

VeriSign Inc. (VRSN)

\$207.78 (As of 09/03/20)

Price Target (6-12 Months): **\$218.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: C

Summary

VeriSign is benefiting from growth in .com and .net domain-name registrations. It ended the second quarter with 162.1 million .com. and .net domain-name registrations, up 3.8% year over year. Also, the renewal of the .com contract and price hikes for the .com and .net domain names bode well in the long haul. Per the amended cooperative agreement with the U.S. Commerce Department, VeriSign has the flexibility to pursue up to 7% increase in prices for .com domain names in each of the last four years of the six-year period of the registry agreement with ICANN. However, registry-price increases for all of its TLDs, including .com and .net, have been put on the back-burner through the end of 2020 due to the coronavirus outbreak. Stiff competition from ccTLDs and new gTLDs is a concern. Notably, shares have underperformed the industry year to date.

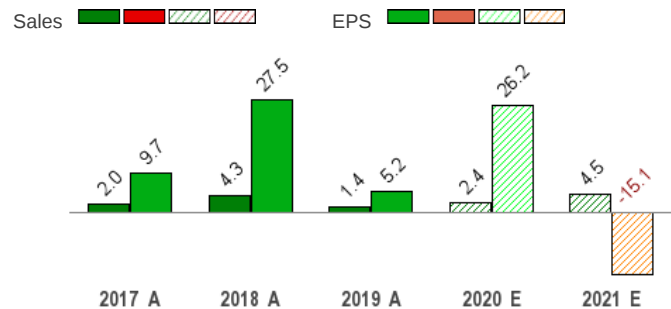
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$221.30 - \$148.77
20-Day Average Volume (Shares)	661,545
Market Cap	\$23.9 B
Year-To-Date Price Change	7.8%
Beta	0.85
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Software and Services
Zacks Industry Rank	Bottom 20% (200 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.5%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	38.4
P/E F1	31.0
PEG F1	NA
P/S TTM	19.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	322 E	325 E	332 E	339 E	1,319 E
2020	313 A	314 A	316 E	319 E	1,262 E
2019	306 A	306 A	308 A	311 A	1,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.41 E	\$1.49 E	\$1.51 E	\$5.69 E
2020	\$1.42 A	\$1.32 A	\$1.26 E	\$1.25 E	\$6.70 E
2019	\$1.31 A	\$1.33 A	\$1.36 A	\$1.31 A	\$5.31 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 09/03/2020. The reports text is as of 09/04/2020.

Overview

Based in Reston, VA, VeriSign Inc. provides Internet infrastructure services that include domain name registry services and infrastructure assurance services. Its only reportable segment includes Registry Services.

VeriSign reported revenues of \$1.232 billion in 2019. U.S. customers contributed 63% of total revenues, while 37% came from foreign customers.

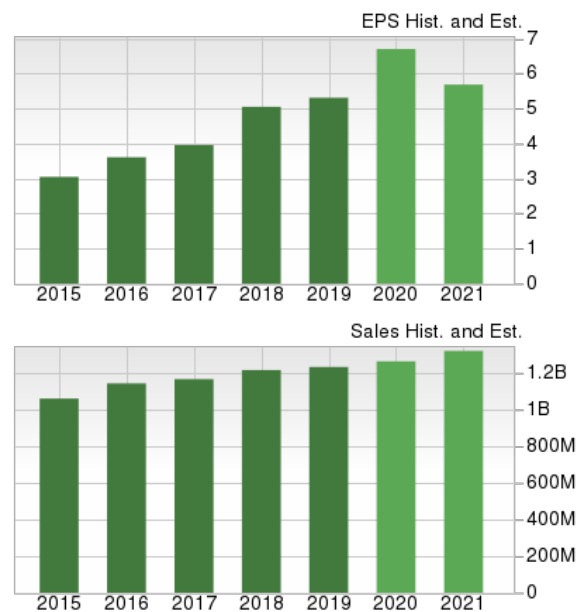
Registry services operate the .com, .net, .cc, .tv, .gov, .jobs, .edu and .name domain name directories. With respect to the .com, .net and .name domains, the company has agreements with The Internet Corporation for Assigned Names and Numbers (ICANN) that makes it the exclusive registrar of these domain names. The company has an agreement with the U.S. Department of Commerce with respect to the .com domain.

Other agreements make it the exclusive registry for the .tv and .cc country code top-level domains (ccTLDs) and the provider of back-end systems for all .gov, .jobs and .edu domain names. It also provides internationalized domain name (IDN) services for websites in local languages. VeriSign's gTLDs and ccTLDs can support standards-compliant registrations in more than 100 different native languages and scripts.

