

Globus Medical, Inc.(GMED)

\$48.83 (As of 09/24/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 08/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**

Zacks Style Scores: VGM:D

Value: C | Growth: F | Momentum: B

Summary

Globus Medical's segmental sales, although dismal in the second quarter of 2020, the company has seen visible trend improvement through the quarter and continuing into July. The improvement in the company's U.S. revenues led by the U.S. spine business looks encouraging. Continued momentum of robotic technology and strong uptake of the company's HEDRON line of 3D printed inner body spacers buoy optimism. Globus Medical launched several products in its spine portfolio, which instills investors' confidence in the stock. Globus Medical's results in the second quarter were better-than-expected despite pandemic-led business disruptions. Over the past three months, shares of Globus Medical have outperformed its sector. Yet, margin contractions are worrying. Stiff competition and foreign-exchange impacts are other worries.

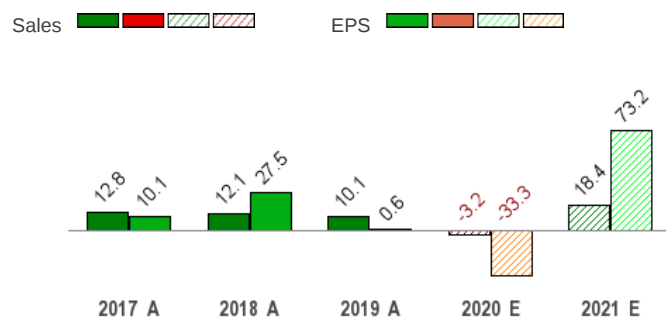
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$60.15 - \$33.41
20-Day Average Volume (Shares)	532,855
Market Cap	\$4.8 B
Year-To-Date Price Change	-17.1%
Beta	0.98
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 28% (179 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	163.6%
Last Sales Surprise	49.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	212 E	224 E	227 E	245 E	900 E
2020	191 A	149 A	197 E	222 E	760 E
2019	183 A	195 A	196 A	212 A	785 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.49 E	\$0.48 E	\$0.55 E	\$1.94 E
2020	\$0.29 A	\$0.07 A	\$0.30 E	\$0.46 E	\$1.12 E
2019	\$0.36 A	\$0.41 A	\$0.43 A	\$0.49 A	\$1.68 A

*Quarterly figures may not add up to annual.

P/E TTM	38.2
P/E F1	43.6
PEG F1	3.8
P/S TTM	6.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/24/2020. The reports text is as of 09/25/2020.

Overview

Audubon, PA-based Globus Medical, Inc. is a medical device company that develops and commercializes healthcare solutions for patients with musculoskeletal disorders. The company currently has its sales operations distributed across 51 counties worldwide.

At present, Globus Medical has more than 200 products in the market. This extensive portfolio comprises advanced and differentiated technologies that are used to treat a variety of musculoskeletal conditions of the spine, extremities and pelvis.

The company has two major product categories:

Musculoskeletal Solutions (94.01% of 2019 Revenues; Up 10.9% from 2018)

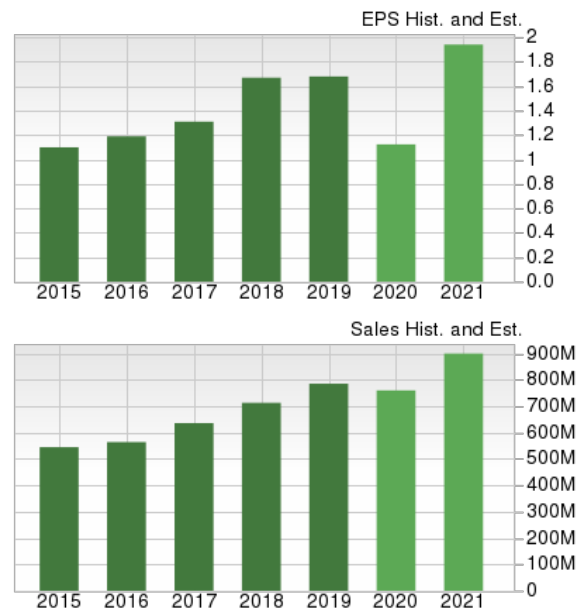
Musculoskeletal Solutions consist primarily of implantable devices, biologics, accessories, and unique surgical instruments, used in an expansive range of spinal, orthopedic and neurosurgical procedures.

