

GlaxoSmithKline plc (GSK)

\$39.08 (As of 09/14/20)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Glaxo's three newest products, Trelegy Ellipta, Shingrix and Juluca, are doing well, particularly Shingrix. These products coupled with restructuring in the Consumer Health unit have strengthened Glaxo's competitive position. We are encouraged by the company's initiatives to focus on its oncology pipeline. In 2020, Glaxo expects at least five potential approvals in oncology, HIV, and respiratory areas. However, pricing pressure and competitive dynamics due to generic competition for key drug, Advair, are hampering sales of Glaxo's respiratory products. Also, competitive pressure on HIV drugs has risen. Slowing vaccination rates hurt sales of its key vaccines in the second quarter and there is uncertainty about the timing of recovery. Its shares have underperformed the industry this year so far.

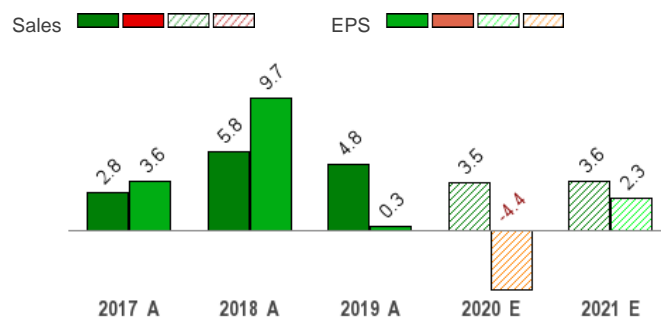
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$48.25 - \$31.43
20-Day Average Volume (Shares)	2,367,796
Market Cap	\$98.0 B
Year-To-Date Price Change	-16.8%
Beta	0.65
Dividend / Dividend Yield	\$1.94 / 5.0%
Industry	Large Cap Pharmaceuticals
Zacks Industry Rank	Top 50% (126 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.0%
Last Sales Surprise	-1.5%
EPS F1 Estimate 4-Week Change	1.5%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	12.9
P/E F1	12.9
PEG F1	1.8
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					46,231 E
2020	11,642 A	9,459 A	11,376 E	11,535 E	44,616 E
2019	9,977 A	10,037 A	11,570 A	11,462 A	43,102 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.10 E
2020	\$0.97 A	\$0.48 A	\$0.75 E	\$0.67 E	\$3.03 E
2019	\$0.79 A	\$0.78 A	\$0.95 A	\$0.64 A	\$3.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/14/2020. The reports text is as of 09/15/2020.

Overview

Glaxo has three core businesses – Pharmaceuticals (respiratory, HIV, immuno-inflammation and oncology), Vaccines (meningitis, shingles and influenza vaccines) and Consumer Healthcare (oral health, wellness, pain relief, vitamins & minerals, respiratory health and digestive health).

In December 2018, Glaxo and Pfizer announced an agreement to merge their consumer healthcare unit into a new joint venture (JV). The transaction closed on Aug 1, 2019. Glaxo owns a controlling stake of 68% in the JV.

Glaxo plans to split itself into two standalone companies. The new Glaxo will be a biopharma company focusing on developing new treatments. Glaxo intends to separate its Consumer Healthcare segment into a standalone company in 2022.

Glaxo is also divesting non-core assets. In 2015, Glaxo divested two quadrivalent meningitis ACWY vaccines – Nimenrix and Mencevax – to Pfizer, a portfolio of over-the-counter brands to Perrigo, and all its remaining rights to Arzerra for auto-immune indications including multiple sclerosis to Novartis. In January 2019, Glaxo acquired Tesaro, an oncology focused biotech company, which added the PARP inhibitor Zejula (approved for ovarian cancer) to its portfolio

The Pharmaceuticals, Vaccines and Consumer Healthcare segments contributed approximately 52%, 21% and 27%, respectively, to revenues in 2019. Total sales in 2019 were £33.75 billion (\$43.2 billion).

The company is headquartered in Brentford, UK.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Diversified Product Portfolio and Expansion in International Markets:** The company's diversified base and presence in different geographical areas should help support revenues. Expansion into markets like Japan and emerging markets should provide new opportunities for growth. The company has made significant progress in expanding its presence in emerging markets by acquiring product portfolios from companies like Bristol-Myers and UCB.
- ▲ **Successful New Product Launches:** Glaxo's relatively newer products like Nucala (severe eosinophilic asthma) and Bexsero (meningitis vaccine) are doing well and represent significant commercial opportunity.

