

## STERIS plc (STE)

**\$193.79** (As of 04/07/21)

Price Target (6-12 Months): **\$203.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 12/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM: C

Value: C

Growth: C

Momentum: D

### Summary

STERIS witnessed solid revenue growth across all three of its reporting segments in the third quarter of fiscal 2021 despite the coronavirus pandemic. Contributions from the Key Surgical buyout, elevated consumer demand and rebound in procedure volumes, along with strength in segments catering to COVID-19-related products and services, are encouraging. An increase in free cash flow despite increased capital spending instills optimism. An overall strong solvency position is also encouraging. STERIS' third-quarter results were better-than-expected. Over the past six months, STERIS has outperformed the industry it belongs to. Yet, STERIS' decision to not provide any financial guidance for fiscal 2021 on pandemic-led uncertainties is worrying. Stiff competition, unstable global macroeconomy and customer consolidation are other headwinds.

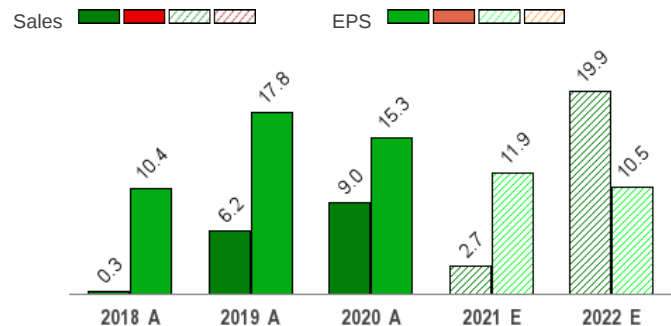
### Price, Consensus & Surprise



### Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$203.91 - \$138.66</b>         |
| 20-Day Average Volume (Shares) | <b>591,531</b>                     |
| Market Cap                     | <b>\$16.6 B</b>                    |
| Year-To-Date Price Change      | <b>2.6%</b>                        |
| Beta                           | <b>0.53</b>                        |
| Dividend / Dividend Yield      | <b>\$1.60 / 0.8%</b>               |
| Industry                       | <b>Medical - Instruments</b>       |
| Zacks Industry Rank            | <b>Bottom 33% (170 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>10.9%</b>      |
| Last Sales Surprise           | <b>1.7%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>05/12/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>31.6</b>       |
| P/E F1                        | <b>27.8</b>       |
| PEG F1                        | <b>NA</b>         |
| P/S TTM                       | <b>5.4</b>        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3      | Q4      | Annual* |
|------|-------|-------|---------|---------|---------|
| 2022 | 811 E | 987 E | 1,011 E | 1,065 E | 3,735 E |
| 2021 | 669 A | 756 A | 809 A   | 880 E   | 3,114 E |
| 2020 | 697 A | 737 A | 774 A   | 823 A   | 3,031 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.60 E | \$1.68 E | \$1.75 E | \$1.93 E | \$6.97 E |
| 2021 | \$1.31 A | \$1.48 A | \$1.73 A | \$1.80 E | \$6.31 E |
| 2020 | \$1.23 A | \$1.32 A | \$1.45 A | \$1.64 A | \$5.64 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 04/07/2021. The report's text and the analyst-provided price target are as of 04/08/2021.

## Overview

Ohio-headquartered STERIS plc, develops, manufactures and markets infection prevention, decontamination, microbial reduction, and surgical and gastrointestinal support products and services. The legacy company was originally known as STERIS Corporation. On Nov 2, 2015, STERIS completed the acquisition of Synergy Health plc following which it was re-registered under the name – STERIS plc.

Currently, STERIS serves healthcare, pharmaceutical, research, industrial and governmental customers across the globe. The majority of STERIS' revenues is derived from the healthcare and pharmaceutical industries. STERIS provides its products and services in more than 60 countries. The company's key areas of strategic focus include developing its customer base in Europe, the Middle East and the Asia Pacific region.

