

## Omniceil, Inc. (OMCL)

**\$79.70** (As of 10/08/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/28/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

### Summary

Omniceil's second-quarter top line plunged year over year. The company recorded disappointing segmental contributions in the quarter. Contraction of both margins in the reported quarter was discouraging as well. The company's inability to provide full-year guidance this time as well raises concerns. Other headwinds like stiff competitive landscape and tough hospital spending trends persist. Over the past six months, Omniceil's shares have underperformed the industry it belongs to. Yet, the company's optimism about the gradual resumption of elective surgeries and some on-site sales activities in regions less impacted by the pandemic is encouraging. The improvement in Service and other revenues despite the pandemic-led business challenges is impressive. A strong liquidity, solvency and capital structure buoys optimism.

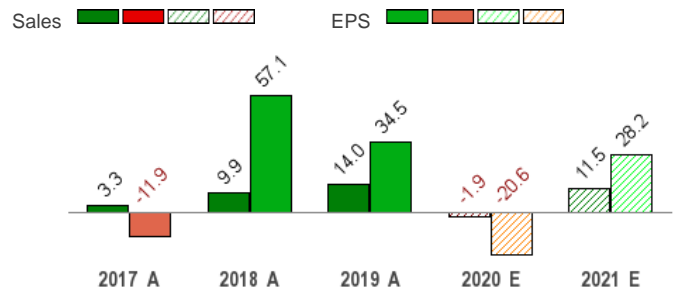
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	\$94.85 - \$54.24
20-Day Average Volume (Shares)	526,607
Market Cap	\$3.4 B
Year-To-Date Price Change	-2.5%
Beta	0.83
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 29% (178 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.0%
Last Sales Surprise	0.5%
EPS F1 Estimate 4-Week Change	1.2%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	31.1
P/E F1	35.9
PEG F1	2.4
P/S TTM	3.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	246 E	236 E	234 E	266 E	981 E
2020	230 A	200 A	209 E	242 E	880 E
2019	203 A	217 A	229 A	248 A	897 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.58 E	\$0.75 E	\$0.94 E	\$2.86 E
2020	\$0.66 A	\$0.37 A	\$0.50 E	\$0.70 E	\$2.23 E
2019	\$0.61 A	\$0.67 A	\$0.76 A	\$0.77 A	\$2.81 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 10/08/2020. The reports text is as of 10/09/2020.

## Overview

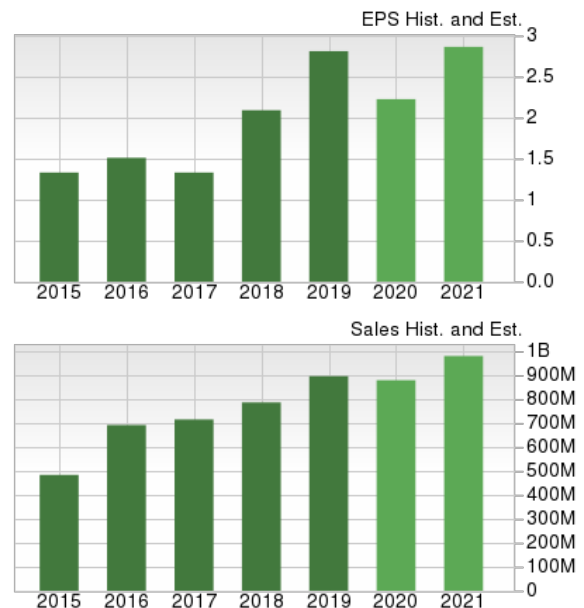
Headquartered in Mountain View, CA, Omnicell Inc., develops and markets end-to-end automation solutions for the medication-use process. These automation solutions contain medication and supply dispensing systems, central pharmacy storage, retrieval and packaging solutions, a bedside automation solution, a physician order management solution, a decision support application, and a Web-based procurement application.

The products offered by the company enable care providers to improve patient safety and increase efficiency by lowering costs. The company also adheres to regulatory compliances and addresses issues related to population health.

Omnicell previously had two reporting segments, namely Automation and Analytics, and Medication Adherence. In an effort to deliver on the vision of the autonomous pharmacy and address industry changes (including the ongoing consolidation of healthcare systems, rising pharmaceutical costs and increased scrutiny on controlled substances), Omnicell initiated a company-wide organizational realignment in the fourth quarter of 2018. It was done to centrally manage business operations, including the development and marketing of all of its products, sales and distribution, supply chain and inventory management, and regulatory and quality functions. As a result of the organizational realignment, all significant operating decisions are based upon an analysis of Omnicell as one operating segment. Thus, effective Jan 1, 2019, Omnicell reports as only one operating segment, which is the same as the reporting segment.

