

NuVasive, Inc. (NUVA)

\$56.55 (As of 01/12/21)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/10/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

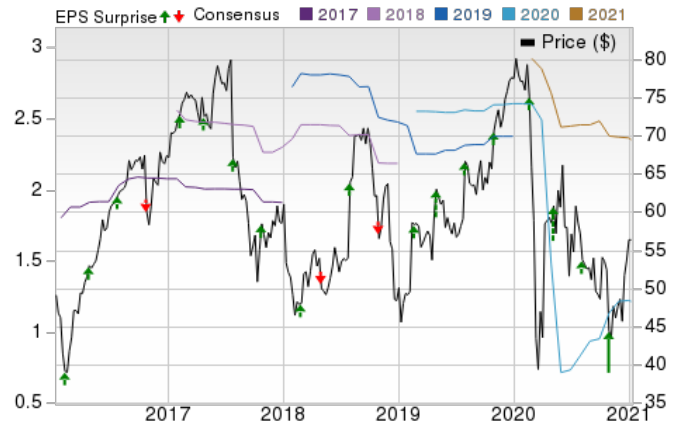
Growth: D

Momentum: C

Summary

In the third quarter of 2020, NuVasive experienced a faster-than-expected recovery from the impact of COVID-19. The results were primarily driven by a strong international growth. Surgical case volumes in key international markets like Japan and Germany and certain regions in the EU accelerated. However, others like the UK, Spain and certain countries in Latin America continue to recover at a much slower rate due to ongoing local COVID-19 impacts. The U.S. Surgical Support business experienced a slowdown in volumes due to the pandemic and NuVasive clinical services payer mix dynamics. The contraction in gross margin is concerning. The company is unable to provide any annual guidance, which raises apprehensions. Over the past three months, NuVasive has underperformed its industry.

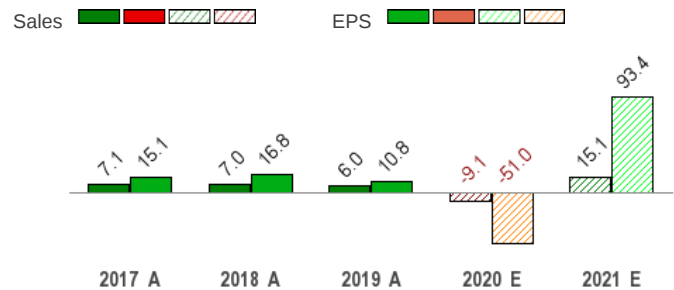
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$81.91 - \$28.55
20-Day Average Volume (Shares)	888,153
Market Cap	\$2.9 B
Year-To-Date Price Change	0.4%
Beta	1.36
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical - Products
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	14.1%
EPS F1 Estimate 4-Week Change	-1.0%
Expected Report Date	02/18/2021
Earnings ESP	-8.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	280 E	300 E	312 E	338 E	1,222 E
2020	260 A	204 A	295 A	304 E	1,062 E
2019	275 A	292 A	291 A	310 A	1,168 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.59 E	\$0.67 E	\$0.81 E	\$2.34 E
2020	\$0.48 A	-\$0.40 A	\$0.54 A	\$0.57 E	\$1.21 E
2019	\$0.53 A	\$0.63 A	\$0.59 A	\$0.73 A	\$2.47 A

*Quarterly figures may not add up to annual.

P/E TTM	41.9
P/E F1	24.2
PEG F1	2.0
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/12/2021. The reports text is as of 01/13/2021.

Overview

Headquartered in San Diego, CA, NuVasive, Inc. is one of the leading global medical device companies in the global spine market, focused on developing minimally-disruptive surgical products and procedurally-integrated solutions for the spine. NuVasive's current product portfolio is focused on applications for spine fusion surgery.

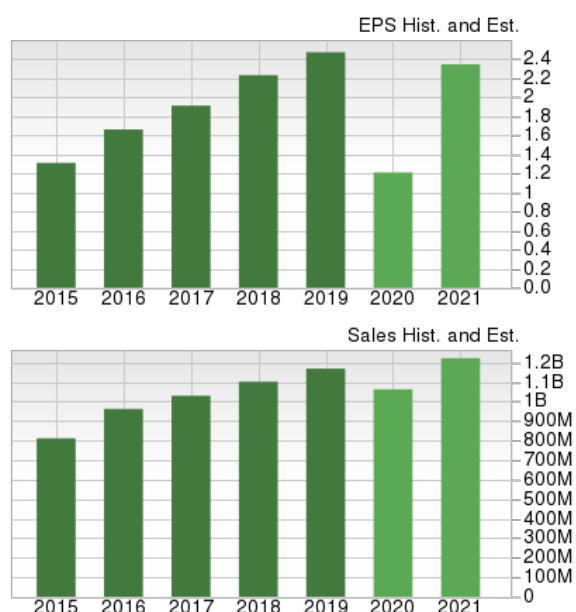
The principal product offering includes a minimally-disruptive surgical platform called Maximum Access Surgery (MAS). The MAS platform combines three categories of solutions that collectively minimize soft tissue disruption during spine fusion surgery, provide maximum visualization and are designed to enable safe and reproducible outcomes for the surgeon and the patient. The platform includes NuVasive's proprietary NVM5 and NVJJB, and Intra-Operative Monitoring (IOM) services and support; MaXcess, an integrated split-blade retractor system and a wide variety of specialized implants and biologics.

