

LabCorp (LH)

\$253.54 (As of 03/30/21)

Price Target (6-12 Months): **\$266.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

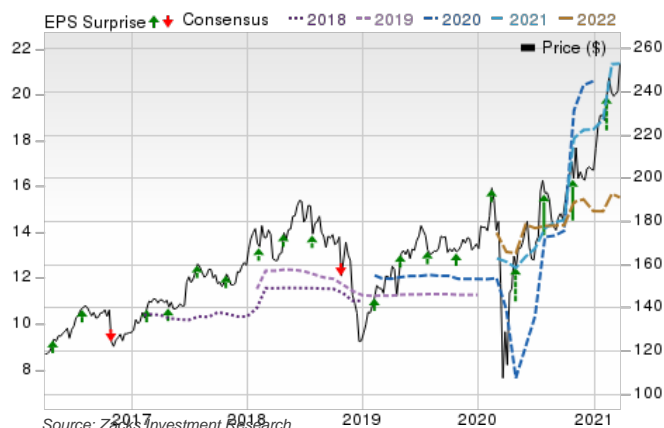
Growth: A

Momentum: C

Summary

LabCorp exited the fourth quarter of 2020 with better-than-expected earnings and revenues. Diagnostics revenues were significantly high on organic volume improvements as a result of growing demand for COVID-19 testing. Although there were still negative impacts of COVID-19 on organic Base Business volume, this part of the business is recovering fast. Also, Covance Drug Development delivered higher sales with strength across all three business lines, leading to a revenue increase in the total and the Base Business. The Drug Development business ended the year with a trailing 12-month book-to-bill of 1.43, driven by strong demand across therapeutic areas. However, the company projecting a significant sink in COVID-19 induced revenue in 2021 is a cause of concern. Over the past year, LabCorp shares have outpaced its industry.

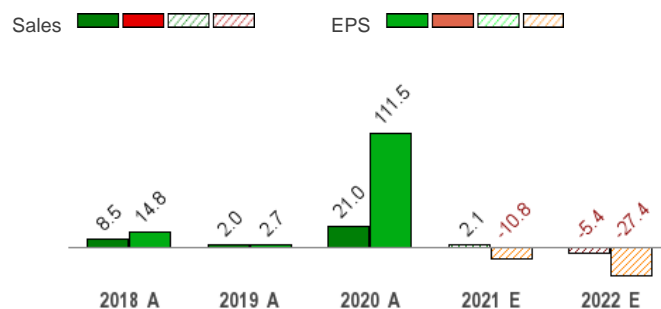
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$257.75 - \$110.40
20-Day Average Volume (Shares)	669,463
Market Cap	\$24.7 B
Year-To-Date Price Change	24.6%
Beta	1.04
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 34% (85 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	31.2%
Last Sales Surprise	12.9%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	05/05/2021
Earnings ESP	5.6%
P/E TTM	10.6
P/E F1	11.9
PEG F1	1.4
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,254 E	3,288 E	3,365 E	3,448 E	13,493 E
2021	3,884 E	3,587 E	3,386 E	3,378 E	14,270 E
2020	2,824 A	2,769 A	3,896 A	4,490 A	13,979 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$3.64 E	\$4.00 E	\$3.94 E	\$4.16 E	\$15.51 E
2021	\$7.32 E	\$5.77 E	\$4.23 E	\$4.05 E	\$21.35 E
2020	\$2.37 A	\$2.57 A	\$8.41 A	\$10.56 A	\$23.94 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/30/2021. The report's text and the analyst-provided price target are as of 03/31/2021.

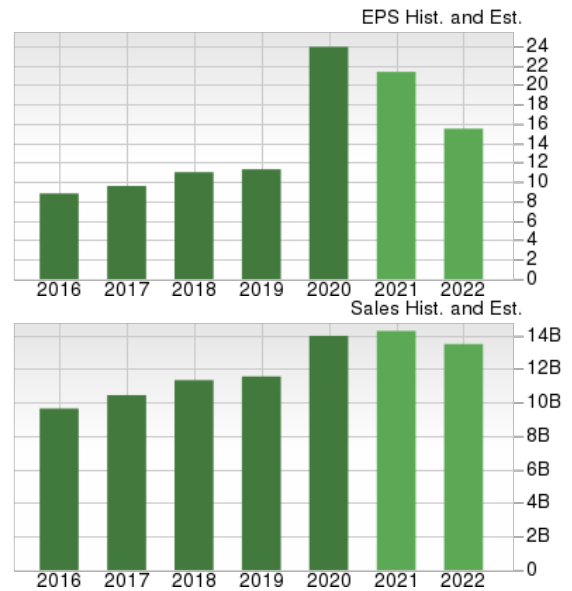
Overview

Headquartered in Burlington, NC, Laboratory Corporation of America Holdings or LabCorp is a leading healthcare diagnostics company, providing comprehensive clinical laboratory services and end-to-end drug development support.

