Sep 02, 2020

Guidewire Software (GWRE)

$117.52 (As of 09/01/20)

Price Target (6-12 Months): **$123.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/01/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: F | Momentum: C	

Summary

Guidewire is well positioned to benefit from growth in subscription-based offerings driven by solid adoption of InsuranceNow platform. The company is focused on enhancing Guidewire Cloud platform with new capabilities including digital frameworks, automation, tooling and other cloud services. This is expected to lead to higher new sales being subscription-based. Strategic acquisitions and collaborations also bode well. However, reduction in demand for the company's software management services due to increasing cloud implementations is a headwind. Also, lengthening sales cycles and coronavirus outbreak related uncertainty remains an overhang for the foreseeable future. Investments on product enhancements are likely to dent margins at least in the near term. Notably, shares of Guidewire have underperformed the industry on a year-to-date basis.

Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$124.16 - $71.64**
20-Day Average Volume (Shares)	**532,984**
Market Cap	**$9.8 B**
Year-To-Date Price Change	**7.1%**
Beta	**1.21**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Business - Software Services**
Zacks Industry Rank	**Top 21% (53 out of 251)**
Last EPS Surprise	**250.0%**
Last Sales Surprise	**10.3%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**09/02/2020**
Earnings ESP	**0.0%**
P/E TTM	**118.7**
P/E F1	**119.9**
PEG F1	**12.7**
P/S TTM	**13.8**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	168 E	190 E	190 E	235 E	784 E
2020	157 A	173 A	168 A	208 E	707 E
2019	180 A	169 A	163 A	208 A	720 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.11 E	$0.24 E	$0.17 E	$0.53 E	$0.98 E
2020	$0.13 A	$0.21 A	$0.09 A	$0.45 E	$0.89 E
2019	$0.36 A	$0.34 A	$0.18 A	$0.56 A	$1.45 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 09/01/2020. The reports text is as of 09/02/2020.

Overview

San Mateo, CA-based Guidewire Software, Inc. is a provider of software solutions for property and casualty (P&C) insurers.

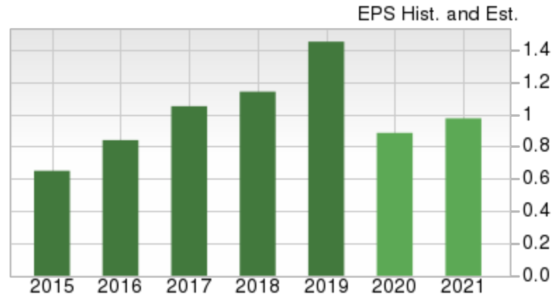
The company's solutions aid in reducing risk via increased productivity, bringing speed to market, digital engagement and simplifying IT infrastructure.

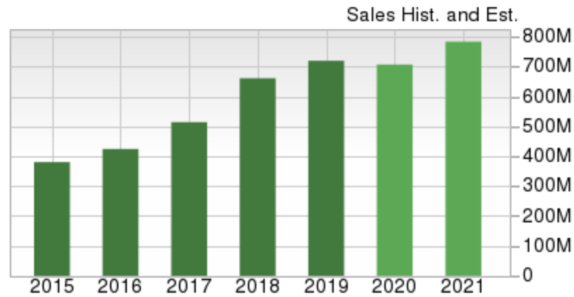
Guidewire InsurancePlatform is a P&C industry platform which is deployed through Guidewire Cloud joining software, services, and partner ecosystem to customer business.

Further, the company also offers Guidewire InsuranceSuite and Guidewire InsuranceNow, which provides solutions to support the entire insurance lifecycle, including product definition, distribution, underwriting, policy-holder services, and claims management.

The company has a wide range of customers that use multiple components of Guidewire InsurancePlatform which include InsuranceSuite, digital, data and analytics. The company exited fiscal 2019 with 380 customers.

Some of the major customers are Aviva, AXA, Zurich, Basler Versicherung (Switzerland), Direct Line Group (U.K.), Farmers Insurance (U.S.), IAG (Australia), MS&AD (Japan), Canadian Automobile Association Insurance Company (Ontario), Kentucky Farm Bureau (Kentucky), and Vermont Mutual Insurance Group (Vermont), to name few.





