# Alexion Pharma (ALXN)

**$112.68** (As of 09/01/20)

Price Target (6-12 Months): **$118.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 02/04/20)
Prior Recommendation: Outperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:A
Value: A | Growth: A | Momentum: A

## Summary

Alexion's second-quarter results were strong despite the COVID-19 pandemic. Its blockbuster drug, Soliris, maintains momentum on the back of recent label expansions. The company's efforts to expand the drug's label further should boost sales. Ultomiris too is performing well. Potential label expansions of the drug should fuel the top line. Meanwhile, the company is also evaluating Ultomiris for COVID-19 infection and a positive outcome will boost prospects. Alexion has been making prudent acquisitions to strengthen its portfolio. It acquired Achillion Pharmaceuticals to fortify its PNH franchise. The company also diversified its commercial-stage portfolio with the acquisition of Portola. However, the company is still highly dependent on Soliris for growth. Shares have underperformed the industry in the past year.

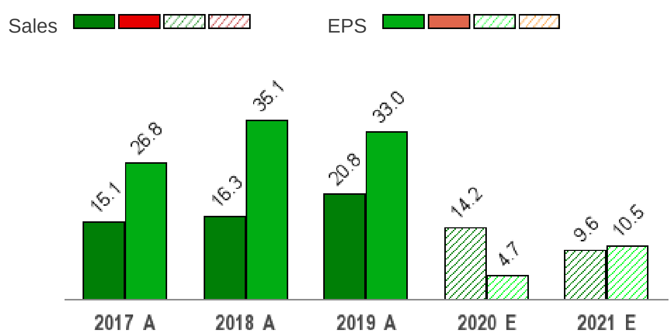
## Price, Consensus & Surprise


*Source: Zacks Investment Research*

## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$121.50 - $72.67** |
| 20-Day Average Volume (Shares) | **1,643,880** |
| Market Cap | **$24.7 B** |
| Year-To-Date Price Change | **4.2%** |
| Beta | **1.39** |
| Dividend / Dividend Yield | **$0.00 / 0.0%** |
| Industry | **Medical - Biomedical and Genetics** |
| Zacks Industry Rank | **Bottom 24% (190 out of 251)** |
| Last EPS Surprise | **22.0%** |
| Last Sales Surprise | **14.1%** |
| EPS F1 Estimate 4-Week Change | **0.3%** |
| Expected Report Date | **10/28/2020** |
| Earnings ESP | **0.8%** |
| P/E TTM | **9.5** |
| P/E F1 | **10.2** |
| PEG F1 | **0.9** |
| P/S TTM | **4.5** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 1,499 E | 1,559 E | 1,611 E | 1,679 E | 6,247 E |
| 2020 | 1,445 A | 1,445 A | 1,390 E | 1,412 E | 5,698 E |
| 2019 | 1,140 A | 1,203 A | 1,263 A | 1,384 A | 4,991 A |

## EPS Estimates

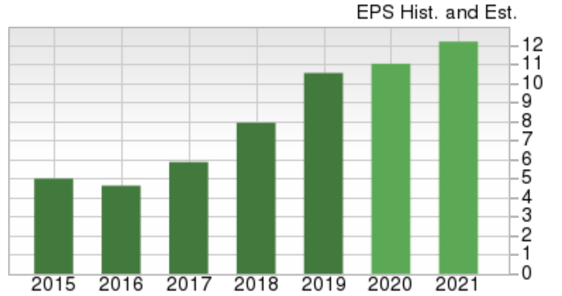
| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $2.89 E | $3.03 E | $3.08 E | $3.12 E | $12.18 E |
| 2020 | $3.22 A | $3.11 A | $2.48 E | $2.29 E | $11.02 E |
| 2019 | $2.39 A | $2.64 A | $2.79 A | $2.71 A | $10.53 A |

*Quarterly figures may not add up to annual.

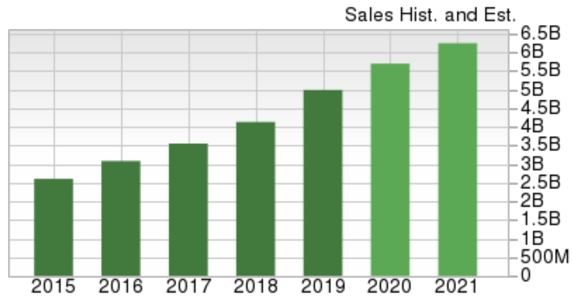
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/01/2020. The reports text is as of 09/02/2020.

