

## AptarGroup, Inc. (ATR)

**\$135.31** (As of 12/29/20)

Price Target (6-12 Months): **\$156.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 12/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

## Summary

AptarGroup expects fourth-quarter 2020 adjusted earnings per share between 84 cents and 92 cents. The mid-point of the range projects year-over-year increase of 10%. Triggered by the COVID-19 pandemic, increasing demand for pharmaceutical products is likely to drive the Pharma segment. Demand in hand sanitizers, liquid soaps, cleaners and disinfectants will aid the Beauty + Home segment. AptarGroup's business-transformation plan and innovative product launches also remain catalysts. In fact, the company remains committed to business expansion through buyouts in a bid to expand the scope of technologies, geographic presence and product offerings. Moreover, the company's cost control measures will help sustain margins. Earnings estimates for the company's current quarter and ongoing year have undergone positive revisions lately.

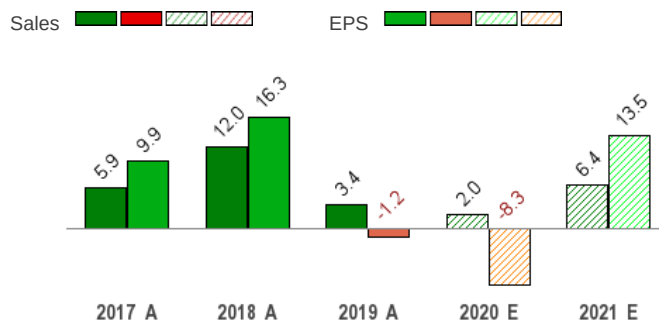
## Price, Consensus & Surprise



## Data Overview

|                                |                                         |
|--------------------------------|-----------------------------------------|
| 52-Week High-Low               | <b>\$137.14 - \$79.84</b>               |
| 20-Day Average Volume (Shares) | <b>188,756</b>                          |
| Market Cap                     | <b>\$8.8 B</b>                          |
| Year-To-Date Price Change      | <b>17.0%</b>                            |
| Beta                           | <b>0.62</b>                             |
| Dividend / Dividend Yield      | <b>\$1.44 / 1.1%</b>                    |
| Industry                       | <b>Containers - Paper and Packaging</b> |
| Zacks Industry Rank            | <b>Top 29% (74 out of 255)</b>          |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>19.1%</b>      |
| Last Sales Surprise           | <b>7.5%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>02/18/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>38.3</b>       |
| P/E F1                        | <b>37.4</b>       |
| PEG F1                        | <b>3.6</b>        |
| P/S TTM                       | <b>3.1</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 799 E | 776 E | 792 E | 763 E | 3,105 E |
| 2020 | 722 A | 699 A | 759 A | 733 E | 2,918 E |
| 2019 | 744 A | 743 A | 701 A | 671 A | 2,860 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.03 E | \$1.09 E | \$1.10 E | \$1.00 E | \$4.11 E |
| 2020 | \$0.93 A | \$0.80 A | \$1.00 A | \$0.90 E | \$3.62 E |
| 2019 | \$1.07 A | \$1.15 A | \$0.93 A | \$0.80 A | \$3.95 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 12/29/2020. The reports text is as of 12/30/2020.

