

## Integra LifeSciences (IART)

**\$48.78** (As of 11/05/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

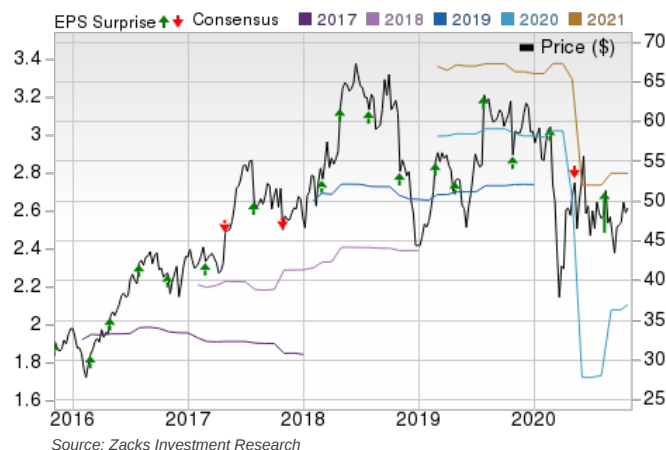
Growth: C

Momentum: B

### Summary

Integra exited the third quarter of 2020 with better-than-expected results. The ongoing recovery within the company's business looks encouraging. The sequential improvement in segmental revenues, along with growth in OTT buoys optimism. Robust demand for the company's products is also a positive. Expansion of both margins looks encouraging. However, lower overall and CSS segment's revenues due to coronavirus-led business disruptions is concerning. Although in the third quarter, the recovery rate was significant for Integra, the company is currently cautious given the current spike in COVID cases in a number of countries. If hospital capacity becomes constrained, there is risk that in the fourth quarter, revenues will be down mid-single-digits year-over-year. Overall, Integra has underperformed the industry in the past six months.

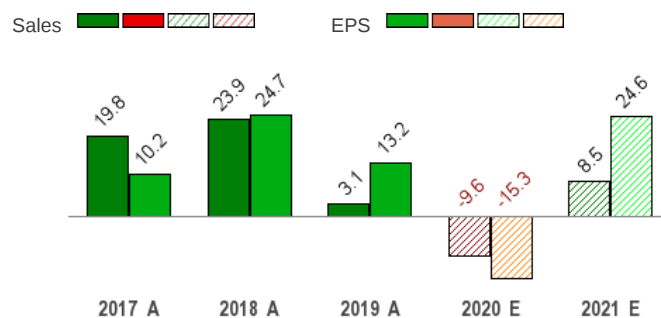
### Price, Consensus & Surprise



### Data Overview

|                                |                                 |
|--------------------------------|---------------------------------|
| 52-Week High-Low               | <b>\$62.78 - \$34.21</b>        |
| 20-Day Average Volume (Shares) | <b>472,611</b>                  |
| Market Cap                     | <b>\$4.1 B</b>                  |
| Year-To-Date Price Change      | <b>-16.3%</b>                   |
| Beta                           | <b>1.09</b>                     |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>            |
| Industry                       | <b>Medical - Instruments</b>    |
| Zacks Industry Rank            | <b>Top 47% (118 out of 250)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>40.4%</b>      |
| Last Sales Surprise           | <b>0.4%</b>       |
| EPS F1 Estimate 4-Week Change | <b>11.6%</b>      |
| Expected Report Date          | <b>02/17/2021</b> |
| Earnings ESP                  | <b>0.5%</b>       |
| P/E TTM                       | <b>21.3</b>       |
| P/E F1                        | <b>21.0</b>       |
| PEG F1                        | <b>1.6</b>        |
| P/S TTM                       | <b>3.0</b>        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 354 E | 364 E | 383 E | 388 E | 1,490 E |
| 2020 | 354 A | 259 A | 370 A | 390 E | 1,373 E |
| 2019 | 360 A | 384 A | 379 A | 395 A | 1,518 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.65 E | \$0.69 E | \$0.81 E | \$0.81 E | \$2.89 E |
| 2020 | \$0.48 A | \$0.33 A | \$0.80 A | \$0.75 E | \$2.32 E |
| 2019 | \$0.65 A | \$0.73 A | \$0.68 A | \$0.68 A | \$2.74 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 11/05/2020. The reports text is as of 11/06/2020.

## Overview

Headquartered in Plainsboro NJ, Integra LifeSciences is one of the world leaders in regenerative medicine. The company develops, manufactures and markets cost-effective surgical implants and medical instruments. The company now manufactures and sells products in the following two global reportable business segments: **Codman Specialty Surgical (CSS)** and **Orthopedics and Tissue Technologies (OTT)**.

