

Cerner Corporation (CERN)

\$68.55 (As of 03/03/21)

Price Target (6-12 Months): **\$72.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

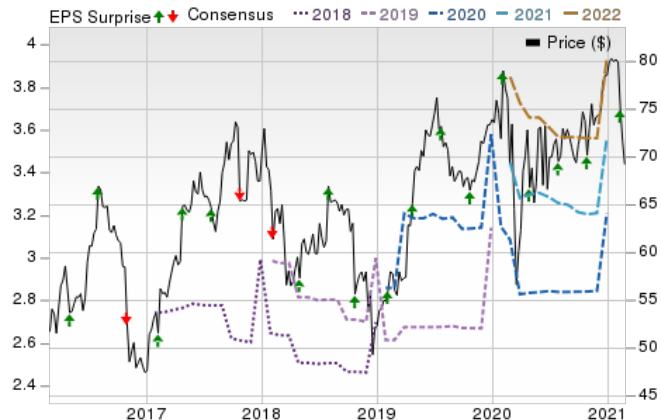
Growth: B

Momentum: B

Summary

Cerner exited the fourth quarter on a mixed note. The company continues to benefit from electronic health record (EHR), electronic patient record (EPR) or electronic medical record (EMR) platforms that provide patient care in acute inpatient and outpatient settings. Gains in Subscriptions and Managed Services units instill optimism. Gross margin expansion is also a positive. Also, bookings witnessed growth in the quarter under review. However, the company saw a decrease in revenues across Licensed software, Technology resale, Professional services and Reimbursed travel segments. Moreover, domestic and international revenues witnessed sluggishness in the quarter. Further, competition in the global MedTech space remains a concern. Shares of the company underperformed the industry in a year's time.

Price, Consensus & Surprise

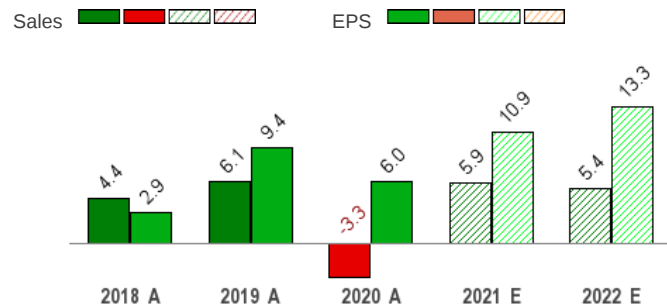


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$84.20 - \$53.08
20-Day Average Volume (Shares)	2,885,212
Market Cap	\$21.0 B
Year-To-Date Price Change	-12.7%
Beta	0.72
Dividend / Dividend Yield	\$0.88 / 1.3%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 17% (210 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.1%
EPS F1 Estimate 4-Week Change	-5.1%
Expected Report Date	04/27/2021
Earnings ESP	-0.2%

P/E TTM	24.1
P/E F1	21.8
PEG F1	2.0
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,499 E	1,509 E	1,569 E	1,611 E	6,146 E
2021	1,400 E	1,437 E	1,484 E	1,517 E	5,829 E
2020	1,412 A	1,330 A	1,369 A	1,395 A	5,506 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.84 E	\$0.85 E	\$0.90 E	\$0.96 E	\$3.57 E
2021	\$0.74 E	\$0.75 E	\$0.81 E	\$0.86 E	\$3.15 E
2020	\$0.71 A	\$0.63 A	\$0.72 A	\$0.78 A	\$2.84 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 03/03/2021. The report's text and the analyst-provided price target are as of 03/04/2021.

Overview

Based in North Kansas City, MO, Cerner Corporation (CERN) provides healthcare information technology (HCIT) solutions worldwide. The company offers software and hardware solutions that give healthcare providers secure access to clinical, administrative and financial data in a short time.

