

Integra LifeSciences (IART)

\$66.10 (As of 03/08/21)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

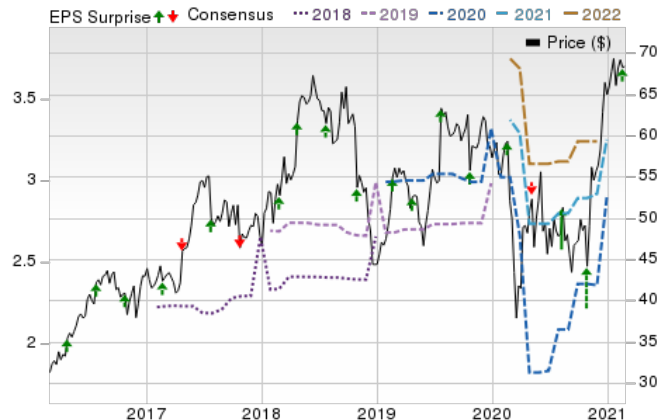
Growth: B

Momentum: D

Summary

Integra exited the fourth quarter of 2020 with better-than-expected earnings and revenue result. The ongoing recovery within the company's business looks encouraging. The sequential improvement in segmental revenues in the fourth quarter buoys optimism. Robust demand for the company's products is also a positive. The recent acquisition and divestment strengthen Integra's balance sheet and increase financial agility. The company provided financial guidance for fiscal 2021, calling for growth in revenues and earnings. Over the past year, Integra has outperformed its industry. On the flip side, the year-over-year drop in revenues is discouraging. The company witnessed decline in OTT and CSS segment revenues due to coronavirus-led business disruptions. Contraction of gross margin is worrying.

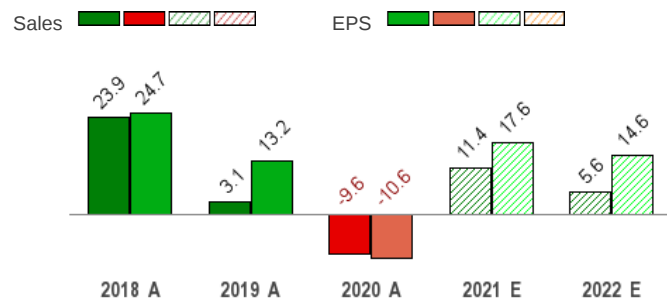
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$71.34 - \$34.21
20-Day Average Volume (Shares)	395,642
Market Cap	\$5.6 B
Year-To-Date Price Change	1.8%
Beta	1.24
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 35% (166 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.5%
Last Sales Surprise	0.3%
EPS F1 Estimate 4-Week Change	-0.3%
Expected Report Date	05/06/2021
Earnings ESP	0.0%
P/E TTM	27.0
P/E F1	23.0
PEG F1	2.5
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	369 E	396 E	412 E	430 E	1,614 E
2021	350 E	375 E	393 E	410 E	1,529 E
2020	354 A	259 A	370 A	389 A	1,372 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.65 E	\$0.81 E	\$0.86 E	\$0.95 E	\$3.30 E
2021	\$0.56 E	\$0.68 E	\$0.78 E	\$0.87 E	\$2.88 E
2020	\$0.48 A	\$0.33 A	\$0.80 A	\$0.84 A	\$2.45 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 03/08/2021. The report's text and the analyst-provided price target are as of 03/09/2021.

Overview

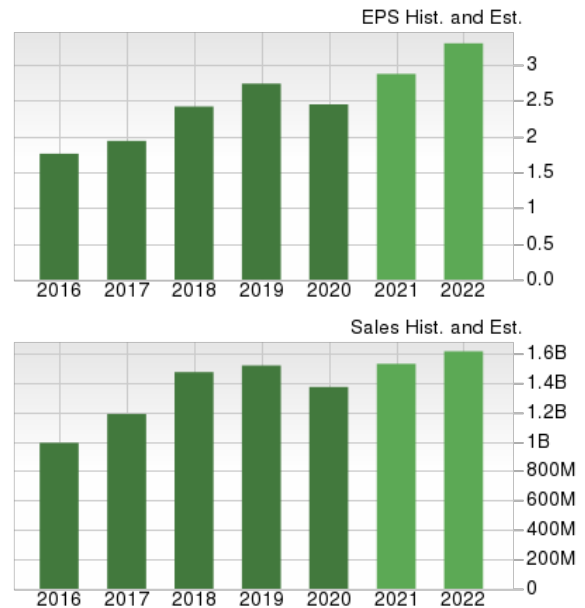
Headquartered in Plainsboro NJ, Integra LifeSciences is one of the world leaders in regenerative medicine. The company develops, manufactures and markets cost-effective surgical implants and medical instruments. The company now manufactures and sells products in the following two global reportable business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

The **CSS** business (65.4% of revenues in 2020, organic decline of 1.6% in 2020), 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.

