

Zimmer Biomet (ZBH)

\$161.18 (As of 06/29/21)

Price Target (6-12 Months): **\$169.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

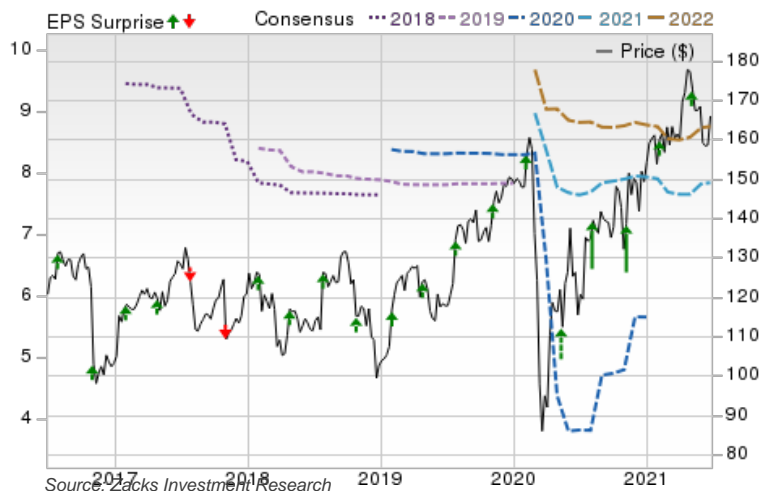
Growth: B

Momentum: B

Summary

Over the past six months, Zimmer Biomet has outperformed its industry. The company's core hip and S.E.T. business registered growth in the last-reported first-quarter 2021. Operating margin expansion was another upside. Meanwhile, the spin-off decision of the non-core dental and spine business is strategic. Current full-year guidance with strong reported revenue growth expectation buoys optimism. Notably, Zimmer Biomet ended the first quarter with better-than-expected revenues and earnings. On the flip side, continued pressure from the COVID-19 pandemic slowed the recovery of elective procedures in the quarter. The year-over-year earnings and constant currency revenue growth were lackluster as sales declined across a few of its operating segments and geographies. Pricing continues to remain a major headwind as well.

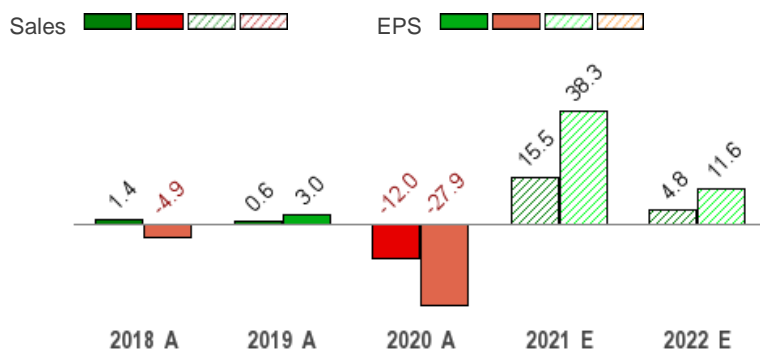
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$180.36 - \$115.08
20-Day Average Volume (Shares)	1,451,393
Market Cap	\$33.6 B
Year-To-Date Price Change	4.6%
Beta	1.35
Dividend / Dividend Yield	\$0.96 / 0.6%
Industry	Medical - Products
Zacks Industry Rank	Bottom 28% (180 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,951 E	2,092 E	2,043 E	2,330 E	8,506 E
2021	1,847 A	1,972 E	2,018 E	2,265 E	8,115 E
2020	1,784 A	1,226 A	1,929 A	2,085 A	7,025 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.92 E	\$2.10 E	\$2.06 E	\$2.60 E	\$8.75 E
2021	\$1.71 A	\$1.84 E	\$1.91 E	\$2.37 E	\$7.84 E
2020	\$1.70 A	\$0.05 A	\$1.81 A	\$2.11 A	\$5.67 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	13.3%
Last Sales Surprise	5.9%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	08/03/2021
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	20.6
PEG F1	3.1
P/S TTM	4.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/29/2021. The report's text and the

analyst-provided price target are as of 06/30/2021.

Overview

Headquartered in Warsaw, IN, Zimmer Biomet is a leading musculoskeletal healthcare company that designs, manufactures and markets orthopedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental implants; and related surgical products. With operations in over 25 countries, Zimmer markets products in more than 100 countries.