The spine products address the vast majority of conditions affecting the spine including degenerative conditions, deformity, tumors and trauma.

The orthopedic trauma solutions are designed to treat a wide variety of orthopedic fracture patterns and patient anatomies in the upper and lower extremities as well as the hip.

Enabling Technologies (5.98%; Up 0.1%)

These are advanced computer-assisted intelligent systems, designed to enhance a surgeon's capabilities and streamline the complicated surgical procedures to be safer, less invasive, accurate and more reproducible to improve patient care and reduce radiation exposure for both patient and caregiver. The technology contains imaging, navigation and robotic (INR) assisted surgery solutions.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** Over the past three months, shares of Globus Medical have outperformed its sector. The stock has gained 8.1% as compared to the 0.2% growth of the sector. Globus Medical exited the second quarter of 2020 with better-than-expected results despite pandemic-led business disruptions. Although, segmental sales were disappointing in the quarter, the company has seen visible trend improvement through the month of the quarter and continuing into July.

The improvement in the company's U.S. revenues led by the U.S. spine business looks encouraging. The continued momentum of robotic technology and strong uptake of the company's HEDRON line of 3D printed inner body spacers buoy optimism. We are upbeat about the company's stupendous investments in its R&D wing. Globus Medical launched several products in its spine portfolio, which instills investors' confidence in the stock.

Globus Medical continues to rein in surging demand for its Musculoskeletal Solutions products. Meanwhile, the company is expanding in the overseas markets through the expansion of direct and distributors sales force.

- ▲ **Prominent Trend Improvement in Q2:** The coronavirus pandemic has wreaked havoc on Globus Medical's business. The business bottomed in mid-April. However, since then there has been a visible rebound in the company's revenue trend that continued with a steady climb upward through the quarter. April revenue was down by roughly two-thirds. May improved dramatically with just 25% sales loss. June rebounded into double-digit growth compared to June of 2019. Growth in July accelerated into the mid-teens even as certain areas began restricting elective surgery again. This growth according to the company, came on a number of factors including new products launches, competitive recruiting and robotic pull through.

The spine division launched six new products in 2020. The company has seen tremendous uptake in HEDRON line of 3D printed inner body spacers and its fourth generation expandable MIS TLIF device. Adoption has been so successful that Globus Medical is currently doubling its 3D manufacturing capacity which should come online in the fourth quarter.

- ▲ **Industry Prospects Impressive:** The world demography is growing and aging. This population is more prone to musculoskeletal degeneration, traumatic fractures and challenging complications. Per Transparency Market Research, with a substantial increase in the prevalence of musculoskeletal disorders across the world, the global musculoskeletal diseases market has been witnessing a tremendous rise in its size as well as valuation.

A report by Industry ARC states that the Global Musculoskeletal Diseases market will witness a CAGR of almost 5.5% and post a modest revenue of \$79.4 billion by 2023. Needless to add, these trends are expected to generate higher demand for Globus Medical's core products.

- ▲ **Steady Pace of Product Development:** In line with the company's business strategy to focus on its integrated product development, Globus Medical is consistently making efforts to innovate plus research and develop. Per the company, its team-oriented approach, active surgeon input and demonstrated capabilities position it to maintain a rapid rate of product launches.

The company recorded robust demand for various products in the HEDRON line of 3D printed interbody spacers. The HEDRON is the most comprehensive portfolio of 3D printed spacers in the industry. Further, the company launched SABLE, which is the fourth-generation expandable MIS TLIF interbody spacer. It witnessed strong demand and favorable feedback from customers.

