

Cogent Communications (CCOI)

\$68.51 (As of 09/01/20)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/11/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Cogent is well poised to benefit from its On-Network segment as it generates significant revenues and serves a range of net-centric customers in various regions. The company primarily benefits from its cost-effective operations, backed by efficient network expansion and pricing flexibility. Low-churn corporate customers help generate positive cash flow with accretive customer connections. High-speed bandwidth and dedicated Internet access supported by local provisioning teams help Cogent clinch maximum reliability. However, radical technological changes and patent infringement lead to multiple disruptions. Foreign exchange woes and severe competition from Internet Service Providers are primary headwinds for Cogent's business operations. Dependency on a single network vendor increases operating risks and makes it susceptible to service outages.

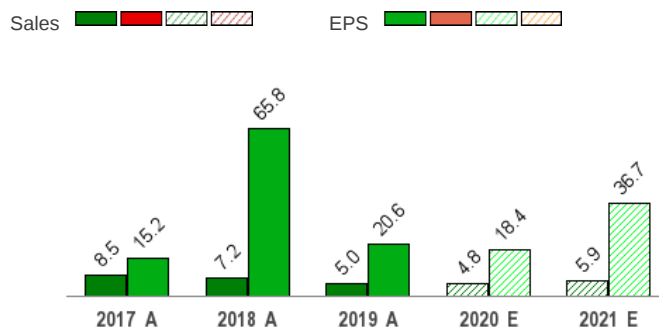
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$92.43 - \$53.24
20-Day Average Volume (Shares)	517,811
Market Cap	\$3.2 B
Year-To-Date Price Change	4.1%
Beta	0.05
Dividend / Dividend Yield	\$2.82 / 4.1%
Industry	Wireless National
Zacks Industry Rank	Bottom 29% (179 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-21.7%
Last Sales Surprise	-1.7%
EPS F1 Estimate 4-Week Change	-9.9%
Expected Report Date	11/05/2020
Earnings ESP	-4.4%

P/E TTM	73.7
P/E F1	76.1
PEG F1	7.2
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	149 E	151 E	153 E	155 E	606 E
2020	141 A	141 A	143 E	147 E	572 E
2019	134 A	135 A	137 A	140 A	546 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.32 E	\$0.35 E	\$0.39 E	\$1.23 E
2020	\$0.20 A	\$0.18 A	\$0.24 E	\$0.28 E	\$0.90 E
2019	\$0.20 A	\$0.16 A	\$0.30 A	\$0.25 A	\$0.76 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 09/01/2020. The reports text is as of 09/02/2020.

Overview

Founded in 1999 and based in Washington, DC, Cogent Communications Holdings Inc. is a Tier 1 Internet Service Provider (ISP) that offers low-cost high-speed Internet access, private network services and colocation center services with ultra-low latency data transmission. The company provides its services to more than 204 major markets and interconnect with more than 6,840 other networks, spanning across North America, Europe Asia, Latin America and Australia. It addresses the dynamic needs of various small and medium-sized businesses, ISPs and other bandwidth-intensive organizations with the help of efficient network expansion and integration execution.

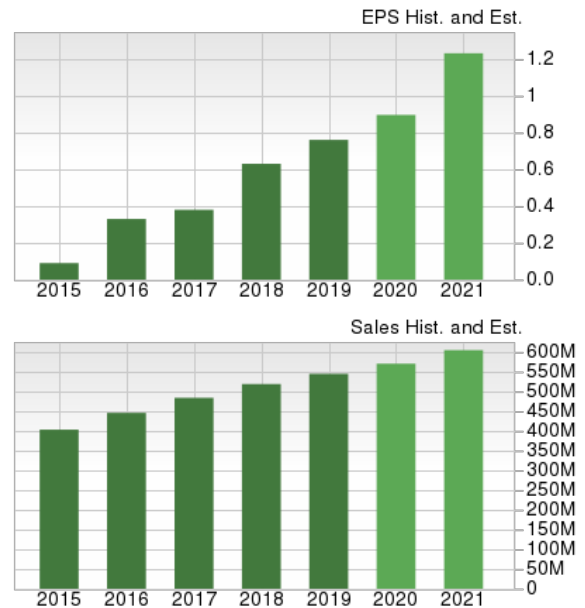
Cogent's network comprises metropolitan optical networks, in-building riser facilities, inter-city transport facilities and metropolitan traffic aggregation points. It transmits low cost packet switched traffic over a reliable and secure network compared with traditional circuit-switched telephone networks. Its network infrastructure encompasses 1,735 multi-tenant office buildings, 889 carrier-neutral Internet aggregation facilities and single-tenant buildings, 804 intra-city networks consisting of 32,946 fiber miles and an inter-city network of 57,426 fiber route miles.

