

DaVita Inc. (DVA)

\$122.36 (As of 06/28/21)

Price Target (6-12 Months): **\$128.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: B

Summary

DaVita's net dialysis and related lab-patient service revenues increased during the first quarter of 2021. Buyouts of several dialysis centers overseas is encouraging as well. Solid prospects in the Kidney Care wing, particularly within the United States, continue to aid the stock. The company's consistently strong momentum with respect to the treatment of Chronic Kidney Disease (CKD) and End Stage Renal Disease (ESRD) has been impressive. Progress within DaVita Venture Group is impressive too. A solid guidance for 2021 is another positive. A stable solvency position is an added plus. DaVita exited the quarter with better-than-expected earnings. Over the past six months, shares of DaVita have outperformed its industry. Yet, lower-than-expected revenues and rising operating are discouraging. Forex woes persistently weigh on the company.

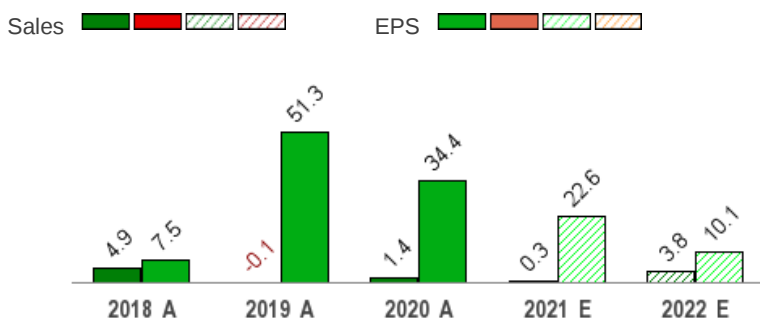
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$129.59 - \$75.84
20-Day Average Volume (Shares)	597,448
Market Cap	\$12.9 B
Year-To-Date Price Change	3.8%
Beta	1.29
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Outpatient and Home Healthcare
Zacks Industry Rank	Bottom 27% (183 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.1%
Last Sales Surprise	-0.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	07/29/2021
Earnings ESP	0.0%
P/E TTM	16.2
P/E F1	13.8
PEG F1	0.6
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,934 E	3,017 E	3,074 E	3,123 E	12,020 E
2021	2,820 A	2,879 E	2,924 E	2,959 E	11,582 E
2020	2,841 A	2,880 A	2,924 A	2,905 A	11,551 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.17 E	\$2.53 E	\$2.62 E	\$2.71 E	\$9.80 E
2021	\$2.09 A	\$2.14 E	\$2.33 E	\$2.35 E	\$8.90 E
2020	\$1.83 A	\$1.95 A	\$1.80 A	\$1.67 A	\$7.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/28/2021. The report's text and the

analyst-provided price target are as of 06/29/2021.

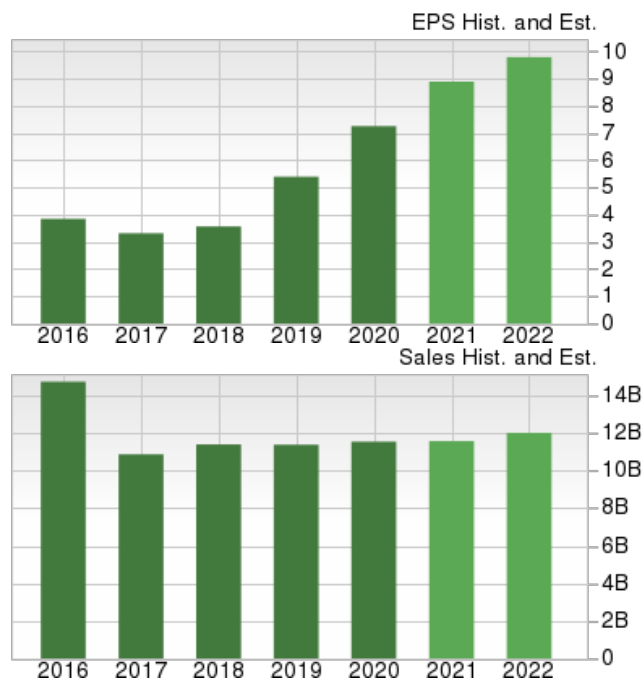
Overview

Founded in 1994 and headquartered in Denver, CO, DaVita Inc. is a leading provider of dialysis services in the U.S. to patients suffering from chronic kidney failure, also known as ESRD. The company operates kidney dialysis centers and provides related medical services primarily in dialysis centers and in contracted hospitals across the U.S. Its services include outpatient dialysis services, hospital inpatient dialysis services and ancillary services such as ESRD laboratory services and disease management services.

