

## Centene Corporation (CNC)

**\$71.55** (As of 06/08/21)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/19/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: D

### Summary

Centene boasts an impressive inorganic growth strategy for expanding its markets and increasing Medicaid membership. Centene's medical membership has been rising over the last several quarters courtesy of contract wins and expansion. The leading insurer also entered into an agreement to buy Magellan Health that will enable it to establish a behavioral health platform. This clearly shows the company's constant efforts in strengthening its international portfolio. However, its shares have underperformed its industry in a year's time. Over the past 60 days, it has witnessed its current-year earnings move north. The company's operating costs have been weighing on margins. High debt level reflects inadequate financial flexibility. Its weak return on equity bothers.

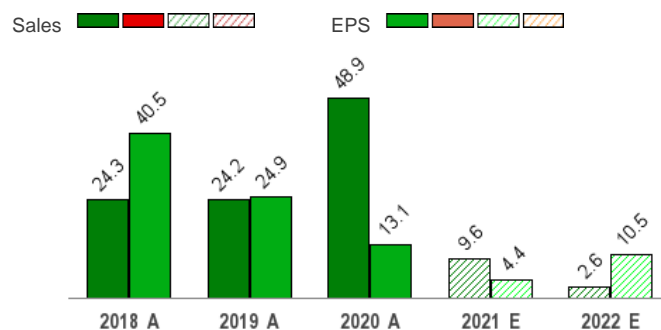
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$74.52 - \$53.60</b>
20-Day Average Volume (Shares)	<b>4,324,145</b>
Market Cap	<b>\$41.7 B</b>
Year-To-Date Price Change	<b>19.2%</b>
Beta	<b>0.47</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Medical - HMOs</b>
Zacks Industry Rank	<b>Top 20% (49 out of 251)</b>

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



Last EPS Surprise	<b>-1.2%</b>
Last Sales Surprise	<b>2.1%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>07/27/2021</b>
Earnings ESP	<b>0.0%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	31,192 E	31,256 E	31,977 E	31,154 E	124,916 E
2021	29,983 A	30,138 E	30,617 E	30,144 E	121,808 E
2020	26,025 A	27,712 A	29,090 A	28,288 A	111,115 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.61 E	\$2.06 E	\$1.35 E	\$0.64 E	\$5.77 E
2021	\$1.63 A	\$1.62 E	\$1.17 E	\$0.73 E	\$5.22 E
2020	\$0.86 A	\$2.40 A	\$1.26 A	\$0.46 A	\$5.00 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>12.4</b>
P/E F1	<b>13.7</b>
PEG F1	<b>1.2</b>
P/S TTM	<b>0.4</b>

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/08/2021. The report's text and the analyst-provided price target are as of 06/09/2021.

## Overview

Centene Corporation is a well-diversified, multi-national healthcare company that primarily provides a set of services to the government sponsored healthcare programs. The company serves the under-insured and uninsured individuals through member-focused services. It is also engaged in providing education and outreach programs to inform and assist members in accessing quality, appropriate healthcare services.

Centene is now a \$100-billion plus enterprise catering healthcare services to more than 24 million members across 50 states. The acquisition of WellCare Health leveraged the company's position as the largest Medicaid managed care organization in the country. The combined entity now has 22 million members. In 2020, the company retained its market-leading position nationwide, serving 25.5 million members at the year-end.

