

Paychex, Inc.(PAYX)

\$84.34 (As of 10/14/20)

Price Target (6-12 Months): **\$89.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/31/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: D

Momentum: A

Summary

Paychex looks strong on the back of solid top-line growth and dominant position in the outsourcing market. Acquisitions have expanded the company's customer base and generated cost and revenue synergies. Further, the company strives to capitalize on the rising opportunities in the professional employer organization industry. The company has been consistently rewarding its shareholders through dividend payout and share repurchases, which boost investors' confidence and positively impact earnings per share. On the flip side, Paychex continues to witness rising expenses due to investment in sales, marketing and product development. PEO insurance costs and acquisitions have also added to the company's costs. Its top-line growth is affected by seasonality. Partly due to these headwinds, shares of Paychex have declined over the past year.

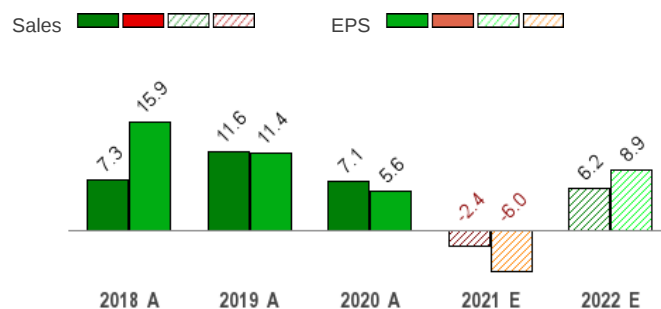
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$90.54 - \$47.87
20-Day Average Volume (Shares)	1,849,859
Market Cap	\$30.3 B
Year-To-Date Price Change	-0.9%
Beta	0.92
Dividend / Dividend Yield	\$2.48 / 2.9%
Industry	Outsourcing
Zacks Industry Rank	Top 49% (120 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	4.1%
EPS F1 Estimate 4-Week Change	2.8%
Expected Report Date	12/16/2020
Earnings ESP	0.5%
P/E TTM	29.0
P/E F1	29.9
PEG F1	3.3
P/S TTM	7.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	993 E	1,009 E	1,184 E	979 E	4,189 E
2021	932 A	953 E	1,115 E	947 E	3,945 E
2020	992 A	991 A	1,143 A	915 A	4,041 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.70 E	\$0.72 E	\$0.96 E	\$0.69 E	\$3.07 E
2021	\$0.63 A	\$0.66 E	\$0.89 E	\$0.65 E	\$2.82 E
2020	\$0.71 A	\$0.70 A	\$0.97 A	\$0.61 A	\$3.00 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 10/14/2020. The reports text is as of 10/15/2020.

Overview

Paychex, Inc. is one of the leading providers of integrated human capital management (“HCM”) solutions for payroll, human resource (“HR”), retirement, and insurance services for small- to medium-sized businesses. The company was incorporated in Delaware in 1979.

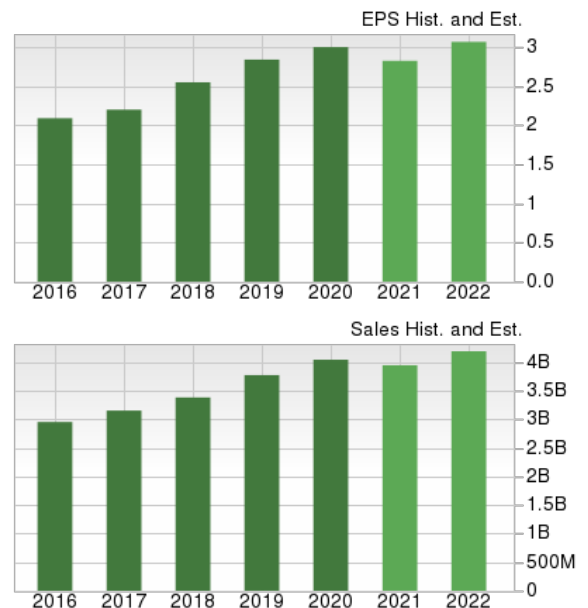
The company's payroll processing services include payroll processing, payroll tax administration services, employee payment services and regulatory compliance services. The company supports small-business companies through its core payroll, software-as-a-service (“SaaS”) Paychex Flex platform, and its SurePayroll® SaaS-based products. The company's SaaS solution through Paychex Flex Enterprise integrates payroll processing with HR management, employee benefits administration, time and labor management, applicant tracking, and onboarding solutions.

