

## Chemed Corporation (CHE)

**\$512.21** (As of 02/03/21)

Price Target (6-12 Months): **\$538.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

## Summary

Chemed witnessed solid revenue growth across both key subsidiaries in the third quarter of 2020, which is impressive given the challenging business environment. Increase in total admissions and total residential revenues (excluding acquisitions) for the VITAS and Roto-Rooter arms, respectively, look impressive. Expansion of both margins buoys optimism on the stock. An upbeat projection for full-year adjusted EPS and Roto-Rooter segment's revenue growth looks encouraging. A strong solvency and capital structure bodes well for the company. Chemed's third quarter results were better-than-expected. Over the past year, Chemed has outperformed its sector. Yet, a lower revenue growth projection for the VITAS segment is deterring. Reimbursement hampering top-line growth, business seasonality and a tough competitive landscape are other concerns.

## Data Overview

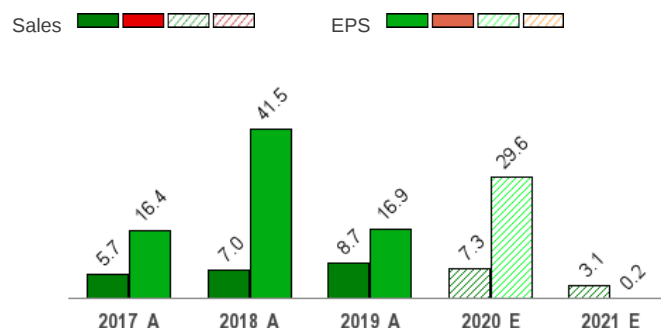
|                                |                                          |
|--------------------------------|------------------------------------------|
| 52-Week High-Low               | \$560.00 - \$330.01                      |
| 20-Day Average Volume (Shares) | 102,279                                  |
| Market Cap                     | \$8.3 B                                  |
| Year-To-Date Price Change      | -2.6%                                    |
| Beta                           | 0.53                                     |
| Dividend / Dividend Yield      | \$1.36 / 0.3%                            |
| Industry                       | Medical - Outpatient and Home Healthcare |
| Zacks Industry Rank            | Bottom 16% (212 out of 253)              |

|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 21.8%      |
| Last Sales Surprise           | 2.2%       |
| EPS F1 Estimate 4-Week Change | 0.0%       |
| Expected Report Date          | 02/16/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 30.2       |
| P/E F1                        | 28.3       |
| PEG F1                        | 2.8        |
| P/S TTM                       | 4.0        |

## Price, Consensus & Surprise



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



## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 523 E | 532 E | 539 E | 552 E | 2,145 E |
| 2020 | 516 A | 502 A | 528 A | 534 E | 2,081 E |
| 2019 | 462 A | 474 A | 481 A | 522 A | 1,939 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2021 | \$4.31 E | \$4.52 E | \$4.60 E | \$5.06 E | \$18.11 E |
| 2020 | \$3.68 A | \$4.41 A | \$4.86 A | \$5.14 E | \$18.08 E |
| 2019 | \$2.92 A | \$3.36 A | \$3.46 A | \$4.22 A | \$13.95 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/03/2021. The report's text and the analyst-provided price target are as of 02/03/2021.

## Overview

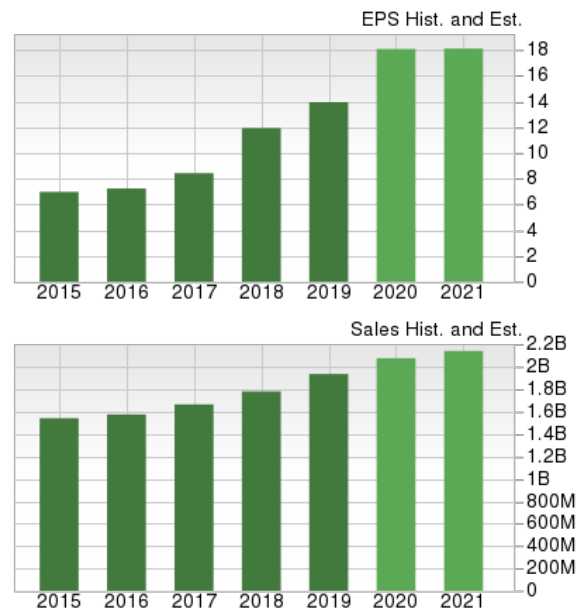
Cincinnati, OH-based Chemed Corporation purchases, operates and divests subsidiaries engaged in diverse business activities. The company's operating businesses are managed on a decentralized basis. Since its inception, Chemed has engaged in twelve significant acquisitions or divestitures of diverse business units.

