

ResMed Inc.(RMD)

\$194.10 (As of 02/16/21)

Price Target (6-12 Months): **\$204.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/29/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

Summary

ResMed's second-quarter fiscal 2021 results were better than expected. The company registered revenue growth at CER across key operating segments, Total Sleep and Respiratory Care and SaaS performances in the quarter were impressive. Expansion of both margins buoys optimism. The launch of digital health solutions to help clinicians remotely diagnose, treat and manage patients accelerates patient flow. Currently, patient diagnosis trends in sleep apnea, COPD and asthma are gradually increasing. Improvement in demand for the company's ventilators and ventilation mask systems, and provision of digital health solutions and other tools to customers aiding remote care amid the pandemic bode well. In the past year, ResMed has outperformed its sector. Yet, issues like reimbursement headwind, competitive bidding and stiff competition persist.

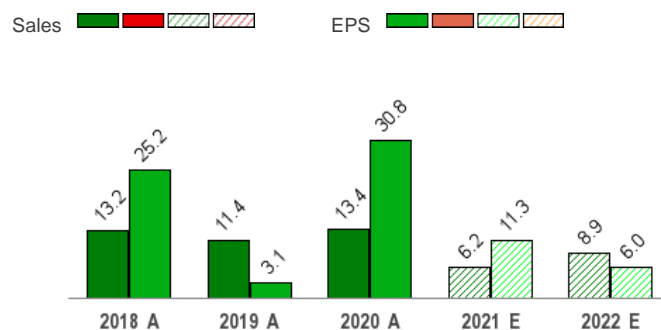
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$224.43 - \$108.85
20-Day Average Volume (Shares)	705,299
Market Cap	\$29.2 B
Year-To-Date Price Change	-5.7%
Beta	0.33
Dividend / Dividend Yield	\$1.56 / 0.8%
Industry	Medical - Products
Zacks Industry Rank	Bottom 34% (168 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.6%
Last Sales Surprise	3.6%
EPS F1 Estimate 4-Week Change	1.8%
Expected Report Date	04/29/2021
Earnings ESP	0.0%

P/E TTM	37.8
P/E F1	36.6
PEG F1	2.6
P/S TTM	9.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	787 E	865 E	851 E	889 E	3,419 E
2021	752 A	800 A	782 E	804 E	3,140 E
2020	681 A	736 A	769 A	770 A	2,957 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.27 E	\$1.39 E	\$1.37 E	\$1.50 E	\$5.62 E
2021	\$1.27 A	\$1.41 A	\$1.22 E	\$1.31 E	\$5.30 E
2020	\$0.93 A	\$1.21 A	\$1.29 A	\$1.33 A	\$4.76 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 02/16/2021. The report's text and the analyst-provided price target are as of 02/17/2021.

Overview

ResMed, Inc. holds a major position as designer, manufacturer, as well as a distributor in the worldwide market for generators, masks, and related accessories for the treatment of sleep-disordered breathing (SDB) and other respiratory disorders. SDB includes obstructive sleep apnea (OSA) and other respiratory disorders that occur during sleep.

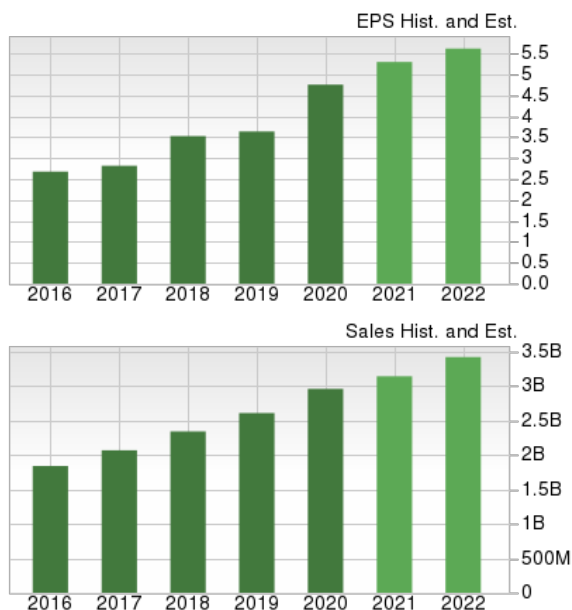
The company currently has two operating segments, which are the Sleep and Respiratory Care segment (89% of total revenues in fiscal 2020) and the Software-as-a-Service ("SaaS") segment (approximately 11% in fiscal 2020). In fiscal 2020, the first segment registered 9% revenue growth, while the latter registered 6% revenue growth from fiscal 2019.

