

## Walgreens Boots (WBA)

**\$41.18** (As of 08/17/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 07/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

### Summary

Walgreens Boots' choppy market conditions in the third-quarter fiscal 2020, mainly in retail, have been inducing sluggishness in the Retail Pharmacy International arm. Margin pressure is a major concern. The company's guidance lacks luster as it expects continued compression of retail margins. A leveraged balance sheet with heavy payout load is also deterring. Tough market conditions and stiff competition are other headwinds. Over the past six months, the company has underperformed the industry it belongs to. Yet, Walgreens Boots' better-than-expected revenues in the third-quarter are encouraging despite the pandemic-led fall in segmental growth and higher SG&A costs. Retail Pharmacy USA's sales grew on strong pharmacy sales. Rise in Pharmaceutical Wholesale sales and strategic partnerships buoy optimism.

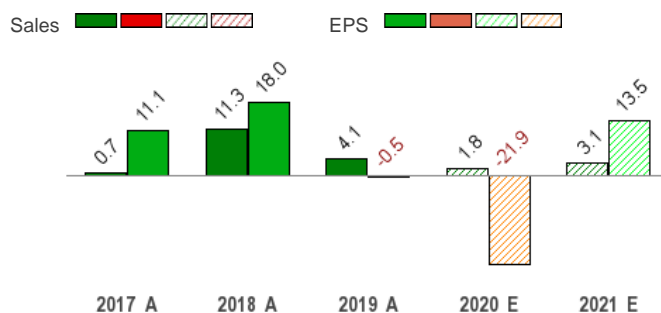
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$64.50 - \$36.65
20 Day Average Volume (sh)	5,706,499
Market Cap	\$35.7 B
YTD Price Change	-30.2%
Beta	0.51
Dividend / Div Yld	\$1.87 / 4.4%
Industry	<a href="#">Retail - Pharmacies and Drug Stores</a>
Zacks Industry Rank	Top 30% (75 out of 252)

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



Last EPS Surprise	-24.6%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	10/26/2020
Earnings ESP	0.8%
P/E TTM	8.0
P/E F1	8.8
PEG F1	1.1
P/S TTM	0.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	35,358 E	36,612 E	35,721 E	35,832 E	143,621 E
2020	34,339 A	35,820 A	34,631 A	34,513 E	139,326 E
2019	33,793 A	34,528 A	34,591 A	33,954 A	136,866 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.19 E	\$1.48 E	\$1.31 E	\$1.34 E	\$5.31 E
2020	\$1.37 A	\$1.52 A	\$0.83 A	\$0.96 E	\$4.68 E
2019	\$1.46 A	\$1.64 A	\$1.47 A	\$1.43 A	\$5.99 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 08/17/2020. The reports text is as of 08/18/2020.

## Overview

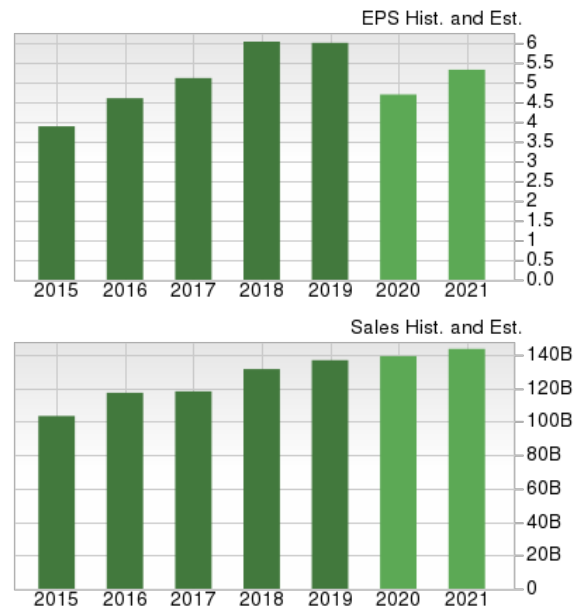
Founded in December 2014, Walgreens Boots Alliance (WBA) is the world's first pharmacy-led, health and wellbeing enterprise. The company has been formed through the combination of Walgreens Co. (WAG) and Alliance Boots. The merger brought together two leading companies with iconic brands, complementary geographic footprints, shared values, and trusted health care services through pharmaceutical wholesaling and community pharmacy care.

