

Incyte Corporation (INCY)

\$83.77 (As of 02/17/21)

Price Target (6-12 Months): **\$88.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: D

Summary

Incyte's performance in the fourth quarter was impressive as sales and earnings beat estimates. Demand for Jakafi in all three approved indications (polycythemia vera, myelofibrosis and acute graft-versus-host disease) continues to boost sales. Incyte's efforts to develop its pipeline by forming strategic collaborations are positive. Moreover, the recent approval of Pemazyre, Monjuvi (with MorphoSys) and Tabrecta will bring additional sales and diversify the company's revenue base. The label expansion of Jakafi in additional indications will further boost sales. Shares have underperformed the industry in the past year. However, pipeline setbacks are concerning. Moreover, the company is highly dependent on Jakafi for a major chunk of revenues. The recently-approved therapies will pose stiff competition to Jakafi.

Price, Consensus & Surprise



Data Overview

52-Week High-Low **\$110.37 - \$62.48**

20-Day Average Volume (Shares) **1,161,551**

Market Cap **\$18.1 B**

Year-To-Date Price Change **-5.6%**

Beta **0.79**

Dividend / Dividend Yield **\$0.00 / 0.0%**

Industry **Medical - Biomedical and Genetics**

Zacks Industry Rank **Bottom 20% (203 out of 253)**

Last EPS Surprise **13.4%**

Last Sales Surprise **17.9%**

EPS F1 Estimate 4-Week Change **-11.2%**

Expected Report Date **05/04/2021**

Earnings ESP **0.0%**

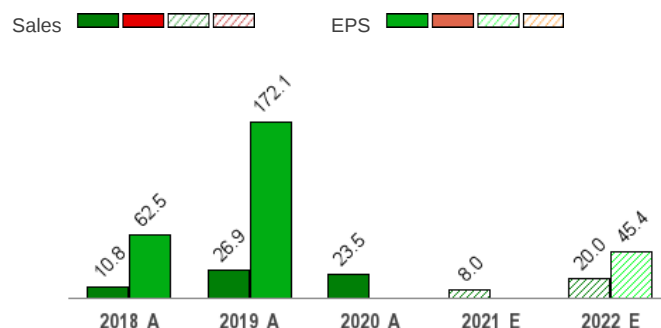
P/E TTM **NA**

P/E F1 **26.7**

PEG F1 **0.8**

P/S TTM **6.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	730 E	808 E	854 E	927 E	3,456 E
2021	652 E	703 E	737 E	793 E	2,880 E
2020	569 A	688 A	621 A	790 A	2,667 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.96 E	\$1.08 E	\$1.21 E	\$1.34 E	\$4.58 E
2021	\$0.63 E	\$0.80 E	\$0.80 E	\$0.97 E	\$3.15 E
2020	-\$2.86 A	\$1.24 A	\$0.23 A	\$0.93 A	-\$0.42 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 02/17/2021. The report's text and the analyst-provided price target are as of 02/18/2021.

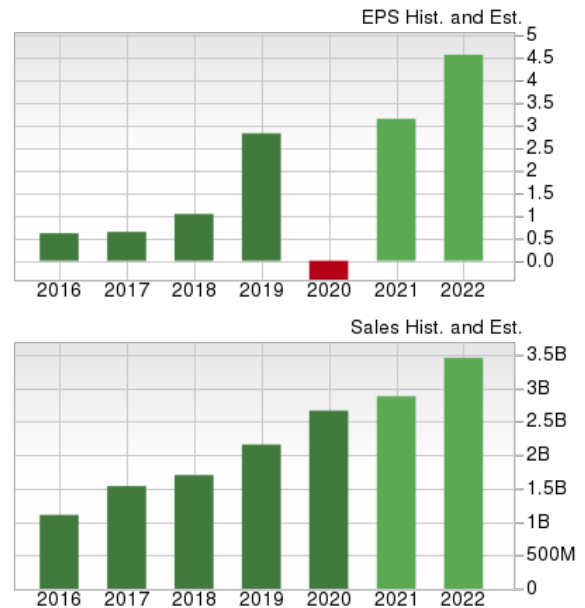
Overview

Wilmington, DE-based Incyte Corporation is a biopharmaceutical company focused on the discovery, development and commercialization of proprietary therapeutics. The company conducts its European clinical development operations in Geneva, Switzerland.