The **CSS** business (65.6% of revenues in 2019, organic growth of 5.6% in 2019), previously known as Specialty Surgical Solutions, offers global, market-leading technologies, brands and instrumentation. The acquisition of Codman Neurosurgery from Johnson & Johnson increased the global direct sales representation and international presence.

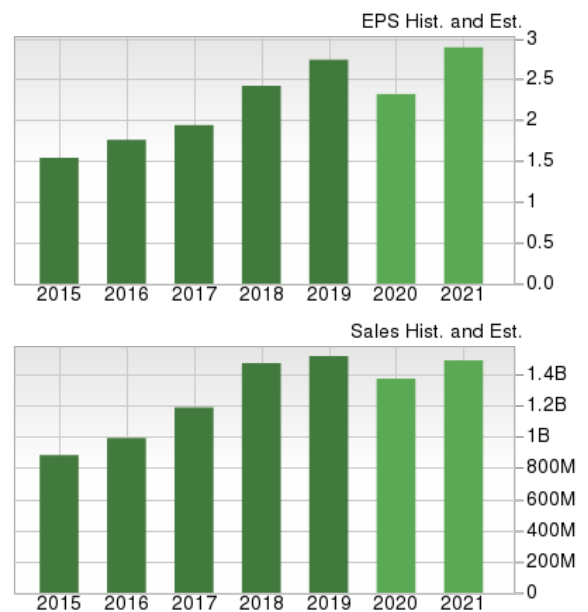
The global commercial network includes clinical specialists, a large direct global sales force and strategic partnerships and distributors that serve hospitals, integrated health networks, group purchasing organizations, clinicians, surgery centers and health care providers in North America, South America, Europe, Asia Pacific, Middle East and Africa.

In 2019, the segment registered 3.3% growth from 2018.

The **OTT** segment (34.4%, 1.6%) includes specialty metal implants for surgery of the upper and lower extremities, skin and wound repair products and bone grafts and nerve and tendon repair products.

The acquisition of Derma Sciences in 2017 provides the company with a relevant scale in outpatient wound care, doubling the sales force in the United States and broadening its business base with advanced products such as Medihoney, weight offloading and amniotic tissue. It also creates opportunities to further expand footprint in the plastic and reconstructive surgery segments.

In 2019 the segment registered 2.5% growth from 2018.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Sales Rebound Visible:** Integra's third quarter of 2020 represented a 43% increase from the second quarter. Capital sales improved more than 50% on a sequential basis. According to the company, part of this increase was due to deferred or delayed surgical procedures during the second quarter which the company performed in the third quarter. Also there was broad-based improvement across Integra's franchises. Capital equipment sales recovery was slow in the quarter. Despite that, in the United States, organic growth increased 1.7%, driven by the strength of Orthopedics and Tissue Technologies (OTT) business. In the third quarter, global neurosurgery sales were down 3.4% on an organic basis, a strong recovery from the decline of about 26% in the second quarter. Sales in dural access and repair were down low single-digits led by strong sequential recovery in the United States. Within OTT, Sales in the U.S. showed a stronger recovery and grew over 7%. Orthopedic sales increased 5% in the third quarter. From the second quarter itself, the company registered strong recovery of this business among its other franchises and this momentum continued into the third quarter as deferred procedures were completed.

A series of product introductions, particularly in Extremities franchise and strong overseas expansion are expected to add value going ahead.

The company is confident that once the environment returns to growth, the actions Integra is taking and the plans it has in place, will position it for outperformance over the long term.

- ▲ **CSS Holds Strong Prospect:** Despite the slowdown within the CSS segment, there was steady sequential improvement in the third quarter with sales down only by 4.3%. Global neurosurgery sales were down only 3.4% on an organic basis, a strong recovery from the decline of about 26% in the second quarter. Sales in neuromonitoring and CSS management increased low single-digits. International sales in CSS, although down year over year, did better than the second quarter. In this region, growth in both Japan and Canada was offset by slower recovery in our indirect market, including Latin America and parts of Greater Asia.

Notably, in 2019, the company acquired two early-stage technology platforms, which were anti-thrombus coding technology (to reduce catheter obstructions) and a technology platform for minimally invasive neuro surgery. These two technologies added to its portfolio, thus creating clinical opportunities for expansion into new larger and faster-growing markets, including intracerebral hemorrhage and minimally invasive neurosurgery. Currently, the company is investing in the two technologies, and aligning the development and clinical progress with its commercialization plans.

