

CVS Health (CVS)

\$84.74 (As of 06/16/21)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

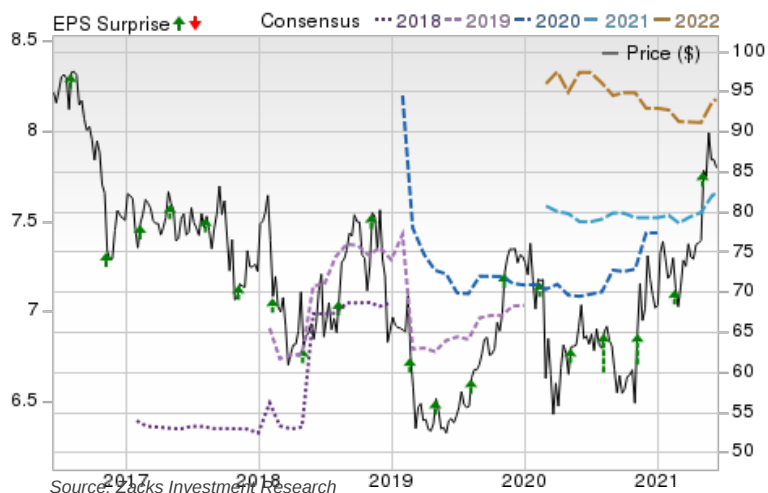
Growth: B

Momentum: C

Summary

Over the past three months, CVS Health outperformed its industry. Revenues across all the three operating segments in the last-reported first quarter performed ahead of the company's expectations. Increased full-year guidance is indicative of this bullish trend to continue through the rest of 2021. The company noted that, consumer-centric digital strategy has become more relevant in the current environment as people are using technology more while staying indoors. In the first quarter, the company has achieved higher levels of engagement across digital assets. Notably, the company reported better than expected earnings in the first quarter. However, a weak cough, cold and flu season impacted growth within both Pharmacy Services and Retail/LTC. Also, the repeal of the HIF for 2021 hampered growth for Health Care Benefits.

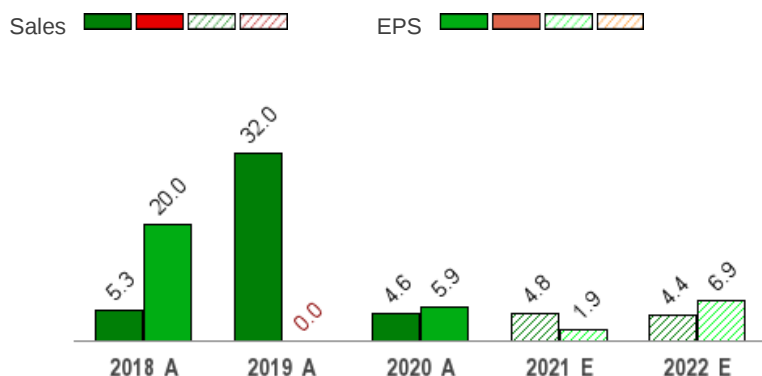
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$90.61 - \$55.36
20-Day Average Volume (Shares)	5,816,627
Market Cap	\$111.6 B
Year-To-Date Price Change	24.1%
Beta	0.82
Dividend / Dividend Yield	\$2.00 / 2.4%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Top 36% (90 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	71,240 E	73,542 E	73,408 E	75,540 E	294,108 E
2021	69,097 A	70,359 E	70,298 E	72,152 E	281,637 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	\$2.07 E	\$2.09 E	\$1.94 E	\$2.00 E	\$8.17 E
2021	\$2.04 A	\$2.01 E	\$1.86 E	\$1.81 E	\$7.64 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.

Last EPS Surprise	18.6%
Last Sales Surprise	1.0%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	08/04/2021
Earnings ESP	3.9%
P/E TTM	11.1
P/E F1	11.1
PEG F1	1.9
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/16/2021. The report's text and the

analyst-provided price target are as of 06/17/2021.

