

Quest Diagnostics (DGX)

\$110.69 (As of 09/02/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

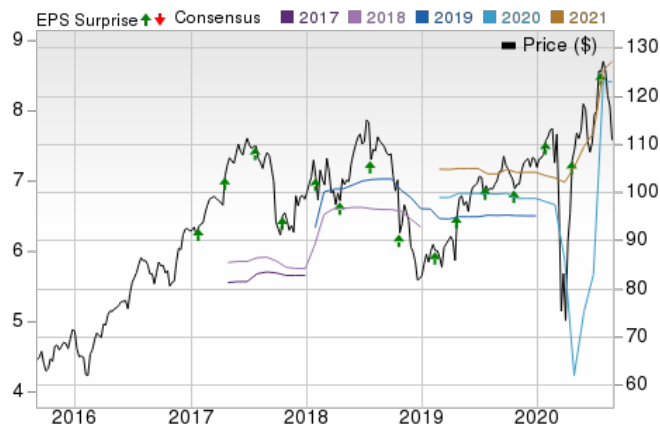
Growth: B

Momentum: A

Summary

Quest Diagnostics' year-over-year fall in adjusted earnings and revenues in the second quarter of 2020 was concerning. Management noted that base testing volume fell due to the pandemic and was partially offset by increased COVID-19 testing. However, the company is strongly expanding its COVID-19 testing capacity. Quest Diagnostics has delivered nearly 20% of all the testing included in this country. Revenue per requisition improved 15.2% primarily driven by reimbursement for COVID-19 molecular testing. A positive demography and strong balance sheet are added benefits. It has also re-established a sturdy 2020 outlook taking into account the uncertainty caused by the pandemic. Overall, the company's performance in the second-quarter was better-than-expected. Year-to-date, Quest Diagnostics has outperformed its sector.

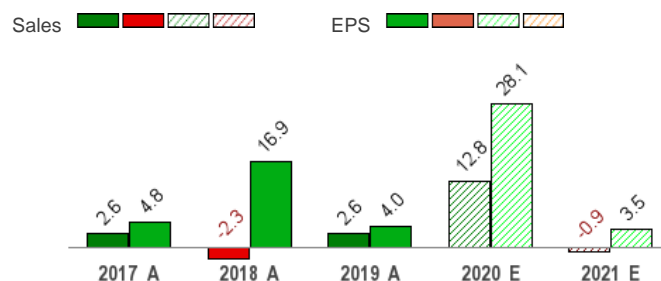
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$131.81 - \$73.02
20-Day Average Volume (Shares)	1,505,052
Market Cap	\$14.9 B
Year-To-Date Price Change	3.7%
Beta	1.28
Dividend / Dividend Yield	\$2.24 / 2.0%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Top 23% (58 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.7%
Last Sales Surprise	0.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	19.1
P/E F1	13.2
PEG F1	1.7
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,217 E	2,163 E	2,141 E	2,060 E	8,635 E
2020	1,822 A	1,827 A	2,590 E	2,354 E	8,715 E
2019	1,891 A	1,953 A	1,956 A	1,926 A	7,726 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.14 E	\$2.03 E	\$2.12 E	\$1.92 E	\$8.69 E
2020	\$0.94 A	\$1.42 A	\$3.43 E	\$2.71 E	\$8.40 E
2019	\$1.40 A	\$1.73 A	\$1.76 A	\$1.67 A	\$6.56 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 09/02/2020. The reports text is as of 09/03/2020.

Overview

Quest Diagnostics, Inc., headquartered in Madison, NJ, is one of the largest providers of commercial laboratory services in North America. The company was spun off from Corning, Inc.'s laboratory testing business in 1996 and has grown primarily through acquisitions and strategic alliances. Quest provides lab testing services primarily to physicians, hospitals, managed care organizations, employers, government institutions, and other independent clinical laboratories.

The company consists of two business groups – Diagnostic Information Services (95.4% of total revenues in full-year 2019) and Diagnostic Solutions (accounting for the rest).

