

## Verisk Analytics, Inc. (VRSK)

**\$202.88** (As of 01/04/21)

Price Target (6-12 Months): **\$215.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/20/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: D

### Summary

Verisk's shares have outperformed the industry in the past year, partly due to better-than-expected earnings performance in the last four quarters. The company has a robust growth strategy that focuses on organic growth, product development and acquisitions. Verisk's expertise in providing predictive data analytics and decision support solutions provides it an edge over its competitors. It has been acquiring and investing in companies globally in order to expand its data and analytics capabilities. It continues to invest in data sets, analytic solutions and technology. On the flip side, Verisk has a debt-laden balance sheet. Total debt in third-quarter 2020 has increased sequentially. Further, the company's cash and cash equivalent balance at the end of the quarter was below the short-term level, indicating cash insufficiency.

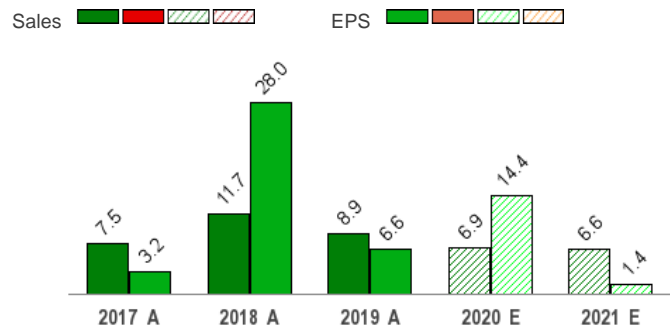
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$210.66 - \$116.61</b>
20-Day Average Volume (Shares)	<b>524,529</b>
Market Cap	<b>\$33.0 B</b>
Year-To-Date Price Change	<b>-2.3%</b>
Beta	<b>0.78</b>
Dividend / Dividend Yield	<b>\$1.08 / 0.5%</b>
Industry	<b>Business - Information Services</b>
Zacks Industry Rank	<b>Bottom 26% (187 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>9.1%</b>
Last Sales Surprise	<b>1.5%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>02/16/2021</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>41.3</b>
P/E F1	<b>40.5</b>
PEG F1	<b>4.0</b>
P/S TTM	<b>12.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	731 E	732 E	748 E	756 E	2,971 E
2020	690 A	679 A	703 A	717 E	2,788 E
2019	625 A	653 A	653 A	677 A	2,607 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.31 E	\$1.39 E	\$1.40 E	\$5.08 E
2020	\$1.17 A	\$1.29 A	\$1.32 A	\$1.23 E	\$5.01 E
2019	\$1.03 A	\$1.10 A	\$1.12 A	\$1.13 A	\$4.38 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/04/2021. The reports text and the analyst-provided sales and EPS estimates are as of 01/05/2021.

## Overview

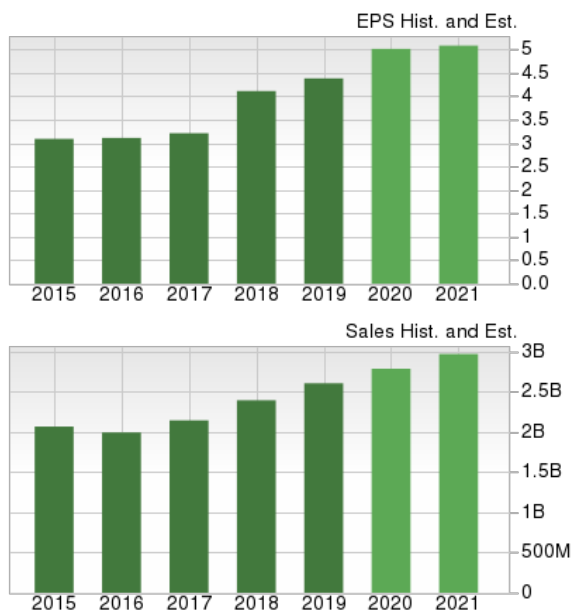
Headquartered in Jersey City, N.J., Verisk Analytics is one of the leading data analytics providers serving customers in insurance, energy and specialized markets, and financial services. Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise to provide innovations that are integrated into customer workflows. The company offers predictive analytics and decision support solutions to customers in rating, underwriting, claims, catastrophe and weather risk, natural resources intelligence, economic forecasting and many other fields. The company operates in 30 countries.

Verisk reports through three business segments: Insurance, Energy and Specialized Markets and Financial Services.