The company includes the largest global pharmaceutical wholesaler and distribution network with over 390 distribution centers delivering to more than 230,000 pharmacies, doctors, health centers and hospitals every year across 20 countries. In addition, Walgreens Boots Alliance is the world's largest purchaser of prescription drugs and several other health and wellbeing products. Its portfolio of retail and business brands includes Walgreens, Duane Reade, Boots and Alliance Healthcare, as well as global health and popular beauty product brands such as No7, Botanics, Liz Earle and Soap & Glory.

### Segments in Detail

Historically, the legacy Walgreens used to report as one segment, which comprised the performance of Walgreens in the U.S.; its corporate costs and synergies from the Walgreens Boots Alliance Development joint venture, also known as WBAD; and equity earnings from Alliance Boots on a three-month lag. Following the combination of Alliance Boots and the legacy Walgreens, Walgreens Boots eliminated the three-month reporting lag and recast prior period results with no lag.

As Walgreens Boots, management now reports results in three segments: **Retail Pharmacy USA** (176.43% of total revenues in fiscal 2019), **Retail Pharmacy International** (8.37%), and **Pharmaceutical Wholesale** (16.8%). In fiscal 2019, Retail Pharmacy USA segment registered 6.2% growth, Retail Pharmacy International segment registered 1.6% decline and Pharmaceutical Wholesale registered 8% growth from fiscal 2018.



## Reasons To Sell:

▼ **Share price fall:** Over the past six months, the company has underperformed the industry it belongs to. The stock has lost 20.9% compared with the broader industry's fall of 8.9%. The year-over-year decline in adjusted earnings is concerning. Challenging market conditions, particularly in retail, have been inducing sluggishness in the Retail Pharmacy International division. Margin pressure is a major concern for the stock. Walgreens Boots' guidance lacks luster as it expects a continued compression of retail margins due to its the pandemic-led business disruptions. The company's projection of pronounced impacts in the U.K and a continuation of gross margin pressure are also discouraging. A leveraged balance sheet with heavy payout load is also deterring. Tough market conditions, particularly in retail, and a tough competitive landscape are other headwinds trailing the company.

▼ **Guidance Impacted by COVID 19:** Although Walgreens recorded growing demand for Retail Pharmacy & Pharmaceutical Wholesale products at quarter-end, this took into consideration a projected severe impact of the pandemic. Although the company has provided the earnings per share guidance, it expects the adverse impact of COVID-19 to continue in the fourth quarter. In the U.K., it expects to see pronounced impacts where retail conditions are expected to remain depressed despite the gradual easing of restrictions. U.K. comp sales are expected to remain very weak despite the company's projection of a year-over-year sales improvement.

Pressure on gross margin is expected to continue in the short term due to adverse category mix and higher fulfillment costs. Further, the company's projection of U.S. script growth in the fiscal fourth quarter is expected to be below the pre-COVID rate.

▼ **Retail Pharmacy International Business Soft:** Over the recent quarters, Walgreens Boots Retail Pharmacy International division remained soft. Revenues at the Retail Pharmacy International division declined 31.5% on a year-over-year basis to \$1.9 billion in the fiscal third quarter. Sales were down 26.2% at CER due to a 27.7% fall in Boots U.K. sales, resulting from pandemic-led severe disruption in foot traffic at stores.

Boots UK's comparable pharmacy sales were down 48% at CER, while comparable pharmacy sales slid 1% at CER in the reported quarter.

▼ **Pressure on Margin Continues:** In the last few years, slowdown in generic introduction has been affecting Walgreens Boots' margins. In addition, of late, increased reimbursement pressure and generic drug cost inflation have been hampering Walgreens' margin on a significant level.

In the fiscal 2020 third quarter, there were additional impacts due to the ongoing pandemic. Gross profit in the reported quarter fell 13.6% year over year. Gross margin contracted 296 basis points (bps) to 18.6%. Gross margin was adversely impacted by shift from higher margin discretionary categories to lower margin categories and higher supply chain costs.

Selling, general and administrative expenses were up 32.6% year over year due to a rise in employee costs, and social distancing and cleaning expenses. Operating loss in the quarter was \$1.83 billion against operating income of \$1.22 billion in the fiscal second quarter. The fiscal third-quarter reported and adjusted figures include estimated operational impacts of 61-65 cents per share due to COVID-19.

