

EverQuote, Inc.(EVER)

\$35.11 (As of 04/26/21)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/22/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

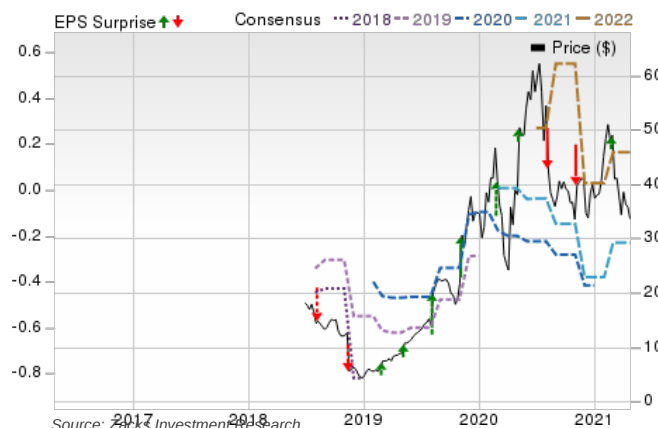
Growth: B

Momentum: D

Summary

EverQuote should continue to benefit from its exclusive data asset and technology, solid top-line growth and strong financial profile. Solid performances at automotive and other insurance verticals poise the company well for growth. Lower advertising costs coupled with growth in revenue per quote request helped the company deliver improved variable marketing margin. EverQuote expects to benefit from the shift to online insurance sales as the need for social distancing has increased due to the coronavirus pandemic. It remains focused on the growth of consumer traffic and addition of channels. Higher expenses due to higher cost of revenue and sales and marketing expenses put pressure on margin. Also, lower return on equity poses financial threat to the company. Shares of EverQuote have underperformed the industry in the year-to-date period

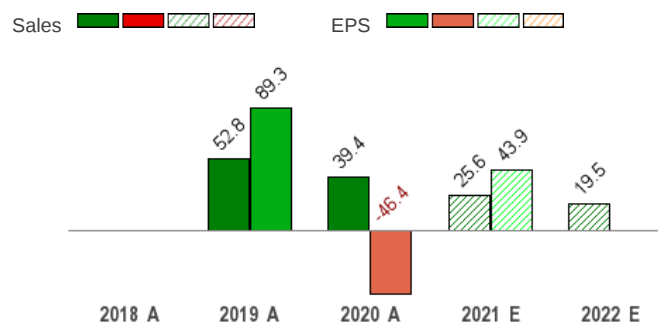
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$63.44 - \$31.50
20-Day Average Volume (Shares)	136,996
Market Cap	\$999.8 M
Year-To-Date Price Change	-6.0%
Beta	1.42
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 34% (166 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	6.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	05/03/2021
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					521 E
2021	101 E	102 E	112 E	121 E	436 E
2020	81 A	78 A	90 A	97 A	347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.16 E
2021	-\$0.13 E	-\$0.04 E	-\$0.03 E	-\$0.03 E	-\$0.23 E
2020	-\$0.05 A	-\$0.10 A	-\$0.12 A	-\$0.13 A	-\$0.41 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/26/2021. The report's text and the analyst-provided price target are as of 04/27/2021.

Overview

Founded in 2011 and headquartered in Cambridge, MA, EverQuote is an online insurance marketplace. It was incorporated in the state of Delaware in 2008. Through its websites, the company operates an online marketplace for consumers shopping for auto, home and renters, life, health and commercial insurance.

The company aims to reshape insurance shopping for consumers and improve the way insurance providers attract and connect with customers shopping for insurance. With over 11 million consumer visits per month, its results-driven marketplace, powered by the proprietary data and technology platform, matches and connects consumers seeking to purchase insurance with relevant options from its network of insurance providers, saving consumers and providers' time and money.

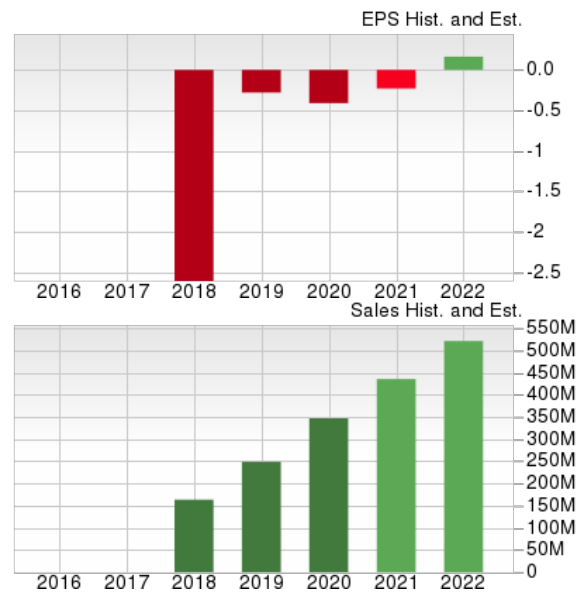
The company manages its operations as a single segment for the purpose of assessing performance and making operating decisions. All the company's tangible assets are held in the United States.

