

Hologic, Inc.(HOLX)

\$65.55 (As of 04/30/21)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/30/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

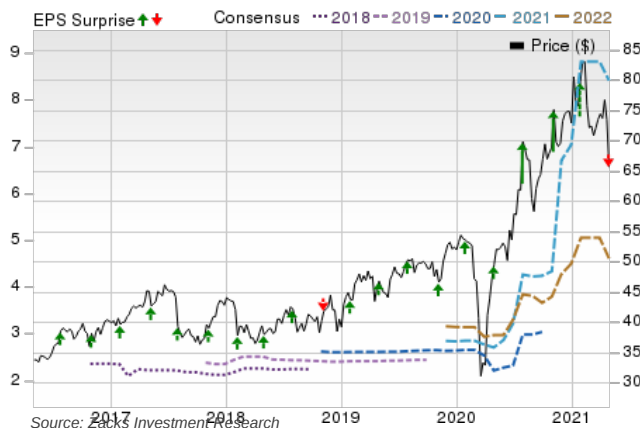
Growth: A

Momentum: B

Summary

Hologic exited fiscal 2021 second quarter with lower-than-expected results. Rise in the company's organic revenues and growth in Diagnostic revenues, led by Molecular Diagnostics arm, buoy optimism. Continued strength in the Breast Health and GYN Surgical arms also look encouraging. Strength in Hologic's COVID-19-related products and ongoing recovery in other segments have enabled it to provide fiscal third-quarter outlook, instilling investor confidence. Recently-completed buyouts also bode well. Expansion of both margins also augers well. Over the past year, Hologic has outperformed its sector. Soft global revenues in the Skeletal Health arm are worrying. Uncertainty in Hologic's future sales of COVID-19 tests also raises our apprehension. Other issues like forex woes and tough competition persist. A weak solvency is also deterring.

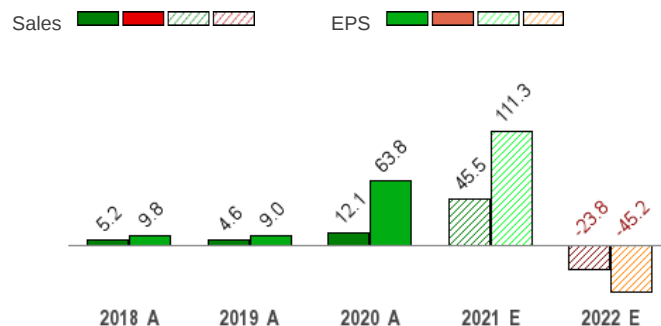
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$85.00 - \$48.95
20-Day Average Volume (Shares)	2,233,839
Market Cap	\$17.0 B
Year-To-Date Price Change	-9.1%
Beta	1.23
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 26% (186 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.2%
Last Sales Surprise	-0.4%
EPS F1 Estimate 4-Week Change	1.2%
Expected Report Date	NA
Earnings ESP	-14.9%
P/E TTM	7.9
P/E F1	7.8
PEG F1	0.5
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,102 E	992 E	947 E	948 E	4,186 E
2021	1,610 A	1,538 A	1,102 E	1,096 E	5,495 E
2020	851 A	756 A	823 A	1,347 A	3,776 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.41 E	\$1.21 E	\$1.12 E	\$1.11 E	\$4.61 E
2021	\$2.86 A	\$2.59 A	\$1.44 E	\$1.41 E	\$8.41 E
2020	\$0.61 A	\$0.57 A	\$0.75 A	\$2.07 A	\$3.98 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/30/2021. The report's text and the analyst-provided price target are as of 05/03/2021.

Overview

Headquartered in Bedford, MA, Hologic Inc. develops, manufactures, and supplies diagnostics, medical imaging systems and surgical products which cater to the healthcare needs of women.