## Overview

Based in New Haven, CT, Alexion Pharmaceuticals is a biopharmaceutical company focused on the development and commercialization of life-transforming drugs, for the treatment of patients with ultra-rare disorders.




The company's complement franchise consists of key growth driver, Soliris, which is approved for the treatment of two severe and ultra-rare disorders resulting from chronic uncontrolled activation of the complement component of the immune system — paroxysmal nocturnal hemoglobinuria (PNH) and atypical hemolytic uremic syndrome (aHUS). Soliris is also approved for the treatment of generalized myasthenia gravis (gMG) in adults who are anti-acetylcholine receptor (AChR) antibody-positive. The FDA also approved its long-acting C5 complement inhibitor, Ultomiris, for the treatment of adult patients with PNH, to be administered every eight weeks. In October 2019, the FDA approved the use of Ultomiris as a treatment for adult and pediatric (one month of age or older) patients with aHUS to inhibit complement-mediated TMA.




Under its metabolic franchise, the company markets Strensiq for the treatment of patients with pediatric-onset hypophosphatasia (HPP) and Kanuma for the treatment of patients with lysosomal acid lipase deficiency (LAL-D).

Alexion acquired Sweden-based biopharmaceutical company, Wilson Therapeutics AB, and clinical-stage biotechnology company, Syntimmune, in 2018. The company recently acquired Achillion Pharmaceuticals. The acquisition adds two oral Factor D inhibitors, danicopan (ACCH-4771) and ACH-5228, to Alexion's clinical-stage pipeline for the treatment of rare diseases associated with the complement alternative pathway. Phase III development is being initiated for danicopan as an add-on therapy for PNH patients with extravascular hemolysis (EVH). Danicopan is also in phase II development for C3 glomerulopathy (C3G) and ACH-5228 is in phase II development for PNH. Alexion also has a robust pipeline of several candidates under development across a range of therapeutic modalities.

Revenues for 2019 came in at $4.9 billion, up 21% from that in 2018. Soliris sales came in at $3.9 billion.


*Source: Zacks Investment Research*

## Reasons To Buy:

> Alexion's Soliris maintains momentum and the label expansion of the drug should further boost sales.

▲ **Soliris' Label Expansion Efforts Encouraging**: Alexion's blockbuster drug, Soliris, maintains momentum. The underlying growth of the drug has been robust for all approved indications — PNH, aHUS, and refractory gMG. Moreover, the FDA approved Soliris to treat neuromyelitis optica spectrum disorder (NMOSD). The drug was also approved in Europe and Japan for NMOSD. Alexion plans to initiate a phase II/III study in children and adolescents with NMOSD in the second half of 2020. To further increase the commercial potential of the drug, Alexion is working on expanding Soliris' label into additional indications. A phase III study of Soliris in children and adolescents with gMG is underway.

▲ **Ultomiris Approval a Significant Boost**: Alexion received a significant boost with the FDA approval of its long-acting C5 complement inhibitor, Ultomiris, for the treatment of adult patients with PNH, to be administered every eight weeks. The approval has strengthened the company's PNH franchise and reduced its dependence on Soliris for growth. The conversion rates of Soliris patients to Ultomiris has been encouraging. The drug was also approved in Europe and Japan for the indication of PNH. Meanwhile, Alexion is also working to expand Ultomiris' label. The drug was approved in the United States for the treatment of aHUS in adults and children one month and older. It was also approved in Europe for the same indication. A phase III study of Ultomiris in children and adolescents with PNH is underway. A phase III study in children and adolescents with aHUS is also underway.

In November and December 2019, applications for the approval of the Ultomiris 100mg/mL formulation were submitted in the EU and the United States, respectively. This higher concentration formulation is designed to reduce infusion time by more than 50% to approximately 45 minutes. The FDA has set a Prescription Drug User Fee Act target action date of Oct 11, 2020. A phase III study in adults with gMG is underway. In December 2019, Alexion initiated a phase III study of Ultomiris in NMOSD. It began dosing patients in a phase III study for the indication of Amyotrophic Lateral Sclerosis (ALS).