DaVita's Dialysis and related lab services business segment provides inpatient as well as outpatient dialysis services, routine laboratory testing for ESRD patients and management services to outpatient dialysis centers.

The company's other ancillary services and strategic initiatives segment includes its international dialysis services, pharmacy services, infusion therapy services, disease management services, vascular access services, ESRD clinical research programs and physician services.

For investors' notice, the company's major segment — DaVita Medical Group (DMG) — has been divested to Optum, a subsidiary of UnitedHealth Group Inc. for a deal value of \$4.3 billion. The results of DMG business' operations have been reported as discontinued.



2020 at a Glance

The company's 2020 revenues totaled \$11.55 billion.

DaVita's Net Dialysis Services revenues for 2020 were \$11.03 billion (95.4% of net revenues), while Other revenues totaled \$524.4 million (4.5%).



Reasons To Buy:

▲ **Shares Up:** Over the past six months, shares of DaVita have rallied 5.5% against the industry's 12.6% fall. In the first quarter, net dialysis and related lab-patient service revenues improved. The buyout of several dialysis centers overseas is appreciative too. A bullish guidance for 2021 is another boon. Solid prospects in the Kidney Care wing continue to boost the stock. Continued strong momentum of its Kidney care segment within the United States in particular, is steadily driving the share price. The company constantly delivered a strong performance beginning with the treatment of CKD all the way through ESRD.

▲ **DaVita Kidney Care:** DaVita Kidney Care, the major revenue-generating segment of DaVita, specializes in a broad array of dialysis services, thereby significantly contributing to the company's topline.

DaVita's incessant efforts to upgrade services, global expansion initiatives and active acquisitions remain impressive and are supported by the company's strong financial position.

As an operating division of DaVita, DaVita Kidney Care focuses on setting worldwide standards for clinical, social and operational practices in kidney care. DaVita saw solid results from the Kidney Care business. Of the major services that DaVita provides, the company's in-center hemodialysis, home hemodialysis, peritoneal dialysis, kidney transplant, urology, diabetology and vascular access surgery deserve a mention.

Net dialysis and related lab-patient service revenues in the first quarter totaled \$2.71 billion, up 1% on a year-over-year basis. Per management, total U.S. dialysis treatments for the first quarter were 7,286,934 or 94,636 treatments per day, on average. This, however, represents a per-day decrease of 2.3% on a year-over-year basis.

Through the first quarter of 2021, DaVita Kidney Care segment continued delivering strong performance beginning with treatment of CKD all the way through ESRD and transplant.

In May 2020, DaVita launched the DaVita Venture Group (DVG), through which it plans to accelerate efforts to develop and deploy solutions aimed at improving the health care and quality of life for patients of kidney disease and related chronic conditions.

DaVita Kidney Care also provides support to nephrologist-led organizations like Nephrology Care Alliance (NCA) in their endeavor to treat patients of chronic kidney disease.

Through the third quarter of 2020, the company has been customizing care for patients across the kidney care continuum using proprietary systems that it has been developing for years in partnership with industry leaders. It is starting to see benefits from these tools in the form of AI-driven models that personalize dosing for certain therapeutics, anticipate patients' clinical status and help avoid hospitalization, identify CKD stage 4 patients who are likely to progress swiftly to ESRD and help avoid unplanned dialysis starts. Growth in the ESRD Medicare Advantage customer base through the fourth quarter of 2020 paved the way for the company to invest further and build additional momentum toward value-based care.

Through the first quarter of 2021, the company administered hundreds of thousands of vaccines to its patients within the kidney care community. Currently, 72% of its patients nationwide received at least one vaccine dose.

▲ **Guidance Impressive:** For 2021, adjusted EPS is projected within \$8.20-\$9, up from the previous guidance of \$7.75-\$8.75. Adjusted operating income is anticipated between \$1.75 and \$1.88, up from the past outlook of \$1.68-\$1.83 billion.

▲ **Acquisition of Dialysis Centers:** Acquiring dialysis centers and businesses that own and operate dialysis centers as well as other ancillary services is DaVita's preferred business strategy. These strategies have boosted the company's top line to a large extent.

DaVita's Kidney Care Business has opened a 150,000 square-foot campus for DaVita Labs, its diagnostic laboratory that serves DaVita dialysis clinics and their patients. In the recent past, DaVita HealthCare Partners also announced that HealthCare Partners, a unit within its medical group, has entered into a strategic partnership with Cigna, a global health insurance service company.

