

Western Union Co. (WU)

\$23.59 (As of 08/31/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/29/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: B

Summary

Western Union's earnings of 41 cents per share beat the Zacks Consensus Estimate by 13.89% but the same was down 8.9% year over year. Earnings decline was due to revenue loss associated with the COVID-19 pandemic and lost earnings from the 2019 divestitures. Shares of Western Union have underperformed its industry in a year. It streamlined its business with the sale of SpeedPay and Paymap mortgage payments services business. Its continuous investment in developing digital platforms is impressive. Its disciplined capital management is another positive. However, its Consumer-to-Consumer and Business Solutions segments are under pressure. Increase in expenses weighs on its margins. Western Union withdrew its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty.

Data Overview

52-Week High-Low	\$28.45 - \$17.39
20-Day Average Volume (Shares)	4,422,952
Market Cap	\$9.7 B
Year-To-Date Price Change	-11.9%
Beta	0.85
Dividend / Dividend Yield	\$0.90 / 3.8%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 29% (72 out of 251)

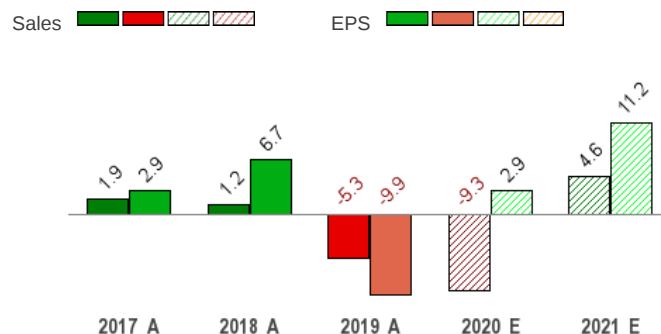
Last EPS Surprise	13.9%
Last Sales Surprise	2.2%
EPS F1 Estimate 4-Week Change	6.0%
Expected Report Date	10/29/2020
Earnings ESP	1.5%

P/E TTM	13.7
P/E F1	13.3
PEG F1	0.5
P/S TTM	2.0

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,224 E	1,202 E	1,292 E	1,314 E	5,021 E
2020	1,190 A	1,115 A	1,249 E	1,272 E	4,798 E
2019	1,337 A	1,341 A	1,307 A	1,308 A	5,292 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.47 E	\$0.52 E	\$0.52 E	\$1.98 E
2020	\$0.44 A	\$0.41 A	\$0.47 E	\$0.48 E	\$1.78 E
2019	\$0.39 A	\$0.45 A	\$0.49 A	\$0.38 A	\$1.73 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 08/31/2020. The reports text is as of 09/01/2020.

Overview

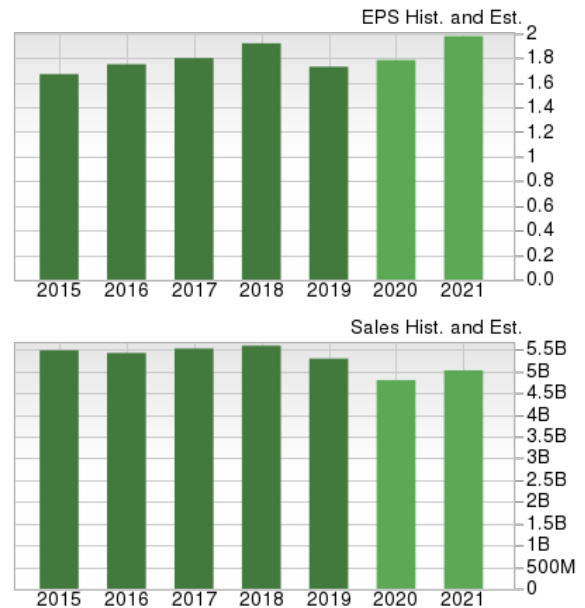
The Western Union Company, a leader in global money transfer, was formed as a result of a spin-off from First Data Corporation on Sep 29, 2006. Since then, it has been trading on the New York Stock Exchange (NYSE) under the symbol "WU".

Today, the company's vast platform capabilities include both digital and physical money movement networks with over 550,000 locations across more than 200 countries and territories, digital send capabilities in over 70 countries and bank account payout capabilities in over 100 markets offering across to billions of accounts.

