Catalent, Inc. (CTLT)

$109.09 (As of 06/23/21)

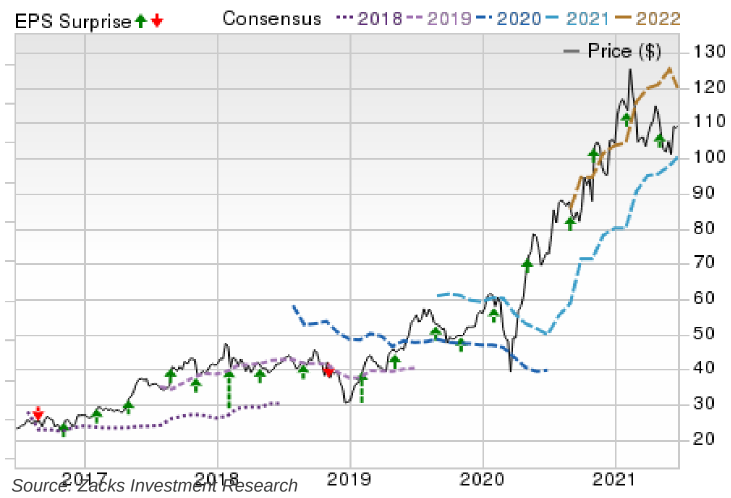
Price Target (6-12 Months): **$115.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/03/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: D | Momentum: B	**3-Hold** VGM:C

Summary

Catalent's year-over-year uptick both the top and bottom lines in third-quarter fiscal 2021 is impressive. Robust performances by Clinical Supply Services and the Biologics arm raise our optimism. Catalent's slew of strategic deals are impressive. Expansion of both margins also bode well. A solid revenue outlook auger well. Catalent's solid technology foundation, and integrated development and supply chain solutions are encouraging. A strong solvency position is an added plus. Catalent's quarterly results were better than expected. Over the past six months, Catalent has outperformed its industry. Yet, soft revenues in the other two arms are concerning. Catalent's operation in a tough competitive landscape and a highly regulated market poses a threat. Other headwinds like future impacts from Brexit and forex woes prevail.

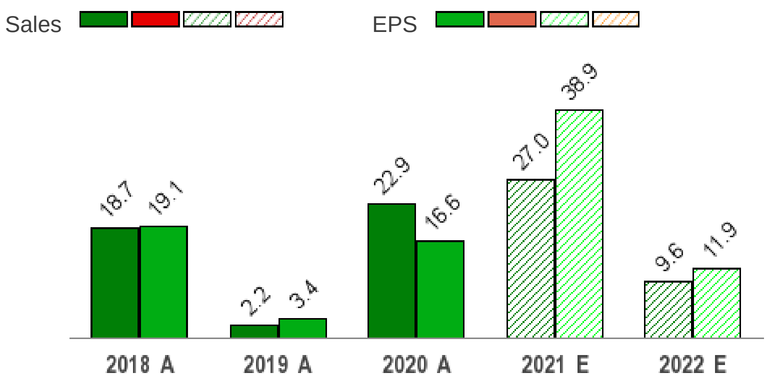
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$127.68 - $71.09**
20-Day Average Volume (Shares)	**879,206**
Market Cap	**$18.6 B**
Year-To-Date Price Change	**4.8%**
Beta	**1.45**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Medical - Drugs**
Zacks Industry Rank	**Bottom 8% (231 out of 252)**
Last EPS Surprise	**7.9%**
Last Sales Surprise	**5.7%**
EPS F1 Estimate 4-Week Change	**1.3%**
Expected Report Date	**08/30/2021**
Earnings ESP	**0.0%**
P/E TTM	**39.2**
P/E F1	**37.2**
PEG F1	**1.8**
P/S TTM	**5.0**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	965 E	1,027 E	1,141 E	1,240 E	4,305 E
2021	846 A	911 A	1,053 A	1,132 E	3,928 E
2020	665 A	721 A	761 A	948 A	3,094 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.52 E	$0.68 E	$0.89 E	$1.15 E	$3.28 E
2021	$0.43 A	$0.63 A	$0.82 A	$1.03 E	$2.93 E
2020	$0.26 A	$0.45 A	$0.50 A	$0.90 A	$2.11 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 06/23/2021. The report's text and the analyst-provided price target are as of 06/24/2021.

