

Henry Schein, Inc. (HSIC)

\$72.10 (As of 01/08/21)

Price Target (6-12 Months): **\$76.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Henry Schein's robust performances by all three of its operating segments in the third quarter of 2020 amid pandemic-led adversities is impressive. The company's international and North American results were also strong. Strong demand for PPE and COVID-19-related products, and a strong sales rebound drove the top line. Henry Schein's distribution agreements buoy optimism. Henry Schein's third quarter results were better-than-expected. Yet, contraction of both margins and its inability to provide any outlook raise apprehensions. The government and insurance companies' efforts to contain healthcare costs are affecting Henry Schein's financial operations. A weak solvency is also deterring. Growing importance of GPOs and tough competition are other headwinds. It has underperformed the industry over year.

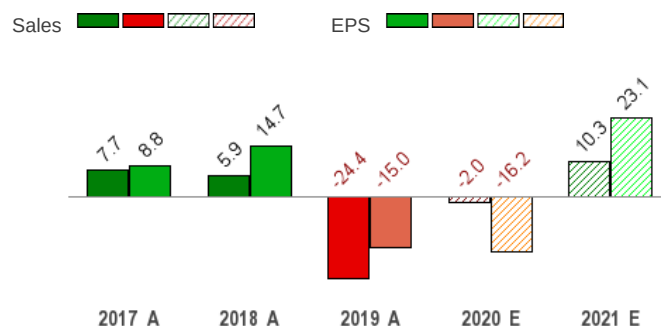
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$73.99 - \$41.85
20-Day Average Volume (Shares)	700,911
Market Cap	\$10.3 B
Year-To-Date Price Change	7.8%
Beta	0.86
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 37% (93 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	43.1%
Last Sales Surprise	16.6%
EPS F1 Estimate 4-Week Change	-0.3%
Expected Report Date	02/18/2021
Earnings ESP	-1.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,602 E	2,555 E	2,806 E	2,912 E	10,792 E
2020	2,429 A	1,684 A	2,840 A	2,839 E	9,787 E
2019	2,360 A	2,448 A	2,509 A	2,669 A	9,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.86 E	\$0.84 E	\$0.93 E	\$0.98 E	\$3.62 E
2020	\$0.94 A	\$0.00 A	\$1.03 A	\$0.95 E	\$2.94 E
2019	\$0.80 A	\$0.84 A	\$0.90 A	\$0.97 A	\$3.51 A

*Quarterly figures may not add up to annual.

P/E TTM	24.5
P/E F1	19.9
PEG F1	3.1
P/S TTM	1.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/08/2021. The reports text is as of 01/11/2021.

Overview

Headquartered in Melville, NY, 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.

At the end of 2015, the company served a vast distribution network worldwide with a selection of over 110,000 branded products. Additionally, Henry Schein offers other value-added services such as practice management software, e-commerce solutions and an array of financial services.

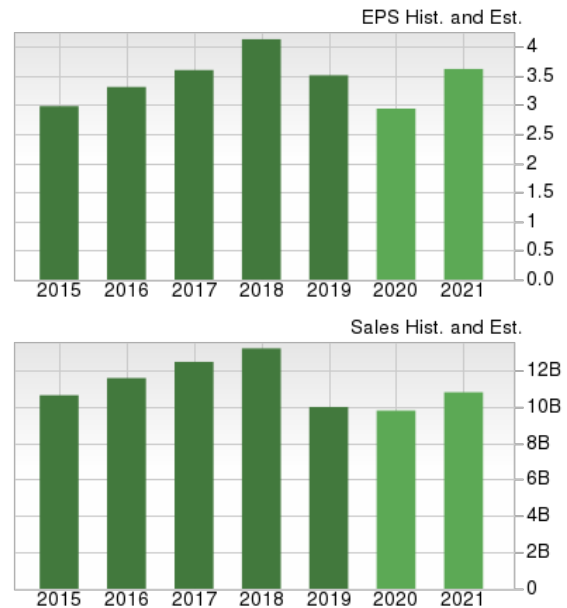
Henry Schein has completed the spinoff of its global Animal Health business in February 2019.

