

## Mallinckrodt plc (MNK)

**\$1.65** (As of 08/28/20)

Price Target (6-12 Months): **\$1.75**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: D

## Summary

Mallinckrodt's better-than-expected second-quarter results were overshadowed by its indication of a possible bankruptcy. The woes do not seem to end for the company. A retrospective one-time Acthar Gel Medicaid liability of \$534.4 million adversely impacted sales in the quarter. Additionally, due to pressures from the Acthar Medicaid matter, the ongoing opioid litigation and existing huge levels of debts and the related risk of non-compliance with its financial debt covenant over the next twelve months, Mallinckrodt has been working with external advisors to explore a range of options, including the possibility of filing for reorganization in bankruptcy under Chapter 11. The company had earlier warned that the next few quarters will be challenging due to the impact of COVID-19. Its shares have underperformed the industry in the past year.

## Data Overview

52-Week High-Low	<b>\$6.42 - \$1.00</b>
20-Day Average Volume (Shares)	<b>6,663,084</b>
Market Cap	<b>\$139.6 M</b>
Year-To-Date Price Change	<b>-52.7%</b>
Beta	<b>3.29</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Medical - Generic Drugs</b>
Zacks Industry Rank	<b>Bottom 21% (198 out of 252)</b>

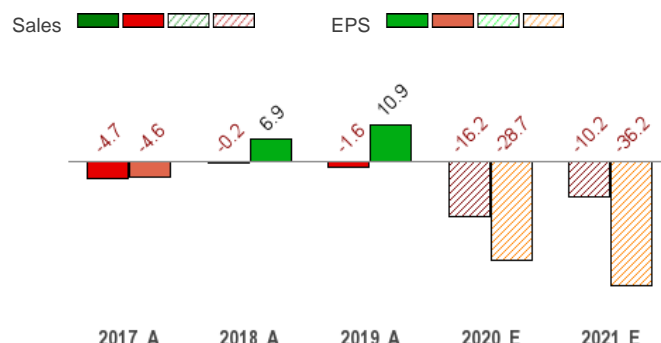
Last EPS Surprise	<b>51.2%</b>
Last Sales Surprise	<b>12.6%</b>
EPS F1 Estimate 4-Week Change	<b>7.1%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>0.0%</b>

P/E TTM	<b>0.2</b>
P/E F1	<b>0.3</b>
PEG F1	<b>0.0</b>
P/S TTM	<b>0.1</b>

## Price, Consensus & Surprise



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



## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	598 E	608 E	605 E	627 E	2,381 E
2020	666 A	701 A	634 E	651 E	2,652 E
2019	791 A	823 A	744 A	805 A	3,163 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.96 E	\$0.94 E	\$1.11 E	\$4.04 E
2020	\$1.64 A	\$1.89 A	\$1.38 E	\$1.48 E	\$6.33 E
2019	\$1.94 A	\$2.53 A	\$2.07 A	\$2.40 A	\$8.88 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 08/28/2020. The reports text is as of 08/31/2020.

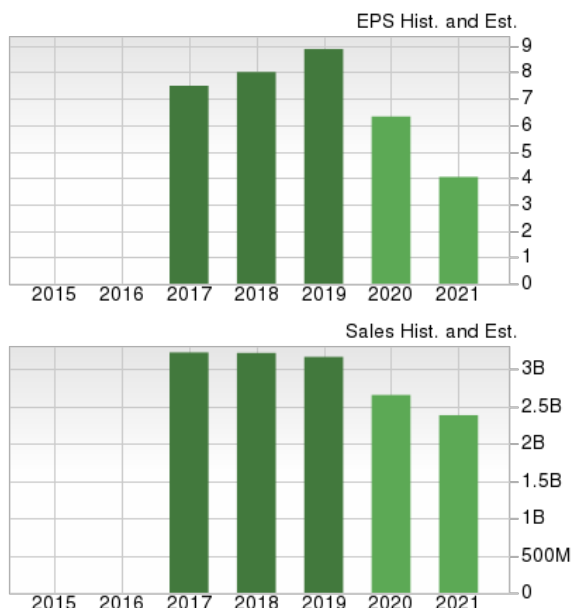
## Overview

Dublin, Ireland-based Mallinckrodt is a specialty biopharmaceutical with a worldwide presence. The company develops, manufactures, markets and distributes branded and generic specialty pharmaceutical and biopharmaceutical products and therapies as well as nuclear medicine products.

