

Cardinal Health Inc. (CAH)

\$49.44 (As of 11/04/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/11/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Cardinal Health's Medical segment delivered profit in the fiscal fourth quarter. Apart from these, the company's extension of agreements with CVS Health and buyout of mscrypts are positives. The company reaffirmed fiscal year 2020 outlook, which instills investor optimism. It also anticipates adjusted earnings per share to range between \$5.25 and \$5.65 in fiscal 2021. Cardinal Health exited the fiscal fourth quarter on a mixed note, wherein earnings surpassed the consensus mark, while revenues missed the same. However, the company witnessed decline in revenues in both its segments in the quarter under review. Contraction in both gross and operating margins remains a woe. Intense competition and customer concentration are other concerns. Shares of Cardinal Health underperformed the industry in a year's time.

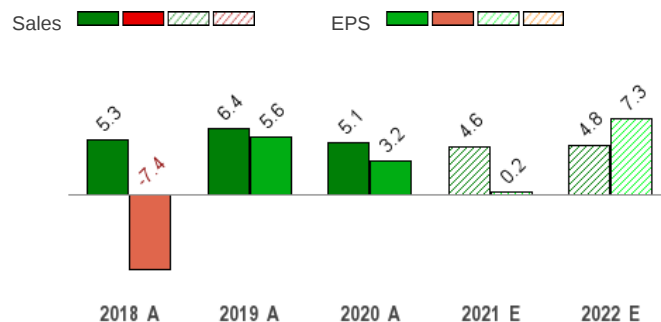
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$60.69 - \$39.05
20-Day Average Volume (Shares)	1,732,302
Market Cap	\$14.3 B
Year-To-Date Price Change	-3.5%
Beta	0.93
Dividend / Dividend Yield	\$1.94 / 4.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 24% (60 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.3%
Last Sales Surprise	-1.0%
EPS F1 Estimate 4-Week Change	0.3%
Expected Report Date	11/05/2020
Earnings ESP	0.7%
P/E TTM	9.0
P/E F1	9.1
PEG F1	1.5
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	40,119 E	43,181 E	41,865 E	41,574 E	167,628 E
2021	38,419 E	41,389 E	39,925 E	40,104 E	159,980 E
2020	37,341 A	39,735 A	39,157 A	36,689 A	152,922 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.30 E	\$1.54 E	\$1.68 E	\$1.31 E	\$5.86 E
2021	\$1.14 E	\$1.41 E	\$1.59 E	\$1.29 E	\$5.46 E
2020	\$1.27 A	\$1.52 A	\$1.62 A	\$1.04 A	\$5.45 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 11/04/2020. The reports text is as of 11/05/2020.

Overview

Headquartered in Dublin, OH, Cardinal Health Inc. is a nation-wide drug distributor and provider of services to pharmacies, healthcare providers and manufacturers. The company has two reporting segments – Pharmaceutical and Medical.

The Pharmaceutical segment is the second largest pharmaceutical distributor in the United States and the largest nuclear pharmacy. Its products and services include pharmaceutical distribution, manufacturer and specialty services, and nuclear and pharmacy services. This segment also offers “specialty pharmaceutical products and services”, which supplies (1) oncology, rheumatology, urology and other pharmaceutical products to physician offices; (2) human plasma products and specialty pharmaceutical products to hospitals and other healthcare providers; (3) consulting and other services to pharmaceutical manufacturers, third party payors and healthcare providers.

