Sep 02, 2020

Navient Corporation (NAVI)

$9.13 (As of 09/01/20)

Price Target (6-12 Months): **$9.50**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/27/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: D | Momentum: C	

Summary

Shares of Navient have outperformed the industry over the past six months. Also, the company has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three and lagged in one of the trailing four quarters. The company remains focused on leveraging asset recovery & processing businesses to boost the top line. Also, declining unemployment rate remains a tailwind. Also, it continues to deploy technology platform and digital marketing tools to attract originations that bode well for its financials. However, Navient continues to struggle with regulatory claims and litigation burden due to practices in handling a large number of student loans. Increase in financing costs, subject to substantial volatility in capital markets, along with rising operating expenses might impact bottom-line expansion to some extent.

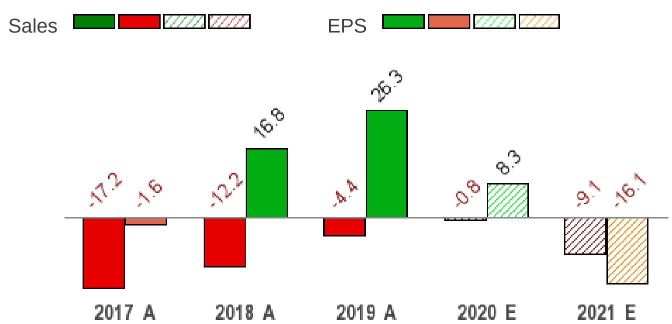
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$15.50 - $4.07**
20-Day Average Volume (Shares)	**1,825,688**
Market Cap	**$1.8 B**
Year-To-Date Price Change	**-33.3%**
Beta	**1.89**
Dividend / Dividend Yield	**$0.64 / 7.0%**
Industry	**Financial - Consumer Loans**
Zacks Industry Rank	**Bottom 16% (210 out of 251)**
Last EPS Surprise	**91.7%**
Last Sales Surprise	**15.6%**
EPS F1 Estimate 4-Week Change	**6.4%**
Expected Report Date	**10/27/2020**
Earnings ESP	**0.0%**
P/E TTM	**3.4**
P/E F1	**3.2**
PEG F1	**1.1**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	276 E	269 E	263 E	262 E	1,068 E
2020	297 A	329 A	282 E	281 E	1,175 E
2019	285 A	293 A	312 A	294 A	1,185 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.68 E	$0.54 E	$0.78 E	$0.60 E	$2.40 E
2020	$0.51 A	$0.92 A	$0.71 E	$0.70 E	$2.86 E
2019	$0.55 A	$0.74 A	$0.62 A	$0.67 A	$2.64 A

*Quarterly figures may not add up to annual.

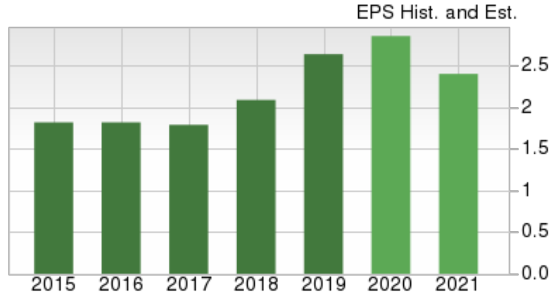
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/01/2020. The reports text is as of 09/02/2020.

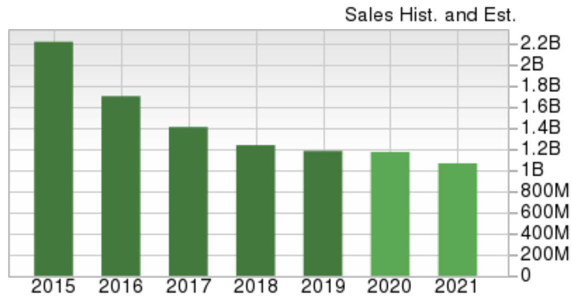
Overview

Headquartered in Wilmington, DE, Navient is a leading provider of education loan management and business processing solutions for education, healthcare, and government clients at the federal, state and local levels. Navient is one of the four large servicers to the U.S. Department of Education ("ED") under its Direct Student Loan Program (DSLP).