▼ **Leveraged Balance Sheet with Heavy Payout Load:** Walgreens Boots exited the fiscal third quarter with cash and cash equivalents of \$769 million compared with the \$792 million recorded at the end of the fiscal second quarter. Meanwhile, the company's high level of debt on the balance sheet has pretty much to worry about, especially during the time when the coronavirus mayhem has forced the corporate sector halt their production and supply.

Total debt came up to \$40.72 billion, a slight sequential decline from \$40.85 billion at the end of the fiscal second quarter. While, the quarter's total debt was much higher than the corresponding cash and cash equivalent level, the current-year payable debt too is coming at \$6.67 billion (second quarter's current debt level was \$8.26 billion), much more than the short-term cash level. This is particularly worrisome in terms of the company's solvency level as, during the year of economic downturn, the company is not holding sufficient cash for short-term debt repayment.

The quarter's total debt-to-capital ratio of 0.63 indicates a highly leveraged balance sheet. Moreover, it represents a sequential increase from 0.59 at the end of the fiscal second quarter. The times interest earned for the company stands at 2.4%, representing a sequential decline from 6.6% at the end of the fiscal second quarter. The overall data concludes that with respect to both solvency and the leverage level, the company's balance sheet looks disappointing.

Walgreens Boots' capital deployment policy is based on the return of shareholders' money through dividends and share buybacks. In the fiscal third quarter, the company declared a quarterly dividend of 46.75 cents per share, representing an increase of 2.2% and raising the annual rate from \$1.83 per share to \$1.87 per share. The current payout ratio stands at a moderately high level of 35.5%, representing a sequential increase from 31.3% from the end of the second quarter. Amid the pandemic-led economic crisis, if production and supply halt along with lockdowns continue through the next few months, the company might find paying its regular quarterly dividends to be a burden.

▼ **Competitive Landscape:** Walgreens Boots faces headwinds in the form of increased competition and tough industry conditions. Even though the company continues to grab market share from other traditional drug store retailers, major mass merchants such as Target and Wal-Mart are expanding their pharmacy businesses and enjoying a fair market share. Notably, the retail wing of CVS Caremark witnessed a record market share gain following the termination of the Walgreens-Express Scripts contract.

While Walgreens Boots' dull performance is showing signs of improvement with the return of customers, CVS management's commentary of retaining a majority of the client wins raises our concern. There are also risks from other channels, such as supermarkets and mail order operations. In addition, industry conditions remain challenging, as insurers reduce reimbursement rates and increase prescription co-payments.

Ongoing generic drug inflation, reimbursement pressure and competitive market offer tough challenges for Walgreens Boots. Also, the fluctuating weak U.S. macroeconomic environment still prevailing might hamper the company's margin.

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- ▼ **Additional Challenges:** Under the present weak macroeconomic environment, external factors on which the company has no control whatsoever, might affect consumer confidence as increasing costs coupled with unemployment makes customers more value-driven. Consequently, spending on discretionary items gets affected. We believe this situation will impact same store sales growth. Moreover, the UK referendum and the consequent exit of Britain from the EU have paved the way for volatility in this market, which in turn might hamper Walgreens Boots' business in the region.
- ▼ **Shift in Pharmacy Mix Might Hamper Operational Results:** A shift in the mix of pharmacy prescription volume toward programs offering lower reimbursement rates might adversely affect Walgreens Boots' results of operations. The company's 90-day at retail offering for patients with chronic prescription needs typically is at a lower margin than comparable 30-day prescriptions. Additionally, management has accepted lower reimbursement rates in order to secure preferred relationships with Medicare Part D plans serving senior patients with significant pharmacy needs. If Walgreens Boots fails to generate additional prescription volume and other business from patients participating in these programs that is sufficient to offset the impact of lower reimbursement, it might adversely affect the company's results of operations.
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## Risks

- **New Alliances Look Strategic:** The intensifying competition in the U.S. retail drugstore market has compelled Walgreens Boots to diversify its product offerings. Under such circumstances, Walgreens' tie-up with Alphabet's life sciences and healthcare segment Verily on multiple projects on chronic ailment buoy optimism. The partnership aims at providing advanced healthcare outcomes to chronic conditions like diabetes at low cost of care.