In 2015, Zimmer Holdings, Inc. (the legacy company) acquired Biomet, Inc. to form a new consolidated company.

Zimmer Biomet's Product Portfolio

Four Zimmer product categories has been retained post the merger. These are:

Knees (comprising 34% of total revenues in 2020; down 15.3% from 2019): Major products include Persona personalized knee system, NexGen complete knee solution, Vanguard Knee, Oxford Partial Knee

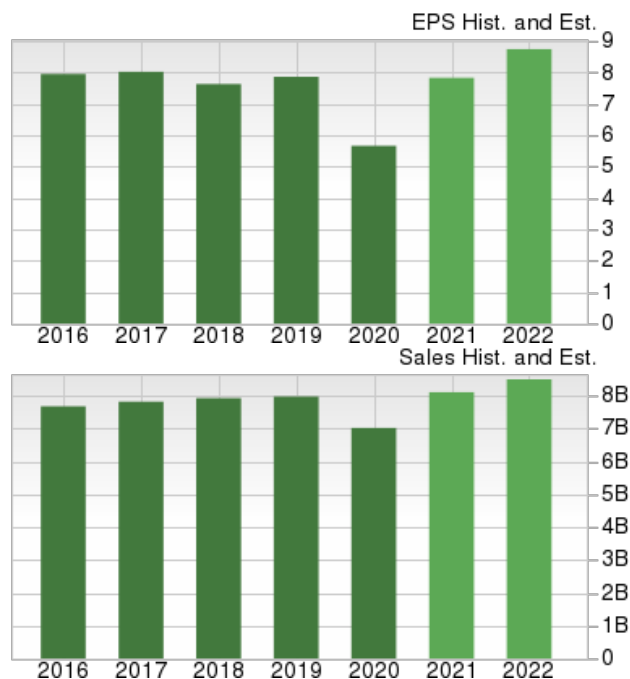
Hips (24.9%; down 9.9%): Significant hip brands include Zimmer M/L Taper Hip Prosthesis, Taperloc Hip System, Arcos Modular Hip System, Continuum Acetabular System, G7 Acetabular System

S.E.T. (18.8%; down 8.8%): This product category has been created comprising Surgical, Sports Medicine, Foot and Ankle, Extremities and Trauma. The brands include Intellicart System, A.T.S. Tourniquet Systems, JuggerKnot Soft Anchor System, Gel-One 1 Cross-linked Hyaluronate, Trabecular Metal TM Reverse Shoulder System , Comprehensive Shoulder among others.

Dental, Spine & CMFT (Craniomaxillofacial and Thoracic) (14.9%; down 10.6%): Major brands include Tapered Screw-Vent Implant System, 3i T3 Implant, Polaris Spinal System, Mobi-C Cervical Disc.

In addition, there is a standalone Other category that includes bone cement and office based technology products.

Zimmer Biomet's geographic segments are the Americas, Europe, Middle East & Africa (EMEA) and Asia Pacific.



Reasons To Buy:

- ▲ **Share Price Movement:** In the past six months, Zimmer Biomet has outperformed its industry. The stock has gained 4.6% compared with the 4.1% growth of the industry. Despite challenging market conditions in the form of pricing pressure, the company witnessed gradual stability in the global musculoskeletal market with better-than-expected revenues and earnings growth in the first quarter of 2021. Core hip and S.E.T. business registered growth in the reported quarter. Operating margin expansion was another upside.

Zimmer's strategic acquisitions like Biomet and LDR, focus on emerging markets to drive growth, strong balance sheet position, stabilizing market trend bolstered our confidence in this stock.

For 2021, the company expects to see seasonality in revenues that will resemble pre-COVID cadence. Current full-year guidance with reported revenue growth expectation of 14% to 17% over 2020 with an expected foreign exchange tailwind of approximately 150 basis points buoys optimism.

Moreover, Zimmer Biomet's spin-off decision of the non-core dental and spine business is expected to prove strategic.

- ▲ **Dental and Spine Spin-Off Plan to Bode Well:** According to Zimmer Biomet management, this planned spin-off of its Spine and Dental business is part of the company's third phase of ongoing transformation, which includes changing the complexion of the business through active portfolio management in order to accelerate growth and drive value creation. As per management, for Zimmer Biomet, the transaction is an important next step in the company's transition into a more streamlined company with focus in greater and more optimized resource allocation towards innovation in core businesses that are profitable and where it sees attractive markets with opportunities to become market leaders.