Sleep and Respiratory Care includes Device, and Masks and other.

Devices include continuous positive airway pressure ("CPAP"), variable positive airway pressure ("VPAP") and AutoSet systems for the titration and treatment of SDB. During fiscal year 2017, AirMini, the smallest portable CPAP on the market was launched. The company also acquired a line of Chinese-developed and manufactured sleep and ventilation devices with the acquisition of Curative Medical in fiscal year 2016.

Masks and others: This portfolio consist of different masks for SDB treatments like AirFit F20 in the full-face category and the AirFit N20, AirFit N30i, AirTouch N20 etc.

SaaS: Following multiple acquisitions, including Brightree LLC in April 2016, HEALTHCAREfirst in July 2018 and MatrixCare in November 2018, this segment offers out-of-hospital software products.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** In the past one year, ResMed has outperformed its sector. The stock has gained 11% compared with the 5.8% growth of the industry. ResMed delivered solid second-quarter fiscal 2021 results, with earnings and revenues beating the respective Zacks Consensus Estimate. It is encouraging to note that ResMed registered growth at constant exchange rate or CER across both its key operating segments — Total Sleep and Respiratory Care and SaaS. The reopening of sleep labs and physician practices across many geographies and robust adoption of digital health solutions look encouraging. Ventilators and mask sales were particularly strong on ramped up production and sales of the same amid the pandemic.

During the quarter, the company reported gradual improvement in new patient volume as well as the ongoing strong adoption of mask and accessories resupply programs. Moreover, there is an improvement in patient flow with the adoption of digital health. ResMed expects increase in demand for its digital health platform amid the COVID-19 scenario. During the quarter, the company sold more than 13.5 million of its 100% cloud connectable medical devices and has over 15 million patients enrolled in the AirView Solutions.

- ▲ **COVID-19-Led Critical Care Drives Demand for Products:** ResMed saw significantly ramped-up demand for its critical care products during the fiscal first quarter. Accordingly, it has scaled up production of ventilators, masks and other respiratory devices since March. Per the company, it generated an incremental revenue benefit from ventilator devices and related accessories due to COVID-19-related demand of approximately \$40 million. Additionally, during COVID-19, the company has seen more rapid adoption of high flow therapy that can support COPD patients.

Further, ResMed anticipates that the demand for its ventilators will continue to be strong even in the post-pandemic situation as few patients who have recovered from the coronavirus infection may suffer from lung damage, thus requiring long-term ventilator support. Further, the company continues to see rapid adoption of AirView for ventilation software solution launched in Europe amid the peak of the COVID-19 crisis.

Other notable ventilators currently offered by the company include Astral, Stellar, Lumis, as well as non-invasive ventilators like AirCurve, Flexo and the GA. Further, many patients require regular medical check-ups and support. ResMed noted that the pandemic has led to the rapid expansion of its Telehealth services as well.

- ▲ **Progress in Three-Horizon Growth Strategy — a Long-Term Goal:** ResMed had identified three horizons for future growth viz, focus on ResMed's core sleep apnea franchise, growth in adjacent product and geographic markets and discover a portfolio of opportunities in new markets.

ResMed had identified three horizons for future growth viz to grow and differentiate core sleep apnea, COPD and asthma businesses; to deliver advanced medical devices as well as globally scalable digital health solutions; and to innovate advanced software solutions for care delivered digitally.

In terms of progress in the first horizon, which focuses on ResMed's core sleep apnea franchise, ResMed is actively progressing to see sequential improvement in new patient diagnosis trends as well as strong resupply activity. The company is seeing almost 70% to 90% of its pre-COVID patient flow coming in from the United States. Outside, European countries and large Asian regions including China are seeing sequential rebound in patient flow.

