

## Seagen Inc. (SGEN)

**\$185.78** (As of 01/21/21)

Price Target (6-12 Months): **\$214.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 01/21/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: F

## Summary

Seagen's lead lymphoma drug Adcetris has also been performing well since its launch. Its label expansion in additional indications is driving revenues too. Collaboration with Japan's Takeda for global development and commercialization of Adcetris looks encouraging as well. The company's pipeline candidates are progressing as well. Among these, Padcev and Tukysa were recently approved for two different cancer indications. This should reduce the company's heavy dependence on Adcetris in the near future. However, high reliance on Adcetris for growth remains a woe. Hence, any regulatory setback for the drug could hurt sales significantly. Stiff competition is another concern for the company. Shares of the company have outperformed the industry in the past year.

## Price, Consensus & Surprise

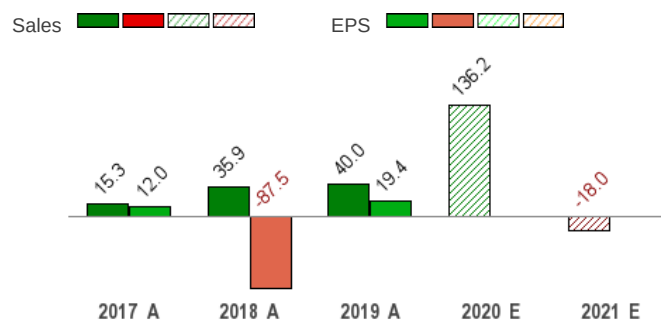


Source: Zacks Investment Research

## Data Overview

|                                |                                          |
|--------------------------------|------------------------------------------|
| 52-Week High-Low               | <b>\$213.94 - \$90.57</b>                |
| 20-Day Average Volume (Shares) | <b>763,298</b>                           |
| Market Cap                     | <b>\$33.6 B</b>                          |
| Year-To-Date Price Change      | <b>6.1%</b>                              |
| Beta                           | <b>1.11</b>                              |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>                     |
| Industry                       | <b>Medical - Biomedical and Genetics</b> |
| Zacks Industry Rank            | <b>Bottom 11% (224 out of 253)</b>       |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>4,475.0%</b>   |
| Last Sales Surprise           | <b>166.8%</b>     |
| EPS F1 Estimate 4-Week Change | <b>20.0%</b>      |
| Expected Report Date          | <b>02/11/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>88.5</b>       |
| P/E F1                        | <b>NA</b>         |
| PEG F1                        | <b>NA</b>         |
| P/S TTM                       | <b>18.0</b>       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3      | Q4    | Annual* |
|------|-------|-------|---------|-------|---------|
| 2021 | 361 E | 381 E | 405 E   | 444 E | 1,776 E |
| 2020 | 235 A | 278 A | 1,062 A | 584 E | 2,166 E |
| 2019 | 195 A | 218 A | 213 A   | 290 A | 917 A   |

## EPS Estimates

|      | Q1        | Q2        | Q3        | Q4        | Annual*   |
|------|-----------|-----------|-----------|-----------|-----------|
| 2021 | -\$0.44 E | -\$0.38 E | -\$0.29 E | -\$0.20 E | -\$0.05 E |
| 2020 | -\$0.64 A | -\$0.54 A | \$3.50 A  | \$0.80 E  | \$3.27 E  |
| 2019 | -\$0.32 A | -\$0.24 A | -\$0.54 A | -\$0.22 A | -\$1.33 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 01/21/2021. The reports text is as of 01/22/2021.

## Overview

Bothell, WA-based Seagen, Inc. is a biotechnology company, which primarily focuses on developing and commercializing therapies targeted for the treatment of cancer. In October 2020, Seattle Genetics decided to switch over to its new corporate name Seagen Inc.

Adcetris is the lead marketed product at Seagen. The drug is approved for relapsed Hodgkin lymphoma and relapsed systemic anaplastic large cell lymphoma (sALCL) in the United States, European Union (EU) and Japan. Adcetris is approved by the Food and Drug Administration (FDA) for six indications. The drug recorded sales of \$627.7 million in 2019.