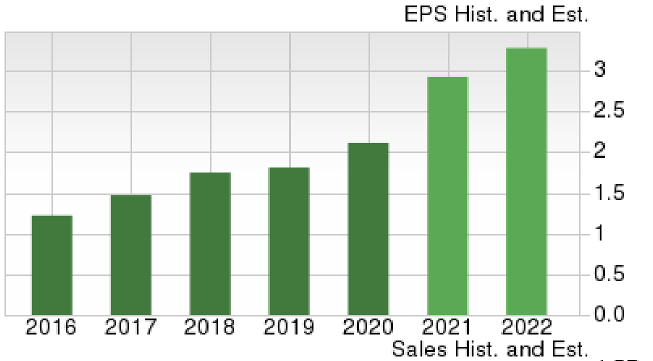
Overview

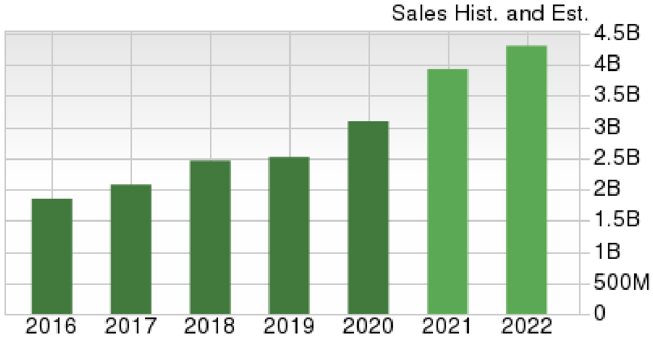
Somerset, NJ-based Catalent, Inc. is a renowned global provider of advanced delivery technologies as well as development and manufacturing solutions for drugs; protein, cell, and gene therapy biologics; and consumer health products.

Catalent operates through four segments:

Biologics (33% of aggregate revenues in FY 2020, up 117.5%% on a reported basis from Q3 FY 2020): The segment provides biologic cell-line, cell therapy and viral vector gene therapy development and manufacturing; formulation, development, and manufacturing of parenteral dose forms, including prefilled syringes, vials, and cartridges; and analytical development and testing services for large molecules. Further, the growing biologics offering includes cell-line development based on Catalent's advanced and patented GPEx technology and the GPEx Boost.

Softgel and Oral Technologies (34%, up 0.6%): The segment provides formulation, development and manufacturing services for soft capsules (or softgels), as well as large-scale manufacturing of oral solid dose forms for pharmaceutical and consumer health markets, and supporting ancillary services. The principal softgel technologies include traditional softgel capsules and Vegicaps and OptiShell capsules.





Oral and Specialty Delivery (22%, down 5.3%): The segment provides advanced formulation development and manufacturing across a range of technologies, along with integrated downstream clinical development and commercial supply solutions. The technologies cover a broad range of oral (including the proprietary Zydis orally dissolving tablets and many bioavailability enhancement (BAE) technologies for both immediate and controlled-release tablets and capsules), respiratory and inhaled dose forms, including blow-fill-seals, metered dose inhalers, dry powder inhalers and nasal applicators.

Clinical Supply Services (11%, up 12.5%): The segment offers customers flexible solutions for clinical supplies production and provide distribution and inventory management support for both simple and complex clinical trials. This includes over-encapsulation where needed; supplying placebos, comparator drug procurement, and clinical packages and kits for physicians and patients; inventory management; inventory management; investigator kit ordering and fulfillment, among others.

Source: Zacks Investment Research

Reasons To Buy:

A slew of buyouts and partnerships of Catalent in the recent times are impressive. The company's solid technology foundation, along with integrated development and product supply chain solutions, is encouraging.

