

Henry Schein, Inc. (HSIC)

\$77.30 (As of 06/07/21)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/07/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

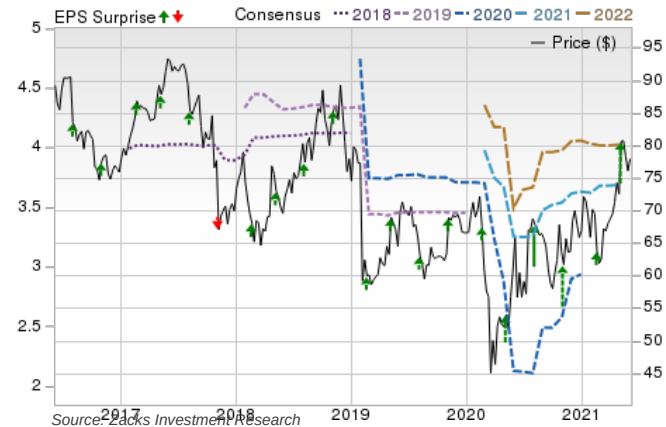
Growth: B

Momentum: C

Summary

Henry Schein exited first-quarter 2021 with better-than-expected results. All three operating arms performed impressively along with robust international results. Strong demand for PPE and COVID-19-related products, along with solid sales rebound, were seen. Strength in the Henry Schein One portfolio augurs well. Operating margin expansion bodes well. Widespread network and channel mix, and favorable long-term trends in the dental business, also look encouraging. A strong solvency position is a plus. Over the past six months, Henry Schein has outperformed its industry. Yet, continued pandemic-led challenges in end markets in most geographies is worrying. Gross margin contraction is deterring. The company's inability to provide a detailed financial outlook raises apprehension. Growing importance of GPOs and tough competition are other issues.

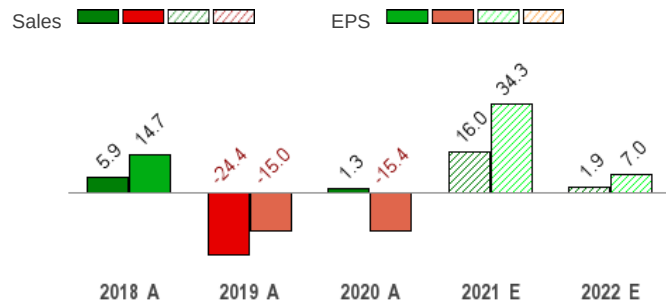
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$83.45 - \$54.25
20-Day Average Volume (Shares)	865,208
Market Cap	\$10.9 B
Year-To-Date Price Change	15.6%
Beta	0.89
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 43% (107 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	49.4%
Last Sales Surprise	3.6%
EPS F1 Estimate 4-Week Change	1.3%
Expected Report Date	08/03/2021
Earnings ESP	7.0%
P/E TTM	23.6
P/E F1	19.4
PEG F1	3.0
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,961 E	2,966 E	2,988 E	3,209 E	11,957 E
2021	2,925 A	2,893 E	2,896 E	3,095 E	11,733 E
2020	2,429 A	1,684 A	2,840 A	3,166 A	10,119 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.07 E	\$1.04 E	\$1.03 E	\$1.19 E	\$4.27 E
2021	\$1.24 A	\$0.93 E	\$0.89 E	\$0.99 E	\$3.99 E
2020	\$0.94 A	\$0.00 A	\$1.03 A	\$1.00 A	\$2.97 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

Overview

Melville, NY-headquartered Henry Schein Inc. is a leading distributor of health care products and services across the globe. The company serves office-based dental, medical and animal health practitioners, dental laboratories, government as well as institutional health care clinics and other alternate-care sites. Presently, Henry Schein operates in 33 countries.