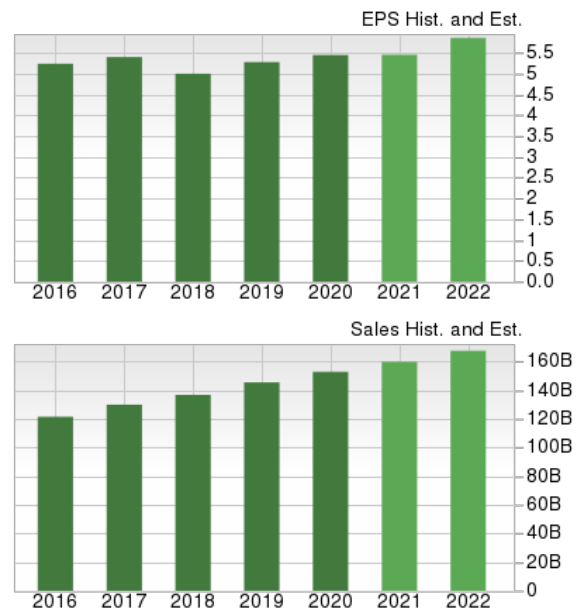
The Medical segment manufactures products such as single-use surgical drapes, gowns and apparel; exam and surgical gloves; and fluid suction and collection systems and offers sterile and non-sterile procedure kits. These products are sold directly or distributed via third-party sources in the U.S., Canada, Europe, South America and the Asia/Pacific.

FY20 at a Glance

In fiscal 2020, Cardinal Health registered adjusted earnings of \$5.45 per share, up 3.2% on a year-over-year basis. Revenues increased 5.1% on a year-over-year basis to \$152.9 billion. Delving deeper into the segmental revenue details, Pharmaceutical (89.9% of net revenues) increased 6% to \$137.49 billion in fiscal 2019. Medical revenues (10.1% of net revenues) fell 1% on a year-over-year basis to \$15.44 billion.

Important Acquisitions & Divestments

On Feb 1, 2018, Cardinal Health announced the divestiture of its Cardinal Health China business to Shanghai Pharmaceuticals Holding Co., Ltd. for \$1.2 billion.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Cost Savings:** In terms of costs, Cardinal Health announced in fourth-quarter fiscal 2019 earnings call that it anticipates incremental cost savings of \$130 million associated with actions intended to optimize and simplify its operating model and cost structure. In the fiscal first quarter, the company reaffirmed the same. The company benefited from this and exceeded its enterprise cost savings target for fiscal 2020.

▲ **Pharmaceutical Segment to Drive Growth:** Cardinal Health's Pharmaceutical segment is the second largest pharmaceutical distributor in the United States. The segment's products and services comprise pharmaceutical distribution, manufacturer and specialty services, and nuclear and pharmacy services, which are expected to majorly drive the quarters ahead. For the past few quarters, the segment has been acting as a key catalyst when it comes to driving growth. However, in the fiscal fourth quarter, pharmaceutical revenues dipped 0.5% to \$33.24 billion on a year-over-year basis. The downside can primarily be attributed to lower pharmaceutical demand on account of accelerated fiscal third-quarter sales associated with the COVID-19 pandemic. Moreover, Pharmaceutical witnessed a decline of 19.7% in profits to \$359 million. An adverse anticipated COVID-19 impact resulted in volume decline that primarily affected Nuclear and Precision Health Solutions and the company's generics program. Also, Pharmaceutical Distribution customer contract renewals weighed on the performance.

Nonetheless, elective procedures and physician office visits are expected to recover to pre-COVID 19 levels exiting fiscal 2021, with a more substantial impact in the first half of the year. This might reflect on the segment's performance in that period.

For fiscal 2021, the company expects Pharmaceutical segment to witness mid-single digit percentage growth in revenues and low-single digit percentage growth with respect to profit. Higher contribution from key growth areas — Specialty and Connected Care — and sustained market dynamics withing its generics program are anticipated to bolster the segment.

▲ **Diversified Product Portfolio:** Cardinal Health's Medical and Pharmaceutical offerings provide the company with a competitive edge in the niche space. The company offers industry expertise and an expanding portfolio of safe products. For example, Cardinal Health's Bathroom Safety, Mobility, and Exam Room Equipment products are exclusively designed for both patients and care givers. With a variety of products ranging from wheelchairs and crutches to exam room tables and commodes, Cardinal Health offers the right mix of medical equipment. Cardinal Health's ECG Monitoring Electrodes offer quality performance and are neoprene-free, lead-free and mercury-free. These are not made with natural rubber latex, and are highly exclusive in the markets.

