

Merck & Co., Inc.(MRK)

\$74.63 (As of 03/11/21)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Merck drugs like Keytruda, Lynparza and Bridion have been driving sales. Keytruda sales are gaining from continued uptake in lung cancer and increasing usage in other cancer indications. Animal health and vaccine products remain core growth drivers. The potential separation into two companies makes strategic sense as the remaining Merck should be able to achieve higher profits than the combined company. However, generic competition for several drugs and rising competitive pressure, mainly on the diabetes franchise, will continue to be overhangs on the top line. Sales of some key products are being hurt due to reduced wellness visits and delayed procedures amid the pandemic. Merck's shares have underperformed the industry this year so far.

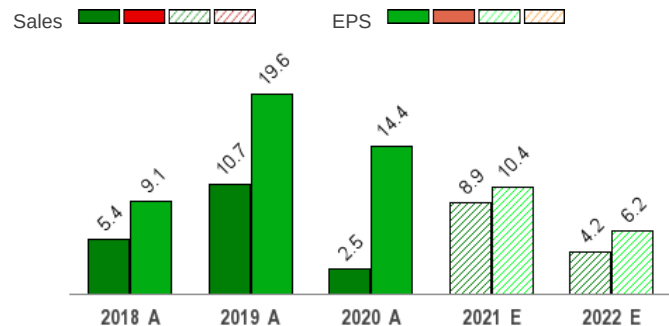
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$87.80 - \$65.25
20-Day Average Volume (Shares)	11,311,109
Market Cap	\$188.8 B
Year-To-Date Price Change	-8.8%
Beta	0.42
Dividend / Dividend Yield	\$2.60 / 3.5%
Industry	Large Cap Pharmaceuticals
Zacks Industry Rank	Bottom 11% (225 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	-0.6%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	04/29/2021
Earnings ESP	1.2%
P/E TTM	12.6
P/E F1	11.4
PEG F1	1.2
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	12,500 E	12,600 E	12,600 E	12,000 E	54,462 E
2021	12,850 E	12,817 E	13,614 E	12,702 E	52,283 E
2020	12,057 A	10,872 A	12,551 A	12,514 A	47,994 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$6.97 E
2021	\$1.68 E	\$1.59 E	\$1.75 E	\$1.55 E	\$6.56 E
2020	\$1.50 A	\$1.37 A	\$1.74 A	\$1.32 A	\$5.94 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/11/2021. The report's text and the analyst-provided price target are as of 03/12/2021.

Overview

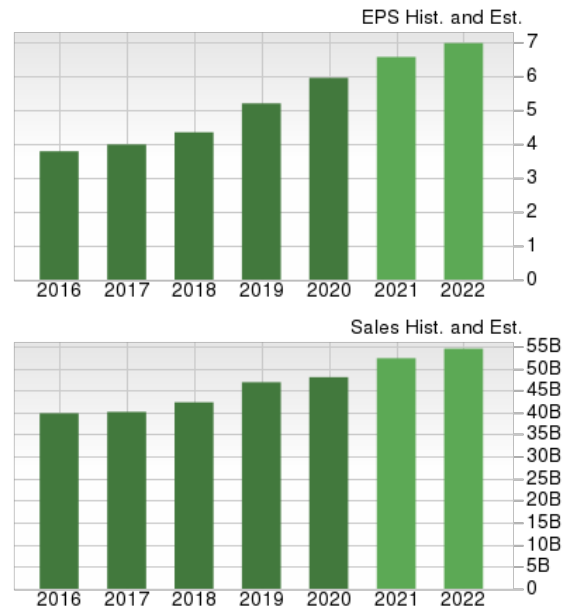
Based in Kenilworth, NJ, Merck & Co. boasts more than six blockbuster drugs in its portfolio with PD-L1 inhibitor, Keytruda, approved for several types of cancer, alone accounting for more than 25% of its pharmaceutical sales. Keytruda has played an instrumental role in driving Merck's steady revenue growth in the past two years. Though Keytruda may be Merck's biggest strength and a solid reason to own the stock, it can also be argued that Merck is excessively dependent on the drug and should look for ways to diversify its product lineup.

Well-known products in Merck's portfolio include Remicade (Immunology), Vytarin and Zetia (Cardiovascular), Januvia and Janumet (Diabetes), Cubicin, Bridion (Hospital Acute Care), Isentress & Zepatier (Virology), Emend and Keytruda (Oncology), Cozaar/Hyzaar, Nasonex, Singulair, (Diversified Brands), ProQuad, Gardasil, RotaTeq (Vaccines), and NuvaRing and Implanon. (Women's Health).