The **OTT** segment (34.6%, down 1.3%) 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.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Share Price Performance:** Integra has outperformed the industry in the past year. The stock has gained 34.3% compared to the industry's 22% gain. Integra's fourth quarter of 2020 represented a 5% sequential increase in revenue from the third quarter. Capital equipment sales improved more than 40% on a sequential basis. Despite COVID-19 case surges affecting many of the markets resulting in tight ICU bed capacity, Integra recorded sequential growth. Also, most of the franchises or products that returned to growth in the third quarter sustained that into the fourth quarter as well. During the fourth quarter of 2020, U.S. CSS organic growth increased about 2%. Global neurosurgery sales improved sequentially. Fourth-quarter sales in instruments franchise increased sequentially by high-single digits. Also, sales of SurgiMend, nerve and amniotic increased double digits while sales of Integra skin rose low-single digits. Fourth-quarter sales in private label increased 2%, in line with expectations.

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

The company is confident of achieving long-term goals of 5% to 7% revenue growth organically, more than 70% gross margin growth and double-digit adjusted earnings per share growth.

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 Prospects:** Despite the slowdown in the CSS segment, there was steady sequential improvement of 6.3% in the fourth quarter of 2020. Global neurosurgery sales improved sequentially from the third quarter and fell 1.3% on an organic basis year over year. Sales in dural access and repair and CSS management increased low-single digits and mid-single digits, respectively. Sales in neuromonitoring increased low-double digits in the fourth quarter of 2020. All three franchises benefited from strong sales of market-leading products, including DuraGen, antimicrobial catheters and service programmable valves.

In January 2021, Integra acquired ACell, Inc. Per management, the addition of the ACell portfolio and expansion of tissue technology platform in Integra is generating positive customer feedback. The unique characteristics of porcine products like MicroMatrix powder and the Gentry Surgical Matrix help fill gaps in the portfolio to offer clinicians additional tool to treat the most challenging reconstructive interventions.

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. Currently, the company is investing in the two technologies, and aligning the development and clinical progress with its commercialization plans.

▲ **Strong Focus on Portfolio Optimization:** Integra reshaped its portfolio with a strategic divestiture during its process to acquire ACell. In January 2021, the company announced divestment of its Extremity Orthopedics business to focus more on its profitable business. With this divestiture, Integra claims itself to be in an even stronger position to capitalize on its core products and technologies in neurosurgery and regenerative medicine, and provide greater value to customers and shareholders.

The latest development will create a highly-focused tissue technology segment that will be accretive to growth and profitability and will advance the company's leadership position across the portfolio. Integra is likely to strengthen its balance sheet and increase financial agility with the portfolio optimization.

During the reported quarter, Integra also benefited greatly from prior investments in information systems, infrastructure and accelerated digital transformation within many parts of the company.

▲ **OTT Segment Holds Strong Potential:** In the reported quarter, within the OTT segment sales of SurgiMend, nerve and amniotic increased double digits and sales of Integra skin increased low-single digits. Also in fourth quarter sales in private label increased 2% in line with the company's expectations.

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. During 2020, Integra also created an inside sales team within the OTT segment, which is a virtual selling organization focused on driving growth.

▲ **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 as Europe, Canada, China, and Japan. Per Integra, the acquisition of Codman is effectively doubling the company's international business within this segment.

In the fourth quarter of 2020, Integra witnessed growth in several European countries, with revenues in China and Japan rising low-double digits. Japan has achieved six consecutive quarters of double-digit revenue growth despite the impact of COVID-19. This growth has been driven by its leading neurosurgery portfolio.

In 2021, Integra will be launching a number of new products, including programmable valves that are specific to the Japan market. This will drive further penetration into the neurosurgery market of Japan.