The EverQuote platform is powered by data science. Its data assets and proprietary algorithms efficiently attract consumers and match them with relevant insurance providers, which drive overall business model. It utilizes the data assets throughout business, from advertising and consumer acquisition to the innovation of new consumer and provider experiences, as well as to guide strategic direction. Data science capabilities are expected to provide it with a significant competitive advantage.

The EverQuote marketplace benefits from significant network effects. The combination of these factors increases consumer traffic while reducing acquisition costs, leading to more quote requests for insurance provider customers. Increased quote requests, combined with quote and bind feedback, improve providers' advertising and marketing efficiency in marketplace, resulting in more providers and provider spend.

Its technology platform combines internally developed, third-party and open-source software. This combination allows for rapid development and release of high-performance technology solutions in a cost-effective and scalable manner.

The company's wholly owned operating subsidiary is EverQuote NI Limited.



Reasons To Buy:

- ▲ **Share Performance:** Shares of EverQuote have lost 6%, underperforming its industry's rise of 18% in the year-to-date period. Nonetheless, its operational efficiencies and, solid capital position will help the shares bounce back.
- ▲ **Revenue Growth:** The business of EverQuote largely depends on revenues from automotive insurance providers. In 2020, revenues from the automotive insurance vertical increased 33% to \$283.2 million. The company's top line, which has been increasing over the years owing to solid performance of automotive and other insurance marketplace verticals, witnessed a CAGR of 33.3% over the last six years (2014-2020). EverQuote also remains focused on rapidly expanding into new verticals. Revenues from non-auto verticals increased at a four-year (2016-2020) CAGR of 112.9%. Increasing consumer traffic, higher quote request volume and innovating advertiser products and services will continue to drive revenues. In 2021, it expects revenue growth to continue to exceed the long-term model of 20% with continued higher growth from other insurance verticals.
- ▲ **Acquisition to Aid Growth:** In September 2020, EverQuote has closed the buyout of IN-based Crosspointe Insurance & Financial Services, LLC, which is expected to accelerate the extension of EverQuote's digital distribution platform to a direct-to-consumer agency model within the health vertical. Also, it will broaden the insurer's access to the \$130 billion commission TAM component of overall insurance distribution spend shifting online. The transaction is also expected to increase revenue per quote request in health insurance vertical which will further grow and diversify company's revenues.
- ▲ **Improved Guidance:** Following a solid fourth-quarter performance, EverQuote also upped its 2021 revenue expectation to a range of \$430 million to \$440 million from the prior range of \$340 million and \$342 million. Variable margin is estimated to be between \$135 million and \$140 million, up from the prior guidance of \$106 million to \$107 million. Adjusted EBITDA is now expected to be in the range of \$25 million to \$30 million compared with the prior expectation of \$17 million to \$18 million.

The company has also upped its first-quarter 2021 revenue expectation to a range of \$100 million to \$102 million from the prior range of \$90.4 million to \$92.4 million. Variable margin is estimated to be between \$30.5 million to \$31.5 million, up from the prior guidance of \$29.3 million to \$30.3 million. Adjusted EBITDA is now expected to be in the range of \$4 million to \$5 million, which remain unchanged from the prior guidance.

- ▲ **Quote Requests:** The success of the company depends on the growth of consumer traffic, as measured by quote requests. EverQuote remains focused on increasing consumer traffic by expanding existing advertising channels and adding new channels. In 2020, quote requests surged 35% to \$27 million on the back of distribution growth and traffic optimization of the company. Such increased quote requests improve providers' advertising and marketing efficiency in the marketplace, which in turn enables the company to attract more consumers and generate more data.
- ▲ **Variable marketing margin:** Lower advertising costs coupled with growth in revenue per quote request helped the company deliver improved variable marketing margin ("VMM"), one of the primary metrics for managing business. VMM witnessed six-year (2014-2020) CAGR of 44.6%. The metric also increased 48% to \$108.6 million 2020, which exceeded the guidance provided last quarter. A higher volume of quote requests will continue to drive VMM going forward.

As a percentage of revenues, VMM expanded to 31% in 2020, up from 30% in the year-ago quarter. The VMM expansion can be attributed to more consumers in the marketplace at lower acquisition costs and with better unit economics.

