

UnitedHealth Group Inc (UNH)

\$365.67 (As of 03/24/21)

Price Target (6-12 Months): **\$389.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

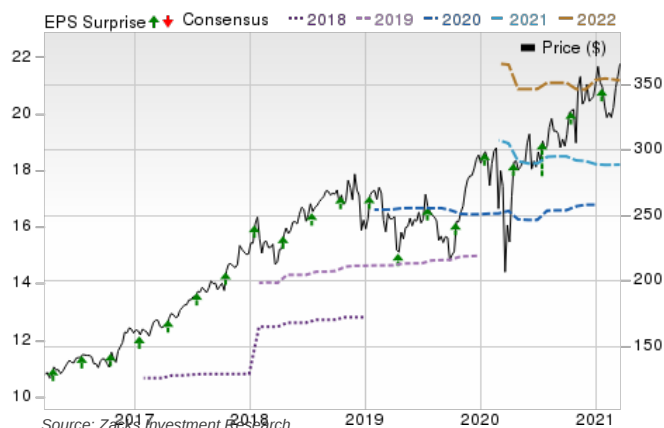
Growth: A

Momentum: C

Summary

Shares of UnitedHealth have outperformed its industry in a year. The company's top line is bolstered by new deals, renewed agreements and expansion of service offerings. Its numerous acquisitions bode well for its inorganic growth profile. The company's solid health services segment provides significant diversification benefits. It remains well poised to gain from its government business, comprising both Medicaid and Medicare Advantage. A sturdy balance sheet and consistent cash flow generation is another positive, which has resulted in a solid capital position. This has empowered the company to engage in prudent shareholder-friendly moves through share buybacks and dividend payments. A strong 2021 guidance instills investor confidence in the stock. However, the company is witnessing a slowdown in international and commercial business.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$373.80 - \$216.00
20-Day Average Volume (Shares)	3,633,505
Market Cap	\$350.3 B
Year-To-Date Price Change	5.7%
Beta	0.76
Dividend / Dividend Yield	\$5.00 / 1.3%
Industry	Medical - HMOs
Zacks Industry Rank	Bottom 27% (186 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.4%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	04/21/2021
Earnings ESP	0.0%
P/E TTM	22.0
P/E F1	20.1
PEG F1	1.6
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	74,798 E	74,369 E	75,718 E	76,004 E	301,729 E
2021	68,908 E	68,838 E	69,994 E	70,526 E	278,469 E
2020	64,421 A	62,138 A	65,115 A	65,467 A	257,141 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$5.32 E	\$5.11 E	\$5.53 E	\$5.35 E	\$21.16 E
2021	\$4.41 E	\$4.31 E	\$4.78 E	\$4.69 E	\$18.20 E
2020	\$3.72 A	\$7.12 A	\$3.51 A	\$2.52 A	\$16.88 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 03/24/2021. The report's text and the analyst-provided price target are as of 03/25/2021.

Overview

UnitedHealth Group, Inc. provides a wide range of health care products and services, such as health maintenance organizations (HMOs), point of service plans (POS), preferred provider organizations (PPOs), and managed fee-for-service programs.

UnitedHealth has the largest and most diverse membership base within the managed-care organization market, which gives it significant competitive advantages. It also has built its prescription drug business through OptumRx division, with the acquisition of Catamaran in 2015.

