

AFLAC Inc.(AFL)

\$57.39 (As of 06/07/21)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

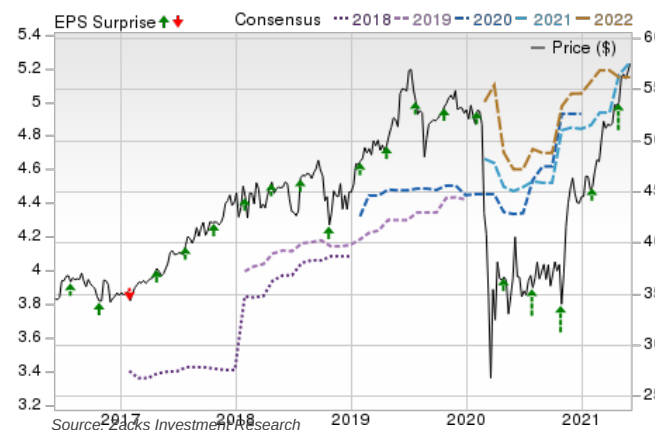
Growth: B

Momentum: D

Summary

Aflac's shares have outperformed its industry on a year-to-date basis. Its U.S segment is poised to grow from the buyout of Argus Dental and Vision and Zurich North America's U.S. Corporate Life and Pensions (Group Benefits) business. Several products introduced during 2020 and a robust product pipeline scheduled for 2021 are likely to boost the segment's sales going forward. The company's deal with Varagon Capital Partners will help it in generating solid risk-adjusted net investment income. Cost-saving initiative will aid its bottom line. A sound capital management enables it to return shareholders' value via buybacks and dividends. The company has been hiking dividend for 38 straight years and aims to sustain the trend. However, steep expenses are putting margins under pressure. Stressed Japan business remains a woe.

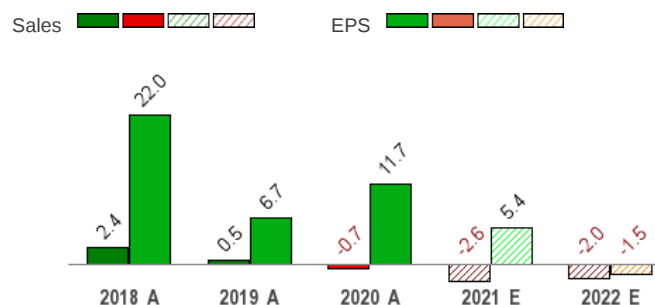
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$57.57 - \$33.37
20-Day Average Volume (Shares)	2,885,980
Market Cap	\$39.0 B
Year-To-Date Price Change	29.1%
Beta	1.00
Dividend / Dividend Yield	\$1.32 / 2.3%
Industry	Insurance - Accident and Health
Zacks Industry Rank	Bottom 9% (228 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.5%
Last Sales Surprise	4.4%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	07/27/2021
Earnings ESP	0.2%
P/E TTM	10.9
P/E F1	11.0
PEG F1	3.2
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,319 E	5,273 E	5,243 E	5,182 E	21,134 E
2021	5,869 A	5,349 E	5,347 E	5,281 E	21,572 E
2020	5,162 A	5,407 A	5,665 A	5,913 A	22,147 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.27 E	\$1.34 E	\$1.33 E	\$1.25 E	\$5.15 E
2021	\$1.53 A	\$1.27 E	\$1.25 E	\$1.18 E	\$5.23 E
2020	\$1.21 A	\$1.28 A	\$1.39 A	\$1.07 A	\$4.96 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 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

Overview

Aflac Incorporated was formed in 1973 under the laws of the state of Georgia. The company is a general business holding company and oversees the operations of its subsidiaries by providing management services and making capital available.

Its principal business is voluntary supplemental and life insurance, which is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States (Aflac U.S.) and, effective Apr 1, 2018, through Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan).