In terms of the second horizon, ResMed is actively progressing in the field of utilizing digital health technology to convert big data into valuable information. Amid the pandemic, the company is forecasting increasing digital health demand in the form of remote patient monitoring and adoption of data-driven population health management systems. The company's current IP portfolio includes over 6,000 patents and designs. It currently has over 8 billion nights of respiratory medical data in cloud-based Air Solutions Platform. The mask and accessory resupply has been strong throughout the COVID-19 pandemic. The company also observed more rapid adoption of high flow therapy that can support some COPD patients. ResMed's core noninvasive ventilation and life support ventilation solutions for more severe COPD patients have already seen rapid global adoption.

In terms of the third horizon, during the reported quarter, ResMed's SaaS business grew in the mid-single digits on a year over year basis banking on continued strong uptake of Brightree HME resupply solutions. The patients flow in home medical equipment and home health has been seen to recover well.

- ▲ **Potential in Digital Health:** Of late, ResMed has been focusing on digital health technology. The Brightree and MatrixCare software systems are significantly contributing to the company's capabilities of managing 90 million more people outside the hospital setting. Given that digital health technology is an integrator across everything that the company does; AirView, myAir, Propeller and a portfolio of other digital health solutions support the company's plans of reaching out to more customers and partners.

ResMed expects increasing digital health demand from patients, physicians, providers, and healthcare systems as they embrace remote patient monitoring. Moreover, the company has a huge pipeline to generate both medium and long-term value for customers. The company is making digital health part of the standard of care for respiratory care worldwide. During the quarter, ResMed exited the portable oxygen market and shut down concentrator business in that category.

In the pandemic phase, the company's investments in research and development for digital health has accelerated on increasing demand from patients, physicians, providers as well as healthcare systems as they are more and more getting dependant on digital health through

ResMed continues to see growth in the patient diagnosis trends in sleep apnea, COPD and asthma. The company is expecting an increase in digital health demand with the adoption of digital healthcare management systems.

remote patient engagement as well as population health management technology.

The company, during the fiscal second quarter, saw improvement in patient flow with the adoption of new digital health solutions that enable clinicians to remotely diagnose, treat and manage sleep apnea, COPD and asthma patients during the pandemic and beyond. In the quarter, the company sold more than 13.5 million of 100% cloud connectable medical devices.

A major recent development in digital health line is, in the reported quarter, the expanded the reach of its Propeller Health technology through the partnership with Novartis. During the quarter, Novartis announced the Japanese launch of two new once-daily medications (Enerzair and Atecura Breezhaler) to treat uncontrolled asthma.

Given the company's progress in digital health solutions for COPD and asthma patients, the Propeller platform continues to play an important role in keeping patients outside the hospital. ResMed has also increased research and development investments in digital health technology during the quarter owing to greater adoption of digital health technology in many countries, especially in the United States, Japan and now Germany.

- ▲ **Strategic Pacts to Boost SaaS Business:** ResMed has been continuously opting for strategic buyouts to boost the revenues from SaaS business. According to the company, this niche is booming with prospects and has a total addressable market over \$1.5 billion in the United States alone. Leveraging on the company's leading positions in multiple SaaS verticals during the quarter, SaaS business grew in the mid-single digits year on year, driven by continued strong uptake of Brightree HME resupply solutions. ResMed expects its portfolio to return to mid-single digits and then to high single digits as hospital discharge and ambulatory surgery center discharge rates return. ResMed expects its SaaS portfolio to move from high single-digit pro forma growth to low double-digit pro forma growth over the medium term and this rate should continue to be sustainable over the long-term.

Global revenues from SaaS in the quarter under review represented a 6% increase at CER year over year due to continued strong uptake of the company's HME resupply solutions. Continued momentum in the Brightree service portfolio and an additional contribution from the MatrixCare buyout also contributed to the revenue uptick. ResMed is also likely to have benefited from the buyout of SnapWorx Technology (acquired in February). Notably, the combination of SnapWorx, Oracle and Brightree ReSupply (all three technologies under the Brightree brand) provide the strongest suite of resupply solutions available in the market.

During the quarter, MatrixCare has introduced a new voice to text technology at the point of care, which helps address caregiver shortages during COVID-19 by enabling better and more efficient workflows for customers. ResMed's expanded partnership with Cerner is progressing well as the company is now Cerner's preferred solution across home health and hospice as well as home medical equipment and pharmacy and infusion businesses.