Mallinckrodt operates under two segments — Specialty Brands and Specialty Generics. Specialty Brands produces and markets branded pharmaceutical products, like Acthar and Ofirmev, and biopharmaceuticals. Specialty Generics produces specialty generic pharmaceuticals and active pharmaceutical ingredients (API) consisting of biologics, medicinal opioids, synthetic-controlled substances, acetaminophen and other active ingredients. In December 2018, the company announced that it intends to spin-off the Specialty Generics business into a new company. Due to pressures from the Acthar Gel Medicaid matter, the ongoing opioid litigation and existing debts and the related risk of non-compliance with its financial debt covenant over the next twelve months, Mallinckrodt has been working with external advisors to explore a range of options, including the possibility of filing for reorganization in bankruptcy under Chapter 11 by the company and most of its subsidiaries in the near term.

Mallinckrodt's key acquisitions include Cadence Pharmaceuticals in March 2014, Questcor Pharmaceuticals in August 2014, Ikaria in April 2015, Therakos in September 2015 and three commercial-stage topical hemostasis drugs from The Medicines Company in February 2016. The company also acquired Sucampo in February 2018. Meanwhile, the company sold its contrast media and delivery systems (CMDs) business in November 2015. Mallinckrodt sold its Nuclear Imaging business to IBA Molecular and Intrathecal Therapy business to Piramal Enterprises Limited.

Net sales came in at \$3.16 billion in 2019.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Untapped Potential in Acthar Gel:** Acthar Gel, which became part of the company's portfolio following the Questcor acquisition, continues to drive growth. Performance of the drug has been impressive aided by solid demand in rheumatology, pulmonology, ophthalmology and nephrology indications, and expanded access in more recently promoted indications such as lupus and sarcoidosis, and mature indications such as infantile spasms and nephrotic syndrome.

Inomax and Acthar hold significant potential. The company continues to work on boosting presence of these drugs in the hospital segment.

▲ **Strong Hospital Portfolio:** Mallinckrodt's hospital portfolio is now its largest and fastest growing platform in terms of sales. The acquisition of critical-care company, Ikaria added Inomax (a vasodilator used in conjunction with ventilatory support and other appropriate agents) to the company's portfolio. The acquisition broadened Mallinckrodt's footprint in hospitals and expanded its presence to include critical-care respiratory therapies in neonatal intensive care units. Growth continues to be driven by sustained, consistent demand and contract renewals fueled by the product's differentiated total service model.

Also, the Cadence acquisition added Ofirmev to the company's specialty pharmaceuticals portfolio, expanding its pain management franchise. With Ofirmev, Mallinckrodt targets the adjacent acute-care hospital market. Penetration rates on available surgical procedures are relatively low and hospitals continue to develop recovery standards after surgery protocols, which should drive the sale of products like Ofirmev and enable patients to recover quicker after surgery. Growth of the drug is expected to be driven by strong demand, as customers focus on non-opioid or multimodal pain management.

▲ **Promising Candidates in The Pipeline:** Mallinckrodt is striving hard to diversify its portfolio. Two late-phase programs — terlipressin and StrataGraft — in the pipeline promise potential. Patients are being enrolled in the ongoing phase III trial on pipeline candidate, terlipressin for the treatment of Hepatorenal Syndrome type 1. Mallinckrodt announced positive top-line results from its phase III CONFIRM study evaluating the efficacy and safety of terlipressin in 300 adults with hepatorenal syndrome type 1 (HRS-1). The study met its primary endpoint of verified HRS-1 reversal and the company has already submitted a New Drug Application to the FDA.

StrataGraft is in phase III development for the treatment of deep partial thickness burns and phase II development for full thickness burns. The company recently reported positive top-line results from its pivotal phase III study of StrataGraft regenerative tissue. The study, which met both primary endpoints, evaluated the efficacy and safety of a single application of the candidate for the treatment of deep partial-thickness thermal burns. Mallinckrodt recently initiated the rolling submission of a biologics license application (BLA) to the FDA for StrataGraft regenerative skin tissue, to treat adults with deep partial-thickness thermal burns.

