

## Walgreens Boots (WBA)

**\$50.84** (As of 06/18/21)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/26/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

### Summary

Over the past six months, Walgreens has outperformed its industry. The company's impressive performance by both operating arms in last-reported second-quarter fiscal 2021 amid pandemic-led challenges buoys optimism. Robust sales of Boots.com and Walgreens Boots' response to combat the pandemic are impressive. Strategic deals auger well. Product launches bode well. Notably, Walgreens Boots reported better-than-expected earnings in the second-quarter fiscal 2021. Yet, year-over-year fall in adjusted earnings is concerning. Choppy market conditions, mainly in retail, have been inducing sluggishness in both its arms. Dismal Boots UK comparable retail sales led to softer International revenues. Margin pressure is a major concern. Persistent pandemic-led uncertainties pose a continued challenge to the company's global business.

### Data Overview

52-Week High-Low	\$57.05 - \$33.36
20-Day Average Volume (Shares)	5,042,254
Market Cap	\$43.9 B
Year-To-Date Price Change	27.5%
Beta	0.47
Dividend / Dividend Yield	\$1.87 / 3.7%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Top 35% (89 out of 252)

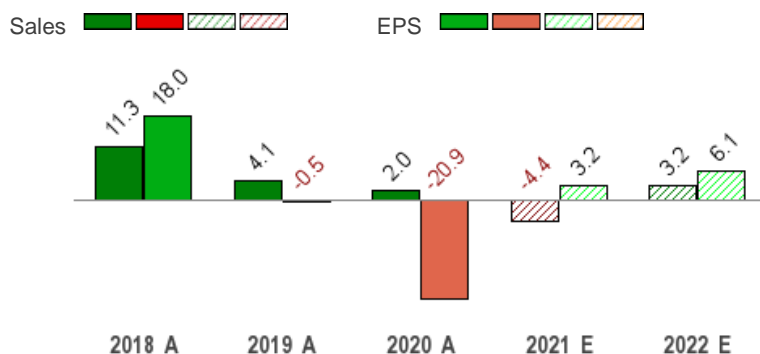
Last EPS Surprise	27.3%
Last Sales Surprise	-3.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	07/01/2021
Earnings ESP	0.0%

P/E TTM	11.4
P/E F1	10.4
PEG F1	2.1
P/S TTM	0.3

### Price, Consensus & Surprise



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



### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	35,141 E	34,254 E	35,781 E	35,799 E	137,649 E
2021	36,307 A	32,779 A	33,655 E	33,581 E	133,377 E
2020	34,339 A	35,820 A	34,631 A	34,746 A	139,537 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.39 E	\$1.43 E	\$1.14 E	\$1.26 E	\$5.19 E
2021	\$1.22 A	\$1.40 A	\$1.15 E	\$1.27 E	\$4.89 E
2020	\$1.37 A	\$1.52 A	\$0.83 A	\$1.02 A	\$4.74 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 06/18/2021. The report's text and the

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analyst-provided price target are as of 06/21/2021.

## Overview

Walgreens Boots Alliance, the world's first pharmacy-led, health and well-being enterprise, 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.