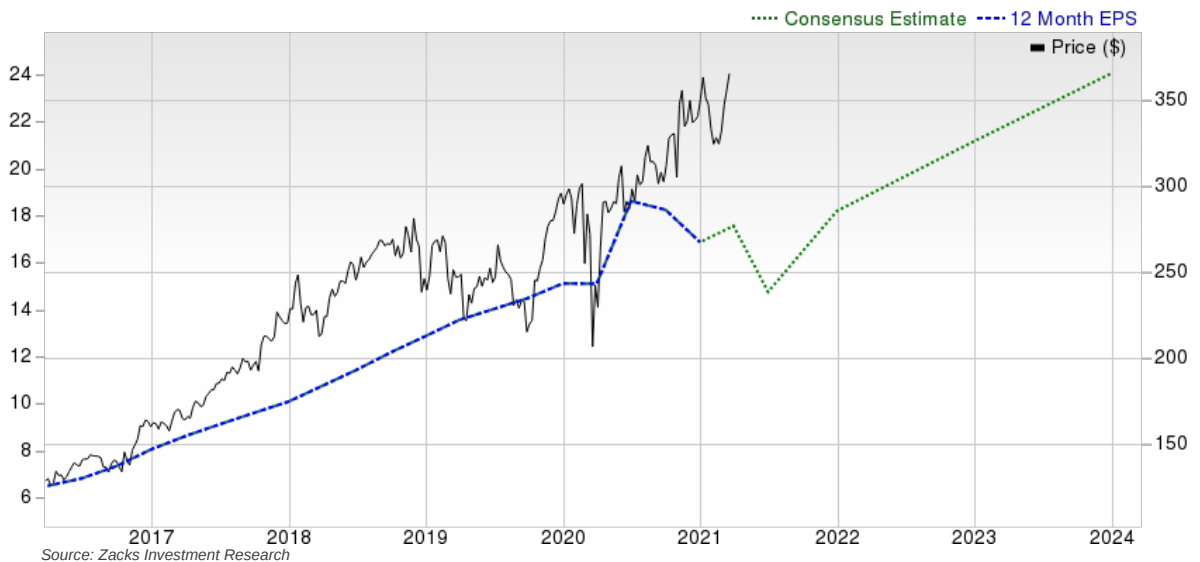
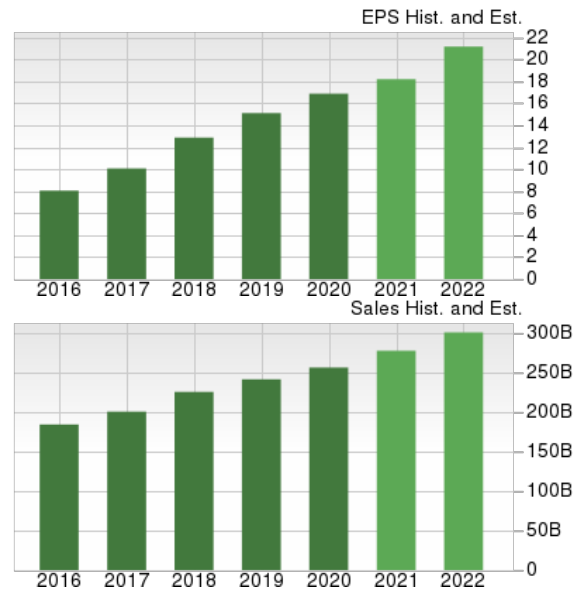
The company has acquired a number of competing healthcare providers. These acquisitions have transformed it from a pure health insurer to a comprehensive healthcare provider.

UnitedHealth reports through two segments: UnitedHealthcare and Optum. Its strategy is to meld the provision of medical care from its Optum unit with UnitedHealthcare brand insurance products, which help in cross selling of products and services.

UnitedHealthcare (contributed approximately 63% of revenues in 2020) is divided into UnitedHealthcare Employer & Individual; UnitedHealthcare Medicare & Retirement; UnitedHealthcare Community & State and UnitedHealthcare Global.

Optum (47%) is a technology-enabled health services business serving the broad health care marketplace, including those who need care: the consumers who need the right support, information, resources and products; those who provide care: pharmacies, hospitals, physicians, practices and other health care facilities.

In the fourth quarter of 2020, the company entered into agreements to acquire multiple companies, which are expected to close in the first half of 2021. Additionally, in January 2021, it entered into agreements to purchase multiple companies in the health care sector, most notably, Change Healthcare. This acquisition is likely to close in the second half of 2021. The total capital required for these acquisitions is nearly \$13 billion.



Reasons To Buy:

- ▲ **Favorable Earnings Guidance:** For 2021, the company expects adjusted earnings per share in the range of \$17.75 to \$18.25, points to an increase of 6.6% at midpoint from 2020 reported level. For 2021, the company expects revenues to approach \$280 billion, suggesting an 8.9% rise from the 2020 reported figure. A positive revision to earnings guidance instills investor confidence in the stock.
- ▲ **Consistent Top-Line Growth:** The company's revenues have grown consistently over the past years. It has witnessed a CAGR of 5.1% from 2015 to 2020. We believe the company should retain its revenue momentum in the years ahead on the back of its strong market position and attractive core business that continues to be driven by new deals, renewed agreements and expansion of service offerings. Its expansion of the health services segment and international business provides significant diversification benefits and shields it from stringent regulation in the United States. For 2021, the company expects revenues to be near to \$280 billion, which indicates 8.9% growth from the 2020 reported number.
- ▲ **Fast Growing Health Service Segment:** UnitedHealth's health service business, branded as Optum, is becoming increasingly valuable. It is also crucial to the company's diversification strategy. The primary growth drivers for Optum are pharmacy care services, care delivery, technology, government services, and international. The segment expanded to contribute 48% of operating earnings in 2019 compared with 25% in 2014. From 2017 to 2020, the segment's compounded revenues and earnings witnessed a CAGR of 14.3%. A number of acquisitions made in this segment, use of advanced technology, market leading health analytics, modern care delivery and data-driven population health approaches lend Optum a long runway for growth. Each sub-segment is expected to deliver a solid performance, driving the overall segment's growth in turn.
- ▲ **Healthy Balance Sheet:** UnitedHealth has a healthy balance sheet with strong financial flexibility, marked by consistent cash generated from operations over the years. This also allows investment in business. The company's total debt to total capital ratio of 38.9% as of Dec 31, 2020 compares favorably with 39.1% in the prior quarter. Also, its times interest earned ratio of 13.5 is healthy enough to cover its interest obligations. The company has also been aggressively repurchasing shares. The company favors share buybacks and mergers over dividend payout as ways to deploy capital. In June, the company increased the quarterly dividend by 20%. Its dividend yield of 1.4% is higher than the industry average of 1.1%. The dividend has advanced at or above 20% each year since initiated about a decade ago. The payout ratio has been about 30%, which is in line with the market-level objective set by the company. Moreover, its long-term earnings growth potential provides ample capacity to increase the dividend for the years to come.
- ▲ **Favorable Cash Flows:** The company has been generating positive cash flow from operations from the past many years, which reflects its consistently favorable operating performance. In 2020 cash from operations surged 20% year over year. The company's ability to generate positive cash flows also enables investment in business.
- ▲ **Growing Government Business:** The company's government business, which consists of Medicaid and Medicare Advantage, is expected to witness huge growth. The 2021 Medicare enrollment season will mark the company's largest Medicare Advantage footprint expansion in five years, reaching an additional 3.5 million people in nearly 300 additional counties. The company expects strong growth in individual MA and when combined with its group Medicare gains, the year 2021 looks as another year of market leading growth. The company also expects continued growth in Medicaid owing to transitions in coverage and net new market gains. The company expects to add nearly 900,000 people in individual and group Medicare Advantage and dual special needs plans.
- ▲ **Share Price Performance:** In a year's time, shares of the company have outperformed its industry's growth. Moreover, factors like an improving top line and solid capital deployment are likely to help the stock continue performing well going forward.

UnitedHealth's continued strong growth at Optum as well as UnitedHealthcare segments are driving revenues. Its favorable government business and strong capital position are other positives.

Reasons To Sell:

- ▼ **Slowdown in Global Business:** UnitedHealth's international business spans over four of the six largest countries in Latin America, as well as in Europe and over 130 countries around the world. It is one of the few companies in the health insurance space having an expanding overseas business. However, in 2019 and 2020 membership from international business declined 8% and 5.2%, respectively. Revenues in 2020 declined 17.7% in 2020.
- ▼ **Commercial Health Insurance Under Pressure:** Given the coronavirus-induced weakness in the U.S. economy, many employers have been furloughed. This has caused membership declines in Commercial business, which constitutes nearly 50-55% of the company's total medical membership. Revenues and membership from the Commercial business were down 1.9% and 4.1%, respectively, in 2020.
- ▼ **Overvalued:** The company's valuation seems a little expensive at current level with its 12-month forward price-to-earnings multiple of 19.6x compared with 17.6x for the industry

The company is facing a slowdown in its international business. The stock also looks overvalued at current levels.

Last Earnings Report

UnitedHealth Q4 Earnings Top Estimates, Revenues up Y/Y

UnitedHealth Group's fourth-quarter 2020 earnings of \$2.52 per share outpaced the Zacks Consensus Estimate by 5.4%.

However, the bottom line plunged 35.4% year over year due to elevated costs and other factors related to the COVID-19 pandemic. Nevertheless, the company's healthcare utilization that was earlier disrupted by the pandemic has attained normalcy.

Quarter Ending **12/2020**

Report Date	Jan 20, 2021
Sales Surprise	0.61%
EPS Surprise	5.44%
Quarterly EPS	2.52
Annual EPS (TTM)	16.87

2020 Results

Revenues of \$257.1 billion improved 6.2% year over year. Earnings per share of \$16.88 grew 11.7% year over year and came ahead of the company's previously provided guidance of \$16.50-\$16.75.

For 2020, medical care ratio of 79.1% improved 340 basis points (bps) from 2019, primarily owing to the temporary deferral of care amid the pandemic and return of the health insurance tax. This was partially offset by the company's COVID-19 assistance measures, and testing and treatment expenses.

The operating cost ratio of 16.2% increased 170 bps due to the return of the health insurance tax, COVID-19 response efforts and higher investments in service, innovation and growth. Nevertheless, persistent operating efficiency gains have partially benefited the results.

