

## IQVIA Holdings Inc.(IQV)

**\$188.06** (As of 01/07/21)

Price Target (6-12 Months): **\$199.00**

Long Term: 6-12 Months

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

(Since: 09/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

### Summary

IQVIA Holdings' shares have outperformed its industry in the past year, partly due to consecutive earnings and revenues beat in the past six quarters and raised 2020 guidance. The company enjoys a solid technological suite. Its efforts to help clients gain a deep understanding of the healthcare system and its related processing by providing access to real-world data is appreciable. With increasing presence in emerging markets, IQVIA Holdings should benefit from the growth opportunities in the life sciences industry. Consistent share buybacks boost investor confidence and aid bottom line. However, higher interest expense and rise in depreciation and amortization is likely to weigh on the company's bottom line. High debt may limit the company's future expansion and worsen its risk profile. Foreign currency exchange risks is a concern.

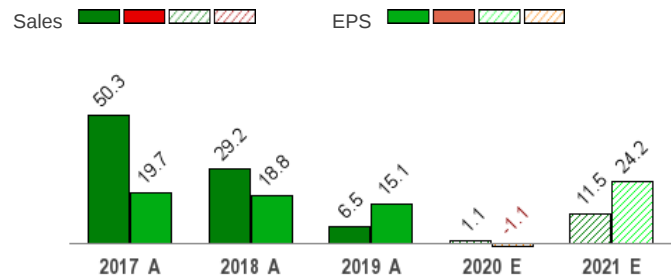
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$191.04 - \$81.81</b>          |
| 20-Day Average Volume (Shares) | <b>903,015</b>                     |
| Market Cap                     | <b>\$36.1 B</b>                    |
| Year-To-Date Price Change      | <b>5.0%</b>                        |
| Beta                           | <b>1.41</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Technology Services</b>         |
| Zacks Industry Rank            | <b>Bottom 34% (168 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>8.0%</b>       |
| Last Sales Surprise           | <b>1.3%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>02/10/2021</b> |
| Earnings ESP                  | <b>-0.0%</b>      |
| P/E TTM                       | <b>31.1</b>       |
| P/E F1                        | <b>24.0</b>       |
| PEG F1                        | <b>1.7</b>        |
| P/S TTM                       | <b>3.3</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 3,000 E | 2,993 E | 3,138 E | 3,353 E | 12,498 E |
| 2020 | 2,754 A | 2,521 A | 2,786 A | 3,151 E | 11,210 E |
| 2019 | 2,684 A | 2,740 A | 2,769 A | 2,895 A | 11,088 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.77 E | \$1.76 E | \$1.99 E | \$2.31 E | \$7.85 E |
| 2020 | \$1.50 A | \$1.18 A | \$1.63 A | \$2.01 E | \$6.32 E |
| 2019 | \$1.53 A | \$1.53 A | \$1.60 A | \$1.74 A | \$6.39 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 01/07/2021. The reports text is as of 01/08/2021.

## Overview

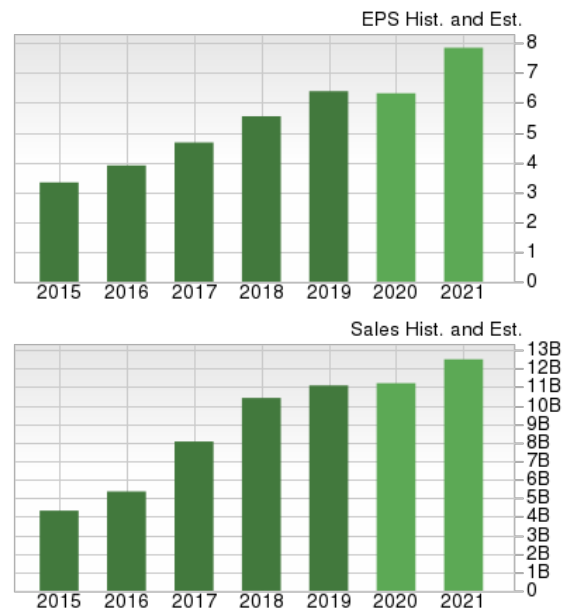
Headquartered in Durham, NC., IQVIA Holdings Inc. provides advanced analytics, technology solutions and contract research services to the life sciences industry. The company was formed through the merger of IMS Health (RX) and Quintiles. The company is focused on helping healthcare clients to better serve patients by bringing in updated and innovative ideas in the process of clinical development and commercialization, speed innovation and accelerate improvements. IQVIA Holdings operates in more than 100 countries, with more than 67,000 employees.

