

## The Ensign Group, Inc. (ENSG)

**\$84.24** (As of 02/16/21)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/04/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

### Summary

Ensign Group's shares have outperformed its industry in a year's time. Its growth has been driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. Its spin-off of its home health and hospice business is expected to help it meet the patients' requirements as well as enhance shareholder's value. Its solid financial health aids it to add shareholder value. It recently hiked its dividend payout. The company's 2021 guidance raises investor optimism on the stock. However, it has been suffering rising expenses that keep draining its bottom line. Decline in occupancy remains a concern. Its fourth-quarter adjusted earnings of 80 cents per share beat the Zacks Consensus Estimate of 79 cents by 1.3% and also rises 33.3% year over year on revenues.

### Price, Consensus & Surprise

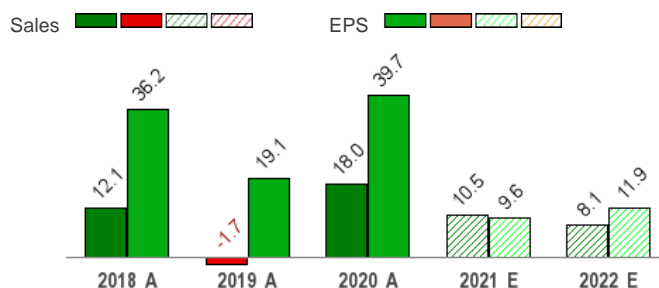


Source: Zacks Investment Research

### Data Overview

52-Week High-Low	<b>\$92.39 - \$24.06</b>
20-Day Average Volume (Shares)	<b>267,729</b>
Market Cap	<b>\$4.7 B</b>
Year-To-Date Price Change	<b>18.8%</b>
Beta	<b>1.05</b>
Dividend / Dividend Yield	<b>\$0.21 / 0.2%</b>
Industry	<b>Medical - Nursing Homes</b>
Zacks Industry Rank	<b>Bottom 4% (244 out of 253)</b>

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



Last EPS Surprise	<b>1.3%</b>
Last Sales Surprise	<b>-1.6%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>05/10/2021</b>
Earnings ESP	<b>0.6%</b>
P/E TTM	<b>27.7</b>
P/E F1	<b>24.6</b>
PEG F1	<b>1.6</b>
P/S TTM	<b>2.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	697 E	712 E	730 E	748 E	2,871 E
2021	633 E	652 E	676 E	695 E	2,656 E
2020	590 A	585 A	599 A	629 A	2,403 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.96 E	\$0.96 E	\$0.96 E	\$0.99 E	\$3.84 E
2021	\$0.84 E	\$0.86 E	\$0.88 E	\$0.92 E	\$3.43 E
2020	\$0.77 A	\$0.78 A	\$0.78 A	\$0.80 A	\$3.13 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 02/16/2021. The report's text, and the analyst-provided sales estimates, EPS estimates and price target are as of 02/17/2021.

## Overview

Founded in 1999 and headquartered in Mission Viejo, CA, The Ensign Group Inc. provides health care services in the post-acute care continuum, urgent care center and mobile ancillary businesses in the U.S.

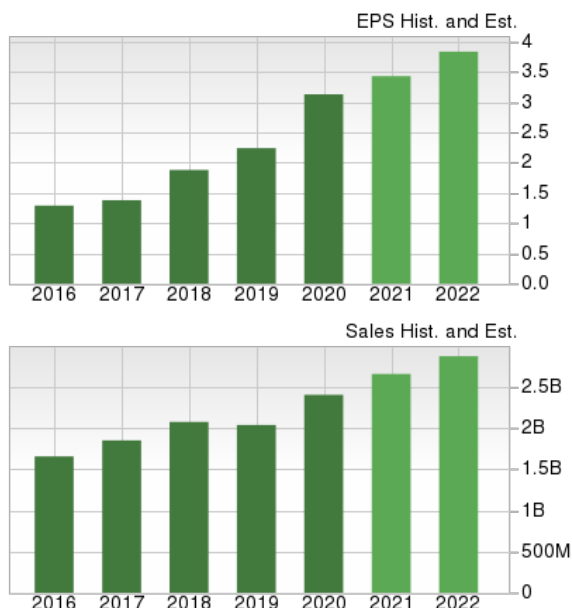
The company provides health care services across the post-acute care continuum and ancillary businesses in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, Oklahoma, Oregon, South Carolina, Texas, Utah, Washington, Wisconsin and Wyoming. As of Dec 31, 2019, it offered skilled nursing, senior living and rehabilitative care services through 223 skilled nursing and senior living facilities. Of the 223 facilities, the company operated 161 facilities under long-term lease arrangements with options to purchase 11 of those 161 facilities. It also owned an additional 90 real estate properties.