In 2017, Glaxo received approvals for three key new drugs, Shingrix vaccine for shingles, which enjoys preferential recommendation from ACIP; Trelegy Ellipta, which provides three medicines in a single inhaler to treat COPD and Juluca (dolutegravir and rilpivirine), first 2-drug regimen, once-daily, single pill for HIV. All the three products witnessed considerable success in 2018 and 2019, particularly Shingrix.

In 2019, Glaxo gained approval for Dovato, a single tablet regimen of Tivicay (dolutegravir) + lamivudine for treatment-naïve HIV patients in the United States and EU. The new HIV medicine is off to a strong start in both the United States and the EU. In 2020 so far, Glaxo has received FDA approval for Rukobia/fostemsavir for heavily pre-treated HIV and Blenrep/belantamab mafatotin for fourth-line multiple myeloma. While Blenrep is also approved in EU, Rukobia is under review.

- ▲ **Strong Pipeline:** Glaxo is focused on oncology, immuno-inflammation, HIV and respiratory therapeutic areas. Promising candidates in late-stage development include Cabenuva/cabotegravir + rilpivirine (HIV-under review in the United States), otilimab (rheumatoid arthritis - phase III), dostarlimab (second-line endometrial cancer — under review in the United States), gepotidacin (uncomplicated urinary tract infection and urogenital gonorrhoea — phase III), ICOS agonist (head and neck squamous cell cancer – phase II/III), RSV vaccines (phase III) belantamab mafatotin (third line multiple myeloma – phase III) and Duvroq/daprodustat (anemia associated with chronic renal disease – phase III).

Glaxo had major positive data read-outs on multiple new medicines in HIV, oncology, immuno-inflammation and respiratory in 2019 with proof-of-concept readouts on several key pipeline assets scheduled for 2020. Glaxo expects at least five potential approvals in oncology, HIV, specialty and respiratory in 2020.

The successful development and commercialization of the pipeline candidates should boost the company's top line. Glaxo is also working on expanding the label of marketed products into additional indications like Nucala for nasal polyps (regulatory filing in second half of 2020), COPD (phase III) and hypereosinophilic syndrome (under priority review in the United States), Benlysta for lupus nephritis (regulatory submissions filed in the United States and EU) and Trelegy Ellipta for asthma (approved in the United States and under review in EU).

- ▲ **Focus on Oncology:** Glaxo has made significant progress in its oncology pipeline and doubled its assets in development since early 2018. This has been achieved through advancement of internal programs as well as targeted business development including the January 2019 acquisition of Tesaro and the February 2019 global alliance with Merck KGaA (to co-develop bintrafusp alpha/M7824, a promising new oncology medicine).

Meanwhile, Glaxo now has a number of molecules with diverse mechanisms of action, providing an opportunity for many innovative cancer combinations. Meanwhile, it divested its non-core Consumer Healthcare (CHC) nutrition business to Unilever and has formed a new CHC joint venture with Pfizer to focus on its pharmaceuticals business, particularly oncology.

Zejula, the ovarian cancer drug Glaxo acquired from the Tesaro acquisition was approved for the treatment of late-stage ovarian cancer in October 2019. Meanwhile, Zejula was approved by the FDA for first-line maintenance therapy of women with platinum responsive ovarian cancer (regardless of BRCA mutational status) based on the results of the PRIMA study in April 2020. The label expansion has significantly expanded Zejula's eligible ovarian cancer patient population. Meanwhile, Zejula is being evaluated for additional ovarian cancer stages as well as for non-small cell lung cancer and breast cancer. A phase III study in first-line NSCLC is expected to begin this year.