Segmental Performances

In the reported quarter, the company's health benefits segment UnitedHealthcare generated revenues worth \$50.3 billion, up 4.4% year over year. The rise in revenues was attributable to solid growth witnessed in serving community and senior programs, partly offset by a decline in commercial enrollment.

Earnings from operations worth \$396 million were down 81.1% year over year due to the impact of higher COVID-19 testing and care costs, partially mitigated by higher revenues.

Revenues from another segment, Optum, rose 20.5% year over year to \$35.9 billion, reflecting robust contributions from the sub-segments of OptumHealth (up 31.9%), OptumInsight (up 1.7%) and OptumRx (up 17.8%). Earnings from operations rose 3.3% year over year to \$3.1 billion.

OptumHealth continued with its strong growth, driven by further inclusion of people catered to in value-based care arrangements and the increasing acuity of the care services provided. While OptumInsight revenues were driven by growth in managed services, OptumRx gained from higher script volumes

Decline in Membership Enrollment

The company served 48.44 million people in the quarter, down 0.7 million year over year due to lower member enrollment in the Commercial business.

Capital Position

Cash and short-term investments as of Dec 31, 2020 were \$19.8 billion, up 38.9% from the level as of 2019-end.

Long-term debt of \$38.6 billion at December-end was up 5% from the level at 2019 end.

During the year, cash flow from operations of \$22.2 billion improved 20.1% year over year.

2021 Guidance Reaffirmed

The company re-established its full-year earnings per share outlook for 2021. While net earnings are expected between \$16.90 and \$17.40, adjusted net earnings are forecasted in the range of \$17.75 to \$18.25.

Recent News

UnitedHealthcare Expands Virtual Care to Hearing Aids — Mar 18, 2021

UnitedHealthcare has introduced a virtual care model named Right2You, which will expand access to custom-programmed hearing aids. This virtual solution will curb the requirement of in-person appointments for fittings or adjustment to the hearing aids. Instead of follow-up adjustments and support via an in-person appointment, Right2You enables remote customization with a smartphone or a tablet paired up with the hearing aids.

UnitedHealth Group Approves Quarterly Dividend — Feb 4, 2021

UnitedHealth Group's board of directors declared a quarterly cash dividend of \$1.25 per share. The dividend will be paid on Mar 23, 2021 to shareholders of record at the close of business as on Mar 15.

UnitedHealth Group to Aid Eligible Medicaid Members in Indiana — Jan 29, 2021

UnitedHealth Group unveiled that it has been selected by the Oklahoma Health Care Authority for catering to the Medicaid members of the latter's SoonerSelect. Commencing later this year, UnitedHealthcare Community Plan of Oklahoma is likely to offer self-management care solutions and bring about improved health outcomes across the state.

UnitedHealth Unit, Change Healthcare Merge to Offer Better Care — Jan 6, 2021

UnitedHealth's unit Optum and Change Healthcare have decided to merge, by virtue of which Change Healthcare will join OptumInsight for delivering software and data analytics, technology-enabled services and research, advisory and revenue cycle management offerings. The integration of two technology and service companies, which share a mutual aim of offering improved healthcare, will result in enhanced capabilities.

Valuation

UnitedHealth's shares are up 5.7% and 45.1% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry are up 6.7% but those in the Zacks Medical sector are down 1.4%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 33.8% and 17.8%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 50% in the past year.

The stock is currently trading at 19.63x forward 12-month price to earnings, which compares to 17.58x for the Zacks sub-industry, 21.14x for the Zacks sector and 22.13x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.45x and as low as 11.43x, with a 5-year median of 17.33x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$389 price target reflects 20.6x forward earnings.

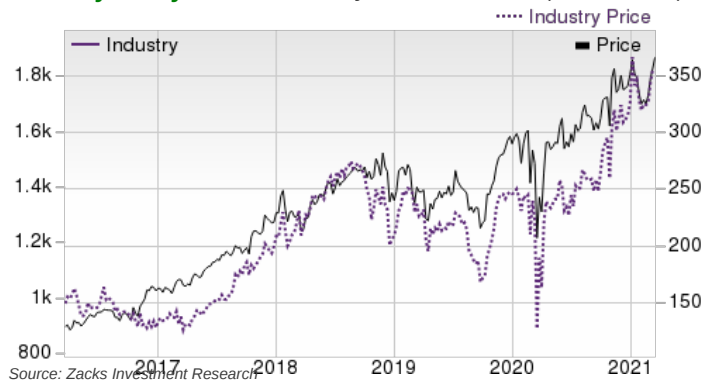
The table below shows summary valuation data for UNH

