

## Anthem, Inc.(ANTM)

**\$305.79** (As of 02/24/21)

Price Target (6-12 Months): **\$321.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/12/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

## Summary

Anthem's prudent acquisitions and collaborations complement its inorganic growth profile and help it boost Medicare Advantage growth. Its increasing top line, driven by premium rate increase and higher membership, paves the way for growth. Its solid guidance impresses. It witnessed a rise in usage of its virtual care services, which in turn poises it well for long-term growth amid the COVID-19 pandemic. Its shares have underperformed its industry in a year. Nevertheless, its strong capital position has enabled it to undertake shareholder-friendly moves via buybacks and dividend payments. However, its high costs continue to weigh on its bottom line. Its weak balance sheet is a concern. Its fourth-quarter earnings of \$2.54 per share missed the Zacks Consensus Estimate by 1.2% and plunged 34.5% year over year due to elevated costs.

## Price, Consensus & Surprise

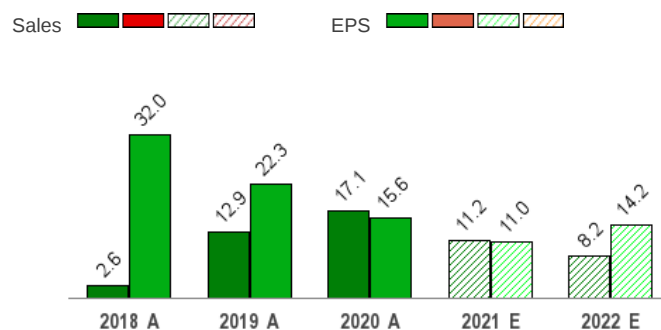


Source: Zacks Investment Research

## Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$340.98 - \$171.03         |
| 20-Day Average Volume (Shares) | 1,325,711                   |
| Market Cap                     | \$74.9 B                    |
| Year-To-Date Price Change      | -4.8%                       |
| Beta                           | 1.01                        |
| Dividend / Dividend Yield      | \$4.52 / 1.2%               |
| Industry                       | Medical - HMOs              |
| Zacks Industry Rank            | Bottom 19% (204 out of 253) |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | -1.2%      |
| Last Sales Surprise           | 2.3%       |
| EPS F1 Estimate 4-Week Change | -3.5%      |
| Expected Report Date          | 05/05/2021 |
| Earnings ESP                  | -4.8%      |

|         |      |
|---------|------|
| P/E TTM | 13.6 |
| P/E F1  | 12.3 |
| PEG F1  | 0.9  |
| P/S TTM | 0.6  |

## Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2022 |          |          |          |          | 145,293 E |
| 2021 | 32,884 E | 33,210 E | 34,176 E | 34,849 E | 134,280 E |
| 2020 | 29,448 A | 29,178 A | 30,649 A | 31,533 A | 120,808 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2022 | \$7.94 E | \$6.62 E | \$6.65 E | \$5.70 E | \$28.50 E |
| 2021 | \$6.89 E | \$6.19 E | \$6.28 E | \$5.68 E | \$24.95 E |
| 2020 | \$6.48 A | \$9.20 A | \$4.20 A | \$2.54 A | \$22.48 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 02/24/2021. The report's text and the analyst-provided price target are as of 02/25/2021.

## Overview

Based in Indianapolis, IN, and formed through the merger of Anthem Inc. and WellPoint Health Networks Inc. in Nov 2004, Anthem Inc. is one of the largest publicly traded managed care organizations in terms of membership. The company was previously named WellPoint Inc. (WLP).

Effective Dec 3, 2014, the corporate name was changed to Anthem, Inc. and began trading under the ticker "ANTM".

The company is also an independent licensee of the Blue Cross Blue Shield Association (BCBSA). Anthem is the largest BCBS plan provider in the United States. As of Mar 31, 2020, it catered to 42.1 million medical members through its affiliated health plans.

