![ZACKS Our Research. Your Success.]

Apr 13, 2021

CVS Health (CVS)

$74.46 (As of 04/12/21)

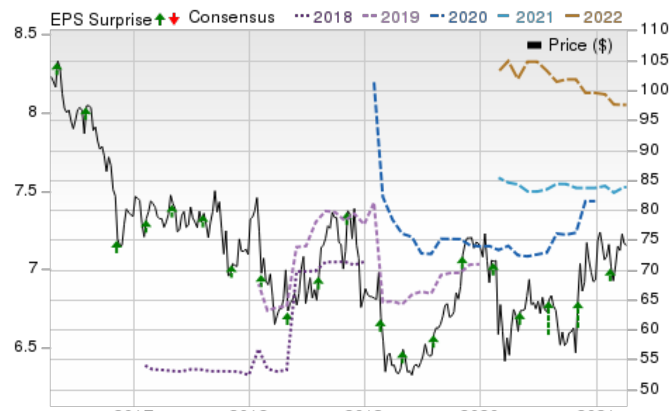
Price Target (6-12 Months): **$79.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/22/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: B | Momentum: B	

Summary

CVS Health's fourth-quarter 2020 earnings and revenues surpassed the respective Zacks Consensus Estimate. However, the year-over-year decline in adjusted EPS was concerning. The pandemic affected fourth-quarter revenues in the Pharmacy Services segments as new therapy prescriptions got reduced due to lower provider visits. However, the 2021 selling season remains strong. The year-over-year Retail/LTC revenue rise was primarily driven by increased prescription volume and higher front store revenues. Health Care Benefits arm benefitted from strong Medicare AEP. The company's consumer centric digital strategy is playing a major role in helping CVS Health withstand the pandemic-led challenges on its business. Overall, in the past three months, CVS Health underperformed its industry.

Price, Consensus & Surprise

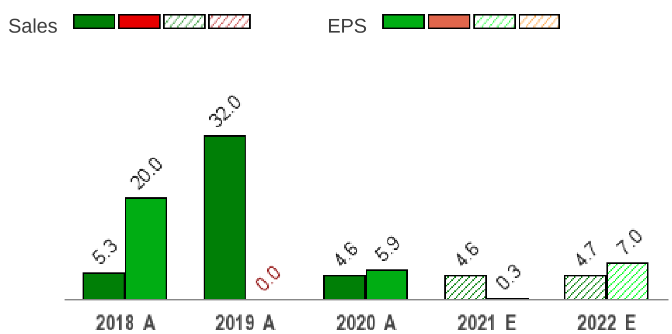


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$77.23 - $55.36**
20-Day Average Volume (Shares)	**6,359,156**
Market Cap	**$97.1 B**
Year-To-Date Price Change	**8.5%**
Beta	**0.84**
Dividend / Dividend Yield	**$2.00 / 2.7%**
Industry	**Retail - Pharmacies and Drug Stores**
Zacks Industry Rank	**Bottom 21% (201 out of 254)**
Last EPS Surprise	**4.8%**
Last Sales Surprise	**1.3%**
EPS F1 Estimate 4-Week Change	**0.5%**
Expected Report Date	**05/04/2021**
Earnings ESP	**4.5%**
P/E TTM	**9.9**
P/E F1	**9.9**
PEG F1	**1.7**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	71,602 E	72,842 E	73,480 E	75,557 E	294,252 E
2021	68,442 E	69,721 E	69,990 E	71,894 E	280,968 E
2020	66,755 A	65,341 A	67,056 A	69,554 A	268,706 A

EPS Estimates

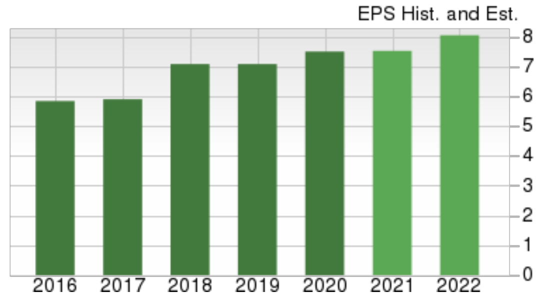
	Q1	Q2	Q3	Q4	Annual*
2022	$1.98 E	$1.82 E	$2.00 E	$2.05 E	$8.05 E
2021	$1.69 E	$1.87 E	$2.03 E	$1.91 E	$7.52 E
2020	$1.91 A	$2.64 A	$1.66 A	$1.30 A	$7.50 A