It is on track with the development of several enhancements to imaging, navigation and robotic (INR) portfolio of the Enabling Technologies business, including a cranial robotic application and an imaging system. Despite some delays in INR development efforts due to COVID-19, the company witnessed significant progress in the commercialization of various systems. Further, the company is planning to submit the imaging system for the FDA's approval in the third quarter of 2020.

- ▲ **International Business Holds Potential:** Globus Medical's international revenues currently account for 17.5% of the company's total sales. Although international revenues were hurt by the pandemic, the business holds long-term potential and is expected to rebound post the crisis. Further, the company expects to not face the continuing challenges in the year-over-year comps internationally, which resulted from the placement of large distributor orders in the first half of last year.

- ▲ **Spine Arm Grows Domestically:** Globus Medical's U.S. Spine business accelerated considerably in the first quarter, showing a continued growth trend over the past few quarters. The company launched six new Spine products in the first half of 2020.

The company has seen tremendous uptake in HEDRON line of 3D printed inner body spacers and its fourth generation expandable MIS TLIF device. Adoption has been so successful that Globus Medical is currently doubling its 3D manufacturing capacity which should come online in the fourth quarter. Further, the company is anticipating the FDA's clearance for the cranial module for ExcelsiusGPS in the third quarter of 2020.

- ▲ **Strong Liquidity, Solvency and Capital Structure:** Globus Medical is well capitalized having exited the second quarter of 2020 with cash and cash equivalents, and short-term marketable securities of \$317 million compared with \$277 million at the end of the first quarter of 2020. The company finished the quarter with no debt on its balance sheet.

During the second quarter of 2020, the company spent \$30.8 million to repurchase its Class A common shares in connection with the previously authorized and announced share repurchase program. It currently has \$95.3 million remaining on its original \$200 million authorization. Overall, Globus Medical has spent \$104.7 million year-to-date on repurchases. The company will fund the share repurchases with its operating cash flows and excess cash.

Risks

- **Pricing Pressure Persists:** The musculoskeletal devices industry is characterized intensifying competitive pricing pressure. Pricing continues to remain a major headwind for Globus Medical. Throughout 2019 and till the second quarter of 2020, the company's top-line growth was partially dampened by continued pricing pressure. We remain concerned about the pricing scenario as it will be affected by cost containment efforts by governmental healthcare, local hospitals and health systems.
 - **Escalating Expenses, a Downside:** Globus Medical has been facing serious cost and expense pressure over the past few quarters. Gross profit in the reported quarter dropped 34.7% year over year. Gross margin contracted a huge 1139 basis points (bps) to 65.9% on a 15.1% rise in cost of goods sold. Selling, general and administrative expenses in the reported quarter were down 9.5% from the year-ago quarter. Research and development expenses, however, rose 150.6%. Operating loss in the reported quarter was \$21.2 million against operating income of \$46.4 million year over year.
 - **Competitive Landscape:** The presence of a large number of players made the musculoskeletal devices market intensely competitive. The orthopedic industry in particular is highly competitive with the presence of larger players like Zimmer Biomet, Stryker, Johnson & Johnson's DePuy, Smith & Nephew and Medtronic. Globus Medical needs to constantly introduce or acquire new products to withstand the competitive pressure and maintain its market share.
 - **Lower Demand for Healthcare Products:** Globus Medical is persistently challenged by soft demand for health care products. Additionally, weak reimbursements for medical products and services may impose a downward pressure on the prices of the company's products, longer sales cycles and the slower adoption of new technologies, which will ultimately impact the top line.
 - **Exposure to Currency Movement:** Globus Medical records 18% of its sales from the international market. A significant portion of the company's foreign revenues and expenses is generated in Japan, the Euro zone, the United Kingdom, Switzerland and Australia. This makes it highly vulnerable to currency fluctuations.
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Last Earnings Report

Globus Medical Beats on Q2 Earnings and Revenues

Globus Medical reported second-quarter 2020 adjusted earnings per share of 7 cents, which compared favorably with the Zacks Consensus Estimate of a loss of 11 cents. However, the metric declined 13.9% from the year-ago figure.

