

MarketAxess Holdings (MKTX)

\$457.81 (As of 06/22/21)

Price Target (6-12 Months): **\$391.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/18/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Shares of MarketAxess have underperformed its industry in a year's time. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 0.5% downward over the past 30 days. While the company's strategy led to noticeable top and bottom-line growth, escalating costs have been weighing on its margins. Due to the low interest rate environment, net investment income took a hit. MarketAxess's valuation looks stretched and expensive at the current level. Nevertheless, the company is experiencing market share gains across all credit products and geographic regions. Its Open Trading platform is also benefiting from automation in trading. Further, it enjoys strong liquidity and witnessed consistent higher free cash flows.

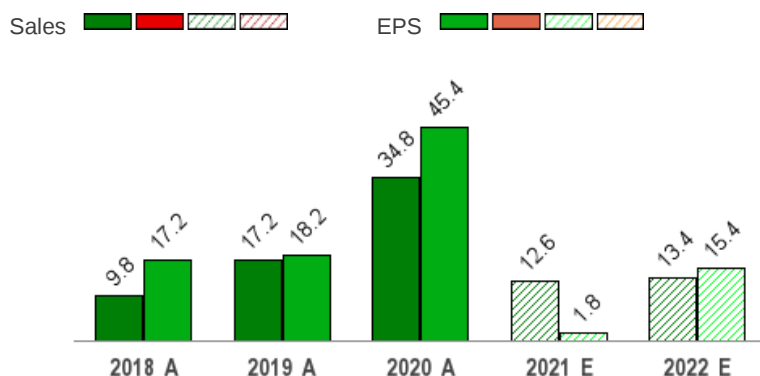
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$606.45 - \$431.19
20-Day Average Volume (Shares)	286,749
Market Cap	\$17.4 B
Year-To-Date Price Change	-19.8%
Beta	0.38
Dividend / Dividend Yield	\$2.64 / 0.6%
Industry	Securities and Exchanges
Zacks Industry Rank	Top 44% (111 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.5%
Last Sales Surprise	0.8%
EPS F1 Estimate 4-Week Change	-1.9%
Expected Report Date	07/28/2021
Earnings ESP	-8.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	224 E	219 E	221 E	219 E	880 E
2021	195 A	192 E	194 E	198 E	776 E
2020	169 A	185 A	164 A	171 A	689 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.41 E	\$2.18 E	\$2.30 E	\$2.30 E	\$9.22 E
2021	\$2.11 A	\$1.89 E	\$1.97 E	\$2.02 E	\$7.99 E
2020	\$1.96 A	\$2.20 A	\$1.78 A	\$1.91 A	\$7.85 A

*Quarterly figures may not add up to annual.

P/E TTM	57.2
P/E F1	57.3
PEG F1	NA
P/S TTM	24.3

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/22/2021. The report's text and the

analyst-provided price target are as of 06/23/2021.

Overview

Based in New York, and incorporated in 2000, MarketAxess Holdings Inc. is a leading multi-dealer trading platform that offers institutional investors access to global liquidity in products like U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit derivatives and other fixed-income securities.

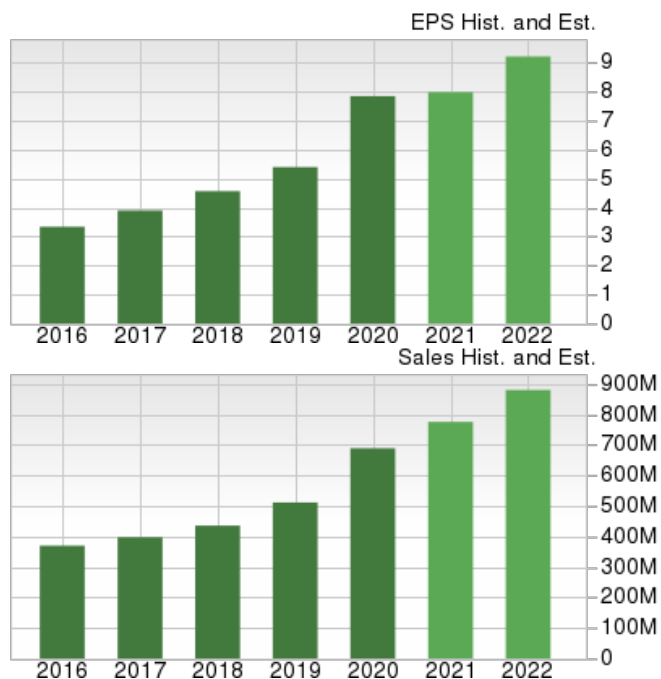
MarketAxess derives its operating revenues from commissions (92% of total revenue in 2020), information services (5%) and post-trade services (3%).