Walgreens Boots has expanded its primary care clinics by collaborating with VillageMD in the fiscal third quarter. This expanded partnership will open 500 to 700 "Village Medical at Walgreens" physician-led primary care clinics in more than 30 markets over the next five years, with more to come later.

Walgreens Boots recently entered into partnerships with Microsoft and Adobe to launch a world-class modern technology and customer data resource, which will form the basis of a new customer engagement platform. The partnership will launch a marketing technology and customer data platform to deliver personalized healthcare and shopping experiences.

In retail, Walgreens Boots upgraded its electronic accessory offerings to focus on the high-quality brands that customers are seeking, including agreement with Apple to sell their branded accessories.

Further, Boots UK's partnership with LIVI (entered in the second quarter of fiscal 2020), buoys optimism. Other significant alliances that the company formed in recent times are with Kroger, LabCorp and UnitedHealthcare. Walgreens is planning to open at least 600 LabCorp patient centers across the United States, thereby offering diagnostic lab testing services in the community.

- **Express Script Deal Looks Promising:** In a bid to ensure availability of specialty brand drugs Walgreens Boots has tied up with Express Scripts and announced plans to expand their existing group purchasing efforts. Since biosimilars have the potential to lower production costs, the move is considered to be a prudent and timely one. Specialty medication includes costly and complex drugs and is prescribed on a regular basis. The latest pact is expected to improve Express Scripts' supply chain and make these medicines, including biosimilars, affordable and accessible to patients.

Per a study by SNS Research, approved biosimilars will account for nearly \$22 billion revenues by the end of 2020. Regulatory efforts to reduce healthcare costs are likely to aid this growth. Given the potential that the market holds, we believe the latest move by these two medical behemoths is a strategic and timely one.

- **Pharmaceutical Wholesale Division Registers Robust Growth:** The company witnessed consistent solid performance from this segment. The segment's quarterly sales were \$5.9 billion, up 0.6% year over year, including an adverse currency impact of 4.8%. Sales were up 5.3% at constant exchange rate or CER on growth in Germany and the U.K.
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## Last Earnings Report

### Walgreens Boots Q3 Earnings Lag Estimates, Margins Down

Walgreens Boots reported adjusted earnings per share of 83 cents for third-quarter fiscal 2020, down 43.8% year over year (down 43.4% at CER). Also, the figure lagged the Zacks Consensus Estimate by 24.5%.

GAAP loss per share was \$1.95 on a year-over-year basis against earnings per share of \$1.13. The U.K. market was the most impacted by COVID-19, which required a review resulting in non-cash impairment charges of \$2 billion related to goodwill and intangible assets in Boots UK.

Quarter Ending 05/2020

Report Date	Jul 09, 2020
Sales Surprise	1.59%
EPS Surprise	-24.55%
Quarterly EPS	0.83
Annual EPS (TTM)	5.15

### Total Sales

Walgreens Boots recorded total sales of \$34.63 billion in the fiscal third quarter, up 0.1% year over year and 1.2% at CER. The top-line figure exceeded the Zacks Consensus by 1.2%.

This year-over-year growth was led by improvement within the Retail Pharmacy USA comparable sales growth of 3%. However, adverse impact of COVID-19 on sales of \$700-\$750 million (almost entirely from the company's non-U.S. businesses) is also included in the fiscal third-quarter results.

### Segments in Detail

Walgreens Boots reports through three segments — Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale.

#### Retail Pharmacy USA

The segment's sales totaled \$27.4 billion in the fiscal third quarter, highlighting an improvement of 3.2% year over year.

Prescriptions filled in the third quarter fell 1.3% year over year. In comparable stores, prescriptions filled (adjusted to 30-day equivalents) increased 0.4% from the year-ago quarter. This represents a slower rate of growth compared to the fiscal second quarter due to COVID-19-led stay-at-home orders. This led to a fall in doctor visits and hospital admissions. However, the prescription volume trend has shown steady improvement since May-end.

Pharmacy sales were up 4.6% from the year-ago quarter on higher brand inflation and a 15.9% rise in specialty sales, which offset the COVID-19 prescription volume impact.

Pharmacy sales at comparable stores improved 3.5% year over year.

Retail sales edged down 0.7% (including the impact of the store closures), while comparable retail sales inched up 1.9%, year on year. Excluding tobacco and e-cigarettes, comparable retail sales increased 3.5%.