## Overview

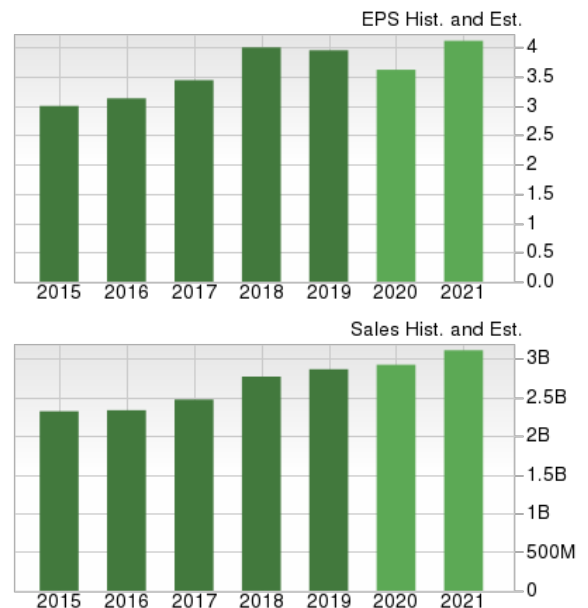
Headquartered in Crystal Lake, IL, AptarGroup is a global supplier of a broad range of innovative dispensing, sealing and active packaging solutions for the beauty, personal care, home care, prescription drug, consumer health care, injectables, food and beverage markets. Its main products include dispensing pumps, closures, aerosol valves and elastomeric primary packaging components. The company has manufacturing facilities across the globe including North America, Europe, Asia and South America. The company's primary products are dispensing pumps, closures, aerosol valves and elastomeric primary packaging components.

AptarGroup operates through three market-focused business segments - Beauty + Home, Pharma, and Food + Beverage.

The **Beauty + Home** segment (47% of AptarGroup's sales in fiscal 2019) consists of operations that sell dispensing systems primarily to the beauty, personal care and home care markets. The segment sells pumps, closures, aerosol valves and accessories to the personal care and home care markets and pumps and decorative components to the beauty market. Sales to the beauty, the personal care and the home care market accounted for approximately 49%, 44% and 7%, respectively, of the segment's total net sales in 2018.

The **Pharma** segment (38%) sells dispensing systems or primary packaging components to the prescription drug, consumer health care and injectables markets. AptarGroup is the leading supplier of pumps and metered dose inhaler valves (MDIs) to the pharmaceutical market worldwide and is the number three supplier of elastomer primary packaging components worldwide. Sales to the prescription drug market generated around 52% of the segment's total net sales in 2018. The consumer health care market accounted for approximately 27% of the segment's total net sales in 2018, while the injectables market accounted for approximately 17%.

The **Food + Beverage** segment (15%) sells dispensing closures and as well as non-dispensing closures, spray pumps and aerosol valves to the food and beverage markets. Sales to the food market accounted for approximately 64% of the segment's total net sales in 2018, while the beverage market accounted for the balance 36%.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ AptarGroup is focused to grow on business-transformation plan to drive top-line growth, boost operational excellence, enhance its approach to innovation and improve organizational effectiveness. The company remains on track with its business transformation which primarily focuses on streamlining the Beauty + Home segment. In sync with the plan, AptarGroup has decided to close Stratford and Torrington, CT sites by the end of the current year and consolidate this production capacity into other AptarGroup's existing North American facilities. This measure will support North American Beauty + Home customers more efficiently while focusing on long-term, profitable growth.

▲ AptarGroup remains committed to expand its business through acquisitions to expand the scope of technologies, geographic presence and product offerings. AptarGroup completed strategic equity investments in BTY, a leading Chinese provider of decorative and complete color cosmetics packaging solutions. The acquisition will help to capitalize on the high-growth Asian color cosmetics market. The company has also acquired Fusion Packaging, a leader in high quality, prestige airless and color cosmetics packaging, and conception-to-launch turnkey solutions for the North American beauty market. Both acquisitions will be accretive to the Beauty and Home segment's margin. It has also entered into a partnership with digital platform provider, Sonmol, to bring to market new connected platforms for respiratory-related therapies.

AptarGroup had previously acquired Nanopharm and Gateway Analytical, which is likely to expand its service portfolio that supports pharmaceutical and biotech customers. Last year, the company acquired CSP Technologies, a leader in active packaging technology based on proprietary material science expertise. AptarGroup also acquired Noble International, which a leader in drug delivery training devices and patient onboarding. The acquisition is in sync with AptarGroup's strategy to broaden service portfolio for pharmaceutical and biotech customers. It strengthens the company's position in an attractive, rapidly growing market segment (device trainers and compliance monitoring).

