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Nov 12, 2020

CONMED Corporation (CNMD)

$95.17 (As of 11/11/20)

Price Target (6-12 Months): **$99.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/01/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: B	

Summary

CONMED exited the third quarter on a strong note, with both earnings and revenues beating estimates. Moreover, the company witnessed sustained momentum in its business in spite of geographic variability in procedure volumes due to pandemic-induced disruptions. Also, the company's General Surgery unit witnessed revenue growth in the quarter. Expansion of both margins and growth in overall domestic sales are impressive as well. The company saw continued solid demand for AirSeal and Buffalo Filter product lines throughout the third quarter. However, the company witnessed a decline in its Orthopedic Surgery unit during the third quarter. Decline of overall international sales in the quarter is worrisome.Tough competition continues to be a dampener. Over the past year, the stock has underperformed its industry.

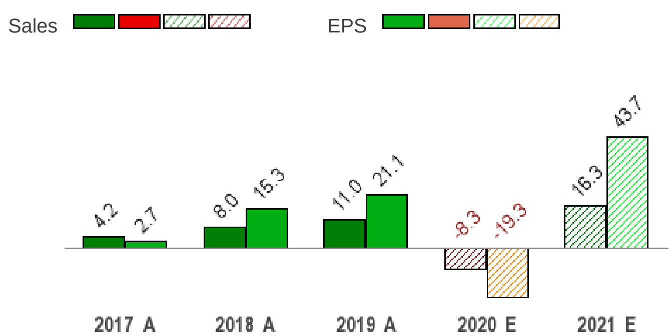
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$105.55 - $37.66**
20-Day Average Volume (Shares)	**324,197**
Market Cap	**$2.7 B**
Year-To-Date Price Change	**-14.9%**
Beta	**1.40**
Dividend / Dividend Yield	**$0.80 / 0.8%**
Industry	**Medical - Dental Supplies**
Zacks Industry Rank	**Top 25% (62 out of 248)**
Last EPS Surprise	**252.0%**
Last Sales Surprise	**16.1%**
EPS F1 Estimate 4-Week Change	**44.1%**
Expected Report Date	**02/03/2021**
Earnings ESP	**-4.3%**
P/E TTM	**42.9**
P/E F1	**44.7**
PEG F1	**4.2**
P/S TTM	**3.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	239 E	255 E	263 E	286 E	1,019 E
2020	214 A	158 A	238 A	266 E	876 E
2019	218 A	238 A	234 A	265 A	955 A

EPS Estimates

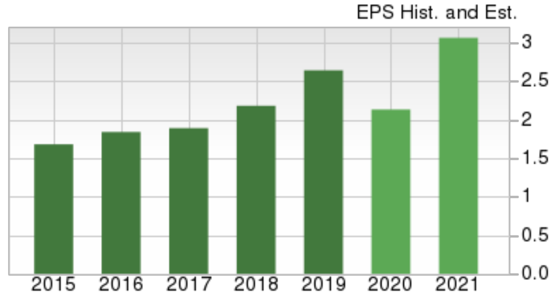
	Q1	Q2	Q3	Q4	Annual*
2021	$0.63 E	$0.73 E	$0.84 E	$1.04 E	$3.06 E
2020	$0.51 A	-$0.07 A	$0.88 A	$0.79 E	$2.13 E
2019	$0.57 A	$0.56 A	$0.62 A	$0.90 A	$2.64 A

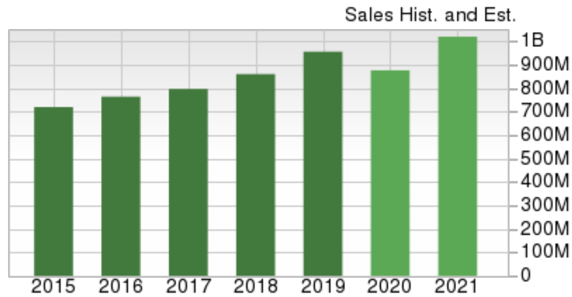
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/11/2020. The reports text is as of 11/12/2020.