Western Union's business consists of the following segments:

- Consumer-to-Consumer:** (83% of 2019 revenues) The Consumer-to-Consumer operating segment facilitates money transfer between two consumers, primarily through a network of third-party agents. This segment also includes money transfer transactions that can be initiated through websites and mobile devices. A substantial majority of the transfer in this segment is cross-border. The segment faces competition from global money transfer providers, regional money transfer providers, electronic channels, banks, post banks and post offices, informal networks, and also alternative channels.
- Business Solutions:** (7%) facilitates payment and foreign exchange solutions, primarily cross-border, cross currency transactions, for small and medium size enterprises and other organizations and individuals. The majority of the segment's business relates to exchange of currency at spot rates, which enable customers to make cross-currency payments. Other: (13.4%) which primarily consists of bill payments businesses in the U.S. and Argentina.
- Other:** (10%) which primarily consists of bill payments businesses in the U.S. and Argentina.

In May 2019, the company sold its Speedpay business and Paymap mortgage payments services business.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Business Streamlining:** Western Union sold its Speedpay business to ACI world for \$750 million. It also sold its Paymap mortgage payments services business. With the divestitures and smaller domestic money transfers, the company's business is now primarily focused on cross-border services for consumers, financial institutions, banks and other businesses. The company's focus aligns with its core competencies in foreign exchange, cross-border settlement, compliance and global retail and account payout network.
- ▲ **Growth of Digital Platform:** Digitally initiated money transfer, which includes westernunion.com and Mobile Money Transfer, is the fastest-growing segment of the market that is adding new customers and increasing business for the company. Revenues from the company's digital platform have been increasing over the years. Digital money transfer revenues including westernunion.com and digital partnerships increased 50% at constant currency and accounted for 22% of total C2C revenues and 31% of C2C transactions in the second quarter. In digital solutions, the company expects revenue growth to be led by adding more business verticals. The company continues to expand existing high-growth areas, such as education payments, while also leveraging its EDGE platform and digital self-service offerings. It has also taken initiatives to help its customers through its digital platform amidst coronavirus chaos.
- ▲ **Efficiency Improvement Initiative:** The company has started the implementation of its new Global Strategy, designed to drive improved efficiency, profitability, and long-term revenue growth. These initiatives are focused on improving efficiency and are expected to deliver approximately \$50 million of annual savings in 2020 as well as a three year target of \$150 million in addition to providing additional funds for reinvestment in business growth.
- ▲ **Focus on Enhancing Shareholders' Value:** Western Union remains committed to enhance shareholders' value through share buybacks and dividend payments. Recently, the company increased its quarterly dividend by 13%. The company's current dividend yield of 4.2% is way higher than 0.6% for the industry.
- ▲ **Share Price Performance:** In a year's time, shares of the company have underperformed its industry. Nevertheless progress on its fundamentals will aid its share price.

Expanding digital platform, recovering Business Solutions unit, initiatives to streamline business will drive long term growth at the company.

Reasons To Sell:

- ▼ **Consumer to Consumer Unit Under Pressure:** The company's C2C business has shown anemic revenue growth in the previous quarters. In the first half of 2020, revenues from the segment declined 8% year over year due to significant disruption from the COVID-19 pandemic. The business remains highly affected by competition from other fintech players that have the ability to provide services at low cost. Moreover, pricing action taken in some markets have also brought revenues under pressure. At April-end, the World Bank issued a forecast projecting 20% decline in global remittances for 2020. This decline in remittance is likely to keep the company's revenues stressed from the concerned segment.
- ▼ **Business Solutions Under Pressure:** Revenues in this segment have been declining since the past many years (only was up 4% in 2019). The same was again down 5% in the first half of 2020. Revenue declines were the result of softening trends and verticals with more exposure to COVID-19 including education, travel and tourism, and small and medium-sized enterprises. We believe that pressures on the top line will continue for some time. However, the company expects gradual improvement in the second half of the year in the Business Solution segment, driven by a slow uptick in global trade.
- ▼ **Weak Capital Position:** As of Jun 30, 2020, the company had cash of \$1.2 billion and debt of \$3.1 billion. It has undrawn \$1.5 million revolving credit facility and no significant debt maturities until 2022. However, it has a negative shareholders' equity or stockholders' deficit of \$73.4 million at June quarter-end, higher than the stockholders' deficit of \$39.5 million as of Dec 31, 2019. The rise in shareholders' deficit is indicative of the company's financial distress.
- ▼ **Return on Equity:** The company's return on equity (ROE) of -1029% remains significantly below the 28.5% positive returns for the industry. This reflects the company's inefficiency in using shareholders' funds.
- ▼ **Scraps 2020 Guidance and Share Buyback Due to Coronavirus:** Western Union has withdrawn its earlier-provided earnings guidance for 2020 following the COVID-19-induced business uncertainty. The temporary suspension of activities in several places resulted in lower consumer and commercial operations across multiple markets and also closed down some Western Union Agent locations. This might have a negative impact on the company's overall revenues. Also, the company scrapped its share buyback plans, leaving its bottom line bereft of the support provided by lower share count.

