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Nov 12, 2020

Palomar Holdings Inc. (PLMR)

$86.92 (As of 11/11/20)

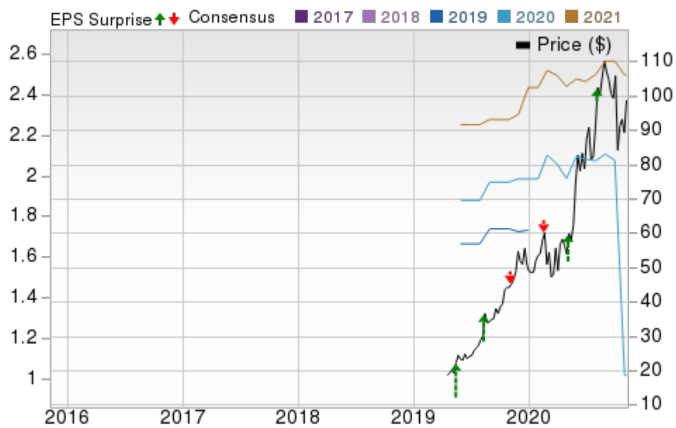
Price Target (6-12 Months): **$84.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/06/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: D	Momentum: D

Summary

Palomar's third-quarter earnings missed estimates. Its exposure to catastrophe loss induces underwriting volatility. Also, high costs can strain margin expansion. Nonetheless, it is well-poised on solid revenue growth and balance sheet. Focus on new business, strong premium retention rates for existing business, renewals of existing policies bode well. Premiums should benefit from its solid product portfolio as well as geographic expansion and rate increases. Net investment income is expected to grow on the back of higher average balance of investments. High return on equity indicates efficient utilization of shareholders' value. Based on operational excellence, it has affirmed adjusted net income between $50.5 million and $53 million, indicating year-over-year growth of 33% to 40%. Shares have outperformed the industry in the past year.

Price, Consensus & Surprise

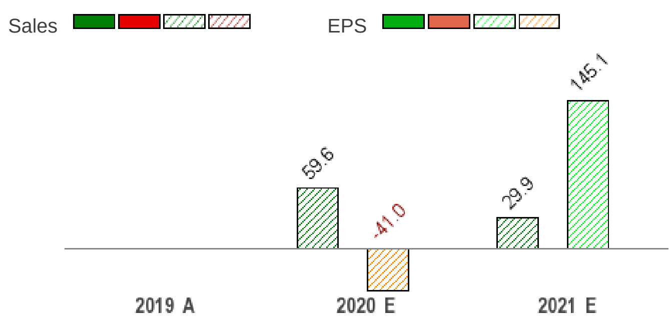


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$121.87 - $39.21**
20-Day Average Volume (Shares)	**200,277**
Market Cap	**$2.5 B**
Year-To-Date Price Change	**95.1%**
Beta	**0.28**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Insurance - Property and Casualty**
Zacks Industry Rank	**Bottom 10% (225 out of 249)**
Last EPS Surprise	**-12.7%**
Last Sales Surprise	**-5.9%**
EPS F1 Estimate 4-Week Change	**-0.5%**
Expected Report Date	**02/16/2021**
Earnings ESP	**0.0%**
P/E TTM	**111.9**
P/E F1	**86.1**
PEG F1	**NA**
P/S TTM	**15.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	52 E	55 E	58 E	61 E	226 E
2020	38 A	42 A	43 A	49 E	174 E
2019	22 A	25 A	30 A	33 A	109 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.57 E	$0.58 E	$0.58 E	$0.73 E	$2.50 E
2020	$0.50 A	$0.52 A	-$0.62 A	$0.57 E	$1.02 E
2019	$0.52 A	$0.36 A	$0.40 A	$0.48 A	$1.73 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 11/11/2020. The reports text is as of 11/11/2020.