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.

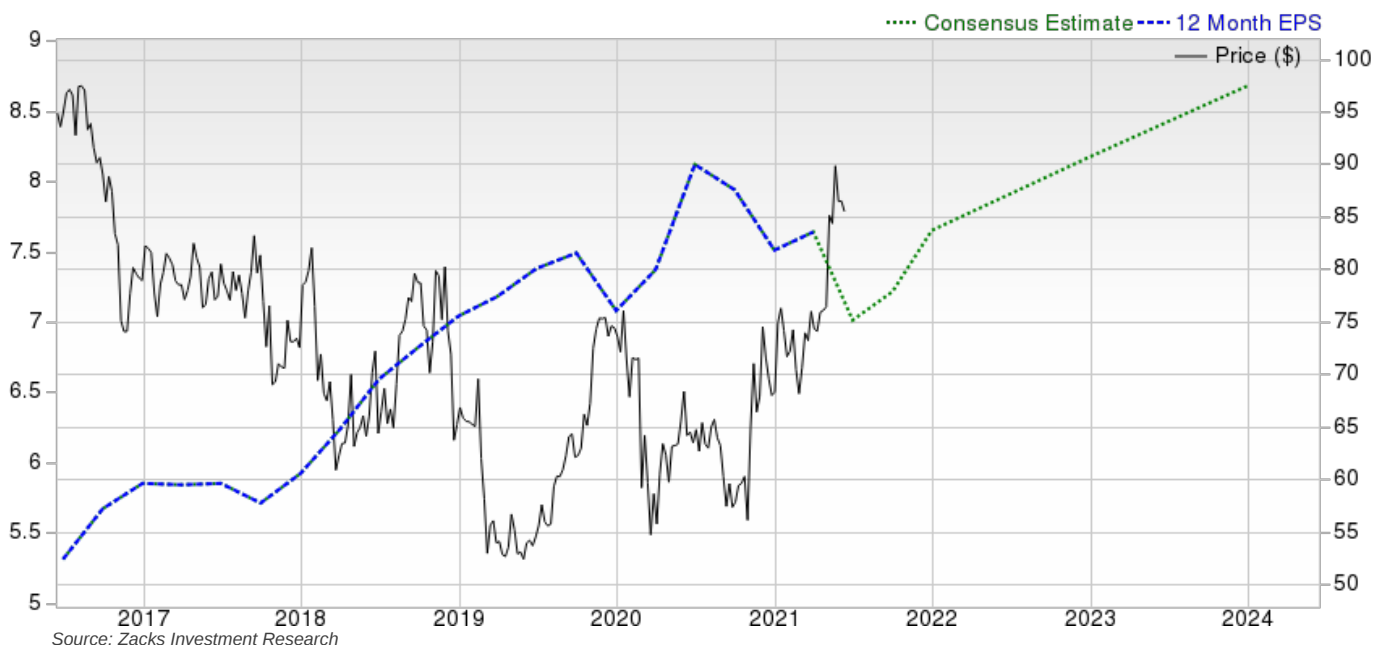
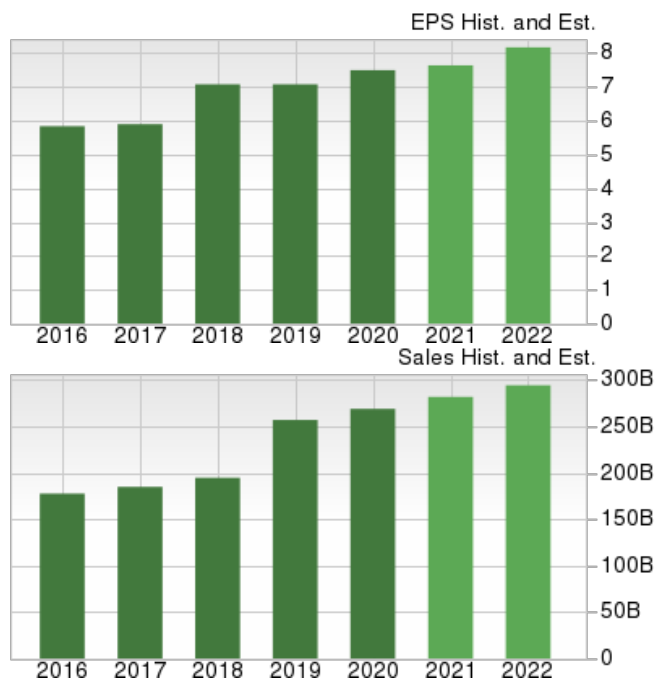
Effective first-quarter 2019, the company's SilverScript Medicare Part D prescription drug plan (PDP) has shifted from the Pharmacy Services segment to the Health Care Benefits segment. In addition, the mail order and specialty pharmacy operations of Aetna have been transitioned from the Health Care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