Incyte's lead drug, Jakafi (ruxolitinib), is a first-in-class JAK1/JAK2 inhibitor, approved in the United States for the treatment of patients with polycythemia vera ("PV"), who have had an inadequate response to or are intolerant to hydroxyurea. It is also approved for the treatment of patients with intermediate or high-risk myelofibrosis (MF), including primary MF, post-PV MF, and post-essential thrombocythemia MF. The drug is also approved in the United States for treatment of steroid-refractory acute graft-versus-host disease (GVHD) in adult and pediatric patients aged 12 years or older. While Incyte markets the drug in the United States, it is marketed by Novartis as Jakavi outside the country. Jakafi sales came in at \$1.7 billion in 2019, thereby contributing 78% to total revenues.

The company's second JAK1 and JAK2 inhibitor, Olumiant (baricitinib, JAK1/JAK2 inhibitor) was approved in the EU in February 2017 for rheumatoid arthritis (RA). Incyte is co-developing Olumiant with Eli Lilly. In June 2018, the FDA approved the 2mg dose of baricitinib as Olumiant for the treatment of adults with RA. The approval brings another source of income for Incyte as royalties.

In Jun 2016, Incyte entered into a share purchase agreement with ARIAD under which it gained the latter's European business and the rights to Iclusig in the EU and 22 other countries including Switzerland, Norway, Turkey, Israel and Russia. Revenues for 2020 came in at \$2.7 billion, up from \$1.2 billion in 2019.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Jakafi Driving Growth:** Jakafi continues to drive growth for the company on label expansions. It became the first FDA-approved JAK inhibitor for any indication, and the first and only product to be approved by the FDA for the treatment of MF and PV — rare blood cancers. Jakafi is the only treatment to provide consistent hematocrit control, spleen volume reduction and complete hematological remission by targeting the overactive JAK pathway. Its label has been updated several times since approval, which has boosted Incyte's sales. The drug also has a long patent life that runs until late 2027.

Key growth driver, Jakafi, has been performing well. Incyte's efforts to develop its pipeline are also encouraging.

In order to expand the patient population and increase the commercial potential of the drug, the company is working on expanding the drug's label further. The FDA also approved Jakafi for the treatment of steroid-refractory acute GVHD in adult and pediatric patients aged 12 years or older. This is the third indication, for which the drug has been approved in the United States. The label expansion of the drug will further boost sales. Meanwhile, REACH2 and REACH3, evaluating steroid-refractory acute and steroid-refractory chronic graft-versus-host disease, respectively, are ongoing in collaboration with Novartis. The sNDA seeking approval of Jakafi in steroid-refractory chronic graft-versus-host disease (GVHD) has been submitted. The NDA seeking approval of ruxolitinib cream as a treatment for patients with atopic dermatitis was also submitted to the FDA.

▲ **Approval of Additional Drugs Bode Well:** Incyte's pipeline is highly encouraging. The company has several candidates in early-to mid-stage development, including both targeted therapies and immune therapies that are being developed in oncology and outside oncology. The FDA recently approved pemigatinib, a kinase inhibitor indicated for the treatment of adults with previously-treated, unresectable, locally-advanced or metastatic cholangiocarcinoma with a fibroblast growth factor receptor 2 (FGFR2) fusion or other rearrangement as detected by an FDA-approved test. The candidate has been approved under the brand name, Pemazyre, and the initial uptake of the drug has been strong. Approval of new drugs will reduce Incyte's dependence on lead drug, Jakafi. The marketing authorization application (MAA) seeking approval for pemigatinib in Europe is under review with the European Medicines Agency (EMA).

Pemazyre is also being evaluated in other studies for various other indications — myeloproliferative neoplasms and in previously-treated, locally-advanced/metastatic or surgically unresectable solid tumor malignancies.