▲ **Share Price Performance:** Over the past six months, Catalent has outperformed the industry it belongs to. The stock has gained 3.6% against the industry's 18.6% fall. Catalent exited fiscal 2021 third quarter with better-than-expected results. The year-over-year improvement in both the bottom and top lines is impressive. Continued strength in global demand for COVID-19 vaccines and treatments drove the Biologics arm in the quarter under review, which is encouraging as well. Robust performance by the Clinical Supply Services segment also raises our optimism. A recent slew of buyouts and partnerships of the company is impressive. Expansion of both margins bode well. A solid revenue guidance is also encouraging.

Catalent's solid technology foundation, along with integrated development and product supply chain solutions, is encouraging. A strong solvency position is an added plus.

▲ **Technology Foundation:** Catalent is equipped with broad and diverse technology platforms that are supported by extensive know-how and nearly 1,300 patents and patent applications worldwide across advanced delivery technologies, drug and biologics formulation, and manufacturing. Its leading softgel platforms (including Liqui-Gels, OptiShell and Vegicaps capsules) and modified release technologies (including the Zydis family, and OptiPact and OptiMelt technologies) provide formulation expertise to solve complex delivery challenges for its customers. Catalent offers advanced technologies for delivery of small molecules and biologics via respiratory, ophthalmic and injectable routes, including the blow-fill-seal unit dose technology and prefilled syringes.

With a solid technology foundation, the company aims to aid its customers to introduce more products to market at a faster rate as well as to develop and market differentiated new products that improve patient outcomes. For example, in the high-value area of new chemical entities (NCEs), approximately 90% of NCE softgel approvals by the FDA over the last 25 years have been developed and supplied by Catalent. Per management, this was possible due to the presence of significant softgel fill and formulation know-how, databases of formulated products and substantial softgel regulatory approval expertise at the company's disposal.

▲ **Integrated Development and Product Supply Chain Solutions:** Catalent has the ability to bring together its development solutions and advanced delivery technologies to offer innovative development and product supply solutions that can be combined in various ways to aid its customers. Once a product is on the market, Catalent provides comprehensive integrated product supply, from the sourcing of the bulk active ingredient to comprehensive manufacturing and packaging to the testing required for release to distribution. Management believes that Catalent's development and product supply solutions such as OptiForm Solutions Suite and OneBioSuite will continue to contribute to its future growth.

Catalent, in April, announced that it has made an investment to expand capabilities at its clinical supply services facility in Philadelphia to support sponsors developing cell and gene therapies. The same month, the company completed the expansion of two new suites at its biologics drug substance development and manufacturing facility in Madison, WI, and has now commenced work on customer programs.

▲ **Prudent Acquisitions and Partnerships:** Catalent has been very active in inking various strategic deals over the past few months. The company, in May, announced that it has begun a global innovation partnership with Norwegian biotech company, Hofseth BioCare ASA, to develop a delayed-release formulation of HBC's OmeGo fish oil.

In April, Catalent tied-up with developer and manufacturer of ultra-low temperature (ULT) freezers for life science and biopharma research — Stirling Ultracold — which makes the latter the preferred provider of ULT storage across Catalent's multiple business units. The same month, Catalent partnered with gene therapy company AavantiBio to support the development and manufacturing of the latter's gene therapies, including its lead program in Friedreich's Ataxia.

Further in April, Catalent announced the expansion of its strategic collaboration with Moderna to dedicate a new high-speed vial filling line for the manufacture of the Moderna COVID-19 vaccine and potentially other investigational programs in the latter's pipeline, at Catalent's biologics facility in Bloomington, IN.

Other notable agreements of Catalent include that with Canadian biotech company Cybin and its expanded partnership with Janssen Pharmaceutica NV and Janssen Pharmaceuticals (both in March).

With respect to strategic buyouts, Catalent, in May, acquired Promethera Biosciences' cell therapy manufacturing subsidiary, Hepatic Cell Therapy Support SA (HCTS), including its 32,400 square-foot (3,010 square-meter) facility in Gosselies, Belgium. The company, in February, entered into a final and definitive agreement to acquire 100% shares of Delphi Genetics. The same month, Catalent completed the buyout of the manufacturing and packaging operations of Acorda Therapeutics.

