

## Medifast, Inc.(MED)

**\$164.23** (As of 10/05/20)

Price Target (6-12 Months): **\$189.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 05/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

## Summary

Medifast has outpaced the industry in the past three months. The company has been benefiting from strength in its OPTAVIA lifestyle solution and coaching support system, which is set to keep gaining on consumers' rising inclination toward health. Encouragingly, management remains impressed with OPTAVIA's relevance even amid the pandemic. This was evident in second-quarter 2020, wherein top and bottom lines grew year over year and beat the consensus mark. Solid demand and engagement among OPTAVIA coaches and clients boosted results. Incidentally, the number of active earning coaches was the highest in the quarter, with productivity increasing significantly from the last quarter. Apart from this, the company is on track with cost-control measures. This should help Medifast battle SG&A cost concerns stemming from high OPTAVIA commission costs

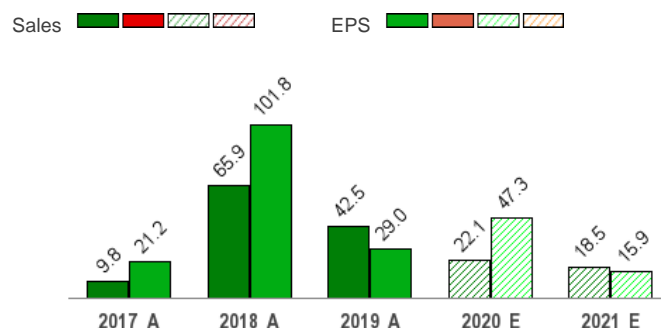
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$184.29 - \$49.03</b>
20-Day Average Volume (Shares)	<b>165,054</b>
Market Cap	<b>\$1.9 B</b>
Year-To-Date Price Change	<b>49.4%</b>
Beta	<b>1.18</b>
Dividend / Dividend Yield	<b>\$4.52 / 2.8%</b>
Industry	<b>Food - Miscellaneous</b>
Zacks Industry Rank	<b>Top 42% (105 out of 252)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>6.5%</b>
Last Sales Surprise	<b>13.0%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>11/05/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>25.6</b>
P/E F1	<b>18.7</b>
PEG F1	<b>NA</b>
P/S TTM	<b>2.5</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	248 E	259 E	262 E	264 E	1,033 E
2020	178 A	220 A	235 E	239 E	872 E
2019	166 A	187 A	190 A	171 A	714 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.64 E	\$2.73 E	\$2.37 E	\$2.60 E	\$10.18 E
2020	\$1.93 A	\$1.96 A	\$2.37 E	\$2.40 E	\$8.78 E
2019	\$1.70 A	\$1.75 A	\$1.32 A	\$1.19 A	\$5.96 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/05/2020. The reports text is as of 10/06/2020.

## Overview

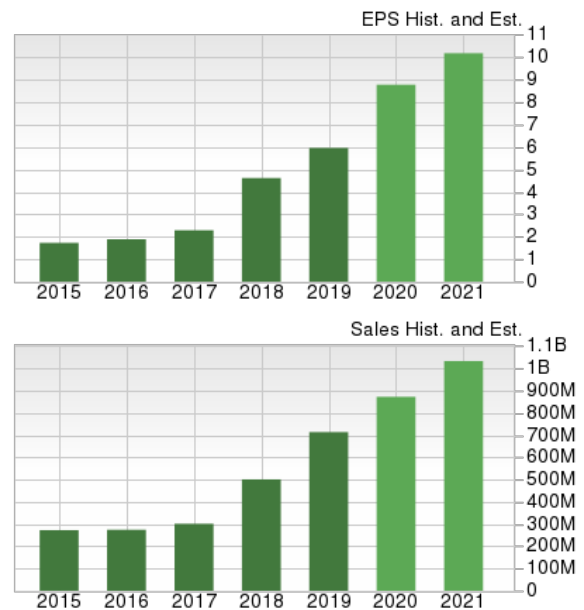
With more than 40 years of experience in the health and wellness space, Medifast, Inc. (MED) has become a remarkable direct-selling company in the industry. The company is also known for its leading health and wellness community—OPTAVIA — which provides Lifelong Transformation, One Healthy Habit at a Time lifestyle solutions. Given consumers' rising inclination toward health, the OPTAVIA lifestyle solution and coaching support system bode well. Notably, OPTAVIA-branded products contributed 79% of the total consumable units sold in first-quarter 2020.