Henry Schein's 3 businesses – **Dental** (comprising 64.2% of total revenue in 2019; up 1.1% from fiscal 2018), **Medical** (29.8%; up 11.7%) and **Technology and Value-Added Services** (5.1%; up 26.1%) serve millions of customers worldwide.

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. Our technology group offerings include practice management software systems for dental and medical practitioners.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Widespread Network and Channel Mix:** Henry Schein's distribution business boasts a wide global footprint with 61 distribution centers. Henry Schein's distribution deals with MindChild Medical (in early 2019), Sprig Oral Health Technologies and Welch Allyn, a Hill-Rom company, are also encouraging.

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 strong momentum in dental consumable merchandise and dental equipment internal sales (both in local currencies) in North America during the quarter under review. Internationally, dental consumable merchandise internal sales in local currencies were robust.

- ▲ **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's joint venture (JV), Henry Schein One is working on combining a host of unique and powerful dental software tools that help dentists build awareness for their practice and better communicates with existing patients as well as generating new patients. A few other achievements by the company in this line are, all major imaging vendors have now signed on with Henry Schein's Dentrax Smart image integration solution. This apart, Henry Schein's cloud-based dental practice management system Dentrax Ascend continues to enhance its focus on practice and patient experience with the addition of multiple new enhancements.

- ▲ **Henry Schein One Holds Potential:** Henry Schein seems to be upbeat about its dental technology JV Henry Schein One. Despite business disruptions in the third quarter due to the coronavirus outbreak, the Henry Schein One dental software business has been progressing well. A few of Henry Schein One software solutions enabling patient engagement related to appointment bookings as well as developing and operating virtual waiting rooms had received favorable customer responses since the second quarter. Software sales had been witnessing gradual improvement over the past few months, in line with the resumption of dental practice operations.

Notably, Henry Schein announced the acquisition of Dentally, which is a cloud-based U.K. dental software provider. Through this buyout, Henry Schein will aim to expand its international presence and enhance its practice management software solution portfolio.

Other products within the Henry Schein One portfolio like the beta version of its Tech Dentrax and Dentrax G7.3 are likely to maintain momentum.

- ▲ **Expansion Through 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 September, entered into an agreement with Zyris, Inc. to become the exclusive distributor of the latter's complete dental isolation system. Further in the same month, the company announced that it is currently offering TeleDent by MouthWatch, which is a tele-dentistry and patient-engagement platform incorporating live video conferencing, patient messaging and cloud collaboration. This will enable a seamless integration into the dental practice.

Henry Schein, in July, entered into an exclusive agreement with Radic8 (a U.K.-based manufacturer of air purifier systems) to distribute the latter's Radic8 Viruskiller air purifier in the United States and Canada. Further, in the same month, Henry Schein announced that its U.S. medical business, Henry Schein Medical, is on track to integrate a web-based clinical decision support system, VisualDx, with Medpod's telemedicine solutions.

Other alliances like Henry Schein's subsidiary ACE Surgical Supply's partnership with EnvisionTec in June, the creation of a JV with Casa Schmidt in March, agreement with United Parcel Service (UPS) in January are expected to continue to strengthen Henry Schein's foothold in the global dental market.

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.

Reasons To Sell:

- ▼ **Share Price Performance:** Over the past year, Henry Schein has underperformed the industry. The stock has gained 8.9% compared with the industry's 19.4% rise. Henry Schein exited the third quarter of 2020 with better-than-expected results despite adversities posed by the coronavirus outbreak. The company registered marginally lower revenues in the Technology and Value-Added Services internal sales in local currencies due to lower-than-historical patient flow resulting from lower Henry Schein One transactional revenues. Additionally, the company's financial services revenues being adversely impacted by lower equipment sales volume looks discouraging. Contraction of both margins is deterring as well. The company's inability to provide financial guidance raises apprehensions.