5 Point Strategy

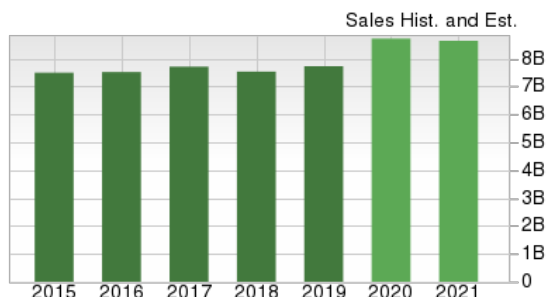
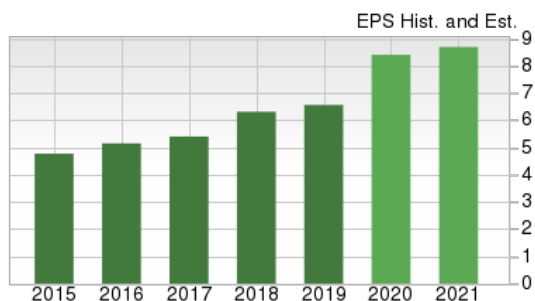
In 2012, Quest Diagnostics introduced a five-point business strategy which the company continued to execute till 2016. The points being refocus on diagnostic information services; drive operational excellence; restore growth; simplifying the organization to enable growth and productivity and delivering disciplined capital deployment; and strategically aligned accretive acquisitions.

New Two-Point Strategy

In Nov 2016, the company updated its existing 5-Point strategy and narrowed its focus to two elements- to accelerate growth and to drive operational excellence.

1. Restore Growth: The company has adopted seven tactical approaches to accelerate growth such as sales and marketing excellence; development of esoteric testing through a disease focus; partnerships with hospitals and successful testing of international IDNs; creation of value from information assets; leadership in companion diagnostics; and extension into adjacent markets.

2. Drive Operational excellence: The company plans to focus on four strategic requirements – to enhance end-to-end customer value chain, enterprise information technology architecture, business performance tools and cost excellence.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** Year-to-date, Quest Diagnostics has outperformed its sector. The stock has gained 3.7% compared with the 2% rise of the industry. In the second quarter, although total sales and adjusted earnings dropped on a year-over-year basis, both exceeded the Zacks Consensus Estimate. Total sales were stronger than the company's anticipation as well. These results were driven by a strong bounce back in the company's base testing volumes for March and April, as the healthcare system began to resume non-urgent care and elective surgeries sooner than Quest Diagnostics had originally anticipated. Heavy demand for COVID-19 molecular testing helped partially offset the base volume decline as well. The company registered increasing demand for its tests with the continuing spread of the virus throughout most part of the country. Further, it also benefitted from a number of areas like the pent-up need to test non-COVID-19 pre-surgical patients, people in high-risk populations like nursing homes and prisons, the proliferation of retail testing sites, and finally, employer interest in testing their staffs before they return to work.

As a part of its two-point strategy, Quest Diagnostics has been focusing on areas with high potential. Positive demography and cost reduction initiative are the other upsides.

The company has also extended its COVID-19 testing capacity in the nation. Meanwhile, it is working together with large national retailers like Walmart and CVS Health for the purpose of building a new model for easy customer access to testing.

Overall, we note that, Quest Diagnostics is currently refocusing on diagnostic information services wing and disciplined capital deployment. Its acquisitions and collaborations with hospitals and integrated delivery networks consistently act as major catalysts. Despite the difficult M&A environment due to the pandemic, the company was able to close the acquisition of Memorial Hermann outreach business.

Strong revenues and EPS growth expectation for the full year is another upside.

- ▲ **COVID-19 Test Capacity Increases:** As a remarkable breakthrough, Quest Diagnostics' COVID-19 test service got the green light from the FDA's EUA on Mar 17. In the meantime, the company implemented a higher throughput in vitro diagnostic test for coronavirus from Roche at 12 Quest Diagnostics laboratories across the United States. In April, the company has begun to perform blood-based antibody testing as well. The company has also joined forces with Walmart to make testing sites available to anyone who may be exhibiting symptoms of the virus, as well as all health care workers and first responders, whether or not they're exhibiting symptoms. Meanwhile the CMS' recent decision to increase the reimbursement for high throughput molecular COVID-19 testing to \$100 is a favorable update for Quest Diagnostics.

In this period, the company extended its COVID-19 testing capacity enormously. It performed roughly 8.5 million COVID-19 molecular diagnostic tests, and more than 2.5 million antibody or serology tests. It currently has the capacity to perform up to 130,000 molecular diagnostic tests today, double the capacity since mid-May. Over the next couple of weeks, the company expects to increase the capacity to perform approximately 150,000 molecular diagnostic tests per day. Cumulatively, Quest Diagnostics has delivered nearly 20% of all the testing included in this country.

