

MGICInvestment(MTG)

\$13.05 (As of 03/11/21)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

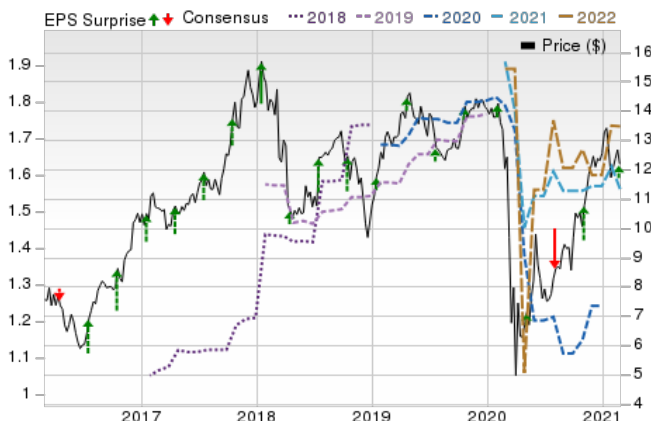
Growth: D

Momentum: C

Summary

MGIC Investment fourth-quarter earnings beat estimates. The company has been witnessing an increase in new business written. Given the strong purchase market and potential share gains from FHA, the company anticipates strong writing. MGIC's insurance in force remains solid. A decline in loss and claims payments will likely solidify its balance sheet and improve its financial profile. Improved earnings, banking on declining delinquency, lower claims payments and improved housing market should drive company's growth. The company also flaunts solid capital position on the back of which it deploys capital effectively. Shares have outperformed the industry in the past year. However, a competitive environment and pressure to maintain capital at the required level will likely dent capital flexibility. Also, high costs weigh on margin expansion.

Price, Consensus & Surprise

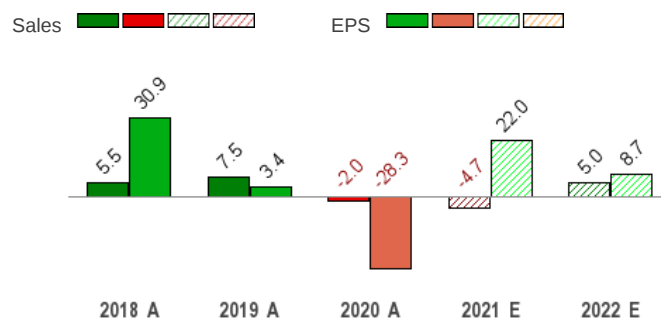


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$13.83 - \$4.34
20-Day Average Volume (Shares)	3,465,205
Market Cap	\$4.4 B
Year-To-Date Price Change	4.0%
Beta	1.77
Dividend / Dividend Yield	\$0.24 / 1.8%
Industry	Insurance - Multi line
Zacks Industry Rank	Top 47% (120 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.3%
Last Sales Surprise	NA
EPS F1 Estimate 4-Week Change	-0.8%
Expected Report Date	05/06/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,185 E
2021					1,129 E
2020	305 A	287 A	294 A	299 A	1,185 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.36 E	\$0.36 E	\$0.36 E	\$0.38 E	\$1.75 E
2021	\$0.38 E	\$0.36 E	\$0.36 E	\$0.36 E	\$1.61 E
2020	\$0.42 A	\$0.03 A	\$0.43 A	\$0.43 A	\$1.32 A

*Quarterly figures may not add up to annual.

P/E TTM	10.0
P/E F1	8.1
PEG F1	1.6
P/S TTM	3.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/11/2021. The report's text and the analyst-provided price target are as of 03/12/2021.