Fiscal 2019 revenues were $719.5 million. The company had adopted a new revenue recognition standard — ASC 606 — which came into effect from first-quarter fiscal 2019. Per the new accounting standard, the company will has three main segments — License and subscription, Maintenance, and Services.

In fiscal 2019, Guidewire delivered License and subscription revenues of $385.3 million (53.5% of total revenues). Maintenance revenues amounted to $85.4 million (11.9%). Services revenues came in at $248.8 million (34.6%).

The company faces competition in the software market that caters to the P&C insurance industry. Some of the key competitors are DXC Technology, NTT Data, Pegasystems and SAP.

Source: Zacks Investment Research

Reasons To Buy:

A less competitive market, regular customer additions, positive acquisition synergy and transition to a cloud-based model are key positives for the company.

- Guidewire is slowly shifting from the term license based model to subscription base. This will be beneficial for the company in the long run as majority of the enterprises are expected to lean toward cloud based infrastructure going forward. A substantial portion of fiscal 2019 revenues were from subscription-based products, accounting for approximately 65% of new sales. It is a considerable improvement over 36% reported in fiscal 2018. Backed by strong performance of subscription products, management continues to expect new sales from subscription offerings in the lower end of 70-80% for fiscal 2020. Guidewire's cloud deployment partner, Amazon Web Services is also gaining momentum and this bodes well for it. According to Technavio, the global Software-as-a-Service (SaaS) market is expected to hit $60.36 billion by 2023, witnessing a CAGR of 9% between 2019 and 2023. This is expected to favor the company's growth prospects.

- Guidewire faces less competition due to its unique line of business. Though there are private players with similar offerings, among the listed entities, the company's software suite is not common, more so because it serves specifically the P&C insurance industry. This is a major tailwind for the company's top line, which will result in impressive earnings per share if the cost structure is stringent.

- Guidewire's acquisition strategy has aided growth. The cross-selling of the product suites has increased customer base and revenue generation. Notably, the company's acquisition of Cyence has been a tailwind. Cyence determines the economic impact of a cybercrime via a software platform, which is built on cyber-security related data science. The integration of Cyence has allowed the company to provide an entire life cycle to the insurance products starting from designing to transaction management. ISCS acquired in February 2017 (now called InsuranceNow), and FirstBest, (now called Guidewire Underwriting Management) and EagleEye Analytics, (now known as Guidewire Predictive Analytics), which were acquired in 2016 form a few prominent segments of the company. Guidewire's customer base has expanded consistently as evident from the addition of new customers selecting comprehensive Guidewire InsurancePlatform suite in fiscal 2019.

- Guidewire portrays a strong balance sheet, with no debt. Notably, as of Apr 30, 2020 cash and cash equivalents and short-term investments were $1.034 billion. The company generated cash from operating activities of $4.6 million in the third quarter of fiscal 2020. During fiscal third quarter, free cash flow came in at $1 million. Moreover, the company generated $116.1 million as cash from operating activities in fiscal 2019. The solid liquidity and cash flow position reflect that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Reasons To Sell:

Single industry centric offering, lower innovation, pressure on margins due to higher investments and an overstretched P/S ratio are negatives for the company.

- Guidewire's total addressable market (TAM) is limited only to the insurance sector. This industry-concentric feature is a headwind for the company. In fact, the market is limited due to the fact that the company's services are meant for property and casualty (P&C) insurers. Lack of product diversification is also a major headwind in our view.
- Guidewire's transition from a term license based to a cloud-based model will negatively impact the top line in the short haul, as term license revenues include advance payments whereas subscription-based revenues are a bit delayed. The transition related investments are also expected to squeeze margins. Moreover, the company received certain advance payments related to term licenses, which are anticipated to be headwinds for revenue generation.
- Guidewire frequently acquires companies, which exposes it to integration risks. This puts pressure on cash flow as well. Notably, the company acquired Cyence in 2018, ISCS in fiscal 2017, and both Firstbest and EagleEye Analytics in 2016. We believe the dependence on inorganic growth rather than on innovation is also a negative and may affect the company in the long run. Moreover, we note that the buyouts negatively impacted the company's balance sheet in the form of high level of goodwill and net intangible assets, which comprised of 17.5% of total assets as of Apr 30, 2020.
- The company is trading at premium in terms of Price/Sales (P/S). Guidewire currently has a trailing 12-month P/S ratio of 13.81X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 12.77X and is near the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/S perspective.

