Feb 12, 2021

AmerisourceBergen (ABC)

$104.53 (As of 02/11/21)

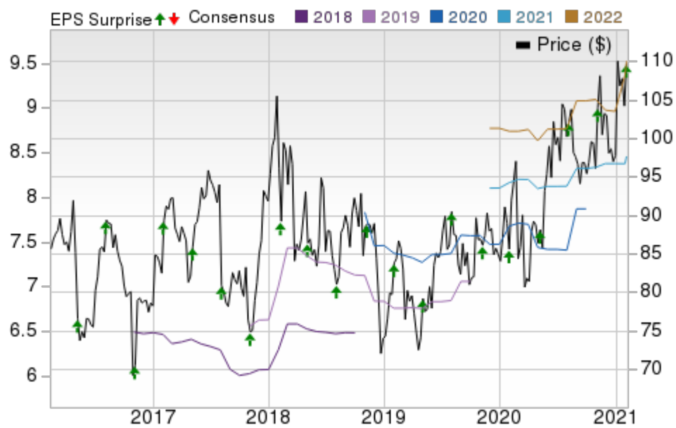
Price Target (6-12 Months): **$110.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/25/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: B	

Summary

AmerisourceBergen exited the fiscal first quarter on a strong note, wherein both earnings and revenues beat the consensus mark. The company continues to gain from Pharmaceutical segment and World Courier business, which have been generating significant profits for quite some time. Moreover, it witnessed increase in gross profit in the quarter under review. Also, expansion in both gross and operating margins is a positive. A strong fiscal 2021 outlook instills optimism in the stock. Quarter-to-date, AmerisourceBergen outperformed the industry. However, the company continues to encounter headwinds like conversion of branded drugs and lower price generics. Cut-throat competition in the MedTech space and economic stagnation amid coronavirus outbreak remain woes.

Price, Consensus & Surprise

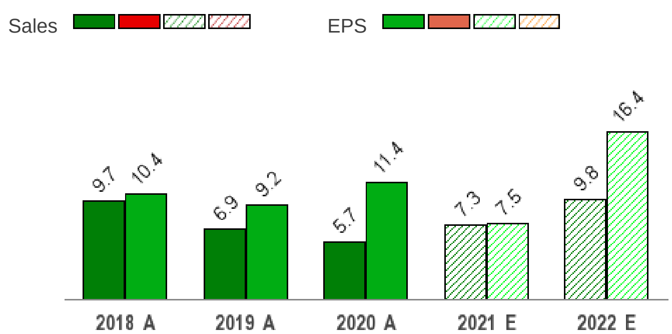


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$112.88 - $72.06**
20-Day Average Volume (Shares)	**1,281,342**
Market Cap	**$21.4 B**
Year-To-Date Price Change	**6.9%**
Beta	**0.49**
Dividend / Dividend Yield	**$1.76 / 1.7%**
Industry	**Medical - Dental Supplies**
Zacks Industry Rank	**Top 44% (111 out of 253)**
Last EPS Surprise	**12.4%**
Last Sales Surprise	**3.8%**
EPS F1 Estimate 4-Week Change	**1.6%**
Expected Report Date	**05/06/2021**
Earnings ESP	**0.7%**
P/E TTM	**12.6**
P/E F1	**12.3**
PEG F1	**1.1**
P/S TTM	**0.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	57,936 E	55,469 E	55,809 E	58,060 E	223,625 E
2021	52,517 A	49,584 E	50,038 E	52,036 E	203,663 E
2020	47,865 A	47,418 A	45,367 A	49,245 A	189,894 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$2.40 E	$2.77 E	$2.25 E	$2.21 E	$9.88 E
2021	$2.18 A	$2.50 E	$1.97 E	$1.91 E	$8.49 E
2020	$1.76 A	$2.40 A	$1.85 A	$1.89 A	$7.90 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 02/11/2021. The report's text and the analyst-provided price target are as of 02/12/2021.

