# Fresenius Medical Care (FMS)

**$42.03** (As of 01/11/21)

Price Target (6-12 Months): **$48.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 12/31/20) Prior Recommendation: Neutral | **Outperform** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **3-Hold** |
| | Zacks Style Scores: | VGM:A |
| | Value: A \| Growth: B \| Momentum: A | |

## Summary

Fresenius Medical continues to gain from Health Care Products and Services units, which witnessed revenue growth in the quarter under review on constant currency basis. While revenues in the North American and EMEA regions remained stable, the same in Asia-Pacific witnessed noticeable improvement. Furthermore, strong view for 2020 paints a bright picture. A wide range of dialysis products and services instill optimism in the stock. Management expects to undertake meaningful investments in 2020 to capitalize on opportunities and optimize cost base. Fresenius Medical exited the third quarter on a mixed note. However, Fresenius Medical faces intense competition in the field of health care services, and sale of dialysis products, which remains a concern. The company underperformed the industry in a year's time.

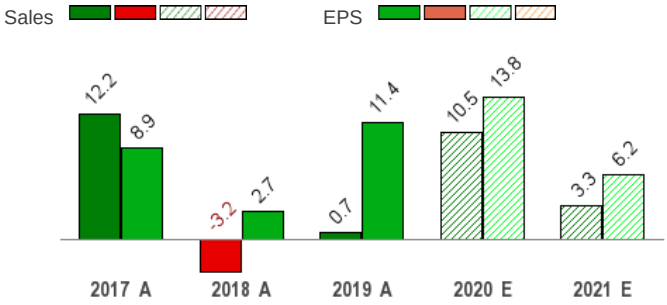
## Price, Consensus & Surprise

*Source: Zacks Investment Research*

## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$46.55 - $29.17** |
| 20-Day Average Volume (Shares) | **188,990** |
| Market Cap | **$24.6 B** |
| Year-To-Date Price Change | **1.1%** |
| Beta | **1.21** |
| Dividend / Dividend Yield | **$0.50 / 1.2%** |
| Industry | **Medical - Instruments** |
| Zacks Industry Rank | **Bottom 32% (171 out of 253)** |
| Last EPS Surprise | **7.6%** |
| Last Sales Surprise | **-7.1%** |
| EPS F1 Estimate 4-Week Change | **0.0%** |
| Expected Report Date | **02/18/2021** |
| Earnings ESP | **0.0%** |
| P/E TTM | **15.9** |
| P/E F1 | **13.7** |
| PEG F1 | **2.3** |
| P/S TTM | **1.2** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 5,586 E | 5,714 E | 5,773 E | 6,112 E | 22,329 E |
| 2020 | 4,950 A | 5,017 A | 5,159 A | 5,757 E | 21,622 E |
| 2019 | 4,694 A | 4,883 A | 4,913 A | 5,073 A | 19,576 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.67 E | $0.72 E | $0.72 E | $0.80 E | $3.06 E |
| 2020 | $0.52 A | $0.66 A | $0.71 A | $0.70 E | $2.88 E |
| 2019 | $0.59 A | $0.52 A | $0.67 A | $0.75 A | $2.53 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 01/11/2021. The reports text is as of 01/12/2021.

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

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## Overview

Based in Bad Homburg, Germany, Fresenius Medical Care AG & Co. KGaA (FMS) is one of the largest integrated providers of products and services for individuals undergoing dialysis following chronic kidney failure.

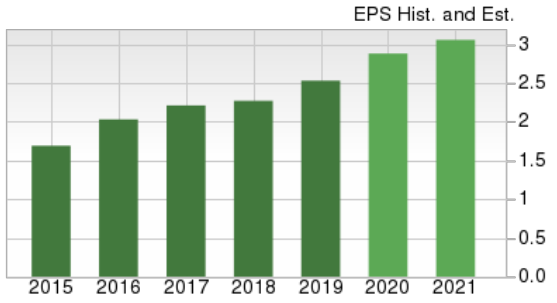
Formed in 1996 following the merger of the dialysis business of Fresenius AG and the U. S. dialysis service provider, National Medical Care, Fresenius Medical provides products and services across the entire dialysis value chain throughout the World.

