ZACKS | Our Research. Your Success.

Feb 08, 2021

American Financial(AFG)

$100.15 (As of 02/05/21)

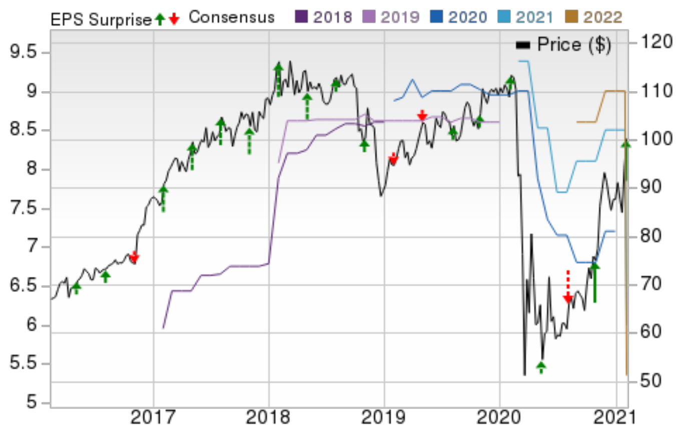
Price Target (6-12 Months): **$105.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/26/21) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**5-Strong Sell**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: C | Momentum: C	

Summary

American Financial's fourth-quarter earnings beat the Zacks Consensus Estimate. The company's consistent price increase in property and casualty business should favor results. It boasts impressive inorganic growth and is prudently investing in businesses. American Financial is actively involved in startups, small-to-medium sized acquisitions, and product launches. Better industry fundamentals, a high renewal ratio, and favorable combined ratio should drive growth. Solid capital position enables it to deploy capital effectively. It expects earnings per share in the range of $6.25 to $7.25 in 2021. Shares have outperformed its industry in the last six months. However, soft performance of Annuity business continues to weigh on earnings. Also, exposure to weather-related calamities induces earnings volatility and high cost weighs on margin.

Price, Consensus & Surprise

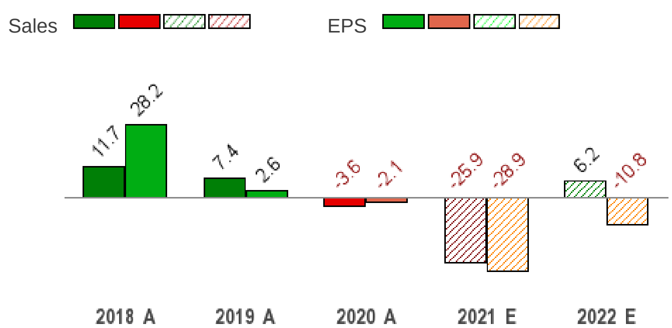


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$115.03 - $44.01**
20-Day Average Volume (Shares)	**615,785**
Market Cap	**$8.7 B**
Year-To-Date Price Change	**14.3%**
Beta	**0.92**
Dividend / Dividend Yield	**$2.00 / 2.0%**
Industry	**Insurance - Property and Casualty**
Zacks Industry Rank	**Bottom 26% (188 out of 253)**
Last EPS Surprise	**70.7%**
Last Sales Surprise	**42.7%**
EPS F1 Estimate 4-Week Change	**-20.6%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**11.8**
P/E F1	**16.7**
PEG F1	**2.7**
P/S TTM	**1.1**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,437 E	1,454 E	1,480 E	1,484 E	5,854 E
2021	1,333 E	1,358 E	1,402 E	1,418 E	5,510 E
2020	1,810 A	1,703 A	1,998 A	1,924 A	7,435 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					$5.35 E
2021	$2.15 E	$1.55 E	$1.10 E	$1.20 E	$6.00 E
2020	$1.88 A	$1.05 A	$2.45 A	$3.09 A	$8.44 A

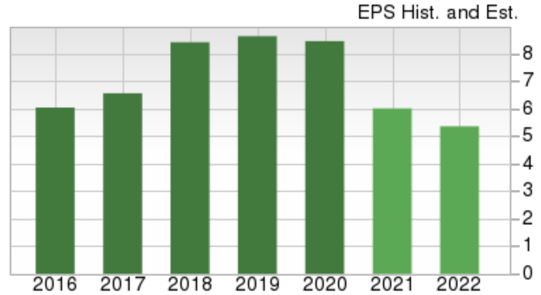
*Quarterly figures may not add up to annual.