- ▲ **Renewed Cost Saving Initiatives:** In July 2018, Glaxo announced a new restructuring program, which delivered approximately £4.2 billion of annual savings primarily through supply chain optimization and reductions in administrative costs. The program, together with cost savings from the TESARO buyout and CHC JV with Pfizer, is expected to generate total annual savings of £4.3 billion by 2020. The costs saved will be invested to support new product launches, strengthen the R&D pipeline and to help mitigate pricing pressure on margins. Meanwhile, the company's separation program is expected to generate £700 million of annual savings by 2022.
- ▲ **Favorable Debt Profile:** As of Jun 30, 2020, Glaxo's net debt was £23.4 billion, compared with £25.2 billion as of Mar 31, 2020. Net debt comprised gross debt of £31.7 billion and cash and liquid investments of £8.3 billion. However, the cash/liquid investments are sufficient to pay the short-term debt of £7.4 billion in case of insolvency. The company's debt/capital ratio was 61.1 at the end of March 2020, lower than 61.4 at the end of March 2020. A lower ratio indicates lower financial risk. Meanwhile, its times interest earned ratio stands at 10.0, higher than 8.4 at the end of March 2020 and has risen consistently in the past few quarters. A higher times interest earned ratio indicates that the company is capable of meeting its interest obligations from operating earnings.

Glaxo's three new products, Trelegy Ellipta, Shingrix and Juluca, are doing well, particularly Shingrix. These products coupled with restructuring in the Consumer Health unit have strengthened competitive position

Reasons To Sell:

▼ **Shares Underperforming Industry:** This year so far, Glaxo's share price has declined 16.8%, underperforming the industry's decrease of 0.2% in the same period.

Competitive pressure has risen on HIV and Respiratory segments.

▼ **Pharma Unit Soft:** Glaxo's pharmaceutical segment sales were relatively weak in 2019, remaining flat at constant exchange rates. In the Respiratory drugs unit, though sales of relatively newer drugs like Trelegy Ellipta and Nucala rose, those of Relvar/Breo Ellipta declined 13% due to lower sales in the United States. Persistent competitive and pricing pressure, particularly for ICS/LABA class of medicines, hurt U.S. sales of Relvar/Breo Ellipta, which declined 37% in the year. The competitive pressure on the ICS/LABA class of medicines in the United States has intensified with the launch of generic Advair. Pricing pressure continues in 2020.

Also, competitive pressure on Glaxo's HIV drugs has risen. Rising competitive pressure coupled with shift within its portfolio toward two-drug regimens is hurting sales of Glaxo's HIV business. Sales rose only 1% in 2019 and are expected to be broadly flat in 2020.

Overall, Glaxo's Pharmaceutical segment sales are expected to decline in 2020, excluding divestments, as the growth of new products will be offset by a decline in Established Pharmaceuticals due to generic erosion. Glaxo's Established Pharmaceuticals business is expected to decline in mid-to-high single-digit range in 2020.

▼ **Generic Competition for Key Products:** Glaxo's top line is under significant pressure due to generic competition faced by key products. Products like Lovaza and Avodart are facing declining sales due to intense generic competition. HIV drug, Epzicom is facing generic competition in most major markets. Sales of Advair, which generated 14% of Glaxo's Pharmaceuticals revenues in 2018, are eroding rapidly as a generic version of the drug was launched in the United States in February 2019. The drug's sales were already being adversely impacted by pricing and competitive pressure in the United States and generic competition in Europe. Advair sales declined 13% in 2016, 14% in 2017 and 21% in 2018. Sales of Advair declined 29% in 2019, significantly affecting Glaxo's overall top-line performance in the year.

▼ **Pipeline Setbacks:** Although Glaxo has several pipeline candidates in different stages of development, the company has had its share of pipeline/regulatory setbacks. Major setbacks include disappointing top-line phase III data on chronic coronary heart disease candidate, darapladib; Duchenne muscular dystrophy candidate, Kyndrisa (drisapersen), failing to meet the primary endpoint in a phase III study; disappointing phase III data on its Crohn's disease candidate, vercinon and cardiovascular candidate, losmapimod, failing to achieve the primary endpoint in a phase III study.

Among the more recent pipeline setbacks, in September 2018, Glaxo received a complete response letter (CRL) from the FDA for its regulatory filing looking for label expansion of Nucala for the COPD indication.

▼ **Intense Competition:** In addition to facing generic competition, most of Glaxo's products are up against significant competition from small as well as large pharmaceutical companies. Glaxo's Consumer Healthcare segment faces competition from big companies like Colgate-Palmolive, Johnson & Johnson, Procter & Gamble and Pfizer. In addition, there are many small companies that compete with Glaxo in certain markets. Loss of market share due to intense competition will severely impact Glaxo's top line.

