ZACKS | Our Research. Your Success.

Jun 17, 2021

Insulet Corporation (PODD)

$279.49 (As of 06/16/21)

Price Target (6-12 Months): **$266.00**

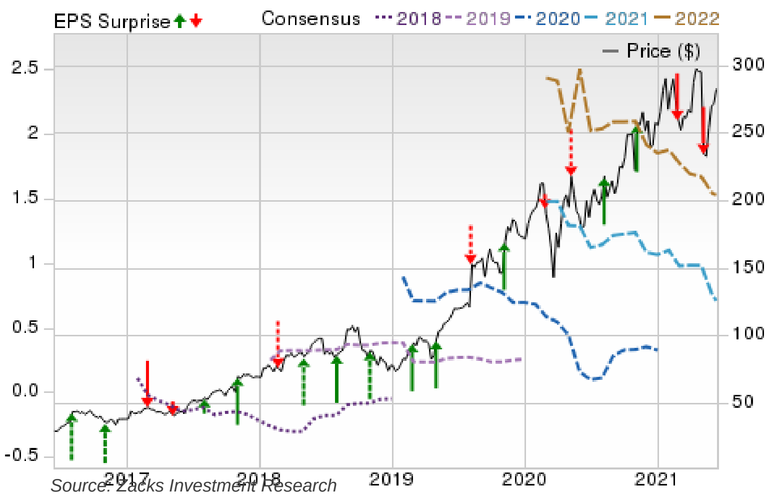
Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 04/30/21)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **4-Sell**
Zacks Style Scores: VGM:D
Value: C | Growth: C | Momentum: F

Summary

Insulet exited the first quarter of 2021 reporting break-even earnings which lagged the Zacks Consensus Estimate. Rising expenses put pressure on the bottom line. Also, the continued pandemic-led choppy market conditions raise our apprehension. On a positive note, the company reported better-than-expected revenues on solid uptake of the Omnipod system, both in the United States and in international markets. The total Omnipod product line registered robust growth. The momentum of Omnipod DASH is encouraging, based on solid uptake in various geographies. The company's plans of geographical expansion as well as launching Omnipod 5 buoy optimism. Expansion of both margins is encouraging as well. A strong solvency position is an added plus. Overall, in the past year, Insulet outperformed its industry.

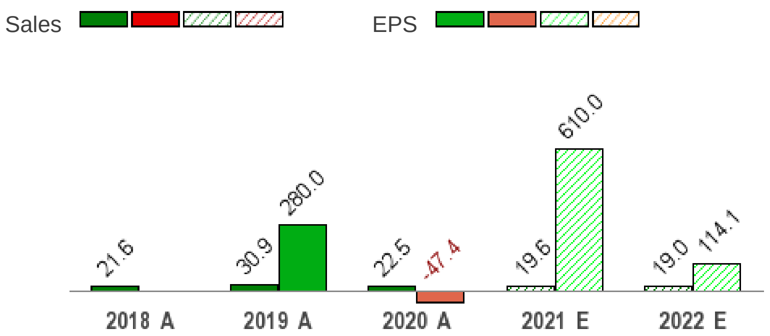
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$306.46 - $183.74**
20-Day Average Volume (Shares)	**526,535**
Market Cap	**$18.5 B**
Year-To-Date Price Change	**9.3%**
Beta	**0.68**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Medical - Products**
Zacks Industry Rank	**Bottom 24% (191 out of 252)**
Last EPS Surprise	**-100.0%**
Last Sales Surprise	**3.0%**
EPS F1 Estimate 4-Week Change	**-7.8%**
Expected Report Date	**08/05/2021**
Earnings ESP	**0.0%**
P/E TTM	**2,149.9**
P/E F1	**393.7**
PEG F1	**NA**
P/S TTM	**19.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	297 E	309 E	323 E	350 E	1,286 E
2021	252 A	258 E	273 E	297 E	1,081 E
2020	198 A	226 A	234 A	246 A	904 A

