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Nov 16, 2020

Arch Capital Group(ACGL)

$34.15 (As of 11/13/20)

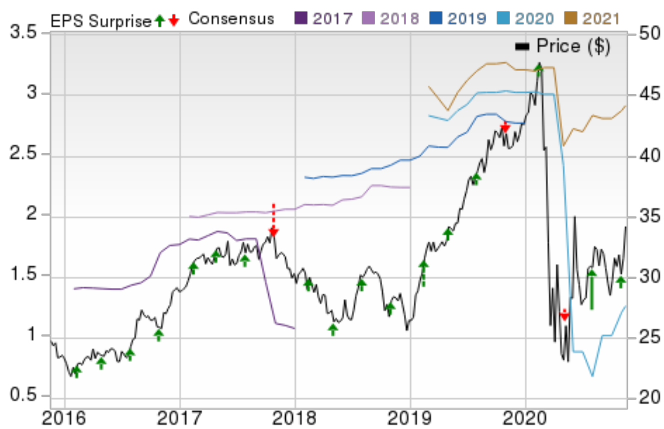
Price Target (6-12 Months): **$36.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/15/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: D | Momentum: F	**2-Buy** VGM:C

Summary

Arch Capital boasts a strong product portfolio and has been maintaining an exemplary track record of premium growth. This apart, the company has been diversifying its Mortgage Insurance business via strategic acquisitions that also complement the company's strength in the specialty insurance and reinsurance businesses. Robust capital position shields it from market volatility. It effectively deploys capital to pursue growth initiatives and recently agreed to acquire Watford as it believes that the company is the primary beneficiary of Watford. Its shares have underperformed the industry in a year's time. However, exposure to cat loss induces earnings volatility. Also, escalating expenses due to acquisition cost, interest and corporate expense tend to weigh on margin expansion. Third-quarter EPS beat estimates, reflecting higher premiums.

Price, Consensus & Surprise

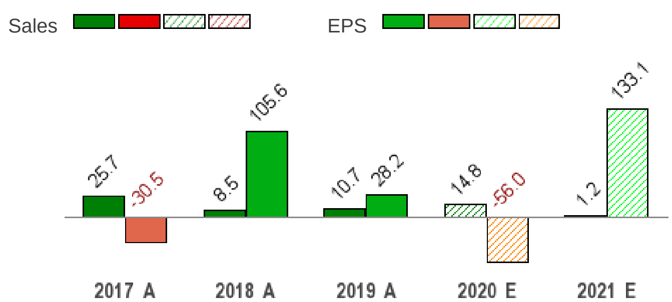


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$48.32 - $20.93**
20-Day Average Volume (Shares)	**1,976,121**
Market Cap	**$13.9 B**
Year-To-Date Price Change	**-20.4%**
Beta	**0.81**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Insurance - Property and Casualty**
Zacks Industry Rank	**Bottom 10% (229 out of 254)**
Last EPS Surprise	**16.0%**
Last Sales Surprise	**NA**
EPS F1 Estimate 4-Week Change	**4.7%**
Expected Report Date	**NA**
Earnings ESP	**11.6%**
P/E TTM	**22.3**
P/E F1	**27.5**
PEG F1	**2.8**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					7,450 E
2020	1,898 A	1,794 A	1,901 A		7,364 E
2019	1,527 A	1,620 A	1,601 A	1,669 A	6,416 A

EPS Estimates

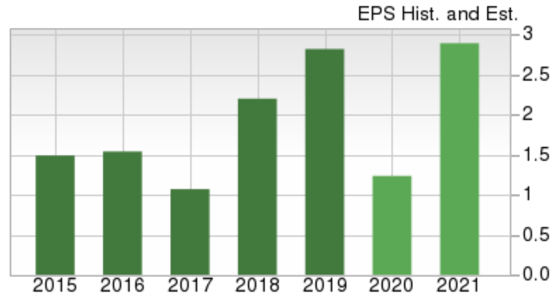
	Q1	Q2	Q3	Q4	Annual*
2021	$0.64 E	$0.73 E	$0.64 E	$0.73 E	$2.89 E
2020	$0.46 A	$0.04 A	$0.29 A	$0.46 E	$1.24 E
2019	$0.67 A	$0.77 A	$0.63 A	$0.74 A	$2.82 A

*Quarterly figures may not add up to annual.

