

Marsh & McLennan (MMC)

\$112.30 (As of 10/21/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 10/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

Shares of Marsh & McLennan have outperformed its industry in a year. The company is well-poised to grow on significant investments and acquisitions made within its operating units, launch of new products, enhancements to digital capabilities and branching out into new businesses. Its revenues have been increasing over the past several years driven by a wide geographic presence and strong client retention. It has maintained a strong balance sheet and generated consistent financial cash flows for the past several years. Its disciplined capital management has enabled it to undertake prudent shareholder-friendly moves. However, it has been suffering a low investment income phase. Its rising operating expenses and high debt level continue to bother. High exposure to adverse forex and weak guidance remain concerns.

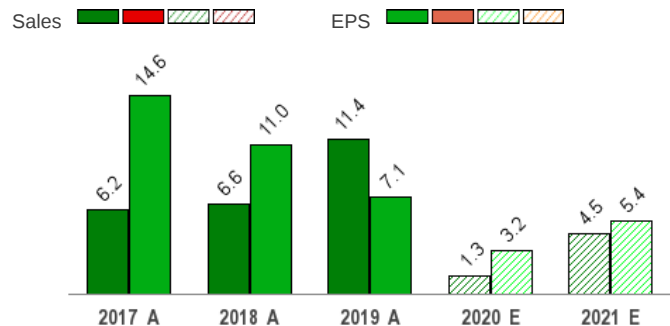
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$120.97 - \$74.34
20-Day Average Volume (Shares)	1,663,649
Market Cap	\$56.9 B
Year-To-Date Price Change	0.8%
Beta	0.83
Dividend / Dividend Yield	\$1.86 / 1.7%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 30% (75 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.8%
Last Sales Surprise	0.5%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	10/29/2020
Earnings ESP	7.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,714 E	4,346 E	4,011 E	4,426 E	17,618 E
2020	4,651 A	4,189 A	3,838 E	4,190 E	16,866 E
2019	4,071 A	4,349 A	3,968 A	4,264 A	16,652 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.69 E	\$1.30 E	\$0.82 E	\$1.28 E	\$5.07 E
2020	\$1.64 A	\$1.32 A	\$0.73 E	\$1.13 E	\$4.81 E
2019	\$1.52 A	\$1.18 A	\$0.77 A	\$1.19 A	\$4.66 A

*Quarterly figures may not add up to annual.

P/E TTM	22.8
P/E F1	23.4
PEG F1	2.0
P/S TTM	3.3

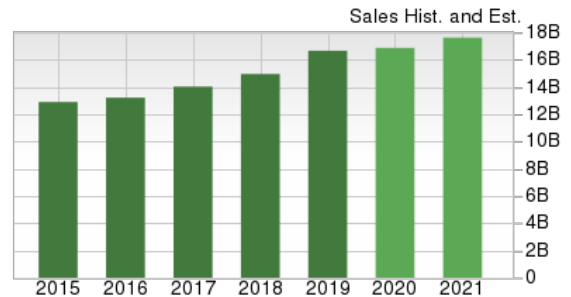
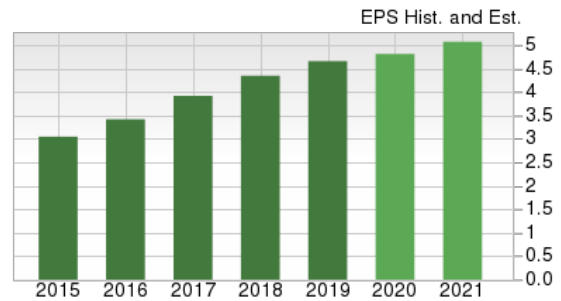
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/21/2020. The reports text is as of 10/22/2020.

Overview

Founded in 1871 and based in New York, Marsh & McLennan Companies Inc. is a globally leading insurance broker. Currently operating under the Marsh and Guy Carpenter brands, the company is a global professional services firm providing risk and insurance services, risk consulting, and employee benefits consulting services to clients worldwide.

Marsh & McLennan provides insurance and consulting services through approximately 55,000 employees worldwide to clients in more than 130 countries. Geographically, 55% of Marsh & McLennan's revenues were generated from outside the U.S. while the remaining 45% was earned in the U.S. The company conducts business primarily through:

- **Risk and Insurance Services (Accounted for 57.6% of revenues in 2019):** This segment is operated through Marsh and Guy Carpenter. Marsh is world leader in insurance brokering, providing risk management, insurance and reinsurance broking and insurance program management services across public and private entities.
- **Consulting (42.4%):** This segment comprises Mercer and Oliver Wyman Group. Mercer is a leading global provider of consulting, outsourcing and investment services. Oliver Wyman Group delivers advisory services to clients through three operating units, each of which is a leader in its field. Lippincott helps clients create, develop and manage their corporate branding, identity and image. NERA Economic Consulting advises corporations, law firms and government entities on the economics of competition, regulation, public policy, finance and litigation.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Growing Top Line:** Marsh & McLennan's operating performance has been favorable for the past many years, driven by its diverse product offerings, a wide geographic footprint and strong client retention. Its revenues have been increasing consistently since 2010 (except in 2015, which saw a revenue dip by just 0.4%). This trend continued in 2019 with the metric rising 11% year over year, which also marks the highest annual revenue growth rate for the company in 20 years. In the first six months of 2020, its revenues of \$8.8 billion were up 5% (2% on an underlying basis) owing to a strong Risk and Insurance Services Segment. Although revenues might remain suppressed this year due to the impact of COVID-19 pandemic, we are hopeful about the company's bottom line, which might bounce back on the back of acquisitions, significant capital expenditures undertaken for growth, launch of new product and services, enhancements to digital capabilities and branching out into new businesses.
- ▲ **Inorganic Growth:** Acquisitions form one of the core growth strategies at Marsh and McLennan. The company has made numerous purchases within its different operating units that have enabled it to enter new geographical regions, expand within the existing ones, foray into new businesses, develop new segments and specialize within its existing businesses. The company's acquisition of JLT in 2019 has expanded its capabilities going forward. The Risk and Insurance Services segment completed two acquisitions in the first quarter. In the first six months of 2020, the company spent \$1.2 billion on buyouts. Constant buyouts made by company poise it well for long-term growth.
- ▲ **Capital Deployment:** The company has maintained a strong balance sheet and financial flexibility, including consistent cash flow generation, for the past many years. Its disciplined capital management through share buyback and dividend payments has cemented investors' confidence in the stock. In July 2020, its board of directors hiked its quarterly cash dividend by 2.2%, reflecting the 11th consecutive year of dividend increase at Marsh & McLennan. Its current dividend yield of 1.6% is higher than the industry average of 1.3%. Although it doesn't expect to buy back shares for 2020, we remain hopeful that the same will resume once the pandemic effect ends.
- ▲ **Strong ROE:** Further, Marsh & McLennan's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's 31.8% ROE betters its industry average of 27.8%, reflecting its efficiency in utilizing the shareholders' funds.
- ▲ **Share Price Impact:** In a year's time, shares of the company have outperformed its industry. Its solid fundamentals such as an improving top line and a sturdy balance sheet should continue driving the stock going forward.

Strategic acquisitions, growing revenues on the back of diverse product offerings and capital deployment should drive long-term growth for the company.

Reasons To Sell:

- ▼ **Low Investment Income:** The company now has a much smaller private equity portfolio and its investment income has been deteriorating over the past few years. In 2018, the company incurred a net investment loss of \$12 million against its net investment income of \$15 million in 2017. The company reported a net investment loss of \$33 million in the first six months of 2020 versus the net investment income of \$13 million in the first six months of 2019. Moreover, the low interest rate environment might keep the investment income under pressure.
- ▼ **Escalating Expenses:** The company's operating expenses escalated over the last several years due to higher compensation and benefits. The same further increased 14.7% and 1.2% in 2019 and the first six months of 2020, respectively. A persistent escalation of expenses might weigh on the company's margins.
- ▼ **Forex Volatility:** Due to its presence in more than 130 countries, the company is exposed to foreign exchange volatility. Notably, the company is susceptible to the U.S. hurricane season. In the second quarter, the impact of forex was neutral on EPS (assuming exchange rates to remain at the current levels). Management expects forex to have a minimal impact on EPS for the rest of the year.
- ▼ **Weak 2020 Guidance:** The company expects modest EPS growth in 2020 while underlying revenues are anticipated to fall. Management assumes that the impact of the pandemic will be felt on adjusted EPS in the second half of the year. However, there will be some rebound in some of the areas. The second half of the year will be challenging for Marsh as well. For 2020, the company estimates mid-single digit growth at Guy Carpenter. Management projects Mercer's underlying revenues to decline of through the rest of the year with the metric dipping modestly for 2020. Oliver Wyman is projected to suffer muted revenues through the second half of 2020. It expects to spend around \$625 million of cash costs and \$75 million of non-cash cost to generate at least \$350 million of savings.
- ▼ **Unfavorable Capital Position:** The company saw its long-term debt level increase from \$2.6 billion to \$10.7 billion during the 2013-2019 period. Total debt of the company accounts for 58.8% (compared with 57.5% as of Dec 31, 2019) of its capital, higher than the industry average of 53.5%. Its times interest earned now stands at 6.3x is higher than the sequential figure of 5.7x. As of Jun 30, 2020, the company had cash and cash equivalents worth \$1.7 billion and a \$2.8-billion credit facility. It even added a \$1-billion line of credit to its borrowing capacity. However, total available cash and credit facilities are lower than its total debt load of \$13.2 billion. The company's next debt maturities are in December 2020 and January 2021. The company's high debt load is a concern.