In the respiratory market, Advair is facing stiff competition in the COPD and asthma markets from AstraZeneca and Merck's respiratory disease drugs. Meanwhile, the launch of AstraZeneca's Fasenra and Sanofi's Dupixent has raised competitive pressure for Nucala, which has begun to hurt sales growth of this key new drug in Glaxo's portfolio. Meanwhile, continued competitive and pricing pressure is hurting sales of Glaxo's ICS/LABA class of medicines.

Last Earnings Report

Glaxo Q2 Earnings and Sales Miss Estimates

Glaxo reported second-quarter 2020 adjusted earnings of 48 cents per American depositary share, which missed the Zacks Consensus Estimate of 49 cents. Adjusted earnings were down 37% year over year on a reported basis and 38% at constant exchange rate ("CER") due to lower sales, higher taxes and a higher non-controlling interest allocation of Consumer Healthcare profits.

Quarterly revenues declined 2% on a reported basis and 3% at CER to \$9.46 billion (£7.6 billion) due to disruption caused by COVID-19, particularly in the Vaccines business as well as reversal of stockpiling benefit of the first quarter. The top line missed the Zacks Consensus Estimate of \$9.6 billion.

Further, on a pro-forma basis, excluding the impact of the acquired Pfizer consumer healthcare business, sales declined 10% at CER.

All growth rates mentioned below are on a year-on-year basis and at CER.

Quarterly Highlights

Glaxo reports results under three segments: Pharmaceuticals, Vaccines and Consumer Healthcare.

Pharmaceuticals sales were down 5% at CER. Sales decline at Established Pharmaceuticals segment was partially offset by higher sales in respiratory segment.

Customer stock building in the first quarter due to COVID-19 that predominantly benefited Europe and the United States in the first quarter was broadly reversed and hurt second-quarter sales by approximately 4%. Moreover, sales were also hurt by reduction in new patient prescriptions in the United States and Europe, reduced market demand for allergy and antibiotic products in some international markets and pressure on net prices in the U.S. market.

Sales in the United States were down 1%. Sales in European markets were down 11% at CER and 7% in international markets.

HIV sales were down 3% year over year at CER due to reversal of customer stock building.

Sales of dolutegravir franchise were down 2%, while sales from remaining drugs, comprising 4% of HIV portfolio, declined 32% at CER.

Sales of the dolutegravir franchise were down 2% in the U.S. market and down 5% in Europe due to COVID-19 related destocking. In international markets, sales were up 4% at CER mainly driven by Tivicay.

The dolutegravir franchise comprises two three-drug regimens — Triumeq and Tivicay — and two two-drug regimens — Juluca and Dovato. The growth in sales of Juluca and Dovato in the second quarter was more than offset by the decline in sales of Triumeq and Tivicay due to COVID-19 related destocking. Tivicay sales declined 10% in the quarter while Triumeq sales declined 11%.

Juluca generated sales of £113 million compared with £120 million in the previous quarter. Dovato generated sales of £68 million compared with £66 million in the previous quarter.

In 2020, Glaxo expects HIV revenues to be broadly flat.

Respiratory sales now comprise only new respiratory drugs, namely Ellipta portfolio and Nucala with Advair and all other older respiratory products being moved to the Established Pharmaceuticals portfolio. Sales of respiratory drugs rose 16% at CER mainly driven by increase in sales of Trelegy Ellipta and Nucala across all markets.

Nucala sales were up 21% at CER during the quarter, aided by strong uptake of at-home administration. Sales of Nucala grew 26% and 6% in the United States and Europe, respectively. In the International markets, sales of Nucala increased 31%.

Sales of Ellipta products rose 14% in the quarter as sales rose in all regions. Trelegy Ellipta sales surged 58% year over year driven by strong growth in all regions.

Relvar/Breo Ellipta registered growth of 2% in sales during the quarter as higher sales in Europe and international markets offset the decline in United States. Sales of Relvar/Breo Ellipta declined 12% in the United States due to competitive and pricing pressure on the ICS/LABA class of medicines. The competitive pressure on the ICS/LABA class of medicines in the United States has intensified with the launch of generic Advair.

Sales of Relvar/Breo Ellipta increased 9% and 12% in European and international markets, respectively.

Immuno-inflammation drug Benlysta rose 15% in the quarter, with U.S. sales rising 14%. The subcutaneous formulation generated sales of £89 million in the quarter.