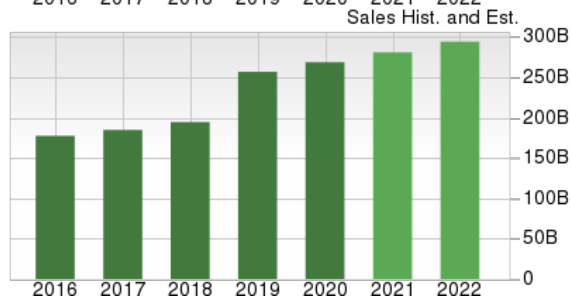
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/12/2021. The report's text and the analyst-provided price target are as of 04/13/2021.

10 S. Riverside Plaza Suite 1600 · Chicago, IL 60606

Overview





Headquartered in Woonsocket, RI, CVS Health Corporation (formerly known as CVS Caremark Corporation) is a pharmacy innovation company with integrated offerings across the entire spectrum of pharmacy care. On Sep 3, 2014, CVS Caremark Corporation announced a change of its corporate name to CVS Health to reflect its broader health care commitment.

In Nov 2018, CVS Health completed the $70-billion consolidation of insurance-giant Aetna. With the acquisition, the segments of CVS Health have been realigned.

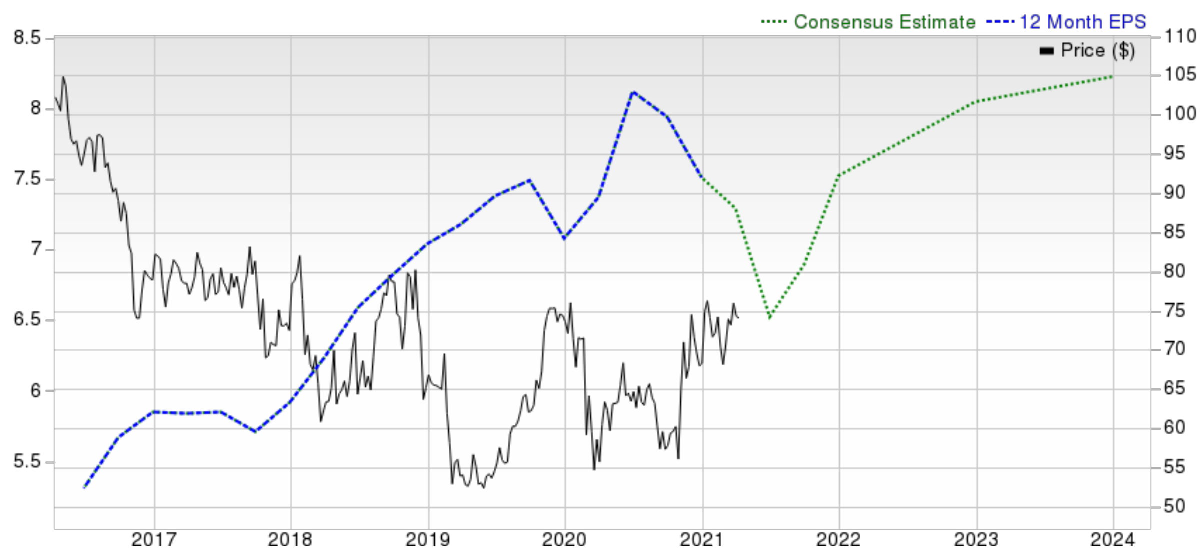
Effective first-quarter 2019, the company's SilverScript Medicare Part D prescription drug plan (PDP) has shifted from the Pharmacy Services segment to the Health Care Benefits segment. In addition, the mail order and specialty pharmacy operations of Aetna have been transitioned from the Health Care Benefits segment to the Pharmacy Services segment.