CVS currently has four reportable segments: Pharmacy Services, Retail/Long Term 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.



Reasons To Buy:

▲ **Share Price Performance:** Over the past three months, CVS Health outperformed its industry. The stock has gained 13.7% compared to the 9.8% rise of the industry. CVS Health's first-quarter earnings and revenues surpassed the respective Zacks Consensus Estimate. Revenues across all the three operating segments improved in the quarter reporting better than the company's expectations. Increased full-year guidance is indicative of this bullish trend to continue through the rest of 2021.

The company noted that, consumer-centric digital strategy has become more relevant in the current environment as people are using technology more while staying indoors. In the first quarter, the company has achieved higher levels of engagement across digital assets, a trend which began in January 2020 and accelerated with COVID-19.

During the first quarter, utilization approached near-normal baseline levels. The company has continued with growing momentum in Government Services business. It has also increased membership across all Medicare business lines in the first quarter.

▲ **COVID-19 Crisis Drives Digital 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. According to the company's first-quarter update, its second dose compliance of over 90% is the result of this consumer-centric digital approach. The company has schedule round-trip visits, booking both appointments at once and also provided appointments for second doses only.

The company has seen more than 80% increase in visits to its flagship digital properties on a year-over-year basis in the first quarter. Growth was primarily driven by engagement in expanded set of digital health services such as COVID testing, vaccinations and omni-channel pharmacy. CVS Health is also expanding access to care through digital and virtual channels. The company has launched a digital-first primary care model that helps consumers navigate the best site of care for their health needs. As a major step towards adapting digital health, the company has recently announced the launch of CVS Health Ventures fund that gives insight into new digital health innovations. According to the company, this approach allows it to invest in, and partner with, high-potential, early-stage companies to drive technology-enabled innovation and digital health care.

▲ **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 its Health Care Benefits business arm. This segment has already started to show strong momentum, particularly in government business. In the first quarter, this business delivered strong revenue growth fueled by continued growth in Government Services. During the quarter, utilization approached near-normal baseline levels. The company has continued momentum in Government Services business. There has been increased membership across all Medicare business lines in the first quarter. The company has outperformed with dual-eligible members, delivering over 30% growth, and significantly expanded its reach, adding 14 new states. The company has also announced that it will re-enter the Public Exchanges in 2022. CVS Health currently expects to enter up to eight states, where it expects to make a meaningful impact and maximize returns with first-ever Aetna-CVS branded offerings.

▲ **Pharmacy Services Business Gaining Traction:** In the first quarter, CVS Health delivered market-leading results in controlling drug costs for Commercial clients (with only a 2.9% overall drug trend and with 34% of clients experiencing negative trend in 2020). Specialty pharmacy revenues were up 7.2% year over year reflecting net new wins on success in trend management program. The company is currently well positioned for continued growth in 2022.

