

Nevro Corp.(NVRO)

\$174.83 (As of 04/28/21)

Price Target (6-12 Months): **\$184.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: D

Summary

Over the past year, shares of Nevro have outperformed its industry. The company exited the fourth quarter of 2020 on a mixed note with loss narrower than expected but revenues missing estimates. Reduction in operating expenses is also encouraging. Further, the commercial launch of the Senza Omnia SCS System continues to buoy optimism on the stock. Expansion in gross margin is a positive too. The company's submission of PMA supplement to the FDA in December 2020, seeking an approval for Senza System to treat chronic pain associated with Painful Diabetic Neuropathy (PDN), is another plus. Liquidity position is impressive as well. However, the company saw a decline in both domestic and international revenues in the fourth quarter. Moreover, total U.S. permanent implant procedures fell 1% with trial procedures declining 8% year over year.

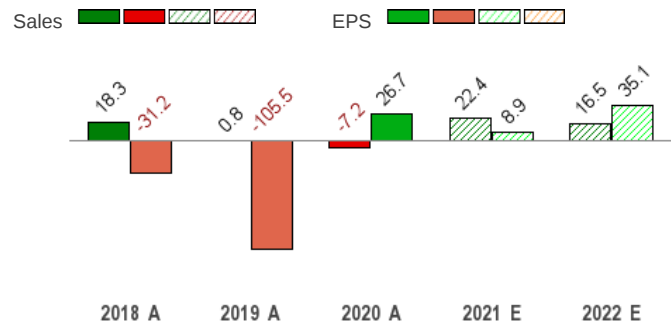
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$188.14 - \$109.30
20-Day Average Volume (Shares)	529,252
Market Cap	\$6.1 B
Year-To-Date Price Change	1.0%
Beta	0.98
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 29% (178 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	-0.1%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	05/05/2021
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	16.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	106 E	121 E	136 E	152 E	516 E
2021	85 E	101 E	120 E	136 E	443 E
2020	87 A	56 A	108 A	110 A	362 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.64 E	-\$0.50 E	-\$0.27 E	-\$0.13 E	-\$1.46 E
2021	-\$0.86 E	-\$0.64 E	-\$0.50 E	-\$0.28 E	-\$2.25 E
2020	-\$0.78 A	-\$1.21 A	-\$0.29 A	-\$0.21 A	-\$2.47 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 04/28/2021. The report's text and the analyst-provided price target are as of 04/29/2021.

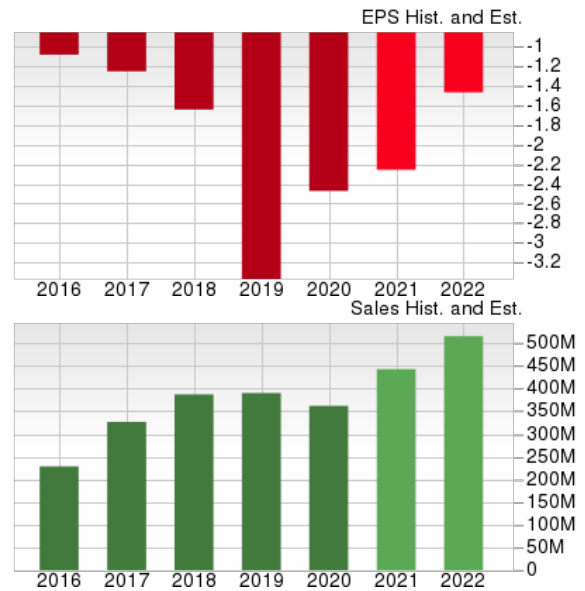
Overview

Headquartered in Menlo Park, CA, Nevro Corp. is a medical device company which engages in developing and commercializing a neuromodulation platform for the treatment of chronic pain, primarily in the leg. The company is known for developing and commercializing the Senza spinal cord stimulation (SCS) system, an evidence-based neuromodulation platform for the treatment of chronic pain. Additionally, the company's HF10 therapy provides long-lasting relief from chronic back and leg pain.

Nevro Corp.'s flagship Senza SCS system has been consistently driving the top line. Since its commercial launch in the United States, the system raked in significant revenues. These apart, Senza is commercially available in Europe since 2010 and in Australia since 2011. In early 2017, Nevro Corp. commenced a controlled commercial launch of a new surgical lead, marketed as the Surpass TM surgical lead.