Chemed currently operates as two wholly-owned subsidiaries: VITAS Healthcare and Roto-Rooter.

**VITAS Healthcare** (65.1% of total revenues in 2019; underlying growth rate was 10.8% from 2018): The segment provides hospice and palliative care services for patients with terminal illnesses. This type of care is aimed at making a terminally ill patient's last days as comfortable and pain-free as possible. Hospice care is available for patients who have been initially certified or re-certified as terminally ill (a prognosis of six months or less) by their attending physician, if any, and the hospice physician. VITAS offer all levels of hospice care in a given market, including routine home care, inpatient care and continuous care. Over 95% of VITAS' revenues are derived through Medicare and Medicaid reimbursement programs.

**Roto-Rooter** (34.9%; up 21.2%): The segment provides plumbing and drain-cleaning services to both residential and commercial customers. This segment provides repair and maintenance services to residential and commercial accounts using the Roto-Rooter registered service marks. Such services include plumbing and sewer, drain and pipe cleaning. They are delivered through company-owned and operated territories, independent contractor-operated territories and franchised locations. This segment also manufactures and sells products and equipment used to provide such services.

In 2019, Roto-Rooter made two separate acquisitions of territories from former franchisees. This was part of Roto-Rooter's current strategy of franchise acquisition to boost productivity, market share and profitability.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Share Price Movement:** Over the past year, Chemed has outperformed its sector. The stock has gained 7.5% compared with the sector's 7.4% gain. Chemed ended the third quarter of 2020 on a solid note with better-than-expected earnings and revenues. The company witnessed solid revenue growth across both key subsidiaries, which is impressive given the challenging business environment. Increase in total admissions for the VITAS arm and total residential revenues (excluding acquisitions) for the Roto-Rooter segment look impressive.

Expansion of both margins buoy optimism on the stock. An upbeat projection for full-year adjusted EPS and Roto-Rooter segment's revenue growth looks encouraging. A strong solvency and capital structure bodes well for the company.

Chemed's Roto-Rooter business growth buoys optimism. The company has been registering strong performance from VITAS business over the past few quarters.

- ▲ **VITAS Prospects Bright:** Chemed has been registering strong performance from VITAS business over the past few quarters.

During the third quarter, the segment surged 4.8% year over year. The upside was driven by 5.7% increase in geographically-weighted average Medicare reimbursement rate (considering the suspension of sequestration on May 1, 2020) and acuity mix shift that reduced the blended average Medicare rate by approximately 242 basis points (bps). Additionally, a reduction in Medicare Cap liability boosted revenue growth by 162 bps. Further, combination of Medicaid net room and board pass-through and other contra revenue activities drove up revenue growth by 9 bps in the quarter.

Further, Chemed's third-quarter 2020's total admissions increased by 4.7%. Also, the company's admissions for home-based pre-admit patients increased by 18.3% whereas hospital-directed admissions surged by 6.2%.

- ▲ **Roto-Rooter Continues to Expand:** Roto-Rooter is currently the nation's leading provider of plumbing and drain cleaning services, providing services to over 90% of the U.S. population.

In the third quarter, the segment surged 20.4% year over year. On a unit-for-unit basis, excluding the Oakland and HSW acquisitions completed in July and September 2019, the segment registered revenues growth of 11.4% on a year-over-year basis. Further, total residential revenues (excluding acquisitions) registered growth of 24.6% on 22% rise in residential drain cleaning revenues, a 31.2% improvement in plumbing and excavation as well as 16.1% increase in residential water restoration.