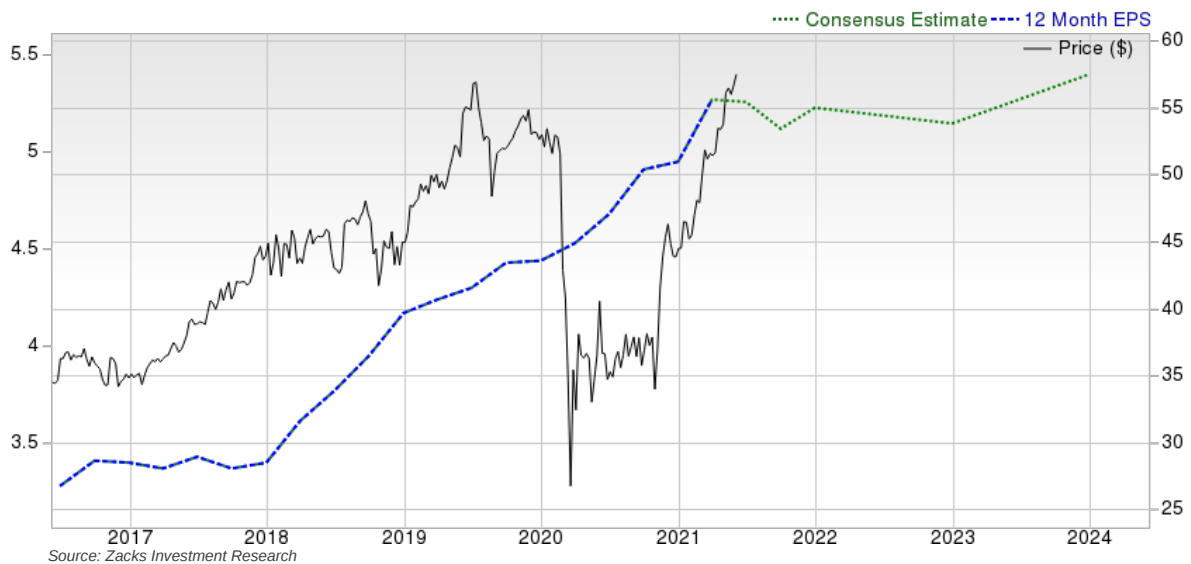
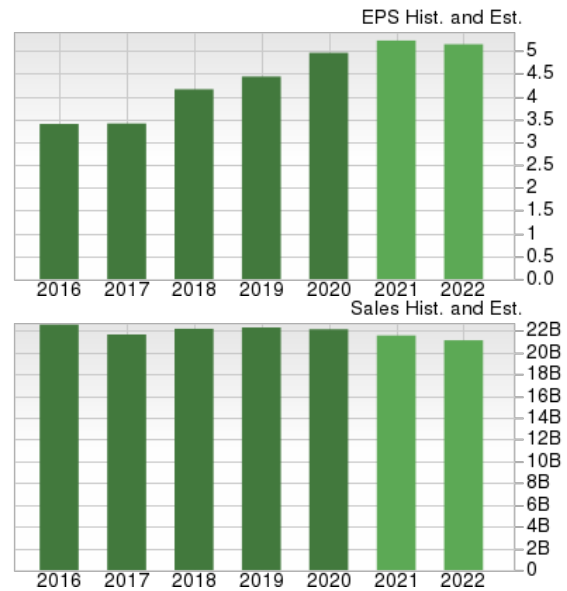
Prior to Apr 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance.

On Apr 1, 2018, the company completed the conversion of Aflac Japan from a branch to a subsidiary incorporated as a Japanese stock corporation. The conversion was accounted as tax-neutral and did not have a material impact on the daily operations of either Aflac Japan or Aflac U.S. The company also expects to obtain enhanced flexibility in capital management and business development as a result of the conversion.

Aflac primarily operates in the United States and Japan.

Aflac Japan (70% of the total 2020 revenues) offers supplemental insurance products including cancer plans, general medical indemnity plans, medical/sickness riders, care plans, living benefit life plans, ordinary life insurance plans and annuities.

Aflac U.S. (30%) markets and administers group products through Continental American Insurance Company (CAIC). It also offers insurance products, including accident/disability plans, cancer plans, short-term disability plans, sickness and hospital indemnity plans, hospital intensive care plans, fixed-benefit dental plans, vision care plans, long-term care plans and life insurance products.



Reasons To Buy:

- ▲ **Share Price Performance:** The stock has outperformed its industry on a year-to-date basis. Moreover, its strong fundamentals and various growth initiatives are likely to help the stock continue performing well going forward. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 0.2% upward over the last 30 days.
- ▲ **U.S Segment Set for Growth:** The company's U.S. segment saw a decline in sales during 2020 and further in the first quarter of 2021 due to COVID-19 negativity, which suppressed premium income. However, a number of factors are likely to drive the segment's growth.

Consistent operating results at U.S segment, strong risk-adjusted capital at its operating subsidiaries, solid capital management will drive long term growth.