Overview

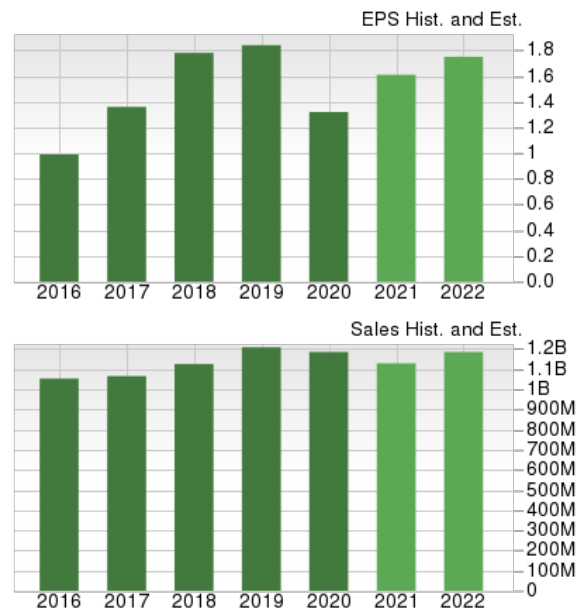
Based in Milwaukee, WI, and formed in 1957, MGIC Investment Corp. is the parent company of Mortgage Guaranty Insurance Corporation, the largest private mortgage insurer in the United States. It established the private mortgage insurance (PMI) industry to provide a private market alternative to federal government insurance programs for families wanting to buy a home with less than a 20% down payment. With a focus on sustainable homeownership, MGIC Investment provides a critical component of the country's residential mortgage finance system by protecting mortgage investors from credit losses.

MGIC Investment Corporation primarily covers single-family, first-time mortgage loans by providing primary insurance to cushion lenders against non-payment of individual loans and expands home ownership opportunities by enabling people to purchase homes with smaller down payments.

Through its wholly-owned subsidiaries, the company provides private mortgage insurance, other mortgage credit risk management solutions, and ancillary services.

The company offers mortgage insurance via **Primary Insurance (98.4% of 2020 insured loans in force)**: Primary insurance provides mortgage default protection on individual loans and covers a percentage of the unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure or sale approved. Primary insurance is generally written on first mortgage loans secured by owner occupied "single-family" homes, which are one-to-four family homes and condominiums.

Pool and Other Insurance (1.6%): Pool insurance is generally used as an additional "credit enhancement" for certain secondary market mortgage transactions. Pool insurance generally covers the amount of the loss on a defaulted mortgage loan that exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan, which did not require primary insurance.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Increase in New Insurance Written** — MGIC Investment has been witnessing an increase in new business written. Persistency continues to remain favorable and credit trends continue to improve on the back of legacy book. In recent quarters, the company has experienced an increase in new insurance written from refinances. The metric grew 76.8% year over year to \$112.1 billion in 2020, driven by the increase in both refinance and purchase mortgage originations insured, though persistency declined 1530 basis points as of Dec 31, 2020 from the year-ago period. Nonetheless, the company expects purchase originations to increase in 2021, compared with 2020, while refinance transactions are expected to decrease in 2021. The company expects new insurance written in 2021 to be robust and of high credit quality, though it is estimated to be 15% lower than 2020 level. The company anticipates primary insurance in force to grow. Given the higher level of new and existing home sales, increased percentage of homes purchased for cash and improved level of refinance activity will continue to drive the momentum going forward.

Higher premium, a decline in claim payments and decreasing delinquencies an improving housing market, outstanding credit quality and new business will continue to induce growth at the company.

▲ **Declining Claim Payments** — After suffering huge claims loss, the company witnessed improvement. Given the declining pattern of claim filings, we expect paid claims to decrease further. A decline in loss and claims will strengthen the company's balance sheet and hence, improve its financial profile. In 2020, the claim rate on new notices improved 100 basis points year over year to 7%. The company expects claim payments to remain modest for several quarters due to the effects of both the moratoriums and the forbearance plans that are in place.

▲ **Improving Private Mortgage Market Share** — Per Inside Mortgage Finance, till 2010, MGIC Investment was the largest private mortgage insurer for more than 10 years. The company has been growing its market share (measured by new insurance written) every year. With the current market share of 18%, it expects to have 19-20% of the same in the industry it operates. This in turn, has helped insurance in force, the driver of future revenues to continue to improve.

▲ **Improving Housing Market Fundamentals** — The company has been seeing improving housing market fundamentals, such as household formations and home sales and the current capital status. As a result, the company will also be well positioned to offer credit enhancement and low-down payment solutions to lenders, borrowers and Government Sponsored Enterprises (GSE). The company also remains committed to be a major contributor to housing finance policy. To this end, MGIC Investment agreed to participate in a Freddie Mac pilot MI CRT transaction, which will transfer risk to mortgage insurance companies or their credit insurance affiliates. MGIC Investment remains optimistic about the opportunities in the housing market, which will enable the company to serve the same much more efficiently in the future.

