

EPAM Systems, Inc. (EPAM)

\$323.08 (As of 12/07/20)

Price Target (6-12 Months): **\$339.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

EPAM Systems is benefiting from broad-based growth across its industry verticals and geographies as reflected by third-quarter 2020 results. Strong performance of the Business Information & Media, the company's largest industry vertical drove top-line growth. The momentum is expected to continue in the near term driven by ongoing digital transformation and accelerated transition to cloud. Also, acquisitions have been a key catalyst, which enabled the company to penetrate new markets and diversify and broaden its product portfolio. The company provided optimistic guidance for fourth quarter of 2020 with revenues expected to grow sequentially and stringent cost control benefiting profitability. Shares have outperformed the industry year to date. However, coronavirus-induced weakness in Travel & Consumer industry vertical is a headwind.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$356.98 - \$151.97
20-Day Average Volume (Shares)	259,123
Market Cap	\$18.1 B
Year-To-Date Price Change	52.3%
Beta	1.34
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Top 39% (98 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.2%
Last Sales Surprise	1.8%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/18/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	744 E	767 E	812 E	883 E	3,208 E
2020	651 A	632 A	652 A	702 E	2,642 E
2019	521 A	552 A	588 A	633 A	2,294 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.68 E	\$1.76 E	\$1.89 E	\$2.02 E	\$7.45 E
2020	\$1.43 A	\$1.46 A	\$1.65 A	\$1.70 E	\$6.24 E
2019	\$1.21 A	\$1.28 A	\$1.39 A	\$1.51 A	\$5.42 A

*Quarterly figures may not add up to annual.

P/E TTM	53.4
P/E F1	51.8
PEG F1	2.6
P/S TTM	7.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/07/2020. The reports text is as of 12/08/2020.

Overview

Headquartered at Newtown, PA, EPAM Systems, Inc. is well known for its software engineering and IT consulting services.

The company is engaged in providing software product development services, custom application development services, application testing services, application maintenance and support services, infrastructure management services and enterprise information management services.

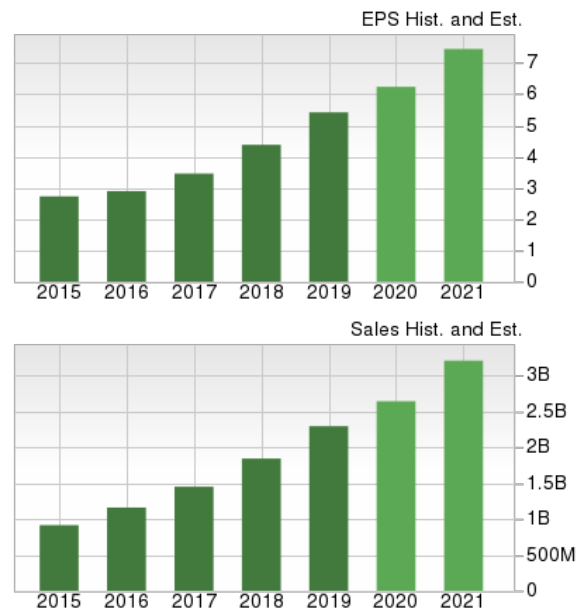
Its software product development services include product research, design and prototyping, product development, component design and integration. EPAM's custom application development services comprise business and technical requirements analysis, solution architecture creation and validation, development, component design and integration.

Under the application testing services, the company offers software application testing, testing for enterprise IT, and consulting services. Further, it provides services like incident management, fault investigation diagnosis, work-around provision, application bug fixes, release management, application enhancements, and third-party maintenance under the application maintenance and support services.

EPAM's infrastructure management services include applications, database, network, server, storage, and systems operations management, as well as incident notification and resolutions. Through its enterprise information management services, the company helps organizations in improving business processes, thereby achieving greater operational excellence.

EPAM generated total revenues of \$2.29 billion in 2019. The company has six operating verticals — Financial Services (22% of FY19 revenues), Travel and Consumer (19%), Software & Hi-Tech (19%), Business Information & Media (18%), Life Sciences & Healthcare (10%) and Emerging Verticals (10%).