The company, having an estimated 85% electronic market share in U.S. high-grade and high-yield bond trading, has a global network of investors, dealers, and alternative market makers which continues to expand both domestically and internationally. It has over 1,700 firms active on the platform globally.

It also offers a number of trading-related products and services, including Composite pricing and other market data products to assist clients with trading decisions; auto-execution and other execution services for clients requiring specialized workflow solutions; connectivity solutions that facilitate straight-through processing; and technology services to optimize trading environments. Through its Trax division, it also offers a range of pre- and post-trade services, including trade matching, trade publication, regulatory transaction reporting and market and reference data across a range of fixed-income and other products.

The company entered the U.S. Treasury market in 2019 through the acquisition of LiquidityEdge LLC ("LiquidityEdge"). It provides innovative custom liquidity pools, as well as direct dealer streaming capabilities, for on- and off-the-run U.S. Treasuries offer a bespoke trading ecosystem to connect a community of dealers, market-makers and institutional investors to trade in the \$593.6 billion average-daily-volume U.S. Treasury market.

The company recently (December 2020) acquired the Regulatory Reporting Hub from Deutsche Börse Group. It acquired MuniBrokers in April. The deal will expand the company's existing municipal bond trading solution for global institutional investors and dealer clients.



Reasons To Sell:

▼ **Escalating Costs:** While MarketAxess' growth strategy has led to noticeable top and bottom-line growth, escalating costs remain a significant headwind. Total expenses have been rising over the years, thereby weighing on the company's margins. In the first quarter of 2021, expenses were up 18.1% year over year. We estimate the company's expenses to rise over the coming quarters given its ongoing investments in several areas including trading platform, new protocols and infrastructure as well as headcount additions. Notably, for 2021, the company anticipates total expenses in the range of \$370-\$386, which was revised up from the previous range of \$362-\$382 million. This represents a rise of 20% year over year.

Increasing expenses weigh on margins, high valuation makes the stock look unattractive.

▼ **Pressure on Investment Income:** Due to the low interest rate environment, the company's net investment income took a hit. The same was down 91.6% year over year in the first quarter of 2021. Given that the interest rates are likely to stay at modest levels in the foreseeable future, we expect net investment income to remain under pressure.

▼ **Valuation:** MarketAxess's valuation looks stretched and expensive at the current level. Looking at the company's price-to-earnings (P/E) ratio, investors may not want to pay any further premium. It currently has a forward 12-month P/E ratio of 56.61 higher than the industry average of 27.31.

▼ **Share Price Performance:** Shares of MarketAxess have underperformed its industry, in a year's time. The stock has seen the Zacks Consensus Estimate for current-year earnings being revised 0.5% downward over the last seven days.

Risks

- **Growing Top Line:** The company's revenues have been consistently growing since 2005 (except 2008 when revenues declined by just 0.6%). Revenues witnessed a CAGR of 16.8% from 2010 to 2020 and were up 16% in the first quarter of 2021. This top-line growth was primarily driven by persistent increase in commission (up 12.7% in the first quarter of 2021) (which forms the lion's share of total revenues) received on trading volumes and the inclusion of treasury trading commissions. The company has been successful in increasing its trading volumes by way of inorganic and organic strategies. Its efforts of pursuing international opportunities, a compelling economic market model and a diversified product suite of the highly demanded U.S. high-grade floating rate and other credit bonds to broaden the scope of volume growth for MarketAxess, going forward, which will further drive commission revenues.
- **Selective Acquisitions and Strategic Alliances:** The company supplements its organic growth by entering into strategic alliances, or by acquiring businesses or technologies that enables it to enter new markets, provide new products or services. Some of the notable deals to this end are – acquisition of Xtrakter Limited, which provided the company with an expanded set of technology solutions; a strategic alliance with BlackRock, Inc., which improved the range of trading connections available to global credit market participants, and agreement with S&P Dow Jones Indices to jointly develop indices that will track the most liquid segments of the U.S. corporate bond market. MarketAxess' acquisition of LiquidityEdge in 2019 has brought streaming treasury liquidity and trading capabilities to the company.

The company recently (December 2020) acquired the Regulatory Reporting Hub from Deutsche Börse Group. It acquired MuniBrokers in April. The deal will expand the company's existing municipal bond trading solution for global institutional investors and dealer clients. The acquisition of Deutsche Borse Group's Regulatory Reporting Hub extends the company's leading regulatory reporting business across Europe and strengthens its data capabilities with improved transparency and post-trade data services. We remain impressed with the company's inorganic growth, which has also aided its top line.