In 2019, IQVIA Holdings generated total revenues of \$11.1 billion (up 6.5% y/y). The company manages business through the following three reportable segments - Technology & Analytics Solutions (formerly Commercial Solutions), Research & Development Solutions and Contract Sales & Medical Solutions (formerly Integrated Engagement Services).

**Technology & Analytics Solutions Segment:** This segment delivers critical information, technology solutions and real-world insights and services to the company's life science customers. Technology & Analytics Solutions offerings include Technology solutions, Real-World Insights, Analytics and consulting services, National information offerings, Sub-national information offerings and Reference information offerings. The segment accounted for 40% of total revenues in 2019.

**Research & Development Solutions Segment:** This segment is focused on research and development and delivers outsourced clinical research and clinical trial related services to biopharmaceutical customers. Research & Development Solutions offerings include Project Management and Clinical Monitoring, Clinical Trial Support Services, Q Solutions, Strategic Planning and Design and Virtual Trials. The segment contributed 52% to total revenues in 2019.

**Contract Sales & Medical Solutions Segment:** This segment provides contract sales to the broader healthcare market as well as biopharmaceutical customers. Contract Sales & Medical Solutions offerings include Health Care Provider Engagement Services, Patient Engagement Services and Medical Affairs Services. The segment accounted for 8% of total revenues in 2019.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ IQVIA Holdings serves the life sciences industry (which is a major part of the global healthcare system) and has a vast geographic presence. It had approximately 303 offices in almost 82 countries, as of Dec 31, 2019. The industry is estimated to have generated approximately \$1.25 trillion revenues in 2019, per the data available from the IQVIA Market Prognosis service. Revenues are expected to grow at a rate of 3% to 6% between 2020 and 2024, globally. Additionally, the IQVIA Institute estimates that spending on pharmaceuticals in emerging markets will expand at a CAGR (compound annual growth rate) of 5% to 8% through 2024. On the back of the expanding global healthcare system, IQVIA Holdings is also hopeful of witnessing multiple acquisition opportunities across the industry. Life sciences organizations are also expected to commercialize their operations in the emerging markets just as they did in the developed markets. The larger ones will require a comprehensive suite of knowledge regarding the localities and their market condition, for their operations. This growing presence in emerging markets like Asia-Pacific and Africa will open up more growth **opportunities for IQVIA Holdings in the life sciences industry**, in the future. Revenues from emerging markets like Asia-Pacific and Africa have shown marked improvement from 2017-2019.
- ▲ IQVIA Holdings look strong on the back of its **technological suite**. The company offers an extensive range of technology solutions in the form of cloud-based applications and related services. The company's Software as a Service ("SaaS") solution supports a vast range of clinical and commercial processes such as clinical trial design and planning, site start-up, patient consent, site payments, content management, multi-channel marketing, customer relationship management ("CRM"), performance management, incentive compensation, territory alignment, roster management, call planning, compliance reporting and master data management. By combining its database, healthcare expertise and therapeutic information collected from over 100 countries, IQVIA Holdings creates its Global Market Insight offerings such as MIDAS, Analytics Link and Disease Insights. All these solutions and services are used by healthcare and pharmaceutical companies to organize, enhance and implement their clinical and commercial strategies in a coordinated manner. 2019 turned out to be a crucial year for the company's technology business. Its Orchestrated Customer Engagement (OCE) platform has gained significant traction earning deserved credibility in the market with 50 new OCE deals in 2019, reflecting an improvement from 30 deals in 2018. The company now has nearly 60,000 contracted seats to deploy, along with four top 15 pharma clients, which is an added positive. While deployment with Roche is complete for several countries in Asia, IQVIA Holdings is working to accelerate the rollout globally to enable Roche's worldwide digital strategy. The Novo Nordisk deployment is under process and it has earned positive responses. Further, the company is looking forward to its first large U.S. deployment. During 2019, it increased investments in the clinical technology space as well.