The **spine surgery** product line includes products for the thoracolumbar and the cervical spine.

The **biologic** product line used to aid the spinal fusion process or bone healing process include Osteocel Plus and Osteocel Pro allograft (donated human tissue) which are cellular matrix products containing viable mesenchymal stem cells (or MSCs), as well as other allograft offerings, FormaGraft – a collagen synthetic product and AttraX.

NuVasive also offers IOM services for insight into the nervous system during non-spine procedures. Post the closing of the acquisition of Ellipse Technologies in 2016, NuVasive has included its business under a newly created division called NuVasive Specialized Orthopedics (NSO).

Besides, with the acquisition of Biotronic NeuroNetwork (in Jul 2016), NuVasive has combined the service offerings of Biotronic with its Impulse Monitoring business to create NuVasive Clinical Services. The acquisition of SafePassage (in 2018), an intraoperative neurophysiological monitoring (IONM) services provider has helped NuVasive to fortify the NuVasive Clinical Services (NCS) position as the largest provider of outsourced IONM services in the United States.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Huge Scope of Growth in Spine Market:** According to a report by Mordor Intelligence, the market for Spinal Surgery Devices is expected to reach \$16.6 billion by 2021 at a CAGR of 5% during 2016 to 2021. Accordingly, NuVasive is currently leaving no stone unturned to capture this fast-growing spine market.

In November, the company received the FDA's 510(k) clearance for its thoracolumbar interbody portfolio to include the treatment of multi-level sagittal deformities of the thoracolumbar spine. In September, the company announced limited launch of the new Precice Plate for use in limb lengthening and reconstruction procedures from NuVasive Specialized Orthopedics (NSO) for pediatrics or patients with small anatomy.

The company, in July, launched its Time to Evolve campaign to help provide less invasive surgical techniques. NuVasive also expanded its complex spine portfolio with the global commercial availability of Reline 3D (a posterior fixation system for patients suffering from pediatric spinal deformities) in June.

In May, NuVasive's LessRay radiation reduction and workflow enhancement platform received a MedTech Breakthrough award. In the same month, the company announced the expansion of its Advanced Materials Science implant portfolio with the commercial launch of the Modulus XLIF Dual Sided Plate. NuVasive also received the FDA's 510(k) clearances for Modulus ALIF and Cohere transforaminal lumbar interbody fusion (TLIF)-O.

It is also on track to commercially launch an anterior cervical plate and posterior cervical fixation system to help treat degenerative trauma and deformity pathologies by the end of the year. Additionally, NuVasive will continue its momentum in transforming the TLIF market by entering into alpha launches for coherent TLIF O and TLIF A.

- ▲ **Organizational Restructuring Plan Looks Impressive:** In November 2020, NuVasive announced a new organizational and leadership structure for its global commercial operations as well as its product and services organization. These were previously consolidated under the role of the company's president. According to the company, these changes establish a new global commercial leader and bring together NuVasive's product and services teams under a single global leader. This new plan is expected to further advance execution of NuVasive's long-term strategy and growth goals, including doubling International net sales by 2024.

- ▲ **International Business Holds Potential:** According to NuVasive, the International region holds tremendous growth opportunity for the company. Despite the pandemic dragging down the international revenues in the reported quarter, the company registered solid performance in Australia, New Zealand, and parts of Northern Europe and Japan throughout the quarter.

Further, NuVasive's global operations continue to execute well. The company's efforts to address European Medical Device Regulation readiness included a pilot launch of a sterile packaging deployment process and obtaining an important regulatory certification.

The company currently looks forward to continue expanding NuVasive spine, pediatric and specialized orthopedic portfolios in the region.

