

McKesson Corporation (MCK)

\$184.04 (As of 02/10/21)

Price Target (6-12 Months): **\$194.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

Summary

McKesson exited the fiscal third quarter on a strong note, wherein both earnings and revenues beat the Zacks Consensus Estimate. Strong fiscal third-quarter show by three out of four of the segments remains a positive. On Nov 1, 2020, the company completed the contribution of its German wholesale business to a joint venture with Walgreens Boots Alliance. In the quarter under review, McKesson introduced Ontada, which is an oncology technology and insights business under the purview of U.S. Pharmaceutical segment. Strong fiscal 2021 outlook also buoys optimism. Shares of McKesson outperformed the industry in a year's time. Meanwhile, contraction in gross margin is a woe. Weakness in International segment raises concern. Price fluctuation of generic pharmaceuticals and stiff competition in the MedTech space remain headwinds.

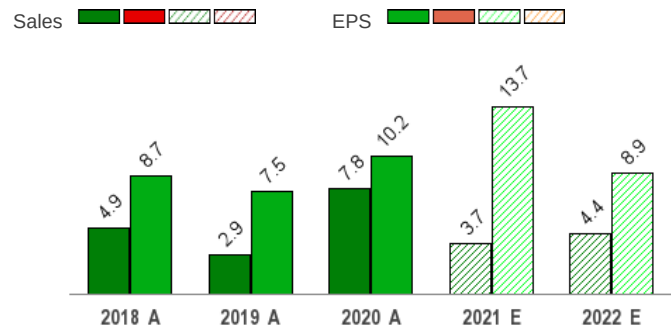
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$187.37 - \$112.60
20-Day Average Volume (Shares)	972,717
Market Cap	\$29.3 B
Year-To-Date Price Change	5.8%
Beta	0.87
Dividend / Dividend Yield	\$1.68 / 0.9%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 46% (116 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.4%
Last Sales Surprise	1.2%
EPS F1 Estimate 4-Week Change	4.7%
Expected Report Date	05/19/2021
Earnings ESP	0.8%
P/E TTM	11.2
P/E F1	10.8
PEG F1	1.5
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	59,799 E	62,649 E	64,529 E	63,182 E	250,264 E
2021	55,679 A	60,808 A	62,599 A	60,962 E	239,693 E
2020	55,728 A	57,616 A	59,172 A	58,535 A	231,051 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$3.97 E	\$4.54 E	\$4.92 E	\$5.28 E	\$18.51 E
2021	\$2.77 A	\$4.80 A	\$4.60 A	\$4.96 E	\$17.00 E
2020	\$3.31 A	\$3.60 A	\$3.81 A	\$4.27 A	\$14.95 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/10/2021. The report's text and the analyst-provided price target are as of 02/11/2021.

Overview

San Francisco, CA-based McKesson Corporation is a health care services and information technology company. McKesson operates through two segments:

The Distribution Solutions segment distributes branded and generic pharmaceutical drugs along with other healthcare-related products on a global basis worldwide. The segment also provides practice management, technology, clinical support and business solutions to community-based oncology and other specialty practices. In addition, the segment provides specialty pharmaceutical solutions for pharmaceutical manufacturers including offering multiple distribution channels and study access to oncology physicians. The segment also provides medical-surgical supply distribution, equipment, logistics and other services to healthcare providers within the U.S.

The Technology Solutions segment provides enterprise-wide clinical, patient care, financial, supply chain, and strategic management software solutions.

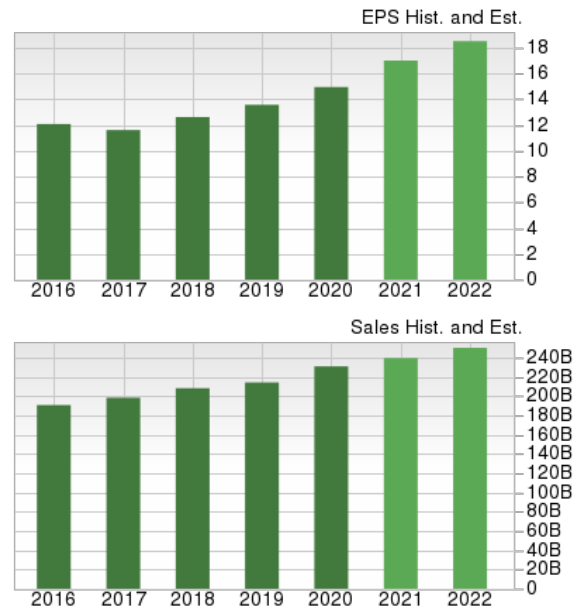
However, in the first quarter of fiscal 2019, McKesson reported revenues through three segments: U.S. Pharmaceutical and Specialty Solutions, European Pharmaceutical Solutions, Medical-Surgical Solutions.

