

Mednax Inc.(MD)

\$16.14 (As of 09/25/20)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

MEDNAX's American Anesthesiology divestiture should help it reduce its risk profile and streamline its operations as well. Its revenues have been benefiting from operational excellence, inorganic growth via strategic acquisitions and strong segmental performances. The company continues to expand its telemedicine services. Its shares have underperformed its industry year to date. Nevertheless, it has undertaken several initiatives to control costs, such as temporary salary reductions and furloughing employees in response to the current environment. However, it has been witnessing elevated expense level for the past few years. It withdrew its initial guidance for the full year due to the COVID-19 effect on global economy. As its cash position is lower than long-term debts, the company's lack of solvency remains a concern.

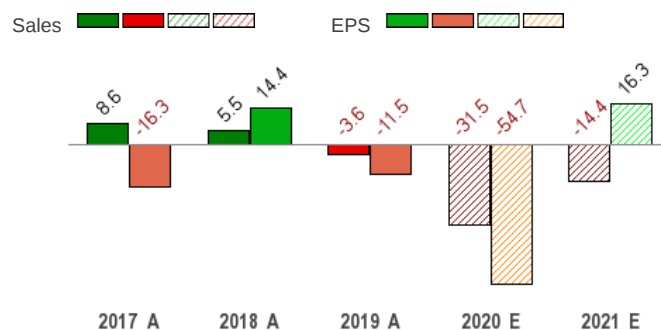
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$28.66 - \$7.37
20-Day Average Volume (Shares)	855,745
Market Cap	\$1.4 B
Year-To-Date Price Change	-41.9%
Beta	1.46
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Hospital
Zacks Industry Rank	Top 50% (126 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	113.3%
Last Sales Surprise	-13.8%
EPS F1 Estimate 4-Week Change	-9.9%
Expected Report Date	11/06/2020
Earnings ESP	4.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	484 E	464 E	499 E	518 E	2,062 E
2020	846 A	509 A	559 E	559 E	2,408 E
2019	851 A	868 A	889 A	905 A	3,514 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.38 E	\$0.40 E	\$0.44 E	\$0.43 E	\$1.78 E
2020	\$0.32 A	\$0.32 A	\$0.42 E	\$0.49 E	\$1.53 E
2019	\$0.65 A	\$0.89 A	\$0.91 A	\$0.91 A	\$3.38 A

*Quarterly figures may not add up to annual.

P/E TTM	6.6
P/E F1	10.6
PEG F1	1.1
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/25/2020. The reports text is as of 09/28/2020.

Overview

Incorporated in Florida in 2007, MEDNAX, Inc is the successor of Pediatrix Medical Group, Inc., which was founded in Florida in 1979. The company provides newborn, maternal-fetal, radiology, pediatric cardiology and other pediatric subspecialties physician services in the United States and Puerto Rico. It also offers neonatal care services such as, clinical care to babies born prematurely or with complications within specific units at hospitals through neonatal physician subspecialists, neonatal nurse practitioners and other pediatric clinicians, etc.

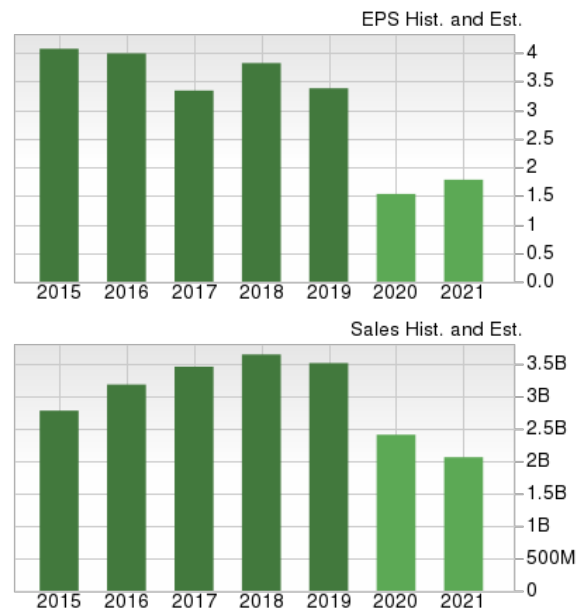
The company exited 2018 with 4,210 affiliated physicians including 1,270 physicians, who deliver neonatal clinical care, primarily within hospital-based neonatal intensive care units to babies born prematurely or with medical complications. The company also caters to radiology services through 355 affiliated physicians and teleradiology services via 430 affiliated physicians.

