

Pacira BioSciences (PCRX)

\$67.75 (As of 01/22/21)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Pacira changed its name to Pacira BioSciences after acquiring MyoScience in 2019 following which, it added the latter's Iovera system to its portfolio. Pacira's top line mainly comprises contribution from its marketed drug Exparel and the label expansion to include administration via nerve block for prolonged regional analgesia is expected to further boost sales. Recently, Exparel was approved in Europe which should drive sales further. Pacira's agreement with Nuance for the development and commercialization of Exparel in China is a tailwind too. However, it remains heavily dependent on Exparel for growth, which is a concern. Thus, any regulatory setback for the drug will severely hurt the stock. Shares of the company have outperformed the industry in the past one year.

Price, Consensus & Surprise

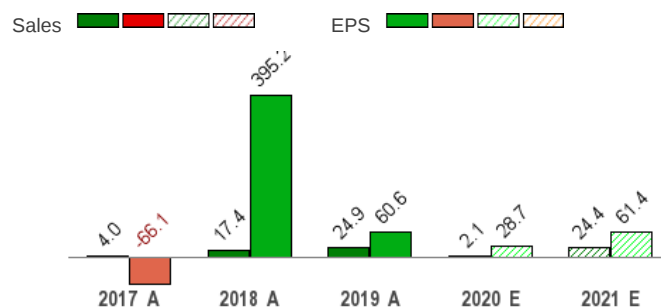


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$77.89 - \$27.46
20-Day Average Volume (Shares)	491,429
Market Cap	\$2.9 B
Year-To-Date Price Change	13.4%
Beta	1.27
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Bottom 22% (198 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.0%
Last Sales Surprise	1.9%
EPS F1 Estimate 4-Week Change	-1.2%
Expected Report Date	02/18/2021
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	113 E	121 E	131 E	142 E	535 E
2020	106 A	76 A	117 A	132 E	430 E
2019	91 A	103 A	105 A	122 A	421 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.73 E	\$0.89 E	\$1.21 E	\$3.47 E
2020	\$0.53 A	\$0.12 A	\$0.68 A	\$0.81 E	\$2.15 E
2019	\$0.22 A	\$0.41 A	\$0.48 A	\$0.56 A	\$1.67 A

*Quarterly figures may not add up to annual.

P/E TTM	35.9
P/E F1	19.5
PEG F1	0.6
P/S TTM	7.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2021. The reports text is as of 01/25/2021.

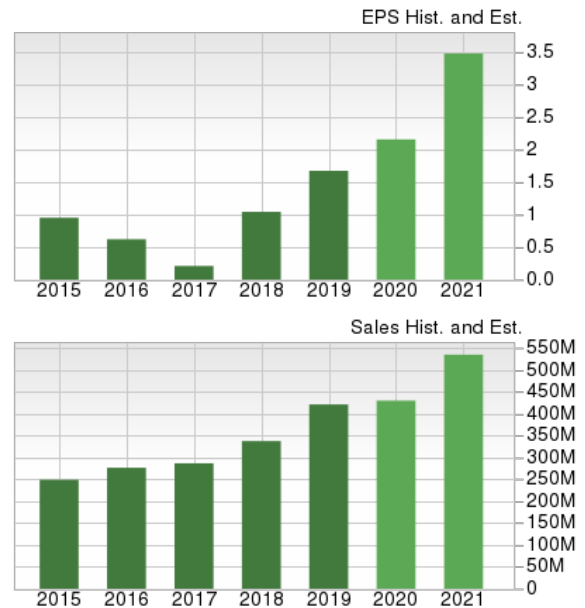
Overview

Parsippany, NJ-based Pacira BioSciences, Inc. is a specialty pharmaceutical company focused on the development, commercialization and manufacture of proprietary pharmaceutical products primarily for use in hospitals and ambulatory surgery centers. These products are developed using the company's proprietary DepoFoam drug delivery technology. Pacira changed its name to Pacira BioSciences following the acquisition of MyoScience in April 2019.

The company's flagship product Exparel was launched in 2012. Exparel is a liposome injection of bupivacaine, which is indicated for single-dose administration into the surgical site to produce postsurgical analgesia. In 2012, the company signed a licensing agreement with Aratana for the development and commercialization of Exparel for animal health indications. In 2017, Pacira signed an agreement with DePuy Synthes Sales Inc. (a subsidiary of J&J) to market and promote the use of Exparel for orthopedic procedures in the United States' market. Notably, in July 2020, Pacira concluded its partnership agreement with DePuy Synthes Sales. Exparel generated sales worth \$407.9 million in 2019.