As of Mar 31, 2021, the company provided dialysis services to a total of around 238,900 patients at 3,150 outpatient dialysis centers, of which 2,827 centers were located in the United States and 323 across 10 countries outside the United States. During the first quarter of 2021, the company opened a total of 18 new dialysis centers and closed down seven in the United States. It also acquired three dialysis centers besides opening two and closing three outside the United States in the quarter.

▲ **Overseas Growth:** DaVita is steadily expanding in the international markets. In the past few years, the company has strengthened its position in the emerging and developing markets of Brazil, China, Colombia, Germany, India, Malaysia, Netherlands, Poland, Portugal and Saudi Arabia through strategic alliances as well as acquisitions of dialysis centers.

These are expected to help DaVita deliver more efficient patient care. Currently, DaVita is seeking to expand in major European and Asian countries via acquisitions and partnerships.

▲ **Stable Solvency With High Leverage:** DaVita exited the first quarter of 2021 with cash and cash equivalents along with restricted cash and equivalents and short-term investments of \$1.07 billion, significantly higher than \$522 million in the preceding quarter. Meanwhile, the

company's long-term debt totaled \$8.83 billion in the fourth quarter of 2020, up sequentially from \$7.91 billion, apparently indicating weak solvency. However, the current debt level of \$168 million, which is lower than \$169 million in the preceding quarter, lags the company's short-term cash level. This is particularly good in terms of the company's solvency position as at least during the year of economic downturn, the company has sufficient cash for debt repayment.

Debt comparison with the industry is, however, unfavorable as industry's total debt of \$3.49 billion is much lower than the company's debt level.

The quarter's total debt-to-capital of 0.86 stands at a very high level, indicating a highly leveraged balance sheet. Moreover, it represents a sequential increase from 0.84 at the end 2020. This compares unfavorably with the total debt-to-capital of the industry, which stands at a lower level of 0.49.

Reasons To Sell:

▼ **Strict Regulatory Environment:** DaVita's operations are subject to extensive federal, state and local government laws and regulations, such as Medicare and Medicaid payment rules and regulations, federal and state anti-kickback laws, the Stark Law and analogous state self-referral prohibition statutes, the False Claims Act (FCA), the Civil Monetary Penalty statute, the Foreign Corrupt Practices Act (FCPA) and federal and state laws regarding the collection, use and disclosure of patient health information. A violation or departure from any of these legal requirements may result in government audits, lower reimbursements, significant fines and penalties, the potential loss of certification, recoupment efforts or voluntary repayments, among other things.

High debt levels, adverse effects of healthcare reforms, and an increase in MA beneficiaries are concerns.

In addition, failure to report and return overpayments within 60 days of when the overpayment is identified can lead to a violation of the FCA and associated penalties, as described in further detail below, and exclusion and penalties under the federal Civil Monetary Penalty statute, including civil monetary penalties of up to \$20,000 (adjusted for inflation) for each item or service for which a person received an identified overpayment and failed to report and return such overpayment.

▼ **Integration Risks:** DaVita's business strategy includes growth through acquisitions of dialysis centers and other businesses, as well as entry into joint ventures. The company may engage in acquisitions, mergers, joint ventures or dispositions or expand into new business models, which may affect its results of operations, debt-to-capital ratio, capital expenditures or other aspects of the business.

Per management, businesses that DaVita acquires may have unknown or contingent liabilities or liabilities that are in excess of the amounts that the company had originally estimated. Further DaVita can face other issues related to internal controls over financial reporting or issues that could affect the company's ability to comply with healthcare laws and regulations and other laws applicable to the company's expanded business.

▼ **Foreign Exchange Headwinds:** DaVita gains a significant part of its revenues from overseas operations and acquisition of dialysis centers abroad. However, a strengthening U.S. dollar is likely to impact the company's international sales. Notably, in the fourth quarter of 2020, DaVita saw continued core profit trends in its international business, offset by a \$6-million foreign exchange loss.

▼ **Dependence on Commercial Payers:** A significant portion of DaVita's dialysis and related lab services revenues are generated from patients who have commercial payers as the primary payers. The payments received from commercial payers are the primary generators of profit. However, there remains a risk of people shifting from commercial insurance schemes to government schemes due to the wide disparity in payment rates in case of a rise in unemployment. In fact, the mix of treatments reimbursed by non-government payers, as a percentage of total treatments, has been falling consistently over the years.

A large percentage of DaVita's patients already use Medicare or Medicaid programs. The overall increase in Medicare Advantage beneficiaries in the U.S. is likely to increase this percentage further, leading to additional pressure on the company's profitability, as inadequacy of government reimbursements could force it to close a number of centers.