Although total commercial revenues (excluding acquisitions) declined during the third quarter, it witnessed a significant improvement compared to the decline in the second quarter of 2020. Further, the third quarter's unit-for-unit commercial revenues reflected an increase of 26.8% when compared to the sequentially last-reported quarter.

- ▲ **Strong Solvency and Capital Structure:** Chemed exited the third quarter of 2020 with cash and cash equivalents of \$113 million compared with \$20 million at the end of the second quarter of 2020. Notably, the company does not have any long-term debt on its balance sheet. The overall data concludes that the solvency level of Chemed is pretty promising.

Cumulative net cash provided by operating activities at the end of the third quarter was \$402.4 million compared with \$237.6 million in the year-ago quarter.

Meanwhile, the times interest earned for the company stands at a pretty encouraging level of 106.1%, representing an increase from 83.9% at the end of the second quarter of 2020. This, however, compares favorably with the times interest earned for the industry which stands at a lower level (3.4%).

The current payout ratio stands at an encouragingly low level of 7.6%. It also represents a sequential decline from 8.1%. This ratio indicates sustainability in terms of dividend payment amid the ongoing economic crisis. Notably, the company has announced a quarterly cash dividend of 34 cents per share. However, this compares favorably with the payout rate of the industry which stands at a higher level (14.7%).

During the quarter, the company repurchased stocks for \$25 million. As of Sep 30, 2020, there was approximately \$207 million of remaining share repurchase authorization under the existing plan.

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## Reasons To Sell:

- ▼ **Pandemic Causes Revenue Erosion:** Chemed's Roto-Rooter operations have continued to witness business disruptions stemming from the unrelenting pandemic. In the quarter under review, total commercial revenues (excluding acquisitions) fell 11.6% due to 13% decline in drain cleaning revenues, 11.2% fall in commercial plumbing and excavation revenues and 1.6% fall in commercial water restoration revenue.
- ▼ **Reimbursement Headwind Hampering Topline Growth:** CMS' implementation of a refinement to the Medicare hospice reimbursement per diem (announced in Jan 2016) eliminated the single-tier per diem for routine home care (RHC) and replaced it with a two-tiered rate, with a higher per diem rate for the first 60 days of a hospice patient's care, and a lower rate for day 61 and after. In addition, CMS provided for a Service Intensity Add-on (SIA) payment, which provides for reimbursement of care provided by a registered nurse or social worker for RHC patients within seven days prior to death. The current two-tiered national per diem rate for RHC is \$190.41 for the first 60 days and \$149.68 for RHC provided to patients in hospice beyond 60 days. An individual hospice's actual per diem rate is adjusted for differences in geographic cost of living.
- ▼ **Seasonality of the Business Weigh on the Stock:** A significant portion of the VITAS business operates in the state of Florida. As the majority of Chemed's patients are Medicare recipients, retirees relocating to Florida during the winter months generally result in higher admissions and revenue concentrated only within Florida during that period. Besides, the Roto-Rooter's revenue and operating results are also impacted by significant weather patterns across the United States which generally affects the revenue and operating results at Roto-Rooter.
- ▼ **Tough Competitive Landscape:** The market for sewer, drain and pipe cleaning and plumbing repair businesses is highly competitive. Competition is fragmented in most markets with local and regional firms providing much of the competition. Besides, Hospice care in the United States is competitive as programs for hospice services are generally uniform. As the hospice care industry is highly fragmented, VITAS compete with a large number of organizations on the basis of its ability to deliver quality, responsive services.
- ▼ **Dependence on Government Mandates:** Over 90% of VITAS' revenues consist of payments from the Medicare and Medicaid programs. The Medicare and Medicaid programs are increasing pressure to control health care costs and cut or limit increases in reimbursement rates for health care services. As with most government programs, the Medicare and Medicaid programs are subject to statutory and regulatory changes, possible retroactive and prospective rate and payment adjustments, administrative rulings, freezes and funding reductions, all of which may adversely affect the level of program payments and have a material adverse effect on VITAS' business. Hence, VITAS' levels of revenues and profitability are subject to the effect of legislative and regulatory changes, including possible reductions in coverage or payment rates or changes in methods of payment, by the Medicare and Medicaid programs.