In 2009, Merck made its biggest acquisition of Schering-Plough for \$41.1 billion. Merck sold off its Consumer Care business to Bayer for \$14.2 billion in October 2014. Other key acquisitions include Idenix Pharmaceuticals in August 2014, Cubist Pharmaceuticals in January 2015, Rigontec in October 2017 and ArQule in January 2020.

In February 2020, Merck announced that it will spin off products from its Women's Health unit, legacy drugs and biosimilar products into a new publicly traded company called Organon & Co. The transaction is expected to be completed by the second quarter of 2021.

Merck reported sales of \$48.0 billion in 2020, up 4% year over year. While the Pharmaceuticals segment accounted for 89.6% of total sales, Animal Health products generated 9.4% of total revenues. Key drug Keytruda recorded sales of \$14.4 billion in 2020, up 30% from 2019.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Keytruda: A Key Top-Line Driver:** Keytruda is already approved for treatment of many cancers globally. Keytruda is continuously growing and expanding into new indications and markets globally. In fact, the Keytruda development program is also progressing well and the drug is being studied for more than 30 types of cancer in more than 1400 studies, including more than 1000 combination studies. Several regulatory decisions for new indications in the United States as well as in Europe are pending, which, if approved, can further boost sales.

Undoubtedly, Keytruda has strong future growth prospects based on increased utilization, approval for new indications and expectation of additional approvals worldwide.

Key drugs like Keytruda, Lynparza, and Bridion are driving sales at Merck. Animal health and vaccine products remain core growth drivers.

- ▲ **New Product Approvals & Line Extensions to Drive Growth:** Key approvals in 2018 for Merck included Steglatro and its fixed-dose combinations for type II diabetes, two new HIV drugs - Pifeltro and Delstrigo - containing doravirine and Prevmis (letermovir) for cytomegalovirus (CMV) infection. In 2019, Merck gained Food and Drug Administration (FDA) approval for its antibacterial injection, Recarbrio, a fixed combination of relebactam with imipenem/cilastatin for the treatment of certain patients with complicated urinary tract infections caused by certain Gram-negative microorganisms and Ervebo, its vaccine for Ebola Zaire disease. Two key FDA approvals for 2020 were Koselugo (selumetinib) for the treatment of pediatric patients with neurofibromatosis type 1 (NF1) related plexiform neurofibromas (PN) in April 2020 and Recarbrio for hospital-acquired or ventilator-associated bacterial pneumonia caused by susceptible organisms in June 2020. In 2021, Merck has already received approval for Verquvo/vericiguat for worsening chronic heart failure with reduced ejection fraction (HFrEF).

Lynparza, approved in three tumor types, ovarian, breast and pancreatic, was approved for metastatic castration-resistant prostate cancer (with HRR genetic mutations) in May 2020, which marked the drug's approval for the fourth cancer type.

These new products and line extensions should bring in additional sales in 2021 and beyond.

- ▲ **Impressive Pipeline:** Merck boasts a promising internal pipeline of drugs/vaccines, including in oncology, HIV, and pneumococcal disease, and, more recently, therapeutics for COVID-19. Merck has several candidates (including Keytruda) in phase III development. Some of the important pipeline candidates include MK-6482 (VHL-associated clear cell renal cell carcinoma – phase III), V114 (15-valent pneumococcal conjugate vaccine – under review in United States (FDA Action Date: Jul 18, 2021) and EU, MK-8591A (islatravir in combination with doravirine for HIV – phase III, pre-exposure prophylaxis [PrEP] – phase III to begin soon), molnupiravir/MK-4482 (oral antiviral for COVID-19 – phase II/III) and MK-7110/CD24Fc (biological therapeutic for COVID-19 - phase III, graft versus host disease – phase III).

Meanwhile, Keytruda is being studied in phase III studies for biliary tract, cervical, gastric, hepatocellular, endometrial, cutaneous squamous cell, mesothelioma, ovarian, prostate and small-cell lung cancers. Lynparza is also being evaluated in combination with Keytruda for colorectal, NSCLC and colorectal cancer. Lenvima is being studied in combination with Keytruda for bladder, gastric, head and neck squamous cell carcinoma, renal cell carcinoma, melanoma and NSCLC.