- ▲ IQVIA Holdings' **efforts to help its clients** gain an accurate and deep understanding of the entire healthcare system and its related processing by providing access to real-world data is appreciable. The company allows its clients to use patient-level data (identity kept hidden) to understand treatments, outcomes and expenses associated, to help them in advanced healthcare decision making. The datasets are integrated with medical claims, prescriptions, electronic medical records, biomarkers and government statistics. This makes them suitable for research purpose. By applying advanced technologies and analytical skills on the data, the company tries to help payer, government, and biopharmaceutical clients understand the effectiveness and economic efficiency of drugs in real-world use. Such efforts have helped the company strengthen its real-world business, which is evident from its client wins. The company continues to make significant investments in the expansion of its real-world platform and capabilities. To this end, the company has been making enhancements to its patented technology platforms, E360 Genomics, which will advance research in the real-world space through the use of non-identified genomic data linked to rich patient analytics. The real-world team continues to invest in rich clinical data assets, which has now grown to 800 million non-identified patients globally.
- ▲ We are also impressed with IQVIA Holdings' endeavors to **reward its shareholders**. In 2019, 2018 and 2017, the company had repurchased shares worth \$945 million, \$1.41 billion and \$2.62 billion, respectively. Such moves indicate the company's commitment to create value for shareholders and underline its confidence in its business. These shareholder-friendly initiatives instill investors' confidence.
- ▲ IQVIA Holdings' shares have gained 17.9% over the past year, outperforming the industry's 11.3% growth. The **outperformance** partly reflects better-than-expected earnings and revenue performance in all the four quarters of 2019 as well as in the first three quarters of 2020. Additionally, the company has raised its 2020 guidance. The company now projects adjusted earnings between \$6.25 and \$6.35 compared with the prior guidance of \$6.10 and \$6.30 per share. Revenues are now expected between \$11.1-\$11.25 billion compared with the prior guidance of \$11 billion and \$11.1 billion. Adjusted EBITDA is now anticipated between \$2,335 million and \$2,360 million compared with the prior guided range of \$2,295 - \$2,345 million.

**IQVIA Holdings serves the life sciences industry with the help of advanced analytics, technology solutions and contract research services.**

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## Reasons To Sell:

- ▼ IQVIA Holdings is seeing **higher interest expense** due to an increase in average debt outstanding. In 2019, interest expense of \$438 million increased 7.9% year over year. The same rose 19.7% year over year in 2018 and more than 100% in 2017. Additionally, the company is witnessing an **increase in depreciation and amortization (D&A)** on the back of higher intangible asset balances as a result of acquisitions. In 2019, D&A of \$1.2 billion increased 5.4% year over year. The same rose 12.9% year over year in 2018 and more than 100% in 2017. Hence, the bottom line is likely to remain under pressure going forward.
- ▼ IQVIA Holdings has a **debt-laden balance sheet**. Total debt at the end of third-quarter 2020 was \$12.3 billion, up from \$12.1 billion at the end of the prior quarter. The total debt to total capital ratio of 0.67 is in line with the previous quarter's figure. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$1.54 billion at the end of the second quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. The cash level, however, can meet the short-term debt of \$144 million.
- ▼ IQVIA Holdings' global presence makes it vulnerable to the risks associated with foreign currency **exchange rate fluctuations**. In 2019, the company earned around 40% of its total revenues in 55 different currencies outside the United States. Notably, the company's top line was unfavorably impacted by foreign currency fluctuations of \$159 million in the said time frame.