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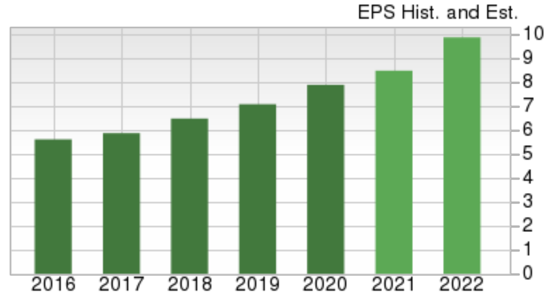
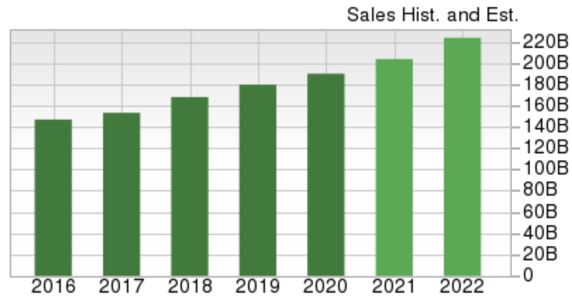
Overview

Chesterbrook, PA-based AmerisourceBergen is one of the world's largest pharmaceutical services companies, which focuses on providing drug distribution and related services to reduce health care costs and improve patient outcomes.





The company reports through two segments – Pharmaceutical Distribution and Other. The **Pharmaceutical Distribution business** includes the operations of AmerisourceBergen Drug Corporation (ABDC) and AmerisourceBergen Specialty Group (ABSG). The segment services healthcare providers in the pharmaceutical supply channel. The ABSG division provides pharmaceutical distribution and other services mainly to physicians, who specialize in a variety of diseases, especially oncology, and to other health care providers, including dialysis clinics. The ABDC division is involved in the distribution of branded pharma drugs and generic drugs, over-the-counter healthcare products, home healthcare supplies and equipment and related services to a range of healthcare providers.

The "**Other**" segment consists of AmerisourceBergen Consulting Services (ABCS), World Courier and MWI Veterinary Supply. The ABCS business provides commercialization support services to pharmaceutical and biotech manufacturers.

Key Acquisitions & Divestitures

In Jan 2018, AmerisourceBergen declared that it has completed the acquisition of H.D. Smith, the largest independent wholesaler in the United States, for $815 million in cash. The deal was initiated back in Nov 2017. The acquisition is expected to be slightly accretive to adjusted earnings per share in fiscal year 2018. Furthermore, the deal is expected to return 15 cents to adjusted earnings per share in fiscal year 2020. It is designed to strengthen the company's support to community pharmacy and drive long-term, durable value.

FY20 at a Glance

The company's fiscal year ends on Sep 30. Total revenue in fiscal 2020 came in at $189.89 billion. The Pharmaceutical Distribution Services contributed to 96.1% of net revenues in fiscal 2020. The other segment accounted for 3.9% of net revenues.

Source: Zacks Investment Research

Reasons To Buy:

▲ **Shares Up**: Quarter-to-date, shares of AmerisourceBergen have gained 6.9% compared with the industry's rally of 6.6%. Robust fiscal 2021 outlook, solid organic revenue growth, and strong performing World Courier unit and Pharmaceutical segment continues to drive the company's performance.

The company should benefit from continued solid organic revenue growth, World Courier unit and Specialty distribution business.

AmerisourceBergen's solid portfolio of customers remains a key driver of growth across its businesses, and the fiscal first quarter was no exception. With respect to the United States, the company continues to be the distributor of antiviral and antibody therapies, which have become increasingly crucial with more and more hospitalized patients continuing to receive these treatments as it is helping with COVID-19 recovery. In Canada, the company's Innomar business has collaborated with FedEx as the primary distributor for the COVID-19 vaccine.

