

Merit Medical Systems (MMSI)

\$56.00 (As of 03/23/21)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/11/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

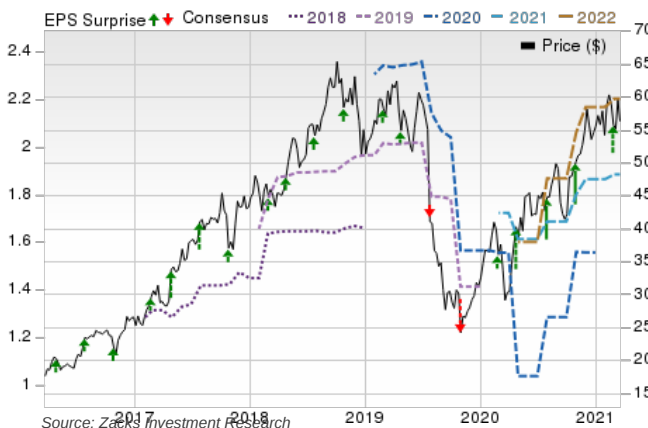
Growth: A

Momentum: A

Summary

Merit Medical saw overall revenue growth within its Cardiovascular unit in the last reported quarter. The CE mark for the Merit WRAPSODY Endoprosthesis Stent System and its commercialization in the European Union continue to buoy optimism. The recent FDA approval for the WRAPSODY Arterial Venous access Efficacy (WAVE) IDE trial is encouraging too. Expansion in adjusted operating margin is another plus. The stock has outperformed its industry over the past year. Merit Medical exited the fourth quarter of 2020 on a strong note with both earnings and revenues beating estimates. However, we are concerned about the revenue decline at its Endoscopy segment. Contraction in gross margin is a concern as well. Also, stiff competition and higher consolidation in the healthcare industry are dampeners.

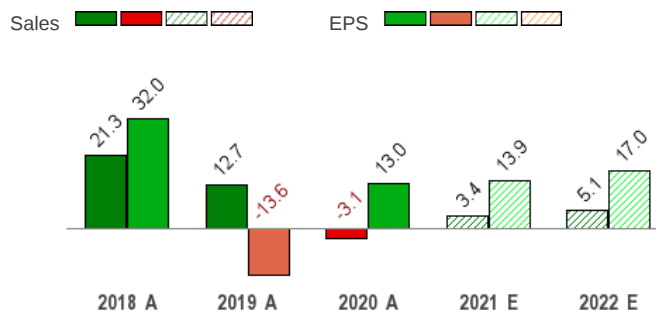
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$61.23 - \$28.06
20-Day Average Volume (Shares)	312,601
Market Cap	\$3.1 B
Year-To-Date Price Change	0.9%
Beta	1.20
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.6%
Last Sales Surprise	3.1%
EPS F1 Estimate 4-Week Change	1.1%
Expected Report Date	04/22/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	245 E	260 E	259 E	281 E	1,048 E
2021	231 E	248 E	250 E	269 E	997 E
2020	244 A	218 A	244 A	258 A	964 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.46 E	\$0.52 E	\$0.56 E	\$0.63 E	\$2.20 E
2021	\$0.37 E	\$0.46 E	\$0.48 E	\$0.59 E	\$1.88 E
2020	\$0.38 A	\$0.31 A	\$0.42 A	\$0.54 A	\$1.65 A

*Quarterly figures may not add up to annual.

P/E TTM	33.9
P/E F1	29.8
PEG F1	2.6
P/S TTM	3.2

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/23/2021. The report's text and the analyst-provided price target are as of 03/24/2021.