- ▲ **Huge Potential in SDB Market:** The market for SDB is huge and is, as yet, to a great extent, underpenetrated across the globe. Globally, the scenario is grave with over 100 million suffering from sleep apnea (per an article published on The Sleep Zone). Per a report by MarketsAndMarkets, the global sleep apnea devices market is expected to see a CAGR of 10.7% to reach \$7.5 billion between 2019 and 2024. Moreover, a strong correlation between OSA and a number of cardiovascular diseases has been discovered recently.

However, despite the high prevalence of OSA, there is lack of awareness regarding it among both physicians and patients. It is estimated that less than 20% of patients suffering from OSA have been diagnosed or given proper treatment. With the global SDB market currently growing in mid-single-digits, ResMed is leaving no stone unturned to expand its foothold in this market. With this in view, ResMed has begun working on the joint venture with Verily to develop software solutions that allow healthcare providers to discover, diagnose, treat and manage individuals with sleep apnea and other breathing-related sleep conditions more efficiently.

Management is also looking forward to the proposed rule by Centers for Medicare and Medicaid Services to make changes to the bidding and pricing methodologies under the competitive bidding program. Moreover, the company continues to focus on its target to change 250 million lives by 2025. We expect ResMed with its broad range of products to create a solid foothold in the global SDB market.

- ▲ **Increased Focus on International Markets:** ResMed continues to invest and expand its presence in high growth markets like China, South Korea, India, Brazil and many countries in Eastern Europe. Interestingly, in each of these regions, ResMed is implementing long-term strategies to improve quality of patient life for the purpose of delivering better patient outcomes and reduce overall system healthcare costs within each individual country.

Many countries' national governments, including France, Japan and the United States, have adopted models and taken action to accelerate digital health adoption, leading to rapid evolution of digital reimbursement models across the world. During the quarter, Germany approved reimbursement for mandibular repositioning device, including ResMed's digital 3D printed dental sleep apnea product called Narval. There are huge opportunities for greater adoption of digital health technologies worldwide with more than 1.5 billion people suffering from sleep apnea, COPD and asthma combined. ResMed is dedicated to bring continued innovation and development to the 140 countries it is operating in and beyond.

In the fiscal second quarter of 2021, revenues from the combined Europe, Asia, and other markets grew 10% at CER in terms of total Sleep and Respiratory Care. Excluding SaaS, total Sleep and Respiratory Care revenues in the United States, Canada and Latin America improved 5% from the prior-year period.

During the reported quarter, mask and other sales grew 8% in United States, Canada and Latin America, reflecting robust demand for products owing to customer responses in the wake of the pandemic.

- ▲ **Strong Emphasis on Product Development:** In order to maintain its leadership position in the SDB market and to expand its sales base, ResMed is focusing on product development and innovation. In this regard, ResMed launched its first CPAP nasal mask with a memory foam cushion, the AirTouch N20, in September 2020.

ResMed had introduced its first tube-up full-face CPAP mask AirFit F30i in January, thus completing its full-face mask portfolio in the market. It is currently available in the United States, Canada and across majority of Europe and will later be rolled out in other countries.

ResMed expanded its AirFit mask portfolio with the introduction of the world's first tube-down nasal cradle CPAP mask with a front-facing tube, AirFit N30, in the United States. It will later be available in other countries as well.

The company is also progressing well with its flagship masks — the AirFit F20, the AirFit N20 and AirFit N30.

According to the company, it is well positioned for fiscal 2021 and will work on a pipeline of new products and connected care solutions for sleep apnea, COPD, neuromuscular disease and other clinical adjacencies. Also, the company is aligned to help patients, physicians, providers and payers with an end-to-end digital health management pathway for COPD.

- ▲ **Strong Device Sales:** ResMed received a major boost in its device sales business from the coronavirus-led increase in demand for masks and ventilators. The company recorded strong sales of devices and masks and other sales across all major geographies, thus pushing up the global sales tally by 7% at CER over the prior-year quarter. Device sales in the United States, Canada and Latin America recorded an uptick of 1% whereas in Europe, Asia, and other markets saw a surge of 10% at CER.

Masks and other sales increased by 8% year over year in the United States, Canada and Latin America. In Europe, Asia and other markets masks and other sales grew by 12% at CER over the prior year quarter.

