

## American International (AIG)

**\$38.48** (As of 01/28/21)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

### Summary

Shares of AIG have underperformed its industry in six months' time. The company's several cost-cutting efforts led to operational efficiency, thereby supporting its margins. Divestitures made over the years have streamlined the company's business. A number of acquisitions made in recent years drove inorganic growth. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 1.2% upward over the past 30 days. But its revenues have been under pressure since the past several years. The top line is likely to remain pressed under the COVID-led crisis in business and economic environment. A low interest rate is another headwind. A high-debt position along with weak return on equity makes the company unattractive for investors. Its exposure to catastrophe loss also induces volatility to its earnings.

### Data Overview

52-Week High-Low	<b>\$56.42 - \$16.07</b>
20-Day Average Volume (Shares)	<b>4,532,412</b>
Market Cap	<b>\$32.4 B</b>
Year-To-Date Price Change	<b>-0.7%</b>
Beta	<b>1.36</b>
Dividend / Dividend Yield	<b>\$1.28 / 3.3%</b>
Industry	<b>Insurance - Multi line</b>
Zacks Industry Rank	<b>Top 48% (121 out of 253)</b>

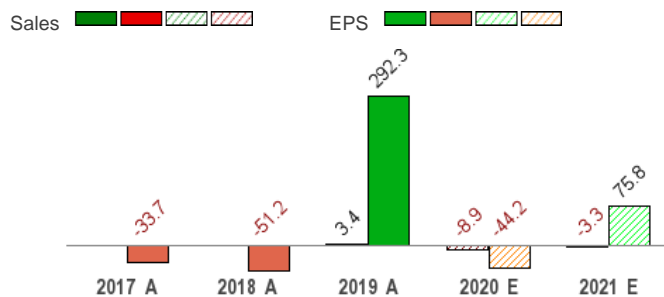
Last EPS Surprise	<b>30.7%</b>
Last Sales Surprise	<b>-1.1%</b>
EPS F1 Estimate 4-Week Change	<b>0.3%</b>
Expected Report Date	<b>02/11/2021</b>
Earnings ESP	<b>0.9%</b>

P/E TTM	<b>14.4</b>
P/E F1	<b>8.6</b>
PEG F1	<b>0.8</b>
P/S TTM	<b>0.7</b>

### Price, Consensus & Surprise



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



### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,784 E	10,753 E	10,822 E	10,893 E	43,252 E
2020	11,265 A	11,728 A	11,343 A	11,038 E	44,745 E
2019	12,902 A	12,157 A	11,985 A	12,070 A	49,114 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.12 E	\$1.14 E	\$1.04 E	\$1.11 E	\$4.50 E
2020	\$0.11 A	\$0.66 A	\$0.81 A	\$0.98 E	\$2.56 E
2019	\$1.58 A	\$1.43 A	\$0.56 A	\$1.03 A	\$4.59 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 01/28/2021. The reports text is as of 01/29/2021.

## Overview

American International Group is a leading global insurance organization. Building on its long history, it provides a wide range of property casualty insurance, life insurance, retirement solutions, and other financial services to customers in more than 80 countries and jurisdictions.

These diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange.

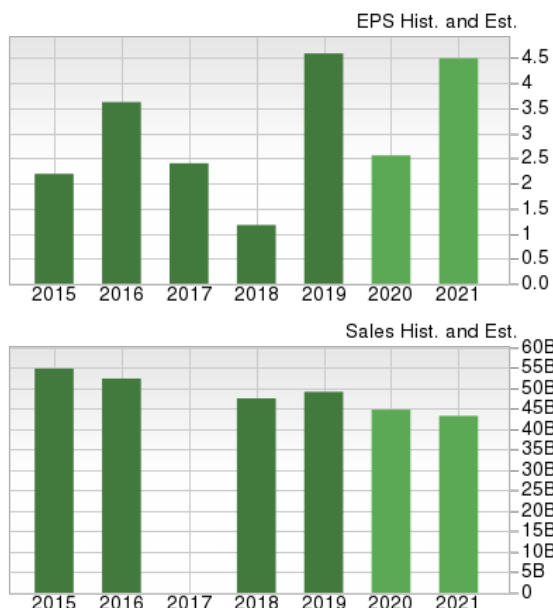
AIG is reporting its core insurance operations under four segments:

**General Insurance** (64% of adjusted revenues in 2019) provides insurance products and services for commercial and personal insurance customers, through a diversified, multichannel distribution network. It includes the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa. (National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); AIG General Insurance Company, Ltd. (AIG Sonpo); AIG Asia Pacific Insurance, Pte. Ltd.; AIG Europe S.A.; American International Group UK Ltd.; Validus Reinsurance, Ltd.; Talbot Holdings Ltd.; Western World Insurance Group, Inc. and Glatfelter Insurance Group (Glatfelter).