In November 2019, the company completed the buyout of Argus Dental & Vision. This aided its U.S. segmental growth as Argus has a strong reputation for servicing Medicare, and Medicaid dental and vision members. In the United States, the company recently launched the national rollout of Aflac Dental and Vision. Its dental and vision products are now available in 40 states with more set to come online throughout the year. The company's acquisition of Zurich North America's U.S. Corporate Life and Pensions (Group Benefits) business (completed in November 2020) will further strengthen its position in the US broker distribution network. The buyout poises the company well for an expanded capacity in 2021.

The company rolled out an enhanced enrollment platform called Everwell 2.0 in September 2020. It officially unveiled its digital direct-to-consumer platform in the first week of January. It offers critical illness, accident and cancer, and is approved to sell all three products in approximately 30 states with more states and products expected to come online throughout the year. We believe, these product introductions will boost sales.

- ▲ **Expense Saving Initiative:** The company offered a voluntary separation plan to eligible employees, which will reduce its U.S. insurance and corporate workforce by approximately 9%. The company expects run-rate annual savings in the range of \$45-\$50 million. A more agile workforce will increase the segment's efficiency over the medium to long term.
- ▲ **Expansion of Global Investments:** The company's asset management subsidiary, Aflac Global Investments, has bought a minority stake in Varagon Capital Partners, L.P., a leading direct lender to middle market companies. The unit will also make a new multi-year investment commitment of up to \$3 billion to Varagon to invest in middle market loans. This move reflects Aflac's efforts to build long-term relationship with Varagon, which will manage its middle-market private debt portfolio investments. These loans will be on behalf of Aflac Japan and Aflac U.S. The deal reflects the significant commitment Aflac has to maintain a world-class investment platform that will generate sustainable risk-adjusted net investment income despite the headwinds of very low interest rates impacting its general account investment portfolio.
- ▲ **Solid Capital Position:** Aflac continues to maintain strong risk-adjusted capital at its operating subsidiaries supported by consistent earnings and good liquidity. The company also has a strong capital management strategy in place. The year 2020 marked the 38th consecutive dividend hike and the company announced that it will maintain its dividend growth track despite the COVID-19-induced uncertainty.

It has a cash balance of \$5 billion compared with its long term debt of \$8.1 billion. However, it is faced with debt maturities of only \$1.45 billion over the next five years. Its adjusted debt to adjusted capital of 24.4% increased marginally from 23.4% as of Dec 31, 2020. Further, the company's times interest earned of 21.25X compares favorably with the industry's figure of 18.55X, implying that its earnings are sufficient to cover its interest obligations. Thus, the company's solvency position looks good.

Reasons To Sell:

▼ **Japan Business Under Pressure:** In Japan, the company sells protection-type first-sector and third-sector products with more focus on the latter category. Sales in Japan (on yen basis) tumbled 36.2% year over year in 2020. Sales of protection-type first-sector and third-sector products on a yen basis decreased 0.3% year over year in the first quarter of 2021 due to the prevalent adversity of the COVID-19 pandemic, partially offset by the launch of a medical product in January 2021.

Pressure on business in Japan might hurt the top line. Increase in expenses is likely to weigh on margins.

Sales of Aflac Japan cancer products in the Japan Post Group channel experienced a material decline beginning August 2019 (as this agency was charged with sales malpractices and therefore was subjected to investigation, which caused a disruption in its sales), which has continued into the first quarter of 2021. On Mar 24, 2021, Japan Post Group announced that it planned to begin resuming proactive sales of its financial products on Apr 1, 2021, which the company believes will lead to a gradual improvement of cancer insurance sales in the second half of the year.

The company launched its refreshed medical product in the first quarter of 2021. In late October, it rolled out technology to support face-to-face as well as virtual sales and an entirely digital customer experience. Management expects the amalgamation of product development, improvement in pandemic conditions and its alliance with Japan Post to be important catalysts as it enters the second half of 2021.

The company also took a paperless initiative across all operations in Japan, this effort will reduce the production and circulation of 80 million pieces of paper per year with run rate savings in the range of ¥3 billion, annually.

Despite these initiatives undertaken for growth, the current economic volatility will continue to keep the segmental earnings under pressure for the next few quarters.

▼ **Increase in Expenses:** The company is continuing to invest in digital initiatives designed to address speed up development, sales, administration, and customer experience related to its product. Its advertising spend is likely to increase, prompted by the need to raise new product awareness as well as a stepped up level of investment in the paperless initiative. These initiatives take many forms and will lead to elevated near-term expense ratios. The company anticipates expense ratios to remain high in 2021.

