

## DENTSPLY SIRONA (XRAY)

**\$63.18** (As of 06/18/21)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/12/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: B

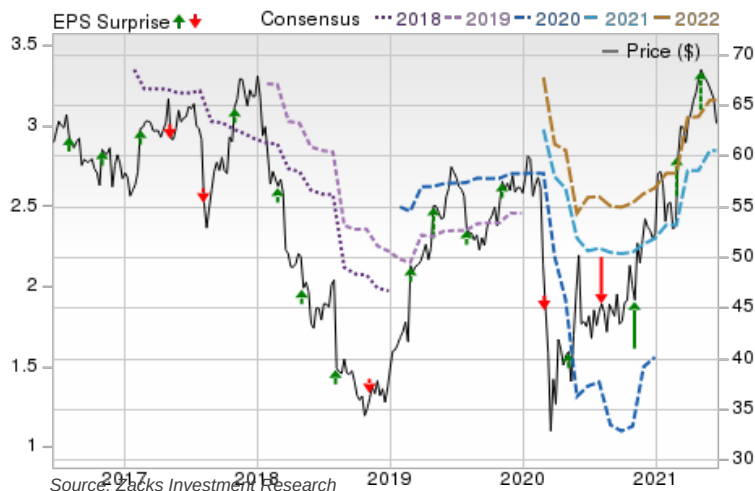
Growth: C

Momentum: C

### Summary

DENTSPLY SIRONA saw growth in both Consumables and Technologies & Equipment in the first quarter of 2021, driven by a stronger-than-expected recovery in global dental demand. Its strategic buyouts of Byte and Datum Dental are major positives. Per the first-quarter 2021 earnings call, the company's R&D has been increased substantially in 2021 and as per management this trend is likely to continue in the near future. A raised financial outlook for 2021 buoys optimism. A strong liquidity position is an added plus. The company's results in the first quarter were better-than-expected. Shares of DENTSPLY SIRONA outperformed its industry over the past six months. Yet, the company witnessed a decline in organic sales in its Technologies & Equipment segment during the quarter. Forex woes also pose a challenge to the company.

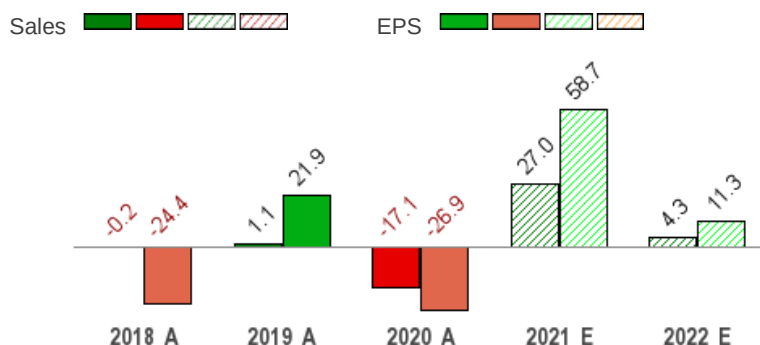
### Price, Consensus & Surprise



### Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$69.54 - \$40.15           |
| 20-Day Average Volume (Shares) | 1,141,900                   |
| Market Cap                     | \$13.8 B                    |
| Year-To-Date Price Change      | 20.7%                       |
| Beta                           | 0.93                        |
| Dividend / Dividend Yield      | \$0.44 / 0.6%               |
| Industry                       | Medical - Dental Supplies   |
| Zacks Industry Rank            | Bottom 47% (134 out of 252) |

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



### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 1,065 E | 1,052 E | 1,071 E | 1,242 E | 4,426 E |
| 2021 | 1,027 A | 997 E   | 1,024 E | 1,184 E | 4,244 E |
| 2020 | 874 A   | 491 A   | 895 A   | 1,082 A | 3,342 A |

### EPS Estimates

|      | Q1       | Q2        | Q3       | Q4       | Annual*  |
|------|----------|-----------|----------|----------|----------|
| 2022 | \$0.75 E | \$0.72 E  | \$0.75 E | \$0.93 E | \$3.16 E |
| 2021 | \$0.72 A | \$0.65 E  | \$0.66 E | \$0.85 E | \$2.84 E |
| 2020 | \$0.43 A | -\$0.18 A | \$0.67 A | \$0.87 A | \$1.79 A |

\*Quarterly figures may not add up to annual.

|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 30.9%      |
| Last Sales Surprise           | 10.5%      |
| EPS F1 Estimate 4-Week Change | 0.0%       |
| Expected Report Date          | 08/05/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 30.4       |
| P/E F1                        | 22.3       |
| PEG F1                        | 1.9        |
| P/S TTM                       | 4.0        |

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.

