

Quest Diagnostics (DGX)

\$131.21 (As of 04/23/21)

Price Target (6-12 Months): **\$138.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

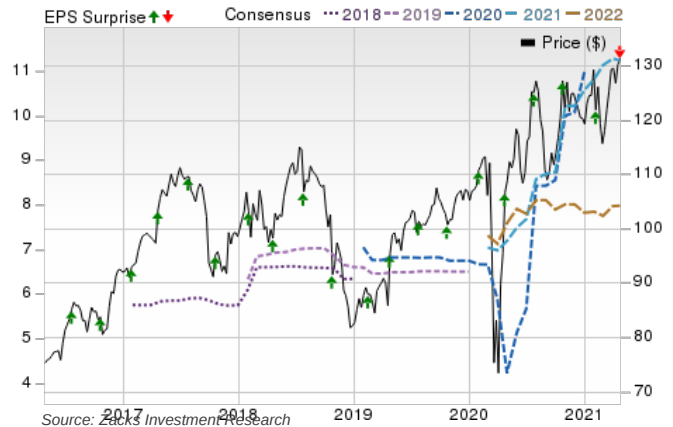
Growth: A

Momentum: F

Summary

Quest Diagnostics reported lower-than-expected first-quarter 2021 earnings but exceeded the revenue estimates. Strong year-over-year improvement in adjusted earnings as well as revenues was encouraging. Contributions from acquisitions and Professional Lab Services relationships accelerated base business growth. The company is also making progress with respect to its two-point strategy to accelerate growth and drive operational excellence. Meanwhile, the updated first-half 2021 outlook also looks impressive on raised revenue and operating cash flow expectations. However, management is concerned about slow down in demand for COVID-19 testing, which was in line with industry trends. Also, pricing scenario still remains difficult. Overall, in the past three months, Quest Diagnostics has outperformed the industry.

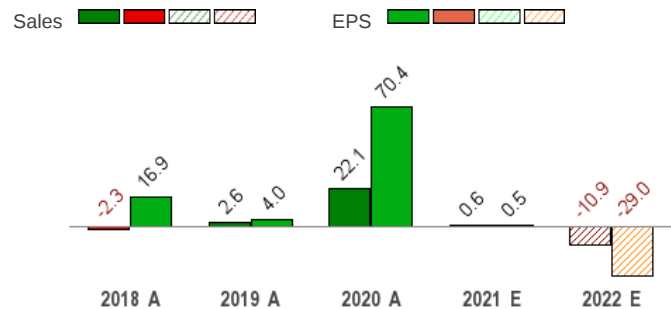
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$134.71 - \$103.26
20-Day Average Volume (Shares)	1,043,876
Market Cap	\$17.2 B
Year-To-Date Price Change	10.1%
Beta	1.04
Dividend / Dividend Yield	\$2.48 / 1.9%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Bottom 23% (195 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-0.3%
Last Sales Surprise	1.3%
EPS F1 Estimate 4-Week Change	-0.2%
Expected Report Date	NA
Earnings ESP	-2.7%
P/E TTM	9.4
P/E F1	11.7
PEG F1	1.5
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,111 E	2,103 E	2,106 E	2,174 E	8,461 E
2021	2,720 A	2,353 E	2,212 E	2,147 E	9,495 E
2020	1,822 A	1,827 A	2,786 A	3,002 A	9,437 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.89 E	\$1.91 E	\$2.00 E	\$2.10 E	\$7.97 E
2021	\$3.76 A	\$2.94 E	\$2.30 E	\$2.20 E	\$11.23 E
2020	\$0.94 A	\$1.42 A	\$4.31 A	\$4.48 A	\$11.18 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/23/2021. The report's text and the analyst-provided price target are as of 04/26/2021.

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 (96.8% of total revenues in full-year 2020) and Diagnostic Solutions (accounting for the rest).

