

Synchrony Financial(SYF)

\$31.11 (As of 11/16/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

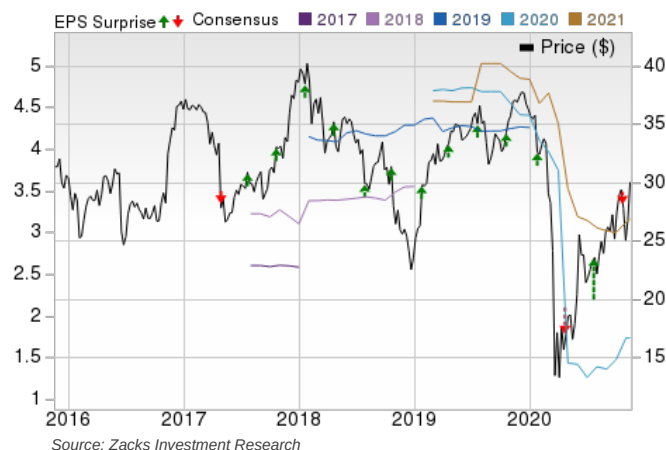
Growth: F

Momentum: D

Summary

Synchrony Financial has been witnessing revenue growth for the past many years on rising interest income and inorganic growth strategies. Its Retail Card and CareCredit platforms impress. Its continuous efforts in forging alliances and making acquisitions are likely to boost business growth, enhance digital capabilities and diversify its business. It took restructuring measures to reduce expenses. Its shares have underperformed its industry in a year. Nevertheless, we remain positive about its steady capital position. However, its high allowance for loan loss bothers the company. Lower purchase volume due to government restrictions on travel, entertainment, events, and closure of non-essential retail stores remain a concern. Also, the company's third-quarter earnings missed estimates and plunged 41% year over year due to muted revenues.

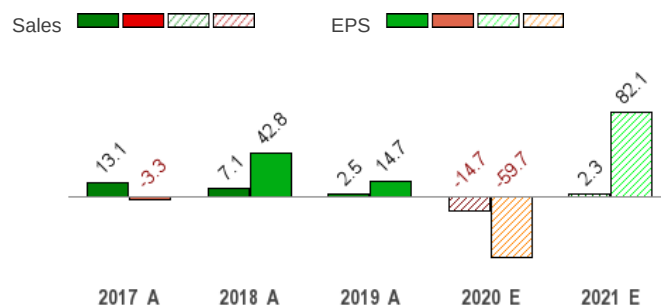
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$38.18 - \$12.15
20-Day Average Volume (Shares)	5,656,032
Market Cap	\$18.2 B
Year-To-Date Price Change	-13.6%
Beta	1.73
Dividend / Dividend Yield	\$0.88 / 2.8%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 23% (196 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-13.3%
Last Sales Surprise	1.2%
EPS F1 Estimate 4-Week Change	-7.3%
Expected Report Date	01/22/2021
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	18.0
PEG F1	2.3
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,584 E	3,627 E	3,694 E	3,758 E	14,662 E
2020	3,890 A	3,491 A	3,457 A	3,586 E	14,329 E
2019	4,226 A	4,155 A	4,389 A	4,029 A	16,799 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.76 E	\$0.73 E	\$0.71 E	\$0.82 E	\$3.15 E
2020	\$0.58 A	\$0.06 A	\$0.72 A	\$0.67 E	\$1.73 E
2019	\$1.00 A	\$0.97 A	\$1.22 A	\$1.10 A	\$4.29 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 11/16/2020. The reports text is as of 11/17/2020.

Overview

Synchrony Financial, one of the nation's premier consumer financial services companies, offers a wide range of credit products through a diverse group of national and regional retailers, local merchants, manufacturers, buying groups, industry associations and health and wellness providers. Given that the company is the largest provider of private label credit cards in the United States, it provides innovative analytics, payments, loyalty and financing solutions. Synchrony Financial focuses on generating financial flexibility for its customers by offering private label credit cards, Dual Card, and general purpose co-branded credit cards, promotional financing and installment lending, and loyalty programs.

The company used to operate as a subsidiary of GE Capital since 1932. However, in 2013, it separated itself from the parent company through an initial public offering and was listed on New York Stock Exchange under the ticker "SYF".