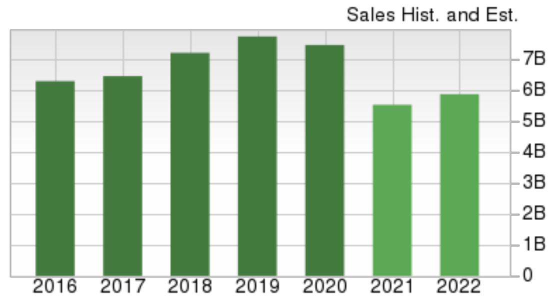
The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/05/2021. The report's text and the analyst-provided price target are as of 02/08/2021.

Overview

Founded in 1872 and headquartered in Cincinnati, OH, American Financial Group, Inc. is a holding company which, through its subsidiaries, engages primarily in property and casualty insurance, with focus on specialized commercial products for businesses. The company also engages in the sale of traditional fixed, fixed-indexed and variable-indexed annuities in the retail, financial institutions, registered investment advisor and education markets.

American Financial Group reports its earnings in three segments:





Property and Casualty Insurance Operations (54.98% of 2020 net written premiums) – These operations consist of approximately 30 niche insurance businesses offering a wide range of commercial coverage. The business is conducted through Property and Transportation (consisting Inland and Ocean Marine, Agricultural-related and Commercial Automobile), Specialty Casualty (consisting Executive and Professional Liability, Umbrella and Excess Liability, Excess and Surplus, General Liability, Targeted Programs and Workers' Compensation) and Specialty Financial (consisting Fidelity and Surety and Lease and Loan Services). These operations are conducted through subsidiaries namely Great American Insurance, National Interstate, Summit (Bridgefield Casualty and Bridgefield Employers), Republic Indemnity, Neon Lloyd's Syndicate and Mid-Continent Casualty. These subsidiaries carry strong ratings from AM Best and S&P.

Annuity Operations (45.1%) – Annuity operations primarily involve the sale of traditional fixed, fixed-indexed and variable-indexed annuities in the retail, financial institutions, broker-dealer and registered investment advisor markets through independent producers and through direct relationships with certain financial institutions. These operations are conducted primarily through the subsidiaries, Great American Life Insurance Company and Annuity Investors Life Insurance Company.

Other Operations – Through subsidiaries, it is engaged in a variety of other operations, including commercial real estate operations in Cincinnati (office buildings), Whitefield, New Hampshire (Mountain View Grand Resort), Chesapeake Bay (Skipjack Cove Yachting Resort and Bay Bridge Marina), Charleston (Charleston Harbor Resort and Marina) and Palm Beach (Sailfish Marina and Resort).

Source: Zacks Investment Research

Reasons To Buy:

American Financial, a niche player in the P&C and annuity markets, will benefit from the strategic acquisitions and improved pricing. Improving industry fundamentals will drive overall growth.

- **Share Price Movement:** Shares of American Financial have gained 47.1% in the past six months, compared with the industry's increase of 6.1%. We believe that acquisitions, better pricing and improving industry fundamentals will help the shares retain the bull run.

- **Sturdy Growth Profile:** American Financial is actively involved in startups, small-to-medium sized acquisitions, and product launches. It is prudently investing in businesses. Though net premiums written declined 7% year over year in 2020 in the Specialty Property and Casualty Insurance segment, the company expects net premiums written to improve in 2021. Net written premiums in the Specialty Property and Casualty Insurance are expected to be 5% to 9% higher than $5 billion reported in 2020.

  American Financial estimates property and casualty pretax core operating earnings, excluding the impact of alternative investments, between $650 million and $690 million, up from $615 million and $675 million. The company expects 2021 core net operating earnings in 2021 to be in the range of $6.25 to $7.25 per share, excluding earnings from annuity operations, which are being sold to Massachusetts Mutual Life Insurance Company (MassMutual) and are expected to be reported as discontinued operations effective Jan 1, 2021.