5 Point Strategy

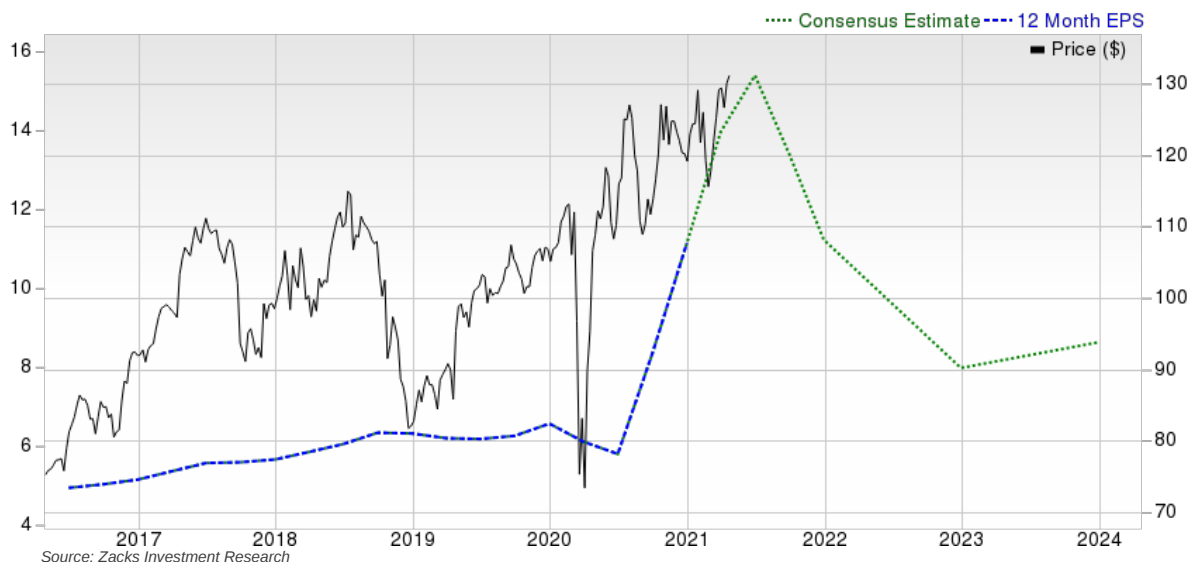
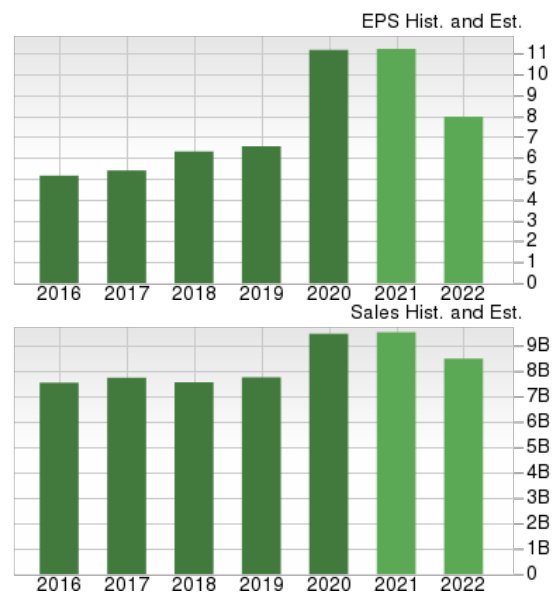
In 2012, Quest Diagnostics introduced a five-point business strategy which the company continued to execute till 2016. The points being refocus on diagnostic information services; drive operational excellence; restore growth; simplifying the organization to enable growth and productivity and delivering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

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.

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.



Reasons To Buy:

▲ **Share Price Performance:** Over the past three months, Quest Diagnostics has outperformed its industry. The stock has gained 4.9% as against the 0.1% dip of the industry. The company reported better-than-expected first-quarter 2021 revenues. Strong year-over-year improvement in adjusted earnings as well as revenues was encouraging. Contributions from acquisitions and Professional Lab Services relationships accelerated base business growth. According to the company, in the first quarter base business performed at its highest level since the start of the pandemic and continued to recover throughout the quarter. This helped offset the reduction in demand for COVID-19 testing, which was in line with industry trends. Meanwhile, the updated first-half 2021 outlook also looks impressive on raised revenue and operating cash flow expectations.

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.

▲ **Base Volume Improves:** Quest Diagnostics' base testing volumes or base business refers to testing volumes, excluding COVID-19 testing. In the first quarter, base business continued to recover to near pre-pandemic levels. Compared to the first quarter 2019 baseline, total base testing volumes increased 1.5% and benefited from M&A and new PLS partnerships that began in 2020. In March 2021, for the first time since the pandemic began, monthly organic revenue in the base business grew compared to the 2019 comparable figure. According to Quest Diagnostics, as the United States exits the pandemic, it is well-positioned to grow while addressing the routine care issues that have been postponed over the past year.

