

Zoetis Inc.(ZTS)

\$164.34 (As of 11/23/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Zoetis' beat on both third-quarter earnings and sales as the companion animal portfolio maintains momentum on strong growth of key dermatology products, such as Apoquel and Cytopoint brands, as well as the Simparica franchise, including encouraging initial uptake of Simparica Trio. The livestock business witnessed growth as well largely due to sales growth in both the U.S. cattle market and China's swine market. Simparica Trio, the expansion of its other parasiticides and key dermatology portfolio should propel growth further. The recent acquisitions have further strengthened the companion animal portfolio sales and should boost performance. Shares have outperformed the industry in the past year. However, the cattle market is witnessing challenges for poultry and swine product portfolios.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$176.64 - \$90.14
20-Day Average Volume (Shares)	1,827,422
Market Cap	\$78.1 B
Year-To-Date Price Change	24.2%
Beta	0.75
Dividend / Dividend Yield	\$0.80 / 0.5%
Industry	Medical - Drugs
Zacks Industry Rank	Bottom 30% (178 out of 254)

Sales and EPS Growth Rates (Y/Y %)

Sales	   	EPS	   
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Last EPS Surprise	23.6%
Last Sales Surprise	10.9%
EPS F1 Estimate 4-Week Change	4.6%
Expected Report Date	02/11/2021
Earnings ESP	0.0%
P/E TTM	42.6
P/E F1	43.4
PEG F1	5.1
P/S TTM	11.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,610 E	1,703 E	1,886 E	1,847 E	7,112 E
2020	1,534 A	1,548 A	1,786 A	1,724 E	6,599 E
2019	1,455 A	1,547 A	1,584 A	1,674 A	6,260 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.93 E	\$1.00 E	\$1.13 E	\$1.06 E	\$4.21 E
2020	\$0.95 A	\$0.89 A	\$1.10 A	\$0.86 E	\$3.79 E
2019	\$0.88 A	\$0.90 A	\$0.94 A	\$0.92 A	\$3.64 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 11/23/2020. The reports text is as of 11/24/2020.

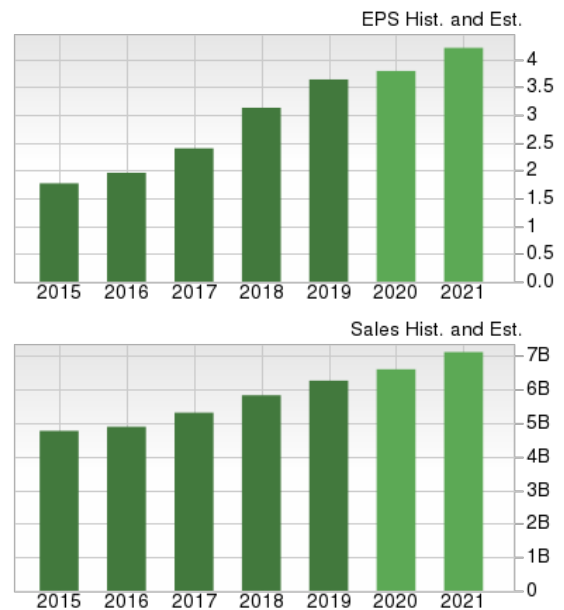
Overview

Florham Park, NJ-based Zoetis Inc. came into existence following Pfizer's decision to spin off its animal health business. The entity started trading on NYSE from Feb 1, 2013, under the name Zoetis. The company is a leader in the discovery, development, manufacture and commercialization of animal health medicines, vaccines and diagnostic products with a focus on both livestock and companion animals.

Zoetis has a diversified business, which caters to eight core species — cattle, swine, poultry, fish and sheep (collectively, livestock) and dogs, cats and horses (collectively, companion animals). The company focuses on seven major product categories: vaccines, anti-infectives, parasiticides, other pharmaceutical products, dermatology, medicated feed additives and animal health diagnostics.

Zoetis has been working on strengthening its product portfolio through acquisitions and deals. The company strengthened its portfolio of diagnostic products with the Abaxis acquisition in 2018, a leading provider of veterinary point-of-care diagnostic instruments. The acquisition added the VetScan portfolio of benchtop and handheld diagnostic instruments and consumables, which serves a large customer base of veterinary practitioners in North America. In 2019, Zoetis acquired Phoenix Central Laboratory for Veterinarians, Inc. and ZNLabs, LLC, thereby entering into reference laboratory services. Zoetis also entered the field of animal nutritionals with the acquisition of Platinum Performance in 2019.