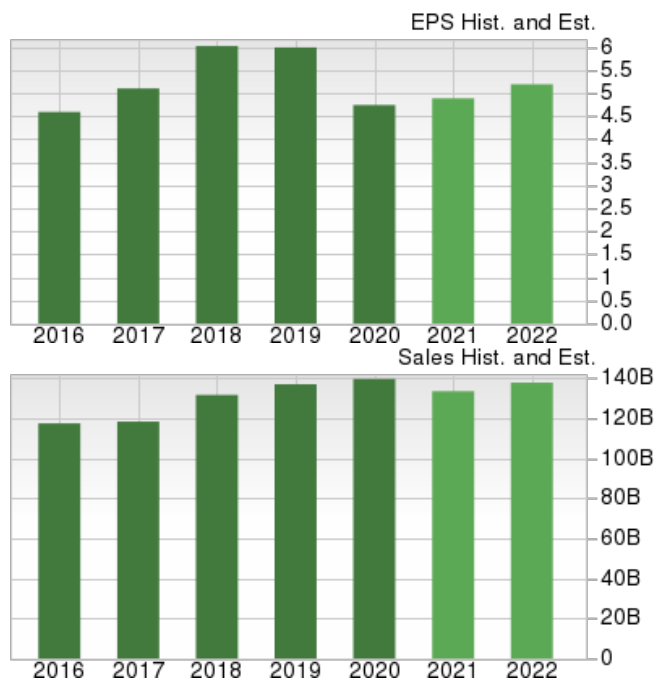
The company includes the largest global pharmaceutical wholesaler and distribution network with over 390 distribution centers delivering to more than 230,000 pharmacies, doctors, health centers and hospitals every year across 20 countries. In addition, Walgreens Boots Alliance is the world's largest 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.

Earlier, Walgreens Boots used to report results in three segments: Retail Pharmacy USA, Retail Pharmacy International and Pharmaceutical Wholesale.

Following Walgreens Boots' announcement regarding the sale of the majority of its Alliance Healthcare business and a portion of the Retail Pharmacy International segment's businesses in Europe to AmerisourceBergen, the company has reorganized its remaining businesses into two reportable operating segments — United States (83.4% of Q2 FY 2021) and International (16.6%).



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## Reasons To Buy:

▲ **Share Price Performance:** Over the past six months, the company has outperformed the industry it belongs to. The stock has gained 29.5% compared with the industry's 23.6% rise. Walgreens Boots exited second-quarter fiscal 2021 with better-than-expected earnings despite pandemic-led business challenges. Impressive performances by the newly-formed operating segments, United States and International, buoy optimism. Robust sales of Boots.com instill investor confidence. Walgreens Boots' response toward combatting the pandemic — conducting COVID-19 tests at various locations and actively participating in vaccinating residents and staff — is impressive. Faster retail pick-up in the United States, along with acceleration of its investment in VillageMD and boosting the rollout of Village Medical at Walgreens full-service primary care clinics, look encouraging.

Walgreens Boots' strategic partnerships also look impressive. Various product launches bode well for the company.

▲ **New Alliances Look Strategic:** The intensifying competition in the U.S. retail drugstore market has compelled Walgreens Boots to diversify its product offerings. Walgreens Boots, in March 2021, partnered with InComm Payments to launch a new bank account for its customers at MetaBank with a Mastercard debit card. This will allow customers to earn myWalgreens Cash rewards on all purchases as part of the new myWalgreens customer loyalty program launched in November 2020.

The company, during its fiscal second-quarter earnings call, confirmed that it has introduced COVID-19 vaccination bookings on its MyWalgreens app for which it is partnering with Nuance. During the call, Walgreens Boots also confirmed that it has tied up with Uber to ensure that more Americans are able to visit a vaccination location.

Walgreens Boots, in January 2021, announced strategic agreements with its long-standing partner AmerisourceBergen to sell them its international healthcare and distribution business alliance. Walgreens Boots' notable partnerships include those with Verizon in the United States, Genpact, Kroger and tie-up with Alphabet's life sciences and healthcare segment Verily.

▲ **Product Launches:** Walgreens Boots has launched a slew of products over the past few months. The company, during the fiscal second quarter, launched a business-to-business service called Test & Protect. This allows employers to provide testing and vaccination services to their employees. Also during the quarter, Walgreens Boots launched nationwide rollout of same-day delivery with Instacart.

The company had launched myWalgreens (its customer loyalty program) in November 2020. Other notable products that the company has launched in recent months include popular beauty brands such as MAC and NARS. Further, the company during second-quarter fiscal 2021 rolled out new No7 counters and fixtures in more than 100 additional stores, largely completing its planned U.K. rollout and taking the total to more than 750 stores.

