

West Pharmaceutical (WST)

\$358.70 (As of 06/23/21)

Price Target (6-12 Months): **\$413.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/03/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of West Pharmaceutical have outperformed the industry in a year's time. The company exited the first-quarter 2021 on a strong note, wherein both earnings and revenues beat the consensus mark. West Pharmaceutical continues to gain from both its segments – Proprietary Products and Contract-Manufactured Products, which have been contributing to the top-line growth for quite some time. Expansion in both gross and operating margins is a positive. Further, the company's high-value products (HVP) continue to drive higher gross and operating margins. Additionally, it continues to see strong uptake of HVP components, which include Westar, FluroTec, Envision and NovaPure offerings along with Daikyo's Crystal Zenith. A raised 2021 outlook is also encouraging. But, forex woes and information security breaches remain headwinds.

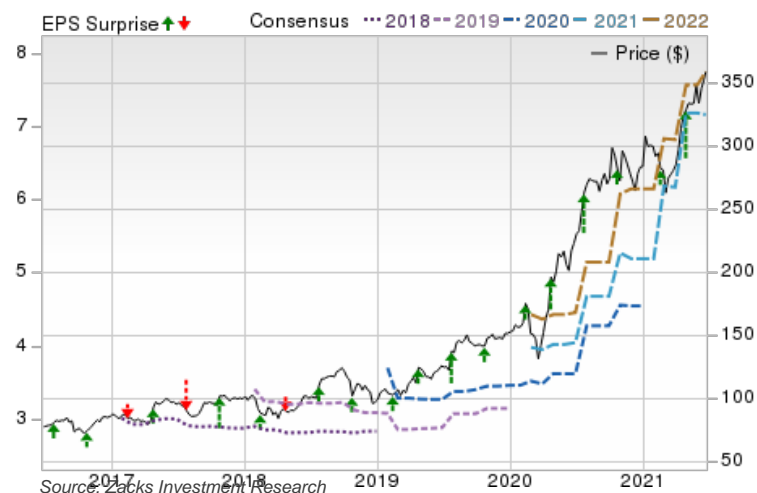
Data Overview

52-Week High-Low	\$361.44 - \$213.03
20-Day Average Volume (Shares)	354,073
Market Cap	\$26.5 B
Year-To-Date Price Change	26.6%
Beta	0.99
Dividend / Dividend Yield	\$0.68 / 0.2%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 38% (97 out of 252)

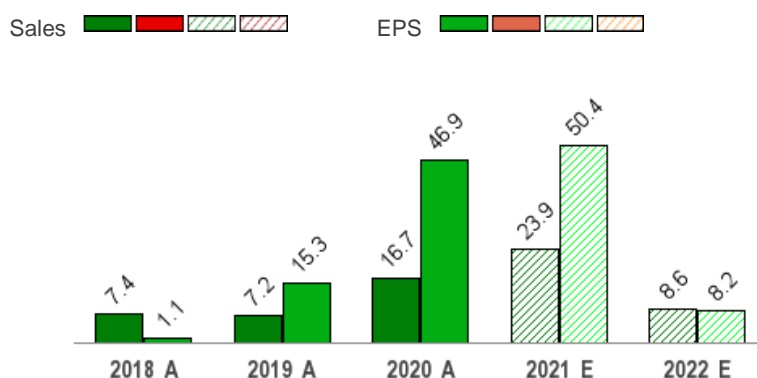
Last EPS Surprise	44.4%
Last Sales Surprise	9.1%
EPS F1 Estimate 4-Week Change	-0.3%
Expected Report Date	07/22/2021
Earnings ESP	0.0%

P/E TTM	62.0
P/E F1	50.1
PEG F1	1.9
P/S TTM	11.4

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	722 E	746 E	720 E	731 E	2,888 E
2021	671 A	666 E	661 E	663 E	2,660 E
2020	492 A	527 A	548 A	580 A	2,147 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.04 E	\$1.95 E	\$1.88 E	\$1.95 E	\$7.75 E
2021	\$2.05 A	\$1.74 E	\$1.66 E	\$1.70 E	\$7.16 E
2020	\$1.01 A	\$1.25 A	\$1.15 A	\$1.34 A	\$4.76 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 06/23/2021. The report's text and the

analyst-provided price target are as of 06/24/2021.

