Oct 29, 2020

Globe Life (GL)

$78.79 (As of 10/28/20)

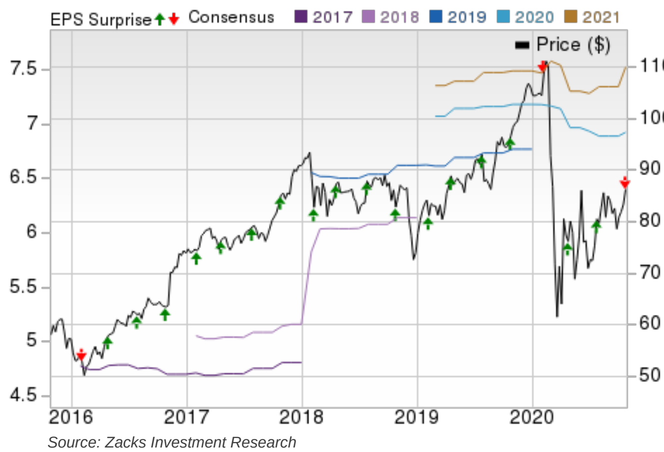
Price Target (6-12 Months): **$83.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/07/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: C | Momentum: F	

Summary

Niche market focus, strength at distribution channels and strong operating fundamentals should drive long-term growth for Globe Life. Improved life premiums at American Income are driving growth in agent retention and sales activities. Solid premiums at Liberty National and consistent operations at Globe Life are driving the top line. The company remains focused on expanding margins and expects Life and Health premiums to grow 5% and 6% respectively in 2020. Consistent free cash flow generating bodes well. Robust capital position enables effective capital deployment. Shares of Globe Life have underperformed the industry in a year's time. However, administrative expenses have increased over the years and the company expects 5% increase in 2020. Also, high debt level along with low times interest earned concerns. Weak ROE poses financial risk.

Price, Consensus & Surprise

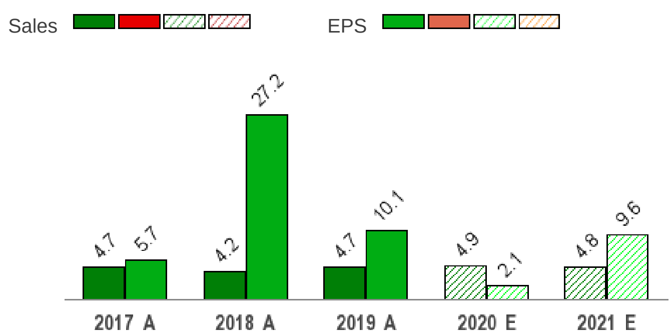


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$111.43 - $56.74**
20-Day Average Volume (Shares)	**445,996**
Market Cap	**$8.4 B**
Year-To-Date Price Change	**-25.1%**
Beta	**1.09**
Dividend / Dividend Yield	**$0.75 / 1.0%**
Industry	**Financial - Miscellaneous Services**
Zacks Industry Rank	**Bottom 26% (188 out of 254)**
Last EPS Surprise	**-0.6%**
Last Sales Surprise	**1.0%**
EPS F1 Estimate 4-Week Change	**0.1%**
Expected Report Date	**02/02/2021**
Earnings ESP	**0.0%**
P/E TTM	**11.5**
P/E F1	**11.4**
PEG F1	**1.5**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,238 E	1,237 E	1,236 E	1,243 E	4,952 E
2020	1,127 A	1,186 A	1,194 A	1,192 E	4,726 E
2019	1,118 A	1,125 A	1,129 A	1,134 A	4,507 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.82 E	$1.87 E	$1.94 E	$1.95 E	$7.55 E
2020	$1.73 A	$1.65 A	$1.75 A	$1.74 E	$6.89 E
2019	$1.64 A	$1.67 A	$1.73 A	$1.70 A	$6.75 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 10/28/2020. The reports text is as of 10/29/2020.