Headwinds like seasonality in business, competitive landscape and dependence on government mandates are intimidating.

## Last Earnings Report

### Chemed's Shares Up on Q3 Earnings and Revenue Beat

Chemed reported third-quarter earnings on Oct 29. The quarterly results have impressed investors, as the stock moved up 1.7% to close at \$481.46 on Nov 2.

Chemed reported third-quarter 2020 adjusted earnings per share of \$4.86, up 40.5% year over year. The figure beat the Zacks Consensus Estimate by 21.8%.

The company's GAAP earnings per share was \$4.14, up 16.3% year over year.

### Quarter Ending 09/2020

| Report Date      | Oct 29, 2020 |
|------------------|--------------|
| Sales Surprise   | 2.17%        |
| EPS Surprise     | 21.80%       |
| Quarterly EPS    | 4.86         |
| Annual EPS (TTM) | 17.17        |

### Revenues in Detail

Revenues in the reported quarter improved 9.9% year over year to \$528.3 million. The metric surpassed the Zacks Consensus Estimate by 2.2%.

### Segmental Details

Chemed operates through two wholly-owned subsidiaries, VITAS (a major provider of end-of-life care) and Roto-Rooter (a leading commercial and residential plumbing plus drain cleaning service provider).

In the third quarter, net revenues at **VITAS** totaled \$337.1 million, up 4.8% year over year. The upside was driven by 5.7% increase in geographically-weighted average Medicare reimbursement rate (considering the suspension of sequestration on May 1, 2020) and acuity mix shift that reduced the blended average Medicare rate by approximately 242 basis points (bps). Additionally, a reduction in Medicare Cap liability boosted revenue growth by 162 bps. Further, combination of Medicaid net room and board pass-through and other contra revenue activity drove up the revenue growth by 9 bps in the quarter. However, the days-of-care declined 0.2% in the reported quarter.

**Roto-Rooter** reported sales of \$191.2 million in the third quarter, up 20.4% year over year. On a unit-for-unit basis, excluding the Oakland and HSW acquisitions completed in July and September 2019, the segment registered revenues of \$173 million in the third quarter (a year-over-year increase of 11.4%).

Per the company, total commercial revenues (excluding acquisitions) declined 11.6% on 13% fall in drain cleaning revenues, 11.2% fall in commercial plumbing and excavation revenues, and 1.6% fall in commercial water restoration revenue.

Total residential revenues (excluding acquisitions) registered growth of 24.6% on 22% rise in residential drain cleaning revenues, a 31.2% improvement in plumbing and excavation as well as 16.1% increase in residential water restoration.

### Margin in Detail

Gross profit rose 24% year over year to \$189.1 million in the third quarter of 2020. Gross margin expanded 407 bps year over year to 35.8% despite a 3.4% rise in cost of products and services.

Adjusted operating profit increased 33.3% from the year-ago period to \$100.7 million. Adjusted operating margin expanded 334 bps to 19.1% despite a 14.9% rise in adjusted operating expenses.

### Operational Update

Chemed exited the third quarter of 2020 with cash and cash equivalents of \$112.8 million compared with \$20.4 million at the end of the second quarter. There was no long-term debt at the end of third-quarter 2020, similarly like at the end of the second quarter.

In the third quarter, Chemed's management repurchased stocks for \$25 million. As of Sep 30, 2020, there was approximately \$207 million of share repurchase remaining under the existing plan.

Cumulative net cash provided by operating activities at the end of the third quarter was \$402.4 million compared with \$237.6 million in the year-ago quarter.

### Guidance

In 2020, revenue growth for VITAS (prior to Medicare Cap) is estimated to be in the range of 4%, down from the previously provided range of 5-7%. Average daily census in 2020 is estimated to be 1.3%, down from the previous band of 2-4%.

Roto-Rooter revenue growth in 2020 is expected in the range of 12.5-13%, up from the earlier projection of a growth of 9-10%.

Full-year adjusted earnings per share is estimated in the range of \$18-\$18.15, significantly up from the earlier projection of \$16.20-\$16.40. The Zacks Consensus Estimate for the full year adjusted earnings per share is currently pegged at \$16.37.