In June 2017, the company's board of directors approved a decision to discontinue all future production of DepoCyt(e) indicated for intrathecal treatment of lymphomatous meningitis. The company made the decision due to persistent technical issues specific to the DepoCyt(e) manufacturing process.

In 2019, Pacira generated total revenues of \$421 million, up 25% year over year.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Share Price Outperformance:** Shares of Pacira have outperformed the industry in the past one year.

▲ **Exparel, the Growth Driver:** Demand for Exparel has been strong since its launch in April 2012, driven by growth within existing accounts along with increasing acceptance by major hospitals and orthopedic centers as it continues to be used in orthopedic procedures. Exparel revenues grew 23.2% year-over-year in 2019. Continued adoption of Exparel for transversus abdominis plane (TAP), infiltration procedures for abdominal and genitourinary surgeries should boost sales. In November 2020, the European Commission (EC) granted marketing authorization to Exparel as a brachial plexus block or femoral nerve block for the treatment of post-operative pain in adults and as a field block for the treatment of somatic post-operative pain from small- to medium-sized surgical wounds in adults. The nod in Europe should drive Exparel sales further.

Exparel has been performing well since its launch in 2012.

Pacira is looking to expand Exparel's label in the animal health market as well.

▲ **Label Expansion of Exparel:** In August 2020, the Food and Drug Administration (FDA) accepted Pacira's supplemental new drug application (sNDA) seeking an expansion of the Exparel's label to include single-dose infiltration for providing postsurgical analgesia in children aged six years and above. The sNDA filing was based on positive data from the PLAY study. The regulatory body set an action date of Mar 22, 2021. There are currently no approved alternatives to opioids for managing severe post-surgical pain in pediatric patients.

Notably, Pacira is advancing Exparel in phase IV studies to expand its utilization in areas like cesarean section, spine and hip fracture.

In January 2020, Pacira announced that its phase IV study on Exparel, which evaluated patients undergoing Cesarean section (C-section), met the primary endpoint with a statistically significant decrease in total postsurgical opioid consumption all through 72 hours. Patient recruitment is also underway in a second C-section study (known as CHOICE). The study is designed to evaluate a completely opioid-free arm with Exparel including opioid-free spinal anesthesia.

▲ **Strategic Collaborations and Educational initiatives:** Pacira have a collaboration with the Cancer Treatment Centers of America, the Illinois Surgical Quality Improvement Collaborative and the WellStar Health Systems are raising awareness around opioid alternatives and minimizing opioid use through a variety of joint initiatives. Meanwhile, in 2018, Pacira inked a deal with China-based Nuance for the development and commercialization of Exparel in China.

In April 2019, Pacira acquired the privately held MyoScience, Inc. following which, it added the latter's iovera system to its portfolio, which is highly complementary to Exparel as a non-opioid therapy.

▲ **Expansion Into Animal Health Market:** Pacira is looking to expand Exparel's label in the animal health market as well. In 2012, the company signed a licensing agreement with Aratana for the development and commercialization of Exparel for animal health indications. Expansion into the animal health market will diversify Exparel's franchise and boost its commercial potential. There has been a steady rise in sales year over year from the bupivacaine liposome injectable suspension to Aratana for use in animals. This paves the way for royalty revenues, which are the royalties earned on Exparel sales to Aratana. Notably, royalty revenues increased 78% year over year in the three months ended Sep 30, 2020 as a result of the timing of orders placed by Aratana.

▲ **Favorable Debt Profile:** Pacira has a favorable debt profile. As of Sep 30, 2020, the company's total debt (current and long-term debt) was approximately \$456 million. The company's cash, cash equivalents and marketable securities worth approximately \$532 million at September-end should be sufficient to meet its debt obligations in case of insolvency. However, the company's total debt to total capital ratio of 46.1 as of September-end demonstrates an increase from 44.7 at June end.

Reasons To Sell:

▼ **Heavily Dependent on Exparel:** Pacira's top line mainly comprises contribution from its marketed product. The company is heavily dependent on Exparel for growth, which accounts for a significant chunk of its revenues. Exparel contributed 96.8% to total revenues in 2019. Hence, a decline in Exparel sales will adversely impact the company's top line. Meanwhile, in the second quarter of 2020, Exparel sales were \$73 million, down 26% from \$98.9 million in the year-ago quarter. This is a worry for the company.