- **Consistent Price Increase in Property and Casualty (P&C) Business:** American Financial witnessed average renewal pricing across the entire P&C Group was up approximately 13% in the fourth quarter of 2020. Renewal pricing in 2020 was the highest it has achieved in more than 15 years in each of the Specialty P&C sub-segments and in Specialty P&C Group overall. It intends to maintain satisfactory rates in P&C renewal pricing going forward. The company expects overall Property and Casualty renewal rates in 2021 to be up 6% to 8% excluding workers' comp. Along with price increase, projects loss cost trends are expected to remain stable and appear relatively benign across all the P&C lines. These trends should favor the company in the long run.

- **Favorable Combined Ratio:** American Financial's combined ratio has been better than the industry average for more than two decades. For 2021, the company expects combined ratio for the Specialty Property & Casualty Group in the range of 89% to 91%. (an improvement from 90% to 93% guided earlier). Combined ratio is projected in the range of 88% to 92% for Property and Transportation Group and between 87% to 91% (improvement from 90% to 93% guided earlier) for Specialty Casualty Group in 2021. For Specialty Financial Group, combined ratio is expected to be in the range of 88% to 92% (improvement from 91% to 95% guided earlier).

- **Strong Capital Management:** American Financial has traditionally maintained moderate adjusted financial leverage around 20%, with good cash flow and interest coverage ratio. As of Dec 31, 2020, excess capital is approximately $1.2 billion, which includes parent company cash of approximately $215 million. It expects to continue to have significant excess capital and liquidity throughout 2021 and beyond. It scores strongly with credit rating agencies. Annuity subsidiary, Great American Life Insurance Company entered into a reinsurance agreement with Commonwealth Annuity and Life Insurance Company in October 2020. This transaction is expected to free up between $300 million and $325 million of GALIC's statutory capital and result in higher core operating earnings and returns in both the Annuity Segment and the company. The Annuity segment achieved a core operating return on equity of approximately 11% in 2020.

  Also, in each of the last 14 years, the company has successfully increased its dividends. With the recent approval of $2 per share in special dividend, the company will be paying out 12 special dividends in nine years. The robust operating profitability at the P&C segment, a stellar investment performance and an effective capital management supports effective shareholders return. Its dividend strategy reflects its solid financial position. The company intends to hold back about $200–$300 million of the excess capital to maintain flexibility for any opportunity that may arise in the future.

Reasons To Sell:

Underperforming Annuity business weighing on earnings and exposure to cat losses (specifically its exposure to the crop business) inducing volatility to underwriting results pose near-term headwinds.

- **Annuity Business:** The company has been witnessing weak performance at this segment over the past quarters. Gross statutory premiums declined 18% in 2020. The company implemented several rate decreases to maintain proper returns on annuity sales that have started to affect new sales. However, annuity sales in the fourth quarter of 2020 were nearly $200 million higher than the fourth quarter of 2019.

  American Financial estimates considerably lower return on alternative investments in the fourth quarter. Its quarterly average annuity investments and net reserves decreased approximately 10% and 11%, respectively year over year as a result of the annuity block reinsurance transaction, effective Oct 1, 2020. Recently, American Financial agreed to divest its Annuity business to Massachusetts Mutual. This marks the company's exit from the fixed and indexed annuity market. American Financial estimates to recognize an after-tax gain on the sale of $620 million to $690 million ($7.10 to $7.90 per share), when the sale closes, which is expected to occur in the second quarter of 2021.

- **Exposure to Catastrophes:** The company's earnings have traditionally been affected by catastrophes. Even drought, which does not otherwise qualify as a catastrophe, had impacted its earnings, given its exposure to the crop business. Irrespective of catastrophe mitigation techniques deployed by it, exposure to weather-related calamities makes its earnings volatile.

- **Rising Expenses:** The company has been experiencing an increase in expenses due to higher P&C insurance losses & expenses, annuity, life, accident & health benefits & expenses, interest charges on borrowed money, expenses of managed investment entities and other expenses. However, in 2020, total costs and expenses decreased 0.9% year over year, due to lower P&C insurance losses & expenses, expenses of managed investment entities and other expenses. The expenses are likely to weigh on operating margin expansion. Net margin contracted 160 bps in 2020.

