

Intuitive Surgical (ISRG)

\$761.50 (As of 04/05/21)

Price Target (6-12 Months): **\$804.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/29/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

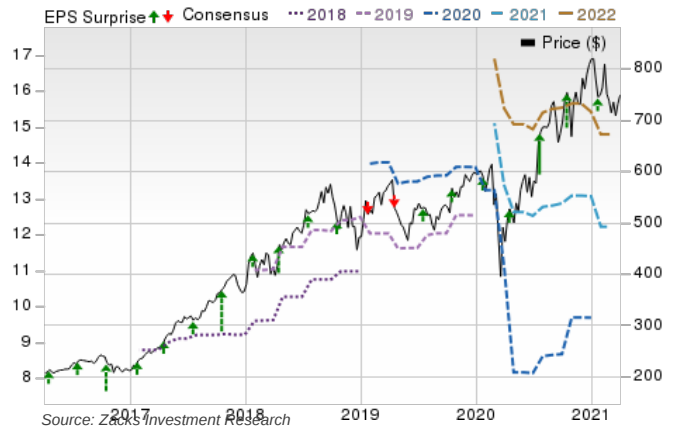
Growth: C

Momentum: B

Summary

Intuitive Surgical witnessed growth in da Vinci procedure volume in the fourth quarter of 2020. Expansion in operating margin is a positive. Further, despite the COVID-19 pandemic induced challenging environment, the company's core businesses exhibited stability, thereby reflecting healthy operational health. The company's Extended Use Program was utilized across numerous da Vinci surgeries during the fourth quarter. Shares of the company outperformed the industry in a year's time. Intuitive Surgical ended the fourth quarter on a solid note. However, the company witnessed weak performance in its Systems segment in the quarter under review. It also saw contraction in gross margin in the fourth quarter. Intense competition in the global MedTech space remains a concern.

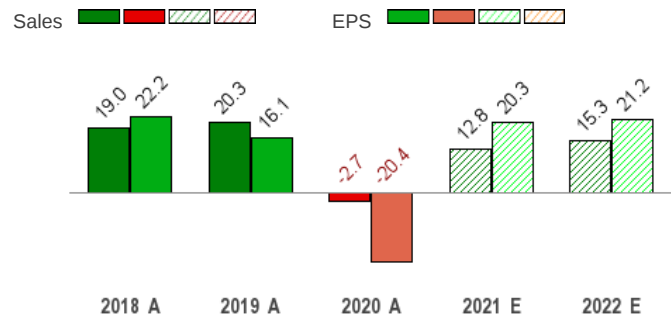
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$826.81 - \$477.03
20-Day Average Volume (Shares)	495,386
Market Cap	\$88.5 B
Year-To-Date Price Change	-8.6%
Beta	1.00
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Instruments
Zacks Industry Rank	Bottom 35% (164 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.5%
Last Sales Surprise	6.5%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	04/20/2021
Earnings ESP	-2.7%

P/E TTM	73.7
P/E F1	62.4
PEG F1	5.1
P/S TTM	20.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,260 E	1,299 E	1,447 E	1,618 E	5,667 E
2021	1,111 E	1,145 E	1,248 E	1,402 E	4,915 E
2020	1,100 A	852 A	1,078 A	1,329 A	4,358 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$3.20 E	\$3.48 E	\$3.83 E	\$4.32 E	\$14.81 E
2021	\$2.60 E	\$2.85 E	\$3.17 E	\$3.61 E	\$12.22 E
2020	\$2.69 A	\$1.11 A	\$2.77 A	\$3.58 A	\$10.16 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 04/05/2021. The report's text and the analyst-provided price target are as of 04/06/2021.

Overview

Headquartered Sunnyvale, CA, Intuitive Surgical Inc (ISRG) designs, manufactures and markets the da Vinci surgical system and related instruments and accessories, which is an advanced robot-assisted surgical system. The surgical system comprises a surgeon's console, patient-side cart, 3-D vision system, da Vinci Skills Simulator and Firefly Fluorescence Imaging.

