

## Humana Inc. (HUM)

**\$393.37** (As of 09/10/20)

Price Target (6-12 Months): **\$413.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 02/07/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

### Summary

Humana's shares have outperformed the industry in a year's time. The company has witnessed its 2020 earnings estimate move north over the past 60 days. It is well-poised for growth on the back of its strong Medicare business, inorganic growth strategy and operating initiatives. Acquisitions, alliances with several companies place it well for long-term growth. It has been deploying excess capital via share buybacks and dividends for the past many years on the back of its balance sheet strength. Strong operating cash flows are an added advantage for the company. A strong 2020 outlook instills investor confidence in the stock. However, its escalating expenses weigh on the bottom line. Its weak return on equity also bothers. Its second-quarter results gained from improved revenues.

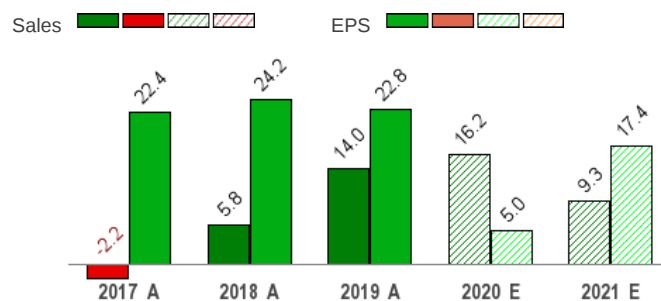
### Price, Consensus & Surprise



### Data Overview

|                                |                                |
|--------------------------------|--------------------------------|
| 52-Week High-Low               | <b>\$431.12 - \$208.25</b>     |
| 20-Day Average Volume (Shares) | <b>549,952</b>                 |
| Market Cap                     | <b>\$52.0 B</b>                |
| Year-To-Date Price Change      | <b>7.3%</b>                    |
| Beta                           | <b>0.89</b>                    |
| Dividend / Dividend Yield      | <b>\$2.50 / 0.6%</b>           |
| Industry                       | <b>Medical - HMOs</b>          |
| Zacks Industry Rank            | <b>Top 13% (33 out of 251)</b> |

### Sales and EPS Growth Rates (Y/Y %)



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>21.5%</b>      |
| Last Sales Surprise           | <b>2.5%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.8%</b>       |
| Expected Report Date          | <b>11/04/2020</b> |
| Earnings ESP                  | <b>14.8%</b>      |
| P/E TTM                       | <b>15.6</b>       |
| P/E F1                        | <b>21.0</b>       |
| PEG F1                        | <b>1.7</b>        |
| P/S TTM                       | <b>0.7</b>        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | 20,820 E | 21,013 E | 20,747 E | 20,559 E | 82,448 E |
| 2020 | 18,935 A | 19,083 A | 18,528 E | 18,585 E | 75,414 E |
| 2019 | 16,107 A | 16,245 A | 16,241 A | 16,295 A | 64,888 A |

### EPS Estimates

|      | Q1       | Q2        | Q3       | Q4        | Annual*   |
|------|----------|-----------|----------|-----------|-----------|
| 2021 | \$6.02 E | \$7.35 E  | \$5.75 E | \$2.71 E  | \$22.02 E |
| 2020 | \$5.40 A | \$12.56 A | \$2.80 E | -\$1.42 E | \$18.76 E |
| 2019 | \$4.48 A | \$6.05 A  | \$5.03 A | \$2.28 A  | \$17.87 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/10/2020. The reports text is as of 09/11/2020.

## Overview

Founded in 1964 and headquartered in Louisville, KY., Humana Inc. is one of the largest health care plan providers in the United States. It was organized as a Delaware corporation in the year 1964. It provides health insurance benefits under Health Maintenance Organization (HMO), Private Fee-For-Service (PFFS), and Preferred Provider Organization (PPO) plans. The company also provides other benefits with specialty products including dental, vision, and other supplementary benefits.

It exited 2019 with around 17 million members under its medical benefit plans and approximately 5 million members in its specialty product category.

Humana's medical and specialty insurance products allow members to access health care services primarily through its networks of health care providers.