- ▲ **OTT Segment Holds Strong Potential:** In the reported quarter, within OTT, there was steady rebound visible in this segment with sales improving by 3.8% on an organic basis. Third quarter sales in Wound Reconstruction were flat year over year. However, Integra skin, PriMatrix, Nerve and Amniotic tissue using wound increased in aggregate mid-single-digits during the quarter.

Currently, the company is focusing on capacity expansion at various facilities manufacturing regenerative products for reconstructive procedures. The company is positioning itself to meet the rising demand and regulatory requirements expected for the segment through manufacturing investments.

- ▲ **Solid Growth in International Business:** In spite of facing foreign exchange fluctuations across its international business, Integra successfully saw through certain key developments on the overseas front. International sales within Codman Specialty Surgical have been strong in recent times driven by growth in core neurosurgery business and strength in certain key markets such Europe, Canada, China, and Japan. Per Integra, the acquisition of Codman is effectively doubling the company's international business within this segment.

Integra is looking forward to investment opportunities in the Asian market in order to grow business much faster than the United States and also certain parts of its international businesses. In line with this, the company is preparing to launch several products in China and Japan.

- ▲ **Strong Solvency But Leveraged:** Integra exited the third quarter of 2020 with cash and cash equivalents of \$396 million compared with \$361 million in the second quarter of 2020. Meanwhile, total debt came up to \$1.53 billion in the third quarter, down from \$1.66 billion in the sequentially last reported quarter. This figure is much higher than the quarter-end cash and cash equivalent level indicating weak solvency. However, if we go by the company's near-term payable debt level, that is just \$23 million now, insignificant as compared to the current cash holdings, indicating strong solvency. At least, during the year of coronavirus mayhem, when majority of the corporate sector is imposed with production and supply halt, the company is holding sufficient cash for its short-term debt repayment.

Debt comparison with the industry is, favorable as well, as industry's total debt of \$2.88 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital of 51.9% represented a sequential decline from 53.3% at the end of the second quarter. It stands at a moderately high level indicating a leveraged balance sheet. Further, this compares unfavorably with the total debt-to-capital of the industry which stands at a lower level of 37%.

The times interest earned for the company stands at 2.2%, which is sequentially high from 1.2% in the second quarter. This, too, compares unfavorably with the times interest earned for the industry which stands at a slightly higher level of 6.3%.

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## Reasons To Sell:

▼ **Share Price Performance:** Integra has underperformed the industry in the past six months. The stock has dipped 5.3% compared with the industry's 22.1% gain. In the third quarter, Integra registered disappointing segmental performance within Codman Specialty Surgical ("CSS") segment due to coronavirus-led business disruptions. International sales in CSS were down high-single digits in the reported quarter. Notably, growth in Japan and Canada was offset by slower recovery in the company's indirect markets, including Latin America and parts of Greater Asia. Further, the company does not expect the recovery rates for all its markets and product lines to be the same, thus leading to uncertainties about revenues. Management is still unable to gauge the magnitude of total loss it has to bear due to the pandemic-led economic damages. Hence, the company has not provided any financial guidance for the fourth quarter.

Uncertain natural calamities might force Integra to stop production in one or more of its manufacturing or research facilities. The stock faces stiff competition as well as foreign exchange fluctuation.

▼ **COVID-19-led Postponement of Surgical Procedures Dent Sales:** Integra management noted that during the first two months of the quarter, sales were in line with the expectations. However, since March, as the pandemic took a graver form, demand for the company's surgical procedures declined significantly. This was because healthcare providers started to reallocate resources to address the surging demand caused by the COVID-19 outbreak. According to Integra, there was a dramatic sales decline that occurred as soon as surgical procedures were postponed on a wide scale.

Although in the third quarter, the recovery rate was significant for Integra, the company is currently cautious given the current spike in COVID cases in a number of countries, particularly in Europe, including France, Italy, and Spain. According to Integra, if hospital capacity becomes constrained, there is risk that in the fourth quarter, revenues will be down mid-single-digits year-over-year, approximately flat sequentially.