Higher interest expense, high debt and foreign currency exchange risks act as headwinds to IQVIA Holdings' growth.

## Last Earnings Report

### IQVIA Surpasses Q3 Earnings & Revenues Estimates, 2020 View Up

IQVIA Holdings reported solid third-quarter 2020 results, wherein the company's earnings and revenues surpassed the Zacks Consensus Estimate.

Adjusted earnings per share of \$1.63 beat the consensus mark by 8% and improved 1.9% on a year-over-year basis. The reported figure was above the guided range of \$1.47-\$1.55.

Total revenues of \$2.79 billion outpaced the consensus estimate by 1.3% and increased 0.6% year over year on a reported basis but were down 0.1% on a constant-currency basis. The reported figure came above the guided range of \$2.73-\$2.78 billion.

Quarter Ending 09/2020

| Report Date      | Oct 20, 2020 |
|------------------|--------------|
| Sales Surprise   | 1.29%        |
| EPS Surprise     | 7.95%        |
| Quarterly EPS    | 1.63         |
| Annual EPS (TTM) | 6.05         |

### Segmental Revenues

Revenues from Technology & Analytics Solutions totaled \$1.21 billion, up 10.2% on a reported basis and 9.2% on a constant-currency basis. The segment accounted for 43% of total revenues.

Research & Development Solutions' revenues of \$1.40 billion decreased 4.5% on a reported basis and 5.1% on a constant-currency basis. The segment contributed 50% to total revenues.

Revenues from Contract Sales & Medical Solutions totaled \$179 million, down 13.9% on a reported and 14.4% on a constant-currency basis. The segment accounted for 6% of total revenues.

### Operating Performance

Adjusted EBITDA was \$604 million, up 1.9% year over year. Adjusted EBITDA margin grew to 21.7% from 21.4% in the year-ago quarter.

Operating income was \$187 million, down 8.3% from the year-ago quarter. Operating income margin decreased to 6.7% from 7.4% in the year-ago quarter.

### Balance Sheet and Cash Flow

IQVIA exited third-quarter 2020 with cash and cash equivalents balance of \$1.46 billion compared with \$1.11 billion at the end of the prior quarter. Long-term debt was \$12.2 billion compared with \$11.9 billion at the end of the prior quarter.

The company generated \$574 million of cash from operating activities in the reported quarter and CapEx was \$157 million.

### Share Repurchase

Considering the consistent demand for its offerings, solid liquidity, and strong free cash flow performance, IQVIA reinstated its share-repurchase program, which it had suspended in the wake of the pandemic. As of Sep 30, 2020, the company had nearly \$1.0 billion of share-repurchase authorization remaining.

### Fourth-Quarter 2020 Guidance

IQVIA expects fourth-quarter revenues in the range of \$3.04-\$3.19 billion. The current Zacks Consensus Estimate of \$3.02 billion lies below the guidance.

Adjusted earnings per share are expected to be between \$1.93 and \$2.03. The current Zacks Consensus Estimate of \$1.95 lies within the guidance.

Adjusted EBITDA is anticipated between \$685 million and \$710 million.

### 2020 Guidance

IQVIA raised its full-year guidance. The company now projects adjusted earnings between \$6.25 and \$6.35 compared with the prior guidance of \$6.10 and \$6.30 per share. Revenues are now expected between \$11.1-\$11.25 billion compared with the prior guidance of \$11 billion and \$11.1 billion. Adjusted EBITDA is now anticipated between \$2,335 million and \$2,360 million compared with the prior guided range of \$2,295 - \$2,345 million.

### 2021 Guidance

For full-year 2021, IQVIA expects revenues in the range of \$12.3-\$12.6 billion. Adjusted earnings per share are expected to be between \$7.65 and \$7.95. Adjusted EBITDA is anticipated between \$2.725 billion and \$2.800 billion.