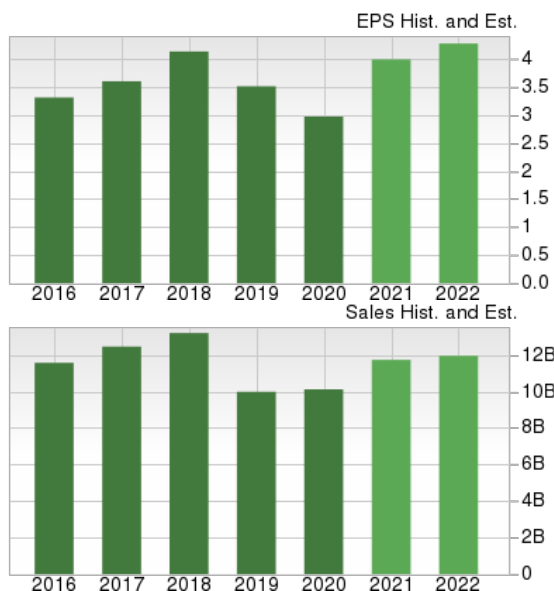
The company currently offers a comprehensive selection of more than 120,000 branded products and Henry Schein private brand products in stock, as well as more than 180,000 additional products available as special-order items. Additionally, Henry Schein offers other value-added services such as practice management software, e-commerce solutions and an array of financial services.

Henry Schein's 3 businesses – Dental (comprising 58.4% of total revenue in 2020; down 7.8% from 2019), Medical (35.7%; up 21.6%) and Technology and Value-Added Services (5.1%; down 0.2%) serve millions of customers worldwide. The company also reports Corporate TSA revenues (0.7%, down 7.4%), which represent sales of certain products to Covetrus under the transition services agreement entered into in connection with the Animal Health spin-off (ended in December 2020).

Henry Schein has completed the spinoff of its global Animal Health business in February 2019.

The global dental group serves office-based dental practitioners, dental laboratories, schools and other institutions. The global medical group serves office-based medical practitioners, ambulatory surgery centers, other alternate-care settings and other institutions.

The global technology and value-added services group provides software, technology and other value-added services to health care practitioners. The technology group offerings include practice management software systems for dental and medical practitioners.



Reasons To Buy:

- ▲ **Share Price Performance:** Over the past six months, Henry Schein has outperformed the industry. The stock was up 9.7% compared with the industry's 8.0% rise. Henry Schein exited the first quarter of 2021 with better-than-expected results despite adversities posed by the coronavirus outbreak. The company saw robust performances by all three of its operating businesses. The company's international performance was also impressive. It witnessed strong demand for personal protective equipment (PPE) and COVID-19-related products, along with a strong rebound in sales. Strength in the company's Henry Schein One portfolio also looks impressive. Expansion of the operating margin bodes well for the stock.

Widespread network and channel mix, along with favorable long term trends in the dental business, also looks encouraging. A strong solvency position is a plus.

- ▲ **Widespread Network and Channel Mix:** Henry Schein's distribution business boasts a wide global footprint with 61 distribution centers.

Apart from North America and Europe, the company has presence in Australia and New Zealand as well as in emerging nations like China, Brazil, Israel, Czech Republic and Poland. We believe Henry Schein's worldwide reach is a major competitive advantage over other players in the healthcare distribution industry.

Henry Schein registered improved patient traffic in the first quarter despite few countries entering into more stringent lockdown rules, with continued overall recovery. The company's global dental consumable merchandise internal sales saw an uptick in the first quarter (13.2%) with solid dental consumable merchandise sales growth in the United States, Canada, Australia, New Zealand, Brazil, Asia and throughout most of Europe. In Europe, the growth was led by strength in France, the Netherlands, Belgium and Italy. International dental sales growth in local currencies was 17.9%, which included a 19.2% growth in dental consumable merchandise. Further, international dental equipment internal sales growth in local currencies was 12.9%, which was driven by strength in France, Italy, Austria, Australia, New Zealand, the Netherlands and Brazil.

Henry Schein also registered strong internal sales growth in local currencies in traditional equipment and high-tech equipment in the international market.

- ▲ **Market Dynamics:** Henry Schein stands to gain from several favorable trends in the end markets. One of the major positives is demographics. The increasing number of lives covered, following the healthcare reforms in the United States, is likely to benefit Henry Schein. We believe that an aging population and increasing healthcare expenditure across the globe will aid in providing additional top-line opportunities. Further, the company's medical segment continues to grow as it gains traction in large group practices including those within health systems.

Moreover, in the dental industry, a rise in oral health care expenditures is predicted as population ageing 45 years and above segment of the population increases. Moreover, Henry Schein is upbeat about the expected increase in dental insurance coverage along with lower insurance reimbursement rates leading to a rising need for new technologies. We believe this will boost demand for Henry Schein's products and services as well.