The company has a huge client base, which includes majority of Forbes Global 2000 corporations operating across North America, Europe, CIS (Commonwealth of Independent States) and APAC (Asia including India and Australia). In 2019, the company generated 61% of its revenues from North America, 33% from Europe, 4% from CIS and 2% from APAC.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ EPAM mainly serves to the fastest growing areas of IT services which include mobile applications, and their testing, cognitive computing, software development and advanced analytics. The benefits of operating in these key IT services areas can better be understood with the fact that EPAM's revenues have witnessed a compounded annual growth rate (CAGR) of around 25% over the last five years. The demand for these key areas are likely to continue for the next several years as more and more organizations are trying to take advantage of cloud computing and data analytics in order to make greater use of their IT infrastructure. With its world-class capabilities in empowering digital technologies, EPAM is well positioned to grab the growing opportunities in the aforementioned IT services space.
- ▲ Acquisitions have been one of the key growth strategies for EPAM. Since its debut, the company has acquired 10 businesses. Acquisitions have enabled EPAM to enter new markets, diversify and broaden its product portfolio. In Mar 2020, EPAM acquired Deltix, which provides software and services for quantitative research in the financial sector. The acquisition enhanced EPAM's capabilities and offerings in the FinTech space. The latest acquisition of Ricston strengthens EPAM's growing consulting and engineering portfolio of API, micro-services management and integration services.
- ▲ EPAM's strategy of enhancing its cloud capabilities through acquisitions and partnerships with the likes of Amazon Web Services and Google Cloud is a step in the right direction, as evident from the recent forecast provided by several independent research firms. The research firm — Gartner — predicts that the public cloud services market will grow 17% in 2020 and reach \$266.4 billion, up from \$227.8 billion in 2019. Exponential growth in the amount of data, complexity of data formats and the need to scale resources at regular intervals compelled several companies to turn to cloud-computing vendors. Therefore, considering the rising need for cloud-based applications and software, we expect EPAM's investments in this space to propel long-term growth.
- ▲ EPAM has a strong balance sheet with ample liquidity position and meagre debt obligations. Cash and cash equivalents were \$1.22 billion at the end of the third quarter. It should be noted that the company has been able to regularly increase its cash and cash equivalents balance and cash from operations. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, since it carries just \$25 million of long-term debt, the excess cash is available for pursuing strategic acquisitions and investment in growth initiatives.

EPAM mainly serves to the fastest growing areas of IT services. Acquisitions have been a key driving factor which has enabled it entering new markets, diversify and broaden product portfolio.

Reasons To Sell:

- ▼ We believe the coronavirus outbreak will affect EPAM's near-term financial performance. The novel virus has hit the business community hard and therefore, majority of EPAM clients might adjust their planned IT services investments. Nonetheless, the impact is anticipated to be limited as investment in IT Services work streams remain essential and hence, the industry would be the softest hit in comparison to others. Furthermore, anticipating an uncertainty regarding the potential impacts of the coronavirus pandemic on its full-year results, EPAM withdrew its 2020 guidance. It expects its business operations to remain affected throughout the year, which makes us anxious about the company's near-term prospects.
- ▼ As EPAM's majority of its delivery centers are located in Central and Eastern Europe, the company's prospects are currently prone to a massive geopolitical risk due to the ongoing conflict between Russia and Ukraine. Notably, the company's largest delivery centers are located in Belarus, Russia and Ukraine. Any escalation in the ongoing conflict is likely to disrupt the company's overall business operations and therefore, hurt its revenues and profitability.
- ▼ EPAM's market share and revenues necessarily depend on client relationships and the number of contracts it secures. This, along with the limited scope for product differentiation, makes renegotiation of large contracts extremely important. As a result, competition from companies like Accenture and Infosys is a constant pressure. Competition is particularly tough in the case of resurgent regions like Europe, since all the major players are fighting for business. This naturally increases pricing pressure.
- ▼ The latest forecast for worldwide IT spending by Gartner might dampen EPAM's growth prospects. The worldwide IT spending is anticipated to be \$3.6 trillion in 2020, suggesting a decrease of 5.4% from 2019. The research firm expects worldwide spending on IT services to decline 4.6% year over year to \$992.09 billion this year. Gartner noted that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and the global economic recession.
- ▼ Anticipation of a controlled spending from select clients is making investors wary. Soft spending by the European banking clients and sluggish demand in the consumer and retail space, primarily in Europe, are nagging woes.

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Last Earnings Report

EPAM Systems Tops Q3 Earnings & Revenue Estimates

EPAM reported third-quarter 2020 non-GAAP earnings of \$1.65 per share, beating the Zacks Consensus Estimate by 12.2%. The figure also grew 18.7% year over year.