Hologic operates through the following four segments:

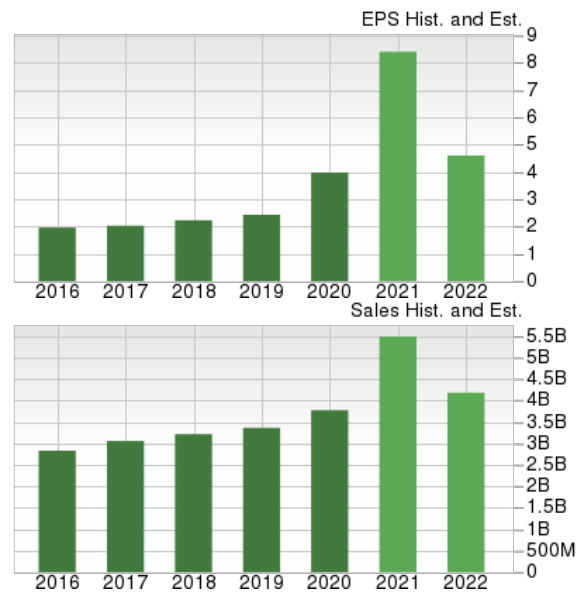
Diagnostics (54.9% of total revenues in FY20): With the Gen-Probe acquisition, Hologic currently offers APTIMA family of assays that includes the APTIMA Combo 2 assay, which feature the APTIMA CT and APTIMA GC assays, the APTIMA HPV assay and the APTIMA Trichomonas assay. Other products include the ThinPrep system, primarily used in cytology applications. In the fourth quarter of fiscal 2019, this segment registered 6.2% growth year-over year.

Breast Health (17.8% of total revenues in FY20): Products include a broad portfolio of breast imaging and related products and accessories, including digital and film-based mammography systems, computer-aided detection (CAD), breast biopsy guidance systems, minimally invasive breast biopsy and tissue extraction devices and breast brachytherapy products. In the fourth quarter of fiscal 2019, this segment registered 6.3% growth year-over year.

GYN Surgical (9.9% of total revenues in FY20): Products include the NovaSure endometrial ablation system – used in the treatment of heavy menstrual bleeding and the MyoSure hysteroscopic tissue removal system – which allows incision less removal of fibroids and polyps within the uterus. In the fourth quarter of fiscal 2019, this segment registered 6.6% growth year over year.

Medical Aesthetics (1.3% of total revenues in FY20): Hologic completed the divestiture of its Cynosure Medical Aesthetics business on Dec 30, 2019.

Skeletal Health (1.5% of total revenues in FY20): This segment includes dual-energy X-ray bone densitometry systems, an ultrasound-based osteoporosis assessment product, and Fluoroscans mini-C arm imaging products.



Reasons To Buy:

▲ **Share Price Movement:** For the past year, Hologic has been outperforming its sector. The stock has gained 31.3% compared with the 7% rise of its sector. Hologic's robust bottom- and top-line growth in fiscal 2021 second quarter amid pandemic-led business disruptions is encouraging. Rise in organic revenues is impressive as well. Growth in Diagnostic revenues, led by a stupendous improvement in the company's Molecular Diagnostics revenues, buoys optimism. Continued strength in the company's Breast Health and GYN Surgical arms also look encouraging.

Robust demand for the company's COVID-19-related products and ongoing recovery in other segments have enabled the company to provide fiscal third-quarter guidance, which instills confidence in investors. Recently-completed buyouts of Diagenode, Biotheranostics and SOMATEX Medical Technologies GmbH bode well for the company. Expansion of both margins bode well for the stock.

Hologic's progress in the domestic and international markets, strong pipeline of products and continued solid performance of the Molecular Diagnostics segment bolster our confidence.