▼ **Natural Calamities Might Hamper Business Process:** Many of Integra's manufacturing, development or research facilities are vulnerable to natural disasters or unwanted events, which depending on the extent of its severity, might force the company to cease development and manufacturing of some or all of its products. In particular, Integra's San Diego and Irvine, CA facilities are susceptible to earthquake damage, wildfire damage and power losses from electrical shortages as are other businesses in Southern California. Integra's Añasco, Puerto Rico plant, where it manufactures collagen, silicone and its private label products, is vulnerable to hurricane, storm, earthquake and wind damage. Further, Integra LifeSciences' Plainsboro, NJ facility is prone to hurricane damage. Although the company maintains property damage and business interruption insurance coverage for these facilities, management fears insurance might not cover for all losses in the event of such dire circumstances. Also, the company may not be able to renew or obtain such insurance in the future on acceptable terms with adequate coverage or at reasonable costs.

▼ **Competition:** Integra faces significant competition in the surgical implants and medical instruments market. The company needs to be innovative on the product front in order to keep up with the competition. Moreover, consolidation trends in the industry could lead to intense pricing pressure and further competition in this niche. The primary competitors in specialty surgical solutions are the Aesculap division of B. Braun Medical, Inc., Johnson & Johnson, Medtronic, Inc., Stryker Corporation, Becton, Dickinson and Company, and C.R. Bard, Inc.

In addition, the company competes with many smaller specialized companies and larger companies that do not otherwise focus on specialty surgical solutions. Other major players in orthopedics and tissue technologies includes the DePuy/Synthes business of Johnson & Johnson, Stryker Corporation, Wright Medical Group, N.V., Smith & Nephew plc, MiMedx Group, Inc., Acclivity L.P. Inc., a subsidiary of Allergan PLC, and Zimmer Biomet Holdings, Inc.

▼ **Foreign Exchange Woes Stay:** Integra generates significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business may have an impact on the demand for the company's products in foreign countries. With the recent upward trend observed in the value of the U.S. dollar, further acceleration expected by analysts in this value will cause the company's revenues to face a tough situation overseas.

## Last Earnings Report

### Integra's Q2 Earnings Beat Estimates, Margins Down

Integra LifeSciences delivered adjusted earnings per share (EPS) of 80 cents in the third quarter of 2020, up 17.6% from a year ago. The metric surpassed the Zacks Consensus Estimate by 40.4%.

The adjustment excludes the impact of certain non-recurring charges like structural optimization, acquisition and integration, COVID-19, and intangible asset amortization expenses, among others.

GAAP EPS for the third quarter was 38 cents, against the year-ago quarter's loss per share of 32 cents.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 28, 2020 |
| Sales Surprise   | 0.36%        |
| EPS Surprise     | 40.35%       |
| Quarterly EPS    | 0.80         |
| Annual EPS (TTM) | 2.29         |

### Revenue Discussion

Total revenues in the reported quarter declined 2.3% year over year to \$370.2 million. However, the metric exceeded the Zacks Consensus Estimate by 0.4%. Organically, revenues dropped 1.5% year over year.

Although revenues were lower during the third quarter, Integra recorded a 43.1% revenue increase on a sequential basis due to deferred or delayed surgical procedures during the second quarter.

Notably, despite the fall in revenues due to the pandemic-led impacts, it exceeded the high end of the company's expectation of \$368-\$370 million which was provided along with the preliminary results announced earlier this month.

### Segmental Details

Coming to product categories, revenues from the Codman Specialty Surgical ("CSS") segment fell 5.4% year over year on a reported basis to \$239.3 million (organically, the decline was 4.2%). However, the segment's global neurosurgery sales witnessed a strong recovery from the sequential decline in revenues. Also, sales in neuromonitoring and CSS management increased low-single digits. Despite lower sales in dural access and repair, a strong sequential recovery was observed in the United States.

International sales and CSS were down high-single digits in the reported quarter. Notably, growth in Japan and Canada was offset by slower recovery in the company's indirect markets, including Latin America and parts of Greater Asia. However, the robust adoption of CUSA consumables, programmable valves and DuraGen boosted the top line.

Orthopedics and Tissue Technologies ("OTT") revenues totaled \$130.9 million in the third quarter, up 3.8% year over year on both reported and organic basis. Notably, sales in the United States demonstrated a stronger recovery and grew over 7%. Mid-single-digit year-over-year growth in sales of Integra skin, PriMatrix, Nerve and Amniotic tissue-based products were offset by year-over-year mid-teens decline in surgical reconstruction.

### Margin Trend

In the reported quarter, gross profit totaled \$235.4 million. Gross margin expanded 121 basis points (bps) to 63.6% despite a 0.4% fall in gross profit. Per the company, adjusted gross margin was 68.6%, up 160 bps.