▼ **Pipeline Setbacks:** Pacira is not new to pipeline setbacks. The company suffered a major blow in 2015 when it received a Complete Response Letter (CRL) from the FDA for its supplemental New Drug Application (sNDA) for Exparel. Pacira was seeking to expand the use of Exparel in nerve block to provide postsurgical analgesia. However, following a meeting with the FDA, the company initiated additional phase III studies and resubmitted a sNDA in October 2017. In February 2018, the FDA's Anesthetic and Analgesic Drug Products Advisory Committee's (AADPAC) reviewed the company's sNDA, and voted six to four against approval of the expanded indication. Any similar setbacks will adversely impact the company's shares. We are also concerned about the lack of other candidates in the company's pipeline.

Recently, the company decided to discontinue the phase IV FUSION study on Exparel for spine surgeries due to protocol feasibility, given the rapid evolution of medical practice for spinal procedures. Such setbacks do not bode well for the company.

Dependence on Exparel for growth remains a concern for Pacira. Any setback back for the drug will weigh heavily on the stock.

Last Earnings Report

Pacira's Q3 Earnings Top Estimates, Revenues Rise Y/Y

Pacira reported third-quarter 2020 earnings of 68 cents per share, beating the Zacks Consensus Estimate of 66 cents and also increasing from the year-ago bottom line of 48 cents.

Total revenues increased 12% to \$117.5 million from the year-earlier figure of \$104.7 million in the third quarter of 2020. The top line also beat the Zacks Consensus Estimate of \$115 million.

Quarter in Detail

Pacira's top line mainly comprises product revenues, other product sales and royalty revenues.

Exparel net product sales were \$113.7 million, up 12% from \$101.5 million in the year-ago quarter.

Exparel/bupivacaine liposome injectable suspension sales came in at \$0.4 million compared with \$0.3 million in the year-ago quarter.

The newly-added product iovera system generated sales worth \$2.7 million in the third quarter of 2020, reflecting a sequential increase of 92.8%.

Royalty revenues came in at \$0.6 million in the reported quarter, up 100% year over year.

Research and development (R&D) expenses (excluding stock-based compensation) fell approximately 30% to \$13.3 million.

Selling, general and administrative (SG&A) expenses (excluding stock-based compensation) increased around 2.6% year over year to \$44.6 million in the reported quarter.

2020 Outlook

On the third-quarter conference call, management confirmed that due to the prevalent COVID-19 pandemic and the continued uncertainties related to it, the company is not providing guidance for 2020.

Quarter Ending 09/2020

Report Date	Oct 29, 2020
Sales Surprise	1.90%
EPS Surprise	3.03%
Quarterly EPS	0.68
Annual EPS (TTM)	1.89

Recent News

Posts Preliminary Net Revenues – Jan 7

Pacira announced preliminary net revenue of \$429.6 million for 2020, reflecting an increase of 2% year-over-year. Net product sales of Exparel and Iovera were \$125.3 million and \$2.4 million, respectively for fourth quarter 2020.

Posts Preliminary Net Product Sales – Dec 9

Pacira announced preliminary net product sales of Exparel and Iovera of \$38.1 million and \$0.8 million, respectively for the month of November 2020.

Exparel Gets Nod in Europe – Nov 18

Pacira announced that the European Commission has granted marketing authorization to Exparel as a brachial plexus block or femoral nerve block for the treatment of post-operative pain in adults and as a field block for the treatment of somatic post-operative pain from small- to medium-sized surgical wounds in adults. The company expects to launch Exparel in the second half of 2021.

Gains Positive CHMP Opinion for Exparel in EU – Sep 18

Pacira announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has rendered a positive opinion, recommending the approval for Exparel as a medicine for postsurgical analgesia. This opinion will now be reviewed by the European Commission with a final decision expected in November 2020.

FDA Accepts sNDA for Exparel in Pediatric Patients — Aug 4

Pacira announced that the FDA has accepted its supplemental new drug application (sNDA) seeking an expansion of the Exparel's label to include single-dose infiltration for providing postsurgical analgesia in children aged six years and above. The regulatory body set a target action date of Mar 22, 2021.

Valuation

Pacira's shares are up 27.2% in the past six months and 54.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 5.9% and up 7.3% respectively, in the past six months period. Over the past year, the Zacks sub-industry is up 0.6% and the sector is up 8.7%.

The S&P 500 index is up 19.7% in the past six months and up 20.6% in the past year.

The stock is currently trading at 7.14X trailing 12-month sales per share, which compares to 2.32X for the Zacks sub-industry, 3.39X for the Zacks sector and 4.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 9.60X and as low as 2.82X, with a 5-year median of 5.30X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72.00 price target reflects 7.57X trailing 12-month sales per share.