Additionally, the company renders services to healthcare facilities and physicians with the aid of complementary businesses.

Its perioperative consulting company also has a team of anesthesiologists, operating room nurse executives and perioperative business strategists, who develop and provide solutions to boost the performance, resources and capacity within hospital operating rooms and across the care continuum. The range of services include strategic assessments and transformations, central sterile redesign, physician engagement and governance plus workforce support.

It also conducts clinical research, monitor clinical outcomes and implement clinical quality initiatives in order to enhance patient outcomes, shorten the length of hospital stays as well as decrease health related costs.

Subject to certain conditions, MEDNAX looks to get back its original company name, Pediatrix Medical Group, Inc. Notably, it will continue trading under its current ticker symbol, MD.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strategic Acquisitions:** The company has an active inorganic growth profile. One of the company's notable acquisitions was that of vRad in 2015 that helped the company expand its services in telemedicine. The company continues to expand its services in telemedicine. In 2019, the company closed its buyouts of nine physician group practice acquisitions including two neonatology physician practices, two maternal-fetal physician practices, one radiology practice and four other pediatric subspecialty practices. The company paid a total of \$111.9 million for its 2019 acquisitions. It expects to close purchases in radiology in the upcoming quarters. We believe that all these acquisitions poise the company for growth.
- ▲ **Cost-Curbing Measures:** In response to the current environment, the company took several initiatives to control costs, such as temporary salary reductions, furloughing employees, etc. After the sale of its American Anesthesiology on May 6, 2020, it also took measures to minimize around \$10 million in annualized expenses.
- ▲ **Divestitures:** Last year, the company divested its MedData business to Frazier Healthcare Partners, which will help it focus on its core business. This divestment is expected to position MEDNAX in a better way, both financially and strategically. Following its MedData transaction, the company is now an organization dedicated to physician services and patient care. Moreover, the company sold American Anesthesiology, which is expected to mitigate cash losses induced by the coronavirus outbreak as well as lower its risk profile. MEDNAX also declared its intention to divest MEDNAX Radiology Solutions in June 2020 and focus on its core pediatrics and obstetrics business lines. The company has plans to use the proceeds for reducing its debt burden.
- ▲ **Increasing Revenues:** The company has been experiencing consistent revenue growth over the past several years on the back of operational excellence, inorganic growth via strategic acquisitions and strong segmental performances. This is evident from its CAGR of 6% during the 2015-2019 period. Although in the first six months of 2020, the metric slid 3% year over year due to the COVID-19 effect, we expect the same to bounce back on the back of strategic initiatives.
- ▲ **Price Performance:** The company has underperformed its industry year to date. However, its solid fundamentals would likely help the stock bounce back going forward.

MEDNAX's strategic acquisitions and increasing top-line on the back of operational efficiency along with solid segments augur well for long-term growth.

Reasons To Sell:

- ▼ **Rising Expenses:** The company is grappling with steep expenses for the past many years. More concerning is the fact that the rate of increase in expenses has surpassed revenue improvement in the past four years. In the first six months of 2020, general and administrative expenses inched up 2.8% to \$102 million. Though the company has undertaken cost-curbing initiatives, high labor costs should keep exerting an upward pressure on salaries and the benefit component of total expenses. An increase in expenses might weigh on the company's margins.
- ▼ **Weak Capital Position:** MEDNAX's debt level including long-term loans has been increasing over the past several years. As of Jun 30, 2020, the company had cash and cash equivalents of \$132.2 million, significantly lower than its long-term debt of \$1.7 billion. Although management confirmed that the company has no borrowings under its \$1.2 billion revolver, its lack of financial flexibility continues to bother us.
- ▼ **Weak ROE:** Further, its return on equity (ROE) of 15.4% is much lower than its industry average of 275.9%, undermining its growth potential. The company's weak ROE reflects its inefficiency in using its shareholders' funds, which is unattractive for investors.
- ▼ **Withdrawal of Guidance:** It withdrew its initial guidance for the full year due to the coronavirus effect on global economy. In March, the company's clinical operations have been affected by lower patient volumes due to the evolving COVID-19 outbreak.

On closure of operating suites and facilities per federal advisories to cancel non-urgent procedures and prohibition of the same by certain states, the company's American Anesthesiology medical group also took a hit. Decline in elective surgeries wherein MEDNAX-affiliated clinicians provide anesthesia services reduced.

