

HealthEquity, Inc.(HQQ)

\$67.62 (As of 12/15/20)

Price Target (6-12 Months): **\$57.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

HealthEquity exited third-quarter fiscal 2021 on a strong note with both earnings and revenues beating estimates. However, a significant drop in adjusted operating as well as gross margins raises a concern. Moreover, the company faces stiff competition in the Medical Services market. In addition, HealthEquity must comply with the strict treasury rules formulated by the Internal Revenue Service (IRS). The stock has underperformed its industry over the past year. Nonetheless, the company also witnessed a sturdy segmental performance in the quarter under review. Notably, solid growth in Health Savings Accounts (HSA) and custodial assets too bolstered the top line. Further, HealthEquity earned \$55 million in run-rate synergies at the fiscal third-quarter end from its WageWorks acquisition. A stable liquidity position is encouraging as well.

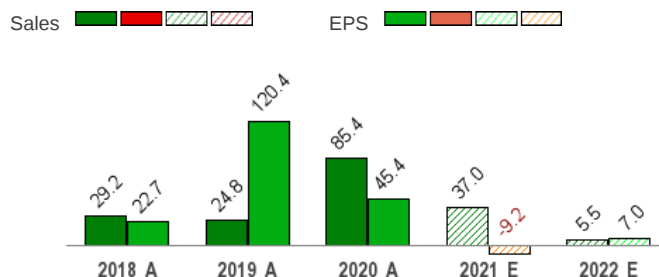
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$88.78 - \$34.40
20-Day Average Volume (Shares)	788,813
Market Cap	\$5.2 B
Year-To-Date Price Change	-8.7%
Beta	1.63
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical Services
Zacks Industry Rank	Bottom 29% (180 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.1%
Last Sales Surprise	1.9%
EPS F1 Estimate 4-Week Change	0.7%
Expected Report Date	03/15/2021
Earnings ESP	-1.3%

P/E TTM	41.0
P/E F1	43.1
PEG F1	1.9
P/S TTM	7.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	188 E	187 E	190 E	201 E	769 E
2021	190 A	176 A	179 A	184 E	729 E
2020	87 A	87 A	157 A	201 A	532 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.38 E	\$0.39 E	\$0.44 E	\$0.43 E	\$1.68 E
2021	\$0.43 A	\$0.42 A	\$0.41 A	\$0.32 E	\$1.57 E
2020	\$0.41 A	\$0.45 A	\$0.47 A	\$0.39 A	\$1.73 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 12/15/2020. The reports text is as of 12/16/2020.

Overview

Headquartered in Draper, UT, HealthEquity provides integrated solutions for health-care account management, health reimbursement arrangement and flexible spending accounts for health plans, insurance companies and third-party administrators in the United States.

HealthEquity's flagship health savings account or HSA is a financial account through which consumers spend and save for the long term for healthcare on a tax-advantaged basis. This has provided the company with a competitive edge in the MedTech industry. Other than HSAs, the company offers Healthcare saving and spending platform, Investment platform and advisory services and Reimbursement arrangements.

In addition, HealthEquity offers health reimbursement and flexible spending arrangements solutions; Employee Retirement Income Security Act's plan administration and investment services.

The company operates through three revenue segments:

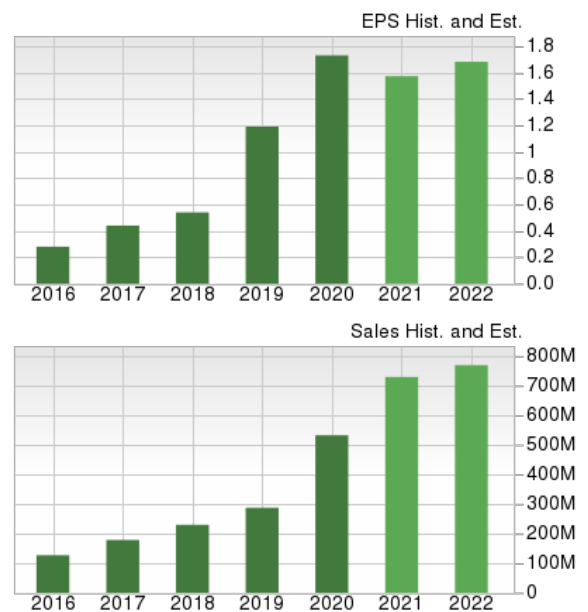
- Service revenues
- Custodial revenues
- Interchange revenues