- ▲ **Pursuing Deals to Boost Portfolio:** Merck, in order to build its long-term portfolio, is tapping external sources. The company entered into several licensing deals in the past few years and targets more such deals in the future. The company's acquisition of Idenix provided a significant boost to its HCV pipeline. In 2019, Merck acquired Antellix, Peloton, Immune Design and Tilos, which has strengthened its pipeline. In 2020, Merck made important acquisitions, such as that of Oncolmmune, VelosBio and ArQule.

The July 2017 profit sharing deal with AstraZeneca added two key assets (Lynparza/ Koselugo) to its oncology pipeline. Similarly, in March 2018, Merck formed a deal with Japan's Eisai to co-develop and commercialize the latter's tyrosine kinase inhibitor, Lenvima, both as a monotherapy as well as in combination with Keytruda, for several types of cancer. In September 2020, Merck entered into a deal for joint global development and potential commercialization of Seagen's antibody-drug conjugate ladiratuzumab vedotin (now MK-6440), which is in mid-stage development for breast cancer and other solid tumors.

- ▲ **Cost-Cutting Driving Bottom-Line:** In 2019, Merck announced a new restructuring plan for optimizing its manufacturing and supply network as well as reducing its global real estate footprint. The program is expected to be completed by 2023 and result in annual net cost savings of approximately \$900 million by the end of 2023.

Merck expects the spin off, if successful, to help it achieve more than \$1.5 billion in operating efficiencies by 2024 by reducing its manufacturing footprint for pharmaceutical drugs by 25%. Accordingly, Merck expects to achieve operating margins greater than 42% in 2024.

Merck also divested segments like the Consumer Care business so that it can focus on its core areas of expertise. The company is also returning value to shareholders in the form of share buybacks and dividends.

- ▲ **Favorable Debt Profile:** Merck had \$25.4 billion in long-term debt and \$6.4 billion in short-term debt as of Dec 31, 2020. Its cash of \$8.1 billion is sufficient to meet short-term debt obligations. Moreover, Merck has \$6 billion available in revolving credit facility. Moreover, the company carries an A+ rating from Fitch (last updated on Jan 25, 2021) for its long-term debt. The rating indicates low default risk though the company's capacity of payment is subject to adverse economic conditions. Overall, Merck is in good financial health.

Reasons To Sell:

▼ **Shares Underperforming Industry:** Merck's shares have declined 8.8% this year so far, underperforming the industry, which declined 0.6% in the same time period.

▼ **Patent Expiry Hits Sales:** Merck is facing generic competition for several drugs including Singulair, Cozaar/Hyzaar, Nasonex, Cubicin and Zetia, Vytarin Zocor and Fosamax. All these drugs have recorded rapid and steep declines in revenues due to the presence of generics. Merck lost U.S. market exclusivity for NuvaRing in 2018 and generic versions were launched in December 2019, which hurt sales of the drug significantly in 2020. Januvia and Janumet will lose market exclusivity in the United States in 2023 and in the EU in September 2022 and sales of the drugs are expected to decline significantly thereafter.

Generic competition for several drugs and rising competitive pressure, mainly on the diabetes franchise will continue to be overhangs on the top line.

▼ **Competitive Pressure Hurting Sales of Key Drugs:** In addition to being impacted by the genericization of several products, Merck's top-line is being hurt by competitive pressures on some key drugs.

Isentress is facing competitive pressure and is being impacted by slowing growth of the integrase class. Sales of Isentress have declined consistently since 2015. Meanwhile, biosimilar competition for Remicade in the EU has intensified, leading to pricing pressure and decline in sales of the drug since 2015. Remicade sales are expected to continue declining rapidly in the coming quarters not just due to competitive pressures, but also as a result of patients switching to biosimilars.

Rising competition in the immuno-oncology market is also a significant concern. Competition in the immuno-oncology market is rising following FDA approval of Pfizer's Bavencio (avelumab) in MCC and bladder cancer and AstraZeneca's Imfinzi (durvalumab) in bladder cancer and some lung cancer indications.

Merck is also facing rising competitive pressure for Zepatier (HCV) which is significantly hurting sales of the drug.

▼ **Pipeline Setbacks:** Merck has had its share of pipeline and regulatory setbacks. Key setbacks include the discontinuation of development of pipeline candidates like vicriviroc (HIV), acadesine (ischemia reperfusion injury in patients undergoing heart bypass surgery), telcagepant (acute migraine), V710 (vaccine), preladenant (Parkinson's), MK-0431C (diabetes) and odanacatib or MK-0822 (osteoporosis in post-menopausal women).