Acquisitions

In Jan 2018, McKesson announced that it has completed the acquisition of RxCrossroads from CVS Health Corp. RxCrossroads is a provider of tailored services to pharmaceutical and biotechnology manufacturers. The transaction is valued at \$735 million and has been entirely funded by cash on hand. RxCrossroads will become part of McKesson's Specialty Health business. In Jun 2018, McKesson completed the acquisition of MSD for the net purchase consideration of \$784 million, which was funded from cash on hand.

FY20 at a Glance

Revenues in fiscal 2020 grossed \$231.05 billion, compared with \$214.31 billion a year ago. U.S. Pharmaceutical and Specialty Solutions (79% of net revenues), European Pharmaceutical Solutions (12%), Medical-Surgical Solutions (4%) and Other (4%).



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** In the past six months, shares of McKesson have gained 20.2% compared with the industry's growth of 17%. Multi-year growth initiatives and strong position in Distribution market continue to favor the stock.

The fiscal third quarter exhibited the unpredictable and dynamic nature of the recovery from the effects of the pandemic, as increased demand continued for products like COVID-19 test and personal protective equipment (PPE). Strong fiscal third-quarter show by three out of four of the segments remains a positive. Notably, the company's board of directors authorized an additional share repurchase program worth \$2 billion, highlighting confidence in its diversified capital allocation strategy.

Further in the quarter under review, McKesson introduced Ontada, which is an oncology technology and insights business under the purview of U.S. Pharmaceutical segment. This business has been developed to lend support to innovation, advancement and evidence generation that can result in better outcomes for cancer patients.

- ▲ **Multi-Year Growth Initiatives:** In recent times, McKesson announced a multi-year strategic growth initiative, focused on creating innovative new solutions that improve patient care delivery and drive incremental profit growth. The plan is to implement differential pricing for brand, generic, specialty, biosimilar and OTC (Over-the-counter) drug classes in line with services offered to both customers and manufacturers. As discussed in the fiscal first-quarter 2021 earnings call, McKesson continues to remain focused when it comes to its multi-year strategic growth initiative update that is currently expected to generate approximately \$400 million to \$500 million in annual pre-tax gross savings. This will be substantially realized by the end of fiscal 2021.

Management aims to increase efficiency, accelerate execution and improve long-term performance through its initiatives that consist of multiple growth pillars.

- ▲ **Strong Player in Distribution Market:** McKesson is a major player in the pharmaceutical and medical supplies distribution market.

The Distribution Solutions segment caters to a wide range of customers and businesses and stands to benefit from increased generic utilization, inflation in generics driven by several patent expirations in the next few years, and an aging population.

It is encouraging to note that, in the fiscal fourth quarter 2019, Rite Aid renewed its 10-year distribution and sourcing relationship with McKesson, while pharmaceutical distribution relationship with CVS Health was renewed through June 2023.

Additionally, in the fiscal third quarter 2019, McKesson launched its Opioid Foundation that will focus on helping advance solutions to the U.S. opioid crisis. Per management, the company has contributed \$100 million toward building the foundation for opioid response efforts — a foundation dedicated entirely for driving solutions to the epidemic.

In December, McKesson started to distribute Moderna's COVID-19 vaccine within 48 hours of its Emergency Use Authorization (EUA) approval by the FDA as it is within the scope of its contract with Centers for Disease Control and Prevention.

Further, throughout January, McKesson managed to successfully distribute above 25 million doses of the COVID-19 vaccine to sites across the country. From the distribution standpoint, the company remains on track to meet the US government's plan to distribute hundreds of millions of refrigerated and frozen vaccines.

Additionally, the company has also been making efforts in preparation and distribution of the ancillary kits required to administer all of the COVID-19 vaccines, which includes the Pfizer ultra-frozen vaccine (although Pfizer's vaccine is not distributed by McKesson). The company is producing significant number of kits every week to support 10-15 million doses and has managed to assemble enough kits to support above 250 million doses to-date.

- ▲ **Acquisitions & Strategic Collaborations:** McKesson has been actively pursuing deals, divestitures and acquisitions to drive growth. Recently, MedTech bigwig, Cerner Corporation collaborated with McKesson's CoverMyMeds, a wholly-owned subsidiary of its Prescription Technology Solutions sub unit.