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## Reasons To Sell:

- ▼ **Share Price Performance:** Mallinckrodt has underperformed the industry in the past year. The COVID-19 pandemic has adversely impact the company's business due to the stay-at-home orders, reduction of elective surgeries and a drop in overall patient procedures. In March, the U.S. Attorney's office in Massachusetts announced its intervention in a lawsuit filed against the company alleging violations of the False Claims Act relating to the method to calculate Medicaid drug rebates for Acthar. Thereafter, the U.S. District Court for the District of Columbia ruled against Mallinckrodt in its lawsuit against the U.S. Department of Health and Human Services and Centers for Medicare and Medicaid Services (CMS) regarding the company's calculation of Medicaid drug rebates for Acthar. A retrospective one-time Acthar Gel Medicaid liability of \$534.4 million adversely impacted sales in the second quarter.
- Due to pressures from the Acthar Gel Medicaid matter, the ongoing opioid litigation and existing debts and the related risk of non-compliance with its financial debt covenant over the next twelve months, Mallinckrodt has been working with external advisors to explore a range of options, including the possibility of filing for reorganization in bankruptcy under Chapter 11 by the company and most of its subsidiaries in the near-term.
- ▼ **Pipeline Setbacks:** The company suffered a setback when the FDA's Gastrointestinal Drugs Advisory Committee and Pediatric Advisory Committee recommended in a vote of 21 to 3 that the risk-benefit profile of stannsoporfin does not support approval for the treatment of newborns aging 35 weeks or more of gestational age with indicators of hemolysis who are at risk of developing hyperbilirubinemia (severe jaundice). The FDA has issued a complete response letter to its new drug application (NDA) for stannsoporfin. The letter provides guidance on areas of further evaluation for resubmitting the NDA. Similar setbacks will adversely impact the stock.
- ▼ **Acthar Under Pressure:** Acthar continues to face reimbursement pressures because payers challenge longer duration prescriptions for certain indications. Consequently, sales have been declining for the last few quarters. Competition is also increasing for Amitiza in the United States.
- ▼ **High Debt Ratio:** As of Mar 31, 2020, Mallinckrodt's total debt-to-total capital ratio stood at 84.4X, which compares unfavorably with the industry's 45.6X. A higher debt ratio indicates higher financial risk and vice versa. Moreover, the company has cash, equivalents and marketable securities of \$818.3 million against long-term debt of \$5.2 billion. The huge levels of debt are concerning, as the company will not be able to pay this debt in case of insolvency.

Pricing pressure in the generic segment and the rising menace of penalties regarding opioid litigations are a concern.

## Last Earnings Report

### Mallinckrodt's Q2 Earnings & Sales Surpass Estimates

The company reported adjusted earnings of \$1.89 per share in the first quarter, beating the Zacks Consensus Estimate of \$1.25 but decreasing from the year-ago quarter's \$2.53.

Net sales were \$166.5 million in the second quarter. Adjusted net sales, following the adjustment for the retrospective one-time Acthar Gel (repository corticotropin injection) Medicaid rebate liability, were \$700.9 million, beating the Zacks Consensus Estimate of \$623 million. Sales were down 14.9% year over year, primarily due to demand impacts related to COVID-19 and competitive and payer pressures on certain products.

#### Quarter in Detail

The company now operates in two reportable segments aligned with the previously-announced separation — the Specialty Brands and the Specialty Generics.

Specialty Brands' sales came in at \$522.8 million. Acthar, Mallinckrodt's largest product, generated sales of \$213.7 million, down 19.8% year on year due to continued reimbursement challenges impacting new and returning patients; continued reduction in new patients as a result of COVID-19 pandemic, which is anticipated to affect results in the second half of the year; continued payer scrutiny on overall specialty pharmaceutical spending; and, to a partial extent, the change in the Medicaid rebate calculation.