Meanwhile, Alexion initiated a study to evaluate its rare disease drug, Ultomiris, for COVID-19 infection. The initiation follows FDA's rapid review and acceptance of Alexion's investigational new drug (IND) application for Ultomiris for severe COVID-19. The global phase III study will evaluate Ultomiris in a subset of adults with COVID-19 – those who are hospitalized with severe pneumonia or acute respiratory distress syndrome (ARDS).

▲ **Diversification With Acquisitions/Collaborations:** Alexion is looking to diversify its portfolio and reduce dependence on its blockbuster drug, Soliris. In line with this strategy, Alexion acquired Sweden-based Wilson Therapeutics for $855 million. The acquisition added a late-stage candidate, ALXN1840 (formerly WTX101) to Alexion's pipeline. The candidate is being evaluated for the treatment of Wilson disease, a rare genetic disorder, in a phase III study. Enrollment is complete in this study and results are expected in the first half of 2021.

The company also acquired a clinical-stage biotechnology company, Syntimmune, for $1.2 billion in the fourth quarter of 2018. The acquisition added anti-FcRn antibody, ALXN1830 (formerly SYNT001), to the company's pipeline.
The company also announced a collaboration with Dicerna Pharmaceuticals to jointly discover and develop up to four subcutaneously delivered GalXC RNA interference (RNAi) candidates, currently in preclinical development, for the treatment of complement-mediated diseases.

Alexion announced a partnership with Complement Pharma to co-develop the preclinical C6 complement inhibitor, CP010 for neurodegenerative disorders. CP010 is a humanized monoclonal antibody in preclinical stages that binds to C6 in circulation to inhibit its function throughout the body by preventing MAC formation in both the periphery and the central nervous system. Alexion has also collaborated with Caelum Biosciences to develop CAEL-101 for light chain (AL) amyloidosis. A pivotal phase II/III will investigate CAEL-101 as an add-on to current standard-of-care therapy. In March 2020, the companies began dosing patients in the phase II dose selection portion of the program and the phase III portion of the program is planned to begin later in 2020, pending dose selection.
Alexion holds an exclusive license to develop and commercialize AG10 in Japan. Eidos is currently evaluating AG10 in a phase III study in the United States and Europe for ATTR cardiomyopathy (ATTR-CM) and plans to begin a phase III study in ATTR polyneuropathy (ATTR-PN) in 2020. Alexion plans to expand the AG10 program in Japan in 2020, pending regulatory feedback. The deal expands Alexion's amyloidosis portfolio. In March 2019, Alexion announced a partnership with Affibody AB to co-develop ABY-039 for rare Immunoglobulin G (IgG)-mediated autoimmune diseases. The company is collaborating with Zealand Pharma A/S to discover and develop novel peptide therapies for up to four targets in the complement pathway. In October, Alexion announced an agreement with Stealth BioTherapeutics for an option to co-develop and commercialize elamipretide for mitochondrial disease.

To strengthen its PNH franchise, Alexion acquired clinical-stage biopharmaceutical company, Achillion Pharmaceuticals, Inc., for $930 million. Achillion primarily focuses on the development of oral small molecule Factor D inhibitors to treat people with complement alternative pathway-mediated rare diseases, such as PNH and C3 glomerulopathy (C3G). The acquisition added two clinical-stage candidates to Alexion's pipeline — lead candidate, danicopan (ALXN2040), in phase II and ACH-5228 in phase I. Alexion plans to initiate a phase III study of ALXN2040 as an add-on therapy for PNH patients with extravascular hemolysis (EVH) by the end of 2020. A potential approval of danicopan will make Alexion a market leader in the PNH space.

Alexion acquired Portola Pharmaceuticals to expand and diversify its hematology, neurology and critical care commercial portfolio. Portola's Andexxa [coagulation factor Xa (recombinant), inactivated-zhzo], marketed as Ondexxya in Europe, is the first and only approved Factor Xa inhibitor reversal agent and has demonstrated transformative clinical value by rapidly reversing the anticoagulant effects of Factor Xa inhibitors, rivaroxaban and apixaban, in severe and uncontrolled bleeding.

▲ **Favorable Debt Profile**: As of Jun 30, 2020, Alexion's total debt to total capital ratio stood at 19.9X, which was slightly up from the year end's 19.1X. Nevertheless, the company has a sound cash position too with cash, and equivalents of $2.8 billion against long-term debt of $2.3 billion. This suggests that Alexion will be able to pay off its debt easily using only cash in hand.