▲ **Molecular Diagnostics Sees Growth on Coronavirus Tests:** Hologic's management is impressed with continued growth in the core molecular diagnostics sub-segment, which accounted for 87.9% of total Diagnostics revenues in the fiscal second quarter. Global revenues for molecular diagnostics increased 378.4% at constant exchange rate or CER. This was driven by strong global demand for the two SARS-CoV-2 assays (primarily the Aptima SARS-CoV-2 assay and to a lesser extent, the Panther Fusion SARS-CoV-2 assay) that run on the fully-automated Panther and Panther Fusion systems.

The company's impending Mobidiag Oy (a privately-held commercial-stage Finnish-French developer of innovative molecular diagnostic tests and instrumentation) acquisition is expected to strengthen Hologic's international and diagnostics businesses by enabling it to expand into the large and fast-growing acute care adjacency.

Hologic, in March, acquired a privately-held European developer and manufacturer of molecular diagnostic assays and epigenetics products — Diagenode. This buyout is expected to enable Hologic to offer a broader and more differentiated test menu.

In February, Hologic entered into a multi-year strategic collaboration with Google Cloud that will integrate Google Cloud's machine learning technologies with Hologic's Genius Digital Diagnostics System to transform screening and enhance the treatment of cervical cancer worldwide.

In November 2020, the FDA approved certain diagnostic claim for Hologic's HIV-1 (human immunodeficiency virus type 1) viral load monitoring assay — the Aptima HIV-1 Quant Dx assay. Further, Hologic's new Genius Digital Diagnostics System received CE Mark in Europe, the same month.

▲ **Strength in Breast Health:** Hologic has been making impressive progress in its Breast Health arm over the past few months. The company, during its fiscal second-quarter earnings call in April, confirmed that it is currently focusing on expanding its strategy to diversify its business across the patient continuum of care. It has also launched new software products based on its investments in artificial intelligence, and has strengthened its interventional franchise via the Brevera relaunch.

The company, in February, completed the previously announced buyout of Biotheranostics. This acquisition will enable it to foray into the large and fast-growing oncology adjacency.

The company launched SuperSonic MACH 20 ultrasound system in January 2021, thus expanding its ultrasound portfolio. The same month, Hologic announced the availability of 3D ultrasound imaging on the SuperSonic MACH 30 and 20 ultrasound systems in Europe.

A notable buyout that Hologic completed in December 2020 is that of SOMATEX Medical Technologies GmbH, a well-known name in the biopsy site markers and localization technologies space.

In December 2020, Hologic announced that 3D ultrasound imaging will be available on the SuperSonic MACH 40 ultrasound system. The same month, the company announced the commercial availability of its Genius AI Detection technology post its FDA approval.

▲ **Strength in GYN Surgical:** Over the past two years, the GYN Surgical business has transformed to the most profitable division of Hologic on a percentage basis banking on new leadership, strong strategic execution of new commercial models and new product launches.

Following an encouraging first-quarter fiscal 2021 performance, the segment recorded 6.6% growth at CER in the fiscal 2021 second quarter. Hologic has gaining significantly from its newly launched products like its latest CE-marked Fluent fluid management system (launched in Europe in January), new hysteroscopes and Acesa's laparoscopic radio frequency ablation system, ProVu, which are complementing its MyoSure and NovaSure devices.

The segment was also driven by strengthening of elective procedure volumes throughout the fiscal second quarter, following a challenging January when reduced procedures in U.S. regions were hit hard by the pandemic.

The company, in November 2020, launched the Omni Suite, which is a comprehensive surgical offering designed to optimize diagnostic and operative hysteroscopy.

▲ **Growth Initiatives:** In order to streamline its operations and reduce cost of revenue, Hologic has been adopting a few significant strategies over the past few years. The company has invested deliberately and opportunistically in commercial areas where management has recognized a good return. These include Hologic's Genius marketing campaign in Breast Health, cervical cancer co-testing initiatives in Diagnostics, along with efforts to gain competitive market share with NovaSure. Per management, these strategic initiatives are already

paying off through increased brand awareness, market share gains, and price stability, all of which will contribute to the company's higher sales.

