

Exelixis, Inc.(EXEL)

\$22.43 (As of 06/16/21)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

Exelixis' lead drug, Cabometyx, approved for advanced renal cell carcinoma (RCC) and previously treated hepatocellular carcinoma (HCC), maintains momentum. The pipeline progress has been impressive and the recent approval of Cabometyx in combination with Opdivo for advanced RCC should fuel growth of the drug. Exelixis has also forged strategic collaborations with Roche and Bristol Myers to expand the drug's label further. Successful outcomes from these studies should boost prospects. The company is also making efforts to develop its oncology portfolio beyond Cabometyx and has some promising candidates in the pipeline. However, the company is heavily dependent on Cabometyx for growth as of now. Competition stiffened from the recently-approved combination therapies. Shares have outperformed the industry in the past year.

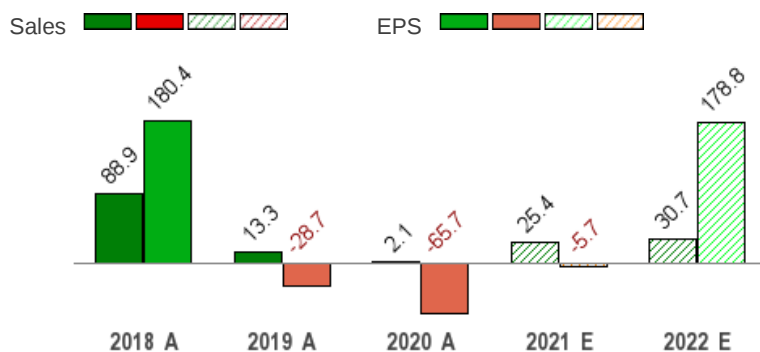
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$27.35 - \$18.18
20-Day Average Volume (Shares)	1,412,050
Market Cap	\$7.0 B
Year-To-Date Price Change	11.8%
Beta	1.07
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Bottom 15% (214 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-100.0%
Last Sales Surprise	0.5%
EPS F1 Estimate 4-Week Change	6.4%
Expected Report Date	08/05/2021
Earnings ESP	125.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	370 E	400 E	420 E	441 E	1,619 E
2021	270 A	301 E	319 E	363 E	1,239 E
2020	227 A	259 A	231 A	270 A	988 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.24 E	\$0.28 E	\$0.34 E	\$0.37 E	\$0.92 E
2021	\$0.00 A	\$0.08 E	\$0.09 E	\$0.16 E	\$0.33 E
2020	\$0.15 A	\$0.21 A	-\$0.10 A	\$0.09 A	\$0.35 A

*Quarterly figures may not add up to annual.

P/E TTM	112.2
P/E F1	68.0
PEG F1	1.5
P/S TTM	6.8

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

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

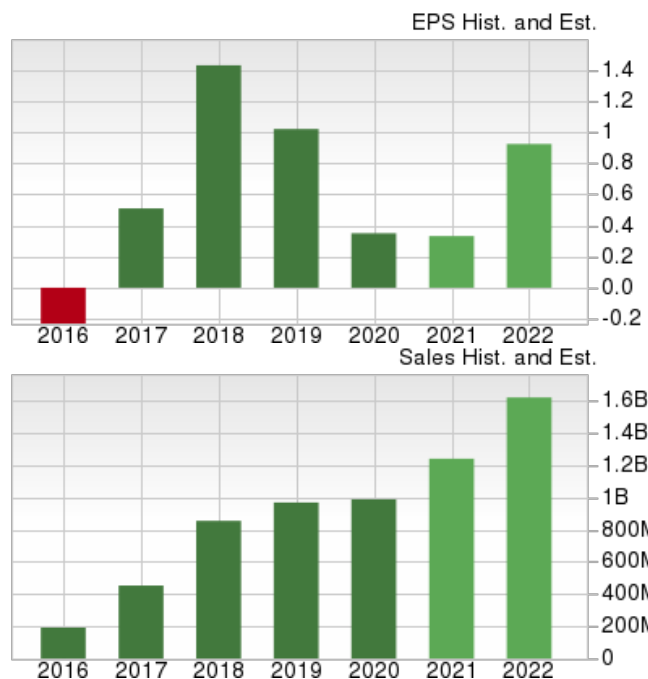
Overview

San Francisco, CA-based Exelixis, Inc. is an oncology-focused biotechnology company, which primarily focuses on the discovery, development and commercialization of new drugs for the treatment of difficult-to-treat cancers.