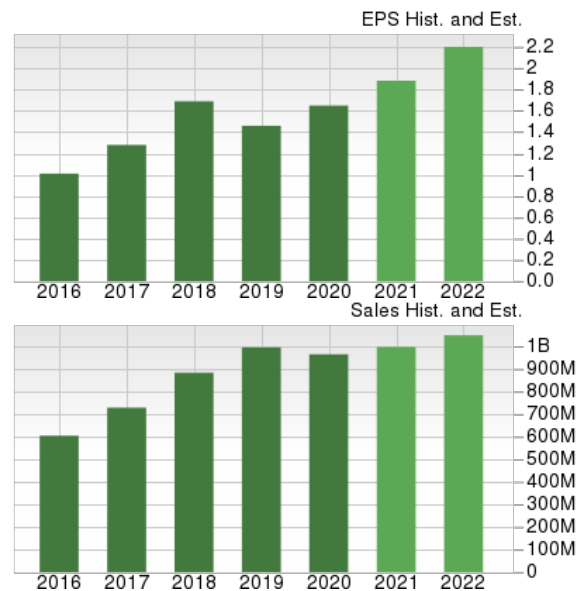
Overview

Headquartered in South Jordan, UT, Merit Medical Systems, Inc. (MMSI) provides various peripheral and cardiac intervention products to cure cardiac conditions specific to interventional cardiology and electrophysiology.

The company offers products focused in five core product groups: peripheral intervention, cardiac intervention, interventional oncology and spine, cardiovascular and critical care as well as endoscopy. However, the company operates in two revenue segments — Cardiovascular and Endoscopy Devices.

The Cardiovascular Segment: The segment includes peripheral intervention, cardiac intervention, interventional oncology, spine, cardiovascular and critical care product groups.

The Endoscopy Devices Segment: Within the Endoscopy division, the company's flagship Merit Endotek integrates advanced non-vascular stent technology with balloon dilators, inflation devices, guide wires, procedure kits and other devices that are used by endoscopists in interventional gastroenterology, interventional pulmonology as well as thoracic and general surgery. Merit Endotek has a dedicated marketing and sales organization serving the underpenetrated emerging economies.

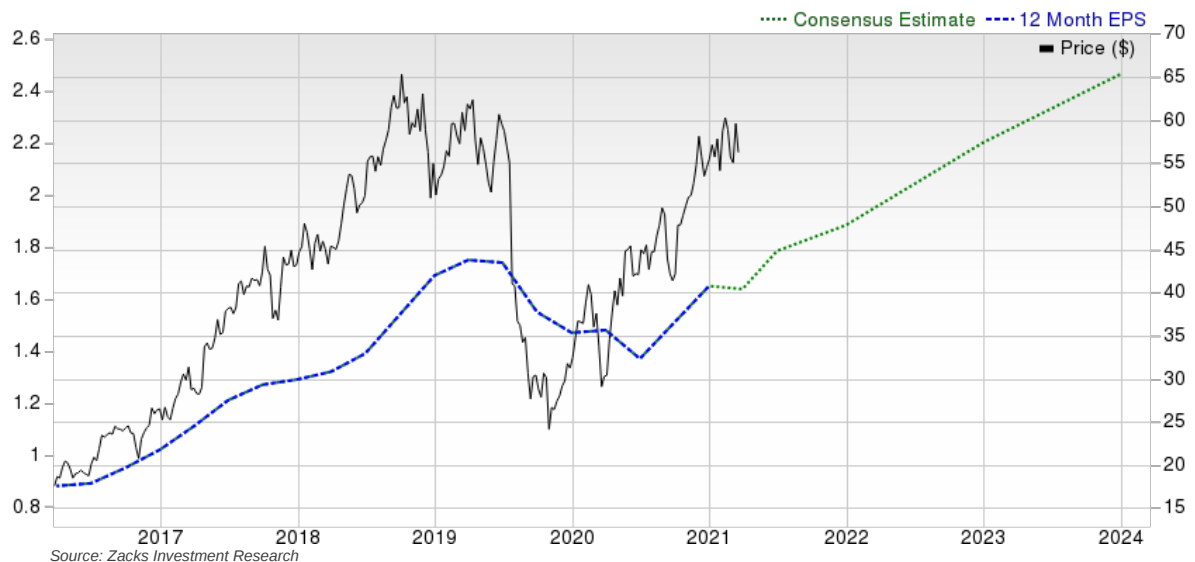


2020 at a Glance

Merit Medical reported worldwide revenue of \$963.9 million, down 3.1% on a year-over-year basis.