Moreover, to strengthen its product pipeline, Hologic is working on innovations and product launches. In this regard we note that, the company has launched a cadence of products which are 3DQuorum Imaging Technology, powered by Genius AI in the United States and LOCalizer radiofrequency identification (RFID) tag for long-term placement in Europe. U.S. regulatory clearances, which include the Unifi Workspace reading solution and 3DQuorum AI imaging technology in Breast Health, and the Definity cervical dilator in GYN Surgical, are encouraging.

▲ **Focus on International Operations:** According to Hologic, global expansion will be a critical element of its growth strategy over the long term. While many of the company's best-in-class products command a leading share in the domestic market, they hold a disproportionately low market share internationally, indicating huge untapped potential.

The company's international sales have been a major catalyst over the past three years, with the major driver being the molecular diagnostics business. During the second quarter of fiscal 2021, international revenues for the Diagnostics segment rose 311.2% at CER, with Molecular Diagnostics being the primary driver. Hologic is increasingly focusing on commercial infrastructure. The company has been progressing impressively with respect to placement of Panther instruments across the globe.

Global growth in Molecular Diagnostics was primarily driven by increasing market share and utilization of the fully automated Panther system.

The overall promising international performance reflects the tremendous progress Hologic -has made in building a sustainable growth engine through both organic and inorganic means, including some major acquisitions.

Reasons To Sell:

▼ **Foreign Exchange Headwinds:** We remain worried about the significant challenges Hologic faced owing to unfavorable foreign currency impact that has been adversely affecting the company's overall performance in the past few quarters.

▼ **COVID-19 Revenue Uncertainty:** Hologic is one of the key players working to produce or have produced tests for COVID-19. This may lead to the diversion of customers, including governmental and quasi-governmental entities, away from Hologic and toward other companies. Since the pandemic is bound to subside over time, the testing demand is also likely to significantly decline as well. This might significantly pull down the company's revenues.

▼ **Competitive Landscape:** Hologic operates in a highly competitive industry. Its mammography, related products and subsystems compete on a worldwide basis with products offered by a number of competitors, including General Electric Company (GE), Siemens, Koninklijke Philips NV, or Philips, Planmed Oy, or Planmed, Agfa-Gevaert N.V., or Agfa, Carestream Health, Inc., FUJIFILM Holdings Corporation, or Fuji, I.M.S., and Toshiba Corporation. In the U.S., GE received FDA approval in Sep 2014 for its 3D breast tomosynthesis system and Siemens received FDA approval for its tomosynthesis system in April 2015 which have put additional competitive pressure on Hologic. Moreover, large players such as Fuji and Siemens are developing 3D tomosynthesis systems targeting the U.S. market.

Moreover, primary competitors for the biopsy product line are Devicor Medical Products and part of Danaher Corporation's Leica Biosystems division. In the clinical market, Hologic witnesses competition from several companies including Abbott Laboratories, Siemens, Becton, Dickinson, Qiagen, CareFusion, Sanarus Technologies and Intact Medical Corporation and Roche Diagnostics, among others. Moreover, the FDA has re-classified FFDM devices to class II from class III, thereby making it easier for all medical devices companies to bring in similar products in the market.

Subsequently, the approval process for class II devices will require 510(k) clearance, rather than the lengthy PMA application. Though this move by the FDA will enable easier approval in the U.S., we note that it will further intensify competition among medical device companies.

▼ **Weak Solvency and Capital Structure:** Hologic exited the fiscal 2021 second quarter with cash and cash equivalents of \$816 million compared with \$869 million at the end of the first quarter of fiscal 2021. Meanwhile, total debt came up to \$2.77 billion for the period, compared with \$2.78 billion in the sequentially last reported quarter. This figure is much higher than the quarter-end cash and cash equivalent level. However, if we go by the company's current-year debt level of \$75 million, it is lower compared to the cash in hand. This is good news in terms of the company's solvency position as during the year of economic downturn, the company is holding sufficient cash for short-term debt repayment.