▼ **Competition:** DaVita operates in a strictly competitive environment. Notably, the U.S. dialysis industry has a number of bigwigs operating, like, Baxter, Abbott, Boston Scientific which pose significant rivalry for DaVita.

Last Earnings Report

DaVita Q1 Earnings Beat Estimates, Revenues Miss Mark

Davita Inc reported first-quarter 2021 adjusted earnings per share of \$2.09, beating the Zacks Consensus Estimate of \$1.80 by 2.8%. The bottom line also rose 14.2% from the year-ago quarter's figure.

Revenues

Total revenues in the quarter dipped 0.7% year over year to \$2.82 billion and also missed the Zacks Consensus Estimate by 0.2%.

Segment Details

Net dialysis and related lab-patient service revenues in the first quarter totaled \$2.71 billion, up 1% on a year-over-year basis. Other revenues were \$105.4 million, down 17.6% from the year-ago quarter's figure.

Per management, total U.S. dialysis treatments for the first quarter were 7,286,934 or 94,636 treatments per day, on average. This represents a per-day decrease of 2.3% on a year-over-year basis.

As of Mar 31, 2021, the company provided dialysis services to a total of around 238,900 patients at 3,150 outpatient dialysis centers, of which 2,827 centers were located in the United States and 323 across 10 countries outside the United States.

During the first quarter of 2021, the company opened a total of 18 new dialysis centers and closed down seven in the United States. It also acquired three dialysis centers, besides opening two and closing three outside the United States in the quarter.

Margin

Total operating expenses and charges amounted to \$2.38 billion, up 1% year over year.

Adjusted operating profit of \$600.2 million fell 0.3% from the prior-year quarter. Adjusted operating margin came in at 21.3%, up 9 basis points (bps) from the year-ago quarter.

Financial Condition

DaVita exited the first quarter of 2021 with cash and cash equivalents of \$884.2 million compared with \$324.9 million at the end of the fourth quarter of 2020.

Net cash from operating activities of \$154.3 million compared with \$360.4 million in the year-ago quarter.

2021 Guidance

Adjusted earnings per share is projected within \$8.20-\$9, up from the previous guidance of \$7.75-\$8.75. The Zacks Consensus Estimate for the same stands at \$8.28.

Adjusted operating income is anticipated between \$1.75 and \$1.88, up from the past outlook of \$1.68-\$1.83 billion.

Quarter Ending 03/2021

Report Date	Apr 29, 2021
Sales Surprise	-0.22%
EPS Surprise	16.11%
Quarterly EPS	2.09
Annual EPS (TTM)	7.51

Recent News

DaVita Ties Up With The NKF to Improve Health Equity: Jun 10, 2021

DaVita Kidney Care announced its collaboration with the National Kidney Foundation (NKF) in launching a year-long pilot aimed at improving health equity in kidney transplantation with a newly-developed program within NKF's THE BIG ASK: THE BIG GIVE platform.

DaVita Creates Virtual Support Groups for its Home Dialysis Patients: Jun 2, 2021

DaVita Kidney Care launched virtual support groups through DaVita Care Connect, a mobile health platform designed for home dialysis patients, to help create community and belonging for those receiving treatment at home.

DaVita Expands Renal Care With New Technology: May 10, 2021

DaVita Kidney Care announced the expansion of its home kidney care program to include the HomeChoice Claria Automated Peritoneal Dialysis (APD) system, enabled by Sharesource remote patient monitoring from Baxter. The latest technology further enhances DaVita's home dialysis program and will provide more patients with the option of treating their renal failure at home.

DaVita's VillageHealth Inks Deal to Boost Kidney Care: Apr 12, 2021

DaVita's integrated kidney care subsidiary VillageHealth in partnership with Blue Cross and Blue Shield of Minnesota (Blue Cross) introduced an innovative program that caters to the holistic health needs of certain eligible members afflicted with CKD or ESKD.

Valuation

DaVita's shares are up 3.8% in the year-to-date period and up 53.9% in the trailing 12-month periods.

Stocks in the Zacks sub-industry and Zacks Medical Market are down 9.2% and up 1.9% in the year-to-date period, respectively. Over the past year, the stocks in the Zacks sub-industry are up 8.6% while that in the sector are up 6.9%.

The S&P 500 index is up 15% in the year-to-date period and up 40.7% in the past year.

The stock is currently trading at 13X Forward 12-months earnings, which compares to 24.8X for the Zacks sub-industry, 23.7X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.9X and as low as 9.4X, with a 5-year median 14X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$128 price target reflects 13.7X forward 12-months earnings.