## Valuation

Chemed shares are down 3.7% in the year to date period and up 7.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Medical sector are down 1.5% and up 4.8% in the year to date period, respectively. Over the past year, the Zacks sub-industry and sector are up 8.9% and up 7.4%, respectively.

The S&P 500 index is up 2.2% in the year to date period and up 17.9% in the past year.

The stock is currently trading at 28.1X Forward 12-months earnings, which compares to 24.3X for the Zacks sub-industry, 22.9X for the Zacks sector and 22.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 52.9X and as low as 16.5X, with a 5-year median 25.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$538 price target reflects 29.4X forward 12-months earnings.

The table below shows summary valuation data for CHE

| Valuation Multiples - CHE |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 28.05 | 24.26        | 22.94  | 22.50   |
|                           | 5-Year High   | 52.88 | 24.86        | 22.94  | 23.80   |
|                           | 5-Year Low    | 16.45 | 14.41        | 15.90  | 15.30   |
|                           | 5-Year Median | 25.56 | 18.22        | 19.13  | 17.83   |
| P/S F12M                  | Current       | 3.79  | 3.47         | 2.87   | 4.46    |
|                           | 5-Year High   | 4.14  | 3.47         | 3.17   | 4.46    |
|                           | 5-Year Low    | 1.30  | 0.73         | 2.26   | 3.20    |
|                           | 5-Year Median | 2.66  | 1.28         | 2.84   | 3.68    |
| P/B TTM                   | Current       | 10.21 | 4.35         | 4.55   | 6.54    |
|                           | 5-Year High   | 11.32 | 4.53         | 5.11   | 6.58    |
|                           | 5-Year Low    | 4.16  | 1.94         | 3.02   | 3.73    |
|                           | 5-Year Median | 8.63  | 2.83         | 4.36   | 4.95    |

As of 02/02/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 16% (212 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                         | Rec          | Rank |
|------------------------------------------|--------------|------|
| Addus HomeCare Corporation (ADUS)        | Neutral      | 3    |
| Amedisys, Inc. (AMED)                    | Neutral      | 4    |
| DaVita Inc. (DVA)                        | Neutral      | 3    |
| FRESENIUS SE&CO (FSNYY)                  | Neutral      | 2    |
| Hanger Inc. (HNGR)                       | Neutral      | 3    |
| Option Care Health, Inc. (OPCH)          | Neutral      | 2    |
| RadNet, Inc. (RDNT)                      | Neutral      | 3    |
| Elanco Animal Health Incorporated (ELAN) | Underperform | 5    |

