ramp up of Sibanye-Stillwater's Blitz project, which is expected to reach full capacity in 2024, considering this project might experience a two-year delay due to COVID-19. At Constancia, Hudbay Minerals announced that it has completed the final land user agreement for the Pampacancha deposit. Hudbay now has full access to the site and begun pit development activities. These expansion projects are expected to be growth drivers in the coming years.

- Wheaton is focused on adding additional production capacity from high-quality accretive metals. Moreover, its business model focuses on reducing risk while leveraging higher commodity prices. Wheaton remains active on corporate development front and focused on growing high-quality portfolio of assets. On Feb 19, Wheaton closed its precious metals purchase agreement with Capstone Mining Corp. to purchase a 50% silver stream from the Cozamin Mine located in Zacatecas, Mexico. On Apr 15, the company wrapped up the deal with Aris Gold Corporation to acquire 6.5% of the gold production and 100% of the silver production from the Marmato Project located in Colombia. On Mar 25, the company entered an agreement with Capstone to purchase 100% of the payable gold production from the Santo Domingo project located in the Atacama Region, Chile.

- The company fully paid a revolving credit facility of $2 billion during the first quarter. Wheaton had $191 million of cash in hand at the end of the first quarter with no outstanding debt. Backed by Wheaton's cash position, sales volume, revenues and strong operating cash flows, it declared a quarterly dividend of 14 cents per share, representing an increase of 40% year over year. This is the company's third quarterly dividend increase in a row. This also provides flexibility to acquire additional accretive precious metals.

Reasons To Sell:

- Wheaton's first-quarter gold production of 77,733 ounces came in 18.2% lower than the 94,999 ounces produced in the year ago quarter. The company's all operations were negatively impacted by COVID-19 in 2020 with varying extent from mine to mine. Given the resurgence of coronavirus cases across various parts of the world, it might further affect the company's mining operations until the situation stabilizes.

- Gold prices have been lower on a year-over-year basis and the bullion has lost 5.8% of its value year to date. In fact, gold prices had even dropped below $1,700 an ounce earlier this year on successful vaccine rollout and massive stimulus package. The company's GEOs production guidance assumes gold prices of $1,800 per ounce. If gold prices dip below this level, this might put the guidance at risk.

Wheaton's results likely be hurt by changes in the prices of precious metals. The pandemic will keep denting the company's production and sales volumes until the situation stabilizes.

- Wheaton's financials will likely be affected by changes in the market price of commodities underlying the royalties, streams, working interests and investments. In 2020, Palladium prices have dipped on worries of a further supply shortage amid rapidly rising demand from automakers. Thus, decline in the commodity prices is likely to affect the company's revenues. Sustained low prices are also expected to have a material adverse impact on the company's financial position and ability to raise capital.

- Wheaton is engaged in exploration, development and mining opportunities in the resource industry and acquisitions. Thus, the company will likely incur higher debt related to acquisitions. The company is also exposed to liquidity risks in meeting operating expenditures.

Last Earnings Report

Wheaton Q1 Earnings In Line, Sales Beat Estimates

Quarter Ending	03/2021
Report Date	May 06, 2021
Sales Surprise	3.53%
EPS Surprise	0.00%
Quarterly EPS	0.36
Annual EPS (TTM)	1.25

Wheaton's first-quarter 2021 adjusted earnings improved 53.6% year over year to 36 cents per share which came in line with the Zacks Consensus Estimate.

The company generated revenues of a record $324 million during the reported quarter, up 27% on a year-over-year basis. This upside was driven by a 27% increase in the average realized gold equivalent price. The top line also beat the Zacks Consensus Estimate of $313 million.

Wheaton’s gold production was 77,733 ounces, down from the prior-year quarter’s 94,999 ounces. Attributable silver production edged up 0.7% year over year to 6,754 ounces andpalladium production increased 8.6% to 5,769 ounces. The company sold 175,419 GEOs during the March-end quarter, slightly up from the prior-year quarter’s 175,154 GEOs.