The company also noted that, its combined Spine, Dental and bone healing business have a gross margin profile that's a little bit below the overall company average. As a result, the spinoff is also going to help in improving the company average. Per the latest update, the company has appointed Vafa Jamalias the president of NewCo.

- ▲ **2021 Recovery in Cards:** Despite the near-term pressure, Zimmer Biomet is confident about market recovery in 2021. Further, the longer-term financial profile of the company is driving continued investment into priority areas of the business. The company currently expects to see seasonality in revenues in 2021 that has already begun to resemble pre-COVID cadence. Additionally, Zimmer Biomet's investments in R&D and key commercial initiatives will increase throughout the year. Despite that, the company expects operating margins to improve as by end 2021 banking on robust revenue growth.

- ▲ **Long-Term Strategy Looks Promising:** In 2019, Zimmer Biomet pitched its plans to begin delivering 2-3% growth in 2020 and stabilize its business. In order to achieve the goal, the company has designed a three-pillar strategy for 2020 and beyond. First, the company is targeting to be labeled as the most preferred organization to work in. Second, Zimmer Biomet is trying to build the brand image as a trusted partner to its stakeholders. Third, the company wants to deliver high shareholder return. For this, Zimmer Biomet is planning to implement a five-year plan that will help improve the company's financials.

- ▲ **Gradually Stabilizing Market:** Despite challenging market conditions in the form of pricing pressure, the last few quarters witnessed gradual stability in the global musculoskeletal market with better-than-expected sales growth in certain geographies, banking on improved procedural volume. This was driven by favorable demographics and growing utilization of musculoskeletal healthcare in emerging markets and under-penetrated developed markets. The focused execution of the company's global sales teams amid a stable global musculoskeletal market also helped accelerate global sales for Persona, the personalized knee system.

With its expectation that the market will stabilize further, Zimmer Biomet is confident about its differentiated portfolio that comprises both premium and value-based offerings.

- ▲ **Focus on Emerging Markets to Drive Growth:** Over the recent past, Zimmer Biomet has been working to strengthen its foothold in emerging markets that provide long-term opportunities for growth. The company's strategic investments in these regions over the past several quarters to improve operational and sales performance are yielding results. While the integration of Biomet is over, the combined company has started to get benefitted from strong presence in the emerging markets with an extended portfolio that includes upper and lower joints. According to the combined company, this will help develop the extremities and trauma business going forward. Zimmer Biomet expects to establish critical mass in both spine and dental that will position the company to compete effectively and gain share in these significant markets.

Markets opportunity is expected to grow to \$66.6 billion by 2025 for the orthopedic implants globally. Within emerging market, we note that strength in Asia Pacific market continued to drive strong revenue growth so far. Post the COVID-19 mayhem gets past; banking on a cadence of product launches and strong customer adoptions, Zimmer Biomet is expected to continue with this trend.

- ▲ **Overall Healthy Solvency Structure:** Zimmer Biomet exited the first quarter with cash and cash equivalents of \$724.3 million compared with \$802.1 million at fourth-quarter 2020 end. Meanwhile, total debt came up to \$7.84 billion, a rise from the fourth-quarter figure of \$8.13 billion. The reported quarter's total debt was much higher than the corresponding cash and cash equivalent level indicating tough solvency position. However, the company has near-term-payable debt of \$300 million on its balance sheet, much lower than the present level of cash in hand. This is a relief for the investors as during the period of global economic uncertainties when the company is facing procedural deferrals and

low demand for non-COVID-19 musculoskeletal products, it is holding sufficient cash for debt repayment.

On the other hand, the quarter's total debt-to-capital ratio stands at 0.36 indicating a moderately leveraged balance sheet, down from 0.40 in the fourth quarter.

The current payout ratio stands at a low level of 17%, representing a sequential rise from 16.9% from the end of the fourth quarter. Amid the pandemic-led economic crisis, this payout rate looks sustainable.

Reasons To Sell:

▼ **Pricing Pressure Continues to Persist:** Pricing continues to remain a major headwind for Zimmer Biomet. The company's top-line growth in the reported quarter was partially offset by continued pricing pressure, mostly in the Americas and Europe operating segments. We remain concerned about the pricing scenario as it will be affected by cost containment efforts by governmental healthcare, local hospitals and health systems. In 2020, pricing pressure was negative 2.4%.