Overview

Headquartered in Utica, N.Y., CONMED Corporation (CNMD) is a major medical products manufacturer specializing in surgical instruments and devices for minimally invasive procedures and monitoring. CONMED has roughly 3,600 employees and several manufacturing facilities.





A significant portion of the company's revenues are derived from products designed for the orthopedic surgery markets of arthroscopy and powered surgical instruments. The company also sells products for general and other surgical specialties such as electrosurgery systems for all types of surgery, and endosurgery instruments for minimally invasive laparoscopic surgery. Patient Care products, including ECG electrodes for heart monitoring and pulse oximetry for blood oxygenation monitoring, are provided for various clinical settings.

The company operates in two revenue segments.

- Orthopedic Surgery
- General Surgery

The orthopedic surgery product line includes CONMED's sports medicine instrumentation and small bone, large bone and specialty powered surgical instruments and service fees related to the promotion and marketing of sports medicine allograft tissue.

General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments.

2019 Results at a Glance

CONMED reported full-year adjusted earnings per share of $2.64, which improved 2.1% from 2018. On a full-year basis, CONMED reported revenues worth $955.1 million, which climbed 11.1% from the previous year.

Orthopedic Surgery sales totaled $463.3 million (49% of net revenues) while General Surgery sales grossed $491.8 million (51%).

Source: Zacks Investment Research

Reasons To Buy:

Strong prospects in the General Surgery segment buoy optimism. CONMED's broad product spectrum of surgical products is a significant positive.

- **General Surgery – A Consistent Performer**: General surgery consists of a complete line of endo-mechanical instrumentation for minimally invasive laparoscopic and gastrointestinal procedures, a line of cardiac monitoring products as well as electrosurgical generators and related instruments. CONMED's unique products and solutions within the General Surgery segment has been providing a competitive edge in the MedTech space. Of the most unique products under General Surgery, the Anchor Tissue Retrieval bag deserves a mention. This is one of the major platforms in CONMED's specimen bag portfolio.

  In the third quarter of 2020, revenues at the segment amounted to $135.6 million, up 10% year over year. Domestically, General Surgery sales rose 11.3% year over year and international sales grew 7.3%.

- **Continued R&D Focus**: CONMED's steady focus on innovation instills investor confidence. By the end of fourth quarter of 2018, management at CONMED announced that solid organic R&D pipeline and new product innovations will be provide CONMED a competitive edge. Additionally, the company's surging R&D expenses reflects focus on innovation.

  Research and development expenses for the third quarter was 4.2% of total sales.

- **Broad Product Spectrum**: CONMED offers a broad line of surgical products. CONMED's product portfolio consists of several new devices in the Orthopedic, Laparoscopic, Robotic, Open Surgery, Gastroenterology, Pulmonary and Cardiology sections. Innovative products like Hi-Fi Tape and Hi-Fi suture interface represents a critical component of repair security in rotator cuff repair space.

  In the recent past, CONMED introduced the MicroFree platform in Orthopedics, the TruShot, the Y-Knot Pro and the CRYSTALVIEW Pump. Of the most unique products under General Surgery, the Anchor Tissue Retrieval bag deserves a mention. This is one of the major platforms in CONMED's specimen bag portfolio. With increased product offerings, the company can accelerate its dwindling top-line growth. Products like the IM8000 surgical visualization system and the Edge Ablation system will drive top-line growth going forward.

  Furthermore, CONMED's AssistArm technology delivers unique limb positioning techniques. Other products including 3 sports medicine products, 3 endomechanical offerings, an electrosurgical council and a new 2D Arthroscopy video system is worth a mention.

