

Syneos Health, Inc. (SYNH)

\$78.88 (As of 02/10/21)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/28/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

Summary

Syneos Health's solid sequential revenue growth with Clinical Solutions revenues showing the strongest recovery during the third quarter of 2020 is impressive. Significant margin improvement and a higher adjusted EPS guidance for 2020, raise optimism. Strength in end-to-end market position, strong RFP flow and a diverse portfolio of clinical and commercial initiatives inspire optimism. A strong solvency position looks encouraging. The company's third quarter earnings were better-than-expected. Syneos Health has outperformed its industry in the past three months. Yet, dismal year-over-year revenues, which also lagged estimates, is concerning. Significant sales decline in both of its arms and the drop in 2020 revenue guidance are worrying. Tough macroeconomic conditions, stiff competition and foreign exchange fluctuations persist.

Price, Consensus & Surprise

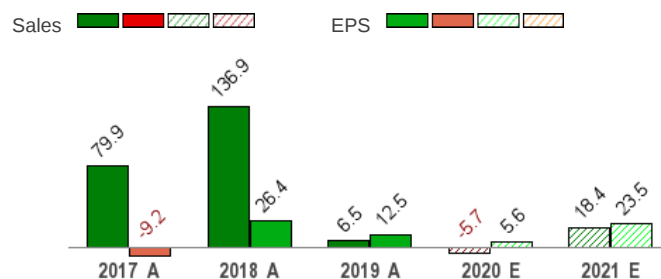


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$79.79 - \$30.02
20-Day Average Volume (Shares)	604,676
Market Cap	\$8.2 B
Year-To-Date Price Change	15.8%
Beta	1.81
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 9% (230 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.6%
Last Sales Surprise	-1.9%
EPS F1 Estimate 4-Week Change	1.1%
Expected Report Date	02/18/2021
Earnings ESP	0.0%
P/E TTM	23.7
P/E F1	18.7
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,201 E	1,258 E	1,315 E	1,366 E	5,220 E
2020	1,163 A	1,013 A	1,099 A	1,135 E	4,410 E
2019	1,119 A	1,167 A	1,177 A	1,213 A	4,676 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.92 E	\$1.01 E	\$1.10 E	\$1.20 E	\$4.21 E
2020	\$0.68 A	\$0.58 A	\$1.04 A	\$1.11 E	\$3.41 E
2019	\$0.59 A	\$0.74 A	\$0.87 A	\$1.03 A	\$3.23 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/10/2021. The report's text and the analyst-provided price target are as of 02/11/2021.

Overview

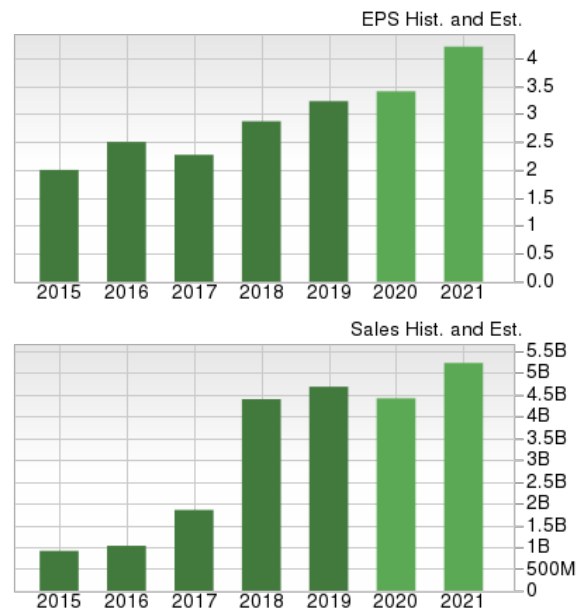
Morrisville, NC based Syneos Health, Inc. is a key global biopharmaceutical solutions company offering a broad range of clinical and commercial facilities. The company majorly provides these services to customers in the biopharmaceutical, biotechnology and medical device industries. Through its Contract Research Organization (CRO) and Contract Commercial Organization (CCO), it provides integrated and self-contained biopharmaceutical product development solutions varying from Early Phase (Phase I) clinical trials to the complete commercialization of biopharmaceutical products.