Inomax, the company's second-largest product, generated sales of \$154.9 million, up 10.9% year over year, driven by an overall increased consumption of nitric oxide, including strong utilization among COVID-19 patients.

Ofirmev sales decreased 42.1% year over year to \$52.4 million due to a reduction in elective surgeries stemming from public health orders and institutions focusing on responding to the COVID-19 pandemic.

Sales of the Therakos immunology platform came in at \$47.8 million, down 21.5% due to COVID-19 stay-at-home directives impacting patients' abilities to receive treatment in hospitals or apheresis centers.

Amitza net sales were \$49.4 million, down 5% due to increased competition in the United States and the biennial price reduction in Japan.

Specialty Generics' sales amounted to \$178.1 million in the quarter.

Adjusted selling, general and administrative expenses were \$197.5 million, down from the year-ago quarter's \$208.6 million. Research and development expenses decreased to \$82.9 million from \$79.6 million.

The cash balance at the end of the second quarter was \$818.3 million and the revolving credit facility was fully drawn. Total debt outstanding at the end of the second quarter was \$5.293 billion, with net debt of \$4.475 billion.

#### Litigation Update

Due to pressures from the Acthar Gel Medicaid matter, the ongoing opioid litigation and existing debts and the related risk of non-compliance with its financial debt covenant over the next twelve months, Mallinckrodt has been working with external advisors to explore a range of options, including the possibility of filing for reorganization in bankruptcy under Chapter 11 by the company and most of its subsidiaries in the near-term.

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	12.56%
EPS Surprise	51.20%
Quarterly EPS	1.89
Annual EPS (TTM)	8.00

## Recent News

### Update on Ongoing Acthar Litigation - Jun 15

Mallinckrodt received a setback in the ongoing litigation for Acthar. The U.S. Court of Appeals For The District Of Columbia has denied the company's request for a temporary injunction preventing the U.S. Centers For Medicare And Medicaid Services (CMS) from enforcing a change in Medicaid drug rebate calculation for Acthar (repository corticotropin injection). Mallinckrodt had asked for the temporary injunction as it appeals a lower court ruling that allowed CMS to reset the base date average manufacturer price (AMP).

As a result of today's appeals court ruling, Mallinckrodt will change the base date AMP for Acthar Gel, as directed by CMS. The effect of the change is an immediate recognition of retroactive non-recurring charges (estimated at approximately \$650 million through mid-June) and the prospective loss of Acthar Medicaid net sales, which has historically contributed to Acthar Gel net sales of \$90-\$100 million annually.

### Completes Rolling Submission of BLA for StrataGraft – Jun 9

Mallinckrodt completed its rolling submission of a Biologics License Application ("BLA") to the FDA for StrataGraft, a regenerative skin tissue therapy in the development for the treatment of adult patients with deep partial-thickness thermal burns. The rolling submission was initiated in April. StrataGraft skin tissue is an investigational product, and its safety and effectiveness have not yet been established by the FDA.

## Valuation

Mallinckrodt's shares are down 52.8% in the year-to-date period and 36.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 9.5% but up 0.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 6.2% while the sector is up 8.9%.

The stock is currently trading at 0.34X forward 12-month earnings per share, which compares to 7.51X for the Zacks sub-industry, 22.19X for the Zacks sector and 23.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 10.87X and as low as 0.17X, with a 5-year median of 3.42X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1.75 price target reflects 0.36X forward 12-month earnings per share.

The table below shows summary valuation data for MNK

Valuation Multiples - MNK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	0.34	7.51	22.19	23.49
	5-Year High	10.87	11.19	23.2	23.49
	5-Year Low	0.17	5.77	15.89	15.25
	5-Year Median	3.42	7.75	18.99	17.6
P/S F12M	Current	0.06	0.85	2.81	3.84
	5-Year High	2.82	3.33	3.42	3.84
	5-Year Low	0.03	0.72	2.23	2.53
	5-Year Median	0.79	1.22	2.89	3.05
P/B TTM	Current	0.14	1.1	3.88	4.76
	5-Year High	1.9	3.52	5.07	4.76
	5-Year Low	0.04	0.73	2.94	2.83
	5-Year Median	0.49	1.27	4.28	3.76