In fourth-quarter 2017, Navient entered the Private Education Refinance Loan origination market, following which, the company reports through the following business segments:

- **Federal Education Loans:** In this segment, the company holds and acquires the Federal Family Education Loan Program (FFELP) loans and performs servicing and asset recovery services on its own loan portfolio, federal education loans owned by the U.S. Department of Education and other institutions.
- **Consumer Lending:** Under this segment, the company holds, originates and acquires consumer loans and performs servicing activities in its own loan portfolio. Originations and acquisitions leverage its servicing scale and generate incremental earnings and cash flow.
- **Business Processing:** In this segment, Navient performs business processing services for non-education related government and health care clients. The company provides services to more than 600 clients in the health care and public sectors.
- **Other Segment:** This segment mainly comprises activities such as corporate liquidity portfolio and the repurchase of debt, unallocated overhead (corporate overhead and certain information technology costs), restructuring/other reorganization expenses, regulatory-related costs, etc.





In November 2017, Navient acquired Earnest, a financial technology company in an all cash deal. On completion, it took over education refinancing loans of more than $500 million.

In August 2017, Navient acquired Duncan Solutions in order to expand presence in the municipal and toll services market.

As of Jun 30, 2020, Navient had total assets of $91 billion, FFELP loans of $60.9 billion and private education loan of $21.5 billion.

Source: Zacks Investment Research

Reasons To Buy:

Navient's focus on tapping growth opportunities will likely boosts overall business performance. Further, improving economy and declining unemployment rate should provide support to the company.

- Following its separation from SLM Corporation in 2014, Navient continues to be the biggest portfolio holder of Private Education Loans and education loans insured or guaranteed under the FFELP. Further, Navient is a leading servicer of education loans. Also, the company remains focused on introducing new products leveraged with technology. The economic recovery and declining unemployment rate should further enhance its business prospects. Particularly, the specialized focus post split will be advantageous to Navient.

- Navient seems on track with initiatives that lays the foundation for independent growth. Strengthening its asset recovery and business process outsourcing capabilities, the company has entered into a number of acquisitions since 2015. In November 2017, it acquired Earnest, a financial technology and education-finance company serving consumers unable to get finance from traditional banks. We remain encouraged as the company is focused on growth opportunities to boost overall business.

- Shares of Navient have outperformed the industry over the past six months. The company's current-year earnings estimates have been revised 6.3% upward over the past 30 days. Also, the stock seems undervalued as its price-to-book (P/B) and price-to-earnings (P/E) (F1) ratios are below the respective industry averages. Additionally, it has a Value Score of A. Therefore, given the progress on fundamentals, the stock has upside potential.

Reasons To Sell:

Navient's top-line faces potential threat from lack of access to new loans and alternative sources of revenue. Ongoing litigation issues are an added concern. Also, rising costs are a headwind.

- We remain cautious owing to limited growth opportunities for Navient. Following the 2010 reform law, DSLP of the ED originates all federal student loans. As a result of this legislation, Navient's interest income on its FFELP loan portfolio and fee-based revenue from servicing that portfolio and third-party FFELP loans will gradually decrease as existing FFELP loans are paid down, refinanced or repaid after default by guarantors. If Navient fails to acquire new loans or expand or develop alternative sources of revenue to replace or enhance its declining revenue from FFELP loan portfolio, its top line will be under pressure.

- Higher expenses remain another concern for Navient. Though operating expenses (on a core basis) declined in the first six months of 2020, it witnessed a CAGR of 1% over the last three years (ended 2019). Substantial volatility in the capital markets could increase Navient's financing costs. Further, as per the Separation and Distribution Agreement, Navient Corporation stands liable for payment of all regulatory orders, except the penalty charges that are directly imposed on Sallie Mae Bank. Additionally, Navient is struggling with several litigation issues amid the heightened regulatory scrutiny over alleged anti-consumer practices in the U.S. student loan industry.

- Navient's capital deployment activities keep us apprehensive. The company last declared a 7% hike in its quarterly dividend in January 2015. Also, in October 2019, the company approved an additional share buyback program of up to $1 billion with immediate effect. As of Jun 30, 2020, it had $665 million of remaining share-repurchase authority. However, Navient's debt/equity ratio seems unfavorable compared with its industry average. Hence, we believe that the company's capital deployment activities might not be sustainable in the long term.