Although incorporated as INC Research Holdings, in August 2010 the company changed its name to Syneos Health after merging with inVentiv Health in 2017. Syneos Health operates through two reportable segments. Each reportable segment offers a wide range of services. The details are as follows:

Clinical Solutions (73.2% of total revenues in 2019; constant exchange rate or CER growth was 7.4%): This segment offers a wide range of services supporting the entire clinical development process from Phase I to Phase IV. This business also provides services to various therapeutic areas with strength in complex therapeutic areas such as CNS and oncology. The portfolio includes:

- Full service clinical development comprising services like patient recruitment and retention, site start-up and project management among others.
- Strategic Resourcing
- Early Phase offering providing a variety of services for Phase I to Phase IIA clinical trial conduct, bioanalytical analysis assay development and analysis, targeted translational science offerings, and clinical pharmacology services, including modeling and simulation.
- Real World Evidence and Late Phase services.

Commercial Solutions (26.8%; up 6.7%): This segment offers a wide range of complementary commercialization services, including specialized field teams and medication adherence services, communications solutions like advertising and public relations, and consulting services. Furthermore, it provides behavioral and patient insights that are used by the Clinical Solutions arm.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** Syneos Health has outperformed its industry over the past three months. The stock has gained 28.3% compared with the industry's 22.3% rise. Syneos Health exited the third quarter of 2020 with better-than-expected earnings. There was solid sequential revenue growth in the reported quarter with Clinical Solutions revenues showing the strongest sequential recovery during the quarter. Margin improvement was also significant year over year. The company has increased its adjusted EPS guidance for 2020, raising optimism.

Syneos Health gains from partnerships and a rebound in Clinical Solutions segment. The company's strong cash position is also encouraging.

It won 60 COVID-19 related projects through the end of the third quarter and still has a substantial pipeline of additional COVID-related opportunities. The company has been strengthening its unique end-to-end market position by consistently innovating and expanding its Syneos One product. Strong RFP flow, a diverse portfolio of clinical and commercial initiatives and sustained customer interest in Syneos Health's integrated offerings inspire optimism. A strong solvency with moderately leveraged balance sheet looks encouraging.

- ▲ **Strong Long-term Potential:** Despite the near-term COVID-19 challenges, Syneos Health remains confident about the long-term strength of its business given the robust backlog and the unique market position. According to the company, the strong momentum in its business that began to accelerate in 2019 carried over into the first quarter results. The company expects this to continue to build as the impacts of COVID-19 subside.

Meanwhile the company's COVID-19 related response is controlled by Business Continuity Transition Management Office (TMO), which combines the project management discipline of the Trusted Process with well-established transition management leadership.

- ▲ **Clinical Services Arm Rebounds:** According to Syneos Health, the full-service portion of its Clinical Solutions segment represents about 60% of its total revenues and over 70% of the clinical businesses comprise of essential therapeutic areas that is experiencing reduced impacts of Coronavirus outbreak. For example, oncology, rare disease, orphan diseases, and other complex disease are the areas where patients have limited treatment options. Although Syneos Health expects the impact of the pandemic to continue for the full year, the company believes it to be temporary.

In the third quarter, the segment recorded year-over-year backlog growth of 18.2%. Further, the segment registered the strongest sequential recovery during the quarter and grew by 11.6% compared to the second quarter when normalizing for the divestiture of the company's contingent staffing business. Clinical Solutions also posted a solid third quarter of net awards, growing 16.9% year over year.

Further, the company has been witnessing continued improvement in the pace of both patient enrollment and start of new clinical trials. Notably, the level of new patient enrollments has recovered to reach about 75% of pre-pandemic levels during October whereas new site activations are around 115% of pre-pandemic levels. Also, Clinical FSP business has remained resilient and recorded year-over-year revenue growth (excluding the impact of reimbursable expenses and the divestiture of the contingent staffing business).

