

CrowdStrike (CRWD)

\$242.10 (As of 02/12/21)

Price Target (6-12 Months): **\$254.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

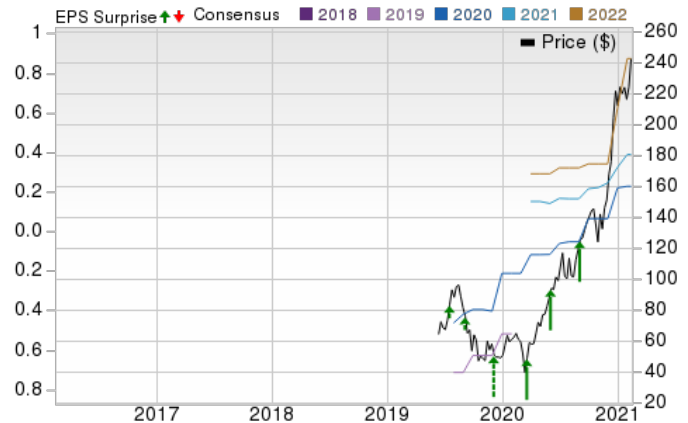
Growth: B

Momentum: D

Summary

CrowdStrike is benefiting from the rising demand for cyber-security solutions owing to the slew of data breaches and increasing necessity for security and networking products amid the pandemic-led remote working trend. Continued digital transformation and cloud-migration strategies adopted by organizations are key growth drivers. CrowdStrike's portfolio strength, mainly the Falcon platform's 10 cloud modules, boosts its competitive edge and helps add users. Additionally, the acquisition of Preempt Security is anticipated to enhance CrowdStrike's Zero Trust security capabilities. The stock has outperformed the industry over the past year. However, intensifying competition in the security application market is a concern. Also, elevated selling & marketing and research & development spends remain overhangs on the margin.

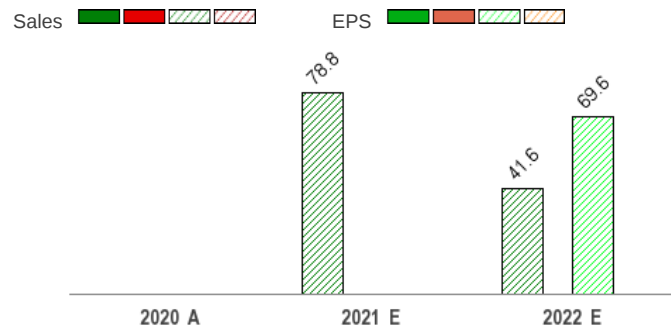
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$245.42 - \$31.95
20-Day Average Volume (Shares)	3,253,851
Market Cap	\$53.6 B
Year-To-Date Price Change	14.3%
Beta	1.33
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Bottom 26% (186 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.3%
Last Sales Surprise	8.8%
EPS F1 Estimate 4-Week Change	28.3%
Expected Report Date	03/16/2021
Earnings ESP	57.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	262 E	285 E	313 E	334 E	1,218 E
2021	178 A	199 A	232 A	251 E	860 E
2020	96 A	108 A	125 A	152 A	481 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.07 E	\$0.08 E	\$0.11 E	\$0.12 E	\$0.39 E
2021	\$0.02 A	\$0.03 A	\$0.08 A	\$0.09 E	\$0.23 E
2020	-\$0.47 A	-\$0.18 A	-\$0.07 A	-\$0.02 A	-\$0.42 A

*Quarterly figures may not add up to annual.

P/E TTM	2,200.9
P/E F1	620.8
PEG F1	24.8
P/S TTM	70.3

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/12/2021. The report's text and the analyst-provided price target are as of 02/15/2021.

Overview

Founded in 2011, Sunnyvale, CA-based CrowdStrike is a leader in next-generation endpoint protection, threat intelligence and cyberattack response services.

CrowdStrike's co-founders George Kurtz and Dmitri Alperovitch were inspired by the shortcomings in the previous-generation security software technologies. They managed to turn the previous-generation adversaries through leveraging the network effects of crowdsourced data from its customer base applied to modern technologies, including AI, cloud computing, and graph databases to detect threats and stop breaches.