▲ As of Sep 30, 2020, AptarGroup had available cash and equivalents of approximately \$227 million. Total debt to total capital ratio has gone down over the past few quarters and was 0.39 as of Sep 30, 2020 – lower than the industry's 0.66. The company's times interest earned ratio has been improving over the past few years, and is currently at 9.5 and much higher than the industry's times interest earned ratio of 5.4. This indicates that the company is in a position to fulfill its debt obligations.

▲ The Pharma segment has been witnessing growth so far this year driven by demand for existing medicines during the pandemic, such as influenza vaccines, and allergy and asthma treatments, that are administered utilizing the company's drug delivery devices and components for injection systems. The Beauty + Home segment will continue to gain from high sales in the personal care market related to hand sanitizers and liquid soaps and increased sales to the home care market primarily related to cleaners and disinfectants. This is likely to continue amid the coronavirus pandemic.

AptarGroup anticipates to achieve core sales growth in the current quarter. The company now projects adjusted EPS for fourth-quarter 2020 between 84 cents and 92 cents. The mid-point of the guided range reflects year-over-year growth of 10% from earnings per share of 80 cents in the prior-year quarter. In the wake of the ongoing uncertainty related to the COVID-19, the company has undertaken several cost control measures, which include reducing temporary labor headcount, regional and site-specific furloughs and wage reductions, elimination of business travel. The company has also cut down on discretionary spending and modifying production schedules. This will help sustain margins.

▲ AptarGroup is poised to gain from innovative product launches. In the Pharma segment, AdhereIT, the connected intuitive and user-friendly onboarding solution for patients with chronic conditions who use auto injectors to self-administer medications at home, has been launched. It is in sync with the company's strategy to provide training devices and onboarding programs. Proctor & Gamble launched Vicks Sinex Severe Ultra Fine Mist in the United States featuring AptarGroup's Bag-on-Valve system and actuator. The company's metering valves for inhalers used to treat asthma and Chronic obstructive pulmonary disease are found on medications in Mexico, Turkey and South America. AptarGroup's Unidose nasal system has been utilized in a new naloxone nasal spray in Sweden that is used to reverse the effects of an opioid overdose.

In the Beauty + Home segment, AptarGroup's pumps and closures continue to be the choice in sanitizing and cleansing products globally. Unilever launched a antibacterial spray in Mexico, featuring AptarGroup's spray pump along with an antibacterial hand soap featuring the company's closure. A new antibacterial handset for Unilever's Vaseline and Lifebuoy brand in Thailand features AptarGroup's lotion pump. In India, Colgate launched a mouth protect spray with AptarGroup's pump. Its solutions were also utilized in several new perfume and cologne launches. In Food + Beverage, AptarGroup's closure has been featured on a new Big Mac sauce for purchase in McDonald's in Brazil and closures with SimpliSqueeze valve have been used in the new inverted Old El Paso taco sauce and a new oral hygiene water enhancer for pets.

AptarGroup is poised to gain from business-transformation plan to drive top-line growth and improve organizational effectiveness. Innovative product launches and acquisitions will also fuel growth.

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## Risks

- The Beauty + Home segment will continue to be negatively impacted by reduced orders from customers providing prestige beauty products. Beauty products are sold via duty free travel and retail stores. Consequently, the restrictions on air travel has impacted the beauty market. Also, many beauty retailers have shut down in response to government mandates to stem the spread of the coronavirus. Notably beauty products account for 24% of the company's revenues.
  - The Food + Beverage segment will continue to be negatively impacted by decrease in food service and on-the-go beverage closure sales due to the COVID-19 crisis. Further, the recent spike in COVID-19 cases across several regions of the world has led to economic uncertainty in some of the company's markets.
  - The allergy category, which is a significant part of the pharma business, has been delivering above-average performance over the last 12 to 18 months. This can be attributed to the huge success of the branded treatments being now sold over-the-counter in significant quantities. The company expects growth to normalize in the near term.
  - AptarGroup expects to incur implementation costs of approximately \$125 million related to business-transformation plan in the Beauty + Home segment. These costs remain a drag for earnings in the near term. AptarGroup's results will bear the brunt of fluctuation in foreign currency rates. The company has primary foreign exchange exposure to the euro, in addition to the Chinese yuan, Brazilian real, Mexican peso, Swiss franc and other Asian, European and South American currencies. A strengthening U.S. dollar relative to foreign currencies has an effect on financial statements.
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## Last Earnings Report