Low investment income and increasing expenses due to higher compensation and benefits should weigh on overall earnings. Its high debt level also bothers.

Last Earnings Report

Marsh & McLennan's Earnings Beat in Q2, Improve Y/Y

Marsh & McLennan delivered second-quarter 2020 adjusted earnings per share of \$1.32, surpassing the Zacks Consensus Estimate by 15.8% on reduced expenses and a solid contribution from its Risk and Insurance Services segment. Moreover, the bottom line increased 11.9% year over year.

Marsh & McLennan's consolidated revenues of \$4.2 billion dipped 2% on an underlying basis. However, the top line beat the Zacks Consensus Estimate by 0.5% on the back of its strong Risk and Insurance Services segment.

Total operating expenses of \$3.3 billion in the second quarter were down 10% year over year owing to lower compensation and benefits as well as other operating expenses.

Quarterly Segmental Results

Risk and Insurance Services

Revenues at the Risk and Insurance Services segment were \$2.6 billion, up 2% on an underlying basis. Adjusted operating income rose 19% to \$762 million from the prior-year quarter's level.

Marsh, a unit within this segment, generated revenues of \$2.2 billion, up 1% on an underlying basis. In U.S./Canada, underlying revenues rose 3% year over year.

Underlying revenue growth from international operations was flat year over year, which includes 4% increase of the underlying metric in the Asia Pacific, a 4% rise in Latin America and a 3% drop in EMEA.

Another unit under this segment, Guy Carpenter, displayed 9% revenue growth on an underlying basis in the quarter under review.

Consulting

The Consulting segment's revenues were down 6% on an underlying basis to \$1.6 billion. Also, adjusted operating income fell 13% to \$265 million.

A unit within this segment, Mercer, generated revenues of \$1.1 billion, down 3% on an underlying basis. Wealth's revenues were down 2% on an underlying basis. Health and Career's revenues were up 1% and down 16% year over year on an underlying basis.

Another unit Oliver Wyman Group registered revenues of \$467 million, down 13% year over year on an underlying basis.

Business Update

The company issued \$750 million of 10-year senior unsecured notes in the second quarter.

Dividend Update

The company hiked its quarterly dividend to 46.5 cents per share, effective with the third-quarter dividend, payable Aug 14, 2020.

Financial Update

Marsh & McLennan exited the second quarter with cash and cash equivalents of \$1.7 billion, up 48.1% from the level at 2019 end.

Net cash provided by operating activities totaled \$578 million, up 139.8% year over year.

As of Jun 30, 2020, Marsh & McLennan's total assets were \$32.2 billion, up 2.6% from the figure as of Dec 31, 2019.

Total equity was \$8.3 billion, up 5.7% from the level at 2019 end.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	0.51%
EPS Surprise	15.79%
Quarterly EPS	1.32
Annual EPS (TTM)	4.92

Recent News

Marsh & McLennan's Arm Ties Up With Triterras Fintech — Sep 23, 2020

Marsh & McLennan's unit Marsh (Singapore) recently inked a deal with Triterras Fintech to provide credit insurance via a digitally streamlined process on its Kratos platform. Triterras is a leading fintech company for commodity trading and trade finance, which launched and operates Kratos, one of the biggest commodity trading and trade finance platforms. This Kratos insurance model is a timely solution as companies are seeking digital tools to adapt to the paradigm shift brought about by COVID-19. With this innovation, Marsh expects the insurance industry to utilize digital tools for boosting operational efficiency as well as improving customer relations. Notably, Triterras Fintech will be able to improve user experience through this new offering.

Marsh & McLennan's Unit Surpasses \$1 Billion Mark in AUM — Sep 1, 2020

Marsh & McLennan's business Mercer recently announced that its retirement plan solution has crossed the \$1 billion mark in assets under management (AUM). Launched back in 2017, Mercer Wise 401(k) solution enables Mercer to take charge of administrative and operating roles for serving plan sponsors. This, in turn, not only leads to a decline in costs for the plan sponsors but also relieves them of administrative burdens to certain extent. The solution simultaneously also seeks to benefit plan participants by reducing plan fees.

Marsh & McLennan's Arm Buys Stake in Corridor Platforms — May 29, 2020

Marsh & McLennan unit Oliver Wyman recently acquired a minority stake in Corridor Platforms, which is a leading decision workflow governance and automation software provider.

Corridor Platforms will be able to gain traction from Oliver Wyman's experience in the forefront of risk management and advanced analytics. The deal was struck at a time when the market is quite volatile with insurers facing high claims and new threats in the wake of the coronavirus outbreak.

Valuation

Marsh & McLennan's shares are up 2.6% and up 15.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 2% and down 14% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 11.4% and down 9.6%, respectively.