In 2015, LabCorp acquired NJ based Covance, a drug development services company providing a wide range of early stage and late stage product development services on a worldwide basis primarily to the pharmaceutical and biotechnology industries. With this, currently LabCorp reports under two operating segments:

LabCorp Diagnostics (66% of total revenues in 2020; up 32.2% from 2019): Includes LabCorp's legacy business except for its clinical trial services business, which is now part of Covance Drug Development, and includes the nutritional chemistry and food safety business, which was previously part of Covance. This business registered 0.4% revenue decline in 2019 from the year-ago period.

Covance Drug Development (44%; up 6.6%): Includes Covance's legacy business except for its nutritional chemistry and food safety business, which is now part of LabCorp Diagnostics, and includes LabCorp's legacy clinical trial services business. This business reported 6.1% revenue growth in 2018.



Company Strategy

LabCorp has adopted a five-pillar strategy to achieve growth in its businesses. These five strategic pillars are:

- Deploy capital to investments
- Enhance IT capabilities to improve physician, patient experience
- Improve efficiency to remain the most efficient and highest value provider of laboratory services
- Continue scientific innovation to offer tests at reasonable pricing
- Development of alternative delivery models to improve patient outcome and reduce cost of care



Reasons To Buy:

- ▲ **Share Price Movement:** Over the past year, shares of LabCorp surged 118.2% compared to the industry's 51.6% rise. LabCorp exited the fourth quarter of 2020 with better-than-expected earnings and revenues. Diagnostics revenues in the quarter were significantly high on organic volume improvements as a result of growing demand for COVID-19 testing. Although there were still negative impacts of COVID-19 on organic Base Business volume, this part of the business is recovering fast.

Also, Covance Drug Development delivered higher sales with strength across all three business lines, leading to a revenue increase in the total and the Base Business. The Drug Development business ended the year with a trailing 12-month book-to-bill of 1.43, driven by strong demand across therapeutic areas.

In oncology, in 2020, we expanded its leadership position through the launch of a new noninvasive liquid biopsy test, using next-generation sequencing for patients with non-small cell lung cancer. It also collaborated with Tempus to accelerate clinical trial patient participation.

Further, LabCorp is continuing to integrate digital, data analytics and artificial intelligence in every sphere of its development. In Drug Development the company completed acquisitions of GlobalCare and SnapLOT and is working with clients to use mobile and digital technology to accelerate trials and to make virtual and hybrid clinical trials a reality.

- ▲ **Progress with COVID-19 Tests to Aid Diagnostics:** In terms of COVID-19 developments, LabCorp was the first commercial lab to launch PCR testing on March 5, just after the FDA liberalized the rules around Emergency Use Authorization (EUA) for testing. Through 2020, the company developed 6 EUA COVID tests and performed approximately 35 million COVID test in 2020. It has helped to bring multiple treatments and vaccines to market in record time. The company is also the first to offer an at-home PCR collection kit with or without a prescription through Pixel by LabCorp. LabCorp was also one of the initial players to market neutralizing antibody tests that are important in the development of COVID vaccines.

In January, as a major development, LabCorp has been awarded a contract from the Centers for Disease Control and Prevention (CDC) to provide genomic sequencing of samples of SARS-CoV-2. This sequencing will aid the CDC in its goal of conducting a large-scale longitudinal genomic survey of the virus using a random set of samples collected from across the United States.