Last Earnings Report

Guidewire Q3 Earnings & Revenues Top Estimates

Quarter Ending	04/2020
Report Date	Jun 03, 2020
Sales Surprise	10.26%
EPS Surprise	250.00%
Quarterly EPS	0.09
Annual EPS (TTM)	0.99

Guidewire Software, Inc. reported third-quarter fiscal 2020 non-GAAP earnings of 9 cents per share, against the Zacks Consensus Estimate pegged at loss of 6 cents. However, the bottom line declined 50% from the year-ago quarter's figure.

The company reported revenues of $168.2 million, which surpassed the Zacks Consensus Estimate by 10.3%. Further, the top line surpassed the higher end of management's guidance of $153-$157 million. Moreover, the top line increased 3% from the year-ago quarter's figure.

The growth can primarily be attributed to higher License and subscription revenues.

Further, management is optimistic on growing clout of its several cloud-based products and InsuranceSuite Cloud deal wins.

Quarter in Detail

License and subscription revenues (55.4% of total revenues) improved 22% from the year-ago quarter's level to $93.2 million, driven by growth in subscription revenues.

Subscription revenues soared 105% year over year to $30.1 million on solid adoption of InsuranceSuite cloud.

In the fiscal third quarter, 61% of new software sales were subscription-based compared with 63% in the last reported quarter.

During the reported quarter, new and existing customers selected multiple components of Guidewire InsurancePlatform, which included InsuranceSuite, digital, data and analytics.

Management is banking on adoption of InsuranceNow to increase with the implementation of latest InsuranceSuite 10 and InsuranceSuite Cloud offerings.

Maintenance revenues (12.3%) amounted to $20.7 million, down 3% year over year.

Services revenues (32.3%) fell 17% from the year-ago quarter's figure to $54.3 million.

Annual recurring revenues (or ARR) were $483 million as of Apr 30, 2020, compared with $474 million as of Jan 31, 2020.

Margin Details

Non-GAAP gross margin contracted 200 basis points (bps) on a year-over-year basis to 56%, on increasing investments to enhance cloud capabilities that more than offset growth in license and subscription revenues and ongoing shift to subscription-based solutions.

Non-GAAP gross margin for Licensing and subscription contracted from 87% reported in the prior-year quarter to 76%. Meanwhile, non-GAAP gross margin for Services contracted 400 bps to 12%.

Total operating expenses on a non-GAAP basis, climbed 8% year over year to $88.5 million.

Non-GAAP operating income came in at $5.8 million during the reported quarter, down 54% year over year.

Non-GAAP operating margin (as a percentage of total revenues) during the quarter contracted 430 bps from the year-ago quarter's tally to 3.4%.

Balance Sheet & Cash Flow

As of Apr 30, 2020, cash and cash equivalents and short-term investments came in at $1.034 billion, compared with 1.055 billion as of Jan 31, 2020.

The company generated cash from operating activities of $4.6 million compared with $19.5 million reported in the fiscal second quarter. During fiscal third quarter, free cash flow came in at $1 million compared with $16.7 million reported in the fiscal second quarter.

Guidance

For the fiscal fourth quarter, revenues are expected in the range of $204.9-$212.9 million.

License and subscription are expected in the range of $138.4-$146.4 million. Maintenance revenue is anticipated in the range of $20.2-$21.2 million. Services revenues are projected between $42.7 million and $48.7 million.

Non-GAAP operating income is anticipated between $36.7 million and $44.7 million.

The company projects non-GAAP earnings of 41-49 cents per share in fourth quarter of fiscal 2020.