Integra is also expanding its commercial presence in China and recently entered into the first exclusive licensing and distribution deal with a local China partner, which will result in the launch of new complementary products in 2021.

On a global basis, Integra accelerated investments in digital capabilities that will enable the commercial teams to reach a broader customer

base. Also, the company has added specialists in neuromonitoring, hydrocephalus and seven regenerative areas.

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 2020 with cash and cash equivalents of \$470.2 million compared with \$198.9 million at the end of 2019. The company saw an improvement of \$140 million in its net debt position from 2019, inclusive of the convertible notes. This indicates a leverage ratio of 3.0 times, flat with 2019 on a pro-forma basis. The decrease in debt portion of the company represents a strong position.

The times interest earned for the company stands at 2.3% versus 2.2% in the third quarter.

Reasons To Sell:

▼ **Dull Top-line Show in Q4:** In the fourth quarter, Integra's total revenues declined 1.6% year over year to \$388.6 million. The company also registered disappointing segmental performance within OTT and CSS segment due to coronavirus-led business disruptions. International sales in CSS were down low-single digits in the reported quarter. OTT segment saw a decline of 1% on a reported basis and a fall of 1.3% on an organic basis in the fourth quarter of 2020. Contraction of gross margin is worrying. 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. The impact from discontinued products is expected to continue to decline and will have a negative impact of approximately 1.3% on 2021 revenues.

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.

Full-year 2020 revenues declined 8.7% on an organic basis to \$1.37 billion and adjusted earnings fell 11% to \$2.45. These declines were a direct result of COVID-related surgical procedure deferrals and capital spending delays at hospitals.

During the first half of 2020, organic revenues fell 16% and earnings dropped 40% from the first half of 2019 owing to COVID-19 led disruption.

▼ **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., Acelyt 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 Q4 Earnings Top Estimates, Revenues Down Y/Y

Integra LifeSciences Holdings Corporation delivered adjusted earnings per share of 84 cents in the fourth quarter of 2020, up 23.5% from a year ago. The metric surpassed the Zacks Consensus Estimate by 13.5%. According to the company, the year-over-year improvement was the result of the company's implementation of expense reduction measures during the pandemic to mitigate the impact of lower sales.

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

GAAP earnings per share for the fourth quarter was \$1.09, against the year-ago quarter's per share of 18 cents.

Adjusted earnings per share was \$2.45 for the year, reflecting a 10.6% decrease from the year-ago period. The figure however surpassed the Zacks Consensus Estimate by 3.8%.

Revenue Discussion

Total revenues in the reported quarter declined 1.6% year over year to \$388.6 million

Total revenues in the reported quarter declined 1.6% year over year to \$388.6 million. However, the metric exceeded the Zacks Consensus Estimate by 0.3%. Organically, revenues dropped 1.5% year over year.

Although revenues were lower during the fourth quarter, Integra recorded a 5% revenue increase on a sequential basis due to continued growth of franchises and products in the fourth quarter of fiscal 2020.

Notably, the quarter's figure matches the high end of the company's preliminary estimate of \$387-\$389 million announced in January.

Revenues for the year were \$1.37 billion, down 9.6% from the year-ago period. The metric was in line with the Zacks Consensus Estimate. Organically, the company's revenues fell 8.7% for the year.

Segmental Details

Coming to product categories, revenues from the CSS segment fell 2% year over year on a reported basis to \$254.3 million (organically, the decline was 1.6%). 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-double digits. Sales in dural access and repair and CSS management increased low-single digits and mid-single digits respectively during the quarter under review.

OTT revenues totaled \$134.4 million in the fourth quarter, down 1% year over year on reported basis and 1.3% on organic basis. During the fourth quarter, sales in wound reconstruction declined 1.5% compared to prior year, but sales of SurgiMend, nerve and amniotic all increased double digits and sales of Integra skin increased low-single digits. Fourth quarter sales in private label also increased 2% in line with the company expectations.

Margin Trend

In the reported quarter, gross profit totaled \$241.6 million, down 1.7% year over year. Gross margin contracted 1 basis point (bps) at 62.2%. The company-adjusted gross margin of 68.2% was also down 1 bps.

Selling, general and administrative expenses contracted 6.8% to \$162.4 million in the quarter under review, while research and development expenses fell 9.9% to \$22.2 million.