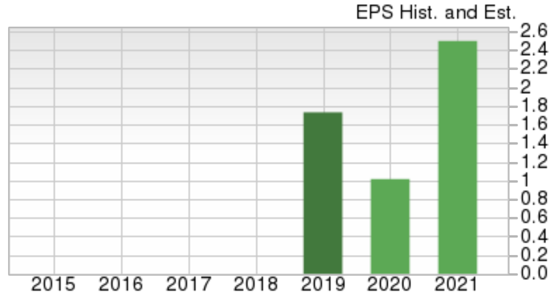
Overview

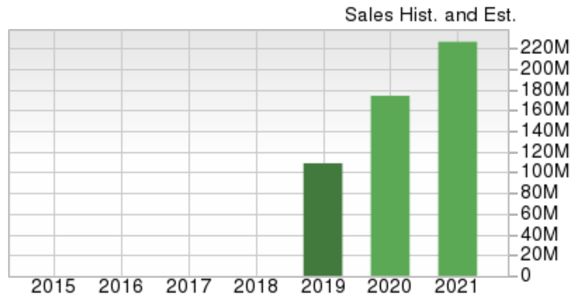
Headquartered in La Jolla, CA, Palomar Holdings, Inc. formerly known as GC Palomar Holdings (GCPH), was officially founded in 2014 by acquiring Palomar Specialty Insurance Company (PSIC) from Pacific Indemnity Company in a stock purchase transaction. Palomar Holdings is an insurance holding company that was incorporated in Delaware in March 2019.

Palomar Holdings is a rapidly growing and profitable company focused on the provision of catastrophe insurance for personal and commercial property. It provides specialty property insurance products in their target markets to both individuals and businesses. Its products are distributed through multiple channels, including retail agents, program administrators, wholesale brokers and in partnership with other insurance companies. The market opportunity, its distinctive products and differentiated business model will enable the company to grow its business profitably.

Palomar is uniquely positioned to address over $30 billion of the $600 billion U.S. property and casualty insurance market. It has grown into the fifth largest writer of earthquake insurance in California.

The company's wholly owned operating subsidiaries are Palomar Insurance Holdings, Inc. (PIH), which wholly owns Palomar Specialty Insurance Company (PSIC), Prospect General Insurance Agency, Inc. (PGIA) and Palomar Specialty Reinsurance Company Bermuda Ltd. (PSRE).





Its primary lines of business include Residential Earthquake, Commercial Earthquake, Specialty Homeowners, Commercial All Risk, Hawaii Hurricane and Residential Flood.

Residential and Commercial Earthquake products are priced at a granular level and offer flexible product features. Residential Earthquake products seek to expand the residential earthquake insurance market by attracting buyers who may not otherwise acquire protection.

For Commercial All Risk products, the company uses detailed technical analysis to identify a subset of target occupancies and developed a proprietary risk pricing methodology that will enable it to select and price risk appropriately.

Palomar has a single operating segment, the property and casualty insurance business. It offers primarily earthquake, wind, and flood insurance products.

Source: Zacks Investment Research

Reasons To Sell:

- **Escalating Expenses:** Palomar Holdings has been experiencing an increase in expenses due to higher incurred losses and loss adjustment expenses, interest expense and acquisition expenses and other underwriting expenses. In the first nine months of 2020, total expenses increased 56.7% to $117.5 million, mainly due to higher losses and loss adjustment expenses and acquisition expenses. The company should strive to generate higher revenue growth rate compared with the rise in expenses, else margin will be dented going forward.

Exposure to cat loss that induces underwriting volatility and rising expenses due to higher losses and loss adjustment expenses, interest expense and acquisition expenses are concerns.

- **Catastrophe Loss:** Palomar being a property and casualty insurer remains exposed to catastrophe loss, stemming from earthquakes, hurricanes, windstorms, floods and other severe events. The occurrence of such catastrophes could affect the financial condition and results of operations.
  Additionally, increased severity of such weather events, including hurricanes, could adversely impact the company's ability to predict, quantify, reinsure and manage catastrophe risk and may materially increase the losses resulting from such catastrophe events.