In 2016, Omnicell acquired Aesynt Holding, a leading player in enterprise medication management with specific products in IV compounding, Central Pharmacy automation, point of care solutions and enterprise software products.

In April 2017, Omnicell acquired InPharmics, which is an advanced pharmacy informatics solutions provider to hospital pharmacies. The buyout added clinical and compliance analytics to Omnicell's Performance Center offering.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Product Innovation Driving Growth:** Omnicell is progressing well with its 3-legged strategy that covers market expansion through delivery of differentiated, innovative solutions; expansion into new markets, primarily outside the United States; and expansion through strategic partnerships and acquisition of new technologies.

The first leg of differentiated products continues to track new customers who adopt G4 platform, Omnicell's analytics tools and medication adherence solutions. In recent times, the company is witnessing strong new conversion wins for its new XT series. As of Mar 31, approximately 24% of the company's existing installed base of previous generations for automated dispensing cabinets have placed orders to upgrade to the new XT Series.

The company is making concerted efforts to consolidate medication management, with support from the autonomous pharmacy vision. The company is currently progressing toward the advancement of its vision of autonomous pharmacy.

Omnicell's XT Automated Dispensing Cabinets, showcased in April 2019, are enhancing workflow efficiency, medication accountability and patient safety through the latest hardware technology and software features. The company's Patient Engagement platform helps guide and track patient interactions. It also enables pharmacists to deliver interventions more effectively to help improve medication use.

- ▲ **Autonomous Pharmacy Model Holds Potential:** Omnicell has an elaborate vision for the Autonomous Pharmacy. Per management, the Autonomous Pharmacy vision integrates a comprehensive set of solutions across three key segments — automation solutions (designed to digitize and streamline workflows), intelligence (provides actionable insights to better understand medication usage and improve pharmacy supply chain management) and automation of medication dispensing workflows (includes expert services as an extension of pharmacy operations).

As a major milestone in this niche, Omnicell recently introduced fully Autonomous Pharmacy, Omnicell One, which will be available from August. Leveraging cloud-based data and predictive prescriptive analytics, Omnicell One provides real-time visibility with actionable insights and workflow optimization recommendations that will help improve clinical, financial and operational outcomes across the pharmacy supply chain. As a result of COVID-19, many of Omnicell customers have prioritized supply chain optimization in order to provide critical care to patients. Omnicell One represents a significant step toward leveraging analytics that enable these customers to meet demand in an efficient manner.

- ▲ **Planned Geographic Expansion another Upside:** Outside the United States, the healthcare providers are becoming increasingly aware of the benefits of automation. Additionally, there is a substantial demand for adherence packaging equipment outside the domestic market. Many government and private entities are aware of the progress made over the last several years in the United States and are investing significantly in information technology and automation. Given the fact that the international market is less than 1% penetrated with very few hospitals adopting medication control systems, Omnicell has specified its second leg of strategies of expanding into new markets.

This strategy so far, is driving significant growth in the Non-Acute Care segment of Omnicell. While the company continues to focus on the Middle East, and South Africa, it sees greater adoption of technologies in other parts of the world, like Australia, U.K., parts of Asia, Germany and France. In this line, in the second quarter, the company announced a new software partnership with the West Yorkshire Association of Acute Trust, an innovative collaboration of NHS Trust across West Yorkshire and Harrogate and the United Kingdom.

- ▲ **Strategic Acquisitions and Partnerships Add Value:** The third leg of acquisition and partnerships is also progressing successfully. In August, Omnicell announced the acquisition of Pharmaceutical Strategies Group's 340B Link Technology Solutions business. The acquisition will add a comprehensive and differentiated suite of software-enabled services and solutions to Omnicell to manage compliance. Additionally, the buyout will help Omnicell to tap into the federal 340B Drug Pricing Program.

Among other important buyouts of recent times, alliances with Fairview Health Services and Geisinger, are expected to boost the company's portfolio. Other health care centers to have adopted Omnicell's technology include Duke University Hospital and Atrium Health in North Carolina; Cooper University Health Care in New Jersey; Benefis Health System in Montana; Renown Health in Nevada; and Allegheny General Hospital in Pittsburgh, PA (part of the Allegheny Health Network).