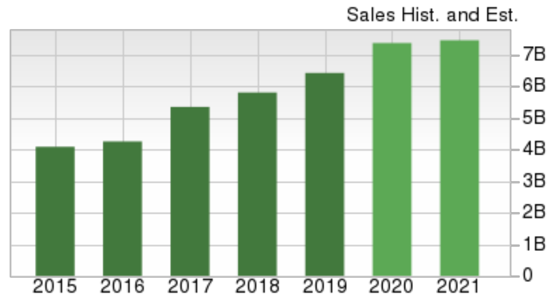
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/13/2020. The reports text is as of 11/16/2020.

Overview

Established in 1995 and headquartered in Pembroke, Bermuda, Arch Capital Group Ltd. offers insurance, reinsurance and mortgage insurance across the world. Through its wholly owned subsidiaries, the property and casualty (P&C) insurer provides a wide range of products and services, which include primary and excess casualty coverages, professional indemnity, workers compensation and umbrella liability and employers liability insurance coverages to name a few. The company offers a full range of property, casualty and mortgage insurance and reinsurance lines, while maintaining focus on writing specialty lines of insurance and reinsurance.



Arch Capital classifies its operations into three underwriting segments and two other operating segments (non-underwriting). The underwriting segments are Insurance, Reinsurance and Mortgage. The other two operating (non-underwriting) segments are 'Other' and Corporate.



The **Insurance** (50.8% of 2019 gross premiums written) segment provides primary and excess casualty coverages, loss sensitive primary casualty insurance programs, professional indemnity, and other financial coverages as well as commercial automobile and inland marine products to name a few. This apart the segment deals in property, energy, marine, and aviation insurance, captive insurance programs, employers liability insurance coverages. This segment markets its products through a group of licensed independent retail and wholesale brokers.

Reinsurance (30.2%) segment primarily offers reinsurance for third-party liability and workers compensation exposures, reinsurance protection for catastrophic losses and commercial property risks; life reinsurance, risk management solutions accident and health, workers compensation catastrophe to name a few. This segment markets its reinsurance products through brokers, and directly to ceding companies.

Mortgage (19%) segment provides private mortgage insurance covering one-to-four family residential mortgages; mortgage insurance to cover previously originated residential loans; quota share reinsurance; and risk-sharing products. This segment sells its products directly as well as through brokers to its bank and credit union customers.

Source: Zacks Investment Research

Reasons To Buy:

Arch Capital is set to grow from premium growth, strategic buyouts, and robust capital and liquidity position shielding it from market volatility and enabling it to retain its financial flexibility.

- **Price Impact:** Shares of Arch Capital have lost 17.4% in the past year against the industry's decrease of 13.5%. Nevertheless, solid fundamentals should help the shares bounce back.

- **Strong Premium Growth:** Strong Premium Growth: Arch Capital has been displaying a brilliant track record of net premiums written. Consistent premium growth has been boosting better results, enabling the company to maintain sustained revenue growth over the past few years. Net premiums written improved 25.9% year over year to $5.2 billion in the first nine months of 2020 on the back of higher premiums across the Insurance, Reinsurance and Mortgage segments. We expect the momentum to continue given new business opportunities, rate increases and growth in existing accounts.

- **Inorganic Growth**: Arch Capital has made significant efforts to boost its inorganic growth through prudent acquisitions. These in turn helped the company expand internationally, added capabilities, enhanced operations and diversify business. The company acquired Barbican Group Holdings in November 2019. In February 2020, Arch Capital has inked a deal with France-based corporate and investment bank Natixis to buy 29.5% stake in trade-credit insurance firm Coface. Valued at around $520 million, the deal is in line with the company's efforts to develop uncorrelated sources of underwriting income. Recently, Arch agreed to acquire Watford Holdings, a multi-line Bermuda reinsurance company, for $700 million. Arch Capital already owned a 13% stake in Watford Holdings, which it considers a variable interest entity. Arch Capital believes that it is the primary beneficiary of Watford Holdings.