**Life and Retirement** (33%) consist of a broad portfolio of life insurance, retirement and institutional products offered through an extensive, multichannel distribution network. It includes the following major operating companies: American General Life Insurance Company (American General Life); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life); Laya Healthcare Limited and AIG Life Limited.

**Other Operations** (3%) it includes AIG Parent; Blackboard; deferred tax assets related to tax attributes; corporate expenses and intercompany eliminations.

Legacy Portfolio includes Legacy General Insurance Run-Off Lines, Legacy Life and Retirement Run-Off Lines and Legacy Investments. Effective in 2018, the company's newly formed Bermuda domiciled composite reinsurer, DSA Reinsurance Company, Ltd. (DSA Re) will be part of the Legacy Portfolio.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Share Price Performance:** The company's shares have outperformed its industry. However, the shares are likely to gain in the coming quarters driven by the company's strategic growth initiatives. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 2% upward over the last 30 days.

▲ **Divestitures:** Over the years, AIG has been streamlining its core insurance operations and restructuring businesses by axing operations, thereby enhancing capital allocation and operating leverage. Since 2008, the company has executed over 50 asset sales and divestitures, resulting in proceeds in excess of \$100 billion. These divestitures were made to generate proceeds for repaying the bailout funds to the U.S. government, simplify the company which had huge unrelated operations creating very little synergistic benefits, focus on core operations generating higher return on equity, and use funds for share buyback. Recently, the company completed the divestiture of a majority stake in its legacy specialist run-off company, Fortitude RE. The sale of Fortitude Re improved AIG's risk profile and reduced its exposure to long-tail runoff liabilities and a related interest rate risk.

The company is also in the process of separating its Life and Retirement business through either an IPO or a private sale of up to 19.9% of the said business. Divesting these businesses will allow the company to streamline operations and focus on high growth areas which is General Insurance.

▲ **Acquisitions:** AIG has acquired Ellipse, a specialist provider of group life risk protection in the UK, from Munich Re. The transaction strengthens AIG's position in Life & Retirement businesses. The buyout of Validus Holdings, Ltd. and Glatfelter Insurance Group, also strengthened its global General Insurance business. The company's CEO, Brian Duperreault, has made a significant shift in its capital utilization and now expects to utilize capital for possible buyouts in the international markets, boosting the company's personal and life lines segments plus investing in the domestic middle market as opposed to its hitherto usage of capital resource for share repurchases. This strategy should lead to long-term growth via business expansion.

▲ **Cost Control Efforts:** The company undertook a transformative program named AIG 200, which is a global, multi-year initiative to achieve transformational change and \$1 billion of GOE savings. This initiative, costing the company \$1.3 billion, is aimed at organizational simplification, operational efficiency and business rationalization. The company remains on track to achieve \$300 million in exit run rate savings for 2020 and \$1 billion in overall run rate savings by the end of 2022. We believe, the company's initiatives will result in operational efficiency and therefore will provide an extra cushion to its operating margins.

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Strategic business de-risking and acquisitions, cost control efforts, accelerated capital deployment will drive growth.

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## Reasons To Sell:

- ▼ **Revenues Under Pressure:** The company's revenues has been under pressure since past several years. The same was down 8.3% year over year in the first nine months of 2020. We believe, the top line will remain stressed due to COVID-19-led uncertainty in the business and economic environment. The company also withdrew its previously-issued guidance including the one related to adjusted return on equity.
- ▼ **Low Interest Rates a Headwind:** Net investment income declined 12.3% year over year in the first nine months of 2020. Given that the interest rates are expected to remain at low levels for now, we expect investment income to remain under pressure. The low interest rate environment affects sales of interest rate sensitive products, such as annuities. Additionally, persistently low interest rates may result in higher pension expense due to the impact of discounting projected benefit cash flows.
- ▼ **Exposure to Catastrophe Loss:** The company's property and casualty business exposes it to weather-related losses. It has been incurring catastrophe losses over the years that have weighed on its underwriting margins. In the first nine months of 2020, the company incurred \$1.9 billion of catastrophe loss huge catastrophe loss which also included COVID-19 losses which weighed on its operating margins. Given its exposure to weather related losses, the company's earnings will continue to suffer.
- ▼ **Solvency Position:** As of Sep 30, 2020, AIG had total debt of \$28.7 billion and cash balance of \$3.2 billion. Further, debt-to-equity ratio of 59.6 is higher than the industry's average of 40.3. Its time-interest-earned ratio is very low compared with the industry. Also given the difficult operating condition weighing on the company, its high level of debt compared to liquidity position might make it difficult to service its debt.
- ▼ **Low Return on Equity (ROE):** The company's ROE of 3.6% declined 55 basis points year over year and is lower than the industry average of 7.5%. This reflects the company's relative inefficiency in utilizing shareholders funds.