Zoetis has consolidated its four-region structure into a two-region structure comprising the United States and International. Revenues increased 7% year over year to \$6.26 billion in 2019. The United States contributed 51.2% of total revenues in 2019 and International revenues contributed the remaining.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Increasing Share Price:** Zoetis' stock has outperformed the industry in the past year.

▲ **Strong Performance of New Products:** Zoetis has built a very strong companion animal portfolio over the last several years based on its internal innovation. The company's companion animal business maintains momentum. Apoquel and other product launches continue to drive growth in the companion animal portfolio. New product launches have further boosted growth. Key dermatology products, Apoquel and Cytopoint; new products such as Simparica and Stronghold Plus; and increased medicalization rates in key international markets such as China and Brazil should propel further growth. The FDA earlier approved ProHeart 12 (moxidectin), the industry's only once-yearly injection to prevent heartworm disease in dogs aged 12 months or older. Zoamix, an alternative to antibiotics in medicated feed additives, has also delivered an impressive performance.

Zoetis' diversified product portfolio, global footprint and productive R&D should help drive both top- and bottom-line growth.

The approval of Simparica Trio in the EU and the United States should strengthen the company's market-leading parasiticide portfolio for companion animals. The initial uptake of the product has been very strong. The company also continues to bolster its vaccine portfolio for livestock. The company expanded its Fosterera swine vaccine franchise with approvals of different formulations in new geographies. Zoetis also received approval for Rimadyl (carprofen) for dogs in China, one of the fastest growing companion animal markets in the world. It is indicated for relief from pain and inflammation associated with osteoarthritis (chewables) and control of postoperative pain associated with soft tissue and orthopedic surgeries (injectable). Approval of innovative products should further boost sales.

▲ **Expansion through Acquisitions:** We are positive on Zoetis' acquisitions made so far. The company acquired Abaxis, Inc. for \$2 billion. The deal boosted Zoetis' presence in veterinary diagnostics space of the animal health market. This sector has witnessed an annual compound growth rate of about 10% over the past three years. With the acquisition, Zoetis has accessed Abaxis' VetScan portfolio of bench top and handheld diagnostic instruments and consumables. The company can now provide a broader range of veterinary diagnostics products, leveraging its global scale and direct customer relationships. It expects the veterinary diagnostics category to continue to grow faster than the animal health industry, with mid to high-single-digit growth. Moreover, Zoetis five-year collaboration agreement with Regeneron to research the use of latter's monoclonal antibody therapeutics in animals and discover new veterinary treatments will further diversify the broad portfolio. It recently acquired Platinum Performance, a privately held, nutrition-focused animal health company, which will further strengthen Zoetis' portfolio in the equine and pet-care markets. Zoetis recently announced the acquisition of ZNLabs, a full-service veterinary clinical reference laboratory company with a network of labs across the United States. The acquisition will strengthen the company's portfolio, expand its diagnostics footprint and enhance its value proposition to veterinary customers. The company can now provide a broader range of veterinary diagnostics products, leveraging its global scale and direct customer relationships. It expects the veterinary diagnostics category to continue to grow faster than the animal health industry.

In 2019, Zoetis acquired Phoenix Central Laboratory for Veterinarians, Inc. (Phoenix Lab), a full-service veterinary reference laboratory company, to enter the reference laboratory services market. Per the company, reference laboratories and point-of-care diagnostic testing are highly synergistic, offering veterinarians a single source for a full spectrum of tests, as well as access to the expertise of board-certified specialists and pathologists to support test results. It also acquired Platinum Performance, a privately-held, nutrition-focused animal health company. These acquisitions will further strengthen its market-leading portfolio. Earlier, the company announced the acquisition of Ethos Diagnostic Science, a veterinary reference lab business dedicated to serving leading specialty animal hospitals, the greater veterinary community and researchers with accurate, reliable results. In April 2020, Zoetis acquired Performance Livestock Analytics, a technology company that simplifies data and analytics for the livestock industry. This acquisition will help Zoetis accelerate progress in precision livestock farming and improve sustainability of producers' operations. The company recently added Fish Vet Group to add more diagnostic tools to its aquaculture portfolio.