- **Investment Results**: Net investment income increased at a CAGR of 15.7% in the last five years (2014-2019). However, in the first nine months of 2020, the same slumped 14.6% year over year due to lower yields available in the financial market. The current low interest rate environment is likely to keep investment yields under pressure, which would consequently weigh on its overall investment income. Nevertheless, growth in invested assets, higher level of income on fund investments, reinvestment of fixed income securities at higher available yields and the shift from municipal bonds to corporates are likely to drive the momentum in the near term.

- **Robust Capital Position**: The P&C insurer has maintained a robust capital position over the years, reflecting its financial flexibility. The company's robust capital and liquidity position shield it from market volatility, enabling it to retain its financial strength and flexibility required to pursue new opportunities in keeping with its long-term strategy. As of Sep 30, 2020, book value per share was $28.75, up 12.2% year over year. It has a solid cash balance of $976.4 million, up 10.9% year over year. However, long-term debt to capital of 26.6% deteriorated 350 bps from 2019 end level. Times interest earned, a measure to identify the company ability to service debt, stands at 10.4%, down 400 bps year over year. Nonetheless, the company's times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, an improving ratio is reassuring for investors.

  The company engages in several shareholder-friendly moves courtesy of its sound capital position. Though the company had $924.5 million remaining under its authorization it does not intend to buyback any in 2020.

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Reasons To Sell:

- **Exposure to Catastrophe Loss**: Being a P&C insurer, Arch Capital remains exposed to catastrophe loss rendering substantial volatility to the insurer's underwriting results. In the first half of 2020, the company incurred catastrophe losses of $259.7 million on account of the COVID-19 pandemic across the property casualty segments. Third quarter pre-tax current accident year catastrophic losses, net of reinsurance and reinstatement premiums were $203.3 million, soaring 198.8% year over year, thanks to hurricanes Isaias, Laura and Sally as well as losses related to the Derecho Windstorm, California wildfires, other events and COVID-19 related losses. Underwriting loss widened to $116.1 million in the first nine months of 2020 from $20.9 million incurred in the year-ago period while combined ratio deteriorated 440 bps year over year to 105.5%.

Arch Capital's exposure to catastrophe loss inducing underwriting volatility and deteriorating combined ratio and escalating operating expenses weighing on margin expansion are headwinds.

- **Rising Expenses**: Arch Capital has been experiencing escalating operating expenses, primarily due to higher losses and loss adjustment costs, acquisition expenses, other operating costs, interest expense as well as corporate expenses. The company's operating expenses witnessed an increase of 10.9% in the last five years. The trend continued in the first nine months of 2020, with the metric rising 41.3% year over year. Hence, a rise in expenses tends to weigh on the operating margin expansion, which in turn, will negatively impact the company's overall results. In the last five years, the company saw a margin contraction by 680 bps. In the third quarter, net margin contracted 700 bps year over year. Therefore, the company should strive for higher revenue growth rate than increase in expenses.

- **Return on Assets**: The company's return on assets of 1.7% is lower than the industry's average of 2.9%. Return on assets is a profitability ratio denoting how effectively the company is deploying its assets to generate profit.

Last Earnings Report

Arch Capital Q3 Earnings Beat, Revenues Improve Y/Y

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	NA
EPS Surprise	16.00%
Quarterly EPS	0.29
Annual EPS (TTM)	1.53

Arch Capital Group reported third-quarter 2020 operating income per share of 29 cents, which surpassed the Zacks Consensus Estimate by 16%. However, the bottom line declined 54% year over year.

The company's results reflect higher premiums. However, the results were partly offset by elevated catastrophic losses stemming from several weather-related events and the COVID-19 pandemic.
Behind the Headlines

Gross premiums written increased 22.9% year over year to $2.7 billion. Net written premiums improved 16.2% year over year to $1.9 billion, primarily fueled by higher premiums written across its Insurance and Reinsurance segments partly offset by premium decline in its Mortgage segment.

Net investment income decreased 20.4% year over year to $128.5 million.

Operating revenues of $1.9 billion increased 18.7% year over year.