The FDA also approved Tabrecta (capmatinib) for treatment of adult patients with metastatic non-small cell lung cancer (NSCLC) whose tumors have a mutation that leads to MET exon 14 skipping (METex14) as detected by an FDA-approved test. Novartis has exclusive worldwide development and commercialization rights to Tabrecta and the FDA approval of the drug triggered \$70 million in milestone payments from Novartis. Incyte is also eligible to receive 12-14% royalties on net sales of Tabrecta from Novartis. In July 2020, the FDA approved Monjuvi (tafasitamab-cxix), an Fc-engineered anti-CD19 antibody, in combination with lenalidomide for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma (DLBCL) and who are not eligible for autologous stem cell transplant (ASCT). Incyte and MorphoSys will co-commercialize Monjuvi in the United States. Approval of new drugs will reduce Incyte's dependence on lead drug, Jakafi and bring additional source of income for the company. The European Marketing Authorization Application (MAA) for tafasitamab as a treatment for patients with r/r DLBCL is under review. Incyte has exclusive development and commercialization rights to tafasitamab outside of the United States.

▲ The FDA had accepted for Priority Review Incyte's Biologics License Application (BLA) for retifanlimab as a treatment for previously treated patients with advanced squamous cell anal carcinoma (SCAC) who have progressed following standard platinum-based chemotherapy.

▲ **Encouraging Collaborations:** Incyte has two major agreements with Novartis and Lilly. The 2009 agreement with Novartis includes Jakafi (excluding topical formulations). Per the agreement, Incyte is marketing Jakafi in the United States while Novartis is responsible for the same outside the United States. The deal with Eli Lilly gives the latter exclusive worldwide development and commercialization rights to Olumiant. The FDA approval of Olumiant has triggered a \$100 million milestone payment from Lilly. However, Incyte has elected to not participate in the development of baricitinib in order to reallocate capital, over time, to other promising internal projects. Nevertheless, it will continue to receive royalties on global net sales of Olumiant, pursuant to the terms of its agreement with Lilly. The collaboration and license agreement with MorphoSys for the development and commercialization of tafasitamab became effective in March 2020.

▲ **Favorable Debt Profile:** As of Sep 30, 2020, Incyte' total debt to total capital stood at 1.8%, which compares favorably to the industry's 50.3%. A lower ratio indicates lower financial risk and vice versa. The company has a sound cash position too with cash, equivalents and marketable securities of \$1.7 billion with a long-term debt of \$33 million.

Reasons To Sell:

- ▼ **Share Price Performance:** Incyte's stock has underperformed the industry in the past one year.
- ▼ **Overdependence on Jakafi for Growth:** Incyte's dependence on a single product, Jakafi for growth is concerning. Lower-than-expected sales would be a huge setback for the company. While we are positive on the company's efforts to expand Jakafi's label, any development/regulatory setback could pull down the stock significantly.
- ▼ **Pipeline Setbacks:** Though we are pleased with Incyte's broad pipeline, the candidates still have to go a long way before hitting the market. Any hiccup in the development process or adverse study results may weigh heavily on the stock and hamper the company's growth progress.

Overdependence on Jakafi is concerning. Also, most of its pipeline candidates are in early-to-mid stages of development, which translates into a long way to approval.

The phase III GRAVITAS-301, evaluating itacitinib in combination with corticosteroids in patients with treatment-naïve (first-line) acute GVHD, did not meet the primary endpoint of overall response rate (ORR) at day 28 compared to placebo plus corticosteroids. Incyte earlier suffered a setback with epacadostat. The external Data Monitoring Committee (eDMC) review of the pivotal phase III study, ECHO-301, evaluating epacadostat in combination with Keytruda in patients with unresectable or metastatic melanoma determined that the study did not meet the primary endpoint of improving progression-free survival in the overall population compared to pembrolizumab monotherapy. Consequently, based on the disappointing data and the recommendation of the eDMC, Incyte stopped the study to enable patients and their physicians to consider alternative therapeutic options.