Revenues came in at \$652.2 million, reflecting a year-over-year rise of 10.9%. The top line also surpassed the consensus mark by 1.7%. On a constant currency (cc) basis, revenues were up 10%.

The company is benefiting from growth across all geographies and multiple industry verticals. Digital transformation, focus on customer engagement and product development have been key catalysts.

Quarterly Details

EPAM Systems' largest vertical, Business Information & Media, jumped 32.3% year over year to \$140 million and accounted for 21.5% of revenues.

Financial Services increased 4.9% on a year-over-year basis to \$136.7 million and accounted for 20.9% of revenues.

While Software & Hi-Tech was up 9.7% to \$118.8 million, Travel & Consumer slipped 2% to \$110.2 million. Software & Hi-Tech, and Travel & Consumer accounted for 18.2% and 16.9% of revenues, respectively.

Life Science & Healthcare increased 11.1% year over year to \$74.2 million, and accounted for 11.4% of revenues.

Emerging Verticals improved 12.2% year over year to \$72.3 million and contributed 11.1% of revenues.

Geographically, EPAM Systems generated 59.8% of total revenues from North America, up 8.8% year on year to \$390 million.

Revenues from Europe, contributing 32.9% to total revenues, were up 13.3% to \$214.5 million.

CIS, representing 4.6% of revenues, increased 13.4% to \$30 million.

APAC was up 27.4% to \$17.7 million and accounted for 2.7% of revenues.

Meanwhile, selling, general and administrative expenses as a percentage of revenues shrunk 230 basis points (bps) year over year to 17.9%.

EPAM Systems' non-GAAP operating income improved 23.6% year over year to \$123.3 million. Operating margin expanded 190 bps to 18.9%.

Balance Sheet and Cash Flow

As of Sep 30, 2020, EPAM Systems had cash and cash equivalents of \$1.22 billion, up from \$1.05 billion as of Jun 30, 2020.

As of Sep 30, 2020, long-term debt was \$25 million, flat sequentially.

EPAM Systems generated cash flow from operating activities of \$175.6 million compared with the year-ago quarter's \$119 million.

Q4 Outlook

EPAM Systems expects revenues between \$695 million and \$705 million in the fourth quarter, suggesting year-over-year growth of 10.6% at the mid-point of the range.

The company anticipates non-GAAP operating margin in the 17.5-18.5% range. Non-GAAP earnings are expected to be in the \$1.63-\$1.73 per share band.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	1.75%
EPS Surprise	12.24%
Quarterly EPS	1.65
Annual EPS (TTM)	6.05

Recent News

On Nov 11, EPAM announced that for the consecutive second year it has been named in the 2020 Fortune 100 Fastest-Growing Companies list. The list places EPAM at #21.

On Oct 29, EPAM announced the availability of 'HealthBuddy COVID-19' chatbot app developed in collaboration with UNICEF ECARO, to protect children, families and communities across Europe.

On Oct 19, EPAM announced that it has achieved the Modernization of Web Applications in Microsoft Azure advanced specialization. This certificate validates EPAM's deep knowledge, extensive experience and proven expertise in migrating and modernizing production web application workloads, and managing app services in Azure.

On Sep 2, EPAM announced the acquisition of Ricston, a leading software integration and connectivity-solutions provider. The deal strengthens EPAM's growing consulting and engineering portfolio of API, micro-services management and integration services.

On Aug 25, EPAM announced the launch of the first ever ISO 20022 Payments Sandbox environment. This allows corporations to test their payment systems with the new global messaging protocol, before fully migrating. ISO 20022 is an emerging global and open standard for payments messaging.

Valuation

Shares of EPAM have increased 52.3% year-to-date (YTD) and 54.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 38.7% and 39.1%, respectively, YTD. Over the past year, the Zacks sub-industry and the sector increased 44% and 44%, respectively.

The S&P 500 Index has increased 16.9% YTD and 20.2% in the past year.

The stock is currently trading at 43.83X forward 12-month earnings, which compares to 30.97X for the Zacks sub-industry, 27.99X for the Zacks sector and 22.90X for the S&P 500 index.

Over the past five years, the stock has traded as high as 61.24X and as low as 24.54X with a 5-year median of 33.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$339 price target reflects 46.02X forward 12-month earnings.