Intuitive Surgical's robot-based da Vinci surgical system enables minimally-invasive surgery that reduces the trauma associated with open surgery. The da Vinci System is powered by robotic technology which has provided the company with a solid exposure to Mechatronics, Robotics and Artificial Intelligence for healthcare. The system provides 3-D High Definition vision, which helps surgeons gain superior visual clarity of target tissue and anatomy.

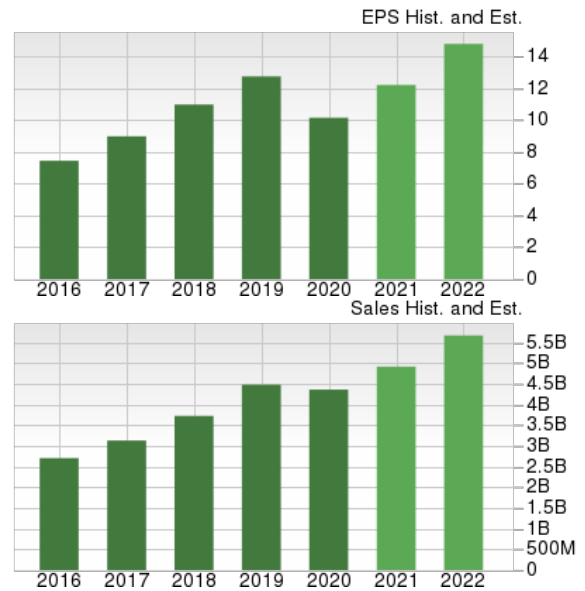
It also manufactures EndoWrist instruments, such as forceps, scissors, electrocautery tools, scalpels, and other surgical tools, which incorporate wrist joints for natural dexterity for various surgical procedures. Additionally, the company sells various accessories comprising sterile drapes for ensuring sterile field during surgery; and vision products that include replacement 3D stereo endoscopes, camera heads, light guides, and other items that facilitate use of the da Vinci Surgical System, as well as Ion endoluminal system for biopsies.

The company operates through three segments: Instruments and Accessories, Systems and Services.

2020 Results at a Glance

Intuitive Surgical's 2020 revenues totaled \$4.36 billion, down 2.7% from 2019.

The company's Instruments & Accessories sales were \$2.46 billion (56.3% of net revenues), Systems revenues were \$1.18 billion (27%) and Services revenues grossed \$723.8 million (16.6%).



Reasons To Buy:

- ▲ **Shares Up:** Over the past year, shares of the company gained 56.3% compared with the industry's rally of 36.7%. The company's Extended Use Program represents some of its higher volume instruments that was utilized across numerous da Vinci surgeries during the fourth quarter. Growth in da Vinci procedure volume has also aided the share price.

Further, increase in stocking orders associated to the company's introduction of Extended Use Instruments bode well for the stock. Also, strength across Instruments & Accessories and Services segments is encouraging. Although da Vinci procedures in the United States have witnessed a substantial recovery (to pre-COVID levels), the resurgence in cases during the fourth quarter and into January will continue to affect the company's procedure volumes.

Growing adoption of the company's da Vinci system, increasing procedure volumes, continuous innovation and solid recurring revenue base are key catalysts.

- ▲ **Strength in Robotics – da Vinci Surgical System:** Intuitive Surgical's robot-based da Vinci surgical system enables minimally-invasive surgery that reduces the trauma associated with open surgery. The da Vinci System is powered by robotic technology which has provided the company with a solid exposure to medical mechatronics, robotics and AI for healthcare. The company launched an upgrade to its flagship Vinci Xi technology – da Vinci X. Notably, the Xi suite is designed to seamlessly integrate future innovations, such as advanced instrumentation, surgical skills simulation, software upgrades, and other advancements into one dynamic platform.