Weak revenues, exposure to catastrophe losses and weak solvency position pose risks.

## Last Earnings Report

### AIG Beats Q3 Earnings Estimates

American International Group Inc.'s third-quarter 2020 adjusted operating earnings of 81 cents per share outpaced the Zacks Consensus Estimate by 30.7%.

The bottom line also improved 44.6% year over year, primarily driven by premium rate hikes, and underwriting and reinsurance actions implemented to enhance business mix across the company's Commercial Lines business. Reduced costs have also benefited the results, which were partially offset by catastrophe losses and lower revenues.

Total revenues of \$11.3 billion declined 5.4% year over year. The top line also missed the Zacks Consensus Estimate by 1.1% due to reduced premiums and dip in policy fees.

Total net investment income of \$3.8 billion improved 11.5% year over year.

Total benefit, losses and expenses of \$9.9 billion declined 15.5% year over year due to lower policyholder benefits and losses incurred, interest credited to policyholder account balances, amortization of deferred policy acquisition costs, and general operating and other expenses.

The company incurred catastrophe losses, net of reinsurance of \$790 million, which surged 59% year over year. The reported quarter's catastrophe losses have stemmed primarily from \$605 million related to several weather-related events and \$185 million of estimated COVID-19 losses.

Adjusted return on equity was 5.8% compared with 4.1% in the year-ago quarter.

As of Sep 30, 2020, the insurer's adjusted book value per share was \$56.78, up 1.4% year over year.

### Segmental Update

#### General Insurance

Net premiums written of \$5.9 billion were down 11% year over year due to lower premiums in the company's North America and International businesses.

The segment reported an underwriting loss of \$423 million, wider than the prior-year quarter's loss of \$249 million. Combined ratio of 107.2 deteriorated 350 basis points (bps) due to intensified catastrophe losses.

#### Life and Retirement

Premium and fees declined 9% year over year to \$1.4 billion, due to weaker contribution from Life Insurance, partly offset by higher contribution from Individual Retirement, Group Retirement and Institutional Markets sub-segments.

The segment reported adjusted pre-tax income of \$975 million, which surged 51% year over year courtesy of robust contribution from Individual Retirement, Group Retirement, Life Insurance and Institutional Markets sub-segments.

Notably, the company disclosed its intention to separate the Life & Retirement business from AIG last month.

### Financial Position

AIG exited the third quarter with cash of \$3.2 billion, up 11.7% from 2019 end.

As of Sep 30, 2020, the company had long-term debt of \$28.7 billion, up 12.8% from 2019-end level.

Total assets of \$577.2 billion increased 9.9% from the level at 2019 end.

Shareholder equity was \$64.1 billion, down 2.4% from 2019-end level.

### Dividend Update

Concurrent with third-quarter earnings release, AIG's board of directors announced quarterly cash dividend of 32 cents per share. The dividend will be paid on Dec 28, 2020 to shareholders of record as on Dec 14.

Quarter Ending 09/2020

Report Date	Nov 05, 2020
Sales Surprise	-1.12%
EPS Surprise	30.65%
Quarterly EPS	0.81
Annual EPS (TTM)	2.61

## Recent News

### AIG's Unit Unveils Solution for Better Retirement Plan Outcomes - Dec 9, 2020

The company's unit, AIG Retirement Services, recently rolled out an inclusive solution named Total Retirement Services. The unit has worked closely with Findley, which is part of USI Insurance Services, for launching this solution.

The newly unveiled solution facilitates hassle-free integration of both defined contribution (DC) and defined benefit (DB) plans integrated into a single solution for benefiting retirement plan participants.

### AM Best Comments on Credit Ratings of American International Group - Oct 27, 2020

A M Best has commented that the Long-Term Issuer Credit Rating (Long-Term ICR) of bbb of American International Group, Inc. remains unchanged following its announcement to pursue a separation of its life and retirement business. AM Best also has commented that the Financial Strength Rating (FSR) of A (Excellent) and the Long-Term ICRs of a of AIG's property/casualty insurance subsidiaries remain unchanged. Concurrently, AM Best has commented that the FSR of A (Excellent) and the Long-Term ICR of a for the members of the AIG Life & Retirement Group (AIG L&R) also remain unchanged. The outlook of these Credit Ratings (ratings) is stable.

## Valuation

American International Group's shares are up 21.1% in the six month but down 25% and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 23.9% and 18.4% in the six month period, respectively. Over the past year, the Zacks sub-industry and the sector are down 6.2% and 2.6%, respectively.

The S&P 500 index is up 16.7% in six month period and up 16.2% in the past year.