Incorporated in 1989, Medifast is a leading manufacturer and distributor of clinically-proven healthy living products and programs. The company produces, distributes and sells weight loss, weight management and healthy living products through direct online channels as well as franchise weight control centers.

The Baltimore, MD— based company boasts of a diversified portfolio of more than 170 consumable product options, which include bars, bites, pretzels, puffs, cereal crunch, drinks, hearty choices, oatmeal, pancakes, pudding, soft serve, shakes, smoothies, soft bakes and soups.

Medifast's manufacturing plant, which is approved by the United States Food and Drug Administration, is situated in Owings Mills, MD. The company sells different types of products, which are formed on the basis of its proprietary formulas across the United States and the Asia-Pacific. The products are sold under brands such as the Medifast, OPTAVIA, Thrive by Medifast, Optimal Health by Take Shape for Life and Flavors of Home.

OPTAVIA product line is sold through its community of independent coaches who offer support and guidance to their clients. In partnership with OPTAVIA coaches, franchise partners, resellers and its Scientific Advisory Board, Medifast offers comprehensive wellness products and programs that focus on creating sustainable change by helping people learn to incorporate healthy habits into their lives.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Impressive Q2 Performance:** Shares of Medifast have gained 10% in the past three months compared with the industry's growth of 6.3%. The company has been benefiting from strength in OPTAVIA for quite some time. This was evident in second-quarter 2020 results, wherein both top and bottom lines grew year over year and came ahead of the Zacks Consensus Estimate. Solid demand and engagement among OPTAVIA coaches as well as clients boosted results. The company notified that its number of active earning coaches were the highest in the quarter, with productivity increasing significantly from the last quarter. Net revenues of \$220 million advanced 17.6% year over year and beat the Zacks Consensus Estimate of \$195 million. Further, adjusted earnings of \$1.96 per share surpassed the Zacks Consensus Estimate of \$1.84 and grew 12% year over year.

Medifast has been benefiting from strength in OPTAVIA. The number of active earning coaches was the highest in the second quarter, with productivity increasing significantly from the preceding quarter.

Management remains impressed with OPTAVIA's relevance even amid the pandemic. In fact, all business operations of the company operated without any major hurdle throughout the COVID-19-led lockdown. Management said that, in July, the company saw trends that were in line with or better than those in the second quarter. Apart from this, the company remains committed to cost control for the remainder of 2020.

▲ **Growth-Oriented Efforts:** Medifast has been undertaking a number of measures to drive growth, even amid the coronavirus outbreak. During the second quarter, the company introduced a key initiative, which brought together co-skilled development, incentives and product-related promotions for new clients. The program ran from March to May and fueled major increases in the company's core growth metrics — new client acquisitions and co-sponsorships. Early results of the initiative underscore OPTAVIA's relevance even amid the pandemic, along with the company's ability to respond to the changing consumer environment.

The company remains focused on driving demand for its products and services in the third quarter. To keep pace with the changing scenario, management has largely altered its programs for the second half of 2020 — including the development of a digital-first approach. To this end, the company's high-profile virtual event, Optavia together live (from Jul 24-26), is noteworthy. Apart from these, Medifast remains impressed with its supply-chain investments.

▲ **Strength in OPTAVIA:** Given the evolving consumer interests in health and wellness, Medifast's OPTAVIA lifestyle solution and coaching support system bodes well. OPTAVIA follows a holistic approach by focusing on six key areas of a human being, namely weight, eating and hydration, motion, sleep, mind and surroundings. Further, OPTAVIA combines scientifically-proven programs, effective products as well as guidance from its coaches to help consumers lead a healthier lifestyle. The OPTAVIA product line is sold through its community of independent coaches who offer support and guidance to their clients. In partnership with OPTAVIA coaches, franchise partners, resellers and its Scientific Advisory Board, Medifast offers comprehensive wellness products and programs that focus on creating.