- ▲ **COVID-19 Offers in Covance Drug Development Aid Growth:** This business is benefitting from collaborations with leading pharmaceutical and biotechnology companies with whom it started to work on potential antivirals, treatments and vaccines. Among the collaborations, the alliance with Ridgeback Biotherapeutics to test an antiviral drug is significant. Further, the Covance business is also working with companies like Adaptive Biotechnologies and Microsoft to focus on immune response to the virus. Separately, it is also working with Pacific Bioscience on unique research programs on virus characteristics that can support patient treatment decisions. Meanwhile, the company has launched its patient registry which Ciox Health that will enable researchers to better understand and characterize COVID-19 diagnosis and treatment and generate the insights that will aid ongoing and future pandemic preparedness and prevention efforts.

In 2020, within this business, the backlog grew to nearly \$13.8 billion and trailing 12 months book-to-bill was 1.43. In the fourth quarter, drug Development delivered broad-based revenue growth, including COVID vaccine and therapeutic studies.

- ▲ **Covance Drug Development Base Business Holds Potential:** Of late, LabCorp is enhancing Covance's offerings through strategic acquisitions. The acquisition of MI Bioresearch is expected to create opportunity for Covance to move from preclinical to clinical development. We are also optimistic about the company's plans to acquire Regulatory and Clinical Research Institute (RCRI), a device focused CRO with strong regulatory consulting expertise.

In addition, the company has progressed with the Covance LaunchPad initiative. LabCorp by the end of 2020 achieved its goal of delivering \$150 million of net savings from Covance LaunchPad. At the end of the fourth quarter, the company registered both organic based business demand and LaunchPad savings. The company expected that, in 2021 the base business will grow 9.5% to 12% over 2020 revenues despite the continuing negative impact from the pandemic.

- ▲ **LaunchPad in Diagnostics May Help Rebound Growth:** On the heels of a successful execution of the company's LaunchPad cost saving initiative in its drug development business, LabCorp has introduced this program within its Diagnostics arm which is facing severe headwinds over the recent term. This Phase II of LaunchPad initiative in Diagnostics is expected to deliver \$200 million of savings by the end of 2021. This initiative focuses on eliminating manual processes; digitizing the business; using technology to improve quality, operations and service; enhancing the consumer experience and bringing LabCorp's services closer to the customer. Phase II of LaunchPad is expected to streamline its business, unlock new avenues for growth and contribute to improvement in the long-term margins. As per the company's fourth-quarter update, despite the COVID-19 downsides, it is currently on track to deliver diagnostics Launchpad target.

- ▲ **Meaningful Acquisitions to Add Value:** LabCorp continues to add complementary capabilities through targeted acquisitions. In the third quarter, the company expanded its capabilities in hybrid and virtual trials by completing the acquisition of GlobalCare Clinical Trials. Further, it acquired snapLOT and RDL Reference Laboratory. Also, the company acquired the ambulatory testing business and entered into a comprehensive laboratory services relationship with Franciscan Missionaries of Our Lady Health System, one of the largest health systems serving Louisiana and Mississippi.

- ▲ **Strategic Plans to Drive Growth:** As part of its three key strategic plans, LabCorp is working hard on new innovations with academic institutions in order to capture the growing lab testing market with its advanced assays and tools. In Diagnostics, the company successfully continues to provide the foundation for new collaborations with health systems, large physician groups and managed care partners. LabCorp has also created growth opportunities in women's health, medical drug monitoring, genetics and oncology testing, as well as in critical

The solid revenue and earnings outlook for 2020 holds optimism indicating improving industry trends along with ongoing positive synergy from the Covance integration.

collaborations with players like Thermo Fisher, Walgreens and 23andMe. Also, its partnerships with UnitedHealthcare and Aetna have helped LabCorp to become a contracted laboratory provider for all major national plans. In the second quarter, as a major development, the company launched liquid biopsy test for patients with non-small cell lung cancer.

Within Covance Drug Development, the company's ongoing strategic investments in precision medicine, therapeutic expertise, FSP solutions and biologic drug development capabilities continue to increase its win rate with existing partners and new customers. The acquisition of Chiltern is significantly strengthening LabCorp's strategic position in clinical development and accelerating revenue and profit growth within Covance. This apart, the company's recent strategic technology contract with QIAGEN is expected to garner positive outcome down the line.

▲ **Solvency Position:** LabCorp exited the year 2020 with cash and cash equivalents of \$1.32 billion compared with \$337.5 million at the end of 2019. Meanwhile, total debt came up to \$5.79 billion, a slight reduction from \$6.29 billion at the end of 2019. While, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the current-year payable debt plus short-term borrowings is coming at \$377 million, much less than the short-term cash level. This is a positive in terms of the company's solvency level as, during the year of economic downturn, the company is holding sufficient cash for short-term debt repayment. The quarter's total debt-to-capital of 38.2% stands at a pretty high level right now. It represented a sequential decline from 41.6% at the end of the third quarter.