Guidewire updated fiscal 2020 outlook on increasing cloud implementations and higher allegiance of customers to adopt subscription-based services. The company now expects total revenues between $703.5 million and $711.5 million compared with prior guidance of $702-$714 million.

The company anticipates non-GAAP earnings of 84-92 cents per share in fiscal 2020 compared with prior range of 82-94 cents.

For fiscal 2020, License and subscription are now in the range of $419-$427 million compared with prior guided range of $415-$425 million. Services revenues are now anticipated between $198 million and $204 million compared with the prior range of $202-$208 million. Nevertheless, management continues to project Maintenance revenues in the band of $83-$84 million.

Management now expects new subscription-based sales to be at the lower end of the previous range of 70-80%.

The company is focused on enhancing Guidewire Cloud platform with new capabilities including digital frameworks, automation, tooling and other cloud services.

The company now anticipates non-GAAP operating income in the band of $65-$73 million compared with prior range of $61-$73 million.

Recent News

On Aug 17, Guidewire announced that Social Discovery Corp joined its PartnerConnect platform as a solution partner to help insurers tackle fraudulent activities.

On Aug 12, Guidewire announced that Hearsay Systems joined its PartnerConnect platform as a solution partner to improve client interactions.

On Aug 6, Guidewire announced that VPay joined its PartnerConnect platform as a solution partner to simplify claims process.

On Aug 4, Guidewire announced that Comsearch has joined Guidewire PartnerConnect as a Solution partner in a bid to modernize claims process for insurers.

On Jul 14, Guidewire announced that ConTe.it has selected Guidewire ClaimCenter for its claims management system, while Guidewire DataHub has been adopted for its enterprise-wide data management capabilities.

On Jul 8, Guidewire announced that ClaimFox has joined Guidewire PartnerConnect as a Solution partner to help joint customers improve efficiency and ensure compliance on all requests for copies of claim files.

On Jul 2, Guidewire announced that its PolicyCenter solution garnered two xCelent award wins in the Advanced Technology and Customer Base categories for strength in Policy Administration.

On Jun 30, Guidewire announced that Beazley has completed claims transformation program by leveraging Guidewire ClaimCenter.

On Jun 29, Guidewire announced that Hi Marley has joined Guidewire PartnerConnect as a Solution partner.

On Jun 10, Guidewire announced that Optio Group has adopted Guidewire Cyence for Cyber Risk Management to enhance its data warehouse capabilities. Moreover, Guidewire Cyence for Small Business was selected to support profitable small business growth.

On Jun 4, Guidewire announced that Aviva Italy has selected Guidewire InsuranceSuite Cloud to accelerate innovation, maintain technical currency, and empower its employees. Aviva Italy has also selected Guidewire EnterpriseEngage to deliver omni-channel experiences to all its stakeholders.

Valuation

Guidewire shares are up 7.1% in the year-to-date period and 25.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Computer & Technology sector are up 21.5% and 16.7% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and Sector are up 29.8% and 32.7%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 15.3% in the past year.

The stock is currently trading at 12.29X forward 12-month sales compared with 11.16X for the Zacks sub-industry, 4.42X for the Zacks sector and 3.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.01X and as low as 7.05X, with a five-year median of 9.28X. Our Neutral recommendation indicates that the stock will perform in line the market. Our $123 price target reflects 12.86X forward 12-month sales.

The table below shows summary valuation data for GWRE

Valuation Multiples - GWRE

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	12.29	11.16	4.42	3.95
	5-Year High	14.01	11.32	4.42	3.95
	5-Year Low	7.05	6.88	2.32	2.53
	5-Year Median	9.28	8.71	3.15	3.07
P/B TTM	Current	6.16	12.95	5.41	4.53
	5-Year High	6.7	13.03	5.96	4.76
	5-Year Low	3.85	8.25	3.16	2.83
	5-Year Median	5.52	10.27	4.45	3.76
EV/Sales TTM	Current	12.98	11.26	4.56	3.25
	5-Year High	13.69	11.33	5.02	3.44
	5-Year Low	6.28	6.64	2.56	2.11
	5-Year Median	9.62	8.61	3.64	2.86