The company offers a suite of complementary Human Resource Services (“HRS”) products which include comprehensive HR outsourcing through Paychex HR Services; retirement services administration; insurance services; HR administration services, including time and attendance, benefit enrollment, recruiting, and onboarding; and other HR services and products.

Paychex's wholly owned subsidiary, Paychex Advance LLC (“Paychex Advance”), offers a portfolio of services to the temporary staffing industry. This includes the purchasing of accounts receivable as a means of providing payroll funding to these clients.

As of May 31, 2020, Paychex served more than 670,000 payroll clients (inclusive of the Lessor acquisition). The company maintains its corporate headquarters in Rochester, New York, and serves clients throughout the United States and Europe. The company has one business segment. Its fiscal year ends on May 31.

Paychex operates under two broad categories — Total Service Revenue, and Interest on Funds Held for Clients. In fiscal 2019, Total Service Revenue made up 98% of total revenues and comprised two sub-segments: Management solutions (78% of Total Service Revenue) and professional employer organization (PEO) and insurance services (22% of Total Service Revenue). Interest on Funds Held for Clients accounted for the remaining 2% of fiscal 2019 total revenues.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Revenue growth** is an important metric for any company as it is a vital part of growth projections and instrumental in strategic decision-making. Also, revenue growth is essential to justify the fixed and variable expenses incurred to operate a business. Paychex has grown meaningfully over the years by providing industry-leading service and technology solutions to its clients and their employees. Its solid business model, diversified products and services, and strategic acquisitions have boosted top-line growth. Notably, revenues grew at 5-year (2014-2019) CAGR of 6.6%. Higher revenues will expand margins and increase profitability in the long run.
- ▲ Paychex's initiatives to boost revenue growth through **acquisitions** are encouraging. During fiscal 2018, Paychex acquired Oasis Outsourcing and Lessor Group. Oasis has strengthened the company's PEO growth strategy, expanded its PEO sales organization and boosted client base. It has expanded Paychex's HR outsourcing and technology-enabled services and is helping it to deliver solid human resources and payroll solutions to clients and employees. Lessor Group is contributing to the company's payroll services. Apart from boosting revenue accretion, acquisitions have historically benefited its operating margin while also resulting in tax synergies.
- ▲ Paychex appears to be striving to capitalize on the rising opportunities in **the PEO industry**. A PEO is a firm or company to which organizations can outsource their HR functions, including payroll and benefits. Therefore, in our opinion, the 2017 acquisition of HR Outsourcing is a strategic fit for Paychex as more and more companies are willing to use PEO services rather than creating their in-house HR. The buyout is expanding the company's services, thereby helping it to add to its customer base.
- ▲ Paychex's cash and cash equivalent balance of \$835.7 million at the end of the first-quarter fiscal 2021 was above the long-term debt level \$796.9 million, underscoring that the company **has enough cash to meet this debt burden**.
- ▲ Paychex puts consistent efforts to reward its shareholders in the form of **dividend and share repurchases**. During fiscal 2020, Paychex repurchased shares worth \$171.9 million and paid dividend of \$889.4 million. In fiscal 2019, Paychex repurchased shares worth \$56.9 million and paid dividend of \$826.8 million. In fiscal 2018, Paychex repurchased shares worth \$143.1 million and paid dividend of \$739.7 million. In fiscal 2017, the company repurchased shares worth \$166.2 million and paid dividends worth \$662.3 million. In fiscal 2016, Paychex bought shares worth \$107.9 million and paid \$606.5 million dividends. These initiatives not only instill investors' confidence but also positively impact earnings per share.

Strength across human resource outsourcing and the PEO industry boosts Paychex.

Reasons To Sell:

▼ The outsourcing industry is labor intensive and heavily dependent on foreign talent. **Rising talent costs due to competition** coupled with Trump's stringent policies on immigration could curb the industry's growth. Paychex, being one of the companies in the industry, is likely to get affected.

Rising expenses and seasonality are headwinds for Paychex.

▼ Paychex is seeing **increase in expenses** as it continues to invest in sales, marketing and product development. PEO insurance costs, which include workers' compensation and minimum premium health insurance benefit plans, also adds to the company's expenses. The company's strategic acquisitions, though help in adding revenues and expanding businesses, is another major contributor. Total expenses of \$2.58 billion increased 7% year over year in fiscal 2020. Previously, the company's total expenses increased 15% year over year in fiscal 2019, 10% in fiscal 2018 and 6% in fiscal 2017. Hence, the company's bottom line is likely to remain under pressure going forward. This may weigh on the company's share price, which has declined 0.9% over the past year.