- ▲ **Strong Liquidity, Solvency and Capital Structure:** Omnicell exited the second quarter of 2020 with cash and cash equivalents of \$134 million compared with \$104 million at the end of the first quarter. Meanwhile, the company finished the quarter with no debt on its balance sheet indicating strong solvency position.

The company's cash flow trend also remains robust. Cumulative net cash provided by operating activities at the end of the second quarter was \$48 million and free cash flow was \$28 million (after net capital expenditures of approximately \$20 million). This compares with the year-ago operating cash flow of \$27 million and free cash flow of \$12 million (net capital expenditures were \$15 million, in the year-ago quarter).

Omnicell's strategic acquisitions and partnerships support each of the three legs of the company's strategy.

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## Reasons To Sell:

- ▼ **Share Price Movement:** Over the past six months, Omnicell's shares have underperformed the industry it belongs to. The stock has gained 14.3% compared with the industry's 58.7% rise.

During the second quarter, Omnicell continued to see some delays in product bookings and expects to see lower product bookings and revenues through the rest of 2020 compared to management's expectations prior to the COVID-19 outbreak. Additionally, the company's ability to access hospitals in order to perform implementations of capital equipment has been delayed in some cases, as many hospitals are consumed with treating sick patients.

Contraction of both margins in the reported quarter was discouraging as well. The company's inability to provide full-year guidance this time as well raises concerns. Other headwinds in the form of a stiff competitive landscape and tough hospital spending trends continue to bother the company.

- ▼ **Coronavirus Impact Pronounced:** The coronavirus pandemic has been wreaking havoc on the economy and the impact on Omnicell has been damaging as well. The company noted that it is witnessing significantly lower product bookings as well as slowdown in purchasing decisions by hospitals. The pandemic has impacted the company's second-quarter 2020 results with slowdown in product bookings.

Shelter-in-place was enforced throughout the United States and parts of Europe, elective surgeries had been postponed and hospital systems were ramping up to treat COVID-19 patients. As a result, the company's sales teams had some difficulty engaging with customers on new bookings, also some implementations from backlog were being delayed as hospitals were consumed with treating COVID-19 patients or were preparing for a potential surge in COVID-19 patient hospital admissions. Omnicell expects to see lower product bookings and revenues through the rest of 2020 compared to management's expectations prior to the COVID-19 outbreak.

Further, since Omnicell is currently unable to gauge the scope, duration and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization, it could not provide full-year guidance this time as well.

- ▼ **Escalating Costs and Expenses:** Omnicell has adopted several strategies to drive its top line including portfolio expansion, acquisitions and further penetration in the medication adherence market. Thus, the company continues to battle escalating costs. Also, the company continues to expect higher costs in the upcoming quarters stemming from integration of new acquisitions and the expenses related to the XT series and IV workflow.

In the second quarter of 2020, the company-provided adjusted gross profit declined 16.4%. Further, adjusted gross margin contracted 440 basis points (bps) to 45%. Adjusted operating expenses in the second quarter were down 1.1% year over year. Adjusted operating profit reflected a 52.2% fall from the prior-year quarter. Adjusted operating margin in the second quarter contracted 710 bps to 7.7%.

- ▼ **Competitive Landscape:** Omnicell faces intense competition in the medication management and supply chain solutions market. Even though the company continues to gain market share from other traditional providers of medication management and supply chain solutions, major players such as Becton Dickinson/CareFusion Corporation, ARxIUM, Cerner Corporation, Talyst, Inc., Emerson Electronic Co., WaveMark Inc.

Major direct competitors in the medication packaging solutions market like Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. still pose threats as they spearhead several expansion programs. This increased competition could result in pricing pressure and a reduced margin, which would have an adverse impact on the company's performance.

- ▼ **Tough Hospital Spending Trends:** Hospital purchases continue to remain a challenge for the small community hospitals compared with the bigger ones owing to financial constraints. This is reflected in the data provided by the company, which suggests that 70% of small hospitals in the United States deploy automated dispensing cabinets versus 96% and 99% for medium and large hospitals, respectively.

The hospitals continue to remain cautious with respect to capital spending in the current economic environment. Thus, a resilient hospital capital expenditure environment might adversely affect the adoption of Omnicell's solutions. Moreover, the reimbursement mix has also affected the endowments income, further affecting hospital spending capabilities. While the company has won some new deals in larger hospitals, the market is still susceptible to the economy and credit conditions.

Increasing cost of production continues to hamper the company's margin performance. Weak Hospital Spending Trends and tough competition also pose threats.