The Cardiovascular segment recorded revenues of \$934.2 million (96.9% of net revenues).

The Endoscopy devices segment recorded revenues of \$29.7 million (3.1% of net revenues).



Reasons To Buy:

▲ **Share Price Performance:** Merit Medical has outperformed the industry in a year's time. Shares of the company have gained 85.6% compared with the industry's rise of 59.2%. It saw overall revenue growth within its Cardiovascular unit in the fourth quarter. The strong momentum in Peripheral Intervention and Custom Procedural Solutions within the segment is impressive. The CE mark for the Merit WRAPSODY Endoprosthesis Stent System and its commercialization in the European Union continue to instill confidence in the stock. The recent FDA nod and the enrolment of first patients for the WRAPSODY Arterial Venous access Efficacy (WAVE) IDE trial are impressive too.

▲ **New Products:** The company has continued to gain significant momentum on the back of new products and is optimistic about the product pipeline, including radio and electrophysiology products, going forward.

Merit Medical expects recently launched its significant Aspira pleural drainage, pleural effusion and peritoneal drainage products. Another important product – Surfacar – is a device in which the company has an equity interest in.

The company has a number of electrophysiology products which are on track for release and several others in stages of development.. The company has also developed a number of new products for testing of patients suspected of COVID-19.

In April 2020, the company initiated production of a sample collection and transport kit, consisting of a nasopharyngeal swab and transport vial, used to collect samples with suspected presence of COVID-19. In March, the company announced the addition of the new SCOUT Access Guide to its wire-free radar localization portfolio. This slim Guide option has been developed to further enable oncoplastic breast surgery and greater ease of lymph node dissection.

In January, the company commercially launched the Arcadia Steerable and Straight Balloons for vertebral augmentation. These have been developed to enable physicians achieve controlled, acute cavity creation during unipedicular or bipedicular vertebral augmentation procedures.

▲ **HeRO Products (Hemodialysis Reliable Outflow):** Merit Medical's HeRO product line has been a key contributor to growth. HeRO Graft, Super HeRO Adapter and HeRO Ally Revision Kit are the three platforms within the company's HeRO family of dialysis devices. Considering the solid global prospects of hemodialysis solutions, the HeRO product line is likely to provide Merit Medical with a competitive edge in the MedTech markets.

Of all the three HeRO lines, HeRO Graft is the most important given its strong cost-saving efficiencies. HeRO Graft is a fully subcutaneous vascular access system, intended for use in maintaining long-term vascular access for chronic hemodialysis patients who have failing fistulas, grafts or are catheter dependent due to a central venous blockage.

Per management, HeRO Graft offers cost savings of more than \$3,100 (per patient/year) to the dialysis center when converting catheter-dependent patients to the HeRO Graft.

▲ **Peripheral Intervention Unit Holds Promise:** The company's peripheral intervention consists of Peripheral Drainage & Biopsy, Peripheral Angiography, Peripheral Intervention and Peripheral Access Portfolio. Merit Medical also offers low-profile ASAP Aspiration Catheters, which offer clinicians two options for the safe and efficient removal of fresh, soft emboli and thrombi from vessels. These products have been contributing enormously to the company's top-line growth.

In the fourth quarter of 2020, the Cardiovascular unit reported revenues of \$250.1 million, up 0.3% year over year on a 2% increase in Peripheral Intervention revenues to \$95.1 million. The company saw overall strong demand for its peripheral intervention products like its SCOUT Access guide in November and December, which helped drive total U.S. revenues for the quarter.