▲ **Strong Solvency With Leverage:** Catalent exited the third quarter of fiscal 2021 with cash and cash equivalents of $1.06 billion compared with $833 million at the end of the second quarter of fiscal 2021. Meanwhile, total debt came up to $3.22 billion for the period, compared with $3.06 billion on a sequential basis. This figure is much higher than the quarter-end cash and cash equivalent level, apparently indicating weak solvency. However, if we go by the company's current-year debt level of $74 million, this comes pretty low compared to the cash in hand.

This is good news in terms of solvency position of the company, at least during the year of economic downturn, implying that the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, however, favorable as the industry's total debt of $9.09 billion is much higher than the company's debt level.

The quarter's total debt-to-capital of 44.2% stands at a moderately high level, indicating a leveraged balance sheet. However, it represents a sequential decrease from 44.5% at the end of the fiscal second quarter. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 47.7%. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The times interest earned for the company during the reported quarter stands at 7.8%, representing a sequential increase from 4.6%. This, however, compares favorably with the times interest earned for the industry which stands at a lower level (2.4%).

Reasons To Sell:

- **Stiff Competition:** Catalent operates in a highly competitive market where it competes with multiple companies, including those offering advanced delivery technologies and outsourced dose form or biologics manufacturing. The company also competes in some cases with the internal operations of those pharmaceutical, biotechnology, and consumer health customers that also have manufacturing capabilities and choose to source these services internally.

  Competition is driven by proprietary technologies and know-how, and capabilities, among other factors. Some competitors have greater financial, research and development, operational, and marketing resources than Catalent does. Competition may also increase as additional companies enter the markets or use their existing resources to compete directly with Catalent. Changes in the nature or extent of the company's customers' requirements may render its offerings obsolete or non-competitive, and could adversely affect its results of operations and financial condition.

Catalent's operation in a tough competitive landscape and a highly regulated market poses a threat to its operation. Other headwinds like future impacts from Brexit and forex woes prevail.

- **Regulatory Requirements:** The healthcare industry is highly regulated, where Catalent and its customers are subject to various local, state, federal, national and transnational laws and regulations, which include the operating, quality, and security standards of the FDA and the DEA, among others. Any future change to such laws and regulations could adversely affect the company. Failure by Catalent or its customers to comply with the requirements of these regulatory authorities could result in warning letters, product recalls or seizures, restrictions on operations, or withdrawal of existing or denial of pending approvals, permits or registrations, including those related to products or facilities.

  Additionally, any such failure relating to the products or services provided could expose Catalent to contractual or product liability claims, as well as claims from its customers, whose cost could be significant.

- **Brexit Impacts:** The U.K. exited from the European Union in October 2019. Although there was no immediate change affecting Catalent's business in either the U.K. or the European Union, the U.K. government is now engaged in both internal and external discussions with affected parties, and is considering legislation regarding the changes that will result from the decision to exit. Five of the company's facilities are located in the U.K. These facilities operate within an existing framework of trade and human capital integration with the European Union, and by extension, the other parts of the world with which the European Union has trade and immigration agreements.

  Due to future changes in the U.K. resulting from its exit, including potentially increased trade barriers, or in anticipation of such changes, the company's suppliers or customers may change their interactions with Catalent, including changes in imports to or exports from the U.K. The changes may have adverse impacts on the company's future operations, revenues and costs, and therefore its future profitability.

- **Foreign Exchange Fluctuations:** Catalent has significant operations outside the United States. As a result, changes in the exchange rates of these or any other applicable currency to the U.S. dollar will affect its revenues, earnings and cash flows. There has been, and may continue to be, volatility in currency exchange rates affecting the various currencies in which Catalent conducts business. Such volatility and other changes in exchange rates could result in unrealized and realized exchange losses despite any effort the company may undertake to manage or mitigate its exposure to fluctuations in the values of various currencies.