▲ **Strong Fiscal 2021 Guidance**: AmerisourceBergen has updated its fiscal 2021 outlook, indicating sustained solid performance and solid execution.
It is important to note here that the outlook does not take into account any contribution from the Alliance Healthcare buyout or any incremental growth resulting from the expanded U.S. partnership announced in January 2021.

Adjusted EPS is now estimated to be $8.40-$8.60 (up from the prior-guided range of $8.25-$8.50). The Zacks Consensus Estimate currently stands at $8.37.

The company estimates revenue growth in the high-single-digit percent range (up from the prior mid-single-digit percent range).

Adjusted operating income is now projected to grow in high-single-digit percent range (up from the prior mid-single-digit percent range).

Operating income at Pharmaceutical Distribution Services segment is now anticipated to improve in high-single-digit percent range (up from the prior mid-single-digit percent range).

For the Other segment, the metric is estimated to grow in the mid-to-high single digit percent range (up from the previous mid-single-digit percent range).

Adjusted free cash flow is estimated to be around $1.5 billion.

The company anticipates adjusted effective tax rate to be 21-22%.

Adjusted operating expenses is projected to increase in the mid-to-high-single digit percent range (widened from the previous mid-single-digit percent range).

▲ **World Courier Business Holds Ground**: World Courier, a global leader in specialty logistics and a part of AmerisourceBergen, designs and executes world-class logistics processes. Per management, its position as the leader in global specialty logistics services drove compelling volume growth and overall performance for the company. The company also holds a designation as the first logistics company to obtain global Good Distribution Practices, or GDP, certification against three major GDP standards and the only provider to hold a GDP certification with such wide and global scope.

The business has been delivering robust results in recent times and the fiscal first quarter of 2021 was not an exception. During the fiscal first quarter, the business was able to provide more services and navigate the complexity of moving materials worldwide despite the challenging environment, while boosting innovation with clinical trial in at-home settings. World Courier's robust business fundamentals position it for another year of strong growth. In fact, World Courier's impressive track record as an international leader in specialty logistics have enabled AmerisourceBergen to lend support to customers globally despite a challenging COVID-19 induced environment and additional operational challenges.

Going forward, World Courier will continue to design and deploy patient-centric and forward-thinking transport services in new areas like in-home clinical trials, making treatments in patients' home possible in virtually every therapeutic area.

▲ **Pharmaceutical Distribution in Focus**: Pharmaceutical Distribution serves healthcare providers in the pharmaceutical supply channel. AmerisourceBergen has been witnessing strong revenue growth in this unit in the last couple of quarters. The segment rides on increasing volume and an expanding customer base. Strong organic growth rates in the U.S. pharmaceutical market, improving patient access to medical care, improved economic conditions and population demographics should benefit the segment in the quarters to come. In fiscal first-quarter 2021, revenues segment totaled $50.49 billion, reflecting an increase of 9.7% on a year-over-year basis on the back of higher volume related to growth of some of its largest customers and continued strength in specialty product sales. Segmental operating income was $496.1 million, up 26.6% year over year. Increase in gross profit resulting from revenue growth contributed to the upside.

▲ **Other Segment to Drive Growth**: This segment includes AmerisourceBergen Consulting Services (ABCS), World Courier and MWI Veterinary Supply. In first-quarter fiscal 2021, revenues at this segment were $2.05 billion, up 11.1% year over year. The upside was driven by growth across all three operating segments. Operating income in the segment was $121.6 million in the quarter, up 16.4% year over year primarily due to growth in World Courier and MWI.

▲ **Operational Efficiencies**: In the last two years alone, AmerisourceBergen invested more than $1 billion in capital expenditures to create operational efficiencies, leverage scale and provide best-in-class customer service. In fact, the company invested $370 million for the same in fiscal 2020. The company is now well positioned to realize long-term benefits from. Further, the recent U.S. tax legislation enhances the company's ability to invest in business, to innovate and to deliver value to its shareholders. Over the long-term, this enables AmerisourceBergen to grow the U.S. business. Recently, the company made strategic investments in IT systems, positioning AmerisourceBergen to realize greater operational efficiency and increased operating leverage.