By type of network service, Cogent generates significant revenues from two types of Internet access services — On-Net services and Off-Net services.

On-Net services (73.7% of total service revenues in second-quarter

2020): On-Net services are provided to corporate and net-centric customers located in buildings that are physically connected to its network by Cogent facilities. Corporate customers include financial services, law firms, advertising and marketing and other professional services businesses. Net-centric customers include telephone firms, cable television, ISPs and commercial content and application service providers.

Off-Net services (26.3%): Off-Net services are provided to customers located in buildings that are connected to Cogent's network using other carriers' facilities and services by means of "last mile" or local access service lines from the customers' premises. These services are delivered to small and medium-sized corporate customers in more than 6,650 off-net buildings with major presence in the metropolitan markets of North America and Europe.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Being the leading provider of high-speed Internet access, Cogent benefits from cost-effective operations. The company offers a streamlined set of products, which help in eliminating redundant costs and give greater pricing flexibility. It incurs relatively lower costs compared with competitors owing to the usage of Internet routers without additional legacy equipment. Backed by efficient network expansion and integration execution, it also offers high-quality Internet service due to the highly economical metro and intercity network infrastructure. Its seamless network delivers high throughput, which reduces the frequency of data packets dropped during transmission compared with traditional circuit-switched networks, thereby creating a more reliable and robust network infrastructure.
- ▲ Operating as one of the most interconnected Tier 1 networks in the world, Cogent provides efficient on-network and off-network connectivity solutions to various Enterprise segments, including financial companies, educational institutions and law firms at affordable costs. The company offers state-of-the-art colocation data center services that provide incessant power supply and backup generators, making it ideal for disaster recovery and data backup. Its data centers are popularly known for providing a conducive environment for coherent connectivity, security, availability and performance to its end customers. High-speed bandwidth and dedicated Internet access remain the highest priority backed by a team of committed customer support and local provisioning teams to clinch maximum reliability.
- ▲ Cogent has a high traffic network footprint across major multi-tenant office buildings in North American cities and carrier neutral colocation centers in North America and Europe, delivering high levels of Internet traffic. Its pervasive and interconnected network gives a competitive edge over its rivals, which helps in augmenting its revenue opportunities and margins. Its end-to-end optical transport network and advanced routing technology provide reliable and scalable network services and connect Cogent's significant markets throughout North America, Europe and Asia. Moreover, its augmented geographical footprint also accelerates acquisition opportunities, thereby increasing its customer base. This, in turn, offers high-quality, low-churn corporate customers, which ultimately aids in generating positive cash flow with proliferating customer connections.
- ▲ As of Jun 30, 2020, the company had \$417 million in cash and cash equivalents with finance lease liabilities of \$189 million. This means that Cogent is likely to pay off its short-term financial obligations in the near term. Despite a debt-to-capital ratio of 1.3 compared with 0.5 of the sub-industry, Cogent's times interest earned has improved steadily in the past few quarters to 1.9. This indicates that the company is more likely to clear its debt obligations in the near term. Its dividend payout rate has increased to 279.6% compared with 276.9% in the prior quarter. This suggests that the company is paying more to its shareholders than earnings which might hamper Cogent's dividend sustainability in the future.

Cogent's cost-effective operations, enhanced data centers and augmented network infrastructure make it poised to generate higher revenues for long-term growth.