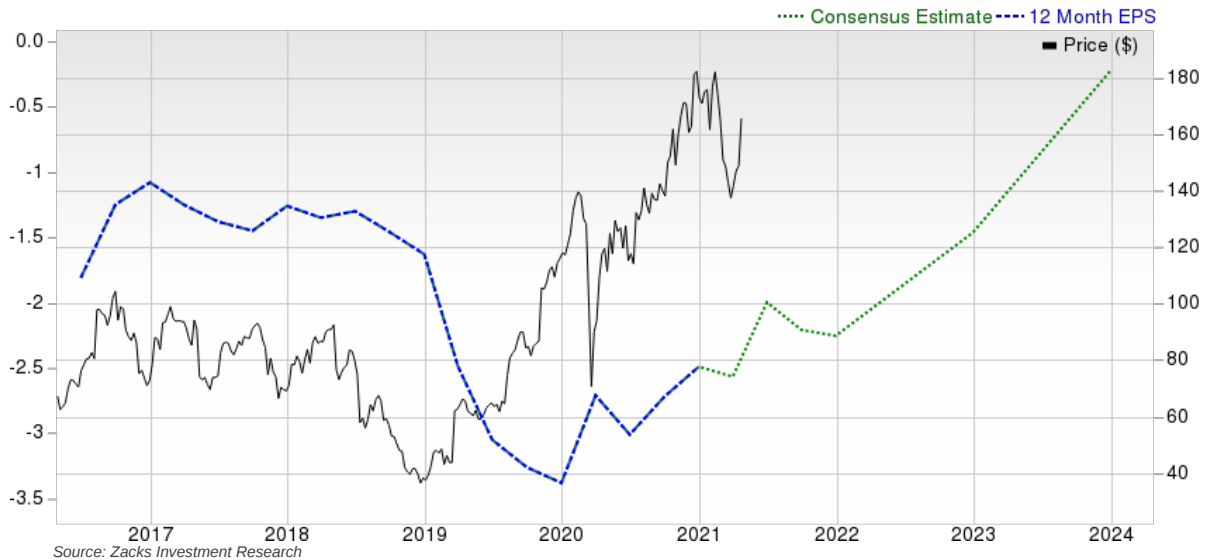
In recent times, Nevro launched its next product platform, Senza Omnia, in the United States which is expected to lend the company a competitive edge in the near future.

The company also has bright prospects when it comes to other chronic pain indications where it uses HF10 therapy to treat chronic upper limb and neck pain and other non-surgical back pain.



2020 at a Glance

Revenues in 2020 were \$362 million, which fell 7.3% from 2019 figure.



Reasons To Buy:

▲ **Share Price Up:** Shares of the company have surged 48.7% compared with the industry's 31.7% rise over the past year. The commercial launch of the Senza Omnia SCS System continues to instill confidence in the stock. A recent FDA approval for the first major Omnia upgrade buoyed optimism on the stock. The company's submission of PMA supplement to the FDA in December 2020, seeking an approval for the Senza System to treat chronic pain associated with Painful Diabetic Neuropathy (PDN), drove its share price. Solid R&D edge and favorable clinical results also favored the stock.

Lucrative prospects in the SCS market, solid international foothold and focus on innovation drive the stock.

▲ **Senza — A Key Driver of Growth:** Nevro Corp.'s flagship platform, Senza, got its first FDA approval in the United States in 2015. Notably, the system has been developed and commercialized for the treatment of chronic pain. The system delivers paresthesia-free HF10 therapy, a superior one over traditional low-frequency spinal cord stimulation for the treatment of chronic back and leg pain. SENZA-RCT was a prospective, randomized, multi-center pivotal study, conducted across 11 U.S. clinical trial sites. Notably, the study demonstrated the superiority of HF10 therapy to traditional Spinal Cord Stimulation (SCS) therapy. In the recent past, the company launched Senza II, a smaller-footprint, advanced battery system.

In recent times, Nevro launched its next product platform, Senza Omnia, in the United States which is expected to lend the company a competitive edge in the near future.