On Aug 14, 2020, McKesson announced that it will extend its existing partnership with the CDC to help the U.S. government's OWS team. With this collaboration, the company will become the centralized distributor of future COVID-19 vaccines and ancillary supplies required to administer vaccinations. As directed by the U.S. government, vaccines and related supplies will be delivered to point-of-care sites across the country. Notably, OWS is a collaboration among components of the Department of Health and Human Services (HHS) and the Department of Defense. Per the partnership, OWS deals with private firms and other federal agencies, and coordinates with the existing HHS-wide efforts to expedite development, manufacture and distribution of COVID-19 vaccines, therapeutics and diagnostics.

On Nov 1, 2020, McKesson announced that it has completed the contribution its German wholesale business to a joint venture with Walgreens Boots Alliance. While Walgreens holds a 70% controlling equity interest in the joint venture, McKesson holds the rest 30%.

- ▲ **Divestitures:** In an initiative to focus on core strength, McKesson's divested Enterprise Information segment in recent past. Notably, the Enterprise Information Solutions portfolio included a robust set of clinical and financial solutions supporting the full scope of care delivery processes — including Paragon (EHR solution); STAR and HealthQuest (Revenue Cycle solutions); Lab Analytics and Blood Bank; and OneContent (Content Management solutions).

Notably, on February 4, 2020, McKesson's wholly-owned subsidiary, PF2 SpinCo, Inc., filed a registration statement with the Securities and

McKesson has been pursuing deals and acquisitions to drive growth. The company is a major player in the pharmaceutical and medical supplies distribution market.

Exchange Commission (SEC) with regards to a potential exit of the company from its investment in the Change Healthcare JV.

Separating Technology Business: In recent past, McKesson divested its Technology Solutions business and merged the same with Change Healthcare Holdings to form a new healthcare information technology entity.

The Technology Solutions business had been facing challenges for quite some time as revenues declined. Hence, in a bid to focus on its core distribution business, McKesson offered the majority of its Technology Solutions businesses to Change Healthcare but has retained RelayHealth Pharmacy and Enterprise Information Solutions (EIS). McKesson is currently holding 70% of the new company. Meanwhile, McKesson's Prescription Technology Solutions displayed strong performance in the fiscal first quarter. Per management, the company continues to make investments in this business, which in turn will position it well for future growth.

On Mar 10, 2020, McKesson completed the separation of its investment in Change Healthcare.

▲ **Stable Liquidity Position:** McKesson exited fiscal third quarter with cash and cash equivalents of \$3.58 billion, up from \$3.09 billion sequentially. The company's long-term debt was \$14.53 billion in the quarter under review, which significantly increased from \$5.85 billion on a sequential basis. Although the quarter's long-term debt is much higher than the corresponding cash and cash equivalent level; the current-year debt is at \$929 million, down from \$1.76 billion on a sequential basis, which is noticeably lower than the short-term cash level. This is good news in terms of the company's solvency level as, at least during the year of economic downturn, the company is holding sufficient cash for debt repayment.

McKesson's capital deployment policy is based on the return of shareholders' money through share repurchases and dividends. The company returned \$709 million to its shareholders in the form of dividends (\$209 million) and share repurchases (\$500 million) for the first nine months of the fiscal year 2021. In the quarter under review, the company's board of directors authorized an additional share repurchase program worth \$2 billion, indicating confidence in its diversified capital allocation strategy.

Reasons To Sell:

- ▼ **Fiscal Q3 Headwinds:** In the fiscal third quarter, McKesson witnessed several headwinds that weighed on the its results.

Although the company delivered gross profit (up 3.9% on a year-over-year basis), gross margin accounted for 5% of net revenues, down 10 basis points (bps) from the prior-year quarter. Further, the company reported operating loss of \$7.36 billion against the year-ago quarter's operating income of \$360 million.

At the International segment, revenues amounted to \$9.27 billion, down 6% year over year. Also, the metric decreased 10% at constant currency (cc) resulting from the contribution of McKesson's German wholesale business to a joint venture with Walgreens Boots Alliance.

With respect to the company's corporate segment, opioid-related costs are expected to be around \$160 million for fiscal 2021. Given the higher opioid-related costs and increased investment in the business, the company now estimates corporate expenses between \$645 million and \$685 million.

- ▼ **Weak Trends:** McKesson distributes generic pharmaceuticals, which are subject to price fluctuation. The Distribution Solutions segment had experienced weaker generic pharmaceutical pricing trends, which continue to persist. Continued volatility, unfavorable pricing trends, reimbursement of generic drugs, significant fluctuations in the nature, frequency and magnitude of generic pharmaceutical launches could have a material adverse impact on McKesson.

Per the fiscal third-quarter earnings call, on the basis of manufacturer price actions taken in January, the company is maintaining its full year fiscal 2021 expectation of branded price increases to be in the mid-single digit percent range.