- ▲ **Partnerships to Add Value:** Syneos Health has been progressing well with its partnership deals. The company, in October, announced an agreement to acquire Synteract, which is a full-service CRO focused on the rapidly growing emerging biopharma segment.

The company, in August, announced an innovative commercial relationship with Idorsia Ltd for the U.S. commercialization of Idorsia's daridorexant. Notably, daridorexant is a new dual orexin receptor antagonist, which is currently being investigated for the treatment of insomnia.

Another notable agreement signed by Syneos Health was the new three-year agreement with Pfizer Inc. (in July) to deliver global product development solutions to support Pfizer's portfolio. In May, Syneos Health entered into a strategic agreement with Daiichi Sankyo, Inc. to form a coalition to accomplish the shared goal of providing access to promising cancer therapies to patients as safely, effectively and efficiently as possible.

Other notable partnerships of Syneos Health include that with Indegene Omnipresence (in January 2020) and AiCure (inked in November 2019).

- ▲ **High CRO Market Prospects:** The CRO market is seeing a trend of outsourcing of Phase I to Phase IV clinical trials by biopharmaceutical companies. This practice is more common in complex and high-growth therapeutic areas such as oncology. Moreover, small- to mid-sized biopharmaceutical companies with limited infrastructure and emerging biotechnology companies are more likely to outsource their clinical development to CROs. Thus, on increased funding, these companies open up high-growth opportunities in the CRO market.

According to the company, \$43 billion, out of around \$88 billion of the total addressable clinical development market, was outsourced to CROs in 2019. Based on industry sources and management estimates, Syneos Health expects CRO market for Phase I to Phase IV clinical development activities to see a CAGR of 6-7% through 2021.

The company, in October, launched a modern customer engagement capability — Kinetic — that makes fully integrated omnichannel solutions accessible to biopharmaceutical organizations.

- ▲ **Favorable Trends in CCO Market:** Syneos Health expects the CCO market to keep growing, backed by a number of factors. The company believes that increasing and abundant biopharmaceutical sales and marketing budgets, and a robust funding environment, particularly for small to mid-sized companies, are some of the driving factors in the niche market. Moreover, a consistent inclination toward specialty and more complex therapies, continued political scrutiny of pharmaceutical pricing putting pressure on the players to further decrease fixed costs by outsourcing and the changing healthcare industry's operational landscape which is shifting to steadier and strategic relationships will likely

accelerate growth in the CCO market. Accordingly, based on industry sources and management estimates, Syneos Health projects the CCO market to see a CAGR of 6% per annum through 2021.

▲ **Strong Solvency but Moderately Leveraged Balance Sheet:** Syneos Health ended the third quarter of 2020 with cash and cash equivalents of \$249 million compared with \$343 million at the end of the second quarter of 2020. Meanwhile, total debt came up to \$2.55 billion, a slight decrease from the sequentially last figure of \$2.77 billion. Although, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the near-term payable debt is coming at \$57 million, lower than the short-term cash level. This is a positive fact in terms of the company's solvency level as, at least during the year of economic downturn, the company is holding sufficient cash for debt repayment.

Debt comparison with the industry is, however, unfavorable as the industry's total debt of \$1.34 billion is much lower compared than that of the company.

The second quarter's total debt-to-capital ratio of 0.45 indicates a moderately leveraged balance sheet. However, it represented a sequential decline from 0.48. This, however, compares unfavorably with the total debt-to-capital of the industry, which stands at a lower level of 0.44. The overall data concludes that in terms of the solvency level of the company, the picture is encouraging.

The company's second-quarter interest coverage stands at a very low level of 2.4%, compared to the sequentially last-reported quarter's 2.3%.

Reasons To Sell:

- ▼ **COVID-19 Impact on Business:** In the reported quarter, Syneos Health's Clinical Solutions segment's revenues were down 4.4% year over year on a reported basis (down 5.4% at constant exchange rate or CER). One of the reasons for this downside was COVID-19-related decline in reimbursable out-of-pocket expenses.