The table below shows summary valuation data for PCRX

Valuation Multiples - PCRX					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	7.14	2.32	3.39	4.94
	5-Year High	9.6	4.33	3.68	4.95
	5-Year Low	2.82	1.72	2.35	2.81
	5-Year Median	5.3	2.51	3.21	3.87
P/B TTM	Current	5.04	1.72	4.56	6.62
	5-Year High	10.99	13.46	5.11	6.64
	5-Year Low	3.34	1.03	3.02	3.73
	5-Year Median	5.64	2.36	4.36	4.94
As of 01/22/2021		Source: Zacks Investment Research			

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alkermes plc (ALKS)	Outperform	2
Bristol Myers Squibb Company (BMY)	Neutral	3
Heron Therapeutics, Inc. (HRTX)	Neutral	4
Eli Lilly and Company (LLY)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	2
Novartis AG (NVS)	Neutral	3
Pfizer Inc. (PFE)	Neutral	3
Teva Pharmaceutical Industries Ltd. (TEVA)	Underperform	4

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

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	PCRX	X Industry	S&P 500	ALKS	HRTX	LLY
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	2	4	3
VGM Score	B	-	-	B	D	C
Market Cap	2.95 B	214.31 M	27.01 B	3.53 B	1.61 B	197.19 B
# of Analysts	7	3	13	8	6	5
Dividend Yield	0.00%	0.00%	1.42%	0.00%	0.00%	1.44%
Value Score	B	-	-	D	F	C
Cash/Price	0.17	0.21	0.06	0.16	0.16	0.02
EV/EBITDA	59.96	-3.88	14.84	-31.39	-6.62	32.30
PEG F1	0.63	1.17	2.54	1.74	NA	1.72
P/B	5.04	4.54	3.82	3.26	5.81	39.47
P/CF	39.30	11.53	14.53	38.16	NA	29.10
P/E F1	19.52	14.75	20.41	42.57	NA	25.50
P/S TTM	7.00	10.65	2.96	3.01	15.60	8.49
Earnings Yield	5.11%	-9.63%	4.70%	2.34%	-10.90%	3.92%
Debt/Equity	0.78	0.00	0.70	0.25	0.00	3.27
Cash Flow (\$/share)	1.73	-0.62	6.93	0.58	-2.28	7.08
Growth Score	B	-	-	A	C	C
Historical EPS Growth (3-5 Years)	115.55%	9.37%	9.72%	NA	NA	18.44%
Projected EPS Growth (F1/F0)	61.24%	17.93%	12.61%	34.08%	22.46%	7.48%
Current Cash Flow Growth	83.37%	4.23%	5.05%	-4.72%	14.20%	-7.51%
Historical Cash Flow Growth (3-5 Years)	69.95%	5.64%	8.36%	-0.32%	NA	9.27%
Current Ratio	7.63	3.78	1.38	2.71	3.60	1.36
Debt/Capital	43.84%	0.36%	41.88%	20.09%	0.00%	76.58%
Net Margin	29.95%	-142.81%	10.40%	-6.28%	-216.18%	24.01%
Return on Equity	10.71%	-54.64%	15.37%	9.35%	-65.06%	166.45%
Sales/Assets	0.45	0.26	0.50	0.64	0.23	0.56
Projected Sales Growth (F1/F0)	24.05%	8.55%	6.15%	9.91%	110.77%	12.71%
Momentum Score	C	-	-	B	C	A
Daily Price Change	-2.43%	0.45%	-0.37%	3.35%	0.57%	1.87%
1-Week Price Change	5.05%	0.99%	-0.33%	9.76%	-10.09%	14.64%
4-Week Price Change	14.59%	6.40%	3.16%	3.40%	-14.53%	23.69%
12-Week Price Change	27.75%	25.95%	18.15%	36.30%	10.41%	55.52%
52-Week Price Change	54.44%	5.08%	6.10%	21.92%	-24.32%	45.98%
20-Day Average Volume (Shares)	491,429	275,590	1,623,841	1,207,965	933,161	4,025,669
EPS F1 Estimate 1-Week Change	-1.22%	0.00%	0.00%	0.00%	0.00%	0.89%
EPS F1 Estimate 4-Week Change	-1.22%	0.00%	0.13%	0.00%	-5.89%	0.89%
EPS F1 Estimate 12-Week Change	-11.11%	0.00%	2.09%	142.42%	-13.56%	0.89%
EPS Q1 Estimate Monthly Change	NA%	0.00%	0.00%	0.00%	NA	NA

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	B
Growth Score	B
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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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.