CVS currently has four reportable segments: Pharmacy Services, Retail/ Long Ter Care (LTC), Health Care Benefits and Corporate/Other.

The Pharmacy Services segment (up 0.3% in 2020 from 2019) provides a full range of pharmacy benefit management ("PBM") solutions, including plan design offerings and administration, formulary management, retail pharmacy network management services, mail order pharmacy, specialty pharmacy and infusion services, clinical services, disease management services and medical spend management.

The Retail/LTC segment (up 5.3%) sells prescription drugs and a wide range of general merchandise, including over-the-counter drugs, beauty products, cosmetics and personal care products, health care services through its MinuteClinic walk-in medical clinics and conducts long-term care pharmacy operations, which distribute prescription drugs and provide related pharmacy consulting and other ancillary services to chronic care facilities and other care settings.

Health Care Benefits (up 8.4%) offers a broad range of traditional, voluntary and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, medical management capabilities, Medicare Advantage and Medicare Supplement plans, PDPs, Medicaid health care management services, workers' compensation.



Source: Zacks Investment Research

Reasons To Buy:

> Increasing demand for PBM and specialty pharmacy along with significant growth observed in the retail business are encouraging.

▲ **COVID-19 Crisis Drives Growth**: CVS Health's specialty digital solutions for patients grew by a 25% CAGR over the past two years, and since the start of the pandemic the company is seeing a significant part of its specialty orders being placed digitally. In this period, CVS Health's consumer centric digital strategy has become even more relevant as people are using technology more while they stay at home. This trend began in January and accelerated with COVID-19. According to the company's fourth-quarter update, based on its improved digital capacities across all CVS Health Touch Points, it has become the largest community testing organization in the United States. Through the pandemic period, the company has administered approximately 15 million tests at more than 4,800 testing locations nationwide.

CVS Health noted that 50% of these tests have been administered in communities with significant need for support according to the CDC social vulnerability index. Additionally, it launched return-ready solution to help employers and universities whilke they plan to return to normal schedule. Till the fourth-quarter uopdate, a hundred clients have enrolled representing over 1.5 million individuals.

The company recently launched a new digital platform to assist with registering COVID-19 patients for clinical trials as vaccines and therapeutic treatments are developed. This new service is a natural extension of CVS Health's clinical and data analytics capabilities. The company is also administering COVID-19 vaccination distribution procedure working in collaboration with the federal government. Till the fourth-quarter earnings call, it administered more than 3 million vaccine doses to the patients and staff in over 40,000 long-term care facilities across the country.

▲ **Health Care Benefit Shows Potential**: Following the colossal acquisition of health insurance giant Aetna for a colossal sum of $70 billion, CVS Health has introduced a new business arm called Health Care Benefits. This segment has already started to show strong momentum, particularly in government business. Despite, demand for legacy services remaining low revenue growth in the segment during the fourth quarter was driven by greater utilization of total healthcare services and return to more near-normal seasonal levels.

In this regard, we note that, CVS Health earlier expected to earn $750 million from near-term synergies of Aetna integration with low to mid-single digit accretion in the second year post the transaction's closure. Per the company, shareholders can look forward to several outcomes with respect to near-term synergy including enhanced competitive positioning and a new combined platform that might redefine access to high-quality care at low cost, substantially accelerating the consolidated business' growth.

▲ **PBM Business Gaining Traction**: With regard to its 2021 PBM selling season, CVS Health has noted that, till the end of the fourth quarter, it has largely completed the renewals with strong retention rate of 98%. Till this period, the company won $4.9 billion in gross new business and $3.3 billion in net new business for 2021 and continued to increase pharmacy penetration within the Aetna book of business with approximately $300 in incremental revenue for 2021.

CVS Health earlier noted that, it has extended its contract with Centene through 2022. According to CVS health, service levels and performance metrics are currently remaining at historically high levels and the company expects to return to its historical retention levels in future periods.

▲ **Specialty Pharmacy – A High-Growth Avenue**: The soaring demand for specialty pharmacy, especially in the on-going decade, is likely to accelerate growth for the company. In the fourth quarter, Specialty pharmacy revenue increased 4% reflecting new client and existing channel growth. There was continued growth within specialty pharmacy capabilities. The company invested in high-growth areas of specialty pharmacy, adding businesses such as Coram and Novologix.