The company maintains its continued focus in evolving growth areas with investments and partnerships in Specialty, at Home and Services.

▲ **Acquisition Drives Growth:** Cardinal Health follows an acquisition-driven strategy and continues to focus on investment in key growth businesses to gain market traction and boost profits. In recent past, Clayton, Dubilier & Rice and Cardinal Health jointly invested in Brentwood, Tennessee-based naviHealth. Cardinal Health sold a 55 percent stake in naviHealth to the New York City-based private equity firm Clayton Dubilier & Rice (CD&R). naviHealth has always been a strong performer for Cardinal Health. Management at Cardinal Health announced that the company is likely to have a competitive edge in the MedTech space with CD&R as a partner. Notably, in the fiscal fourth quarter, Cardinal Health completed the divestiture of its remaining equity interest in naviHealth.

In 2019, Cardinal Health acquired mscripits, a company that specializes in delivering patient adherence and engagement solutions via an innovative, user-friendly mobile and web-based health management platform.

▲ **Cushioned Against Macroeconomic Sluggishness:** Large-cap, diversified healthcare distributors such as Cardinal Health are relatively insulated from macroeconomic uncertainty and a weak economy. Cardinal Health is one of the largest distributors of pharmaceuticals and medical supplies. It has a diversified product portfolio, which is a hedge against the risk of sales shortfall in testing times. In fiscal 2019, Cardinal Health's focused on taking the necessary steps to address the changing industry dynamics to position the pharma distribution business for a long-term growth.

The company's generics business continues to show healthy growth, supported by a solid customer base, significant scale of operation and the competence to source products from a complex and global supply network. Cardinal Health has rationalized the number of generic suppliers. In addition, the company has expanded relationships with generic manufacturers that include several benefits like higher service levels, greater clarity on generic cost of goods sold, and a more consistent product supply with fewer disruptions.

▲ **Long-term Supply Agreements Buoy Optimism:** Cardinal Health is also pursuing growth via joint ventures and long-term supply agreements with several firms. The company entered a long-term strategic agreement with Henry Schein, under which the latter purchased Cardinal Health's medical supplies for physician practices. The collaboration is expected to drive core sales and prove accretive to Cardinal Health's earnings in the long term.

The signing of a 15-year agreement with Bayer Healthcare for the contract manufacturing of Xofigo is significantly positive. In our opinion, this will help the company leverage its expertise in the nuclear pharmacy industry to expand access to a therapeutic agent and increase the use of radiopharmaceuticals in the U.S. and Canada. The Red Oak Sourcing joint venture with CVS Health, which will negotiate generic pharmaceutical supply contracts on behalf of both companies, also holds significant long-term prospects for Cardinal Health. Cardinal Health extended agreements with CVS Health to distribute pharmaceuticals to retail pharmacies and distribution centers through Jun 30, 2023. In fact, with the recent renewals of CVS Health and Kroger, Cardinal Health now has contracts with three of its largest customers for the next four years.

▲ **Strong Liquidity Position:** Cardinal Health exited the fiscal fourth quarter with cash and cash equivalents of \$2.77 billion, compared with \$2.33 billion in the previous quarter. Meanwhile, long-term debt was \$6.77 billion, a slight increase from the \$6.75 billion sequentially. The

Cardinal Health's diversified portfolio represent significant long-term opportunities. Further, the company follows an acquisition-driven strategy.

long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$10 million in the quarter, significantly down from \$508 million sequentially, is in fact way lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Moreover, the company has robust cash flow trends. In the fiscal fourth quarter, the company generated \$240 million of operating cash flow, thereby indicating its continued commitment toward maintaining a robust balance sheet. Per management, the company returned over \$900 million to shareholders through dividends and share buybacks. Also, Cardinal Health boosted its balance sheet by paying down \$1.4 billion of long-term debt.