Overall, adjusted operating profit was \$57 million, up 21.9% year over year. Adjusted operating margin saw a 283-bps expansion year over year to 14.7%.

Financial Position

Integra exited 2020 with cash and cash equivalents of \$470.2 million, up from \$198.9 million at the end of 2019.

Cumulative net cash flow from operating activities at the end of the fourth quarter was \$203.8 million compared with \$231.4 million in the year-ago quarter.

2021 Outlook

The company has announced its financial guidance for fiscal 2021.

For the full-year 2021, the company expects revenues to be in a range of \$1.52 billion to \$1.53 billion. The Zacks Consensus Estimate for the same is pegged at 1.51 billion.

Adjusted earnings per diluted share for fiscal 2021 are expected to be in a range of \$2.86 to \$2.93. The Zacks Consensus Estimate for the same is pegged at \$2.90.

For the first quarter 2021, the company expects reported revenues in the range of \$345 million to \$355 million. The Zacks Consensus Estimate

Quarter Ending	12/2020
Report Date	Feb 18, 2021
Sales Surprise	0.29%
EPS Surprise	13.51%
Quarterly EPS	0.84
Annual EPS (TTM)	2.45

for the same is pegged at \$354.2 million.

Adjusted earnings per diluted share in the first quarter 2021 are expected to be in a band of 54 to 58 cents. The Zacks Consensus Estimate for the same is pegged at 65 cents.

Our Take

Integra exited the fourth quarter with better-than-expected earnings results. The ongoing recovery within the company's business looks encouraging. The sequential improvement in segmental revenues, in the fourth quarter, buoys optimism. Robust demand for the company's products is also a positive. Expansion of operating margin looks encouraging. The Company provided financial guidance for fiscal 2021 raising optimism.

However, lower year-over-year revenue looks discouraging. The company witnessed decline in OTT and CSS segment's revenues due to coronavirus-led business disruptions is concerning. Contraction of gross margin looks worrying.

Recent News

Integra Completes ACell Acquisition: Jan 20, 2021

Integra LifeSciences announced the completion of its previously-disclosed buyout of ACell, Inc.

Integra Sells Orthopaedics Business to Smith+Nephew: Jan 4, 2021

Integra LifeSciences announced the completion of sale of its non-profitable Extremity Orthopaedics business to London-based Smith+Nephew. With this divestiture, the company is expected to successfully capitalize on its core products and technologies in neurosurgery instrumentation and regenerative medicine space.

Integra to Buy ACell, Expands Regenerative Capability: Dec 16, 2020

Integra enters into a definitive agreement to acquire Columbia MD-based regenerative medicine firm, ACell. The acquisition will strengthen Integra's orthopedics and tissue segment by adding ACell's proprietary technologies and latest products.

Valuation

Integra shares are up 1.8% in the year-to-date period and up 34.3% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 6.2% while the Zacks Medical sector dipped 1.65% in the year-to-date period. Over the past year, the Zacks sub-industry is up 22% and sector is up 8.4%.

The S&P 500 index is up 2.9% in the year-to-date period and rose 35.8% in the past year.

The stock is currently trading at 22.4X Forward 12-months earnings, which compares to 33.0X for the Zacks sub-industry, 21.1X for the Zacks sector and 22.1X 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 21.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 23.7X forward 12-months earnings.

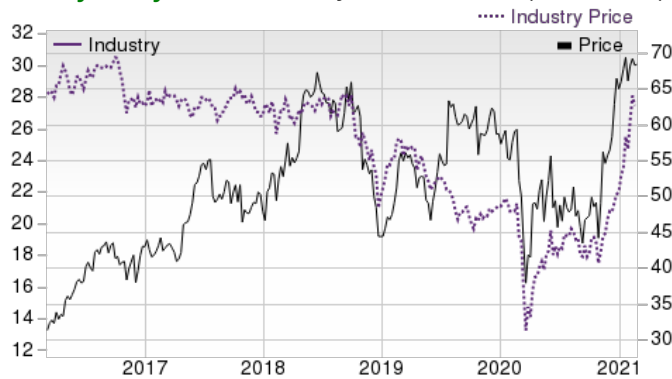
The table below shows summary valuation data for IART.