### AptarGroup Q3 Earnings & Sales Top Estimates

AptarGroup's third-quarter 2020 adjusted earnings per share came in at \$1.00, surpassing the Zacks Consensus Estimate of 84 cents. The bottom line also improved 3% year over year.

On a reported basis, earnings came in at 95 cents per share compared with the year-ago quarter's 85 cents per share.

Total revenues increased 8.3% year over year to \$759 million during the September-end quarter on positive impacts of currency translation rates and recent acquisitions. The top line also beat the Zacks Consensus Estimate of \$706 million. Core sales, excluding currency and acquisition effects, went up 2% year over year. Solid underlying demand for medicines drove sale growth in the Pharma segment. The company also registered growth in the food, personal care and home care markets.

### Operational Update

Cost of sales went up 7.8% year over year to \$480 million. Gross profit increased 9% year over year to \$280 million. Gross margin came in at 36.8% during the third quarter compared with the prior-year quarter's 36.6%.

Selling, research, development and administrative expenses flared up 8.9% year over year to \$122 million. Adjusted operating income climbed 3% year over year to \$101 million. Operating margin came in at 13.3% in the reported quarter, down from the year-ago quarter's 13.9%. Adjusted EBITDA increased 7.5% year on year to \$157 million in the July-September quarter.

### Segmental Performance

Total revenues in the Beauty + Homes segment grew 2.7% year over year to \$337 million. Adjusted operating income in the third quarter plummeted 47.6% year over year to \$11 million.

Total revenues in the Pharma segment rose 17.4% year over year to \$316 million. Adjusted operating income came in at \$92.7 million for the September-end quarter compared with the year-earlier quarter's \$79.7 million.

Total revenues in the Food + Beverage segment increased 2% year over year to \$106 million. Operating income grew 14.5% year over year to \$11 million.

### Financial Performance

AptarGroup reported cash and cash equivalents of \$227 million as of Sep 30, 2020, down from \$242 million as of Dec 31, 2019. The company generated \$381 million of cash flow from operations in the first nine months of the current year compared with the \$380 million witnessed in the comparable period last year. As of Sep 30, 2020, long-term debt was approximately \$1,039 million, down from \$1,085 million as of Dec 31, 2019.

### Outlook

AptarGroup anticipates to achieve core sales growth in the current quarter. Rising demand in most of its end markets is expected to offset pandemic-related declines in some other end markets. The company's Pharma business will continue to perform well on increased demand due to the COVID-19 pandemic. Considering these factors, management estimates fourth-quarter adjusted earnings per share in the range of 84 cents to 92 cents.

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**Quarter Ending** **09/2020**

| Report Date      | Oct 29, 2020 |
|------------------|--------------|
| Sales Surprise   | 7.51%        |
| EPS Surprise     | 19.05%       |
| Quarterly EPS    | 1.00         |
| Annual EPS (TTM) | 3.53         |

## Valuation

AptarGroup's shares have gone up 20.3% in the last six-month period and up 17% over the trailing 12-month period. Stocks in the Zacks Containers – Paper and Packaging industry and the Zacks Industrial Products sector are up 24.4% and 36.1% in the last six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.1% and 18%, respectively.

The S&P 500 index is up 21.4% in the last six-month period and up 18% in the past year.