- **Stretched Valuation:** Valuation of the company remains stretched and expensive at current level. Looking at its price-to-book (P/B) ratio, the best multiple for valuing insurers, investors might not want to pay any further premium. Palomar Holdings currently has a trailing 12-month P/B ratio of 6.69, higher than the industry average of 1.27.

Risks

- **Share Performance:** Shares of Palomar Holdings have gained 120.8%, against the industry's decrease of 2.8% in a year's time. The company's operational efficiencies and solid capital position will continue to drive shares.

- **Strong Premium Growth:** Palomar has been displaying a good track record of net written premiums. Consistent premium growth has been boosting results, enabling the company to maintain sustained revenue growth over the past few years. Net written premiums increased at a two-year CAGR (2017-2019) of 40%. Premium growth was primarily due to an increased volume of policies written across the lines of business, driven by new business generated with existing partners, strong premium retention rates for existing business, expansion of their products' geographic and distribution footprint, and new partnerships. Net written premiums improved 57.3% year over year to $157 million in the first nine months of 2020, primarily due to an increase in gross written premiums in residential earthquake, commercial earthquake, specialty homeowners commercial all risk, inland marine, Hawaii hurricane, and residential flood lines. Premiums should continue to benefit from its solid product portfolio (short tail in nature) as well as geographic expansion, appointment of new producers, strategic partnerships with other insurance carriers and rate increases.

- **Investment Income:** Despite low interest rate environment, investment income increased at a two-year CAGR (2017-2019) of 67.7% owing to higher average balance of investments. The momentum continued through the first nine months of 2020, with the metric increasing 50.7% year over year to $6.3 million. The increase was the result of a higher average balance of investments held during the three months ended Sep 30, 2020, attributable primarily to cash generated from operations as well as proceeds from the company's January and June 2020 stock offerings. High-quality fixed income securities and increase in fixed-income yields should continue to drive the momentum going forward.

- **Revenue Growth:** Revenues have been increasing over the last several years on the back of higher premiums, net investment income and commission and other income. The momentum continued in the first nine months of 2020 as well, with the metric rising 66.5% year over year to $118.6 million. High premium retention and strong renewal rates should continue to retain the momentum going forward.

- **Combined Ratio:** Palomar has been witnessing substantial improvement in the combined ratio of its P&C business over the past few years due to lower catastrophe events and improved loss ratio. A company's combined ratio reflects its underwriting profitability. However, the adjusted combined ratio deteriorated 3230 basis points (bps) year over year to 96.8% in the first nine months of 2020. Palomar has been able to maintain combined ratio below 95% for three years.

  The company strives to protect earnings and balance sheet with reinsurance program that mitigates the impact of major events on overall profitability. The company completed the reinsurance programs in May 2020, in which it obtained $200 million of incremental limit for California earthquakes, approximately $300 million of incremental limit for all earthquake zones and approximately $80 million of incremental windstorm limit. Effective June 2020, reinsurance coverage exhausts at $1.4 billion for earthquake events and $600 million for hurricane events. This reinsurance program will provide adequate support to the company's growth initiatives and appropriate levels of protection in the event of a major catastrophe.

- **Solid Balance Sheet:** Backed by a sustained operational performance, the company has maintained a solid capital position. Its balance sheet remains solid given $90.2 million capital infusion from public offering. The company also boasts a debt-free balance sheet with no exposure to the equity markets. Its cash and cash equivalents increased at a two-year CAGR (2017-2019) of 75.3%. This suggests that the company has sufficient cash reserves to ensure financial stability. However, as of Sep 30, 2020, it decreased 57.6% from 2019-end figure.

- **Profitability:** Return on equity a measure of profitability reflecting how efficiently the company is utilizing its shareholders' value. Return on equity is 7.4%, which compares favorably with the industry average of 6.2%.