EPS Estimates

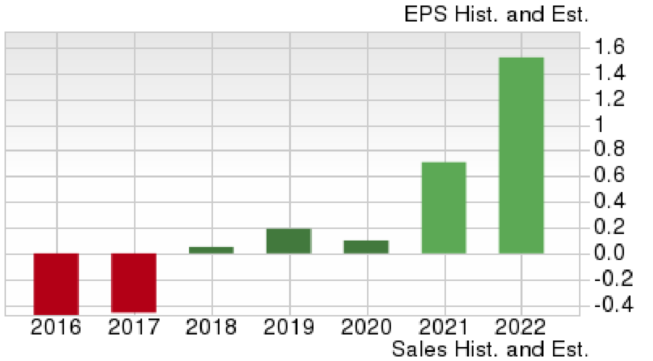
	Q1	Q2	Q3	Q4	Annual*
2022	$0.24 E	$0.30 E	$0.36 E	$0.45 E	$1.52 E
2021	$0.00 A	$0.12 E	$0.21 E	$0.35 E	$0.71 E
2020	-$0.03 A	$0.22 A	$0.17 A	-$0.26 A	$0.10 A

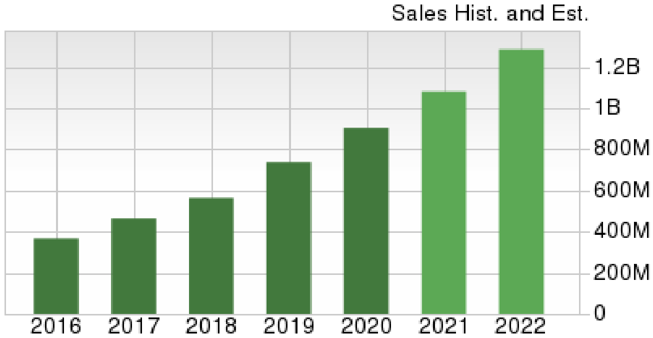
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/16/2021. The report's text and the analyst-provided price target are as of 06/17/2021.

Overview

Insulet Corporation is a leading developer, manufacturer and marketer of the Omnipod Insulin Management System. The system is equipped with a self-adhesive, small and lightweight disposable tubeless Omnipod device along with the wireless and handheld Personal Diabetes Manager (PDM). It is worn on the body for approximately three days at a time and allows virtually pain-free automated cannula insertion and blood glucose meter integration.