Adjusted earnings per share excludes certain non-recurring expenses like amortization of intangibles and acquisition-related costs.

Without the adjustments, the company registered GAAP loss per share of 21 cents per share, reflecting a decline from the year-ago quarter's earnings per share of 38 cents.

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	49.27%
EPS Surprise	163.64%
Quarterly EPS	0.07
Annual EPS (TTM)	1.28

Revenues

Second-quarter 2020 worldwide sales totaled \$148.9 million, down 23.4% (down 23.3% at constant exchange rate or CER) year over year. The reported figure, however, surpassed the Zacks Consensus Estimate by 49.3%.

Quarterly Details

Sales generated in the United States during the quarter under review declined 21.8% year over year due to adverse impacts of the coronavirus pandemic. The pandemic-led impacts on sales were most pronounced in the earlier part of the quarter. However, as the quarter progressed, overall sales improved sequentially from the last reported quarter, led by the U.S. spine business. The company also noted that robotic technology maintained its momentum, which enabled the company to enter into several agreements in June and July.

International sales declined 31.2% from the year-earlier quarter (down 30.5% at CER). The primary reason for the plunge is pandemic-led business disruptions.

Musculoskeletal Solutions products generated revenues of \$143.5 million, down 21.4% year over year. Enabling Technologies product revenues of \$5.4 million in the quarter reflect a 54.7% plunge from the prior-year figure.

Margin

Gross profit in the reported quarter dropped 34.7% year over year to \$98.3 million. Gross margin contracted a huge 1139 basis points (bps) to 65.9% on a 15.1% rise in cost of goods sold to \$50.6 million.

Selling, general and administrative expenses in the reported quarter were \$80.02 million, down 9.5% from the year-ago quarter. Research and development expenses, however, rose 150.6% to \$39.5 million.

Operating loss in the reported quarter was \$21.2 million against operating income of \$46.4 million year over year.

Cash Position

Globus Medical exited the second quarter with cash and cash equivalents, and short-term marketable securities of \$316.7 million compared with \$276.9 million at the end of the first quarter.

Notably, the company remains debt free.

Cumulative net cash provided by operating activities at the end of the second quarter was \$65.4 million compared with the year-ago \$61.8 million.

2020 Guidance

Globus Medical is currently unable to predict the extent or duration of the pandemic's impact on its financial and operating results. Accordingly, the company has not provided any financial guidance.

Valuation

Globus Medical shares are down 17.1% in the year-to-date period and down 4.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 11.4% and down 3.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 15.4% and up 6.1%, respectively.

The S&P 500 index is up 0.8% in the year-to-date period and up 9.4% in the past year.

The stock is currently trading at 28.3X Forward 12-months earnings, which compares to 35X for the Zacks sub-industry, 20.9X for the Zacks sector and 21.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.2X and as low as 16.2X, with a 5-year median 24.8X. Our Outperform recommendation indicates that the stock will perform ahead of the market. Our \$56 price target reflects 32.5X forward 12-months earnings.