Among the more recent setbacks, in 2017, Merck discontinued the development of two of its HCV combination programs — MK-3682B and MK-3682C, a clinical hold was placed on three combination studies of Keytruda for multiple myeloma following reports of death in Keytruda groups and discontinued a phase III Alzheimer's study on verubecestat.

▼ **Diabetes Drugs Under Pressure:** In Aug 2015, the FDA issued a warning regarding DPP-IV inhibitors including Januvia. The FDA warned that the use of these medicines may cause joint pain that can be severe and disabling. A new Warning and Precaution section has been added to the labels of all medicines in this drug class. The addition of strict warnings to Januvia's label hurt sales. In April 2017, the FDA denied approval to include cardiovascular outcomes data on the labels of its diabetes drugs, Januvia (sitagliptin) Janumet and Janumet XR. With death from cardiovascular disease being significantly higher in adults with diabetes compared to those without diabetes, the addition of positive cardiovascular outcomes data would have helped drive sales of these drugs. As it is, the Januvia franchise is also facing pricing pressure due to higher discounts and rebates to maintain good managed care coverage. Combined sales of Januvia and Janumet declined 4% in 2020, 7% in 2019, 1% in 2018 and 3% in 2017 due to the ongoing pricing pressure.

Last Earnings Report

Merck Q4 Earnings & Sales Miss

Merck reported fourth-quarter 2020 adjusted earnings of \$1.32 per share, which missed the Zacks Consensus Estimate of \$1.36. Earnings rose 14% year over year (up 17% excluding the impact of currency) aided by higher revenues and lower promotional and selling costs in the quarter.

Including charges related to acquisitions and intangible asset impairment, loss per share was 83 cents against earnings of 92 cents in the year-ago quarter.

Revenues increased 5% year over year (both on reported and constant currency basis) to \$12.51 billion. Sales however missed the Zacks Consensus Estimate of \$12.59 billion.

Quarter Ending 12/2020

Report Date	Feb 04, 2021
Sales Surprise	-0.58%
EPS Surprise	-2.94%
Quarterly EPS	1.32
Annual EPS (TTM)	5.93

Quarter in Detail

The Pharmaceutical segment generated revenues of \$11.4 billion, up 8% (up 6% excluding Fx impact) year over year driven by strong demand for cancer drugs. However, reduced wellness visits and delayed procedures due to the pandemic and generic competition for legacy drugs partially offset the growth. COVID-19 related business disruptions hurt Merck's fourth-quarter pharmaceuticals revenues by \$400 million, mostly vaccines.

Keytruda, the largest product in Merck's portfolio, generated sales of \$3.99 billion in the quarter, up 27% (excluding Fx impact) year over year. Keytruda sales have been gaining particularly from continued strong momentum in lung cancer indications and continued uptake in newer indications. However, the impact of COVID-19 and pricing pressure in Japan offset the growth to an extent.

The launch of the six-week dosing regimen also benefited Keytruda sales in the United States. Outside U.S., lung cancer indications remain the driver of Keytruda growth.

Alliance revenues from Lynparza and Lenvima also boosted oncology sales in the quarter.

Lynparza alliance revenues increased 53% year over year to \$206 million in the quarter driven by continued uptake across the multiple approved indications in the United States, the EU and China. Lenvima alliance revenues were \$158 million, up 26% from the year-ago period.

In the hospital specialty portfolio, Bridion Injection generated sales of \$355 million in the quarter, up 13% year over year, as market share gains were partially offset by lower elective surgery procedures.

In vaccines, Gardasil/Gardasil 9 sales rose 41% year over year to \$998.0 million. The sales increase reflected the impact from the \$120-million CDC stockpile replenishment in the quarter and the initial \$120 million borrowing in the fourth quarter of 2019, which had a combined positive impact of \$240 million year over year. Higher demand in China also benefited sales, which were partially offset by the impact of the pandemic.

Proquad, M-M-R II and Varivax vaccines recorded combined sales of \$488 million, up 1% year over year. Rotateq vaccine sales declined 14% to \$196 million. Sales of Pneumovax 23 vaccine were flat at \$339 million.

Pharmaceutical sales were hurt by loss of U.S. market exclusivity for drugs like Nuvaring and Zetia.