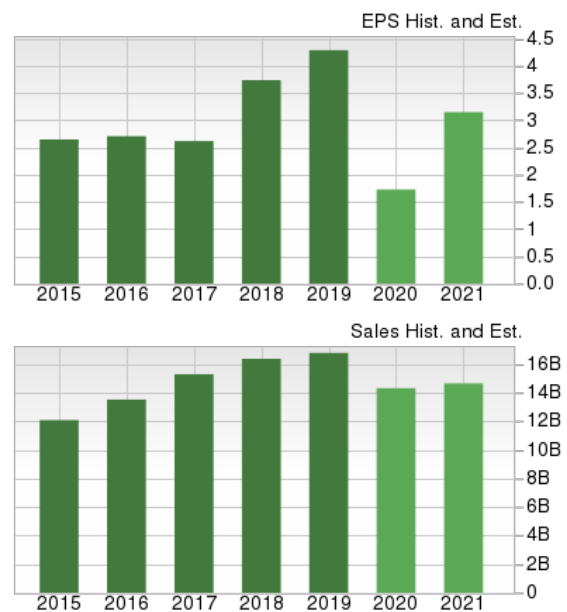
Although the company operates as a single business segment, it offers its credit products through three sales platforms – Retail Card, Payment Solutions and CareCredit. These platforms are organized by the types of products and the partners the company works with.

Retail Card (accounted for 73% the company's total interest and fees on loans for 2019): This platform is a leading provider of private label credit cards and Dual Cards, general purpose co-branded credit cards and small- and medium-sized business credit products.

Payment Solutions (15%): This platform provides promotional financing for major consumer purchases, offering primarily private label credit cards and installment loans.

CareCredit (12%): This offers promotional financing to consumers for health and personal care procedures, products or services.

The performance of the segments is measured on interest and fees on loans, loan receivables, new accounts and other sales metrics.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. However, its solid fundamentals will likely help the stock bounce back going forward.
- ▲ **Growing Interest Income:** Synchrony Financial has been witnessing strong revenue growth since its inception in 2013 on the back of rising interest income. In fact, the company's total interest income witnessed a five-year (2014-2019) CAGR of 9.3%. However, this growth momentum suffered in the first three quarters of 2020 with the metric dropping 16.8% year over year due to lower interest and fees on loans as well as weak interest on cash and debt securities. Nevertheless, investments in CareCredit network expansion, strategic initiatives and boosting of digital capabilities might help it going forward. A steady rise in revenues resulted primarily from the company's rapidly-growing interest income and inorganic growth strategies are likely to pave the way for long-term growth.
- ▲ **Strategic Initiatives:** The company has been making concerted efforts in effecting strategic buyouts to boost its business growth. Its series of acquisitions and renewal of alliances have helped it enhance its digital capabilities and diversify its business. Synchrony Financial has been successful in revising several collaborations over the last few quarters as well. The company added around 4000 merchants in the third quarter and expanded its several relationships. It tied up with several payment solutions partners and will continue doing so in 2021. Synchrony Financial partnered with several biggies, such as PayPal and Venmo, which in turn, continues to transform the payment experience for customers.
All these integrations aim at bringing diversification to the company's business lines that in turn, drive its competitive edge.
- ▲ **Strong Retail Card Platform:** Retail Card is a leading provider of private label credit cards and Dual Cards, general purpose co-branded credit cards and small and medium-sized business credit products. Retail Card interest and fees on loans has been rising over the past many years on the back of purchase volume growth and period-end loan receivables increase. Although the same slid 1% in the first nine months of 2020, we expect the segment to perform well going forward. Digital sales penetration in the third quarter was 47% while digital applications were 60% of the total application. The segment benefited from spending on essential items like grocery, supplies, etc.
- ▲ **Solid CareCredit Platform:** The company's CareCredit platform also holds ample growth potential. The segment accounted for 12% of its total interest and fees on loans for 2019. In the first nine months of 2020, its interest and fees on loans dipped 1.3% year over year. The company is focused on expanding this business with attention paid to the health systems. The segment was impacted by a significant decrease in spending on elective and planned procedures in dental and medical services. The CareCredit network is poised well for growth as it added around 2,000 new provider locations to its network in the third quarter.
- ▲ **Sturdy Capital Position:** Synchrony Financial's balance sheet position also remains positive. Its total debt constitutes 56.7% of its total capital, significantly lower than its industry average of 61.9%. As of Jun 30, 2020, it had cash and cash equivalents worth \$16.3 billion and undrawn credit facilities of \$5.7 billion, the sum total of which is higher than its borrowings of \$16 billion. Thus, the company's solvency level looks impressive. The company is actively managing its liquidity position given the current situation.
- ▲ **Restructuring Initiatives:** The company took restructuring plan to reduce its operating expenses and invested \$89 million in the same. The same remains flat year over year in the first nine months of 2020. Management expects costs to decline by \$150-\$250 million for 2021, courtesy of this plan. It even estimates higher cost savings from this plan after 2021.
- ▲ **Capital Deployment:** Despite the current economic volatility, the company returned \$129 million in capital through common stock dividends. However, it halted its share buyback program until the economic environment stabilizes.