All these developments are expected to negate to a significant extent, the company's global business loss over the ongoing coronavirus-led economic mayhem in the upcoming period.

- ▲ **Positive Demography:** We are upbeat about the long-term growth drivers that are expected to deliver positive outcomes in the upcoming period. With baby boomers moving into Medicare and living longer, the company is grasping the benefit from continued population growth and favorable demographics. Esoteric testing business is growing at a faster pace as physician medicine drives demand for advanced esoteric tests. Going by a Grand View Research analysis, the global clinical laboratory testing market is expected to reach \$286.7 billion by 2026 at a 7.1% CAGR from 2018. In fact, there is growing demand for these diagnostic testing laboratories which can help in providing early diagnosis in order to render effective therapeutic interventions. According to many researchers, there increasing incidence rates of infectious and chronic diseases in the years to come where these clinical labs will come up with range of diagnostic tests. This is expected to drive market growth gradually in this niche. As far as the market projections, going forward, the company continues to see modest shifts from uninsured patient volumes to government and other payers.

- ▲ **Long Term Growth Outlook Strong:** Quest Diagnostics' long-term growth outlook based on its new and extended two-point strategy to generate shareholder value- accelerating growth and driving operational excellence has continued to drive investors' optimism. As per this outlook, revenue growth for the period 2017-2020 is expected to be 3-5% with 1% to 2% growth expected from acquisitions. Earnings for the same period are expected to grow faster than revenues in the mid-to-high single digit range. According to the company, this outlook implied adjusted EPS in the range of \$6 to \$7 by 2020.

Quest Diagnostics stated that, its increasing number of partnerships with other health care leaders are creating promising opportunities for top and bottom line growth while improving the patient experience and reducing the overall cost of care.

Despite the PAMA related reimbursement pressure, the company is attaining the outlined targets through 2020. In fact, the company has recently noted that the impact of these Medicare reimbursement cuts will be more significant on smaller independent and hospital outreach laboratories. Per Quest Diagnostics, these reimbursement cuts could potentially eliminate the majority of its profits and provide a catalyst for market consolidation.

- ▲ **Growth Acceleration Strategy Bodes Well:** Quest Diagnostics is moving ahead with regard to its accelerating growth strategy, which consists of five elements. So far, the first element to grow more than 2% through strategically aligned accretive acquisitions is progressing well.

Despite the difficult M&A environment due to the pandemic, the company was able to close the acquisition of Memorial Hermann outreach business. Also it announced plans to acquire all of Mid America Clinical Laboratories, or MACL. Once this transaction gets completed, this

transaction expected this quarter, the company will wholly own MACL's laboratory in Indianapolis, and about 50 patient service centers across Indiana. Further, they will provide professional lab services under a long-term agreement for 30 hospital labs owned and operated by MACL founding hospitals, Ascension St. Vincent and Community Health Network.

Going by the second element, Quest Diagnostics continues to extend health plan contracts and tie-ups with hospital health systems. In this regard, the company has entered the second year of being a member of the UnitedHealthcare's Preferred Lab Network. The company has also secured business for more than 180 out of network UHC labs, saving money for patients and lowering the overall cost of care.

With respect to the third element to offer a wider access to diagnostic innovation, the company has been witnessing growth in prescription drug monitoring, QuantiFERON and T-SPOT, hemepath, blood cancer test and Cardio IQ. The company is also optimistic about successful execution of its plans to build an esoteric testing business and boost profitability.

About the fourth element of the company's growth strategy, which is to provide ample choices to consumers, the company's relationship with Walmart has already started adding value to this end with higher patient traffic. Besides, the company's alliance with Safeway currently has more than 200 patient service centers across the retail store locations.

Finally, the company is complying well with the fifth element of its growth strategy which requires to support population health with data analytics and extended care services. In this regard, earlier, the company launched Quest Clinical Trial Connect, a new patient recruitment service.

▲ **Strategy to Drive Operational Excellence on Track:** In terms of the company's efforts to ramp up operating efficiency, Quest Diagnostics' Invigorate cost-cutting initiatives have been successful and the company is working on more opportunities ahead. The company is so far successful with its goal of reducing cost base by 3% by continuing to drive increases in productivity. The company expects to see more opportunities ahead to drive further productivity gains, while enhancing the customer experience.