Overview

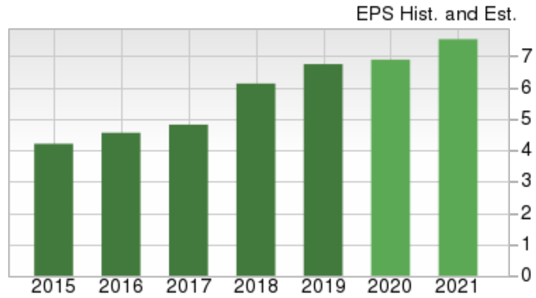
Incorporated in 1979 and based in McKinney, TX, Globe Life Inc. (formerly known as Torchmark Corporation), through its subsidiaries, provides various life and supplemental health insurance products and annuities to lower middle to middle income households in the United States.

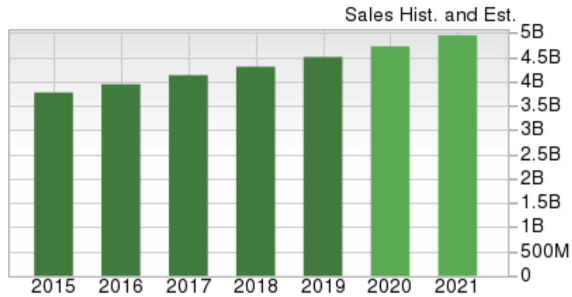
The company also offers term life, whole life, children's life, senior life, and family life insurance products; accidental benefits insurance; mortgage protection insurance; and Medicare supplement plans.

Torchmark's name was changed to Globe Life Inc. effective Aug 8, 2019. It is now listed on the New York Stock Exchange as GL. The name change reflects its commitment to an enterprise-wide brand alignment to enhance sales and recruitment to improve name recognition.

Globe Life's operation is organized in four segments: Life Insurance, Supplemental Health Insurance, Annuities, and Investments. The company also has other administrative expenses reported in Corporate & Other.

Life Insurance (**70% of 2019 Premium Revenues**) products include traditional and interest sensitive whole life insurance and term life insurance.





Supplemental Health Insurance (**30%**) products are generally guaranteed-renewable and include Medicare supplement, critical illness, accident and limited-benefit supplemental hospital and surgical coverage.

Annuities include fixed benefit contracts.

Investment segment manages the investment portfolio, debt and cash flow for insurance segments and corporate function.

Globe Life markets its insurance products through distribution channels – **American Income Exclusive, Direct Response, Liberty National Exclusive, United American Independent, Family Heritage Exclusive and Other.**

Source: Zacks Investment Research

Reasons To Buy:

▲ **Share Price Movement** – Shares of Globe Life have lost 19% in a year, compared with the industry's decline of 15.1%. We believe that strong performance across its distribution channels is likely to drive its shares in the days ahead.

Globe Life's niche market focus, superior performance at Global Life and American Income, growing investment income, agent count increase and strong capital management bode well for growth.

▲ **Continued Superior Performance at American Income** – Globe Life's most important distribution channel – American Income Exclusive Agency – has been the largest contributor to life premium and net sales. Life premiums for this agency have been witnessing consistent improvement over a considerable period of time. In third-quarter 2020, life premium increased 9% while life net sales were up 14% year over year due to increased agent count. The company estimates net life sales for American Income Life to increase 3-7% in 2020 and 4-12% in 2021.

Continued improvement in product sales is largely dependent on agent count increase, which has been showing improvement. The company anticipates producing agent count of 9,100 to 9,400 by the end of 2020. Management's primary objective is to grow middle management in the agency to ensure sustainable growth.

▲ **Growth at Liberty National** – The company continues to witness a substantial improvement in life premiums, which raises optimism for life premium growth in the future. Management will continue with its growth initiatives going forward. In third-quarter 2020, life underwriting margin and health underwriting margin increased from the year-ago figure by 4% and 6%, respectively. Life premium increased 3% from the prior year at Liberty National Exclusive Agency. It anticipates producing agent count of 2,700 to 2,900 for Liberty National at the end of 2020. The company also expects heath net sales at Liberty National to be in the range of -2% to 2% for 2020 and 3-9% in 2021.