**Insurance Segment (71% of 2019 revenues):** The segment serves P&C insurance customers and focuses on the prediction of loss, the selection and pricing of risk and compliance with their reporting requirements in each U.S. state in which they operate. Its customers include most of the P&C insurance providers in the U.S. and to some extent in the non-U.S. markets. It has two sub-segments: Underwriting & rating and Claims.

**Energy and Specialized Markets Segment (22%):** Through this segment, the company provides data analytics services across the natural resources value chain which includes the global energy, chemicals, metals, mining, power and renewables sectors. The company offers research and consulting services focused on exploration strategies and screening, asset development and acquisition, commodity markets, and corporate analysis. The company also offers consultancy in the areas of business environment, business improvement, business strategies, commercial advisory and transaction support. The company helps businesses and governments better analyse and manage climate and weather-related risks. Its growing customer base includes international and national energy companies along with chemicals, metals, mining, power utilities and renewables companies, financial institutions, and governments.

**Financial Services Segment (7%):** Through this segment, the company maintains the largest bank account consortia to offer competitive benchmarking, decisioning algorithms, business intelligence, and customized analytic services to financial institutions, payment networks and processors, alternative lenders,



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Verisk has a **robust growth strategy** that focuses on organic growth, product development and acquisitions. This strategy has enabled the company to grow its revenues at a compound annual growth rate of 10.3% over the past five years. The company continues to invest in people, data sets, analytic solutions, technology and complementary businesses with a view to keep itself updated with changing requirements in the markets it serves. The company is maintaining its focus on increasing solution penetration with customers, developing new proprietary data base and predictive analytics, and expanding in to new customer sectors.
- ▲ Verisk has developed several advantages for itself that help strengthen its client base and fend off competition. Using advanced technologies to collect and analyze data, Verisk draws on unique data assets and deep domain expertise to provide **predictive analytics and decision support solutions** that are integrated into customer workflows. Specialized and in-depth knowledge in markets such as energy, insurance, financial services and risk management adds value to its analytics. Steady stream of first-to-market innovations and the ability to deeply integrate into customer workflows allows the company to strengthen its client base over time. All these initiatives augur well for long-term growth and stability of the company.
- ▲ **Acquisitions** form a key part of the Verisk's growth strategy. The company has been continuously acquiring and investing in companies globally to expand data and analytics capabilities across industries. In 2020, Verisk completed the purchase of Franco Signor, which becomes part of the company's Claims Partners business and should help it strengthen foothold in the Medicare space. In 2019, Verisk completed seven acquisitions — FAST to enhance its data and analytics solutions in life insurance and annuities market, Commerce Signals to enhance its Financial Services segment, BuildFax to boost its Insurance segment, Genscape to expand its Wood Mackenzie business line's existing intelligence in energy data and analytics, Keystone Aerial Surveys to expand its aerial survey services, Property Pres Wizard to enhance its Insurance segment and SAP's Content as a Service business to strengthen its environmental health and safety services and extend its global customer footprint and European operations.
- ▲ Verisk has a consistent record of **rewarding its shareholders**. In 2019, the company repurchased shares worth \$300 million and paid \$163.5 million in dividends. Previously, in 2018, 2017 and 2016, the company had repurchased shares worth \$438.6 million, \$276.3 million and \$326.8 million, respectively. Such moves not only instill investors' confidence but also positively impact earnings per share.
- ▲ Verisk's shares have outperformed the industry in the past year, gaining 32.7% compared with the industry's growth of 2.4%. The **outperformance** partly reflects better-than-expected earnings performance in the last four quarters.

Acquisitions, strong organic revenues and focus on advanced technologies are positives for Verisk.

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## Reasons To Sell:

- ▼ **Brexit can have a serious negative impact on Verisk's European operations and businesses.** A direct immediate outcome of Brexit was devaluation of British pound in the global market. With the exit of U.K. from the European Union (EU), the relationship between U.K. and EU has become unstable and the laws and regulations imposed on any kind of trade or business conducted between the two is likely to have an adverse impact on overall business activity, political stability and economic conditions in both regions. Brexit could further result in higher tariff and non-tariff barriers to trade between the U.K. and the European Union, lowering productivity of the company. These undermine the long-term growth potential of the company to some extent.
- ▼ Verisk has a **debt-laden balance sheet**. Total debt at the end of third-quarter 2020 was \$3.16 billion, compared with \$3.14 billion at the end of the prior quarter. Total debt to total capitalization ratio of 0.59 is higher than the industry's 0.57. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$222 million at the end of the third quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. Also, the cash level, can't meet the short-term debt of \$460 million.
- ▼ Verisk's business model centers on huge amount of data. Consequently, the company is **susceptible to operational risks** related to security breaches in its facilities, computer networks, and databases, resulting in loss of its credibility and/or customers. Dependence on external sources for data supply can lead to contractual and pricing issues with data suppliers (some of them are also rival parties). Data theft and misuse by third-party contractors could also lead to loss of businesses and jeopardize the fundamental existence of the company.