The company's operations infrastructure consists of three secure data centers in Dulles, VA; New Castle, DE; and Fribourg, Switzerland as well as more than 160 resolution sites around the world.

Domain names can be registered for between one and 10 years. The .com and .net fees are charged as per agreement terms with ICANN and based on prior approval. The .name fees are charged as per terms of agreement with ICANN, while the .gov registry fees are based on the terms of agreement with the U.S. General Services Administration (GSA).

On Dec 5, 2018, VeriSign completed the sale of its rights, economic benefits and obligations in all customer contracts related to the Security Services business, which primarily consisted of Distributed Denial of Service (DDoS) Protection Services and Managed Domain Name System (DNS) Services, to NeuStar, Inc.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ The renewal of the .com contract and price hikes for the .com and .net domain names remain drivers of VeriSign's top-line growth. An expected increase in domain name base is the key catalyst. The company is expected to benefit from growing Internet consumption globally. On Mar 27, Verisign signed the Third Amendment to the .com Registry Agreement with ICANN, which, among other changes, permits Verisign to increase the price of .com domain name registrations by up to 7% over the previous year, in each of the final four years of each six-year period. The first such six-year period had begun on Oct 26, 2018.
- ▲ The introduction and expansion of TLDs is an adjacent growth opportunity. The company has been a part of ICANN's new gTLD program by applying for Internationalized Domain Names (IDN) for .com and .net, which will expand the company's business significantly. Additionally, international expansion through IDNs will increase VeriSign's penetration into the growing APAC markets. Furthermore, the company will be offering a few IDNs as standalone domain names, giving more flexibility to users and that too without the need for obtaining approval from ICANN. The company has already rolled out IDNs in Japan and is now gearing up to make the service available for Korea as well. This apart, the company has also entered into an agreement for the .web TLD which will open more avenues for growth in VeriSign's registry business.
- ▲ VeriSign's solid cash flow generation ability make it an attractive stock for investors. As of Jun 30, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.19 billion compared with \$1.14 billion as of Mar 31, 2020. Moreover, the company generated cash flow of \$395.4 million from operations in the six months ended Jun 30, 2020, compared with \$352.2 million in the same period in 2019. Free cash was \$169 million in the second quarter 2020.
- ▲ VeriSign has been utilizing its robust cash flows to return value to investors through share buybacks. The company repurchased 0.7 million shares for an aggregate cost of \$150 million in second-quarter 2020. VeriSign has \$675.6 million available under its current share repurchase program.

The key positives for VeriSign are renewal of the .com contract and price hikes for the .com and .net domain names.

Reasons To Sell:

- ▼ Under the agreement with ICANN, VeriSign is subject to certain restrictions in the operation of .com on pricing, bundling and use of registrars. However, these restrictions do not apply to ccTLDs and the new IDNs. The introduction of new IDN TLDs and gTLDs by ICANN will also intensify competition. An increase in domain name availability in the marketplace while introducing new choices for end-users could also contribute to their confusion around brand preference, which, in turn, could have an adverse effect on the company's business. Moreover, the new gTLDs are yet to gain much traction in Japan and Korea adding to the concerns.
- ▼ Another significant headwind for VeriSign is the soft growth in the active domain name business for .com and .net TLDs. While new domain name registration has witnessed an uptrend over the past year, overall renewal rate for domains have been softening, especially for first-time renewals. The company has cited search algorithm changes and macroeconomic headwinds in some key regions (like China) as the primary factors behind these declines. Google's free public domain name service is also a major competitor.
- ▼ VeriSign has a leveraged balance sheet. Although the company's net debt was \$598 million as of Jun 30, 2020, lower than \$649 million as of Mar 31, 2020, total debt-to-capital stands at 460.4%, much higher than the industry's 54%. The significant debt burden might hinder growth prospects in the near term.
- ▼ We note that VeriSign currently has a trailing 12-month P/S ratio of 20.38, which compares unfavorably with that of the Zacks industry. The ratio is higher than the median of 19.13 and is closer to the high end of the valuation range over this period. Hence, its valuation looks slightly stretched from a P/S perspective.

VeriSign can be affected by soft growth in the active domain name business for .com and .net TLDs.

Last Earnings Report

VeriSign's Q2 Earnings Top Estimates, Revenues Rise Y/Y

VeriSign reported second-quarter 2020 adjusted earnings of \$1.32 per share, which beat the Zacks Consensus Estimate by 6.5% and recorded an increase of the same magnitude year over year.