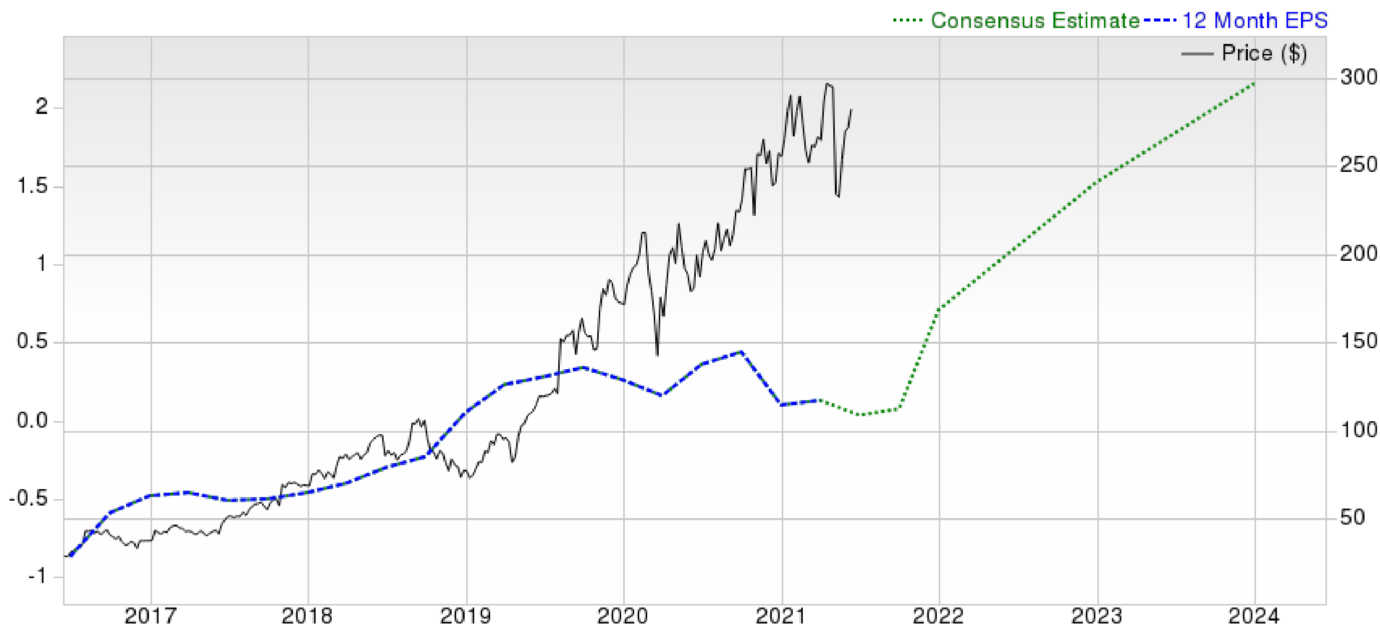
The Omnipod System is an innovative, discreet and easy-to-use continuous insulin delivery system for people with insulin-dependent diabetes, which the company has been selling since 2005. The Omnipod System consists of the following: the Omnipod Insulin Management System ("Omnipod") and the Omnipod DASH Insulin Management System ("Omnipod DASH" or "DASH"), which is Insulet's next generation digital mobile Omnipod platform.

Insulet reports revenues through three segments:

The company earns a huge share of revenues from the Omnipod System in the United States, Canada, Europe and Israel. It operates in these markets either directly or through intermediaries. In 2020, the company's 60.6% of total revenues came from the U.S. Omnipod sales (up 17.8% from 2019), while 34.3% (up 24.5% from 2019) was generated from the International Omnipod sales.

Drug Delivery Business (6.09% of total revenues in 2020, down 11.2% from 2019): Insulet has tied up with pharmaceutical and biotechnological companies which use a customized form of the Omnipod System to deliver a drug at a certain administered volume and over a specified period of time.

In addition to the diabetes market space, Insulet has partnered with pharmaceutical and biotechnology companies to tailor the Omnipod System technology platform for the delivery of subcutaneous drugs across other therapeutic areas. Most of the drug delivery revenue consists of sales of Pods to Amgen for use in the Neulasta Onpro kit, an innovative delivery system for Amgen's white blood cell booster to help reduce the risk of infection after intense chemotherapy.



Source: Zacks Investment Research

Reasons To Sell:

Insulet's heavy reliance on the Omnipod System and a tough competitive landscape adds to the woes.

- **Dull Earnings Scenario:** During the first quarter of 2021, Insulet announced break-even earnings which lagged the Zacks Consensus Estimate of earnings of 6 cents per share. Escalating expenses put pressure on the bottom line. In the first quarter of 2021, selling, general & administrative expenses rose 31.7% while research and development expenses went up 14.6% year over year.

- **Sole Reliance on Omnipod System:** Insulet's financial results continue to largely depend on the performance of its lead product — Omnipod System. Per the company, any adverse changes in the market acceptance of the product or worsening of the factors that negatively influence the sale will dent the company's financials majorly.

- **Economic Uncertainty Hampers Growth:** Weaker global economic conditions may reduce demand for Insulet's products, intensify competition, exert pressure on prices, dent supply and lengthen sales cycle. Moreover, a number of countries in Western Europe are facing a liquidity crunch. Insulet is also exposed to the risk of a reduction in healthcare spending in the United States, Canada and Europe due to an economic slump. We are particularly cautious as growth could moderate further if the economic scenario worsens. Unstable macroeconomic conditions due to coronavirus outbreak is concerning as well.

