QIAGEN N.V. (QGEN)

$51.62 (As of 09/28/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/18/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D	Momentum: D

Summary

QIAGEN's robust top line in the second quarter of 2020 resulted from strong growth in each operating segment. QIAsymphony, QIAcube and QIAstat-Dx saw the pandemic-led robust demand. Responding to the pandemic, earlier this year, it scaled up RNA extraction kit and instrument production and launched QIAstat-Dx Respiratory SARS-CoV-2 Panel. Meanwhile, QIAGEN shareholders recently overwhelmingly rejected the tender offer of the company's sell-off deal to Thermo Fisher. This was particularly based on QIAGEN's growing business prospect around COVID-19 related opportunities. Over the past six months, QIAGEN has outperformed the industry it belongs to. Yet, dull domestic sales was concerning. Demand for QuantiFERON-TB was down amid pandemic. A weak solvency position, foreign exchange instability and tough competition are other woes.

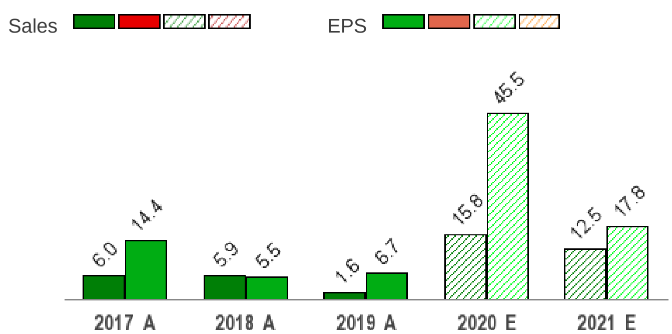
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$52.86 - $25.04**
20-Day Average Volume (Shares)	**822,505**
Market Cap	**$11.7 B**
Year-To-Date Price Change	**52.4%**
Beta	**0.32**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Medical - Biomedical and Genetics**
Zacks Industry Rank	**Bottom 24% (190 out of 250)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**0.1%**
EPS F1 Estimate 4-Week Change	**0.0%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**29.8**
P/E F1	**24.8**
PEG F1	**2.6**
P/S TTM	**7.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	468 E	474 E	488 E	531 E	1,988 E
2020	372 A	443 A	456 E	496 E	1,767 E
2019	349 A	382 A	383 A	413 A	1,526 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.54 E	$0.57 E	$0.62 E	$0.72 E	$2.45 E
2020	$0.34 A	$0.55 A	$0.55 E	$0.63 E	$2.08 E
2019	$0.27 A	$0.33 A	$0.36 A	$0.48 A	$1.43 A

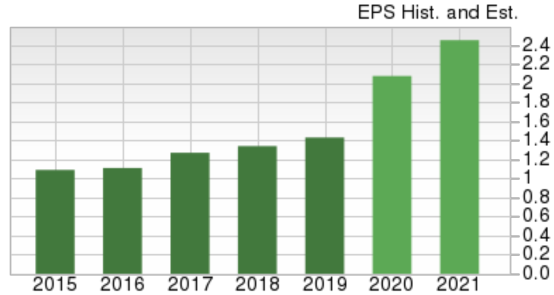
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/28/2020. The reports text is as of 09/29/2020.

Overview

Based in Venlo, the Netherlands, QIAGEN N.V. is one of the world's leading providers of technologies and products for the separation, purification and handling of nucleic acids DNA/RNA. The company provides innovative technologies and products for pre-analytical sample preparation and molecular diagnostics solutions. It has developed a comprehensive portfolio of over 500 proprietary, consumable products, and automated solutions for sample collection.

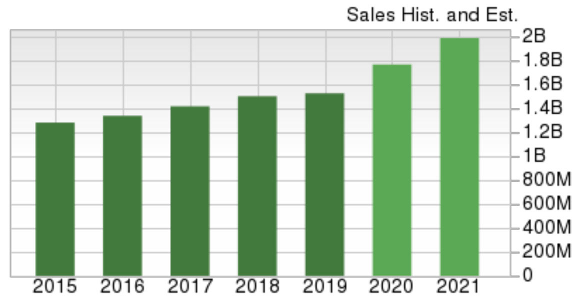
Qiagen has subsidiaries in the United States, Germany, U.K., Switzerland, France, Japan, China, Australia, Canada, Norway, and several other countries with good sales potential.