- **Growing International Business:** International business has performed strongly over the years and experienced another quarter of rapid growth with international client volume up 18% reaching a new record of \$237 billion. MiFID II continues to have a positive impact on client-training behavior, leading to an increase in volume with European clients, which further drives Eurobond volumes. Increase in emerging market volume is also impressive. The company's growing international business will aid overall revenues.
- **Favorable Cash Flows:** MarketAxess enjoys strong liquidity position, witnessed continuous growth in free cash flow, over the past many years, which was up further 50% in 2020. In the first quarter of 2021 free cash flow of \$52.38 was generated which was, however, down 1% year over year. Its strong liquidity not only mitigates balance-sheet risks, but also paves the way for an accelerated capital deployment in employees, trading platform, new products, geographic expansion and infrastructure. The company remains focused on enhancing shareholders' value through share repurchase and dividend hikes. In January 2021 the company raised the dividend by 10%, marking the increase in the dividends for the 12th consecutive year. We believe, the company's strong financial flexibility will continue to support it in enhancing shareholders' value. The company's has no long term debt obligations.
- **Strong ROE:** Further, MarketAxess's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's ROE of 33%, which has improved over the past four years, remains higher than the ROE of 11.8% for the industry, reflecting tactical efficiency in using shareholder's funds.

Last Earnings Report

MarketAxess Q1 Earnings Miss Estimates, Up YoY

MarketAxess Holdings Inc.'s first-quarter 2021 earnings per share of \$2.11 missed the Zacks Consensus Estimate by a cent but gained 8% year over year.

Year-over-year bottom-line growth came on the back of increased revenues

Operational Update

Revenues of \$195.5 million beat the Zacks Consensus Estimate by 0.8% and also rose 15.7% year over year. Commission revenues jumped 12.7% year over year to \$175.8 million.

All other revenues comprising information services, post-trade services and other revenues improved 48.5% to \$19.6 million.

Total expenses at MarketAxess were up 18.1% from the prior-year quarter to \$92 million. This rise was due to escalated employee compensation and benefit cost; professional and consulting; self-clearing consulting fees; and depreciation and amortization.

Operating income of \$103.5 million increased 13.6% year over year owing to strength in revenues, partly offset by elevated costs. Operating margin of 52.9% was down 100 basis points year over year.

Financial Update (as of Mar 31, 2021)

Total assets of \$1.5 billion were up 16.1% from the level as of Dec 31, 2020.

Total cash, cash equivalents and investments were \$390.9 million, down 15.2% from the level at 2020 end.

During the quarter, the company generated free cash flow of \$52.3 million, down 1% year over year.

Dividend Update

The company announced a cash dividend of 66 cents per share to be paid out on May 26, 2021 to its stockholders of record as of the close of business on May 12, 2021.

Share Repurchases

A total of 1,050 shares were bought back at a cost of \$0.5 million. In January 2021, the board of directors authorized a new buyback program for up to \$100 million. The company expects repurchases under the new program to commence in April 2021 following the expiration of the current plan.

Guidance Update for 2021

Expenses are expected in the range of \$370-\$386 million compared with the previous estimate \$362-\$382 million. This increase in estimate is due to the impact of MuniBrokers LLC acquisition, which closed on Apr 9, 2021.

Quarter Ending 03/2021

Report Date	Apr 22, 2021
Sales Surprise	0.75%
EPS Surprise	-0.47%
Quarterly EPS	2.11
Annual EPS (TTM)	8.00

Recent News

MarketAxess Announces Monthly Volume Statistics for April 2021 - May 4, 2021

The company announced monthly trading volume for April 2021 of \$511.4 billion consisting of \$225.0 billion in credit volume and \$286.4 billion in rates volume..

Valuation

MarketAxess' shares are down 20.2% and 12.4% in the year-to-date and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 9.5% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 39.7% and 22.9%, respectively.

The S&P 500 index is up 11.8% in the year-to-date period and 35.1% in the past year.

The stock is currently trading at 53.12x forward 12-month earnings value, which compares to 26.95x for the Zacks sub-industry, 15.89x for the Zacks sector and 21.35x for the S&P 500 index.

Over the past five years, the stock has traded as high as 74.85x and as low as 34.54x, with a 5-year median of 45.55x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$391 price target reflects 45.15x forward earnings.