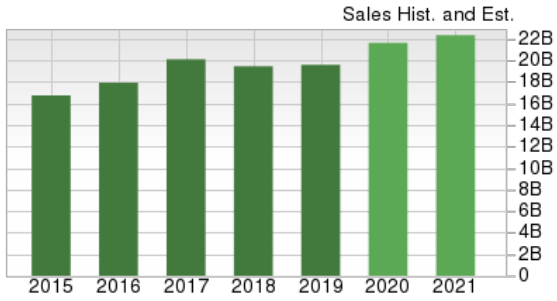
Through its network of over 3,600 dialysis clinics across the world, the company offers dialysis services and products in more than 120 countries and employs over 109,000 staffs in more than 50 countries.

Fresenius Medical manufactures a variety of durable medical devices used in the treatment of End Stage Renal Disease (ESRD). Devices like Hemodialysis Machines, Peritoneal Dialysis Machines, Granuflo Concentrate Mixing Tanks and monitoring devices like the Crit-line platform are included in the company's product pipeline.

The company primarily operates in two revenue segments.

**The Health Care Services segment:** This segment consists of the company's Dialysis Services and the Care-Coordination (non-dialysis laboratory services), which accounted 79% of net revenues in full year 2019.




**The Health Care Products segment:**This segment comprises of the company's Dialysis machines, dialyzers, dialysis solutions, hemodialysis concentrates, bloodline systems, water treatment systems, dialysis drugs and other medical products. The segment accounted for 21% of net revenues in full year 2019.

Fresenius Medical derives its revenues majorly from four geographical locations - North America, EMEA, Asia-Pacific and Latin America.

*Source: Zacks Investment Research*

## Reasons To Buy:

Wide range of dialysis products, deliberate initiatives for attaining market traction, solid international foothold, strategic acquisitions & divestments are the major growth catalysts

- **Global Efficiency Program Phase II on Track**: Fresenius Medical has launched the second phase of its Global Efficiency Program (GEP II) in 2018. The program's aim is to identify and realize further efficiency potential and enhance the overall competitiveness of Fresenius Medical. Starting in 2018, GEP II targets to achieve sustained cost improvements of EUR 150 to 200 million per annum by 2020. Per management, the company has already achieved savings around 40% in the first two program years and anticipates achieving the balance 60% of the savings potential in 2020 that will mark the third and final year of the program.

- **Wide Range of Dialysis Products & Services**: The company provides a wide range of Dialysis products in its own dialysis clinics and to third-party clinics. These include modular machine components, dialyzers, bloodline systems, HD (hemodialysis) solutions, concentrates and water treatment systems.

  Fresenius Medical offers a wide array of Hemodyalisis, Peritoneal dialysis and Acute Dialysis products as well. Earlier, the company sold more than 48,000 dialysis machines worldwide, in addition to 130 million dialyzers. Till date, the company has accounted for almost half of global sales of dialysis products. Around 3 million patients, worldwide, regularly undergo dialysis treatment.

  In September 2019, the company achieved another milestone in China, with the introduction of the 4,008A dialysis machine. This is a significant step in the market with the largest dialysis patient population in the world. At year-end 2019, home dialysis accounted for 13% of all treatments in the United States. By 2022, the company aims to perform more than 15% of all dialysis treatment in the United States in a home setting and is on track to achieve this target.

  In the United States, the company is collaborating with other dialysis providers to create isolation clinics and dedicated shifts for COVID positive patients. The primary aim of this collaboration is to keep dialysis patients out of the hospital whenever it is possible. During third-quarter 2020, Fresenius Medical was able to maintain operations in more than 4,000 of its dialysis clinics worldwide without substantial interruption, while minimizing the impact of the pandemic on its staff and patients. Use of telehealth solutions was the primary reason behind this uninterrupted operational performance.

- **Favorable Tiding on the Regulatory Front**: Fresenius Medical recently announced the FDA device approval for its computer-assisted ultrafiltration control software, which aims to improve fluid management during hemodialysis (HD). This further fortifies Fresenius Medical's foothold in the global renal medical devices and services space.

  The ultrafiltration control software is designed to work with its newer HD machines and provide computer-assisted diagnosis. Notably, effective fluid management is critical about creating the best HD treatment.

- **Growth Strategy 2020**: Fresenius Medical has set up a strong long-term objective called the 'Growth Strategy 2020', to chalk out a few strategic initiatives for attaining solid market traction.

  Per the postulates of the 'Growth Strategy 2020', Fresenius Medical aims to boost revenues to $28 billion by 2020, corresponding to an average annual growth rate of around 10%. In this regard revenues increased 7% on a year-over-year basis and reached $17.9 billion in recent past, driven by strong performance in Health Care Services. Furthermore, management forecasts an increase in revenues in tune with organic growth and acquisitions. At the same time, the company expects high single-digit annual growth in net income by 2020.