FY20 at a Glance

In fiscal 2020, HealthEquity reported revenues of \$531.9 million, up 85.2% year over year. The top line also outpaced the Zacks Consensus Estimate by 0.2%.

The company reported adjusted net income of \$1.17 per share, down 9.3% year over year. The figure also missed the Zacks Consensus Estimate of \$1.67 by 29.9%.

While Service revenues accounted for 49% of net revenues, Custodial revenues contributed 31%. Meanwhile, Interchange revenues accounted for 16% of net revenues.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ **Shares Down:** Over the past year, shares of HealthEquity have lost 9.1% against the industry's rise of 35.7%. Intense competition and contraction in margins continue to weigh on the stock. Further, the ongoing economic volatility on account of the global coronavirus outbreak is hampering the stock.
- ▼ **Margins Fail to Impress:** In the third quarter of fiscal 2021, gross margin was 58.3% of net revenues, down 282 basis points (bps) year over year. Adjusted operating profit in the fiscal third quarter was \$38.8 million, down 4.5% year over year. Adjusted operating margin was 21.6% in the period, contracting 423 bps year over year.
- ▼ **Cutthroat Competition in the Medical Services Space:** HealthEquity faces stiff competition in the Medical Services markets. The company's direct competitors are HSA custodians that include state or federally chartered banks, such as Webster Bank and Optum Bank along with non-bank custodians approved by the U.S. Treasury, such as Payflex Systems USA, Inc. In the United States, the current top HSA custodians are Alliant Credit Union, Bank of America, BenefitWallet, HealthEquity, HealthSavings Administrators, HSA Bank, Optum Bank, SelectAccount, The HSA Authority and UMB Bank.
- ▼ **Data-security Issues:** HealthEquity deals with high level of sensitive personal data and information. Any form of security breaches might result in loss of sensitive information, theft or loss of actual funds, litigation, indemnity obligations to the customers. Notably, the company's online platform is hosted from two data centers that are located in Draper, UT and Austin, TX.

Per management, HealthEquity incurred significant costs to protect against security breaches in the fourth quarter of fiscal 2019. A similar trend in the coming quarters might keep its margins under pressure. In fact, there are high chances for the company to incur significant additional costs in the future to address problems caused by any actual or perceived security breaches.
- ▼ **Stiff Treasury Regulations:** As a non-bank custodian, HealthEquity is required to comply with Treasury Regulations Section 1.408-2(e) formulated by the IRS. The stiff regulatory environment has been a major dampener for HealthEquity. Notably, any failure to comply with the regulations adversely affect HealthEquity's ability to maintain current custodial accounts.

HealthEquity faces stiff competition in the Medical Services markets. The company deals with high level of sensitive personal data. Any form of security breaches might hamper business prospects.

Risks

- **Health Savings Account (HSA):** HealthEquity is an Internal Revenue Service approved non-bank custodian of HSA, which is a medical savings account available to taxpayers in the United States who are enrolled in a high-deductible health plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit. Addition to HSA, HealthEquity now offers FSA and HRA administration to regional employers.

As of Oct 31, 2020, the total number of Health Savings Accounts (HSA) for which HealthEquity served as a non-bank custodian (HSA members), came in at 5.5 million, up 9% year over year. Additionally, total Active HSA assets were \$12.4 billion, up 19% year over year. Total Accounts including HSAs and complementary consumer directed benefits (CDB) accounts summed 12.5 million, flat year over year.