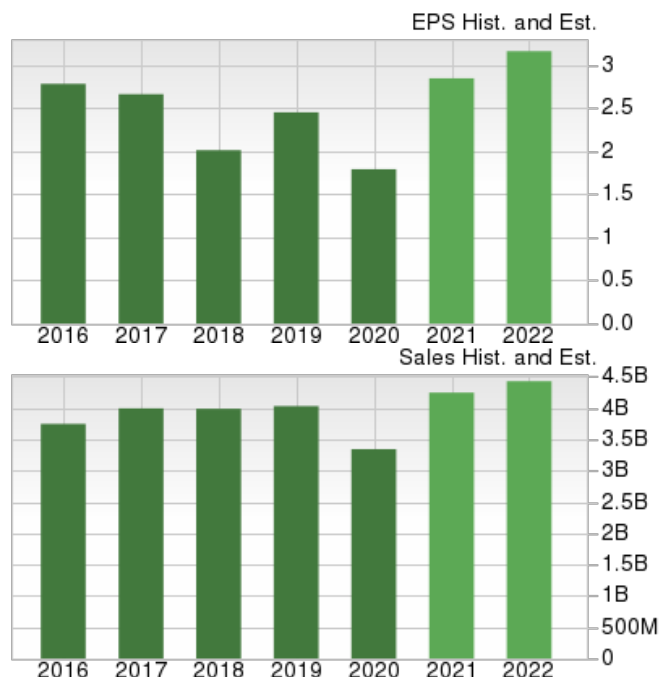
## Overview

Headquartered in York, PA, DENTSPLY SIRONA Inc. (XRAY) is a global leader in the design, development, manufacture and marketing of dental consumables, dental laboratory products, dental specialty products and consumable medical device products. In addition, it provides dental technology products, including dental implants and related scanning equipment, treatment software, and orthodontic appliances for dental practitioners and specialist; and dental equipment, such as treatment centers, imaging equipment, and computer aided design and machining systems for dental practitioners. Further, the company offers healthcare consumable products, such as urology catheters, medical drills, and other non-medical products.

Post the DENTSPLY-SIRONA merger, the business has been organized into two reporting segments: Dental & Healthcare Consumables and Technologies.

Dental & Healthcare Consumables comprises preventive, restorative, instruments, endodontic, and laboratory dental products, as well as consumable medical device products.

Technologies consist of dental implants, computer-aided design (CAD)/computer-aided manufacturing (CAM) systems, imaging systems, treatment centers and orthodontic products.



## 2020 at a Glance

Full-year revenues were \$3.34 billion, down 17.1%. Technologies & Equipment segment accounted for 58.7% of net revenues, while the Consumables segment accounted for 41.3% of net revenues.



## Reasons To Buy:

▲ **Stock Performance:** Over the past six months, shares of DENTSPLY have gained 21.9%, compared the industry's rally of 7.3%. The company witnessed revenues and earnings growth of 12.1% and 67%, respectively, in the first quarter. Moreover, it continued to remain stringent regarding expenses, thereby leading to expansion of adjusted operating margin in the quarter under review. Also, other actions taken by the team at DENTSPLY helped in generating positive cash flow from operations. Notably, in the first quarter, the company displayed growth in both Consumables and Technologies & Equipment, driven by a stronger-than-expected recovery in global dental demand.

Strong focus in R&D is a key positive for DENTSPLY. This apart, DENTSPLY's CAD/CAM dental imaging platform is fortifying its foothold in the global dental markets.

Despite the ongoing uncertainty, the company is optimistic about being well-positioned against several scenarios on the back of its commitment toward execution and ability to adapt.

Its strategic acquisition of Byte, a rapidly-growing direct-to-consumer, doctor-directed clear aligner company, and the buyout of Datum Dental are major positives. A raised outlook for 2021 has favored the stock. A strong liquidity position is an added plus.