Escalating costs due to rising rebates and incentives remain headwinds for the company. A weak capital position also bothers.

Last Earnings Report

MEDNAX's Q2 Earnings Surpass Estimates, Decline Y/Y

MEDNAX reported second-quarter 2020 adjusted earnings of 32 cents per share, beating the Zacks Consensus Estimate by 113.3%. However, the bottom line plunged 64% year over year due to muted revenues.

The company's results were negatively impacted by the COVID-19 pandemic. In fact, the coronavirus outbreak dented patient volumes as well as revenues. The impact on net revenues was maximum during April.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	-13.83%
EPS Surprise	113.33%
Quarterly EPS	0.32
Annual EPS (TTM)	2.46

Quarterly Details

The company generated revenues of \$509 million, which missed the Zacks Consensus Estimate by 13.9%. Also, the top line declined 41.4% from the year-ago period. This was due to major reductions in patient volumes as a result of the prevalent COVID-19 pandemic.

Same unit revenues dropped 11.7% year over year.

General and administrative expenses fell 7.7% to \$77.7 million on the back of lower general and administrative expenses.

Interest expense of the company declined 9% to \$28.3 million on the back of lower borrowings.

In the quarter under review, EBITDA totaled \$65.2 million, down 30.8% year over year.

Financial Update

As of Jun 30, 2020, the company had cash and cash equivalents of \$132.2 million, up 22.5% from the level as of Dec 31, 2019.

The company's total debt of \$1.7 billion was up 0.5% from the level at 2019 end while total assets worth \$3.4 billion were down 18.3% from the level at last-year end.

Cash flow generated from operating activities was \$193.4 million in the quarter under review, jumping 172% year over year.

Business Update

MEDNAX completed the sale of its anesthesiology medical group American Anesthesiology to North American Partners in Anesthesia (NAPA).

The company intends to divest MEDNAX Radiology Solutions and return to its original name, Pediatrix Medical Group, Inc. It aims to channelize its resources as a pediatrics and obstetrics organization.

Recent News

MEDNAX Divests Radiology Business to Focus on Core Operations – Sep 10, 2020

MEDNAX announced that it will divest its MEDNAX Radiology Solutions to Radiology Partners for \$885 million. Subject to certain closing conditions, the transaction is estimated to close in the fourth quarter of 2020.

After the completion of the deal, the company will report the operating results of MEDNAX Radiology Solutions as discontinued operations.

MEDNAX's Strategic Initiatives to Streamline Operations – Jun 5, 2020

MEDNAX announced certain initiatives to transform its business, which bode well for the long haul.

The company has been conducting a comprehensive review since 2018 and taking several measures, such as improving operational efficiencies, divesting MedData and American Anesthesiology medical group, etc.

Management believes that implementing these measures and reorienting the business to a streamlined pediatrics and obstetrics operation will be advantageous to its shareholders. Subject to certain conditions, MEDNAX looks to get back its original company name, Pediatrix Medical Group, Inc. Notably, it will continue trading under its current ticker symbol, MD.

MEDNAX also declared its intention to divest MEDNAX Radiology Solutions. The company has plans to use the proceeds for reducing its debt burden. However, it didn't issue further information on the same.

After the sale of its American Anesthesiology on May 6, 2020, it also took measures to minimize around \$10 million in annualized expenses.

Moreover last month, the company paid back its borrowings on revolving credit facility.

MEDNAX Ties Up With CDI to Provide Improved Patient Care – May 13, 2020

MEDNAX's affiliate, Jefferson Radiology, has announced its tie up with Center for Diagnostic Imaging ("CDI"). Notably, MEDNAX had declared affiliation with Jefferson Radiology in 2017. The collaboration with CDI is aimed at providing enhanced patient care services in the Springfield city, MA. Best known for their strong network of outpatient imaging centers and sub-specialized radiologists, the collaboration is likely to provide a competitive edge to both the companies.

Valuation

MEDNAX's shares are down 41.9% and 28.6% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 22.2% and 1.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.8% and up 10.2%, respectively.

The S&P 500 index is up 2.5% in the year-to-date period and 11.1% in the past year.

The stock is currently trading at 9.4x forward 12-month earnings, which compares to 11.22x for the Zacks sub-industry, 21.22x for the Zacks sector and 21.61x for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.71x and as low as 2.78x, with a 5-year median of 12.9x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 9.88x forward earnings.