  The company saw continued solid demand for AirSeal and Buffalo Filter product lines throughout the third quarter. This was driven by enhanced clinical training, improved surgical safety protocols and increasing access to medical facilities. Both these product lines saw strong growth during the quarter as hospitals around the world focused on improving operating rooms safety.

- **Solid Recurring Revenue Base**: Approximately 80% of CONMED's revenues are recurring, derived from the sale of disposable single-use products. Hospitals and clinics are expanding the use of single-use, disposable products, which reduce overheads from sterilizing surgical instruments and products following surgery.

  Utilizing one-time disposable products also lowers the risk of patient infection and reduces the cost of post-operative care, which is no longer covered by Medicare. The remaining 20% of revenues comes from sales of capital equipment (such as powered drills and saws for surgery, electrosurgical generators, video-imaging cameras, fluid control systems, and surgical hand-pieces), which in turn creates demand for complementary single-use items.

- **Solid Market Trends**: CONMED is benefiting from the increasing trend of using minimally invasive techniques as a large percentage of the company's products are designed for these procedures. The use of minimally invasive surgery lowers costs by reducing patient trauma, recovery time and the length of hospitalization. This will act to CONMED's advantage and drive top-line in the long run. A research report by Allied Market Research suggests that the global minimally invasive surgical instruments market is estimated to reach a worth of $52.98 billion by 2023 at a CAGR of 8.7% from 2017 to 2023. We believe solid market trends like these would fortify CONMED's foothold in the niche space.

  Furthermore, in order to reduce inefficiencies and to contain costs arising out of using multiple suppliers, health care providers are reducing the number of vendors. To enter into contracts with fewer vendors, providers need manufacturers who can offer a broader array of products at lower prices. CONMED benefits from this trend as it can provide multiple products under the same roof.

- **Balance Sheet View**: CONMED exited third-quarter 2020 with cash and cash equivalents amounting to $36 million, up sequentially from $35 million. Meanwhile, the company's long-term debt totaled $760 million in the third quarter, compared with $790 million in the preceding quarter. The long-term debt level is much higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of $17 million in the third quarter rose sequentially from $15 million but is noticeably lower than the cash level. This is good news in terms of the company's solvency level as, at least during a year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

CONMED operates in a highly competitive environment that includes cutthroat competition from the major MedTech players, globally.

- **Share Price Performance**: In the past year, CONMED's shares have lost 15.4%, against the industry's rally of 18.9%. Revenue decline in the Orthopedic Surgery unit, decline in overall international sales during the third quarter and a highly competitive environment have been dampeners. Further, the ongoing economic volatility on account of the global coronavirus outbreak is hindering the stock.

- **Reimbursement-related Risks**: CONMED is subject to reimbursement-related risks in the domestic market. Lower healthcare spending in the global market is also adversely affecting CONMED's top line.

  Almost 50% of CONMED's sales take place in overseas markets. Sales in major European countries have been affected by governmental spending cuts, which led to soft procedure growth and capital spending. The surgical video visualization product line, consisting primarily of capital equipment, has been affected by the budgetary constraints of the hospitals in Europe as well as other nations.

- **Forex Woes**: Foreign exchange movements are unfavorably impacting the company's results. The company derives a significant portion of its revenues from international operations. We note that U.S. manufacturers such as CONMED are being hurt by a strengthening U.S. dollar, which has benefited from more upbeat U.S. economic prospects compared to the rest of the world.

  The strong U.S. dollar will continue to impede sales growth as reflected in the cautious guidance provided by management for full-year 2020. Per the fourth-quarter 2019 earnings call, the negative impact to sales from forex is now anticipated between 120 bps and 150 bps for 2020.

- **Cutthroat Competition in MedTech**: CONMED operates in a highly competitive environment that includes competition from companies like Johnson & Johnson, Medtronic, Smith & Nephew, Stryker Corporation, and others. These organizations may have greater resources and larger research and development budgets compared with CONMED. Furthermore, CONMED lags the larger orthopedic companies in product bundling arrangements, which gives the companies a competitive edge.