Revenues increased 2.6% year over year to \$314.4 million and beat the Zacks Consensus Estimate by 0.6%.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	0.62%
EPS Surprise	6.45%
Quarterly EPS	1.32
Annual EPS (TTM)	5.41

Quarter Details

VeriSign ended the reported quarter with 162.1 million .com and .net domain name registrations, up 3.8% year over year.

The company processed 11.1 million new domain name registrations for .com and .net compared with 10.3 million in the year-ago quarter.

Notably, renewal rates are not fully measurable until 45 days after the end of the quarter. The final .com and .net renewal rate for the first quarter of 2020 was 75.4% compared with 75% for the year-ago quarter.

The company expects the renewal rate for second-quarter 2020 to be around 72.8%. The renewal rate in the second quarter of 2019 was 74.2%.

VeriSign's research and development (R&D) expenses rose 21.7% from the year-ago quarter to \$18.2 million. As a percentage of revenues, R&D expenses increased 90 basis points (bps) year over year to 5.8%.

General and administrative (G&A) expenses increased 11.2% year over year to \$36.9 million. As a percentage of revenues, G&A expenses increased 90 bps year over year to 11.7%.

However, sales and marketing expenses (S&M) declined 28.3% year over year to \$8.9 million. As a percentage of revenues, S&M expenses decreased 120 bps year over year to 2.8%.

Operating income was \$206.7 million, up 2.5% from the year-ago quarter. Operating margin contracted 10 bps year over year to 65.8%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.19 billion compared with \$1.14 billion as of Mar 31, 2020.

Cash flow from operating activities was \$215 million in the second quarter compared with \$180 million in the previous quarter. Free cash flow was \$169 million in the reported quarter.

In the second quarter, Verisign repurchased 0.7 million shares for an aggregate cost of \$150 million, which brings the total amount available for buybacks to \$676 million.

Key Developments in Q2

Verisign announced that it will extend the freeze on registry prices for all its top-level domains, including .com and .net, through Mar 31, 2021.

Additionally, Verisign announced the extension of the waiver of the wholesale restore fee for expired domains through the end of 2020.

2020 Guidance

Domain name base is expected to increase between 2.75% and 4% from 2019-end to 2020-end.

Moreover, VeriSign expects full-year revenues between \$1.255 billion and \$1.265 billion.

GAAP operating margin is expected in the 64.5-65.5% range.

Capital expenditure is anticipated in the range of \$45-\$55 million.

Recent News

On Aug 27, VeriSign announced that the second quarter of 2020 closed with 370.1 million domain-name registrations across all top-level domains (TLDs), up 3.3 million domain-name registrations, or 0.9% sequentially. Domain-name registrations grew 15.3 million, or 4.3% year over year.

On May 28, VeriSign announced that the first quarter of 2020 closed with 366.8 million domain name registrations across all top-level domains (TLDs), up 4.5 million domain name registrations, or 1.2% sequentially. Domain name registrations grew 14.9 million, or 4.2% year over year.

On Mar 10, VeriSign announced that the fourth quarter of 2019 closed with 362.3 million domain name registrations across all top-level domains, up 2.4 million domain name registrations, or 0.7% sequentially. Domain name registrations grew 13.5 million, or 3.9% year over year.

On Jan 3, VeriSign released a proposed agreement with the Internet Corporation for Assigned Names and Numbers (ICANN) to amend the .com Registry Agreement (RA). The new proposed amendment updates the .com registry agreement to reflect certain changes under amendment 35 to the cooperative agreement with the U.S. Department of Commerce, including the pricing changes.

According to the terms of the proposed Letter of Intent, VeriSign will have a one-time commitment to provide \$4 million per year over five years, beginning Jan 1, 2021, for ICANN to support activities to preserve and enhance the security, stability and resiliency of the DNS and the Internet.

Valuation

VeriSign shares are up 7.6% in the year-to-date period and 0.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 33.1% and 17.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 36.6% and 28.7%, respectively.

The S&P 500 Index is up 3% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 34.55X forward 12-month earnings compared with 49.79X for the Zacks sub-industry, 28.75X for the Zacks sector and 23.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.04X and as low as 21.35X, with a 5-year median of 28.95X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$218 price target reflects 36.28X forward 12-month earnings.