▲ **Acquisitions to Drive Growth:** Merit Medical has been leveraging on bolt-on buyouts to drive inorganic growth. The company remains optimistic about Merit Medical's Becton Dickinson deal, the acquisitions of Cianna Medical and Vascular Insights, and the execution of the global growth and profitability plan.

The acquisitions of Cianna Medical and Vascular Insights continued to contribute through the fourth quarter. In November 2020, the company acquired all the outstanding membership interest of KA Medical LLC. As a result, KA Medical's Micro Plug Set was added to its embolic product portfolio. The Micro Plug Set is a self-expanding night nonvascular occlusion device, used for arterial embolization, which is FDA-approved and CE-marked.

▲ **Deal with MedTech Behemoth - Becton Dickinson:** In February 2018, Merit Medical closed the purchase of assets from Becton, Dickinson and Company ("BD"). The deal is related to BD's recently-completed acquisition of C.R. Bard, Inc for \$100 million. The assets acquired are soft tissue core needle biopsy products sold under the trade names of Achieve Programmable Automatic Biopsy System, Temno Biopsy System, Tru-Cut Biopsy Needles, Aspira Pleural Effusion Drainage Kits and the Aspira Peritoneal Drainage System. These products will be sold by Merit's global direct sales force and distribution partners. Notably, the transaction is expected to expand Merit Medical's operating margins and increase its cash flow.

Per management, transition of the Becton, Dickinson deal remained on track with some of the acquired products currently being built in the facility in Tijuana, Mexico. The entire transition program was concluded in 2019.

▲ **International Exposure:** Merit Medical eyes a global pipeline for Europe, Asia and South-east Asia. It is important to note here that around

Merit Medical's acquisition-driven strategy is expected to boost growth by expanding existing product offerings across all business segments. Strong prospects in the HeRO product line is a positive.

50% of Merit's business comes from international markets.

The company witnessed an uptick in sales from the end of April which continued at a steady rate through June. However, there was a slight slowdown in July in the United States, EMEA and emerging markets as the number of COVID-19 cases increased and elective procedures in certain areas got restrained. In July, the company received its first orders of WRAPSODY Endoprosthesis stent system from Europe.

In the fourth quarter, international revenues grew 1.2% on a reported basis. The company's two largest markets outside the United States (OUS) are APAC and EMEA, representing approximately 49% and 44% of its total international sales, respectively, in the fourth quarter. However, the 2.5% OUS constant currency decline in the fourth quarter was due to a 1.2% year-over-year fall in APAC sales, a 5.5% decrease year over year in EMEA sales and 7.6% year-over-year growth in sales in the rest of the world

▲ **Favorable Tidings on Regulatory Front:** Positive feedbacks and approvals from the top-notch regulatory bodies have favored Merit Medical in most times. Per the second-quarter 2020 earnings call, the company has cut down its 50 R&D products to 25 but remains focused on boosting the same.

In April 2020, the company was granted two additional Breakthrough Device designations by the FDA for the Merit WRAPSODY Endovascular Stent Graft System. The system is a flexible, self-expanding endoprosthesis. This regulatory clearance is expected to bolster the company's cardiovascular segment. The CE mark of the product came through in May 2020.

In the second quarter, the company's WRAPSODY Endoprosthesis stent system attained regulatory clearance in Australia, New Zealand and the European Union. In the third quarter of 2020, the company attained IDE approval for the WRAPSODY AV Access Efficacy Study, also known as the WAVE study, and IDE approval for a smaller study called the WRAPSODY Central Feasibility Study, also known as the Wave Central study.

In the second quarter of 2020, it had also attained FDA approval WAVE IDE trial. The company will proceed over the next several months with the WAVE pivotal IDE. This study is the approval process for the WRAPSODY in the United States. This study will take three to four years to fully enroll and monitor after which the company will submit a PMA request to the FDA for consideration. In March 2021, the company announced the enrollment of the first patients in its WAVE study of the WRAPSODY Endovascular Stent Graft, an investigational device being examined for the treatment of stenosis or occlusion within dialysis outflow circuits. The company is also awaiting a CMS approval for the same.