In fourth-quarter 2020 and for the full year 2020, da Vinci procedures grew 6% and 1% globally, respectively, resulting in about 1.25 million procedures in 2020 despite the challenging environment stemming from the COVID-19 pandemic. On an overall basis, the recovery of procedures happened gradually during third-quarter 2020 and reached to approximately 90% of pre-COVID-19 levels by the end of that quarter. Moreover, Intuitive Surgical placed 5,989 da Vinci surgical systems in the fourth quarter, with the installed base growing 7% year over year.

- ▲ **Global Foothold:** Intuitive Surgical is gradually gaining prominence in markets outside the United States. In fourth-quarter 2020, the company witnessed solid procedure growth in Asia. Outside the United States, Intuitive Surgical placed 130 systems in the fourth quarter compared with 140 in the prior-year quarter. Of these, 54 were in Europe, 22 in Japan and 13 in China.

- ▲ **Innovative Technologies:** Intuitive Surgical continuously introduces technologies for surgical systems. The company launched an upgrade to its flagship Vinci Xi technology – da Vinci X recently. The company has also been a constant outperformer in Mature and Growth procedures, especially in general and thoracic surgery. Management at Intuitive Surgical aims to advance its new platforms of imaging, advanced instruments, da Vinci SP and the flexible catheter platform. Notably, the company has announced that it is in the Phase I launch of the da Vinci SP, having installed six systems in the fourth quarter of 2019. The company's installed base of SP systems is currently 69 — eight in Korea and 61 in the United States.

During the second quarter, the company unveiled its Extended Use Program that represents some of its higher volume instruments, which exclude stapling, monopolar and advanced energy instruments that can be utilized across numerous da Vinci surgeries. Under this program, the company intends to launch select Xi/X instruments having 12 to 18 uses in comparison to the current 10 use instruments.

Per the third-quarter earnings call, Intuitive Surgical is reducing the price of certain instruments used commonly in lower acuity procedures and its lower reimburse procedures. The company plans to unveil its Extended Use Instruments later in the fourth quarter in Europe and with respect to other markets in 2021 and 2022, subject to regulatory requirements.

Additionally, Intuitive Surgical announced that it is making progress on its flexible robotics platform, which aimed at addressing the acute need in diagnosis of lung cancer. The company has also initiated the early launch of SureForm 60-millimeter stapler for use with fourth-generation systems. In second-quarter 2020, the company initiated its first commercial cases for E-100 and SynchroSeal in Japan and also its 45 millimeter SureForm stapler was launched in Europe in the quarter under review. Additionally, the company's Ion program continues to move ahead despite challenges faced by COVID-19. In the second quarter itself, three systems were placed and its clinical is making progress.

Going by the product operations in the third quarter, the company's advanced instruments and endoscopy programs are delivering solid clinical and financial results. Customer adoption of its stapler product line, vessel sealers and E-100 generator has been encouraging. The company witnessed strength in the utilization of these products and their targeted clinical procedures with their reorder rates being solid. Despite COVID-19 induced disruptions, uptake of newly launched products, and its latest endoscope, Endoscope Plus have been encouraging. Per the fourth-quarter earnings call, the company is making substantial progress when it comes to acceleration of many elements of its ecosystem, comprising advanced instruments, strengthening its imaging and informatics programs (including its augmented reality program, Iris) and expanding launches of its new platforms.

- ▲ **Plethora of Regulatory Approvals:** Favorable tidings on the regulatory front have always favored Intuitive Surgical. Of the latest ones, the company submitted 510(k) for the second indication of TransOral Robotic Surgery. It is also working through supply chain optimization, as Intuitive Surgical begins to ramp up production for SP. Additionally, the company received FDA nod for its Ion endoluminal system to enable minimally-invasive biopsy in the peripheral lung. Last November, Intuitive Surgical announced the FDA approval of two of the company's da Vinci surgical systems to help improve procedures that require sealing — E-100 generator and SynchroSeal.