## Reasons To Sell:

- **Share Price Performance**: Alexion's stock has underperformed the industry in the past year.

- **Overdependence on Soliris**: With Soliris accounting for majority of revenues at Alexion, the company relies heavily on the drug for growth. Below-par performance of the product will hurt the stock badly as Soliris is Alexion's key growth driver. Moreover, the drug is expected to lose exclusivity soon.

- **Pipeline Setbacks and Competition**: The company has faced significant setbacks in its attempts to expand Soliris' label. With several pipeline-related news expected over the upcoming quarters, any negative development could impact the stock adversely. In Feb 2017, Alexion decided to reduce its investment in SBC-103, (a recombinant form of the NAGLU enzyme) for the treatment of patients with mucopolysaccharidosis IIIB). While patients who are currently enrolled in the phase I/II study will continue to receive SBC-103, the company does not plan to conduct any additional studies. Although Soliris is currently the only approved therapy for the treatment of PNH and aHUS, Strensiq the only product approved for the treatment of HPP, and Kanuma, the only product for the treatment of LAL-D, there are many pharma and biotech companies that are looking to develop drugs for these indications. If successfully developed and approved, competition could affect Alexion's top line considerably.

Alexion relies heavily on Soliris for growth, which is concerning. Moreover, pipeline setbacks and macroeconomic issues remain material headwinds.

## Last Earnings Report

**Alexion Beats on Q2 Earnings & Sales, Ups '20 Guidance**

| Quarter Ending | 06/2020 |
|---|---|
| Report Date | **Jul 30, 2020** |
| Sales Surprise | **14.12%** |
| EPS Surprise | **21.96%** |
| Quarterly EPS | **3.11** |
| Annual EPS (TTM) | **11.83** |

Alexion's second-quarter adjusted earnings of $3.11 per share comfortably beat the Zacks Consensus Estimate of $2.55 and grew from $2.64 in the year-ago quarter.

Moreover, revenues rose 20.1% year over year to $1.44 billion in the reported quarter and surpassed the Zacks Consensus Estimate of $1.27 billion. Revenues were driven by higher sales of Ultomiris, Strensiq and Kanuma.

**Revenues in Detail**

Soliris (approved for the treatment of paroxysmal nocturnal hemoglobinuria [PNH], atypical hemolytic uremic syndrome [aHUS] and generalized myasthenia gravis [gMG]) sales were down5.4% year over year to $975.5million in the reported quarter.

Long-acting C5 complement inhibitor, Ultomiris approved for the treatment of adult patients with PNH and aHUS, generated sales of $251.1 million compared with $54.2 million in the year-ago quarter,representing a 363% increase.The company achieved its goal of establishing Ultomiris as a new standard of care in PNH, with more than 70% patient conversion from Soliris in the United States.

Strensiq revenues were $184.3 million (up 30% year over year). Kanuma contributed $33.6 million (up 28% year over year) to quarterly revenues.

In June, the European Commission approved Ultomiris for adults and children with aHUS.

**Cost Summary**

Adjusted research and development (R&D) expenses increased to $204.6 million from $148.7 million in the year-ago quarter.

Adjusted selling, general and administrative (SG&A) expenses were $253.6 million, down from $255.8 million in the year-ago quarter.

**2020 Guidance**

Alexion increased total revenues and adjusted earnings per share guidance and reducedthe operating margin guidance.

The company now expects adjusted earnings per share of $10.65-$10.95 (previous guidance:$10.45-$10.75). The company now projects revenues of $5.50-$5.60 billion (previous guidance: $5.23-$5.33 million).

Combined revenues from Soliris and Ultomiris are now estimated at $4.73-$4.76 billion (previous guidance: $4.49-$4.57 billion).

**Pipeline Update**

Alexion plans to initiate a phase II/III study in children and adolescents with Neuromyelitis Optica Spectrum Disorder (NMOSD) in the second half of 2020.
An application for approval of Ultomiris in aHUS is under review in Japan. A phase III study of Ultomiris in children and adolescents with aHUS is underway
Applications for approval of Ultomiris100mg/mL formulation are under review in the EU and the United States. The FDA has set an action date of Oct 11, 2020. This higher concentration formulation is designed to reduce infusion time by more than 50% to approximately 45 minutes. Alexion plans to file for regulatory approval of this formulation in Japan in the third quarter of 2020.

