

Atlassian Corp Plc (TEAM)

\$237.70 (As of 12/15/20)

Price Target (6-12 Months): **\$250.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: D

Summary

Atlassian is benefiting from the rising demand for remote working tools amid coronavirus-led global lockdown. Improvement in product quality and performance, multiple product launches, transparent pricing and the unique sales strategy is a positive. The expansion of its product portfolio through acquisitions with the likes of Trello, Code Barrel, Good Software, and AgileCraft is expected to accelerate growth momentum. Also, integration with leading applications like Slack, Dropbox, and Adobe, along with partnerships, will likely expand its paying-user base. Nonetheless, intensifying competition remains a major concern. Moreover, the departure of the company's President Jay Simons might disrupt the smooth functioning of Atlassian's sales strategy. Shares of the company have underperformed the industry over the past year.

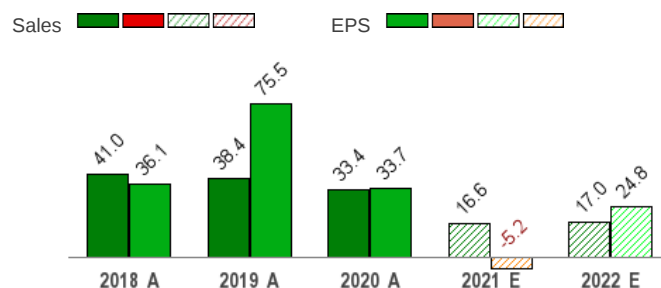
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$241.76 - \$110.01
20-Day Average Volume (Shares)	1,634,588
Market Cap	\$31.4 B
Year-To-Date Price Change	97.5%
Beta	1.00
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Bottom 32% (174 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	4.6%
EPS F1 Estimate 4-Week Change	-28.4%
Expected Report Date	01/28/2021
Earnings ESP	-1.3%
P/E TTM	203.2
P/E F1	218.1
PEG F1	9.5
P/S TTM	18.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	507 E	536 E	553 E	582 E	2,201 E
2021	460 A	470 E	468 E	481 E	1,882 E
2020	363 A	409 A	412 A	430 A	1,614 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.30 E	\$0.35 E	\$0.32 E	\$0.34 E	\$1.36 E
2021	\$0.30 A	\$0.31 E	\$0.24 E	\$0.23 E	\$1.09 E
2020	\$0.28 A	\$0.37 A	\$0.25 A	\$0.25 A	\$1.15 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 12/15/2020. The reports text is as of 12/16/2020.

Overview

Atlassian is a global leader and innovator in the enterprise collaboration and workflow software space. The company offers a suite of cloud-based software solutions, which help organizations collaborate and manage their workforce, such that the teams work better together.

Initially, Atlassian's products were designed to help software developer teams communicate, collaborate, and manage the design and delivery cycle of software. However, over the years, uses of Atlassian's solutions have expanded virally to teams across diverse industries. With its sustained focus on developing new collaboration tools, the company now caters to the need of several corporate functions, including finance, legal, human resource and IT support.

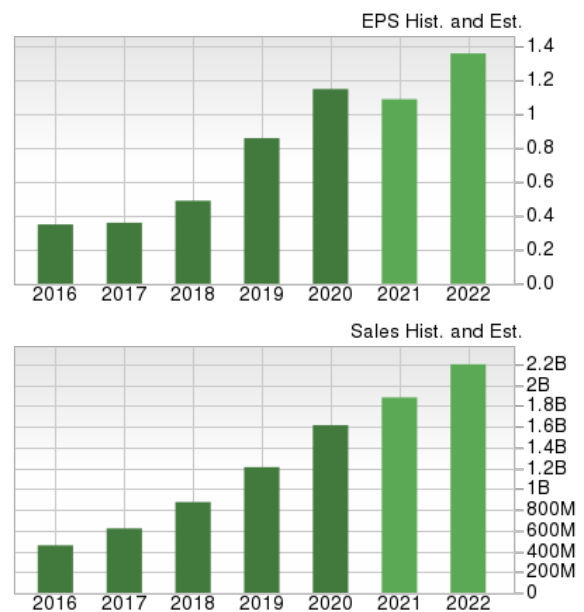
The company has more than 164,000 customers in 190 countries and virtually across every industry sector. Over two-thirds of the Fortune 500 companies, including General Motors, Bank of America Merrill Lynch, and Verizon, are currently using at least one Atlassian solution.