Humana now manages its business through four segments:

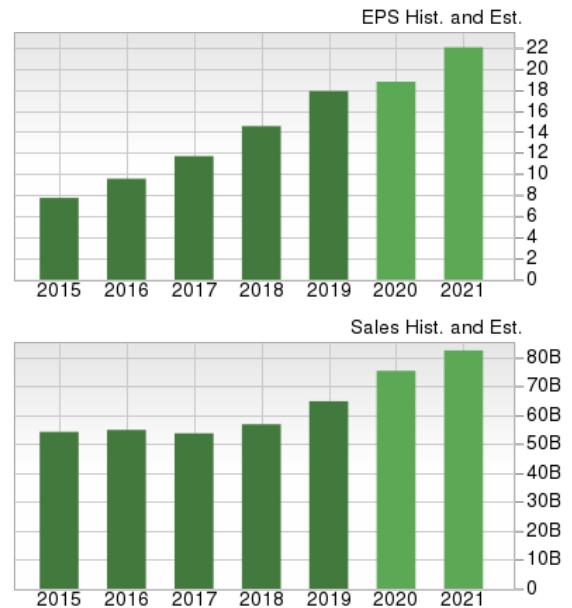
**The Retail segment (84.8% of the company's total revenue in 2019):** The segment consists of Medicare benefits, which are marketed on a retail basis to individuals. .

**The Group segment (13.5%):** This comprises employer group commercial fully-insured medical and specialty health insurance benefits, including dental, vision, and other supplemental health and voluntary insurance benefits, and also administrative services only products..

**The Healthcare Services (1.7%):** The segment consists of services offered to the company's health plan members as well as to third parties, including pharmacy solutions, provider services, home-based services, and clinical programs, and also services and capabilities to advance population health.

Also, there is Other Businesses category that includes businesses, which are not separately reportable because they do not meet the quantitative thresholds.

The company exited the individual commercial business effective Jan 1, 2018.



Source: Zacks Investment Research

---

## Reasons To Buy:

▲ **Medicare Business Poised for Growth:** Humana's Medicare business has been performing strongly from past many quarters. This is evident from 54% Medicare membership growth from 2013 to 2018. Although the same dipped 1% in 2019, Individual Medicare membership rose 17.1% year over year in the same time frame, which is a positive. The full-year individual Medicare Advantage membership is now anticipated to be around 330,000-360,000 members, up from the earlier projected range of 300,000-350,000 members. Over the past decade, the company saw maximum growth in Individual Medicare Advantage during 2019, which is pretty impressive.

Humana's acquisitions and dispositions, efficient capital deployment and strong Medicare business position it for long-term gains. Its solid 2019 outlook also impresses.

▲ **Acquisitions and Dispositions:** These strategic initiatives have carved a growth path for the company. Some of the acquisitions made by the company has helped it achieve long-term growth. These include the purchase of Family Physicians Group, Your Home Advantage, Curo and a share in Kindred at Home, which has helped the company to deepen its reach in the home health and hospice market. The company has witnessed a busy first half of 2018 with the launch of Conviva, the acquisition of Orlando-based Family Physicians Group. In 2018, the company sold its long-term care insurance business to KMG American Corp. It also closed the Enclara deal in January, expanding its hospice pharmacy business line. These strategic initiatives set the company for long-term growth.

▲ **2020 Outlook:** Following second-quarter results, the company reaffirmed its adjusted EPS projection of \$18.25-\$18.75 for 2020, indicating an upside of 3.5% from the prior-year reported figure. The full-year individual Medicare Advantage membership is anticipated to be around 330,000-360,000 members. Humana reiterated its expectations for group Medicare Advantage net membership gains. It expects an increase of 90,000 members in 2020, implying growth from the year-ago reported number. This robust outlook should instill investors' confidence in the stock.

▲ **Capital Deployment:** Humana has been efficiently deploying excess capital for the past several years. Although the company's operating cash flows, which have been rising over the last several quarters, declined in 2018, it soared 143.2% in 2019. It has been hiking its dividend since 2011. In February 2020, the company hiked its quarterly dividend by 14%. Although it didn't buy back shares in the first six months of 2020, we believe, its financial strength will continue to boost investors' confidence.

▲ **Solid Capital Position:** The company's financial flexibility impresses. Its total debt is 35.1% (down from 39.2% as of Mar 31, 2020) of capital, almost in line with the industry's average of 38.2%. Also, its time interest earned stands at 19.7X, much higher than the industry average of 12.4X. As of Jun 30, 2020, the company had cash, cash equivalents and investment securities of \$20 billion, higher than its long-term debt of \$6 billion. Its solid solvency level impresses.

▲ **Price Performance:** In a year, shares of the company have outperformed its industry's. Over the past 60 days, the company has witnessed its 2020 earnings estimate move north 0.2%. Moreover, its solid fundamentals like growing revenues on inorganic growth are likely to continue drive its shares going forward.