As of February 2018, its products were in use at more than 27,000 facilities around the world. The company had more than 28,000 employees globally, with over 13,000 in Kansas City, Missouri. More than 28,000 Cerner associates are currently employed in 26 countries worldwide

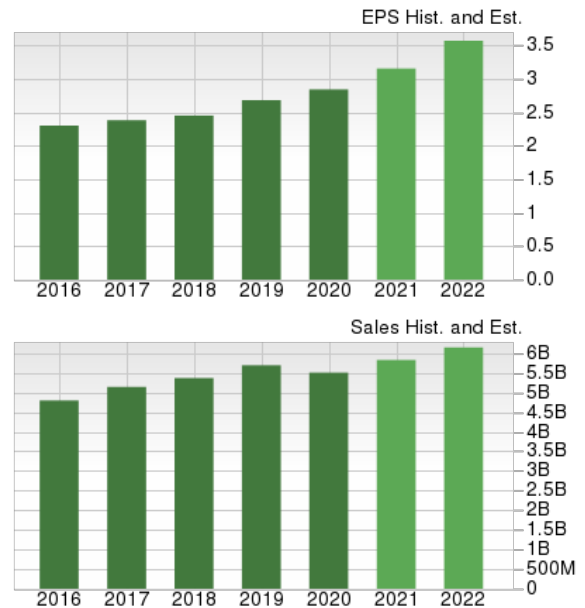
Cerner operates in seven major segments:

- Licensed software
- Technology resale
- Subscriptions
- Professional services
- Managed services
- Support and maintenance
- Reimbursed travel

2020 at a Glance

In 2020, adjusted earnings came in at \$2.84 per share, up 5.9% year over year. Revenues amounted to \$5.51 billion, which declined 3.3% year over year.

The Licensed software segment contributed 11.9% to full-year revenues. Meanwhile, the Technology resale segment had 3.6% contribution in the top line. Contribution from Subscriptions was 6.9%. Professional services contributed 35.1% to revenues in 2020. Managed services had a contribution of 22.6%. Support and maintenance, and Reimbursed travel contributed 19.4% and 0.5%, respectively, to 2020 revenues.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Cerner Focuses on Behavioral Health Technology:** In June 2020, Cerner announced that North Central Health Care ("NCHC") has selected the company to implement its electronic health record (EHR) at three multi-specialty behavioral health care facilities across Wisconsin. The agreement will enable Cerner to offer physicians, therapists and nurses with near real-time patient information to drive efficiencies and boost care through industry-leading behavioral health technology.

Cerner's behavioral health solution continues to display strength. Cerner's unified behavioral health solution is strongly differentiated in the market and was recently declared as the 2019 best-in-class category leader.

- ▲ **Strategic Deals:** Cerner has strengthened its foothold in the HCIT space through both organic and inorganic means and plans to collaborate with leading companies and academic institutions to provide a wider portfolio of EHR solutions.

During the first quarter of 2020, the company inked a deal with the U.S. Department of Defense (DoD) and Veterans Affairs (VA) organizations with respect to a go-live of a joint health information exchange, which supports each department's efforts to fight COVID-19 via simplified data sharing when the need arises. This is an important advancement in Cerner's continued efforts advocating for and developing open, cognitive platforms to provide true interoperability. Per the third-quarter 2020 earnings call, Cerner has made substantial progress in its work with the Federal government, which includes expansion of interoperability capabilities that are important for the success of the VA and DoD programs. Per the fourth-quarter 2020 earnings call, Cerner continues to be on track to deliver seamless care for 18 million service members and veterans. Historically, for the first time, DoD, VA and the U.S. Coast Guard are utilizing the same electronic health record (EHR), with the number of patients in the company's joint health information exchange improving from 700,000 to 4,000,000 since April 2020.

In December 2020, Cerner made an investment in Elligo Health Research that will enable the former to ink a commercial agreement to extend the data and tools available in the Cerner Learning Health Network. This, in turn, will provide additional clinical trial resources to community and rural hospitals and physician practices. Notably, Elligo Health is a leading integrated research organization that utilizes electronic health records, and trustworthy patient and physician relationship to ensure access to clinical research as a care option for all patients.

Also, in the same month, the company announced that it is leveraging on its deal with Xelth to provide health systems to provide new centralized digital ordering and monitoring to clients. The partnership will help health systems to select, manage and deploy digital tools and applications, while enabling clinicians to get access to remote monitoring and better engagement with patients.

