

Cigna Corp. (CI)

\$212.65 (As of 12/10/20)

Price Target (6-12 Months): **\$223.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: B

Momentum: D

Summary

Cigna's acquisition of Express Scripts bodes well for the long haul. The company is divesting its Group Life and Disability insurance business, which will reduce its debt level and streamline operations. Its expanding international business provides diversification. Shares have outperformed the industry year to date. Operating profitability achieved by controlled medical care cost and other operating costs has been aiding bottom line. Retaining its earnings guidance despite the COVID-19-led uncertainty boosts investor confidence. Increasing membership is another positive. Its strong capital position leads to investment in business. A strong capital position leads to investment in business. However, higher leverage is a woe. Rising operating expenses might dent margins too.

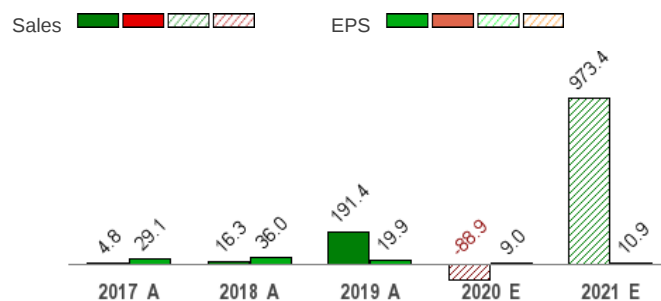
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$224.96 - \$118.50
20-Day Average Volume (Shares)	1,629,001
Market Cap	\$76.8 B
Year-To-Date Price Change	4.0%
Beta	0.86
Dividend / Dividend Yield	\$0.04 / 0.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 35% (166 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	4.3%
EPS F1 Estimate 4-Week Change	-0.1%
Expected Report Date	02/04/2021
Earnings ESP	0.7%
P/E TTM	11.1
P/E F1	11.5
PEG F1	0.9
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	41,490 E	41,391 E	42,179 E	42,237 E	166,371 E
2020	38,392 A	39,205 A	40,801 A	40,023 E	15,500 E
2019	33,429 A	34,375 A	35,833 A	36,538 A	140,175 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.31 E	\$5.21 E	\$5.38 E	\$4.87 E	\$20.61 E
2020	\$4.69 A	\$5.81 A	\$4.41 A	\$3.69 E	\$18.59 E
2019	\$3.90 A	\$4.30 A	\$4.54 A	\$4.31 A	\$17.05 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 12/10/2020. The reports text is as of 12/11/2020.

Overview

Headquartered in Bloomfield, CT and formed in 1982, Cigna Corp. is the result of a merger between Connecticut General Life Insurance Company (CG) and Insurance Company of North America (INA).

On Dec 20, 2018, Cigna completed its combination with Express Scripts Holding Company. Shares of the new combined Cigna ("New Cigna") have started trading on the NYSE under the stock ticker symbol "CI."

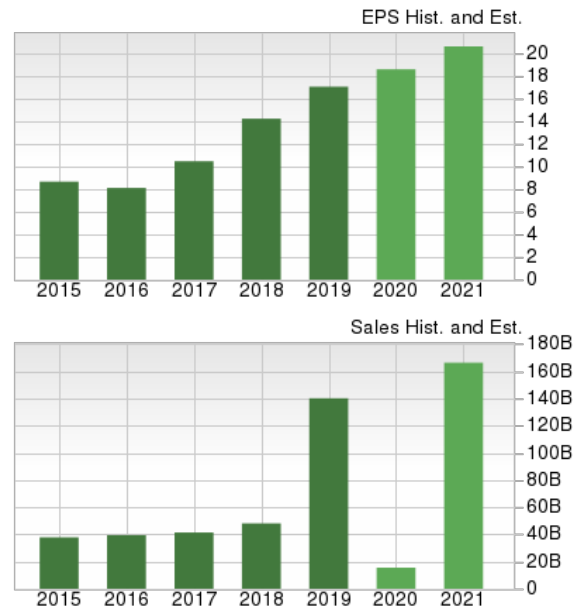
With its reporting for third quarter 2020, the company updated its segment names to align with the launch of Evernorth and to better reflect a suite of services offered across its portfolio.