Oncology sales comprising sales of Zejula were £77 million compared with £81 million in the previous quarter. The sales included £47 million in the United States and £30 million in Europe.

Sales of Established Pharmaceuticals declined 17%. Sales of established respiratory drugs declined 12%, reflecting generic competition for Ventolin in the United States, impact of COVID-19-related destocking in Europe and contraction of allergy market in Japan.

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	-1.50%
EPS Surprise	-2.04%
Quarterly EPS	0.48
Annual EPS (TTM)	3.04

Advair sales surged 34% year over year in the United States, reflecting a spike in the ICS/LABA class during April and May. Seretide sales were down 13% and 6% in Europe and International markets, respectively, due to generic competition in Europe and COVID-19 related destocking. Sales of Ventolin were down 39% during the quarter.

The rest of the Established Pharmaceuticals portfolio declined 20% in the quarter due to lower demand for dermatology products and antibiotics during the pandemic and increased use of generics in China.

Glaxo's Pharmaceutical segment sales are expected to decline slightly in 2020, excluding divestments, as the growth of new products will be offset by a decline in Established Pharmaceuticals. Glaxo's Established Pharmaceuticals business is expected to decline in mid-to-high single-digit range in 2020.

Glaxo revised the category structure for this segment's report from the first quarter of 2020. It now reports under five categories — Pain relief; Oral health; Respiratory health; Vitamins, minerals and supplements; and Digestive health and other.

Sales in the Consumer Healthcare segment increased 25% at CER, primarily driven by Pfizer's legacy brands. On a pro-forma basis, sales in the Consumer Health segment declined 6% at CER.

The impact of COVID-19 was mixed for this segment. Sales in the United States and Europe were hurt due to destocking while sales in China returned to growth as government-mandated retailer shutdowns were lifted.

Sales of Pain relief and Respiratory health categories increased 38% and 8%, respectively, in the quarter. Sales of Vitamins, minerals and supplements category more than doubled in the second quarter. Digestive health and other category's sales were up 22%. However, sales of Oral health declined 1%.

Sales from the Vaccines segment were dismal, down 29% at CER, primarily driven by lower demand and slowing vaccination rates amid the COVID-19 related government restrictions and divestment of travel vaccines Rabipur and Encepur in 2019.

Geographically, sales declined 45% in the United States, 29% in Europe, and were flat in the international markets.

Shingrix sales declined 19% in the reported quarter, primarily impacted by COVID-19 related containment measures in the United States, which led to slower vaccination rates. In Europe, the company witnessed a strong performance in Germany due to pent-up demand in post-lockdown conditions.

In the meningitis portfolio, Bexsero and Menveo sales decreased 30% and 39%, respectively, reflecting lower demand across all regions following de-prioritization of vaccination during the COVID-19 pandemic.

Sales of influenza vaccine Fluarix were down 6%. Sales of Established vaccines were down 34% year over year.

The company said that the pediatric vaccination rates improved toward the end of the quarter once the government restrictions were lifted. However, the adolescent and adult vaccinations improved at a slower rate.

Glaxo expects vaccination rates to recover in the second half of the year although there is uncertainty about the exact timing.

The divestment of Rabipur and Encepur is expected to hurt sales by 3% in 2020.

Profit Discussion

Selling, general and administration (SG&A) costs increased almost 4% year over year to £2.53 billion. On a pro-forma basis, the costs declined 5% due to lower COVID-19 related promotional costs and restructuring cost savings. Research and development (R&D) expenses were up 11% (up 9% on pro-forma basis) to £1.1 billion, reflecting increased investments to support progress of clinical studies, especially oncology.

Adjusted operating profit declined 21% in the period to £1.75 billion. On a pro-forma basis, adjusted operating profit declined 27%. Adjusted operating margin declined 510 bps in the quarter at CER to 22.9%, due to lower sales, higher R&D costs, continued pricing pressure, mainly in the Respiratory unit and unfavorable mix in Vaccines and Consumer Healthcare

2020 Guidance

Based on its current assessment of the COVID-19 impact, Glaxo maintained its previous adjusted EPS guidance of a decline of 1% to 4% at CER year over year in 2020. However, the current situation remains uncertain due to the pandemic and the company plans to update its outlook later, if needed. The company mentioned that the outcome is primarily dependent on the timing of recovery of vaccination rates mainly in the United States. The company expects the vaccination rates to recover in the third quarter of 2020. The company said that a three-month delay in recovery of vaccination rates would adversely impact full year adjusted EPS by up to five percentage points.