- ▲ **Solid Balance Sheet:** The company boasts a debt free balance sheet with cash balance improving over the last three years. Moreover, EverQuote generated solid cash flows, which increased two-fold year over year to \$10.7 million in 2020. The company renewed its revolving line of credit with Western Alliance Bank in August 2020, increasing it to \$25 million. Its cash and cash equivalents increased at a four-year CAGR (2016-2020) of 42.9%. The quarter ended with \$42.9 million in cash and cash equivalents on the balance sheet, which reflected use of \$3.2 million cash in operating cash flow during the quarter driven by the timing of payables and receivables at year end. The company aims to meet any future debt service obligations with the existing cash and cash equivalents and cash flows from operations, which are expected to be sufficient to fund operating expenses and capital expenditure requirements for at least the next 12 months, without considering liquidity available from the revolving line of credit.

Increasing consumer traffic, higher quote request volume and lower advertising costs are key positives.

Reasons To Sell:

- ▼ **Escalating Expenses:** EverQuote has been experiencing an increase in expenses due to higher cost of revenues, sales and marketing expenses, research and development, general and administrative expenses. In 2020, total expenses increased 39.6% to \$358.6 million. The company should strive to generate higher revenue growth rate compared with the rise in expenses and manage additional costs to prevent margin erosion.
 - ▼ **Weak Return on Equity:** The company's return on equity, a profitability measure reflecting how effectively a company is utilizing its shareholders' fund, is negative 17.6% compared to the industry average of 7.6%.
 - ▼ **Stretched Valuation:** Valuation of the company remains stretched at current level. Looking at its price-to-sales (P/S) ratio, investors might not want to pay any further premium. EverQuote has a price-to-sales ratio of 2.16, much higher than the industry average of 1.02.
-

Rising expenses due to higher marketing, general and administrative expenses are concerns. Poor return on equity also bothers the company.

Last Earnings Report

EverQuote Q4 Loss Narrower Than Expected, Revenues Top

EverQuote, Inc. incurred a net loss of 13 cents per share in fourth-quarter 2020, narrower than the Zacks Consensus Estimate of a loss of 14 cents. However, the bottom line was wider than the year-ago quarter's loss of 4 cents.

EverQuote witnessed increased revenues from automotive insurance and other insurance verticals in the reported quarter, offset by higher expenses.

Quarter Ending 12/2020

Report Date	Feb 22, 2021
Sales Surprise	6.04%
EPS Surprise	7.14%
Quarterly EPS	-0.13
Annual EPS (TTM)	-0.40

Behind the Headlines

Total revenues of \$97 million surpassed the Zacks Consensus by 5.4%. The top line also soared 31.1% year over year, primarily attributable to a strong performance across the company's insurance verticals, namely Automotive and Other.

Revenues in the Automotive insurance vertical were \$76.2 million, up nearly 27% year over year. Also, revenues in the Other insurance vertical totaled \$21.1 million, which grew 55% year over year.

Total costs and operating expenses increased 34.8% to \$101 million, mainly due to higher cost of revenues, sales and marketing, research and development, general and administrative expenses, and acquisition-related costs.

The company's Variable Marketing Margin expanded 46% year over year in the quarter under review to \$31.9 million. Adjusted EBITDA was \$5.4 million, which grew 28.6% year over year.

Quote requests increased 11.8% year over year in the quarter under review to \$6.5 million.

Financial Update

The company exited 2020 with cash and cash equivalents of \$42.9 million, down 6.9% from the 2019-end level. Total assets were \$129 million, up 41.5% year over year. Also, total liabilities increased 47.2% to \$58.1 million. Total stockholders' equity was \$70.9 million, which improved nearly 37.1% from the level at 2019 end.

Full-Year Update

Total revenues for 2020 improved 39.4% year over year to \$346.9 million. Automotive insurance vertical revenues were \$283.2 million, up 33.4% from the 2019-end level. Other insurance vertical revenues improved 74.5% year over year to \$63.7 million. For 2020, net loss of 41 cents per share was wider than the year-ago loss of 28 cents. Variable Marketing Margin grew 48% year over year to \$108.6 million. Adjusted EBITDA totaled \$18.4 million, which soared 121.7% year over year.

Q121 Guidance

Following the fourth-quarter results, the company provided an outlook for the first quarter of 2021. EverQuote expects total revenues of \$100-\$102 million for the March quarter of the ongoing year. The company also anticipates Variable Marketing Margin of \$30.5-\$31.5 million. Moreover, adjusted EBITDA is expected to be \$4-\$5 million.

2021 Guidance

The company expects current-year total revenues of \$430-\$440 million. Variable Marketing Margin is estimated to be \$135-\$140 million. Also, adjusted EBITDA is anticipated to be \$25-\$30 million.