▲ **New Digital-Implant Workflow in Dentistry:** In a bid to revolutionize digital-implant workflow in dental care, DENTSPLY's single tooth replacement solution — Azento — needs a special mention. It is also available in Canada and Europe now. Azento reduces the risk of complications in single-tooth replacement procedures. It revolutionizes the digital implant workflow by restructuring implant-planning service, purchase and delivery. A report by the Meticulous Research states that the global tooth replacement market is expected to reach \$13,035.2 million by 2022, at a CAGR of 6.9%. Despite weak performances in the previous quarters, management is optimistic about the long-term potential of the company's digital dentistry and workflow management as it is well positioned with respect to the diagnostic expertise of its X-ray portfolio, which is critical for implants. Per the first-quarter 2021 earnings call, the company has both Imaging and digital impression businesses, which forms the foundation of the digital ecosystem. Combination of these businesses with that of the company's treatment center line has led to DENTSPLY having one of the largest installed bases of digital assets in all of dental, a key to its strategy going forward.

▲ **R&D Boosts Product Innovation:** DENTSPLY's overall growth strategy rests on product innovation. The company's solid internal growth, despite challenging macroeconomic headwinds, is primarily driven by its innovative new products. The company pursues several research and development (R&D) initiatives to support technological development. Per the first-quarter 2021 earnings call, the company's R&D has been increased substantially in 2021 and as per management this trend is likely to continue in the near future. In fact, in the first quarter, the company's spending on R&D was up 8.8% to \$37 million, and the momentum is anticipated to continue as the year progresses. This in turn will enable DENTSPLY to focus on more significant and sustainable innovation. The company's targeted R&D investments are on track to reach approximately \$160 million in 2021.

This allows the company to focus on developing larger and more impactful initiatives in the quarters ahead. It is encouraging to note that the company is successfully fortifying its foothold in the highly competitive MedTech space with high-end products like PrimeScan, GP Ortho software and many more. Growing preventive and restorative product portfolio is also expected to drive market expansion in the continent. The company's diversified product portfolio and recurring revenue base are key growth catalysts in the long run.

▲ **Product Launches:** DENTSPLY's introduction of PrimeScan, a digital impression scanner and Primemill, among other few major products, has been boosting the company's top line over the past couple of years. It also provided a boost to the consumable areas with Surefil one, Palodent 360 and the digital denture program. Moreover, the company's Astra EV Implant has been getting good traction as well.

Other launches include Surefil One and a new generation of endodontic files — TruNatomy. Another critical piece of the company's sustainable foundation for growth is the differentiated clinical education program, which has been rolled out in the United States in recent times.

Additionally, per the second-quarter 2020 earnings call, management announced two portfolio shaping activities that will further consolidate its manufacturing footprint, boost productivity and lower fixed costs. The Axeos 3D imaging unit and SureSmile clear aligner system stand out for their unique features and are likely to contribute to the company's near-term growth. The company continued gaining from the launch of Axeos, Primemill and SureFil one as these received favorable customer feedback through the fourth quarter. Apart from these proven products, the company has an excellent new product pipeline that will positively impact 2021 and beyond.

▲ **CAD/CAM Unit in Focus:** DENTSPLY's computer-aided design CAD/CAM is a dental imaging platform and a major foundation in global dental markets. CAD/CAM is a field of dental supplies and prosthodontics using computer-aided design and computer-aided manufacturing technologies. Per Technavio, the global dental CAD/CAM market will witness a CAGR of more than 8% by 2021. We believe that DENTSPLY is likely to benefit from the trends. The company also offers an advanced, CAD platform developed for dental professionals to deliver consistently predictable orthodontic outcomes. The company saw solid performance by its Clear Aligners franchise in the first quarter of 2021, with the overall SureSmile and Byte teams being optimistic about the growth trajectory.

In January 2021, the company acquired Byte, a fast-growing clear aligner company in an all-cash deal for \$1.04 billion. It is worth mentioning that Byte maintained its leadership position in the rapidly-growing direct-to-consumer, doctor-directed clear aligner market. This buyout is likely to provide a boost to DENTSPLY's Technologies & Equipment segment. In the same month, the company also acquired Datum Dental which will add the clinically superior proprietary technology GLYMATRIX and its strong OSSIX biomaterial to the former's digital dentistry portfolio.

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▲ **Restructuring Plan:** DENTSPLY announced a comprehensive plan (includes a restructuring) to accelerate revenue growth, expand margins and simplify its business. Per the first-quarter 2021 earnings call, the company is on track to achieve \$250 million in net annual cost savings by 2021 through streamlining the organization and consolidating functions. Furthermore, this strategy is currently expected to boost the top line by 4-5% and deliver an adjusted operating income margin of 22% by 2022. The company remains on track to achieve its long-term cost-saving goal of \$250 million. It delivered another \$70 million of savings in fiscal 2020, which has brought the total cost savings to \$160 million since the announcement of its restructuring in 2018. In first-quarter 2021, the company managed to realize further savings in the restructuring plan close to \$16 million.