Valuation Multiples - UNH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.63	17.58	21.14	22.13
	5-Year High	22.45	20.58	22.83	23.8
	5-Year Low	11.43	12.48	15.9	15.3
	5-Year Median	17.33	15.99	19.24	17.9
P/S F12M	Current	1.23	0.87	2.68	4.49
	5-Year High	1.24	0.87	3.17	4.49
	5-Year Low	0.64	0.52	2.26	3.21
	5-Year Median	0.95	0.73	2.81	3.69
P/B TTM	Current	5.13	3.77	3.77	6.57
	5-Year High	5.24	4.07	5.11	6.71
	5-Year Low	3.06	2.3	3.02	3.83
	5-Year Median	4.32	3.32	4.35	4.97

As of 03/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 27% (186 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Select Medical Holdings Corporation (SEM)	Outperform	1
Anthem, Inc. (ANTM)	Neutral	4
Cigna Corporation (CI)	Neutral	3
Centene Corporation (CNC)	Neutral	3
CVS Health Corporation (CVS)	Neutral	4
Humana Inc. (HUM)	Neutral	4
Magellan Health, Inc. (MGLN)	Neutral	4
Molina Healthcare, Inc (MOH)	Neutral	3

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

Industry Comparison Industry: Medical - Hmos				Industry Peers		
	UNH	X Industry	S&P 500	ANTM	CNC	HUM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	4
VGM Score	A	-	-	A	A	A
Market Cap	350.34 B	3.42 B	28.51 B	88.38 B	37.77 B	53.50 B
# of Analysts	11	3.5	13	10	10	9
Dividend Yield	1.35%	0.00%	1.41%	1.25%	0.00%	0.60%
Value Score	B	-	-	A	A	A
Cash/Price	0.06	0.33	0.06	0.35	0.33	0.33
EV/EBITDA	14.60	8.84	15.86	9.42	8.84	7.70
PEG F1	1.58	1.37	2.30	1.15	1.08	1.58
P/B	5.13	3.11	3.82	2.70	1.45	4.00
P/CF	18.33	16.81	15.83	13.06	9.06	17.64
P/E F1	20.09	18.16	21.27	14.64	12.52	19.13
P/S TTM	1.36	0.71	3.23	0.73	0.34	0.69
Earnings Yield	4.91%	5.37%	4.64%	6.83%	7.99%	5.23%
Debt/Equity	0.57	0.50	0.67	0.58	0.64	0.44
Cash Flow (\$/share)	20.22	6.37	6.78	27.63	7.17	23.50
Growth Score	A	-	-	A	A	B
Historical EPS Growth (3-5 Years)	24.21%	25.12%	9.32%	20.40%	26.22%	26.03%
Projected EPS Growth (F1/F0)	7.80%	12.77%	14.55%	9.66%	3.72%	15.62%
Current Cash Flow Growth	10.38%	10.67%	0.61%	10.97%	66.20%	4.32%
Historical Cash Flow Growth (3-5 Years)	19.24%	13.73%	7.32%	13.30%	51.41%	13.95%
Current Ratio	0.74	1.45	1.39	1.55	1.08	1.76
Debt/Capital	37.42%	33.72%	41.42%	36.81%	39.30%	30.63%
Net Margin	5.99%	4.36%	10.59%	3.75%	1.63%	4.36%
Return on Equity	24.69%	17.45%	14.75%	17.16%	11.53%	17.73%
Sales/Assets	1.34	1.42	0.51	1.42	1.63	2.11
Projected Sales Growth (F1/F0)	8.29%	7.50%	6.95%	12.33%	6.22%	6.66%
Momentum Score	C	-	-	A	D	C
Daily Price Change	0.57%	0.08%	0.03%	2.57%	1.37%	2.64%
1-Week Price Change	2.69%	0.48%	-0.30%	3.63%	2.13%	0.81%
4-Week Price Change	11.56%	5.12%	0.23%	18.01%	9.42%	8.72%
12-Week Price Change	7.42%	14.31%	7.22%	14.91%	10.22%	2.11%
52-Week Price Change	58.04%	62.41%	61.36%	66.78%	24.19%	54.14%
20-Day Average Volume (Shares)	3,633,505	243,367	2,433,322	1,517,936	3,235,839	1,024,755
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.04%	0.04%	0.00%	0.04%	0.19%	-0.40%
EPS F1 Estimate 12-Week Change	0.22%	-1.40%	2.13%	-3.11%	0.21%	-0.47%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-4.89%	-0.17%	2.58%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	A
Momentum Score	C
VGM Score	A

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.