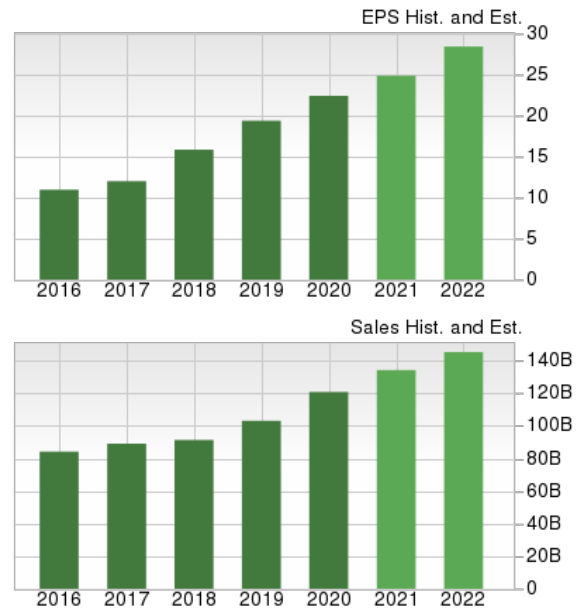
The company serves customers across all 50 states in the United States through its subsidiaries, namely UniCare and CareMore. Anthem now operates through four reportable segments:

**Government Business:** The segment consists of the Medicaid and Medicare businesses, National Government Services, and the Federal Employee Program ("FEP").

**Commercial & Specialty Business:** The segment covers the Local Group, National Accounts, Individual and Specialty businesses.

**IngenioRx:** The IngenioRx segment includes the company's PBM business, which began its operations in the second quarter of 2019. IngenioRx markets and offers PBM services to fully-insured and self-funded Anthem health plan as well as external customers.

**Other:** This comprises the unallocated corporate expenses as well as some businesses, which are not covered by the other two segments as they do not meet the quantitative thresholds for an operating segment as defined by Financial Accounting Standards Board.



Source: Zacks Investment Research

---

## Reasons To Buy:

▲ **Price Impact:** In a year's time, shares of Anthem have underperformed its industry. However, factors like an improving top line and a solid capital deployment are likely to help the stock bounce back going forward.

▲ **Rise of Telehealth:** The company witnessed a rise of usage of its Telehealth and virtual care services. Virtual health check-ups soared from the pre-COVID levels. Its live health online surpassed 1 million visits in early April. On its recent earnings call, management announced that growth in telemedicine is strong, especially for behavioral health services. Currently, telehealth comprises more than 50% of all behavioral health services compared with its low-single-digit utilization in the pre-COVID times. Given the current scenario and rising demand for telemedicine in behavioral health as well, the company expects this business to continue to fare well.

▲ **Active Acquisitions and Collaborations:** The company has been actively collaborating and acquiring companies for enhancing its expansion process. Acquisitions have helped the company boost its Medicare Advantage growth as well as add to its business portfolio. Some of the most remarkable ones are that of America's 1st Choice of South Carolina, Inc. and CVS Health in 2018 and 2017, respectively. The company has also launched successful partnerships with various companies recently and it expects its partnership model to accelerate growth. Anthem's acquisitions of Missouri and Nebraska Medicaid plans of WellCare Health in January 2020 also added around 300,000 Medicaid members under its coverage. The company's Beacon Health's buyout, the largest independently held behavioral health organization in the country, should strengthen its position in the space. The company also purchased AmeriBen recently, which helped it increase commercial and specialty business enrollment. All these initiatives bode well.

▲ **Earnings Guidance:** Following the company's fourth-quarter results, Anthem issued its outlook for 2021. Adjusted net income for the current year is projected to be more than \$24.50 per share. Medical membership is predicted in the range of 44.1-44.7 million, the midpoint indicating an upside of 3.5% from the 2020 figure. Operating revenues are anticipated at \$135.1 billion, encompassing premium revenues of \$114.5-\$115.5 billion. The revenue guidance implies an upside of 10.9% from the 2020 reported figure.