Last Earnings Report

Aflac's Q1 Earnings and Revenues Surpass Estimates

Aflac's first-quarter 2021 adjusted earnings per share of \$1.53, which outpaced the Zacks Consensus Estimate by 27.5%. Further, the bottom line grew 26.4% year over year.

The company's results gained momentum from higher revenues and the favorable effect of share repurchases.

Moreover, total revenues of \$5.9 billion surpassed the Zacks Consensus Estimate by 4.35%. The top line also improved 13.7% year over year.

Annualized adjusted return on equity excluding foreign currency impact, was 17%, which improved 120 basis points (bps) from the prior-year quarter.

Further, total acquisition and operating expenses were up 1.9% year over year to \$1.5 billion.

Quarter Ending **03/2021**

Report Date	Apr 28, 2021
Sales Surprise	4.35%
EPS Surprise	27.50%
Quarterly EPS	1.53
Annual EPS (TTM)	5.27

Favorable Results at Aflac Japan

Total revenues were up 1% year over year to \$3.8 billion owing to a 9.8% rise in net investment income, partly offset by a 0.9% decline in premiums. Constrained sales from the impact of pandemic conditions and limited-pay products reaching paid-up status weighed on premium growth. Pre-tax adjusted earnings improved 3.7% from the prior-year quarter to \$887 million.

Weak Performance at Aflac U.S.

Total revenues fell 3.5% year over year to \$1.6 billion due to lower premiums on account of decline in sales activity. Net premium income slipped 4.1% year over year to \$1.4 billion. Adjusted net investment income of \$176 million slid 0.6% from the prior-year quarter.

Pre-tax adjusted earnings from the U.S. segment were \$445 million, up 36.5% year over year, primarily on lower incurred claim.

Share Repurchase & Dividend Update

Aflac bought back 13.4 million shares worth \$650 million during the first quarter. The company had 85.7 million shares remaining under its buyback program as of Mar 31, 2021.

Solid Financial Position (as of Mar 31, 2021)

Total investments and cash were \$143.3 billion, up 4.6% from the 2020-end level.

Total assets were \$158.2 billion, up 4.3% from the 2020-end level. Shareholders' equity (excluding AOCI) was \$32.1 billion, up 21.6% from the level at 2020 end.

Outlook for the First Half of 2021

Although the COVID-19 pandemic is likely to put pressure on sales activity across both the United States and Japan during the first half of 2021, the company anticipates some decent sales figures in the latter half of the year.

The company estimates sales in Japan to improve in the second half of the year as its largest agent in the region, Japan Post Group, resumed proactive sales in April.

Valuation

Aflac shares are up 29.1% in the year-to-date period and up 42.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 24.6% and 20.9%, respectively, in the year-to-date period. Over the past year, stocks in the Zacks sub-industry and the sector are up 47.1% and 37.5%, respectively.

The S&P 500 index is up 13.3% in the year-to-date period and up 34.1% in the past year.

The stock is currently trading at 11.05x forward 12-month earnings, which compares to 10.9x for the Zacks sub-industry, 16.77x for the Zacks sector and 21.84x for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.44x and as low as 5.63x, with a 5-year median of 11.17x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 11.56x forward earnings.

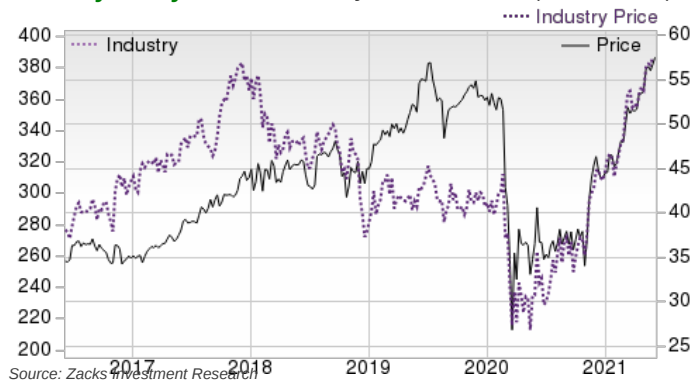
The table below shows summary valuation data for AFL