Verisk has high capital expenditure and is exposed to operational risks.

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## Last Earnings Report

### Verisk Surpasses Q3 Earnings & Revenues Estimates

Verisk Analytics reported solid third-quarter 2020 results, with earnings and revenues surpassing the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.32 beat the consensus mark by 9.1% and rose 17.9% on a year-over-year basis. The upside can be attributed to cost discipline in the business, coronavirus-led reduction in travel expenses and lower average share count

Revenues of \$702.7 million beat the consensus estimate by 1.5% and increased 7.6% year over year on a reported basis and 3.6% on an organic constant-currency (cc) basis.

Quarter Ending 09/2020

Report Date	Nov 04, 2020
Sales Surprise	1.45%
EPS Surprise	9.09%
Quarterly EPS	1.32
Annual EPS (TTM)	4.91

### Segmental Performance

Insurance segment revenues totaled \$498.6 million, up 6.3% year over year on a reported basis and 5.2% in organic cc.

Within the segment, underwriting and rating revenues of \$347.9 million rose 11.3% on a reported basis and 6.5% in organic cc. The upside was primarily driven by an annual increase in prices derived from the continued enhancements of the solutions' contents within the industry-standard insurance programs, sale of expanded solutions to existing customers in commercial and personal lines, and contributions from catastrophe-modeling services. These increases were partially offset by a decrease in certain transactional revenues.

Claims revenues amounted to \$150.7 million, declining 3.8% on a reported basis but improving 2.5% in organic cc. The top line was negatively impacted by the injunction ruling against roof-measurement solutions and decline in certain transactional revenues in connection with the COVID-19 pandemic.

Energy and Specialized Markets segment revenues of \$163.8 million increased 16.7% year over year on a reported basis but declined 1% in organic cc. The uptick can be attributed to contributions from the Genscape acquisition, environmental health and safety-service solutions, core research, and weather-analytics solutions. These were partially offset by declines in cost-intelligence solutions' implementation projects, which did not reoccur, and consulting revenues in connection with the COVID-19 pandemic.

Financial Services segment revenues of \$40.3 million declined 7.1% year over year on a reported basis but improved 1.6% in organic cc. The segment was impacted by declines in the company's spend informed analytic solutions arising from the COVID-19 pandemic and the recent dispositions.

### Operating Results

Adjusted EBITDA of \$366.2 million increased 18.4% on a reported basis and 14.8% on organic cc. Adjusted EBITDA margin came in at 52.1% compared with 47.4% in the prior-year quarter.

### Balance Sheet and Cash Flow

Verisk exited third-quarter 2020 with cash and cash equivalents of \$309.4 million compared with \$204.4 million at the end of the prior quarter. Long-term debt was \$2.69 billion compared with \$2.65 billion at the end of the prior quarter.

The company generated \$207.1 million of cash from operating activities and capex was \$65 million. Free cash flow was \$142.3 million.

### Share Repurchases & Dividend Payout

The company paid out a cash dividend of 27 cents per share on Sep 30. On Oct 28, the company's board of directors approved a quarterly cash dividend of 27 cents, payable on Dec 31, to shareholders of record as of Dec 15.

Including the accelerated share repurchase settled in the third quarter of 2020, the company repurchased nearly 0.3 million shares at an average price of \$180.97, for a total cost of \$50 million. As of Sep 30, 2020, the company had \$329 million available under its share repurchase authorization.

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## Recent News

On **Dec 15, 2020**, Verisk announced that it has entered into an agreement to acquire Jornaya, a leading provider of consumer behavioral data and intelligence.

On **Dec 02, 2020**, Verisk announced a strategic partnership with BlueVoyant. The collaboration allows Verisk to offer insights driven by BlueVoyant's cybersecurity monitoring technology to insurance organizations through the Verisk Cyber Solutions Suite.

On **Dec 01, 2020** Verisk announced that it has expanded its relationship with Medallia. Verisk now has access to Medallia's customer and employee engagement solutions, customer success platform and ideation crowdsourcing tool.

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## Valuation

Verisk's shares are up 16.9% in the past six months and 32.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are up 10% and 2% respectively in the past six months. In the past year, the Zacks sub-industry is up 2.4% but the sector is down 3.3%.

The S&P 500 index is up 19.1% in the past six month period and 17.7% in the past year.