▲ **Improving Capital Position** — By virtue of capital contribution, reinsurance transaction and improving cash position, the company has significantly improved its capital position. As of Dec 31, 2020, the company had \$847 million of investments, cash and cash equivalents, which grew 78% to \$288 million from 2019-end level.

Also, the company's debt to capital has lowered over the last four year though debt level has risen. The firm's times interest earned ratio has been improving over the years. The improvement in this ratio indicates that the firm will be able to meet current obligations in the near future without any difficulties. However, as of Dec 31, 2020, the company's long-term debt grew 49.3% to \$1.2 billion from the 2019-end level. Nevertheless, debt to capital of 20.9% compares favorably with the industry's measure of 29.9%. Further, times interest earned of 10.4 compares favorably with the industry's measure of 3.3. MGIC's available assets for PMIER purposes totaled approximately \$5.3 billion as of Dec 31, 2020, resulting in \$1.8 billion excess over the minimum required assets.

As of Dec 31, 2020, the company had \$ 291 million of authorization remaining to repurchase under a share repurchase program. However, the company temporarily suspended share buyback in the wake of the pandemic.

▲ **Price Impact** — Shares of MGIC Investment have gained 35.3% underperforming the industry's increase of 52.1% in the past year. Nevertheless, we believe that an increase in new insurance written, declining claim payments and an improving housing market should drive shares higher.

Reasons To Sell:

▼ **Increasing Underwriting and Other Expenses** — The company has been witnessing increase in underwriting and other expenses that grew 22% over the last five years. Total losses and expenses increased 74.8% in 2020 to \$639.9 million largely due to higher losses incurred, amortization of deferred policy acquisition costs and interest expense. In 2020, loss ratio deteriorated 2420 bps year over year due to an increase in losses incurred. Increasing expenses are weighing on margins. In 2020, net margin contracted 1830 bps year over year. For 2021, the company expects underwriting and other expenses to be in the range of \$220 million to \$225 million. The company should increase its top line at a magnitude higher than the increase in expenses or control cost to boost margin. The company expects losses incurred to increase in the future periods due to the impact of COVID-19 pandemic.

MGIC Investment's high underwriting and other expenses weighing on margin expansion, high debt level with lower interest coverage ratio and highly competitive insurance market pose a concern.

▼ **Stiff Competition** — The mortgage insurance market is highly competitive with a few players holding significant market share. Along with the private players, the company also faces competition from Federal Housing Administration (FHA), which slashed its annual premium last year to make loans more affordable. The company had lowered premium rates for all lenders and borrowers to stay competitive. Meanwhile, the company does not expect FHA to cut its premium rates in the near term.

▼ **Economic Uncertainty** - The COVID-19 pandemic had a material impact on the financial results in the third quarter of 2020. Among other things, the COVID-19 pandemic resulted in an increase in new defaults, which increased capital requirements under PMIERS on those delinquent loans and increased losses incurred. Also, the company did not pay dividends due to uncertainty related to the COVID-19 pandemic.

Though the magnitude of the impact of the COVID-19 pandemic on future financial results is uncertain, it may be significant. The company expects that the increase in unemployment and economic uncertainty resulting from COVID-19 pandemic will cause the delinquency inventory to increase further.

Last Earnings Report

MGIC Investment's Q4 Earnings Top, Revenues Fall Y/Y

MGIC Investment Corporation reported fourth-quarter 2020 adjusted net operating income per share of 43 cents, which beat the Zacks Consensus Estimate by 10.3%. The bottom line declined 12.2% year over year.

The fourth-quarter performance was aided by strength of the purchase mortgage market and the refinance market as well as the company's solid market presence. However, annual persistency remained low while primary delinquency inventory increased.

Quarter Ending 12/2020

Report Date	Feb 23, 2021
Sales Surprise	NA
EPS Surprise	10.26%
Quarterly EPS	0.43
Annual EPS (TTM)	1.31

Operational Update

Insurance in force improved 10.9% to \$246.6 billion, primarily attributable to new business writings, partly offset by lower persistency. The company witnessed a surge of 92.2% in primary delinquency to 57,710 loans due to the adverse economic impact of COVID-19. MGIC Investment reported total operating revenues of \$299 million, which declined 3.5% year over year on lower net investment income and net premiums earned.

Net premiums earned fell 1.8% year over year to \$261.4 million in the quarter. The downside was mainly due to an increase in accelerated premiums earned from single premium policy cancellations.