- Interest earned on FFELP loans and private education loans is primarily indexed to 1-month LIBOR rates and either 1-month LIBOR rates or the 1-month Prime rate, respectively, whereas the cost of funds is primarily indexed to 3-month LIBOR rates. This leads to re-pricing risks related to these assets. In a gradually rising interest rate environment, this difference in timing may create pressure on net interest margin for FFELP and private education loans. On the other hand, relatively higher interest rates will lower Navient's floor income.

Last Earnings Report

Navient Q2 Earnings Beat Estimates as Provisions Fall

Quarter Ending	06/2020
Report Date	Jul 21, 2020
Sales Surprise	15.64%
EPS Surprise	91.67%
Quarterly EPS	0.92
Annual EPS (TTM)	2.72

Navient reported second-quarter 2020 core earnings per share of 92 cents that surpassed the Zacks Consensus Estimate of 48 cents. Also, the bottom line was above the year-ago quarter figure of 74 cents.

Core earnings excluded the impacts of certain other one-time items, including mark-to-market gains/losses on derivatives along with goodwill and acquired intangible asset amortization, and impairment.

Second-quarter results of Navient were supported by a rise in net interest income. Also, a fall in expenses and provisions were tailwinds. However, private education loans declined. Moreover, year-over-year decline in fee income was an undermining factor.

GAAP net income for the quarter was $125 million or 64 cents per share compared with $153 million or 64 cents per share in the year-ago quarter.

Net interest income Increase, Provisions Fall (on Core Earnings Basis)

Net interest income (NII) increased 11.1% year over year to $329 million.

Non-interest income declined 32.6% year over year to $163 million. The fall was mainly attributed to lower asset recovery and business processing along with servicing revenues.

Provision for loan losses fell 35.3% year over year to $44 million.

Total expenses declined 11.6% from the year-ago quarter to $214 million. Lower operating expenses mainly led to the fall.

Segment Performance

Federal Education Loans: The segment generated core earnings of $87 million, up 11.5% year over year. Higher revenues along with a fall in expenses posed as tailwinds.

As of Jun 30, 2020, the company's FFELP loans were $60.9 billion, down 2.5% sequentially.

Consumer Lending: The segment reported core earnings of $54 million, up 2.4% year over year. Lower provisions and rise in revenues were the positives. Net interest margin was 3.2%, down 2 basis points.

Private education loan delinquencies of 30 days or more of $426 million were down $644 million from the prior-year quarter.

As of Jun 30, 2020, the company's private education loans totaled $21.5 billion, down 3.9% from the prior quarter. Also, Navient originated $238 million of private education refinance loans in the quarter.

Business Processing: The segment reported core earnings of $6 million compared with $7 million in the year-ago quarter. Higher expenses and a fall in revenues led to the decline.

Source of Funding and Liquidity

In order to meet liquidity needs, Navient expects to utilize various sources, including cash and investment portfolio, issuance of additional unsecured debt, repayment of principal on unencumbered student-loan assets, and distributions from securitization trusts (including servicing fees). It might also issue term asset-backed securities ("ABS").

During the reported quarter, Navient issued $1.3 billion in term ABS. Notably, it had $1.6 billion of cash as of Jun 30, 2020.

Capital-Deployment Activities

In the second quarter, the company paid out $31 million in common stock dividends. As of Jun 30, 2020, it had $665 million of remaining share-repurchase authority.

Recent News

Navient's Ratings Affirmed by Moody's, Outlook Negative - Jun 26, 2020

Navient Corporation's unsecured debt ratings and Corporate Family Rating have been affirmed by Moody's Investors Service as Ba3. Notably, the outlook has been changed to negative from stable.

Reasons Behind Downgrade of Outlook

The key reason behind the outlook downgrade is that Navient has declined to sign a new contract with the U.S. Department of Education ("DOE") to service federal direct student loans on account of "unfavorable economics". In Moody's opinion, the loss of the DOE contract might put downward pressure on the company's standalone assessment over the next 12-18 months.

Further, Moody's considers Navient to be exposed to high social risk in comparison to its peers. Also, the negative outlook is reflective of Moody's assessment that the U.S. economy will contract in 2020 due to the coronavirus crisis, which will have an unfavorable impact on the company's asset quality and profitability.

Ratings Rationale

Per Moody's, Navient's standalone assessment remains unchanged, after considering that the revenues foregone from the DOE contract are only a modest contributor to the bottom line, at present.