The company has four approved drugs in its portfolio. Of these, two are derived from cabozantinib, the company's flagship molecule, which is an inhibitor of multiple tyrosine kinases, including MET, AXL, VEGF receptors and RET. The cabozantinib products are Cabometyx (cabozantinib) tablets approved for advanced renal cell carcinoma (RCC), both alone and in combination with Opdivo and previously treated hepatocellular carcinoma (HCC); Cometriq (cabozantinib) capsules approved for progressive, metastatic medullary thyroid cancer (MTC); Cotellic (cobimetinib), an inhibitor of MEK approved as part of a combination regimen to treat advanced melanoma, marketed under a collaboration with Genentech, Inc. (a member of the Roche Group) (Genentech); and Minnebro (esaxerenone), an oral, non-steroidal, selective blocker of the mineralocorticoid receptor (MR) approved for the treatment of hypertension in Japan and licensed to Daiichi Sankyo Company, Limited.

Exelixis has a licensing agreement with Ipsen, under which the latter has exclusive commercialization rights for current and potential future indications of cabozantinib outside the United States, Canada and Japan. The company also has granted Takeda the rights to develop and commercialize cabozantinib in Japan. The company also has collaborations with other leading pharmaceutical and biotechnology companies such as Bristol-Myers, Sanofi, for various compounds and programs in its portfolio.

The company earns revenues through milestones and royalty payments from these collaborations. Revenues in 2020 came in at \$987.5 million, up from \$967.8 million in 2019.



Reasons To Buy:

▲ **Share Price Performance:** Exelixis' stock has outperformed the industry in the past year.

▲ **Cabometyx Performance Impressive:** The uptake of Cabometyx, a tablet formulation of cabozantinib, for the treatment of patients with advanced RCC who have received prior anti-angiogenic therapy since its approval (April 2016), has been strong. The drug's label was further expanded to include previously-untreated, advanced RCC patients, which has boosted demand. Kidney cancer is among the top ten most commonly diagnosed forms of cancer among both men and women in the United States and RCC is the most common form of kidney cancer in adults. Since the drug is now approved for first-line RCC as well, Exelixis can now target the entire patient population suffering from the disease in the United States. Meanwhile, Exelixis' European partner, Ipsen, also obtained approval for the drug in the region for the first-line treatment of adults with intermediate- or poor-risk advanced RCC. The approval has broadened the geographic reach of the drug and targeted patient population.

The approval of Cabometyx for RCC is a great boost for the company. The company's efforts to develop cabozantinib for various other indications are also encouraging.

The drug is also approved as a monotherapy for HCC in adults in Europe who have previously been treated with Nexavar. The FDA also approved Cabometyx for HCC. Sales got a boost from this label expansion, given the market potential. In January 2021, the FDA approved Cabometyx in combination with immuno-oncology drug, Opdivo, for the first-line treatment of patients with advanced RCC. The approval is a significant boost for Cabometyx, given the market potential.

▲ **Developing Cabozantinib for Additional Indications:** Exelixis is working on expanding cabozantinib's label further. The company is currently evaluating cabozantinib, both as a single agent and in combination with immune checkpoint inhibitors (ICIs), in a broad development program comprising more than 100 ongoing or planned clinical trials across multiple indications. The successful development of the drug for additional indications will propel sales further. In February 2021, Exelixis announced that the FDA granted Breakthrough Therapy Designation to cabozantinib as a potential treatment for patients with Differentiated Thyroid Cancer (DTC) who progressed following prior therapy and who are radioactive iodine-refractory (if radioactive iodine is appropriate). In March 2021, Exelixis announced that COSMIC-313, the phase III study evaluating the triplet combination of cabozantinib, Opdivo and ipilimumab versus the combination of nivolumab and ipilimumab in patients with previously untreated advanced intermediate- or poor-risk RCC, completed enrollment. Last month, Exelixis announced that the FDA accepted its IND to evaluate the safety, tolerability, pharmacokinetics and preliminary antitumor activity of XB002 in patients with advanced solid tumors.