▲ **Generics & New Product Launches to Drive Growth**: AmerisourceBergen is expected to benefit from generics growth in the long run. AmerisourceBergen is well-positioned to help ensure products get to market as efficiently as possible. Strong organic growth rates in the U.S. pharmaceutical market, improving patient access to care, improved economic conditions and population demographics, introduction of new innovative drugs like hepatitis C drugs, and a continued good brand pricing environment should drive growth. Moreover, the company's focus on specialty drugs has boded well.

During the fiscal third quarter of 2020, AmerisourceBergen introduced two new offerings at its MWI Animal Health business, which have been developed to help veterinarians manage the financial impact of the COVID-19. The new offerings enable practices to offer flexible financing solutions for clients, thereby lowering financial burden of both routine and emergency pet care. The offerings also aid the practices in achieving sustained revenues, long-term client engagement and improved patient outcomes.

▲ **Strategic Acquisitions**: AmerisourceBergen has been actively pursuing acquisitions to strengthen its core areas. In the recent past, the company announced that it acquired H.D. Smith, the largest independent wholesaler in the United States.

The MWI Veterinary acquisition has diversified the company's existing pharmaceutical distribution & services businesses into the attractive animal health market, which holds huge potential at the moment. MWI Veterinary Supply sells pharmaceuticals, vaccines, parasiticides, diagnostics, capital equipment, supplies, pet food and nutritional products. Organic growth, new innovative product introductions and market share gains continue to boost AmerisourceBergen's business. Apart from ABCS and World Courier, MWI contributed significantly to AmerisourceBergen's Other business unit in fiscal first-quarter 2021.

In January, AmerisourceBergen inked a strategic deal with Walgreens Boots Alliance to acquire the majority of the latter's Alliance Healthcare business for around $6.5 billion, which comprises $6.275 billion in cash and 2 million shares of AmerisourceBergen common stock. In addition to this buyout, the companies have agreed to extend their U.S. strategic partnership through 2029, thereby leading to incremental growth and efficiencies in sourcing, logistics and distribution. It is important to mention here that Alliance Healthcare is one of the largest pharmaceutical wholesalers in Europe. Hence, the transaction will enable AmerisourceBergen to strengthen its core wholesale business and expand distribution globally. Moreover, the buyout will provide a boost to AmerisourceBergen's platform to deliver sustained growth throughout pharmaceutical distribution and manufacturer services. The deal will offer expanded scale and added services, which will enable the combined business to better support pharmaceutical innovation through a global footprint of broad leadership and local expertise.

▲ **Other Deals to Boost Business**: We are positive on the deals signed by AmerisourceBergen, which should boost its top line. By the end of first quarter of fiscal 2019, management at AmerisourceBergen announced that it partners with Good Neighbor Pharmacy Network, Walgreens and others on safe drug disposal programs. The company has already entered into a strategic agreement with Walgreen Boots Alliance. The agreement includes a 10-year pharmaceutical distribution contract with Walgreens Boot Alliance, under which the company will distribute branded and generic pharmaceutical products to Walgreens. Moreover, the company announced that it has extended the term of its 10-year pharmaceutical distribution agreement with Walgreens Boot Alliance for three years. The contract will now expire in 2026.

Notably, in 2019, the company entered into a long-term strategic relationship with OneOncology — a national partnership of community oncologists in the United States. Additionally, Innomar Strategies, the Canadian operations business unit of the company, added Chronically Simple to its digital solutions portfolio. Chronically Simple is a secure web-based service and mobile application that has been developed to meet the complex needs of patients with chronic illnesses and ongoing health challenges.