The segment previously reported as Health Services is now reported as Evernorth and the segment previously reported as Integrated Medical is now reported as U.S. Medical. There are no changes to the underlying businesses reported in either segment.

Evernorth includes a broad range of coordinated and point solution health services, including pharmacy services, benefits management, care solutions and data and analytics, which are provided to health plans, employers, government organizations, and health care providers.

U.S. Medical offers a variety of health care solutions to employers and individuals. Its sub-segment, the U.S. Commercial operating segment serves employers and their employees and other groups. This segment's products and services include medical, pharmacy, dental, behavioral health, vision, health advocacy programs and other products and services. Another sub-segment, the U.S. Government operating segment offers Medicare Advantage, Medicare Supplement and Medicare Part D plans for seniors (including the acquired Express Scripts' Medicare Part D business), Medicaid plans, and individual health insurance plans both on and off the public exchanges.

International Markets includes supplemental health, life and accident insurance products and health care coverage in the company's international markets, as well as health care benefits to globally mobile employees of multinational organization



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Acquisition of Express Scripts:** Cigna has acquired the largest pharmacy benefit manager Express Scripts holding for \$67 billion, including \$15 billion in debt. The merged company is now a one-stop shop for customers' healthcare needs, ranging from sale of drugs to insurance cover. It would benefit consumers by bringing together medical care and pharmacy benefits under one roof to improve treatments and lower costs. The combined company will be able to rise in rank in the health insurance industry, strengthening its competitive position. The company remains on track to complete the integration of Cigna and Express Scripts by the end of this year (2020). Cigna expects the deal to increase earnings per share from \$18 to the range of \$20-\$21 in 2021. The combined company will generate free cash flow of at least \$6 billion in 2021.
- ▲ **Other Acquisitions:** The company, in the first quarter of 2019, acquired OnePath Life Insurance from ANZ Bank in New Zealand. This acquisition will enable the company to delve deeper into an existing geography, with an expanded set of solutions and capabilities to create more value for its customers and exemplify its continued focus on effective capital deployment and drive long-term growth. This will also expand its international operations, which have been increasing revenues over the years.
- ▲ **Increasing Top Line:** The company's revenues have been increasing consistently since the last several years. The same was up 14.4% in the first six months of 2020 owing to the acquisition of Express Scripts. The consistent top-line growth has been driven by a number of acquisitions, the company's superior operating performance plus provision of quality products and services. For 2020, the company expects consolidated adjusted revenues of approximately \$158 billion, representing growth of 53%.
- ▲ **Increasing Bottom Line:** Along with top-line growth, Cigna has been able to maintain bottom-line profitability, evident from annual earnings growth since 2009 (with the exceptional year being 2016 when earnings per share declined 6.4%). Its EPS has witnessed a CAGR of 17% from 2014-2019. This operating profitability has been maintained by control medical care cost and other operating costs. In the first six months of 2020, the company's bottom line grew 28% year over year. For 2020, consolidated adjusted earning per share is expected to be in the range of \$18.3 and \$18.6. This suggests growth in the range of 37.3% over 2019 baseline earnings.
- ▲ **Cigna to Divest Non-Health Unit:** The company has announced to sell its non-health insurance unit, Group Life and Disability insurance business to New York Life, America's largest mutual life insurer. The sale valued at \$6.3 billion is expected to fetch \$5.3 billion and is likely to close in the fourth quarter of 2020. This move is in-line with the company's efforts to reduce its debt level, which increased after the buyout of Express Scripts for \$54 billion, last year. The deal required Cigna to borrow funds. Part of the fund from sale proceeds will be used for buying back shares. The divestiture will have no material impact on Cigna 2020 earnings but will add slightly to 2021 earnings.
- ▲ **Growing Membership:** Cigna has been growing its membership for the past many quarters. We expect a rise in membership going forward, given Cigna's diversified product portfolio, a wide agent network and superior service, which should drive enrollment in Commercial market segments. In its Government business including Medicare Advantage, the company continues to drive both strong market and product expansion, as well as in-market growth. These initiatives puts it on track for customer growth in the targeted range of 10% to 15% in 2021.
- ▲ **Favorable Cash Flows:** The company has been generating positive cash flow from operations over the past several years. This reflects its healthy business operations. In the first six months of 2020, cash flow from operations increased 22% year over year to \$5.2 billion. Consistent cash flow generation enables the company to reinvest in its business, go for strategic merger and acquisition and return capital to its shareholders via dividend payments and share buybacks. For 2020, the company expects greater than \$8 billion of cash flow from operations, reflecting the strong capital efficiency of its well-performing businesses.
- ▲ **Share Price Performance:** Year to date, the stock has underperformed its industry. Its strong growth and solid fundamentals should further support its stock price.