▼ **Competitive Landscape:** The presence of a large number of players has made the medical devices market intensely competitive. The orthopedic industry in particular is highly competitive with the presence of players like Stryker, Johnson & Johnson's DePuy, Smith & Nephew and Medtronic. Zimmer Biomet needs to constantly introduce or acquire new products to withstand the competitive pressure and maintain its market share.

▼ **Exposed to Currency Movement:** Zimmer Biomet records a significant portion its sales from the international market. This makes it highly exposed to currency fluctuations.

Factors like macroeconomic uncertainties, pricing pressure and unfavorable currency fluctuations adversely impacted Zimmer Biomet's sales during the reported quarter.

Last Earnings Report

Zimmer Biomet Q1 Sales Up Y/Y

Zimmer Biomet posted first-quarter 2021 adjusted earnings per share (EPS) of \$1.71, beating the Zacks Consensus Estimate by 13.2%. The figure edged past the year-ago adjusted number by 0.6% year over year.

The quarter's adjustments include certain inventory amortization, restructuring, quality remediation, acquisition, integration, and related costs among others.

On a reported basis, the company registered earnings of 94 cents per share against loss of \$2.46 a year ago.

Quarter Ending

03/2021

Report Date	May 04, 2021
Sales Surprise	5.94%
EPS Surprise	13.25%
Quarterly EPS	1.71
Annual EPS (TTM)	5.68

Revenue Details

First-quarter net sales of \$1.85 billion were up 3.6% (up 0.8% at constant exchange rate or CER) year over year. The figure exceeded the Zacks Consensus Estimate by 6.3%.

Segmental Details

During the first quarter, sales generated in the Americas totaled \$1.12 billion (up 13% year over year at CER) while the same in EMEA (Europe, the Middle East and Africa) grossed \$384.2 million (down 10.3% year over year at CER). Asia-Pacific registered 15.5% rise at CER to \$348.2 million.

Segments

Sales in the Knees unit declined 5.2% year over year at CER to \$614.3 million. Hips recorded a 0.3% improvement at CER to \$447 million. Revenues in the S.E.T. (Sports Medicine, Extremities and Trauma) unit increased 7.2% year over year to \$417.6 million.

Among other segments, Dental & Spine rose 9.6% at CER to \$246 million. Other revenues were down 2.5% to \$122.5 million.

For investors' note, CMFT (Craniofacial and Thoracic) products, previously reported in the Dental, Spine & CMFT category, are now included in the S.E.T. category. Meanwhile, the company is progressing with the planned spin-off procedure of the dental & spine arm.

Margins

Gross margin, after excluding intangible asset amortization, was 72%, reflecting a contraction of 65 basis points (bps) in the first quarter. Selling, general and administrative expenses were down 7.1% to \$770.1 million. Research and development expenses declined 4.1% to \$94.4 million. Adjusted operating margin expanded 454 bps to 25.3% during the quarter.

Cash Position

Zimmer Biomet exited the first quarter of 2021 with cash and cash equivalents of \$724.3 million compared with \$802.1 million at fourth-quarter end. Long-term debt at the end of the reported quarter totaled \$7.54 billion compared with \$7.63 billion at the end of the sequentially-last quarter.

Cumulative net cash provided by operating activities at the end of the first quarter was \$246.5 million compared with \$450.9 million in the year-ago period.

2021 Guidance

This time, the company provided its financial guidance for 2021.

Reported revenue growth is expected in the range of 14% to 17% compared with the last year.

Adjusted EPS for the full year is expected in the range of \$7.60 to \$8.00.

The Zacks Consensus Estimate for 2021 adjusted earnings is pegged at \$7.65 on revenues of \$7.94 billion.

Recent News

Zimmer Biomet Gets FDA Clearance for ROSA Partial Knee System: Apr 20, 2021

Zimmer Biomet announced the receipt of the FDA 510(k) clearance of the ROSA Partial Knee System for robotically-assisted partial knee replacement surgeries.

Valuation

Zimmer Biomet shares are up 4.6% and up 35% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks subindustry are up 4.1% while the Zacks Medical sector is up 2% in the year-to-date period. Over the past year, the subindustry is up 18.4% and sector is up 6.3%.

The S&P 500 index is up 15.1% in the year-to-date period and up 39.8% in the past year.

The stock is currently trading at 19.4X Forward 12-months earnings, which compares to 27.4X for the Zacks sub-industry, 23.7X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.2X and as low as 9.5X, with a 5-year median 15.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$169 price target reflects 20.4X forward 12-months earnings.

The table below shows summary valuation data for ZBH.