Zetia sales declined 36% to \$98 million. NuvaRing sales were \$53 million, down 70% year over year. Remicade sales declined 5% year over year to \$88 million in the quarter.

Januvia/Janumet (diabetes) franchise sales declined 7% year over year to \$1.33 billion, reflecting continued pricing pressure in the United States, which offset the strong demand from certain international markets. Sales of Isentress declined 6% to \$211 million.

Merck's Animal Health segment generated revenues of \$1.17 billion, up 4% from the year-ago quarter. Excluding the impact of currency, sales rose 6% helped by one-time benefits like an additional month of sales in the quarter and contribution from smaller acquisitions, which partially offset the impact of unfavorable distributor purchasing patterns.

Sales of companion animal products rose 9%, driven by higher demand in companion animal vaccines and parasiticides. Sales of Livestock products rose 4% as an extra month of sales from the acquisition of Antelq were partially offset by distributor purchasing patterns.

Margin Discussion

Adjusted gross margin was 73%, up 40 basis points from the year-ago quarter driven by the favorable impact of product mix and manufacturing variances, which offset the negative impact of higher inventory write-offs (due to a recall of Zerbaxa) and pricing pressure.

Selling, general and administrative (SG&A) expenses were \$2.8 billion in the reported quarter, down 2% year over year driven by lower selling and administrative costs due to lower travel costs as a result of the pandemic. Research and development (R&D) spend rose 12% to \$2.6 billion due to higher clinical development costs and incremental spend to advance COVID-19 research programs.

COVID-19 favorably impacted spending by approximately \$50 million.

2020 Results

Full-year 2020 sales rose 4% to \$48.0 billion, missing the Zacks Consensus Estimate of \$48.09 billion by a slight margin. Sales were within the

guided range of \$47.6 billion-\$48.6 billion.

Adjusted earnings for 2020 were \$5.94 per share, which missed the Zacks Consensus Estimate of \$5.97. Earnings were within the guided range of \$5.91-\$6.01. Earnings were up 14% year over year.

2021 Outlook

In 2021, Merck expects revenues to be in the range of \$51.8 billion-\$53.8 billion, which indicates growth of 8% to 12% versus 2020. This includes a positive currency impact of 2%. The guidance excludes any revenues from COVID-19 therapeutics.

Adjusted earnings are now expected to be in the range of \$6.48-\$6.68, which implies growth of 12% to 15% versus 2020. This includes a positive currency impact of 3%.

Adjusted operating costs are expected to be higher than 2020 by a high-single to low-double-digit rate. Costs related to development of its COVID-19 antiviral candidates are expected to increase R&D expenses in the year.

The guidance assumes that Organon business will be part of Merck for all of 2021. Once the spin-off is completed in late second quarter, Merck will update its guidance. Adjusted tax rate is expected to be in the range of 15%-16%.

COVID-19 hurt Merck's sales by \$2.5 billion in 2020, mostly the pharmaceuticals business. Merck expects some residual negative impacts from COVID-19 in 2021. COVID-19 related business disruptions are expected to hurt Merck's sales in 2021 by 2% or roughly \$1 billion, mainly vaccines in the United States. The impact, all of which relates to pharmaceutical segment sales, is expected to hurt mostly first-half sales.

Recent News

First Phase II Data on COVID-19 Antiviral Therapy – Mar 6

Merck and its partner, Ridgeback Biotherapeutics announced promising preliminary data from the ongoing phase IIa study on their oral antiviral candidate, molnupiravir in patients infected with SARS-CoV-2 or COVID-19. Data on one secondary objective from the study showed a quicker reduction in infectious virus, as measured by vero cell line culture, in patients with symptomatic COVID-19.

To Help J&J Make COVID-19 Vaccine – Mar 2

Merck announced a deal with J&J to support manufacturing of the latter's single-shot COVID-19 vaccine, which was granted Emergency Use Authorization (EUA) by the FDA. Merck will manufacture the drug substance, formulate and fill vials of J&J's vaccine, using its plants in the United States, which should help the latter beef up its vaccine supply.

Separately, The Biomedical Advanced Research and Development Authority (BARDA) of the U.S. Department of Health and Human Services (HHS) will provide Merck with a funding of up to \$268.8 million to make available its existing manufacturing facilities to develop COVID-19 vaccines and medicines.