▲ **Stable Liquidity Position**: AmerisourceBergen exited first-quarter fiscal 2021 with cash and cash equivalents amounting to $4.89 billion, up from $4.59 billion sequentially. Meanwhile, the company's long-term debt was $3.64 billion in the fiscal first quarter, up from $3.62 billion sequentially. Meanwhile, we can see that the current debt level of $59.4 million, significantly down from $501.3 million in the previous quarter. Although the quarter's long-term debt was significantly higher than the corresponding cash and cash equivalent level, the current debt level was much lower than the same. This is good news in terms of the company's solvency level as the company is holding sufficient cash for debt repayment.

Reasons To Sell:

Headwinds include MWI slowdown and cutthroat competition in the Medtech space.

- **Exit from PharMEDium Unit**: In late January 2020 AmerisourceBergen decided to exit the PharMEDium compounding business and, consequently, the company will cease all commercial and administrative operations related to this business. Given the decision to exit this business, the company anticipates to claim an ordinary income tax deduction and estimates that it will realize a cash tax benefit in fiscal 2020 through fiscal 2022 totaling around $500-$600 million. Per the fourth-quarter fiscal 2020 earnings call, the company's pharmaceutical business unit is likely to witness a tailwind of $20 million for the fiscal 2021 courtesy of the exit from PharMEDium business.

- **Generic Deflation**: Generic deflation has been higher than historic norms for several quarters for AmerisourceBergen, creating a headwind for the business. Generic deflation is still mid to high single-digits for the company.

  The company has been impacted by several factors, including accelerated deflation of generic drugs and a lower contribution from generic launches. These trends have intensified the effect of a shift in product mix toward lower-margin, higher-priced specialty and branded drugs, as well as the lack of generic inflation.

- **Competitive Industry**: AmerisourceBergen operates in a highly competitive pharmaceutical distribution and related health care services market. The company's primary competitors include Cardinal Health, McKesson along with national generic distributors and regional distributors. The generic industry is facing consolidation of customers and manufacturers, globalization and increasing quality and regulatory challenges. The company faces additional competition from manufacturers, chain drugstores, specialty distributors and packaging and health care technology companies. Meanwhile, ABSG is facing competition from the likes of McKesson, Cardinal Health, FFF Enterprises, Henry Schein and UPS Logistics. Increased competition will impact the company's business.

- **Contract Renewals a Headwind**: The company's largest customer – Walgreens accounted for a significant proportion of total revenue. The loss of any major customer will adversely impact the top line. However, since early fiscal 2018, AmerisourceBergen had no major contract renewals on the horizon. As of now, the company is seeing competitive stability across the industry.

Last Earnings Report

AmerisourceBergen Q1 Earnings & Revenues Beat Estimates

Quarter Ending	12/2020
Report Date	Feb 04, 2021
Sales Surprise	3.84%
EPS Surprise	12.37%
Quarterly EPS	2.18
Annual EPS (TTM)	8.32

AmerisourceBergen Corporation reported first-quarter fiscal 2021 adjusted earnings per share of $2.18 surpassing the Zacks Consensus Estimate of $1.94 by 12.4%. The bottom line also improved 23.9% year over year.

The better-than-expected bottom-line performance can be attributed to higher adjusted operating income.

Revenue Details

Revenues increased 9.7% to $52.52 billion in the reported quarter. Further, the top line beat the Zacks Consensus Estimate by 3.8%.

Segmental Analysis

Pharmaceutical Distribution Segment

Revenues at this segment totaled $50.49 billion, reflecting an increase of 9.7% on a year-over-year basis on the back of higher volume related to growth of some of its largest customers and continued strength in specialty product sales.

Segmental operating income was $496.1 million, up 26.6% year over year. Increase in gross profit resulting from revenue growth contributed to the upside.

Other Segment

This segment includes AmerisourceBergen Consulting Services (ABCS), World Courier and MWI Veterinary Supply.

Revenues at this segment were $2.05 billion, up 11.1% year over year. The upside was driven by growth across all three operating segments.