▲ **Collaborations with Leading Companies:** Exelixis has collaborations with several leading pharmaceuticals such as Bristol-Myers Squibb, Merck and Daiichi Sankyo Company for various compounds and programs in its portfolio. These collaborations allow Exelixis to earn milestone payments and royalties that boost its top line. Exelixis also has an exclusive licensing agreement with Ipsen for the commercialization and further development of cabozantinib. Per the terms of the agreement, Ipsen enjoys exclusive commercialization rights for all current and potential future indications of the drug outside the United States, and Japan. The companies will jointly work on the development of cabozantinib for current and potential future indications. Exelixis, on the other hand, will retain rights to commercialize the drug in the United States. This agreement was recently amended and Ipsen was granted rights in Canada also. Daiichi Sankyo launched Minnebro tablets as a treatment for patients with hypertension in Japan. Consequently, Exelixis received an associated \$20-million milestone payment from Daiichi Sankyo with the first commercial sale of Minnebro. In 2017, Exelixis signed collaboration agreements with Bristol-Myers Squibb and Roche to evaluate cabozantinib in combination with immunotherapy agents.

Exelixis has also collaborated with Roche to evaluate Cabometyx in combination with the latter's PD-L1 immune checkpoint inhibitor, Tecentriq, in patients with advanced non-small cell lung cancer (NSCLC), castration-resistant prostate cancer (CRPC) and RCC. In October 2020, the first patient was enrolled into the dose-escalation cohort of the combination arm of the phase I study evaluating the safety, tolerability, PK and preliminary anti-tumor activity of XL092, both alone and in combination with Tecentriq in patients with advanced solid tumors.

In July, Exelixis announced an exclusive collaboration, option and license agreement with Aurigene, an India-based biotechnology company focused on oncology and inflammatory disorders, to in-license as many as six programs. Per the agreement, Exelixis made an upfront payment of \$10.0 million for exclusive options to license three pre-existing programs from Aurigene. The companies selected three additional Aurigene-led drug discovery programs on mutually agreed upon targets, in exchange for supplemental option payments totaling \$7.5 million.

In October 2019, Exelixis expanded its collaboration with Invenra to include the development of novel binders against six additional targets. Under the terms of the expanded collaboration agreement, Exelixis will have the opportunity to use these binders to generate multispecific antibodies based on Invenra's B-Body technology platform, or with other platforms and formats, at Exelixis' option.

In March 2021, it entered a clinical trial collaboration and supply agreement with Merck KGaA and Pfizer for the ongoing phase Ib dose-escalation study, STELLAR-001 (previously called "XL092-001"), adding three new cohorts that will evaluate the safety and tolerability of XL092 in various forms of locally advanced or metastatic urothelial carcinoma (UC).

▲ **Strong Cash Position:** As of Mar 31, 2021, Exelixis had cash and investments of \$1.6 billion and no debt, which puts it in a strong cash position and negligible changes of bankruptcy.

Reasons To Sell:

- ▼ **Heavily Dependent on the success of Cabometyx for RCC:** The company is heavily dependent on Cabometyx for growth now and the drug might not be able to capture market share, given the competition. Additionally, given the market potential, most pharma/biotech bigwigs are scurrying to grab a larger chunk of this pie. Evidently, the focus is on better and effective treatments. The focus, of late, has shifted to checkpoint inhibitor-containing regimens in combination with a TKI as the first-line option for RCC patients. Merck's PD-L1 inhibitor, Keytruda, is approved in combination with Pfizer's Inlyta for the first-line treatment of advanced RCC. The FDA also approved the combination regimen of Bavencio (avelumab) and Inlyta for the first-line treatment of patients with advanced RCC. In particular, competition has stiffened with the approval of Opdivo and Yervoy for the treatment of poor and intermediate risk first-line RCC.
- ▼ **Pipeline Setbacks:** Exelixis is not new to pipeline setbacks. The company suffered a setback in 2014 when two phase III studies (COMET-1 and COMET-2) on Cometriq for the treatment of metastatic castration-resistant prostate cancer failed to meet its primary endpoint of an increase in overall survival. Meanwhile, the phase III trial, IMblaze370, evaluating the combination of Cotellic and Tecentriq did not meet its primary endpoint. The trial evaluated the combination in patients with difficult-to-treat, locally advanced or metastatic colorectal cancer (CRC) whose disease had progressed or who were intolerant to at least two systemic chemotherapy regimens. Any further setback in the label expansion of Cometriq will adversely impact the growth prospects.