We are also positive on the company's newly developed comprehensive set of programs to effectively manage specialty trends, which includes formulary exclusion strategy. According to recent data, 3 million people in the U.S. are currently in need of specialty treatment while the potential cost of treatment tends to be very high. With management's notification that the company's specialty business remains a top priority for customers, we believe CVS Health is well positioned to capitalize on that opportunity based on its broad, differentiated offering which includes the likes of Specialty Connect. Moving forward, management expects drug price inflation, new product launch, higher utilization and new PBM clients to fuel growth. We expect the segment to serve as a stable growth platform going forward.

▲ **Retail on a Growth Track**: Over the last few quarters, the retail Long Term Care business registered positive revenue growth after several quarters of drag. Despite the challenging environment, this business witnessed year-over-year growth of 6.6% in the fourth quarter. According to CVS Health, Retail/Long-Term Care prescription volume increased 2% benefiting from flu vaccinations, benefits from diagnostic testing and brand inflation.

▲ **Balance Sheet View Strong**: CVS Health ended 2020 with cash and cash equivalents of $7.85 billion compared with $5.68 billion at the end of 2019. Meanwhile, total debt came up to $64.65 billion, a decline from $68.5 billion at the end of 2019. Although, the year-end total debt was much higher than the corresponding cash and cash equivalent level, the near-term payable debt is coming at $5.44 billion, lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, unfavorable as, the industry's total debt of $41.3 billion is much lower than the company's debt level.

The quarter's total debt-to-capital ratio of 0.48 stands at a pretty high level right now indicating moderately leveraged balance sheet. However, it also represented a decline from 0.52 at the end of 2019. This compares unfavorably with the total debt-to-capital ratio of the industry which stands at a lower level of 0.47

The company's fourth-quarter interest coverage stands at 4.4%, a slight decline from 4.7% in the third quarter.

CVS Health's' capital deployment policy is based on the return of shareholders's money through dividends and share buybacks. The company's current payout ratio stands at a 25.2%. Amid the pandemic-led economic crisis, the company might find its dividends to be over-burdened. However, this compares unfavorably with the payout rate of the industry which stands at a high level (29.2%).

Reasons To Sell:

> Rising pressure to reduce reimbursement rates for generic drugs, disappointing retail performance, highly competitive market and pressure on margins provide stiff challenges to CVS Health.

- **Share Price Performance**: Over the past three months, CVS Health underperformed its industry. The stock has lost 0.8% compared to the 2.3% rise of the industry. In the fourth quarter of 2020, the COVID-19 pandemic affected the Pharmacy Services business as new therapy prescriptions reduced due to lower provider visits. Pharmacy Services revenues declined 1.9% year over year due to client losses and continued price compression.

- **Near-Term Challenges to Impede Growth:** Ongoing pharmacy reimbursement pressure in the Pharmacy Services and Retail/LTC segments and reductions in the traditional offsets to those pressures, including a declining benefit from the introduction of new multi-source generic prescription drugs and lower benefits from generic dispensing rate increases.

  The reimbursement pressure in the Pharmacy Services segment is projected to be exacerbated by the cumulative effect on rebate guarantees of lower brand name drug price inflation and a modest selling season.

  The Retail/LTC segment is projected to be impacted by structural and company specific challenges in the long-term care space as well as the annualization of the company's 2018 investment of a portion of the savings from the Tax Cuts and Job Act in wages and benefits.

- **Risk Related to Reimbursement Reduction**: A significant portion of CVS Health's net revenue is derived directly from Medicare, Medicaid and other government-sponsored health care programs. The company is therefore subject to federal and state reimbursement laws and regulatory requirements, anti-remuneration laws, the Stark Law and/or federal and state false claims laws.

  According to the company, the continued efforts of health maintenance organizations, managed care organizations, PBM companies, government entities, and other third party payors to reduce prescription drug costs and pharmacy reimbursement rates may impact its profitability. In particular, increased utilization of generic pharmaceuticals has resulted in pressure to decrease reimbursement payments to retail and mail order pharmacies for generic drugs, causing a reduction in the generic profit rate.