We remain cautious due to pressure on its main business Consumer to Consumer and foreign exchange volatility.

Last Earnings Report

Western Union Q2 Earnings Beat Estimates, Fall Y/Y

The Western Union's earnings of 41 cents per share surpassed the Zacks Consensus Estimate by 13.89%. However, the bottom line was down 8.9% year over year.

The year-over-year earnings decline was due to revenue declines associated with the COVID-19 pandemic and lost earnings from the 2019 divestitures, partially offset by productivity savings, additional cost-management measures and lower share count in the current year period.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	2.21%
EPS Surprise	13.89%
Quarterly EPS	0.41
Annual EPS (TTM)	1.72

Behind the Headlines

Total revenues of \$1.11 billion beat the Zacks Consensus Estimate by 2.21% but the top line declined 17.2% year over year due to lower transaction levels resulting from the COVID-19 pandemic.

Digital money transfer revenues grew 48% year over year or 50% on constant currency basis to \$219 million in the second quarter.

Total expenses of \$892.9 million fell 17% year over year owing to reduced cost of services and selling, general and administrative expenses.

Segmental Update

Consumer to Consumer (C2C)

Revenues of \$976.6 million dropped 12% year over year on a reported basis and 11% in constant currency. Total transactions decreased 8%. Covid-19-led disruption deflated revenues across all regions, except in Europe and CIS. The pandemic took a toll on global economy and remittances.

Digital revenues and transactions represented 22% and 31% of the C2C business in the quarter, respectively. Within the digital money transfer business, westernunion.com revenues surged 33% reportedly and 34% at cc including cross-border revenue growth of 48%.

Operating income of \$212.8 million decreased 15% year over year.

Operating margin contracted 70 basis points year over year to 21.8%.

Business Solutions

Revenues of \$79.4 million deteriorated 17% on a reported basis or 15% on constant currency basis due to softening trends in verticals more exposed to COVID-19 including education, travel and tourism, and small and medium-sized enterprises.

The segment reported operating income of \$1.3 million, down 88% year over year. Operating margin shrank 930 basis points year over year to 1.6%.

Balance Sheet (as of Jun 30, 2020)

Cash and cash equivalents were \$1.18 billion, down 18.5% from the level at 2019 end.

Borrowings dipped nearly 4.9% to \$3.08 billion from the level at 2019 end.

Stockholders' equity was a deficit of \$73.4 million, which widened from the deficit of \$39.5 million at the end of 2019.

For the first six months of 2020, the company generated net cash worth \$347.8 million from operations, down 13.6% year over year.

Recent News

Western Union Ties up With AXA to Offer Insurance Products – Jun 18, 2020

Western Union recently collaborated with AXA, which has a solid insurance and asset management business. The tie-up basically aims to provide life and disability insurance products at reasonable costs, thereby benefiting Western Union's clients in France. Further, the insurance offerings will be provided through the company's global omni-channel platform. Initially launched as a pilot program in France this week, the 'Transfer Protect' program provided a EUR1,000 AXA life and disability insurance product for one month at free of cost. The product has primarily been offered to those clients of Western Union, who send money to 10 countries in Africa through its digital platform.

Western Union & ELITE to Help Potential Growth Firms in UK – Jun 16, 2020

Western Union's unit —Western Union Business Solutions —recently tied up with ELITE, which is the international business support and capital raising programme of London Stock Exchange. The collaboration is intended to provide enhanced services suite to fast-growing companies in the U.K. The alliance involves integration of invaluable expertise of Western Union Business Solutions with ELITE's international business platform. Together they will work on devising effective payment strategies for fast-growing businesses with high growth potential.

Western Union Sees Significant Improvement in Consumer-to-Consumer Transaction – Jun 2, 2020

The company provided an update in its Consumer-to-Consumer (C2C) business for the month of May 2020 in response to the evolving business environment amid the COVID-19 pandemic. Due to the coronavirus outbreak, the company witnessed a nearly 30% contraction in business volumes, both in late March and early April. Total transactions declined 21% to 7% in April-May period compared with 30% decline in March to April period. Digital money transfer transaction increased 77% to 90% compared with nearly 50%.

Western Union Offers Paycheck Protection Program Loans – May 13, 2020

Western Union is now helping agents and businesses affected by the coronavirus outbreak. Small businesses, which are integral to the U.S. economy, have been adversely impacted by the COVID-19 pandemic. These businesses will now be able to get loans from Western Union via its U.S. Small Business Administration Paycheck Protection Program, which will partly solve their financial crunch.

Valuation

Western Union shares are down 11.9% year to date and up 6.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks sector are up 8.8% and 3.4%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the Zacks Sector is up 10.9% and 4.6%, respectively.