Operating income in the segment was $121.6 million in the quarter, up 16.4% year over year primarily due to growth in World Courier and MWI.

Margin Analysis

In the quarter under review, AmerisourceBergen reported adjusted gross profit of $1.43 billion, up 14.8% on a year-over-year basis. As a percentage of revenues, adjusted gross margin was 2.7% in the quarter, up 10 basis points (bps) a year-over-year basis.

The company reported adjusted operating income of $616.9 million, up 24.6% year over year. As a percentage of revenues, adjusted operating margin was 1.2% in the quarter, which expanded 20 bps from the year-ago quarter.

Fiscal 2021 Guidance Updated

AmerisourceBergen has updated its fiscal 2021 outlook, indicating sustained solid performance and solid execution. It is important to note here that the outlook does not take into account any contribution from the Alliance Healthcare buyout or any incremental growth resulting from the expanded U.S. partnership announced in January 2021.

Adjusted EPS is now estimated to be $8.40-$8.60 (up from the prior-guided range of $8.25-$8.50). The Zacks Consensus Estimate currently stands at $8.37.

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For the Other segment, the metric is estimated to grow in the mid-to-high single digit percent range (up from the previous mid-single-digit percent range).

Adjusted free cash flow is estimated to be around $1.5 billion.

The company anticipates adjusted effective tax rate to be 21-22%.

Adjusted operating expenses is projected to increase in the mid-to-high-single digit percent range (widened from the previous mid-single-digit percent range).

Valuation

AmerisourceBergen's shares are up 1.8% and 10.5% in the past six months and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 16.2% in the past six months period, while that in the Zacks Medical sector are up 8.5%. Over the past year, the Zacks sub-industry is up 16.4% while sector is up 7.6%.

The S&P 500 index is up 17.3% in the past six months period and 18% in the past year.

The stock is currently trading at 11.8X Forward 12-months earnings, which compares to 19.3X for the Zacks sub-industry, 23.1X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.3X and as low as 9.3X, with a 5-year median of 12.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our $110 price target reflects 12.4X forward 12-months earnings.

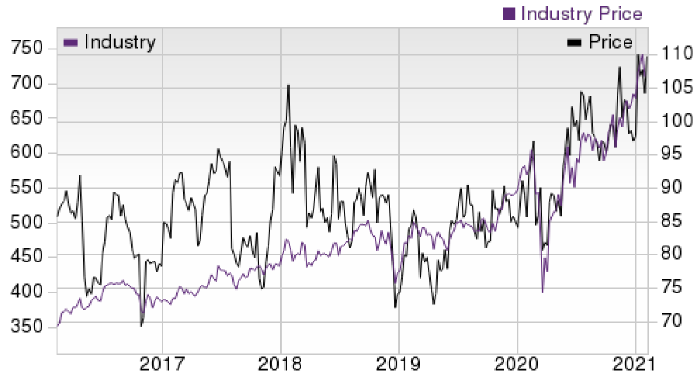
The table below shows summary valuation data for ABC.

Valuation Multiples - ABC

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.81	19.32	23.11	22.85
	5-Year High	16.33	19.77	23.11	23.8
	5-Year Low	9.32	13.63	15.9	15.3
	5-Year Median	12.52	16.64	19.14	17.85
P/S F12M	Current	0.1	0.43	2.89	4.56
	5-Year High	0.14	0.43	3.17	4.56
	5-Year Low	0.08	0.23	2.26	3.2
	5-Year Median	0.11	0.29	2.84	3.68
P/CF	Current	7.29	17.52	15.95	25.36
	5-Year High	19.92	19.4	17.16	25.36
	5-Year Low	4.25	8.14	11.42	12.86
	5-Year Median	9.13	13.39	14.91	18.46