Incidentally, solid demand and engagement among OPTAVIA coaches as well as clients boosted second-quarter results. The company notified that its number of active earning coaches were the highest in the quarter, with productivity increasing significantly from the last quarter. Markedly, OPTAVIA-branded products formed 83% of consumable units sold in the quarter, up from 75% in the year-ago period. Total active earning OPTAVIA coaches grew 19.3% to 36,500. Management noted that while OPTAVIA'S productivity remained in line with the year-ago period, it rose 9.7% on a quarter-over-quarter basis.

▲ **Financial Flexibility:** Medifast intends to remain committed to its shareholders on the dividend payout front. The company ended the second quarter with cash and cash equivalents of \$130.8 million and no interest-bearing debt on its balance sheet as of Jun 30. At a juncture where companies are withdrawing dividends to preserve financial position, Medifast announced a quarterly cash dividend of \$1.13 per share concurrent with its second-quarter results. The company anticipates maintaining its quarterly dividend payment practice. Notably, the company has a dividend payout of 70.6%, dividend yield of 2.7% and free cash flow yield of 6.1%. Apart from this, the company repurchased 46,075 shares during the second quarter of 2020 and has roughly 2,323,000 shares remaining under its buyback plan.

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## Risks

- **Stock Appears Stretched:** Medifast's stock looks quite stretched when compared to peers and the S&P 500, which means the stock has limited room to run in the days ahead. A comparative analysis of the company's forward P/E ratio over the past year reflects a relatively gloomy picture that might be a concern for investors. The ratio currently stands at 25.59, which looks stretched when compared with the industry and the index's ratio of 19.36 and 23.75, respectively.
  - **Escalated Cost Concerns:** Medifast has been seeing high SG&A expenses for the past few quarters. In the second quarter of 2020, adjusted SG&A expenses increased 14.5% to \$129.8 million following an 11.3% increase in the first quarter. The escalation in the second quarter was mainly accountable to escalated OPTAVIA commission costs, stemming from higher OPTAVIA sales, and greater coach incentives. Incidentally, the operating margin contracted 120 bps to 13.4%. Apart from this, the company's gross margin contracted 280 basis points due to increased promotional activities and elevated production costs. Persistence of these factors is a threat to the company's performance.
  - **Intense Competition:** Medifast is not immune to the competitive landscape in the evolving health and wellness industry. The company operates in a highly competitive market with a number of other players providing products and services that include weight management programs, surgical procedures, dietary supplements and other healthy lifestyle services. Moreover, companies have to constantly engage in innovation to keep pace with the rapidly changing customer dynamics related to weight-loss management and supplement formulations.
  - **International Exposure:** In 2019, Medifast had ventured into the Asia-Pacific region. This exposes the company to volatile foreign currency translations. Moreover, its entry into foreign land exposes it to a number of other potential risk factors, including tariffs, taxes, foreign regulations as well as political and social unrest.
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## Last Earnings Report

### Medifast Q2 Earnings Top Estimates on OPTAVIA Strength

Medifast delivered robust second-quarter 2020 results. Management remains impressed with OPTAVIA's relevance even amid the pandemic. In fact, all business operations of the company operated without any major hurdle throughout the COVID-19-led lockdown. However, on account of pandemic-related uncertainties, the company did not offer any guidance. Nonetheless, management said that, in July, the company saw trends that were in line with or better than those in the second quarter. Further, the company remains committed to cost control for the remainder of 2020.

Quarter Ending	06/2020
Report Date	Aug 05, 2020
Sales Surprise	12.97%
EPS Surprise	6.52%
Quarterly EPS	1.96
Annual EPS (TTM)	6.40

The company posted adjusted earnings of \$1.96 per share, which surpassed the Zacks Consensus Estimate of \$1.84. Moreover, the bottom line grew 12% year over year. Net revenues of \$220 million advanced 17.6% year over year and beat the Zacks Consensus Estimate of \$195 million.