Total expenses of $1.8 billion increased 44.6% year over year on higher losses and loss adjustment expenses, acquisition expenses, other operating expenses, corporate expenses, interest expense and forex.

Pre-tax current accident year catastrophic losses, net of reinsurance and reinstatement premiums were $203.3 million, which soared 198.8% year over year. This surge in catastrophic losses is primarily on account of several weather-related events and also includes $11.9 million of COVID-19 related losses.

Arch Capital's underwriting income fell 58.2% year over year to $96.6 million. Combined ratio deteriorated 1070 basis points (bps) to 94.9%.

Segment Results

Insurance: Gross premiums written increased 19.9% year over year to $1.2 billion, while net premiums written improved 17.1% year over year to $824.2 million. This growth can primarily be attributed to higher premiums across most of its business lines, which was further aided by new business, rate increases and growth in existing accounts. Decrease in travel business, primarily due to the ongoing impact of the COVID-19 pandemic, partially offset the upside.

Underwriting loss of $31.2 million was wider than the year-ago quarter's loss of $24.1 million. Combined ratio deteriorated 20 bps to 104.2%.

Reinsurance: Gross premiums written surged 51.6% year over year to $1 billion, while net premiums written improved 38.4% year over year to $604.2 million. The growth can be attributed to increases in property and other specialty lines. which was further driven by new business and rate increases.

Underwriting income was $5.5 million, against a loss of $2.7 million incurred in the year-ago quarter. Combined ratio improved 130 bps year over year to 99%.

Mortgage: Gross premiums written declined 7.7% year over year to $346.2 million, while net premiums written fell 6% year over year to $298.5 million. The decline was primarily due to mortgage refinance activity resulting in lower U.S. primary mortgage insurance in force and, reduced contribution from single premium policies.

Underwriting income plunged 50.3% year over year to $130.5 million. Combined ratio deteriorated 3960 bps year over year to 64.2%. Arch MI U.S. generated $32.8 billion of new insurance written (NIW) in the third quarter, up 29.6% year over year.

Financial Update

Arch Capital exited the third quarter with cash of $976.4 million, up 10.9% year over year. Debt was $2.9 billion as of Sep 30, 2020, up 52.9% year over year.

As of Sep 30, 2020, book value per share was $28.75, up 12.2% year over year.

Annualized operating return on average common equity was 4.2% in the third quarter, down 610 bps.

For the first nine months of 2020, net cash provided by operating activities was $2.3 billion, up 51.1% year over year.

Recent News

Arch Capital Revises Offer Price to Buy Watford Holdings – Nov 2, 2020

Arch Capital Group revises offer price to $35.00 per share to acquire Watford Holdings Ltd. This revised all-cash consideration is valued at approximately $700 million. Pending approval, the transaction is expected to culminate in the first quarter of 2021.

Valuation

Arch Capital shares are down 20.3% in the year-to-date period and 17.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 6% and 9.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 3.5% and 6.5%, respectively.

The S&P 500 index is up 11.6% in the year-to-date period and 15.3% in the past year.

The stock is currently trading at 1.12x trailing 12-month book value, which compares to 1.2x for the Zacks sub-industry, 2.86x for the Zacks sector and 6.09x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.7x and as low as 0.82x, with a 5-year median of 1.33x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $36 price target reflects 1.18x trailing 12-month book value.

The table below shows summary valuation data for ACGL

Valuation Multiples -ACGL

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.12	1.2	2.86	6.09
	5-Year High	1.7	1.67	2.93	6.17
	5-Year Low	0.82	0.93	1.73	3.74
	5-Year Median	1.33	1.45	2.57	4.9
P/S F12M	Current	1.86	1.68	6.12	4.2
	5-Year High	3.04	11.3	6.72	4.3
	5-Year Low	1.42	1.4	5.01	3.17
	5-Year Median	2.22	1.81	6.1	3.67
P/E F12M	Current	12.70	25.22	17.14	22.56
	5-Year High	28.77	31.56	17.14	23.47
	5-Year Low	7.67	21.02	11.6	15.27
	5-Year Median	14.82	25.72	14.45	17.72