▲ **COVID-19 Test Demand to Remain Strong:** In the first quarter of 2021, despite decline demand for Quest Diagnostics' COVID-19 testing, the company performed an average of 101,000 COVID-19 molecular tests per day. Overall, in the first quarter, approximately 9.1 million molecular tests and nearly 900,000 serology tests were performed contributing nearly 21% to volume growth. According to the company, it will continue to realize demand for coronavirus testing going forward on the fact that this will help control the spread of the virus in addition to reducing hospitalization and saving lives. Further, continued testing will be the key to help the economy to reopen as more Americans become vaccinated.

▲ **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.

▲ **Growth Acceleration Strategy Bodes Well:** Quest Diagnostics is moving ahead with regard to its accelerating growth strategy, which consists of five elements. In terms of the first element, over the past three years M&A pipeline has remained strong and the company achieved its goal to exceed a 2% growth CAGR from acquisitions in base business. The company is seeing increasing interest from hospital partners on lab strategy related to outreach acquisitions and professional lab services arrangements. The company currently looks forward to its recent deal to acquire Mercy's outreach laboratory services business that currently operates from 31 hospitals and clinical laboratory service providers and patients in Arkansas, Kansas, Missouri and Oklahoma.

Going by the second element, Quest Diagnostics continues to extend health plan contracts and tie-ups with hospital health systems. In late 2020, the company announced two small PLS partnerships with hospital systems in New York and Indiana. In January, it began the largest PLS relationship to date with Hackensack Meridian Health, the largest integrated health network in New Jersey.

With respect to the other elements, Quest Diagnostics has made good progress with respect to co-planned access in the first quarter. United Healthcare implemented initiative removing other network benefits for insured groups in selective states. The company has also broadened leakage and redirection efforts with eight more states in the quarter. Further, the company has renewed its long-standing strategic relationship with Anthem Health through which it will provide comprehensive clinical laboratory services for more than 3 million members of Anthem Health and its affiliates United Care.

▲ **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. In 2020, Invigorate program delivered approximately \$200 million of cost savings.

Further, the company is optimizing its lab network through investments in new flagship laboratory in Clifton, New Jersey. After getting operationally active in Jan 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.

▲ **Overall a Strong Balance Sheet Aids Growth:** Quest Diagnostics ended the first quarter of 2021 with cash and cash equivalents of \$1.23 billion compared with \$1.16 billion at the end of 2020. Meanwhile, total debt came up to \$4.01 billion, marginally in line with the comparable

figure at the end of 2020. 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 \$2 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.

The quarter's total debt-to-capital of 37.3% stands at a pretty high level right now. It represented a sequential rise from 37.1% at the end of the fourth quarter.

The times interest earned for the company stands at 16%, representing a sequential rise from 12.3% at the end of the fourth quarter.

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 first quarter, the company's payout ratio stands at 0.16 compared to 0.20 at the end of the fourth quarter of 2020.

Reasons To Sell:

- ▼ **Volume Decline:** Pressure on volume, owing to a difficult macro-economic situation and pricing, constitutes the primary risk for Quest Diagnostics. In the first quarter, the impact of severe winter negatively impacted volumes by approximately 2.5%. Compared to the first quarter 2019 baseline, total base testing volumes increased 1.5% and benefited from M&A and new PLS partnerships that began in 2020. However, excluding the net impact of weather in the first quarter as well as M&A and new PLS wins over the last year, base testing volumes declined approximately 7% in the first quarter versus the 2019 baseline, and down 5% in March. Revenue per requisition increased 20.5% versus the prior year, driven largely by COVID-19 testing. Modest unit price headwinds were in line with the company's expectations.
- ▼ **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 Miss in Q1, Base Recovery Strong

Quest Diagnostics' first-quarter 2020 adjusted earnings per share of \$3.76 lagged the Zacks Consensus Estimate by a penny. Adjusted earnings however registered a stupendous 298.9% rise from the year-ago adjusted figure of 94 cents per share.

Certain one-time expenses like the ones related to the COVID-19 pandemic and their resultant impact of 3 cents; amortization expenses, and certain restructuring and integration charges were excluded from the quarter's adjusted figures.

GAAP earnings from continuing operations came in at \$3.46 per share, marking a 373.9% rise from the year-ago period.

Reported revenues in the first quarter improved 49.3% year over year to \$2.72 billion. The same beat the consensus estimate by 1.3%.

Quarterly Details

Volumes (measured by the number of requisitions) improved 25.6% year over year in the first quarter (up 21.6% organically). Revenue per requisition improved 20.5% year over year.

Diagnostic information services revenues in the quarter were up 51.5% on a year-over-year basis to \$2.64 billion.