Valuation Multiples - ZBH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.44	27.43	23.71	21.85
	5-Year High	25.16	30.08	23.71	23.83
	5-Year Low	9.53	16.75	15.82	15.31
	5-Year Median	15.18	22.14	19.38	18.20
P/S F12M	Current	4.05	3.80	2.72	4.76
	5-Year High	4.61	3.89	3.17	4.76
	5-Year Low	2.01	2.59	2.27	3.21
	5-Year Median	3.17	3.39	2.78	3.72
P/B TTM	Current	2.70	3.48	4.56	7.14
	5-Year High	2.99	3.95	5.05	7.14
	5-Year Low	1.34	2.23	3.03	3.84
	5-Year Median	2.31	3.04	4.35	5.02

As of 06/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 28% (180 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Baxter International Inc. (BAX)	Neutral	2
Boston Scientific Corporation (BSX)	Neutral	3
Medtronic PLC (MDT)	Neutral	3
Owens & Minor, Inc. (OMI)	Neutral	3
Perrigo Company plc (PRGO)	Neutral	3
ResMed Inc. (RMD)	Neutral	3
Smith & Nephew SNATS, Inc. (SNN)	Neutral	3
Stryker Corporation (SYK)	Neutral	3

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	ZBH	X Industry	S&P 500	MDT	OMI	SYK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	C
Market Cap	33.60 B	656.10 M	30.34 B	167.37 B	3.11 B	98.12 B
# of Analysts	13	3	12	14	3	13
Dividend Yield	0.60%	0.00%	1.34%	2.02%	0.02%	0.97%
Value Score	B	-	-	B	A	C
Cash/Price	0.02	0.10	0.06	0.06	0.02	0.02
EV/EBITDA	25.02	2.26	17.30	24.32	13.67	39.36
PEG F1	3.12	2.35	2.11	2.46	0.59	2.96
P/B	2.70	3.81	4.05	3.25	3.96	7.27
P/CF	11.68	24.58	17.44	26.51	12.38	26.90
P/E F1	20.56	29.89	21.19	21.93	10.92	28.39
P/S TTM	4.74	6.07	3.42	5.56	0.36	6.67
Earnings Yield	4.86%	1.87%	4.64%	4.56%	9.16%	3.52%
Debt/Equity	0.61	0.02	0.66	0.51	1.25	0.97
Cash Flow (\$/share)	13.79	0.00	6.86	4.70	3.34	9.68
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	-6.29%	7.40%	9.59%	-1.80%	-13.53%	7.40%
Projected EPS Growth (F1/F0)	38.25%	26.01%	21.89%	30.41%	67.70%	23.49%
Current Cash Flow Growth	5.80%	-2.29%	1.02%	-28.61%	31.76%	-7.10%
Historical Cash Flow Growth (3-5 Years)	7.17%	8.88%	7.34%	-6.95%	5.56%	9.18%
Current Ratio	2.39	3.35	1.38	2.65	1.65	2.27
Debt/Capital	37.72%	10.11%	41.51%	33.83%	55.52%	49.17%
Net Margin	8.01%	-9.67%	12.06%	11.98%	1.28%	9.57%
Return on Equity	9.85%	-3.00%	16.59%	11.82%	43.12%	21.90%
Sales/Assets	0.29	0.52	0.51	0.32	2.64	0.45
Projected Sales Growth (F1/F0)	15.31%	10.86%	9.56%	10.52%	13.32%	19.40%
Momentum Score	B	-	-	D	C	C
Daily Price Change	-1.54%	-0.23%	0.03%	0.65%	-0.60%	0.03%
1-Week Price Change	4.63%	2.17%	1.07%	1.38%	-5.79%	3.17%
4-Week Price Change	-3.03%	1.87%	2.14%	-0.20%	-3.00%	1.82%
12-Week Price Change	-1.43%	-0.82%	5.35%	2.80%	8.41%	4.85%
52-Week Price Change	35.04%	23.33%	38.43%	35.81%	443.18%	44.54%
20-Day Average Volume (Shares)	1,451,393	319,236	1,994,187	4,561,051	1,172,019	1,046,652
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.19%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.44%	-0.14%	3.69%	-1.22%	10.34%	1.42%

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	-0.05%	:	0.00%	0.00%	:	0.00%	0.00%	0.00%
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	B
Growth Score	B
Momentum Score	B
VGM Score	A

Disclosures

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Additional Disclosure

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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 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.