▲ **Intelligent Capital Management** – Globe Life can be considered a shareholder-friendly company as it has been actively increasing shareholders' wealth through an ongoing buyback program that began in 1986. The company has also been generating free cash flow consistently. The company anticipates excess cash flow of $20 million in the fourth quarter of 2020. Riding on the strength of solid cash flow, the company engages in share buybacks and resumed buyback in the third quarter with $118 million worth buybacks. We expect this continued buyback activity to be well supported by the availability of cash in abundance. In March, the board of directors of Globe Life raised its quarterly dividend by 8.7% to 18.75 cents per share By virtue of its intelligent capital management strategy, the company has generated more than 80% returns for its investors over the past 10 years.

▲ **Tightened Guidance** – Globe Life now estimates net operating income per share of $6.84 to $7.00 for 2020 compared with $6.80 to $7.04 earlier. The current guidance's mid-point of $6.92 is in line with the Zacks Consensus Estimate. It expects higher life claims to be offset by higher premiums, lower expenses, and higher share repurchases. For 2021, it estimates net operating income per share between $7.30 and $7.80 per share. The midpoint of $7.55 is higher than the Zacks Consensus Estimate of $7.52 and indicates 9% increase from the 2020 midpoint.

For 2020, Globe Life expects life and health premiums to grow about 6% each. Health underwriting margin is estimated to grow 11% to 12% in 2020.

Reasons To Sell:

Higher administrative expenses attributable to escalated pension costs, increased debt level inducing higher interest expenses, low times interest earned are some of the headwinds facing the company.

- **Higher administrative expenses** – Globe Life has been incurring high administrative expenses over the years. In third-quarter 2020, administrative expenses increased 4% to $63 million from the year-ago quarter. The ratio of administrative expenses to premium was 6.6% in the third quarter, compared with 6.7% in the year-ago quarter. For 2020, the company estimates administrative expenses to be up around 5%. Higher administrative expenses might affect the bottom line.

- **Impact of COVID on Life underwriting margin**: The company has been witnessing improved underwriting margin given its operational excellence However, life underwriting margin is expected to decline 2% to 3% in 2020 largely due to the impact of COVID-19 claims. At the midpoint of its guidance, Globe Life estimates about $56 million in COVID-19 claims for 2020. For 2021, COVID-related life claims is estimated to be about $32 million, at the midpoint of its guidance, with no significant benefit expected from lower health claim.

- **Low rate environment**: Sustained low interest rates continue to put pressure on investment income. Portfolio yield was 5.31% in the third quarter of 2020, down 16 basis points year over year. Globe Life estimates an average new money rate of around 3.4% in the fourth quarter and a weighted average of around 3.5% in 2021 at the mid-point of its guidance. Subsequently, these new money rates will yield about 5.33% in 2020 and 5.22% in 2021.

- **Debt Position** - Globe Life's debt levels have decreased in the past few years. As of Sep 30, 2020, the company's long-term debt was $1.7 billion, which increased 23.4% from the 2019-end level. However, as of Jun 30, 2020 total debt/total capital ratio of 19.1 was higher than its figure of 17.8 at 2019-end. Also, the company's times interest earned, a measure to identify the company ability to service debt stood at 11.4 as on Jun 30, 2020 is poor when compared with the 2019-end figure of 12, implying that its earnings are not sufficient to cover interest obligations.

Last Earnings Report

Globe Life Q3 Earnings Miss Estimates, Revises View

Quarter Ending	09/2020
Report Date	Oct 21, 2020
Sales Surprise	0.99%
EPS Surprise	-0.57%
Quarterly EPS	1.75
Annual EPS (TTM)	6.83

Globe Life's third-quarter 2020 net operating income of $1.75 per share missed the Zacks Consensus Estimate by 0.6%. Nevertheless, the bottom line improved 1.2% year over year primarily driven by higher revenues. However, the upside was partially offset by lower underwriting margins stemming from higher claims due to the COVID-19 pandemic and rising costs.

Behind the Headlines

Globe Life reported total premium revenues of $961.8 million, up 7% year over year. This upside was primarily driven by higher premiums from Life and Health insurance.

Net investment income increased 1% year over year to $231.4 million.

The company reported operating revenues of $1.2 billion, up 5.8% from the year-ago quarter. The improvement was driven by growth in Life and Health insurance premiums and higher net investment income. The top line also beat the Zacks Consensus Estimate by about 1%.

Excess investment income, a measure of profitability, decreased 8% year over year to $59.3 million.