Prices

In first-quarter 2021, average realized gold price was $1,798 per ounce, 13.1% higher than the year-ago quarter’s figure. Silver prices averaged $26.12 per ounce in the reported quarter, up 53.3% year on year. Palladium prices were up 4% year over year to $2,392 per ounce.

Financial Position

The company had $191 million of cash in hand at the end of first-quarter 2021 compared with $193 million at the end of 2020. It recorded an operating cash flow of $232.5 million in the first quarter compared with the prior-year quarter’s $178 million. The company fully paid a revolving credit facility of $2 billion.

In the first quarter, the company announced a quarterly dividend of 14 cents per share, reflecting an increase of 40% from the year-ago quarter.

Guidance

Wheaton’s attributable production is estimated between 720,000 GEOs and 780,000 GEOs for the current year. Gold production is expected in the band of 370,000-400,000 ounces. Silver production is projected between 22.5 million ounces and 24 million ounces, while production of other metals is anticipated in the band of 40,000-45,000 GEOs.

Business Updates

On Feb 19, Wheaton closed its precious metals purchase agreement with Capstone Mining Corp. to purchase a 50% silver stream from the Cozamin Mine located in Zacatecas, Mexico. On Apr 15, the company wrapped up the deal with Aris Gold Corporation to acquire 6.5% of the gold production and 100% of the silver production from the Marmato Project located in Colombia.

On Mar 25, the company entered into an agreement Capstone to purchase 100% of the payable gold production from the Santo Domingo project located in the Atacama Region, Chile. Moreover, the company started receiving first cobalt from Voisey's Bay mine in the first quarter.

Valuation

Wheaton's shares are up 5.7% in the trailing six-month period and up 4.6% over the past year. Stocks in the Zacks Mining - Miscellaneous industry and the Zacks Basics Materials sector are up 28.5% and 18.7% in the trailing six-month period, respectively. Over the trailing 12-month period, the Zacks sub-industry and sector are up 44.7% and 48.4%, respectively.

The S&P 500 index is up 14.1% in the trailing six-months period and 37.3% in the past year.

The stock is currently trading at 28.49X forward 12-month earnings, which compares to 7.54X for the Zacks sub-industry, 9.66X for the Zacks sector and 21.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.35X and as low as 18.46X, with a 5-year median of 31.10X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $47 price target reflects 30.07X forward 12-month earnings.

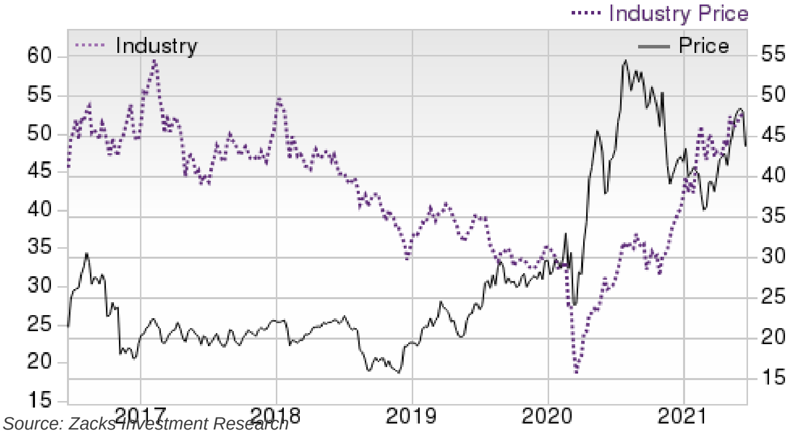
The table below shows summary valuation data for WPM:

Valuation Multiples - WPM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.49	7.54	9.66	21.35
	5-Year High	52.35	27.13	18	23.83
	5-Year Low	18.46	7.54	9.66	15.31
	5-Year Median	31.1	11.67	12.85	18.05
EV/EBITDA TTM	Current	24.51	11.38	8.22	17.1
	5-Year High	43.31	31.89	17.97	17.74
	5-Year Low	11.14	10.69	6.54	9.63
	5-Year Median	19.12	16.61	9.33	13.47
P/B TTM	Current	3.44	3.12	3.39	6.93
	5-Year High	4.66	4.18	3.73	7.08
	5-Year Low	1.3	0.68	1.22	3.84
	5-Year Median	1.99	2.2	2.27	5.02