The company has 13 sets of solutions divided under four product categories — Plan, Track, & Support; Collaborate; Code, Build, & Ship; and Security & Identity. Among these 13 products, Atlassian's JIRA, Confluence, Bitbucket, and Trello are the most notable ones.

The company's JIRA team collaboration software leads among the software developer community. Atlassian's sustained focus on adding new features to JIRA software as per customer requirements has helped it stay ahead of its competitor's offerings including Broadcom's Rally Software, Microsoft's Azure DevOps Server and IBM's Rational.

With the Confluence solution, teams can create, share, and collaborate on content. Atlassian's Bitbucket is used by professionals for code sharing. The Trello software adds a visual component that helps organizations keep track of who is working on what project and how far they have reached.

Atlassian generates revenues primarily in the form of subscriptions, maintenance, perpetual license and other sources. Subscription and maintenance, together, contributed nearly 87% to fiscal 2020 revenues of \$1.2 billion.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Due to the heightening coronavirus fears, organizations across the globe are advising employees to work from home unless their role on-site is essential to the company. As the demand for offsite working increases, companies offering remote-working software and services like Atlassian are expected to grow exponentially. The company's Confluence and Trello applications can help organizations collaborate and manage staffs who are currently working from different locations amid coronavirus-induced global lockdown.
- ▲ Atlassian is a global leader and innovator in the enterprise collaboration and workflow software space. The company is poised to grow given the rising demand for automated and improved communication system within organizations. Furthermore, the company will benefit from the ongoing digitalization of work from organizations and the rapid adoption of cloud services. According to a MarketsandMarkets report, the global enterprise collaboration market is likely to reach \$48.1 billion by 2024 from \$31 billion in 2019, indicating a CAGR of 9.2%.
- ▲ Atlassian is currently focused on selling more subscription-based solutions. This unique business model is helping the company in generating stable revenues while expanding margins. Subscription-based service is a high margin business as the incremental cost to add a user declines as the company's user base increases. Subscriptions have been the company's fastest-growing segment which has witnessed CAGR of over 65% between 2014 and 2019. We believe that the strategy will continue to improve the company's top and bottom-line performances.
- ▲ Atlassian's differentiated and easy-to-use products, along with a low and transparent pricing model, help it expand the client base, which has tripled in the last four years. The company has designed and built its team collaboration, application development, and workflow tools in such a way that organizations can easily set up and adopt those without any support. Furthermore, the company has a complete transparent pricing model as prices of all its products are available on the website. Atlassian does not offer any discount to any enterprise, big or small which attracts organizations. Moreover, the company's product prices are significantly lower in comparison to solutions offered by its competitors, including Broadcom, Microsoft, and IBM, which is driving the adoption of its products. Atlassian's approach of pursuing customer volume and targeting every organization regardless of the size, industry, and geography is anticipated to continue driving its top- and bottom-line performances over the long run.
- ▲ Atlassian has a unique go-to-market approach and sells its products mostly online, which contribute approximately 75% to revenues. The company also sells products through third-party vendors which contribute the remaining 25% to revenues. The strategy has helped the company keep sales expenses rock bottom, thereby boosting its margins. Furthermore, what it saves from lower sales and marketing, the company spends in research and development to roll out new products as well as raise the profile of its existing solutions.
- ▲ Atlassian has made strategic acquisitions to expedite growth. Acquired in 2010, Bitbucket has helped the company expand its foothold in the software developer community. The product allows software developers to build, test and deploy code efficiently. The acquisition of Trello in 2017 helped Atlassian expand its reach across multiple industries. Notably, Trello software adds a visual component that helps organizations keep track of who is working on what project and how far they have reached. Last year, the company acquired three businesses – Code Barrel, Good Software, and AgileCraft. These acquisitions have not only expanded Atlassian's product portfolio but have also added to the customer base and incremental revenues. This apart, integration with leading applications like Slack, Dropbox, and Adobe, along with partnerships with the likes of Amazon's AWS and Microsoft, will likely expand the Atlassian paying-user base.
- ▲ Atlassian has a strong balance sheet with ample liquidity position and no debt obligations. Cash and equivalents were \$2.2 billion as of Sep 30, 2020. Moreover, the company has generated \$577 million of operating cash flows in the trailing 12 months. It is to be noted that Atlassian has been able to regularly increase its cash balance as well as its cash from operations since fiscal 2017. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Atlassian is poised to benefit from the rising demand for remote working tools amid coronavirus-led global lockdown. Improvement in product quality, product launches, transparent pricing and online sales strategy are positives.