The company's Ba3 long-term ratings are reflective of its predictable, but declining earnings and the strong asset quality of the $84.8-billion legacy student loan portfolio. It also takes into account the likelihood that the company will take efforts to counter the decline in net income by growing newly-acquired origination business and continuing to modestly grow business services businesses.

Navient reported net income of $597 million in 2019 and unsecured debt outstanding as of Mar 31, 2020 totaled $9.5 billion compared with total assets of $93.2 billion. Thus, Moody's believes the company will repay unsecured debt largely from the equity investment in its loan portfolio. Therefore, Navient's greatest risk is considered to be a significant decline in portfolio cash flow resulting from increased loan charge-offs or a shrinking investment portfolio.

Also, Navient's exposure to several litigation issues amid the heightened regulatory scrutiny over alleged anti-consumer practices in the U.S. student loan industry is a concern. The Consumer Financial Protection Board and several state attorneys general have filed civil suits alleging that the bank violated Federal consumer financial laws in servicing federal and private student loans. Per Moody's, legal costs are expected to be manageable, but costs that materially increase the company's leverage could lead to a rating downgrade.

The ratings agency believes that a large servicing transfer of student loans will be a social risk under its ESG framework, given the increase in regulatory risks. Further, Moody's regards the coronavirus pandemic as a social risk under its ESG framework, given the substantial implications for public health and safety. Affirmation of Navient's ratings reflects the impact of the increased regulatory risks of a servicing transfer, along with the breadth and severity of the economic shock from the pandemic, and the deterioration in credit quality and profitability it has triggered.

What Can Trigger a Change in Moody's Ratings?

Though ratings upgrades are less likely in a year's time due to the negative outlook, rating for Navient can return to stable in case Moody's feels that any potential unfavorable impact from the current economic environment, as well as the loss of the direct loan servicing contract on the company's financial profile, particularly capital and profitability, were modest or effectively countered.

At the same time, ratings can go down if Navient's financial performance deteriorates or the value of its investment portfolio declines, for example, from rising delinquencies and defaults on the private student loan portfolio or a large increase in prepayment speeds on the Federal Family Education Loan Program (FFELP) portfolio.

Dividend Update

On Aug 7, Navient declared third-quarter 2020 common stock dividend of 16 cents per share. The dividend will be paid on Sep 18 to shareholders on record as of Sep 4.

Valuation

Navient's shares are down 33.3% in the year-to-date period and 27.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 28.6% and 14.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 23.3% and 5.8%, respectively.

The S&P 500 Index is up 3.8% in the year-to-date period and 14.5% in the past year.

The stock is currently trading at 3.58X forward 12 months earnings, which compares to 10.36X for the Zacks sub-industry, 16.71X for the Zacks sector and 23.03X for the S&P 500 Index.

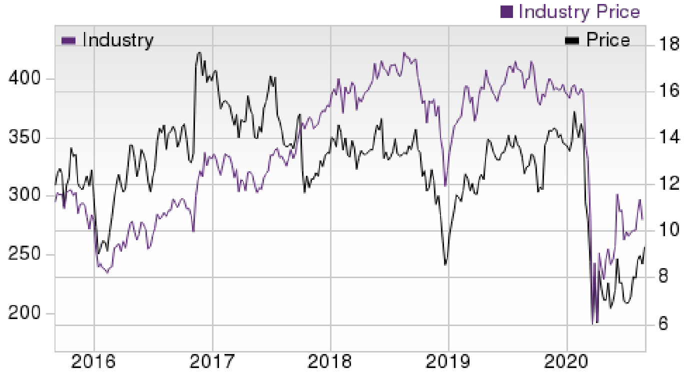
Over the past five years, the stock has traded as high as 9.17X and as low as 1.6X, with a 5-year median of 6.49X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $9.50 price target reflects 3.53X forward earnings.