- ▼ **Stiff Competition:** The FDA approval of Inrebic for the treatment of adult patients with intermediate-2 or high-risk primary or secondary (post-polycythemia vera or post-essential thrombocythemia) myelofibrosis will increase competition for Jakafi. Additionally, Jakafi is likely to face competition from generics. Also, Iclusig faces intense competition. Meanwhile, the oncology market is attracting a lot of attention, with several companies inking deals to tap into this high revenue-potential market.

Last Earnings Report

Incyte Q4 Earnings Beat Estimates on Strong Jakafi Sales

The company reported adjusted earnings of 93 cents per share, beating the Zacks Consensus Estimate of earnings of 82 cents. The company had reported adjusted earnings of 65 cents per share in the year-ago quarter.

Including milestones and contract revenues, total revenues came in at \$789.5 million, which grew 36% year over year and surpassed the Zacks Consensus Estimate of \$669.8 million.

Quarter Ending **12/2020**

Report Date	Feb 09, 2021
Sales Surprise	17.87%
EPS Surprise	13.41%
Quarterly EPS	0.93
Annual EPS (TTM)	-0.46

Quarter in Detail

Total product-related revenues came in at \$679.5 million, up 17% from the year-ago quarter.

Jakafi revenues came in at \$516.9 million, increasing 11% from the year-ago quarter and beating the Zacks Consensus Estimate of \$506 million. Robust demand for Jakafi in all approved indications drove revenues.

Net product revenues of Iclusig amounted to \$28.6 million, up from \$24.3 million in the year-ago quarter.

Jakavi (name outside the United States) royalty revenues from Novartis for commercialization in ex-U.S. markets grew 34% to \$87 million. Olumiant's product royalty revenues from Eli Lilly came in at \$31 million, up 31%.

Pemazyre, which was approved in April 2020, generated \$14 million in sales during the quarter compared with \$8.1 million in the third quarter.

Incyte also earned royalties on Novartis' Tabrecta sales amounting to \$2 million in the third quarter compared with \$1.4 million in the previous quarter. The drug was approved in May 2020.

R&D expenses were \$375.8 million, up from \$284.4 million in the year-ago quarter. The significant increase was driven by development costs for Monjuvi (tafasitamab), product supply-related costs to support the potential launch of ruxolitinib cream as a treatment for atopic dermatitis in 2021 and an increase in upfront and milestone payments under its collaborative agreements. Monjuvi was approved by the FDA in combination with Revlimid for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma ("DLBCL") and who are not eligible for autologous stem-cell transplant ("ASCT"). Incyte has a collaboration agreement with MorphoSys for the development and commercialization of tafasitamab.

SG&A expenses amounted to \$152.1 million, up from \$122.8 million in the prior-year quarter.

2020 Results

Revenues came in at \$2.7 billion, up from \$2.1 billion in 2019. Loss per share in 2020 came in at 42 cents against earnings of \$2.83 in 2019. The loss was due to an upfront consideration related to its collaboration with MorphoSys.

2021 Guidance

The company expects Jakafi revenues of \$2.1-\$2.2 billion for 2021. Other Hematology/Oncology net product revenues (currently include Iclusig in Europe and Pemazyre in the United States) are projected in the range of \$145-\$160 million.

Recent News

Positive CHMP Opinion for Pemigatinib – Jan 29

Incyte announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has issued a positive opinion recommending the conditional marketing authorization of pemigatinib for the treatment of adults with unresectable locally advanced or metastatic cholangiocarcinoma with a fibroblast growth factor receptor 2 (FGFR2) fusion or rearrangement that is relapsed or refractory, after at least one line of systemic therapy.

BLA for Cancer Drug Accepted for Priority Review – Jan 21

Incyte announced that the FDA has accepted its Biologics License Application (BLA) for pipeline candidate, retifanlimab, an investigational intravenous anti-PD1 antibody.

The company is seeking approval of the candidate as a potential treatment for adult patients with locally advanced or metastatic squamous cell carcinoma of the anal canal (SCAC) who have progressed on or are intolerant to platinum-based chemotherapy.

The agency has granted Priority Review to the application. The target action date for the BLA is Jul 25, 2021. The BLA submission was based on data from the phase II POD1UM-202 study evaluating retifanlimab in previously treated patients with locally advanced or metastatic SCAC who have progressed on or are intolerant to standard platinum-based chemotherapy.