Withdraws Keytruda U.S SCLC Indication – Mar 1

Merck announced voluntarily withdrawal of the Keytruda indication for metastatic small cell lung cancer (SCLC) in the United States. The decision to withdraw the indication was made in consultation with the FDA. Keytruda was granted accelerated approval in June 2019 based on tumor response rate and durability of response data from KEYNOTE-158 (cohort G) and KEYNOTE-028 (cohort C1). However, continued approval for this indication was based on completion of the post-marketing requirement establishing superiority of Keytruda as determined by overall survival (OS). However, in January 2020, the confirmatory phase III study for this indication, KEYNOTE-604, did not reach statistical significance for OS.

FDA Accepts Gefapixant NDA – Mar 1

Merck announced that the FDA has accepted its NDA seeking approval of gefapixant, its investigational treatment for refractory or unexplained chronic cough. The FDA is expected to give its decision on Dec 21. An advisory committee will review the NDA before that.

To Acquire Pandion Therapeutics – Feb 25

Merck announced a definitive agreement to acquire Pandion Therapeutics for \$60 per share in cash, representing an approximate total equity value of \$1.85 billion. The proposed acquisition will add Pandion's pipeline candidates targeting a broad range of autoimmune diseases. Its lead candidate, PT101, recently completed a phase Ia study in ulcerative colitis and other autoimmune diseases. The study met its primary objective of safety and tolerability.

Lynparza Breast Cancer Study Shows Superiority – Feb 17

AstraZeneca announced that the Independent Data Monitoring Committee (IDMC) has recommended that OlympiA study of Lynparza crossed superiority boundary for primary endpoint of invasive disease-free survival versus placebo at planned interim analysis. The study evaluated Lynparza in the adjuvant treatment of BRCA-mutated high-risk HER2-negative early breast cancer.

Keytruda+Lenvima Data from RCC Study – Feb 13

Merck and partner Eisai presented data from the pivotal phase III CLEAR study (KEYNOTE-581/Study 307) at the virtual 2021 Genitourinary Cancers Symposium (ASCO GU). The study evaluated combinations of Keytruda plus Eisai's Lenvima and Lenvima plus everolimus versus Pfizer's Sutent (sunitinib) for the first-line treatment of patients with advanced renal cell carcinoma (RCC). Keytruda+Lenvima demonstrated statistically significant and clinically meaningful improvements in progression-free survival (PFS) and OS versus Sutent.

The data showed that Keytruda plus Lenvima significantly reduced risk of disease progression or death by 61% versus Sutent. The median PFS for the Keytruda plus Lenvima arm was nearly two years versus nine months for sunitinib.

Valuation

Merck's shares are down 8.8% in the year-to-date period and 2.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 0.6% and 0.5%, respectively in the year-to-date period. Over the past year, stocks in the sub-industry and sector are 15.4% and 17.1%, respectively.

The S&P 500 Index is up 4.2% in the year-to-date period and 46.4% in the past year.

The stock is currently trading at 11.25X forward 12-month earnings per share, which compares with 13.88X for the Zacks sub-industry, 21.51X for the Zacks sector and 22.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.86X and as low as 10.89X, with a 5-year median of 15.49X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 12.3X forward 12-month earnings per share.

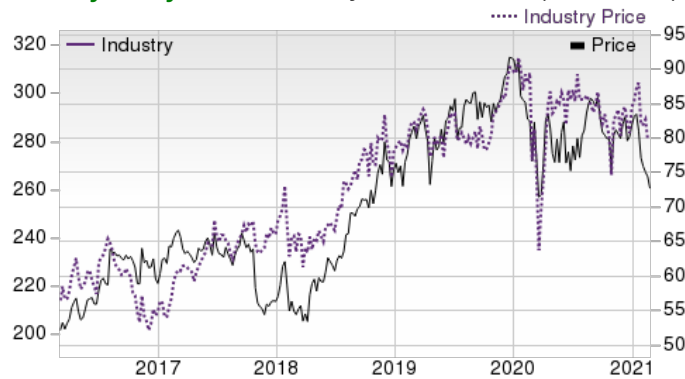
The table below shows summary valuation data for MRK

Valuation Multiples - MRK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.25	13.88	21.51	22.35
	5-Year High	17.86	16.62	22.86	23.8
	5-Year Low	10.89	13.18	15.9	15.3
	5-Year Median	15.49	15.04	19.24	17.9
P/S F12M	Current	3.58	4.39	2.7	4.52
	5-Year High	5	4.85	3.17	4.52
	5-Year Low	3.37	3.88	2.26	3.21
	5-Year Median	4.24	4.42	2.81	3.69
P/B TTM	Current	7.43	5.46	4.26	6.6
	5-Year High	9.01	7.37	5.11	6.66
	5-Year Low	3.22	3.83	3.02	3.83
	5-Year Median	5.7	5.39	4.38	4.97