Recently, the company authorized the separation of its home health and hospice business and also all its senior living operations from the parent company into a separate publicly traded entity. On its completion, there are two different companies, namely The Ensign Group, Inc. that will consist of the transitional and skilled services, rehabilitative care services, healthcare campuses, post-acute-related new business endeavors and real estate investments, and The Pennant Group, Inc., which will comprise the company's home health and hospice business line and substantially, all its senior living operations.

The company now operates through two services lines, namely Transitional and Skilled Services and Other.

**Transitional and Skilled Services:** As of Dec 31, 2019, its skilled nursing companies provided skilled nursing care at 213 operations with 22,625 operational beds in Arizona, California, Colorado, Idaho, Iowa, Kansas, Nebraska, Nevada, South Carolina, Texas, Utah, Washington and Wisconsin.

**Other:** This service line consists of senior living operations, real estate properties, mobile diagnostics and other ancillary operations.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Solid Outlook:** Following solid fourth-quarter results, the company reaffirmed its 2021 annual earnings guidance of \$3.44-\$3.56 per share. The midpoint indicates an upside of 11.8% from the 2020 reported figure. It still expects its annual revenues in the band of \$2.62-\$2.69 billion, the midpoint indicating a rise of 10.6% from 2020's figure. The bullish guidance should instill investors' confidence in the stock.
- ▲ **Price Performance:** In a year's time, shares of Ensign Group have outperformed its industry. Moreover, its strong fundamentals are likely to help it continue with its rally going forward.
- ▲ **Inorganic Growth:** The company boasts a strong inorganic growth story with several acquisitions in the past decade. Its historical growth has been mainly driven by its expertise in acquiring real estate or leasing post-acute care operations and transforming them into market leaders. With each acquisition, the company had sharpened its expertise, both clinically and financially. Ensign continues to actively seek transactions to acquire real estate and to lease both well-performing and struggling skilled nursing, assisted living and other healthcare related businesses in new and existing markets. There are several buyouts in its pipeline, which are expected to close in the early 2021. Its portfolio now consists of 232 healthcare operations, 24 of which include senior living operations and other ancillary businesses across 13 states. We expect all these acquisitions to bode well for the long haul.
- ▲ **Growing Revenues:** The Ensign Group's top line has been growing since 2012. Revenues witnessed a six-year CAGR (2012-18) of 16.3%. This upside continued in 2019 with the metric rising 16.1% year over year, driven by both its Medicaid and Medicare businesses. The company's growth strategies and acquisitions are likely to drive the top line. In 2020, the metric improved 18% year over year, driven by a solid segmental performance at Transitional and Skilled Services, which is the only reporting segment of the company. Its revenues have gained traction on the back of its Medicaid and Medicare business lines. It expects its annual revenues for 2021 in the band of \$2.62-\$2.69 billion, the midpoint indicating a rise of 10.6% from 2020's figure.
- ▲ **Capital Deployment:** The company has been taking up several initiatives in order to efficiently deploy capital. Frequent share repurchases and dividend payments at regular intervals have helped the company retain investors' confidence in this stock. Ensign Group has been a dividend-paying company since 2002 and has increased its payout annually for the past 18 years. Ensign Group's board of directors recently approved a 5% hike in its quarterly dividend in a bid to enhance shareholder value. The company's dividend payment is expected to continue. Its dividend yield stands at 0.3%, higher than the industry average of 0.2%. The company continued with its capital deployment on the back of its capital position despite the current environment. We believe the company's financial strength to continue buoying investors' confidence in the stock.
- ▲ **Divestitures:** In late 2019, the company separated its home health and hospice business into a separate publicly-traded company. This spin-off met the patients' requirements and was also beneficial to the shareholders. The company hopes that it will be able to add value to its home health, senior living and hospice business line from this spin-off.
- ▲ **Capital Position:** The company's balance sheet position also remains a positive. Its total debt is 12.4% of capital, much lower than the industry's average of 99%. Also, its times interest earned stands at 24.2X, much higher than the industry average of 0.9X. As of Dec 31, 2020, it had \$236.6 million of cash on hand and \$340 million of available capacity under its line-of-credit facility, higher than long-term debt less current maturities of \$112.5 million. Thus, its financial flexibility is impressive.