Reasons To Sell:

- ▼ The team collaboration and workflow-software market is flooded with a wide range of competitors with distinctive strength. Atlassian's JIRA software matches up with solutions like Broadcom's Rally Software, Microsoft's Azure DevOps Server and IBM's Rational. Its Confluence product competes with Slack, Salesforce Chatter, and Google's Apps for Work. Therefore, Atlassian will have to continue delivering prompt and advanced technologies to suit customer requirements and expedite product introduction in order to survive. Moreover, we believe Atlassian's dominance could be further challenged by new entrants, thus forcing it to resort to competitive pricing to maintain and gain further market share.
- ▼ The departure of Atlassian president, Jay Simons, in July 2020 could impact the smooth run of the company's sales strategy. Notably, joining in 2008, Simons has built and lead Atlassian's unique go-to-market sales strategy of selling most of its products through online (approximately 75% of overall revenues). Transparent pricing and a no-discount approach are additional features to its sales strategy. The approach helps Atlassian save sales and marketing expenses, while boosting margins. Therefore, we caution that Simon's absence might disrupt Atlassian's sales approach.
- ▼ As Atlassian has a software-as-a-service (SaaS) based business model, the company is vulnerable to security breaches and cyber attacks. Any security breach can tarnish its image and influence negative customer confidence, thereby impacting client retention and renewal rates.
- ▼ Atlassian has been focusing on acquisitions to add features to its platform and fuel growth. Since its inception, the company has acquired 13 companies which have helped it enhance its product capabilities, increase the paying-user base and generate incremental revenues. Nonetheless, frequent acquisitions add to integration risks. Furthermore, increased focus on acquisitions could negatively impact Atlassian's balance sheet in the form of a high level of goodwill, which totaled \$633 million, or approximately 17% of its total assets as of Mar 31, 2020.
- ▼ Atlassian currently has a trailing 12-month Price/Book Value (P/B) ratio of 45.63. This level compares unfavorably with what the industry saw over the past year. Hence, the valuation looks slightly stretched from a P/B perspective.

Intensifying competition from the likes of Slack, Salesforce Chatter, Microsoft's Azure DevOps Server is likely to make Atlassian resort to competitive pricing in an effort to maintain and gain further market share.

Last Earnings Report

Atlassian Q1 Earnings & Revenues Top Estimates, Up Y/Y

Atlassian reported stellar first-quarter fiscal 2021 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate as well as marked significant year-over-year improvements. The company's non-IFRS earnings per share of 30 cents beat the consensus mark by 11% and jumped 7% year on year. Robust revenue growth and better cost management chiefly boosted Atlassian's quarterly earnings.