#### Retail Pharmacy International

Revenues at the Retail Pharmacy International division declined 31.5% on a year-over-year basis to \$1.9 billion in the fiscal third quarter. Sales were down 26.2% at CER due to a 27.7% fall in Boots U.K. sales, resulting from pandemic-led severe disruption in foot traffic at stores.

Boots UK's comparable pharmacy sales were down 48% at CER, while comparable pharmacy sales slid 1% at CER in the reported quarter.

#### Pharmaceutical Wholesale

The division's quarterly sales were \$5.9 billion, up 0.6% year over year, including an adverse currency impact of 4.8%. Sales were up 5.3% at CER on growth in Germany and the U.K.

### Margins

Gross profit in the reported quarter fell 13.6% year over year to \$6.44 billion. Gross margin contracted 296 basis points (bps) to 18.6%. Gross margin was adversely impacted due to shift from higher margin discretionary categories to lower margin categories and by higher supply chain costs.

Selling, general and administrative (SG&A) expenses were up 32.6% year over year to \$8.27 billion due to higher employee costs, and social distancing and cleaning expenses.

Operating loss in the quarter was \$1.83 billion against operating income of \$1.22 billion in the fiscal second quarter.

The fiscal third-quarter reported and adjusted figures include estimated operational impacts of 61-65 cents per share due to COVID-19.

### Financial Condition

Walgreens Boots exited the fiscal third quarter with cash and cash equivalents of \$768 million compared with the \$792 million recorded at the end of the fiscal second quarter. Long-term debt was \$12.11 billion at the end of the reported quarter, up from \$10.63 last quarter.

Year to date, net cash provided by operating activities was \$3.39 billion, up from the year-ago period's \$3.22 billion.

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The company has raised its quarterly dividend by 2.2% to an annual rate of \$1.87 per share and suspended activity under its share repurchase program.

### **Fiscal 2020 Guidance Issued**

Walgreens Boots estimates earnings per share in fiscal 2020 in the range of \$4.65-\$4.75, considering estimated COVID-19 impacts of \$1.03-\$1.14 per share.

The company expects the adverse impacts of COVID-19 to continue in the fourth quarter. In the U.K., retail conditions are expected to remain very depressed despite the gradual easing of restrictions.

However, more robust sales growth is expected in the Retail Pharmacy USA division in spite of expectations of continued compression of retail margins in comparison to fiscal 2019. The guidance is based on sales trends witnessed by the company in June and does not consider potential changes to those trends.

Meanwhile, the Zacks Consensus Estimate for fiscal 2020 adjusted earnings per share is currently pegged at \$5.36.

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## Recent News

### Walgreens Boots to Offer Full-Service Doctor Offices at its Stores: Jul 8, 2020

Walgreens Boots along with VillageMD announced that Walgreens will be the first national pharmacy chain which will offer full-service doctor offices co-located at its stores at a large scale.

### Walgreens Boots to Expand Partnership With Microsoft and Adobe: Jun 30, 2020

Walgreens Boots announced expanding its partnership with Microsoft and Adobe with the aim of launching an improved digital experience and customer insights platform to deliver tailored healthcare and shopping offerings.

## Valuation

Walgreens shares are down 30.2% in the year-to-date period and down 19.5% in the trailing 12-month periods. Stocks in the Zacks sub-industry are down 15.2% while the Zacks Medical sector is up 27.7% in the year-to-date period. Over the past year, the Zacks sub-industry is up 1.6% while sector is up 36.9%.

The S&P 500 index is up 4.5% in the year-to-date period and rose 15.4% in the past year.

The stock is currently trading at 7.8X Forward 12-months earnings, which compares to 8.5X for the Zacks sub-industry, 33.8X 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 23.3X and as low as 6.6X, with a 5-year median 12.1X. Our Underperform recommendation indicates that the stock will perform below the market. Our \$35 price target reflects 6.6X forward 12-months earnings.