The company is heavily dependent on Cabometyx for growth and failure of the drug to capture additional market share amid increasing competition will be detrimental.

Last Earnings Report

Exelixis Q1 Earnings Miss Estimates, Revenues Beat

Exelixis, reported breaking earnings in the first quarter of 2021, missing the Zacks Consensus Estimate of earnings of 4 cents. The bottom-line figure declined from the year-ago quarter's earnings of 15 cents per share due to higher operating expenses.

Net revenues came in at \$270.2 million, which increased from \$226.9 million reported in the year-ago quarter and marginally beat the Zacks Consensus Estimate of \$269 million.

Quarter Ending 03/2021

Report Date	May 06, 2021
Sales Surprise	0.47%
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.20

Quarter in Detail

Net product revenues came in at \$227.2 million, up from \$193.9 million reported in the year-ago quarter.

The upside in net product revenues was primarily driven by an increase in sales volume that was partially driven by the strong uptake for the combination therapy of Cabometyx and Opdivo (nivolumab) following FDA approval in January.

Cabometyx generated \$223.6 million of revenues. Cabometyx (cabozantinib tablets) are approved for advanced renal cell carcinoma (RCC) and previously treated hepatocellular carcinoma (HCC). Cometriq (cabozantinib capsules) for the treatment of medullary thyroid cancer generated \$3.6 million in net product revenues. Exelixis earned \$23.8 million in royalty revenues.

Collaboration revenues, comprising license revenues and collaboration services revenues, were \$15.5 million in the quarter under review compared with \$12.1 million in the year-ago quarter.

In the reported quarter, research and development expenses increased to \$159.3 million from the year-ago quarter's \$101.9 million due to a rise in clinical trial costs. Selling, general and administrative (SG&A) expenses were \$102.4 million, up from \$62.9 million in the year-ago quarter.

Pipeline Update

In January 2021, Exelixis obtained FDA approval for its supplemental new drug application (sNDA) for Cabometyx in combination with Opdivo as a first-line treatment of patients with advanced RCC. Subsequently, in March 2021, Exelixis' partner Ipsen received approval from the European Commission for this combination as a first-line treatment for advanced RCC.

In April 2021, Exelixis announced that the FDA accepted its IND to evaluate the safety, tolerability, pharmacokinetics and preliminary antitumor activity of XB002 in patients with advanced solid tumors.

In March 2021, it entered a clinical trial collaboration and supply agreement with Merck KGaA and Pfizer for the ongoing phase Ib dose-escalation study, STELLAR-001 (previously called "XL092-001"), adding three new cohorts that will evaluate the safety and tolerability of XL092 in various forms of locally advanced or metastatic urothelial carcinoma (UC).

2021 Guidance Reiterated

Revenues are projected at \$1,150-\$1,250 million while product revenues are estimated in the range of \$950-\$1,050 million.

Recent News

Collaboration and Supply Agreement with Bristol Myers- Jun 14

Exelixis announced a clinical trial collaboration and supply agreement with Bristol Myers for combination studies on its novel next-generation tyrosine kinase inhibitor (TKI), XL092.

The companies have collaborated for a new phase Ib study, STELLAR-002, evaluating XL092 in combination with immuno-oncology therapies in advanced solid tumors.

The objective of the study is to evaluate the safety, tolerability and efficacy of XL092 in combination with Opdivo (nivolumab); Opdivo and Yervoy (ipilimumab); and Opdivo and bempegaldesleukin (an investigational CD122-preferential IL-2-pathway agonist). The study will begin with a dose-escalation phase to determine the recommended dose for each of the combination therapies.