As of 08/28/2020

## Industry Analysis Zacks Industry Rank: Bottom 21% (198 out of 252)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Supernus Pharmaceuticals, Inc. (SUPN)	Outperform	3
Amphastar Pharmaceuticals, Inc. (AMPH)	Neutral	3
ASPEN PHARMACR (APNHY)	Neutral	3
Bausch Health Cos Inc. (BHC)	Neutral	3
Endo International plc (ENDP)	Neutral	4
Personalis, Inc. (PSNL)	Neutral	3
Dr. Reddys Laboratories Ltd (RDY)	Neutral	2
Voyager Therapeutics, Inc. (VYGR)	Neutral	3

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

Industry Comparison Industry: Medical - Generic Drugs				Industry Peers		
	MNK	X Industry	S&P 500	APNHY	ENDP	RDY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	2
VGM Score	A	-	-	B	A	B
Market Cap	139.57 M	417.12 M	23.71 B	3.70 B	696.34 M	9.84 B
# of Analysts	8	4	14	1	9	2
Dividend Yield	0.00%	0.00%	1.63%	0.00%	0.00%	0.46%
Value Score	A	-	-	A	A	C
Cash/Price	6.16	0.28	0.07	NA	2.94	0.04
EV/EBITDA	-13.71	-2.42	13.37	NA	8.53	22.92
PEG F1	0.02	0.56	3.08	NA	NA	NA
P/B	0.14	2.61	3.22	NA	NA	4.59
P/CF	0.08	2.47	12.90	6.78	0.58	15.65
P/E F1	0.25	6.65	21.82	8.62	1.43	30.85
P/S TTM	0.06	2.28	2.52	NA	0.23	3.99
Earnings Yield	383.64%	-10.63%	4.41%	11.60%	69.97%	3.23%
Debt/Equity	5.39	0.01	0.74	NA	-11.61	0.04
Cash Flow (\$/share)	20.20	-0.31	6.94	1.19	5.21	3.79
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	1.65%	1.65%	10.41%	NA	-14.51%	9.95%
Projected EPS Growth (F1/F0)	-28.74%	3.06%	-4.94%	6.82%	-10.97%	-31.00%
Current Cash Flow Growth	10.71%	0.54%	5.22%	-19.79%	-15.98%	40.31%
Historical Cash Flow Growth (3-5 Years)	10.87%	7.89%	8.50%	NA	2.66%	5.28%
Current Ratio	1.48	2.57	1.35	NA	2.20	1.66
Debt/Capital	84.35%	4.03%	43.86%	NA	NA	4.03%
Net Margin	-89.95%	-48.59%	10.25%	NA	-5.25%	10.26%
Return on Equity	34.26%	-40.26%	14.66%	NA	-91.41%	18.88%
Sales/Assets	0.23	0.36	0.50	NA	0.32	0.77
Projected Sales Growth (F1/F0)	-16.15%	1.45%	-1.43%	-4.77%	-7.44%	2.80%
Momentum Score	D	-	-	F	C	D
Daily Price Change	1.85%	0.05%	0.71%	-1.82%	8.60%	-0.54%
1-Week Price Change	-4.85%	-1.23%	-1.45%	-1.30%	-8.23%	-1.23%
4-Week Price Change	-22.54%	-0.51%	4.59%	2.27%	-11.40%	-0.90%
12-Week Price Change	-41.28%	-0.25%	4.86%	-4.93%	-23.87%	12.10%
52-Week Price Change	-46.43%	-3.65%	3.09%	65.98%	23.17%	68.74%
20-Day Average Volume (Shares)	6,663,084	299,073	1,887,168	855	3,668,745	123,591
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	7.09%	-2.54%	0.79%	0.00%	-4.89%	4.90%
EPS F1 Estimate 12-Week Change	7.16%	0.40%	3.43%	0.00%	-5.97%	4.90%
EPS Q1 Estimate Monthly Change	-2.52%	-0.39%	0.00%	NA	-71.43%	NA

Source: Zacks Investment Research

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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	<b>A</b>
Growth Score	<b>B</b>
Momentum Score	<b>D</b>
VGM Score	<b>A</b>

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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**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.