All of these approvals are significant with respect to driving the company's performance.

▲ **Stable Liquidity Position:** Merit Medical is well capitalized as it exited the fourth quarter of 2020 with cash and cash equivalents of \$57 million, up from \$45 million on a sequential basis. The company incurred long-term debt of \$344 million, down sequentially from \$350 million but higher than the cash and cash equivalent levels. However, the current debt for the quarter came in at \$8 million, which was flat sequentially and below the amount of cash equivalents. This is good news in terms of the company's solvency level as at least during the year of economic downturn, it has sufficient cash for debt repayment.

Reasons To Sell:

▼ **Q4 Weak Trends:** In the fourth quarter, revenues from Cardiac Intervention fell 7.4% to \$71.9 million. Also, OEM revenues contracted 4.2% to \$29.2 million. Revenues from the Endoscopy devices totaled \$7.9 million, down 6.8% year over year. Gross margin came in at 43.1% of net revenues, down 19 basis points (bps) year over year.

▼ **Higher Consolidation in the Healthcare Industry:** Healthcare costs have risen significantly over the past decade. Thus, in order to provide healthcare solutions at a cheaper rate and eradicate competition, large cap MedTech behemoths have started consolidating with mid cap and small cap companies. This enables the availability of healthcare products at cheap prices in the market.

Per management, such trends compel Merit Medical's customers to ask for price concessions in its products, which act against the on-going business strategies. This may also exert a solid downward pressure on the prices of Merit Medical's products and reduce customer base.

▼ **Cutthroat Competition in MedTechSpace:** The medical products industry is highly competitive. Merit Medical competes globally in several market areas, including diagnostic and interventional cardiology; interventional radiology; neurointerventional radiology; vascular, general and thoracic surgery; electrophysiology; cardiac rhythm management; interventional pulmonology; interventional nephrology; orthopaedic spine surgery and many more.

In the interventional cardiology, radiology, gastroenterology, endoscopy, general surgery, thoracic surgery and pulmonology markets, Merit Medical competes with large international, multi-divisional medical supply companies such as Cardinal Health, Boston Scientific Corporation, Medtronic, Abbott, Teleflex, Becton, Dickinson and Company, Stryker Corporation and Terumo Corporation.

Medium-size companies like B. Braun, Uresil, BTG, Olympus Medical, Edwards Lifesciences, Argon, CONMED, AngioDynamics, Medcomp and U.S. Endoscopy are the most aggressive competitors of Merit Medical.

▼ **Lack of Direct Sales and Marketing Capabilities:** Merit Medical lack direct sales and marketing capabilities in many countries. The company wholly depends on third-party distributors for the commercialization of products in these countries. These countries include China, Japan, Russia and India. Per management, because of inefficiencies in the distributor base, Merit Medical often fails to successfully commercialize its products in these countries.

Adding to the woes, the company's distributors often fail to comply with all applicable laws regarding the sale of products, including anti-competition, anti-corruption, anti-money laundering and sanctions laws. This results in disruption of operations and business in the region.

Higher consolidation in the healthcare industry exerts downward pressure on the prices of Merit Medical's products. Cutthroat competition and lack of direct sales in many countries are other headwinds.

Last Earnings Report

Merit Medical Beats Q4 Earnings and Revenue Estimates

Merit Medical Systems, Inc.'s fourth-quarter 2020 adjusted earnings per share of 54 cents beat the Zacks Consensus Estimate of 43 cents by 25.6%. Moreover, the bottom line rose 35% from the year-ago quarter.

Further, for 2020, adjusted earnings per share came in at \$1.65, beating the Zacks Consensus Estimate by 5.8%. The figure also improved 13% year over year.