Thereafter, depending on the dose-escalation results, the study may enroll patients with certain genitourinary cancers (those that affect the urinary tract, prostate, testicles or penis — parts of the body involved in reproduction, urine production and excretion — and include renal cell carcinoma (RCC), castration-resistant prostate cancer (CRPC) and urothelial carcinomas).

Date on Phase III CheckMate -9ER Trial – Jun 4

Exelixis announced results from a post-hoc analysis of the phase III CheckMate -9ER study demonstrating that Cabometyx (cabozantinib) in combination with Opdivo (nivolumab) resulted in a statistically significant and clinically meaningful increase in quality-adjusted survival compared with sunitinib for patients with previously untreated advanced RCC.

Results From Cohort 6 of COSMIC-021 Trial -May 24

Exelixis announced results from the metastatic castration-resistant prostate cancer (CRPC) cohort 6 of COSMIC-021, the phase Ib trial of cabozantinib in combination with atezolizumab in patients with locally advanced or metastatic solid tumors. The combination of cabozantinib and atezolizumab evaluated in cohort 6 of the COSMIC-021 phase Ib trial resulted in objective response rates of 27% and 18% per investigator assessment and Blinded Independent Radiology Committee, respectively.

Acquisition of GamaMabs – May 4

Exelixis announced that it entered into an agreement with GamaMabs Pharma. Per the agreement, Exelixis will, upon the future closing of the asset purchase and subject to certain conditions to closing, acquire all rights, title and interest in GamaMabs' AMHR2 antibody technology. Exelixis will pay GamaMabs \$5 million upon signing of the agreement, make additional payments upon completion of closing conditions, and make additional milestone payments after closing, contingent upon various events. Once the transfer is completed, Exelixis will control 100% of GamaMabs' AMHR2 franchise technology, including all assets pertaining to the latter's monoclonal antibody drug product, murlentamab (GM-102).

Valuation

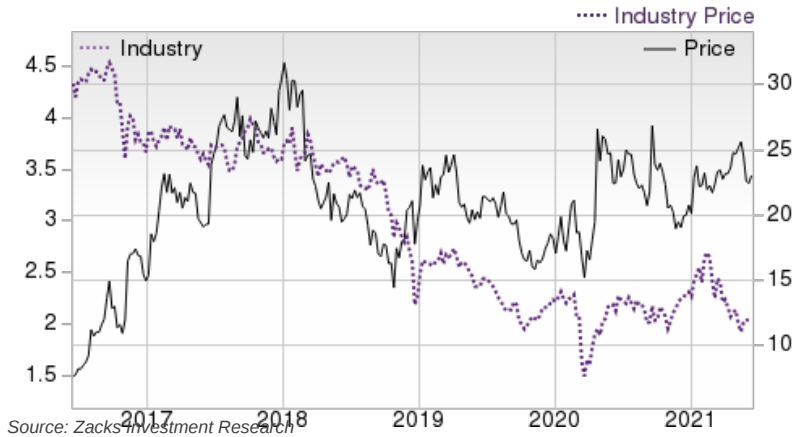
Exelixis' shares are up 11.8% in the year-to-date period but down 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 1.5% in the year-to-date period but down 0.6% respectively. Over the past year, the Zaks sub-industry is down 4.7% while the Zacks Medical sector is up 4.3%. The S&P 500 index is up 13.3% in the year-to-date period and 37.8% in the past year.

The stock is currently trading at 4.95X trailing 12-month sales per share, which compares to 2.17X for the Zacks sub-industry, 2.69X for the Zacks sector and 4.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.75X and as low as 4.45X, with a 5-year median of 7.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 5.30X trailing 12-month sales per share.