Quarter in Detail

The company reported fiscal first-quarter revenues of \$459.5 million, which surpassed the Zacks Consensus Estimate of \$439.4 million. Moreover, quarterly revenues climbed 26% year on year, mainly on new client additions and increased pricing on certain products. During the reported quarter, Atlassian added 8,620 net new-clients, bringing the total customer count to 182,717.

Segment wise, Subscription revenues jumped 38% year over year to \$278 million. Sales from the Maintenance business increased 16% to \$128 million, while Perpetual License business revenues declined 11% to \$22 million. Other revenues climbed 15% year over year to \$32 million.

The company's non-IFRS gross profit increased 26% year over year to \$396.5 million. However, non-IFRS gross margin contracted 20 basis points (bps) to 86.3% during the fiscal first quarter.

Atlassian's non-IFRS operating income was up 24% year over year to \$105.4 million, while margin remained flat at 23%.

The company ended the fiscal first quarter with cash and cash equivalents, and short-term investments of \$2.18 billion, up from the \$2.16 billion recorded at the end of fourth-quarter fiscal 2020. During the reported quarter, the company generated operating and free cash flow of \$79.5 million and \$60.6 million, respectively.

Outlook

For second-quarter fiscal 2021, the company anticipates revenues between \$460 million \$475 million (mid-point \$467.5 million), suggesting year-over-year growth of 12-16%.

Non-IFRS gross margin is anticipated to be approximately 86%. Non-IFRS operating margin is projected to be around 24%. The company expects to report non-IFRS earnings per share in the 30-32 cents band.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	4.57%
EPS Surprise	11.11%
Quarterly EPS	0.30
Annual EPS (TTM)	1.17

Recent News

On Oct 6, 2020, Atlassian announced that its cloud-based work management solution, Trello Enterprise, has achieved Federal Risk and Authorization Management Program (FedRAMP) Tailored Authorization.

On May 29, 2020, Atlassian announced that the company's co-CEOs, co-founders, and directors have adopted a new stock trading plan in February 2020 in accordance with guidelines specified under Rule 10b5-1 of the Securities and Exchange Act of 1934.

On Mar 9, 2020, Atlassian revealed about a new study wherein it found that American employees want businesses to play a stronger leadership role on key social issues, including healthcare, environment, and cost of living.

On May 24, 2019, Atlassian revealed that Scott Farquhar and Mike Cannon-Brookes, co-CEOs, co-founders and directors of the company, have adopted a new trading plan in February 2019. The new trading plan is in accordance with the guidelines specified under Rule 10b5-1 of the Securities and Exchange Act of 1934.

Valuation

Shares of Atlassian increased 97.5% in the year-to-date (YTD) period and 98.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have increased 103.7% and 37.2%, respectively, YTD. Over the past year, while the Zacks sub-industry has increased 105.6%, the sector grew 38.5%.

The S&P 500 Index has increased 15.4% YTD and 16.6% in the past year.

The stock is currently trading at 15.48X forward 12-month sales, which compares to 10.78X for the Zacks sub-industry, 4.43X for the Zacks sector and 4.22X for the S&P 500 index.

Over the past three years, the stock has traded as high as 15.48X and as low as 4.6X with a 3-year median of 8.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$250 price target reflects 16.25X forward 12-month sales.

The table below shows summary valuation data for TEAM

Valuation Multiples - TEAM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	15.48	10.78	4.43	4.22
	3-Year High	15.48	10.78	4.49	4.29
	3-Year Low	4.60	4.96	2.77	3.20
	3-Year Median	8.36	8.36	3.51	3.78
P/B TTM	Current	45.63	13.05	8.58	6.18
	3-Year High	45.63	13.13	8.73	6.28
	3-Year Low	4.57	5.03	4.57	3.83
	3-Year Median	18.46	6.86	5.93	5.12
EV/Sales TTM	Current	16.91	12.44	5.26	4.25
	3-Year High	16.91	12.51	5.35	4.32
	3-Year Low	5.06	4.61	3.11	2.61
	3-Year Median	9.94	4.81	4.02	3.67