The table below shows summary valuation data for MKTX

Valuation Multiples - MKTX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	53.12	26.95	15.89	21.35
	5-Year High	74.85	28.49	17.25	23.83
	5-Year Low	34.54	19.53	11.6	15.3
	5-Year Median	45.55	22.99	14.94	18.01
P/S F12M	Current	20.53	12.17	8.28	4.64
	5-Year High	30.47	12.94	8.28	4.74
	5-Year Low	13.08	7.9	5.07	3.21
	5-Year Median	17.02	10.85	6.19	3.71
P/B TTM	Current	17.18	3.53	3.65	6.83
	5-Year High	24.97	3.65	3.68	7.01
	5-Year Low	11.3	1.94	1.76	3.83
	5-Year Median	15.07	2.82	2.63	5

As of 06/22/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Hilltop Holdings Inc. (HTH)	Outperform	2
OTC Markets Group Inc. (OTCM)	Outperform	2
Cboe Global Markets, Inc. (CBOE)	Neutral	2
CME Group Inc. (CME)	Neutral	3
Coinbase Global, Inc. (COIN)	Neutral	3
Deutsche Boerse AG (DBOY)	Neutral	3
Intercontinental Exchange Inc. (ICE)	Neutral	3
Nasdaq, Inc. (NDAQ)	Neutral	3

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

Industry Comparison			Industry: Securities And Exchanges		Industry Peers	
	MKTX	X Industry	S&P 500	CBOE	COIN	OTCM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	2	3	2
VGM Score	D	-	-	C	D	F
Market Cap	17.39 B	31.45 B	30.14 B	12.80 B	46.42 B	559.63 M
# of Analysts	5	6	12	6	3	2
Dividend Yield	0.58%	1.24%	1.35%	1.40%	0.00%	1.26%
Value Score	D	-	-	D	D	F
Cash/Price	0.03	0.03	0.06	0.03	0.04	NA
EV/EBITDA	40.45	22.28	17.08	15.82	101.91	NA
PEG F1	NA	4.51	2.05	18.15	NA	2.79
P/B	17.60	4.48	4.08	3.76	8.27	24.46
P/CF	50.79	22.97	17.37	17.59	NA	22.97
P/E F1	57.48	24.57	20.93	22.32	24.05	25.09
P/S TTM	24.30	7.53	3.37	3.64	NA	6.93
Earnings Yield	1.75%	4.07%	4.67%	4.48%	4.16%	3.97%
Debt/Equity	0.00	0.13	0.66	0.33	0.00	NA
Cash Flow (\$/share)	9.01	6.82	6.83	6.82	NA	2.07
Growth Score	C	-	-	A	D	D
Historical EPS Growth (3-5 Years)	22.00%	12.90%	9.59%	20.81%	NA	-2.29%
Projected EPS Growth (F1/F0)	1.73%	8.00%	21.62%	1.99%	NA	23.86%
Current Cash Flow Growth	44.06%	12.45%	0.99%	2.66%	-2,715.14%	NA
Historical Cash Flow Growth (3-5 Years)	24.46%	13.56%	7.28%	24.63%	NA	NA
Current Ratio	2.46	1.02	1.39	1.20	1.20	NA
Debt/Capital	0.00%	11.48%	41.51%	25.07%	0.00%	NA
Net Margin	42.62%	26.34%	11.95%	12.72%	NA	26.34%
Return on Equity	33.03%	17.38%	16.48%	16.72%	NA	NA
Sales/Assets	0.55	0.21	0.51	0.56	NA	NA
Projected Sales Growth (F1/F0)	12.55%	13.00%	9.48%	8.89%	439.57%	20.26%
Momentum Score	F	-	-	C	B	C
Daily Price Change	0.57%	0.15%	0.51%	1.65%	-0.06%	-2.96%
1-Week Price Change	1.97%	0.86%	0.00%	-0.44%	2.40%	-6.73%
4-Week Price Change	-0.15%	1.40%	1.39%	9.31%	-8.23%	0.96%
12-Week Price Change	-7.65%	7.03%	7.27%	23.45%	NA	21.92%
52-Week Price Change	-11.88%	24.38%	35.61%	25.30%	NA	56.16%
20-Day Average Volume (Shares)	286,749	640,009	1,876,146	543,609	4,082,595	1,867
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.87%	0.00%	0.03%	0.00%	17.76%	0.00%
EPS F1 Estimate 12-Week Change	-7.27%	2.89%	3.59%	6.35%	NA	17.70%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	-5.12%	:	0.00%	0.00%	:	0.25%	33.96%	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	D
Growth Score	C
Momentum Score	F
VGM Score	D

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proportionate to its market value.

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital

intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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