Overview

West Pharmaceutical Services Inc. (WST) is a leading global manufacturer with respect to design and production of technologically advanced, high-quality, integrated containment and delivery systems for injectable drugs and healthcare products. The Exton, PA-based company designs and produces these medical products in the Americas, Europe, the Middle East, Africa and the Asia Pacific. Its primary objective is to deliver quality products that cater to the exact product specifications and quality standards that customers expect and need. West Pharmaceutical operates through two segments – Proprietary Products and Contract-Manufactured Products.

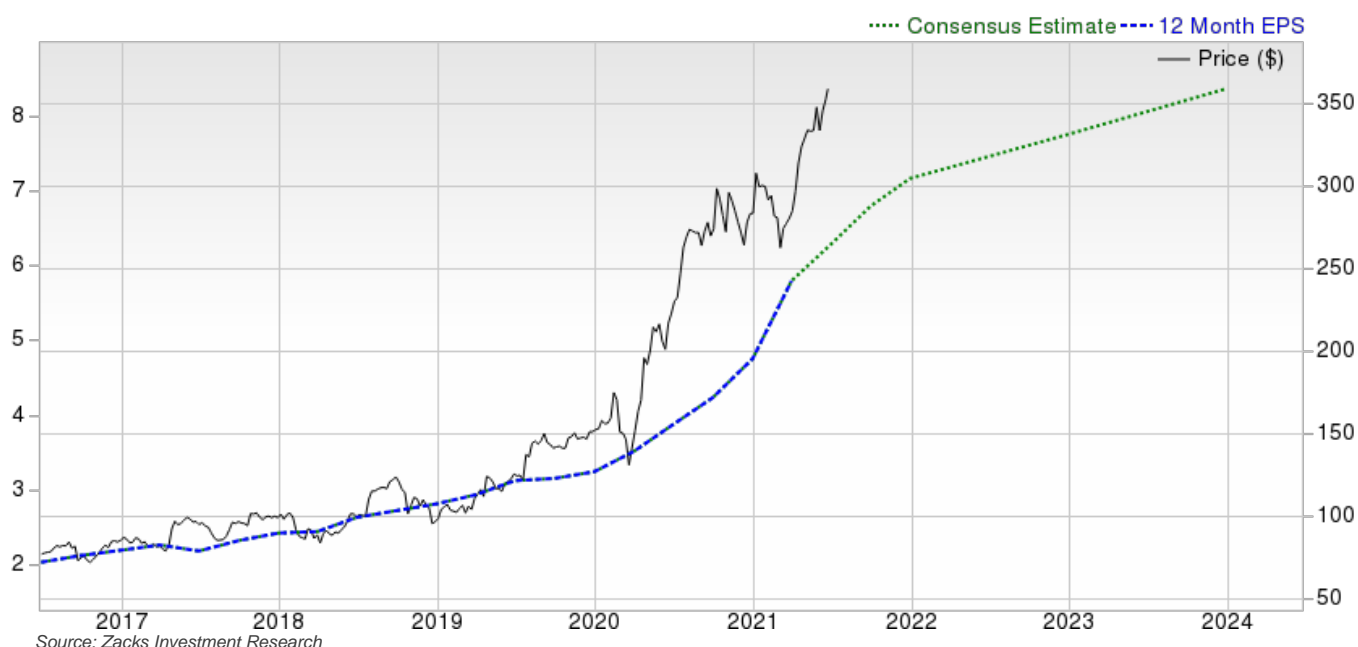
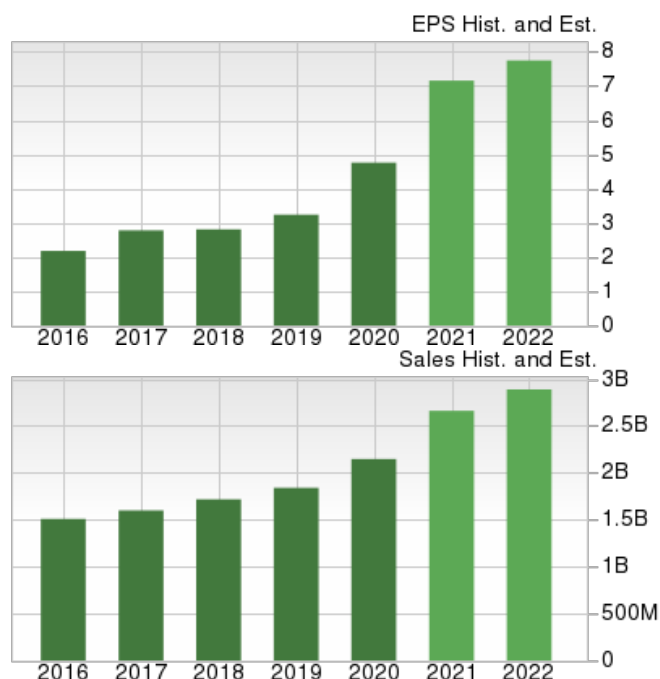
Proprietary Products segment provides packaging, containment and drug delivery products, together with analytical lab services and other integrated services and solutions mainly to biologic, generic and pharmaceutical drug customers. This segment's product portfolio also comprises drug containment solutions, including Crystal Zenith – a cyclic olefin polymer, in the form of vials, syringes and cartridges. Additionally, the company provides a range of self-injection devices, which have been developed to meet the need to offer at-home delivery of injectable therapies. The segment has manufacturing facilities in North and South America, Europe and Asia Pacific, with affiliated companies in Mexico and Japan.