- **Guidance Solid:** For fiscal 2021, revenues are projected within \$725-\$731 million (up from the previously guided range of \$720-\$730 million). Adjusted earnings per share are expected within \$1.55-\$1.61 (up from the earlier issued range of \$1.48-\$1.58).
- **Unique Investment Platform:** It is encouraging to note that in addition to HSAs, HealthEquity offers a mutual fund investment platform and an online-only automated investment advisory service. The advisory service is delivered through a web-based tool, Advisor TM, which is offered and managed by HealthEquity Advisors, LLC. Its members pay huge fees, including all trading commissions and other expenses associated with transactions made through these online tools, for availing the above-mentioned services. Consequently, the company's operating profitability gets a boost.

There are three levels of service offered to investors. However, regardless of the level of service selected, members are responsible for the expenses payable.

In January 2020, the company launched Investment Desktop 2.0, an elevated, digital platform experience, revolutionizing the way members manage and grow their HSAs. The new desktop makes it convenient and more cost-efficient to invest with HealthEquity.

- **Leadership Position:** HealthEquity clinched the top position in the HSA industry through its first-mover advantage, focus on innovation and differentiated capabilities.

The company's market share (measured by custodial assets) has literally tripled from 4% in December 2010 to 13% in December 2018, as noted by the 2018 Devenir HSA Research Report. Per the calendar 2019 Devenir HSA Research Report, Devenir projects that HSA assets grew 23%, while HealthEquity assets improved 29%. At calendar year end, HealthEquity came number one with market share of 19% with respect to HSAs and a close second by HSA assets at 16%.

According to the 2019 Midyear Devenir HSA Research Report, Devenir estimates that the HSA market will reach \$88 billion in HSA assets held over by 30 million accounts by the end of 2021.

- **Unique Suite of Advisory Services:** HealthEquity's automated investment advisory service are delivered through a web-based tool, AdvisorTM, which is offered and managed by HealthEquity Advisors, LLC. Notably, it is the company's SEC registered investment advisor subsidiary. Apart from this, HealthEquity offers 401(K) solution that can reduce the cost, risk and work of managing a retirement plan. In the third quarter of fiscal 2019, management at HealthEquity confirmed that it is doing an excellent job in selling a product in the retirement space and is also optimistic about it.

HealthEquity offers three levels of service to investors — Self-driven, GPS and Auto-pilot. For Self-driven services AdvisorTM provides a mutual fund investment platform to invest HSA balances. For GPS, AdvisorTM provides guidance and advice, but the member makes the final investment decisions and implements portfolio allocation and investment advice through the HealthEquity platform. For Auto-pilot, AdvisorTM manages the account and implements portfolio allocation as well as investment advice automatically for the member.

By the end of fiscal 2020, the company added other administrative and retirement services for regional employers.

Recently, the company deployed the first phase of its unified experience as its first HSA asset migrations were completed. The company also completed the onshoring around the clock member service in the second quarter of fiscal 2021.

HealthEquity achieved \$55 million in run-rate synergies by the end of the fiscal third quarter from its acquisition of WageWorks, which was completed in August 2019. As of now, the company has raised its goal to \$80 million of recurring net synergies from the WageWorks acquisition by the end of fiscal 2022.

In the fiscal first quarter, the company finished its fourth legacy platform migration and is on track to deliver six to eight more in fiscal 2021. The company reached its fiscal 2021 goal of 10 platform migrations with more expected before the fiscal 2021 ends.

In June 2020, the company launched Health Savings Score – a proprietary, HSA analytics innovation to monitor, measure and optimize employee health savings.

Currently, 97% of all HealthEquity HSAs and HSA Assets are on the HealthEquity custodial platform. In the fourth quarter of fiscal 2021, the company expects to deliver the first installment of HealthEquity's unified portal experience to its clients and then several major new portal features over the next 12 months.