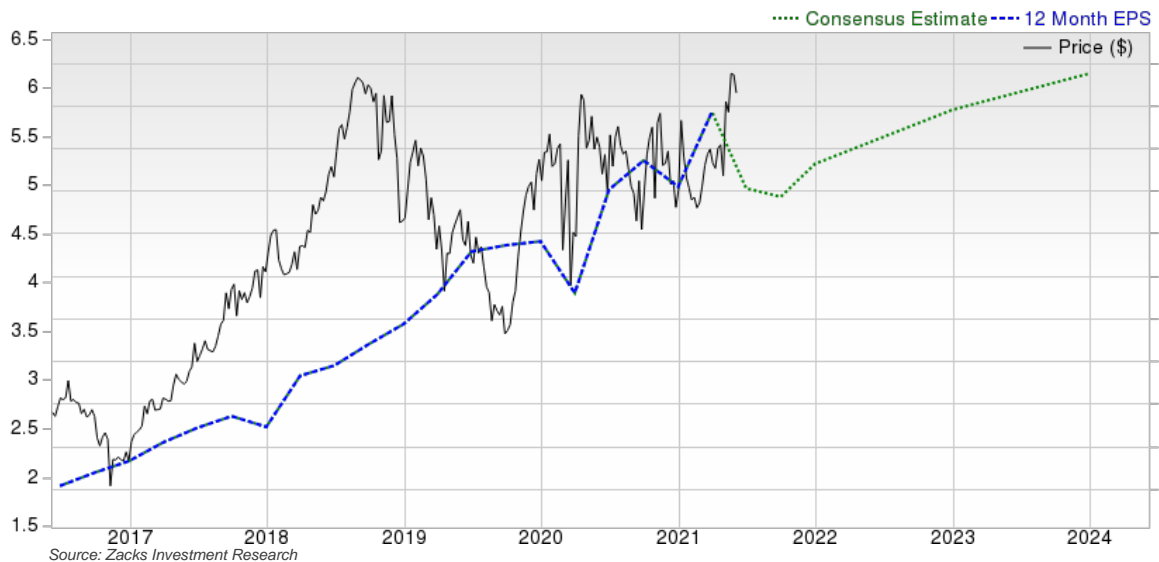
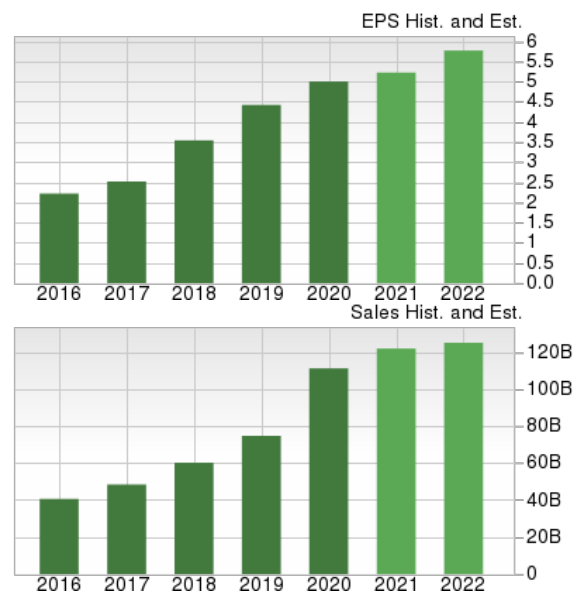
Through a diversified product portfolio and expanding geographic reach, Centene continues to deliver results by executing on our strategy, growing premium and service revenues profitably. This is evidenced by organic growth within its existing states, new Medicaid contracts, new contract awards in innovative healthcare services, key acquisitions to enhance its medical management platform and participation in Health Insurance Marketplaces. Centene acquired Health Net on Mar 24, 2016 which became its wholly owned subsidiary.

Centene offers affordable and high-quality products to nearly 1 in 15 individuals across the nation.

Founded as a single health plan in Wisconsin in 1984, Centene has established itself as a national leader in healthcare services. The company operates in two segments: Managed Care and Specialty Services.

**Managed Care (96% of total revenues in 2020):** This segment provides health plan coverage to individuals through Government subsidized programs, including Medicaid. The Managed Care segment also includes the operations previously included in Health Net's Western Region Operations Segment.

**Specialty Services (4%):** This segment consists of its specialty companies offering diversified healthcare services and products to state programs, correctional facilities, healthcare organizations, employer groups and other commercial organizations.



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## Reasons To Buy:

- ▲ **Growing Top Line:** Centene has been witnessing consistent and significant revenue growth since 2002. The company's top line witnessed a CAGR of 37.3% from 2015 to 2020. Its 2019 revenues shot up mainly on the back of the Fidelis Care buyout, growth in the Health Insurance Marketplace business and expansions plus new programs across many states in 2018 and 2019. During the first quarter of 2021, its top line improved 15% year over year. For the current year, management anticipates revenues to be \$120.1-\$122.1 billion, the midpoint being higher than the 2020 reported figure by 9%. This upside could primarily be backed by membership growth, expansion of contracts and other investments.
- ▲ **Inorganic Growth:** Centene's mergers and acquisitions strategy is mainly targeted at expanding the company's markets and increasing its Medicaid membership. Certain acquisitions like Community Medical Holdings, MHM Services and Fidelis Care have contributed to its revenues and helped it expand its capabilities. In December 2020, it acquired PANTHERx, one of the largest and the fastest-growing specialty pharmacies in the United States. This buyout solidifies its foothold in the booming specialty drug market. The leading insurer also entered into an agreement to buy Magellan Health that will strengthen its position in the market and will enable it to establish a behavioral health platform. This clearly shows the company's constant efforts in strengthening its international portfolio. The acquisitions and partnerships should bolster the company's operations, aiding long-term growth.
- ▲ **Acquisition of WellCare:** Centene has acquired WellCare (in January 2020). The consolidated entity now has a wider scale and diversification with more than 12 million Medicaid and around 5 million Medicare members. In total, it has around 22 million members across 50 US states. The transaction is expected to generate adjusted earnings per share accretion of approximately mid-single digits during 2021 with long-term growth opportunities and cost reduction across markets and products.
- ▲ **Membership Growth:** Medical membership of the company has been rising over the past several quarters due to contract wins and expansion across different regions. In 2018, 2019 and 2020, the metric rose 14.7%, 8.8% and 67%, respectively year over year. As of Mar 31, 2021, managed care membership came in at 25.1 million, up 5.4% year over year. We expect this trend to continue on the back of certain contract wins. It renewed a contract in Hawaii at the end of March. There are other contracts in its pipeline.
- ▲ **2021 Outlook:** Following first-quarter results, the company hiked its current-year guidance. Management anticipates revenues to be \$120.1-\$122.1 billion, higher than the previous guidance of \$116.1-\$118.1 billion. In 2021, the company's adjusted EPS is expected to be \$5.05-\$5.35, up from the previous guidance of \$5-\$5.30. This year, Health Benefit Ratio is forecast between 87.1% and 87.7%, higher than the previous guidance of 86.6-87.2%. A solid guidance instills investors' confidence in the stock.
- ▲ **Price Performance:** Shares of the company have underperformed its industry in a year's time. However, its solid fundamentals would likely help the stock bounce back going forward. Over the past 60 days, it has witnessed its current-year earnings move north 0.6%.

Centene's leading position in the industry is largely supported by its prudent operating performance, strong inorganic growth and solid fundamentals. A solid 2021 guidance also impresses.

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## Reasons To Sell:

- ▼ **Weak Marketplace Business:** This business has been suffering for the past many quarters due to declining membership level. Membership in the Health Insurance marketplace declined 13.6% year over year in the first quarter of 2021.
- ▼ **Weak ROE:** Centene's return on equity undermines its growth potential. The company's trailing 12-month ROE of 13.1% compares unfavorably with the industry average of 22.9%, indicating that it is less efficient in utilizing its shareholders' funds.
- ▼ **High Financial Leverage:** The company's balance sheet position remains a concern. Long-term debt at Centene has been rising since 2005, mainly because the company's acquisitions are financed majorly by borrowings. Its total debt reflects 38.8% of its capital, higher than the industry's average of 36.4%. Also, its times interest earned stands at 6X, much lower than the industry's average of 12.7X. As of Mar 31, 2021, the company has cash and cash equivalents of \$9.6 billion, much lower than its long-term debt of \$16.7 billion. The borrowings include \$152 million in its revolving credit facility. Thus, its inadequate financial flexibility is a concern for investors.
- ▼ **Increasing Costs:** The company's bottom line is hurt by higher operating costs. Since 2007, total operating costs have been increasing significantly. In 2019 and 2020, total operating expenses rose in the respective percentages of 24.3% and 48.3% year over year, stemming mainly from higher medical costs, selling, general and administrative (SG&A) expenses, amortization of acquired intangible assets and a premium tax expense. In the first quarter, the same rose 12% year over year. We expect it to continue incurring elevated expenses due to investments.

Centene's financial results suffer from rising level of debt and increasing costs. Its low return on equity also bothers.

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## Last Earnings Report

### Centene's Q1 Earnings Miss Estimates, Hikes '21 View

Centene reported first-quarter 2020 adjusted earnings per share of \$1.63, which missed the Zacks Consensus Estimate by 1.2%. However, the bottom line improved 89.5% year over year attributable to higher revenues, partly offset by elevated operating expenses.

In the first quarter, total revenues improved 15% year over year to \$30 billion resulting from the WellCare buyout and the continuing suspension of Medicaid eligibility redeterminations. However, this uptick was partly offset by lower Marketplace membership, state premium rate adjustments and risk sharing mechanisms. Also, the top line outpaced the consensus mark by 2.1%.