In September 2020, Cerner announced a collaboration with Vynca — a national leader in advance care planning solutions — to streamline the complicated advance care planning procedure for individuals and families, caregivers and clinicians in a bid to ensure patients' end-of-life preferences and needs are met every single time. The partnership will allow Cerner and Vynca to break down the digital barrier between legal documents and EHRs, thereby making it simpler for clinicians to carry out the process. In the same month, the company inked a deal with Finland regional leadership with an aim to deliver more coordinated and efficient access to health and social services via a government-sponsored set of standards. Notably, this collaboration will not only strengthen Cerner's foothold in the HCIT space but also expand its presence geographically.

- ▲ **Big-Data Based Electronic Health Records (EHR) System:** The latest trend of EHR services in the U.S. MedTech space has been gaining prominence. Cerner has been dominating the headlines in this respect, courtesy of its efforts to digitize its EHR systems. Notably, Cerner's HealthIntent is a big data platform, which provides the company with significant exposure to AI trends in the medical world. HealthIntent can fetch data from any EHR system, pharmacy benefits managers and insurance claims.

Per management, the company will have opportunities to continue expanding presence of EHR-agnostic CareAware and HealthIntent solutions beyond EHR base.

- ▲ **Leading Player in the HCIT Space:** Cerner is one of the largest pure-play HCIT companies and its wide footprint, large reference-able client base and composite array of solutions make it an ideal candidate for investors seeking an exposure to the HCIT industry. The Health Information Technology for Economic and Clinical Health (HITECH) Act, which has authorized the EHR Incentive program or the Meaningful Use program, presents significant opportunities for EHR vendors like Cerner. In order to qualify for the HITECH incentives and other payment reform opportunities, the EHR buying activity of individual hospitals, health systems and integrated delivery networks has increased.

Furthermore, the company is one of only two vendors (the other being Epic) that are reportedly gaining market share in the medium- to large-hospital space. Cerner's proven execution skills and ability to deliver results to its clients at a predictable cost distinguish it in the marketplace. The company benefits from a large number of opportunities to win over projects from legacy vendors who have been unable to keep their promises. Such rebound customers, who are dissatisfied with their previous vendor, generally tend to gravitate toward larger vendors such as Cerner, as they tend to provide more composite services.

- ▲ **Strong Acquisitions:** Cerner follows a strategy of acquiring complementary businesses that enable the company to expand its solutions, device offerings and services, and grow its market and client base. Over the last few years, the acquisitions of Resource Systems, Clairvia, Anasazi Software, PureWellness, Labotix and InterMedHx have not only expanded Cerner's product portfolio but have also helped improve its market share. In fourth-quarter 2019, the company completed the acquisition of AbleVets for about \$75 million (in cash consideration). On the basis of expertise and the importance of Cerner's federal business, AbleVets seems like a suitable fit.

Per management, on the basis of adjustment for exit from the Adventist Health contract by taking that revenue out of 2019, Cerner's 2020 growth would be over 5%. Adjusting the company's AbleVets revenue would bring pure organic growth back to 4%.

Cerner has opportunities in the RCM, Population Health and ambulatory markets, thanks to its product strength and enviable track record of adding new clients. Solid growth in the HealthIntent platform also holds promise.

In December 2020, Cerner inked a deal to acquire Kantar Health — a division of Kantar Group — that will enable the company's Learning Health Network client group to engage with life sciences for funded research studies in a more direct manner. Notably, the company is acquiring Kantar Health for \$375 million in cash, which is subject to adjustment. The buyout is anticipated to be concluded in the first half of 2021 and is not likely to have a material impact on Cerner's earnings in 2021. With this buyout, Cerner intends to control data to boost safety, efficiency and efficacy of clinical research throughout life sciences, pharmaceuticals and health care.

Strategic acquisitions have helped the company rapidly penetrate the HCIT market and we believe Cerner will continue to pursue strategic acquisitions.