Post the combination with Synergy Health, STERIS now operates in four business segments:

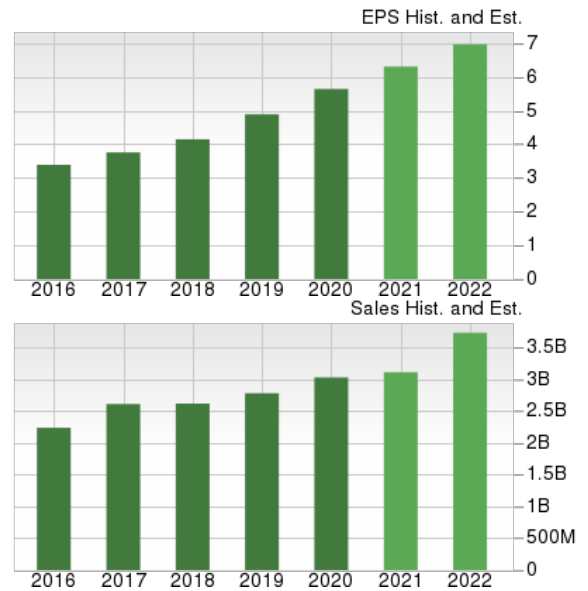
**Healthcare Products (47.8% of total revenue in FY20, up 4.7% from FY19):** This is the biggest segment, which offers infection prevention and procedural solutions for global healthcare providers, including capital equipment and related maintenance and installation services, as well as consumables.

**Healthcare Specialty Services (18.3%, up 10.9%):** This segment provides a range of specialty services for healthcare providers including hospital sterilization services, instrument and scope repairs and linen management. Effective Apr 1, Healthcare Products and Healthcare Specialty Services arms will be combined and reported as Healthcare.

**Life Sciences (13.3%, up 2.8%):** This segment offers capital equipment and consumable products and equipment maintenance and specialty services for pharmaceutical manufacturers and research facilities.

**Applied Sterilization Technologies (AST) (19.8%, up 10.9%):** This segment offers contract sterilization and laboratory services for medical device and pharmaceutical customers and others.

STERIS divested the STERIS divested the Synergy Health Healthcare Consumable Solutions ("HCS") business in fiscal 2018.



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## Reasons To Buy:

▲ **Share Price Performance:** Over the past six months, STERIS has outperformed the industry it belongs to. The stock has gained 2.8% compared to the industry's 2.6% fall. STERIS exited third-quarter fiscal 2021 with better-than-expected results. The company witnessed solid revenue growth across all three of its reporting segments despite the coronavirus pandemic. Contributions from the Key Surgical buyout, elevated consumer demand and rebound in procedure volumes, along with strength in segments catering to COVID-19-related products and services, are encouraging. An increase in free cash flow despite increased capital spending instills optimism. An overall strong solvency position instills optimism.

▲ **Strong Segmental Business Amid Pandemic:** In the third quarter of fiscal 2021, although STERIS' Life Sciences segment's growth at constant exchange rate or CER organic basis was flat, it saw 7% growth in consumable revenues and 5% rise in service revenues.

On the other hand, revenues at AST improved 10.2% at CER organic basis. CER organic revenues reflected increased demand from medical device customers on a rebound in procedure volumes during the quarter.

STERIS' Infection Prevention and Sterilization Wing Grows Well Globally: With the acquisition of U.K.-based outsourced sterilization services provider Synergy Health, STERIS has become the new global leader in infection prevention and sterilization. The company is currently providing improved healthcare services to medical device companies, pharma companies, hospitals and other healthcare facilities across the globe.

The company continues to benefit from the acquisition of Synergy Health. The consolidation, since its inception has boosted STERIS' presence in the international markets as it combines STERIS' strong presence in North America with Synergy's solid footprint across Europe. It has also provided STERIS an opportunity to better serve the emerging markets of Asia-Pacific and Latin America.

▲ **High Potential in Healthcare and Pharmaceutical Industries:** The bulk of STERIS' revenues are obtained from the healthcare and pharmaceutical industries. Growth in these industries is primarily driven by the aging of the global population, as an increasing number of individuals are entering their prime healthcare consumption years.

Further these industries are dependent upon advancement in healthcare delivery, acceptance of new technologies, government policies and general economic conditions. With life expectancy on the rise globally, a larger aging population increases the demand for medical procedures. This, in turn, translates into higher consumption of single use medical devices and surgical kits processed by STERIS.

During the reported quarter, STERIS' Healthcare segment derived a benefit of \$15.5 million to healthcare consumable revenues on the completion of the buyout of Key Surgical. Further, healthcare capital equipment shipments registered a sequential improvement from the last-reported quarter despite registering a year-over-year decline.