Reasons To Sell:

- ▼ Cogent offers its services in a highly competitive environment, wherein it requires to establish and maintain profitable relationships with other companies. These include customers who connect their network by buying Internet access from the company or major ISPs with whom it works on a settlement-free peering basis. This, in turn, stresses its margins as the company has to incur high operating costs in order to maintain its network infrastructure. Moreover, the need to maintain accretive customer base is also dependent on a number of factors like pricing of product offerings, sales and marketing and turnover generated from customer connections. Hence, in order to generate maximum revenues, Cogent is not only incumbent to augment its customer base but also increase its networking capacity, which could otherwise impair its growth, cash flow and profitability in the days to come.
- ▼ Cogent's network infrastructure equipment is significantly manufactured and provided by a single network infrastructure vendor — Cisco. This increases operating risks and makes it susceptible to service outages. Also, migrating from Cisco to any other vendor would be perilous as it involves a lot of time and effort to install and operate new vendor's equipment. This, in turn, amplifies the costs and reduces the operational efficacy, thereby hampering its overall financial condition. Further, due to the prevailing cases of technological changes and patent infringement in the communications industry, Cogent experiences multiple disruptions, thereby often failing to operate as a multi-vendor network.
- ▼ Due to its augmented network footprint in various regions, Cogent is susceptible to encounter numerous economic risks. As it primarily operates in North America and Europe, any economic downturn in these regions negatively hampers its growth. The company's business gets majorly affected due to decline in the development of new applications and businesses that make significant usage of its Internet services. Moreover, due to its international exposure, fluctuations in foreign exchange rates also hinder its financial position and operational activities. It is exposed to regulatory and legal requirements like import restrictions, tariffs, trade barriers, exchange controls, privacy and data protection and adverse tax regimes. Hence, Cogent remains under constant threat of currency fluctuations and exchange rate risk.

Complex peering relationships, intense competition and foreign exchange vulnerabilities have significantly weakened its competitive position in the global market.

Last Earnings Report

Cogent Misses Earnings & Revenue Estimates in Q2

Cogent reported unimpressive second-quarter 2020 results, with the top and the bottom line missing the respective Zacks Consensus Estimate.

Net Income

Net income in the June-end quarter was \$8.6 million or 18 cents per share compared with \$7.1 million or 16 cents per share in the year-ago quarter. The bottom line missed the Zacks Consensus Estimate by 5 cents.

Revenues

Quarterly service revenues increased 4.6% year over year to \$141 million. On a constant-currency basis, revenues increased 5.1% year over year. However, the top line lagged the consensus estimate of \$143 million.

On-net revenues increased to \$103.8 million from \$97.5 million in the year-ago quarter. On-net service is provided to customers located in buildings that are physically connected to Cogent's network by its facilities. The number of on-net buildings increased by 117 year over year to 2,854 as of Jun 30.

Off-net revenues slipped to \$37 million from \$37.2 million in the year-ago quarter. Off-net customers are located in buildings directly connected to the company's network using other carriers' facilities.

Other Details

Total operating expenses were \$113.6 million compared with \$113 million in the prior-year quarter. Operating income was \$27.6 million compared with \$22 million in the year-ago quarter. Adjusted EBITDA totaled \$53.6 million compared with \$47.3 million in the year-ago quarter for a margin of 38% and 35.1%, respectively.

Despite the COVID-19 pandemic, Cogent increased its dividend for the 32nd consecutive quarter. It hiked dividend by 2.5 cents per share to 70.5 cents for third-quarter 2020. The amount is payable on Sep 4 to shareholders on record as of Aug 21.

Cash Flow & Liquidity

In the first half of 2020, Cogent generated \$69.8 million of net cash from operating activities compared with \$69.3 million in the year-ago period. As of Jun 30, the company had \$417 million in cash and cash equivalents with \$189 million of finance lease obligations.

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	-1.66%
EPS Surprise	-21.74%
Quarterly EPS	0.18
Annual EPS (TTM)	0.93

Valuation

Cogent shares are up 16.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.9% over the past year, and stocks in the Zacks Computer and Technology sector are up 32.6% in the same period.

The S&P 500 Index is up 15.3% in the past year.

The stock is currently trading at 19.57X trailing 12-month EV/EBITDA, which compares to 6.31X for the Zacks sub-industry, 12.65X for the Zacks sector and 12.5X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.67X and as low as 12.21X, with a 5-year median of 15.81X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$72 price target reflects 13.21X forward 12-month sales.