- **Tough Competitive Pressure:** Insulet operates in a highly competitive environment, dominated by firms ranging from large multinational corporations with significant resources to start-ups. Also, the competitive and regulatory conditions in the markets where the company operates limit Insulet's ability to switch to strategies like price increases and other drivers of cost increases.

  The company's Omnipod System primarily competes with Medtronic's market-leading MiniMed, a division of Medtronic. Notably, MiniMed boasts a major part of the conventional insulin pump market share in the United States. Other suppliers in the United States include Tandem Diabetes Care, Inc.

- **Risk of CMS' Competitive Bid Program:** Beginning Jan 1, 2019, CMS has announced a competitive bidding program across the United States for conventional insulin pumps. The implementation of this program will result in a reduction in reimbursement amount for conventional insulin pumps sanctioned by CMS. Although the Omnipod System will not be directly impacted by this, the company believes it will affect Insulet's ability to negotiate pricing with private payors comparing the price of the Omnipod System to conventional insulin pumps.

Risks

- **Share Price Movement:** Over the past year, Insulet has been outperforming its industry. The stock has gained 47.5% compared with the industry's 15.4% rise. Insulet exited the first quarter of 2021 on a strong note with better-than-expected revenues. The year-over-year improvement of the same came on solid uptake of the Omnipod system, both in the United States and in international markets. The momentum of Omnipod DASH is encouraging, based on solid uptake in various geographies. The company's plans of geographical expansion as well as launching of Omnipod 5 buoy optimism. Expansion of both margins is encouraging as well.

  The company is gradually improving with respect to seamless supply chain and manufacturing operations. It has also added significant capacity in preparation for the Omnipod 5 launch in 2021. New customer starts were stronger than expected in the first quarter.

  The company registered 24% revenue growth in the first quarter, achieving the high end of the guidance range driven by strong total Omnipod growth of 19%.

  For 2021, Insulet expects total Omnipod revenue growth in the range of 20% to 24% and total company revenue growth in the band 16% to 20% on strong volume growth of Omnipod DASH, aided by increased investment in awareness, differentiated pay-as-you-go model in the pharmacy with a mix benefit, expanded access, and Omnipod adoption in the Type 1 and Type 2 diabetes market.

  Assuming market dynamics to normalize in early 2021, Insulet believes that it can achieve gross margin target of 67% to 70%. This expansion will be driven by global Omnipod volume growth, positive mix from the United States moving into the pharmacy, and benefits from enhanced manufacturing operations.

- **Pandemic-Led Strategic Initiatives Look Effective:** Insulet's efforts to minimize supply disruptions during the pandemic are noteworthy. The sales calls are being conducted through Webex. The manufacturing and supply teams are ensuring that the growing customer demand is met with minimum disruptions. It has also broadened its financial assistance program to ensure that customers who rely on Omnipod will be able to continue using it even if they lose insurance coverage. According to Insulet, it does not expect the coronavirus impact to last on the company's business for more than a couple of quarters.

  In this regard, during 2020, Insulet doubled the number of product development researchers to support robust roadmap, particularly in the areas of software development and data science. The company is committed to investing in innovation to deliver increased value to customers.

- **Four-Point Strategy Bodes Well:** Insulet has been progressing well with respect to its four-pillar strategy and seems to be well on track to achieve revenues of $1 billion, 70% gross margin and operating income margin at the low end of mid-teens in 2021.

  Notably, the four key strategic initiatives are expanding Omnipod's market access, executing on its innovation roadmap, building the U.S. manufacturing facility successfully, and implementing its plan to sell directly in Europe.