Reasons To Sell:

▼ **Share Price Movement:** Over the past year, shares of Cardinal Health lost 5.2%, against the industry's gain of 11.3%. The company witnessed decline in revenues in both its segments in the quarter under review. Contraction in both gross and operating margins remains a woe.

▼ **Weak Trends:** In the fiscal fourth quarter, gross profit declined 5% year over year to \$1.59 billion. As a percentage of revenues, gross margin in the reported quarter was 4.3%, down 20 basis points (bps) on a year-over-year basis. The company also reported operating income of \$270 million in the quarter under review, down 20.1% from the year-ago quarter. As a percentage of revenues, operating margin in the reported quarter was 0.7%, down 10 bps on a year-over-year basis.

Pharmaceutical segment witnessed a decline of 19.7% in profits to \$359 million. An adverse anticipated COVID-19 impact resulted in volume decline that primarily affected Nuclear and Precision Health Solutions and the company's generics program. Further, Pharmaceutical Distribution customer contract renewals weighed on the performance.

In the fiscal fourth quarter, revenues at the Medical segment declined 13% to \$3.45 billion attributable to negative impact of cancelled or deferred elective procedures associated with the COVID-19 pandemic, especially on products and distribution.

▼ **Probabilities of Loss of a Major Customer:** Cardinal Health faces the risk of losing considerable business in case of loss of a major customer, which in turn will severely impair its revenues in the future. In this regard, post the establishment of a generic sourcing joint venture with CVS Caremark in 2014, Cardinal Health largely depends on the former for over 20% of its revenues. Collectively, five of Cardinal Health's main customers, including CVS, accounted for as much as 40% of its revenues.

▼ **Group Purchasing Organizations:** Cardinal Health derives a significant quantum of revenues through agreements with group purchasing organizations (GPOs). These organizations act as agents that negotiate vendor contracts on behalf of their members. The company's largest GPO agents are Asembia, HealthTrust, Innovatix, Intalere, Premier Purchasing Partners, and six more. These GPOs accounted for a significant amount of Cardinal Health's revenues. Loss of relationship with either of these agents will severely affect the company's sales. In addition, some GPOs sell products that compete with distributors.

▼ **Integration Risks:** Cardinal Health continues to acquire a large number of companies. While this improves the company's revenue opportunities, it adds to integration risks. The Cordis acquisition was financed through a combination of debt and cash and the \$1 billion debt financing increased leverage in the near term.

▼ **Cutthroat Competition in MedTech Space:** Cardinal Health faces tough competition in each of its business segments. For example, its pharmaceutical supply chain business faces competition from McKesson and AmerisourceBergen as well as several smaller medical-surgical distributors such as Henry Schein and Owens & Minor. Moreover, the medical device market is a mature one compared to Cardinal Health's pharmaceutical business. Although Cordis has significant brand presence, we believe growing competition will hurt Cardinal Health's medical segment's margins in the near term.

Cardinal Health has been facing sluggishness in the exam-gloves unit lately. Further, cutthroat competition in the niche space is a headwind.

Last Earnings Report

Cardinal Health Q4 Earnings Top Estimates, Revenues Lag

Cardinal Health, Inc. reported fourth-quarter fiscal 2020 adjusted earnings of \$1.04 per share, which surpassed the Zacks Consensus Estimate of 91 cents by 14.3%. However, the bottom line declined 6.3% year over year.

For the fiscal 2020, the company reported adjusted EPS of \$5.45, which outpaced the Zacks Consensus Estimate by 3%. The figure improved 3.2% from the year-ago period.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-0.99%
EPS Surprise	14.29%
Quarterly EPS	1.04
Annual EPS (TTM)	5.45

Revenue Details

Revenues declined 1.8% on a year-over-year basis to \$36.69 billion. The top line also missed the Zacks Consensus Estimate by 0.9%.