Quarter Ending	03/2021
Report Date	Apr 27, 2021
Sales Surprise	2.13%
EPS Surprise	-1.21%
Quarterly EPS	1.63
Annual EPS (TTM)	5.75

### Quarterly Operational Update

As of Mar 31, 2021, managed care membership totaled 25.1 million, which climbed 5% year over year attributable to robust Medicare and Medicaid businesses.

In the reported quarter, Health Benefits Ratio (HBR) came in at 86.8%, which improved 120 basis points (bps) year over year. The reason can primarily be attributed to reduced medical utilization trends stemming from the COVID-19 pandemic and decline in flu-related costs, partly offset by increased pandemic-related testing and treatment costs, state premium rate adjustments and risk sharing mechanisms.

Adjusted selling, general and administrative (SG&A) expense ratio was 8.1% in the quarter, down 50 bps year over year. The ratio received a boost from the continuing suspension of Medicaid eligibility redeterminations and lower compensation costs stemming from restructuring activities.

### Financial Update

As of Mar 31, 2021, the company's cash and cash equivalents amounted to \$9.6 billion, which plunged 10.9% from the 2020-end level.

Total assets as of Mar 31, 2021 climbed 2.3% from the 2020-end figure to \$70.3 billion.

Centene's long-term debt was \$16.7 billion, which inched up 0.1% from the figure at 2020 end.

In the first quarter, net cash provided by operating activities totaled \$43 million compared with net cash used in operating activities of \$240 million in the prior-year quarter.

### 2021 Guidance Updated

Concurrent with first-quarter results, the company revised its full-year outlook for 2021. This can be attributable to strong first-quarter 2021 results, with the company anticipating a similar trend in the days ahead.

For the current year, management anticipates revenues to be \$120.1-\$122.1 billion higher than the previous guidance of \$116.1-\$118.1 billion.

In 2021, the company's adjusted EPS is expected to be \$5.05-\$5.35, up from the previous guidance of \$5-\$5.30.

This year, HBR is forecast between 87.1% and 87.7%, higher than the previous guidance of 86.6-87.2%.

However, the guidance for adjusted SG&A expense ratio remained unchanged in the range of 8.3-8.8%.

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## Recent News

### Centene to Aid Eligible Medicaid Members in Hawaii - Mar 25, 2021

Centene disclosed that its Hawaii subsidiary Ohana Health Plan has received a contract from the Hawaii Department of Human Services. The new agreement is likely to benefit eligible members of the company's Medicaid programs in Hawaii.

Scheduled to begin on Jul 1 of this year, the new deal is set to expire on Dec 31, 2026, with an option of three contract extensions of one year each.

The agreement aims to benefit the eligible Medicaid members covered under Temporary Assistance for Needy Families (TANF), the Children's Health Insurance Program (CHIP), Aged, Blind and Disabled (ABD) and expansion programs. Through the contract, these members will be entitled to get medical, behavioral health and long-term services as well as assistance.

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## Valuation

Centene's shares are up 20% and 11.1% over the year-to-date period and the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 14.2% and down 0.7% over the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 28% and 1.1%, respectively.

The S&P 500 index is up 13.3% over the year-to-date period and 35% in the past year.

The stock is currently trading at 13.11x forward 12-month earnings value, which compares to 18.52x for the Zacks sub-industry, 22.9x for the Zacks sector and 21.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.91x and as low as 8.87x, with a 5-year median of 13.52x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 13.76x forward earnings.

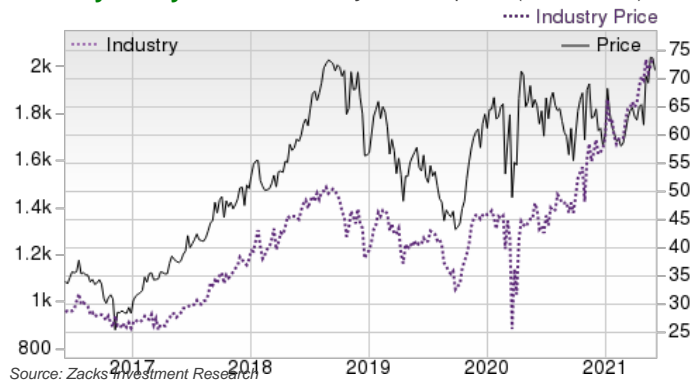
The table below shows summary valuation data for CNC