- ▲ **Strong Solvency With Heavy Payout Load:** ResMed exited the second quarter of fiscal 2021 with cash and cash equivalents of \$256 million compared with \$421 million at the end of the first quarter of fiscal 2021. Meanwhile, total debt was \$826 million for the quarter, compared with \$1.06 billion in the sequentially last-reported quarter. The figure is much higher than the quarter-end cash and cash equivalent level. However, if we go by the company's near-term-payable debt level of \$12 million, it is pretty low compared to the cash in hand. This reflects strength in the company's solvency position despite the challenging times. ResMed is holding sufficient cash for short-term debt repayment.

The quarter's total debt-to-capital ratio was 0.22, which is good from leverage point of view. Moreover, it represents a sequential decrease from 0.28 at the end of the first quarter of fiscal 2021. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The times interest earned for the company stands at 27%, representing a sequential increase from 23% at the first quarter of fiscal 2021.

The company paid out \$57 million as dividends during the fiscal second quarter. Along with the earnings release, ResMed announced a regular quarterly dividend payout of 39 cents per share. The current payout ratio stands at a moderately high level of 29.4%, representing a sequential decrease from 30.6% from the end of the first quarter of fiscal 2021. However, amid the pandemic-led economic crisis, if production and supply halt along with lockdowns across nations continue through the next few months, the company might find it burdensome to pay its regular quarterly dividends.

Reasons To Sell:

▼ **Reimbursement Headwind:** ResMed's ability to sell its products largely depends on the extent to which coverage and reimbursement for its products will be available from government health administration authorities, private health insurers and other organizations. These third-party payers are increasingly challenging the prices charged for medical products and services and can, deny coverage for treatments that may include the use of its products. In some markets, such as Spain, France and Germany, government coverage and reimbursement are currently available for the purchase or rental of its products but are subject to constraints such as price controls or unit sales limitations. In other markets, such as Australia, there is currently limited or no reimbursement for devices that treat SDB conditions.

We are worried about the stiff competition faced by ResMed. Besides, reimbursement issues and competitive bidding continue to affect the stock.

▼ **Competitive Bidding — a Major Threat:** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 instructed the Centers for Medicare & Medicaid Services (CMS) to establish and implement programs under which customers that provide home healthcare services must compete to offer products in designated competitive bidding areas. CMS recently rolled out the competitive bidding program and included home medical equipment such as oxygen and oxygen equipment, CPAP and respiratory assist devices, and related supplies and accessories. In 2011, CMS implemented Round 1 of competitive bidding in 9 competitive bidding areas (CBAs).

In 2013, CMS announced the single payment amounts for Round 2, which covered a total of 91 CBAs. Effective Jul 1, 2013, the average reduction from the then-current Medicare payment rates in Round 2 was approximately 47% on a weighted average basis for CPAP and respiratory devices. In 2016, CMS implemented the Round 2 Recompete, covering a total of 117 CBAs, and announced the single payment amounts. In addition, the ACA required CMS to roll out the competitive bidding process nationally or adjust prices in non-competitive bidding areas, also known as the Round 3 areas, to match competitive bidding prices by 2016. CMS phased in the new rates beginning Jan 1, 2016, and were fully effective since Jul 1, 2016.

▼ **Competitive Landscape:** The market for SDB products is highly competitive with respect to product price, features and reliability. ResMed's primary competitors include Philips BV; DeVilbiss Healthcare; Fisher & Paykel Healthcare Corporation Limited; Apex Medical Corporation; BMC Medical Co. Ltd.; and regional manufacturers. The disparity between the company's resources and those of its competitors may increase owing to the trend of consolidation in the healthcare industry. Moreover, some of ResMed's competitors, such as Löwenstein Medical GmbH + Co. KG, are affiliates of its customers, which may make it difficult for the company to compete with them.

▼ **Challenging Macroeconomic Scenario:** Pricing pressure in the United States and Europe has been a staggering issue over the past few quarters. Healthcare reform in the United States has created a degree of uncertainty for the medical devices companies and has created a less flexible pricing environment. Currency headwinds continue to affect ResMed's overseas sales.

