

## Acuity Brands, Inc.(AYI)

**\$116.90** (As of 01/13/21)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 03/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: A

### Summary

Shares of Acuity Brands have outperformed the industry in the past six months. Recently, the company reported first-quarter 2020 results, wherein earnings and revenues beat the Zacks Consensus Estimate. Consistent focus on input cost reduction and strategy to enhance its portfolio bode well. A diversified portfolio of innovative lighting control solutions and energy-efficient luminaries is also a major positive. The company is expanding its geographic borders and product portfolio through acquisitions and joint ventures. However, the top and bottom lines declined on a year-over-year basis owing to the coronavirus pandemic. Further, weakness in large industrial projects and decline in the price of certain products are concerns. Also, change in the mix of products sold and costs related to tariffs are likely to continue in the near term as well.

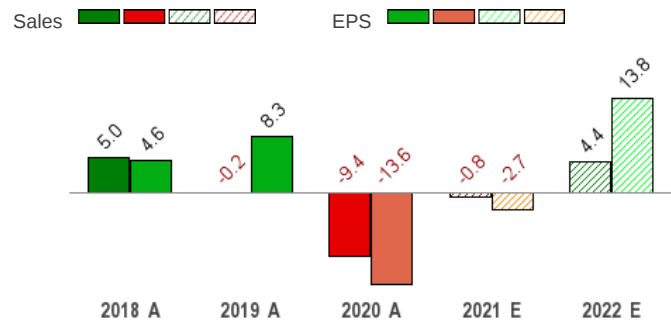
### Price, Consensus & Surprise



### Data Overview

|                                |                              |
|--------------------------------|------------------------------|
| 52-Week High-Low               | \$129.07 - \$67.46           |
| 20-Day Average Volume (Shares) | 493,616                      |
| Market Cap                     | \$4.2 B                      |
| Year-To-Date Price Change      | -3.5%                        |
| Beta                           | 1.52                         |
| Dividend / Dividend Yield      | \$0.52 / 0.4%                |
| Industry                       | Building Products - Lighting |
| Zacks Industry Rank            | Top 30% (76 out of 253)      |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 11.5%      |
| Last Sales Surprise           | 0.3%       |
| EPS F1 Estimate 4-Week Change | 4.2%       |
| Expected Report Date          | 04/01/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 14.3       |
| P/E F1                        | 14.5       |
| PEG F1                        | 1.5        |
| P/S TTM                       | 1.3        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | 810 E | 771 E | 853 E | 948 E | 3,443 E |
| 2021 | 792 A | 765 E | 828 E | 913 E | 3,298 E |
| 2020 | 835 A | 824 A | 776 A | 891 A | 3,326 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$2.12 E | \$1.89 E | \$2.36 E | \$2.95 E | \$9.16 E |
| 2021 | \$2.03 A | \$1.63 E | \$1.94 E | \$2.38 E | \$8.05 E |
| 2020 | \$2.13 A | \$1.84 A | \$1.94 A | \$2.35 A | \$8.27 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/13/2021. The reports text and the analyst-provided sales and EPS estimates are as of 01/14/2021.