As of 12/15/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 32% (174 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
Clarivate Analytics Plc (CCC)	Neutral	3
Evolent Health, Inc (EVH)	Neutral	2
j2 Global, Inc. (JCOM)	Neutral	2
Pinterest, Inc. (PINS)	Neutral	2
Sogou Inc. Sponsored ADR (SOGO)	Neutral	4
SolarWinds Corp. (SWI)	Neutral	3
Twilio Inc. (TWLO)	Neutral	3
Veeva Systems Inc. (VEEV)	Neutral	3

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

Industry Comparison Industry: Internet - Software				Industry Peers		
	TEAM	X Industry	S&P 500	PINS	SOGO	TWLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	4	3
VGM Score	C	-	-	F	B	D
Market Cap	31.42 B	1.63 B	26.16 B	43.70 B	3.13 B	52.10 B
# of Analysts	10	5	14	3	1	11
Dividend Yield	0.00%	0.00%	1.5%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	B	D
Cash/Price	0.08	0.08	0.06	0.04	0.37	0.06
EV/EBITDA	-145.15	-0.92	14.38	-31.60	12.36	-211.73
PEG F1	9.66	5.74	2.80	NA	20.24	319.00
P/B	45.63	8.09	3.64	22.59	3.09	9.04
P/CF	418.53	31.65	13.92	NA	20.24	NA
P/E F1	222.29	76.80	22.02	228.10	133.17	3,190.00
P/S TTM	18.37	6.65	2.80	31.51	3.02	33.72
Earnings Yield	0.46%	0.27%	4.39%	0.44%	0.75%	0.03%
Debt/Equity	0.00	0.01	0.70	0.00	0.00	0.08
Cash Flow (\$/share)	0.57	-0.00	6.94	-2.34	0.39	-0.77
Growth Score	A	-	-	D	C	B
Historical EPS Growth (3-5 Years)	NA%	17.57%	9.69%	NA	NA	NA
Projected EPS Growth (F1/F0)	-5.22%	4.87%	1.00%	NA	-77.78%	-32.39%
Current Cash Flow Growth	102.97%	4.17%	5.22%	3,062.97%	-11.69%	119.87%
Historical Cash Flow Growth (3-5 Years)	21.50%	20.21%	8.33%	NA	NA	NA
Current Ratio	0.88	1.91	1.38	10.72	2.52	10.94
Debt/Capital	0.00%	6.83%	42.00%	0.00%	0.00%	7.22%
Net Margin	-25.82%	-16.91%	10.40%	-26.81%	-4.54%	-26.01%
Return on Equity	2.57%	-6.69%	14.99%	-14.42%	-4.52%	-5.43%
Sales/Assets	0.45	0.57	0.50	0.60	0.67	0.28
Projected Sales Growth (F1/F0)	16.56%	8.02%	0.35%	42.97%	-2.46%	46.95%
Momentum Score	D	-	-	C	A	F
Daily Price Change	1.26%	0.00%	1.52%	1.32%	-0.13%	-1.43%
1-Week Price Change	3.11%	0.94%	-1.29%	5.68%	-5.55%	7.17%
4-Week Price Change	20.95%	11.47%	1.90%	11.62%	-10.12%	19.88%
12-Week Price Change	31.86%	19.05%	16.55%	74.38%	-7.09%	45.61%
52-Week Price Change	98.61%	41.31%	6.06%	288.30%	61.09%	253.62%
20-Day Average Volume (Shares)	1,634,588	530,452	1,983,356	8,958,478	1,779,985	2,389,122
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-28.43%	0.00%	0.00%	0.00%	9.09%	0.00%
EPS F1 Estimate 12-Week Change	-54.62%	6.19%	3.95%	22.64%	9.09%	-1.87%
EPS Q1 Estimate Monthly Change	-16.22%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	A
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.

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.