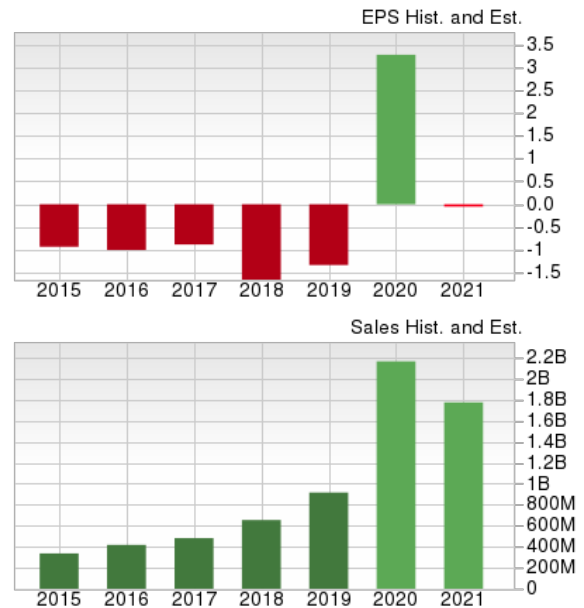
Seagen has an agreement with Takeda Pharmaceutical Company Ltd. for the further development and commercialization of Adcetris. Seagen retains all rights to sell Adcetris in the United States and Canada, while Takeda has commercial rights to the drug in the rest of the world.

In December 2019, the FDA granted accelerated approval to Seagen's second drug Padcev for the treatment of patients with advanced/metastatic urothelial cancer, who had received treatment with both a checkpoint inhibitor (PD-1/PD-L1) and platinum-based chemotherapy.

In April 2020, the FDA approved Seagen's third drug Tukysa in combination with Roche's Herceptin and Xeloda for treating adult patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received one or more prior anti-HER2-based regimens in the metastatic setting.

The company also has license agreements with several companies for the development of its pipeline candidates. Partners include Merck, Roche, Progenics, GlaxoSmithKline, Astellas, AbbVie, Bristol-Myers and Genmab.

Seagen's generated net revenues of \$916.7 million in 2019, up 40% year over year.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Shares Outperforming Industry:** Shares of Seagen have outperformed the industry in the past one year.
- ▲ **Adcetris Driving Growth:** Adcetris has been doing well since its launch in the United States. The drug's label was further expanded to include classical Hodgkin lymphoma (cHL) in patients at a high risk of relapse or progression as post auto-HSCT consolidation or failure of two or more multi-agent chemotherapies in non-auto-HSCT candidates. The drug is also approved for sALCL in second or later-line setting, primary cutaneous anaplastic large cell lymphoma (pcALCL) and CD30-expressing MF.

Impressive performance by Adcetris is expected to maintain Seagen's revenue growth trajectory. Further label expansions of the drug should continue to boost its top line.

Adcetris is approved in combination with chemotherapy for treating stage III or IV cHL in patients with no previous treatment history. The FDA also approved Adcetris for the frontline treatment of peripheral T-cell lymphomas (PTCL). The drug is approved to treat patients with previously untreated systemic anaplastic large cell lymphoma or other CD30-expressing PTCL including angioimmunoblastic T-cell lymphoma and PTCL not otherwise specified in combination with CHP (cyclophosphamide, doxorubicin and prednisone). Adcetris is approved by the FDA for six indications. Label expansion of the drug for additional indications will further boost sales.

Meanwhile, Seagen is evaluating Adcetris in combination with Bristol-Myers' Opdivo for treating Hodgkin and non-Hodgkin lymphoma. A successful development and a potential approval will be a major boost to the company.

- ▲ **Positive on Collaborations:** We are encouraged by Seagen's deal with Takeda in December 2009 for global development and commercialization of Adcetris. As per the terms of the agreement, the company retains all rights to sell Adcetris in the United States and Canada, while Takeda has commercial rights to the drug in the rest of the world. The companies fund development costs equally, except in Japan where Takeda is solely responsible. The company earns royalty revenues mostly from this collaboration.

Moreover, Seagen has collaborations for its antibody-drug conjugate (ADC) technology with a number of biotechnology and pharmaceutical companies. The company is developing tisotumab vedotin (TV) in collaboration with Genmab. Moreover, Seagen has collaborations with several pharma and biotech companies for its ADC technology.