Quarter Ending **12/2020**

Report Date	Feb 24, 2021
Sales Surprise	3.05%
EPS Surprise	25.58%
Quarterly EPS	0.54
Annual EPS (TTM)	1.65

Revenues in Detail

For the quarter, this Utah-based provider of peripheral and cardiac intervention products reported worldwide revenues of \$258 million, in line with year-ago figure. On constant-currency basis, the figure fell 1% year over year. Meanwhile, the top line surpassed the Zacks Consensus Estimate by 3%.

For 2020, revenues summed \$963.9 million, down 3.1% year over year both on reported and currency-neutral basis. However, the topline beat the Zacks Consensus Estimate by 0.8%.

Segmental Details

The **Cardiovascular** unit reported fourth-quarter revenues of \$250.1 million, up 0.3% year over year on 2% increase in Peripheral Intervention revenues to \$95.1 million. Moreover, revenues from Custom Procedural Solutions rose 12.1% to \$53.8 million. However, revenues from Cardiac Intervention fell 7.4% to \$71.9 million. Also, OEM revenues contracted 4.2% to \$29.2 million.

Revenues from the **Endoscopy** devices totaled \$7.9 million, down 6.8% year over year.

Margins

In the quarter under review, gross profit totaled \$111.2 million, down 0.4% on a year-over-year basis. Gross margin came in at 43.1% of net revenues, down 19 basis points (bps) year over year.

Adjusted operating profit totaled \$16.1 million, up 21.2% year over year.

Adjusted operating margin in the quarter came in at 6.2%, indicating an expansion of 109bps year over year.

Financial Update

The company exited the fourth quarter with cash and cash equivalents of \$56.9 million, up from \$44.3 million at the end of the year-ago period.

2021 Guidance

Net revenues for 2021 are projected between \$990 million and \$1.01 billion, indicating an increase of 2.7-4.8% year over year. The Zacks Consensus Estimate for the same is pegged at \$1.03 billion.

Adjusted EPS for 2021 is pegged in the range of \$1.84-\$1.98. The Zacks Consensus Estimate for the same is pegged at \$1.86.

Recent News

First Patients Enrolled in the Merit WRAPSODY AV Access Efficacy Pivotal Study: Mar 11, 2021

Merit Medical announced the enrollment of the first patients in its Wrapsody ArterioVenous (AV) Access Efficacy Pivotal Study (the "WAVE Study") of the WRAPSODY Endovascular Stent Graft, an investigational device being studied for the treatment of stenosis or occlusion within dialysis outflow circuits.

Valuation

Merit Medical's shares are up 0.9% and 85.6% in the year-to-date period and trailing 12-month periods, respectively.

Stocks in the Zacks sub-industry are up 5% in the year-to-date period while that in the Zacks Medical sector are up 1.8%. Over the past year, the Zacks sub-industry is up 58.3% while the sector is up 29.2%.

The S&P 500 index is up 5.3% in the year-to-date period and 61.2% in the past year.

The stock is currently trading at 28.6X Forward 12-months earnings, which compares to 18.4X for the Zacks sub-industry, 21.8X for the Zacks sector and 22.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.9X and as low as 10.5X, with a 5-year median 27.6X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$59 price target reflects 31.1X forward 12-months earnings.

The table below shows summary valuation data for MMSI.