For fiscal 2020, the company's revenues were \$152.9 billion, up 5.1% from the year-ago period. The metric, however, lagged the consensus mark by 0.3%.

Segmental Analysis

Pharmaceutical Segment

In the fiscal fourth quarter, pharmaceutical revenues dipped 0.5% to \$33.24 billion on a year-over-year basis. The downside was primarily due to lower pharmaceutical demand on account of accelerated fiscal third-quarter sales associated with the COVID-19 pandemic.

Pharmaceutical witnessed a decline of 19.7% in profits to \$359 million. An adverse anticipated COVID-19 impact resulted in volume decline that primarily affected Nuclear and Precision Health Solutions and the company's generics program. Also, Pharmaceutical Distribution customer contract renewals weighed on the performance.

Medical Segment

In the quarter under review, revenues at this segment declined 13% to \$3.45 billion attributable to negative impact of cancelled or deferred elective procedures associated with the COVID-19 pandemic, especially on products and distribution.

Medical segment profit improved 23.7% to \$120 million driven by benefits from cost savings initiatives and the beneficial comparison to a supplier-related charge in the previous year. However, adverse impact of the pandemic, particularly on products and distribution partially offset the upside.

Margin Analysis

Gross profit declined 5% year over year to \$1.59 billion.

As a percentage of revenues, gross margin in the reported quarter was 4.3%, down 20 basis points (bps) on a year-over-year basis.

Distribution, selling, general and administrative expenses totaled \$1.14 billion, down 2.7% year over year.

The company reported operating income of \$270 million in the quarter under review, down 20.1% from the year-ago quarter. As a percentage of revenues, operating margin in the reported quarter was 0.7%, down 10 bps on a year-over-year basis.

Financial Update

The company exited the quarter with cash and cash equivalents of \$2.77 billion, up 18.9% sequentially.

Net cash from operating activities totaled \$240 million at end of the fiscal fourth quarter, compared with \$506 million in the year-ago quarter.

2021 Guidance

The company anticipates adjusted earnings per share to range between \$5.25 and \$5.65. The Zacks Consensus Estimate is pegged at \$5.30 per share (the fiscal 2021 EPS outlook takes into account an incremental net headwind associated with the COVID-19 pandemic of a similar year-over-year magnitude as witnessed in fiscal 2020).

Valuation

Cardinal Health's shares are down 3.5% and 5.2% in the year-to-date period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 7% in the year-to-date period while that in the Zacks Medical sector are down 5.9%. Over the past year, the Zacks sub-industry and sector are up 11.3% and 1.5%, respectively.

The S&P 500 index is up 3.1% in the year-to-date period and 8.3% in the past year.

The stock is currently trading at 8.7X Forward 12-months earnings, which compares to 17.9X for the Zacks sub-industry, 21.1X for the Zacks sector and 21.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.7X and as low as 7.5X, with a 5-year median of 10.8X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 9.1X forward 12-months earnings.

The table below shows summary valuation data for CAH.

Valuation Multiples - CAH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.72	17.93	21.11	21.06
	5-Year High	16.72	19.77	23.05	23.47
	5-Year Low	7.45	13.63	15.9	15.27
	5-Year Median	10.79	16.49	19	17.7
P/S F12M	Current	0.09	0.36	2.64	3.89
	5-Year High	0.25	0.38	3.25	4.3
	5-Year Low	0.08	0.23	2.25	3.17
	5-Year Median	0.12	0.29	2.86	3.67
P/B TTM	Current	7.99	4.29	3.61	5.49
	5-Year High	18.25	4.73	5.09	6.17
	5-Year Low	1.97	2.54	2.97	3.74
	5-Year Median	3.58	3.45	4.3	4.89