In terms of productivity gains, the company noted that its immunoassay platform consolidation is expected to provide brief throughput, autonomy and more efficient footprint, while saving approximately \$35 million annually when fully implemented. Further, the company is optimizing its lab network through investments in new flagship laboratory in Clifton, New Jersey. After getting operationally active in 2021, this new lab is expected to consolidate three regional hub labs, doubling Quest Diagnostics' average throughput and provide 30% more capacity. Thus apart, the company is using digital technology to enhance the customer experience. Nearly nine million patients so far have downloaded the MyQuest digital platform, which enables them to make appointments and receive their results.

▲ **Extended Partnership With UnitedHealthcare Impresses:** Management also seems upbeat about the expanded long-term strategic partnership with UnitedHealthcare, a business of UnitedHealth Group, to operate as a preferred national laboratory for all of the company's members starting Jan 1, 2019. Under the expanded tie-up, the companies are working on a variety of value-based programs.

In this line, UnitedHealthcare is helping in moving testing volume to high-value laboratories like Quest from high-cost hospital and out-of-network labs. Further, from on October 1, UnitedHealthcare began offering a product with zero-dollar member out-of-pocket charges for laboratory testing for the majority of fully insured lives in select states. This apart, UnitedHealthcare will also make the lab savings program available for their self-insured employer groups beginning in 2020.

▲ **Overall a Strong Balance Sheet Aids Growth:** Quest Diagnostics ended second quarter of 2020 with cash and cash equivalents of \$988 million compared with \$342 million at the end of the first quarter. Meanwhile, total debt came up to \$4.58 billion, a slight reduction from the first-quarter figure of \$4.04 billion. Although, the quarter's total debt was much higher than the cash and cash equivalent level indicating about a leveraged balance sheet, we may note that, the company has short-term payable debt of \$555 million on its balance sheet. This can be treated as a positive for the company when the coronavirus mayhem has forced the corporate sector halt their production and supply.

Debt comparison with the industry is, however, favorable as industry's total debt of \$2.88 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital of 43.8% stands at a pretty high level right now. It represented a sequential increase from 41.4% at the end of the first quarter. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 45%. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The times interest earned for the company stands at 6.8%, representing a sequential decrease from 6.7% at the end of the first quarter. This compares favorably with the times interest earned for the industry which stands at a lower level (3.9%).

Quest Diagnostics' capital deployment policy is based on its suitable acquisitions and the return of shareholders' money through dividends and share buybacks. At the end of the second quarter, \$1.2 billion remained available under the company's existing share repurchase authorizations. However, Quest Diagnostics has temporarily suspended additional share repurchases under the existing authorization through the end of 2020. The company's board of directors remains committed to its quarterly dividend at this time too. The company's current payout ratio stands at a pretty high level of 37.1%, questioning long-term sustainability. However, this compares unfavorably with the payout rate of the industry which stands at a lower level (16%).

Reasons To Sell:

▼ **Coronavirus Impact Significant on Sales:** Quest Diagnostics' year-over-year decline in second-quarter adjusted earnings and as well as revenues were concerning. Revenues for diagnostic information services declined 5.7% compared to the prior year. Through the quarter, the company experienced a significant decline in testing volumes with social distancing and shelter-in-place measures were instituted to combat the outbreak. During this period, volumes declined 17.7%, despite adjusting for the growth in COVID-19 testing.

▼ **Volume Decline Intensifies:** Pressure on volume, owing to a difficult macro-economic situation and pricing, constitutes the primary risk for Quest Diagnostics. Nevertheless, we have observed some changes in the volume trend over the past couple of quarters. In the reported quarter, volume measured by the number of requisitions declined 17.7% year over year, (acquisitions contributing approximately 50 basis points). Meanwhile, revenue per requisition improved 15.2% in the reported quarter primarily driven by reimbursement for COVID-19 molecular testing.

Testing volumes in the company's base business declined approximately 34% year over year. In April, base volumes declined more than 50% compared to the year-ago period, as stay at home measures were implemented across the United States, hospitals began to limit elective procedures, and many physician offices were temporarily closed for business. Base volume trends began to improve in May, down more than 30%, with stay at home measures getting relaxed, many hospitals reintroducing elective procedures, and some physician offices getting reopened. The base volume recovery continued in June, down less than 15%, as the trends in May gained momentum. However, to our dismay, due to the recent spike in COVID-19 cases across the country and the rollback of several state reopening plans, the company has again seen a slight softening of base business in early July.