The stock is currently trading at 37X forward 12-month price-to-earnings, which compares to 30.2X for the Zacks sub-industry, 30.71X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.01X and as low as 20.22X, with a 5-year median of 26.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$215.00 price target reflects 39.23X price-to-earnings.

The table below shows summary valuation data for VRSK

Valuation Multiples - VRSK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37	30.2	30.71	23.11
	5-Year High	38.01	30.85	31	23.79
	5-Year Low	20.22	19.56	18.67	15.3
	5-Year Median	26.31	22.75	21.33	17.82
P/S F12M	Current	11.09	6.94	6.02	4.49
	5-Year High	11.39	7.4	6.02	4.49
	5-Year Low	4.74	3.43	3.06	3.21
	5-Year Median	7.32	4.98	3.61	3.67
P/B TTM	Current	13.62	9.09	6.76	6.46
	5-Year High	14.38	11.33	6.79	6.46
	5-Year Low	7.57	4.29	3.3	3.74
	5-Year Median	9.84	6.53	5.48	4.93

As of 1/04/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	3
Broadridge Financial Solutions, Inc. (BR)	Neutral	3
Equifax, Inc. (EFX)	Neutral	3
FactSet Research Systems Inc. (FDS)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Gartner, Inc. (IT)	Neutral	1
Paychex, Inc. (PAYX)	Neutral	3

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

Industry Comparison Industry: Business - Information Services				Industry Peers		
	VRSK	X Industry	S&P 500	EFX	FISV	PAYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	F	B	D
Market Cap	32.99 B	11.42 B	25.84 B	22.86 B	75.04 B	32.59 B
# of Analysts	11	8	13	12	17	12
Dividend Yield	0.53%	0.00%	1.48%	0.83%	0.00%	2.74%
Value Score	D	-	-	D	C	D
Cash/Price	0.01	0.04	0.06	0.07	0.01	0.03
EV/EBITDA	34.67	23.85	14.72	1,537.73	28.49	17.32
PEG F1	4.00	3.44	2.84	2.30	1.35	3.84
P/B	13.62	7.32	3.65	7.71	2.31	11.28
P/CF	31.46	24.96	14.00	22.25	16.71	21.33
P/E F1	40.50	29.45	22.36	29.02	20.76	30.75
P/S TTM	12.00	7.84	2.86	5.84	4.98	8.20
Earnings Yield	2.70%	3.40%	4.34%	3.45%	4.82%	3.25%
Debt/Equity	1.11	0.58	0.70	1.10	0.64	0.28
Cash Flow (\$/share)	6.45	3.56	6.93	8.45	6.70	4.24
Growth Score	C	-	-	F	B	D
Historical EPS Growth (3-5 Years)	11.30%	15.26%	9.71%	3.98%	18.30%	9.92%
Projected EPS Growth (F1/F0)	7.88%	9.08%	0.00%	-3.06%	21.88%	-2.06%
Current Cash Flow Growth	6.53%	6.86%	5.22%	0.48%	147.85%	5.65%
Historical Cash Flow Growth (3-5 Years)	13.86%	13.86%	8.33%	8.37%	29.38%	12.12%
Current Ratio	0.56	1.32	1.38	0.97	1.06	1.28
Debt/Capital	52.71%	36.56%	41.97%	52.47%	39.48%	21.62%
Net Margin	24.33%	12.56%	10.40%	11.29%	6.01%	26.66%
Return on Equity	36.40%	17.10%	15.07%	29.20%	8.75%	37.99%
Sales/Assets	0.39	0.50	0.50	0.47	0.20	0.45
Projected Sales Growth (F1/F0)	6.59%	5.14%	0.00%	6.54%	7.33%	-1.36%
Momentum Score	D	-	-	B	B	A
Daily Price Change	-2.27%	0.00%	0.87%	-2.53%	-1.70%	-3.03%
1-Week Price Change	3.16%	0.56%	-0.44%	-0.58%	1.09%	-1.62%
4-Week Price Change	4.34%	1.56%	1.88%	10.03%	-4.28%	-3.41%
12-Week Price Change	5.26%	1.73%	11.31%	14.22%	4.91%	8.85%
52-Week Price Change	32.65%	17.32%	6.87%	31.00%	-4.28%	6.54%
20-Day Average Volume (Shares)	524,529	108,873	1,719,058	567,105	3,777,203	1,662,098
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.25%	0.51%	4.03%
EPS F1 Estimate 12-Week Change	1.84%	1.96%	3.68%	2.76%	-0.09%	3.97%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	2.10%	-1.34%	4.35%

Source: Zacks Investment Research

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## 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.

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### 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	C
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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.

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**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.

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**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.

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**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.