Solid organic and inorganic growth, rising revenues and technological moves pave the way for its long term growth. Its retail card platform is poised well for growth.

Reasons To Sell:

- ▼ **Increasing Allowance for Loan Loss:** The company's allowance for loan loss (a reserve established through a provision for loss charged to expenses) has been increasing due to continuous growth of its loan portfolio. In the first nine months of 2020, it surged 54.1% year over year. This persistently bothers the company, which in turn, is likely to impact its risk profile adversely.
- ▼ **Weak ROE:** The company's trailing 12-month return on equity (ROE) undermines its growth potential. Its current ROE of 12.7% compares unfavorably with the industry's ROE of 18.3%. The company's negative ROE reflects its inefficiency in utilizing its shareholders' funds.
- ▼ **Strain on Purchase Volume:** Purchase volume for the first nine months reported a 9.1% drop year over year due to controlled purchases. This was due to government restrictions on travel, entertainment, events, etc. and closure of several non-essential retail stores. Although the levels improved in May and June, the same poses a challenge to Synchrony Financial.

Strain on purchase volume and increasing allowance for loan losses are some major concerns of the company.

Last Earnings Report

Synchrony Financial Q3 Earnings Miss Estimates, Down Y/Y

Synchrony Financial's third-quarter 2020 earnings per share of 72 cents missed the Zacks Consensus Estimate by 13.3%. Further, the bottom line plunged 41% year over year due to muted revenues.

Results in Detail

The company's net interest income decreased 21.2% to \$3.5 billion in the third quarter due to the impact of the Walmart consumer portfolio sale and the COVID-19 pandemic.

However, its other income increased 54.1% to \$131 million, primarily attributable to lower loyalty program expenses.

In the quarter under review, loan receivables declined 6% year over year.

Deposits were \$63.5 billion, down 4% from the year-ago quarter.

Provision for credit loss increased 19% year over year to \$1.2 billion on the back of Walmart-related prior-year reserve reduction and a hike in reserve induced by COVID-19 related losses. The same was partly offset by lower net charge-offs.

Total other expenses rose 0.3% year over year to \$1.07 billion due to the restructuring charge and expenses related to the COVID-19 pandemic.

However, the same was offset by decreased cost from Walmart, lower purchase volume and accounts, and reduced discretionary cost.

Sales Platforms Update

Retail Card

The company's interest and fees on loans fell 27% year over year due to the sale of the Walmart consumer portfolio and lower loan receivables.

Loan receivables were down 6% due to COVID-19 impact while the average active accounts declined 19%.

Payment Solutions

Interest and fees on loans dropped 10% year over year owing to lower late fees. Loan receivables slid 5% year over year.

Purchase volume contracted 6% while average active account slipped 7%.

CareCredit

Interest and fees on loans decreased 8% year over year due to fall in merchant discount as a result of shrinkage in purchase volume.

Loan receivables were down 7% year over year on account of the coronavirus impact.

While purchase volume decreased 3%, the average active account fell 8%.

Financial Position

Total assets as of Sep 30, 2020 were \$95.6 billion, down 9.7% year over year.

Total borrowings as of Sep 30, 2020 were \$15.7 billion, down 22.6% from the year-ago quarter.

The company's balance sheet was consistently strong during the reported quarter with total liquidity of \$26.8 billion reflecting 28% of total assets.

While return on assets was 1.3%, the return on equity was 10.3%.

Efficiency ratio was 39.7% in third-quarter 2020.

Capital Deployment

During the quarter under consideration, the company returned \$129 million in capital through common stock dividends.

Quarter Ending	09/2020
Report Date	Oct 20, 2020
Sales Surprise	1.22%
EPS Surprise	-13.25%
Quarterly EPS	0.72
Annual EPS (TTM)	2.46

Valuation

Synchrony shares are down 17.2% in the year-to-date period and 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21.6% and 10.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 20.3% and 7.2%, respectively.

The S&P 500 index is up 10.6% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 10.44x forward earnings, which compares to 11.5x for the Zacks sub-industry, 17.13x for the Zacks sector and 22.54x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.25x and as low as 3.16x, with a 5-year median of 9.49x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$33 price target reflects 11.07x forward earnings.