Margins

Cost of services during the reported quarter was \$1.63 billion, up 28% year over year. Gross margin was 40.2%, reflecting expansion of 992 basis points (bps) from the year-ago figure.

Selling, general and administrative expenses increased 17.3% to \$407 million in the quarter under review. Adjusted operating margin of 25.3% represented a 1400-bps expansion year over year.

Cash, Capital Structure and Solvency

Quest Diagnostics exited the first quarter of 2021 with cash and cash equivalents of \$1.23 billion compared with \$1.16 billion at the end of 2020. Cumulative net cash provided by operating activities through the end of the first quarter was \$731 million compared with \$247 million in the year-ago period.

The company, on the earnings call, announced its plans to launch a \$1.5-billion accelerated share repurchase program in the coming days.

In the first quarter, the company repurchased 3.4 million shares for \$410 million. At the end of the first quarter, \$2.5 billion remained under the company's existing share repurchase authorization.

1H 2021 Outlook

The company has updated its earlier-provided first-half 2021 projection.

Currently, the company expects to report net revenues in the range of \$5 billion to \$5.20 billion, implying an expected 37% to 42.5% growth from the year-ago period. This is an improvement from the earlier projection of \$4.85 billion to \$5.15 billion, an expected 32.9% to 41.1% growth. First-half adjusted EPS range has been narrowed to a band of \$6.30 to \$6.80 from the earlier projection of \$5.90 to \$6.90.

First-half operating cash flow is expected to be at least \$1 billion compared with the earlier expectation of \$800 million. Capital expenditures are expected to be at least \$200 million (unchanged).

Quarter Ending	03/2021
Report Date	Apr 22, 2021
Sales Surprise	1.29%
EPS Surprise	-0.27%
Quarterly EPS	3.76
Annual EPS (TTM)	13.97

Recent News

Quest Diagnostics Divests Minority Share of Q2 Solutions: Apr 01, 2021

Quest Diagnostics announced the divestment of its ownership interest in Q2 Solutions to IQVIA for \$760 million in cash.

Quest Diagnostics Inks Agreement to Enhance Cardiac Care: Mar 15, 2021

Quest Diagnostics signed a non-exclusive license agreement with Zora Biosciences Oy to aid Quest Diagnostics in the development of a test service based on Zora's patented ceramide-analysis technology.

Quest Diagnostics, Mercy Enter Buyout Agreement: Mar 8, 2021

Quest Diagnostics announced a definitive agreement with Mercy, a renowned name in integrated multi-state health care systems, to acquire the latter's outreach laboratory services business.

Quest Diagnostics Renew Relationship With Renowned Insurance Carriers: Mar 2, 2021

Quest Diagnostics has renewed its long-standing strategic relationship with BlueCross BlueShield of Western New York and BlueShield of Northeastern New York (two of New York's well-known insurance carriers) to provide comprehensive clinical laboratory services for members of both companies.

Quest Diagnostics, 98point6 Collaborates to Enhance Virtual Primary Care: Mar 2, 2021

Quest Diagnostics announced a collaboration with 98point6, an on-demand digital primary care service, to deliver text-based virtual primary care to patients following employer-sponsored biometric and laboratory health screenings from Quest Diagnostics.

Quest Diagnostics Launch New COVID-19 Serology Test: Feb 24, 2021

Quest Diagnostics introduced a new COVID-19 semi-quantitative test that helps in providing insight into an individual's immune response as a result of a recent or prior infection with SARS-CoV-2 or to immune response observed in connection with COVID-19 vaccination.

Quest Diagnostics Collaborate with GRAIL: Feb 23, 2021

Quest Diagnostics entered into an agreement with Grail, Inc. to provide phlebotomy services to support Galleri, GRAIL's multi-cancer early detection blood test.

Quest Diagnostics Extend Partnership with EmblemHealth: Feb 16, 2021

Quest Diagnostics and EmblemHealth renewed their long-standing strategic relationship to offer clinical laboratory services for the more than three million members of EmblemHealth and its affiliate, ConnectiCare.

Valuation

Quest Diagnostics' shares are up 10.1% in the year-to-date period and up 13.1% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 2.1% and up 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 17.3% and Zacks Medical sector is up 5%.

The S&P 500 index is up 12.2% in the year-to-date period and up 48.2% in the past year.