Contract-Manufactured Products segment acts as a fully-integrated business, which remains committed toward the design, manufacture and automated assembly of complex devices, mainly for pharmaceutical, diagnostic, and medical device customers. The business manufactures consumer-owned components and devices utilized in surgical, diagnostic, injectable and other drug delivery systems along with consumer products. The segment has manufacturing facilities in North America and Europe.

2020 at a Glance

Full-year 2020 net sales of 2.15 billion increased 16.7% on a year-over-year basis.

Proprietary Products segment net sales (77% of net sales) grew 17.9% to \$1.65 billion, while Contract-Manufactured Products (23%) net sales climbed 12.9% to \$498.6 million.



Reasons To Buy:

▲ **Share Price Performance:** Shares of West Pharmaceutical have gained 60.5%, compared with the industry's rally of 31.7% over the past year. Strength in the proprietary products segment, continued commitment toward research and development efforts, and successful implementation of pandemic initiatives have contributed to the favorable stock performance. The company witnessed another robust performance in the first quarter aided by solid organic sales growth in both of its base businesses and growing demand for products related to COVID-19 vaccines. Also, the company's HVP continue to drive higher gross and operating margins. As a result, it managed to deliver record earnings per share in the first quarter. Additionally, the company continues to see strong uptake of HVP components, which include Westar, FluroTec, Envision and NovaPure offerings along with Daikyo's Crystal Zenith. A raised financial outlook for 2021 also favors the stock.

Continued strength in proprietary products segment, focus on research and development efforts, and implementation of pandemic initiatives are key catalysts.

▲ **Robust Proprietary Products Segment:** Proprietary products business continues to exhibit sustained strength and is an important contributor to the West Pharmaceutical's top-line growth. The customers of this segment mainly comprise many of the major biologic, generic, and pharmaceutical drug companies in the world that incorporate the components and other offerings into their injectable products for distribution to patients, who are the end users. In 2020, net sales at this segment increased 17.9% on a year-over-year basis and the first quarter of 2021 was no exception. Sales improved 39.6% organically in the first quarter owing to double-digit growth in HVP (which made up 70% of sales in the quarter) and strong momentum throughout all market units.

Also, margin expansion in this segment has been encouraging. The first-quarter gross profit margin witnessed an expansion of 610 basis points on a year-over-year basis driven by favorable mix of products sold (stemming from the demand in HVP), production efficiencies, one-time fees related with certain canceled COVID-supply agreements of around \$11.8 million, and increase in sales price.