- ▼ **Stiff Competition:** Distribution Solutions faces stiff competition both in terms of price and service from various full-line, short-line and specialty wholesalers, service merchandisers, self-warehousing chains, manufacturers engaged in direct distribution, third-party logistics companies and large-payer organizations. Moreover, the company depends on fewer suppliers for its products. As a result, it is not in a position to negotiate pricing.

Also, the prices for company's products and services may erode due to greater bargaining power of other healthcare enterprises. In addition, the company's Technology Solutions segment experiences substantial competition from many firms, including other software services firms, consulting firms, shared service vendors, certain hospitals and hospital groups, payers, care management organizations, hardware vendors and internet-based companies with technology applicable to the healthcare industry.

Sluggish growth in the pharmaceutical distribution business is concerning. Global regulatory headwinds persist.

Last Earnings Report

McKesson Earnings and Revenues Beat Estimates in Q3

McKesson Corporation reported third-quarter fiscal 2021 adjusted earnings per share of \$4.60, which beat the Zacks Consensus Estimate of \$4.13 per share by 11.4%. The bottom line also improved 20.7% on a year-over-year basis.

Revenues of \$62.59 billion outpaced the Zacks Consensus Estimate by 1.2%. Further, the top line rose 5.8% year over year.

Quarter Ending 12/2020

Report Date	Feb 02, 2021
Sales Surprise	1.16%
EPS Surprise	11.38%
Quarterly EPS	4.60
Annual EPS (TTM)	16.44

Q3 Segmental Analysis

Revenues at the **U.S. Pharmaceutical and Specialty Solutions** segment were \$49.49 billion, up 6.5% year over year. Per management, the upside was primarily driven by market growth and increase in specialty volumes. However, branded to generic conversions partially offset the upside.

At the **International segment**, revenues amounted to \$9.27 billion, down 6% year over year. Also, the metric decreased 10% at constant currency (cc) resulting from the contribution of McKesson's German wholesale business to a joint venture with Walgreens Boots Alliance.

Revenues at the **Medical-Surgical Solutions** segment totaled \$3.05 billion, up 42.6% year over year. Higher demand for COVID-19 tests in the Primary Care and Extended businesses contributed to the upside.

Revenues at the **Prescription Technology Solutions** segment totaled \$777 million, up 8.8% year over year. New brand support programs and increase in volumes of the existing programs led to the improvement.

Margins

Gross profit in the reported quarter was \$3.15 billion, up 3.9% on a year-over-year basis. Meanwhile, gross margin accounted for 5% of net revenues, down 10 basis points (bps) from the prior-year quarter.

The company reported operating loss of \$7.36 billion against the year-ago quarter's operating income of \$360 million.

The U.S. Pharmaceutical and Specialty Solutions segment reported adjusted operating profit of \$656 million, up 2% from the prior-year quarter. Adjusted operating margin was 1.3% at the segment.

Adjusted operating profit at the International segment was \$158 million, up 9% from the year-ago quarter. Meanwhile, the adjusted operating margin at the segment was 1.7%.

The Medical-Surgical segment had adjusted operating profit of \$279 million, which increased 52% from the year-ago quarter. Adjusted operating margin was 9.1% at the segment.

Adjusted operating profit was \$131 million at the Prescription Technology Solutions segment, up 27% from the prior-year quarter. Adjusted operating margin was 16.9% at the segment.

Financial Update

In the quarter under review, cash and cash equivalents were \$3.58 billion, up 15.9% sequentially.

Cumulative cash provided in operating activities for the fiscal third quarter amounted to \$1.17 billion against cash used in operating activities worth \$280 million in the year-ago period.

Fiscal 2021 Guidance Raised

For fiscal 2021, McKesson projects adjusted earnings per share to be \$16.95-\$17.25 (up from the previously guided range of \$16-\$16.50). The Zacks Consensus Estimate for the same is pegged at \$16.33.

The abovementioned guidance assumes 25-35 cents associated to COVID-19 vaccine distribution and 20-30 cents with respect to kitting and storage of ancillary supplies for COVID-19 vaccines.

Valuation

McKesson's shares are up 20.3% and 9.5% in the six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical Market both are up 17% in the six months period. Over the past year, the stocks in the Zacks sub-industry are up 17.6% while that in the sector are up 7.2%.

The S&P 500 index is up 17.2% in the past six months period and 17.8% the past year.

The stock is currently trading at 10.1X Forward 12-months earnings, which compares to 19.4X for the Zacks sub-industry, 23.2X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.3X and as low as 7.3X, with a 5-year median of 10.5X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$194 price target reflects 10.7X forward 12-months earnings.