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

| Industry Comparison Industry: Medical - Outpatient And Home Healthcare |         |            |           | Industry Peers |         |          |
|------------------------------------------------------------------------|---------|------------|-----------|----------------|---------|----------|
|                                                                        | CHE     | X Industry | S&P 500   | ADUS           | AMED    | OPCH     |
| Zacks Recommendation (Long Term)                                       | Neutral | -          | -         | Neutral        | Neutral | Neutral  |
| Zacks Rank (Short Term)                                                | 3       | -          | -         | 3              | 4       | 2        |
| VGM Score                                                              | A       | -          | -         | B              | B       | A        |
| Market Cap                                                             | 8.28 B  | 1.65 B     | 26.68 B   | 1.81 B         | 9.42 B  | 3.63 B   |
| # of Analysts                                                          | 2       | 5          | 13        | 6              | 6       | 3        |
| Dividend Yield                                                         | 0.26%   | 0.00%      | 1.47%     | 0.00%          | 0.00%   | 0.00%    |
| Value Score                                                            | C       | -          | -         | C              | D       | D        |
| Cash/Price                                                             | 0.01    | 0.05       | 0.06      | 0.10           | 0.01    | 0.04     |
| EV/EBITDA                                                              | 25.89   | 12.44      | 14.82     | 36.96          | 40.12   | 80.76    |
| PEG F1                                                                 | 2.80    | 2.09       | 2.36      | 2.10           | 3.11    | NA       |
| P/B                                                                    | 10.33   | 4.02       | 3.60      | 3.57           | 12.44   | 3.66     |
| P/CF                                                                   | 29.75   | 15.55      | 15.05     | 49.58          | 46.34   | 104.01   |
| P/E F1                                                                 | 28.28   | 32.26      | 20.06     | 31.55          | 46.15   | 48.65    |
| P/S TTM                                                                | 4.00    | 1.95       | 2.89      | 2.38           | 4.66    | 1.23     |
| Earnings Yield                                                         | 3.49%   | 3.02%      | 4.89%     | 3.17%          | 2.17%   | 2.06%    |
| Debt/Equity                                                            | 0.00    | 0.62       | 0.68      | 0.12           | 0.40    | 1.17     |
| Cash Flow (\$/share)                                                   | 17.24   | 2.18       | 6.78      | 2.38           | 6.21    | 0.19     |
| Growth Score                                                           | A       | -          | -         | A              | A       | A        |
| Historical EPS Growth (3-5 Years)                                      | 23.70%  | 7.84%      | 9.46%     | NA             | 36.24%  | NA       |
| Projected EPS Growth (F1/F0)                                           | 0.19%   | 23.42%     | 13.03%    | 20.92%         | 2.53%   | 580.00%  |
| Current Cash Flow Growth                                               | 14.93%  | 8.57%      | 4.97%     | 22.55%         | 47.20%  | -547.43% |
| Historical Cash Flow Growth (3-5 Years)                                | 14.21%  | 12.49%     | 8.19%     | 17.44%         | 30.47%  | 19.82%   |
| Current Ratio                                                          | 0.82    | 1.37       | 1.38      | 3.19           | 0.94    | 1.56     |
| Debt/Capital                                                           | 0.00%   | 38.87%     | 41.49%    | 10.50%         | 28.40%  | 53.93%   |
| Net Margin                                                             | 13.11%  | 4.65%      | 10.58%    | 4.65%          | 8.22%   | -1.42%   |
| Return on Equity                                                       | 38.13%  | 13.30%     | 15.07%    | 8.90%          | 26.41%  | -2.93%   |
| Sales/Assets                                                           | 1.59    | 0.80       | 0.51      | 1.15           | 1.36    | 1.12     |
| Projected Sales Growth (F1/F0)                                         | 3.10%   | 11.84%     | 6.03%     | 15.44%         | 11.17%  | 6.71%    |
| Momentum Score                                                         | A       | -          | -         | C              | A       | A        |
| Daily Price Change                                                     | -1.19%  | 0.04%      | 1.37%     | 3.18%          | 0.29%   | 0.62%    |
| 1-Week Price Change                                                    | -5.52%  | -4.62%     | -4.02%    | -11.93%        | -8.37%  | -5.67%   |
| 4-Week Price Change                                                    | -3.87%  | 3.09%      | 1.73%     | 3.09%          | -0.64%  | 23.85%   |
| 12-Week Price Change                                                   | 7.43%   | 20.31%     | 6.23%     | 18.02%         | 20.35%  | 24.71%   |
| 52-Week Price Change                                                   | 7.52%   | 38.39%     | 8.65%     | 21.80%         | 57.82%  | 18.09%   |
| 20-Day Average Volume (Shares)                                         | 102,279 | 115,621    | 2,096,101 | 95,087         | 171,095 | 662,789  |
| EPS F1 Estimate 1-Week Change                                          | 0.00%   | 0.00%      | 0.00%     | 0.17%          | -0.11%  | 0.00%    |
| EPS F1 Estimate 4-Week Change                                          | 0.00%   | 0.00%      | 0.38%     | 0.17%          | -0.32%  | 44.14%   |
| EPS F1 Estimate 12-Week Change                                         | 0.00%   | 0.53%      | 1.47%     | 8.44%          | 0.13%   | 44.14%   |
| EPS Q1 Estimate Monthly Change                                         | 3.11%   | 0.00%      | 0.15%     | -1.56%         | 0.46%   | 137.50%  |

Source: Zacks Investment Research

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## 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.

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### 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    | C |
| Growth Score   | A |
| Momentum Score | A |
| VGM Score      | A |

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

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## 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.

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## Additional Disclosure

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

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**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.

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**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.

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**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.