Total insurance underwriting income dipped 1% year over year to $183.1 million. The decline is attributable to lower Life and Annuity underwriting income and higher administrative expenses.

Administrative expenses were up 4% year over year to $63 million.

Total benefits and expenses rose 7.8% year over year to $963.5 million, primarily due to increased policyholder benefits, higher amortization of deferred acquisition costs, commissions, premium taxes, non-deferred acquisition costs, and other operating and interest expenses.

Segmental Results

Premium revenues at **Life** increased 7% year over year to $674 million, driven by higher premiums written by distribution channels like American Income, Direct to Consumer and Liberty National. American Income grew 9%, Direct to Consumer was up 8% and Liberty National increased 3%.

Life underwriting income fell 6% year over year to $170.7 million. Net sales of $128.1 million improved 21% on a year-over-year basis.

The company estimates about $56 million in COVID-related life claims for 2020.

Health insurance premium revenues rose 7% year over year to $287.8 million, primarily driven by higher premiums from United American, Family Heritage and American Income. Underwriting income of $72.9 million increased 20% year over year. Net health sales inched up 0.2% year over year to $44.8 million.

Annuity premiums dropped 66.7% year over year to $1 million. Underwriting margins declined 4.2% year over year to $2.3 million.

Financial Update

Adjusted shareholders' equity as of Sep 30, 2020 increased 5.3% year over year to $5.6 billion.

Globe Life reported book value per share (excluding net unrealized gains on fixed maturities) of $52.39 as on Sep 30, 2020, up 10.1% year over year.

Operating return on equity (excluding net unrealized gains on fixed maturities) was 13.6% in the first nine months of 2020, reflecting a contraction of 110 basis points (bps) year over year.

Share Repurchase

Globe Life had temporarily halted its share repurchase program in the first quarter due to the COVID-19 induced market volatility. However, the company resumed the same in August of this year.

In the third quarter, Globe Life repurchased 1.4 million shares for a total cost of $118 million for an average share price of $81.79.

2020 View Revised

Globe Life anticipates net operating income per share for this year between $6.84 and $7.00, compared with the previously expected range of $6.80 to $7.04. Notably, the Zacks Consensus Estimate of $6.88 per share for the same lies toward the lower end of the newly provided guidance.

2021 Guidance

The company forecast net operating income per share for the next year in the range of $7.30 to $7.80. The Zacks Consensus Estimate of $7.39 per share for the same lies toward the lower end of the newly provided guidance.

Recent News

Globe Life's Unsecured Notes Get Rating from A.M. Best – Aug 26, 2020

Globe Life's $350 million 2.15% senior unsecured notes due Aug 15, 2030 have got Long-Term Issue Credit Rating of "bbb+" from A.M. Best. The outlook of the ratings is stable.

Globe Life Declares Quarterly Dividend — Aug 21, 2020

The board of directors of Globe Life declared a quarterly dividend of 18.75 cents per share. The dividend will be paid out on Oct 30 to shareholders of record as of Oct 5. The board also resumed its common stock repurchase program, which was temporarily postponed.

Valuation

Global Life's shares are down 25.2% and 19% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.2% and 19.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 15.1% and 15.6%, respectively.

The S&P 500 index are up 1.3% in the year-to-date period and 7.3% in the past year.

The stock is currently trading at 1.07x trailing 12-month book value, which compares to 1.71x for the Zacks sub-industry, 2.43x for the Zacks sector and 5.67x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.05x and as low as 0.86x, with a 5-year median of 1.63x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $83 price target reflects 1.12x book value.

The table below shows summary valuation data for GL

Valuation Multiples - GL

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.07	1.71	2.43	5.67
	5-Year High	2.05	2.82	2.90	6.2
	5-Year Low	0.86	1.15	1.72	3.75
	5-Year Median	1.63	1.98	2.54	4.91
P/S F12M	Current	1.73	1.54	6.14	3.89
	5-Year High	2.55	1.79	6.66	4.31
	5-Year Low	1.32	1.03	4.96	3.18
	5-Year Median	2.12	1.33	6.05	3.67
P/E F12M	Current	10.62	11.6	15	20.94
	5-Year High	18.89	14.21	16.73	23.47
	5-Year Low	8.05	8.75	11.59	15.27
	5-Year Median	13.48	11.6	14.4	17.68