Reasons To Sell:

- ▼ **Impact of Disease Outbreaks on Livestock Business:** Disease outbreak among animals is a material cause of concern for Zoetis' livestock products. Such outbreaks may hurt regional or global sales of particular animal-derived food products or result in reduced exports of the same, due to either heightened export restrictions or import prohibitions, in turn, dampening demand for livestock products. In addition, outbreak of a highly contagious disease near the company's main production sites could require immediate production halt or force the company to incur substantial additional expenses for procuring raw materials or products from elsewhere. Thus, such incidents could hurt the top line considerably. Moreover, market conditions for beef and dairy customers were challenging in 2019 and can affect growth in 2020.
- ▼ **Stiff Competition:** Zoetis faces stiff competition from other animal health medicines and vaccine companies like Merck Animal Health and Elanco Animal Health, which acquired Bayer's Animal Health business for \$7.6 billion. Other competitors include IDEXX Laboratories and Boehringer Ingelheim Animal Health (the animal health division of Boehringer Ingelheim).
- ▼ **Debt Profile Risky:** As of Sep 30, 2020, the company's debt to total capital stood at 68.1%, up from 70.4% at the end of Dec 31, 2019. A higher ratio indicates higher financial risk. Moreover, the company has \$6.6 billion of long-term debt and \$3.6 billion of cash and equivalents. The high level of debt is a concern.

Development and regulatory setbacks for late-stage pipeline candidates would be a major disappointment for the company. Stiff competition in the animal health space remains a threat as well.

Last Earnings Report

Zoetis' Q3 Earnings and Revenues Surpass Estimates

Zoetis posted third-quarter 2020 adjusted earnings of \$1.10 per share (excluding one-time items), which was higher than the year-ago quarter's earnings of 94 cents and beat the Zacks Consensus Estimate of 89 cents.

Total revenues grew 13% year over year to \$1.8 billion, which beat the Zacks Consensus Estimate of \$1.61 billion.

Quarter Ending **09/2020**

Report Date	Nov 05, 2020
Sales Surprise	10.90%
EPS Surprise	23.60%
Quarterly EPS	1.10
Annual EPS (TTM)	3.86

Quarterly Highlights

Zoetis reports business results under two geographical operating segments — the United States and International. It has a diverse portfolio of products for livestock and companion animals.

Revenues from the United States segment increased 18% year over year to \$996 million. Sales of companion animal products in this region grew 21%, primarily owing to higher sales of the Simparica Trio, the recently launched triple combination parasiticide for dogs. Apoquel and Cytopoint brands in the dermatology portfolio also led to this increase. Sales of livestock products increased 13% in the quarter due to a return to historical buying patterns following the impact of COVID-19 in the second quarter of 2020. U.S. cattle growth was partially offset by modest declines in both poultry and swine product portfolios.

Revenues in the International segment increased 6% year over year on a reported basis (up 11% operationally) to \$767 million. Livestock sales were flat in the quarter. Notably, sales of swine products surged as a result of expanding herd production and beefed-up biosecurity measures in the wake of the African Swine Fever in China. Sales of companion animal products grew 17% on a reported basis as a result of favorable market conditions and additional promotional and educational efforts. The Simparica franchise, including Simparica Trio, which was recently launched in the EU, Canada and Australia, and the company's key dermatology portfolio across both Apoquel and Cytopoint brands led to the growth. Growth in the company's fish portfolio was driven primarily by increased market share for salmon vaccines and the acquisition of Fish Vet Group.

2020 Guidance

Zoetis raised its 2020 guidance. The company now expects adjusted earnings of \$3.76-\$3.81 per share compared with the previous guidance of \$3.52-\$3.68.

Revenues are now projected between \$6.550 billion and \$6.625 billion, raised from the previous range of \$6.300-\$6.475 billion.

Recent News

European Commission Marketing Authorization for Librela – Nov 12

Zoetis announced that the European Commission has granted it marketing authorization for Librela (bedinvetmab), the first injectable monoclonal antibody (mAb) therapy approved in the European Union for monthly alleviation of osteoarthritis (OA) pain in dogs. Librela provides veterinarians a new treatment option, which effectively controls OA pain for a month, while also offering a positive safety profile.

Valuation

Zoetis' shares are up 24.1% in the year-to-date period and 36.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 2.7% and 0.0%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 2.6% while the sector is up 2%. The S&P 500 index is up 11.2% in the year-to-date period and 14.6% in the past year.

The stock is currently trading at 11.06X forward 12-month sales per share, which compares to 2.89X for the Zacks sub-industry, 2.76X for the Zacks sector and 4.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.1X and as low as 4.03X, with a 5-year median of 6.84X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$172 price target reflects 11.6X forward 12-month sales per share.