The table below shows summary valuation data for VRSN

Valuation Multiples -VRSN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.55	49.79	28.75	23.93
	5-Year High	44.04	49.79	28.75	23.93
	5-Year Low	21.35	19.78	16.72	15.25
	5-Year Median	28.95	28.51	19.70	17.6
P/S F12M	Current	18.35	6.56	4.65	4.4
	5-Year High	20.82	6.56	4.65	4.4
	5-Year Low	6.76	1.46	2.32	2.53
	5-Year Median	9.42	3.75	3.15	3.07
EV/Sales TTM	Current	19.63	7.42	4.84	3.36
	5-Year High	21.80	7.42	5.02	3.44
	5-Year Low	6.47	3.33	2.56	2.11
	5-Year Median	9.37	4.33	3.64	2.86

As of 09/03/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (200 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Endurance International Group Holdings, Inc. (EIGI)	Neutral	3
Globant S.A. (GLOB)	Neutral	3
HUYA Inc. Sponsored ADR (HUYA)	Neutral	3
Momo Inc. (MOMO)	Neutral	3
Vonage Holdings Corp. (VG)	Neutral	3
58.com Inc. (WUBA)	Neutral	3
Donnelley Financial Solutions Inc. (DFIN)	Underperform	5
Ringcentral, Inc. (RNG)	Underperform	4

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

Industry Comparison Industry: Internet - Software And Services				Industry Peers		
	VRSN	X Industry	S&P 500	DFIN	EIGI	VG
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	A	A	C
Market Cap	23.86 B	1.36 B	23.52 B	371.78 M	879.61 M	2.72 B
# of Analysts	2	2.5	14	1	1	10
Dividend Yield	0.00%	0.00%	1.62%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	C
Cash/Price	0.05	0.19	0.07	0.10	0.17	0.02
EV/EBITDA	27.76	7.02	13.12	4.23	8.09	28.48
PEG F1	NA	12.35	2.97	NA	NA	14.66
P/B	NA	4.38	3.20	1.37	4.28	4.96
P/CF	37.89	17.58	12.72	3.45	7.95	17.58
P/E F1	30.34	30.33	21.67	7.48	78.13	73.31
P/S TTM	19.16	4.01	2.49	0.43	0.80	2.23
Earnings Yield	3.22%	1.40%	4.40%	13.38%	1.28%	1.36%
Debt/Equity	-1.28	0.27	0.70	1.30	8.29	1.01
Cash Flow (\$/share)	5.48	0.83	6.93	3.19	0.79	0.63
Growth Score	A	-	-	A	C	B
Historical EPS Growth (3-5 Years)	19.03%	17.47%	10.41%	-11.40%	NA	-11.62%
Projected EPS Growth (F1/F0)	26.18%	-13.60%	-4.75%	25.64%	188.89%	-20.53%
Current Cash Flow Growth	5.10%	-0.55%	5.22%	-8.46%	-29.29%	-6.19%
Historical Cash Flow Growth (3-5 Years)	7.09%	21.25%	8.49%	2.19%	-14.75%	6.39%
Current Ratio	1.23	2.58	1.35	1.65	0.53	0.83
Debt/Capital	NA%	27.66%	42.95%	56.43%	89.23%	50.30%
Net Margin	63.32%	-0.57%	10.25%	2.85%	1.79%	-2.92%
Return on Equity	-54.86%	-4.30%	14.59%	9.14%	-2.36%	6.18%
Sales/Assets	0.68	0.68	0.50	0.92	0.42	0.91
Projected Sales Growth (F1/F0)	2.49%	1.18%	-1.42%	-3.43%	-1.18%	3.07%
Momentum Score	C	-	-	C	B	F
Daily Price Change	-5.43%	-4.93%	-2.14%	-4.43%	-4.43%	-5.75%
1-Week Price Change	0.68%	0.65%	2.59%	4.07%	4.28%	0.31%
4-Week Price Change	-1.90%	-4.12%	2.25%	-9.40%	4.51%	-11.65%
12-Week Price Change	1.77%	12.28%	11.04%	31.62%	89.39%	21.72%
52-Week Price Change	0.58%	5.43%	2.01%	-2.83%	15.10%	-13.72%
20-Day Average Volume (Shares)	661,545	470,858	1,827,096	264,477	531,838	2,595,186
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%	-71.13%	0.00%	-11.70%
EPS F1 Estimate 12-Week Change	1.64%	1.55%	3.89%	-80.42%	141.18%	-10.70%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-52.38%	0.00%	-24.58%

Source: Zacks Investment Research

Zacks Style Scores

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

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

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	C

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.