Debt comparison with the industry is, unfavorable as, the industry's total debt of \$5.72 billion is lower than the company's debt level.

The company has been using its cash balance to make strategic acquisitions and has been rewarding its shareholders through share repurchases. LabCorp noted interest in acquisitions in the field of contract research and pathology, including hematopathology, at an attractive valuation. However, amid the pandemic, it has temporarily suspended its existing share repurchase program. The times interest earned ratio is pegged at 11.7 in the fourth quarter of 2020, an improvement from 6.7 in the third quarter. This, however, compares favorably with the times interest earned ratio for the industry which stands at a lower level (1.4).

Reasons To Sell:

- ▼ **COVID-19 Revenue to Shrink in 2021:** For 2021, LabCorp expects a decline in revenue for diagnostics of -0.5% to -7.5% compared to 2020 revenue. This guidance projects significant sinking of COVID-19 related testing revenues. Specifically, while in 2021 the base business will grow 11% to 14% over 2020 revenue, COVID testing revenue will decline 35% to 50%.
- ▼ **Exposed to Currency Headwind:** With LabCorp deriving a huge share of its revenues internationally, it remains highly exposed to currency fluctuations. Unfavorable currency movements have been a major dampener over the last few quarters, as in the case of other important MedTech players too. While the trend has shown some sort of improvement in the reported quarter, sustainability remains a matter of question.
- ▼ **Competitive Landscape:** LabCorp faces intense competition from its major competitor, Quest Diagnostics, and other commercial laboratories and hospitals. In a \$55 billion U.S. lab market, hospitals control an estimated 55% of the diagnostic test market, compared to LabCorp's 10% share. While pricing is an important factor in choosing a testing lab, hospital-affiliated physicians expect a high level of service, including accurate and rapid turnaround of testing results. As a result, LabCorp and other commercial labs compete with hospital-affiliated labs primarily on the basis of quality of service.
- ▼ **Reimbursement Cut to Have a Negative Impact:** Changes in governmental regulations had a significant impact on LabCorp's operations. Particularly, in the last couple of years, the company faced several reimbursement issues hurting its revenues. The company is concerned about the CMS' (Centers for Medicare & Medicaid Services) latest Medicare reimbursement reduction as a result of the implementation of Protecting Access to Medicare Act (PAMA). Notably, 2018 was the opening year operating under the clinical IP schedule.

While the company currently appreciates that congress finally passed the LAB Act back which has delayed the next PAMA date of reporting period by 1 year until 2021, regrettably, the legislation did not halt the reimbursement cuts that went into effect in 2019. Meanwhile we note that, in the fourth quarter 2019, PAMA had a negative impact of 130 basis points on the company's gross margin within Drug Development business.

The current economic uncertainty including challenging volume environment for testing laboratories and utilization weaknesses are looming headwinds.

Last Earnings Report

LabCorp's Q4 Earnings Beat on Organic Volume Growth

LabCorp reported fourth-quarter 2020 adjusted earnings per share (EPS) of \$10.56, a significant rise from the year-ago quarter figure of \$2.86. The adjusted figure excludes the impact of loss from venture fund investment, sale of business and debt refinancing costs among others. The bottom line surpassed the Zacks Consensus Estimate by 31.2%.

On a reported basis, net earnings were \$9.54 per share, compared with the year-ago figure of \$2.32 per share.

Full-year adjusted EPS was \$23.94, a 111.5% surge from the year-ago period. This also surpassed the Zacks Consensus Estimate by 11.6%.

Revenues in the quarter under review increased 52% year over year to \$4.49 billion. It exceeded the Zacks Consensus Estimate by 12.8%.

The company reported total revenues of \$13.98 billion in 2020, a 21% rise from 2019. It also surpassed the Zacks Consensus Estimate by 3.4%.

Quarter in Detail

The increase in revenues can be attributed to 50.1% growth in organic revenues, 0.9% growth from acquisitions and 1% contribution from favorable foreign currency translation. The organic revenue growth comprises 46.4% contribution from COVID-19 testing and 3.7% rise in the company's organic Base Business (business operation excluding the company's PCR and antibody COVID-19 testing). However, this increase in organic Base Business was offset by a 0.6% adverse impact of lower Medicare and Medicaid pricing as a result of implementation of Protecting Access to Medicare Act (PAMA).