Valuation Multiples - IART					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	22.37	33.02	21.12	22.11
	5-Year High	26.78	41.60	22.86	23.80
	5-Year Low	11.83	22.91	15.90	15.30
	5-Year Median	21.26	30.06	19.24	17.90
P/S F12M	Current	3.61	4.34	2.65	4.48
	5-Year High	3.95	4.77	3.17	4.48
	5-Year Low	1.96	2.56	2.26	3.21
	5-Year Median	2.97	3.40	2.81	3.69
P/B TTM	Current	3.68	4.44	4.18	6.51
	5-Year High	5.32	5.08	5.11	6.66
	5-Year Low	2.22	2.80	3.02	3.83
	5-Year Median	3.70	4.12	4.38	4.97

As of 03/08/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 35% (166 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Cantel Medical Corp. (CMD)	Neutral	3
Elektro AB (EKTAY)	Neutral	3
Integer Holdings Corporation (ITGR)	Neutral	3
LivaNova PLC (LIVN)	Neutral	3
Masimo Corporation (MASI)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
SARTORIUS AG (SARTF)	Neutral	3
DexCom, Inc. (DXCM)	Underperform	5

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	DXCM	EKTAY	SARTF
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	B	-	-	D	B	A
Market Cap	5.58 B	293.71 M	27.55 B	33.86 B	4.94 B	14.06 B
# of Analysts	7	2	13	13	3	1
Dividend Yield	0.00%	0.00%	1.36%	0.00%	1.09%	0.00%
Value Score	B	-	-	D	B	C
Cash/Price	0.08	0.09	0.06	0.08	0.09	0.04
EV/EBITDA	21.11	-4.19	15.74	87.10	16.29	34.28
PEG F1	2.60	3.01	2.32	8.74	NA	NA
P/B	3.68	5.34	3.87	18.51	5.43	9.92
P/CF	15.82	27.66	15.96	91.47	20.19	37.35
P/E F1	23.43	38.95	20.75	155.62	31.05	62.94
P/S TTM	4.07	7.04	3.29	17.57	3.18	NA
Earnings Yield	4.36%	-1.32%	4.71%	0.64%	3.25%	1.59%
Debt/Equity	0.93	0.06	0.67	0.91	0.62	1.67
Cash Flow (\$/share)	4.18	-0.09	6.78	3.85	0.64	11.01
Growth Score	B	-	-	B	B	A
Historical EPS Growth (3-5 Years)	11.57%	7.32%	9.34%	NA	NA	NA
Projected EPS Growth (F1/F0)	17.38%	29.08%	14.41%	-27.02%	11.11%	29.82%
Current Cash Flow Growth	-0.02%	-0.13%	0.74%	68.92%	5.84%	10.32%
Historical Cash Flow Growth (3-5 Years)	15.72%	9.88%	7.37%	106.87%	11.28%	NA
Current Ratio	3.09	3.26	1.39	5.58	1.23	2.06
Debt/Capital	48.18%	8.63%	41.42%	47.72%	38.38%	62.50%
Net Margin	9.76%	-13.17%	10.59%	25.62%	9.38%	10.04%
Return on Equity	14.90%	-19.46%	14.75%	21.55%	16.88%	24.25%
Sales/Assets	0.39	0.51	0.51	0.55	0.53	0.64
Projected Sales Growth (F1/F0)	11.44%	16.43%	6.93%	19.79%	3.95%	23.99%
Momentum Score	D	-	-	D	F	A
Daily Price Change	-0.15%	-0.41%	0.98%	-3.30%	0.22%	-13.66%
1-Week Price Change	-3.13%	-4.25%	2.46%	-8.47%	-4.44%	0.00%
4-Week Price Change	-4.44%	-12.26%	2.20%	-12.71%	-9.14%	-3.29%
12-Week Price Change	14.94%	19.10%	7.91%	-0.43%	-1.87%	-0.76%
52-Week Price Change	44.92%	44.32%	41.93%	32.10%	40.87%	83.48%
20-Day Average Volume (Shares)	395,642	296,117	2,120,225	793,759	2,572	7
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.34%	0.00%	0.00%	-31.50%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	0.01%	0.00%	2.11%	-34.54%	-9.42%	5.32%
EPS Q1 Estimate Monthly Change	-12.66%	0.00%	0.00%	-39.90%	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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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

Disclosures

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.