---

### Reasons To Sell:

- ▼ **Rising Expenses:** Humana has been witnessing a rise in the operating expenses since 2010 sans 2017 when operating expenses declined 6% owing to the receipt of Humana-Aetna merger termination fee. In the first six months of 2020, the metric again jumped 13.6% year over year. The company expects to witness an elevation in benefit expenses, which will induce overall higher operating expenses. Rising expenses are likely to hurt the bottom line.
- ▼ **Overvalued:** Looking at its current valuation, investors won't agree to pay its premiums. Its current price-to-earnings forward 12-month ratio stands at 18.7X, higher than its industry average of 15X.

Rising operating expenses and increase in financial leverage leading to financial risk continue to bother the company.

## Last Earnings Report

### Humana's Q2 Earnings Surpass Estimates, Improve Y/Y

Humana's second-quarter 2020 operating earnings per share of \$12.56 beat the Zacks Consensus Estimate by 21.5%. Moreover, the bottom line soared 107.6% year over year.

This upside can primarily be attributed to higher revenues witnessed by the company. However, Humana faced hospital admissions decline and lower utilization in April, which increased in May and June.

Quarter Ending 06/2020

| Report Date      | Aug 05, 2020 |
|------------------|--------------|
| Sales Surprise   | 2.52%        |
| EPS Surprise     | 21.47%       |
| Quarterly EPS    | 12.56        |
| Annual EPS (TTM) | 25.27        |

### Operational Update

Revenues of \$19 billion were up nearly 17.5% year over year. Moreover, the top line surpassed the Zacks Consensus Estimate by 2.5% on the back of better premium revenues from Medicare Advantage along with improved membership in state-based contracts and an increase in per member Medicare Advantage premiums.

Adjusted consolidated pre-tax income of \$2.4 billion surged 122% year over year.

Benefit ratio contracted 800 basis points (bps) to 76.4%.

Operating cost ratio expanded 180 bps to 12.4%.

### Segmental Results

#### Retail

Revenues from the Retail segment were \$16.96 billion, up 20% year over year. This can primarily be attributed to premium rise owing to Medicare Advantage along with state-based contracts membership growth and higher per member Medicare Advantage premiums.

Benefit ratio of 78.3% contracted 690 bps year over year on temporary deferral of non-essential care amid the COVID-19 pandemic along with reinstatement of the non-deductible health insurance industry fee in 2020.

The segment's operating cost ratio of 9.7% expanded 120 bps year over year due to reinstatement of the non-deductible health insurance industry fee in 2020 along with COVID-19-related costs.

#### Group and Specialty

Revenues from the Group and Specialty segment were \$1.84 billion, down 2% from the prior-year quarter due to reduction in fully-insured group commercial membership.

Benefit ratio contracted 1930 bps year over year to 67% on temporary postponement of non-essential care amid the coronavirus outbreak along with reinstatement of the non-deductible HIF in 2020.

Operating cost ratio expanded 210 bps year over year to 23.8%.

#### Healthcare Services

Revenues of \$6.94 billion increased 9% year over year, primarily owing to Medicare Advantage membership growth, better pharmacy revenues on the company's allowance of early prescription refills and additional pharmacy revenues associated with the Enclara Healthcare buyout.

Operating cost ratio contracted 100 bps year over year to 95.1% on the back of operational improvements along with decreased utilization resulting from COVID-19 in the company's provider services business and operating cost efficiencies, driven by the previously disclosed productivity initiatives.

### Financial Update

As of Jun 30, 2020, the company had cash and cash equivalents, and investment securities of \$20 billion, up 33.1% from the level at 2019 end. Debt-to-total capitalization as of Jun 30, 2020 was 35.1%, expanding 310 bps from the level as of Dec 31, 2019.

In the June quarter, cash flows provided by operating activities came in at \$3.1 million, up 114% year over year.

### Capital Deployment

The company did not complete any open-market transaction in the quarter under review.

It paid out cash dividends worth \$83 million in the period.

### 2020 Guidance

After announcing second-quarter results, the company reaffirmed its 2019 guidance. Adjusted EPS is still expected in the range of \$18.25-\$18.75.

The full-year individual Medicare Advantage membership is now anticipated to be around 330,000-360,000 members, up from the earlier projected range of 300,000-350,000 members.

---

Humana reiterated its expectations for group Medicare Advantage net membership gains. It expects a year-over-year increase of 90,000 members in 2020. For its stand-alone PDP business, it anticipates a membership decline of 550,000.