For the current year, investment income is expected to be \$940 million, reflecting a growth of 7.2% from the 2020's reported figure. A solid outlook should instill investor confidence in the stock.

▲ **Improving Top Line:** The company's top-line improvement remains impressive, witnessing a 4-year CAGR of 7.1% (2015-2019) on the back of a premium rate increase and higher membership. For 2020, its operating revenues were up 17.1% year over year, aided by IngenioRx. We expect the favorable top-line trend to continue, given its strong business growth.

▲ **Capital Deployment:** Anthem's strong capital and cash position have driven consistent dividend payouts and stock repurchases. The company initiated cash dividends in early 2011 and raised its dividend consistently, witnessing CAGR of 8.58% during the 2015-2018 period. The board of directors announced a dividend of \$1.13 per share on Jan 26, 2021 for first-quarter 2021, which represents a hike of nearly 19% from the prior payout. It has also been aggressively engaged in share buybacks, utilizing its excess capital to boost shareholder value. The company's cash flow from operations remains impressive. In 2020, the same exceeded expectation by surging 76.3% year over year. Share buyback activity was resumed in June last year, considering the company's solid solvency position. As of Dec 31, 2020, the company had shares worth \$1.1 billion remaining under its share buyback authorization.

▲ **Increasing Membership:** The company's Medical membership has been rising over the last several quarters on the back of its Medicare and Medicaid businesses. Although the metric dipped 0.9% in 2018, the same inched up 2.7% in 2019 on the back of fully insured business. Medical enrollment increased 4.7% year over year to 42.9 million members, backed by robust organic growth. This upside marks the 10th consecutive quarter of membership rise. Medical membership is forecast in the range of 44.1-44.7 million, the midpoint indicating an upside of 3.5% from the 2020's figure. Management said that it is poised to deliver a membership hike of nearly 1.5 million members at the midpoint. Several contract wins and organic growth are expected to drive its membership.

Strategic buyouts and collaborations and an improving top line along with the company's expanded product portfolio should drive long-term growth. Rise in telehealth impresses.

---

## Reasons To Sell:

- ▼ **Rising Expenses:** Anthem has been suffering from high expenses over the past few years, primarily caused by an increasing benefit expense along with selling, general and administrative (SG&A) expense. Increasing level of expenses continues to drain the bottom line. Anthem's total expenses inched up 1.2% and 15.2% during 2018 and 2019, respectively. In 2020, total expenses rose 17.7% year over year. The constant rise in expense might weigh down its margins going forward. The company might continue to face an elevated expense level due to COVID-related costs.
- ▼ **Profitability:** Anthem's return on equity (ROE) undermines its growth potential. Although the company's trailing 12-month ROE of 17.2% improved over the years, the same compares unfavorably with the industry average of 24.5%, indicating that it is less efficient in utilizing its shareholders' funds.
- ▼ **Weak Capital Position:** The company's net debt accounts for 27.2% of its capital, higher than the industry's average of 19.6%. Its cash and cash equivalents of \$3.9 billion as of Sep 30, 2020 are much lower than the long-term debt of \$19 billion. In fact, its times interest earned of 9X is way lower than its industry's average of 12.3X. Thus, a high debt and low interest coverage raise concern.

Rising expenses due to benefit expense along with selling, general and administrative expense are a headwind to the company.

## Last Earnings Report

### Anthem Q4 Earnings Miss Estimates, Revenues Up Y/Y

Anthem delivered fourth-quarter 2020 earnings of \$2.54 per share, which missed the Zacks Consensus Estimate by 1.2%. Further, the bottom line plunged 34.5% year over year due to elevated costs.

Nevertheless, Anthem's operating revenues of \$31.5 billion outpaced the Zacks Consensus Estimate by 2.3%. Moreover, the top line improved 16.2% year over year owing to increased premium revenues attributable to the company's strong Medicaid and Medicare businesses. Pharmacy product revenues stemming from the launch of IngenioRx and the return of the health insurance tax in 2020 have also contributed to the top-line growth.