Commercial Solutions revenues were down 12.8% year over year (adjusted revenues moved down 13.2% at CER) in the reported quarter. The decline was caused by the impact of COVID-19, including a disproportionate decline in reimbursable out-of-pocket expenses as well as delays in new project starts.

- ▼ **Strict Regulatory Environment:** The biopharmaceutical industry is governed by extremely stringent governmental regulation in both domestic and global markets. Within the Clinical Solutions business, the FDA regulates the clinical trials of drug products in human enrollments, the form and content of regulatory applications. Globally, the clinical trials are governed by the laws and regulations of the country where these are conducted.

- ▼ **Tough Competitive Landscape:** Syneos Health operates in a highly competitive environment, dominated by firms varying from large CROs and smaller specialty CROs, large global communications holding companies, smaller specialized communications agencies, contract sales organizations, and a wide range of consulting companies.

In the Clinical Solutions segment, Syneos Health primarily competes with full-service CROs and services offered by in-house R&D departments of biopharmaceutical companies, universities and teaching hospitals. Some major players the company has to compete against within the segment are Laboratory Corporation of America Holdings, PRA Health Sciences, Inc. and ICON plc among others.

Again, some prominent competitors in the Commercial Solutions segment are Ashfield, IQVIA, Havas SA and Omnicom Group Inc. among others.

- ▼ **Exposure to Foreign Currency:** Syneos Health has been exposed to fluctuations in foreign currency. In the past several years, the company's earnings were significantly affected by foreign exchange.

- ▼ **Economic Uncertainty Continues to Hamper Growth:** Syneos Health's business largely depends on global economic conditions. The company has operations in many foreign countries, including countries in the Asia-Pacific region, Europe, Latin America, and the Middle East and Africa.

Weaker global economic conditions may lead to reduced demand for the company's products, increased competition, pressure on prices, declining supply and lengthier sales cycle. Furthermore, Syneos Health is exposed to the risk of political unrest, like the present situations in the Middle East. Per management, this could delay or disturb Syneos Health's ability to conduct clinical trials or other business. Further, the company is closely monitoring the adverse possible impacts on its business following the U.K.'s decision to exit the European Union. We are particularly cautious as growth could moderate further if the economic scenario worsens.

Syneos Health operating in a strict regulatory environment is a concern. Also, a tough competitive landscape is another threat.

Last Earnings Report

Syneos Health Q3 Earnings Top Estimates, Margins Up

Syneos Health reported third-quarter 2020 adjusted earnings per share of \$1.04, which beat the Zacks Consensus Estimate by 15.6%. The metric increased 19.5% from the year-ago figure.

Reported earnings per share was 60 cents, marking a 7.1% improvement from the year-ago figure.

The year-over-year increase in adjusted earnings was the result of the company's cost management strategies, including ForwardBound, lower reimbursable out-of-pocket expenses, and lower interest expense.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	-1.92%
EPS Surprise	15.56%
Quarterly EPS	1.04
Annual EPS (TTM)	3.33

Revenues in Detail

Revenues in the quarter totaled \$1.09 billion. The top line declined 6.6% year over year on a reported basis (down 6.8% on an adjusted basis and 7.5% on a constant currency adjusted basis). It also missed the Zacks Consensus Estimate by 1.9%. Adjusted revenues include revenues eliminated as a result of purchase accounting.

The year-over-year decline was due to dull performances by both Clinical Solutions and Commercial Solutions. Revenues were less than expected in the quarter due to the decrease in reimbursable out-of-pocket expenses.

Segmental Details

The **Clinical Solutions** segment recorded revenues of \$829.2 million in the third quarter; down 4.4% year over year on a reported basis (down 5.4% at CER adjusted). The downside resulted from the impacts of COVID-19, including the related decline in reimbursable out-of-pocket expenses, and the second-quarter divestiture of the company's contingent staffing business. This was partially mitigated by the positive impact of fluctuations in foreign currency exchange rates.