- ▲ **U.S. Surgical Support Prospect Strong:** Within the Surgical Support business, NuVasive acquired Safe Passage in 2019. With this acquisition, the company has solidified its leadership position as the largest provider of outsourced intraoperative neurophysiological monitoring services. Per management, the market is gradually experiencing greater adoption and increasing demand for its offering of surgical alternatives with less tissue disruption. NuVasive continues to focus on unique spine offerings. Despite the pandemic-led business debacle, the company witnessed volume improvement throughout the second quarter. Additionally, NuVasive Clinical Services continued to drive business and operational efficiencies during this time.
- ▲ **New Strategies Buoy Optimism:** NuVasive earlier highlighted four technological focus areas for 2020. These include lateral single-position surgery, surgical intelligence, advanced material science and complex spine, also known as deformity. In this regard, the company is seeing solid adoption of the lateral single-position surgery for short powered by Surgical Intelligence continues. The procedure has been launched internationally, with completed cases in the U.K., Italy and Switzerland.

NuVasive's huge scope in Spine market, strong international and U.S. sales contributed to the overall growth.

Reasons To Sell:

- ▼ **Share Price Movement:** Over the past six months, NuVasive has underperformed its industry. The stock has gained 0.7% compared to the industry's 13.7% rise. In the third quarter, clinical service businesses and certain legacy products declined year-over-year. NuVasive witnessed dull thoracolumbar procedural growth. Also there was sharp decline in ACD and some other procedures. Surgical case volumes in the UK, Spain and certain countries in Latin America continued to recover at a slower rate due to ongoing local COVID-19 impacts.

The contraction in gross margin is concerning as well. The company is unable to provide any annual guidance, which raises apprehensions. Consistent pricing pressure and a poor solvency structure are also discouraging. Macro-economic headwinds and a stiff competitive landscape have been dampeners as well.

- ▼ **Coronavirus-Led Procedural Deferrals Hurt Sales:** In the third quarter, the U.S. Surgical Support business were \$69.5 million, down 3.4% year over year. The business experienced a slowdown in volumes due to the pandemic and NuVasive clinical services payer mix dynamics.

The company earlier noted that it registered a temporary but significant impact on its business due to the pandemic as the major part of the company's business are considered elective. Further, new patient clinical volumes continue to be suppressed, creating uncertainty in the level of future volumes.

- ▼ **Poor Solvency Structure:** NuVasive exited third-quarter 2020 with cash and cash equivalents, and short-term marketable securities of \$982 million compared with \$927 million at the end of the second quarter of 2020. Meanwhile, total debt came up to \$2.16 billion, a significant increase from the sequentially-last-reported figure of \$1.55 billion. The reported quarter's total debt was much higher than the corresponding cash and cash equivalent, and short-term marketable securities level. However, if we go by the company's current-year debt level of \$640 million, this comes pretty low compared to the cash in hand. This is good news in terms of solvency position of the company, at least during the year of economic downturn, implying that the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, favorable as industry's total debt of \$10.9 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital ratio of 0.61 stands at a moderately high level right now. It represents a sequential decline from 0.64 in the second quarter and also stands highest over the past four quarters. This compares unfavorably with the total debt-to-capital ratio of the industry, which stands at a lower level of 0.37. The overall data concludes that in terms of solvency level of the company, the picture is quite discouraging.

On the other hand, the company's third-quarter interest coverage stands at a very low level of 0.7%, down from the sequentially-last quarter's 0.9%. This, also, compares unfavorably with the times interest earned for the industry which stands at a higher level (5.6%).

- ▼ **Macro-economic Headwind May Hamper Growth:** Although the market for spine surgery procedures will continue to grow over the long term, this industry is highly susceptible to any change in economic, political and regulatory influences which may slow down the spine market's growth rate. These changes include pricing pressure from the continued consolidation of hospital customers and the expansion of group purchasing organizations, unfavorable third-party payer coverage, reimbursement policies, and new and proposed legislation and regulations designed to contain or reduce the cost of healthcare.

- ▼ **Pricing Pressure Continues to Persist:** Pricing continues to remain a major headwind for NuVasive as it experiences declining prices for its products due to increasing competition in the spine market; pricing pressure experienced by hospital customers from managed care organizations, insurance providers and other third-party payers; and increased market power of hospital customers as the medical device industry consolidates.

- ▼ **Tough Competitive Landscape:** The presence of a large number of players has made the medical devices market intensely competitive. The orthopedic industry, in particular, is highly competitive with the presence of bellwethers like Zimmer Holdings, Stryker, Johnson & Johnson's DePuy, Orthofix International N.V., Vyair Medical (formerly VIASYS Healthcare, a division of Becton, Dickinson and Company) and Medtronic.