  In addition to the stock's strong performance in its core dialysis business, Fresenius Medical intends to achieve the 2020 targets by expanding its Care Coordination (non-dialysis segment) as well. The company reconfirmed the mid-term outlook of its 'Growth Strategy 2020' in 2018.

- **Strong Global Foothold**: Fresenius Medical has a solid market hold in the regions of North America, Europe (EMEA), Asia Pacific and Latin America. To strengthen its market position, the company is resorting to various approaches like enhancing its organic growth and making strategic and suitable acquisitions. The company also aims at aligning its business activities through public-private partnerships in the dialysis business for tapping into new markets in the coming quarters.

  In recent past, the company entered the dialysis services market in Israel. Fresenius Medical also expanded its dialysis services business in India by acquiring an 85% stake in Sandor Nephro Services, a dialysis group, offering dialysis treatment and other associated services such as laboratory tests to 308,471 patients in 3,624 dialysis clinics worldwide.

  In third-quarter 2020, the company witnessed revenue growth across North America, Asia Pacific and EMEA. The company achieved an overall organic growth of more than 4%, with strong contributions of 2%, 6% and 1% from North America, Asia Pacific and EMEA, respectively. Each of the four regions (abovementioned and Latin America) contributed positively to the company's organic growth in the third quarter despite the headwinds from calcimimetics in North America and impact of the pandemic in all of the other regions.

- **Strategic Acquisitions & Partnerships**: Acquisitions have been a key catalyst for the company. In an initiative to boost its long-term strategy or the 'Growth-Strategy 2020', Fresenius Medical already acquired all outstanding shares of NxStage Medical for $30 a share. Fresenius Medical expects the acquisition to prove accretive to earnings within three years from deal closure. Furthermore, the deal is expected to provide annual pre-tax cost savings of $80 million to $100 million over the next three to five years. Fresenius Medical also expects integration costs of about $150 million over the next three years from the time of announcement last year.

- **Balance Sheet View**: Fresenius Medical exited third-quarter 2020 with cash and cash equivalents amounting to $1.87 billion, down from

$2.08 billion sequentially. Meanwhile, the company's long-term debt totaled $8.16 billion in the third quarter, compared with $6.91 billion sequentially. We can see that the quarter's long-term debt was much higher than the corresponding cash and cash equivalent level. However, the current debt level of $1.68 billion in the quarter, down from the preceding quarter's $2.63 billion, is lower than the company's short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

## Risks

- **Price Performance**: Shares of Fresenius Medical gained 13.3% compared with the industry's rally of 27.5% in a year's time. Intense competition and a tough regulatory environment continue to weigh on the stock. Also, a weak liquidity position raises concern.

- **Tough Regulatory Environment**: Fresenius Medical faces a highly regulated environment in almost every country in which it operates. Furthermore, the company has to fulfill specific legal requirements everywhere that includes the tough antitrust regulations. Violating healthcare or other regulations under public law can result in extensive legal repercussions. These include the dismissal of important federal certifications, penalties, fines, recalls, increased costs (for fulfilling regulatory requirements), exclusion from reimbursement programs of the respective government health care system, or even a total or partial ban on business operations.

  Adding to the concerns, changes in the law (especially relating to reimbursement) in such a difficult regulatory environment can also impact the company's fundamental business model and the implementation of strategy. Because of the company's significant international exposure, Fresenius Medical is likely to face difficulties while enforcing and collecting trade receivables in foreign legal paradigms. In fact, the inability of certain countries to service their national debt might hamper the company's interests. Notably, concerns associated with the regulatory environment present a low risk to the company in the short-term, and in the mid-term, they present a medium risk to the company.

- **Cutthroat Market Competition**: Fresenius Medical has numerous competitors in the field of health care services as well as the sale of dialysis products. Tough competition in the niche markets is likely to impede the company's sales opportunities and lose market share. However, per management, concerns that arise due to competition represent low risk for the company in the short-term, as well as in the mid-term. The company faces aggressive rivalry from HCA Holdings, DaVita HealthCare and Baxter International.

  The problem of competitors copying patents of Fresenius Medical is an added concern, which might arise from inadequate protection for technologies and products developed by the company. This might affect the company's bottom line in the long term.