LabCorp reports results under two operating segments — LabCorp Diagnostics and Covance Drug Development.

In the fourth quarter, **LabCorp Diagnostics** reported revenues of \$3.15 billion, reflecting 79.5% rise year over year. On an organic basis, revenues were up 78.5%. This included a 78% contribution from COVID-19 testing and 0.5% rise in Base Business. The Base Business includes a 1% negative impact from PAMA. Acquisition-related growth was 0.9% in the quarter while favorable foreign currency translation was 0.1%.

The company witnessed a 33.9% rise in total volume (measured by requisition). Organic volume improved 33.3%. Acquisition volume growth was 0.6%. Organic volume growth was primarily based on a 41% contribution from growing demand for COVID-19 testing, partially offset by 7.7% reduction in Base Business due to the pandemic.

Covance Drug Development revenues grew 16.4% to \$1.40 billion in the fourth quarter on organic growth of 13.1%, acquisitions growth of 0.9% and favorable foreign currency translation of 2.3%. The organic growth included an 8.4% increase in the Base Business and a 4.7% contribution from COVID-19 testing performed through its Central Laboratories business.

Margins

Gross margin expanded 1464 basis points (bps) to 42.4% in the fourth quarter. Also, adjusted operating income improved 240.9% year over year to \$1.39 billion. Adjusted operating margin expanded 1712 bps from the year-ago quarter to 30.9%.

Cash Position

LabCorp exited 2020 with cash and cash equivalents of \$1.32 billion compared with \$337.5 million at the end of 2019. Cumulative cash flow from operating activities at the end of the year was \$1,360.7 million, up from \$874.9 million a year ago. Additionally, cumulative free cash flow at the end of the fourth quarter was \$774.6 million, up from \$569.8 million a year ago.

At the end of 2020, the company had \$800 million of authorization remaining under its share repurchase program.

2021 View

The company provided its 2021 guidance. Total Labcorp Enterprise revenues are expected to be down 1% to up 4.5%. This includes Base Business growth in the range of 11% to 13.5% and COVID-19 testing revenue decline in the range of 35% to 50%.

Total Diagnostics revenues are expected to down 0.5% to 7.5%. Total Drug Development revenues are expected to rise 8% to 10.5% from 2020.

Quarter Ending	12/2020
Report Date	Feb 11, 2021
Sales Surprise	12.94%
EPS Surprise	31.18%
Quarterly EPS	10.56
Annual EPS (TTM)	23.91

Recent News

LabCorp Adds High Sensitivity Antigen Test to Screen COVID-19 Infection: Feb 17, 2021

LabCorp announced the availability of a new laboratory-based antigen test that will allow doctors to determine if an individual is actively infected with COVID-19 virus.

LabCorp Gets CDC Contract on Genomic Sequencing of COVID: Jan 7, 2021

LabCorp received a contract from the Centers for Disease Control and Prevention (CDC) to provide genomic sequencing of samples of SARS-CoV-2. According to the company, this sequencing will aid the CDC in its goal of conducting a large-scale longitudinal genomic survey of the virus using a random set of samples collected from across the United States.

Valuation

LabCorp shares are up 24.5% over the year-to-date period and up 118.2% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 6.4% while the Zacks Medical sector fell 0.2% over the year-to-date period. Over the past year, the Zacks sub-industry is up 51.6% and sector is up 24.8%.

The S&P 500 index is up 5.8% over the year-to-date period and increased 62.2% in the past year.

The stock is currently trading at 12.7X Forward 12-months earnings, which compares to 18.8X for the Zacks sub-industry, 21.4X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.2X and as low as 8.6X, with a 5-year median 14.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$266 price target reflects 13.4X forward 12-months earnings.