Last Earnings Report

Palomar's Q3 Earnings and Revenues Miss Estimates

Quarter Ending	09/2020
Report Date	**Nov 10, 2020**
Sales Surprise	**-5.89%**
EPS Surprise	**-12.73%**
Quarterly EPS	**-0.62**
Annual EPS (TTM)	**0.88**

Palomar Holdings, Inc.'s reported third-quarter 2020 operating loss of 62 cents per share, wider than the Zacks Consensus Estimate of operating loss of 55 cents. In the year-ago quarter, it had reported operating income of 40 cents.

Palomar witnessed escalating expenses and underwriting loss in the reported quarter, offset by improved premiums.

Behind the Q3 Headlines

Total revenues improved 43.3% year over year to $43 million, mainly attributable to higher premiums, net investment income and commission and other income. However, the top line missed the Zacks Consensus Estimate by 6.5%.

Gross written premiums increased 55.4% year over year to $102.9 million. Net written premiums grew 60.8% year over year to $61.4 million owing to an increase in gross written premiums.

Net investment income increased 23.7% year over year to $2.1 million. The increase was the result of a higher average balance of investments held during the three months ended Sep 30, 2020 attributable primarily to cash generated from operations as well as proceeds from the company's January and June 2020 stock offerings.

Palomar witnessed underwriting loss of $24 million versus underwriting income of $7.4 million in the year-earlier period.

Total expenses increased 218% to $66.8 million, mainly due to higher losses and loss adjustment expenses and acquisition expenses.

Adjusted combined ratio deteriorated 9220 basis points (bps) year over year to 155.8%.

Financial Update

As of Sep 30, 2020, Palomar Holdings had assets worth $699.7 million, up 76.9% from the level at 2019 end.

Cash and cash equivalents decreased 57.6% from 2019-end level to about $14 million.

Shareholder equity at the end of the reported quarter increased 65.6% from 2019-end to $361.9 million.

Annualized adjusted return on equity was negative 17% in the third quarter of 2020, compared to 14.6% in the year-ago quarter.

2020 Outlook

Palomar Holdings updated its prior guidance of adjusted net income of $51.0 to $52.0 million excluding catastrophe losses, equating to a growth rate of 35% to 37% from 2019.

Recent News

Palomar Estimates Q3 Catastrophe Loss of $34M to $38M - Oct 5, 2020

Palomar Holdings estimates third-quarter 2020 pretax catastrophe loss of about $34 million to $38 million, net of reinsurance. The loss can be attributed to hurricane Hanna, Isaias, Laura and Sally.

Valuation

Palomar's shares are up 95.1% in the year-to-date period and 120.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 4.7% and 9.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.8% and 6%, respectively.

The S&P 500 index is up 10.4% in the year-to-date period and 15.2% in the past year.

The stock is currently trading at 6.69x trailing 12-month book value, which compares to 1.31x for the Zacks sub-industry, 2.72x for the Zacks sector and 6.26x for the S&P 500 index.

Over the past five years, the stock has traded as high as 7.84x and as low as 2.8x, with a 5-year median of 5.48x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $84 price target reflects 5.7x book value.

The table below shows summary valuation data for PLMR

Valuation Multiples - PLMR

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	6.69	1.31	2.72	6.26
	5-Year High	7.84	1.67	2.90	6.28
	5-Year Low	2.8	0.93	1.72	3.74
	5-Year Median	5.48	1.45	2.54	4.9
P/S F12M	Current	11.45	1.69	6.06	4.15
	5-Year High	14.49	11.3	6.66	4.3
	5-Year Low	4.11	1.40	4.96	3.17
	5-Year Median	7.86	1.81	6.05	3.67
P/E F12M	Current	42.97	25.57	17.19	22.35
	5-Year High	49.43	31.56	17.19	23.47
	5-Year Low	13.05	21.02	11.59	15.27
	5-Year Median	25.76	25.72	14.45	17.72