---

---

## Recent News

### Humana Launches Two Programs — Sep 10, 2020

Humana enhanced its value-based programs with the launch of two national programs for members of certain Humana Medicare Advantage plans. The insurance giant came up with programs to cover coronary artery bypass grafting and total shoulder replacement procedures.

### Humana's Initiatives to Help Dental Providers Manage Costs - Jun 15, 2020

Humana announced initiatives to support participating dental providers in meeting heavy expenses related to their continuing businesses during the coronavirus pandemic. On resuming more dental procedures, the company will pay an extra \$7 per Humana member dental claim. This is applicable to all fully-insured Humana dental members.

The company remains committed to cater this service to its members, which will assure that its dental provider partners can afford the purchase of Personal Protective Equipment (PPE), an essential kit for the safety of patients.

Per the new announcement, at the end of each month, the dental provider partners will receive a stipend from the company, depending on the number of claims made by Humana members in that period.

### Humana's Unit to Launch Primary Care Centers for Seniors — Jun 2, 2020

Humana subsidiary Partners in Primary Care recently announced the first phase of its three-year expansion project. It will open 20 new senior-focused primary care centers in a year's time with eight in Las Vegas and two in the Shreveport-Bossier City, LA. The company also has plans to penetrate further in Houston with 10 more centers.

---

## Valuation

Humana's shares are up 7.7% and 48% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 2.3% and 1.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 25.3% and 7.1%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 13.6% in the past year.

The stock is currently trading at 18.71x forward 12-month earnings, which compares to 14.95x for the Zacks sub-industry, 21.36x for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.59x and as low as 11.04x, with a 5-year median of 19.12x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$413 price target reflects 19.64x forward earnings.

The table below shows summary valuation data for HUM

| Valuation Multiples - HUM |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 18.71 | 14.95        | 21.36  | 22.6    |
|                           | 5-Year High   | 22.59 | 20.58        | 23.2   | 23.44   |
|                           | 5-Year Low    | 11.04 | 12.48        | 15.89  | 15.25   |
|                           | 5-Year Median | 19.12 | 15.88        | 19.01  | 17.63   |
| P/S F12M                  | Current       | 0.65  | 0.75         | 2.72   | 4.09    |
|                           | 5-Year High   | 0.81  | 0.86         | 3.25   | 4.29    |
|                           | 5-Year Low    | 0.38  | 0.48         | 2.23   | 3.11    |
|                           | 5-Year Median | 0.6   | 0.7          | 2.89   | 3.66    |
| P/B TTM                   | Current       | 3.61  | 3.16         | 3.8    | 5.75    |
|                           | 5-Year High   | 4.6   | 4.07         | 5.07   | 6.17    |
|                           | 5-Year Low    | 2.1   | 2.3          | 2.95   | 3.75    |
|                           | 5-Year Median | 3.26  | 3.21         | 4.29   | 4.83    |

As of 09/10/2020

## Industry Analysis Zacks Industry Rank: Top 13% (33 out of 251)



## Top Peers

| Company (Ticker)                          | Rec        | Rank |
|-------------------------------------------|------------|------|
| The Joint Corp. (JYNT)                    | Outperform | 2    |
| Select Medical Holdings Corporation (SEM) | Outperform | 1    |
| Anthem, Inc. (ANTM)                       | Neutral    | 3    |
| Centene Corporation (CNC)                 | Neutral    | 3    |
| CVS Health Corporation (CVS)              | Neutral    | 3    |
| Magellan Health, Inc. (MGLN)              | Neutral    | 3    |
| Molina Healthcare, Inc. (MOH)             | Neutral    | 3    |
| UnitedHealth Group Incorporated (UNH)     | Neutral    | 3    |