During its fiscal third-quarter earnings call, STERIS confirmed that it expects to register sustained high demand for its consumables offering in the Life Sciences business on the back of production of COVID-19 vaccines.

▲ **Overall Strong Solvency Position:** STERIS exited the third quarter of fiscal 2021 with cash and cash equivalents of \$253 million compared with \$312 million witnessed at the end of fiscal second quarter. Meanwhile, total debt came up to \$1.71 billion, up from the sequentially-last-reported figure of \$1.02 billion. Although, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the company does not have any current-year-payable debt on its balance sheet. This is good news in terms of the company's solvency level as, at least during the year of global pandemic when the companies are majorly facing manufacturing and supply halt.

Debt comparison with the industry is, however, favorable as industry's total debt of \$3.08 billion, stands much higher to the company's debt level.

The quarter's total debt-to-capital of 30.6% indicates a slightly-leveraged balance sheet. It represented a sequential uptick from the fiscal 2021 second quarter's 21.8%. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 31.4%. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The company's fiscal third-quarter interest coverage stands at 15.4%. It, however, represents a sequential increase from the fiscal 2021 second quarter's 14.9%. This, however, compares favorably with the times interest earned for the industry which stands at a lower level (9%).

STERIS' capital deployment policy is based on the return of shareholder's money through dividends and share buybacks. The company's current payout ratio stands at 25%, representing a sequential decrease from the fiscal 2021 second quarter's 25.7%. The company approved a quarterly interim dividend of 40 cents per share to shareholders. However, this compares unfavorably with the payout rate of the industry which stands at a lower level (5.3%).

With the Key Surgical deal now over, STERIS' business is expected to gain larger market share. Additionally, STERIS' strong cash balance position is also encouraging.

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## Reasons To Sell:

- ▼ **Competitive Landscape:** STERIS competes for pharmaceutical, research and industrial customers against several large companies that have robust product portfolios and global reach, as well as a number of small companies with limited product offerings and operations in one or a few countries. In the Healthcare segment, STERIS' notable competitors include 3M, Belimed, Cantel Medical, Ecolab, Getinge, Go Jo, Johnson & Johnson, Kimberly-Clark, Skytron and Striker.

STERIS' Life Sciences segment operates in highly regulated environments where the most intense competition results from technological innovations, product performance, convenience and ease of use, and overall cost-effectiveness. Competitors from pharmaceutical segment include Belimed, Ecolab, Fedegari, Getinge, MECO, Stilmas, and Techniplast. The Isomedix segment operates in a highly regulated industry and competes in North America with Sterigenics International, Inc., and other smaller contract sterilization companies and manufacturers that sterilize products in-house.

The company expects to face continued competition in the future as new infection prevention, sterile processing, contamination control, gastrointestinal and surgical support products and services enter the market. Moreover, management believes STERIS' existing or potential competitors might have greater resources than it, which might allow them to succeed in developing and commercializing products at a faster pace than STERIS. This might hamper STERIS' growth.

- ▼ **Macroeconomic Problems:** The current macroeconomic environment across the globe has adversely affected STERIS' financial operations. Governments and insurance companies continue to look for ways to contain the rising cost of healthcare. This might put pressure on players in the healthcare industry with STERIS being no exception. Increases in prices or decreases in availability of raw materials and oil and gas might impair STERIS' procurement of necessary materials for product manufacture, or might increase production costs.

Currency fluctuations partially affects STERIS' revenues, exhibiting the negative effects of the strengthening dollar which has been hurting companies like STERIS in the overseas markets. In addition, economic and market volatility have been affecting the investment portfolio of STERIS' legacy defined benefit pension plan. We are concerned that lingering macroeconomic softness might hamper STERIS' growth.

- ▼ **Customer Consolidation:** A number of STERIS' customers are undergoing consolidation, partly due to healthcare cost reduction measures initiated by competitive pressures as well as legislators, regulators and third-party payors. Moreover, some of STERIS' customers have reduced their production costs and subsequently their product prices to attract more customers. This, in turn, has caused greater pricing pressure and in some cases, has resulted in customer loss for the company. Additional consolidation will result in loss of a greater number of customers or create significant pricing pressure for STERIS. In fact, recent healthcare legislation and unfavorable economic conditions might enforce larger consolidation. If the company fails to check the rate of its customer consolidation now, it will adversely affect STERIS' business performance as well as financial conditions, going forward.