We should also take into consideration that the unit price headwinds persisted through the second quarter (slightly less than 2%). We also expect that a low level of employment and slow growth of commercially-insured lives will continuously impact the company's overall improvement, until the economy rebounds.

▼ **Current Market Headwinds Weigh Heavily on the Stock:** The current market environment remains challenging for Quest Diagnostics in the form of continued decline in healthcare utilization rate, softer volume, commercial pricing pressure and reimbursement headwind. Over the last two years, reimbursement challenges became much more pronounced with a 10% reduction in Medicare payments, cuts to pathology codes on Medicare physician fee schedule, changes to Medicare fee schedules including requirements from molecular diagnostics, and the effects of renewed commercial payer contracts. This apart, the political power change redirecting towards the chance of full repeal of ACA may impact the company's business model grossly.

▼ **Reimbursement Update Not in Favor of Clinical Labs:** In the last couple of years, Quest Diagnostics faced several reimbursement issues, hurting its revenues. Turning to PAMA (Protecting Access to Medicare Act), first-quarter 2018 was the opening quarter operating under the clinical IP schedule. Medicare rates in 2019 were down by 10% from the prior year, in line with the company's expectation. With the enactment of Lab Act in December 2019 (delaying the upcoming data reporting period by one year and commissioning a study on how to improve data collection and rate setting to better reflect Congress' original intent of a market-based fee schedule for clinical laboratory services—American Clinical Laboratory Association) CDLT data that was supposed to be reported between Jan 1, 2020 and Mar 31, 2020, will now be reported between Jan 1, 2021, and Mar 31, 2021. Although, this includes an increase in reimbursement reduction caps from 10% in 2020 to 15% in 2021, according to Quest Diagnostics, the PAMA headwinds in 2021 are expected to be relatively consistent with 2019 and 2020. This PAMA impact includes both direct cuts to the Clinical Lab Fee Schedule as well as a modest indirect price changes from Medicaid and a small number of floating rate contracts.

▼ **Competitive Landscape:** Quest Diagnostics faces intense competition primarily from Laboratory Corporation of America, other commercial laboratories and hospitals. Hospitals control an estimated 60% of the diagnostic test market, compared to Quest Diagnostic's 15% share. While pricing is an important factor in choosing a testing lab, hospital-affiliated physicians expect a high level of service, including accurate and rapid turnaround of testing results. As a result, Quest Diagnostics and other commercial labs compete with hospital-affiliated labs primarily on the basis of quality of service.

Over the past several quarters, the overall soft industry trends leading to low volume environment have acted as a dampener for Quest Diagnostics. The reimbursement scenario also remains a major cause of concern.

Last Earnings Report

Quest Diagnostics Posts Earnings Beat, Volume Down in Q2

Quest Diagnostics' DGX second-quarter 2020 adjusted earnings per share of \$1.42 beat the Zacks Consensus Estimate by a penny. Adjusted earnings however declined 17.9% from the year-ago number.

Certain one-time expenses, like the ones related to the COVID-19 pandemic and their resultant impact including certain income recognized under the Coronavirus Aid, Relief, and Economic Security Act, partially offset by expense associated with a one-time payment to eligible employees to help offset their COVID-19 related expenses; certain asset impairment charges and incremental costs incurred primarily to protect the health and safety of the company's employees and customers, were excluded from the quarter's adjusted figures.

GAAP earnings from continuing operations came in at \$1.36 per share, marking a 34.9% decline from the year-ago quarter.

Reported revenues in the second quarter declined 6.4% year over year to \$1.83 billion. The same however beat the consensus estimate by 0.16%.

Quarterly Details

Volumes (measured by the number of requisitions) declined 17.7% year over year in the second quarter (down 18.2% organically). Revenue per requisition however improved 15.3% year over year.

Diagnostic information services revenues in the quarter were down 5.7% on a year-over-year basis to \$1.76 billion.

Margins

Cost of services during the reported quarter was \$1.22 billion, down 3.5% year over year. Gross margin was 30.8%, reflecting contraction of 445 basis points (bps) from the year-ago figure.