Net investment income decreased 12.6% year over year to \$36.1 million, attributable to lower investment yields, partially offset by an increase in the consolidated investment portfolio. Persistency, the percentage of insurance remaining in force from one year prior, was 60.5% as of Dec 31, 2020, down 1530 basis points (bps) year over year.

New insurance written was \$33.2 billion, up 72% year over year. The surge clearly highlights strength of the purchase mortgage market and the refinance market as well as the company's solid market presence.

Net underwriting and other expenses totaled \$48.3 million, which decreased 7.6% year over year. In the quarter under review, loss ratio was 17.5%, which deteriorated 860 bps year over year.

Full-Year Highlights

Adjusted net earnings of \$1.32 per share beat the Zacks Consensus Estimate of \$1.28. The bottom line declined 28.3% year over year. Operating total revenues were \$2.5 billion, down 1.9% year over year. The top line beat the Zacks Consensus Estimate of \$2.2 billion. New insurance written was \$112.1 billion in 2020, up 76.8% over 2019.

Financial Update

Book value per share, a measure of net worth, grew 11.8% to \$13.88 as of Dec 31, 2020 from 2019 end. MGIC Investment had \$874 million in investments, cash and cash equivalents, up from \$325 million as of 2019 end. Debt was \$1.2 billion as on Dec 31, 2020, up from \$0.8 billion as on Dec 31, 2019.

Total assets were \$7.4 billion, up 19.4% from 2019-end level. PMIERs available assets were \$5.3 billion, \$1.8 billion above its minimum required assets as of Dec 31, 2020.

Capital Deployment

MGIC Investment paid out quarterly cash dividend of 6 cents per share in the reported quarter. The company also did not buy back shares during the quarter under review. It had \$291 million remaining under its authorization as on 2020 end.

Recent News

MGIC Investment Releases February Statistics – Mar 5, 2021

MGIC Investment, released operating statistics of February 2021. Ending primary delinquent were 55,103 versus 56,315 in the previous month. Paid claims decreased to 95 from 108 in January 2021.

MGIC Investment Releases January Statistics – Feb 8, 2021

MGIC Investment, released operating statistics of January 2021. Ending primary delinquent were 56,315 versus 57,710 in the previous month. Paid claims decreased to 108 from 112 in December 2020.

MGIC Investment Declares Dividend - Jan 26, 2021

The board of directors of MGIC Investment announced a quarterly cash dividend of 6 cents per share, paid on Mar 3, 2021, to shareholders of record on Feb 17, 2021.

Valuation

MGIC shares are up 3.9% in the year-to-date period and 34.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 15.9% and 11.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 52.3% and 40.9%, respectively.

The S&P 500 index are up 5.4% in the year-to-date period and 47.9% in the past year.

The stock is currently trading at 0.94x trailing 12-month book value, which compares to 1.45x for the Zacks sub-industry, 3.19x for the Zacks sector and 6.67x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.86x and as low as 0.41x, with a 5-year median of 1.21x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$14 price target reflects 1x book value.

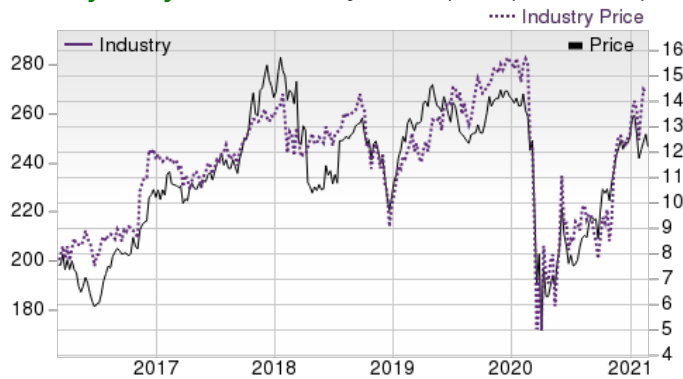
The table below shows summary valuation data for MTG