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 2.3% in the first quarter. The company has successfully administered over 23 million COVID tests and over 17 million vaccines through April. It is currently administering vaccines in 49 states and in more than 8,300 CVS locations. A one-third of vaccinations have been administered to members of underrepresented communities.

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

▲ **Balance Sheet View Strong:** CVS Health ended the first quarter of 2021 with cash and cash equivalents of \$8.79 billion compared with \$10.85 billion at the end of 2020. Meanwhile, total debt came up to \$61.94 billion, a decline from \$64.65 billion at the end of 2020. 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 \$2.67 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 \$40.8 billion is much lower than the company's debt level.

The quarter's total debt-to-capital ratio of 0.47 stands at a pretty high level right now indicating moderately leveraged balance sheet. However, it also represented a decline from 0.48 at the end of 2020. This compares unfavorably with the total debt-to-capital ratio of the industry which stands at a lower level of 0.45

The company's first-quarter interest coverage stands at 4.5%, a slight decline from 4.4% in the fourth quarter.

CVS Health's capital deployment policy is based on the return of shareholders' money through dividends and share buybacks. The company's current payout ratio stands at a 26.2%. Amid the pandemic-led economic crisis, the company might find its dividends to be overburdened. This compares with the payout rate of the industry which stands at 28.6%.

Reasons To Sell:

- ▼ **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.

Further in the first quarter, a weak cough, cold and flu season impacted growth within both Pharmacy Services and Retail/LTC. Also, the repeal of the HIF for 2021 hampered growth for Health Care 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 macroeconomic 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.

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.

Last Earnings Report

CVS Health Q1 Earnings Top Estimates on Balanced Growth in All Arms

CVS Health Corporation's first-quarter 2021 adjusted earnings per share of \$2.04 improved 6.8% year over year and also exceeded the Zacks Consensus Estimate by 18.6%. The adjusted earnings per share figure takes into account certain asset amortization costs and acquisition-related integration costs along with other adjustments.

On a reported basis, the company's earnings of \$1.68 per share rose 9.8% year over year. Total revenues in the first quarter rose 3.5% year over year to \$69.09 billion. The top line also beat the Zacks Consensus Estimate by 0.9%.

Quarter in Detail

Pharmacy Services revenues were up 3.8% to \$36.33 billion in the reported quarter. Continued price compression and a weak cough, cold and flu season were partially offset by growth net new business, growth in specialty pharmacy, product mix and brand inflation.

Total pharmacy claims processed fell 1% on a 30-day equivalent basis, attributable to a weak cough, cold and flu season, partially offset by strong net new business.

Revenues from CVS Health's Retail/LTC were up 2.3% year over year to \$23.27 billion. In the quarter, increased COVID-19 diagnostic testing and vaccinations and brand inflation were partially offset by lower front store revenues, primarily due to the acceleration of demand in March 2020, a weak cough, cold and flu season, continued reimbursement pressure and the impact of recent generic introductions.

Within Health Care Benefits segment, the company registered revenues worth \$20.48 billion in the first quarter, up 6.7% year over year. The improvement was primarily driven by growth in the Government Services business, partially offset by the unfavorable impact of the repeal of the HIF (Health Insurer Fee) for 2021.

Margin

Gross profit (considering benefit cost) improved 3.9% to \$12.49 billion. Gross margin expanded 7 basis points (bps) to 38.9%. Operating margin in the quarter under review fell 1 bps to 5.17% despite a 3.3% rise in adjusted operating profit to \$3.58 billion.

2021 Outlook

CVS Health has raised its 2021 adjusted EPS guidance. Adjusted earnings per share is expected in the band of \$7.56-\$7.78 (compared with the earlier provided range of \$7.39-\$7.55). The Zacks Consensus Estimate for 2021 earnings is pegged at \$7.55.

Full-year operating cash flow projection has been reaffirmed in the range of \$12 billion-\$12.50 billion.