  Insulet's strategic imperatives also progressed well in the first quarter of 2021. During the first quarter, approximately 80% of the new customers switch from MDI to Omnipod. Additionally, between 35% and 40% of the new U.S. customers were type 2 diabetic. The growth has been driven by Omnipod DASH. Notably, by the end of first quarter, Insulet had secured coverage for more than 75% of U.S. covered lives for Omnipod DASH. All of this has resulted in consistently strong Omnipod adoption and customer retention, and a global customer base that surpassed 0.25 million people in first quarter.

  The company is focused on advancing with its initiatives. Notably, Insulet will continue to invest clinically and have a robust roadmap, including its plan to expand Omnipod 5 reach to preschoolers. Insulet also completed Omnipod 5 pre-school pivotal study, with participants aged two to six years during the quarter. The company is on track to begin limited commercial release by the second half of 2021. During its first-quarter earnings call, the company noted that it is planning to bring Omnipod five to the international markets.

- **Build Out of U.S. Manufacturing Facility:** Management seems to be particularly upbeat about the manufacturing unit in Acton, Massachusetts. Insulet started production in its new highly automated manufacturing facility in Acton in 2019. Notably, the facility serves as the company's new global headquarters. Insulet expects that, following start up related activities, the new facility will allow it to lower manufacturing costs, increase supply redundancy, add capacity closer to its North American customer base and support growth. Management expects to continue expanding investment in the facility in 2020 to support growth of its business.

  During 2020, Insulet installed its third manufacturing line in the United States, expanding its manufacturing and supply chain redundancy. The company expects gross margin expansion to be driven primarily by improved manufacturing operations in the United States.

- **Omnipod's Market Access Expansion Continues:** Insulet has achieved several milestones with respect to expanding Omnipod's market access. In this regard, the company is consistently gaining following the full commercial launch of the Omnipod DASH system in the United States in 2019. Subsequently, the company launched the Omnipod DASH system in select Europe markets in December 2019. In September 2020, the company made full commercial rollout of Omnipod DASH in Europe. The company has also announced the start of its geographic expansion efforts, and is on track to enter five new markets by early 2021.

In the first quarter, Insulet's U.S. and international diabetes product lines achieved solid results with total Omnipod growth of 19%. The company registered U.S. Omnipod revenue growth of 23% led by growing customer base, Omnipod DASH adoption and ongoing mix benefit as the company shifts volume into the pharmacy channel. Omnipod DASH continues to ramp up and drove over 70% of the U.S. new customer addition.

Insulet has completed full international commercial launch of Omnipod DASH during the fourth quarter of 2020. In January 2021, Insulet launched Omnipod DASH system in Canada as part of its expansion plans. Also, Insulet is planning to launch Omnipod in Turkey this year.

International Omnipod revenue grew 13%, ahead of the company's expectations in the first quarter of 2021. Performance was driven primarily by the expanding customer base and the company's ability to navigate through COVID-19-related challenges.

- **Omnipod 5, a New Focus:** Insulet has been making progress with respect to its development roadmap of the Omnipod Horizon (now Omnipod 5) automated insulin delivery (AID) system. Recent market research by Seagrove Partners suggested that a large percentage of respondents would choose to switch to Horizon, thereby making it the most successful standalone product. The company has been registering significant progress with its Horizon clinical development work.

  In the initial launch, Omnipod 5 (previously known as Omnipod Horizon) will be controlled by android mobile phones and all customers will receive a back-up Personal Diabetes Manager with SIM technology. With this customer-centric approach, Insulet believes Omnipod 5 will be a game-changer for people living with diabetes. The company is also working to expand Omnipod 5 reach to preschoolers.

  During its first-quarter earnings call, the company noted that Omnipod 5 will mark a major improvement in quality of life and diabetes management. The company has shared pivotal data in March at ENDO 2021. The pivotal study included children and adults ages six to 70. The study showed that compared to standard therapy, Omnipod 5 achieved significantly higher time and range and improved A1c while maintaining or lowering hyperglycemia.