Valuation Multiples - CNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.11	18.52	22.9	21.81
	5-Year High	20.91	20.58	22.9	23.83
	5-Year Low	8.87	12.48	15.82	15.31
	5-Year Median	13.52	16.21	19.33	18.05
P/S F12M	Current	0.34	0.91	2.66	4.71
	5-Year High	0.5	0.94	3.16	4.74
	5-Year Low	0.19	0.52	2.27	3.21
	5-Year Median	0.31	0.73	2.79	3.71
P/B TTM	Current	1.58	3.97	4.39	7.03
	5-Year High	2.96	4.15	5.05	7.03
	5-Year Low	1.25	2.3	3.03	3.84
	5-Year Median	2.04	3.35	4.34	5.02

As of 06/08/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 20% (49 out of 251)



## Top Peers

Company (Ticker)	Rec	Rank
Magellan Health, Inc. (MGLN)	Outperform	1
Anthem, Inc. (ANTM)	Neutral	3
Humana Inc. (HUM)	Neutral	3
The Joint Corp. (JYNT)	Neutral	2
Molina Healthcare, Inc (MOH)	Neutral	3
Select Medical Holdings Corporation (SEM)	Neutral	2
UnitedHealth Group Incorporated (UNH)	Neutral	3
Aethlon Medical, Inc. (AEMD)	NA	NA

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

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	CNC	X Industry	S&P 500	ANTM	HUM	MOH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	B	A
Market Cap	41.69 B	3.94 B	30.36 B	95.95 B	54.49 B	14.73 B
# of Analysts	9	3.5	12	10	9	6
Dividend Yield	0.00%	0.00%	1.3%	1.15%	0.66%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.27	0.29	0.06	0.39	0.31	0.44
EV/EBITDA	9.90	9.87	17.47	9.90	7.90	9.31
PEG F1	1.19	1.21	2.14	1.22	1.48	1.07
P/B	1.58	3.34	4.19	2.83	3.84	6.81
P/CF	9.98	16.90	17.97	14.19	17.97	20.55
P/E F1	13.76	18.92	21.45	15.56	19.49	18.92
P/S TTM	0.36	0.69	3.53	0.77	0.69	0.69
Earnings Yield	7.30%	5.21%	4.55%	6.43%	5.13%	5.29%
Debt/Equity	0.63	0.48	0.66	0.66	0.43	1.09
Cash Flow (\$/share)	7.17	6.37	6.83	27.63	23.50	12.28
Growth Score	D	-	-	B	C	A
Historical EPS Growth (3-5 Years)	25.25%	23.76%	9.44%	20.66%	24.08%	52.92%
Projected EPS Growth (F1/F0)	4.44%	13.83%	21.30%	12.05%	15.59%	24.98%
Current Cash Flow Growth	66.20%	10.67%	0.98%	10.97%	4.32%	-12.50%
Historical Cash Flow Growth (3-5 Years)	51.41%	13.73%	7.28%	13.30%	13.95%	17.22%
Current Ratio	1.10	1.44	1.39	1.57	1.67	1.56
Debt/Capital	38.80%	32.88%	41.53%	39.92%	29.93%	52.07%
Net Margin	2.14%	4.72%	11.95%	3.78%	4.72%	3.38%
Return on Equity	13.09%	18.09%	16.36%	17.10%	19.08%	33.87%
Sales/Assets	1.67	1.39	0.51	1.40	2.11	2.43
Projected Sales Growth (F1/F0)	8.25%	10.05%	9.23%	11.86%	5.39%	34.78%
Momentum Score	D	-	-	F	D	A
Daily Price Change	0.38%	0.33%	0.19%	0.72%	1.52%	2.87%
1-Week Price Change	-2.93%	-0.58%	0.58%	-1.26%	-2.60%	-0.94%
4-Week Price Change	5.13%	1.56%	1.24%	-0.66%	-7.34%	-4.10%
12-Week Price Change	13.63%	12.20%	8.13%	14.07%	4.77%	7.87%
52-Week Price Change	8.95%	32.30%	33.89%	34.67%	8.24%	44.06%
20-Day Average Volume (Shares)	4,324,145	414,163	1,796,567	916,088	819,019	304,054
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.58%	-0.18%	0.49%
EPS F1 Estimate 4-Week Change	0.00%	0.02%	0.03%	-0.58%	-0.18%	0.72%
EPS F1 Estimate 12-Week Change	0.72%	2.81%	3.39%	1.82%	0.11%	3.19%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.48%

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### 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	D
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.

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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