## Overview

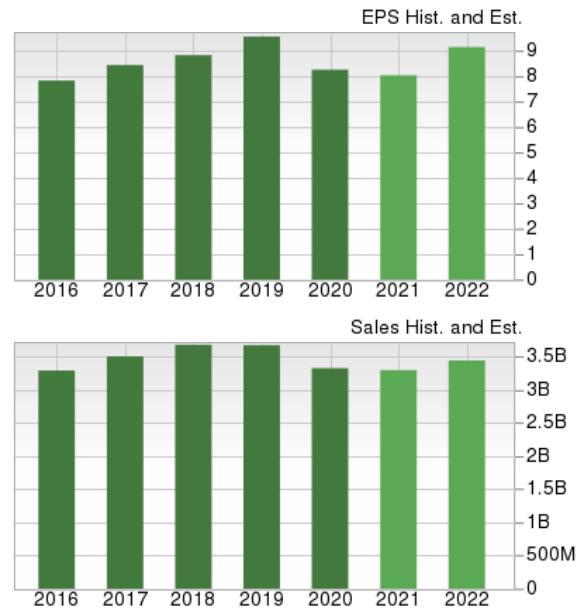
Headquartered in Atlanta, GA, **Acuity Brands, Inc.** is the parent company of Acuity Brands Lighting, Inc. ("ABL") and other subsidiaries. The company manufactures and distributes lighting fixtures and related components that comprise devices such as luminaires, lighting controls, and controllers for various building systems, power supplies, prismatic skylights, and drivers, as well as integrated systems designed to optimize energy efficiency and comfort for various indoor and outdoor applications.

Additionally, it has expanded its solutions portfolio, including software and services, that benefits economy in data analytics that enables the Internet of Things ("IoT"); supports the advancement of smart buildings, cities, and grid; and allows businesses to develop custom applications to scale their operations.

The portfolio of lighting solutions comprises lighting products utilizing fluorescent, light emitting diode (LED), organic LED (OLED), high intensity discharge, metal halide, and incandescent light sources to illuminate a number of applications.

Acuity Brands provides lighting solutions for commercial, institutional, industrial, infrastructure, and residential applications throughout North America and as well as Europe and Asia. The company has one reportable segment serving the North American and select international markets.

The company has a wide variety of brands that include Lithonia Lighting, Holophane, Peerless, Gotham, Mark Architectural Lighting, Winona Lighting, Juno, Indy, Aculux, Healthcare Lighting, Hydrel, American Electric Lighting, Antique Street Lamps, Sunoptics, eldoLED, Distech Controls, nLight, ROAM, Sensor Switch, Power Sentry, IOTA, and Atrius.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Innovation Continues to Drive Growth:** Acuity Brands' diversified portfolio of innovative lighting control solutions and energy-efficient luminaires bode well for the company. Apart from an attractive business model, the company is working on smart business strategies to achieve consistent growth in sales and earnings. In response to the rapidly changing market trends, Acuity Brands is continually expanding its portfolio of innovative lighting control solutions and energy-efficient luminaires.

During first-quarter fiscal 2021, the company increased the usage of software in its product portfolio. In the quarter, it had a major firmware release — Autonomous Bridging Technology or ABT — for nLight AIR product. The ABT is designed to increase the overall range of the nLight AIR system in networked environments by 300%, making connectivity more reliable. The company has also increased its focus on contractors, making their lives easier. It has launched the Compact Pro High Bay fixture by Lithonia Lighting during the quarter. This is a new addition to the contractor select portfolio and is the most compact High Bay in the market, which makes it easier and quicker to install.

It has also expanded its capabilities to provide a broad portfolio of leading germicidal UV products. Apart from the company's relationships with Ushio, PURO and Violet Defense, it had an agreement to purchase and resell the UV Angel Clean Air disinfection system, as well as pursue joint development of UV light disinfection products. The company has the ability to serve multiple end-use alternatives in the market and sell a variety of GUV products. It remains uniquely positioned to support customers with its luminaire, controls and building management portfolio.

- ▲ **Organizational Re-Alignment:** The company intends to separate the lighting, lighting controls and components business and intelligent buildings business. In sync with this, during the latter part of fiscal 2021, it has plans to reorganize the business into two units: Acuity Brands Lighting and Intelligent Buildings. Acuity Brands Lighting will include lighting, lighting controls and components businesses, and Intelligent Buildings will include Distech and Atrius. This new structure will enable Acuity to meet customers' requirement, and strengthen innovation through better prioritization and alignment within each unit. This move will also provide improved visibility with respect to operational performance and underlying results of these businesses.