The quarter's total debt-to-capital ratio of 0.42 shows a decrease from 0.46 reported at the end of the first quarter of fiscal 2021. It reflects a high-leveraged balance sheet. The overall data shows a discouraging solvency level for Hologic.

The times interest earned for the company stands at 24.6%, representing an increase from 16.5% at the end of the first quarter of fiscal 2021.

Hologic continues to face tough competition, particularly in the tomosynthesis market. Revenue uncertainty from COVID-19-related test sales and forex woes ail the company.

Last Earnings Report

Hologic Q2 Earnings Miss Estimates, Margins Rise

Hologic reported second-quarter fiscal 2021 adjusted earnings per share of \$2.59, up 354.4% year over year. However, the bottom line lagged the Zacks Consensus Estimate by 1.2%.

The adjustments include charges and benefits related to amortization of acquired intangible assets, MDR expenses, and restructuring and integration/consolidation costs, to name a few.

The company's GAAP earnings per share was \$2.38 in the quarter compared with the year-ago earnings per share of 36 cents, reflecting a stupendous 561.1% improvement.

Quarter Ending	03/2021
Report Date	Apr 28, 2021
Sales Surprise	-0.40%
EPS Surprise	-1.15%
Quarterly EPS	2.59
Annual EPS (TTM)	8.27

Revenues in Detail

Revenues grossed \$1.54 billion in the reported quarter, up 103.4% year over year (up 98.7% at CER). The metric again lagged the Zacks Consensus Estimate by 0.4%.

Organic revenues (excluding divested Blood business and buyouts of Acessa, Biotheranostics and Diagenode) of \$1.52 billion increased 104.7% year over year and 100% at CER.

U.S. revenues of \$1.06 billion rose 85.1%, whereas international revenues of \$473.6 million improved 161.4% year over year or 142.2% at CER.

Organically, revenues in the United States rose 86.8% year over year to \$1.05 billion in the quarter. International revenues were up 159.9% year over year (up 140.7% at CER) to \$470.9 million.

Segments in Detail

Revenues at the Diagnostics segment rose 233.4% year over year (up 225.2% at CER) to \$1.06 billion in the quarter under review, with Molecular Diagnostics being the major driver. Molecular Diagnostics' revenues of \$935.3 million climbed 390.6% (up 378.4% at CER), continuing the division's strong performance. However, Blood Screening revenues of \$12 million fell 21.3% year over year and at CER.

Revenues at the Breast Health segment improved 9.3% from the year-ago period (up 7.3% at CER) to \$336.3 million. This primarily resulted from a robust product portfolio and the strong demand for Brevera following its relaunch. Impressive performances by the segment's Breast Imaging and interventional businesses also drove the top line.

Domestic sales in this segment registered an improvement in the quarter, with 7.9% revenue uptick year over year. Further, outside the United States, Breast Health sales improved by 13.6% on a reported basis and 5.3% at CER.

Revenues at the GYN Surgical business rose 8.4% year over year (up 6.6% at CER) to \$114.2 million, while revenues at Skeletal Health fell 4.8% year over year (down 6.8% at CER) to \$22.6 million.

Operational Update

In fiscal second quarter, the company-reported adjusted gross margin expanded 1,400 basis points (bps) to 75%. According to the company, the benefits resulted from sales of SARS-CoV-2 tests.

Adjusted operating expenses amounted to \$277.7 million, up 24.8% year over year. The company-reported adjusted operating margin expanded 2,540 basis points to 56.9%.

Financial Update

Hologic ended fiscal second-quarter 2021 with cash and cash equivalents of \$816.4 million compared with \$868.7 million at the end of first-quarter fiscal 2021. Total long-term debt (including current portion) was \$2.75 billion at the end of the second quarter of fiscal 2021 compared with \$2.76 billion at the end of first quarter of fiscal 2021.