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## Recent News

On **Dec 16, 2020**, IQVIA announced that it is collaborating with Servier, an independent global pharmaceutical company, to reinvent their R&D clinical development processes and support their long-term R&D success.

On **Nov 2, 2020**, IQVIA announced that its Orchestrated Customer Engagement (OCE) platform will be leveraged by Zentiva across 12 major markets.

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## Valuation

IQVIA Holdings shares are up 29.7% in the past six month period and 17.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 6.7%, while those in the Zacks Business Services sector are up 2.3% in the past six month period. In the past year, the Zacks sub-industry is up 11.3% while the sector is down 5.5%.

The S&P 500 index is up 19.6% in the past six month period and 16.4% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 16.94X, which compares to 51.1X for the Zacks sub-industry, 16.53X for the Zacks sector and 16.98X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.78X and as low as 9.27X, with a 5-year median of 14.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$199.00 price target reflects 25.2X forward 12-month earnings.

The table below shows summary valuation data for IQV

| Valuation Multiples - IQV |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM             | Current       | 16.94 | 51.1         | 16.53  | 16.98   |
|                           | 5-Year High   | 23.78 | 78.09        | 16.53  | 17.02   |
|                           | 5-Year Low    | 9.27  | 9.17         | 8.53   | 9.56    |
|                           | 5-Year Median | 14.36 | 15.15        | 10.93  | 13.21   |
| P/E F12M                  | Current       | 23.87 | 54.11        | 30.37  | 22.97   |
|                           | 5-Year High   | 35.82 | 99.1         | 31     | 23.79   |
|                           | 5-Year Low    | 12.36 | 13.97        | 18.67  | 15.3    |
|                           | 5-Year Median | 20.06 | 33.38        | 21.33  | 17.82   |
| P/S F12M                  | Current       | 2.88  | 5.85         | 5.98   | 4.46    |
|                           | 5-Year High   | 4.13  | 6.8          | 5.98   | 4.46    |
|                           | 5-Year Low    | 1.34  | 1.36         | 3.06   | 3.21    |
|                           | 5-Year Median | 2.38  | 1.96         | 3.61   | 3.67    |

As of 1/07/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                                | Rec          | Rank |
|-------------------------------------------------|--------------|------|
| Aptiv PLC (APTIV)                               | Neutral      | 2    |
| Laboratory Corporation of America Holdings (LH) | Neutral      | 3    |
| NOMURA RESH LTD (NRILY)                         | Neutral      | 3    |
| Spotify Technology SA (SPOT)                    | Neutral      | 3    |
| Thomson Reuters Corp (TRI)                      | Neutral      | 2    |
| Trane Technologies plc (TT)                     | Neutral      | 3    |
| WARTSILA OYJ (WRTBY)                            | Neutral      | 3    |
| Amadeus IT Group SA (AMADY)                     | Underperform | 4    |