- **Diabetes Market Boom:** An ageing population, unhealthy lifestyle, rising awareness and higher expenditure in healthcare are likely to continue driving the highly competitive diabetes market. Per a report by Fortune Business Insights, the global diabetes device market size is expected to reach $33.55 billion by 2026 from $20.92 billion in 2019, at a CAGR of 6.1%. Considering market growth, Insulet's diabetes business is expected to witness strong growth in the coming years.

  In late 2020, Insulet expanded in five new countries within Europe and the Middle East. The company is also planning to enter Australia later in 2021. It is estimated that there are 11 million to 12 million people living with insulin-dependent diabetes in the countries currently served by Insulet.

  Also, Insulet projects that around one-third of the Type 1 diabetes population in the United States uses insulin pump therapy. It also believes that less than 10% of the Type 2 diabetes population in the United States, who are also insulin dependent, uses insulin pump therapy.

- **Strong Solvency but Leveraged Balance Sheet:** Insulet exited the first quarter of 2021 with cash and cash equivalents, and short-term investments of $850 million compared with $948 million at the end of 2020. Meanwhile, total debt rose to $1.05 billion for the period from $1.04 billion at the end of 2020. Although, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the company's short-term-payable debt of $16 million is much less than the cash and cash equivalents, and short-term investments. This is good news in terms of the company's solvency level as at least during the year of economic downturn, the company is obligated with a much lower debt repayment.

  Debt comparison with the industry is, however, favorable as the industry's total debt of $9.97 billion is much higher than the company's debt level.

  The quarter's total debt-to-capital is at 64.6% indicating a moderately leveraged balance sheet. This however represents an increase from 63.7% at the end of 2020. This compares unfavorably with the industry, which stands at a lower level of 36.9%.

  Meanwhile, the times interest earned for the company stands at a low level of 1.3%, representing an increase from 1.2% at the end of 2020. This compares unfavorably with the times interest earned for the industry, which stands at a higher level (6.4%).

Last Earnings Report

Insulet Q1 Earnings Fall Shy of Estimates, Revenues Beat

Quarter Ending	03/2021
Report Date	May 06, 2021
Sales Surprise	2.96%
EPS Surprise	-100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.13

Insulet Corporation announced break-even earnings for first-quarter 2021 against the year-ago loss of 3 cents per share. However, the metric lagged the Zacks Consensus Estimate of earnings per share of 6 cents per share.

Revenues

Revenues in the first quarter totaled $252.3 million, beating the Zacks Consensus Estimate by 2.9%. Moreover, the top line jumped 27.4% from the year-ago number (up 23.9% at constant exchange rate or CER). Notably, quarterly revenues achieved the high end of the company's previous expectations of growth of 20-24% at CER.

The robust top-line performance was driven by the company's growing customer base, increased Omnipod DASH adoption and the continued mix benefit with the shift into the pharmacy channel.

Segment in Detail

Insulet's first-quarter total Omnipod revenues of $233.2 million reflect an increase of 22.9% year over year (up 19.2% at CER).

International Omnipod revenues of $89.9 million were up 23% (up 13.4% at CER). The revenue uptick resulted from the company's expanding customer base and ability to navigate through the pandemic-led challenges. Timing of the Personal Diabetes Manager orders also contributed to the International Omnipod revenues.

U.S. Omnipod revenues grew 22.9% year over year to $143.3 million.

The Drug Delivery business revenues totaled $19.1 million, up 130.1% year over year, primarily banking on increased product demand.

Margins

Gross profit in the reported quarter was $167.5 million, up 31.9% from the prior-year quarter. Gross margin of 66.4% expanded 230 basis points (bps). According to Insulet, this expansion was primarily driven by improved manufacturing operations and supply chain efficiencies, the ongoing benefit derived from the transition into the pharmacy channel in the United States and a decline in COVID-19-related mitigation costs.

Meanwhile, selling, general & administrative expenses rose 31.7% to $110.5 million. Research and development expenses went up 14.6% year over year to $40.7 million.