## Last Earnings Report

### Omniceil Q2 Earnings Miss, Margins Down

Omniceil reported second-quarter 2020 adjusted earnings per share of 37 cents, down 44.8% year over year. The metric lagged the Zacks Consensus Estimate by 13.9%.

The adjustments include expenses related to share-based compensation, amortization of acquired intangibles, and severance and other.

On a GAAP basis, loss per share was 10 cents for the quarter under review compared with earnings per share of 37 cents in the year-ago quarter.

### Revenues in Detail

Second-quarter revenues of \$199.6 million dropped 8.2% year over year on a reported basis (same on adjusted basis). The figure, however, beat the Zacks Consensus Estimate by 0.5%.

### Segmental Details

On a segmental basis, **Product** revenues fell 12.3% year over year to \$138.9 million in the reported quarter.

**Service and other** revenues climbed 2.8% year over year to \$60.7 million.

With regard to COVID-19 impact on the company's business, Omniceil noted that it has continued to see a delay in product bookings and expects this slowdown to continue along with the declining revenue trend through the year. However, the company is upbeat about the gradually changing environment, which is recording favorable impact with respect to both product bookings and revenues. Further, the overall level of system implementations is rising.

Additionally, through the second quarter, the company's scope to access hospitals in order to implement capital equipment has been delayed in many cases, as many hospitals are used for treating coronavirus patients.

### Operational Update

In the quarter under review, the company-provided adjusted gross profit declined 16.4% to \$89.9 million. Further, adjusted gross margin contracted 440 basis points (bps) to 45%.

Adjusted operating expenses were \$74.5 million in the second quarter, down 1.1% year over year. Adjusted operating profit totaled \$15.4 million, reflecting a 52.2% fall from the prior-year quarter. Adjusted operating margin in the second quarter contracted 710 bps to 7.7%.

### Financial Update

Omniceil exited the second quarter with cash and cash equivalents, and net accounts receivable and unbilled receivables of \$322.5 million compared with \$337.1 million at the end of the first quarter of 2020.

Cumulative cash flow from operating activities at the end of the second quarter was \$72.7 million compared with \$53.8 million a year ago.

### Guidance

Omniceil is currently unable to gauge the scope, duration and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization. This time, too, the company was unable to provide the full-year guidance.

However, the company expects third-quarter 2020 adjusted product revenues at \$143-\$149 million and adjusted service revenues within \$61-\$63 million.

Adjusted earnings per share is expected within 44-52 cents for the third quarter. The Zacks Consensus Estimate for the same is currently pegged at 73 cents.

Given the gradually improving business environment, Omniceil anticipates sequential product bookings and revenue growth through the third quarter of 2020. However, management expects disruptions for hospital spending and access for implementations to continue in the near- to medium-term.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	0.50%
EPS Surprise	-13.95%
Quarterly EPS	0.37
Annual EPS (TTM)	2.56

## Recent News

### Omniceil Launches EnlivenHealth: Oct 6, 2020

Omniceil announced that it is launching EnlivenHealth, a division which is dedicated to enable retail pharmacies and health plans to improve patient outcomes and reduce costs via Software-as-a-Service technology solutions.

### Omniceil Completes the Buyout of PSG's business: Oct 1, 2020

Omniceil announced the completion of the previously announced acquisition of Pharmaceutical Strategies Group's (PSG) 340B Link business, pursuant to the terms and conditions of an Equity Purchase Agreement.

### Omniceil Extends Partnership With Medical Center: Aug 17, 2020

Omniceil announced that Maryland-based Peninsula Regional Medical Center has chosen Omniceil's medication management platform to support their in-house sterile compounding operations.

### Software-Enabled Service Business Acquisition: Aug 12, 2020

Omniceil announced that it has entered into a definitive agreement with PSG to acquire its 340B Link business for total aggregate cash consideration of \$225 million, subject to customary adjustments.

## Valuation

Omniceil shares are down 2.5% in the year to date period and up 7.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 31.8% while the Zacks Medical sector rose 0.4% in the year to date period. Over the past year, the Zacks sub-industry is up 45.7% and sector is up 14.2%.

The S&P 500 index is up 6.3% in the year to date period and up 16.6% in the past year.

The stock is currently trading at 3.6X Forward 12-months sales, which compares to 3.6X for the Zacks sub-industry, 2.8X for the Zacks sector and 4.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.1X and as low as 1.3X, with a 5-year median 2.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$84 price target reflects 3.8X forward 12-months sales.

The table below shows summary valuation data for OMCL.