▲ **Stable Liquidity Position:** DENTSPLY exited the first quarter with cash and cash equivalents of \$318 million, significantly down from \$438 million in the preceding quarter. The company's long-term debt was \$1.92 billion in the quarter under review, slightly down from \$1.98 billion sequentially. We can see that the long-term debt level is significantly higher than the quarter's cash and cash equivalent level. Also, we can see that the company ended the quarter with \$328 million of current debt on its balance sheet, up from \$299 million in the preceding quarter, which is somewhat higher than the cash and cash equivalent level.

Debt comparison with the industry is, however, favorable as industry's total debt of \$4.79 billion is much higher than the company's debt level.

The quarter's total debt-to-capital of 28.1% stands at a slightly high level, indicating a leveraged balance sheet. However, it represents a sequential decrease from 28.5% at the end of 2020. This compares favorably with the total debt-to-capital of the industry, which stands at a higher level of 52.2%. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

The times interest earned for the company stands at 5%.

In the reported quarter, the company incurred an expense of \$22 million as payments to shareholders. Also, it executed \$90 million in share repurchases. The current payout ratio stands at a slightly high level of 19.2%, representing a sequential decrease from 22.3% from the end of 2020. 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 over-burdened. However, this compares unfavorably with the payout rate of the industry which stands at a lower level (15.7%).

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## Reasons To Sell:

▼ **Weak Trends:** In first-quarter 2020, DENTSPLY's digital dentistry got negatively impacted by the difficult CAD/CAM comparisons due to sales growth in the prior-year quarter. Moreover, Technologies & Equipment witnessed a decline in organic sales in the quarter under review. Per management, higher shipping costs and other inflationary items in the supply chain are likely to persist for the next few quarters.

▼ **Foreign Exchange Headwinds:** DENTSPLY has significant international presence. Therefore, a strengthening U.S. dollar, especially against the euro, as well as emerging market currencies negatively impacts the company's results. The company faces significant pricing pressure due to intensifying competition. DENTSPLY conducts its operations, both domestic and foreign, under highly competitive market conditions. The size and number of the company's competitors vary by product line and from region to region.

Foreign exchange volatility is expected to present a major headwind in the coming quarters.

## Last Earnings Report

### DENTSPLY Q1 Earnings & Revenues Beat Estimates

DENTSPLY SIRONA reported first-quarter 2021 adjusted earnings per share of 72 cents, beating the Zacks Consensus Estimate of 55 cents by 30.9%. The figure also grew 67.4% year over year.

#### Revenues

For the quarter, revenues came in at \$1.03 billion, beating the Zacks Consensus Estimate by 10.5%. The top line also rose 17.5% year over year. Sales further grew 12.1% on an organic basis.

#### Business Details

##### *Consumables*

Consumable revenues grew 21.5% year over year and 21.2% on an organic basis in the first quarter to \$430 million. Per management, the upside was driven by sales of all product categories rebounding in the quarter.

##### *Technologies & Equipment*

Technologies & Equipment revenues grew 14.8% year over year to \$597 million in the reported quarter. On an organic basis, net sales rose 5.8%. Per management, the upside was driven by sales restoration in Equipment & Instruments and Implants units. Decrease in Digital Dentistry revenues was partially offset by growth in clear aligners.

#### Revenues by Geography

In the United States, revenues rose 15.7% to \$347 million. Rest of World revenues grew 30.3% year over year to \$262 million. Also, European revenues grew 12.1% year over year to \$418 million.

#### Margin Analysis

Gross profit in the reported quarter amounted to \$579 million, up 23.7% on a year-over-year basis. Gross margin was 56.4%, expanding 283 basis points (bps).

Adjusted operating profit came in at \$157 million, up 109.3% from the year-ago figure. Adjusted operating margin was 15.3%, up 671 bps.

#### Financial Condition

DENTSPLY SIRONA exited the first quarter of 2021 with cash and cash equivalents of \$318 million, down from \$438 million in the fourth quarter of 2020.

Net cash provided by operating activities was \$49 million compared with \$10 million used in operating activities in the year-ago period.