Quarter Ending

03/2021

Report Date	May 04, 2021
Sales Surprise	0.96%
EPS Surprise	18.60%
Quarterly EPS	2.04
Annual EPS (TTM)	7.64

Recent News

CVS Health's ExtraCare Loyalty Program To Provide Instant Rewards: June 15, 2021

CVS Health's retail segment, CVS Pharmacy introduced new updates to its ExtraCare Rewards loyalty program wherein members can avail an instant 2% ExtraBucks rewards on purchases from July. In addition, a new birthday benefit option also offers members a \$3 in celebratory ExtraBucks Rewards which can be used during their birthday month.

CVS Health's Aetna to Offer MMAI Plan To Entire Illinois: June 11, 2021

CVS Health's company Aetna existing Aetna Better Health Premier Plan MMAI has received approval to advance its services to the whole state of Illinois. The Medicare-Medicaid Alignment Initiative (MMAI) is a combined initiative intended to provide individual health care needs to enrollees eligible for both Medicare and Medicaid services.

CVS Health Installs Time-Delay Safes at Several CVS Pharmacy Locations: June 7, 2021

CVS Health completed the installation of time delay safe technology in 355 CVS Pharmacy locations at Georgia to fulfill its ongoing commitment towards healthier and safer communities and to ensure the safety and well-being of CVS Pharmacy customers and employees. The recent installations electronically delay the time taken by pharmacy employees to open the safe, thereby preventing robberies associated with money or controlled substance medications.

CVS Health's Pharmacy Arm Introduces New Products in its Store Brands line: May 26, 2021

CVS Health's retail division, CVS Pharmacy, has added more than 150 new products to its exclusive Store Brands portfolio. These latest additions have been introduced to fulfill unmet customer demand for products across health, grocery and beauty ranges.

CVS Health Introduces Clinical Trial Services Business: May 20, 2021

CVS Health launched Clinical Trial Services business to evaluate the safety and efficacy of latest investigational drugs and medical devices by combining technology and clinical trial expertise across CVS Health enterprise. The latest clinical trial experience from CVS Health is expected to overcome multiple challenges posed by its current clinical trial model.

CVS Health To Commence COVID-19 Vaccination For Adolescents: May 12, 2021

CVS Health announced the availability of Pfizer-BioNTech vaccine appointments at more than 5,600 CVS Pharmacy locations for adolescents aged 12 to 15, following receipt of Emergency Use Authorization from the FDA for the same.

CVS Health Expands No-Cost Health Screening Program: Apr 30, 2021

CVS Health launched the expansion of Project Health to provide free health screenings in 14 new metro markets and launched four mobile units in 2021.

CVS Health's COVID-19 Testing Available at Minute Clinic: Apr 05, 2021

CVS Health announced the availability of COVID-19 antibody testing at MinuteClinic locations across the country.

Valuation

CVS Health shares are up 24.1% over the year-to-date period and up 31.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 26% while the Zacks Retail-Wholesale sector dropped 1.6% over the year-to-date period. Over the past year, the Zacks sub-industry is up 34.2% and sector is up 18%.

The S&P 500 index is up 13.3% over the year-to-date period and up 37.7% in the past year.

The stock is currently trading at 10.7X Forward 12-months earnings, which compares to 10.5X for the Zacks sub-industry, 27.9X for the Zacks sector and 21.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.7X and as low as 7.2X, with a 5-year median 9.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$90 price target reflects 11.3X forward 12-months earnings.