▲ **Stable Liquidity Position:** Cerner exited fourth quarter with cash and cash equivalents and short-term investments of \$1.06 billion, up from \$892 million sequentially. Cumulative net cash provided by operating activities in the fourth quarter was \$512.7 million, higher than \$437.6 million in the prior-year period. Free cash flow was \$396.2 million in the fourth quarter, up from \$292.1 million in the year-ago period. The company's long-term debt was \$1.34 billion in the quarter under review, which remained flat sequentially. Although the quarter's long-term debt was much higher than the corresponding cash and cash equivalent level, the company had no current-year debt in its balance sheet. This is good news in terms of the company's solvency level as, at least during a year of economic downturn. Per management, on the back of relatively low leverage, Cerner remains well positioned to access additional capital as and when necessary to support its growth and capital allocation strategy.

Cerner's capital deployment policy is based on the return of shareholders' money through share repurchases and dividends. In the fourth quarter, the company resumed its share repurchase program, wherein it bought back 1.5 million shares worth \$107 million (\$927 million remaining under current authorization). The company anticipates to repurchase above \$1 billion in 2021, subject to the approval of the board. With respect to dividend, the company increased its dividend by 22% in December to 22 cents that was paid on Jan 12.

Reasons To Sell:

▼ **Shares Down:** Shares of Cerner lost 5.5% against the industry's rally of 22.8% in a year's time. The underperformance reflects stiff competition in the healthcare information technology (HCIT) solutions' market, devices and services, and sluggishness across four of the company's segments. Moreover, sluggishness at five of the company's segments has been a substantial dampener. Also, decline in domestic and international revenues raise concern. Resurgence in coronavirus cases and a looming uncertainty with respect to the extent of recovery continue to weigh on the company's share performance.

Intense competition in the HCIT market puts considerable pressure on the company's pricing and margins.

▼ **Q4 Softness:** The fourth quarter witnessed softness across five of the company's segments — Licensed Software, Technology Resale, Professional Services, Support and Maintenance, and Reimbursed Travel. Dull performance by these segments has partially impeded Cerner's growth.

Licensed software revenues were \$174.3 million, which dipped 0.1% from the year-ago quarter. While Technology resale revenues were \$55.9 million, down 7.5% year over year, Professional services' revenues totaled \$478.1 million, down 6.1% from the prior-year quarter. Support and maintenance revenues were \$263.1 million, down 3.9% year over year. Reimbursed travel revenues amounted to \$8.2 million, highlighting a decline of 62.7% on a year-over-year basis.

Moreover, U.S. revenues grossed \$1.23 billion, down 3% from the prior-year quarter. Non-U.S. revenues fell 3% to \$161 million from the year-ago quarter primarily due to the divestiture of assets in Germany and Spain.

▼ **Regulatory Headwinds:** Cerner's industry is highly regulated by the government. With rapid evolution of product standards and requirements, any change in government regulation may have an adverse impact on Cerner's products. Moreover, as the government EHR program winds down, it is expected to create a significant headwind for Cerner.

▼ **Cutthroat Competition:** The market for HCIT solutions, devices and services is intensely competitive, rapidly evolving and subject to rapid technological change. Competition is fierce with well reputed names such as Allscripts Healthcare Solutions, Epic Systems, GE Healthcare Technologies, McKesson Corp, Quality Systems and others. The intensity of competition may pressure both pricing and margins. Stringent hospital budgets place further pressure on pricing.

Last Earnings Report

Cerner Q4 Earnings Match Estimates, Revenues Beat

Cerner Corporation reported fourth-quarter 2020 adjusted earnings of 78 cents per share, which matched the Zacks Consensus Estimate. The bottom line improved 4% from the prior-year quarter.

For full-year 2020, the company reported adjusted earnings per share of \$2.84, up 5.9% from 2019. The figure came in line with the consensus mark.

Quarter Ending **12/2020**

Report Date	Feb 10, 2021
Sales Surprise	0.11%
EPS Surprise	0.00%
Quarterly EPS	0.78
Annual EPS (TTM)	2.84

Revenue Details

The company reported revenues of \$1.39 billion, which beat the Zacks Consensus Estimate by 0.1%. However, the top line declined 3.2% from the year-ago quarter.

For the full-year 2020, the company delivered revenues of \$5.51 billion, down 3.3% from 2019 but outpaced the consensus mark by 0.2%.

Revenues by Geography

Per management, U.S. revenues grossed \$1.23 billion, down 3% from the prior-year quarter.