The table below shows summary valuation data for DVA.

Valuation Multiples - DVA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.03	24.77	23.72	21.86
	5-Year High	22.86	24.77	23.72	23.83
	5-Year Low	9.37	14.41	15.82	15.31
	5-Year Median	14.02	18.68	19.35	18.05
P/S F12M	Current	1.10	3.19	2.72	4.76
	5-Year High	1.26	3.23	3.17	4.76
	5-Year Low	0.62	0.73	2.27	3.21
	5-Year Median	0.86	2.05	2.78	3.72
P/B TTM	Current	9.02	4.12	4.56	7.14
	5-Year High	9.48	4.42	5.05	7.14
	5-Year Low	1.77	1.94	3.03	3.84
	5-Year Median	2.73	2.96	4.35	5.02

As of 06/28/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 27% (183 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Elanco Animal Health Incorporated (ELAN)	Outperform	3
Amedisys, Inc. (AMED)	Neutral	3
Chemed Corporation (CHE)	Neutral	3
Quest Diagnostics Incorporated (DGX)	Neutral	3
Encompass Health Corporation (EHC)	Neutral	3
Fresenius Medical Care AG & Co. KGaA (FMS)	Neutral	3
Hanger Inc. (HNGR)	Neutral	2
LHC Group, Inc. (LHCG)	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		
	DVA	X Industry	S&P 500	DGX	EHC	ELAN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	A	A	D
Market Cap	12.94 B	1.51 B	30.38 B	17.20 B	8.00 B	16.71 B
# of Analysts	4	3.5	12	9	6	8
Dividend Yield	0.00%	0.00%	1.34%	1.88%	1.39%	0.00%
Value Score	A	-	-	A	A	C
Cash/Price	0.08	0.03	0.06	0.07	0.04	0.03
EV/EBITDA	10.62	9.46	17.31	8.30	11.99	-4,103.25
PEG F1	0.63	1.13	2.10	0.44	1.12	0.99
P/B	9.03	5.88	4.06	2.53	3.92	2.09
P/CF	8.76	20.92	17.45	9.40	14.84	23.03
P/E F1	13.75	28.09	21.17	11.74	19.40	34.46
P/S TTM	1.12	1.94	3.39	1.66	1.70	4.33
Earnings Yield	7.31%	2.89%	4.62%	8.51%	5.15%	2.89%
Debt/Equity	6.16	0.56	0.66	0.59	1.55	0.69
Cash Flow (\$/share)	13.90	1.53	6.86	14.01	5.41	1.53
Growth Score	D	-	-	A	B	D
Historical EPS Growth (3-5 Years)	17.29%	6.37%	9.59%	14.55%	5.77%	NA
Projected EPS Growth (F1/F0)	22.52%	13.76%	21.79%	0.29%	43.31%	118.09%
Current Cash Flow Growth	5.24%	6.22%	1.02%	54.12%	-12.21%	2.13%
Historical Cash Flow Growth (3-5 Years)	0.74%	15.37%	7.34%	13.57%	7.22%	94.34%
Current Ratio	1.67	1.32	1.39	1.76	1.23	1.64
Debt/Capital	87.66%	39.27%	41.51%	37.59%	60.97%	40.96%
Net Margin	6.69%	4.47%	12.06%	17.43%	6.49%	-14.83%
Return on Equity	50.57%	11.35%	16.59%	29.42%	15.89%	4.26%
Sales/Assets	0.65	0.81	0.51	0.75	0.72	0.25
Projected Sales Growth (F1/F0)	0.27%	10.01%	9.56%	-0.17%	10.01%	44.17%
Momentum Score	B	-	-	D	B	B
Daily Price Change	0.12%	-1.06%	0.23%	1.57%	-0.94%	0.80%
1-Week Price Change	0.03%	0.25%	1.56%	1.67%	1.79%	1.01%
4-Week Price Change	1.46%	0.00%	2.06%	-0.01%	-6.33%	-1.83%
12-Week Price Change	14.06%	-2.90%	5.22%	1.18%	-0.63%	21.96%
52-Week Price Change	57.78%	47.53%	40.53%	19.24%	32.43%	68.19%
20-Day Average Volume (Shares)	597,448	202,063	1,986,546	1,083,980	598,599	3,669,351
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%	0.00%	0.00%	0.00%	0.00%	0.55%

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

EPS F1 Estimate 12-Week Change	7.40%	:	0.00%	3.61%	:	-0.49%	19.75%	8.05%
EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	0.00%	0.00%	1.85%

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	D
Momentum Score	B
VGM Score	B

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

Disclosures

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

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

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

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

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a 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.