Headwinds like Margin drag, pricing and payers pressure, reimbursement issues and competitive landscape are major downsides.

Last Earnings Report

NuVasive's Q3 Earnings Beat Estimates, Revenues Miss

NuVasive delivered third-quarter 2020 adjusted earnings per share of 55 cents, down 6.8% from the year-ago figure. However, the figure beat the Zacks Consensus Estimate of earnings of 27 cents per share.

The one-time adjustments include expenses associated with certain ongoing litigation matters and amortization expenses among others.

GAAP earnings per share came in at 11 cents, down from the year-ago EPS of 21 cents.

Total Revenues

Revenues in the third quarter totaled \$295.3 million, up 1.5% year over year on a reported basis (up 1.3% at constant exchange rate or CER). The top line exceeded the Zacks Consensus Estimate by 14.1%.

The company registered strong international performance with several spinal hardware product lines growing at high single digits or more.

However, this was offset by the clinical service businesses and certain legacy products that declined year over year.

Geographical & Segmental Details

In the reported quarter, U.S. Spinal Hardware business revenues inched up 0.8% year over year to \$161.2 million. With improved case volume, the company saw more normal mixture of procedures driving results.

Thoracolumbar procedures grew in low-single digits. The pediatric deformity portfolio performed at pre-COVID-19 levels.

Revenues from the U.S. Surgical Support business were \$69.5 million in the third quarter, down 3.4% year over year. The business experienced a slowdown in volumes due to the pandemic and NuVasive clinical services payer mix dynamics. This was partially offset by growth in intraoperative monitoring disposable products due to an increase in thoracolumbar case volumes in the quarter.

In the quarter, the company registered international revenues of \$64.6 million, reflecting a 9.6% year-over-year rise on a reported basis and 7.8% rise at CER. This resulted from strong contributions from Asia Pacific, and in particular Japan, where there was less impact of COVID-19.

Margin Details

In the reported quarter, gross profit declined 1.5% year over year to \$210.6 million. Gross margin contracted 218 basis points (bps) to 71.3%.

Selling, general and administrative expenses declined 4.3% year over year to \$146.3 million, whereas research and development expenses climbed 12.5% year over year to \$20.4 million.

Adjusted operating margin was 14.9%, a 19 bps expansion year over year.

Operational Update

The company exited the third quarter with cash and cash equivalents, and short-term marketable securities of \$982.1 million compared with \$926.8 million at the end of the second quarter.

Cumulative net cash provided by operating activities at the end of the third quarter was \$113.2 million compared with the prior-year period's \$160.6 million.

Guidance

NuVasive noted that it is currently not reinstituting its financial guidance for the year as the scope for spine surgery volumes for the remainder of the year continues to be limited.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	14.09%
EPS Surprise	100.00%
Quarterly EPS	0.54
Annual EPS (TTM)	1.35

Recent News

Unveils C360 Portfolio and Lanches Anterior Cervical Plate: Nov 30, 2020

NuVasive unveils its new C360 cervical spine portfolio along with commercial launch of the anterior cervical plating system to offer solution for anterior and posterior cervical spine surgery

New Launch in Expands Porous PEEK Line: Nov 18, 2020

NuVasive made the commercial launch of Cohere®XLIF, the first Porous PEEK interbody brought to market for use in eXtreme Lateral Interbody Fusion (XLIF) and X360 surgeries.

510(k) clearance for Sagittal Deformities Treatment: Nov 5, 2020

NuVasive received FDA's 510(k) clearance for its thoracolumbar interbody portfolio to include the treatment of multi-level sagittal deformities of the thoracolumbar spine. This clearance expands the portfolio's indications to include multilevel sagittal deformity.

NuVasive Expands Precice Portfolio With Product Launch: Sep 9, 2020

NuVasive announced the limited availability of the new Precice Plate for use in limb lengthening and reconstruction procedures from NuVasive Specialized Orthopedics, thus expanding its Precice portfolio.

Valuation

NuVasive shares are up 0.7% in the six month period and down 30.3% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 13.7% while the Zacks Medical sector improved 7.6% in the six month period. Over the past year, the Zacks sub-industry is up 4.8% and sector is up 5.3%.

The S&P 500 index is up 19.6% in the six month period and up 17.7% in the past year.

The stock is currently trading at 23.9X Forward 12-months earnings, which compares to 26.7X for the Zacks sub-industry, 23.1X for the Zacks sector and 23.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.2X and as low as 12.3X, with a 5-year median 26.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 25.3X forward 12-months earnings.

The table below shows summary valuation data for NUVA.