As of 09/01/2020

Industry Analysis **Zacks Industry Rank:** Top 21% (53 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DXC Technology Company. **(DXC)**	Neutral	5
International Business Machines Corporation **(IBM)**	Neutral	4
Paycom Software, Inc. **(PAYC)**	Neutral	4
Paychex, Inc. **(PAYX)**	Neutral	3
Pegasystems Inc. **(PEGA)**	Neutral	3
Anaplan, Inc. **(PLAN)**	Neutral	3
SAP SE **(SAP)**	Neutral	2
Synopsys, Inc. **(SNPS)**	Neutral	3

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

Industry Comparison Industry: Business - Software Services

	GWRE	X Industry	S&P 500	DXC	PEGA	SAP
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	2
VGM Score	F	-	-	B	D	F
Market Cap	9.78 B	6.58 B	23.95 B	5.09 B	10.67 B	198.57 B
# of Analysts	6	4	14	6	4	5
Dividend Yield	0.00%	0.00%	1.61%	0.00%	0.09%	0.75%
Value Score	F	-	-	A	F	D
Cash/Price	0.11	0.14	0.07	1.05	0.05	0.04
EV/EBITDA	123.27	10.43	13.32	2.54	-128.42	26.08
PEG F1	12.70	3.21	3.05	NA	NA	3.49
P/B	6.16	4.76	3.21	1.03	19.19	6.20
P/CF	100.00	23.17	12.92	0.50	NA	28.79
P/E F1	120.28	35.62	21.84	9.12	1,769.60	27.99
P/S TTM	13.84	2.97	2.52	0.27	10.82	6.39
Earnings Yield	0.83%	2.81%	4.39%	10.98%	0.06%	3.57%
Debt/Equity	0.27	0.24	0.70	2.09	1.01	0.50
Cash Flow ($/share)	1.18	1.73	6.93	40.21	-0.60	5.78
Growth Score	F	-	-	B	C	F
Historical EPS Growth (3-5 Years)	2.98%	13.57%	10.41%	17.98%	-51.70%	8.37%
Projected EPS Growth (F1/F0)	10.17%	-2.74%	-4.75%	-60.63%	117.05%	3.92%
Current Cash Flow Growth	99.80%	11.37%	5.22%	133.97%	-208.74%	-1.75%
Historical Cash Flow Growth (3-5 Years)	29.98%	14.18%	8.49%	44.41%	NA	3.01%
Current Ratio	6.93	1.55	1.35	1.29	2.72	1.05
Debt/Capital	21.17%	22.01%	42.92%	67.65%	50.28%	33.28%
Net Margin	-6.08%	4.53%	10.25%	-29.90%	-7.66%	16.30%
Return on Equity	0.02%	9.86%	14.66%	14.79%	-16.83%	16.31%
Sales/Assets	0.32	0.87	0.50	0.68	0.81	0.46
Projected Sales Growth (F1/F0)	10.81%	0.00%	-1.40%	-10.84%	17.76%	6.29%
Momentum Score	C	-	-	D	C	C
Daily Price Change	4.64%	0.08%	0.29%	0.30%	3.31%	0.57%
1-Week Price Change	1.91%	2.02%	2.59%	10.06%	7.59%	4.00%
4-Week Price Change	-0.47%	0.00%	3.53%	9.87%	13.94%	3.81%
12-Week Price Change	9.38%	11.39%	2.09%	10.47%	36.07%	21.66%
52-Week Price Change	25.62%	13.90%	4.31%	-36.46%	91.07%	40.61%
20-Day Average Volume (Shares)	532,984	339,672	1,816,754	2,575,770	305,692	412,532
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-1.72%	-3.84%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.20%	-9.29%	2.65%	0.00%
EPS F1 Estimate 12-Week Change	54.05%	6.14%	3.86%	-9.29%	15.18%	5.59%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-28.89%	15.31%	0.00%

Source: Zacks Investment Research

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	F
Growth Score	F
Momentum Score	C
VGM Score	F

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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