Segment Details

Consumables: These are typically sample preparation or test kits that contain all the necessary reagents and buffers, and a manual including protocols and relevant background information. Each kit is sufficient to support a number of applications, varying from one to over 1,000 tests.

Automated Instruments: These automate the use of Sample & Assay Technologies into efficient solutions for a broad range of laboratory needs. Products in this segment include QIAsymphony, Rotor-Gene Q, PyroMark, QIAcube, QIAxcel and ESE-Quant Tube Scanners.



Customer Classes:

QIAGEN focuses on 4 principal segments or customer classes for sample and assay technologies: Molecular Diagnostics (Healthcare providers supporting varied aspects of patient care), Applied Testing (Government or industry customers), Pharma (Government or industry customers) and Academia (Researchers exploring the secrets of life).In fiscal 2019, Molecular Diagnostics (48% sales in fiscal 2019), registered revenue growth of 1%, Applied Testing (32% sales) registered 2% growth, Pharma (20% sales) registered growth of 4%, Academia (23% sales) registered growth of 6% from fiscal 2018.

Source: Zacks Investment Research

Reasons To Buy:

QIAGEN's business is expected to get a boost from its growing molecular diagnostic market, international expansion, expanded test menu and growth driving strategic collaborations.

- **Share Price Performance:** Over the past six months, QIAGEN has outperformed the industry it belongs to. The stock has climbed 27.3% compared with the industry's 11.2% growth. QIAGEN exited the second quarter of 2020 with better-than-expected revenues. It registered year-over-year revenue growth across majority of its geographies and both its operating segments in the second quarter. Instrument sales were robust on the company's platforms, which include the QIAsymphony automation system and QIAcube line of sample processing instruments. Sales of consumables and related revenues remained robust mainly due to strength in demand for products used in coronavirus testing. Expansion of both margins is encouraging as well.

  QIAGEN's efforts to combat the coronavirus pandemic are noteworthy. It has ramped up production capacity for solutions currently being used for testing purposes. It has also extended its support to public health authorities and customers to assess their flexibility, timing and needs for specific regional situations in the outbreak. It has scaled up production of RNA extraction kits and instruments as well as launched the QIAstat-Dx Respiratory SARS-CoV-2 Panel to accelerate the detection of the virus.

  Meanwhile, QIAGEN shareholders recently overwhelmingly rejected the tender offer related to the company's $13 billion sell-off deal to Thermo Fisher. This was particularly based on QIAGEN's growing business prospects around COVID-19 related opportunities.

- **Huge Potential in Molecular Diagnostics**: Despite a decline in QuantiFERON latent tuberculosis test sales during the first quarter of 2020, the company registered a 12% CER sales gain. It also witnessed strong sales growth of the QIAsymphony automation system, the QIAcube Connect sample processing instrument and the QIAstat-Dx syndromic testing instrument.

  Despite a decline in QuantiFERON latent tuberculosis test sales during the second quarter of 2020, the company witnessed strong sales growth of QIAsymphony and QIAstat-Dx.

  Currently, QIAGEN is in a position to deliver about 12 million QuantiFERON-TB tests annually. The company believes that, there is still significant market conversion opportunity among the 70 million latent TB tests done annually which can be converted to modern blood-based testing from the tuberculin skin test. Further, the QuantiFERON-TB Gold Plus (QFT-Plus) has been adopted by Nigeria to prevent the spread of tuberculosis.

  QuantiFERON Access is expected to be launched near the end of 2020 as a CE-IVD solution, thus contributing to the company's QuantiFERON-TB's momentum.

- **International Focus to Drive Growth:** QIAGEN currently markets products in more than 100 countries. In the quarter under review, revenues from Europe-Middle East-Africa (37% of revenues) rose 40% reportedly (up 44% at CER) to $164 million. Further, revenues from Asia-Pacific/Japan (23% of revenues) rose 20% year over year on a reported basis (up 23% at CER) to $99 million.