The table below shows summary valuation data for LH

Valuation Multiples - LH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.73	18.75	21.44	22.36
	5-Year High	18.15	19.77	22.87	23.83
	5-Year Low	8.57	13.63	15.88	15.30
	5-Year Median	14.31	16.70	19.22	17.90
P/S F12M	Current	1.76	0.43	2.72	4.57
	5-Year High	1.76	0.43	3.18	4.57
	5-Year Low	0.84	0.23	2.27	3.21
	5-Year Median	1.43	0.29	2.81	3.69
P/B TTM	Current	2.64	5.41	3.97	6.69
	5-Year High	2.81	5.46	5.12	6.73
	5-Year Low	1.34	2.54	3.03	3.84
	5-Year Median	2.43	3.45	4.36	4.98

As of 03/30/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 34% (85 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Align Technology, Inc. (ALGN)	Outperform	1
Becton, Dickinson and Company (BDX)	Neutral	3
The Cooper Companies, Inc. (COO)	Neutral	2
Henry Schein, Inc. (HSIC)	Neutral	3
Patterson Companies, Inc. (PDCO)	Neutral	3
Straumann Holding AG (SAUHF)	Neutral	3
West Pharmaceutical Services, Inc. (WST)	Neutral	3
DENTSPLY SIRONA Inc. (XRAY)	Neutral	2

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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	LH	X Industry	S&P 500	BDX	HSIC	PDCO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	B	D
Market Cap	24.75 B	3.54 B	29.18 B	71.24 B	9.83 B	3.13 B
# of Analysts	9	5.5	13	11	9	8
Dividend Yield	0.00%	0.00%	1.34%	1.35%	0.00%	3.21%
Value Score	A	-	-	B	A	B
Cash/Price	0.05	0.06	0.06	0.05	0.04	0.05
EV/EBITDA	8.23	15.90	16.52	22.87	13.65	15.90
PEG F1	1.41	2.09	2.37	2.13	2.04	1.35
P/B	2.64	4.64	3.97	2.89	2.47	3.35
P/CF	7.19	16.31	16.40	13.82	16.12	3.39
P/E F1	12.05	23.37	21.68	19.14	18.75	15.83
P/S TTM	1.77	3.91	3.33	3.91	0.97	0.55
Earnings Yield	8.42%	3.36%	4.52%	5.22%	5.34%	6.30%
Debt/Equity	0.59	0.17	0.66	0.65	0.13	0.52
Cash Flow (\$/share)	35.24	2.67	6.78	17.74	4.28	9.54
Growth Score	A	-	-	A	B	F
Historical EPS Growth (3-5 Years)	14.25%	8.34%	9.36%	7.65%	-0.14%	-10.52%
Projected EPS Growth (F1/F0)	-10.80%	32.32%	15.07%	25.63%	23.87%	31.86%
Current Cash Flow Growth	102.69%	2.02%	0.44%	-8.29%	-13.79%	327.70%
Historical Cash Flow Growth (3-5 Years)	22.28%	12.66%	7.37%	16.70%	-1.55%	27.55%
Current Ratio	1.66	1.66	1.39	1.36	1.66	1.43
Debt/Capital	37.12%	21.23%	41.42%	39.47%	17.47%	34.30%
Net Margin	11.13%	-0.07%	10.59%	8.79%	3.99%	-8.54%
Return on Equity	29.36%	12.53%	14.86%	15.32%	11.34%	21.53%
Sales/Assets	0.76	0.81	0.50	0.34	1.33	2.05
Projected Sales Growth (F1/F0)	2.08%	8.24%	7.28%	13.56%	14.83%	6.84%
Momentum Score	C	-	-	D	F	D
Daily Price Change	0.78%	0.00%	-0.10%	-0.79%	-1.10%	-0.09%
1-Week Price Change	5.26%	0.00%	2.12%	2.55%	1.75%	0.09%
4-Week Price Change	4.06%	0.00%	4.39%	0.19%	9.62%	0.00%
12-Week Price Change	21.44%	8.42%	10.27%	-2.33%	1.76%	8.26%
52-Week Price Change	100.60%	62.05%	61.32%	6.71%	36.52%	111.64%
20-Day Average Volume (Shares)	669,463	562,291	2,376,431	1,273,867	1,108,055	813,457
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.10%	0.00%	0.00%	0.00%	0.00%	5.48%
EPS F1 Estimate 12-Week Change	15.57%	2.66%	2.20%	2.50%	1.38%	5.48%
EPS Q1 Estimate Monthly Change	0.17%	0.00%	0.00%	0.00%	0.00%	3.71%

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	A
Growth Score	A
Momentum Score	C
VGM Score	A

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

Disclosures

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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.

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.