## Last Earnings Report

### Fresenius Medical Q3 Earnings Top Estimates, Revenues Miss

| Quarter Ending | 09/2020 |
|---|---|
| Report Date | Oct 29, 2020 |
| Sales Surprise | -7.08% |
| EPS Surprise | 7.58% |
| Quarterly EPS | 0.71 |
| Annual EPS (TTM) | 2.64 |

Fresenius Medical Care AG & Co. KGaA reported third-quarter adjusted earnings per share of 71 cents, which beat the Zacks Consensus Estimate of 66 cents by 7.6%. Moreover, the bottom line improved 5.9% year over year.

Revenues increased 5% year over year to $5.16 billion. However, the top line missed the Zacks Consensus Estimate by 7.1%.

### Segmental Details

In the third quarter, Fresenius Medical reported through two segments — Health Care Services and Health Care Products.

Health Care Services revenues remained flat on a year-over-year basis and grew 6% at constant currency (cc). On a cc basis, the improvement was driven by contributions from acquisitions.

Health Care Products revenues declined 1% year over year but grew 4% at cc. On a cc basis, the upside can primarily be attributed to higher sales of products for acute care treatments and machines for chronic treatment and peritoneal dialysis products.

### Geographical Growth

*North America*

Revenues in the region remained flat on a year-over-year basis, while growing 4% at cc. On organic basis, sales in the region improved 2%.

*EMEA*

Revenues in this region remained flat on a year-over-year basis and grew 3% cc in the quarter. On organic basis, sales in the region increased 1%.

*Asia-Pacific*

Revenues in this region rose 2% year over year and 6% at cc in the reported quarter. On an organic basis, sales in the region climbed 6%.

*Latin America*

Revenues in Latin America fell 7% year over year but rose 22% at cc. Organic growth in region was 17%.

### Guidance

The following outlook has been provided after taking into account the anticipated impact of COVID-19.

For 2020, the company continues to anticipate adjusted revenues and adjusted net income to improve at a mid-to-high-single digit rate.

## Valuation

Fresenius' shares are up 12.7% and 14% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 24% in the year-to-date period while that in the Zacks Medical Market are up 10%. Over the past year, the Zacks sub-industry and sector are up 27.5% and 6.3%, respectively.

The S&P 500 index is up 22% in the past six months period and 18.3% in the past year.

The stock is currently trading at 13.8X trailing 12-months earnings, which compares to 37.7X for the Zacks sub-industry, 23.1X for the Zacks sector and 23.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.6X and as low as 10.6X, with a 5-year median of 17.9X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $48 price target reflects 15.5X forward 12-months earnings.

The table below shows summary valuation data for FMS.

**Valuation Multiples - FMS**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 13.75 | 37.72 | 23.14 | 23.38 |
| | 5-Year High | 22.64 | 41.61 | 23.14 | 23.79 |
| | 5-Year Low | 10.57 | 22.91 | 15.9 | 15.3 |
| | 5-Year Median | 17.99 | 29.6 | 19.13 | 17.83 |
| P/S F12M | Current | 1.1 | 4.95 | 2.88 | 4.56 |
| | 5-Year High | 1.58 | 4.95 | 3.17 | 4.56 |
| | 5-Year Low | 0.84 | 2.56 | 2.26 | 3.2 |
| | 5-Year Median | 1.3 | 3.33 | 2.85 | 3.68 |
| P/B TTM | Current | 1.66 | 4.99 | 4.49 | 6.58 |
| | 5-Year High | 2.88 | 4.99 | 5.11 | 6.58 |
| | 5-Year Low | 1.18 | 2.8 | 3.02 | 3.73 |
| | 5-Year Median | 2.15 | 4.08 | 4.35 | 4.94 |

*As of 01/11/2021* *Source: Zacks Investment Research*

## Industry Analysis **Zacks Industry Rank:** Bottom 32% (171 out of 253)

*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Baxter International Inc. **(BAX)** | Neutral | 4 |
| Bristol Myers Squibb Company **(BMY)** | Neutral | 4 |
| DaVita Inc. **(DVA)** | Neutral | 3 |
| Encompass Health Corporation **(EHC)** | Neutral | 3 |
| Eli Lilly and Company **(LLY)** | Neutral | 3 |
| MEDNAX, Inc. **(MD)** | Neutral | 3 |
| Medtronic PLC **(MDT)** | Neutral | 3 |
| American Renal Associates Holdings, Inc **(ARA)** | Underperform | 5 |