As of 02/11/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 44% (111 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Align Technology, Inc. **(ALGN)**	Outperform	1
Becton, Dickinson and Company **(BDX)**	Neutral	3
Cardinal Health, Inc. **(CAH)**	Neutral	3
Henry Schein, Inc. **(HSIC)**	Neutral	3
Laboratory Corporation of America Holdings **(LH)**	Neutral	3
McKesson Corporation **(MCK)**	Neutral	3
Patterson Companies, Inc. **(PDCO)**	Neutral	4
DENTSPLY SIRONA Inc. **(XRAY)**	Neutral	2

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

Industry Comparison Industry: Medical - Dental Supplies

Industry Peers

	ABC	X Industry	S&P 500	BDX	CAH	MCK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	21.40 B	3.52 B	27.72 B	73.63 B	15.39 B	28.93 B
# of Analysts	8	5.5	13	12	9	9
Dividend Yield	1.68%	0.00%	1.42%	1.31%	3.71%	0.92%
Value Score	A	-	-	B	A	A
Cash/Price	0.22	0.06	0.06	0.05	0.23	0.12
EV/EBITDA	-4.24	16.83	14.81	23.52	-7.01	16.25
PEG F1	1.08	2.40	2.38	2.20	1.21	1.48
P/B	NA	5.16	3.81	2.99	7.79	NA
P/CF	10.46	16.47	15.29	14.28	6.08	8.51
P/E F1	12.31	23.64	20.64	19.82	8.84	10.69
P/S TTM	0.11	3.65	3.04	4.04	0.10	0.12
Earnings Yield	8.12%	3.26%	4.77%	5.05%	11.31%	9.35%
Debt/Equity	-7.12	0.19	0.68	0.65	3.40	-52.47
Cash Flow ($/share)	9.99	2.56	6.77	17.74	8.62	21.35
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	9.03%	8.67%	9.27%	7.65%	1.87%	6.15%
Projected EPS Growth (F1/F0)	7.48%	31.01%	13.85%	25.37%	8.75%	13.73%
Current Cash Flow Growth	2.02%	3.15%	3.46%	-8.29%	-2.74%	-33.76%
Historical Cash Flow Growth (3-5 Years)	7.86%	12.09%	7.74%	16.70%	5.57%	-0.50%
Current Ratio	0.99	1.66	1.38	1.36	1.17	1.01
Debt/Capital	47.71%	26.57%	41.31%	39.47%	77.29%	53.87%
Net Margin	-1.66%	-0.08%	10.58%	8.79%	0.88%	-1.76%
Return on Equity	108.70%	13.35%	14.86%	15.32%	108.66%	64.93%
Sales/Assets	4.50	0.81	0.51	0.34	3.72	3.92
Projected Sales Growth (F1/F0)	7.25%	10.64%	6.30%	13.56%	5.17%	3.74%
Momentum Score	B	-	-	C	A	A
Daily Price Change	-1.64%	-0.07%	0.21%	0.19%	-1.23%	-1.23%
1-Week Price Change	5.27%	6.67%	4.58%	-2.72%	0.99%	4.92%
4-Week Price Change	-1.05%	4.82%	1.11%	-1.70%	-5.38%	-0.57%
12-Week Price Change	2.58%	19.14%	8.61%	8.80%	0.23%	5.72%
52-Week Price Change	10.59%	10.59%	8.77%	-0.38%	-11.77%	8.25%
20-Day Average Volume (Shares)	1,281,342	458,898	2,095,832	1,341,452	1,875,189	971,329
EPS F1 Estimate 1-Week Change	0.51%	0.00%	0.00%	-0.01%	3.37%	0.07%
EPS F1 Estimate 4-Week Change	1.60%	0.00%	0.59%	2.58%	3.41%	4.71%
EPS F1 Estimate 12-Week Change	1.60%	1.08%	1.77%	2.60%	2.34%	4.77%
EPS Q1 Estimate Monthly Change	-0.02%	0.00%	0.22%	-6.91%	-0.76%	6.82%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	A
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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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 mediumterm 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 mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.