**Recent Developments**

In July 2020, Alexion announced the completion of its acquisition of Portola. The acquisition added Andexxa [coagulation factor Xa (recombinant), inactivated-zhzo] to the company's commercial and development portfolios. Andexxa has conditional approval in the United States and the EU (marketed as Ondexxya in the EU) for the reversal of anticoagulation in patients experiencing life-threatening or uncontrolled bleeding, who are treated with rivaroxaban or apixaban.

## Recent News

**Finalizes Settlement with the Securities and Exchange Commission – Jul 24**

Alexion finalized its settlement with the U.S. Securities and Exchange Commission (SEC) to resolve the previously disclosed investigation related to the company's compliance in certain countries with the Foreign Corrupt Practices Act (FCPA) and other applicable laws. Alexion will make a payment of approximately $21.5 million in disgorgement, civil penalties, and pre-judgment interest pursuant to the SEC's Order Instituting Proceedings (OIP). As previously disclosed, the U.S. Department of Justice (DOJ) has closed its inquiry into this matter.

**Acquires Portola – Jul 2**

Alexion announced that it acquired Portola Pharmaceuticals, Inc.

**Ultomiris Approved in Europe – Jun 29**

Alexion announced that the European Commission has approved the label expansion of its long-acting C5 complement inhibitor, Ultomiris, for a rare disease. The drug, administered every eight weeks, is approved for the treatment of adults and children with a bodyweight of 10 kg or above suffering from atypical hemolytic uremic syndrome (aHUS) who are complement inhibitor treatment-naïve or have received its other drug, Soliris, for at least three months and have evidence of response to Soliris. The European Commission's approval was based on data from two global, single-arm, open-label studies of Ultomiris — one in adults and another in children.

## Valuation

Alexion's shares are up 4.2% in the year-to-date period and 18.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 0.6% and 0.3%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 15.7% while the sector is up 8.9%.

The S&P 500 Index is up 3.8% in the year-to-date period and 15.3% in the past year.

The stock is currently trading at 9.65X forward 12-month earnings per share which compares to 51.42X for the Zacks sub-industry, 22.08X for the Zacks sector and 23.20X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 43.98X and as low as 8.07X, with a 5-year median of 18.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $118 price target reflects 10.1X forward 12-month earnings per share.

The table below shows summary valuation data for ALXN.

**Valuation Multiples - ALXN**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 9.65 | 51.42 | 22.08 | 23.2 |
| | 5-Year High | 43.98 | 67.14 | 23.2 | 23.2 |
| | 5-Year Low | 8.07 | 21.11 | 15.89 | 15.25 |
| | 5-Year Median | 18.63 | 38.23 | 18.99 | 17.6 |
| P/S F12M | Current | 4.1 | 2.73 | 2.8 | 3.95 |
| | 5-Year High | 13.53 | 3.25 | 3.25 | 3.95 |
| | 5-Year Low | 2.9 | 1.93 | 2.23 | 2.53 |
| | 5-Year Median | 6.38 | 2.72 | 2.89 | 3.07 |
| P/B TTM | Current | 2.35 | 3..03 | 3.87 | 4.53 |
| | 5-Year High | 5.26 | 5.87 | 5.07 | 4.76 |
| | 5-Year Low | 1.48 | 2.06 | 2.94 | 2.83 |
| | 5-Year Median | 3.05 | 3.86 | 4.28 | 3.76 |

As of 09/01/2020

## Industry Analysis **Zacks Industry Rank:** Bottom 24% (190 out of 251)


*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Vertex Pharmaceuticals Incorporated **(VRTX)** | Outperform | 3 |
| Amgen Inc. **(AMGN)** | Neutral | 3 |
| Biogen Inc. **(BIIB)** | Neutral | 3 |
| Gilead Sciences, Inc. **(GILD)** | Neutral | 3 |
| Incyte Corporation **(INCY)** | Neutral | 3 |
| Regeneron Pharmaceuticals, Inc. **(REGN)** | Neutral | 2 |
| SINO PHARMACEUT **(SBMFF)** | Neutral | 3 |
| Illumina, Inc. **(ILMN)** | Underperform | 5 |