Valuation

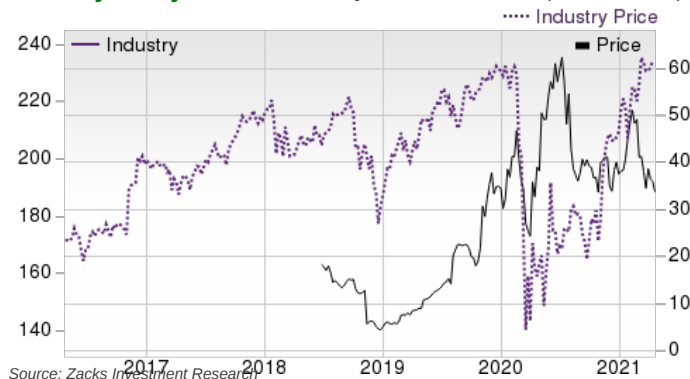
EverQuote shares are down 6% in the year-to-date period and 10.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 18% and 14.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 50.5% and 47.9%, respectively.

The S&P 500 index are up 12.4% in the year-to-date period and 49.4% in the past year..

The stock is currently trading at 2.16x forward twelve months price to sales value, which compares to 1.02x for the Zacks sub-industry, 7.96x for the Zacks sector and 4.82x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.71x and as low as 0.55x, with a 5-year median of 2.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 price target reflects 14.85x forward twelve months price to sales value.

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Aegon NV (AEG)	Neutral	2
American International Group, Inc. (AIG)	Neutral	3
James River Group Holdings, Ltd. (JRVV)	Neutral	2
MGIC Investment Corporation (MTG)	Neutral	2
Old Republic International Corporation (ORI)	Neutral	2
Oscar Health, Inc. (OSCR)	Neutral	3
SelectQuote, Inc. (SLQT)	Neutral	3
Trean Insurance Group, Inc. (TIG)	Neutral	3

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	EVER	X Industry	S&P 500	AEG	JRVV	MTG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	2
VGM Score	C	-	-	D	A	D
Market Cap	999.77 M	4.73 B	30.22 B	NA	1.44 B	5.09 B
# of Analysts	5	3	12	2	2	3
Dividend Yield	0.00%	1.57%	1.26%	1.55%	2.57%	1.60%
Value Score	D	-	-	C	A	B
Cash/Price	0.04	0.22	0.05	NA	0.81	0.06
EV/EBITDA	-121.87	6.57	16.96	NA	5.34	8.92
PEG F1	NA	1.74	2.38	NA	NA	1.78
P/B	13.95	1.10	4.13	0.44	1.80	1.08
P/CF	NA	10.32	17.22	4.99	8.72	9.88
P/E F1	NA	11.93	22.45	6.29	18.15	8.92
P/S TTM	2.88	0.99	3.40	NA	2.15	4.24
Earnings Yield	-0.66%	8.18%	4.40%	15.90%	5.52%	11.19%
Debt/Equity	0.00	0.22	0.66	0.43	0.33	0.26
Cash Flow (\$/share)	-0.28	2.42	6.78	0.92	5.36	1.52
Growth Score	B	-	-	C	A	F
Historical EPS Growth (3-5 Years)	NA%	7.06%	9.70%	NA	-6.25%	12.32%
Projected EPS Growth (F1/F0)	43.90%	18.44%	16.71%	-8.75%	273.19%	27.52%
Current Cash Flow Growth	59.24%	7.51%	0.72%	-22.37%	25.38%	-28.39%
Historical Cash Flow Growth (3-5 Years)	NA%	0.58%	7.37%	-5.57%	0.40%	-0.88%
Current Ratio	2.08	0.64	1.38	0.07	0.65	0.43
Debt/Capital	0.00%	20.74%	41.19%	30.08%	24.79%	20.92%
Net Margin	-3.23%	7.87%	11.07%	NA	0.72%	37.20%
Return on Equity	-17.57%	8.14%	15.32%	NA	10.66%	10.24%
Sales/Assets	3.12	0.19	0.50	NA	0.13	0.18
Projected Sales Growth (F1/F0)	25.53%	0.00%	7.53%	0.00%	17.77%	0.00%
Momentum Score	D	-	-	F	D	C
Daily Price Change	4.49%	0.32%	0.06%	1.77%	0.82%	0.60%
1-Week Price Change	-6.07%	-0.13%	0.47%	-2.38%	-8.78%	4.33%
4-Week Price Change	2.99%	2.04%	4.37%	-1.92%	3.38%	13.02%
12-Week Price Change	-25.08%	14.13%	15.10%	11.14%	5.18%	25.38%
52-Week Price Change	-3.76%	45.04%	51.64%	88.11%	29.98%	126.55%
20-Day Average Volume (Shares)	135,115	176,529	1,756,496	1,522,901	176,529	2,482,967
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.20%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.15%	0.00%	0.00%	0.80%
EPS F1 Estimate 12-Week Change	39.47%	-1.23%	2.11%	-7.01%	3.00%	3.70%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.02%	NA	0.78%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

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 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.