The table below shows summary valuation data for CVS

Valuation Multiples - CVS					
P/E F12M		Stock	Sub-Industry	Sector	S&P 500
	Current	10.74	10.51	27.86	21.71
	5-Year High	15.69	15.95	34.07	23.83

P/S F12M	5-Year Low	7.24	7.42	19.13	15.31
	5-Year Median	9.99	10.26	23.96	18.05
	Current	0.39	0.33	1.32	4.70
	5-Year High	0.55	0.58	1.41	4.74
	5-Year Low	0.21	0.22	0.84	3.21
	5-Year Median	0.36	0.35	1.02	3.72
P/B TTM	Current	1.57	1.46	5.47	7.03
	5-Year High	3.03	2.82	6.50	7.08
	5-Year Low	0.91	1.01	3.80	3.84
	5-Year Median	1.66	1.79	5.17	5.02

As of 06/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Outperform	3
Target Corporation (TGT)	Outperform	1
Ulta Beauty Inc. (ULTA)	Outperform	1
Herbalife LTD. (HLF)	Neutral	2
McKesson Corporation (MCK)	Neutral	3
Rite Aid Corporation (RAD)	Neutral	3
Walgreens Boots Alliance, Inc. (WBA)	Neutral	3
Walmart Inc. (WMT)	Neutral	2

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	-	-	2	3	3
VGM Score	A	-	-	A	A	A
Market Cap	111.57 B	3.68 B	29.96 B	6.17 B	1.18 B	46.08 B
# of Analysts	12	4.5	12	1	1	7
Dividend Yield	2.36%	0.00%	1.3%	0.00%	0.00%	3.51%
Value Score	A	-	-	A	A	A
Cash/Price	0.08	0.09	0.05	0.10	0.13	0.02
EV/EBITDA	9.47	10.15	17.13	10.83	9.35	16.94
PEG F1	1.88	1.63	2.12	NA	NA	1.60
P/B	1.57	1.75	4.17	NA	1.92	2.13
P/CF	7.76	7.76	17.46	11.48	3.39	7.57
P/E F1	11.09	11.00	21.27	10.54	17.98	10.91
P/S TTM	0.41	0.37	3.46	1.07	0.05	0.33
Earnings Yield	9.02%	9.09%	4.62%	9.49%	5.56%	9.17%
Debt/Equity	0.83	0.30	0.66	-1.88	5.01	0.51
Cash Flow (\$/share)	10.93	4.56	6.83	4.56	6.32	7.04
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	8.73%	8.73%	9.44%	9.96%	NA	1.93%
Projected EPS Growth (F1/F0)	1.90%	18.51%	21.49%	33.69%	893.33%	3.07%
Current Cash Flow Growth	5.04%	-3.21%	0.86%	21.15%	3.76%	-19.36%
Historical Cash Flow Growth (3-5 Years)	12.55%	1.81%	7.28%	2.70%	-10.34%	0.93%
Current Ratio	0.93	1.03	1.39	1.30	1.38	0.83
Debt/Capital	45.44%	39.58%	41.51%	NA	83.35%	33.71%
Net Margin	2.73%	-0.42%	11.95%	8.21%	-0.38%	-0.45%
Return on Equity	14.45%	-1.42%	16.48%	-62.60%	-1.42%	18.32%
Sales/Assets	1.17	1.73	0.51	1.89	2.54	1.57
Projected Sales Growth (F1/F0)	4.81%	2.45%	9.41%	11.30%	2.45%	-4.41%
Momentum Score	C	-	-	B	C	C
Daily Price Change	-0.77%	-0.33%	-0.54%	0.67%	-2.99%	-1.71%
1-Week Price Change	-1.16%	-0.16%	0.10%	-3.05%	6.86%	0.84%
4-Week Price Change	-5.01%	0.19%	2.62%	4.79%	12.28%	-2.74%
12-Week Price Change	15.75%	-2.70%	8.60%	18.76%	-8.35%	2.95%
52-Week Price Change	30.37%	23.47%	35.66%	18.33%	71.12%	26.48%
20-Day Average Volume (Shares)	5,816,627	1,857,683	1,734,994	879,173	1,756,655	4,799,219
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.10%	0.00%	0.05%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.16%	5.81%	3.39%	9.25%	164.44%	2.37%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.43%	:	0.00%	0.00%	:	0.00%	0.00%	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

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	C
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

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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 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.