Quarter Ending 12/2020

|                  |              |
|------------------|--------------|
| Report Date      | Jan 27, 2021 |
| Sales Surprise   | 2.25%        |
| EPS Surprise     | -1.17%       |
| Quarterly EPS    | 2.54         |
| Annual EPS (TTM) | 22.42        |

### Quarterly Operational Update

Anthem's benefit expense ratio of 88.9% contracted 10 basis points (bps) from the prior-year quarter primarily driven by lower non-COVID healthcare utilization due to the pandemic. However, the decrease was partially offset by higher testing and treatment costs related to the pandemic.

SG&A expense ratio of 13.7% expanded 80 bps from the year-ago quarter due to return of the health insurance tax in 2020 and higher spend while pursuing growth initiatives. Nevertheless, rise in operating revenues have partially benefited the metric.

Total expenses of the company increased 18.6% year over year to \$31.2 billion due to higher benefit expense, cost of products sold, selling, general and administrative expenses, interest expense, and amortization of other intangible assets.

### Segmental Results

#### Commercial & Specialty Business

Operating revenues of \$9.2 billion in the fourth quarter were down 1.1% year over year.

The segment reported an operating gain of \$123 million, which declined 76.7% year over year.

Operating margin was 1.3%, which contracted 430 bps from the year-ago quarter's figure.

#### Government Business

Operating revenues were \$18.8 billion, up 15.7% from the prior-year quarter.

Operating gain was \$169 million, down 71.2% year over year due to expenses associated with the COVID-19 pandemic, drifting of pharmacy earnings to the IngenioRx segment and, higher spend to assist growth.

Operating margin was 0.9%, down 270 bps year over year.

#### IngenioRx

While operating gain from the segment was \$363 million in fourth-quarter 2020, operating margin for the same came in at 6.2%.

#### Other

Operating revenues were \$1.8 billion, which soared 190.4% from the prior-year quarter.

The Other segment's operating loss of \$50 million compared unfavorably with the year-earlier quarterly loss of \$15 million.

### Financial Update

As of Dec 31, 2020, Anthem's cash and cash equivalents totaled \$5.7 billion, up 16.3% from the level at 2019 end.

As of Dec 31, 2020, its long-term debt less current portion increased 8.7% to \$19.3 billion from the level at 2019 end.

Operating cash outflow was \$3.8 billion for fourth-quarter 2020.

### Capital Deployment

During the fourth quarter, Anthem bought back shares worth \$1.4 billion. As of Dec 31, 2020, the company had shares worth \$1.1 billion remaining under its share buyback authorization.

Moreover, the company paid out a quarterly dividend of 95 cents per share, adding up to a distribution of cash worth \$234 million.

The company announced a dividend of \$1.13 per share on Jan 26, 2021 for first-quarter 2021, which represents a hike of nearly 19% from the prior payout. The new dividend will be payable on Mar 25, 2021 to its shareholders of record as of Mar 10.

### Full-Year Update

---

For 2020, operating revenues totaled \$120.8 billion, up 17.1% year over year. Full-year earnings per share was \$22.48, which improved 15.6% year over year.

As of Dec 31, 2020, Medical enrollment increased 4.7% year over year to 42.9 million members. This upside was primarily driven by higher total risk enrollment, fee-based enrollment, Government Business enrollment and Commercial & Specialty Business enrollment.

Operating cash flow of the year surged 76.3% year over year to \$10.7 billion. During 2020, the company repurchased shares worth \$2.7 billion.

#### **Guidance for 2021**

Following the company's fourth-quarter results, Anthem issued its outlook for 2021.

Adjusted net income for the current year is projected to be more than \$24.50 per share.

Medical membership is forecasted in the range of 44.1 million to 44.7 million.