- **Increasing Debt with lower Times Earned Interest:** American Financial's debt level has been increasing over the last several years. As of Dec 31, 2020, long-term debt of $1.9 billion was up 33.3% from 2019-end level. Debt to capital was 24.9% compared unfavorably with the industry average of 20.6%. Also, times interest earned, which indicates how efficiently a company can service debt, has been declining. It was 10.6% in the fourth quarter of 2020, down 670 bps year over year. The company must service debt uninterruptedly else creditworthiness could be dented.

Last Earnings Report

American Financial Q4 Earnings & Revenues Top Estimates

Quarter Ending	12/2020
Report Date	Feb 03, 2021
Sales Surprise	42.73%
EPS Surprise	70.72%
Quarterly EPS	3.09
Annual EPS (TTM)	8.47

American Financial Group, Inc. reported fourth-quarter 2020 net operating earnings per share of $3.09, which beat the Zacks Consensus Estimate of $1.81 by 70.7%. Moreover, the bottom line increased 39.2% year over year.

The improvement was primarily driven by higher underwriting profit in the Specialty Property and Casualty insurance operations, higher annuity premiums and lower expenses, which were partially offset by lower net investment income.

Behind the Headlines

Total operating revenues of $1.9 billion decreased 4.6% year over year. This downside was due to lower net investment income and P&C insurance net earned premiums. However, the top line outpaced the Zacks Consensus Estimate of $1.3 billion by 42.7%. Net investment income of $548 million decreased 7.6% year over year. American Financial's total cost and expenses were $1.7 billion, down 7% year over year due to lower P&C insurance losses and expenses of managed investment entities & expenses.

Full-Year Highlights

Net operating earnings per share were a record $8.44, which beat the Zacks Consensus Estimate of $7.20 by 17.2%. However, net earnings decreased 2.1% from 2019. Operating revenues of $7.4 billion decreased 3.6% from 2019. However, it outpaced the Zacks Consensus Estimate of $5.2 billion by 42.1%.

Segment Results

Specialty Property and Casualty Insurance generated $1.2 billion in net premiums written, down 7% year over year primarily as the result of the run-off of Neon. Net premiums written in the Property & Transportation and Specialty Casualty were down 2% and 16%, respectively on a year-over-year basis. Net premiums written in Specialty Financial and Other were up 4% and 23%, respectively on a year-over-year basis. Underwriting profit of $179 million increased 101.1% attributable to higher underwriting profitability in Property and Transportation and Specialty Casualty Groups. It was partially offset by lower year-over-year underwriting profit in Specialty Financial Group. The segment's combined ratio improved 730 basis points (bps) year over year to 86.2% owing to improvement of 570 bps in Specialty Casualty and 1460 bps in Property & Transportation. However, deterioration of 720 bps in the combined ratio of Specialty Financial division partially limited this upside.

Annuity segment's premiums of $1.32 billion increased 16% year over year. This increase was driven by higher sales of traditional fixed annuities in the Financial Institutions channel, as well as higher pension risk transfer premiums. Pre-tax annuity core operating income totaled $129 million, up 24% year over year attributable to higher earnings from the Annuity Segment's alternative investments.

Financial Update

As of Dec 31, 2020, American Financial had cash and investments of $52.5 billion, which decreased 4.9% from 2019 end. As of Dec 31, 2020, long-term debt of $1.9 billion grew 33.3% from the 2019-end level. As of Dec 31, 2020, the company's book value per share (excluding unrealized gains/losses on fixed maturities) was $63.61, up 6.5% from the level at 2019 end. Annualized return on equity of 52.1% in 2020 improved 3650 basis points year over year.

Prudent Capital Deployment

The company increased quarterly dividend by 11% and paid out special dividends of $2.00 per share. The company bought back $80 million worth shares in the reported quarter.

2021 Guidance

American Financial expects to deliver core net operating earnings in the range of $6.25 to $7.25 per share. For Specialty Property and Casualty Insurance segment, net written premiums are expected to increase in the range of 5% to 9% over 2020 and combined ratio is expected in the range of 89% to 91%.

Business Update

As previously declared, in October 2020, American Financial 's Annuity subsidiary, Great American Life Insurance Company entered into a reinsurance agreement with Commonwealth Annuity and Life Insurance Company, a subsidiary of Global Atlantic Financial Group Limited. This transaction created approximately $335 million of excess capital for AFG, including more than $250 million at GALIC. As a result, the Annuity Segment paid dividends totaling $215 million to AFG in the fourth quarter of 2020.