The year-over-year deterioration in Henry Schein's gross and operating margin was due to higher cost of sales and expenses. Also, tough competitive landscape and impact of GPOs weigh on the stock.

Governments and insurance companies continue to look for ways to contain the rising cost of healthcare, which is affecting Henry Schein's financial operations. A weak solvency and capital structure is also deterring. Other factors like impact of group purchasing organizations and a stiff competitive landscape are bothersome.

- ▼ **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.

- ▼ **Weak Solvency With Slight Leverage:** Henry Schein exited the third quarter of 2020 with cash and cash equivalents of \$533 million compared with \$296 million at the end of the second quarter of 2020. Meanwhile, total debt came up to \$1.132 billion for the period, an increase from \$1.129 billion in the sequentially last reported quarter. This figure is much higher than the third quarter's cash and cash equivalent level. Moreover, if we go by the company's current-year-payable debt level of \$617 million, this also comes to a higher level when compared to the quarter-ended cash in hand. This is bad news in terms of solvency position of the company. This implies that, during the year of economic downturn, the company is not holding enough cash for debt repayment.

Debt comparison with the industry is, however, favorable as industry's total debt of \$5.27 billion is much higher than the company's debt level.

The quarter's total debt-to-capital of 14.2% stands at a moderately lower level indicating a slightly leveraged balance sheet. It also represents a sequential decrease from 14.7% at the end of the second quarter. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 48.1%. The overall data concludes that in terms of solvency level of the company, the picture is pretty discouraging.

The times interest earned for the company in the reported quarter stands at 14.4%, representing a sequential increase from 14% at the end of the second quarter. This, however, compares favorably with the times interest earned for the industry which stands at a pretty lower level (0.4%).

Last Earnings Report

Henry Schein Q3 Earnings Top Estimates, Margins Dip

Henry Schein reported adjusted earnings per share of \$1.03 from continuing operations in the third quarter of 2020, reflecting an improvement of 14.4% from the year-ago earnings per share of 90 cents. Moreover, adjusted earnings per share surpassed the Zacks Consensus Estimate by 43.1%. The quarter's adjustments exclude the impact of certain restructuring charges.

GAAP earnings per share in the third quarter was 99 cents, up by 8.8% from the year-ago EPS of 91 cents.

The year-over-year earnings were primarily driven by a strong rebound in sales since the end of the second quarter along with strength in demand for personal protective equipment ("PPE") and COVID-19-related products.

Revenues in Detail

Henry Schein reported net sales of \$2.84 billion in the third quarter, up 13.2% year over year. The metric beat the Zacks Consensus Estimate by 16.6%.

The year-over-year uptick resulted from strong business recovery and included a 13% internal growth in local currencies, 0.1% growth from acquisitions and 0.1% 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 14.8% year over year. Sales totaled \$707.6 million in the international market, up 8.6% year over year.

Segment Analysis

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

In the third quarter, the company derived \$1.65 billion of global **Dental** sales, up 6.7% year over year. This includes a 6.6% uptick in local currencies and 0.1% positive impact of foreign currency exchange. At local currencies, internally-generated sales improved 6.5%, which included an increase of 6.3% in North America and of 6.9% internationally. Further, acquisition growth was 0.1%.

North America's dental consumable merchandise internal sales in local currencies rose 8.1% whereas dental equipment internal sales in local currencies inched up 0.2%. Internationally, dental consumable merchandise internal sales and dental equipment internal sales, both in local currencies, improved 11.1% and fell 6.9% respectively.

Global **Medical** revenues surged 27.8% year over year to \$1.03 billion, resulting from a 27.7% rise in local currencies. In local currencies, internally-generated sales grew 27.7% while acquisition growth was flat. Foreign currency exchange had an impact of 0.1%.

The business registered strong demand for PPE and COVID-19-related products in the quarter under review.