- ▲ **Inorganic Moves:** Acuity Brands is committed to expand its geographic borders and product portfolio through acquisitions and joint ventures. On Nov 25, 2019, the company acquired all equity interests of LocusLabs, Inc. — a leading indoor mapping and location platform whose software supports navigation applications used in mobile devices, web browsers or digital displays in airports, event centers, multi-floor buildings and campuses. With the acquisition, Acuity Brands aims to provide venues with an indoor positioning system.

On Sep 17, 2019, the company acquired Canada-based The Luminaires Group ("TLG") — a leading provider of specification-grade lightening solutions. Again, on Jun 20, 2019, it acquired a New Castle, DE-based manufacturer of advanced optical components, WhiteOptics, L.L.C. The acquisition enhances its optical materials offering that will boost the performance of commercial and architectural products. Notably, acquisitions contributed 2% to sales growth in the fiscal third quarter.

- ▲ **Cost-Saving Initiatives:** In response to lower sales volume, Acuity has taken actions to reduce costs, including the realignment of headcount with current volumes, a freeze on all non-essential employee travel, efforts to decrease discretionary spending and planned reductions in its real estate footprint. The company's selling, distribution and administrative or SD&A expenses decreased approximately \$19 million during first-quarter fiscal 2021 from a year ago, primarily owing to decreased employee cost, including lower stock compensation, lower freight and commissions associated with decreased sales, along with reduction of cost in response to lower sales.

Its leading market position, diversified portfolio of innovative lighting control solutions and energy-efficient luminaires, along with accretive buyouts are the driving factors.

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## Reasons To Sell:

- ▼ **Coronavirus-Led Slowdown:** The company's net sales for first-quarter fiscal 2020 declined 5% year over year owing to 1% decline in volume, largely due to the coronavirus pandemic and unfavorable change in product prices and mix of products sold. Net sales through independent network (accounting for approximately 76% of total net sales) declined 3% on a year-over-year basis due to the negative impact of the pandemic. Again, sales through the direct network declined 9.5% from the prior year due to weakness in large projects that have been postponed due to COVID-19. Sales in its corporate accounts channel were also down 28% from the year-ago period, as retail customers delayed or cancelled many retrofit opportunities to limit activity in their stores.

Coronavirus-led slowdown, softness in the lighting industry, uncertainty surrounding infrastructure spending, and federal regulatory and trade policies are headwinds.

The company's near-term prospects cannot be determined as uncertainty remains. Although it is cautiously optimistic about resuming stability in its end markets in fiscal 2021, it remains unsure about the economic environment due to the pandemic.

- ▼ **Softness in the Lighting Industry Propels Lower Sales:** Over the last few quarters, Acuity Brands and other industry bellwethers are witnessing weak demand for luminaries in the United States. During first-quarter fiscal 2021, revenues of \$792 million declined 5% from the year-ago period due to 1% decline in volumes. Consequently, adjusted operating margin contracted 110 basis points (bps) from the prior year. In addition to the COVID-19 pandemic, absence of some large projects, and its plans to exit and phase out of certain products that have poor financial returns — largely due to the impact of additional tariffs — are hurting the company.

- ▼ **Weak Balance Sheet Position:** The company's cash and cash equivalents for first-quarter fiscal 2021 totaled \$507 million, down sequentially from \$561 million. Free cash flow (net cash provided by operating activities less capital expenditures) decreased \$5 million to \$113 million for first-quarter fiscal 2021, mainly due to some payment timings and lower net income.

Also, Acuity Brands' long-term debt obligations increased to \$495.6 million at quarter-end from \$376.8 million at fiscal fourth quarter-end, depicting future cash liquidity concern.

- ▼ **Higher Costs, Denting Margins:** Energy efficient lighting products like LED fixtures need extensive research and development and hence involve costs. Again, inflation and higher cost of the inputs could dampen its overall results.