Cumulative net cash provided by operating activities at the end of second-quarter fiscal 2021 was \$1.20 billion compared with \$231.6 million a year ago.

Guidance

Hologic, boosted by the strength in its COVID-19 tests and the ongoing recovery of its other divisions, has provided the financial guidance for third-quarter fiscal 2021.

The company projects revenues within \$1 billion-\$1.07 billion (projection of 21.5-30 % growth rate). The growth rate is projected in the range of 17.9-26.4% at CER and within 15.1-23.6% organically. The Zacks Consensus Estimate for third-quarter fiscal 2021 revenues is pegged at \$1.31 billion.

The adjusted earnings per share is estimated within \$1.00-\$1.15, with projected growth of 33.3-53.3%. The Zacks Consensus Estimate for second-quarter fiscal 2021 earnings per share is pegged at \$1.81.

Recent News

Hologic to Buy Mobidiag, Boost Diagnostics Testing Arm: Apr 8, 2021

Hologic entered into a definitive agreement to acquire Finnish-French biotechnology company Mobidiag Oy to strengthen its diagnostics business and accelerate growth post-COVID.

Hologic Acquires Diagenode for \$159 Million: Mar 01, 2021

Hologic acquires Diagenode to further strengthen its international capabilities and expand diagnostic arm.

Hologic Completes Buyout of Biotheranostics: Feb 22, 2021

Hologic completed its previously announced acquisition of Biotheranostics to tap into the rapidly growing oncology market.

Valuation

Hologic shares are down 10% in the year-to-date period and up 31.3% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 0.6% while the Zacks Medical sector fell 0.7% in the year-to-date period. Over the past year, the Zacks sub-industry is up 30.1% and sector is up 7%.

The S&P 500 index is up 12.2% in the year-to-date period and up 49.8% in the past year.

The stock is currently trading at 10.6X Forward 12-months earnings, which compares to 37.7X for the Zacks sub-industry, 22.7X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.4X and as low as 9.6X, with a 5-year median 17.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$69 price target reflects 11.1X forward 12-months earnings.

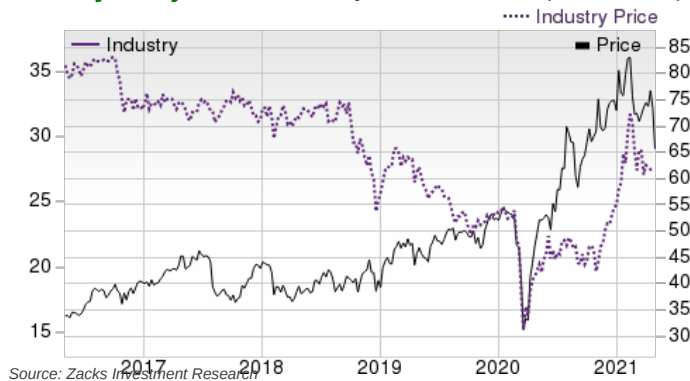
The table below shows summary valuation data for HOLX.

Valuation Multiples - HOLX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.63	37.67	22.74	22.39
	5-Year High	22.44	42.01	22.81	23.83
	5-Year Low	9.61	22.97	15.85	15.30
	5-Year Median	17.87	30.27	19.26	18.01
P/S F12M	Current	3.56	4.71	2.68	4.74
	5-Year High	5.07	4.76	3.16	4.74
	5-Year Low	2.36	2.56	2.27	3.21
	5-Year Median	3.71	3.51	2.78	3.71
P/B TTM	Current	4.43	4.71	3.92	7.06
	5-Year High	8.41	5.17	5.07	7.11
	5-Year Low	3.37	2.81	3.02	3.83
	5-Year Median	5.04	4.18	4.34	4.99