The table below shows summary valuation data for MD

Valuation Multiples - MD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.4	11.22	21.22	21.61
	5-Year High	20.71	15.45	23.19	23.46
	5-Year Low	2.78	7.79	15.89	15.26
	5-Year Median	12.9	12.4	19.02	17.63
P/S F12M	Current	0.64	0.48	2.75	4.02
	5-Year High	2.51	0.69	3.25	4.3
	5-Year Low	0.19	0.36	2.24	3.11
	5-Year Median	1.16	0.55	2.89	3.66

As of 09/25/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
The Ensign Group, Inc. (ENSG)	Outperform	1
Acadia Healthcare Company, Inc. (ACHC)	Neutral	3
Community Health Systems, Inc. (CYH)	Neutral	3
HCA Healthcare, Inc. (HCA)	Neutral	2
Avita Medical Ltd. (RCEL)	Neutral	4
Tenet Healthcare Corporation (THC)	Neutral	3
Universal Health Services, Inc. (UHS)	Neutral	3
Brookdale Senior Living Inc. (BKD)	Underperform	5

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

Industry Comparison Industry: Medical - Hospital				Industry Peers		
	MD	X Industry	S&P 500	ACHC	EHF	UHS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	C	A
Market Cap	1.38 B	1.38 B	23.02 B	2.51 B	6.22 B	8.95 B
# of Analysts	3	6	14	7	8	6
Dividend Yield	0.00%	0.00%	1.69%	0.00%	1.79%	0.00%
Value Score	A	-	-	A	B	A
Cash/Price	0.14	0.14	0.07	0.08	0.07	0.05
EV/EBITDA	7.04	6.90	12.89	10.78	9.83	6.90
PEG F1	1.09	1.14	2.88	1.14	5.16	1.40
P/B	1.67	1.67	3.15	1.00	3.40	1.55
P/CF	0.76	4.27	12.43	7.05	10.06	6.61
P/E F1	10.95	10.53	21.02	13.42	21.57	11.20
P/S TTM	0.44	0.62	2.38	0.81	1.35	0.79
Earnings Yield	9.48%	8.93%	4.52%	7.47%	4.63%	8.93%
Debt/Equity	2.10	0.60	0.70	1.23	1.94	0.60
Cash Flow (\$/share)	21.32	4.31	6.93	4.01	6.22	15.94
Growth Score	A	-	-	B	C	A
Historical EPS Growth (3-5 Years)	-7.49%	9.30%	10.41%	-3.10%	13.25%	9.30%
Projected EPS Growth (F1/F0)	-54.64%	4.76%	-4.56%	3.22%	-25.80%	-5.84%
Current Cash Flow Growth	338.26%	8.67%	5.26%	-2.61%	8.30%	2.58%
Historical Cash Flow Growth (3-5 Years)	37.59%	16.58%	8.49%	24.05%	13.00%	23.60%
Current Ratio	1.79	1.29	1.35	1.16	1.66	1.02
Debt/Capital	67.76%	55.42%	42.92%	55.42%	66.16%	37.48%
Net Margin	-61.53%	-1.39%	10.25%	3.42%	6.21%	6.53%
Return on Equity	13.86%	10.49%	14.59%	7.11%	16.89%	14.75%
Sales/Assets	0.78	0.77	0.50	0.46	0.73	0.96
Projected Sales Growth (F1/F0)	-31.45%	-2.20%	-1.44%	1.16%	1.90%	-1.42%
Momentum Score	D	-	-	B	F	A
Daily Price Change	4.53%	2.76%	1.35%	2.84%	2.09%	2.69%
1-Week Price Change	0.28%	-0.44%	0.79%	-1.54%	1.61%	4.18%
4-Week Price Change	-15.10%	-14.96%	-4.19%	-8.28%	-3.93%	-5.85%
12-Week Price Change	-7.56%	10.00%	3.17%	10.52%	0.69%	12.58%
52-Week Price Change	-27.95%	-22.31%	-1.37%	-8.63%	0.79%	-28.09%
20-Day Average Volume (Shares)	855,745	593,956	2,095,310	469,237	595,787	718,675
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.86%	0.00%
EPS F1 Estimate 4-Week Change	-9.91%	0.00%	0.00%	2.79%	-1.27%	0.00%
EPS F1 Estimate 12-Week Change	10.77%	48.88%	4.08%	13.36%	-4.69%	48.88%
EPS Q1 Estimate Monthly Change	-6.25%	0.00%	0.00%	0.00%	-2.18%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	A
Momentum Score	D
VGM Score	A

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

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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.