Partners With Cellenkos for Myelofibrosis Treatment – Dec 30

Incyte announced a global development collaboration agreement with privately-held clinical-stage biotech company, Cellenkos, Inc.

The companies have collaborated to investigate the combination of Incyte's lead drug, Jakafi, and CK0804, Cellenkos' cryopreserved CXCR4 enriched, allogeneic, umbilical cord blood-derived T-regulatory cells, in patients with myelofibrosis (MF), which is a rare, chronic blood cancer.

Additionally, Incyte gains an exclusive option to acquire sole rights to develop and commercialize CK0804 and genetically-modified variants of CK0804 in benign and malignant hematology indications.

Per the agreement, the companies intend to initiate a phase Ib single-arm, open-label study evaluating Jakafi in combination with CK0804 in patients with MF. The study will be funded by Incyte and operationalized by Cellenkos.

Incyte also has an option to acquire an exclusive global license to develop and commercialize the program. The company would be responsible for all activities and costs associated with research, development and commercialization of the program, once it exercises the global licensing option.

Meanwhile, Cellenkos would be eligible to receive a \$20-million licensing fee along with development, regulatory and sales milestones totaling up to \$294.5 million for each distinct product under the agreement. It is also entitled to tiered royalties ranging from mid-single digit to low-double digits on approval.

Results of Phase III RUXCOVID Study – Dec 14

Incyte announced that the phase III RUXCOVID study evaluating the safety and efficacy of ruxolitinib (Jakafi), a JAK1/JAK2 inhibitor, plus standard-of-care (SoC) as a treatment for patients 12 years and older with COVID-19 associated cytokine storm did not meet its primary endpoint. Initial data show that there was no reduction in the proportion of patients receiving ruxolitinib plus SoC who experienced severe complications including death, respiratory failure requiring mechanical ventilation or admission to the intensive care unit (ICU) by day 29, compared to SoC treatment alone (12.0% vs. 11.8% [OR: 0.91 [95% CI: 0.48-1.73], P=0.769, respectively).

Data from REACH3 Study – Dec 4

Incyte announced that detailed results from the pivotal phase III REACH3 study demonstrated that Jakafi (ruxolitinib) significantly improved outcomes across a range of efficacy measures in patients with steroid-refractory or steroid-dependent chronic graft-versus-host disease (GVHD) compared to best available therapy (BAT).

Patients treated with Jakafi achieved significantly greater overall response rate (ORR) compared to BAT (49.7% vs. 25.6%) at week 24, the primary endpoint of the study. Jakafi also demonstrated statistically significant and clinically meaningful improvements in key secondary endpoints.

Emergency Use Authorization For Baricitinib – Nov 19

Incyte and partner Eli Lilly announced that the FDA has issued an Emergency Use Authorization (EUA) for the distribution and emergency use of baricitinib in combination with remdesivir in hospitalized adult and pediatric patients two years of age or older with suspected or laboratory confirmed COVID-19 who require supplemental oxygen, invasive mechanical ventilation, or extracorporeal membrane oxygenation (ECMO).

Valuation

Incyte's shares are down 6.1% in the year so far and 0.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 10.4% and 5.3% in the year so far, respectively. Over the past year, the Zacks sub-industry is up 12.2% while the sector is up 5.3%. The S&P 500 index is up 5.2% in the year so far and 18.1% in the past year.

The stock is currently trading at 6.23X forward 12-month sales per share which compares to 2.37X for the Zacks sub-industry, 2.86X for the

Zacks sector and 4.59X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.99X and as low as 5.35X, with a 5-year median of 8.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$88 price target reflects 6.54X forward 12-month sales per share.