- ▲ **Padcev and Tukysa Approved, Other Pipeline Progresses Too:** Seagen is working on the advancement of its ADC pipeline. It has several ADC candidates and one novel immuno-oncology agent (based on its SEA technology) in early- and mid-stage development. These include TV and ladiratumab vedotin (LV). The company is developing TV in collaboration with other companies while LV is being developed in collaboration with Merck.

In December 2019, the FDA granted an accelerated approval to Padcev (enfortumab vedotin-ejfv) for the treatment of patients with advanced/metastatic urothelial cancer, having been previously treated with both a checkpoint inhibitor (PD-1/PD-L1) and platinum-based chemotherapy. Padcev is being developed by the company along with Japanese partner Astellas Pharma, Inc.

Padcev in combination with Merck's Keytruda is also being investigated in mid-stage studies in earlier-line settings of urothelial cancer. The combo is granted a Breakthrough Therapy designation by the FDA in the first-line setting.

Padcev is also being evaluated as a monotherapy in the phase II EV-202 study for addressing a range of solid tumors. A potential label expansion of the drug will boost its sales in the future quarters.

In April 2020, the FDA approved oral tyrosine kinase inhibitor (TKI) Tukysa (tucatinib) in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine). The drug combo is now approved to treat adult patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received one or more prior anti-HER2-based regimens in the metastatic setting.

Meanwhile, Seagen's other pipeline candidates targeting various types of cancer indications are also progressing well. A successful development of the same will be boost for the company.

- ▲ **Favorable Debt Profile:** Seagen has a favorable debt profile. As of Sep 30, 2020, the company had zero debt (both short and long term). The company had cash, cash equivalents and marketable securities of \$1.71 billion as of September-end. In absence of any debt until now, the company is less likely to file for bankruptcy in case of insolvency.

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## Risks

- **Heavily Dependent on Adcetris:** Seagen's top line mainly comprises contribution from Adcetris. The drug contributes majority of the company's top line. Although the product has been performing well since its launch, Seagen's dependence on the drug remains a matter of concern as Padcev and Tukysa has just been approved and is yet to generate incremental sales. Hence, a decline in Adcetris sales will adversely impact the company's top line. Moreover, although the company is working on various label expansions of the drug, any unfavorable response from the FDA could materially hurt the stock. During the third quarter of 2020, Seagen lowered the sales guidance for Adcetris to the range of \$650-\$660 million from the previous expectation of \$675-\$700 million. The cut in Adcetris view is due to the negative impact of the COVID-19 pandemic.
  - **Development Setbacks:** Although Seagen has a couple of approved drugs in its portfolio, most got the nod very recently and will take time to be a key revenue driver. Moreover, the company's pipeline candidates are in the early stage of development. Since it is heavily dependent on Adcetris for growth, failure to successfully commercialize new products will intensify this reliance. Unfavorable results may induce the company to postpone or discontinue its studies. They might also leave an adverse impact on the stock in the future.
  - **Competition from Other Products:** Adcetris is not the only FDA-approved drug for the treatment of relapsed Hodgkin lymphoma or specifically indicated for relapsed sALCL. Moreover, several other companies, such as Pfizer, Takeda, AbbVie and Johnson & Johnson are evaluating therapies for relapsed Hodgkin lymphoma. Additionally, Bristol-Myers' Opdivo is also approved for classical Hodgkin lymphoma in the United States and in the EU. Merck's Keytruda too is approved for relapsed Hodgkin lymphoma in the United States. This is likely to increase competition for Adcetris.
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## Last Earnings Report

### Seagen's Q3 Earnings Rise Y/Y, Adcetris Sales View Cut

Seagen delivered adjusted earnings of \$3.50 per share for the third quarter of 2020, reversing the year-ago quarter's loss of 54 cents. The Zacks Consensus Estimate was of a loss of 8 cents per share. The company received an upfront payment of \$725 million from pharma giant Merck during this time.

Revenues of \$1.1 billion were significantly up year over year, primarily driven by the two new strategic oncology collaborations with Merck. Revenues were also boosted by the uptake of Padcev and Tukysa. Royalty revenues too drove sales in the quarter. Further, the top line comprehensively beat the Zacks Consensus Estimate of \$398 million.