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

## Industry Comparison Industry: Medical - Biomedical And Genetics

Industry Peers

| | ALXN | X Industry | S&P 500 | ILMN | INCY | VRTX |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Underperform | Neutral | Outperform |
| **Zacks Rank (Short Term)** | 3 | - | - | 5 | 3 | 3 |
| **VGM Score** | A | - | - | D | A | B |
| Market Cap | 24.70 B | 283.71 M | 23.95 B | 50.78 B | 20.33 B | 71.76 B |
| # of Analysts | 15 | 3 | 14 | 7 | 6 | 12 |
| Dividend Yield | 0.00% | 0.00% | 1.61% | 0.00% | 0.00% | 0.00% |
| **Value Score** | A | - | - | D | C | C |
| Cash/Price | 0.12 | 0.24 | 0.07 | 0.06 | 0.08 | 0.08 |
| EV/EBITDA | 9.17 | -3.60 | 13.32 | 34.31 | 34.56 | 42.83 |
| PEG F1 | 0.88 | 1.74 | 3.05 | 11.33 | NA | 1.43 |
| P/B | 2.35 | 4.04 | 3.21 | 11.21 | 8.67 | 9.54 |
| P/CF | 9.64 | 16.84 | 12.92 | 42.26 | 37.15 | 57.81 |
| P/E F1 | 10.26 | 24.53 | 21.84 | 79.29 | NA | 28.34 |
| P/S TTM | 4.46 | 15.11 | 2.52 | 15.15 | 8.52 | 13.28 |
| Earnings Yield | 9.78% | -12.79% | 4.39% | 1.26% | -0.31% | 3.53% |
| Debt/Equity | 0.22 | 0.02 | 0.70 | 0.14 | 0.01 | 0.07 |
| Cash Flow ($/share) | 11.68 | -1.08 | 6.93 | 8.23 | 2.50 | 4.77 |
| **Growth Score** | A | - | - | C | A | A |
| Historical EPS Growth (3-5 Years) | 27.70% | 19.03% | 10.41% | 20.27% | 52.48% | 183.54% |
| Projected EPS Growth (F1/F0) | 4.62% | 16.33% | -4.75% | -33.23% | -110.25% | 82.38% |
| Current Cash Flow Growth | 28.27% | 13.18% | 5.22% | 13.10% | 132.41% | 52.02% |
| Historical Cash Flow Growth (3-5 Years) | 20.68% | 7.73% | 8.49% | 16.75% | 140.30% | 31.70% |
| Current Ratio | 4.79 | 6.04 | 1.35 | 3.76 | 3.73 | 3.72 |
| Debt/Capital | 18.06% | 3.38% | 42.92% | 12.62% | 1.34% | 6.49% |
| Net Margin | 15.28% | -205.02% | 10.25% | 20.67% | -8.00% | 38.51% |
| Return on Equity | 22.57% | -59.07% | 14.66% | 19.13% | -8.06% | 28.55% |
| Sales/Assets | 0.33 | 0.19 | 0.50 | 0.46 | 0.76 | 0.62 |
| Projected Sales Growth (F1/F0) | 13.49% | 0.76% | -1.40% | -12.78% | 17.06% | 43.17% |
| **Momentum Score** | A | - | - | C | A | D |
| Daily Price Change | -1.35% | -1.80% | 0.29% | -2.63% | -3.51% | -1.30% |
| 1-Week Price Change | 6.45% | -1.85% | 2.59% | 0.26% | -0.22% | -0.49% |
| 4-Week Price Change | 7.09% | -3.00% | 3.53% | -11.64% | -6.98% | -0.08% |
| 12-Week Price Change | -2.85% | -2.90% | 2.09% | -2.78% | -0.03% | 1.71% |
| 52-Week Price Change | 18.39% | 5.64% | 4.31% | 27.80% | 16.13% | 54.16% |
| 20-Day Average Volume (Shares) | 1,643,880 | 290,337 | 1,816,754 | 934,260 | 1,014,846 | 1,094,343 |
| EPS F1 Estimate 1-Week Change | 0.30% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 0.30% | 0.00% | 0.20% | -28.62% | 5.08% | 1.91% |
| EPS F1 Estimate 12-Week Change | 0.76% | 1.41% | 3.86% | -28.85% | 13.18% | 14.03% |
| EPS Q1 Estimate Monthly Change | 1.08% | 0.00% | 0.00% | -55.69% | -32.85% | -0.59% |

*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 | A |
| Momentum Score | A |
| VGM Score | A |

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

## Disclosures

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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