Moreover, the company is highly committed to acquisitions and joint venture, owing to which it experiences higher costs, which thereby pressurizes margins. Adjusted selling, distribution and administrative or SD&A expenses — contributing 28.8% to first-quarter 2020's net sales — grew 30 bps from the year-ago figure.

- ▼ **Vulnerable to Economic Volatility:** Acuity Brands operates in a highly competitive industry that is affected by volatility owing to a number of general business and economic factors, such as gross domestic product growth, employment levels, credit availability, energy costs, and commodity costs. The company thrives on residential and non-residential construction, covering new, reconstruction and retrofit activity, which is sensitive to volatility induced by economic factors.

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## Last Earnings Report

### Acuity Brands Q1 Earnings Beat Estimates, Fall Y/Y

Acuity Brands reported first-quarter fiscal 2021 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. Earnings beat estimates for the third straight quarter, whereas revenues surpassed the same for the fourth consecutive quarter. However, the metrics declined year over year due to the coronavirus pandemic, which has been affecting end-market demand.

Moreover, weakness in large industrial projects and decline in the price of certain products remain concerns.

Neil Ashe, president and chief executive officer of Acuity Brands, said, "Our Company delivered consistent financial performance in our first quarter amid the challenging market environment associated with the pandemic that continues to negatively impact our end markets."

### Delving Deeper

The company reported adjusted earnings of \$2.03 per share that comfortably surpassed the Zacks Consensus Estimate of \$1.82 by 11.5%. However, the said metric declined 4.7% from the year-ago reported figure.

Net sales for the quarter totaled \$792 million, which topped the consensus mark of \$789 million. However, the reported figure declined 5.1% from \$835 million in the prior-year quarter. The downside was caused by nearly 3% decline in independent sales due to the pandemic. Sales in the direct sales network declined 10% from a year ago, while the corporate accounts sales channel decreased 28% due to a decrease in renovation activity with large, big-box retailers. Moreover, decline in overall sales channels was partially offset by a 3% contribution from sales in the retail channel, mainly owing to higher demand for residential products.

### Operating Highlights

Gross margin came in at 42%, down 60 bps on a year-over-year basis. Decrease in volume and lower price of certain products negatively impacted margin. This was partially offset by aggressive cost-reduction efforts and productivity improvements.

Adjusted selling, distribution and administrative or SD&A expenses came in at \$228 million (28.8% of net sales) compared with \$238 million (28.5% of net sales) in the prior-year quarter, reflecting an increase of 30 bps on a year-over-year basis. Adjusted operating profit for first-quarter fiscal 2021 was \$104 million compared with \$119 million in first-quarter fiscal 2020. Adjusted operating profit margin came in at 13.2% compared with 14.3% in the prior-year quarter.

### Financials

As of Nov 30, 2020, Acuity Brands had cash and cash equivalents of \$507 million compared with \$561 million at fiscal 2019-end. In fiscal 2020, cash provided by operating activities totaled \$124 million, reflecting an increase from \$130 million in fiscal 2019.

### Outlook

The company stated it will continue to invest in technology expansion and product portfolio of lighting, lighting controls, and intelligent buildings. Meanwhile, it continues to work on improving service capabilities. Although the company is uncertain about the economic environment due to the pandemic, it is cautiously optimistic about resuming stability in its end markets in fiscal 2021. Also, Acuity Brands continues to use strong cash generation capabilities to prioritize growth investments and share repurchases.

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| Quarter Ending   | 11/2020      |
|------------------|--------------|
| Report Date      | Jan 07, 2021 |
| Sales Surprise   | 0.34%        |
| EPS Surprise     | 11.54%       |
| Quarterly EPS    | 2.03         |
| Annual EPS (TTM) | 8.16         |

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## Valuation

Acuity Brands shares are up 19.3% in the past six-month period but down by 3.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 21.4% and the Zacks Construction sector is up 28.7% in the past six-month period. Over the past year, the Zacks sub-industry is down 1.7% but sector is up 20.9%.