The table below shows summary valuation data for WBA

Valuation Multiples - WBA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.79	8.53	33.75	22.87
	5-Year High	23.30	18.28	34.77	22.87
	5-Year Low	6.59	7.66	19.08	15.25
	5-Year Median	12.14	11.41	23.47	17.58
P/S F12M	Current	0.25	0.26	1.26	3.71
	5-Year High	0.93	0.71	1.26	3.71
	5-Year Low	0.24	0.24	0.82	2.53
	5-Year Median	0.54	0.42	0.97	3.05
P/B TTM	Current	1.69	1.22	9.54	4.54
	5-Year High	3.32	3.08	9.54	4.56
	5-Year Low	1.40	1.06	3.69	2.83
	5-Year Median	2.66	2.21	5.02	3.74

As of 08/17/2020



## Industry Analysis Zacks Industry Rank: Top 30% (75 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Herbalife LTD. (HLF)	Outperform	1
Rite Aid Corporation (RAD)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	3
Cigna Corporation (CI)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
The Kroger Co. (KR)	Neutral	3
UnitedHealth Group Incorporated (UNH)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Retail - Pharmacies And Drug Stores				Industry Peers		
	WBA	X Industry	S&P 500	AMZN	CVS	WMT
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	A	-	-	A	A	A
Market Cap	35.68 B	3.89 B	23.75 B	1,594.04 B	84.93 B	384.25 B
# of Analysts	9	2	14	14	12	15
Dividend Yield	4.44%	0.00%	1.62%	0.00%	3.08%	1.59%
Value Score	A	-	-	C	A	C
Cash/Price	0.02	0.23	0.07	0.05	0.20	0.04
EV/EBITDA	6.47	7.79	13.49	41.64	9.12	12.83
PEG Ratio	1.08	1.69	3.03	3.30	1.61	4.86
Price/Book (P/B)	1.69	1.51	3.18	21.62	1.24	5.18
Price/Cash Flow (P/CF)	4.91	5.56	12.85	47.47	6.20	15.31
P/E (F1)	8.81	11.32	22.17	99.46	9.00	27.37
Price/Sales (P/S)	0.26	0.36	2.49	4.95	0.32	0.72
Earnings Yield	11.37%	9.22%	4.32%	1.01%	11.11%	3.65%
Debt/Equity	0.57	0.13	0.77	0.45	1.20	0.85
Cash Flow (\$/share)	8.38	3.36	6.94	67.05	10.47	8.85
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	9.15%	6.78%	10.44%	97.34%	10.17%	1.81%
Proj. EPS Growth (F1/F0)	-21.80%	15.30%	-5.97%	39.06%	1.87%	0.50%
Curr. Cash Flow Growth	-2.42%	-5.12%	5.22%	31.33%	-16.33%	-0.12%
Hist. Cash Flow Growth (3-5 yrs)	11.05%	-9.96%	8.52%	49.26%	14.66%	-0.31%
Current Ratio	0.69	1.22	1.33	1.18	0.98	0.77
Debt/Capital	36.22%	54.57%	44.59%	31.00%	54.57%	46.01%
Net Margin	0.55%	-1.84%	10.13%	4.10%	3.13%	2.81%
Return on Equity	19.43%	-1.26%	14.51%	20.47%	16.32%	18.33%
Sales/Assets	1.66	1.66	0.51	1.42	1.16	2.27
Proj. Sales Growth (F1/F0)	1.80%	1.80%	-1.67%	31.31%	3.88%	4.35%
Momentum Score	A	-	-	A	D	A
Daily Price Chg	-1.75%	-1.17%	-0.02%	1.09%	-1.17%	2.26%
1 Week Price Chg	0.94%	-0.79%	1.09%	-0.61%	1.09%	2.02%
4 Week Price Chg	1.77%	-1.75%	4.83%	-0.45%	1.55%	3.14%
12 Week Price Chg	3.98%	8.75%	13.09%	30.59%	2.48%	9.06%
52 Week Price Chg	-19.52%	23.24%	2.77%	75.23%	5.72%	19.15%
20 Day Average Volume	5,706,499	2,099,182	1,932,479	4,328,554	6,691,219	6,285,993
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.02%	0.50%
(F1) EPS Est 4 week change	-0.01%	0.85%	1.80%	58.58%	1.71%	0.50%
(F1) EPS Est 12 week change	-13.81%	13.21%	2.88%	62.03%	2.05%	1.72%
(Q1) EPS Est Mthly Chg	0.10%	0.05%	0.80%	48.99%	-17.91%	1.33%

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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 have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

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

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### Zacks Style Scores

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

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

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

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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