Valuation Multiples - MMSI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.63	18.35	21.8	22.3
	5-Year High	35.95	19.77	22.83	23.8
	5-Year Low	10.5	13.63	15.9	15.3
	5-Year Median	27.6	16.7	19.24	17.9
P/S F12M	Current	3.09	0.42	2.76	4.55
	5-Year High	3.87	0.42	3.17	4.55
	5-Year Low	1.06	0.23	2.26	3.21
	5-Year Median	2.57	0.29	2.81	3.69
P/B TTM	Current	3.25	5.34	3.89	6.65
	5-Year High	4.92	5.46	5.11	6.71
	5-Year Low	1.2	2.54	3.02	3.83
	5-Year Median	2.85	3.45	4.35	4.97

As of 03/23/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Cerner Corporation (CERN)	Neutral	4
Computer Programs and Systems, Inc. (CPSI)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
Evolent Health, Inc. (EVH)	Neutral	3
Inovalon Holdings, Inc. (INOV)	Neutral	4
IQVIA Holdings Inc. (IQV)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
Premier, Inc. (PINC)	Neutral	3

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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	MMSI	X Industry	S&P 500	CERN	EVH	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	A	-	-	A	A	D
Market Cap	3.12 B	3.33 B	28.73 B	21.97 B	1.74 B	2.12 B
# of Analysts	5	5.5	13	14	4	9
Dividend Yield	0.00%	0.00%	1.4%	1.23%	0.00%	0.00%
Value Score	B	-	-	B	D	C
Cash/Price	0.02	0.06	0.06	0.05	0.20	0.25
EV/EBITDA	32.73	15.42	15.72	13.17	532.54	17.94
PEG F1	2.57	2.10	2.32	2.01	NA	3.24
P/B	3.25	4.06	3.83	4.91	2.75	1.44
P/CF	15.51	15.36	15.77	15.11	6.08	7.90
P/E F1	29.85	22.04	21.31	22.76	NA	22.27
P/S TTM	3.24	3.83	3.24	3.99	1.70	1.32
Earnings Yield	3.36%	3.37%	4.62%	4.39%	-1.04%	4.48%
Debt/Equity	0.36	0.17	0.67	0.30	0.43	0.10
Cash Flow (\$/share)	3.61	2.67	6.78	4.75	3.32	1.92
Growth Score	A	-	-	B	A	F
Historical EPS Growth (3-5 Years)	13.18%	8.34%	9.32%	3.23%	NA	4.12%
Projected EPS Growth (F1/F0)	14.18%	35.76%	14.55%	10.99%	-1.19%	-10.38%
Current Cash Flow Growth	7.20%	2.02%	0.61%	-0.60%	40.16%	-6.47%
Historical Cash Flow Growth (3-5 Years)	21.18%	12.66%	7.32%	4.97%	42.41%	6.13%
Current Ratio	2.32	1.66	1.39	2.27	1.36	1.23
Debt/Capital	26.39%	21.23%	41.42%	22.96%	29.83%	9.14%
Net Margin	-1.02%	-0.07%	10.59%	14.17%	-32.59%	43.47%
Return on Equity	9.92%	12.53%	14.75%	17.85%	-4.67%	6.66%
Sales/Assets	0.57	0.82	0.51	0.77	0.75	0.52
Projected Sales Growth (F1/F0)	3.43%	8.37%	6.95%	5.87%	-16.73%	-8.54%
Momentum Score	A	-	-	D	A	B
Daily Price Change	-2.08%	-1.86%	-1.28%	-0.33%	-3.58%	-1.04%
1-Week Price Change	-5.61%	0.00%	-0.30%	0.97%	1.22%	-1.02%
4-Week Price Change	0.28%	-1.65%	1.57%	2.37%	1.66%	-4.89%
12-Week Price Change	2.71%	4.98%	7.30%	-8.62%	26.39%	6.31%
52-Week Price Change	85.61%	81.02%	65.01%	22.78%	350.11%	151.16%
20-Day Average Volume (Shares)	312,601	548,310	2,451,869	3,227,397	726,447	2,794,218
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.07%	0.00%	0.00%	-0.30%	24.16%	12.53%
EPS F1 Estimate 12-Week Change	1.07%	2.66%	2.17%	-5.29%	19.44%	17.52%
EPS Q1 Estimate Monthly Change	-2.30%	0.00%	0.00%	0.00%	35.56%	2.44%

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	B
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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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 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.