#### 2021 Guidance

The company now projects 2021 revenues within \$4.10-\$4.30 billion, up from the previously issued \$4-\$4.3 billion band. This reflects 23-28% growth on a reported basis and 18-25% upside on an organic basis. The Zacks Consensus Estimate for the same is pegged at \$4.12 billion.

The company expects an adjusted earnings per share of \$2.75-\$2.90, up from the prior guidance of \$2.60-\$2.80. The Zacks Consensus Estimate for the same is pegged at \$2.72.

| Quarter Ending   | 03/2021      |
|------------------|--------------|
| Report Date      | May 06, 2021 |
| Sales Surprise   | 10.51%       |
| EPS Surprise     | 30.91%       |
| Quarterly EPS    | 0.72         |
| Annual EPS (TTM) | 2.08         |

## Recent News

### DENTSPLY SIRONA Completes Asset Buyout of Propel Orthodontics: Jun 4, 2021

DENTSPLY SIRONA announced that it has acquired substantially all of the assets of Propel Orthodontics in an all-cash deal for \$131 million. The assets acquired include the VPro device and the Fastrack Mobile App.

## Valuation

DENTSPLY SIRONA's shares are up 20.7% in the year-to-date period while up 44.1% in the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.8% in the year-to-date period, while that in the Zacks Medical Market are down 0.1%. Over the past year, the stocks in the Zacks sub-industry are up 27.2% while that in the sector are up 2.4%.

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

The stock is currently trading at 21.1X Forward 12-months earnings, which compares to 18.7X for the Zacks sub-industry, 23X 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 29.4X and as low as 11.9X, with a 5-year median of 20.9X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 22.1X forward 12-months earnings.

The table below shows summary valuation data for XRAY.

| Valuation Multiples - XRAY |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 21.12 | 18.69        | 23.01  | 21.36   |
|                            | 5-Year High   | 29.37 | 19.77        | 23.01  | 23.83   |
|                            | 5-Year Low    | 11.97 | 13.63        | 15.82  | 15.31   |
|                            | 5-Year Median | 20.90 | 16.98        | 19.33  | 18.05   |
| P/S F12M                   | Current       | 3.20  | 0.42         | 2.67   | 4.63    |
|                            | 5-Year High   | 3.89  | 0.43         | 3.17   | 4.74    |
|                            | 5-Year Low    | 1.72  | 0.23         | 2.27   | 3.21    |
|                            | 5-Year Median | 3.10  | 0.29         | 2.78   | 3.72    |
| P/B TTM                    | Current       | 2.80  | 5.68         | 4.43   | 6.93    |
|                            | 5-Year High   | 3.06  | 5.88         | 5.05   | 7.08    |
|                            | 5-Year Low    | 1.39  | 2.54         | 3.03   | 3.84    |
|                            | 5-Year Median | 1.98  | 3.45         | 4.35   | 5.02    |

As of 06/18/2021

Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Bottom 47% (134 out of 252)



## Top Peers

| Company (Ticker)                                 | Rec        | Rank |
|--------------------------------------------------|------------|------|
| Henry Schein, Inc. (HSIC)                        | Outperform | 2    |
| AmerisourceBergen Corporation (ABC)              | Neutral    | 3    |
| Align Technology, Inc. (ALGN)                    | Neutral    | 3    |
| Danaher Corporation (DHR)                        | Neutral    | 2    |
| Integra LifeSciences Holdings Corporation (IART) | Neutral    | 3    |
| IDEXX Laboratories, Inc. (IDXX)                  | Neutral    | 2    |
| 3M Company (MMM)                                 | Neutral    | 3    |
| Patterson Companies, Inc. (PDCO)                 | Neutral    | 3    |