- **Pricing Pressure**: The orthopedic industry faces severe pricing pressure due to the advent of group purchasing organizations (GPOs) and CONMED is no exception. GPOs act as agents that negotiate vendor contracts on behalf of their members. The current economic scenario has bolstered the bargaining power of the GPOs, thereby putting pressure on the company's top line.

Last Earnings Report

CONMED Earnings and Revenues Surpass Estimates in Q3

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	16.07%
EPS Surprise	252.00%
Quarterly EPS	0.88
Annual EPS (TTM)	2.22

CONMED Corporation reported third-quarter 2020 adjusted earnings per share of 88 cents, up from year-ago quarter's adjusted earnings per share by 41.9%. Also, the bottom line beat the Zacks Consensus Estimate of 25 cents by a massive 252%.

The New York-based medical products manufacturer reported revenues of $237.8 million, up 1.8% year over year, both on a reported basis and at constant currency (cc). Also, the top line beat the Zacks Consensus Estimate by 16.1%.

Segment Details

Orthopedic Surgery

Revenues at the segment totaled $102.2 million, down 7.4% from the year-ago quarter.

On the domestic and international front, Orthopedics revenues fell 8.5% and 6.7%, respectively, from the prior-year levels.

General Surgery

Revenues at the segment amounted to $135.6 million, up 10% year over year.

Domestically, General Surgery sales rose 11.3% year over year and international sales grew 7.3%.

Sales by Geography

In the reported quarter, sales in the United States amounted to $134.2 million, up 4.7% year over year. International sales declined 1.7% to $103.6 million.

Margins

Gross profit in the quarter totaled $133.7 million, up 2.8% year over year. Per management, gross margin was 56.2%, expanding 51 bps.

Adjusted operating profit came in at $29.4 million, up 40.3%. Adjusted operating margin came at 12.4%, up 339 bps.

2020 Guidance

Due to the continued uncertainty surrounding the extent and magnitude of the COVID-19 pandemic, management is unable to issue any guidance at this moment.

Valuation

CONMED's shares are down 14.2% and 15.4% in the year-to-date period and the trailing 12-month periods, respectively.

Stocks in the Zacks sub-industry are up 15.2% in the year-to-date period, while that in the Zacks Medical sector are up 2.1%. Over the past year, the Zacks sub-industry and sector are up 18.9% and 8.7%, respectively.

The S&P 500 index is up 12.2% in the year-to-date period and 14.4% in the past year.

The stock is currently trading at 32.4X Forward 12-months earnings, which compares to 18.9X for the Zacks sub-industry, 22.5X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 60X and as low as 12.4X, with a 5-year median of 27.8X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our $99 price target reflects 34X forward 12-months earnings.

The table below shows summary valuation data for CNMD.

Valuation Multiples - CNMD

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	32.40	18.86	22.45	22.33
	5-Year High	60.01	19.77	22.99	23.47
	5-Year Low	12.41	13.63	15.91	15.27
	5-Year Median	27.77	16.51	19.02	17.72
P/S F12M	Current	2.72	0.38	2.83	4.15
	5-Year High	3.32	0.38	3.24	4.30
	5-Year Low	1.11	0.23	2.24	3.17
	5-Year Median	2.04.	0.29	2.84	3.67
P/B TTM	Current	3.99	4.12	3.86	6.26
	5-Year High	4.72	4.73	5.09	6.28
	5-Year Low	1.59	2.54	2.96	3.74
	5-Year Median	2.72	3.45	4.29	4.90

As of 11/11/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 25% (62 out of 248)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Laboratory Corporation of America Holdings **(LH)**	Outperform	1
Merit Medical Systems, Inc. **(MMSI)**	Outperform	2
Align Technology, Inc. **(ALGN)**	Neutral	2
Invacare Corporation **(IVC)**	Neutral	2
Straumann Holding AG **(SAUHF)**	Neutral	2
STAAR Surgical Company **(STAA)**	Neutral	4
West Pharmaceutical Services, Inc. **(WST)**	Neutral	2
SmileDirectClub, Inc. **(SDC)**	Underperform	3