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

| Industry Comparison Industry: Technology Services |         |            |           | Industry Peers |           |         |
|---------------------------------------------------|---------|------------|-----------|----------------|-----------|---------|
|                                                   | IQV     | X Industry | S&P 500   | A              | APTIV     | SPOT    |
| Zacks Recommendation (Long Term)                  | Neutral | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                           | 4       | -          | -         | 3              | 2         | 3       |
| VGM Score                                         | C       | -          | -         | C              | F         | F       |
| Market Cap                                        | 36.06 B | 358.03 M   | 27.00 B   | 38.71 B        | 39.10 B   | 59.40 B |
| # of Analysts                                     | 11      | 2          | 13        | 8              | 11        | 10      |
| Dividend Yield                                    | 0.00%   | 0.00%      | 1.43%     | 0.62%          | 0.00%     | 0.00%   |
| Value Score                                       | C       | -          | -         | D              | D         | F       |
| Cash/Price                                        | 0.04    | 0.09       | 0.06      | 0.04           | 0.06      | 0.04    |
| EV/EBITDA                                         | 23.19   | -0.32      | 14.94     | 32.21          | 20.31     | 176.63  |
| PEG F1                                            | 1.72    | 2.54       | 2.64      | 3.83           | 3.34      | NA      |
| P/B                                               | 5.90    | 5.51       | 3.75      | 7.98           | 5.18      | 20.60   |
| P/CF                                              | 15.19   | 18.80      | 14.29     | 29.22          | 18.87     | NA      |
| P/E F1                                            | 24.14   | 30.48      | 20.74     | 34.49          | 36.52     | NA      |
| P/S TTM                                           | 3.29    | 3.99       | 2.97      | 7.25           | 3.14      | 7.00    |
| Earnings Yield                                    | 4.17%   | 0.47%      | 4.71%     | 2.90%          | 2.73%     | -0.44%  |
| Debt/Equity                                       | 2.00    | 0.01       | 0.70      | 0.47           | 0.52      | 0.00    |
| Cash Flow (\$/share)                              | 12.38   | -0.06      | 6.93      | 4.32           | 7.67      | -0.62   |
| Growth Score                                      | C       | -          | -         | B              | F         | D       |
| Historical EPS Growth (3-5 Years)                 | 12.73%  | 6.86%      | 9.71%     | 14.68%         | -14.29%   | NA      |
| Projected EPS Growth (F1/F0)                      | 24.16%  | 22.95%     | 12.21%    | 11.51%         | 127.96%   | 60.99%  |
| Current Cash Flow Growth                          | 8.25%   | 6.69%      | 5.22%     | 8.48%          | -5.77%    | 104.13% |
| Historical Cash Flow Growth (3-5 Years)           | 37.91%  | 3.08%      | 8.33%     | 9.80%          | -1.25%    | NA      |
| Current Ratio                                     | 1.12    | 1.67       | 1.38      | 2.33           | 1.84      | 0.92    |
| Debt/Capital                                      | 66.63%  | 3.43%      | 41.97%    | 31.91%         | 34.25%    | 0.00%   |
| Net Margin                                        | 1.61%   | -16.83%    | 10.40%    | 13.47%         | 13.94%    | -8.73%  |
| Return on Equity                                  | 18.03%  | -14.99%    | 15.20%    | 21.02%         | 8.42%     | -30.46% |
| Sales/Assets                                      | 0.47    | 0.63       | 0.50      | 0.56           | 0.81      | 1.41    |
| Projected Sales Growth (F1/F0)                    | 11.49%  | 13.91%     | 5.91%     | 6.69%          | 20.56%    | 22.43%  |
| Momentum Score                                    | C       | -          | -         | B              | C         | D       |
| Daily Price Change                                | 0.97%   | 2.62%      | 0.85%     | 2.66%          | 4.84%     | 5.45%   |
| 1-Week Price Change                               | 1.84%   | 0.00%      | 1.16%     | 1.01%          | 1.46%     | -4.18%  |
| 4-Week Price Change                               | 11.63%  | 6.32%      | 3.64%     | 6.19%          | 16.63%    | -3.48%  |
| 12-Week Price Change                              | 16.09%  | 18.18%     | 13.45%    | 19.79%         | 48.24%    | 26.69%  |
| 52-Week Price Change                              | 17.91%  | 11.91%     | 8.02%     | 44.56%         | 57.85%    | 110.07% |
| 20-Day Average Volume (Shares)                    | 903,015 | 259,475    | 1,694,173 | 1,562,930      | 1,392,949 | 978,313 |
| EPS F1 Estimate 1-Week Change                     | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | -1.25%  |
| EPS F1 Estimate 4-Week Change                     | 0.00%   | 0.00%      | 0.08%     | 0.21%          | 0.69%     | 0.34%   |
| EPS F1 Estimate 12-Week Change                    | 2.83%   | 1.88%      | 2.45%     | 1.12%          | 11.58%    | 11.62%  |
| EPS Q1 Estimate Monthly Change                    | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | C |
| Growth Score   | C |
| Momentum Score | C |
| VGM Score      | C |

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

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## Disclosures

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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