In October 2020, the company launched Find Rx Coverage Advisor, which is a new resource providing personalized guidance to customers seeking information on available health and prescription drug coverage options.

▲ **Express Script Deal Looks Promising:** In a bid to ensure availability of specialty brand drugs, Walgreens Boots 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 pact is expected to improve Express Scripts' supply chain and make these medicines, including biosimilars, affordable and accessible to patients.

Per a study by Markets And Markets, the global biosimilars market size is expected to grow from \$35.7 billion by 2025 from \$11.8 billion in 2020 at a CAGR of 24.7%. 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.

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Various strategic partnerships entered into by Walgreens Boots is expected to benefit the company more over the long run. The company's progress in cost cutting initiatives further boost our confidence in the stock.

## Reasons To Sell:

▼ **Persistent Pandemic-Led Uncertainties:** Walgreens Boots ended the second quarter of fiscal 2021 registering growing demand for both its operating arms. Nonetheless, the company is uncertain about the scope of evolution of the pandemic till now. Although the company has raised its outlook for adjusted earnings per share at constant exchange rate or CER for fiscal 2021 to mid-to-high single digit growth (earlier growth was projected to be in low single digits), the pandemic-led uncertainties persist. The surge in infections across many of Walgreens Boots' markets worldwide is concerning for the company.

▼ **International Business Soft:** In the fiscal second quarter, Walgreens Boots' revenues at the International division declined 9.9% at CER, primarily due to a 17.8% decrease in Boots UK sales resulting from COVID-19-related impacts.

Boots UK's comparable retail sales declined 17.9% at CER as footfall in stores remained significantly depressed due to COVID-19, particularly in major high-street, train station and airport locations. Further, Boots UK retail store's overall transactions were down approximately 50% year over year.

▼ **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 2021 second quarter, there were additional impacts due to the ongoing pandemic. Gross profit in the reported quarter fell 3.4% year over year. Gross margin contracted 171 basis points (bps) to 20.7%. Operating profit in the quarter was down 32.2% year-over-year. Operating margin contracted 125 bps year over year to 2.3%. Second-quarter fiscal 2021 adjusted earnings per share reflects an adverse impact of approximately 40-45 cents due to the pandemic.

▼ **Leveraged Balance Sheet with Heavy Payout Load:** Walgreens Boots exited the fiscal 2021 second quarter with cash and cash equivalents of \$1.03 billion compared with the \$1.11 billion recorded at the end of the first quarter of fiscal 2021. 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 \$16.16 billion, reflecting a sequential decrease from \$16.22 billion at the end of the first quarter of fiscal 2021. 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 \$5.16 billion (current debt level was \$5.25 billion at the end of first quarter of fiscal 2021), 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 of 33.7% indicates a moderately leveraged balance sheet. However, it represents a sequential decrease from 34.8% at the end of the first quarter of fiscal 2021. The overall data concludes that with respect to both solvency and the leverage level, the company's balance sheet looks disappointing.

The current payout ratio stands at a moderately high level of 41.6%, representing a sequential increase from 40.3% from the end of the first quarter of fiscal 2021. 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.

▼ **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.

The business operations have been adversely affected by challenging market conditions in the International division, particularly the Boots business in the U.K. This was primarily on account of the economic environment and the uncertainty associated with Brexit. Additionally, reduced or flat consumer spending may drive Walgreens Boots and its competitors to offer additional products at promotional prices.

▼ **Shift in Pharmacy Mix Might Hamper Operational Results:** A shift in the mix of pharmacy prescription volume toward programs offering

Persistent 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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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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## Last Earnings Report

### Walgreens Boots Q2 Earnings Top Estimates, Margins Down

Walgreens Boots reported adjusted earnings per share of \$1.40 for second-quarter fiscal 2021, down 7.9% year over year (down 8.2% at CER). However, the figure surpassed the Zacks Consensus Estimate by 27.3%.

The adjusted earnings per share reflects an adverse impact of approximately 40-45 cents due to the pandemic. However, this was partially made up for by Transformational Cost Management Program savings.