Adjusted operating margin of 10.4% represented a 632-bps contraction year over year. Selling, general and administrative expenses declined 0.6% to \$360 million in the quarter under review.

Cash, Capital Structure and Solvency

Quest Diagnostics exited the second quarter of 2020 with cash and cash equivalents of \$988 million compared with \$342 million at the end of the first quarter. Cumulative net cash provided by operating activities through the second quarter was \$602 million compared with \$596 million in the year-ago reported quarter.

For the three months ended Mar 31, 2020, the company did not repurchase any shares of its common stock. At the end of the second quarter, \$1.2 billion remained available under the company's existing share repurchase authorizations. However, Quest Diagnostics has temporarily suspended additional share repurchases under the existing authorization through the end of 2020.

However, the company's board of directors remains committed to its quarterly dividend.

2020 Guidance Reinstated

Given the rapidly-changing uncertainties and likely outcomes of coronavirus, Quest Diagnostics had withdrawn its full-year guidance. This time however the company provided its 2020 projection. It reflects a number of assumptions that are subject to change based on uncertainties related to the impact of the COVID-19 pandemic.

Going by the latest guidance, the company expects to report full-year net revenues in the range of \$8 billion to \$8.6 billion (an expected 3.5% to 11.3% growth from the year-ago reported revenue growth rate). Full-year adjusted earnings per share is projected in the range of \$6.60 to \$8.60.

The current Zacks Consensus Estimate for full-year adjusted earnings is pegged at \$8.04 while the same for revenues stands at \$8.50 billion.

Quarter Ending	06/2020
Report Date	Jul 23, 2020
Sales Surprise	0.16%
EPS Surprise	0.71%
Quarterly EPS	1.42
Annual EPS (TTM)	5.79

Recent News

Quest Diagnostics, Anthem Collaborate to Enhance Workflow: Aug 17, 2020

Quest Diagnostics announced entering into a strategic relationship with Anthem Inc. by signing of multi-regional strategic initiatives agreement designed to improve efficiency in care delivery, reduce cost, and enhance experience for health care consumers and providers.

Quest Diagnostics Completes Mid America Clinical Laboratories Buyout: Aug 3, 2020

Quest Diagnostics announced the completion of its previously announced acquisition of its joint venture partners' interests in Mid America Clinical Laboratories.

Quest Diagnostics Launches Automated NGS: Aug 3, 2020

Quest Diagnostics launched a faster and cheaper way to perform next generation sequencing (NGS) to power AncestryHealth, which is a new consumer genetics offering launched by Ancestry.

Quest Diagnostics Receives EUA for a New Laboratory Technique: Jul 29, 2020

Quest Diagnostics received the FDA's emergency use authorization (EUA) for a new laboratory technique that speeds the process of extracting viral RNA from specimens and will enable the company to expand its daily capacity of COVID-19 molecular diagnostic tests on behalf of patients in the United States.

Receives EUA for the Use of Specimen Pooling: Jul 18, 2020

Quest Diagnostics announced that it has received EUA from the FDA to use specimen pooling with its proprietary molecular diagnostic test for COVID-19. Quest Diagnostic noted that, it is the first lab provider to receive FDA authorization for the technique for COVID-19 testing in the United States.

Multipronge Agreement in Indiana: Jun 23, 2020

Quest Diagnostics announced the formation of a definitive multi-pronged agreement, which is aimed at optimizing the delivery of high quality and innovative diagnostic laboratory services in Indiana.

Valuation

Quest Diagnostics' shares are up 3.7% in the year to date period and up 7.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 8.2% and up 2% in the year to date period, respectively. Over the past year, the Zacks sub-industry is up 8.5% and Zacks Medical sector is up 10.8%.

The S&P 500 index is up 6.9% in the year to date period and up 17.5% in the past year.

The stock is currently trading at 12.9X Forward 12-months earnings, which compares to 19.8X for the Zacks sub-industry, 22.5X for the Zacks sector and 23.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.4X and as low as 11.2X, with a 5-year median of 15.6X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$115 price target reflects 13.5X forward 12-months earnings.

The table below shows summary valuation data for DGX.