Valuation Multiples - MTG					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.94	1.45	3.19	6.67
	5-Year High	1.86	1.98	3.19	6.67
	5-Year Low	0.41	0.85	1.74	3.83
	5-Year Median	1.21	1.48	2.6	4.97
P/S F12M	Current	3.41	0.95	7.6	4.58
	5-Year High	5.16	1.74	7.6	4.58
	5-Year Low	1.32	0.74	5.02	3.21
	5-Year Median	3.54	1.23	6.13	3.69
P/E F12M	Current	8.19	10.66	17.35	22.59
	5-Year High	12.79	12.61	17.35	23.8
	5-Year Low	2.92	6.62	11.6	15.3
	5-Year Median	8.04	9.79	14.58	17.9

As of 03/11/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 47% (120 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Aegon NV (AEG)	Neutral	3
American International Group, Inc. (AIG)	Neutral	3
Essent Group Ltd. (ESNT)	Neutral	3
The Hartford Financial Services Group, Inc. (HIG)	Neutral	3
Prudential Financial, Inc. (PRU)	Neutral	3
Radian Group Inc. (RDN)	Neutral	3
FBL Financial Group, Inc. (FFG)	Underperform	5

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

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	MTG	X Industry	S&P 500	ACGL	ESNT	RDN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	C
Market Cap	4.42 B	4.40 B	28.65 B	14.91 B	5.13 B	4.39 B
# of Analysts	3	2	13	3	3	3
Dividend Yield	1.84%	1.49%	1.38%	0.00%	1.41%	2.18%
Value Score	A	-	-	A	A	A
Cash/Price	0.07	0.24	0.06	0.19	0.17	0.24
EV/EBITDA	7.93	6.73	16.04	9.16	8.18	7.98
PEG F1	1.64	1.41	2.36	1.15	0.88	1.76
P/B	0.94	1.02	3.89	1.14	1.32	1.02
P/CF	8.59	9.81	16.10	22.49	11.63	10.59
P/E F1	8.19	10.70	20.98	11.53	8.83	8.78
P/S TTM	3.69	1.05	3.28	1.75	5.37	3.05
Earnings Yield	12.34%	8.48%	4.63%	8.68%	11.32%	11.40%
Debt/Equity	0.26	0.25	0.67	0.27	0.00	0.37
Cash Flow (\$/share)	1.52	2.64	6.78	1.64	3.91	2.16
Growth Score	D	-	-	D	D	F
Historical EPS Growth (3-5 Years)	12.32%	6.22%	9.34%	9.89%	24.04%	13.98%
Projected EPS Growth (F1/F0)	21.97%	19.21%	14.75%	135.79%	32.73%	49.81%
Current Cash Flow Growth	-28.39%	5.48%	0.74%	-48.09%	-23.55%	-44.91%
Historical Cash Flow Growth (3-5 Years)	-0.88%	1.68%	7.37%	1.82%	21.09%	0.09%
Current Ratio	0.43	0.50	1.39	0.55	0.87	1.16
Debt/Capital	20.92%	20.92%	41.42%	20.52%	0.00%	26.97%
Net Margin	37.20%	7.87%	10.59%	16.49%	43.24%	27.36%
Return on Equity	10.24%	8.14%	14.70%	4.76%	11.52%	8.34%
Sales/Assets	0.18	0.19	0.51	0.21	0.20	0.19
Projected Sales Growth (F1/F0)	0.00%	0.00%	6.93%	0.00%	0.00%	0.00%
Momentum Score	C	-	-	B	D	F
Daily Price Change	0.69%	0.11%	0.33%	-0.30%	3.39%	1.10%
1-Week Price Change	1.81%	2.63%	2.46%	1.54%	2.52%	4.71%
4-Week Price Change	4.82%	6.62%	3.52%	4.02%	2.22%	11.01%
12-Week Price Change	4.15%	12.20%	7.54%	4.05%	2.00%	12.54%
52-Week Price Change	34.95%	41.91%	62.04%	20.57%	27.82%	28.09%
20-Day Average Volume (Shares)	3,465,205	183,430	2,210,456	3,668,624	971,246	1,708,275
EPS F1 Estimate 1-Week Change	3.21%	0.00%	0.00%	0.00%	0.00%	1.96%
EPS F1 Estimate 4-Week Change	-0.82%	-0.12%	0.00%	3.44%	-1.21%	-2.98%
EPS F1 Estimate 12-Week Change	2.55%	0.21%	2.01%	8.33%	-2.52%	-1.39%
EPS Q1 Estimate Monthly Change	-2.56%	-2.64%	0.00%	-3.89%	22.54%	-3.08%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	D
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 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.

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.