#### Quarter in Detail

Seagen's top line mainly comprises product revenues, collaboration and license agreement revenues, and royalties.

Adcetris generated net sales of \$163.3 million in the United States and Canada, down 3% year over year.

Padcev's sales in the third quarter were \$61.8 million, increasing 8% sequentially.

Tukysa's third-quarter net sales were \$42.4 million, marking its first full-quarter performance since its approval in mid-April.

Collaboration and license agreement revenues were \$758.3 million, reflecting a significant increase year over year. Seagen received an upfront payment of \$725 million from Merck in September 2020. Also, during the third quarter, the company earned \$26 million as milestone fees from GlaxoSmithKline, attributable to by the approval for the latter's Blenrep in the United States and Europe.

Royalty revenues of \$35.9 million soared from the year-ago quarter's \$27.3 million. The company records royalty revenues on the sales of Adcetris from Takeda in the ex-U.S. markets and outside and to a lesser extent, include sales of Polivy under its collaboration with Roche.

Research and development (R&D) expenses of \$217.7 million escalated 11% year over year, primarily due to increased investments in developing the late-stage pipeline candidates.

Selling, general and administrative (SG&A) expenses shot up 32.7% year over year to \$127.6 million, mainly on account of higher costs related to the recent launch of Padcev and Tukysa as well as higher infrastructure costs for international expansion.

#### 2020 Guidance

Seagen provided its full-year outlook. The company now projects Adcetris' annual net sales in the range of \$650-\$660 million, lower than the previous expectation of \$675-\$700 million. The cut in Adcetris view is due to the negative impact of the COVID-19 pandemic.

The company expects Padcev net product sales in the band of \$215-\$235 million, unchanged from the previous estimate.

Collaboration and license revenues are anticipated in the band of \$1.03-\$1.04 billion compared with the earlier projection of \$30-\$50 million. Royalty revenues are anticipated within \$125-\$130 million compared with the earlier provided guidance of \$105-\$115 million.

Seagen expects SG&A expenses of \$475-\$525 million, which have been intact with the earlier prediction. R&D expenses also remained unchanged from the previous forecast and are now estimated to be \$820-\$870 million.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 29, 2020 |
| Sales Surprise   | 166.81%      |
| EPS Surprise     | 4,475.00%    |
| Quarterly EPS    | 3.50         |
| Annual EPS (TTM) | 2.10         |

## Recent News

### Gets Positive CHMP Opinion for Tukysa - Dec 11

Seagen announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency adopted a positive opinion, recommending the approval of Tukysa (tucatinib) in combination with Roche Herceptin (trastuzumab) and Xeloda (capecitabine) for the treatment of adult patients with HER2-positive locally advanced or metastatic breast cancer, who have received at least two prior anti-HER2 treatment regimens.

### Posts Top-Line Data From EV-201 Study on Padcev – Oct 12

Seagen and partner Astellas Pharma announced positive top-line data from the second cohort of the pivotal phase II EV-201 study, which is Padcev for treating locally advanced/metastatic urothelial cancer in patients who were previously treated with a PD-1/L1 inhibitor, having not received a platinum-containing chemotherapy and are ineligible for cisplatin.

Data from the single arm EV-201 study showed that treatment with Padcev led to a 52% objective response rate (ORR) per the blinded independent central review while the median duration of response was 10.9 months in the given patient population.

### Changes Corporate Name – Oct 8

Seattle Genetics announced that it has taken over its new corporate name as Seagen Inc.

### Padcev Study Aids Urothelial Cancer Survival – Sep 18

Seagen and Astellas Pharma announced positive overall survival data from the global phase III EV-301 study, which is evaluating Padcev for treating locally advanced/metastatic urothelial cancer or bladder cancer in adult patients who were previously treated with platinum-based chemotherapy and a PD-1/L1 inhibitor.

Data from the EV-301 study showed that treatment with Padcev significantly improved the overall survival (OS) rate with a 30% reduction in death risk compared to chemotherapy. Moreover, Padcev substantially bettered progression-free survival (PFS), which was the secondary endpoint with 39% reduction in the risk of disease progression or death.