In 2011, CrowdStrike built its main cloud native platform leveraging AI - Falcon platform - the industry's first multi-tenant, cloud native, intelligent security solution that protects workloads across on-premise, cloud-based, and virtualized environments running on a variety of endpoints such as desktops, laptops, servers, virtual machines, and IoT devices.

CrowdStrike's cloud-based Falcon platform currently provides 10 cloud modules via a SaaS subscription model that is separated under three categories — Endpoint Security, Security & IT Operations and Threat Intelligence.

As a result of its wide-scale offerings, CrowdStrike is one shop for almost all types of security solutions. This provides a competitive advantage over other rivals that have mostly limited types of solutions, such as Proofpoint, which is specialized in identity theft protection, FireEye and F5 Networks, which offer cloud-based proxy, firewall, sandboxing and advanced threat protection.

CrowdStrike operates in an industry which is characterized by the existence of a large number of patents. Here, 26 issued and 87 pending patents for the company's cloud platform provide a competitive advantage.

The company has adopted a channel-centric sales model that is supported by its direct sales team. The approach helps facilitate client acquisition process, improving account coordination, and developing sales and overall market.

In fiscal 2020, CrowdStrike's revenues soared 93% year over year to approximately \$481 million, of which 51% was contributed from customers outside the United States.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ CrowdStrike is gaining from the rising demand for security and networking products amid the COVID-19 crisis. In an effort to contain the spread of the virus, a huge global workforce is working remotely. But more people logging into employers' networks means a greater need for security. This trend is positively impacting demand for CrowdStrike's products. Moreover, the company's next-generation antivirus, EDR, and device-control products are well poised to gain amid the thriving remote work culture.
- ▲ CrowdStrike mainly focuses on selling subscription-based services. This business model generates recurring revenues and higher margins for the company (more than 70%) than the hardware-centric model. Notably, contribution of subscription-based sales to the company's total revenues increased from 72% in fiscal 2017 to 91% in fiscal 2020. This business model generates recurring revenues that leads to stable revenues. It is also more futuristic as companies increasingly migrate to the cloud, where the as-a-service model is common. We believe continued focus on subscription-based products and services, and product upgrades will bolster its top line.
- ▲ Rising demand for cyber security owing to the slew of data breaches is a positive for CrowdStrike. Enterprises face continued sophisticated cyber threats making cyber security a mission critical, high-profile requirement. CrowdStrike's rich experience in the security space and continued delivery of mission-critical solutions will help it maintain and grow its market share. Per Gartner's latest report, worldwide information security spending is expected to grow 2.4% year over year to reach \$123.8 billion in 2020. Going by MarketsandMarkets, the global cyber-security market size was valued at \$152.71 billion in 2018 and is projected to reach \$248.6 billion by 2023, witnessing a CAGR of 10.2% during the period. These predictions bode well for CrowdStrike, which has a diversified product portfolio for large- and mid-sized organizations to protect their sensitive data.
- ▲ CrowdStrike has adopted a channel-centric sales model that is supported by its direct sales team. Under this approach, the company's sales team develops relationships directly between channel sales partners and customers. This helps the company facilitate client acquisition process, improve account coordination, and develop sales and overall market. The company emphasizes on customer services, which helps it further develop relationships with customers and generate incremental revenues. Additionally, CrowdStrike's market strategy is focused on platform and brand awareness, and done through both, digital and non-digital channel activities. It is continuously increasing marketing headcounts and investing in programs to enhance brand awareness, which is driving its top-line performance.
- ▲ CrowdStrike has made a couple of strategic acquisitions to boost growth. Most recently, on Sep 30, the company completed the acquisition of identity theft protection provider, Preempt Security. The acquisition is anticipated to enhance CrowdStrike's Zero Trust security capabilities. Further, Preempt Security's integration would fortify the company's Falcon platform's capabilities to offer protection against identity-based attacks and insider threats. Prior to this, the company bought Payload Security in November 2017. Payload was specialized in providing automated malware analysis system for enterprises, governments, universities, SOCs and IR teams. We believe these acquisitions have not only strengthened the data-protection capabilities of CrowdStrike but have expanded its customer base as well.
- ▲ CrowdStrike is gaining customer accounts, which contributes to its revenues. The company has seen its subscription-based customers growing from 165 in fiscal 2016 to 5,431 at the end of fiscal 2020. The vast customer base presents the company an opportunity to upsell products within its installed user base. As of Jan 31, 2020, about 33% of its total subscription customers have adopted five or more cloud modules. Furthermore, for the last few quarters, CrowdStrike has been able to close significant number of seven-figure deals. The growing number of large deals in the mix is a positive as it increases deferred revenues and visibility. Moreover, any product refresh brings in additional dollars as every enterprise attempts to keep their threat management infrastructure updated. These, in turn, support the company's top line.
- ▲ CrowdStrike has a strong balance sheet with ample liquidity position and no debt obligations. Cash, short-term investments and marketable securities were \$1.06 billion as of Oct 31, 2020. In addition, in the first three quarters of fiscal 2021, the company generated \$242.1 million of cash flows from operating activities. It is to be noted that the company has been able to increase its cash and marketable securities, as well as cash from operations in the last two fiscal years. The increasing liquidity and cash flow trend highlight that the company is making investments in the right direction. Apart from this, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