▼ Paychex's top line growth/businesses are affected by **seasonality**. During third fiscal quarter (which ends in February), the company witnesses increasing number of new payroll clients, new retirement services clients and new Paychex HR Services worksite employees, compared with the remaining part of the fiscal year. This is because many new clients tend to use company's services at the beginning of a calendar year. Additionally, calendar year-end transaction processing and client funds activity are traditionally higher during the third fiscal quarter due to clients paying year-end bonuses and requesting additional year-end services. Seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult.

Last Earnings Report

Paychex Surpasses Q1 Earnings & Revenues Estimates

Paychex reported better-than-expected first-quarter fiscal 2021 results.

Adjusted earnings of 63 cents per share beat the Zacks Consensus Estimate by 12.5% but decreased 11.3% on a year-over-year basis. Total revenues of \$932.2 billion beat the consensus mark by 4.1% but decreased 6% year over year.

Quarterly results were affected as businesses continue to be impacted by the COVID-19 pandemic. However, the company enjoyed solid client retention and increasing sales performance. The company remains focused on investing in its business along with cost-cutting initiatives.

Quarter Ending	08/2020
Report Date	Oct 06, 2020
Sales Surprise	4.11%
EPS Surprise	12.50%
Quarterly EPS	0.63
Annual EPS (TTM)	2.91

Revenues in Detail

Revenues from Management Solutions decreased 5% year over year to \$687.4 million. The downfall was due to a decline in check volumes, partially offset by increased penetration of retirement services. The decrease in check volumes was owing to a reduction in the number of clients processing payrolls and the number of employees paid due to the shutdown.

Professional employer organization ("PEO") and Insurance Solutions revenues were \$229.9 million, down 7% from the year-ago quarter. The downfall was due to a decline in the number of clients' worksite employees. Insurance Solutions revenues were impacted by lower workers' compensation premiums, driven by reduced wages and related premium rates.

Interest on funds held for clients decreased 28% year over year to \$14.9 million on lower average investment balances, average interest rates, and realized gains. Funds held for clients' average investment balances were impacted by lower client fund collections and changes in client base mix, partially offset by wage inflation and timing of collections and remittances.

Operating Performance

Adjusted operating income decreased 10% year over year to \$315.2 million. Adjusted operating margin fell to 33.8% from 35.2% in the year-ago quarter.

Adjusted EBITDA of \$365.3 million decreased 9% year over year.

Balance Sheet & Cash Flow

Paychex exited first-quarter fiscal 2021 with cash and cash equivalents of \$835.7 million compared with \$905.2 million at the end of the prior quarter. Long-term debt was \$796.9 million compared with \$796.8 million in the prior quarter. Cash provided by operating activities was \$215 million in the reported quarter.

During the reported quarter, the company paid out \$223.2 million in dividends and repurchased 0.4 million shares for a total of \$28.8 million.

Fiscal 2021 View

For fiscal 2021, total revenues are expected to decline 2-4% compared with the prior guidance of 2-5%. Adjusted earnings per share are anticipated to fall 6-8% compared with the prior guidance of 6-10%. Adjusted operating margin is expected around 35% compared with the prior-guided range of 34-35%. Adjusted EBITDA margin is expected to be around 40% compared with the prior-guided range of 39-40%.

Paychex expects PEO and insurance services revenues to decline 2-5% compared with the prior guidance of 2-7%. Management solutions revenues are anticipated to decline 1-3% compared with the prior guidance of 1-4%. Interest on funds held for clients is expected to be between \$55 and \$65 million.

Recent News

On **Aug 13, 2020**, Paychex announced that its cloud-based HR technology application, Paychex Flex has been honored with an HR Tech Award for Best Small and Medium Business (SMB)-focused Solution in the Core HR/Workforce category.

On **Jul 10, 2020**, Paychex announced that it has been named to the Selling Power 50 Best Companies to Sell in 2020 list for the eighth consecutive year.

On **Jul 9, 2020**, Paychex's board of directors declared a quarterly cash dividend of 62 cents per share payable on Aug 27, 2020 to shareholders of record as of Aug 3, 2020.

Valuation

Paychex shares are down 0.9% in the year-to-date period and 0.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 8.3% and 9.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 5.6% and 7.5%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 17% in the past year.

The stock is currently trading at 29X forward 12-month price-to-earnings, which compares to 22.56X for the Zacks sub-industry, 27.54X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.43X and as low as 15.73X, with a 5-year median of 25.14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$89.00 price target reflects 30.61X price-to-earnings.

The table below shows summary valuation data for PAYX.