Last Earnings Report

Catalent Q3 Earnings Tops Estimates, Margins Rise

Quarter Ending	03/2021
Report Date	May 04, 2021
Sales Surprise	5.72%
EPS Surprise	7.89%
Quarterly EPS	0.82
Annual EPS (TTM)	2.78

Catalent reported third-quarter fiscal 2021 adjusted earnings per share of 82 cents, up 64% year over year. Moreover, the bottom line exceeded the Zacks Consensus Estimate by 7.9%.

The adjustments include charges and benefits related to amortization, financing-related expenses, and acquisition, integration, and other special items costs, to name a few.

The company's GAAP earnings per share were $1.26 in the quarter compared with the year-ago earnings per share of 8 cents, reflecting a stupendous improvement.

Revenues in Detail

Revenues grossed $1.05 billion in the reported quarter, up 38.5% year over year (up 35% at constant exchange rate or CER). The metric again surpassed the Zacks Consensus Estimate by 5.7%.

The top line was primarily driven by a robust Biologics segment.
Organic revenues (excluding the impact of acquisitions) increased 35% year over year at CER.

Segments in Detail

Revenues at the Biologics segment rose 117.5% year over year (up 113% at CER) to $543.7 million in the quarter under review. Excluding the impact of acquisitions, net revenues increased by 113%. Robust demand for Catalent's drug product, drug substance and viral vector offerings, with elevated levels of work related to COVID-19 vaccines and treatments, drove the segment.

Revenues at the Softgel and Oral Technologies segment improved 0.6% from the year-ago period (down 2% at CER) to $243.7 million. The segment continued to face pandemic-led headwinds similar to the last few quarters.

The Oral and Specialty Delivery arm recorded revenues of $171.7 million, down 5.3% and 9% on a reported basis and at CER year over year. The segment was significantly impacted by the voluntary recall of a product in a respiratory and ophthalmic platform in September 2020, which caused a significant variance in the segment from the prior-year quarter. Further, net revenues decreased 10% on excluding the impact of acquisitions.

Revenues at the Clinical Supply Services business rose 12.5% year over year (up 9% at CER) to $100 million despite tough comparisons of the prior-year quarter when accelerated delivery of products to the clinical trial sites ahead of global lock downs boosted related activities and revenues in the third quarter of fiscal 2020.

Operational Update

In the quarter under review, Catalent's gross profit improved 53.1% to $365.6 million. Gross margin expanded 331 basis points (bps) to 34.7%.
Meanwhile, selling, general and administrative expenses rose 26.9% to $172.7 million year over year.

Adjusted operating profit totaled $192.9 million, rising 87.8% from the prior-year quarter. Further, adjusted operating margin in the quarter expanded by 481 bps to 18.3%.

Financial Update

Catalent ended fiscal third-quarter 2021 with cash and cash equivalents of $988.1 million compared with $833.1 million at the end of second-quarter fiscal 2021. Total debt in the fiscal third quarter was $3.22 billion compared with $3.06 billion at the end of second-quarter fiscal 2021.

Cumulative net cash provided by operating activities at the end of third-quarter fiscal 2021 was $298.7 million compared with $267.6 million a year ago.

FY21 Guidance

Catalent, boosted by the strength in its COVID-19 vaccines and treatments, has raised the financial guidance for fiscal 2021.

The company projects revenues within $3.875 billion-$3.975 billion (up from the previously provided range of $3.80 billion-$3.95 billion). The Zacks Consensus Estimate for fiscal 2021 revenues is currently pegged at $3.93 billion.

Recent News

Catalent, HBC Announce Partnership: May 12, 2021

Catalent ties up with Norwegian biotech company Hofseth BioCare ASA (HBC) to develop a delayed-release formulation of HBC's OmeGo fish oil.

Catalent Acquires Promethera Biosciences, Enhances pDNA Service Offering: May 6, 2021

Catalent completed the buyout of Promethera Biosciences' cell therapy manufacturing subsidiary, Hepatic Cell Therapy Support SA, including its 32,400-square-foot facility in Gosselies, Belgium. The facility will accommodate Catalent's new commercial-scale plasmid DNA (pDNA) manufacturing and will facilitate the immediate growth of Catalent's pDNA service offering.