### Inks Two New Oncology Deals With Merck – Sep 14

Seagen announced that it has entered into two new strategic oncology collaborations with Merck.

Per the agreement, both companies will co-develop and co-commercialize Seagen's pipeline candidate ladiratuzumab vedotin, which is an investigational ADC targeting LIV-1. It is currently being evaluated in phase II studies for the treatment of breast cancer and other solid tumors.

In another contract, Seagen granted Merck an exclusive license and rights to commercialize Tukysa for the treatment of HER2-positive cancers in Asia, the Middle East, Latin America and other regions outside the United States, Canada and Europe. Meanwhile, the company retains all commercial rights in the United States, Canada and Europe.

## Valuation

Seagen's shares are up 7.4% in the past six months and 61.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 7.7% and 7.9% respectively, in the past six months period. Over the past year, the Zacks sub-industry is up 14.8% and the sector is up 6.9%.

The S&P 500 index is up 20.2% in the past six months and up 17.9% in the past year.

The stock is currently trading at 18.13X trailing 12-month sales per share, which compares to 3.36X for the Zacks sub-industry, 3.42X for the Zacks sector and 4.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.61X and as low as 11.13X, with a 5-year median of 18.13X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$214.00 price target reflects 20.88X trailing 12-month sales per share.

The table below shows summary valuation data for SGEN

| Valuation Multiples - SGEN |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S TTM                    | Current       | 18.13 | 3.36         | 3.42   | 4.95    |
|                            | 5-Year High   | 32.61 | 3.82         | 3.68   | 4.95    |
|                            | 5-Year Low    | 11.13 | 2.34         | 2.35   | 2.81    |
|                            | 5-Year Median | 18.13 | 3.25         | 3.21   | 3.88    |
| P/B TTM                    | Current       | 14.88 | 2.96         | 4.58   | 6.63    |
|                            | 5-Year High   | 18.32 | 5.09         | 5.11   | 6.63    |

|  |               |       |      |      |      |
|--|---------------|-------|------|------|------|
|  | 5-Year Low    | 5.46  | 2    | 3.02 | 3.73 |
|  | 5-Year Median | 10.79 | 3.77 | 4.36 | 4.94 |

As of 01/21/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 11% (224 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                      | Rec     | Rank |
|---------------------------------------|---------|------|
| Bristol Myers Squibb Company (BMY)    | Neutral | 3    |
| Johnson & Johnson (JNJ)               | Neutral | 3    |
| Eli Lilly and Company (LLY)           | Neutral | 3    |
| Merck & Co., Inc. (MRK)               | Neutral | 2    |
| Novartis AG (NVS)                     | Neutral | 3    |
| Pfizer Inc. (PFE)                     | Neutral | 3    |
| Roche Holding AG (RHHBY)              | Neutral | 4    |
| Spectrum Pharmaceuticals, Inc. (SPPI) | Neutral | 3    |