Valuation Multiples - EXEL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.95	2.17	2.69	4.7
	5-Year High	23.75	2.95	3.17	4.74
	5-Year Low	4.45	1.83	2.27	3.21
	5-Year Median	7.08	2.31	2.78	3.72
P/B TTM	Current	3.68	3.29	4.45	7.03
	5-Year High	131.3	4.79	5.05	7.08
	5-Year Low	-19	2	3.03	3.84
	5-Year Median	4.83	3.7	4.35	5.02

Industry Analysis Zacks Industry Rank: Bottom 15% (214 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AVEO Pharmaceuticals, Inc. (AVEO)	Neutral	3
Bayer Aktiengesellschaft (BAYRY)	Neutral	2
Bristol Myers Squibb Company (BMY)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	4
Novartis AG (NVS)	Neutral	4
Pfizer Inc. (PFE)	Neutral	3
Roche Holding AG (RHHBY)	Neutral	3
Eli Lilly and Company (LLY)	Underperform	4

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

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	EXEL	X Industry	S&P 500	BMY	NVS	PFE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	A	B	A
Market Cap	7.03 B	393.04 M	29.96 B	149.42 B	214.66 B	219.99 B
# of Analysts	5	3	12	8	5	8
Dividend Yield	0.00%	0.00%	1.3%	2.93%	2.22%	3.97%
Value Score	C	-	-	A	A	A
Cash/Price	0.16	0.25	0.05	0.09	0.02	0.06
EV/EBITDA	41.75	-5.75	17.13	51.58	14.00	19.69
PEG F1	1.46	1.39	2.12	1.29	2.30	1.42
P/B	3.68	3.72	4.17	3.97	4.24	3.18
P/CF	57.55	19.29	17.46	6.02	11.13	12.64
P/E F1	67.03	23.56	21.27	8.97	14.96	10.77
P/S TTM	6.82	20.90	3.46	3.49	4.40	4.38
Earnings Yield	1.47%	-12.04%	4.62%	11.15%	6.69%	9.29%
Debt/Equity	0.00	0.00	0.66	1.18	0.51	0.51
Cash Flow (\$/share)	0.39	-0.94	6.83	11.12	8.43	3.11
Growth Score	F	-	-	A	B	B
Historical EPS Growth (3-5 Years)	25.55%	20.82%	9.44%	24.14%	4.73%	4.56%
Projected EPS Growth (F1/F0)	-5.14%	6.59%	21.49%	15.82%	9.04%	64.36%
Current Cash Flow Growth	-63.29%	16.23%	0.86%	157.14%	7.83%	-23.28%
Historical Cash Flow Growth (3-5 Years)	22.86%	6.73%	7.28%	46.29%	2.26%	-1.79%
Current Ratio	6.72	7.47	1.39	1.56	0.74	1.48
Debt/Capital	0.00%	0.00%	41.51%	54.16%	33.73%	33.92%
Net Margin	6.28%	-205.15%	11.95%	-14.53%	16.31%	22.09%
Return on Equity	3.47%	-52.12%	16.48%	33.76%	24.15%	24.55%
Sales/Assets	0.49	0.16	0.51	0.35	0.38	0.30
Projected Sales Growth (F1/F0)	25.50%	10.23%	9.41%	8.18%	7.22%	49.67%
Momentum Score	B	-	-	C	F	A
Daily Price Change	-0.93%	0.00%	-0.54%	-0.74%	-0.13%	-0.73%
1-Week Price Change	2.73%	4.19%	0.10%	3.70%	3.22%	2.55%
4-Week Price Change	-4.96%	5.18%	2.62%	2.09%	6.99%	-1.33%
12-Week Price Change	2.56%	-5.18%	8.60%	7.42%	9.03%	10.36%
52-Week Price Change	-0.22%	5.95%	35.66%	17.51%	4.80%	17.10%
20-Day Average Volume (Shares)	1,412,050	297,375	1,734,994	9,140,743	1,838,042	22,245,234
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.17%	-0.79%	0.66%
EPS F1 Estimate 4-Week Change	6.41%	0.00%	0.05%	0.17%	-0.98%	0.48%
EPS F1 Estimate 12-Week Change	-18.53%	0.00%	3.39%	0.22%	-2.70%	14.24%

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

EPS Q1 Estimate Monthly Change	29.03%	:	0.00%	0.00%	:	-0.24%	-1.42%	-0.21%
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	C
Growth Score	F
Momentum Score	B
VGM Score	D

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 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.