Catalent Ties Up With Stirling Ultracold: Apr 29, 2021

Catalent has partnered with Stirling Ultracold, developer and manufacturer of ultra-low temperature (ULT) freezers for life science and biopharma research, whereby the latter becomes the preferred provider of ULT storage across Catalent's multiple business units.

Catalent, AavantiBio Tie Up to Enhance Gene Therapies: Apr 27, 2021

Catalent announced a partnership with gene therapy company AavantiBio to support the development and manufacturing of the latter's gene therapies, including its lead program in Friedreich's Ataxia (FA).

Catalent Expands Facility to Support Growing Demand: Apr 15, 2021

Catalent announced that it has made an investment to expand capabilities at its clinical supply services facility in Philadelphia to support sponsors developing cell and gene therapies.

Catalent Completes Facility Expansion, Increases Overall CGMP-Scale Capacity: Apr 13, 2021

Catalent announced that it has completed the expansion of two new suites at its biologics drug substance development and manufacturing facility in Madison, WI, and has now commenced work on customer programs. The expansion has increased the number of manufacturing suites at the site to five, more than doubling its overall CGMP-scale capacity.

Valuation

Catalent's shares are up 4.8% and up 48.9% in the year-to-date period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 9.7% in the year-to-date period, while that in the Zacks Medical sector are up 0.7%. Over the past year, the Zacks sub-industry is down 11.3% while sector is up 4.2%.

The S&P 500 index is up 13.7% in the year-to-date period and up 39.6% in the past year.

The stock is currently trading at 4.3X Forward 12-months earnings, which compares to 6.9X for the Zacks sub-industry, 2.7X for the Zacks sector and 4.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.2X and as low as 1.4X, with a 5-year median of 2.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $115 price target reflects 4.6X forward 12-months earnings.

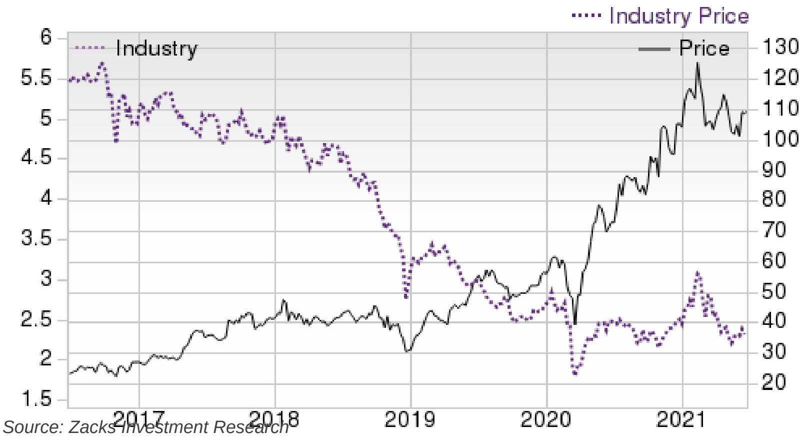
The table below shows summary valuation data for CTLT.

Valuation Multiples - CTLT

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.32	6.90	2.67	4.71
	5-Year High	5.22	6.90	3.17	4.74
	5-Year Low	1.37	2.32	2.27	3.21
	5-Year Median	2.29	3.05	2.78	3.72
P/B TTM	Current	5.00	1.67	4.46	7.06
	5-Year High	7.38	13.60	5.05	7.08
	5-Year Low	2.78	1.04	3.03	3.84
	5-Year Median	4.97	2.25	4.35	5.02
EV/S F12M	Current	4.89	23.56	3.01	4.43
	5-Year High	5.85	26.56	3.68	4.58
	5-Year Low	2.31	6.53	2.52	2.72
	5-Year Median	3.07	22.78	3.16	3.59