- **Progress With Test Menu Expansion:** QIAGEN is progressing well with its testing menu expansion strategy. The company is currently establishing its European footprint for the QIAstat-Dx system, which is gaining recognition as the next-generation solution (NGS) for providing accurate insights into complex disease syndromes, such as respiratory and gastrointestinal conditions.

  Of late, QIAGEN has been on a launching spree. In April, QIAGEN received the FDA's approval for its therascreen BRAF V600E RGQ Polymerase Chain Reaction Kit (therascreen BRAF V600E) as a companion diagnostic to the BRAF inhibitor, BRAFTOVI (encorafenib), followed by the subsequent launch of the kit. In May, the company launched novel solutions to enable faster and better analysis of genomic variations in cancer. The regulatory approval and the acceleration of multiple applications of Precision Medicine look encouraging.

  Earlier, QIAGEN launched therascreen PIK3CA RGQ PCR kit in Europe following the receipt of CE mark. The kit will serve as an aid to identify breast cancer patients with a PIK3CA mutation. The therascreen PIK3CA test was approved by the FDA last year and was launched as a companion diagnostic test for Piqray (alpelisib) in the United States. The NeuMoDx 96, following its commercial launch, is progressing well.

- **Strategic Collaborations to Drive Growth:** QIAGEN's long-term business strategy involves entering into strategic alliances as well as marketing and distribution arrangements with academic, corporate and other partners relating to the development, commercialization, marketing and distribution of certain of their existing and potential products. We are currently upbeat about QIAGEN's 15-year of strategic partnership with Illumina in NGS clinical decision-making. This partnership should enable the company to broaden the use of NGS in clinical laboratories. Further, QIAGEN's alliances with NeoGenomics in the field of cancer genetic testing services and with DiaSorin in automated TB testing are significant.

  In January, QIAGEN entered a collaboration with Amgen to develop tissue-based companion diagnostics for Amgen's investigational cancer treatment AMG 510. This will help identify patients with cancer that have the KRAS G12C mutation.

- **Solid NGS Platform Projection:** QIAGEN has highlighted certain strategies to boost top-line contributions from the NGS portfolio to $180 million in 2019 from more than $140 million in 2018. Notably, the platform has been witnessing double-digit revenue growth over the past few quarters. Management aims to expand the NGS platform by rapidly scaling-up the new Enterprise Genomics Services. It also working on the launch of a range of proprietary Digital NGS technology-based new gene panels within the GeneReader system.

  QIAGEN's QIAseq multimodal panels to strengthen its universal NGS solution portfolio is also progressing well. This is currently the only solution that can be utilized in the extraction and sequencing of DNA variance and RNA fusions as well as in the assessment of gene expression in a single workflow from a single sample.

▲ **Demand for Testing Rises Amid Pandemic:** The coronavirus pandemic has been wreaking havoc on the economy as a whole. However, QIAGEN seems to be an exception to the havoc. The company's second quarter 2020 results reflected high demand for products used in COVID-19 testing, which has more than offset the weaker trends in other areas of the business. The company registered strong sales growth trends in consumables and related revenues (up 14% at CER) on robust demand for COVID-19 solutions.

QIAGEN developed and launched the latest QIAstat-Dx Respiratory SARS-CoV-2 Panel, which is a syndromic testing solution designed to differentiate coronavirus from 21 other respiratory pathogens. This testing solution runs on the company's QIAstat-Dx Analyzer, which is currently installed in various hospitals, clinics and laboratories across geographies.

Risks

- **Reliance on Commercial Relationships:** QIAGEN's personalized Healthcare business comprises formation of projects with pharmaceutical and biotechnology companies to co-develop companion diagnostics paired with drugs that those companies either market currently or are developing for future use. The future level of sales for companion diagnostics depends to a high degree on the commercial success of the related medicines for which the tests have been designed to be used for determining their use in patients. In addition, risks remain that the company may be unable to maintain these relationships and its collaborative partners may pursue or develop competing products or technologies, either on their own or in collaboration with others.