▲ **Continued Strength in Research and Development:** West Pharmaceutical maintains its own research-scale production facilities and laboratories for creating new products, and provides contract engineering design and development services to help customers with new product development. Commercial development of its new products and services for medical and pharmaceutical applications usually takes several years. Notably, the company continues to pursue innovative strategic platforms in prefillable syringes, injectable containers, advanced injection, and safety and administration systems. In the first quarter of 2021, the company's research and development expenses increased 14% from the prior-year quarter. West Pharmaceutical also remains committed toward seeking new innovative opportunities for acquisition, licensing, partnering or development of products, services and technologies. The company is focused on its objective to connect the dots throughout science and technology to fulfil ideas for potential value creation.

▲ **Successful Implementation of Pandemic Initiatives:** The COVID-19 pandemic continues to impact the lives and day-to-day operations of people globally. However, businesses, which suffered massively during the initial period, have started to recover gradually. Notably, West Pharmaceutical has been making significant efforts to maintain customers' trust in the company. Apart from ensuring the well-being and safety of team members worldwide, the company successfully maintained the continuity of manufacturing and supply of components to its customers. West Pharmaceutical also enabled vaccine makers to protect their sensitive biomolecules with trusted solutions. Expansion to existing sites was made and personnel were deployed to 24-hour schedules to cater to the anticipated demand for components related to the pandemic. Additionally, the company proactively advanced capital expenditure to extend HPV capacity.

▲ **Stable Liquidity Position:** West Pharmaceutical exited first-quarter 2021 with cash and cash equivalents of \$484 million, down from \$616 million on a sequential basis. Meanwhile, long-term debt was \$252 million in the first quarter, slightly lower than \$253 million, sequentially. Moreover, the company's current-year debt of \$2 million (remaining flat on a sequential basis) is much lower than the cash level. Hence, both the long-term debt and current debt is lower than the cash level. This is a positive fact in terms of the company's solvency level, since at least during the year of economic downturn, West Pharmaceutical is holding sufficient cash for debt repayment.

The quarter's total debt-to-capital ratio of 12.1% stands at a low level, indicating a slightly leveraged balance sheet. However, it represents a sequential increase from 12% at the end of 2020. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 47.7%. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

Risks

- **Impact of COVID-19 Pandemic:** A pandemic of such magnitude can and has in fact, negatively impacted the company's operations, supply chains and distribution systems. Apart from the workforce being exposed to the COVID-19 virus, a reduction in access to raw materials for production and access to transportation of product have acted as impediments. The pandemic has given rise to unknown and unpredictable impacts that may result in continued increase in expenses, including costs related to preventive and precautionary measures that West Pharmaceutical is bearing due to the business that it conducts with other companies and governments. The pandemic-induced impacts and actions taken by other companies and governments (restriction or prohibition of travel for instance) can result in substantial and unpredictable reductions or increases in demand for some of the company's products.
 - **Forex Woes:** West Pharmaceuticals' business is exposed to foreign currency exchange rate fluctuations. In 2020, sales outside the United States accounted for 54.6% of the net sales and it is expected that sales from international operations will continue to account for a substantial portion of the company's total sales in the future. Despite several of the company's manufacturing facilities and suppliers being present outside the United States, West Pharmaceuticals plans to continue its expansion into emerging markets outside of the country in the future. Notably, almost all of the company's international sales, assets and associated costs and expenses are valued, earned or incurred in the currency of the local country – mainly Euro, the Singapore Dollar and the Danish Krone. Additionally, the company is exposed to Japanese Yen as it maintains a 49% ownership interest in, apart from buying finished goods and other materials from, Dai-ichi Sankyo. Apart from translation risks, the company also incurs currency transaction risk when it or one of its subsidiaries enters into a purchase or sales transaction in a currency other than that entity's local currency.
 - **Information Security Breaches:** West Pharmaceutical's systems and networks along with that of its customers', suppliers, service providers and banks have and might become the target of cyberattacks and information security breaches in the future. This can lead to unauthorized release and misuse of confidential or proprietary information about the company and its employees or customers, and can also hamper or damage its operations or that of third parties. Failure to comply with regulations or prevent the unauthorized access, release and/or corruption of the company's or its customers' confidential information can result in financial losses and also hurt its reputation.
 - **Macroeconomic Challenges:** Uncertainty in global economy, which includes recession or slow economic growth in the United States, Europe or emerging markets in Asia and South America, can have adverse effects on the company's operating results. Inflationary pressures on the company's supplies or products, higher expenses due to rising global taxation of corporate profits or revenues or changes in, or expirations of, a country's tax laws or regulations, reduction in research and development activities and expenditures by the consumers are some of the effects of the global economic challenges. If there is weakness in economic conditions in the country or Europe or in emerging markets, the company's business, financial condition and operations might get negatively impacted.
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Last Earnings Report