Acquisition of Express Scripts, strong international operations, growing medical membership should drive growth at the company.

Reasons To Sell:

▼ **Increase in Operating Expenses:** Operating expenses increased 227% (more than the revenue growth of 216%) in 2019, driven by pharmacy and other service costs, incurred due to the acquisition of Express Scripts. Going further, we expect expenses to remain elevated as the company continues to invest in growth and innovation.

▼ **Increase in Medical Costs:** The company expects year-over-year headwinds from increased medical costs largely driven by the ongoing impact of COVID-19.

▼ **Increase in Leverage:** Post the buyout of Express Scripts, the company's leverage ratio shot up due to debt taken to finance the purchase. Through the end of the third quarter, the company deployed \$1.7 billion to debt repayment and its debt to capitalization ratio of 42.8% as of Sep 30th is improved from 43.5% as on Jun 30, 2020. This debt level is, however, higher than the industry average of 38.13%. Its times interest earned of 5.5x is lower than the industry average of 12.2x. The company expects to deploy \$4 billion to \$5 billion to return its debt to capitalization ratio below 40%. Though the company generates substantial and regular positive cash flows which will enable it to repay its debt obligation still a high leverage position makes us cautious.

▼ **Membership losses in Commercial Insurance:** The company expects some increase in commercial disenrollment due to continued dislocation in the broader labor market. As of Sep 30, 2020 covered lives in U.S. Commercial segment declined 2% year over year to 13.9 million.

Increase in expenses, high debt levels are some of the headwinds facing the company.

Last Earnings Report

Cigna Q3 Earnings & Revenues Beat Estimates, Grow Y/Y

Cigna Corp.'s third-quarter 2020 earnings of \$4.41 per share surpassed the Zacks Consensus Estimate by 3.7% and also grew 5.8% year over year.

Results reflected a strong fundamental performance across its businesses as well as the return of the medical utilization to more typical levels and the COVID-19 related impacts.

Cigna's revenues of \$40.8 billion beat the Zacks Consensus Estimate by 4.3% and also increased 13.9% year over year, driven by a higher contribution from its businesses led by its Evernorth segment.

The company saw a decline of 89000 customers from the prior-year quarter in its medical enrollment customers to 16.892 million customers, attributable to lower commercial members.

Selling, general and administrative expense ratio was 8.1, which improved 110 basis points year over year on significant growth in revenues and cost-control measures.

Strong Segmental Performances

Evernorth Health Services: During the quarter, the company rebranded its Health Services segment under Evernorth. The same includes pharmacy benefit manager Express Scripts, specialty pharmacy Accredo and eviCore healthcare, which provides utilization management services for health plans or employer groups and outpatient diagnostic imaging service programs.

Adjusted revenues of \$29.8 billion were up 19.9% year over year, driven by the insourcing of U.S. Medical pharmacy volumes and strong organic growth including growth in retail network and specialty pharmacy services.

Operating income of \$1.44 billion increased 3.1% year over year, reflecting customer growth, higher adjusted pharmacy scripts volumes, benefits from the effective management of the supply chain and a continued strong performance in specialty pharmacy services, partially offset by higher operating expenses to support growth.

During the quarter, Evernorth fulfilled 381 million adjusted pharmacy, up 22% year over year, driven by the insourcing of U.S. Medical pharmacy volumes and strong organic growth.

U.S. Medical: Earlier called Integrated medical, this segment was renamed in this quarter and reported adjusted revenues of \$9.63 billion, up 5.3% year over year, highlighting customer wins in Medicare Advantage as well as in the Select segment, besides premium growth.