- ▼ **Pricing Pressure:** STERIS purchases raw materials, fabricated and other components, and energy supplies from various suppliers. Availability and price of raw materials and energy supplies are subject to volatility. These are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, anticipated or perceived shortages and various other factors.

Further, certain key materials and components required by the company have a limited number of suppliers. Changes in regulatory requirements regarding the use, unavailability or short supply of these products might disrupt or cause shutdowns of portions of STERIS' AST operations or have other adverse consequences.

Continuous adverse impact by the current customer consolidation scenario will hamper STERIS, if not checked immediately. The competitive landscape and weak cost reduction initiatives are also worrying.

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## Last Earnings Report

### STERIS' Earnings & Revenues Surpass Estimates in Q3

STERIS reported third-quarter fiscal 2021 adjusted earnings per share of \$1.73, up 19.3% year over year. The metric beat the Zacks Consensus Estimate by 10.9%.

The adjustment excludes the impact of certain non-recurring charges like COVID-19-led incremental costs, amortization of acquired intangible assets, acquisition and integration-related charges, and amortization of property step up to fair value.

The company's GAAP earnings per share was \$1.33, up 8.1% year over year.

**Quarter Ending** **12/2020**

| Report Date      | Feb 02, 2021 |
|------------------|--------------|
| Sales Surprise   | 1.68%        |
| EPS Surprise     | 10.90%       |
| Quarterly EPS    | 1.73         |
| Annual EPS (TTM) | 6.16         |

### Revenues in Detail

Revenues of \$808.9 million improved 4.5% year over year in the quarter. Further, the metric exceeded the Zacks Consensus Estimate by 1.7%. The year-over-year uptick was led by robust sales in all of the company's three reporting segments.

Organic revenues at CER rose 1% year over year in fiscal third quarter.

### Quarter in Detail

The company operates through three segments — Healthcare, AST and Life Sciences.

Revenues at Healthcare rose 2.4% year over year to \$521.7 million (down 1.1% on a CER organic basis). In the quarter under review, service revenues rose by 1% and consumable revenues increased 14%. Meanwhile, capital equipment revenues fell 5%.

Revenues at AST improved 12.9% to \$176.5 million (up 10.2% at CER organic basis). CER organic revenues reflected increased demand from medical device customers on a rebound in procedure volumes during the quarter.

Revenues at the Life Sciences segment rose 1.9% to \$115.7 million (flat at CER organic basis) on 7% growth in consumable revenues and 5% rise in service revenues. However, this was offset by a 9% decline in capital equipment revenues.

### Margins

Gross profit in the reported quarter was \$345.9 million, up 4.1% from the prior-year quarter's adjusted gross profit (excluding costs and benefits of revenues for restructuring). Gross margin contracted 15 basis points (bps) year over year to 42.8% in the reported quarter.

STERIS witnessed a 5.5% year-over-year uptick in selling, general and administrative expenses to \$182.4 million. Research and development expenses, however, dipped 0.3% to \$16.4 million. Adjusted operating expenses of \$198.8 million rose 4.9% year over year.

Adjusted operating profit totaled \$147.1 million, reflecting a 2.9% rise from the prior-year quarter. Meanwhile, adjusted operating margin in fiscal third quarter also contracted 26 bps to 18.2%.

### Financial Details

STERIS exited fiscal third quarter with cash and cash equivalents of \$252.5 million compared with \$312 million at the end of fiscal second quarter.

Cumulative net cash flow from operating activities at the end of fiscal third quarter was \$501.8 million compared with \$391.3 million a year ago.

The company's free cash flow at the end of third-quarter fiscal 2021 was \$337.7 million compared with \$238.1 million in the year-ago period. Capital expenditure of the company at the end of the reported quarter was \$164.5 million, up from \$153.6 million in the year-ago period.

The company approved a quarterly interim dividend of 40 cents per share to shareholders.

### Guidance

STERIS, due to uncertainties tied to the duration and impact of the pandemic on its operations, is not issuing any financial outlook for fiscal 2021 at the moment.

## Recent News

### STERIS to Acquire Cantel Medical: Jan 12, 2021

STERIS enters into a definitive agreement to acquire Cantel Medical Corp. through a U.S. subsidiary. The buyout will enable STERIS to expand its customer base by offering diverse range of infection prevention and procedural product and services.