- **Competitive Headwinds:** Considering QIAGEN's huge gamut of services, the company is also susceptible to competitive headwinds. The company is facing increasing competition from firms that provide competitive pre-analytical solutions and other products used by QIAGEN's customers. The markets for some of the company's products are very competitive and price sensitive. Other product suppliers may have significant advantages in terms of financial, operational, sales and marketing resources as well as experience in research and development. Moreover, according to the company, customers in the market for pre-analytical sample technologies as well as for assay technologies display significant loyalty to their initial supplier of a particular product. As a result, it may be difficult to convert customers who have purchased products from competitors.

- **Foreign Exchange Uncertainties:** Recording more than 50% of its revenues from the international market, QIAGEN is highly exposed to the risk of foreign currency movement. The situation may worsen with the strengthening of the domestic currency against high-focus nations. Any unanticipated currency headwinds in high-focus markets may drag the top and the bottom line further in the future.

- **Weak Solvency With High Leverage**: QIAGEN exited the second quarter of 2020 with cash and cash equivalents, and short-term investments of $899 million compared with $903 million at the end of the first quarter of 2020. Meanwhile, total debt marginally reduced to $1.706 billion for the period from $1.712 billion in the preceding quarter. This figure is much higher than the quarter-end cash and cash equivalent, and short-term investments level, indicating weak solvency.

  However, if we go by the company's debt payable in the near term, it stands at $306 million, much lower than the current cash holding. This implies that the company has sufficient cash for debt repayment despite the pandemic.

  Debt comparison with the industry is, however, favorable as the industry's total debt of $2.50 billion, stands much higher to the company's debt level.

  The quarter's total debt-to-capital ratio of 0.39 indicates a moderately leveraged balance sheet. However, it represents a sequential decline from 0.41. This compares favorably with the industry, which stands at a higher level of 0.51.

  Meanwhile, the times interest earned for the company stands at a pretty discouraging level of 1%. This, compares unfavorably with the times interest earned for the industry, which stands at a higher level (6.7%).

Last Earnings Report

QIAGEN Q2 Sales Top Estimates on Growing COVID-19 Testing Demand

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	0.06%
EPS Surprise	0.00%
Quarterly EPS	0.55
Annual EPS (TTM)	1.73

QIAGEN's second-quarter 2020 adjusted earnings per share were 55 cents, up 66.7% year over year (up 69.7% at constant exchange rate or CER). The figure was in line with the Zacks Consensus Estimate.

Notably, the bottom line matched the low end of the company's preliminary earnings projection of 55-56 cents at CER, announced on Jul 9, 2020.

The adjustment excludes the impact of certain non-recurring items like business integration, acquisition and restructuring related expenses, and purchased intangibles amortization expenses, among others.

GAAP earnings per share for the quarter was 38 cents per share, up 100% year over year.

Revenues in Detail

Net sales at actual rates in the second quarter rose 16.2% on a year-over-year basis to $443.3 million (up 19% at CER). Also, the top line exceeded the Zacks Consensus Estimate by a marginal 0.1%.

Notably, the top line was in line with the company's preliminary results.

Robust sales were recorded on significant demand for testing solutions used in the COVID-19 pandemic. However, there were weaker customer demand trends in other business arms of the company.

Geographical Revenue Update

In the quarter under review, sales from the Americas (40% of revenues) totaled $177 million, down 2% on a reported basis (down 1% at CER).

Revenues from Europe-Middle East-Africa (37% of revenues) rose 40% reportedly (up 44% at CER) to $164 million.

Further, revenues from Asia-Pacific/Japan (23% of revenues) rose 20% year over year on a reported basis (up 23% at CER) to $99 million.

Segmental Details

As of the second quarter of 2020, QIAGEN has two major customer classes which are Molecular Diagnostics (that includes human healthcare including Precision Medicine and companion diagnostics) and Life Sciences (that includes Pharma and Academia/Applied Testing).

Molecular Diagnostics (representing 46% of net sales) revenues were up 9% on a reported basis (up 12% at CER) to $204 million.

Life Sciences (54% of total revenues) reported revenues of $239 million, up 23% on a reported basis (up 25% at CER).