Selling, general and administrative expenses contracted 13.3% to \$150.1 million in the quarter under review, while research and development expenses rose 2.4% to \$19.5 million.

Overall, adjusted operating profit was \$65.9 million, up 48.5% year over year. Adjusted operating margin saw a 609-bps expansion year over year to 17.8%.

### Financial Position

Integra exited the third quarter of 2020 with cash and cash equivalents of \$396.3 million, up from \$360.9 million at the end of the second quarter.

Cumulative net cash flow from operating activities at the end of the third quarter was \$123.6 million compared with \$142.2 million in the year-ago quarter.

### 2020 Outlook

Given the current economic situation due to the pandemic, Integra is unable to assess the magnitude of its impact on its financial results. Hence, the company has not provided any financial guidance for the year.

However, the company anticipated a further sequential revenue improvement in the fourth quarter, given that the pandemic does not worsen significantly. Further, the company does not expect the recovery rates for all its markets and product lines to be the same, thus leading to uncertainties about revenues.

## Recent News

### Integra, Smith+Nephew Announces Divestment Agreement: Sep 29, 2020

Integra announced entering into a definitive agreement to sell its Extremity Orthopedics business to Smith+Nephew for \$240 million in cash. The transaction is expected to close at or around the end of 2020, subject to the satisfaction of customary conditions including regulatory approvals and consultation with employee representative bodies.

## Valuation

Integra shares are down 16.3% in the year-to-date period and down 15.8% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 18.4% while the Zacks Medical sector dipped 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 20.8% and sector is up 7.3%.

The S&P 500 index is up 7.5% in the year-to-date period and rose 12.4% in the past year.

The stock is currently trading at 17.4X Forward 12-months earnings, which compares to 36.6X for the Zacks sub-industry, 22.3X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.8X and as low as 11.8X, with a 5-year median 20.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 18.5X forward 12-months earnings.

The table below shows summary valuation data for IART.

| Valuation Multiples - IART |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                  | Current       | 17.39 | 36.63        | 22.28  | 21.88   |
|                            | 5-Year High   | 26.78 | 41.88        | 23.05  | 23.47   |
|                            | 5-Year Low    | 11.83 | 23.17        | 15.90  | 15.27   |
|                            | 5-Year Median | 20.97 | 28.90        | 19.00  | 17.70   |
| P/S F12M                   | Current       | 2.79  | 4.51         | 2.81   | 4.06    |
|                            | 5-Year High   | 3.86  | 4.57         | 3.25   | 4.30    |
|                            | 5-Year Low    | 1.96  | 2.54         | 2.25   | 3.17    |
|                            | 5-Year Median | 2.91  | 3.25         | 2.86   | 3.67    |
| P/B TTM                    | Current       | 2.94  | 4.65         | 3.83   | 5.72    |
|                            | 5-Year High   | 5.32  | 4.82         | 5.09   | 6.17    |
|                            | 5-Year Low    | 2.22  | 2.75         | 2.97   | 3.74    |
|                            | 5-Year Median | 3.67  | 3.95         | 4.30   | 4.90    |

As of 11/05/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 47% (118 out of 250)



## Top Peers

| Company (Ticker)                    | Rec     | Rank |
|-------------------------------------|---------|------|
| ConforMIS, Inc. (CFMS)              | Neutral | 2    |
| Cantel Medical Corp. (CMD)          | Neutral | 3    |
| DexCom, Inc. (DXCM)                 | Neutral | 3    |
| Hologic, Inc. (HOLX)                | Neutral | 2    |
| Integer Holdings Corporation (ITGR) | Neutral | 3    |
| LivaNova PLC (LIVN)                 | Neutral | 3    |
| Medtronic PLC (MDT)                 | Neutral | 3    |
| OPKO Health, Inc. (OPK)             | Neutral | 3    |