The table below shows summary valuation data for ZTS

Valuation Multiples - ZTS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	11.06	2.89	2.76	4.18
	5-Year High	12.1	3.53	3.2	4.3
	5-Year Low	4.03	2.29	2.2	3.17
	5-Year Median	6.84	2.93	2.84	3.67
P/B TTM	Current	21.65	1.56	3.98	6.07
	5-Year High	26.29	13.43	5.09	6.17
	5-Year Low	14.64	1.03	2.9	3.74
	5-Year Median	20.43	2.4	4.29	4.91

As of 11/23/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Catalent, Inc. (CTLT)	Neutral	2
Elanco Animal Health Incorporated (ELAN)	Neutral	4
Endo International plc (ENDP)	Neutral	3
Eisai Co. (ESALY)	Neutral	3
Grifols, S.A. (GRFS)	Neutral	3
IPSEN SA ADR (IPSEY)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	3
UCB SA (UCBJF)	Neutral	3

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

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	ZTS	X Industry	S&P 500	ESALY	GRFS	UCBJF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	A	B
Market Cap	78.11 B	167.15 M	25.83 B	22.19 B	12.83 B	21.76 B
# of Analysts	12	3	14	2	3	1
Dividend Yield	0.49%	0.00%	1.49%	1.74%	1.68%	0.00%
Value Score	C	-	-	C	A	B
Cash/Price	0.05	0.27	0.07	0.09	0.09	NA
EV/EBITDA	33.27	-2.24	14.64	13.71	NA	NA
PEG F1	5.13	2.17	2.76	NA	1.23	NA
P/B	21.65	3.25	3.55	3.39	1.54	2.77
P/CF	36.12	11.12	13.80	15.51	11.22	19.94
P/E F1	43.36	20.95	21.67	34.08	14.17	18.99
P/S TTM	11.94	7.52	2.79	3.36	2.15	NA
Earnings Yield	2.31%	-15.84%	4.40%	2.93%	7.07%	5.27%
Debt/Equity	1.83	0.00	0.70	0.08	0.95	NA
Cash Flow (\$/share)	4.55	-0.58	6.92	4.82	1.66	5.61
Growth Score	C	-	-	D	A	B
Historical EPS Growth (3-5 Years)	20.52%	9.59%	9.72%	22.36%	3.70%	NA
Projected EPS Growth (F1/F0)	4.19%	21.59%	0.42%	-43.86%	12.54%	1.20%
Current Cash Flow Growth	18.22%	4.23%	5.29%	76.14%	6.49%	4.23%
Historical Cash Flow Growth (3-5 Years)	16.87%	5.72%	8.33%	13.84%	10.99%	20.58%
Current Ratio	2.82	3.60	1.38	2.16	2.93	NA
Debt/Capital	64.64%	0.46%	41.99%	7.25%	48.63%	NA
Net Margin	25.42%	-126.86%	10.40%	16.86%	12.79%	NA
Return on Equity	61.25%	-56.13%	14.99%	17.44%	10.65%	NA
Sales/Assets	0.52	0.27	0.50	0.68	0.34	NA
Projected Sales Growth (F1/F0)	5.41%	0.00%	0.23%	6.36%	11.24%	12.08%
Momentum Score	D	-	-	C	F	C
Daily Price Change	-1.12%	0.00%	1.06%	-0.38%	-0.90%	0.00%
1-Week Price Change	0.25%	0.00%	0.21%	-2.03%	-1.10%	0.00%
4-Week Price Change	2.41%	1.89%	8.26%	-6.43%	3.44%	0.90%
12-Week Price Change	2.65%	-0.49%	9.20%	-14.97%	16.41%	-4.25%
52-Week Price Change	36.26%	-5.80%	5.26%	2.23%	-17.40%	38.60%
20-Day Average Volume (Shares)	1,827,422	210,090	2,312,054	11,270	817,124	211
EPS F1 Estimate 1-Week Change	-0.03%	0.00%	0.00%	0.00%	-2.47%	0.00%
EPS F1 Estimate 4-Week Change	4.62%	0.00%	0.96%	5.96%	-2.23%	0.00%
EPS F1 Estimate 12-Week Change	4.86%	1.59%	3.72%	-1.28%	-0.63%	0.00%
EPS Q1 Estimate Monthly Change	-4.26%	0.00%	0.00%	NA	0.00%	NA

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

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	C
Growth Score	C
Momentum Score	D
VGM Score	C

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

Disclosures

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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 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.