As of 10/28/2020 *Source: Zacks Investment Research*

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 254)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Athene Holding Ltd. **(ATH)**	Neutral	3
Brighthouse Financial, Inc. **(BHF)**	Neutral	3
Manulife Financial Corp **(MFC)**	Neutral	3
PRA Group, Inc. **(PRAA)**	Neutral	3
Primerica, Inc. **(PRI)**	Neutral	3
Reinsurance Group of America, Incorporated **(RGA)**	Neutral	3
Sun Life Financial Inc. **(SLF)**	Neutral	3
Voya Financial, Inc. **(VOYA)**	Neutral	3

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

Industry Comparison Industry: Financial - Miscellaneous Services

Industry Peers

	GL	X Industry	S&P 500	BHF	PRI	RGA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	C
Market Cap	8.39 B	288.77 M	22.55 B	2.80 B	4.33 B	6.48 B
# of Analysts	4	2	13.5	3	3	3
Dividend Yield	0.95%	0.00%	1.72%	0.00%	1.46%	2.93%
Value Score	B	-	-	A	B	A
Cash/Price	0.07	0.41	0.07	3.87	0.08	0.60
EV/EBITDA	5.75	3.34	12.83	3.81	5.07	4.36
PEG F1	1.52	2.74	2.59	NA	NA	NA
P/B	1.07	1.02	3.21	0.14	2.67	0.47
P/CF	6.54	8.63	12.37	3.97	7.18	7.05
P/E F1	11.54	14.55	20.16	3.73	11.82	13.02
P/S TTM	1.81	1.67	2.47	0.19	2.06	0.46
Earnings Yield	8.74%	5.69%	4.69%	26.81%	8.47%	7.68%
Debt/Equity	0.16	0.40	0.70	0.19	0.00	0.28
Cash Flow ($/share)	12.04	0.62	6.92	7.58	15.25	13.53
Growth Score	C	-	-	F	C	F
Historical EPS Growth (3-5 Years)	13.11%	10.69%	10.10%	NA	23.20%	9.13%
Projected EPS Growth (F1/F0)	2.11%	-10.93%	-1.76%	219.38%	9.93%	-45.09%
Current Cash Flow Growth	6.55%	5.63%	5.54%	30.25%	9.74%	9.01%
Historical Cash Flow Growth (3-5 Years)	6.53%	12.36%	8.50%	NA	13.51%	8.98%
Current Ratio	0.08	1.27	1.37	0.66	0.54	0.15
Debt/Capital	13.95%	30.79%	41.80%	15.95%	0.00%	22.16%
Net Margin	15.38%	8.50%	10.50%	33.37%	17.29%	3.99%
Return on Equity	10.28%	8.49%	14.93%	4.55%	23.12%	5.79%
Sales/Assets	0.18	0.19	0.50	0.07	0.15	0.18
Projected Sales Growth (F1/F0)	4.86%	0.00%	-0.39%	22.28%	5.45%	2.19%
Momentum Score	F	-	-	B	D	D
Daily Price Change	-3.15%	-1.62%	-3.08%	1.59%	-3.18%	-4.45%
1-Week Price Change	3.48%	0.00%	0.01%	3.88%	3.64%	3.49%
4-Week Price Change	-1.39%	0.00%	-2.07%	11.85%	-3.22%	0.26%
12-Week Price Change	-1.88%	0.00%	-1.88%	1.42%	-13.51%	0.63%
52-Week Price Change	-18.98%	-16.55%	-3.31%	-21.80%	-14.69%	-41.48%
20-Day Average Volume (Shares)	445,996	118,491	1,770,490	769,326	200,632	420,710
EPS F1 Estimate 1-Week Change	-0.45%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.11%	0.00%	0.36%	13.18%	-0.18%	-1.43%
EPS F1 Estimate 12-Week Change	0.11%	0.05%	2.98%	0.94%	4.12%	36.63%
EPS Q1 Estimate Monthly Change	-3.86%	0.00%	0.23%	8.92%	-0.55%	-12.02%

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	B
Growth Score	C
Momentum Score	F
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 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.