The table below shows summary valuation data for INCY

Valuation Multiples - INCY					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	6.23	2.37	2.86	4.59
	5-Year High	18.99	3.31	3.17	4.59
	5-Year Low	5.35	1.83	2.26	3.21
	5-Year Median	8.32	2.35	2.84	3.68
P/B TTM	Current	7.03	2.98	4.53	6.7
	5-Year High	81.56	5.08	5.11	6.7
	5-Year Low	5.24	2	3.02	3.84
	5-Year Median	9.47	3.76	4.37	4.96

As of 02/17/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Alkermes plc (ALKS)	Neutral	3
SWEDISH ORP BIO (BIOVF)	Neutral	2
BioMarin Pharmaceutical Inc. (BMRN)	Neutral	3
Bristol Myers Squibb Company (BMY)	Neutral	3
Emergent Biosolutions Inc. (EBS)	Neutral	3
QIAGEN N.V. (QGEN)	Neutral	3
SINO PHARMACEUT (SBMFF)	Neutral	3
Horizon Therapeutics Public Limited Company (HZNP)	Underperform	5

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

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	INCY	X Industry	S&P 500	BMRN	BMY	QGEN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	A	-	-	C	A	A
Market Cap	18.06 B	442.82 M	27.78 B	15.42 B	133.08 B	12.57 B
# of Analysts	8	3	13	10	8	6
Dividend Yield	0.00%	0.00%	1.41%	0.00%	3.30%	0.00%
Value Score	C	-	-	D	A	B
Cash/Price	0.10	0.17	0.06	0.10	0.12	0.06
EV/EBITDA	-93.40	-7.20	14.78	474.00	47.95	19.16
PEG F1	0.81	1.28	2.37	1.31	1.33	1.24
P/B	6.89	5.22	3.81	3.80	3.55	4.49
P/CF	NA	20.72	15.45	134.66	5.45	17.75
P/E F1	25.98	26.19	20.87	52.85	7.99	22.10
P/S TTM	6.77	26.13	3.07	8.28	3.13	6.72
Earnings Yield	3.82%	-8.63%	4.71%	1.90%	12.51%	4.53%
Debt/Equity	0.01	0.00	0.68	0.26	1.28	0.67
Cash Flow (\$/share)	-0.82	-1.21	6.70	0.64	11.12	3.11
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	52.48%	18.91%	9.32%	NA	24.65%	12.50%
Projected EPS Growth (F1/F0)	846.57%	7.17%	13.98%	0.64%	15.39%	16.20%
Current Cash Flow Growth	-133.25%	12.91%	2.56%	200.25%	157.14%	16.98%
Historical Cash Flow Growth (3-5 Years)	NA%	6.93%	7.55%	27.84%	46.29%	8.96%
Current Ratio	3.74	6.21	1.38	3.20	1.58	2.71
Debt/Capital	1.23%	0.00%	41.31%	20.95%	56.06%	40.19%
Net Margin	-11.09%	-205.95%	10.60%	45.74%	-21.20%	19.20%
Return on Equity	-11.46%	-59.64%	14.86%	4.34%	31.55%	18.94%
Sales/Assets	0.83	0.18	0.51	0.36	0.34	0.34
Projected Sales Growth (F1/F0)	8.01%	21.97%	6.46%	2.90%	8.17%	20.03%
Momentum Score	D	-	-	F	C	A
Daily Price Change	2.00%	-0.64%	-0.05%	1.01%	2.00%	-0.11%
1-Week Price Change	-6.55%	2.01%	1.44%	2.14%	-1.53%	3.68%
4-Week Price Change	-13.08%	9.05%	1.42%	-2.49%	-8.54%	2.43%
12-Week Price Change	3.22%	30.98%	6.38%	9.79%	-3.58%	16.72%
52-Week Price Change	1.64%	37.18%	8.82%	-4.53%	-7.79%	48.37%
20-Day Average Volume (Shares)	1,161,551	448,190	2,013,641	1,007,103	12,580,843	1,013,523
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.04%	0.81%
EPS F1 Estimate 4-Week Change	-11.19%	0.00%	0.68%	-2.10%	1.74%	1.88%
EPS F1 Estimate 12-Week Change	-11.19%	0.00%	1.97%	-3.91%	1.72%	1.67%
EPS Q1 Estimate Monthly Change	NA%	0.00%	0.27%	-1.32%	2.10%	9.82%

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	C
Growth Score	A
Momentum Score	D
VGM Score	A

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

Disclosures

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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