The S&P 500 index is up 3.1% year to date and 13.8% in the past year.

The stock is currently trading at 12.32x forward 12-month earnings, which compares to 32.86x for the Zacks sub-industry, 31.14x for the Zacks sector and 23.04x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.09x and as low as 8.53x, with a 5-year median of 11.04x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$25 price target reflects 14x forward earnings.

The table below shows summary valuation data for WU

Valuation Multiples - WU					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.32	32.86	31.14	23.04
	5-Year High	15.09	32.86	31.14	23.04
	5-Year Low	8.53	20.78	18.68	15.25
	5-Year Median	11.04	23.33	20.89	17.6
P/S F12M	Current	1.88	11.13	4.16	3.55
	5-Year High	2.25	11.28	4.16	3.55
	5-Year Low	1.27	7.18	3.06	2.53
	5-Year Median	1.67	8.78	3.59	3.02

As of 08/31/2020

Industry Analysis Zacks Industry Rank: Top 29% (72 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	4
Diebold Nixdorf, Incorporated (DBD)	Neutral	3
Equifax, Inc. (EFX)	Neutral	3
FleetCor Technologies, Inc. (FLT)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
Ingenico Group (INGIY)	Neutral	3
MoneyGram International Inc. (MGI)	Neutral	2
WEX Inc. (WEX)	Neutral	3

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	WU	X Industry	S&P 500	ADS	DBD	GPN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	A	-	-	B	A	D
Market Cap	9.70 B	2.78 B	23.72 B	2.15 B	647.81 M	52.85 B
# of Analysts	8	6	14	9	2	15
Dividend Yield	3.82%	0.00%	1.65%	1.86%	0.00%	0.44%
Value Score	A	-	-	A	A	D
Cash/Price	0.12	0.08	0.07	2.21	0.69	0.03
EV/EBITDA	6.70	16.51	13.28	4.25	12.77	33.65
PEG F1	0.52	1.60	3.03	0.37	NA	1.37
P/B	NA	5.08	3.17	1.86	NA	1.91
P/CF	9.86	15.23	12.87	1.84	2.97	25.13
P/E F1	13.28	27.63	21.63	7.56	9.53	28.01
P/S TTM	1.97	4.92	2.53	0.41	0.16	7.92
Earnings Yield	7.55%	3.57%	4.39%	13.23%	10.55%	3.57%
Debt/Equity	-42.04	0.45	0.70	8.32	-3.33	0.31
Cash Flow (\$/share)	2.39	2.39	6.93	24.48	2.80	7.03
Growth Score	C	-	-	D	A	C
Historical EPS Growth (3-5 Years)	1.96%	17.88%	10.41%	3.50%	-34.43%	20.99%
Projected EPS Growth (F1/F0)	3.11%	-5.05%	-4.75%	-64.43%	725.00%	1.37%
Current Cash Flow Growth	-11.92%	13.06%	5.22%	-34.53%	27.22%	50.80%
Historical Cash Flow Growth (3-5 Years)	-2.25%	14.80%	8.49%	0.58%	2.99%	39.74%
Current Ratio	0.94	1.28	1.35	1.81	1.24	1.03
Debt/Capital	NA%	36.58%	42.92%	89.28%	NA	23.40%
Net Margin	12.38%	6.22%	10.25%	1.73%	-6.82%	5.68%
Return on Equity	-1,029.12%	16.87%	14.66%	42.34%	-5.88%	5.61%
Sales/Assets	0.57	0.47	0.50	0.21	1.06	0.15
Projected Sales Growth (F1/F0)	-9.34%	-2.99%	-1.40%	-19.76%	-13.74%	28.15%
Momentum Score	B	-	-	B	C	D
Daily Price Change	-1.54%	-1.89%	-0.82%	-3.92%	-2.23%	-0.37%
1-Week Price Change	2.00%	2.60%	2.59%	8.71%	6.23%	5.40%
4-Week Price Change	-2.56%	1.00%	3.55%	0.38%	21.57%	-1.35%
12-Week Price Change	-4.96%	9.96%	-0.44%	-31.75%	12.70%	-6.93%
52-Week Price Change	6.65%	1.53%	2.80%	-63.31%	-25.60%	6.41%
20-Day Average Volume (Shares)	4,422,952	529,191	1,839,384	846,233	1,203,369	1,839,384
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	6.02%	1.37%	0.20%	0.00%	0.00%	6.23%
EPS F1 Estimate 12-Week Change	6.89%	4.18%	3.87%	-22.66%	614.71%	5.94%
EPS Q1 Estimate Monthly Change	8.64%	3.83%	0.00%	0.00%	0.00%	10.74%

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	A
Growth Score	C
Momentum Score	B
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.

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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.