Non-U.S. revenues fell 3% to \$161 million from the year-ago quarter primarily due to the divestiture of assets in Germany and Spain.

Bookings

In the reported quarter, the company's bookings totaled \$1.68 billion, up 0.6% from the year-ago quarter. Also, the metric came within the company's guided range.

Segmental Performance

Licensed software revenues were \$174.3 million, which dipped 0.1% from the year-ago quarter.

Technology resale revenues were \$55.9 million, down 7.5% on a year-over-year basis.

Revenues from Subscriptions were \$98.4 million, up 6.1% year over year.

Professional services' revenues totaled \$478.1 million, down 6.1% from the prior-year quarter number. The downside can be attributed to impact of pandemic divestitures, lower third-party services, and the termination of the large RevWorks agreement in 2019.

Revenues at the Managed services unit amounted to \$317.1 million, up 2.5% from the prior-year quarter.

Support and maintenance revenues were \$263.1 million, down 3.9% year over year.

Reimbursed travel revenues amounted to \$8.2 million, reflecting year-over-year decline of 62.7% as a result of the ongoing pandemic-led travel restrictions.

Margins

In the quarter under review, gross profit was \$1.16 billion, down 0.4% year over year. Gross margin was 83.2%, up 240 basis points (bps) on a year-over-year basis.

General and administrative expenses decreased 17.7% to \$100.6 million. However, software development expenses rose 5.2% to \$197.9 million.

Operating income totaled \$177.5 million, down 2.9% from the prior-year quarter. Operating margin remained flat on a year-over-year basis to 12.7%.

2021 Guidance

For first-quarter 2021, Cerner anticipates revenues between \$1.37 billion and \$1.42 billion. The Zacks Consensus Estimate for revenues stands at \$1.41 billion.

For first-quarter 2021 adjusted EPS is projected between 72 cents and 76 cents. The consensus mark for earnings is pegged at 76 cents.

New business bookings for first-quarter 2021 are estimated between \$1.15 billion and \$1.35 billion.

For full-year 2021, revenues are projected to be \$5.75-\$5.95 billion. The Zacks Consensus Estimate for revenues stands at \$5.69 billion.

Adjusted EPS is expected to be band of \$3.10-\$3.20. The consensus mark for earnings is pegged at \$3.21.

Recent News

Cerner's Simplified Digital Tools to Aid Health Systems: Dec 10, 2020

Cerner announced that it is leveraging on its deal with Xealth to provide health systems to provide new centralized digital ordering and monitoring to clients. The partnership will help health systems to select, manage and deploy digital tools and applications, while enabling clinicians to get access to remote monitoring and better engagement with patients.

Cerner's Deal to Make Clinical Trials More Accessible: Dec 8, 2020

Cerner made an investment in Elligo Health Research that will enable the former to ink a commercial agreement to extend the data and tools available in the Cerner Learning Health Network. This, in turn, will provide additional clinical trial resources to community and rural hospitals and physician practices. However, the financial terms of the deal have been kept under wraps.

Valuation

Cerner's shares are down 12.7% and 5.5% in the year-to-date period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 5.8% in the year-to-date period and 1% in Zacks Medical sector. Over the past year, the Zacks sub-industry are up 22.8% while that in the sector are up 7.7%.

The S&P 500 index is up 3.4% in the year-to-date period and 30.4% the past year.

The stock is currently trading at 3.6X Forward 12-months sales, which compares to 4.4X for the Zacks sub-industry, 2.8X for the Zacks sector and 4.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.5X and as low as 2.8X, with a 5-year median of 3.7X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$72 price target reflects 3.8X forward 12-months sales.

The table below shows summary valuation data for CERN.