- **Competitive Landscape**: Despite significant new client wins in the course of a strong selling season, intense competition and tough industry conditions act as major impediments. Major competitors such as Walgreens, Target and Wal-Mart are expanding their pharmacy businesses. Competition is especially tough in the pharmacy segment, as other retail businesses continue to add pharmacy departments and low-cost pharmacy options become available. Discount retailers, in particular, have made substantial inroads in gaining market share.

- **Poor Macroeconomic Condition**: Although prescriptions and related health care service providers like CVS stay out of general macro-economic turmoil, the recent debt crisis and sluggish economic conditions in U.S. could impact consumer purchasing power. This may also influence preferences and spending patterns and result in low prescription utilization. In the reported quarter, CVS faced pricing pressure and higher operating and remediation expenses for its Medicare Part D prescription drug business.

Last Earnings Report

CVS Health Q4 Earnings Top Estimates on Robust Health Care Benefit Sales

Quarter Ending	12/2020
Report Date	Feb 16, 2021
Sales Surprise	1.29%
EPS Surprise	4.84%
Quarterly EPS	1.30
Annual EPS (TTM)	7.51

CVS Health's fourth-quarter 2020 adjusted earnings per share of $1.30 declined 24.9% year over year but exceeded the Zacks Consensus Estimate by 4.8%. The adjusted EPS figure takes into account certain asset amortization costs, acquisition-related integration costs and receipt of fully reserved ACA risk corridor receivable along with other adjustments.

On a reported basis, the company's earnings of 75 cents per share plunged 43.6% year over year.
Full-year adjusted EPS was $7.50, up 5.9% from the year-ago period. This also surpassed the Zacks Consensus Estimate by 0.9%.

Total revenues in the fourth quarter rose 3.9% year over year to $69.55 billion. The top line also beat the Zacks Consensus Estimate by 1.3%. Full-year 2020 total revenues were $268.71 billion, a 4.6% improvement from 2019. It also exceeded the Zacks Consensus Estimate by a close margin of 0.3%.

Quarter in Detail

Pharmacy Services revenues were down 1.9% to $36.36 billion in the reported quarter. Continued price compression and changes in net new business mix were partially offset by growth in specialty pharmacy and brand inflation.

Total pharmacy claims processed rose 0.7% on a 30-day equivalent basis, attributable to strong net new business.

Revenues from CVS Health's Retail/LTC were up 6.6% year over year to $24.06 billion. In the quarter, increased prescription volume, COVID-19 diagnostic testing and brand inflation were partially offset by continued reimbursement pressure and the impact of recent generic introductions.

Front store revenues fell 1.6% year over year due to decreased customer traffic and reduced volume in cough and cold product sales primarily as a result of the pandemic. Prescription volume rose 2% on a 30-day equivalent basis on continued adoption of patient care programs. This was partially offset by reduced new therapy prescriptions like lower seasonal flu prescriptions as a result of the pandemic as well as decreased long-term care prescription volume.

Within Health Care Benefits segment, the company registered revenues worth $19.10 billion in the fourth quarter, up 11.4% year over year. The improvement was primarily driven by membership growth in the Health Care Benefits segment's government products and favorable impact of the reinstatement of the HIF (Health Insurer Fee) for 2020 and the receipt of $313 million under the ACA's risk corridor program. This was partially offset by the divestitures of Aetna's standalone Medicare Part D prescription drug plans and Workers Compensation business, membership declines in the segment's commercial products and planned COVID- related investments.

Margin

Gross profit improved 9.2% to $27.1 billion. Gross margin expanded 185.3 basis points (bps) to 38.9%. Without considering benefit cost, adjusted operating margin in the quarter under review grew 123 bps to $25.4 billion on a 9.3% rise in adjusted operating profit to $17.67 billion.

2021 Outlook

CVS Health provided its 2021 adjusted earnings per share and cash flow guidance.

Adjusted earnings per share is expected in the band of $7.39-$7.55. The Zacks Consensus Estimate for 2021 earnings is pegged at $7.53.