The table below shows summary valuation data for NAVI

Valuation Multiples - NAVI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.58	10.36	16.71	23.03
	5-Year High	9.17	13.16	16.71	23.03
	5-Year Low	1.6	4.39	11.6	15.25
	5-Year Median	6.49	8.73	14.26	17.6
P/TB TTM	Current	1.29	0.78	3.38	13.09
	5-Year High	1.84	1.49	4	13.83
	5-Year Low	0.43	0.48	2.01	6.03
	5-Year Median	1.28	1.19	3.48	9.53
P/S F12M	Current	1.61	0.96	6.23	3.93
	5-Year High	3.73	1.77	6.67	3.93
	5-Year Low	0.88	0.72	4.97	2.53
	5-Year Median	2.75	1.49	6.07	3.07

As of 09/01/2020

Industry Analysis **Zacks Industry Rank:** Bottom 16% (210 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
MR. COOPER GROUP INC **(COOP)**	Outperform	1
Ally Financial Inc. **(ALLY)**	Neutral	3
Citizens Financial Group, Inc. **(CFG)**	Neutral	3
Discover Financial Services **(DFS)**	Neutral	4
PROVIDENT FIN **(FPLPY)**	Neutral	4
Santander Consumer USA Holdings Inc. **(SC)**	Neutral	3
SLM Corporation **(SLM)**	Neutral	3
First Cash, Inc. **(FCFS)**	Underperform	5

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

Industry Comparison Industry: Financial - Consumer Loans

	NAVI	X Industry	S&P 500	ALLY	DFS	SC
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	C	B	B
Market Cap	1.77 B	755.69 M	23.95 B	8.56 B	16.23 B	5.39 B
# of Analysts	4	2.5	14	6	8	6
Dividend Yield	7.01%	0.00%	1.61%	3.32%	3.32%	5.15%
Value Score	A	-	-	A	A	A
Cash/Price	2.21	0.68	0.07	2.17	0.91	0.40
EV/EBITDA	98.41	5.28	13.32	3.56	5.28	9.51
PEG F1	1.06	0.20	3.05	NA	NA	NA
P/B	0.83	1.09	3.21	0.62	1.89	1.10
P/CF	3.17	3.95	12.92	2.88	5.59	1.99
P/E F1	3.19	12.17	21.84	27.71	52.38	120.64
P/S TTM	0.39	0.96	2.52	1.37	1.18	0.67
Earnings Yield	31.33%	6.96%	4.39%	3.62%	1.91%	0.82%
Debt/Equity	37.75	1.90	0.70	2.11	2.70	8.30
Cash Flow ($/share)	2.88	4.49	6.93	7.96	9.48	8.57
Growth Score	D	-	-	F	D	F
Historical EPS Growth (3-5 Years)	8.66%	10.51%	10.41%	12.24%	6.74%	-3.50%
Projected EPS Growth (F1/F0)	8.24%	-34.49%	-4.75%	-77.78%	-88.86%	-95.05%
Current Cash Flow Growth	12.54%	14.13%	5.22%	-1.59%	7.14%	20.07%
Historical Cash Flow Growth (3-5 Years)	-5.09%	9.07%	8.49%	-4.75%	4.70%	25.86%
Current Ratio	11.82	3.09	1.35	0.99	1.18	58.77
Debt/Capital	97.42%	65.56%	42.92%	67.85%	70.63%	89.25%
Net Margin	7.38%	7.74%	10.25%	10.87%	7.65%	3.47%
Return on Equity	21.05%	14.19%	14.66%	5.85%	10.45%	4.50%
Sales/Assets	0.05	0.24	0.50	0.03	0.12	0.17
Projected Sales Growth (F1/F0)	-0.76%	0.00%	-1.40%	-5.35%	-4.60%	0.78%
Momentum Score	C	-	-	C	B	A
Daily Price Change	0.44%	0.13%	0.29%	0.13%	-0.21%	-0.70%
1-Week Price Change	8.63%	3.09%	2.59%	8.98%	9.44%	4.50%
4-Week Price Change	11.27%	1.95%	3.53%	11.43%	8.72%	-7.32%
12-Week Price Change	4.94%	-5.09%	2.09%	-0.04%	-9.99%	-17.36%
52-Week Price Change	-27.14%	-26.47%	4.31%	-25.81%	-32.49%	-33.24%
20-Day Average Volume (Shares)	1,825,688	239,042	1,816,754	3,571,858	2,684,697	629,805
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	6.42%	8.33%	0.20%	17.26%	31.76%	13.33%
EPS F1 Estimate 12-Week Change	30.68%	2.78%	3.86%	0.20%	-40.21%	213.33%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	4.35%	1.28%	11.36%

Source: Zacks Investment Research

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	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.

Disclosures

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm 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 mostrecent 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.