The S&P 500 index is up 8.4% in the year-to-date period and up 17% in the past year.

The stock is currently trading at 22.35x forward 12-month earnings, which compares to 20.49x for the Zacks sub-industry, 15.8x for the Zacks sector and 22.17x for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.11x and as low as 14.74x, with a 5-year median of 19.06x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$118 price target reflects 23.50x forward 12-month earnings.

The table below shows summary valuation data for MMC

Valuation Multiples - MMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.35	20.49	15.8	22.17
	5-Year High	24.11	21.01	16.73	23.47
	5-Year Low	14.74	14.5	11.6	15.27
	5-Year Median	19.06	17.23	14.41	17.68
P/S F12M	Current	3.26	3.26	6.15	4.11
	5-Year High	3.5	3.33	6.67	4.3
	5-Year Low	2	1.83	4.97	3.18
	5-Year Median	2.74	2.58	6.06	3.67
P/B TTM	Current	6.78	6.03	2.54	5.97
	5-Year High	7.6	6.85	2.91	6.2
	5-Year Low	4.05	3.48	1.72	3.75
	5-Year Median	5.72	4.7	2.53	4.9

As of 10/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Neutral	3
Arthur J. GallagherCo. (AJG)	Neutral	2
The Allstate Corporation (ALL)	Neutral	3
Aon plc (AON)	Neutral	3
BrownBrown, Inc. (BRO)	Neutral	3
eHealth, Inc. (EHTH)	Neutral	3
Erie Indemnity Company (ERIE)	Neutral	3
Robert Half International Inc. (RHI)	Neutral	2

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

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	MMC	X Industry	S&P 500	AJG	AON	BRO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	C	-	-	B	D	D
Market Cap	56.88 B	1.58 B	23.50 B	20.61 B	47.82 B	13.16 B
# of Analysts	8	6	14	7	7	5
Dividend Yield	1.66%	0.79%	1.61%	1.67%	0.85%	0.73%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.13	0.07	0.14	0.03	0.08
EV/EBITDA	18.60	17.12	13.40	17.12	19.56	18.95
PEG F1	1.98	2.31	2.75	2.31	NA	NA
P/B	6.78	2.64	3.45	3.72	12.94	3.67
P/CF	18.71	17.24	13.17	17.19	17.29	24.74
P/E F1	23.35	21.93	22.05	24.72	21.28	30.31
P/S TTM	3.33	2.93	2.68	2.94	4.36	5.28
Earnings Yield	4.28%	4.56%	4.40%	4.04%	4.70%	3.31%
Debt/Equity	1.43	0.31	0.70	0.78	1.96	0.44
Cash Flow (\$/share)	6.00	2.99	6.93	6.26	11.94	1.88
Growth Score	B	-	-	B	B	B
Historical EPS Growth (3-5 Years)	11.79%	13.11%	10.39%	11.03%	11.54%	15.15%
Projected EPS Growth (F1/F0)	3.30%	4.81%	-2.30%	19.26%	5.79%	9.71%
Current Cash Flow Growth	11.40%	2.81%	5.49%	9.99%	-0.54%	15.55%
Historical Cash Flow Growth (3-5 Years)	9.25%	13.04%	8.50%	13.27%	3.75%	10.82%
Current Ratio	1.37	1.95	1.37	1.09	2.08	0.98
Debt/Capital	58.82%	23.58%	42.41%	43.81%	66.18%	30.42%
Net Margin	11.83%	11.00%	10.35%	10.35%	16.08%	17.69%
Return on Equity	31.82%	13.50%	14.78%	16.01%	64.99%	12.54%
Sales/Assets	0.54	0.36	0.51	0.35	0.37	0.32
Projected Sales Growth (F1/F0)	1.28%	0.00%	-0.53%	-2.25%	-0.98%	6.44%
Momentum Score	C	-	-	B	F	F
Daily Price Change	-0.15%	-0.01%	-0.36%	0.09%	0.04%	0.30%
1-Week Price Change	-0.67%	1.16%	0.02%	0.20%	1.76%	0.49%
4-Week Price Change	-1.96%	5.14%	6.76%	5.14%	3.01%	7.41%
12-Week Price Change	-2.84%	0.31%	4.10%	2.69%	0.31%	3.54%
52-Week Price Change	13.45%	13.38%	1.99%	19.38%	7.84%	28.17%
20-Day Average Volume (Shares)	1,663,649	75,406	1,882,561	658,329	1,249,408	768,431
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.13%	0.00%	-0.39%
EPS F1 Estimate 4-Week Change	0.13%	0.00%	0.14%	0.79%	-0.19%	-0.26%
EPS F1 Estimate 12-Week Change	4.14%	1.30%	3.22%	8.55%	-0.56%	7.41%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	1.76%	-0.12%	-2.26%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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