Operating income totaled $16.3 million, reflecting a 117.3% surge from the prior-year quarter. Further, operating margin in the first quarter expanded 267 bps to 6.5%.

Guidance

Insulet has issued its financial outlook for second-quarter 2021 and raised the lower-end of the earlier-provided full-year 2021 guidance.

For the year, revenues are expected to grow in the band of 16-20% at CER, compared with the earlier expectations of a growth of 15-20% at CER. On a reported basis, the revenue growth is projected within 18-22% compared with the earlier expectations of 17-22%. The Zacks Consensus Estimate for total revenues is pegged at $1.08 billion.

Insulet's total Omnipod revenues are now expected to grow in the range of 20-24% on a reported basis compared with the earlier projection of 19-24%. At CER, the revenue uptick is expected to be within 18-21% compared with the previous outlook of 17-21%. However, the company reiterated its outlook for the Drug Delivery arm, which is expected to be within the range of a fall of 11% and a growth of 4%.

For the second quarter of 2021, Insulet projects revenue growth of 13-17% on a reported basis (10-14% at CER). The Zacks Consensus Estimate for total revenues is pegged at $259.4 million.

Total Omnipod revenues are likely to grow by 18-21% on a reported basis (14-17% at CER). However, Drug Delivery revenues are expected to fall by 24-16% in the second quarter.

Recent News

Insulet's Omnipod 5 Pivotal Trial Outcome Favorable: Mar 20, 2021

Insulet announced positive results from the first pivotal study for the Omnipod 5 Automated Insulin Delivery System. The finding of the study suggests that Omnipod 5 significantly enhances time in range and lowers glycated hemoglobin (HbA1c) in people with type 1 diabetes.

Valuation

Insulet shares are up 9.3% in the year-to-date period and up 47.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 2.4% while the Zacks Medical sector are up 0.6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 15.4% and sector is up 4.3%.

The S&P 500 index is up 13.8% in the year-to-date period and up 38.4% in the past year.

The stock is currently trading at 15.8X Forward 12-months sales, which compares to 3.7X for the Zacks sub-industry, 2.7X for the Zacks sector and 4.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.5X and as low as 4.3X, with a 5-year median 8.2X. Our Underperform recommendation indicates that the stock will perform below the market. Our $266 price target reflects 15.0X forward 12-months sales.

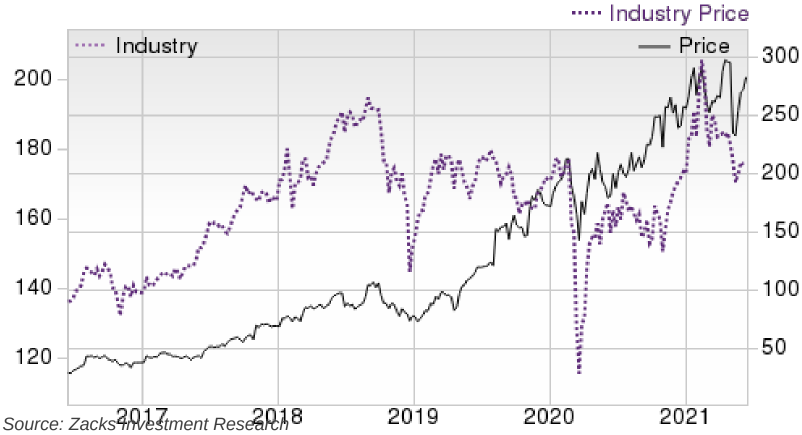
The table below shows summary valuation data for PODD

Valuation Multiples -PODD

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	15.76	3.73	2.70	4.72
	5-Year High	18.51	3.89	3.17	4.74
	5-Year Low	4.33	2.59	2.27	3.21
	5-Year Median	8.24	3.39	2.78	3.72
P/B TTM	Current	31.62	3.43	4.47	7.06
	5-Year High	240.19	3.95	5.05	7.08
	5-Year Low	20.18	2.23	3.03	3.84
	5-Year Median	32.74	3.04	4.35	5.02