As of 11/03/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 24% (60 out of 249)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
OwensMinor, Inc. (OMI)	Outperform	1
Thermo Fisher Scientific Inc. (TMO)	Outperform	2
AmerisourceBergen Corporation (ABC)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	4
Herbalife LTD. (HLF)	Neutral	2
Henry Schein, Inc. (HSIC)	Neutral	2
McKesson Corporation (MCK)	Neutral	3
Nu Skin Enterprises, Inc. (NUS)	Neutral	2

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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	CAH	X Industry	S&P 500	MCK	OMI	TMO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	3	-	-	3	1	2
VGM Score	B	-	-	B	A	B
Market Cap	14.31 B	2.81 B	23.25 B	25.95 B	1.62 B	194.80 B
# of Analysts	9	5.5	13	9	3	9
Dividend Yield	3.98%	0.00%	1.6%	1.05%	0.04%	0.18%
Value Score	B	-	-	B	A	C
Cash/Price	0.21	0.07	0.07	0.11	0.06	0.04
EV/EBITDA	-6.99	14.47	13.59	11.89	12.01	29.67
PEG F1	1.46	2.66	2.66	1.67	0.31	1.53
P/B	7.95	4.84	3.41	4.26	3.60	6.12
P/CF	5.66	14.57	13.02	7.50	8.58	27.18
P/E F1	9.05	25.61	20.92	10.57	13.71	27.63
P/S TTM	0.09	2.91	2.57	0.11	0.20	6.84
Earnings Yield	11.19%	2.63%	4.62%	9.46%	7.31%	3.62%
Debt/Equity	3.78	0.27	0.70	0.96	2.44	0.66
Cash Flow (\$/share)	8.62	1.73	6.92	21.35	2.97	18.08
Growth Score	B	-	-	C	A	B
Historical EPS Growth (3-5 Years)	1.54%	9.78%	10.07%	4.38%	-27.98%	15.29%
Projected EPS Growth (F1/F0)	0.14%	8.24%	-0.08%	1.22%	231.55%	44.05%
Current Cash Flow Growth	-2.74%	6.09%	5.34%	-33.76%	-69.53%	6.99%
Historical Cash Flow Growth (3-5 Years)	5.57%	12.65%	8.38%	-0.50%	1.47%	10.08%
Current Ratio	1.10	1.63	1.39	0.99	1.47	2.93
Debt/Capital	79.06%	26.10%	41.80%	53.87%	70.90%	39.86%
Net Margin	-2.42%	0.44%	10.44%	0.95%	-0.72%	17.12%
Return on Equity	130.94%	13.19%	14.94%	45.52%	18.07%	21.35%
Sales/Assets	3.77	0.90	0.50	3.88	2.41	0.47
Projected Sales Growth (F1/F0)	4.62%	0.00%	-0.11%	3.02%	-14.33%	17.73%
Momentum Score	C	-	-	B	D	C
Daily Price Change	2.67%	1.16%	2.01%	5.25%	-2.34%	2.28%
1-Week Price Change	-7.19%	-5.39%	-5.63%	-5.70%	-1.53%	-1.47%
4-Week Price Change	4.99%	0.50%	1.30%	9.42%	-1.78%	10.23%
12-Week Price Change	-8.01%	0.00%	1.19%	5.75%	71.73%	20.69%
52-Week Price Change	-5.26%	11.35%	1.05%	16.14%	294.57%	67.96%
20-Day Average Volume (Shares)	1,732,302	381,758	1,887,552	891,517	1,113,937	1,252,325
EPS F1 Estimate 1-Week Change	0.05%	0.00%	0.00%	0.32%	2.82%	0.00%
EPS F1 Estimate 4-Week Change	0.30%	0.25%	0.96%	0.33%	2.82%	16.19%
EPS F1 Estimate 12-Week Change	2.40%	5.18%	2.84%	0.33%	71.36%	22.61%
EPS Q1 Estimate Monthly Change	0.56%	0.13%	0.39%	-0.11%	-4.07%	21.09%

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	B
Growth Score	B
Momentum Score	C
VGM Score	B

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

Disclosures

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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