The stock is currently trading at 32.91X forward 12-month earnings, which compares with 16.47X for the Zacks sub-industry, 23.01X for the Zacks sector and 23.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.35X and as low as 20.64X, with a 5-year median of 24.14X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$156 price target reflects 37.94X forward 12-month earnings.

The table below shows summary valuation data for ATR:

| Valuation Multiples - ATR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 32.91 | 16.47        | 23.01  | 23.06   |
|                           | 5-Year High   | 34.35 | 18.95        | 23.09  | 23.79   |
|                           | 5-Year Low    | 20.64 | 7.13         | 12.61  | 15.3    |
|                           | 5-Year Median | 24.14 | 16           | 17.76  | 17.81   |
| P/S F12M                  | Current       | 2.82  | 2.78         | 3.37   | 4.38    |
|                           | 5-Year High   | 2.83  | 5.06         | 3.37   | 4.38    |
|                           | 5-Year Low    | 1.74  | 1.46         | 1.6    | 3.17    |
|                           | 5-Year Median | 2.17  | 1.86         | 2.11   | 3.67    |
| EV/EBITDA TTM             | Current       | 16.93 | 21.56        | 22.74  | 16.96   |
|                           | 5-Year High   | 16.98 | 28.55        | 22.74  | 16.96   |
|                           | 5-Year Low    | 9.64  | 12.28        | 11.08  | 9.56    |
|                           | 5-Year Median | 12.88 | 15.84        | 15.16  | 13.18   |

As of 12/29/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 29% (74 out of 255)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                        | Rec        | Rank |
|-----------------------------------------|------------|------|
| Packaging Corporation of America (PKG)  | Outperform | 2    |
| Sealed Air Corporation (SEE)            | Outperform | 2    |
| Amcor PLC (AMCR)                        | Neutral    | 3    |
| Greif, Inc. (GEF)                       | Neutral    | 3    |
| Graphic Packaging Holding Company (GPK) | Neutral    | 3    |
| Silgan Holdings Inc. (SLGN)             | Neutral    | 3    |
| Sonoco Products Company (SON)           | Neutral    | 3    |
| UFP Technologies, Inc. (UFPT)           | Neutral    | 4    |