As of 06/16/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 24% (191 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
PetIQ, Inc. **(PETQ)**	Outperform	1
AdaptHealth Corp. **(AHCO)**	Neutral	3
Lonza Group Ag **(LZAGY)**	Neutral	2
Medtronic PLC **(MDT)**	Neutral	3
Phibro Animal Health Corporation **(PAHC)**	Neutral	2
VAREX IMAGING **(VREX)**	Neutral	3
DiaSorin S.p.A. **(DSRLF)**	Underperform	5
Quidel Corporation **(QDEL)**	Underperform	5

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

Industry Comparison Industry: Medical - Products

	PODD	X Industry	S&P 500	DSRLF	PETQ	VREX
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	5	1	3
VGM Score	D	-	-	C	F	B
Market Cap	18.52 B	629.28 M	29.96 B	9.63 B	1.14 B	1.08 B
# of Analysts	12	3	12	1	5	2
Dividend Yield	0.00%	0.00%	1.3%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	F	C
Cash/Price	0.05	0.10	0.05	NA	0.01	0.11
EV/EBITDA	169.91	2.14	17.13	NA	55.46	229.89
PEG F1	NA	2.22	2.12	NA	0.99	5.43
P/B	31.62	3.60	4.17	10.08	4.44	2.30
P/CF	296.24	23.46	17.46	37.46	29.39	21.33
P/E F1	393.65	27.56	21.27	25.22	24.81	27.17
P/S TTM	19.32	5.88	3.46	NA	1.35	1.49
Earnings Yield	0.25%	1.50%	4.62%	3.97%	4.03%	3.68%
Debt/Equity	1.80	0.02	0.66	NA	1.74	0.98
Cash Flow ($/share)	0.94	0.00	6.83	4.70	1.34	1.29
Growth Score	C	-	-	B	F	C
Historical EPS Growth (3-5 Years)	NA%	7.40%	9.44%	NA	-27.34%	-50.31%
Projected EPS Growth (F1/F0)	607.50%	25.60%	21.49%	25.09%	136.12%	1,162.50%
Current Cash Flow Growth	57.47%	-2.13%	0.86%	6.53%	-5.82%	-47.93%
Historical Cash Flow Growth (3-5 Years)	27.44%	9.11%	7.28%	NA	84.42%	-11.59%
Current Ratio	6.42	3.38	1.39	NA	2.46	3.62
Debt/Capital	64.24%	9.37%	41.51%	NA	63.48%	49.41%
Net Margin	0.93%	-9.67%	11.95%	NA	-8.65%	-7.92%
Return on Equity	1.52%	-3.00%	16.48%	NA	5.10%	1.65%
Sales/Assets	0.54	0.52	0.51	NA	1.04	0.64
Projected Sales Growth (F1/F0)	19.54%	10.86%	9.41%	22.58%	23.07%	6.89%
Momentum Score	F	-	-	A	D	C
Daily Price Change	0.63%	-0.16%	-0.54%	0.00%	-2.36%	0.70%
1-Week Price Change	3.90%	2.23%	0.10%	-1.68%	2.73%	2.58%
4-Week Price Change	16.56%	4.01%	2.62%	0.57%	-3.92%	10.65%
12-Week Price Change	6.02%	-1.23%	8.60%	5.69%	12.72%	30.79%
52-Week Price Change	44.19%	21.08%	35.66%	-4.86%	20.10%	77.83%
20-Day Average Volume (Shares)	526,535	224,671	1,734,994	10	399,417	194,067
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-7.84%	0.00%	0.05%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-28.09%	0.00%	3.39%	-7.55%	26.31%	38.36%

EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	C
Growth Score	C
Momentum Score	F
VGM Score	D

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.

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 forwardlooking 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 mediumterm 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 mostrecent 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.