Moreover, the overall macro-economic uncertainty across the globe affects physician office visits, thereby impacting ResMed's progress. Thus, the company is trading cautiously in the markets it serves, especially Europe and the Americas, as the results from these territories might hurt margins. With growing concerns over healthcare spending taking its toll on players in the medical device space, the stock might suffer due to a sluggish market.

Last Earnings Report

ResMed Q2 Earnings Surpass Estimates, Margins Rise

ResMed announced strong second-quarter fiscal 2021 results, wherein adjusted earnings per share came in at \$1.41, up 16.5% year over year. The metric also beat the Zacks Consensus Estimate by 15.6%.

The adjustments include certain non-recurring expenses/benefits like amortization of acquired intangibles and restructuring costs and expenses among others.

Improvement in demand for the company's ventilators and ventilation mask systems and provision of digital health solutions and other tools to customers aiding remote care amid the pandemic boosted ResMed's bottom line during the fiscal second quarter.

GAAP earnings per share of \$1.23 improved 11.8% year over year.

Quarter Ending 12/2020

Report Date	Jan 28, 2021
Sales Surprise	3.60%
EPS Surprise	15.57%
Quarterly EPS	1.41
Annual EPS (TTM)	5.30

Revenues

Fiscal second-quarter revenues, on a reported basis, increased 8.7% year over year (up 7% at CER) to \$800 million. The figure beat the Zacks Consensus Estimate by 3.6%.

A Closer View of Q2 Top Line

Excluding SaaS, total Sleep and Respiratory Care, revenues in the United States, Canada and Latin America improved 4.6% from the prior-year period to \$426.8 million. SaaS revenues grew 6% reportedly to \$91.8 million.

Total Sleep and Respiratory Care revenues in combined Europe, Asia, and other markets grew 17% on a reported basis and 10% at CER to \$281.4 million.

Global revenues from total Sleep and Respiratory Care in the quarter under review were \$708.2 million, up 9% at reported basis and 7% at CER.

Overall increase in revenues was driven by robust performance of its mask and device product portfolios on increased demand for ventilators and ventilator masks.

Margins

Adjusted gross profit in the quarter under review rose 9% to \$478.9 million despite an 8.1% uptick in cost of sales (excluding expenses related to amortization of acquired intangibles and restructuring).

Adjusted gross margin for the fiscal second quarter was 59.9%, reflecting a 20-basis point (bps) expansion from the year-ago number on benefits from favorable product mix and foreign exchange movements, partially offset by declines in average selling prices.

Selling, general and administrative expenses were down 1.1% year over year to \$169.5 million (unchanged at CER). Research and development expenses increased 10% to \$54.9 million.

Adjusted operating income was \$254.5 million in the quarter under discussion, up 16.8% from the year-ago quarter. Adjusted operating margin expanded 222 bps year over year to 31.8%.

Financial Updates

ResMed exited the second quarter of fiscal 2021 with cash and cash equivalents of \$255.9 million compared with \$421.4 million at the end of the first quarter of fiscal 2021. Total debt (short and long-term) at the end of fiscal 2020 was \$825.7million compared with \$1.06 billion at the end of the first quarter of fiscal 2021.

Cash flow from operating activities at the end of the second quarter was \$313.9 million compared with \$232.3 million a year ago.

The company paid out \$113.2 million as dividends during the fiscal second quarter.

Valuation

ResMed shares are down 8.7% in the year to date period and up 11% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 9.6% and Zacks Medical sector are up 5.3% in the year to date period. In the past one year the Zacks sub-industry are up 11.3% and Zacks Medical sector are up 5.8%.

The S&P 500 index is up 5.2% in the year to date period and up 18.7% in the past year.

The stock is currently trading at 35.3X Forward 12-months earnings, which compares to 27.5X for the Zacks sub-industry, 22.9X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.9X and as low as 18.9X, with a 5-year median 27.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$204 price target reflects 37.1X forward 12-months earnings.