As of 06/23/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 8% (231 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
AMNEAL PHARMACEUTICALS, INC. **(AMRX)**	Neutral	3
Endo International plc **(ENDP)**	Neutral	3
Hikma Pharmaceuticals Plc **(HKMPF)**	Neutral	3
Recordati Industria Chimica E Farmaceutica S.P.A. **(RCDTF)**	Neutral	3
Regeneron Pharmaceuticals, Inc. **(REGN)**	Neutral	3
Zoetis Inc. **(ZTS)**	Neutral	3
Jazz Pharmaceuticals PLC **(JAZZ)**	Underperform	5
Ono Pharmaceutical Co. **(OPHLF)**	Underperform	5

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

Industry Comparison Industry: Medical - Drugs

				Industry Peers		
	CTLT	**X Industry**	**S&P 500**	**OPHLF**	**REGN**	**ZTS**
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	C	C	C
Market Cap	18.58 B	212.42 M	29.87 B	11.05 B	56.45 B	88.36 B
# of Analysts	5	3	12	1	9	10
Dividend Yield	0.00%	0.00%	1.35%	0.00%	0.00%	0.54%
Value Score	B	-	-	C	A	C
Cash/Price	0.06	0.25	0.06	0.08	0.06	0.04
EV/EBITDA	32.22	-4.51	17.12	NA	13.39	34.24
PEG F1	1.79	0.99	2.05	NA	0.58	3.23
P/B	5.00	3.51	4.07	1.93	4.71	21.60
P/CF	29.11	11.88	17.35	16.25	15.86	38.71
P/E F1	37.46	16.15	20.98	14.63	10.70	41.49
P/S TTM	4.95	9.13	3.36	3.79	6.14	12.60
Earnings Yield	2.69%	-14.24%	4.69%	6.84%	9.35%	2.41%
Debt/Equity	0.85	0.00	0.66	0.00	0.17	1.61
Cash Flow ($/share)	3.75	-0.55	6.83	1.32	33.40	4.81
Growth Score	D	-	-	C	D	B
Historical EPS Growth (3-5 Years)	14.27%	8.02%	9.59%	11.14%	35.30%	19.90%
Projected EPS Growth (F1/F0)	38.67%	15.32%	21.62%	2.80%	57.32%	16.52%
Current Cash Flow Growth	20.46%	6.99%	0.99%	26.50%	33.99%	5.45%
Historical Cash Flow Growth (3-5 Years)	10.37%	4.77%	7.28%	33.74%	28.54%	16.00%
Current Ratio	2.44	4.43	1.39	2.64	3.12	3.29
Debt/Capital	43.61%	0.09%	41.51%	0.00%	14.18%	61.68%
Net Margin	14.43%	-117.16%	11.95%	24.40%	43.53%	25.30%
Return on Equity	13.88%	-52.29%	16.48%	12.39%	35.43%	55.11%
Sales/Assets	0.46	0.28	0.51	0.44	0.56	0.52
Projected Sales Growth (F1/F0)	26.95%	2.26%	9.54%	11.87%	45.19%	12.46%
Momentum Score	B	-	-	F	D	F
Daily Price Change	-0.84%	0.13%	-0.11%	0.00%	-0.79%	-0.27%
1-Week Price Change	-0.40%	-2.08%	0.43%	0.00%	2.35%	1.75%
4-Week Price Change	4.60%	0.00%	1.09%	-8.51%	6.57%	6.16%
12-Week Price Change	3.59%	-8.80%	6.77%	-27.61%	11.98%	18.19%
52-Week Price Change	54.80%	8.38%	39.06%	19.44%	-12.44%	38.58%
20-Day Average Volume (Shares)	879,206	258,777	1,889,295	125	699,700	1,668,739
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.29%	0.00%	0.01%	-16.95%	0.00%	0.00%

EPS F1 Estimate 12-Week Change	3.48%	-2.57%	3.54%	-17.88%	11.71%	1.90%
EPS Q1 Estimate Monthly Change	1.18%	0.00%	0.00%	NA	0.00%	0.00%

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

Value Score	B
Growth Score	D
Momentum Score	B
VGM Score	C

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.

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

Disclosures

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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