Valuation Multiples - AFL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.05	10.9	16.77	21.84
	5-Year High	13.44	13.13	17.24	23.83
	5-Year Low	5.63	6.71	11.6	15.31
	5-Year Median	11.17	10.41	14.94	18.05
P/S F12M	Current	1.82	1.52	8.55	4.72
	5-Year High	1.94	1.54	8.55	4.74
	5-Year Low	0.84	0.91	5.08	3.21
	5-Year Median	1.52	1.34	6.21	3.72
P/B TTM	Current	1.22	1.1	3.41	7.03
	5-Year High	1.63	1.6	3.41	7.03
	5-Year Low	0.64	0.58	1.77	3.84
	5-Year Median	1.39	1.28	2.64	5.02

As of 06/07/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 9% (228 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
American International Group, Inc. (AIG)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
Chubb Limited (CB)	Neutral	3
The Hartford Financial Services Group, Inc. (HIG)	Neutral	3
MetLife, Inc. (MET)	Neutral	3
The Progressive Corporation (PGR)	Neutral	3
The Travelers Companies, Inc. (TRV)	Neutral	3
CNA Financial Corporation (CNA)	Underperform	4

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

Industry Comparison Industry: Insurance - Accident And Health				Industry Peers		
	AFL	X Industry	S&P 500	AIG	CB	CNA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	D	B	A
Market Cap	39.01 B	1.22 B	30.32 B	45.54 B	76.20 B	12.90 B
# of Analysts	6	3	12	6	6	2
Dividend Yield	2.30%	1.16%	1.29%	2.41%	1.84%	3.20%
Value Score	A	-	-	C	A	A
Cash/Price	0.13	0.11	0.06	0.48	0.07	0.15
EV/EBITDA	7.50	7.11	17.33	-34.65	16.03	14.69
PEG F1	3.18	2.11	2.13	1.19	1.48	2.41
P/B	1.22	1.01	4.17	0.73	1.29	1.07
P/CF	8.46	10.15	17.93	7.20	19.27	17.70
P/E F1	10.91	15.64	21.52	11.85	14.85	12.05
P/S TTM	1.71	1.71	3.52	1.04	1.98	1.13
Earnings Yield	9.11%	4.94%	4.55%	8.44%	6.73%	8.30%
Debt/Equity	0.25	0.00	0.66	0.57	0.25	0.23
Cash Flow (\$/share)	6.78	4.15	6.83	7.37	8.80	2.68
Growth Score	B	-	-	F	C	B
Historical EPS Growth (3-5 Years)	10.70%	5.98%	9.44%	6.92%	-5.06%	1.87%
Projected EPS Growth (F1/F0)	5.41%	-4.93%	21.30%	77.65%	56.13%	45.93%
Current Cash Flow Growth	3.70%	-7.12%	0.98%	-30.14%	-25.67%	-24.01%
Historical Cash Flow Growth (3-5 Years)	4.99%	4.92%	7.28%	-3.42%	2.33%	3.40%
Current Ratio	0.06	0.32	1.39	0.33	0.31	0.25
Debt/Capital	20.12%	0.00%	41.53%	35.93%	20.45%	18.68%
Net Margin	24.09%	16.72%	11.95%	-8.73%	14.51%	9.34%
Return on Equity	11.69%	8.98%	16.36%	4.75%	5.63%	7.35%
Sales/Assets	0.14	0.21	0.51	0.08	0.20	0.18
Projected Sales Growth (F1/F0)	-2.60%	-2.37%	9.30%	-5.02%	-1.27%	6.59%
Momentum Score	D	-	-	F	D	C
Daily Price Change	-0.16%	0.00%	-0.33%	-0.66%	-2.06%	-0.98%
1-Week Price Change	1.41%	-0.11%	0.58%	1.10%	1.78%	0.27%
4-Week Price Change	1.52%	2.77%	0.12%	2.21%	-2.52%	-1.53%
12-Week Price Change	10.07%	6.30%	6.91%	9.78%	-2.73%	2.59%
52-Week Price Change	36.32%	37.12%	29.97%	34.56%	20.43%	34.48%
20-Day Average Volume (Shares)	2,885,980	174,003	1,799,698	3,797,838	2,344,387	142,861
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.19%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.16%	0.00%	0.01%	-0.07%	0.00%	-0.25%
EPS F1 Estimate 12-Week Change	5.91%	2.64%	3.36%	-0.19%	-1.95%	-6.19%
EPS Q1 Estimate Monthly Change	0.32%	0.00%	0.00%	-1.01%	0.00%	-1.35%

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	A
Growth Score	B
Momentum Score	D
VGM Score	A

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.