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

| Industry Comparison Industry: Medical - Dental Supplies |           |            |           | Industry Peers |            |         |
|---------------------------------------------------------|-----------|------------|-----------|----------------|------------|---------|
|                                                         | XRAY      | X Industry | S&P 500   | ALGN           | HSIC       | PDCO    |
| Zacks Recommendation (Long Term)                        | Neutral   | -          | -         | Neutral        | Outperform | Neutral |
| Zacks Rank (Short Term)                                 | 3         | -          | -         | 3              | 2          | 3       |
| VGM Score                                               | B         | -          | -         | B              | A          | C       |
| Market Cap                                              | 13.79 B   | 3.69 B     | 29.25 B   | 47.61 B        | 10.56 B    | 3.34 B  |
| # of Analysts                                           | 9         | 5.5        | 12        | 7              | 8          | 8       |
| Dividend Yield                                          | 0.63%     | 0.00%      | 1.38%     | 0.00%          | 0.00%      | 3.01%   |
| Value Score                                             | B         | -          | -         | D              | A          | B       |
| Cash/Price                                              | 0.02      | 0.07       | 0.06      | 0.02           | 0.01       | 0.05    |
| EV/EBITDA                                               | 31.81     | 14.56      | 16.74     | 98.37          | 15.02      | 16.87   |
| PEG F1                                                  | 2.00      | 1.79       | 2.04      | 2.46           | 1.66       | 1.36    |
| P/B                                                     | 2.80      | 4.48       | 3.99      | 14.03          | 2.64       | 3.57    |
| P/CF                                                    | 15.52     | 16.77      | 16.91     | 25.38          | 17.53      | 3.62    |
| P/E F1                                                  | 22.87     | 22.21      | 20.66     | 57.14          | 18.63      | 16.24   |
| P/S TTM                                                 | 3.95      | 3.60       | 3.31      | 16.91          | 0.99       | 0.59    |
| Earnings Yield                                          | 4.50%     | 3.20%      | 4.76%     | 1.75%          | 5.37%      | 6.16%   |
| Debt/Equity                                             | 0.39      | 0.26       | 0.66      | 0.00           | 0.13       | 0.52    |
| Cash Flow (\$/share)                                    | 4.07      | 2.67       | 6.83      | 23.71          | 4.28       | 9.54    |
| Growth Score                                            | C         | -          | -         | B              | A          | F       |
| Historical EPS Growth (3-5 Years)                       | -8.81%    | 7.78%      | 9.59%     | 54.76%         | -1.30%     | -10.52% |
| Projected EPS Growth (F1/F0)                            | 58.91%    | 35.95%     | 21.58%    | 100.57%        | 35.57%     | 3.53%   |
| Current Cash Flow Growth                                | 1.61%     | 2.02%      | 0.99%     | 292.88%        | -13.79%    | 327.70% |
| Historical Cash Flow Growth (3-5 Years)                 | 11.90%    | 12.28%     | 7.28%     | 63.09%         | -1.55%     | 27.55%  |
| Current Ratio                                           | 1.40      | 1.85       | 1.39      | 1.52           | 1.68       | 1.43    |
| Debt/Capital                                            | 28.06%    | 19.36%     | 41.51%    | 0.00%          | 19.36%     | 34.30%  |
| Net Margin                                              | 4.99%     | 1.53%      | 11.95%    | 16.27%         | 4.14%      | -8.54%  |
| Return on Equity                                        | 9.45%     | 12.94%     | 16.48%    | 14.65%         | 12.18%     | 21.53%  |
| Sales/Assets                                            | 0.39      | 0.87       | 0.51      | 0.61           | 1.38       | 2.05    |
| Projected Sales Growth (F1/F0)                          | 26.22%    | 6.84%      | 9.41%     | 50.38%         | 15.95%     | 4.61%   |
| Momentum Score                                          | C         | -          | -         | B              | A          | B       |
| Daily Price Change                                      | -2.96%    | -1.97%     | -1.31%    | -1.91%         | -2.18%     | -2.04%  |
| 1-Week Price Change                                     | -3.64%    | -2.48%     | -1.91%    | -1.62%         | -4.92%     | -5.68%  |
| 4-Week Price Change                                     | -6.37%    | -1.38%     | 0.25%     | 1.67%          | -4.20%     | -0.46%  |
| 12-Week Price Change                                    | 3.10%     | 1.13%      | 4.83%     | 13.87%         | 10.36%     | 6.44%   |
| 52-Week Price Change                                    | 44.84%    | 42.60%     | 34.50%    | 130.59%        | 24.16%     | 78.37%  |
| 20-Day Average Volume (Shares)                          | 1,141,900 | 305,011    | 1,830,063 | 479,070        | 803,049    | 792,805 |
| EPS F1 Estimate 1-Week Change                           | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.91%      | 0.53%   |
| EPS F1 Estimate 4-Week Change                           | 0.00%     | 0.00%      | 0.01%     | 0.42%          | 0.78%      | 0.53%   |
| EPS F1 Estimate 12-Week Change                          | 5.33%     | 2.81%      | 3.48%     | 13.79%         | 9.44%      | 0.53%   |

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% | 0.92% | 1.71% | -0.99% |
|--------------------------------|-------|-------|-------|-------|-------|--------|

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>C</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>B</b> |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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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.

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

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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.