Sales derived from Applied Testing/Academia rose 39% on a reported basis (up 42% at CER) to $164 million. Pharma sales, however, dropped 1% on a reported basis (unchanged at CER) in the second quarter to $75 million.

Operational Update

Adjusted gross profit in the quarter under review rose 16.7% to $309.9 million. Adjusted gross margin expanded 31 basis points (bps) to 69.9% despite a 14.9% rise in adjusted cost of revenues (adjusting for acquisition-related intangible amortization) to $133.3 million.

Adjusted operating income (excluding items like acquisition-related intangible amortization, restructuring and integration, asset impairment) rose 69.1% year over year to $159.9 million in the second quarter. Adjusted operating margin expanded a huge 1129 bps to 36.1%.

Financial Update

QIAGEN exited the second quarter of 2020 with cash and cash equivalents, and short-term investments of $744.2 million, up from $744.7 million at the end of the first quarter. Long-term debt (including current portion) was $ 1.705 billion at the second quarter of 2020, compared with $1.712 billion in the preceding quarter.

Cumulative net cash flow from operating activities at the end of the second quarter of 2020 was $150.6 million compared with $127.2 million a year ago.

Capital expenditure in the reported quarter was $50.2 million, down from the year-ago $54.4 million. The company reported free cash outflow of $100.4 million at the end of the second quarter compared with $72.9 million a year ago.

The company spent $74.4 million on its share repurchase program and $430 million for redemption of the 2019 convertible notes over the first six months of 2020.

Recent News

QIAGEN Completes Buyout of NeuMoDx, Expands Portfolio: Sep 17, 2020

QIAGEN announced the completion of the buyout of NeuMoDx Molecular, Inc., a diagnostics instruments company, by acquiring the remaining 80.1% stake of the latter. The transaction was completed by paying $248 million in cash.

QIAGEN, Ellume Extend Alliance for COVID-19 Antigen Test: Sep 8, 2020

QIAGEN announced its plans to launch its rapid portable test, Access Anti-SARS-CoV-2 Antigen Test. The company expects to make the test available in the fourth quarter of 2020.

QIAGEN to Launch COVID-19 Antibody Test in the US: Aug 24, 2020

QIAGEN had planned the U.S. launch of its antibody test, Access Anti-SARS-CoV-2 Total test, in late August.

QIAGEN Launches Primer Panel for NGS of Coronavirus Genome: Aug 18, 2020

QIAGEN recently announced the launch of the QIAseq SARS-CoV-2 Primer Panel for next-generation sequencing (“NGS”) of the coronavirus genome (the complete set of genes or genetic material present in a cell or organism).

Sell-Off Deal Terminates: Aug 13, 2020

QIAGEN announced that it will continue to execute its growth streak aiming to create significant value for shareholders and other stakeholders after the voluntary public takeover offer by Thermo Fisher Scientific did not achieve the minimum 66.67% acceptance threshold from QIAGEN shareholders.

Valuation

QIAGEN shares are up 52.4% in the year-to-date period and up 56.2% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 2.2% while the Zacks Medical sector declined 0.9% in the year-to-date period. Over the past year, the Zacks sub-industry is up 23.1% and sector is up 10.9%.

The S&P 500 index is up 4.1% in the year-to-date period and increased 12.8% in the past year.

The stock is currently trading at 21.9X Forward 12-months earnings, which compares to 49.1X for the Zacks sub-industry, 21.3X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.4X and as low as 16.6X, with a 5-year median 23.5X. Our Outperform recommendation indicates that the stock will perform above the market. Our $59 price target reflects 25X forward 12-months earnings.