Operating income of \$757 million declined 20.6% year over year due to the impact of the return of medical utilization to more typical levels and direct COVID-19 costs as apart from the costs involving strategic actions taken by the company to support customers and providers. Additionally, decreased specialty contributions and lower net investment income induced this downside.

International Markets: Adjusted revenues of \$1.44 billion were up 2.7% year over year, reflecting consistent business growth.

Operating earnings of \$208 million were up 7.2% year over year, boosted by a consistent operational efficiency, lower claim levels, driven by the effects of the COVID-19 pandemic, and business growth.

Group Disability and Other Operations: Adjusted revenues of \$1.31 billion inched up 2.3% year over year. Operating earnings of \$70 million were down 51% year over year, reflecting elevated claims in Cigna's Life business, primarily related to the COVID-19 pandemic. This segment is on track to be sold to New York Life. Cigna expects the transaction to close in the fourth quarter of 2020.

Capital Position

Cigna's debt-to-capitalization ratio improved to 42.8 as of Sep 30, 2020 from 45.2 as of Dec 31, 2019.

Shareholders' equity as of Sep 30, 2020 was \$48 billion, up 7.5% year over year.

2020 Guidance

The company's earlier-issued outlook for full-year revenues was raised to be nearly \$158 billion, up from the prior view of \$154-\$156 billion.

The lower end of the earlier-issued earnings projection was lifted to the \$18.3-\$18.6 per share from \$18-\$18.6 as envisaged earlier.

Quarter Ending 09/2020

Report Date	Nov 05, 2020
Sales Surprise	4.25%
EPS Surprise	3.76%
Quarterly EPS	4.41
Annual EPS (TTM)	19.22

Recent News

Cigna Announces Leadership Changes to Accelerate Next Phase of Growth - Dec 10, 2020

Cigna has announced leadership changes designed to accelerate the company's growth through its two power brands, Cigna and Evernorth. Effective Jan 1, 2021, Eric Palmer will become the president and chief operating officer of Evernorth; Brian Evanko will become executive vice president and chief financial officer of Cigna Corporation; Matt Manders will assume the role of president, government and solutions of Cigna Corporation; Everett Neville will assume the role of executive vice president, strategy and business development of Cigna Corporation; Aparna Abburi will assume the role of president, Medicare; and Amy Bricker will assume the role of president, Express Scripts.

Cigna Expands Presence on Exchanges in North Carolina - Nov 26, 2020

Cigna is offering its health plans in 63 counties across North Carolina for 2021. The company is already present across five counties in the state and with this expansion, the number will increase to 68. These plans can be availed of by customers on individual exchanges during the current open enrollment season, which started on Nov 1 and will run through Dec 15, 2020.

Cigna Expands Medicare Advantage Offerings – Oct 1, 2020

Cigna is expanding its Medicare Advantage (MA) plans to make it easier for more customers to access affordable, predictable and simple health care. Pursuant to this, during the 2021 Medicare Annual Election Period (AEP), beginning October 15, customers will be offered comprehensive, highly-rated, affordable MA plans – including a \$0 premium plan in every market.

To help seniors access care from the safety and comfort of their homes, Cigna is offering telehealth services to all MA customers, including no-cost access to behavioral health providers via audio and video. For the first time, Cigna also is adding virtual physical therapy services to its MA plans. This new feature is an addition to 2021 plans to help customers gain strength and/or recover from less complex procedures at home.

Valuation

Cigna's shares are up 11.9% in six months' period and 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical Sector are up 11.6% and 16.8%, respectively. Over the past year, the Zacks sub-industry and the sector is up 11.5% and 7.5%, respectively.

The S&P 500 index is up 21.5% in six months' time period and up 18.2% in the past year.

The stock is currently trading at 10.42x forward 12-month earnings, which compares to 9.4x for the Zacks sub-industry, 17.05x for the Zacks sector and 22.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.99x and as low as 6.83x, with a 5-year median of 12.94x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$223 price target reflects 10.94x forward earnings.