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

## Industry Comparison Industry: Medical - Instruments

| | FMS | X Industry | S&P 500 | BAX | DVA | MDT |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Outperform | - | - | Neutral | Neutral | Neutral |
| **Zacks Rank (Short Term)** | 3 | - | - | 4 | 3 | 3 |
| **VGM Score** | A | - | - | C | A | D |
| Market Cap | 24.61 B | 230.73 M | 27.18 B | 42.13 B | 13.79 B | 159.50 B |
| # of Analysts | 3 | 2 | 13 | 11 | 6 | 14 |
| Dividend Yield | 1.18% | 0.00% | 1.41% | 1.19% | 0.00% | 1.96% |
| **Value Score** | A | - | - | C | A | C |
| Cash/Price | 0.07 | 0.11 | 0.06 | 0.10 | 0.06 | 0.09 |
| EV/EBITDA | 7.03 | -2.50 | 14.99 | 23.39 | 11.50 | 21.92 |
| PEG F1 | 2.34 | 3.97 | 2.65 | 2.61 | 0.82 | 3.64 |
| P/B | 1.66 | 4.76 | 3.77 | 4.90 | 7.86 | 3.17 |
| P/CF | 7.56 | 28.05 | 14.38 | 16.60 | 10.91 | 17.91 |
| P/E F1 | 13.74 | 45.24 | 20.76 | 23.99 | 14.91 | 28.17 |
| P/S TTM | 1.22 | 6.66 | 2.97 | 3.65 | 1.19 | 5.72 |
| Earnings Yield | 7.28% | -0.96% | 4.68% | 4.17% | 6.71% | 3.55% |
| Debt/Equity | 0.55 | 0.06 | 0.70 | 0.67 | 4.49 | 0.52 |
| Cash Flow ($/share) | 5.56 | -0.14 | 6.93 | 4.97 | 11.28 | 6.62 |
| **Growth Score** | B | - | - | C | B | D |
| Historical EPS Growth (3-5 Years) | 8.88% | 7.61% | 9.71% | 12.89% | 11.54% | 1.02% |
| Projected EPS Growth (F1/F0) | 6.14% | 36.62% | 12.21% | 13.01% | 10.09% | -8.36% |
| Current Cash Flow Growth | 47.56% | 5.66% | 5.22% | 4.10% | 19.72% | -9.02% |
| Historical Cash Flow Growth (3-5 Years) | 13.72% | 10.01% | 8.33% | -6.10% | 0.89% | 7.68% |
| Current Ratio | 1.11 | 3.24 | 1.38 | 2.64 | 1.37 | 2.16 |
| Debt/Capital | 35.55% | 9.42% | 41.97% | 40.11% | 83.95% | 34.04% |
| Net Margin | 7.38% | -22.43% | 10.40% | 7.90% | 7.32% | 12.69% |
| Return on Equity | 10.62% | -22.78% | 15.20% | 20.81% | 43.99% | 9.71% |
| Sales/Assets | 0.54 | 0.51 | 0.50 | 0.60 | 0.65 | 0.30 |
| Projected Sales Growth (F1/F0) | 3.27% | 18.41% | 5.91% | 5.16% | 1.96% | 4.04% |
| **Momentum Score** | A | - | - | F | C | A |
| Daily Price Change | -2.98% | 0.00% | 0.10% | 0.94% | -0.62% | -1.01% |
| 1-Week Price Change | 4.23% | 3.95% | 1.16% | 1.82% | 5.53% | 2.19% |
| 4-Week Price Change | 2.79% | 6.82% | 3.65% | 4.62% | 12.76% | 5.83% |
| 12-Week Price Change | 1.35% | 20.04% | 13.64% | 1.58% | 37.47% | 9.24% |
| 52-Week Price Change | 13.38% | 15.73% | 8.59% | -7.72% | 60.06% | 0.42% |
| 20-Day Average Volume (Shares) | 188,990 | 193,461 | 1,694,173 | 2,027,031 | 620,578 | 3,447,358 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | -0.24% | 0.24% | 0.24% |
| EPS F1 Estimate 4-Week Change | 0.00% | 0.00% | 0.08% | -0.39% | 0.24% | 0.05% |
| EPS F1 Estimate 12-Week Change | 8.30% | 0.83% | 2.45% | -4.78% | 9.88% | 6.65% |
| EPS Q1 Estimate Monthly Change | 0.00% | 0.00% | 0.00% | -1.37% | -0.21% | -0.47% |

*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 | A |
| Growth Score | B |
| Momentum Score | A |
| VGM Score | A |

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 mediumterm price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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