The table below shows summary valuation data for GMED

Valuation Multiples - GMED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.30	35.00	20.90	21.31
	5-Year High	45.23	41.84	23.19	23.44
	5-Year Low	16.20	23.21	15.89	15.26
	5-Year Median	24.76	28.31	19.01	17.63
P/S F12M	Current	5.53	4.21	2.70	3.95
	5-Year High	7.79	4.54	3.25	4.29
	5-Year Low	3.17	2.52	2.24	3.11
	5-Year Median	5.34	3.11	2.89	3.66
P/B TTM	Current	3.57	4.40	3.77	5.58
	5-Year High	5.43	4.81	5.07	6.17
	5-Year Low	2.44	2.75	2.95	3.75
	5-Year Median	3.55	3.92	4.29	4.85

As of 09/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 28% (179 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
OPKO Health, Inc. (OPK)	Outperform	2
JohnsonJohnson (JNJ)	Neutral	4
Medtronic PLC (MDT)	Neutral	3
NuVasive, Inc. (NUVA)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral	3
SmithNephew SNATS, Inc. (SNN)	Underperform	4

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	GMED	X Industry	S&P 500	NUVA	OFIX	ZBH
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	D	-	-	B	B	D
Market Cap	4.77 B	145.19 M	22.77 B	2.51 B	553.54 M	27.36 B
# of Analysts	7	2	14	10	1	14
Dividend Yield	0.00%	0.00%	1.72%	0.00%	0.00%	0.73%
Value Score	C	-	-	B	B	C
Cash/Price	0.06	0.11	0.07	0.36	0.30	0.02
EV/EBITDA	18.45	-1.00	12.78	8.60	324.29	15.57
PEG F1	3.82	3.79	2.82	3.83	NA	4.06
P/B	3.57	3.21	3.12	2.80	1.59	2.35
P/CF	21.86	21.86	12.37	8.88	9.57	10.06
P/E F1	43.60	45.65	20.56	51.44	NA	27.88
P/S TTM	6.39	4.23	2.34	2.35	1.34	3.89
Earnings Yield	2.29%	-2.98%	4.60%	1.94%	-1.71%	3.59%
Debt/Equity	0.00	0.07	0.70	0.88	0.36	0.67
Cash Flow (\$/share)	2.23	-0.13	6.93	5.51	2.99	13.14
Growth Score	F	-	-	D	B	F
Historical EPS Growth (3-5 Years)	9.41%	8.58%	10.41%	12.99%	6.25%	-0.29%
Projected EPS Growth (F1/F0)	-33.08%	2.90%	-4.56%	-61.50%	-133.33%	-39.79%
Current Cash Flow Growth	4.81%	6.03%	5.26%	7.60%	-0.14%	-24.63%
Historical Cash Flow Growth (3-5 Years)	13.08%	10.65%	8.49%	19.11%	9.20%	13.79%
Current Ratio	6.57	3.05	1.35	1.84	3.83	2.18
Debt/Capital	0.00%	13.86%	42.92%	46.94%	26.20%	39.99%
Net Margin	11.90%	-25.57%	10.25%	-0.36%	-5.22%	0.52%
Return on Equity	9.58%	-22.08%	14.59%	8.33%	2.47%	10.07%
Sales/Assets	0.50	0.52	0.50	0.50	0.80	0.29
Projected Sales Growth (F1/F0)	-3.23%	0.00%	-1.44%	-12.55%	-18.80%	-14.79%
Momentum Score	B	-	-	C	D	B
Daily Price Change	-0.69%	0.00%	0.21%	-0.24%	-1.07%	-1.21%
1-Week Price Change	-7.14%	1.41%	0.79%	-8.08%	5.70%	-0.24%
4-Week Price Change	-13.93%	-5.42%	-5.64%	-7.28%	-6.56%	-5.98%
12-Week Price Change	-0.67%	-1.41%	1.89%	-14.30%	-11.03%	9.54%
52-Week Price Change	-4.81%	-4.63%	-2.71%	-25.95%	-47.22%	-3.45%
20-Day Average Volume (Shares)	532,855	191,741	2,095,310	662,494	114,426	897,803
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	1.71%	0.00%	0.53%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	1.71%	0.00%	0.61%
EPS F1 Estimate 12-Week Change	31.24%	7.04%	4.08%	29.92%	-28.95%	24.02%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-0.51%	0.00%	-1.81%

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	C
Growth Score	F
Momentum Score	B
VGM Score	D

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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