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

Industry Comparison Industry: Medical - Dental Supplies

	CNMD	X Industry	S&P 500	IVC	MMSI	SDC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	B	-	-	B	A	F
Market Cap	2.72 B	2.89 B	24.85 B	277.41 M	2.89 B	3.78 B
# of Analysts	5	5.5	14	2	5	4
Dividend Yield	0.84%	0.00%	1.52%	0.00%	0.00%	0.00%
Value Score	C	-	-	B	C	F
Cash/Price	0.02	0.07	0.07	0.33	0.02	0.10
EV/EBITDA	21.81	15.97	14.28	20.32	26.73	-7.74
PEG F1	4.16	2.76	2.75	NA	2.80	NA
P/B	3.98	4.69	3.54	0.84	3.09	12.68
P/CF	16.67	16.01	13.53	80.79	15.35	NA
P/E F1	44.68	27.14	21.77	NA	33.44	NA
P/S TTM	3.11	3.11	2.82	0.32	3.00	5.55
Earnings Yield	2.24%	3.00%	4.44%	-10.42%	3.00%	-7.04%
Debt/Equity	1.11	0.18	0.70	0.91	0.37	1.31
Cash Flow ($/share)	5.71	1.73	6.92	0.10	3.39	-0.22
Growth Score	B	-	-	A	A	D
Historical EPS Growth (3-5 Years)	9.78%	9.30%	9.77%	NA	14.34%	NA
Projected EPS Growth (F1/F0)	-19.24%	10.20%	0.37%	21.23%	6.58%	39.47%
Current Cash Flow Growth	29.97%	4.59%	5.29%	-126.66%	15.85%	35.10%
Historical Cash Flow Growth (3-5 Years)	10.33%	12.65%	8.33%	17.10%	21.55%	NA
Current Ratio	2.26	1.63	1.38	1.63	2.34	3.33
Debt/Capital	52.68%	26.10%	42.01%	47.76%	27.25%	56.66%
Net Margin	0.04%	0.34%	10.44%	-4.87%	-3.05%	-25.06%
Return on Equity	9.48%	13.30%	15.07%	-8.76%	9.02%	-37.68%
Sales/Assets	0.50	0.90	0.50	0.97	0.56	0.73
Projected Sales Growth (F1/F0)	-8.30%	0.00%	0.23%	-9.02%	-3.88%	-16.41%
Momentum Score	B	-	-	F	B	C
Daily Price Change	1.16%	-0.31%	-0.12%	0.25%	-2.86%	-1.21%
1-Week Price Change	2.99%	2.00%	5.72%	-4.44%	2.00%	13.48%
4-Week Price Change	17.13%	0.00%	5.01%	-0.74%	9.33%	-17.37%
12-Week Price Change	12.38%	4.08%	8.82%	8.63%	7.37%	22.96%
52-Week Price Change	-16.19%	2.63%	5.93%	-18.17%	100.42%	10.98%
20-Day Average Volume (Shares)	324,197	364,640	2,124,074	278,577	410,972	5,977,663
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.10%	0.00%
EPS F1 Estimate 4-Week Change	44.05%	2.88%	1.87%	4.57%	21.18%	0.00%
EPS F1 Estimate 12-Week Change	41.19%	7.96%	4.07%	-19.29%	21.18%	-3.37%
EPS Q1 Estimate Monthly Change	2.58%	1.44%	0.86%	-5.88%	14.13%	0.00%

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	C
Growth Score	B
Momentum Score	B
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

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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 forwardlooking 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 mediumterm 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 mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn’t change frequently, dividend yield usually changes with a stock’s price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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