The Senza Omnia has been gaining traction through the first quarter of 2020. Omnia, which is the only SCS platform that can offer high frequency, plus lower frequencies and paired waveforms, received an earlier-than-expected approval in Australia during the first quarter. In May 2020, the company announced the receipt of CE mark approval for the Senza Omnia Spinal Cord Stimulation (SCS) system. This next-generation SCS system has been created and developed in close consultation with customers to offer a comprehensive solution for chronic pain. This approval is likely to aid Nevro in strengthening its international presence further.

In the second quarter, the company launched Omnia in Europe and Australia and it is ramping efforts in those markets. Currently, Omnia represents between 70% and 75% of the company's utilization in the U.S. market.

In December 2020, the company announced that it submitted a pre-market approval supplement to the FDA to get authorization for its Senza System. The approval is required for the treatment of chronic pain related to Painful Diabetic Neuropathy (PDN). Through the fourth quarter of 2020, the company continued to capture the U.S. market share and expanded its competitive edge with the ongoing Omnia launch. The company continued to gain market share in the core lower-back and leg-pain markets throughout 2020 as a result of its best-in-class HF10 SCS technology, its extended Omnia platform. Nevro received an FDA nod for its first major Omnia upgrade.

▲ **International Prospects:** Nevro Corp. currently sells Senza in Europe and Australia through a network of sales agents and independent distributors. To date, the company has expanded its direct sales operations to Austria, Australia, Belgium, Germany, Luxembourg, Netherlands, Norway, Sweden and Switzerland.

In September 2020, the company announced that it will set up global manufacturing operations in Costa Rica that will enable it to make investments and lend support to the company's future growth prospects. Nevro, a global medical device company, widened its direct sales operations to Austria, Australia, Belgium, Germany, Luxembourg, the Netherlands, Norway, Sweden and Switzerland. This announcement is likely to boost the company's growth prospects when it comes to international markets.

▲ **Lucrative SCS Market:** The major factors driving the global SCS market are growing aging demographics, high cost related to therapy, stringent regulatory approvals and major reliance on traditional SCS therapy. Notably, HF10 therapy delivered by Nevro Corp.'s Senza system was demonstrated in the SENZA-RCT study to be superior to traditional SCS therapy, with Senza being nearly twice as successful in treating back pain and 1.5 times as successful in treating leg pain when compared to traditional methods. Management further confirmed that an expected product launch can allow the company to bring the most versatile platform in SCS therapies.

Notably, the market for SCS therapies looks lucrative at the moment. Per a report by Market Data Forecast, the global SCS market is estimated to reach \$2,827.4 million at a CAGR of 8.6% (between 2018 and 2023).

The company entered 2021 in a great position, strategically, with best-in-class SCS technologies, increasing market momentum, future growth opportunities in PDN and NSRBP, superior clinical data, and a strong commercial organization.

▲ **R&D Edge:** Nevro Corp. aims to continue to improve patient outcomes and expand patient access to HF10 therapy through enhancements to Senza and development of newer indications. Since the launch of the initial Senza system, the company introduced a number of product enhancements like active anchors with improved performance, second generation clinician programmer software, MRI machines, conditional full body MRI etc. The company continues to make enhancements to Senza to boost its performance.

Through the third quarter, the company continued to invest in R&D to strengthen its product capabilities and expand its total addressable markets with new clinical data and patient indications. On the clinical and regulatory side of things, the company has continued to conduct a strong plethora of remote clinical studies for its 2 large-scale randomized controlled trials. Its PDN study continues to progress and a very high percentage of study subjects in the control arm has crossed over to the SCS treatment arm as permitted by the trial protocol.

In the fourth quarter, the late-breaking abstract results were presented from the company's SENZA-PDN and SENZA-NSRBP randomized clinical trials, both of which demonstrated highly favorable results to nearly all pre-specified endpoints at six and 12 months in the PDN study and three months in the NSRBP study.

▲ **Stable Liquidity Position:** Nevro exited the fourth quarter of 2020 with cash and cash equivalents and short-term investments of \$588

million, up from \$573 million in the preceding quarter. Meanwhile, long-term debt totaled \$142 million in the fourth quarter, up from \$140 million in the previous quarter. In addition, we may note that for the fourth quarter, the company has current-year debt of \$169 million on its balance sheet, up from \$167 million, sequentially. Thus, we see that the debt levels are lower than the company's cash and cash equivalents. This is good news in terms of the company's solvency level as at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Reasons To Sell:

▼ **Q4 Softness:** In the quarter under review, international revenues were \$15.1 million, down 8% year over year on a reported basis and 14% at constant currency .U.S. revenues for the quarter totaled \$94.6 million, down 3% year over year. This downside was due to the resurgence of COVID-19 in the latter half of the fourth quarter. Gross profit totaled \$78 million, down 3.9% year over year.