Revenues from global **Technology and Value-added Services** inched up 0.7% to \$138.4 million. This included a 0.3% improvement in local currencies and a 0.4% uptick owing to currency translation. At local currencies, internally-generated sales declined 1.3% but acquisition growth was 1.6%.

The marginally lower revenues in the company's Technology and Value-Added Services internal sales in local currencies was due to lower-than-historical patient flow resulting from lower Henry Schein One transactional revenue. Additionally, the company's financial services revenues were adversely impacted by lower equipment sales volume.

Margin Trend

In the reported quarter, gross profit totaled \$754.3 million. Gross margin contracted 378 basis points (bps) to 26.6% on a 0.9% fall in gross profit.

Selling, general and administrative expenses declined 2.6% to \$559.6 million in the quarter under review.

Overall adjusted operating profit was \$194.7 million, up 4.4% year over year. However, adjusted operating margin contracted 58 bps year over year to 6.9%.

Financial Position

The company exited the third quarter of 2020 with cash and cash equivalents of \$533.5 million compared with \$296.1 million at the end of the second quarter. Long-term debt for the company at the end of the third quarter was \$515.4 million compared with \$515.8 million at the end of the second quarter of 2020.

Cumulative net cash used in operating activities from continuing operations at the end of the third quarter was \$248.4 million compared with net cash provided by operating activities from continuing operations of \$525.2 million in the year-ago period.

2020 Guidance

As the uncertainty of the pandemic and its impact on business operations cannot be ascertained at present, the company is not providing any financial guidance for the year right now.

Quarter Ending	09/2020
Report Date	Nov 02, 2020
Sales Surprise	16.55%
EPS Surprise	43.06%
Quarterly EPS	1.03
Annual EPS (TTM)	2.94

Recent News

Henry Schein Acquires Majority Shares of Prism Medical: Jan 5, 2021

Henry Schein announced that its U.S. medical division, Henry Schein Medical, has acquired majority ownership position in Prism Medical Products, LLC. This marks the company's entry in the established and growing multibillion-dollar market for home medical equipment and supplies.

Henry Schein Completes Casa Schmidt JV: Jan 4, 2021

Henry Schein announced the completion of a joint venture (JV) with Casa Schmidt, S.A. to advance their mutual goal of helping health care professionals operate more efficient practices by providing new solutions and technologies for patients' benefit.

Henry Schein, Carrizo Dental Enter Distribution Agreement: Oct 28, 2020

Henry Schein announced entering into an exclusive distribution agreement with Carrizo Dental (a well-known distributor of dental supplies and equipment) to distribute its Henry Schein-brand product portfolio to dental professionals throughout Argentina.

Henry Schein Announces Completion of Agreement With TDSC: Oct 26, 2020

Henry Schein announced the completion of its agreement with The Dentists Supply Company (TDSC) to form a new entity and better serve the state dental association members with an online-only option for purchasing dental supplies.

Valuation

Henry Schein shares are up 24.6% over the past six months and up 8.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 22.8% while the Zacks Medical sector up 10% over the past six months. Over the past year, the Zacks sub-industry is up 19.4% and sector is up 6.3%.

The S&P 500 index is up 22.1% over the past six months and rose 18.3% in the past year.

The stock is currently trading at 19.9X Forward 12-months earnings, which compares to 19.8X for the Zacks sub-industry, 23.1X for the Zacks sector and 23.4X 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 19.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$76 price target reflects 20.9X 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 F12M	Current	19.86	19.79	23.14	23.38
	5-Year High	26.03	19.79	23.14	23.79
	5-Year Low	11.54	13.63	15.90	15.30
	5-Year Median	19.28	16.59	19.13	17.83
P/S F12M	Current	0.95	0.43	2.88	4.56
	5-Year High	1.26	0.43	3.17	4.56
	5-Year Low	0.60	0.23	2.26	3.20
	5-Year Median	0.96	0.29	2.85	3.68
P/B TTM	Current	2.72	5.42	4.49	6.58
	5-Year High	5.32	5.42	5.11	6.58
	5-Year Low	1.75	2.54	3.02	3.73
	5-Year Median	3.78	3.45	4.35	4.94