As declared on Sep 28, 2020, American Financial reached a definitive agreement to sell GAI Holding Bermuda and its subsidiaries, comprising the legal entities that own its Lloyd's of London insurer, Neon, to RiverStone Holdings Limited. The transaction closed in the fourth quarter of 2020. The insurer recorded $3 million ($0.04 per share) in non-core losses related to the sale and runoff of this business in the fourth quarter of 2020.

Recent News

American Financial to Exit Fixed and Indexed Annuity Market – Jan 28, 2021

American Financial agreed to sell its Annuity business to Massachusetts Mutual Life Insurance Company (MassMutual) for $3.5 billion in cash. The transaction is expected to see light in the second quarter of 2021. The divestment includes Great American Life Insurance Company (GALIC) and its two insurance subsidiaries, Annuity Investors Life Insurance Company and Manhattan National Life Insurance Company. Thus, this marks the company's exit from the fixed and indexed annuity market.

American Financial estimates to recognize an after-tax gain on the sale of $620 million to $690 million ($7.10 to $7.90 per share). Prior to completion of the transaction, American Financial will buy about $500 million in real estate-related partnerships and directly owned real estate from Great American Life Insurance Company.

American Financial Board Approves Special Dividend - Dec 9, 2020

The board of directors of American Financial recently gave nod to a special cash dividend of $2.00 per share. The company has been paying out special dividends since 2012.

This property and casualty insurer estimates spending $174 million for the special dividend, which is well-supported by its strong financial position. With the latest approval the company will be paying out 12 special dividends in nine years. Shareholders of record as of Dec 21 received the special dividend on Dec 29.

Valuation

American Financial's shares are up 47.1% but down 11.3% in the past six months and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 6% and 20.1% in the past six months, respectively. Over the past year, the Zacks sub-industry and sector are down 4.5% but up 0.9%, respectively.

The S&P 500 index is up 17.3% in the past six months and 18.2% in the past year.

The stock is currently trading at 1.37x trailing 12-month book value, which compares to 1.27x for the Zacks sub-industry, 2.98x for the Zacks sector and 6.66x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2x and as low as 0.68x, with a 5-year median of 1.57x. Our Neutral recommendation indicates that the stock will perform better than the market. Our $105 price target reflects 1.43x trailing 12- month book value.

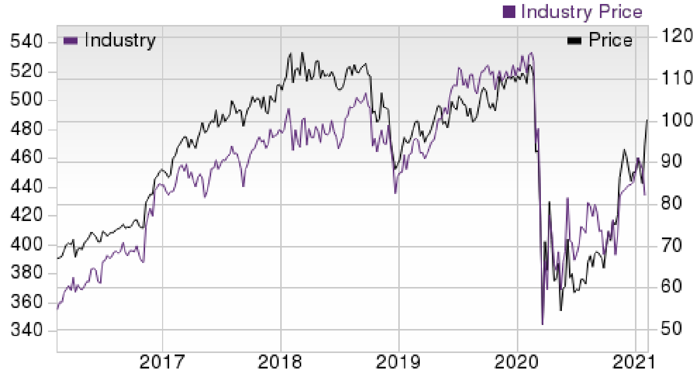
The table below shows summary valuation data for AFG

Valuation Multiples - AFG

		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.37	1.27	2.98	6.66
	5-Year High	2	1.69	2.98	6.66
	5-Year Low	0.68	0.95	1.74	3.73
	5-Year Median	1.57	1.47	2.59	4.95
P/S F12M	Current	1.54	1.53	7.17	4.54
	5-Year High	2.05	11.39	7.17	4.54
	5-Year Low	1.01	1.41	5.02	3.2
	5-Year Median	1.64	1.80	6.12	3.68
P/E F12M	Current	15.17	26.0	16.71	22.81
	5-Year High	17.94	31.65	17.12	23.8
	5-Year Low	5.2	21.10	11.59	15.3
	5-Year Median	12.42	26.0	14.56	17.85