The table below shows summary valuation data for CI

Valuation Multiples - CI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.42	9.4	17.05	22.66
	5-Year High	19.99	12.61	17.05	23.47
	5-Year Low	6.83	6.62	11.6	15.27
	5-Year Median	12.94	9.7	14.46	17.77
P/S F12M	Current	0.39	0.79	2.78	4.09
	5-Year High	1.26	0.86	3.26	4.3
	5-Year Low	0.29	0.48	2.24	3.18
	5-Year Median	0.87	0.7	2.85	3.67
P/B TTM	Current	1.34	1.03	3.83	5.81
	5-Year High	4.07	1.91	5.08	6.2
	5-Year Low	1.07	0.85	2.96	3.75
	5-Year Median	2.71	1.51	4.3	4.88

As of 12/10/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 35% (166 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Aegon NV (AEG)	Neutral	4
American International Group, Inc. (AIG)	Neutral	3
Legal & General Group PLC (LGGNY)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
Prudential Public Limited Company (PUK)	Neutral	3
Swiss Re Ltd. (SSREY)	Neutral	3
UnitedHealth Group Incorporated (UNH)	Neutral	3
Zurich Insurance Group Ltd. (ZURVY)	Neutral	3

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	CI	X Industry	S&P 500	AIG	LGGNY	ZURVY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	A	C
Market Cap	76.82 B	4.22 B	25.79 B	34.21 B	19.92 B	61.78 B
# of Analysts	14	2	14	6	2	2
Dividend Yield	0.02%	1.99%	1.5%	3.22%	3.40%	3.18%
Value Score	A	-	-	B	A	B
Cash/Price	0.08	0.26	0.06	0.83	1.27	0.15
EV/EBITDA	8.38	4.84	14.50	3.73	NA	NA
PEG F1	0.93	1.57	2.77	1.57	NA	NA
P/B	1.60	0.99	3.54	0.53	1.70	1.78
P/CF	7.84	9.03	13.81	3.80	8.61	12.08
P/E F1	11.40	11.44	21.86	15.71	9.95	17.76
P/S TTM	0.49	0.94	2.84	0.75	NA	NA
Earnings Yield	8.74%	8.27%	4.41%	6.37%	10.05%	5.64%
Debt/Equity	0.61	0.27	0.70	0.60	0.62	0.40
Cash Flow (\$/share)	27.12	3.42	6.94	10.45	1.94	3.42
Growth Score	B	-	-	B	C	C
Historical EPS Growth (3-5 Years)	21.93%	6.46%	9.69%	7.42%	NA	NA
Projected EPS Growth (F1/F0)	9.00%	-7.46%	1.03%	-44.92%	-13.85%	-15.45%
Current Cash Flow Growth	138.17%	7.19%	5.22%	41.46%	2.04%	10.84%
Historical Cash Flow Growth (3-5 Years)	31.41%	1.69%	8.33%	-3.88%	8.60%	0.83%
Current Ratio	0.68	0.48	1.38	0.33	3.03	23.43
Debt/Capital	38.12%	21.44%	42.00%	37.18%	38.24%	28.72%
Net Margin	3.38%	5.64%	10.40%	-10.82%	NA	NA
Return on Equity	15.39%	7.59%	14.99%	3.62%	NA	NA
Sales/Assets	1.00	0.20	0.50	0.08	NA	NA
Projected Sales Growth (F1/F0)	12.82%	0.00%	0.35%	-8.90%	-87.71%	-46.18%
Momentum Score	D	-	-	B	A	F
Daily Price Change	-2.00%	0.23%	-0.24%	-0.58%	-2.54%	0.57%
1-Week Price Change	2.42%	1.34%	1.73%	2.47%	3.59%	-0.19%
4-Week Price Change	-3.41%	8.61%	5.01%	10.12%	11.74%	9.13%
12-Week Price Change	25.83%	16.58%	12.56%	38.36%	32.20%	10.53%
52-Week Price Change	9.86%	-11.34%	5.84%	-22.18%	-11.31%	2.42%
20-Day Average Volume (Shares)	1,629,001	118,223	1,937,653	4,667,705	12,220	50,958
EPS F1 Estimate 1-Week Change	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.12%	0.00%	0.00%	2.71%	7.35%	0.00%
EPS F1 Estimate 12-Week Change	0.22%	2.12%	3.80%	-2.13%	7.35%	0.00%
EPS Q1 Estimate Monthly Change	-1.15%	0.00%	0.00%	-1.04%	NA	NA

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

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

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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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.

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.