As of 3/11/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Amgen Inc. (AMGN)	Neutral	3
Bristol Myers Squibb Company (BMY)	Neutral	3
Johnson & Johnson (JNJ)	Neutral	2
Eli Lilly and Company (LLY)	Neutral	3
Novartis AG (NVS)	Neutral	4
Pfizer Inc. (PFE)	Neutral	3
GlaxoSmithKline plc (GSK)	Underperform	5
Roche Holding AG (RHHBY)	Underperform	5

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

Industry Comparison Industry: Large Cap Pharmaceuticals				Industry Peers		
	MRK	X Industry	S&P 500	AMGN	GSK	PFE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	3
VGM Score	A	-	-	B	A	B
Market Cap	188.84 B	188.84 B	28.02 B	133.52 B	89.18 B	193.60 B
# of Analysts	7	3	13	14	6	7
Dividend Yield	3.48%	2.50%	1.38%	3.05%	6.98%	4.49%
Value Score	A	-	-	A	A	A
Cash/Price	0.04	0.06	0.06	0.08	0.10	0.06
EV/EBITDA	16.60	16.38	15.89	11.99	10.18	17.80
PEG F1	1.15	1.90	2.34	1.65	3.29	1.59
P/B	7.43	5.02	3.87	14.30	3.34	3.04
P/CF	10.09	11.01	16.08	10.05	10.86	11.16
P/E F1	11.38	12.97	20.92	13.80	12.79	10.68
P/S TTM	3.93	4.03	3.28	5.25	2.04	4.06
Earnings Yield	8.79%	7.71%	4.64%	7.25%	7.82%	9.36%
Debt/Equity	1.00	0.65	0.67	3.50	1.13	0.59
Cash Flow (\$/share)	7.39	3.43	6.78	23.01	3.27	3.11
Growth Score	B	-	-	D	C	D
Historical EPS Growth (3-5 Years)	11.21%	5.24%	9.34%	9.27%	5.19%	5.24%
Projected EPS Growth (F1/F0)	10.39%	7.87%	14.41%	0.91%	-6.71%	46.40%
Current Cash Flow Growth	9.82%	3.67%	0.74%	19.25%	-24.05%	-23.28%
Historical Cash Flow Growth (3-5 Years)	2.46%	6.26%	7.37%	5.89%	0.29%	-1.79%
Current Ratio	1.02	1.16	1.39	1.81	0.91	1.35
Debt/Capital	49.96%	39.31%	41.42%	77.76%	52.96%	36.91%
Net Margin	14.73%	16.69%	10.59%	28.57%	16.69%	20.18%
Return on Equity	55.49%	34.02%	14.75%	96.71%	28.50%	23.73%
Sales/Assets	0.54	0.43	0.51	0.40	0.42	0.28
Projected Sales Growth (F1/F0)	8.94%	9.09%	6.93%	3.95%	4.87%	24.51%
Momentum Score	A	-	-	B	A	A
Daily Price Change	-0.17%	-0.16%	1.04%	0.53%	-0.14%	-0.63%
1-Week Price Change	0.70%	0.02%	2.46%	1.25%	3.87%	2.69%
4-Week Price Change	-0.15%	-2.81%	3.55%	-1.65%	0.65%	0.81%
12-Week Price Change	-6.50%	-1.54%	7.58%	-0.03%	-4.79%	-8.73%
52-Week Price Change	0.24%	16.97%	45.24%	26.85%	-2.63%	15.62%
20-Day Average Volume (Shares)	11,311,109	2,721,850	2,199,326	2,407,299	6,314,128	30,116,316
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.17%	-0.24%	0.89%
EPS F1 Estimate 4-Week Change	0.11%	-0.83%	0.00%	-0.62%	-5.01%	0.78%
EPS F1 Estimate 12-Week Change	8.00%	0.42%	2.02%	-1.69%	-9.10%	0.45%
EPS Q1 Estimate Monthly Change	0.30%	0.15%	0.00%	-0.16%	16.95%	0.59%

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	B
Momentum Score	C
VGM Score	B

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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