Promising Post-Acute Care industry, competitive strength, inorganic growth, strong underwriting Results and efficient capital deployment pave the way for long term growth.

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### Reasons To Sell:

- ▼ **Rising Expenses:** The company has been witnessing a persistent increase in total expenses since 2012. Expenses rose 14.2% and 14.3% year over year in 2019 and 2020, respectively, due to higher cost of services, general and administrative expenses, etc. The rising trend in expenses continues to hurt the company, denting its bottom line.
- ▼ **Overvalued:** The stock is trading at a higher value than its industry average. Its current price-to-sales value stands at 1.7X, much above the industry's average of 0.5X. This makes its valuation expensive.

The company severely suffers regulatory uncertainties and rising expenses from higher cost of services, selling, general & administrative expenses.

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## Last Earnings Report

### Ensign Group's Q4 Earnings Top Estimates, Improve Y/Y

Ensign Group delivered adjusted operating earnings of 80 cents per share in fourth-quarter 2020, surpassing the Zacks Consensus Estimate of 79 cents by 1.3%. Further, the bottom line improved 33.3% year over year.

The company's results benefited from revenues.

### Operational Update

Total revenues of \$629 million increased 12.3% year over year in the reported quarter. However, the top line missed the Zacks Consensus Estimate by 1.6%.

Further, adjusted net income in the quarter under review was \$44.9 million, up 33.9% from the prior-year quarter.

Total revenues in the Transitional and Skilled Services, the only reporting segment of the company, came in at \$603 million, up 13.8% year over year.

However, total expenses increased 10.1% year over year to \$573.1 million due to higher cost of services, rent – cost of services plus general and administrative expenses.

### Financial Update

The company exited the fourth quarter with \$236.5 million of cash and cash equivalents, soaring 299.8% from the level at 2019 end.

As of Dec 31, 2020, long-term debt less current maturities was \$112.5 million, down 65.4% from the level at 2019 end.

Net cash from operating activities for 2020 summed \$373.3 million, up 121% year over year.

### Dividend Update

Ensign Group paid out a quarterly cash dividend of 5.25 cents per share during the quarter. This marks the 18th consecutive annual dividend hike, reflecting its commitment to enhance shareholder value.

### 2021 Guidance

Following solid fourth-quarter results, the company reaffirmed its current-year annual earnings guidance of \$3.44-\$3.56 per share.

It still expects its annual revenues in the band of \$2.62-\$2.69 billion.

### Full-Year Results

For 2020, the company's earnings per share came in at \$3.13. This compares to the Zacks Consensus Estimate of \$3.06 per share.

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### Quarter Ending 12/2020

Report Date	Feb 03, 2021
Sales Surprise	-1.58%
EPS Surprise	1.27%
Quarterly EPS	0.80
Annual EPS (TTM)	3.13

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## Recent News

### **Ensign Group Acquires Texas Skilled Nursing Facility — Feb 2, 2021**

Ensign Group completes purchase of the operations of San Pedro Manor, a 150-bed skilled nursing facility located in San Antonio, TX.

### **Ensign Group on Buyout Spree, Expands in California — Jan 4, 2021**

Ensign Group bought three skilled nursing facilities and their operations. The transaction, which is subject to a long-term, triple net lease, has been effective since Jan 1, 2021.

The three health hubs named Golden Hill Post Acute, St. Catherine Healthcare and Camino Healthcare are located in Southern California. Each of them contains 99 skilled nursing beds.

### **Ensign Rewards Shareholders With Dividend Hike — Dec 18, 2020**

Ensign Group's board of directors recently approved a 5% hike in the quarterly dividend in a bid to enhance shareholder value. With this approval, the payout now stands at 5.25 cents per share compared with the prior payout of 5 cents. Shares of Ensign Group have lost 4.3% on Dec 21.

The meatier dividend, which marked the 18th straight year of dividend hike, will be paid on Jan 31, 2021 to shareholders of record as on Dec 31, 2020.