Valuation Multiples -NUVA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	23.90	26.74	23.14	23.16
	5-Year High	46.23	31.03	23.14	23.79
	5-Year Low	12.30	17.09	15.90	15.30
	5-Year Median	26.58	21.07	19.13	17.83
P/S F12M	Current	2.37	4.09	2.88	4.52
	5-Year High	3.68	4.09	3.17	4.52
	5-Year Low	1.37	2.90	2.26	3.20
	5-Year Median	2.73	3.36	2.85	3.68
P/B TTM	Current	3.23	3.45	4.50	6.53
	5-Year High	5.80	3.62	5.11	6.58
	5-Year Low	1.87	2.28	3.02	3.73
	5-Year Median	3.79	2.94	4.35	4.94

As of 01/12/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
CONMED Corporation (CNMD)	Neutral	3
Globus Medical, Inc. (GMED)	Neutral	3
Johnson & Johnson (JNJ)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
ORTHOFIX MEDICAL INC. (OFIX)	Neutral	3
Stryker Corporation (SYK)	Neutral	3
Zimmer Biomet Holdings, Inc. (ZBH)	Neutral	3
Smith & Nephew SNATS, Inc. (SNN)	Underperform	5

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	NUVA	X Industry	S&P 500	JNJ	MDT	SYK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	D	C
Market Cap	2.90 B	633.93 M	26.90 B	416.28 B	157.87 B	89.89 B
# of Analysts	11	3	13	9	14	15
Dividend Yield	0.00%	0.00%	1.41%	2.55%	1.98%	1.05%
Value Score	B	-	-	B	C	C
Cash/Price	0.34	0.10	0.06	0.07	0.09	0.08
EV/EBITDA	9.73	-0.66	15.05	16.96	21.71	28.37
PEG F1	2.01	3.06	2.62	3.07	3.60	2.74
P/B	3.22	4.19	3.76	6.46	3.13	6.92
P/CF	10.27	22.68	14.67	13.73	17.72	22.85
P/E F1	24.04	28.07	20.85	17.79	27.88	26.31
P/S TTM	2.71	6.49	3.00	5.15	5.66	6.32
Earnings Yield	4.14%	0.78%	4.69%	5.62%	3.59%	3.80%
Debt/Equity	0.85	0.08	0.70	0.51	0.52	0.92
Cash Flow (\$/share)	5.51	0.00	6.93	11.52	6.62	10.47
Growth Score	D	-	-	C	D	B
Historical EPS Growth (3-5 Years)	8.40%	8.58%	9.72%	7.80%	1.02%	9.51%
Projected EPS Growth (F1/F0)	93.90%	30.33%	12.36%	11.25%	-8.36%	26.64%
Current Cash Flow Growth	7.60%	6.53%	5.22%	3.68%	-9.02%	11.85%
Historical Cash Flow Growth (3-5 Years)	19.11%	8.47%	8.37%	7.62%	7.68%	12.35%
Current Ratio	1.85	3.13	1.38	1.48	2.16	2.89
Debt/Capital	46.01%	13.15%	41.97%	33.64%	34.04%	48.04%
Net Margin	-0.84%	-14.68%	10.44%	21.01%	12.69%	12.35%
Return on Equity	8.00%	-4.42%	15.37%	34.64%	9.71%	20.94%
Sales/Assets	0.45	0.51	0.50	0.50	0.30	0.46
Projected Sales Growth (F1/F0)	15.01%	16.41%	6.00%	8.17%	4.04%	15.40%
Momentum Score	C	-	-	F	A	C
Daily Price Change	-0.70%	0.00%	0.57%	-0.78%	-1.02%	-1.09%
1-Week Price Change	-0.02%	4.80%	2.23%	1.69%	2.19%	-0.56%
4-Week Price Change	23.28%	8.50%	3.70%	5.02%	2.09%	2.20%
12-Week Price Change	7.86%	17.43%	14.39%	9.39%	7.46%	8.34%
52-Week Price Change	-30.30%	21.91%	7.96%	7.92%	0.21%	15.03%
20-Day Average Volume (Shares)	888,153	271,044	1,754,762	6,699,407	3,231,310	889,139
EPS F1 Estimate 1-Week Change	0.12%	0.00%	0.00%	-0.06%	0.24%	-0.10%
EPS F1 Estimate 4-Week Change	-1.04%	0.00%	0.06%	-0.19%	0.05%	0.06%
EPS F1 Estimate 12-Week Change	-5.50%	0.05%	2.55%	-1.37%	6.86%	2.51%
EPS Q1 Estimate Monthly Change	-12.70%	0.00%	0.00%	-0.23%	-0.47%	-0.22%

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	D
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.

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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