Valuation Multiples - OMCL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.56	3.63	2.79	4.14
	5-Year High	4.10	3.63	3.26	4.30
	5-Year Low	1.26	1.61	2.24	3.18
	5-Year Median	2.41	2.30	2.85	3.67
P/B TTM	Current	3.84	4.75	3.89	5.99
	5-Year High	5.20	4.75	5.08	6.20
	5-Year Low	2.24	2.13	2.96	3.75
	5-Year Median	3.48	3.07	4.30	4.89
EV/EBITDA F12M	Current	16.03	13.50	9.62	17.21
	5-Year High	22.19	13.50	11.54	18.86
	5-Year Low	7.36	6.52	8.17	12.99
	5-Year Median	15.33	8.24	10.14	15.75

As of 10/08/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 29% (178 out of 252)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Becton, Dickinson and Company (BDX)	Neutral	4
Cardinal Health, Inc. (CAH)	Neutral	3
Cerner Corporation (CERN)	Neutral	4
International Business Machines Corporation (IBM)	Neutral	3
McKesson Corporation (MCK)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	2
Oracle Corporation (ORCL)	Neutral	3
Baxter International Inc. (BAX)	Underperform	4

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

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	OMCL	X Industry	S&P 500	BDX	IBM	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	2
VGM Score	B	-	-	B	B	B
Market Cap	3.41 B	250.14 M	24.20 B	68.47 B	117.10 B	1.39 B
# of Analysts	4	5	14	12	7	12
Dividend Yield	0.00%	0.00%	1.6%	1.34%	4.96%	0.00%
Value Score	C	-	-	C	A	B
Cash/Price	0.04	0.09	0.07	0.04	0.13	0.15
EV/EBITDA	22.63	-1.17	13.53	20.30	9.01	20.09
PEG F1	2.39	2.38	2.90	2.33	3.62	1.83
P/B	3.84	3.05	3.54	2.85	5.66	1.12
P/CF	20.87	15.31	13.37	11.37	6.66	4.16
P/E F1	35.90	20.82	21.94	18.50	11.88	12.84
P/S TTM	3.76	3.76	2.66	4.05	1.55	0.81
Earnings Yield	2.79%	-0.91%	4.31%	5.41%	8.41%	7.85%
Debt/Equity	0.00	0.06	0.70	0.71	2.68	0.53
Cash Flow (\$/share)	3.82	-0.05	6.92	20.77	19.75	2.06
Growth Score	B	-	-	B	C	C
Historical EPS Growth (3-5 Years)	29.72%	7.28%	10.45%	10.16%	-3.28%	7.28%
Projected EPS Growth (F1/F0)	-20.82%	-2.55%	-3.01%	28.88%	-13.63%	-0.75%
Current Cash Flow Growth	38.80%	9.89%	5.47%	14.64%	2.09%	9.89%
Historical Cash Flow Growth (3-5 Years)	22.49%	10.24%	8.50%	24.86%	-3.76%	10.24%
Current Ratio	1.97	1.93	1.35	1.45	1.04	0.78
Debt/Capital	0.00%	18.72%	42.90%	41.57%	72.83%	34.74%
Net Margin	5.42%	-14.86%	10.28%	5.30%	10.44%	-3.06%
Return on Equity	9.21%	-17.56%	14.79%	14.19%	51.06%	5.55%
Sales/Assets	0.73	0.54	0.51	0.32	0.50	0.53
Projected Sales Growth (F1/F0)	-1.90%	0.09%	-0.62%	12.12%	-4.52%	-5.18%
Momentum Score	B	-	-	A	C	D
Daily Price Change	2.60%	0.00%	1.28%	0.22%	5.98%	2.28%
1-Week Price Change	3.52%	0.72%	2.13%	3.83%	1.36%	2.48%
4-Week Price Change	9.46%	1.50%	4.49%	0.87%	9.07%	-3.28%
12-Week Price Change	20.70%	-4.40%	6.74%	-10.88%	6.03%	19.11%
52-Week Price Change	7.91%	14.03%	6.65%	-4.96%	-6.83%	-19.55%
20-Day Average Volume (Shares)	526,607	390,252	2,121,744	1,569,462	4,561,602	1,131,131
EPS F1 Estimate 1-Week Change	1.18%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.18%	0.00%	0.00%	-1.18%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-11.71%	5.95%	3.47%	2.48%	-1.75%	22.31%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-0.81%	0.00%	0.00%

Source: Zacks Investment Research



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## 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.

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### 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	C
Growth Score	B
Momentum Score	B
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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## 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.

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.

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**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.

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**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.