- ▲ **Dental Business Trends Favorable for the Long Term:** Henry Schein's strategy to expand digital dentistry globally is encouraging. Henry Schein is busy promoting digital workflows for general dentistry as well as dental specialties. The company is currently focusing on offering a diversified portfolio and value-added services along with favorable end market.

Per a report by The Business Research Company, the global dental services market was valued at approximately \$436.2 billion in 2018, seeing a CAGR of 7.4% since 2014. The market is expected to reach approximately \$629.3 billion by 2022, witnessing a CAGR of 9.6%.

- ▲ **Henry Schein One Holds Potential:** Henry Schein seems to be upbeat about its dental technology joint venture (JV) Henry Schein One. Despite business disruptions in the fourth quarter due to the coronavirus outbreak, the Henry Schein One dental software business has been progressing well. Software sales had been witnessing gradual improvement over the past few months, in line with the resumption of dental practice operations.

Henry Schein One contributed to the company's Technology and Value-Added Service business during its first-quarter 2021. Further, the company confirmed introducing new products, enhancements (including new Dentrix imaging software), tools for processing insurance remittances and calculating payment adjustments, and an online booking feature for Sesame (primarily an orthodontic business software).

Other notable launches made by Henry Schein in the last-reported quarter include various product enhancements for Henry Schein One Solutions, like directory online booking (a self-scheduling solution for the WebMD directory).

Other notable offerings from the Henry Schein One portfolio include Patient Engagement Live (which provides dental practice teams with access to real-time patient notifications), Patient Engage mobile app (which enables practice functions on the go), and Dentrix Ascend Pay and Dentrix Enterprise Pay (which integrate point-of-service card processing solutions for faster check-in/ check-out processing after the procedure is completed). The Henry Schein One portfolio also includes Dentrix Ascend ERX, which is an integrated electronic prescribing solution that enables seamless electronically prescribing functionality with the Ascend practice management system.

- ▲ **Expansion Through Acquisitions and Partnerships:** Henry Schein's revenue growth has been consistently supported by niche acquisitions and partnerships. Its robust acquisition strategy helps it to pursue targets that provide access to additional product lines.

The company, in March, announced a new investment in Stradis Medical, which is expected to strengthen Henry Schein's foothold in the

Henry Schein is well positioned to gain from its extensive global foothold and diverse channel mix. Favorable market dynamics is a major growth catalyst going forward.

ambulatory surgery market.

In January 2021, Henry Schein's U.S. dental laboratory business, Zahn Dental, entered into a distribution agreement with Spain-based Terrats Medical, the manufacturer of the DESS Dental Smart Solutions (DESS) system. The same month, Henry Schein announced the acquisition of a majority ownership position in Prism Medical Products, which will enable Henry Schein's U.S. medical division to enter the multibillion-dollar market for home medical equipment and supplies.

Also in January 2021, Henry Schein completed its JV with Casa Schmidt, a comprehensive provider of dental solutions for dental professionals in Spain and Portugal. In December 2020, Henry Schein Medical entered into a distribution agreement with Yosi Health (a provider of digital patient scheduling, registration, payment and communication cloud-based software solutions).

Henry Schein's other achievements include its exclusive distribution agreement with Carrizo Dental to distribute the company's Henry Schein-brand product portfolio to dental professionals throughout Argentina (October 2020). The same month, Henry Schein completed its agreement with The Dentists Supply Company (TDSC) to form a new entity to better serve state dental association members with an online-only option for purchasing dental supplies.

▲ **Strong Solvency With Slight Leverage:** Henry Schein exited the first quarter of 2021 with cash and cash equivalents of \$145 million compared with \$421 million at the end of 2020. Meanwhile, total debt came up to \$685 million for the period, a decrease from \$699 million at the end of 2020. This figure is much higher than the first quarter's cash and cash equivalent level. However, if we go by the company's current-year-payable debt level of \$179 million, this comes to a lower level when compared to the quarter-ended cash in hand. This is good news in terms of solvency position of the company. This implies that, during the year of economic downturn, the company is holding enough cash for debt repayment.