- **Stable Liquidity Position:** The company exited third-quarter fiscal 2021 with cash and cash equivalents of \$299 million, up from \$269 million in the prior quarter. The company's long-term debt came in at \$939 million, down sequentially from \$953 million but higher than the reported quarter's cash and cash equivalents. However, current debt at the end of fiscal third quarter was \$63 million, up from \$55 million

in the preceding quarter. So, we can see that the current debt level is considerably lower than the cash and cash equivalents level. This is good news in terms of the company's solvency level as it has enough cash for debt repayment even during such trying times. The total debt-to-total capital came in at 42.5% compared with the industry's 65.7%.

Last Earnings Report

HealthEquity Q3 Earnings and Revenues Beat Estimates

HealthEquity, Inc. reported adjusted earnings per share of 41 cents in third-quarter fiscal 2021, which beat the Zacks Consensus Estimate of 35 cents by 17.1%. However, the bottom line fell 4.7% on a year-over-year basis.

Revenues in Detail

The company generated revenues of \$179.4 million, outpacing the Zacks Consensus Estimate by 1.9%. Also the top line rose 14.2% from the prior-year quarter.

HSA Details

As of Oct 31, 2020, the total number of Health Savings Accounts (HSA) for which HealthEquity served as a non-bank custodian (HSA members), came in at 5.5 million, up 9% year over year.

Additionally, total Active HSA assets were \$12.4 billion, up 19% year over year.

Total Accounts including HSAs and complementary consumer directed benefits (CDB) accounts summed 12.5 million, flat year over year.

Segmental Performance

Service Revenues: Revenues of \$104.6 million were up 19.4% from the year-ago figure.

Custodial Revenues: Revenues grew 3.4% year over year to \$48.5 million.

Interchange Revenues: Revenues increased 16.4% year over year to \$26.2 million.

Margin Details

HealthEquity generated gross profit of \$104.6 million, up 8.8% from the year-ago quarter. Gross margin was 58.3% of net revenues, down 282 basis points (bps) year over year.

Adjusted operating profit in the fiscal third quarter was \$38.8 million, down 4.5% year over year. Adjusted operating margin was 21.6% in the period, contracting 423 bps year over year.

Financial Position

The company exited the fiscal third quarter with cash and cash equivalents of \$299.4 million compared with \$268.9 million at the end of the fiscal second quarter.

Cumulative cash flow from operating activities in the third quarter came in at \$120.7 million, up from \$74.1 million in the year-ago period.

Full-Fiscal View

For fiscal 2021, revenues are projected within \$725-\$731 million (up from the previously guided range of \$720-\$730 million). The Zacks Consensus Estimate for the same is pegged at \$728.2 million.

Adjusted earnings per share are expected within \$1.55-\$1.61 (up from the earlier issued range of \$1.48-\$1.58). The Zacks Consensus Estimate for the same stands at \$1.56.

Quarter Ending 10/2020

Report Date	Dec 07, 2020
Sales Surprise	1.90%
EPS Surprise	17.14%
Quarterly EPS	0.41
Annual EPS (TTM)	1.65

Valuation

HealthEquity's shares are down 8.7% and 9.1% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 32.8% in the year-to-date period while that in the Zacks Medical sector are up 5.7%. Over the past year, the Zacks sub-industry are up 35.7% while that in the sector are up 5.4%.

The S&P 500 index is up 15.3% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 6.8X Forward 12-months sales, which compares to 4.9X for the Zacks sub-industry, 2.8X for the Zacks sector and 4.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.8X and as low as 3.4X, with a 5-year median of 10.8X.

Our Underperform recommendation indicates that the stock will perform below the market. Our \$57 price target reflects 5.8X forward 12-months sales.

The table below shows summary valuation data for HQY.