The stock is currently trading at 0.51x trailing 12-month book value, which compares to 1.27x for the Zacks sub-industry, 2.84x for the Zacks sector and 6.46x for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.9x and as low as 0.24x, with a 5-year median of 0.73x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41 price target reflects 0.54x book value.

The table below shows summary valuation data for AIG

Valuation Multiples - AIG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.51	1.27	2.84	6.46
	5-Year High	0.9	1.98	2.98	6.64
	5-Year Low	0.24	0.85	1.74	3.73
	5-Year Median	0.73	1.48	2.59	4.95
P/S F12M	Current	0.76	0.91	7.13	4.44
	5-Year High	1.6	1.74	7.13	4.44
	5-Year Low	0.33	0.74	5.02	3.2
	5-Year Median	0.99	1.23	6.12	3.67
P/E F12M	Current	8.47	9.16	16.15	22.46
	5-Year High	21.72	12.61	17.13	23.8
	5-Year Low	4.06	6.62	11.59	15.3
	5-Year Median	10.49	9.67	14.52	17.82

As of 28/01/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 48% (121 out of 253)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Aegon NV (AEG)	Neutral	3
Ageas SA (AGESY)	Neutral	2
The Hartford Financial Services Group, Inc. (HIG)	Neutral	3
MetLife, Inc. (MET)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
Swiss Re Ltd. (SSREY)	Neutral	3
Zurich Insurance Group Ltd. (ZURVY)	Neutral	3
Assurant, Inc. (AIZ)	Underperform	5

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	AIG	X Industry	S&P 500	AIZ	PRU	SSREY
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	A	-	-	B	C	C
Market Cap	32.39 B	4.46 B	26.55 B	7.69 B	31.38 B	28.64 B
# of Analysts	6	3	13	2	3	2
Dividend Yield	3.40%	1.95%	1.45%	2.02%	5.55%	5.47%
Value Score	A	-	-	B	A	B
Cash/Price	0.85	0.26	0.06	0.31	1.67	0.44
EV/EBITDA	3.64	4.86	14.63	9.53	-0.42	NA
PEG F1	0.78	1.46	2.53	NA	1.65	NA
P/B	0.51	0.97	3.85	1.29	0.47	0.99
P/CF	3.68	9.11	14.48	12.56	6.15	24.44
P/E F1	8.57	9.48	20.44	12.39	6.64	11.71
P/S TTM	0.71	0.95	2.92	0.76	0.55	NA
Earnings Yield	11.94%	10.26%	4.80%	8.07%	15.06%	8.51%
Debt/Equity	0.60	0.27	0.69	0.34	0.30	0.37
Cash Flow (\$/share)	10.45	3.42	6.90	10.63	13.20	0.93
Growth Score	B	-	-	C	D	D
Historical EPS Growth (3-5 Years)	7.42%	6.94%	9.69%	14.84%	4.45%	NA
Projected EPS Growth (F1/F0)	75.81%	19.21%	12.69%	18.93%	21.48%	505.26%
Current Cash Flow Growth	41.46%	6.34%	4.97%	55.15%	2.41%	68.22%
Historical Cash Flow Growth (3-5 Years)	-3.88%	1.69%	8.07%	2.39%	1.57%	-20.40%
Current Ratio	0.33	0.49	1.38	0.42	0.12	0.31
Debt/Capital	37.18%	21.49%	41.88%	25.27%	23.17%	26.82%
Net Margin	-10.82%	6.37%	10.47%	4.24%	-0.12%	NA
Return on Equity	3.62%	7.96%	15.37%	9.86%	6.06%	NA
Sales/Assets	0.08	0.20	0.50	0.23	0.06	NA
Projected Sales Growth (F1/F0)	-3.34%	4.98%	6.10%	6.47%	4.52%	0.03%
Momentum Score	A	-	-	B	B	F
Daily Price Change	2.34%	0.27%	-2.74%	2.07%	2.46%	1.24%
1-Week Price Change	-3.07%	-1.44%	-0.02%	-3.76%	-1.18%	-2.32%
4-Week Price Change	1.64%	0.00%	-0.38%	-2.00%	4.00%	-3.63%
12-Week Price Change	15.11%	15.18%	9.81%	4.82%	24.20%	15.48%
52-Week Price Change	-24.99%	-7.33%	6.94%	1.51%	-12.80%	-19.70%
20-Day Average Volume (Shares)	4,532,412	140,607	1,872,056	296,057	1,681,082	36,469
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.26%	0.22%	0.22%	-0.71%	1.51%	0.00%
EPS F1 Estimate 12-Week Change	2.55%	3.37%	1.79%	-2.04%	1.73%	-6.33%
EPS Q1 Estimate Monthly Change	3.88%	0.00%	0.00%	-0.72%	0.71%	NA

Source: Zacks Investment Research

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## 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.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

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

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## Disclosures

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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