Operating revenues are anticipated around \$135.1 billion encompassing premium revenues of \$114.5-\$115.5 billion.

Also, the company estimates operating cash flow of more than \$5.7 billion.

The company predicts the benefit expense ratio at 88%, plus or minus 50 bps.

For the current year, investment income is expected to be \$940 million.

Anthem envisions its SG&A ratio in the range of 10.8% plus or minus 50 bps.

---

---

## Valuation

Anthem's shares are down 5% and up 14.4% over the year-to-date period and trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 5.3% and up 2% over the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15% and the sector is up 8.8%.

The S&P 500 index is up 3.8% over the year-to-date period and 27% in the past year.

The stock is currently trading at 12x forward 12-month price to earnings, which compares to 15.71x for the Zacks sub-industry, 22.07x for the Zacks sector and 22.48x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.22x and as low as 7.57x, with a 5-year median of 13.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$321 price target reflects 12.59x forward 12-month earnings.

The table below shows summary valuation data for ANTM

| Valuation Multiples - ANTM |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 12    | 15.71        | 22.07  | 22.48   |
|                            | 5-Year High   | 19.22 | 20.58        | 22.86  | 23.8    |
|                            | 5-Year Low    | 7.57  | 12.48        | 15.9   | 15.3    |
|                            | 5-Year Median | 13.3  | 15.92        | 19.13  | 17.84   |
| P/S F12M                   | Current       | 0.56  | 0.78         | 2.77   | 4.53    |
|                            | 5-Year High   | 0.81  | 0.87         | 3.16   | 4.53    |
|                            | 5-Year Low    | 0.36  | 0.5          | 2.26   | 3.2     |
|                            | 5-Year Median | 0.59  | 0.72         | 2.83   | 3.68    |
| P/B TTM                    | Current       | 2.29  | 3.35         | 4.38   | 6.87    |
|                            | 5-Year High   | 2.88  | 4.07         | 5.11   | 6.97    |
|                            | 5-Year Low    | 1.25  | 2.3          | 3.02   | 3.84    |
|                            | 5-Year Median | 2.15  | 3.3          | 4.38   | 4.97    |

As of 02/24/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                          | Rec     | Rank |
|-------------------------------------------|---------|------|
| Centene Corporation (CNC)                 | Neutral | 3    |
| CVS Health Corporation (CVS)              | Neutral | 3    |
| Humana Inc. (HUM)                         | Neutral | 3    |
| The Joint Corp. (JYNT)                    | Neutral | 3    |
| Magellan Health, Inc. (MGLN)              | Neutral | 4    |
| Molina Healthcare, Inc (MOH)              | Neutral | 4    |
| Select Medical Holdings Corporation (SEM) | Neutral | 2    |
| UnitedHealth Group Incorporated (UNH)     | Neutral | 3    |