The table below shows summary valuation data for MCK.

Valuation Multiples - MCK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.12	19.39	23.19	22.88
	5-Year High	14.25	19.77	23.19	23.8
	5-Year Low	7.31	13.63	15.9	15.3
	5-Year Median	10.51	16.64	19.14	17.85
P/S F12M	Current	0.12	0.43	2.9	4.56
	5-Year High	0.22	0.43	3.17	4.56
	5-Year Low	0.09	0.23	2.26	3.2
	5-Year Median	0.12	0.29	2.84	3.68
P/CF	Current	5.04	17.57	15.97	25.37
	5-Year High	15.76	19.4	17.16	25.37
	5-Year Low	4.73	8.14	11.42	12.86
	5-Year Median	7.31	13.39	14.91	18.46

As of 02/10/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Align Technology, Inc. (ALGN)	Outperform	1
AmerisourceBergen Corporation (ABC)	Neutral	3
Becton, Dickinson and Company (BDX)	Neutral	3
Cardinal Health, Inc. (CAH)	Neutral	3
Henry Schein, Inc. (HSIC)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Patterson Companies, Inc. (PDCO)	Neutral	4
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		
	MCK	X Industry	S&P 500	ABC	BDX	CAH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	29.29 B	3.40 B	27.82 B	21.71 B	73.48 B	15.58 B
# of Analysts	9	5.5	13	8	12	9
Dividend Yield	0.91%	0.00%	1.41%	1.66%	1.31%	3.66%
Value Score	A	-	-	A	B	A
Cash/Price	0.12	0.06	0.06	0.22	0.05	0.23
EV/EBITDA	16.40	16.56	14.91	-4.31	23.48	-7.08
PEG F1	1.50	2.38	2.41	1.09	2.20	1.23
P/B	NA	4.98	3.76	NA	2.98	7.88
P/CF	8.62	16.64	15.61	10.64	14.25	6.15
P/E F1	10.83	23.85	20.58	12.52	19.78	8.95
P/S TTM	0.12	3.68	3.05	0.11	4.04	0.10
Earnings Yield	9.24%	3.31%	4.78%	7.99%	5.06%	11.18%
Debt/Equity	-52.47	0.19	0.68	-7.12	0.65	3.40
Cash Flow (\$/share)	21.35	2.56	6.76	9.99	17.74	8.62
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	6.15%	8.67%	9.27%	9.03%	7.65%	1.87%
Projected EPS Growth (F1/F0)	13.73%	31.01%	13.76%	7.48%	25.37%	8.75%
Current Cash Flow Growth	-33.76%	3.15%	4.21%	2.02%	-8.29%	-2.74%
Historical Cash Flow Growth (3-5 Years)	-0.50%	12.09%	7.74%	7.86%	16.70%	5.57%
Current Ratio	1.01	1.63	1.38	0.99	1.36	1.17
Debt/Capital	53.87%	26.57%	41.31%	47.71%	39.47%	77.29%
Net Margin	-1.76%	-0.08%	10.59%	-1.66%	8.79%	0.88%
Return on Equity	64.93%	13.35%	14.81%	108.70%	15.32%	108.66%
Sales/Assets	3.92	0.81	0.51	4.50	0.34	3.72
Projected Sales Growth (F1/F0)	3.74%	10.64%	6.20%	7.25%	13.56%	5.17%
Momentum Score	A	-	-	B	A	A
Daily Price Change	-0.51%	0.00%	-0.08%	-1.08%	-0.50%	0.21%
1-Week Price Change	4.92%	6.67%	4.58%	5.27%	-2.72%	0.99%
4-Week Price Change	0.35%	4.15%	0.62%	0.62%	-3.84%	-4.22%
12-Week Price Change	4.25%	19.41%	7.81%	2.74%	8.32%	-0.49%
52-Week Price Change	9.53%	15.27%	9.04%	10.95%	0.27%	-11.76%
20-Day Average Volume (Shares)	972,717	517,141	2,065,226	1,277,252	1,348,386	1,871,525
EPS F1 Estimate 1-Week Change	0.07%	0.00%	0.00%	1.60%	1.94%	3.37%
EPS F1 Estimate 4-Week Change	4.71%	0.00%	0.61%	1.60%	2.58%	3.41%
EPS F1 Estimate 12-Week Change	4.77%	1.08%	1.59%	1.60%	2.60%	2.34%
EPS Q1 Estimate Monthly Change	6.82%	0.00%	0.16%	-0.02%	-6.91%	-0.76%

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	A
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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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 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.