Adjusted earnings per share from continuing operations was \$1.26, down from the year-ago figure of \$1.41 by 10.6%.

GAAP earnings per share for second-quarter fiscal 2021 was \$1.19, up from the year-ago earnings per share of \$1.07 by 11.2%.

### Total Sales

Walgreens Boots recorded total sales of \$32.78 billion in fiscal second quarter, up 4.6% year over year and up 3.5% at CER. However, the top line lagged the Zacks Consensus Estimate by 3.2%.

The company stated that despite the pandemic-led business challenges, its top line was boosted by strength in the company's business arms. Also, accelerated growth in the Boots.com platform boosted the top line.

### Segments in Detail

Following Walgreens Boots' announcement regarding the sale of the majority its Alliance Healthcare business and a portion of the Retail Pharmacy International segment's businesses in Europe to AmerisourceBergen, the company has reorganized its remaining businesses into two reportable operating segments. The company's reorganized reporting segments are — United States and International.

#### United States

The segment's sales totaled \$27.34 billion in fiscal second quarter, highlighting an improvement of 0.4% year over year.

Comparable sales in the quarter increased 2% from the year-ago quarter, reflecting a 4.5% uptick in comparable pharmacy sales and a 3.5% fall in comparable retail sales.

Total prescriptions (adjusted to 30-day equivalents) filled in the second quarter fell 2.8% year over year. In comparable sales, prescriptions filled decreased 1.1% from the year-ago quarter.

Pharmacy sales were up 3% from the year-ago quarter.

Retail sales declined 6.6% (including the impact of the store optimization programs and the 2020 leap day).

Comparable retail sales declined 3.5%, year on year. The soft sales primarily resulted from significantly weaker cough, cold and flu season. Comparable retail sales (excluding tobacco and e-cigarettes) fell 2.7%.

#### International

Revenues at the International division surged 32.6% on a year-over-year basis to \$5.43 billion, in fiscal second quarter. Sales were up 23.9% at CER, entirely due to the company's new joint venture (JV) in Germany, which was consolidated as of November 2020.

However, excluding incremental sales from the JV, International segment's sales fell 9.9% at CER, primarily due to a 17.8% decrease in Boots UK sales resulting from COVID-19-related impacts.

Boots UK's comparable retail sales declined 17.9% as footfall in stores remained significantly depressed due to COVID-19, particularly in major high street, train station and airport locations.

Boots UK's comparable pharmacy sales inched up 3.2%, mainly due to favorable timing on National Health Service reimbursement and stronger pharmacy services. This mitigated the impact of lower prescription volume.

### Margins

Gross profit in the reported quarter fell 3.4% year over year to \$6.78 billion. Gross margin contracted 171 basis points (bps) to 20.7%.

Selling, general and administrative expenses were up 2% year over year to \$6.03 billion.

Operating profit in the quarter was \$752 million compared with operating income of \$1.11 billion a year ago, down 32.2% year over year.

### Quarter Ending 02/2021

Report Date	Mar 31, 2021
Sales Surprise	-3.15%
EPS Surprise	27.27%
Quarterly EPS	1.40
Annual EPS (TTM)	4.47

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Operating margin contracted 125 bps year over year to 2.3%.

### **Financial Condition**

Walgreens Boots exited the second quarter of fiscal 2021 with cash and cash equivalents of \$1.03 billion compared with \$1.11 billion recorded at the end of the first quarter of fiscal 2021. Total debt was \$16.16 billion at the end of the second quarter of fiscal 2021, up from \$16.22 billion at the end of the first quarter of fiscal 2021.

Cumulative net cash provided by operating activities at the end of the second quarter of fiscal 2021 was \$2.26 billion, up from the year-ago period's \$2.48 billion.

### **Fiscal 2021 Guidance**

Walgreens Boots has raised its estimates of adjusted earnings per share at CER for fiscal 2021 to mid-to-high single digit growth (earlier growth was projected to be in low single-digits). The Zacks Consensus Estimate for the same is currently pegged at \$1.25.