As of 11/13/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 10% (229 out of 254)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Fidelity National Financial, Inc. **(FNF)**	Outperform	2
Alleghany Corporation **(Y)**	Outperform	1
American Financial Group, Inc. **(AFG)**	Neutral	2
Axis Capital Holdings Limited **(AXS)**	Neutral	4
Chubb Limited **(CB)**	Neutral	3
Markel Corporation **(MKL)**	Neutral	3
Everest Re Group, Ltd. **(RE)**	Neutral	3
RLI Corp. **(RLI)**	Underperform	5

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

Industry Comparison Industry: Insurance - Property And Casualty

	ACGL	X Industry	S&P 500	AXS	RE	Y
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	4	3	1
VGM Score	C	-	-	C	A	C
Market Cap	13.87 B	1.42 B	24.89 B	4.09 B	9.28 B	8.70 B
# of Analysts	4	2	14	3	3	1
Dividend Yield	0.00%	1.02%	1.51%	3.38%	2.67%	0.00%
Value Score	B	-	-	C	A	C
Cash/Price	0.24	0.28	0.07	0.38	0.26	0.23
EV/EBITDA	7.38	5.95	14.40	9.45	6.75	6.61
PEG F1	2.75	2.13	2.74	NA	1.68	NA
P/B	1.12	1.01	3.58	0.87	0.97	1.01
P/CF	10.76	10.87	13.66	10.87	10.49	19.10
P/E F1	27.54	15.76	21.82	NA	17.11	39.10
P/S TTM	1.76	0.85	2.80	0.84	1.03	1.02
Earnings Yield	3.63%	5.69%	4.39%	-1.98%	5.84%	2.56%
Debt/Equity	0.28	0.23	0.70	0.37	0.07	0.24
Cash Flow ($/share)	3.17	3.12	6.92	4.47	22.15	32.24
Growth Score	D	-	-	B	B	C
Historical EPS Growth (3-5 Years)	12.37%	5.87%	9.77%	-24.21%	-13.60%	-22.60%
Projected EPS Growth (F1/F0)	-56.21%	-13.80%	0.37%	-137.96%	-36.40%	-33.74%
Current Cash Flow Growth	21.44%	3.81%	5.23%	-8.72%	310.65%	25.33%
Historical Cash Flow Growth (3-5 Years)	15.01%	4.75%	8.33%	-11.78%	-5.41%	-8.44%
Current Ratio	0.58	0.45	1.38	0.56	0.35	0.30
Debt/Capital	21.30%	18.73%	42.01%	25.13%	6.90%	20.95%
Net Margin	15.08%	5.10%	10.40%	-2.53%	7.38%	-0.30%
Return on Equity	5.68%	5.29%	15.07%	-2.79%	5.19%	0.57%
Sales/Assets	0.20	0.31	0.50	0.19	0.32	0.31
Projected Sales Growth (F1/F0)	14.76%	0.00%	0.23%	-6.50%	13.25%	0.00%
Momentum Score	F	-	-	D	F	B
Daily Price Change	1.25%	1.61%	2.02%	2.21%	0.87%	2.23%
1-Week Price Change	4.44%	3.26%	5.72%	4.24%	6.90%	4.68%
4-Week Price Change	10.55%	5.79%	4.84%	7.82%	15.12%	12.49%
12-Week Price Change	8.76%	4.88%	9.72%	6.68%	7.37%	15.40%
52-Week Price Change	-16.00%	-10.61%	6.16%	-17.29%	-13.48%	-21.45%
20-Day Average Volume (Shares)	1,976,121	114,082	2,164,670	505,566	326,377	62,179
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-2.12%	0.00%
EPS F1 Estimate 4-Week Change	4.66%	0.00%	2.00%	-856.67%	12.36%	120.28%
EPS F1 Estimate 12-Week Change	24.75%	0.09%	3.94%	-345.30%	8.76%	105.88%
EPS Q1 Estimate Monthly Change	36.63%	0.00%	0.68%	-15.21%	-5.38%	44.57%

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	B
Growth Score	D
Momentum Score	F
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.

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

# of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every $1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.