The table below shows summary valuation data for SYF

Valuation Multiples - SYF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.44	11.5	17.13	22.54
	5-Year High	15.25	14.27	11.6	23.46
	5-Year Low	3.16	8.78	11.6	15.27
	5-Year Median	9.49	11.46	14.45	17.72
P/S F12M	Current	1.24	1.46	6.12	4.2
	5-Year High	2.35	1.62	6.72	4.3
	5-Year Low	0.48	1.04	5.01	3.18
	5-Year Median	1.5	1.27	6.1	3.66
P/B TTM	Current	1.44	1.85	2.55	5.98
	5-Year High	2.33	2.82	2.91	6.2
	5-Year Low	0.58	1.14	1.71	3.75
	5-Year Median	1.65	1.98	2.54	4.9

As of 11/16/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 23% (196 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Discover Financial Services (DFS)	Outperform	1
Alliance Data Systems Corporation (ADS)	Neutral	3
American Express Company (AXP)	Neutral	3
Capital One Financial Corporation (COF)	Neutral	3
Equitable Holdings, Inc. (EQH)	Neutral	3
Jefferies Financial Group Inc. (JEF)	Neutral	3
Standard Life PLC Un-sponsored ADR (SLFPY)	Neutral	3
U.S. Bancorp (USB)	Neutral	3

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

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	SYF	X Industry	S&P 500	ADS	AXP	DFS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	1
VGM Score	C	-	-	B	D	D
Market Cap	18.16 B	375.00 M	26.18 B	3.33 B	95.55 B	23.84 B
# of Analysts	1	2	13.5	9	10	8
Dividend Yield	2.83%	0.00%	1.48%	1.20%	1.45%	2.26%
Value Score	A	-	-	A	C	C
Cash/Price	0.77	0.36	0.06	0.98	0.36	0.43
EV/EBITDA	3.53	5.78	14.59	5.38	9.31	7.65
PEG F1	2.30	3.27	2.77	2.02	7.38	12.68
P/B	1.60	1.11	3.62	2.52	4.37	2.59
P/CF	6.17	9.19	13.69	2.85	11.81	8.20
P/E F1	17.65	14.79	22.23	8.18	35.15	25.86
P/S TTM	1.08	1.83	2.88	0.68	2.51	1.79
Earnings Yield	5.56%	5.56%	4.32%	12.23%	2.85%	3.87%
Debt/Equity	1.39	0.43	0.70	6.31	2.05	2.38
Cash Flow (\$/share)	5.04	0.62	6.92	24.48	10.05	9.48
Growth Score	F	-	-	D	F	D
Historical EPS Growth (3-5 Years)	8.27%	9.63%	9.77%	-0.90%	7.50%	1.62%
Projected EPS Growth (F1/F0)	-59.67%	-0.22%	0.37%	-49.07%	-58.83%	-66.88%
Current Cash Flow Growth	5.34%	5.63%	5.34%	-34.53%	5.23%	7.14%
Historical Cash Flow Growth (3-5 Years)	9.07%	12.36%	8.33%	0.58%	3.21%	4.70%
Current Ratio	1.21	1.47	1.38	1.74	1.47	0.98
Debt/Capital	56.59%	35.05%	41.97%	86.32%	67.19%	68.06%
Net Margin	8.16%	8.64%	10.40%	6.82%	8.84%	7.89%
Return on Equity	12.73%	7.79%	15.07%	36.63%	21.31%	11.00%
Sales/Assets	0.17	0.18	0.50	0.21	0.20	0.11
Projected Sales Growth (F1/F0)	-14.71%	0.00%	0.23%	-20.12%	-16.86%	-3.38%
Momentum Score	D	-	-	B	C	B
Daily Price Change	3.63%	0.25%	1.84%	5.74%	3.20%	1.51%
1-Week Price Change	12.01%	3.24%	4.29%	12.60%	18.93%	12.81%
4-Week Price Change	6.98%	7.52%	7.73%	28.80%	15.81%	22.36%
12-Week Price Change	23.21%	7.36%	10.59%	53.21%	19.47%	48.44%
52-Week Price Change	-16.17%	-5.29%	6.85%	-33.35%	-0.83%	-7.58%
20-Day Average Volume (Shares)	5,656,032	109,979	2,197,472	1,300,914	5,471,033	3,377,790
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-7.31%	2.41%	1.77%	25.25%	-3.68%	59.65%
EPS F1 Estimate 12-Week Change	35.08%	9.93%	3.73%	64.24%	10.11%	197.40%
EPS Q1 Estimate Monthly Change	-8.45%	2.10%	0.63%	14.84%	-11.41%	20.03%

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	A
Growth Score	F
Momentum Score	D
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.