In the Pharma and Consumer business, the company expects limited impact from COVID-19 related stocking patterns for the rest of the year.

Recent News

FDA Approves Trelegy Ellipta for Asthma – Sep 9

Glaxo announced that the FDA approved Glaxo's triple combination once-daily single inhaler Trelegy Ellipta as a maintenance treatment of asthma. With the approval for the asthma indication, Trelegy becomes the first single inhaler triple therapy approved for the maintenance treatment of both asthma and COPD. The approval was based on data from the CAPTAIN study.

Adjuvant Coronavirus Vaccine Enters Clinical Studies – Sep 3

Glaxo and Sanofi initiated a phase I/II clinical study on their COVID-19 vaccine candidate, which will enroll 440 healthy adult participants. Sanofi is combining its recombinant protein-based technology with Glaxo's pandemic adjuvant technology to develop an adjuvanted COVID-19 vaccine. Data from the pre-clinical studies showed promising safety and immunogenicity of the candidate.

Data from the phase I/II study are expected in December. If this data is positive, then the companies plan to start a phase III study in the same month and file for regulatory approval in the first half of 2021. The companies plan to produce 1 billion doses of the adjuvant vaccine in 2021.

COVID-19 Antibody Candidate, VIR-78 Enters Clinical Studies – Aug 31

Glaxo and partner Vir Biotech announced the initiation of a phase II/III study on their monoclonal antibody, VIR-7831 to prevent hospitalization due to COVID-19. The companies expect initial results from the study before the end of the year and expect the candidate to be approved as soon as the first half of 2021. The study is part of a collaboration agreement between Glaxo and Vir Biotechnology signed in April to develop antibody treatments for coronaviruses including SARS-CoV-2.

Data from Phase IIa Study on Hepatitis B Candidate – August 28

Glaxo presented data from a phase IIa study evaluating pipeline candidate, GSK3228836, to suppress hepatitis B virus after four weeks of treatment. The data showed that GSK'836, using pioneering antisense technology, led to marked reductions in hepatitis B surface antigen (HBsAg) and hepatitis B virus DNA compared with placebo. A phase IIb study is expected to begin by end of 2020.

Blenrep/belantamab mafodotin Gets Approved in EU - August 26

Glaxo announced that the European Commission granted a conditional marketing authorization to its anti-BCMA therapy, belantamab mafodotin for the treatment of relapsed/refractory multiple myeloma in patients who have been previously treated with an immunomodulatory agent, a proteasome inhibitor and an anti-CD38 antibody. The new drug, to be marketed by the trade name of Blenrep, was approved by the FDA earlier this month.

Begins Dosing in 5-in-1 Meningitis Vaccine Phase III Study – August 19

Glaxo announced that it has begun patient dosing in a phase III study on its 5-in-1 meningitis (MenABCWY) vaccine candidate. The study will compare the safety, tolerability and immunogenicity of Glaxo's candidate to its own meningococcal vaccines, Bexsero and Menveo. The study investigators will enroll 3,650 participants (aged 10-25 years) in the U.S., Europe, Turkey and Australia. The 5-in-1 meningitis vaccine candidate has the potential to reduce the number of injections compared to current FDA-approved meningitis vaccines as it has been designed to protect against all 5 vaccine-preventable serogroups with one combined product.

Valuation

Glaxo's shares are down 16.8% in the year-to-date period and 3.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 0.2% and 1.9%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 13.2% and 6.2%, respectively.

The S&P 500 Index is up 3.8% in the year-to-date period and 12.0% in the past year.

The stock is currently trading at 12.72X forward 12-month earnings per share, which compares to 14.58X for the Zacks sub-industry, 21.36X for the Zacks sector and 22.14X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 17.78X and as low as 10.67X, with a 5-year median of 14.16X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$41.00 price target reflects 13.3X forward 12-month earnings per share.