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

| Industry Comparison Industry: Containers - Paper And Packaging |            |            |           | Industry Peers |         |           |
|----------------------------------------------------------------|------------|------------|-----------|----------------|---------|-----------|
|                                                                | ATR        | X Industry | S&P 500   | CCK            | GEF     | GPK       |
| Zacks Recommendation (Long Term)                               | Outperform | -          | -         | Neutral        | Neutral | Neutral   |
| Zacks Rank (Short Term)                                        | 1          | -          | -         | 2              | 3       | 3         |
| VGM Score                                                      | D          | -          | -         | D              | A       | A         |
| Market Cap                                                     | 8.76 B     | 6.44 B     | 25.66 B   | 13.23 B        | 2.23 B  | 4.54 B    |
| # of Analysts                                                  | 8          | 5          | 13        | 8              | 3       | 8         |
| Dividend Yield                                                 | 1.06%      | 2.28%      | 1.49%     | 0.00%          | 3.82%   | 1.79%     |
| Value Score                                                    | F          | -          | -         | C              | A       | A         |
| Cash/Price                                                     | 0.03       | 0.05       | 0.06      | 0.05           | 0.05    | 0.01      |
| EV/EBITDA                                                      | 16.73      | 9.82       | 14.52     | 12.30          | 8.19    | 8.11      |
| PEG F1                                                         | 3.62       | 1.99       | 2.80      | 3.44           | 1.33    | 0.61      |
| P/B                                                            | 4.98       | 3.48       | 3.63      | 5.71           | 1.86    | 2.47      |
| P/CF                                                           | 18.97      | 9.86       | 13.81     | 11.05          | 5.15    | 6.87      |
| P/E F1                                                         | 37.38      | 16.92      | 22.02     | 17.19          | 13.32   | 15.24     |
| P/S TTM                                                        | 3.07       | 1.14       | 2.82      | 1.16           | 0.49    | 0.71      |
| Earnings Yield                                                 | 2.68%      | 5.92%      | 4.40%     | 5.82%          | 7.52%   | 6.57%     |
| Debt/Equity                                                    | 0.59       | 1.34       | 0.70      | 3.47           | 1.95    | 1.74      |
| Cash Flow (\$/share)                                           | 7.13       | 5.42       | 6.93      | 8.88           | 8.95    | 2.44      |
| Growth Score                                                   | B          | -          | -         | C              | B       | A         |
| Historical EPS Growth (3-5 Years)                              | 5.70%      | 10.62%     | 9.71%     | 9.53%          | 13.11%  | 7.66%     |
| Projected EPS Growth (F1/F0)                                   | -8.42%     | 10.19%     | 1.26%     | 11.74%         | 7.35%   | 26.29%    |
| Current Cash Flow Growth                                       | 5.66%      | 5.66%      | 5.23%     | 7.40%          | -1.52%  | 3.10%     |
| Historical Cash Flow Growth (3-5 Years)                        | 5.76%      | 8.54%      | 8.33%     | 12.67%         | 10.57%  | 6.65%     |
| Current Ratio                                                  | 1.69       | 1.30       | 1.38      | 1.19           | 1.30    | 1.17      |
| Debt/Capital                                                   | 37.14%     | 57.28%     | 41.97%    | 77.62%         | 66.32%  | 63.55%    |
| Net Margin                                                     | 7.34%      | 5.81%      | 10.40%    | 4.52%          | 2.41%   | 2.12%     |
| Return on Equity                                               | 14.24%     | 16.08%     | 14.99%    | 33.90%         | 16.08%  | 15.24%    |
| Sales/Assets                                                   | 0.76       | 0.84       | 0.50      | 0.74           | 0.81    | 0.85      |
| Projected Sales Growth (F1/F0)                                 | 2.04%      | 1.04%      | 0.35%     | -1.58%         | 2.35%   | 5.42%     |
| Momentum Score                                                 | D          | -          | -         | F              | F       | A         |
| Daily Price Change                                             | -0.27%     | -0.54%     | -0.53%    | 0.53%          | -2.21%  | -0.53%    |
| 1-Week Price Change                                            | 1.19%      | 0.53%      | -0.44%    | 2.40%          | 0.15%   | 2.05%     |
| 4-Week Price Change                                            | 5.86%      | 0.28%      | 0.57%     | -0.14%         | -6.54%  | 7.23%     |
| 12-Week Price Change                                           | 18.11%     | 13.10%     | 13.26%    | 25.74%         | 17.78%  | 18.04%    |
| 52-Week Price Change                                           | 17.03%     | 10.35%     | 6.23%     | 35.35%         | 4.16%   | 0.60%     |
| 20-Day Average Volume (Shares)                                 | 188,756    | 211,046    | 1,797,784 | 658,953        | 233,336 | 2,102,946 |
| EPS F1 Estimate 1-Week Change                                  | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%     |
| EPS F1 Estimate 4-Week Change                                  | 0.00%      | 0.00%      | 0.00%     | -0.02%         | -0.88%  | 0.29%     |
| EPS F1 Estimate 12-Week Change                                 | 7.66%      | 3.80%      | 3.71%     | 9.99%          | 2.34%   | 3.22%     |
| EPS Q1 Estimate Monthly Change                                 | 0.00%      | 0.00%      | 0.00%     | -0.19%         | -15.34% | 0.87%     |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### 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    | F |
| Growth Score   | B |
| Momentum Score | D |
| VGM Score      | D |

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

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## 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.

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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.

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## 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 forward-looking 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 medium-term price change metric and an indication of the stock gaining momentum.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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