CrowdStrike is benefiting from the soaring demand for cyber-security solutions owing to rising data breaches. Also, its sustained focus on rolling out new products, acquisitions and partnerships will continue to boost sales.

Reasons To Sell:

- ▼ To survive in the highly competitive cyber-security market, each player must continuously invest in broadening its capabilities. Over the past few years, CrowdStrike has invested heavily to enhance its sales and marketing capabilities, particularly by increasing the sales force. As a result, its sales and marketing expenses flared up five folds to \$267 million in fiscal 2020 from \$54 million in fiscal 2017. Additionally, investment in R&D is a top priority for CrowdStrike. Over the last three fiscals, the company has tripled its R&D expenses to improve the design, architecture, operation and quality of its cloud platform. Though the firm foresees these investments to garner benefits over the long run, we note that there is uncertainty about the payback period. Also, higher sales and marketing, and R&D expenses might weigh on the company's bottom-line results.
- ▼ CrowdStrike faces competition from numerous big and small companies in the security application market. As Internet threats and attacks shoot up, intense competition will follow suit. Competing firms must deliver prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. We also believe CrowdStrike's dominance could be challenged by new entrants. This could lead the company to resort to competitive pricing to maintain and capture the market share.
- ▼ While CrowdStrike is focusing on broadening its customer base, and target small and mid-sized clients, a large portion of the company's revenues come in from larger enterprise customers. The company's customer base includes 49 of the Fortune 100, 40 of the top 100 global companies, and 11 of the top 20 major banks. Therefore, we believe the cybersecurity company has a high customer concentration risk. The company could witness increased volatility in its financial results on an enterprise customer win or a major client decides to stop taking services from it.
- ▼ CrowdStrike currently has a trailing 12 month Price/Book Value (P/B) ratio of 57.6. This level compares unfavorably with what the industry saw over the last year. Hence, valuation looks slightly stretched from a P/B perspective.

Since CrowdStrike continues to invest in sales & marketing and research & development, we anticipate this to remain a drag on the company's bottom line in the near term.

Last Earnings Report

CrowdStrike's Q3 Earnings & Revenues Top Estimates

CrowdStrike reported third-quarter fiscal 2020 non-GAAP earnings of 8 cents per share as against the Zacks Consensus Estimate of break-even profit. Quarterly earnings also marked significant improvement from the year-ago quarter's loss per share of 7 cents.

Top Line Details

CrowdStrike's fiscal third-quarter revenues of \$232.5 million surged 86% year over year as well as beat the consensus mark of \$213.7 million. Subscription revenues jumped a whopping 87% year over year to \$213.5 million.

An 85% increase in subscription customers led to this impressive growth. CrowdStrike added 1,186 net new subscription customers during the reported quarter. The company had a total of 8,416 subscription customers as of Oct 31, 2020.

Moreover, CrowdStrike's subscription customers that adopted four or more cloud modules increased to 61%, those with five or more cloud modules rose to more than 44%, and for six or more cloud modules jumped to 22% as of Oct 31, 2020.

Revenues from professional services soared 73.7% year over year to \$18.9 million.