As of 06/21/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 25% (188 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cameco Corporation **(CCJ)**	Neutral	3
CENTAMIN PLC **(CELTF)**	Neutral	3
HudBay Minerals Inc **(HBM)**	Neutral	3
Materion Corporation **(MTRN)**	Neutral	2
U.S. Silica Holdings, Inc. **(SLCA)**	Neutral	3
Silver Standard Resources Inc. **(SSRM)**	Underperform	4
Ferroglobe PLC **(GSM)**	NA	NA
Turquoise Hill Resources Ltd. **(TRQ)**	NA	NA

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

Industry Comparison Industry: Mining - Miscellaneous

Industry Peers

	WPM	X Industry	S&P 500	GPL	MAG	SVM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	C	-	-	A	C	D
Market Cap	20.04 B	244.78 M	29.97 B	236.77 M	2.04 B	1.02 B
# of Analysts	16	1.5	12	2	3	1
Dividend Yield	0.49%	0.00%	1.35%	0.00%	0.00%	0.43%
Value Score	D	-	-	A	F	B
Cash/Price	0.01	0.07	0.06	0.19	0.04	0.20
EV/EBITDA	25.85	-6.86	17.02	3.92	-326.84	8.29
PEG F1	5.90	1.72	2.08	NA	NA	NA
P/B	3.44	2.11	4.11	2.27	6.54	1.80
P/CF	26.71	9.11	17.39	3.74	NA	16.31
P/E F1	29.51	10.73	20.94	8.33	537.00	17.51
P/S TTM	17.19	3.34	3.39	0.89	NA	5.29
Earnings Yield	3.37%	3.36%	4.67%	11.94%	0.19%	5.71%
Debt/Equity	0.00	0.05	0.66	0.01	0.00	0.00
Cash Flow ($/share)	1.67	-0.00	6.83	0.18	-0.07	0.35
Growth Score	A	-	-	A	D	D
Historical EPS Growth (3-5 Years)	9.37%	9.78%	9.59%	NA	NA	10.92%
Projected EPS Growth (F1/F0)	34.21%	71.43%	21.57%	NA	150.00%	50.00%
Current Cash Flow Growth	46.68%	-7.97%	0.99%	193.93%	61.48%	9.39%
Historical Cash Flow Growth (3-5 Years)	12.84%	10.84%	7.28%	56.97%	9.65%	19.79%
Current Ratio	2.08	2.84	1.39	1.32	107.30	5.95
Debt/Capital	0.00%	9.61%	41.51%	1.05%	0.12%	0.19%
Net Margin	49.33%	-17.59%	11.95%	15.25%	NA	24.14%
Return on Equity	9.95%	-12.30%	16.48%	33.25%	1.40%	7.45%
Sales/Assets	0.19	0.31	0.51	1.01	NA	0.31
Projected Sales Growth (F1/F0)	20.92%	3.26%	9.41%	-2.97%	NA	15.93%
Momentum Score	D	-	-	F	A	D
Daily Price Change	1.99%	0.00%	1.40%	-1.26%	-2.05%	-0.34%
1-Week Price Change	-8.99%	-7.38%	-0.71%	-5.86%	-6.40%	-8.52%
4-Week Price Change	-6.02%	-5.67%	0.66%	-25.95%	5.19%	-7.37%
12-Week Price Change	16.33%	5.73%	6.39%	-14.04%	44.35%	19.17%
52-Week Price Change	4.85%	102.67%	35.50%	54.14%	68.34%	15.83%
20-Day Average Volume (Shares)	1,955,155	201,394	1,885,424	3,333,985	625,536	912,761
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.21%	0.00%	0.01%	-11.11%	9.09%	0.00%
EPS F1 Estimate 12-Week Change	-1.88%	0.00%	3.59%	-40.74%	-40.00%	-13.16%

EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-100.00%	0.00%	0.00%

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	D
Growth Score	A
Momentum Score	D
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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This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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.