The quarter's total debt-to-capital ratio of 13.4% stands at a moderately lower level indicating a slightly leveraged balance sheet. It, however, represents a decrease from 13.6% at the end of 2020. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The times interest earned for the company in the reported quarter stands at 14.9%, representing an increase from 13.1% at the end of 2020.

Risks

- **Impact of Group Purchasing Organizations (GPOs):** The healthcare industry has been facing numerous headwinds such as measures to curb capital expenditure, volume headwind, pricing pressure and procedure deferrals among others. In light of these facts, some large integrated health care providers and GPOs have gained considerable purchasing power. The GPOs act as agents that negotiate vendor contracts on behalf of their members. Moreover, the ongoing economic climate bolstered the bargaining power of GPOs. The GPOs have also increased pricing pressure in the industry. This might be a drag on Henry Schein's business in the future.
- **Contagion of Economic Problems:** The current macroeconomic environment across the globe has adversely affected Henry Schein's financial operations. Governments and insurance companies continue to look for ways to contain the rising cost of healthcare. This might put pressure on players in the healthcare industry with Henry Schein being no exception.

Moreover, fluctuating currency rates also hamper growth of a multinational like Henry Schein, given that it derives a substantial amount of its revenues from international markets. The company's sales are thus directly affected by unfavorable macroeconomic conditions. We are concerned that such macroeconomic softness might hamper Henry Schein's growth.

- **Tough Competition:** The U.S. healthcare products and service distribution industry are highly competitive and consist principally of national, regional and local distributors. In the North American dental products market, the company faces stiff competition from Patterson Dental business of Patterson Companies Inc. and Benco Dental Supply.

The competition in the fast-growing animal health market is also fierce with Patterson Veterinary Supply under Patterson Companies and IDEXX Laboratories gaining traction. Henry Schein operates in a highly competitive medical product distribution market with larger players like McKesson Corp. Moreover, the presence of specialized players like Quality Systems, eClinicalWorks and athenahealth in the electronic medical records market puts Henry Schein in a tight spot. Moreover, competitive landscape in overseas market is also tough. The tussle for market share might be a drag on results.

Last Earnings Report

Henry Schein Q1 Earnings Top Estimates, '21 Earnings Per Share View Up

Henry Schein reported adjusted earnings per share of \$1.24 from continuing operations in the first quarter of 2021, reflecting an improvement of 31.9% from the year-ago earnings per share of 94 cents. Moreover, adjusted earnings per share surpassed the Zacks Consensus Estimate by 49.4%. The quarter's adjustments exclude the impact of certain restructuring charges, and settlement and litigation costs, among others.

GAAP earnings per share in the first quarter was \$1.16, up by 27.5% from the year-ago earnings per share of 91 cents.

The year-over-year earnings were primarily driven by a strong rebound in sales, along with strength in demand for PPE and COVID-19-related products.

Revenues in Detail

Henry Schein reported net sales of \$2.92 billion in the first quarter, up 20.4% year over year. The metric beat the Zacks Consensus Estimate by 3.6%.

The year-over-year uptick resulted from overall market recovery and included 14.9% internal growth in local currencies, 3.3% growth from acquisitions and 2.2% growth related to foreign currency exchange.

In the quarter under review, the company recorded sales of \$2.13 billion in the North American market, up 19.8% year over year. Sales totaled \$793.1 million in the international market, up 22.2% year over year.

Segment Analysis

Henry Schein derives revenues from three operating segments — Dental, Medical, and Technology and Value-added Services.

In the first quarter, the company derived \$1.79 billion of global Dental sales, up 21.3% year over year. In local currencies, the segment's revenues include internally generated sales growth of 13.7%, 4.2% growth from acquisitions and 3.4% growth related to foreign currency exchange. Further, the internal growth in local currencies of 13.7% included an increase of 10.9% in North America and an increase of 17.9% internationally.

North America's dental consumable merchandise's internal sales in local currencies rose 9.3% whereas dental equipment internal sales in local currencies surged 17.4%. Internationally, dental consumable merchandise internal sales and dental equipment internal sales, both in local currencies, improved 19.2% and 12.9%, respectively.

Global Medical revenues surged 24% year over year to \$993 million. The segment's revenues include 22.1% internal growth in local currencies, 1.6% growth from acquisitions and 0.3% growth related to foreign currency exchange.