The S&P 500 index is up 18.6% in the past six-month period and 17.4% in the past year.

The stock is currently trading at 14.15X forward 12-month earnings, which compares to 15.68X for the Zacks sub-industry, 17.16X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.04X and as low as 8.18X, with a 5-year median of 16.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$123 price target reflects 14.86X forward 12-month earnings.

The table below shows summary valuation data for AYI

| Valuation Multiples - AYI |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                 | Current       | 14.15 | 15.68        | 17.16  | 23.11   |
|                           | 5-Year High   | 36.04 | 133.83       | 19.01  | 23.79   |
|                           | 5-Year Low    | 8.18  | 11.15        | 10.78  | 15.3    |
|                           | 5-Year Median | 16.1  | 15.72        | 16.07  | 17.83   |
| P/B TTM                   | Current       | 2.22  | 1.77         | 5.1    | 6.53    |
|                           | 5-Year High   | 7.72  | 5.66         | 6.75   | 6.58    |
|                           | 5-Year Low    | 1.38  | 1.16         | 1.73   | 3.73    |
|                           | 5-Year Median | 3.29  | 2.56         | 3.32   | 4.94    |
| P/S F12M                  | Current       | 1.25  | 1.13         | 2.25   | 4.52    |
|                           | 5-Year High   | 3.63  | 2.15         | 2.25   | 4.52    |
|                           | 5-Year Low    | 0.8   | 0.77         | 1.18   | 3.2     |
|                           | 5-Year Median | 1.46  | 1.12         | 1.69   | 3.68    |

As of 01/13/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Top 30% (76 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                         | Rec        | Rank |
|------------------------------------------|------------|------|
| Orion Energy Systems, Inc. (OESX)        | Outperform | 2    |
| Stanley Black & Decker, Inc. (SWK)       | Outperform | 3    |
| Energy Focus, Inc. (EFOI)                | Neutral    | 3    |
| Eaton Corporation, PLC (ETN)             | Neutral    | 4    |
| Ingersoll Rand Inc. (IR)                 | Neutral    | 2    |
| Johnson Controls International plc (JCI) | Neutral    | 3    |
| LSI Industries Inc. (LYTS)               | Neutral    | 3    |
| Rockwell Automation, Inc. (ROK)          | Neutral    | 3    |