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

| Industry Comparison Industry: Medical - Instruments |         |            |           | Industry Peers |           |           |
|-----------------------------------------------------|---------|------------|-----------|----------------|-----------|-----------|
|                                                     | IART    | X Industry | S&P 500   | CFMS           | HOLX      | MDT       |
| Zacks Recommendation (Long Term)                    | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                             | 3       | -          | -         | 2              | 2         | 3         |
| VGM Score                                           | B       | -          | -         | D              | C         | D         |
| Market Cap                                          | 4.11 B  | 161.32 M   | 24.11 B   | 56.29 M        | 19.86 B   | 139.81 B  |
| # of Analysts                                       | 7       | 2          | 13        | 3              | 8         | 14        |
| Dividend Yield                                      | 0.00%   | 0.00%      | 1.57%     | 0.00%          | 0.00%     | 2.23%     |
| Value Score                                         | B       | -          | -         | F              | C         | C         |
| Cash/Price                                          | 0.11    | 0.13       | 0.07      | 0.34           | 0.04      | 0.10      |
| EV/EBITDA                                           | 22.81   | -1.02      | 13.73     | -2.96          | 63.04     | 19.16     |
| PEG F1                                              | 1.64    | 3.68       | 2.75      | NA             | 1.08      | 3.40      |
| P/B                                                 | 2.94    | 3.62       | 3.35      | 2.70           | 7.33      | 2.77      |
| P/CF                                                | 11.89   | 24.14      | 13.19     | NA             | 13.89     | 15.72     |
| P/E F1                                              | 21.01   | 58.49      | 21.16     | NA             | 17.70     | 26.44     |
| P/S TTM                                             | 2.98    | 4.39       | 2.64      | 0.78           | 5.26      | 5.01      |
| Earnings Yield                                      | 4.76%   | -2.95%     | 4.53%     | -67.69%        | 5.65%     | 3.78%     |
| Debt/Equity                                         | 1.08    | 0.06       | 0.70      | 1.32           | 1.00      | 0.45      |
| Cash Flow (\$/share)                                | 4.10    | -0.15      | 6.92      | -0.35          | 5.52      | 6.62      |
| Growth Score                                        | C       | -          | -         | B              | C         | F         |
| Historical EPS Growth (3-5 Years)                   | 12.43%  | 8.32%      | 10.07%    | NA             | 8.58%     | 3.21%     |
| Projected EPS Growth (F1/F0)                        | -15.33% | 13.98%     | 0.26%     | 0.76%          | 8.86%     | -14.29%   |
| Current Cash Flow Growth                            | 9.92%   | 6.03%      | 5.29%     | -25.47%        | 27.33%    | -9.02%    |
| Historical Cash Flow Growth (3-5 Years)             | 19.16%  | 10.08%     | 8.38%     | 7.63%          | 3.55%     | 7.68%     |
| Current Ratio                                       | 4.52    | 3.16       | 1.38      | 1.90           | 1.79      | 1.87      |
| Debt/Capital                                        | 51.87%  | 13.05%     | 41.97%    | 56.91%         | 50.06%    | 31.19%    |
| Net Margin                                          | 4.10%   | -20.36%    | 10.44%    | -32.11%        | 29.53%    | 15.80%    |
| Return on Equity                                    | 14.26%  | -19.57%    | 14.96%    | -174.01%       | 45.24%    | 10.47%    |
| Sales/Assets                                        | 0.41    | 0.51       | 0.50      | 1.01           | 0.56      | 0.30      |
| Projected Sales Growth (F1/F0)                      | -9.54%  | 0.00%      | 0.00%     | -7.61%         | 12.17%    | 0.75%     |
| Momentum Score                                      | B       | -          | -         | C              | C         | C         |
| Daily Price Change                                  | 3.74%   | 0.75%      | 1.91%     | 0.77%          | 3.96%     | 1.51%     |
| 1-Week Price Change                                 | -10.13% | -5.82%     | -5.63%    | -6.64%         | 1.34%     | -9.74%    |
| 4-Week Price Change                                 | -3.48%  | -2.50%     | 0.43%     | -13.36%        | 12.27%    | -3.52%    |
| 12-Week Price Change                                | -5.68%  | -4.06%     | 3.34%     | -10.40%        | 12.55%    | 2.69%     |
| 52-Week Price Change                                | -15.85% | 0.00%      | 1.98%     | -66.75%        | 65.95%    | -2.61%    |
| 20-Day Average Volume (Shares)                      | 472,611 | 149,167    | 1,955,785 | 247,003        | 1,851,296 | 4,605,860 |
| EPS F1 Estimate 1-Week Change                       | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                       | 11.63%  | 0.00%      | 1.27%     | 0.00%          | 2.33%     | -0.25%    |
| EPS F1 Estimate 12-Week Change                      | 33.85%  | 2.34%      | 3.13%     | -1.55%         | 1.70%     | 15.35%    |
| EPS Q1 Estimate Monthly Change                      | 4.91%   | 0.00%      | 0.51%     | 0.00%          | 45.16%    | -0.36%    |

Source: Zacks Investment Research

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## 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.

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### 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>B</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>B</b> |
| VGM Score      | <b>B</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.

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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.

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.