The business registered continued strong demand for PPE and COVID-19-related products (especially for COVID-19 test sales) in the quarter under review.

Revenues from global Technology and Value-added Services inched up 8.4% to \$142.9 million. This included a rise of 3.6% in internal local currency sales, 3.4% growth from acquisitions and 1.4% growth related to foreign currency exchange.

The uptick in the company's Technology and Value-Added Services resulted from a strong Henry Schein One portfolio and strong financial services internal sales in local currencies (which was partly driven by higher sales of dental equipment).

Margin Trend

In the reported quarter, gross profit totaled \$890.9 million, reflecting a 19.4% uptick year over year. Despite that, gross margin contracted 26 basis points (bps) to 30.5%.

Selling, general and administrative expenses rose 15.9% to \$657.9 million in the quarter under review.

Overall adjusted operating profit was \$232.9 million, up 30.3% year over year. Adjusted operating margin expanded 61 bps year over year to 7.9%.

Financial Position

The company exited the first quarter of 2021 with cash and cash equivalents of \$144.5 million compared with \$421.2 million at the end of 2020. Long-term debt for the company at the end of the first quarter of 2021 was \$506.5 million compared with \$515.8 million at the end of 2020.

During the first quarter of 2021, the company repurchased shares of its common stock for a total of approximately \$88.7 million.

Net cash provided by operating activities from continuing operations at the end of the first quarter of 2021 was \$63.3 million compared with net cash provided by operating activities from continuing operations of \$78.8 million in the year-ago period.

2021 Guidance

Henry Schein has raised the guidance for 2021's adjusted earnings per share from continuing operations, which is now expected to be at or

Quarter Ending	03/2021
Report Date	May 04, 2021
Sales Surprise	3.55%
EPS Surprise	49.40%
Quarterly EPS	1.24
Annual EPS (TTM)	3.27

above \$3.70 (up from its earlier-provided expectations of the adjusted earnings per share being at or above 2019's comparable figure of \$3.51). The Zacks Consensus Estimate for the same is currently pegged at \$3.69.

Recent News

Henry Schein Partners with National Stockpile Unit for Pandemic Response: May 26, 2021

Henry Schein was awarded a national stockpile contract of \$53.4 million by the U.S. Department of Health and Human Services (HHS). The contract is focused on extending effective inventory management and extensive logistical support for PPE and COVID related products, crucial to front-line response, within the spectrum of U.S. health care.

Henry Schein Acquires Majority of Jarvis Analytics: May 25, 2021

Henry Schein One, a subsidiary of Henry Schein has acquired an 80% ownership position in Jarvis Analytics, a software company that develops comprehensive business analytics tools to help dental practitioners and their teams use data to diagnose problems, strengthen decision-making, and improve business performance.

New Dentrax Imaging Center Launched by Henry Schein: Apr 7, 2021

Henry Schein One, a subsidiary of Henry Schein, launched the Dentrax Imaging Center, an integrated imaging module that allows dental professionals to manage all images from within Dentrax versions G7.3 or higher.

Henry Schein Announces Majority Ownership Position in Stradis Medical: Mar 30, 2021

Henry Schein announced a majority ownership position in Stradis Medical, LLC (Stradis Healthcare), to strengthen its commitment to the ambulatory surgery market.

Valuation

Henry Schein shares are up 15.6% in the year-to-date period and up 26.4% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 6.9% while the Zacks Medical sector is down 1.6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 23.9% and sector is up 0.4%.

The S&P 500 index is up 13.3% in the year-to-date period and rose 34.1% in the past year.

The stock is currently trading at 18.9X Forward 12-months earnings, which compares to 18.7X for the Zacks sub-industry, 22.9X for the Zacks sector and 21.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26X and as low as 11.5X, with a 5-year median 18.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 20.4X forward 12-months earnings.