Further, a suite of regulatory approvals for the Vessel Sealer Extend — the da Vinci SP Surgical System — and the Sure Form 60 buoys optimism. Intuitive Surgical also gained significantly on the CE Mark approval for da Vinci X in Europe. The stock has got a further boost from the recent FDA approval of the same.

- ▲ **Solid Recurring Revenue Base:** Intuitive Surgical's business model ensures that it continues to generate revenues from both the initial capital sales of da Vinci Surgical Systems and subsequent sales of instruments, accessories and services. The company gains recurring revenues when a consumer purchases its EndoWrist, Single-Site instrument or other accessory products, which are exclusively used in

performing procedures with the da Vinci Surgical System. Recurring revenues, as a proportion of total revenues continue to grow at a much higher rate as compared with system sales. This ensures a regular stream of income even in testing times. Moreover, Intuitive Surgical operates in a niche MedTech market with no direct competition, which is a major positive in our view.

- ▲ **Rides on AI Trends:** Per management, the rise of medical mechatronics, powerful computing, improved sensing, microfabrication and molecular imaging has enabled new approaches to old problems for Intuitive Surgical. Artificial Intelligence (AI) has been enhancing Intuitive Surgical's product portfolio with clinical applications, diagnostic support, operational efficiency, Electronic Health Record systems, practice workflows and supply chain management. The growing adoption of minimally-invasive robot-assisted surgeries, self-automated home-based care, use of IT for quick and improved patient care and shift of the payment system to a value-based model indicate the high prevalence of AI in the MedTech space. Lately, the company signed a definitive agreement with InTouch Health, the leading enterprise telehealth platform to enhance its Internet of Medical Things (IoMT) services.
 - ▲ **Stable Liquidity Position:** Intuitive Surgical is well capitalized having exited the fourth quarter of 2020 with cash and cash equivalents of \$6.87 billion, up from \$4.72 billion sequentially. Increase in cash in the fourth quarter was driven by cash generation from operations, a reduction in inventory and overall working capital and stock exercises. Moreover, the company finished the fourth quarter with no debt on its balance sheet. Therefore, the company has sufficient cash that indicates a stable financial health and solvency during such uncertain times. Notably, the company bought back shares worth \$34 million in the quarter under review.
-

Reasons To Sell:

- ▼ **Weak Trends:** Intuitive Surgical witnessed weak performance in its Systems segment in the fourth quarter. System revenues slumped 11.9% year over year to \$267.8 million. In fact, the company shipped 326 da Vinci Surgical Systems in the quarter, compared to 336 systems in the prior-year quarter.

Moreover, as a percentage of revenues, gross margin in the quarter was 67.4%, down 270 basis points (bps).

- ▼ **Cutthroat Competition in the MedTech Space:** Intuitive Surgical used to enjoy a monopoly stature in the market for robots used in abdominal surgery since the launch of its flagship device called da Vinci back in 2000. But after the regulatory approval of Transenterix's surgical robot for abdominal surgery in 2017, competition for Intuitive Surgical intensified.

Further, Verb Surgical, a joint venture formed between Alphabet and Johnson & Johnson, is also said to be working on integrating big data and machine learning with robotic surgery.

- ▼ **Risk of Procedure Adoption:** Intuitive Surgical faces the risk of adoption of its procedures. Adoption growth takes time, as each procedure needs to gain credibility. Furthermore, broad use of the company's products requires training of surgical teams. Market acceptance could be delayed by the time required to complete such training.