As of 04/30/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Abbott Laboratories (ABT)	Neutral	3
Edwards Lifesciences Corporation (EW)	Neutral	3
General Electric Company (GE)	Neutral	3
IDEXX Laboratories, Inc. (IDXX)	Neutral	4
Intuitive Surgical, Inc. (ISRG)	Neutral	3
SONOVA HOLDING (SONVY)	Neutral	3
STERIS plc (STE)	Neutral	3
Teleflex Incorporated (TFX)	Neutral	3

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	HOLX	X Industry	S&P 500	ABT	EW	ISRG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	B	C	B
Market Cap	16.97 B	377.06 M	30.59 B	214.37 B	59.84 B	102.22 B
# of Analysts	7	2	12	10	12	8
Dividend Yield	0.00%	0.00%	1.28%	1.49%	0.00%	0.00%
Value Score	A	-	-	B	D	D
Cash/Price	0.05	0.09	0.05	0.03	0.02	0.04
EV/EBITDA	12.59	-5.58	17.18	25.53	56.85	65.09
PEG F1	0.45	3.07	2.29	1.72	2.76	6.97
P/B	5.22	5.73	4.21	6.50	12.85	10.03
P/CF	12.00	29.08	17.57	21.71	46.83	75.06
P/E F1	7.87	43.93	22.11	23.80	43.34	65.36
P/S TTM	3.19	6.92	3.45	5.74	13.37	22.46
Earnings Yield	12.70%	-1.14%	4.42%	4.17%	2.29%	1.53%
Debt/Equity	0.83	0.06	0.66	0.56	0.13	0.00
Cash Flow (\$/share)	5.52	-0.13	6.78	5.57	2.06	11.50
Growth Score	A	-	-	A	B	B
Historical EPS Growth (3-5 Years)	15.90%	9.36%	9.70%	12.85%	18.45%	11.58%
Projected EPS Growth (F1/F0)	111.27%	32.23%	17.90%	38.25%	18.51%	30.26%
Current Cash Flow Growth	27.33%	-0.49%	0.72%	11.96%	0.70%	-3.68%
Historical Cash Flow Growth (3-5 Years)	7.92%	5.52%	7.37%	15.87%	17.55%	12.92%
Current Ratio	2.46	3.16	1.38	1.72	3.84	6.71
Debt/Capital	45.29%	7.11%	41.51%	35.95%	11.33%	0.00%
Net Margin	35.86%	-25.46%	11.34%	15.33%	19.02%	25.78%
Return on Equity	78.74%	-23.26%	15.46%	24.40%	27.63%	12.35%
Sales/Assets	0.74	0.48	0.50	0.53	0.65	0.42
Projected Sales Growth (F1/F0)	52.60%	14.99%	8.16%	20.94%	18.11%	21.39%
Momentum Score	B	-	-	C	B	A
Daily Price Change	-1.03%	-0.55%	-0.77%	-0.77%	-0.77%	0.21%
1-Week Price Change	-4.30%	1.10%	0.47%	-0.84%	9.47%	7.75%
4-Week Price Change	-10.91%	0.00%	4.28%	1.74%	14.81%	15.47%
12-Week Price Change	-20.89%	-3.75%	13.31%	1.06%	12.68%	14.02%
52-Week Price Change	32.20%	47.59%	51.32%	31.40%	32.77%	68.97%
20-Day Average Volume (Shares)	2,233,839	201,472	1,724,478	4,889,489	2,886,675	573,611
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	5.02%
EPS F1 Estimate 4-Week Change	1.23%	0.00%	0.41%	-0.44%	3.61%	15.55%
EPS F1 Estimate 12-Week Change	1.23%	-0.65%	2.24%	-0.44%	3.61%	15.55%
EPS Q1 Estimate Monthly Change	-38.28%	0.00%	0.33%	-6.23%	6.89%	18.58%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

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

Value Score	A
Growth Score	A
Momentum Score	B
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.