The company added \$116.8 million to its net new average run rate (ARR) year over year, achieving \$907.4 million, up a whopping 81% from the year-ago quarter.

Dollar-based net retention rate exceeded 120% in the reported quarter.

Operating Details

CrowdStrike's non-GAAP gross margin expanded 400 basis points (bps) on a year-over-year basis to 76%. Subscription gross margin advanced 200 bps to 78%. Moreover, professional services gross margin increased to 45% from the year-ago quarter's 33%.

Non-GAAP research & development (R&D) expenses as a percentage of revenues shrunk 530 bps on a year-over-year basis to 19.7%. In addition, non-GAAP general & administrative (G&A) expense, as a percentage of revenues, contracted 330 bps to 8%.

Further, non-GAAP sales & marketing (S&M) expenses as a percentage of revenues were 39.9%, significantly down from the year-ago quarter's 49%.

Total non-GAAP operating expenses as a percentage of revenues were 67.6% compared with the prior-year quarter's 85.3%.

Non-GAAP operating income was \$18.9 million against the loss of \$16.5 million reported in the year-ago quarter. Non-GAAP operating margin for the quarter was 8%.

Balance Sheet & Cash Flow

As of Oct 31, 2020, cash and cash equivalents were \$1.06 billion compared with \$1.07 billion as of Jul 31, 2020.

During the fiscal third quarter, the company generated operating and free cash flows of \$88.5 million and \$76.1 million, respectively.

Guidance

For fourth-quarter fiscal 2021, CrowdStrike anticipates revenues between \$245.5 million and \$250.5 million. As far as the bottom line is concerned, the company expects to report earnings per share between 8 cents and 9 cents.

For fiscal 2021, management raised its revenue guidance range to \$855-\$860 million from the \$809.1-\$826.7 million projected earlier. The company now anticipates non-GAAP earnings per share of 21-22 cents compared with the previous expectations of 2-8 cents.

Quarter Ending	10/2020
Report Date	Dec 02, 2020
Sales Surprise	8.78%
EPS Surprise	33.33%
Quarterly EPS	0.08
Annual EPS (TTM)	0.11

Recent News

On Jan 11, CrowdStrike announced that it intends to offer, \$750 million in aggregate principal amount of its senior notes due 2029 in a transaction registered under the Securities Act of 1933, as amended, subject to market and other conditions.

On Dec 4, CrowdStrike announced that it is participating in the launch of Professional Services in AWS Marketplace.

On Dec 1, CrowdStrike announced the appointment of Laura J. Schumacher to its board of directors.

On Nov 18, CrowdStrike revealed that it is a Launch Partner for AWS Network Firewall.

On Oct 22, CrowdStrike unveiled the new CrowdStrike Falcon X Recon module that will provide customers an increased level of situational awareness through the deep, broad collection of data from digital sources.

On Oct 1, CrowdStrike announced the completion of the acquisition of Preempt Security.

Valuation

CrowdStrike's shares have increased 129.8% in the 6-month period and 273.3% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have rallied 50.2% and 28.5%, respectively, in the past six months. Over the past year, while the Zacks sub-industry has increased 105.5%, the sector increased 42.7%.

The S&P 500 Index has increased 17.5% in the past six months and 18.4% in the past year.

The stock is currently trading at 57.28X forward 12-month sales, which compares to 11.33X for the Zacks sub-industry, 4.93X for the Zacks sector and 4.47X for the S&P 500 index.

Over the past year, the stock has traded as high as 57.35X and as low as 9.81X, with a 1-year median of 27.22X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$254 price target reflects 45.54X forward 12-month sales.