The table below shows summary valuation data for EPAM

Valuation Multiples - EPAM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	43.83	30.97	27.99	22.90
	5-Year High	61.24	32.37	28.01	23.47
	5-Year Low	24.54	15.29	16.94	15.27
	5-Year Median	33.13	23.00	19.95	17.77
P/S F12M	Current	5.70	6.44	4.47	4.31
	5-Year High	6.44	10.11	4.49	4.31
	5-Year Low	2.27	3.90	2.77	3.17
	5-Year Median	3.27	6.67	3.47	3.68
EV/EBITDA TTM	Current	41.24	35.22	16.11	16.49
	5-Year High	45.00	35.84	16.11	16.52
	5-Year Low	16.18	19.85	8.25	9.54
	5-Year Median	25.41	27.46	11.99	13.14

As of 12/07/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 39% (98 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Accenture PLC (ACN)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
Amdocs Limited (DOX)	Neutral	3
Genpact Limited (G)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
Infosys Limited (INFY)	Neutral	3
DXC Technology Company. (DXC)	Underperform	4
Hewlett Packard Enterprise Company (HPE)	Underperform	5

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

Industry Comparison Industry: Computers - It Services				Industry Peers		
	EPAM	X Industry	S&P 500	ACN	CTSH	DXC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	B	-	-	B	B	A
Market Cap	18.09 B	3.19 B	26.33 B	164.26 B	43.67 B	6.15 B
# of Analysts	10	5	13	12	11	6
Dividend Yield	0.00%	0.00%	1.5%	1.41%	1.09%	0.00%
Value Score	D	-	-	C	B	A
Cash/Price	0.07	0.07	0.06	0.05	0.10	0.49
EV/EBITDA	48.99	9.69	14.68	18.16	13.41	2.85
PEG F1	2.64	1.80	2.79	3.10	2.01	NA
P/B	9.70	4.22	3.61	9.04	3.92	1.30
P/CF	54.02	13.44	13.93	23.69	15.99	0.60
P/E F1	51.69	31.53	22.05	31.04	22.07	11.71
P/S TTM	7.04	2.61	2.84	3.71	2.61	0.33
Earnings Yield	1.93%	2.15%	4.36%	3.22%	4.53%	8.56%
Debt/Equity	0.01	0.16	0.70	0.00	0.22	1.69
Cash Flow (\$/share)	5.98	0.95	6.94	10.52	5.04	40.21
Growth Score	A	-	-	A	B	B
Historical EPS Growth (3-5 Years)	28.93%	18.05%	9.69%	10.65%	8.36%	14.13%
Projected EPS Growth (F1/F0)	15.07%	7.83%	1.00%	7.65%	-8.57%	-62.99%
Current Cash Flow Growth	27.45%	8.73%	5.22%	17.75%	-2.96%	133.97%
Historical Cash Flow Growth (3-5 Years)	26.53%	16.04%	8.33%	12.30%	10.46%	44.41%
Current Ratio	4.22	1.71	1.38	1.40	2.62	0.96
Debt/Capital	1.33%	19.26%	42.00%	0.31%	17.80%	62.87%
Net Margin	12.31%	2.81%	10.40%	11.52%	8.78%	-20.44%
Return on Equity	18.29%	9.79%	14.99%	30.17%	19.04%	14.08%
Sales/Assets	1.08	0.70	0.50	1.28	0.95	0.69
Projected Sales Growth (F1/F0)	15.17%	0.56%	0.35%	5.42%	-0.53%	-10.79%
Momentum Score	D	-	-	B	D	D
Daily Price Change	-0.57%	-0.52%	-0.49%	-1.63%	-0.65%	-3.05%
1-Week Price Change	-0.31%	1.00%	1.73%	1.33%	3.38%	7.17%
4-Week Price Change	1.43%	6.01%	4.72%	3.78%	9.00%	23.80%
12-Week Price Change	-0.47%	7.58%	13.55%	4.38%	16.22%	19.81%
52-Week Price Change	54.72%	16.13%	6.52%	23.40%	30.14%	-33.47%
20-Day Average Volume (Shares)	259,123	349,979	1,975,294	1,636,495	2,577,208	2,432,818
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.03%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.03%	0.00%	-0.24%
EPS F1 Estimate 12-Week Change	7.34%	5.36%	3.94%	-1.04%	2.70%	-5.99%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	1.06%

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	D
Growth Score	A
Momentum Score	D
VGM Score	B

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

Disclosures

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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.