As of 01/08/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 37% (93 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Patterson Companies, Inc. (PDCO)	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
Straumann Holding AG (SAUHF)	Neutral	1
West Pharmaceutical Services, Inc. (WST)	Neutral	3
DENTSPLY SIRONA Inc. (XRAY)	Neutral	2

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)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	B	-	-	A	C	C
Market Cap	10.29 B	3.56 B	27.18 B	20.80 B	3.10 B	12.72 B
# of Analysts	8	5	13	9	8	9
Dividend Yield	0.00%	0.00%	1.41%	0.00%	3.23%	0.69%
Value Score	B	-	-	A	C	C
Cash/Price	0.06	0.06	0.06	0.03	0.05	0.11
EV/EBITDA	11.22	17.71	14.99	12.11	16.32	19.10
PEG F1	3.03	2.54	2.65	1.13	1.50	3.31
P/B	2.71	5.07	3.77	2.52	3.48	2.67
P/CF	14.93	16.96	14.38	10.98	3.37	14.78
P/E F1	19.85	20.40	20.76	11.42	16.59	24.53
P/S TTM	1.07	3.49	2.97	1.67	0.56	3.77
Earnings Yield	5.02%	3.45%	4.68%	8.75%	6.03%	4.07%
Debt/Equity	0.14	0.19	0.70	0.67	0.66	0.41
Cash Flow (\$/share)	4.83	2.56	6.93	19.44	9.54	3.94
Growth Score	C	-	-	A	C	C
Historical EPS Growth (3-5 Years)	1.73%	8.56%	9.71%	10.40%	-12.32%	-8.36%
Projected EPS Growth (F1/F0)	23.19%	30.80%	12.21%	-10.31%	25.00%	52.49%
Current Cash Flow Growth	-9.03%	3.15%	5.22%	12.16%	327.70%	-53.28%
Historical Cash Flow Growth (3-5 Years)	2.76%	12.09%	8.33%	17.70%	27.55%	12.09%
Current Ratio	1.49	1.63	1.38	1.36	1.54	2.19
Debt/Capital	17.60%	23.37%	41.97%	40.13%	39.72%	28.84%
Net Margin	6.14%	0.34%	10.40%	6.79%	-9.15%	-2.35%
Return on Equity	11.60%	13.05%	15.20%	21.05%	17.57%	7.62%
Sales/Assets	1.29	0.81	0.50	0.69	1.90	0.39
Projected Sales Growth (F1/F0)	10.27%	10.27%	5.91%	3.05%	4.51%	18.60%
Momentum Score	C	-	-	A	F	C
Daily Price Change	2.99%	0.10%	0.10%	-2.17%	2.72%	0.90%
1-Week Price Change	1.56%	0.47%	1.16%	-0.16%	-6.56%	1.04%
4-Week Price Change	1.11%	4.84%	3.65%	2.87%	0.78%	7.56%
12-Week Price Change	17.50%	17.37%	13.64%	10.80%	18.24%	28.15%
52-Week Price Change	8.91%	26.01%	8.59%	22.09%	48.36%	1.09%
20-Day Average Volume (Shares)	700,911	404,905	1,694,173	583,871	677,209	1,086,458
EPS F1 Estimate 1-Week Change	-0.31%	0.00%	0.00%	0.00%	0.00%	1.34%
EPS F1 Estimate 4-Week Change	-0.31%	0.00%	0.08%	0.10%	-0.06%	1.59%
EPS F1 Estimate 12-Week Change	2.83%	2.59%	2.45%	25.80%	22.92%	5.42%
EPS Q1 Estimate Monthly Change	0.74%	0.00%	0.00%	1.15%	-0.56%	-1.99%

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	C
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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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.

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.