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

| Industry Comparison Industry: Medical - Hmos |         |            |           | Industry Peers |           |           |
|----------------------------------------------|---------|------------|-----------|----------------|-----------|-----------|
|                                              | HUM     | X Industry | S&P 500   | ANTM           | CNC       | UNH       |
| Zacks Recommendation (Long Term)             | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                      | 2       | -          | -         | 3              | 3         | 3         |
| VGM Score                                    | A       | -          | -         | A              | A         | A         |
| Market Cap                                   | 52.04 B | 2.29 B     | 22.97 B   | 65.60 B        | 33.09 B   | 289.47 B  |
| # of Analysts                                | 9       | 8          | 14        | 11             | 12        | 13        |
| Dividend Yield                               | 0.64%   | 0.00%      | 1.65%     | 1.46%          | 0.00%     | 1.64%     |
| Value Score                                  | A       | -          | -         | A              | A         | B         |
| Cash/Price                                   | 0.37    | 0.34       | 0.07      | 0.45           | 0.42      | 0.09      |
| EV/EBITDA                                    | 8.92    | 8.47       | 12.97     | 6.86           | 11.40     | 13.56     |
| PEG F1                                       | 1.70    | 1.45       | 2.92      | 0.79           | 0.83      | 1.45      |
| P/B                                          | 3.61    | 2.08       | 3.16      | 1.90           | 1.31      | 4.35      |
| P/CF                                         | 17.47   | 10.68      | 12.49     | 10.68          | 8.55      | 16.67     |
| P/E F1                                       | 20.97   | 14.66      | 21.20     | 11.64          | 11.71     | 18.37     |
| P/S TTM                                      | 0.74    | 0.57       | 2.39      | 0.58           | 0.36      | 1.17      |
| Earnings Yield                               | 4.77%   | 6.13%      | 4.55%     | 8.60%          | 8.55%     | 5.44%     |
| Debt/Equity                                  | 0.42    | 0.59       | 0.70      | 0.58           | 0.66      | 0.60      |
| Cash Flow (\$/share)                         | 22.51   | 6.68       | 6.93      | 24.42          | 6.68      | 18.28     |
| Growth Score                                 | A       | -          | -         | A              | A         | A         |
| Historical EPS Growth (3-5 Years)            | 26.89%  | 26.09%     | 10.41%    | 18.14%         | 28.45%    | 25.29%    |
| Projected EPS Growth (F1/F0)                 | 4.97%   | 10.45%     | -4.75%    | 15.32%         | 10.29%    | 9.76%     |
| Current Cash Flow Growth                     | 17.03%  | 14.42%     | 5.26%     | 16.15%         | 45.38%    | 14.76%    |
| Historical Cash Flow Growth (3-5 Years)      | 12.98%  | 13.62%     | 8.49%     | 12.87%         | 49.67%    | 19.53%    |
| Current Ratio                                | 1.69    | 1.46       | 1.35      | 1.64           | 1.22      | 0.84      |
| Debt/Capital                                 | 29.59%  | 37.57%     | 42.95%    | 36.58%         | 39.94%    | 38.56%    |
| Net Margin                                   | 4.96%   | 4.51%      | 10.25%    | 5.24%          | 1.70%     | 6.90%     |
| Return on Equity                             | 26.70%  | 19.01%     | 14.59%    | 19.44%         | 14.07%    | 29.28%    |
| Sales/Assets                                 | 2.15    | 1.39       | 0.50      | 1.39           | 1.74      | 1.36      |
| Projected Sales Growth (F1/F0)               | 16.22%  | 8.69%      | -1.42%    | 14.85%         | 48.25%    | 5.33%     |
| Momentum Score                               | B       | -          | -         | D              | A         | C         |
| Daily Price Change                           | -3.64%  | -0.52%     | -1.51%    | -2.46%         | -0.44%    | -2.38%    |
| 1-Week Price Change                          | 1.26%   | -0.27%     | -1.28%    | -0.38%         | -1.34%    | -0.75%    |
| 4-Week Price Change                          | -6.23%  | -2.98%     | -2.05%    | -7.61%         | -11.72%   | -5.26%    |
| 12-Week Price Change                         | 3.77%   | 0.31%      | 4.48%     | -1.77%         | -10.71%   | 4.50%     |
| 52-Week Price Change                         | 46.57%  | 10.66%     | -1.95%    | 5.11%          | 27.20%    | 32.38%    |
| 20-Day Average Volume (Shares)               | 549,952 | 163,700    | 1,834,261 | 987,393        | 2,680,981 | 2,536,372 |
| EPS F1 Estimate 1-Week Change                | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.02%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                | 0.81%   | 0.00%      | 0.00%     | 0.00%          | 0.02%     | 0.00%     |
| EPS F1 Estimate 12-Week Change               | 1.27%   | 0.99%      | 4.05%     | 0.71%          | 0.10%     | 2.00%     |
| EPS Q1 Estimate Monthly Change               | -2.78%  | 0.00%      | 0.00%     | -0.12%         | 0.00%     | 0.00%     |

Source: Zacks Investment Research

---

## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

---

### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | A |
| Momentum Score | B |
| VGM Score      | A |

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

---

## Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

---

## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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