Per the company, the revised guidance is indicative of its performance in the first half of fiscal 2021 which exceeded its expectations and anticipated strong growth in the second half. However, the pandemic-led business uncertainties are likely to persist in the second half.

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## Recent News

### Walgreens Divests Alliance Healthcare Business: Jun 2, 2021

Walgreens announced the completion of the divestment of its Alliance Healthcare businesses to AmerisourceBergen for total value of nearly \$6.5 billion.

### Walgreens' Nationwide Contactless Same Day Product Delivery Launched: May 4, 2021

Walgreens launched its Same Day Delivery service for retail products. Customers across the nation will be able to order more than 24,000 items directly from Walgreens for Same Day Delivery, which will be delivered within two hours.

### Walgreens Eases Access to COVID-19 Vaccine: May 3, 2021

Walgreens announced that it will activate multiple mobile clinics in Chicago following the success of various vaccination clinics across the country. The traveling mobile clinics will focus on providing COVID-19 vaccines directly to those who do not have access to the vaccine.

### Walgreens Partners With Abbott to Boost COVID-19 Testing: Apr 19, 2021

Walgreens has collaborated with Abbott to sell the latter's BinaxNOW Rapid Antigen Self Test over-the-counter in Walgreens stores nationwide to increase access to COVID-19 testing in communities across the United States.

### Walgreens Boots Launches No7 Beauty Company: Apr 19, 2021

Walgreens Boots launched the No7 Beauty Company, a consumer-led beauty business. Notably, the No7 Beauty Company will be positioned to develop omnichannel offerings with Walgreens Boots retailers and other new and existing retail partners worldwide via a direct-to-consumer model, .com sites, mobile apps and more.

## Valuation

Walgreens shares are up 27.5% in the year-to-date period and up 17.6% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 21.8% while the Zacks Medical sector is down 1.4% in the year-to-date period. Over the past year, the Zacks sub-industry is up 28.9% while sector is up 17.3%.

The S&P 500 index is up 11.8% in the year-to-date period and rose 35.7% in the past year.

The stock is currently trading at 9.9X Forward 12-months earnings, which compares to 10.2X for the Zacks sub-industry, 27.8X for the Zacks sector and 21.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.1X and as low as 6.6X, with a 5-year median 10.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$53 price target reflects 10.3X forward 12-months earnings.

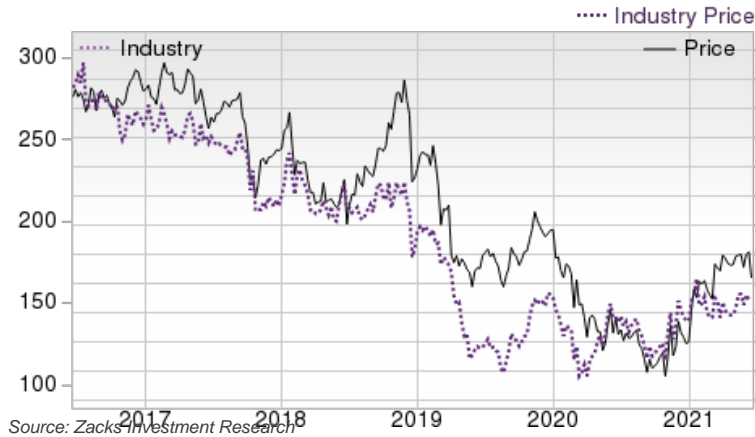
The table below shows summary valuation data for WBA

Valuation Multiples -WBA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.91	10.16	27.81	21.36
	5-Year High	18.06	15.95	34.07	23.83
	5-Year Low	6.59	7.42	19.13	15.31
	5-Year Median	10.49	10.16	23.96	18.05
P/S F12M	Current	0.32	0.32	1.32	4.63
	5-Year High	0.77	0.58	1.41	4.74
	5-Year Low	0.20	0.22	0.84	3.21
	5-Year Median	0.47	0.35	1.02	3.72
P/B TTM	Current	2.03	1.41	5.48	6.94
	5-Year High	3.19	2.82	6.50	7.08
	5-Year Low	1.37	1.01	3.80	3.84
	5-Year Median	2.31	1.79	5.17	5.02