West Pharmaceutical Q1 Earnings & Revenues Top Estimates

West Pharmaceutical Services, Inc. reported first-quarter 2021 adjusted earnings per share of \$2.05, which beat the Zacks Consensus Estimate of \$1.42 by 44.4%. Moreover, the bottom line skyrocketed 102.9% year over year.

Revenue Details

The company reported revenues of \$670.7 million, which surged 36.5% from the prior-year quarter. The top line also outpaced the Zacks Consensus Estimate by 9.1%.

Notably, the company reported sales growth of 31.1%.

Segment Details

Proprietary Products

Net sales at the segment amounted to \$543.7 million, reflecting year-over-year improvement of 45.6%. Organic sales growth came in at 39.6%. High-value products (components and devices) represented more than 70% of segment sales and delivered double-digit organic sales growth. Customer demand for FluroTec, Westar, Daikyo and NovaPure components along with devices such as Daikyo Crystal Zenith syringes and cartridges led to the upside.

Contract-Manufactured Products

In the reported quarter, net sales improved 7.6% year over year to \$127.1 million. The segment delivered organic sales growth of 4%. Sales of components for drug-injection delivery and diagnostic devices contributed to the improvement.

Margins

Gross profit in the reported quarter was \$271.9 million, up 62.8% year over year. As a percentage of revenues, gross margin in the quarter was 40.5%, up 660 basis points (bps).

Operating income totaled \$175.6 million, up 99.5% year over year. As a percentage of revenues, operating margin in the quarter was 26.2%, up 830 bps.

Financial Position

The company exited the first quarter with cash, cash equivalents and investments of \$483.7 million, compared with \$615.5 million in the previous quarter.

Operating cash flow totaled \$88.7 million, compared with \$57.1 million in the prior-year quarter.

Outlook

On the back of the solid first-quarter 2021 performance, the company raised its full-year 2021 guidance.

Net sales for full-year 2021 are projected to range between \$2.63 billion and \$2.65 billion (up from the prior range of \$2.50-\$2.53 billion). Organic sales growth is estimated to be 19-20% (up from the prior range of 13-14%).

Adjusted earnings per share for 2021 is anticipated in the band of \$6.95 to \$7.10 (up from the previous range of \$6-\$6.15 per share). Notably, this range includes an expected benefit of around 23 cents based on present foreign currency exchange rates.

Quarter Ending	03/2021
Report Date	Apr 29, 2021
Sales Surprise	9.10%
EPS Surprise	44.37%
Quarterly EPS	2.05
Annual EPS (TTM)	5.79

Valuation

West Pharmaceutical's shares are up 26.6% and 60.6% in the year-to-date and trailing 12-month periods, respectively.

Stocks in the Zacks sub-industry and Zacks Medical Market are up 8.3% and 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 31.7% and 4.5%, respectively.

The S&P 500 index is up 13.9% in the year-to-date period and 39.7% the past year.

The stock is currently trading at 48.2X Forward 12-months earnings, which compares to 18.9X for the Zacks sub-industry, 23.4X for the Zacks sector and 21.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 68X and as low as 27.9X, with a 5-year median of 36.2X. Our Outperform recommendation indicates that the stock will perform above the market. Our \$413 price target reflects 55.8X forward 12-months earnings.

The table below shows summary valuation data for WST.