As of 02/05/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 26% (188 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Markel Corporation **(MKL)**	Outperform	1
Arch Capital Group Ltd. **(ACGL)**	Neutral	3
American International Group, Inc. **(AIG)**	Neutral	3
Cincinnati Financial Corporation **(CINF)**	Neutral	3
CNA Financial Corporation **(CNA)**	Neutral	3
The Hartford Financial Services Group, Inc. **(HIG)**	Neutral	3
Everest Re Group, Ltd. **(RE)**	Neutral	3
Alleghany Corporation **(Y)**	Neutral	2

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

Industry Comparison Industry: Insurance - Property And Casualty

Industry Peers

	AFG	X Industry	S&P 500	MKL	RE	Y
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	1	3	2
VGM Score	B	-	-	B	A	C
Market Cap	8.70 B	1.39 B	27.69 B	15.15 B	8.77 B	8.49 B
# of Analysts	1	2	13	4	3	1
Dividend Yield	2.00%	1.09%	1.43%	0.00%	2.83%	0.00%
Value Score	A	-	-	C	A	B
Cash/Price	0.47	0.27	0.06	0.54	0.26	0.23
EV/EBITDA	4.85	6.30	14.96	4.43	6.30	6.45
PEG F1	2.77	1.99	2.44	NA	0.96	NA
P/B	1.40	1.02	3.71	1.34	0.91	0.99
P/CF	8.66	11.70	15.54	18.76	9.90	18.64
P/E F1	16.95	13.29	20.33	18.84	8.81	12.89
P/S TTM	1.10	0.97	3.01	1.56	0.97	1.00
Earnings Yield	5.99%	7.18%	4.83%	5.31%	11.34%	7.76%
Debt/Equity	0.33	0.23	0.68	0.31	0.07	0.24
Cash Flow ($/share)	11.57	3.02	6.78	58.60	22.15	32.24
Growth Score	C	-	-	B	B	D
Historical EPS Growth (3-5 Years)	10.38%	5.43%	9.46%	4.88%	-13.60%	-22.60%
Projected EPS Growth (F1/F0)	-28.91%	57.43%	13.31%	122.35%	230.44%	238.04%
Current Cash Flow Growth	7.42%	3.81%	4.43%	13.53%	310.65%	25.33%
Historical Cash Flow Growth (3-5 Years)	12.34%	4.50%	8.19%	9.05%	-5.41%	-8.44%
Current Ratio	0.18	0.46	1.37	0.68	0.35	0.30
Debt/Capital	24.95%	18.76%	41.33%	23.90%	6.90%	20.95%
Net Margin	9.26%	5.94%	10.59%	8.41%	7.38%	-0.30%
Return on Equity	12.88%	5.25%	14.84%	3.88%	5.19%	0.57%
Sales/Assets	0.11	0.31	0.51	0.25	0.32	0.31
Projected Sales Growth (F1/F0)	-25.89%	3.76%	6.14%	10.02%	12.68%	NA
Momentum Score	C	-	-	B	B	D
Daily Price Change	3.89%	0.33%	0.38%	2.74%	-0.69%	0.89%
1-Week Price Change	10.96%	-3.51%	-4.02%	-2.45%	-7.79%	-3.17%
4-Week Price Change	9.29%	-0.42%	0.24%	4.17%	-9.10%	-5.95%
12-Week Price Change	20.36%	5.83%	10.12%	8.01%	-4.73%	-0.20%
52-Week Price Change	-10.62%	-13.03%	7.73%	-15.28%	-21.77%	-26.80%
20-Day Average Volume (Shares)	615,785	120,630	2,075,178	65,718	220,455	54,931
EPS F1 Estimate 1-Week Change	-20.59%	0.00%	0.00%	0.75%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-20.59%	0.00%	0.46%	0.23%	1.51%	2.98%
EPS F1 Estimate 12-Week Change	-20.59%	0.00%	1.32%	5.37%	2.44%	2.98%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.08%	4.76%	-0.08%	2.93%

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.

Value Score	A
Growth Score	C
Momentum Score	C
VGM Score	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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a mediumterm price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

# of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at $35 and expected to earn $3 per share in the current fiscal year (F1), would be 0.0857 (3/35 = 0.0857) or 8.57%. In other words, for $1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow ($/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every $1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every $1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated $2.50 in sales for every $1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is $1.10 now versus $1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from $1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.