The table below shows summary valuation data for CRWD

Valuation Multiples - CRWD					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	43.37	11.89	5.1	4.59
	1-Year High	57.35	11.89	5.1	4.59
	1-Year Low	9.81	5.27	3.15	3.2
	1-Year Median	27.22	8.98	4.18	4.06
P/B TTM	Current	65.75	15.51	10.01	6.7
	1-Year High	65.75	15.51	10.01	6.7
	1-Year Low	9.14	5.05	4.82	3.84
	1-Year Median	31.32	10.81	7.56	5.76
EV/Sales TTM	Current	68.94	14.66	5.75	4.53
	1-Year High	68.94	14.66	5.75	4.53
	1-Year Low	12.20	5.03	3.12	2.61
	1-Year Median	36.94	10.23	4.54	3.78

As of 02/12/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Chegg, Inc. (CHGG)	Neutral	4
Cheetah Mobile Inc. (CMCM)	Neutral	NA
8x8 Inc (EGHT)	Neutral	3
Kingdee International Software Group Co., Ltd. Unsponsored ADR (KGDEV)	Neutral	4
MongoDB, Inc. (MDB)	Neutral	3
Mimecast Limited (MIME)	Neutral	2
Paylocity Holding Corporation (PCTY)	Neutral	3
Alteryx, Inc. (AYX)	Underperform	4

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

Industry Comparison Industry: Internet - Software				Industry Peers		
	CRWD	X Industry	S&P 500	CMCM	EGHT	KGDEV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-		3	4
VGM Score	D	-	-	-	D	F
Market Cap	53.57 B	2.12 B	28.13 B	526.02 M	3.86 B	14.90 B
# of Analysts	9	5	13	0	9	1
Dividend Yield	0.00%	0.00%	1.4%	0.00%	0.00%	0.03%
Value Score	F	-	-	-	F	F
Cash/Price	0.02	0.06	0.06	0.46	0.04	0.03
EV/EBITDA	-643.36	-2.31	14.95	-6.75	-39.78	NA
PEG F1	24.83	5.17	2.36	NA	NA	NA
P/B	65.65	11.74	3.85	0.93	23.05	16.98
P/CF	NA	44.06	15.17	12.26	NA	118.68
P/E F1	620.77	90.93	20.78	NA	NA	NA
P/S TTM	70.33	10.34	3.05	1.93	7.58	NA
Earnings Yield	0.16%	0.37%	4.73%	NA%	-0.39%	-0.28%
Debt/Equity	0.00	0.01	0.68	0.00	1.82	NA
Cash Flow (\$/share)	-0.41	-0.00	6.76	0.30	-0.57	3.62
Growth Score	B	-	-	NA	B	D
Historical EPS Growth (3-5 Years)	NA%	20.75%	9.27%	-3.92%	NA	NA
Projected EPS Growth (F1/F0)	71.08%	11.67%	14.04%	NA	76.27%	0.00%
Current Cash Flow Growth	-12.73%	3.62%	3.29%	-77.03%	128.62%	3.96%
Historical Cash Flow Growth (3-5 Years)	NA%	19.29%	7.74%	24.33%	NA	NA
Current Ratio	1.91	1.91	1.38	1.90	2.15	1.91
Debt/Capital	0.00%	5.96%	41.33%	0.00%	64.50%	NA
Net Margin	-13.40%	-15.16%	10.58%	-24.68%	-33.52%	NA
Return on Equity	-12.79%	-6.52%	14.86%	1.81%	-69.24%	NA
Sales/Assets	0.48	0.57	0.51	0.28	0.74	NA
Projected Sales Growth (F1/F0)	41.58%	16.50%	6.33%	-16.78%	18.29%	11.12%
Momentum Score	D	-	-	-	D	F
Daily Price Change	3.11%	0.22%	0.39%	1.38%	0.20%	0.00%
1-Week Price Change	3.58%	10.23%	4.58%	66.51%	1.53%	3.58%
4-Week Price Change	7.30%	15.66%	1.47%	81.68%	-2.31%	19.77%
12-Week Price Change	68.41%	49.14%	9.09%	89.18%	91.16%	25.27%
52-Week Price Change	270.69%	87.50%	8.71%	3.97%	73.93%	210.35%
20-Day Average Volume (Shares)	3,253,851	788,708	2,105,275	2,202,714	1,828,079	9
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	NA	0.00%	0.00%
EPS F1 Estimate 4-Week Change	28.32%	0.00%	0.62%	NA	-1.39%	NA
EPS F1 Estimate 12-Week Change	56.53%	0.00%	1.93%	NA	-1.39%	-114.29%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.30%	NA	-2.51%	NA

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	F
Growth Score	B
Momentum Score	D
VGM Score	D

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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