As of 11/10/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 10% (225 out of 249)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American International Group, Inc. **(AIG)**	Neutral	3
Axis Capital Holdings Limited **(AXS)**	Neutral	4
Chubb Limited **(CB)**	Neutral	3
Conifer Holdings, Inc. **(CNFR)**	Neutral	4
First American Financial Corporation **(FAF)**	Neutral	2
W.R. Berkley Corporation **(WRB)**	Neutral	3
Everest Re Group, Ltd. **(RE)**	Underperform	3
Selective Insurance Group, Inc. **(SIGI)**	Underperform	3

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

Industry Comparison Industry: Insurance - Property And Casualty

	PLMR	X Industry	S&P 500	AIG	CB	SIGI
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	F	-	-	B	C	B
Market Cap	2.51 B	1.45 B	24.97 B	32.94 B	68.38 B	3.67 B
# of Analysts	4	2	14	6	7	2
Dividend Yield	0.00%	1.03%	1.53%	3.35%	2.06%	1.50%
Value Score	F	-	-	B	B	B
Cash/Price	0.04	0.28	0.07	1.06	0.11	0.12
EV/EBITDA	115.81	5.74	14.44	3.54	11.80	8.98
PEG F1	NA	2.17	2.72	1.55	2.17	NA
P/B	6.37	1.06	3.57	0.51	1.21	1.53
P/CF	60.47	11.10	13.50	3.66	12.85	11.39
P/E F1	86.06	15.58	21.72	15.53	21.66	17.76
P/S TTM	15.81	0.86	2.81	0.72	1.87	1.28
Earnings Yield	1.03%	5.63%	4.45%	6.43%	4.62%	5.63%
Debt/Equity	0.00	0.23	0.70	0.60	0.26	0.23
Cash Flow ($/share)	1.63	3.12	6.92	10.45	11.78	5.38
Growth Score	D	-	-	B	B	B
Historical EPS Growth (3-5 Years)	NA%	5.87%	9.77%	7.42%	-3.46%	10.22%
Projected EPS Growth (F1/F0)	-41.33%	-13.42%	0.37%	-46.37%	-30.80%	-21.59%
Current Cash Flow Growth	103.81%	3.81%	5.34%	41.46%	0.06%	21.30%
Historical Cash Flow Growth (3-5 Years)	NA%	4.75%	8.33%	-3.88%	8.77%	13.47%
Current Ratio	0.93	0.45	1.38	0.33	0.32	0.31
Debt/Capital	0.00%	19.17%	42.01%	37.18%	21.16%	18.70%
Net Margin	11.97%	4.62%	10.44%	-10.82%	6.24%	7.05%
Return on Equity	7.42%	5.29%	15.07%	3.62%	5.33%	9.84%
Sales/Assets	0.33	0.32	0.50	0.08	0.20	0.31
Projected Sales Growth (F1/F0)	56.50%	0.00%	0.17%	-8.90%	-0.78%	2.32%
Momentum Score	D	-	-	D	F	F
Daily Price Change	-0.89%	2.50%	1.02%	1.89%	3.08%	4.88%
1-Week Price Change	10.63%	3.26%	5.72%	5.30%	5.99%	6.17%
4-Week Price Change	11.97%	6.13%	5.06%	28.20%	27.77%	16.02%
12-Week Price Change	-4.96%	5.73%	8.35%	29.24%	21.12%	8.16%
52-Week Price Change	120.80%	-10.74%	6.36%	-31.01%	0.07%	-10.19%
20-Day Average Volume (Shares)	200,277	110,958	2,145,320	7,084,832	2,386,207	294,723
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	5.05%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.49%	0.00%	1.97%	-2.06%	-1.43%	-1.00%
EPS F1 Estimate 12-Week Change	-51.78%	0.09%	4.17%	-5.32%	-2.80%	-2.17%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.81%	1.73%	2.90%	4.55%

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	F
Growth Score	D
Momentum Score	D
VGM Score	F

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.