Stiff rivalry and issues in revenues from Australia mar the company's prospects.

▼ **Cutthroat Competition in Niche Space:** Nevro Corp. faces stiff competition in the Spinal Cord Stimulation market. Per management, the primary competitive factors are company brand recognition, clinical research leadership, pricing and reimbursement among many others. Notably, the company faces competition from MedTech bigwigs like Medtronic, Boston Scientific and Abbott Laboratories, who have already obtained regulatory approval for SCS systems and have greater capital resources.

▼ **Tough Regulatory Environment:** Nevro Corp.'s products and operations are subject to extensive and rigorous regulations by the FDA under the Federal Food, Drug, and Cosmetic Act (FFDCA) and its regulations, guidance and standards. Any violation of these could result in a material adverse effect on the company's business, financial condition and operational results. In addition, if there is a change in law, regulation or judicial interpretation, Nevro Corp. may be required to change its business practices, which can be detrimental for the business.

In fact, the company's international sales are subject to regulatory requirements in the countries in which its products are sold.

Last Earnings Report

Nevro Q4 Loss Narrower Than Estimated, Revenues Miss

Nevro Corp reported fourth-quarter 2020 loss per share of 21 cents, narrower than the Zacks Consensus Estimate of a loss of 35 cents. The bottom line also compared favorably with the year-ago quarter's loss per share of 44 cents.

For 2020 too, loss per share narrowed to \$2.47 from the Zacks Consensus Estimate of a loss of \$2.62 as well as the year-ago quarter's loss per share of \$3.37.

Quarter Ending 12/2020

Report Date	Feb 24, 2021
Sales Surprise	-0.08%
EPS Surprise	40.00%
Quarterly EPS	-0.21
Annual EPS (TTM)	-2.49

Revenues

Revenues of \$109.7 million missed the Zacks Consensus Estimate by 1%. The top line also fell 4.1% year over year.

Meanwhile, for 2020, revenues came in at \$362 million, in line with the Zacks Consensus Estimate. The figure, however, fell 7.3% year over year.

Quarterly Highlights

In the quarter under review, international revenues were \$15.1 million, down 8% year over year on a reported basis and 14% at constant currency. U.S. revenues for the quarter totaled \$94.6 million, down 3% year over year. This downside was due to resurgence of COVID-19 in the latter half of the fourth quarter.

Margins

Gross profit totaled \$78 million, down 3.9% year over year. Gross margin was 71.1%, up 6 basis points (bps).

Total operating expenses fell 15.1% year over year to \$78.9 million.

Loss from operations was \$0.9 million, narrower than the year-ago quarter's loss of \$11.7 million.

Guidance

Nevro projects first quarter of 2021 global revenues in the range of \$84-\$86 million. The Zacks Consensus Estimate for the same is pegged at \$93.7 million.

For 2021, the company expects total revenues in the range of \$430-\$450 million. The Zacks Consensus Estimate for the same is pegged at \$450.4 million.

Cash Position

The company exited the fourth quarter with cash and cash equivalents of \$44.6 million compared with \$65.4 million at the end of year ago period.

Recent News

Clinical Data Presented Reinforce Significant Benefits of Nevro's HF10 Therapy : Jan 19, 2021

Nevro announced the results from data presentations at NANS supporting the use of HF10 therapy for patients with chronic pain, including results from the Painful Diabetic Neuropathy (PDN) and Non-Surgical Refractory Back Pain (NSRBP) randomized clinical trials (RCT).

Valuation

Nevro's shares are up 1% and 46.7% in the year-to-date and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical Market are up 3.8% and 0.9% in the year-to-date period, respectively. Over the past year, the stocks in the Zacks sub-industry are up 31.7% while that in the sector are up 7.3%.

The S&P 500 index is up 12.3% in the year-to-date period and 46.5% in the past year.

The stock is currently trading at 16.3X Forward 12-months sales, which compares to 4.9X for the Zacks sub-industry, 2.7X for the Zacks sector and 4.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.5X and as low as 4.4X, with a 5-year median of 9.5X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$184 price target reflects 17.2X forward 12-months sales.