Commercial Solutions revenues were \$269.8 million in the reported quarter, down 12.8% year over year (adjusted revenues moved down 13.2% at CER). The decline was caused by the impact of COVID-19, including a disproportionate decline in reimbursable out-of-pocket expenses as well as delays in new project starts.

Margin Details

Direct cost (excluding depreciation and amortization) declined 10.2% to \$820.2 million in the quarter. Gross margin expanded 299 basis points (bps) to 25.4%.

Selling, general and administrative expenses were up 1.1% year over year to \$111.1 million.

Adjusted operating margin (excluding depreciation, amortization, transaction and integration-related, and restructuring and other expenses) expanded 222 bps from the year-ago quarter to 15.3%.

Financial Details

Syneos Health exited the third quarter of 2020 with cash and cash equivalents, and restricted cash of \$248.9 million, compared with \$343 million at the end of the second quarter.

At the end of the third quarter, cumulative operating cash outflow was \$311.2 million compared with \$157.9 million a year ago.

Guidance

The company updated its full-year 2020 guidance.

Full-year revenues are expected in the range of \$4,370 million to \$4,440 million (a decline from the earlier range of \$4,470 million to \$4,570 million) while adjusted earnings per share is expected in the band of \$3.33 to \$3.46 (an improvement from earlier-range of \$3.16 to \$3.38).

The current Zacks Consensus Estimate for 2020 revenues is pegged at \$4.51 billion while the same for adjusted earnings per share stands at \$3.23.

Syneos Health initiated its full-year 2021 revenue outlook in the range of \$4.9 billion to \$5.1 billion. This excludes the acquisition of Synteract. The Zacks Consensus Estimate for 2021-revenues is pegged at \$5.05 billion.

Recent News

Syneos Health Acquires Illingworth Research Group to Enhance Patient Workflow: Dec 18, 2020

Syneos Health announced the acquisition of Illingworth Research Group, a leading provider of clinical research home health services, to provide a site- and patient-focused approach.

Syneos Health Completes Synteract Buyout: Dec 10, 2020

Syneos Health announced the completion of the previously announced acquisition of Synteract, a leading full-service CRO focused on the fast-growing emerging biopharma segment.

Syneos Health, VBI Vaccines Enter Partnership for Vaccine Commercialization: Dec 7, 2020

Syneos Health entered into a partnership with VBI Vaccines Inc. for the commercialization of the latter's 3-antigen prophylactic hepatitis B (HBV) vaccine in the United States, Europe and Canada, pending regulatory approvals.

Syneos Health, ConcertAI Enter Partnership to Advance Oncology Research: Dec 3, 2020

Syneos Health has entered into a strategic collaboration with ConcertAI (a key player in oncology real world evidence and patient outcomes solutions for the biopharmaceutical and healthcare industries) to accelerate and streamline the implementation of oncology clinical trial research and study designs.

Valuation

Syneos Health shares are up 15.8% and up 21.4% in the year to date period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are up 18.4% while the Zacks Medical sector rose 6.8% in the year to date period. Over the past year, the Zacks sub-industry is up 36.1% and sector is up 7%.

The S&P 500 index is up 4.6% in the year to date period and up 17.8% in the past year.

The stock is currently trading at 1.6X Forward 12-months earnings, which compares to 4.7X for the Zacks sub-industry, 2.9X for the Zacks sector and 4.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.9X and as low as 0.7X, with a 5-year median of 1.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 1.7X forward 12-months earnings.

The table below shows summary valuation data for SYNH.