The table below shows summary valuation data for HSIC

Valuation Multiples - HSIC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18.90	18.74	22.93	21.84
	5-Year High	26.03	19.77	22.93	23.83
	5-Year Low	11.54	13.63	15.82	15.31
	5-Year Median	18.96	16.98	19.34	18.05
P/S F12M	Current	0.92	0.42	2.63	4.72
	5-Year High	1.26	0.43	3.17	4.74
	5-Year Low	0.60	0.23	2.27	3.21
	5-Year Median	0.94	0.29	2.78	3.72
P/B TTM	Current	2.72	5.68	4.35	7.03
	5-Year High	5.32	5.88	5.05	7.03
	5-Year Low	1.75	2.54	3.03	3.84
	5-Year Median	3.54	3.45	4.35	5.02

As of 06/07/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 43% (107 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
West Pharmaceutical Services, Inc. (WST)	Outperform	2
Align Technology, Inc. (ALGN)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	3
The Cooper Companies, Inc. (COO)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Patterson Companies, Inc. (PDCO)	Neutral	3
Straumann Holding AG (SAUHF)	Neutral	2
DENTSPLY SIRONA Inc. (XRAY)	Neutral	3

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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	HSIC	X Industry	S&P 500	LH	PDCO	XRAY
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	A	D	C
Market Cap	10.88 B	3.36 B	30.32 B	25.80 B	3.25 B	14.30 B
# of Analysts	9	5.5	12	9	8	9
Dividend Yield	0.00%	0.00%	1.29%	0.00%	3.09%	0.61%
Value Score	B	-	-	A	B	B
Cash/Price	0.01	0.06	0.06	0.07	0.05	0.02
EV/EBITDA	15.46	15.10	17.33	8.23	16.46	32.87
PEG F1	2.96	1.77	2.13	1.11	1.35	1.07
P/B	2.72	4.62	4.17	2.57	3.48	2.90
P/CF	18.07	17.35	17.93	7.49	3.53	16.09
P/E F1	19.37	23.03	21.52	11.74	15.89	23.03
P/S TTM	1.02	3.58	3.52	1.68	0.58	4.09
Earnings Yield	5.16%	3.21%	4.55%	8.52%	6.30%	4.33%
Debt/Equity	0.13	0.26	0.66	0.50	0.52	0.39
Cash Flow (\$/share)	4.28	2.67	6.83	35.24	9.54	4.07
Growth Score	B	-	-	A	F	C
Historical EPS Growth (3-5 Years)	-1.30%	7.78%	9.44%	19.33%	-10.52%	-8.81%
Projected EPS Growth (F1/F0)	34.34%	32.17%	21.30%	-6.02%	2.98%	58.91%
Current Cash Flow Growth	-13.79%	2.02%	0.98%	102.69%	327.70%	1.61%
Historical Cash Flow Growth (3-5 Years)	-1.55%	12.28%	7.28%	22.28%	27.55%	11.90%
Current Ratio	1.68	1.85	1.39	1.67	1.43	1.40
Debt/Capital	19.36%	19.36%	41.53%	33.39%	34.30%	28.06%
Net Margin	4.14%	1.53%	11.95%	17.26%	-8.54%	4.99%
Return on Equity	12.18%	12.94%	16.36%	34.07%	21.53%	9.45%
Sales/Assets	1.38	0.87	0.51	0.79	2.05	0.39
Projected Sales Growth (F1/F0)	15.95%	4.90%	9.30%	3.68%	4.49%	26.22%
Momentum Score	C	-	-	A	F	D
Daily Price Change	-0.77%	0.00%	-0.33%	-0.86%	-2.38%	-1.15%
1-Week Price Change	2.45%	0.00%	0.58%	-2.96%	5.87%	-0.96%
4-Week Price Change	-6.83%	-0.39%	0.12%	-4.70%	-5.55%	-5.21%
12-Week Price Change	13.31%	0.69%	6.91%	10.06%	3.89%	2.54%
52-Week Price Change	15.44%	32.70%	29.97%	44.74%	56.42%	28.04%
20-Day Average Volume (Shares)	865,208	351,534	1,799,698	719,299	727,110	1,302,692
EPS F1 Estimate 1-Week Change	0.72%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.28%	0.00%	0.01%	1.02%	0.00%	-0.07%
EPS F1 Estimate 12-Week Change	9.37%	2.46%	3.36%	5.36%	0.00%	5.33%
EPS Q1 Estimate Monthly Change	3.19%	0.00%	0.00%	0.88%	0.00%	0.69%

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	B
Growth Score	B
Momentum Score	C
VGM Score	B

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

Disclosures

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Glossary of Terms and Definitions

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

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

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

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

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

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.