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## Valuation

The Ensign Group's shares are up 15.5% and 61% over the year to date period and trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 21.5% and 6.3% over the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 31.4% and 7%, respectively.

The S&P 500 index is up 5.2% in the year to date period and 19% in the past year.

The stock is currently trading at 1.7x price to sales value, which compares to 0.5x for the Zacks sub-industry, 2.87x for the Zacks sector and 4.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.8x and as low as 0.48x, with a 5-year median of 0.86x. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$88 price target reflects 1.78x sales.

## Industry Analysis Zacks Industry Rank: Bottom 4% (244 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Acadia Healthcare Company, Inc. (ACHC)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
HCA Healthcare, Inc. (HCA)	Neutral	3
Magellan Health, Inc. (MGLN)	Neutral	4
Tenet Healthcare Corporation (THC)	Neutral	3
Universal Health Services, Inc. (UHS)	Neutral	3
UnitedHealth Group Incorporated (UNH)	Neutral	3
Brookdale Senior Living Inc. (BKD)	Underperform	5

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

Industry Comparison Industry: Medical - Nursing Homes				Industry Peers		
	ENSG	X Industry	S&P 500	ACHC	MGLN	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	A	A
Market Cap	4.74 B	260.15 M	27.89 B	4.73 B	2.41 B	10.99 B
# of Analysts	3	2	13	5	3	5
Dividend Yield	0.24%	0.00%	1.41%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.05	0.54	0.06	0.07	0.10	0.10
EV/EBITDA	15.83	4.99	14.83	14.75	11.25	7.74
PEG F1	1.62	1.68	2.38	1.61	NA	3.80
P/B	5.79	1.27	3.89	1.81	1.52	1.82
P/CF	21.03	3.88	15.37	12.98	10.29	8.04
P/E F1	24.33	23.46	20.93	20.59	28.68	12.05
P/S TTM	1.97	0.21	3.06	1.50	0.41	0.97
Earnings Yield	3.96%	3.96%	4.72%	4.86%	3.49%	8.30%
Debt/Equity	0.14	-0.68	0.68	1.18	0.40	0.58
Cash Flow (\$/share)	4.01	1.10	6.70	4.01	9.10	15.94
Growth Score	A	-	-	B	B	A
Historical EPS Growth (3-5 Years)	22.12%	13.98%	9.32%	-3.76%	-0.35%	9.34%
Projected EPS Growth (F1/F0)	9.58%	10.80%	14.04%	10.73%	257.46%	3.55%
Current Cash Flow Growth	29.85%	12.67%	3.17%	-2.61%	14.08%	2.58%
Historical Cash Flow Growth (3-5 Years)	18.24%	-6.54%	7.55%	24.05%	3.37%	23.60%
Current Ratio	1.04	1.02	1.38	1.26	2.08	1.12
Debt/Capital	12.09%	8.56%	41.31%	54.50%	28.75%	36.83%
Net Margin	7.10%	0.46%	10.59%	3.19%	2.28%	7.74%
Return on Equity	21.97%	-3.81%	14.89%	7.55%	5.57%	15.61%
Sales/Assets	0.97	0.93	0.51	0.46	1.80	0.94
Projected Sales Growth (F1/F0)	10.54%	2.69%	6.39%	6.43%	2.97%	4.57%
Momentum Score	F	-	-	C	D	D
Daily Price Change	-2.78%	-0.80%	-0.23%	-2.01%	-0.32%	-0.83%
1-Week Price Change	3.38%	0.07%	1.44%	-2.33%	-0.21%	-1.08%
4-Week Price Change	-0.68%	12.08%	2.06%	2.10%	-1.06%	-1.68%
12-Week Price Change	18.13%	31.60%	5.88%	18.80%	14.38%	-4.29%
52-Week Price Change	60.98%	16.22%	8.47%	52.80%	28.73%	-7.82%
20-Day Average Volume (Shares)	267,729	133,707	2,045,498	482,615	282,619	548,954
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-2.48%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.66%	-2.48%	-1.40%	-0.12%
EPS F1 Estimate 12-Week Change	-1.13%	0.00%	1.97%	-1.05%	1.60%	1.25%
EPS Q1 Estimate Monthly Change	-0.63%	-0.32%	0.38%	0.00%	0.00%	-0.26%

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### 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	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>F</b>
VGM Score	<b>A</b>

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

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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