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

| Industry Comparison Industry: Medical - Hmos |           |            |           | Industry Peers |           |         |
|----------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                              | ANTM      | X Industry | S&P 500   | CNC            | HUM       | MOH     |
| Zacks Recommendation (Long Term)             | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                      | 4         | -          | -         | 3              | 3         | 4       |
| VGM Score                                    | A         | -          | -         | A              | A         | A       |
| Market Cap                                   | 74.89 B   | 3.14 B     | 27.72 B   | 34.52 B        | 49.15 B   | 13.11 B |
| # of Analysts                                | 9         | 4          | 13        | 10             | 9         | 7       |
| Dividend Yield                               | 1.24%     | 0.00%      | 1.45%     | 0.00%          | 0.66%     | 0.00%   |
| Value Score                                  | A         | -          | -         | A              | A         | A       |
| Cash/Price                                   | 0.43      | 0.30       | 0.06      | 0.37           | 0.35      | 0.47    |
| EV/EBITDA                                    | 7.77      | 8.18       | 15.30     | 8.16           | 6.91      | 8.19    |
| PEG F1                                       | 0.87      | 1.33       | 2.37      | 0.99           | 1.45      | 1.74    |
| P/B                                          | 2.29      | 2.86       | 3.89      | 1.33           | 3.68      | 6.39    |
| P/CF                                         | 11.07     | 11.07      | 15.89     | 8.28           | 16.23     | 18.41   |
| P/E F1                                       | 12.20     | 17.91      | 21.11     | 11.47          | 17.58     | 17.11   |
| P/S TTM                                      | 0.61      | 0.64       | 3.19      | 0.31           | 0.64      | 0.67    |
| Earnings Yield                               | 8.16%     | 5.48%      | 4.65%     | 8.73%          | 5.69%     | 5.84%   |
| Debt/Equity                                  | 0.58      | 0.50       | 0.66      | 0.64           | 0.44      | 1.12    |
| Cash Flow (\$/share)                         | 27.63     | 8.14       | 6.64      | 7.17           | 23.50     | 12.28   |
| Growth Score                                 | A         | -          | -         | A              | B         | A       |
| Historical EPS Growth (3-5 Years)            | 20.40%    | 25.12%     | 9.34%     | 26.22%         | 26.03%    | 54.15%  |
| Projected EPS Growth (F1/F0)                 | 10.97%    | 9.68%      | 13.95%    | 3.52%          | 15.73%    | 23.81%  |
| Current Cash Flow Growth                     | 10.97%    | 10.35%     | 1.21%     | 49.95%         | 4.32%     | -12.50% |
| Historical Cash Flow Growth (3-5 Years)      | 13.30%    | 14.11%     | 7.62%     | 51.41%         | 13.95%    | 17.22%  |
| Current Ratio                                | 1.55      | 1.47       | 1.38      | 1.08           | 1.76      | 1.59    |
| Debt/Capital                                 | 36.81%    | 33.72%     | 41.22%    | 39.30%         | 30.63%    | 52.88%  |
| Net Margin                                   | 3.75%     | 3.75%      | 10.59%    | 1.63%          | 4.36%     | 3.46%   |
| Return on Equity                             | 17.16%    | 17.45%     | 14.82%    | 11.53%         | 17.73%    | 32.24%  |
| Sales/Assets                                 | 1.42      | 1.42       | 0.51      | 1.63           | 2.11      | 2.40    |
| Projected Sales Growth (F1/F0)               | 11.15%    | 8.21%      | 6.82%     | 5.76%          | 6.37%     | 23.76%  |
| Momentum Score                               | D         | -          | -         | C              | D         | C       |
| Daily Price Change                           | 0.40%     | 0.39%      | 1.31%     | 0.08%          | 0.82%     | 0.39%   |
| 1-Week Price Change                          | 1.48%     | 0.09%      | -0.16%    | -2.08%         | -0.98%    | 2.10%   |
| 4-Week Price Change                          | 5.38%     | 2.89%      | 6.83%     | 1.59%          | 0.92%     | 4.19%   |
| 12-Week Price Change                         | -3.98%    | 11.56%     | 9.51%     | -7.03%         | -6.00%    | 8.64%   |
| 52-Week Price Change                         | 14.04%    | 26.91%     | 18.76%    | 9.12%          | 16.04%    | 75.58%  |
| 20-Day Average Volume (Shares)               | 1,325,711 | 302,415    | 2,013,595 | 3,503,925      | 1,211,947 | 405,579 |
| EPS F1 Estimate 1-Week Change                | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                | -3.45%    | -0.29%     | 0.62%     | 0.48%          | -0.29%    | -7.06%  |
| EPS F1 Estimate 12-Week Change               | -2.49%    | -0.71%     | 1.91%     | -5.92%         | -0.64%    | -7.20%  |
| EPS Q1 Estimate Monthly Change               | -12.68%   | 0.00%      | 0.15%     | 8.69%          | 17.81%    | -1.96%  |

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 | D |
| 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

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

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

---

## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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