## Valuation

STERIS' shares are up 2.2% in the year-to-date period and up 26.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 4.1% while the Zacks Medical sector are down 3.8% in the year-to-date period. Over the past year, the Zacks sub-industry is up 29.9% and sector is up 8.8%.

The S&P 500 index is up 9.2% in the year-to-date period and up 49.3% in the past year.

The stock is currently trading at 27.7X Forward 12-months earnings, which compares to 35.6X for the Zacks sub-industry, 21.9X 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 31.7X and as low as 15.4X, with a 5-year median 22.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$203 price target reflects 29.1X forward 12-months earnings.

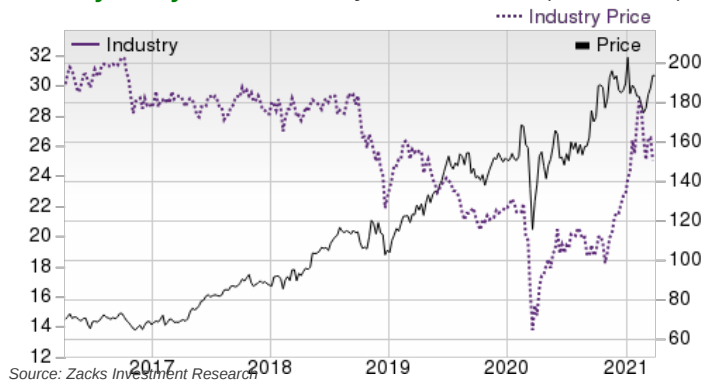
The table below shows summary valuation data for STE.

| Valuation Multiples - STE |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 27.73 | 35.57        | 21.89  | 22.90   |
|                           | 5-Year High   | 31.65 | 41.63        | 22.85  | 23.83   |
|                           | 5-Year Low    | 15.44 | 22.85        | 15.88  | 15.30   |
|                           | 5-Year Median | 22.18 | 30.15        | 19.24  | 18.00   |
| P/S F12M                  | Current       | 4.42  | 4.51         | 2.62   | 4.71    |
|                           | 5-Year High   | 5.30  | 4.77         | 3.18   | 4.71    |
|                           | 5-Year Low    | 1.92  | 2.58         | 2.27   | 3.21    |
|                           | 5-Year Median | 3.36  | 3.47         | 2.81   | 3.71    |
| P/B TTM                   | Current       | 4.27  | 4.54         | 3.83   | 6.90    |
|                           | 5-Year High   | 7.40  | 5.16         | 5.12   | 6.90    |
|                           | 5-Year Low    | 1.79  | 2.81         | 3.03   | 3.83    |
|                           | 5-Year Median | 3.06  | 4.17         | 4.36   | 4.98    |

As of 04/07/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 253)



## Top Peers

| Company (Ticker)                   | Rec          | Rank |
|------------------------------------|--------------|------|
| Hologic, Inc. (HOLX)               | Neutral      | 2    |
| IDEXX Laboratories, Inc. (IDXX)    | Neutral      | 3    |
| Intuitive Surgical, Inc. (ISRG)    | Neutral      | 2    |
| SONOVA HOLDING (SONVY)             | Neutral      | 2    |
| Stryker Corporation (SYK)          | Neutral      | 4    |
| Teleflex Incorporated (TFX)        | Neutral      | 3    |
| Varian Medical Systems, Inc. (VAR) | Neutral      | 3    |
| DexCom, Inc. (DXCM)                | Underperform | 5    |