- ▼ **Long Sale & Purchase Order Cycle:** The da Vinci Surgical System has a long sale and purchase order cycle as it is a major capital investment for hospitals that requires the approval of senior management at purchasing institutions. The time lag may act against the interests of the company.
-

Cutthroat competition in the MedTech space and increasing regulatory headwinds are major concerns for Intuitive Surgical at the moment

Last Earnings Report

Intuitive Surgical Q4 Earnings Beat Estimates, Up Y/Y

Intuitive Surgical, Inc. reported fourth-quarter 2020 adjusted earnings per share of \$3.58, which beat the Zacks Consensus Estimate of \$3.10 by 15.5%. Moreover, the bottom line improved 2.9% year over year.

For the full-year 2020, the company reported adjusted EPS of \$10.16 declined 20.4% from 2019 but surpassed the consensus mark by 4.9%.

Quarter Ending 12/2020

Report Date	Jan 21, 2021
Sales Surprise	6.50%
EPS Surprise	15.48%
Quarterly EPS	3.58
Annual EPS (TTM)	10.15

Revenue Details

The company reported revenues of \$1.33 billion, which rose 4% from the prior-year quarter. The top line also outpaced the Zacks Consensus Estimate of \$1.24 billion by 7.3%.

For the full-year 2020, the company reported revenues of \$4.36 billion, down 2.7% from 2019. However, the figure beat the Zacks Consensus Estimate by 2.3%.

Segment Details

Instruments & Accessories

Revenues at the segment amounted to \$746.9 million, reflecting year-over-year improvement of 11.3%. This can be attributed to 6% growth in da Vinci procedure volume and stocking orders related to the company's introduction of Extended Use Instruments.

Systems

In the reported quarter, System revenues slumped 11.9% year over year to \$267.8 million. In fact, the company shipped 326 da Vinci Surgical Systems in the quarter, compared to 336 systems in the prior-year quarter.

Services

Services revenues were \$215.4 million, up 13.2% from the year-ago quarter.

Outside the United States, Intuitive Surgical placed 130 systems in the fourth quarter compared with 140 in the prior-year quarter. Of these, 54 were in Europe, 22 in Japan and 13 in China.

Margins

Adjusted gross profit in the reported quarter was \$926.8 million, up 0.5% year over year. As a percentage of revenues, gross margin in the quarter was 67.4%, down 270 basis points (bps).

Adjusted operating income totaled \$534.6 million, up 5.7% year over year. As a percentage of revenues, operating margin in the quarter was 31.3%, up 20 bps.

Outlook

Due to persistent uncertainty surrounding the extent and duration of the pandemic, and the timing of global recovery and economic normalization; the company cannot ascertain the future impact on its operations and financial performance during this time. Consequently, the company has refrained from issuing any guidance for 2021.

Valuation

Intuitive Surgical's shares are down 6.4% in the year-to-date period while up 56.3% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.9% in the year-to-date period, while that in the Zacks Medical sector are down 3%. Over the past year, the Zacks sub-industry and sector are up 36.7% and 14.9%, respectively.

The S&P 500 index is up 7.4% in the year-to-date period and 53.8% in the past year.

The stock is currently trading at 59.4X Forward 12-months earnings, which compares to 35.3X for the Zacks sub-industry, 22X for the Zacks sector and 22.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 83.1X and as low as 30.3X, with a 5-year median of 50.4X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$804 price target reflects 62.3X forward 12-months earnings.

The table below shows summary valuation data for ISRG.

Valuation Multiples - ISRG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	59.42	35.29	22.04	22.66
	5-Year High	83.06	41.63	22.85	23.83
	5-Year Low	30.28	22.85	15.88	15.3
	5-Year Median	50.37	30.15	19.24	18
P/S F12M	Current	17.74	4.47	2.63	4.64
	5-Year High	19.3	4.77	3.18	4.64
	5-Year Low	8.16	2.58	2.27	3.21
	5-Year Median	13.13	3.47	2.81	3.71
P/B TTM	Current	9.29	4.5	3.85	6.79
	5-Year High	11.13	5.16	5.12	6.79
	5-Year Low	4.22	2.81	3.03	3.83
	5-Year Median	8.37	4.17	4.36	4.98