Valuation Multiples - HQY					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	6.82	4.94	2.81	4.22
	5-Year High	18.84	4.94	3.16	4.29
	5-Year Low	3.43	1.95	2.25	3.17
	5-Year Median	10.75	2.49	2.83	3.68
EV/SALES F12M	Current	7.43	4.82	3.22	4.02
	5-Year High	17.78	4.82	3.67	4.09
	5-Year Low	4.18	2.01	2.51	2.70
	5-Year Median	9.83	2.63	3.17	3.54

As of 12/15/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
Apollo Medical Holdings, Inc. (AMEH)	Neutral	2
BioTelemetry, Inc. (BEAT)	Neutral	3
LHC Group, Inc. (LHCG)	Neutral	3
Natera, Inc. (NTRA)	Neutral	3
NovoCure Limited (NVCR)	Neutral	3
Progyny, Inc. (PGNY)	Neutral	3
RTI Surgical, Inc. (SRGA)	Neutral	4
Teladoc Health, Inc. (TDOC)	Neutral	3

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

Industry Comparison Industry: Medical Services				Industry Peers		
	HQY	X Industry	S&P 500	AMEH	BEAT	TDOC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	D	-	-	A	C	B
Market Cap	5.21 B	289.21 M	26.16 B	954.53 M	2.17 B	28.43 B
# of Analysts	8	2	14	1	4	5
Dividend Yield	0.00%	0.00%	1.5%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	C	F
Cash/Price	0.06	0.07	0.06	0.30	0.04	0.04
EV/EBITDA	47.42	-0.38	14.38	17.47	24.25	-2,804.55
PEG F1	1.86	3.13	2.80	3.82	3.67	NA
P/B	3.84	5.08	3.64	4.10	5.47	7.42
P/CF	31.95	17.16	13.92	16.84	18.78	NA
P/E F1	42.37	31.80	22.02	19.12	36.73	NA
P/S TTM	6.97	4.61	2.80	1.39	4.94	32.78
Earnings Yield	2.32%	0.55%	4.39%	5.23%	2.72%	-0.74%
Debt/Equity	0.69	0.05	0.70	0.99	0.40	0.43
Cash Flow (\$/share)	2.12	-0.01	6.94	1.04	3.37	-0.50
Growth Score	B	-	-	A	A	A
Historical EPS Growth (3-5 Years)	39.70%	20.88%	9.69%	NA	37.17%	NA
Projected EPS Growth (F1/F0)	-9.10%	12.17%	1.00%	113.95%	-11.67%	-5.80%
Current Cash Flow Growth	92.12%	8.67%	5.22%	7.37%	4.16%	-9.57%
Historical Cash Flow Growth (3-5 Years)	52.91%	14.92%	8.33%	NA	49.60%	NA
Current Ratio	2.62	1.51	1.38	2.79	2.80	6.52
Debt/Capital	40.92%	14.88%	42.00%	64.95%	28.51%	29.94%
Net Margin	0.44%	0.21%	10.40%	5.01%	4.03%	-12.71%
Return on Equity	7.65%	1.42%	14.99%	16.69%	16.68%	-6.15%
Sales/Assets	0.29	0.56	0.50	0.89	0.61	0.38
Projected Sales Growth (F1/F0)	37.06%	2.34%	0.35%	0.00%	1.36%	95.60%
Momentum Score	D	-	-	A	D	A
Daily Price Change	2.49%	0.64%	1.52%	1.91%	4.66%	0.76%
1-Week Price Change	-8.46%	0.00%	-1.29%	-2.94%	0.59%	-2.00%
4-Week Price Change	0.30%	4.07%	1.90%	-5.43%	30.80%	9.35%
12-Week Price Change	41.46%	5.19%	16.55%	4.27%	46.73%	-8.90%
52-Week Price Change	-9.08%	4.21%	6.06%	-3.98%	39.18%	147.40%
20-Day Average Volume (Shares)	788,813	192,598	1,983,356	53,541	321,533	2,590,363
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	2.22%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.75%	0.00%	0.00%	2.22%	0.00%	0.62%
EPS F1 Estimate 12-Week Change	0.75%	4.64%	3.95%	17.95%	2.99%	18.62%
EPS Q1 Estimate Monthly Change	-14.87%	0.00%	0.00%	12.50%	0.00%	0.70%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	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.

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 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.