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

| Industry Comparison Industry: Medical - Biomedical And Genetics |            |            |           | Industry Peers |           |           |
|-----------------------------------------------------------------|------------|------------|-----------|----------------|-----------|-----------|
|                                                                 | SGEN       | X Industry | S&P 500   | BMJ            | MRK       | SPPI      |
| Zacks Recommendation (Long Term)                                | Outperform | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                         | 1          | -          | -         | 3              | 2         | 3         |
| VGM Score                                                       | C          | -          | -         | A              | C         | F         |
| Market Cap                                                      | 33.61 B    | 387.05 M   | 27.30 B   | 145.22 B       | 205.39 B  | 574.93 M  |
| # of Analysts                                                   | 6          | 3          | 13        | 8              | 8         | 4         |
| Dividend Yield                                                  | 0.00%      | 0.00%      | 1.43%     | 3.05%          | 3.20%     | 0.00%     |
| Value Score                                                     | F          | -          | -         | A              | B         | F         |
| Cash/Price                                                      | 0.05       | 0.19       | 0.06      | 0.14           | 0.03      | 0.38      |
| EV/EBITDA                                                       | -245.20    | -5.29      | 14.98     | 24.61          | 14.84     | -2.63     |
| PEG F1                                                          | NA         | 1.21       | 2.59      | 0.96           | 1.87      | NA        |
| P/B                                                             | 14.84      | 4.70       | 3.79      | 2.89           | 7.01      | 3.41      |
| P/CF                                                            | NA         | 20.22      | 14.64     | 14.62          | 12.13     | NA        |
| P/E F1                                                          | NA         | 30.47      | 20.84     | 8.73           | 13.37     | NA        |
| P/S TTM                                                         | 18.03      | 23.74      | 3.02      | 3.69           | 4.34      | NA        |
| Earnings Yield                                                  | -0.03%     | -9.33%     | 4.68%     | 11.45%         | 7.48%     | -25.13%   |
| Debt/Equity                                                     | 0.00       | 0.00       | 0.70      | 0.82           | 0.90      | 0.05      |
| Cash Flow (\$/share)                                            | -1.12      | -1.20      | 6.92      | 4.39           | 6.69      | -1.09     |
| Growth Score                                                    | A          | -          | -         | B              | D         | C         |
| Historical EPS Growth (3-5 Years)                               | NA%        | 18.53%     | 9.72%     | 24.43%         | 10.47%    | NA        |
| Projected EPS Growth (F1/F0)                                    | -101.59%   | 6.98%      | 12.43%    | 15.66%         | 2.88%     | 24.18%    |
| Current Cash Flow Growth                                        | -18.87%    | 11.28%     | 5.20%     | 36.74%         | 5.54%     | 67.29%    |
| Historical Cash Flow Growth (3-5 Years)                         | NA%        | 6.94%      | 8.36%     | 22.46%         | 0.15%     | NA        |
| Current Ratio                                                   | 3.65       | 6.14       | 1.38      | 1.67           | 1.30      | 3.48      |
| Debt/Capital                                                    | 0.00%      | 0.00%      | 41.72%    | 45.16%         | 47.35%    | 4.80%     |
| Net Margin                                                      | 25.34%     | -209.88%   | 10.44%    | -0.11%         | 24.33%    | NA        |
| Return on Equity                                                | 20.46%     | -58.66%    | 15.37%    | 27.48%         | 53.83%    | -98.90%   |
| Sales/Assets                                                    | 0.79       | 0.18       | 0.50      | 0.31           | 0.54      | NA        |
| Projected Sales Growth (F1/F0)                                  | -18.03%    | 24.22%     | 6.13%     | 8.00%          | 7.39%     | NA        |
| Momentum Score                                                  | F          | -          | -         | A              | D         | F         |
| Daily Price Change                                              | -2.63%     | -0.50%     | 0.55%     | -3.12%         | -1.55%    | -3.67%    |
| 1-Week Price Change                                             | 4.55%      | 1.74%      | -0.33%    | 6.48%          | 0.42%     | -3.88%    |
| 4-Week Price Change                                             | -2.53%     | 6.21%      | 4.35%     | 4.95%          | 1.30%     | 6.20%     |
| 12-Week Price Change                                            | -3.41%     | 26.53%     | 20.58%    | 10.81%         | 6.97%     | 12.57%    |
| 52-Week Price Change                                            | 61.06%     | 17.97%     | 7.10%     | -4.02%         | -8.33%    | 37.52%    |
| 20-Day Average Volume (Shares)                                  | 763,298    | 315,728    | 1,542,398 | 9,438,323      | 7,530,573 | 1,794,719 |
| EPS F1 Estimate 1-Week Change                                   | 20.00%     | 0.00%      | 0.00%     | 0.39%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                                   | 20.00%     | 0.00%      | 0.12%     | 0.39%          | 0.00%     | -3.22%    |
| EPS F1 Estimate 12-Week Change                                  | -127.69%   | 0.00%      | 2.31%     | 0.98%          | 0.77%     | -2.51%    |
| EPS Q1 Estimate Monthly Change                                  | 0.00%      | 0.00%      | 0.00%     | 0.28%          | NA        | 0.00%     |

Source: Zacks Investment Research



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |   |
|----------------|---|
| Value Score    | D |
| Growth Score   | A |
| Momentum Score | D |
| VGM Score      | B |

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

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## Disclosures

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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