As of 06/18/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 35% (89 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Outperform	3
Target Corporation (TGT)	Outperform	1
Ulta Beauty Inc. (ULTA)	Outperform	1
CVS Health Corporation (CVS)	Neutral	3
Herbalife LTD. (HLF)	Neutral	2
McKesson Corporation (MCK)	Neutral	3
Rite Aid Corporation (RAD)	Neutral	3
Walmart Inc. (WMT)	Neutral	2

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

Industry Comparison Industry: Retail - Pharmacies And Drug Stores				Industry Peers		
	WBA	X Industry	S&P 500	CVS	HLF	RAD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	A	A	A
Market Cap	43.95 B	3.55 B	29.25 B	108.49 B	5.99 B	1.11 B
# of Analysts	7	4.5	12	11	1	1
Dividend Yield	3.68%	0.00%	1.38%	2.43%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.02	0.09	0.06	0.08	0.10	0.14
EV/EBITDA	16.29	9.94	16.74	9.29	10.59	9.19
PEG F1	2.08	1.57	2.04	1.61	NA	NA
P/B	2.03	1.67	3.99	1.52	NA	1.81
P/CF	7.22	7.38	16.91	7.54	11.15	3.19
P/E F1	10.40	10.59	20.66	10.76	10.24	16.92
P/S TTM	0.32	0.36	3.31	0.40	1.04	0.05
Earnings Yield	9.62%	9.46%	4.76%	9.30%	9.77%	5.91%
Debt/Equity	0.51	0.30	0.66	0.83	-1.88	5.01
Cash Flow (\$/share)	7.04	4.56	6.83	10.93	4.56	6.32
Growth Score	B	-	-	B	B	A
Historical EPS Growth (3-5 Years)	1.93%	8.73%	9.59%	8.73%	9.96%	NA
Projected EPS Growth (F1/F0)	3.07%	18.51%	21.58%	2.07%	33.69%	893.33%
Current Cash Flow Growth	-19.36%	-3.21%	0.99%	5.04%	21.15%	3.76%
Historical Cash Flow Growth (3-5 Years)	0.93%	1.81%	7.28%	12.55%	2.70%	-10.34%
Current Ratio	0.83	1.03	1.39	0.93	1.30	1.38
Debt/Capital	33.71%	39.58%	41.51%	45.44%	NA	83.35%
Net Margin	-0.45%	-0.42%	11.95%	2.73%	8.21%	-0.38%
Return on Equity	18.32%	-1.42%	16.48%	14.45%	-62.60%	-1.42%
Sales/Assets	1.57	1.73	0.51	1.17	1.89	2.54
Projected Sales Growth (F1/F0)	-4.41%	2.45%	9.41%	4.81%	11.30%	2.45%
Momentum Score	B	-	-	C	C	B
Daily Price Change	-3.73%	-2.12%	-1.31%	-2.17%	-1.13%	-5.22%
1-Week Price Change	-8.08%	-4.59%	-1.91%	-3.59%	-5.59%	-9.65%
4-Week Price Change	-7.36%	-6.10%	0.25%	-8.25%	0.00%	5.50%
12-Week Price Change	-2.29%	2.28%	4.83%	8.48%	13.12%	6.84%
52-Week Price Change	15.20%	20.17%	34.50%	27.77%	17.98%	62.29%
20-Day Average Volume (Shares)	5,042,254	1,768,579	1,830,063	5,632,815	919,645	1,765,249
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%	0.01%	0.10%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.37%	5.81%	3.48%	2.16%	9.25%	164.44%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

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EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	1.00%	0.00%	0.00%
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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.

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.

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

### 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

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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-

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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 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

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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.