Valuation Multiples - WST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	48.22	18.94	23.43	21.7
	5-Year High	68.04	19.77	23.43	23.83
	5-Year Low	27.96	13.63	15.82	15.31
	5-Year Median	36.23	16.98	19.33	18.05
P/S F12M	Current	9.56	0.42	2.68	4.72
	5-Year High	10.08	0.43	3.17	4.74
	5-Year Low	3.21	0.23	2.27	3.21
	5-Year Median	4.45	0.29	2.78	3.72
P/B TTM	Current	14.48	5.75	4.48	7.07
	5-Year High	14.53	5.88	5.05	7.08
	5-Year Low	4.52	2.54	3.03	3.84
	5-Year Median	6.08	3.45	4.35	5.02

As of 06/23/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Henry Schein, Inc. (HSIC)	Outperform	1
Align Technology, Inc. (ALGN)	Neutral	2
CONMED Corporation (CNMD)	Neutral	2
The Cooper Companies, Inc. (COO)	Neutral	3
Invacare Corporation (IVC)	Neutral	4
Merit Medical Systems, Inc. (MMSI)	Neutral	3
Straumann Holding AG (SAUHF)	Neutral	2
DENTSPLY SIRONA Inc. (XRAY)	Neutral	2

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

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	WST	X Industry	S&P 500	ALGN	COO	SAUHF
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	2
VGM Score	D	-	-	D	C	D
Market Cap	26.48 B	3.81 B	29.87 B	47.94 B	19.09 B	24.66 B
# of Analysts	5	5.5	12	7	9	2
Dividend Yield	0.19%	0.00%	1.35%	0.00%	0.02%	0.00%
Value Score	D	-	-	F	C	F
Cash/Price	0.02	0.07	0.06	0.02	0.01	NA
EV/EBITDA	50.62	14.54	17.12	99.07	34.37	NA
PEG F1	1.94	1.80	2.05	2.48	2.92	5.30
P/B	14.48	4.53	4.07	14.13	3.10	22.31
P/CF	56.60	17.13	17.35	25.55	27.01	56.74
P/E F1	50.10	22.52	20.98	57.53	29.24	58.26
P/S TTM	11.38	3.66	3.36	17.03	7.18	NA
Earnings Yield	2.00%	3.09%	4.69%	1.74%	3.42%	1.72%
Debt/Equity	0.14	0.26	0.66	0.00	0.21	NA
Cash Flow (\$/share)	6.34	2.23	6.83	23.71	14.35	27.32
Growth Score	B	-	-	C	D	B
Historical EPS Growth (3-5 Years)	20.56%	7.78%	9.59%	54.76%	5.66%	NA
Projected EPS Growth (F1/F0)	50.38%	35.95%	21.62%	100.57%	37.53%	54.41%
Current Cash Flow Growth	34.94%	1.61%	0.99%	292.88%	-14.79%	30.11%
Historical Cash Flow Growth (3-5 Years)	15.83%	12.28%	7.28%	63.09%	6.56%	16.31%
Current Ratio	2.75	1.85	1.39	1.52	1.33	NA
Debt/Capital	12.12%	19.36%	41.51%	0.00%	17.69%	NA
Net Margin	18.19%	2.64%	11.95%	16.27%	88.54%	NA
Return on Equity	25.08%	12.94%	16.48%	14.65%	12.02%	NA
Sales/Assets	0.89	0.87	0.51	0.61	0.34	NA
Projected Sales Growth (F1/F0)	23.91%	6.84%	9.54%	50.38%	17.90%	28.86%
Momentum Score	F	-	-	B	B	D
Daily Price Change	-0.39%	0.00%	-0.11%	0.18%	-0.78%	5.15%
1-Week Price Change	2.02%	-2.48%	0.43%	-1.62%	2.34%	-10.50%
4-Week Price Change	4.16%	0.67%	1.09%	1.53%	-1.13%	5.36%
12-Week Price Change	27.30%	0.08%	6.77%	11.87%	0.94%	23.02%
52-Week Price Change	65.67%	48.68%	39.06%	135.13%	37.78%	95.86%
20-Day Average Volume (Shares)	354,073	308,639	1,889,295	495,229	303,758	51
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-0.03%	0.00%
EPS F1 Estimate 4-Week Change	-0.31%	0.00%	0.01%	0.42%	2.36%	0.00%
EPS F1 Estimate 12-Week Change	16.09%	2.81%	3.54%	13.79%	2.36%	10.76%

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

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	0.92%	1.90%	NA
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.

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	D
Growth Score	B
Momentum Score	F
VGM Score	D

Disclosures

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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 forwardlooking 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 mediumterm 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 mostrecent 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.