The stock is currently trading at 12.9X Forward 12-months earnings, which compares to 24.9X for the Zacks sub-industry, 23.1X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.4X and as low as 10.8X, with a 5-year median of 15.6X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$138 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	12.87	24.98	23.10	22.99
	5-Year High	23.41	24.98	23.10	23.83
	5-Year Low	10.81	14.41	15.85	15.30
	5-Year Median	15.59	18.54	19.23	18.01
P/S F12M	Current	1.88	3.42	2.74	4.81
	5-Year High	2.11	3.42	3.16	4.81
	5-Year Low	1.27	0.73	2.27	3.21
	5-Year Median	1.75	2.00	2.79	3.71
P/B F12M	Current	2.54	3.90	4.00	7.11
	5-Year High	3.26	4.44	5.07	7.44

P/B TTM	5-Year High	3.26	4.14	5.07	7.11
	5-Year Low	1.72	1.94	3.02	3.83
	5-Year Median	2.58	2.93	4.34	4.99

As of 04/23/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 23% (195 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Addus HomeCare Corporation (ADUS)	Neutral	4
BioRad Laboratories, Inc. (BIO)	Neutral	3
DaVita Inc. (DVA)	Neutral	3
Exact Sciences Corporation (EXAS)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Myriad Genetics, Inc. (MYGN)	Neutral	3
NeoGenomics, Inc. (NEO)	Neutral	3
OPKO Health, Inc. (OPK)	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	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	F
Market Cap	17.22 B	1.20 B	30.46 B	12.43 B	25.77 B	2.32 B
# of Analysts	9	4	12	4	9	5
Dividend Yield	1.89%	0.00%	1.25%	0.00%	0.00%	0.00%
Value Score	A	-	-	A	A	D
Cash/Price	0.07	0.04	0.06	0.04	0.05	0.07
EV/EBITDA	8.33	9.25	17.18	10.17	8.53	-17.02
PEG F1	1.56	1.65	2.41	1.20	1.17	NA
P/B	2.54	4.47	4.13	7.93	2.75	2.57
P/CF	9.37	20.43	17.29	8.17	7.49	233.57
P/E F1	11.79	31.37	22.45	13.72	12.40	NA
P/S TTM	1.67	1.86	3.40	1.08	1.84	4.16
Earnings Yield	8.56%	2.81%	4.40%	7.29%	8.07%	-0.40%
Debt/Equity	0.59	0.59	0.66	5.05	0.59	0.26
Cash Flow (\$/share)	14.01	1.60	6.78	13.90	35.24	0.13
Growth Score	A	-	-	B	A	D
Historical EPS Growth (3-5 Years)	10.73%	8.70%	9.39%	14.43%	14.25%	-18.53%
Projected EPS Growth (F1/F0)	0.44%	8.52%	16.46%	14.08%	-11.08%	-55.00%
Current Cash Flow Growth	54.12%	5.77%	0.72%	5.24%	102.69%	-94.32%
Historical Cash Flow Growth (3-5 Years)	13.57%	16.37%	7.37%	0.74%	22.28%	-19.17%
Current Ratio	1.76	1.27	1.39	1.27	1.66	2.67
Debt/Capital	37.59%	37.59%	41.19%	85.51%	37.12%	20.35%
Net Margin	17.43%	4.33%	11.06%	6.70%	11.13%	-41.29%
Return on Equity	29.42%	13.01%	15.32%	45.74%	29.36%	-7.19%
Sales/Assets	0.75	0.82	0.51	0.65	0.76	0.39
Projected Sales Growth (F1/F0)	0.92%	11.21%	7.53%	-0.46%	1.88%	0.60%
Momentum Score	F	-	-	A	F	F
Daily Price Change	-1.86%	0.50%	1.07%	1.02%	-0.34%	3.94%
1-Week Price Change	2.70%	0.00%	1.43%	3.77%	2.92%	-3.02%
4-Week Price Change	3.19%	2.38%	5.81%	2.47%	6.23%	1.07%
12-Week Price Change	6.05%	2.46%	14.32%	-3.64%	20.09%	8.90%
52-Week Price Change	30.35%	48.97%	60.09%	54.87%	65.31%	110.20%
20-Day Average Volume (Shares)	1,043,876	102,659	1,772,423	741,983	499,013	625,797
EPS F1 Estimate 1-Week Change	-0.40%	0.00%	0.00%	0.00%	-0.32%	0.00%
EPS F1 Estimate 4-Week Change	-0.25%	0.00%	0.09%	0.00%	-0.31%	0.00%
EPS F1 Estimate 12-Week Change	3.99%	-3.21%	1.97%	0.31%	12.59%	NA
EPS Q1 Estimate Monthly Change	-1.70%	0.00%	0.00%	0.00%	-1.95%	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	A
Momentum Score	F
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 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.