Full-year operating cash flow is expected in the range of $12 billion-$12.50 billion.

Recent News

CVS Health Extends COVID-19 Testing in Massachusetts: Mar 16, 2021

CVS Health announced the availability of COVID-19 antibody testing in nearly 60 MinuteClinic locations in Massachusetts.

CVS Health COVID-19 Vaccine Available in 29 States: Mar 11, 2021

CVS Health is now administering vaccines in nearly 1,200 stores across 29 states.

Aetna and Iora Health Collaborate to Extend Access to Medicare Advantage care: Feb 17, 2021

Aetna, a CVS Health Company enter into an agreement to provide members enrolled in Aetna Individual and Group Medicare Advantage plans access to six Iora Primary Care location.

CVS Health Expand Access to COVID-19 Vaccines: Feb 2, 2021

CVS Health will start offering COVID-19 vaccinations to eligible community at a limited number of CVS Pharmacy locations across 11 states.

Aetna Extends Surgery Coverage for Transgender Women: Jan 26, 2021

Aetna, a CVS Health company announced that it has expanded coverage of gender-affirming surgery to include breast augmentation for transfeminine members of most of its commercial plans. The expansion is the result of collaboration between Aetna, TLDEF, Cohen Milstein, and several transgender beneficiaries.

CVS Health Completes First Round of COVID-19 Vaccine Doses: Jan 25, 2021

CVS health has rolled out the first round of COVID-19 vaccine doses to nearly 8,000 skilled nursing facilities across the country.

CVS Health Launches Symphony: Jan 14, 2021

CVS health launched the Symphony medical alert system intended to help caregivers monitor the safety and well-being of loved ones. It features a free app for caregivers that provides alerts for emergencies and assists with facilitating care coordination.

CVS Health Partners With CTCA to Provide In-Home Chemotherapy: Jan 12, 2021

CVS Health announced its collaboratioan with Cancer Treatment Centers of America (“CTCA”) to provide a wider access to chemotherapy at home for eligible and fully insured patients.

Valuation

CVS Health shares are up 9.1% over the past six months and up 21% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 15.9% while the Zacks Retail-Wholesale sector improved 1.2% over the past six months. Over the past year, the Zacks sub-industry is up 25.1% and sector is up 38.5%.

The S&P 500 index is up 10.6% over the past six months and up 48.1% in the past year.

The stock is currently trading at 9.9X Forward 12-months earnings, which compares to 10.1X for the Zacks sub-industry, 30.5X 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 17.5X and as low as 7.2X, with a 5-year median 10.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $79 price target reflects 10.4X forward 12-months earnings.

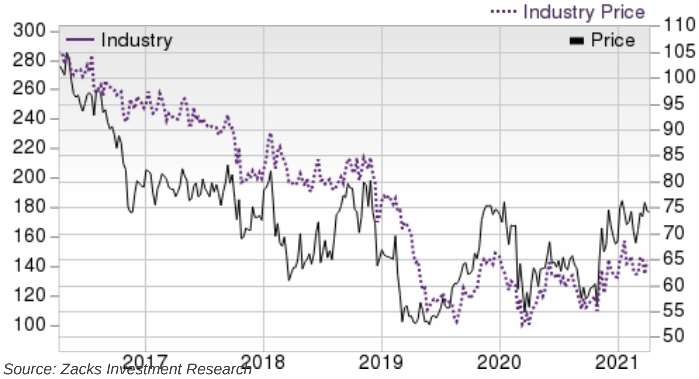
The table below shows summary valuation data for CVS

Valuation Multiples - CVS

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	9.90	9.71	32.11	23.12
	5-Year High	17.45	16.29	34.07	23.89
	5-Year Low	7.24	7.42	19.10	15.30
	5-Year Median	10.06	10.26	23.77	18.00
P/S F12M	Current	0.34	0.30	1.40	4.77
	5-Year High	0.62	0.60	1.40	4.77
	5-Year Low	0.21	0.22	0.84	3.21
	5-Year Median	0.36	0.36	1.02	3.71
P/B TTM	Current	1.4	1.41	5.36	7.01
	5-Year High	3.22	2.94	6.48	7.01
	5-Year Low	0.91	1.01	3.79	3.83
	5-Year Median	1.75	1.88	5.13	4.98