The table below shows summary valuation data for CCOI

Valuation Multiples - CCOI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	19.57	6.31	12.65	12.5
	5-Year High	25.67	11.55	14.15	13.29
	5-Year Low	12.21	5.28	7.59	8.22
	5-Year Median	15.81	6.69	10.93	10.91
P/E F12M	Current	61.11	13.33	27.37	23.03
	5-Year High	117.92	15	27.37	23.03
	5-Year Low	44.91	10.1	16.72	15.25
	5-Year Median	62.7	12.24	19.7	17.6
P/S F12M	Current	5.45	1.66	4.34	3.93
	5-Year High	7.21	1.67	4.34	3.93
	5-Year Low	2.78	1.22	2.32	2.53
	5-Year Median	4.02	1.48	3.15	3.07

As of 09/01/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (179 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cambium Networks Corporation (CMBM)	Outperform	2
GCI Liberty, Inc. (GLIBA)	Outperform	2
ATN International, Inc. (ATNI)	Neutral	3
CenturyLink, Inc. (CTL)	Neutral	3
Gogo Inc. (GOGO)	Neutral	4
T-Mobile US, Inc. (TMUS)	Neutral	3
Telenav, Inc. (TNAV)	Neutral	3
United States Cellular Corporation (USM)	Neutral	3

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

Industry Comparison Industry: Wireless National				Industry Peers		
	CCOI	X Industry	S&P 500	ATNI	CMBM	GOGO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	4
VGM Score	C	-	-	A	A	D
Market Cap	3.24 B	626.92 M	23.95 B	913.87 M	363.98 M	626.92 M
# of Analysts	5	5	14	2	4	4
Dividend Yield	4.12%	0.00%	1.61%	1.19%	0.00%	0.00%
Value Score	D	-	-	C	C	D
Cash/Price	0.13	0.13	0.07	0.13	0.11	0.37
EV/EBITDA	20.52	8.85	13.32	8.85	46.01	13.43
PEG F1	7.19	4.30	3.05	NA	1.36	NA
P/B	NA	1.39	3.21	1.15	8.31	NA
P/CF	27.69	9.93	12.92	10.03	85.13	16.84
P/E F1	76.38	23.47	21.84	176.09	27.12	NA
P/S TTM	5.79	1.07	2.52	2.04	1.44	0.89
Earnings Yield	1.31%	1.79%	4.39%	0.56%	3.67%	-51.15%
Debt/Equity	-4.76	0.43	0.70	0.17	1.22	-2.11
Cash Flow (\$/share)	2.47	2.47	6.93	5.70	0.17	0.44
Growth Score	A	-	-	B	A	B
Historical EPS Growth (3-5 Years)	58.01%	6.43%	10.41%	-32.91%	NA	NA
Projected EPS Growth (F1/F0)	17.89%	-5.50%	-4.75%	395.45%	11.17%	-108.29%
Current Cash Flow Growth	3.99%	1.62%	5.22%	-14.75%	-47.20%	299.85%
Historical Cash Flow Growth (3-5 Years)	9.91%	4.16%	8.49%	-2.08%	NA	33.75%
Current Ratio	4.97	1.34	1.35	2.06	1.92	1.34
Debt/Capital	NA%	44.22%	42.92%	14.32%	55.04%	NA
Net Margin	6.97%	4.48%	10.25%	-1.04%	1.34%	-30.70%
Return on Equity	-20.17%	8.21%	14.66%	0.52%	16.65%	NA
Sales/Assets	0.59	0.48	0.50	0.40	1.47	0.59
Projected Sales Growth (F1/F0)	4.71%	0.00%	-1.40%	2.28%	-4.01%	-35.24%
Momentum Score	F	-	-	A	B	D
Daily Price Change	1.86%	-0.19%	0.29%	-1.33%	8.58%	43.38%
1-Week Price Change	0.33%	1.09%	2.59%	2.06%	-8.03%	42.45%
4-Week Price Change	-22.17%	0.00%	3.53%	0.53%	14.37%	118.69%
12-Week Price Change	-11.26%	-2.00%	2.09%	-12.56%	155.32%	134.71%
52-Week Price Change	16.40%	-4.25%	4.31%	0.62%	61.39%	75.89%
20-Day Average Volume (Shares)	517,811	225,255	1,816,754	27,905	134,058	6,944,078
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-9.89%	15.89%	0.20%	564.29%	145.95%	-27.43%
EPS F1 Estimate 12-Week Change	-9.36%	11.64%	3.86%	370.83%	6,166.67%	-31.80%
EPS Q1 Estimate Monthly Change	-12.71%	0.00%	0.00%	0.00%	86.67%	-21.64%

Source: Zacks Investment Research

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	D
Growth Score	A
Momentum Score	F
VGM Score	C

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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