Markedly, OPTAVIA-branded products formed 83% of consumable units sold in the quarter, up from 75% in the year-ago period. Incidentally, total active earning OPTAVIA coaches jumped 19.3% to 36,500. However, average revenue per active earning OPTAVIA coach came in at \$5,851, down from \$5,863 in the same period last year. Management noted that while OPTAVIA'S productivity remained in line with the year-ago period, it rose 9.7% on a quarter-over-quarter basis.

Gross profit grew 13.2% to \$159.3 million, though the gross margin contracted 280 basis points (bps) year over year to 72.4%. Gross margin was affected by increased promotional activity and elevated production costs.

Moving on, adjusted SG&A expenses increased 14.5% to \$129.8 million in the quarter, mainly accountable to escalated OPTAVIA commission costs, stemming from higher OPTAVIA sales, and greater coach incentives. As a percentage of revenues, adjusted SG&A expenses declined 160 bps to 59%. Adjusted income from operations rose 8.1% to \$29.5 million, thanks to higher gross profit, partially offset by a rise in SG&A expenses. However, the operating margin contracted 120 bps to 13.4%.

### Other Financial Updates

The company concluded the quarter with cash and cash equivalents of \$130.8 million and total shareholders' equity of \$116.7 million. Notably, management did not have any interest-bearing debt on its balance sheet as of Jun 30, 2020.

Concurrently, management announced a quarterly cash dividend of \$1.13 per share, which is payable on Aug 6, 2020. Additionally, the company repurchased 46,075 shares during the second quarter of 2020 and has roughly 2,323,000 shares remaining under its buyback plan. The company anticipates maintaining its quarterly dividend payment practice.

### Other Developments

During the second quarter, Medifast introduced a key initiative, which ran from March to May and fueled major increases in the company's core growth metrics — new client acquisitions and co-sponsorships. Early results of the initiative underscore OPTAVIA's relevance even amid the pandemic, along with the company's ability to respond to the changing consumer environment. The company remains focused on driving demand for its products and services in the third quarter.

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## Recent News

### Medifast Declares Dividend – Sep 11, 2020

Medifast has declared quarterly cash dividend of \$1.13 per share. This is payable on Nov 6, 2020, to shareholders of record as on Sep 22.

### Medifast's OPTAVIA Together Live Digital Experience a Hit – Jul 29, 2020

Medifast unveiled that it hosted a live broadcast event experience, OPTAVIA Together Live. This replaced the company's regular in-person convention that was called off due to the pandemic. OPTAVIA Together Live streamed from Jul 24-26 and drew more than 50,000 registrants worldwide.

## Valuation

Medifast's shares are up 49.4% in the year-to-date period and 58.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.9% in the year-to-date period, while the Zacks Consumer Staples sector is down 7%. Over the past year, the Zacks sub-industry is up 1.6%, while the sector declined 4.8%.

The S&P 500 index is up 4.4% in the year-to-date period and 14.2% in the past year.

The stock is currently trading at 16.62X forward 12-month earnings, which compares to 47.02X for the Zacks sub-industry, 8.03X for the Zacks sector and 20.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 47.02X and as low as 8.03X, with a 5-year median of 20.11X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$189 price target reflects 19.18X forward 12-month earnings.