Valuation Multiples - CERN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.57	4.35	2.75	4.51
	5-Year High	4.47	4.35	3.17	4.51
	5-Year Low	2.78	1.62	2.26	3.21
	5-Year Median	3.73	2.19	2.82	3.68
P/B TTM	Current	4.69	4.68	4.35	6.96
	5-Year High	5.82	5.27	5.11	7.07
	5-Year Low	3.18	2.13	3.02	3.84
	5-Year Median	4.8	2.98	4.38	4.97
P/CF	Current	14.76	24.07	15.06	23.24
	5-Year High	20.79	25.47	17.17	23.64
	5-Year Low	11.54	8.56	11.42	12.88
	5-Year Median	16.84	12.83	14.91	18.59

As of 03/03/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
FULGENT GENETIC (FLGT)	Outperform	1
American Well Corporation (AMWL)	Neutral	4
Change Healthcare Inc. (CHNG)	Neutral	3
HMS Holdings Corp (HMSY)	Neutral	4
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
NEXTGEN HEALTHCARE, INC (NXGN)	Neutral	3
Omnicell, Inc. (OMCL)	Neutral	3
Syneos Health, Inc. (SYNH)	Neutral	3

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

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	CERN	X Industry	S&P 500	CHNG	MDRX	SYNH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	B	C	A
Market Cap	21.00 B	872.30 M	27.40 B	6.88 B	2.10 B	7.70 B
# of Analysts	14	3.5	13	10	9	5
Dividend Yield	1.28%	0.00%	1.43%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	C	A
Cash/Price	0.05	0.05	0.06	0.02	0.22	0.03
EV/EBITDA	12.60	-2.83	15.43	-24.01	18.01	20.04
PEG F1	2.03	2.94	2.30	8.98	3.21	NA
P/B	4.69	4.34	3.79	2.13	1.42	2.37
P/CF	14.44	22.58	15.48	6.61	7.82	14.67
P/E F1	22.02	20.64	20.65	17.96	22.02	17.39
P/S TTM	3.81	5.36	3.18	2.24	1.30	1.74
Earnings Yield	4.60%	-1.23%	4.77%	5.58%	4.53%	5.74%
Debt/Equity	0.30	0.02	0.67	1.48	0.10	0.90
Cash Flow (\$/share)	4.75	-0.05	6.77	3.42	1.92	5.03
Growth Score	B	-	-	B	F	B
Historical EPS Growth (3-5 Years)	3.23%	4.12%	9.32%	NA	4.12%	7.24%
Projected EPS Growth (F1/F0)	10.99%	23.75%	14.54%	-18.90%	-10.38%	24.46%
Current Cash Flow Growth	-0.60%	-3.10%	0.74%	-2,093.27%	-9.14%	-3.10%
Historical Cash Flow Growth (3-5 Years)	4.97%	9.66%	7.37%	NA	6.13%	24.58%
Current Ratio	2.27	1.70	1.39	1.05	1.23	1.10
Debt/Capital	22.96%	5.49%	41.42%	59.65%	9.14%	47.50%
Net Margin	14.17%	-19.92%	10.59%	-6.75%	43.47%	4.37%
Return on Equity	17.85%	-17.55%	14.75%	12.19%	6.66%	10.10%
Sales/Assets	0.77	0.52	0.51	0.30	0.52	0.58
Projected Sales Growth (F1/F0)	5.87%	23.68%	7.02%	-6.59%	-8.54%	18.28%
Momentum Score	B	-	-	D	A	B
Daily Price Change	-1.52%	-2.43%	-0.42%	-0.57%	-1.06%	-2.23%
1-Week Price Change	-3.38%	-7.23%	-1.51%	-2.22%	-6.82%	2.29%
4-Week Price Change	-14.03%	-4.24%	2.34%	-5.36%	-9.99%	-4.65%
12-Week Price Change	-7.88%	19.17%	5.72%	26.71%	3.95%	12.44%
52-Week Price Change	-6.72%	49.62%	19.32%	60.48%	96.08%	0.26%
20-Day Average Volume (Shares)	2,885,212	556,572	2,030,734	3,191,552	2,567,035	1,000,055
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	12.53%	0.19%
EPS F1 Estimate 4-Week Change	-5.10%	0.00%	0.12%	1.38%	10.15%	1.07%
EPS F1 Estimate 12-Week Change	-5.03%	-3.42%	2.13%	1.18%	14.57%	1.97%
EPS Q1 Estimate Monthly Change	-6.62%	0.00%	0.00%	-1.35%	2.44%	-22.41%

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	B
VGM Score	A

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

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.