As of 04/05/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ABIOMED, Inc. (ABMD)	Neutral	4
Edwards Lifesciences Corporation (EW)	Neutral	3
HillRom Holdings, Inc. (HRC)	Neutral	2
Johnson & Johnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
Stryker Corporation (SYK)	Neutral	4
Teleflex Incorporated (TFX)	Neutral	3
Varian Medical Systems, Inc. (VAR)	Neutral	3

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

Industry Comparison Industry: Medical - Instruments				Industry Peers		
	ISRG	X Industry	S&P 500	HRC	JNJ	MDT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	D	-	-	A	B	C
Market Cap	88.50 B	333.71 M	29.75 B	7.34 B	428.68 B	159.33 B
# of Analysts	8	2	13	6	9	14
Dividend Yield	0.00%	0.00%	1.31%	0.87%	2.48%	1.96%
Value Score	F	-	-	B	B	C
Cash/Price	0.06	0.09	0.06	0.04	0.06	0.09
EV/EBITDA	57.03	-4.63	16.95	16.38	18.29	22.28
PEG F1	5.11	3.07	2.35	2.63	2.23	3.56
P/B	9.02	5.52	3.95	4.16	6.77	3.12
P/CF	66.60	27.64	16.86	11.05	15.01	18.17
P/E F1	62.37	39.41	21.87	19.07	17.18	27.17
P/S TTM	20.31	6.79	3.39	2.50	5.19	5.71
Earnings Yield	1.63%	-1.22%	4.49%	5.24%	5.82%	3.68%
Debt/Equity	0.00	0.06	0.66	0.93	0.52	0.52
Cash Flow (\$/share)	11.50	-0.11	6.78	9.95	10.89	6.62
Growth Score	C	-	-	B	C	D
Historical EPS Growth (3-5 Years)	13.27%	8.72%	9.39%	15.78%	6.92%	-1.20%
Projected EPS Growth (F1/F0)	20.21%	32.07%	15.24%	4.88%	18.06%	-5.23%
Current Cash Flow Growth	-3.68%	0.70%	0.44%	21.50%	-5.46%	-9.02%
Historical Cash Flow Growth (3-5 Years)	12.92%	7.22%	7.37%	19.83%	6.23%	7.68%
Current Ratio	6.86	3.19	1.39	1.49	1.21	2.10
Debt/Capital	0.00%	8.44%	41.26%	48.25%	34.03%	34.23%
Net Margin	24.33%	-22.06%	10.59%	8.24%	17.82%	10.36%
Return on Equity	11.67%	-20.96%	14.86%	23.78%	34.02%	9.37%
Sales/Assets	0.42	0.51	0.51	0.63	0.50	0.30
Projected Sales Growth (F1/F0)	12.77%	14.99%	7.36%	0.91%	10.49%	4.00%
Momentum Score	B	-	-	B	B	A
Daily Price Change	2.45%	0.00%	1.04%	-0.56%	0.37%	1.74%
1-Week Price Change	2.31%	1.28%	0.35%	-0.24%	-1.27%	-0.31%
4-Week Price Change	11.83%	2.63%	5.47%	5.34%	3.83%	3.07%
12-Week Price Change	-5.86%	5.67%	9.17%	10.67%	2.55%	1.48%
52-Week Price Change	53.11%	60.66%	61.87%	0.90%	16.94%	27.80%
20-Day Average Volume (Shares)	495,386	250,577	2,120,273	479,282	6,813,903	4,549,995
EPS F1 Estimate 1-Week Change	0.17%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.17%	0.00%	0.00%	0.00%	-0.01%	0.00%
EPS F1 Estimate 12-Week Change	-6.85%	0.00%	2.19%	8.24%	6.61%	3.66%
EPS Q1 Estimate Monthly Change	0.31%	0.00%	0.00%	0.00%	1.50%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	F
Growth Score	C
Momentum Score	B
VGM Score	D

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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