The table below shows summary valuation data for MED

Valuation Multiples - MED					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.62	18.62	19.56	21.89
	5-Year High	47.02	22.9	22.37	23.47
	5-Year Low	8.03	14.74	16.62	15.27
	5-Year Median	20.11	18.52	19.56	17.7
P/S F12M	Current	1.94	1.69	9.4	4.02
	5-Year High	5.69	2.05	11.16	4.3
	5-Year Low	0.83	1.4	8.14	3.18
	5-Year Median	1.82	1.72	9.89	3.67
EV/EBITDA TTM	Current	18.41	14.24	38.16	14.91
	5-Year High	51.94	23.67	45.1	15.66
	5-Year Low	5.65	11.41	27.23	9.53
	5-Year Median	12.29	15.16	9.53	13.07

As of 10/05/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 42% (105 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Celsius Holdings Inc. (CELH)	Outperform	2
Flowers Foods, Inc. (FLO)	Outperform	1
The Hain Celestial Group, Inc. (HAIN)	Outperform	2
TreeHouse Foods, Inc. (THS)	Outperform	2
United Natural Foods, Inc. (UNFI)	Outperform	1
Blue Apron Holdings, Inc. (APRN)	Neutral	NA
BG Foods, Inc. (BGS)	Neutral	3
Darling Ingredients Inc. (DAR)	Neutral	2

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MED	X Industry	S&P 500	DAR	FLO	THS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	2	1	2
VGM Score	A	-	-	B	C	B
Market Cap	1.93 B	3.45 B	23.68 B	6.14 B	5.27 B	2.33 B
# of Analysts	3	3	14	3	3	6
Dividend Yield	2.76%	0.00%	1.64%	0.00%	3.21%	0.00%
Value Score	C	-	-	B	C	B
Cash/Price	0.08	0.08	0.07	0.01	0.06	0.13
EV/EBITDA	18.28	12.79	13.45	9.64	15.18	26.21
PEG F1	NA	4.72	2.88	NA	NA	2.00
P/B	16.50	2.31	3.39	2.28	3.94	1.29
P/CF	24.61	12.10	13.14	11.14	15.12	6.72
P/E F1	18.71	18.00	21.79	22.10	20.43	15.43
P/S TTM	2.54	1.36	2.55	1.81	1.24	0.54
Earnings Yield	5.36%	5.26%	4.42%	4.53%	4.90%	6.48%
Debt/Equity	0.00	0.57	0.70	0.58	0.77	1.16
Cash Flow (\$/share)	6.65	2.68	6.92	3.40	1.65	6.13
Growth Score	A	-	-	A	A	C
Historical EPS Growth (3-5 Years)	40.66%	5.17%	10.45%	13.64%	2.64%	-8.24%
Projected EPS Growth (F1/F0)	47.32%	9.11%	-2.97%	-7.70%	27.08%	11.72%
Current Cash Flow Growth	27.14%	4.49%	5.47%	16.44%	1.85%	-1.33%
Historical Cash Flow Growth (3-5 Years)	19.15%	6.08%	8.50%	3.58%	1.66%	5.96%
Current Ratio	1.79	1.70	1.35	1.54	1.58	1.48
Debt/Capital	0.00%	36.53%	42.90%	36.53%	43.44%	53.64%
Net Margin	10.04%	2.97%	10.28%	12.32%	2.29%	-4.51%
Return on Equity	68.55%	9.73%	14.79%	12.89%	18.50%	8.12%
Sales/Assets	3.67	1.02	0.51	0.65	1.29	0.83
Projected Sales Growth (F1/F0)	22.24%	0.00%	-0.79%	0.47%	5.02%	-8.61%
Momentum Score	B	-	-	F	F	D
Daily Price Change	-0.49%	0.46%	1.71%	3.04%	1.18%	-0.82%
1-Week Price Change	-0.21%	1.56%	2.13%	10.40%	3.79%	4.50%
4-Week Price Change	2.06%	-0.73%	0.26%	10.97%	3.62%	-3.81%
12-Week Price Change	8.10%	4.93%	8.70%	59.01%	14.26%	-3.74%
52-Week Price Change	58.12%	-1.59%	4.20%	103.11%	11.55%	-22.39%
20-Day Average Volume (Shares)	165,054	157,523	2,164,008	1,512,890	882,303	571,806
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	20.77%	2.69%	3.80%	1.78%	11.93%	3.49%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research



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## 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.

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### Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	B
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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## Disclosures

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## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**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.

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**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.

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**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.

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**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.