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

| Industry Comparison Industry: Medical - Instruments |         |            |           | Industry Peers |           |         |
|-----------------------------------------------------|---------|------------|-----------|----------------|-----------|---------|
|                                                     | STE     | X Industry | S&P 500   | SONVY          | SYK       | VAR     |
| Zacks Recommendation (Long Term)                    | Neutral | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                             | 3       | -          | -         | 2              | 4         | 3       |
| VGM Score                                           | C       | -          | -         | C              | B         | B       |
| Market Cap                                          | 16.60 B | 335.09 M   | 29.90 B   | 17.83 B        | 93.48 B   | 16.25 B |
| # of Analysts                                       | 4       | 2          | 12        | 1              | 15        | 4       |
| Dividend Yield                                      | 0.82%   | 0.00%      | 1.3%      | 0.00%          | 1.01%     | 0.00%   |
| Value Score                                         | C       | -          | -         | D              | B         | C       |
| Cash/Price                                          | 0.02    | 0.09       | 0.06      | 0.09           | 0.03      | 0.05    |
| EV/EBITDA                                           | 24.45   | -4.49      | 16.78     | NA             | 37.35     | 32.91   |
| PEG F1                                              | NA      | 3.08       | 2.38      | NA             | 2.86      | NA      |
| P/B                                                 | 4.28    | 5.52       | 4.00      | 7.21           | 7.13      | 7.23    |
| P/CF                                                | 24.17   | 27.42      | 16.82     | 26.26          | 25.55     | 35.30   |
| P/E F1                                              | 28.09   | 43.18      | 21.96     | 27.01          | 27.46     | 34.40   |
| P/S TTM                                             | 5.43    | 6.79       | 3.43      | NA             | 6.51      | 5.21    |
| Earnings Yield                                      | 3.58%   | -1.23%     | 4.46%     | 3.70%          | 3.64%     | 2.90%   |
| Debt/Equity                                         | 0.44    | 0.06       | 0.66      | 0.69           | 1.01      | 0.00    |
| Cash Flow (\$/share)                                | 8.02    | -0.11      | 6.78      | 2.11           | 9.68      | 5.02    |
| Growth Score                                        | C       | -          | -         | B              | B         | A       |
| Historical EPS Growth (3-5 Years)                   | 14.17%  | 8.72%      | 9.39%     | NA             | 8.45%     | -0.49%  |
| Projected EPS Growth (F1/F0)                        | 10.50%  | 32.07%     | 15.29%    | 26.54%         | 21.76%    | 31.59%  |
| Current Cash Flow Growth                            | 5.66%   | -0.02%     | 0.44%     | 14.96%         | -7.10%    | -11.95% |
| Historical Cash Flow Growth (3-5 Years)             | 20.19%  | 7.22%      | 7.37%     | NA             | 9.18%     | -1.79%  |
| Current Ratio                                       | 2.32    | 3.27       | 1.39      | 2.57           | 1.93      | 1.51    |
| Debt/Capital                                        | 30.64%  | 7.11%      | 41.26%    | 40.86%         | 50.28%    | 0.00%   |
| Net Margin                                          | 14.13%  | -22.06%    | 10.59%    | NA             | 11.14%    | 8.91%   |
| Return on Equity                                    | 14.65%  | -20.96%    | 14.86%    | NA             | 21.77%    | 17.55%  |
| Sales/Assets                                        | 0.53    | 0.51       | 0.51      | NA             | 0.45      | 0.70    |
| Projected Sales Growth (F1/F0)                      | 19.95%  | 14.61%     | 7.36%     | 20.90%         | 18.91%    | 8.40%   |
| Momentum Score                                      | D       | -          | -         | C              | C         | C       |
| Daily Price Change                                  | -0.37%  | -0.93%     | -0.22%    | 0.30%          | -0.38%    | 0.18%   |
| 1-Week Price Change                                 | -0.09%  | 1.28%      | 0.35%     | -0.95%         | 0.82%     | 0.11%   |
| 4-Week Price Change                                 | 7.67%   | -0.90%     | 3.66%     | 10.53%         | 3.07%     | 0.73%   |
| 12-Week Price Change                                | -0.16%  | 1.91%      | 8.52%     | 9.74%          | 1.74%     | 1.03%   |
| 52-Week Price Change                                | 29.84%  | 52.93%     | 54.42%    | 55.13%         | 40.25%    | 53.86%  |
| 20-Day Average Volume (Shares)                      | 591,531 | 251,330    | 2,089,350 | 32,497         | 1,125,475 | 752,652 |
| EPS F1 Estimate 1-Week Change                       | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                       | 0.00%   | 0.00%      | 0.00%     | 0.49%          | -0.02%    | 0.00%   |
| EPS F1 Estimate 12-Week Change                      | 2.73%   | 0.00%      | 2.27%     | 0.49%          | -0.54%    | 0.64%   |
| EPS Q1 Estimate Monthly Change                      | 0.00%   | 0.00%      | 0.00%     | NA             | 0.00%     | 0.90%   |

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.

### 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 | D |
| 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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## Disclosures

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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.