The table below shows summary valuation data for GSK

Valuation Multiples - GSK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.72	14.58	21.36	22.14
	5-Year High	17.78	16.62	23.19	23.44
	5-Year Low	10.67	13.61	15.89	15.26
	5-Year Median	14.16	15.3	19.01	17.63
P/S F12M	Current	2.17	4.66	2.75	4.08
	5-Year High	2.92	4.85	3.25	4.29
	5-Year Low	1.76	3.88	2.23	3.11
	5-Year Median	2.48	4.41	2.89	3.66
P/B TTM	Current	3.92	5.35	3.82	5.75
	5-Year High	27.59	7.37	5.07	6.17
	5-Year Low	3.39	3.69	2.95	3.75
	5-Year Median	16.81	5.27	4.29	4.84

As of 9/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
AstraZeneca PLC (AZN)	Neutral	3
Bristol Myers Squibb Company (BMY)	Neutral	3
Gilead Sciences, Inc. (GILD)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
MerckCo., Inc. (MRK)	Neutral	3
Novartis AG (NVS)	Neutral	3
Pfizer Inc. (PFE)	Neutral	3
Roche Holding AG (RHHBY)	Neutral	3

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

Industry Comparison Industry: Large Cap Pharmaceuticals				Industry Peers		
	GSK	X Industry	S&P 500	JNJ	PFE	RHHBY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	B	A
Market Cap	98.03 B	149.74 B	23.63 B	390.58 B	205.66 B	309.48 B
# of Analysts	4	2.5	13	9	4	4
Dividend Yield	4.95%	2.25%	1.61%	2.72%	4.11%	1.59%
Value Score	A	-	-	B	B	C
Cash/Price	0.11	0.05	0.07	0.05	0.11	0.04
EV/EBITDA	9.86	14.68	13.23	16.08	9.85	14.08
PEG F1	1.83	2.06	2.98	3.29	2.98	2.84
P/B	3.92	5.06	3.24	6.20	3.18	8.57
P/CF	9.02	11.99	12.74	12.88	9.01	14.14
P/E F1	12.90	14.89	21.70	18.90	12.80	17.02
P/S TTM	2.22	4.27	2.48	4.85	4.18	NA
Earnings Yield	7.75%	6.72%	4.46%	5.29%	7.81%	5.86%
Debt/Equity	1.28	0.78	0.70	0.40	0.78	0.35
Cash Flow (\$/share)	4.33	4.22	6.93	11.52	4.11	3.20
Growth Score	C	-	-	C	D	A
Historical EPS Growth (3-5 Years)	7.30%	7.34%	10.41%	8.66%	7.38%	NA
Projected EPS Growth (F1/F0)	-4.42%	7.51%	-4.75%	-9.55%	-1.95%	4.53%
Current Cash Flow Growth	4.83%	2.90%	5.26%	3.68%	-6.57%	11.61%
Historical Cash Flow Growth (3-5 Years)	1.08%	7.37%	8.49%	7.62%	2.54%	9.89%
Current Ratio	0.96	1.16	1.35	1.25	1.42	1.30
Debt/Capital	56.09%	43.76%	42.95%	28.47%	43.90%	26.10%
Net Margin	19.03%	19.20%	10.25%	22.69%	28.80%	NA
Return on Equity	31.21%	31.21%	14.59%	35.21%	25.11%	NA
Sales/Assets	0.42	0.43	0.50	0.51	0.29	NA
Projected Sales Growth (F1/F0)	3.65%	5.05%	-1.43%	-1.46%	-10.17%	8.33%
Momentum Score	A	-	-	B	B	C
Daily Price Change	-0.08%	0.24%	1.47%	0.39%	2.61%	-0.11%
1-Week Price Change	1.66%	0.74%	-1.87%	-0.55%	-0.80%	3.33%
4-Week Price Change	-4.98%	-2.50%	-0.20%	-0.43%	-3.49%	4.27%
12-Week Price Change	-5.19%	-1.72%	6.74%	3.46%	11.78%	0.67%
52-Week Price Change	-3.74%	9.52%	0.79%	14.52%	0.49%	31.21%
20-Day Average Volume (Shares)	2,367,796	1,951,072	1,845,187	5,880,597	23,334,908	868,158
EPS F1 Estimate 1-Week Change	0.33%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.51%	0.00%	0.00%	0.00%	0.00%	-1.03%
EPS F1 Estimate 12-Week Change	4.48%	1.82%	4.00%	2.29%	0.43%	2.12%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	NA

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	C
Momentum Score	A
VGM Score	A

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

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.