The table below shows summary valuation data for NVRO.

Valuation Multiples - NVRO					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	16.32	4.92	2.74	4.82
	5-Year High	20.51	4.92	3.16	4.82
	5-Year Low	4.42	2.54	2.27	3.21
	5-Year Median	9.53	3.45	2.79	3.71
P/B TTM	Current	15.58	4.91	3.99	7.12
	5-Year High	20.68	5.17	5.07	7.12
	5-Year Low	4.36	2.81	3.02	3.83
	5-Year Median	10.47	4.18	4.34	4.99

As of 04/28/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 29% (178 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
AngioDynamics, Inc. (ANGO)	Neutral	3
Accuray Incorporated (ARAY)	Neutral	4
Inogen, Inc (INGN)	Neutral	2
Luminex Corporation (LMNX)	Neutral	3
Natus Medical Incorporated (NTUS)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	4
OPKO Health, Inc. (OPK)	Neutral	3
Tandem Diabetes Care, Inc. (TNDM)	Neutral	3

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	NVRO	X Industry	S&P 500	ARAY	INGN	TNDM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	3
VGM Score	D	-	-	A	F	B
Market Cap	6.07 B	364.21 M	29.97 B	455.20 M	1.49 B	6.00 B
# of Analysts	9	2	12	3	5	8
Dividend Yield	0.00%	0.00%	1.27%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	D	D
Cash/Price	0.10	0.09	0.05	0.23	0.16	0.08
EV/EBITDA	-108.30	-5.82	17.06	34.79	94.41	-1,353.73
PEG F1	NA	3.15	2.34	NA	NA	NA
P/B	15.49	5.81	4.16	5.85	4.21	15.95
P/CF	NA	29.14	17.29	246.00	115.51	NA
P/E F1	NA	43.03	22.15	113.08	NA	4,515.77
P/S TTM	16.75	7.93	3.43	1.20	4.82	12.03
Earnings Yield	-1.29%	-1.12%	4.45%	0.82%	-1.16%	0.02%
Debt/Equity	0.36	0.06	0.66	2.16	0.00	0.55
Cash Flow (\$/share)	-2.17	-0.13	6.78	0.02	0.58	-0.08
Growth Score	B	-	-	A	D	A
Historical EPS Growth (3-5 Years)	NA%	9.36%	9.70%	NA	-10.73%	NA
Projected EPS Growth (F1/F0)	8.73%	32.23%	17.22%	44.44%	-185.19%	103.79%
Current Cash Flow Growth	-23.86%	-0.49%	0.72%	-353.59%	-66.15%	-35.59%
Historical Cash Flow Growth (3-5 Years)	-2.26%	5.52%	7.37%	15.99%	-11.90%	14.00%
Current Ratio	3.15	3.16	1.38	1.93	5.39	6.14
Debt/Capital	26.74%	7.11%	41.51%	68.36%	0.00%	35.66%
Net Margin	-22.94%	-23.95%	11.17%	1.04%	-1.89%	-6.89%
Return on Equity	-24.47%	-23.26%	15.28%	5.69%	-1.66%	-4.16%
Sales/Assets	0.52	0.48	0.50	0.80	0.67	0.85
Projected Sales Growth (F1/F0)	22.33%	14.99%	8.02%	0.14%	7.49%	22.36%
Momentum Score	D	-	-	B	F	C
Daily Price Change	1.94%	0.00%	-0.09%	-7.89%	3.61%	1.47%
1-Week Price Change	11.31%	1.10%	0.47%	2.30%	-3.15%	3.15%
4-Week Price Change	25.33%	1.26%	4.74%	-1.01%	26.81%	8.74%
12-Week Price Change	3.87%	-2.70%	13.91%	-7.46%	29.40%	2.10%
52-Week Price Change	45.34%	46.87%	46.53%	104.17%	28.08%	28.68%
20-Day Average Volume (Shares)	529,252	203,699	1,734,096	613,248	130,554	612,002
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-13.33%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.26%	-13.33%	1.28%	0.00%
EPS F1 Estimate 12-Week Change	-36.02%	0.00%	2.04%	333.33%	-21.84%	155.09%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.25%	-100.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.