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

| Industry Comparison Industry: Building Products - Lighting |         |            |           | Industry Peers |          |            |
|------------------------------------------------------------|---------|------------|-----------|----------------|----------|------------|
|                                                            | AYI     | X Industry | S&P 500   | JCI            | LYTS     | OESX       |
| Zacks Recommendation (Long Term)                           | Neutral | -          | -         | Neutral        | Neutral  | Outperform |
| Zacks Rank (Short Term)                                    | 3       | -          | -         | 3              | 3        | 2          |
| VGM Score                                                  | A       | -          | -         | B              | A        | F          |
| Market Cap                                                 | 4.21 B  | 277.31 M   | 27.19 B   | 37.65 B        | 227.18 M | 327.43 M   |
| # of Analysts                                              | 5       | 2.5        | 13        | 8              | 2        | 3          |
| Dividend Yield                                             | 0.44%   | 0.00%      | 1.41%     | 2.00%          | 2.32%    | 0.00%      |
| Value Score                                                | A       | -          | -         | B              | B        | D          |
| Cash/Price                                                 | 0.12    | 0.08       | 0.06      | 0.05           | 0.04     | 0.04       |
| EV/EBITDA                                                  | 9.35    | 9.85       | 14.93     | 25.06          | 10.34    | 21.98      |
| PEG F1                                                     | 1.45    | 1.31       | 2.63      | 2.64           | 1.17     | NA         |
| P/B                                                        | 2.22    | 4.92       | 3.78      | 2.09           | 1.78     | 10.45      |
| P/CF                                                       | 11.64   | 19.03      | 14.43     | 15.43          | 19.03    | 22.61      |
| P/E F1                                                     | 14.49   | 28.81      | 20.64     | 21.10          | 29.22    | 28.81      |
| P/S TTM                                                    | 1.28    | 1.17       | 2.99      | 1.69           | 0.79     | 3.37       |
| Earnings Yield                                             | 6.89%   | 3.42%      | 4.73%     | 4.73%          | 3.36%    | 3.47%      |
| Debt/Equity                                                | 0.26    | 0.23       | 0.70      | 0.41           | 0.01     | 0.26       |
| Cash Flow (\$/share)                                       | 10.05   | 0.46       | 6.93      | 3.37           | 0.45     | 0.47       |
| Growth Score                                               | A       | -          | -         | C              | A        | F          |
| Historical EPS Growth (3-5 Years)                          | 3.50%   | -15.60%    | 9.72%     | -2.63%         | -34.69%  | NA         |
| Projected EPS Growth (F1/F0)                               | -2.66%  | 11.59%     | 12.36%    | 10.04%         | 145.83%  | -7.50%     |
| Current Cash Flow Growth                                   | -10.88% | -39.95%    | 5.22%     | -1.14%         | -62.18%  | -397.85%   |
| Historical Cash Flow Growth (3-5 Years)                    | 7.26%   | 7.26%      | 8.37%     | 6.64%          | -1.88%   | 25.67%     |
| Current Ratio                                              | 2.31    | 2.22       | 1.38      | 1.22           | 2.29     | 2.15       |
| Debt/Capital                                               | 20.37%  | 18.60%     | 41.97%    | 28.88%         | 1.31%    | 20.33%     |
| Net Margin                                                 | 7.64%   | 2.00%      | 10.44%    | 2.83%          | 2.48%    | 1.51%      |
| Return on Equity                                           | 14.50%  | 4.09%      | 15.37%    | 8.72%          | 3.40%    | 4.78%      |
| Sales/Assets                                               | 0.96    | 1.41       | 0.50      | 0.54           | 1.59     | 1.55       |
| Projected Sales Growth (F1/F0)                             | -0.85%  | -0.80%     | 6.02%     | 3.25%          | -0.75%   | -16.71%    |
| Momentum Score                                             | A       | -          | -         | A              | B        | D          |
| Daily Price Change                                         | -1.57%  | -0.78%     | -0.30%    | 0.33%          | 1.17%    | -2.56%     |
| 1-Week Price Change                                        | -4.21%  | 0.00%      | 2.23%     | 10.11%         | -1.17%   | 9.42%      |
| 4-Week Price Change                                        | 3.08%   | 3.50%      | 3.84%     | 13.63%         | 5.25%    | 13.65%     |
| 12-Week Price Change                                       | 25.82%  | 10.45%     | 14.40%    | 18.96%         | 20.90%   | 47.03%     |
| 52-Week Price Change                                       | -3.60%  | 81.13%     | 7.38%     | 27.07%         | 36.83%   | 171.94%    |
| 20-Day Average Volume (Shares)                             | 493,616 | 121,076    | 1,726,400 | 4,112,192      | 128,172  | 347,913    |
| EPS F1 Estimate 1-Week Change                              | 3.05%   | 0.00%      | 0.00%     | 0.31%          | 0.00%    | 0.00%      |
| EPS F1 Estimate 4-Week Change                              | 4.21%   | 0.00%      | 0.07%     | 0.36%          | 0.00%    | 0.00%      |
| EPS F1 Estimate 12-Week Change                             | 4.50%   | 7.91%      | 2.55%     | 3.52%          | 11.32%   | 117.65%    |
| EPS Q1 Estimate Monthly Change                             | 3.96%   | 0.00%      | 0.00%     | 1.03%          | 0.00%    | 0.00%      |

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    | A |
| Growth Score   | A |
| Momentum Score | A |
| VGM Score      | A |

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.