The table below shows summary valuation data for QGEN

Valuation Multiples - QGEN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.86	49.14	21.34	21.94
	5-Year High	30.42	66.75	23.19	23.46
	5-Year Low	16.57	21.12	15.89	15.26
	5-Year Median	23.51	38.62	19.02	17.63
P/S F12M	Current	6.07	2.70	2.77	4.09
	5-Year High	6.68	3.26	3.25	4.30
	5-Year Low	3.44	1.93	2.24	3.11
	5-Year Median	4.90	2.71	2.89	3.66
P/B TTM	Current	4.48	3.16	3.88	5.77
	5-Year High	4.56	5.50	5.07	6.19
	5-Year Low	1.79	2.07	2.95	3.75
	5-Year Median	3.00	3.83	4.29	4.86

As of 09/28/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 24% (190 out of 250)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Horizon Therapeutics Public Limited Company **(HZNP)**	Outperform	1
Alkermes plc **(ALKS)**	Neutral	3
SWEDISH ORP BIO **(BIOVF)**	Neutral	4
BioMarin Pharmaceutical Inc. **(BMRN)**	Neutral	4
Exelixis, Inc. **(EXEL)**	Neutral	3
Incyte Corporation **(INCY)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	3
SINO PHARMACEUT **(SBMFF)**	Neutral	2

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

Industry Comparison Industry: Medical - Biomedical And Genetics

	QGEN	X Industry	S&P 500	BMRN	HZNP	INCY
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	4	1	3
VGM Score	D	-	-	B	D	B
Market Cap	11.73 B	280.49 M	23.11 B	14.14 B	16.45 B	19.76 B
# of Analysts	5	3	14	9	7	6
Dividend Yield	0.00%	0.00%	1.66%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	D	C
Cash/Price	0.08	0.24	0.08	0.10	0.04	0.08
EV/EBITDA	45.54	-3.47	13.15	433.07	51.22	33.51
PEG F1	2.59	1.54	2.88	1.52	0.97	NA
P/B	4.48	3.89	3.29	4.37	6.44	8.43
P/CF	19.39	17.70	12.83	122.40	22.96	36.11
P/E F1	24.82	23.77	21.32	57.25	27.86	NA
P/S TTM	7.28	14.99	2.49	7.66	10.84	8.28
Earnings Yield	4.04%	-13.53%	4.44%	1.74%	3.59%	-0.24%
Debt/Equity	0.53	0.00	0.70	0.33	0.42	0.01
Cash Flow ($/share)	2.66	-1.12	6.92	0.64	3.47	2.50
Growth Score	D	-	-	A	D	A
Historical EPS Growth (3-5 Years)	9.09%	19.03%	10.43%	NA	5.93%	52.48%
Projected EPS Growth (F1/F0)	45.17%	15.03%	-4.22%	46.47%	47.42%	-107.89%
Current Cash Flow Growth	9.25%	12.10%	5.47%	200.25%	10.70%	132.41%
Historical Cash Flow Growth (3-5 Years)	5.76%	7.51%	8.52%	27.84%	39.60%	140.30%
Current Ratio	1.71	6.11	1.35	3.26	1.51	3.73
Debt/Capital	34.82%	0.00%	42.91%	24.90%	29.79%	1.34%
Net Margin	0.86%	-214.31%	10.28%	6.62%	34.09%	-8.00%
Return on Equity	15.85%	-59.35%	14.73%	4.37%	19.67%	-8.06%
Sales/Assets	0.31	0.19	0.50	0.38	0.36	0.76
Projected Sales Growth (F1/F0)	15.78%	0.00%	-1.38%	9.91%	49.81%	17.06%
Momentum Score	D	-	-	D	C	D
Daily Price Change	-0.79%	0.00%	1.85%	0.78%	1.81%	4.40%
1-Week Price Change	2.63%	-6.32%	-2.32%	-2.51%	-2.10%	-0.28%
4-Week Price Change	1.08%	-4.01%	-2.53%	-0.05%	6.06%	-6.22%
12-Week Price Change	19.07%	-7.32%	4.17%	-38.93%	37.10%	-16.17%
52-Week Price Change	56.23%	14.19%	0.12%	15.71%	192.58%	21.73%
20-Day Average Volume (Shares)	822,505	285,004	2,098,704	2,276,663	2,090,350	1,177,140
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	1.35%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	-0.25%	0.00%
EPS F1 Estimate 12-Week Change	19.65%	0.90%	4.22%	-20.79%	69.67%	13.18%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	-0.21%	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	D
Growth Score	D
Momentum Score	D
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

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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.