As of 04/12/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 21% (201 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. **(AMZN)**	Neutral	3
Herbalife LTD. **(HLF)**	Neutral	3
McKesson Corporation **(MCK)**	Neutral	3
Rite Aid Corporation **(RAD)**	Neutral	4
Target Corporation **(TGT)**	Neutral	3
Ulta Beauty Inc. **(ULTA)**	Neutral	3
Walgreens Boots Alliance, Inc. **(WBA)**	Neutral	3
Walmart Inc. **(WMT)**	Underperform	5

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

Industry Comparison Industry: Retail - Pharmacies And Drug Stores

Industry Peers

	CVS	X Industry	S&P 500	HLF	RAD	WBA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	A	A
Market Cap	97.13 B	3.26 B	29.81 B	5.30 B	1.11 B	46.83 B
# of Analysts	11	4.5	12	1	1	8
Dividend Yield	2.70%	0.00%	1.33%	0.00%	0.00%	3.45%
Value Score	A	-	-	A	A	A
Cash/Price	0.11	0.08	0.06	0.20	0.05	0.02
EV/EBITDA	8.53	8.77	16.97	9.01	9.00	17.30
PEG F1	1.68	1.54	2.38	NA	NA	1.61
P/B	1.39	1.66	4.01	NA	1.82	2.17
P/CF	6.82	7.29	17.10	10.02	3.31	7.77
P/E F1	9.90	10.44	22.05	9.88	62.81	10.99
P/S TTM	0.36	0.35	3.42	0.96	0.05	0.34
Earnings Yield	10.15%	9.61%	4.47%	10.12%	1.59%	9.10%
Debt/Equity	0.85	0.30	0.66	-2.81	5.27	0.51
Cash Flow ($/share)	10.93	4.56	6.78	4.56	6.13	7.04
Growth Score	B	-	-	B	B	B
Historical EPS Growth (3-5 Years)	9.34%	7.76%	9.34%	7.76%	NA	1.93%
Projected EPS Growth (F1/F0)	0.30%	3.96%	15.26%	22.37%	-52.24%	3.98%
Current Cash Flow Growth	5.04%	-19.36%	0.61%	21.15%	-53.93%	-19.36%
Historical Cash Flow Growth (3-5 Years)	12.55%	-7.12%	7.37%	2.70%	-16.86%	0.93%
Current Ratio	0.91	1.02	1.39	1.58	1.49	0.83
Debt/Capital	45.93%	39.82%	41.26%	NA	84.05%	33.71%
Net Margin	2.67%	-1.06%	10.59%	6.72%	-1.66%	-0.45%
Return on Equity	14.47%	2.12%	14.86%	-80.92%	2.12%	18.32%
Sales/Assets	1.16	1.69	0.51	1.81	2.51	1.57
Projected Sales Growth (F1/F0)	4.56%	3.04%	7.37%	8.90%	1.51%	-1.71%
Momentum Score	B	-	-	D	D	B
Daily Price Change	0.53%	1.00%	0.24%	1.72%	1.04%	0.96%
1-Week Price Change	-0.31%	-2.53%	1.54%	-0.91%	-4.01%	-1.04%
4-Week Price Change	-0.68%	-4.91%	2.84%	-3.61%	-21.13%	-0.64%
12-Week Price Change	-2.36%	4.46%	10.11%	-9.07%	11.29%	11.81%
52-Week Price Change	26.29%	34.64%	55.81%	42.98%	43.43%	24.01%
20-Day Average Volume (Shares)	6,359,156	2,350,027	1,992,726	910,098	2,390,840	6,194,573
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.47%	0.24%	0.00%	0.00%	-28.89%	4.29%
EPS F1 Estimate 12-Week Change	-0.12%	1.30%	2.05%	2.71%	-28.89%	3.60%
EPS Q1 Estimate Monthly Change	1.15%	1.15%	0.00%	0.00%	NA	1.18%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	B
VGM Score	A

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

Disclosures

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

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

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

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

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

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 forwardlooking 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 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.