The table below shows summary valuation data for RMD

Valuation Multiples - RMD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.25	27.51	22.85	22.92
	5-Year High	44.86	31.03	22.86	23.80
	5-Year Low	18.93	17.09	15.90	15.30
	5-Year Median	27.86	21.08	19.13	17.84
P/S F12M	Current	8.51	4.16	2.85	4.59
	5-Year High	9.95	4.16	3.17	4.59
	5-Year Low	3.83	2.90	2.26	3.21
	5-Year Median	5.63	3.37	2.84	3.68
P/B TTM	Current	9.86	3.69	4.54	6.70
	5-Year High	12.07	3.70	5.11	6.70
	5-Year Low	4.56	2.28	3.02	3.84
	5-Year Median	7.33	2.95	4.37	4.96

As of 02/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Envista Holdings Corporation (NVST)	Outperform	1
BioRad Laboratories, Inc. (BIO)	Neutral	2
National Vision Holdings, Inc. (EYE)	Neutral	3
HillRom Holdings, Inc. (HRC)	Neutral	2
ICU Medical, Inc. (ICUI)	Neutral	4
Medtronic PLC (MDT)	Neutral	2
Demant AS Un-sponsored ADR (WILYY)	Neutral	3
GN STORE NORD (GNNDY)	Underperform	5

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	RMD	X Industry	S&P 500	BIO	HRC	NVST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	2	1
VGM Score	C	-	-	C	B	C
Market Cap	29.18 B	663.12 M	27.89 B	19.76 B	7.15 B	6.44 B
# of Analysts	6	3	13	1	6	8
Dividend Yield	0.78%	0.00%	1.41%	0.00%	0.82%	0.00%
Value Score	C	-	-	D	B	C
Cash/Price	0.01	0.08	0.06	0.05	0.04	0.11
EV/EBITDA	30.16	-1.15	14.83	8.05	15.98	16.25
PEG F1	2.68	2.60	2.38	NA	2.59	1.00
P/B	10.19	4.73	3.89	2.00	4.05	1.81
P/CF	32.12	25.60	15.37	33.68	10.73	13.47
P/E F1	37.17	31.62	20.93	64.94	18.77	24.49
P/S TTM	9.44	7.69	3.06	7.76	2.43	2.82
Earnings Yield	2.64%	1.01%	4.72%	1.54%	5.33%	4.09%
Debt/Equity	0.28	0.08	0.68	0.00	0.93	0.49
Cash Flow (\$/share)	6.04	0.00	6.70	19.29	9.95	2.89
Growth Score	C	-	-	C	B	D
Historical EPS Growth (3-5 Years)	15.42%	8.43%	9.32%	30.30%	15.78%	NA
Projected EPS Growth (F1/F0)	11.38%	32.52%	14.04%	-3.04%	3.77%	68.11%
Current Cash Flow Growth	29.09%	6.53%	3.17%	170.00%	21.50%	27.00%
Historical Cash Flow Growth (3-5 Years)	14.73%	8.04%	7.55%	38.45%	19.83%	NA
Current Ratio	2.51	3.14	1.38	3.39	1.49	2.09
Debt/Capital	22.12%	14.50%	41.31%	0.12%	48.25%	33.03%
Net Margin	22.60%	-10.13%	10.59%	149.52%	8.24%	1.46%
Return on Equity	30.02%	-4.42%	14.89%	3.92%	23.78%	4.59%
Sales/Assets	0.68	0.52	0.51	0.23	0.63	0.35
Projected Sales Growth (F1/F0)	6.20%	17.08%	6.39%	-3.19%	0.19%	18.83%
Momentum Score	A	-	-	C	D	A
Daily Price Change	-3.22%	-0.05%	-0.23%	-1.92%	-0.84%	-3.62%
1-Week Price Change	-0.80%	3.92%	1.44%	7.44%	6.85%	7.03%
4-Week Price Change	-9.68%	14.36%	2.06%	6.68%	2.87%	7.40%
12-Week Price Change	-6.02%	37.65%	5.88%	25.76%	10.10%	31.88%
52-Week Price Change	11.04%	55.05%	8.47%	59.44%	-1.93%	36.65%
20-Day Average Volume (Shares)	705,299	336,508	2,045,498	231,201	539,954	1,719,653
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	10.29%	1.79%	10.85%
EPS F1 Estimate 4-Week Change	1.82%	0.00%	0.66%	10.29%	8.35%	11.32%
EPS F1 Estimate 12-Week Change	2.09%	0.00%	1.97%	10.29%	8.42%	12.55%
EPS Q1 Estimate Monthly Change	-1.22%	0.00%	0.38%	-4.94%	11.60%	25.17%

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	A
VGM Score	C

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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