Valuation Multiples - DGX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.88	19.81	22.46	23.94
	5-Year High	23.41	22.66	23.20	23.94
	5-Year Low	11.17	14.49	15.89	15.25
	5-Year Median	15.59	17.77	18.99	17.60
P/S F12M	Current	1.72	2.42	2.85	4.40
	5-Year High	2.11	2.62	3.25	4.40
	5-Year Low	1.14	0.71	2.23	2.53
	5-Year Median	1.71	1.09	2.89	3.07
P/B TTM	Current	2.53	3.30	3.93	4.66
	5-Year High	3.26	4.04	5.07	4.76
	5-Year Low	1.72	1.91	2.94	2.83
	5-Year Median	2.56	2.51	4.28	3.76

As of 09/02/2020

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DaVita Inc. (DVA)	Outperform	1
OPKO Health, Inc. (OPK)	Outperform	2
Addus HomeCare Corporation (ADUS)	Neutral	3
BioRad Laboratories, Inc. (BIO)	Neutral	2
Exact Sciences Corporation (EXAS)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Myriad Genetics, Inc. (MYGN)	Neutral	4
NeoGenomics, Inc. (NEO)	Neutral	3

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

Industry Comparison Industry: Medical - Outpatient And Home Healthcare				Industry Peers		
	DGX	X Industry	S&P 500	DVA	LH	MYGN
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	4
VGM Score	A	-	-	A	A	C
Market Cap	14.87 B	1.29 B	24.30 B	10.91 B	17.23 B	1.01 B
# of Analysts	7	3.5	14	7	8	5
Dividend Yield	2.02%	0.00%	1.6%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	A	C
Cash/Price	0.07	0.11	0.07	0.30	0.03	0.21
EV/EBITDA	11.33	11.33	13.46	8.62	10.48	-7.61
PEG F1	1.73	3.51	3.09	NA	1.49	NA
P/B	2.53	2.89	3.25	4.68	2.34	1.09
P/CF	12.17	13.67	13.12	7.93	9.10	21.88
P/E F1	13.08	40.54	22.15	13.24	12.78	NA
P/S TTM	1.97	1.20	2.57	0.95	1.50	1.58
Earnings Yield	7.59%	1.93%	4.29%	7.55%	7.82%	-1.26%
Debt/Equity	0.68	0.64	0.70	3.38	0.75	0.31
Cash Flow (\$/share)	9.09	1.93	6.93	11.28	19.44	0.62
Growth Score	B	-	-	C	B	C
Historical EPS Growth (3-5 Years)	6.83%	8.21%	10.41%	8.21%	8.86%	-17.56%
Projected EPS Growth (F1/F0)	28.05%	16.90%	-4.75%	25.08%	22.29%	-107.50%
Current Cash Flow Growth	10.66%	7.39%	5.22%	19.72%	12.16%	-73.12%
Historical Cash Flow Growth (3-5 Years)	6.08%	13.00%	8.49%	0.89%	17.70%	-19.17%
Current Ratio	1.29	1.13	1.35	1.35	1.12	2.26
Debt/Capital	41.06%	46.00%	42.92%	79.65%	42.90%	23.45%
Net Margin	9.99%	3.79%	10.25%	7.20%	3.16%	-31.24%
Return on Equity	13.78%	13.78%	14.66%	40.78%	14.39%	-2.69%
Sales/Assets	0.60	0.83	0.50	0.64	0.65	0.42
Projected Sales Growth (F1/F0)	12.80%	2.00%	-1.42%	2.08%	9.87%	6.20%
Momentum Score	A	-	-	B	C	C
Daily Price Change	0.95%	1.19%	1.82%	2.40%	1.61%	-1.68%
1-Week Price Change	-6.01%	0.11%	2.59%	0.16%	-1.78%	-3.80%
4-Week Price Change	-12.88%	0.00%	4.80%	7.86%	-8.58%	8.11%
12-Week Price Change	-3.17%	0.00%	6.31%	7.89%	1.04%	-13.82%
52-Week Price Change	7.75%	11.23%	5.43%	51.21%	5.19%	-42.85%
20-Day Average Volume (Shares)	1,505,052	141,497	1,788,967	896,194	846,355	962,789
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.27%	0.00%	0.87%	0.45%	-900.00%
EPS F1 Estimate 12-Week Change	49.86%	8.81%	3.89%	10.13%	39.07%	-526.32%
EPS Q1 Estimate Monthly Change	4.60%	1.21%	0.00%	1.21%	7.65%	-3,075.00%

Source: Zacks Investment Research

Zacks Style Scores

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

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

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

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

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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.