Valuation Multiples - PAYX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	29	22.56	27.54	22.64
	5-Year High	30.43	23.66	30.75	23.47
	5-Year Low	15.73	17.32	18.68	15.27
	5-Year Median	25.14	22.14	21.02	17.68
P/S F 12M	Current	7.53	2.75	4.89	4.17
	5-Year High	8.31	3	4.89	4.31
	5-Year Low	4.21	2.26	3.03	3.18
	5-Year Median	6.66	2.63	3.58	3.67
P/B TTM	Current	10.93	7.45	6.04	6.07
	5-Year High	12.82	9.09	6.71	6.2
	5-Year Low	6.55	5.34	3.27	3.75
	5-Year Median	10.9	7.42	5.36	4.89

As of 10/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 49% (120 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Equifax, Inc. (EFX)	Outperform	2
TransUnion (TRU)	Outperform	2
Alliance Data Systems Corporation (ADS)	Neutral	4
Broadridge Financial Solutions, Inc. (BR)	Neutral	3
FactSet Research Systems Inc. (FDS)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Gartner, Inc. (IT)	Neutral	3

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

Industry Comparison Industry: Outsourcing				Industry Peers		
	PAYX	X Industry	S&P 500	EFX	FIS	FISV
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	F	D	C
Market Cap	30.32 B	1.09 B	23.88 B	19.94 B	89.27 B	68.78 B
# of Analysts	13	2	14	12	15	15
Dividend Yield	2.94%	0.00%	1.61%	0.95%	0.97%	0.00%
Value Score	D	-	-	D	D	C
Cash/Price	0.03	0.18	0.07	0.07	0.01	0.01
EV/EBITDA	16.12	6.16	13.59	1,404.02	31.49	26.82
PEG F1	3.29	2.18	2.87	4.09	1.54	1.43
P/B	10.93	3.51	3.53	7.29	1.81	2.08
P/CF	19.91	9.28	13.42	19.43	17.72	15.34
P/E F1	29.58	22.00	22.16	27.25	26.33	23.32
P/S TTM	7.62	0.77	2.64	5.36	7.32	4.77
Earnings Yield	3.34%	4.12%	4.34%	3.67%	3.80%	4.28%
Debt/Equity	0.29	0.46	0.70	1.42	0.30	0.65
Cash Flow (\$/share)	4.24	3.42	6.93	8.45	8.13	6.70
Growth Score	D	-	-	C	C	B
Historical EPS Growth (3-5 Years)	10.39%	9.94%	10.41%	4.53%	16.96%	17.88%
Projected EPS Growth (F1/F0)	-5.85%	-9.32%	-2.95%	7.21%	-2.45%	10.10%
Current Cash Flow Growth	5.65%	5.65%	5.49%	0.48%	57.47%	147.85%
Historical Cash Flow Growth (3-5 Years)	12.12%	11.78%	8.51%	8.37%	26.53%	29.38%
Current Ratio	1.25	1.33	1.35	1.27	0.71	1.04
Debt/Capital	22.29%	36.76%	42.91%	58.61%	23.27%	39.73%
Net Margin	26.26%	0.55%	10.28%	8.03%	0.25%	5.82%
Return on Equity	38.70%	11.50%	14.80%	28.46%	6.60%	8.34%
Sales/Assets	0.45	0.99	0.51	0.47	0.15	0.19
Projected Sales Growth (F1/F0)	-2.38%	0.00%	-0.53%	11.51%	22.25%	37.81%
Momentum Score	A	-	-	F	F	C
Daily Price Change	1.61%	-0.17%	-0.25%	-0.44%	-1.29%	-1.96%
1-Week Price Change	3.74%	4.27%	4.06%	3.35%	2.67%	3.40%
4-Week Price Change	5.76%	4.36%	1.91%	3.17%	-3.09%	0.44%
12-Week Price Change	14.23%	7.93%	5.03%	-2.29%	-0.48%	0.26%
52-Week Price Change	-0.48%	-9.96%	4.66%	13.08%	9.34%	-3.60%
20-Day Average Volume (Shares)	1,849,859	438,949	2,074,743	560,863	2,641,607	4,869,755
EPS F1 Estimate 1-Week Change	0.47%	0.00%	0.00%	-0.03%	-0.13%	0.00%
EPS F1 Estimate 4-Week Change	2.80%	0.00%	0.00%	-0.03%	-0.33%	0.00%
EPS F1 Estimate 12-Week Change	2.84%	8.02%	3.54%	17.53%	1.78%	-0.32%
EPS Q1 Estimate Monthly Change	4.07%	0.00%	0.00%	-0.31%	-0.91%	-0.06%

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	D
Momentum Score	A
VGM Score	C

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

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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.