Valuation Multiples - SYNH					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.58	4.73	2.89	4.56
	5-Year High	2.98	4.73	3.17	4.56
	5-Year Low	0.68	1.62	2.26	3.20
	5-Year Median	1.29	2.19	2.84	3.68
P/B TTM	Current	2.65	5.32	4.62	6.69
	5-Year High	10.79	5.32	5.11	6.70
	5-Year Low	1.09	2.13	3.02	3.73
	5-Year Median	2.00	2.97	4.37	4.95
EV/EBITDA F12M	Current	12.58	12.68	9.95	17.20
	5-Year High	14.02	12.68	11.48	18.80
	5-Year Low	3.91	6.54	8.45	12.95
	5-Year Median	11.48	8.28	10.39	15.72

As of 02/10/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 9% (230 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Omnicell, Inc. (OMCL)	Outperform	3
Cerner Corporation (CERN)	Neutral	3
Change Healthcare Inc. (CHNG)	Neutral	4
HMS Holdings Corp (HMSY)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
NEXTGEN HEALTHCARE, INC (NXGN)	Neutral	3
11i, Inc. Sponsored ADR (YI)	Neutral	NA

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

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	SYNH	X Industry	S&P 500	CERN	CHNG	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	4	3
VGM Score	B	-	-	B	B	B
Market Cap	8.20 B	563.86 M	27.72 B	24.22 B	7.24 B	2.79 B
# of Analysts	6	4	13	15	11	10
Dividend Yield	0.00%	0.00%	1.42%	1.11%	0.00%	0.00%
Value Score	B	-	-	B	C	C
Cash/Price	0.03	0.05	0.06	0.04	0.02	0.08
EV/EBITDA	22.03	-2.38	14.81	18.37	-24.77	39.09
PEG F1	NA	2.60	2.38	2.09	9.57	3.22
P/B	2.65	5.64	3.81	5.50	2.24	2.31
P/CF	15.17	30.34	15.29	16.83	6.96	8.61
P/E F1	18.74	22.56	20.64	24.61	19.14	27.81
P/S TTM	1.83	6.26	3.04	4.40	2.35	1.67
Earnings Yield	5.34%	-0.94%	4.77%	4.06%	5.22%	3.62%
Debt/Equity	0.81	0.03	0.68	0.30	1.48	0.85
Cash Flow (\$/share)	5.20	-0.05	6.77	4.69	3.42	2.06
Growth Score	C	-	-	C	A	B
Historical EPS Growth (3-5 Years)	7.42%	4.74%	9.27%	3.52%	NA	4.74%
Projected EPS Growth (F1/F0)	23.48%	30.34%	13.85%	13.03%	-19.88%	-8.09%
Current Cash Flow Growth	-1.58%	0.01%	3.46%	6.07%	-2,093.27%	9.89%
Historical Cash Flow Growth (3-5 Years)	39.36%	10.83%	7.74%	11.81%	NA	10.24%
Current Ratio	1.06	1.79	1.38	2.29	1.05	1.27
Debt/Capital	44.61%	6.57%	41.31%	23.27%	59.65%	45.92%
Net Margin	4.28%	-20.45%	10.58%	14.17%	-6.75%	-2.77%
Return on Equity	10.02%	-18.98%	14.86%	18.27%	12.19%	5.80%
Sales/Assets	0.60	0.52	0.51	0.79	0.30	0.52
Projected Sales Growth (F1/F0)	16.45%	23.54%	6.30%	3.31%	-6.68%	-5.01%
Momentum Score	D	-	-	A	C	A
Daily Price Change	1.70%	-0.03%	0.21%	-0.03%	0.04%	-0.45%
1-Week Price Change	3.05%	5.61%	4.58%	-0.36%	-0.25%	3.70%
4-Week Price Change	5.10%	18.09%	1.11%	-2.05%	-0.59%	9.40%
12-Week Price Change	24.63%	44.51%	8.61%	8.34%	40.99%	39.62%
52-Week Price Change	21.37%	49.87%	8.77%	3.03%	49.87%	93.86%
20-Day Average Volume (Shares)	604,676	591,457	2,095,832	1,488,381	3,909,061	1,410,478
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.11%	0.00%	0.59%	0.11%	0.00%	9.53%
EPS F1 Estimate 12-Week Change	0.89%	-0.97%	1.77%	0.35%	-1.17%	5.06%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.22%	0.55%	-0.42%	-6.82%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	C
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.

Disclosures

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

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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