

## Beacon Roofing Supply (BECN)

**\$35.97** (As of 11/10/20)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**  
(Since: 10/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5) **2-Buy**  
Zacks Style Scores: VGM:A  
Value: A | Growth: A | Momentum: B

### Summary

Beacon Roofing's shares have outperformed the industry in the past three months. Earnings estimates for the current quarter have increased over the past 60 days, depicting analysts' optimism over its growth potential. The company has been benefiting from exceptional operating cost management and cash flow. It has been witnessing improved demand for residential and non-residential products. Moreover, its industry-leading digital platform added to the positives. It increased focus on the e-commerce platform, new OTC (On-Time and Complete) Delivery Network and a newly-designed website. However, the impact of COVID-19 as well as increased input costs will put pressure on its fiscal fourth-quarter performance.

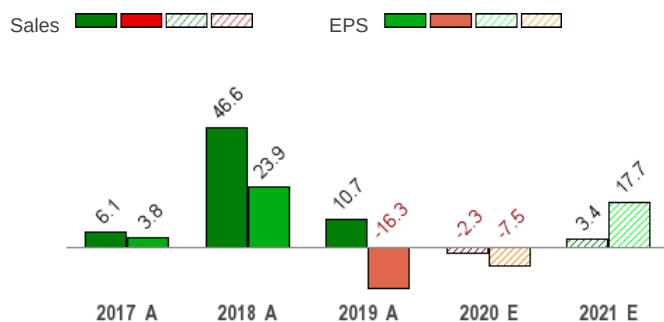
### Price, Consensus & Surprise



### Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$38.35 - \$11.67</b>          |
| 20-Day Average Volume (Shares) | <b>388,306</b>                    |
| Market Cap                     | <b>\$2.4 B</b>                    |
| Year-To-Date Price Change      | <b>8.6%</b>                       |
| Beta                           | <b>1.95</b>                       |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>              |
| Industry                       | <b>Building Products - Retail</b> |
| Zacks Industry Rank            | <b>Top 15% (37 out of 251)</b>    |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>52.5%</b>      |
| Last Sales Surprise           | <b>1.9%</b>       |
| EPS F1 Estimate 4-Week Change | <b>4.6%</b>       |
| Expected Report Date          | <b>11/19/2020</b> |
| Earnings ESP                  | <b>2.9%</b>       |
| P/E TTM                       | <b>17.2</b>       |
| P/E F1                        | <b>14.6</b>       |
| PEG F1                        | <b>1.4</b>        |
| P/S TTM                       | <b>0.3</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,711 E | 1,478 E | 1,900 E | 2,094 E | 7,178 E |
| 2020 | 1,675 A | 1,458 A | 1,793 A | 2,017 E | 6,940 E |
| 2019 | 1,722 A | 1,429 A | 1,925 A | 2,030 A | 7,105 A |

### EPS Estimates

|      | Q1       | Q2        | Q3       | Q4       | Annual*  |
|------|----------|-----------|----------|----------|----------|
| 2021 | \$0.49 E | -\$0.23 E | \$1.05 E | \$1.18 E | \$2.46 E |
| 2020 | \$0.32 A | -\$0.27 A | \$0.93 A | \$1.02 E | \$2.09 E |
| 2019 | \$0.60 A | -\$0.45 A | \$0.92 A | \$1.04 A | \$2.26 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 11/10/2020. The reports text is as of 11/10/2020.

## Overview

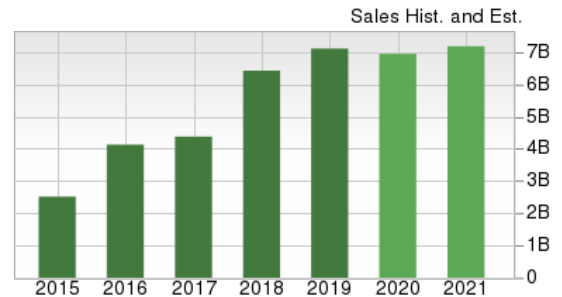
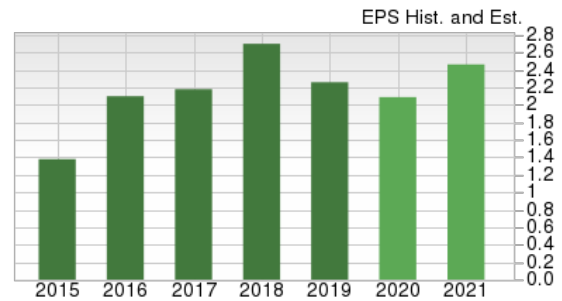
Beacon Roofing Supply is the largest distributor of residential and non-residential roofing materials in the United States and Canada. The company also distributes other complementary building products, including siding, windows, specialty exterior building products, insulation, and waterproofing systems for residential and non-residential building exteriors.

The company is one of the oldest and most recognized distributors in the industry. Beacon Roofing purchases products from a large number of manufacturers and then distributes these goods to its customers including contractors, home builders, retailers and building materials suppliers.

As of Jun 30, 2020, the company operated 524 branches across 50 states in the United States and six provinces in Canada, given a strong presence in the South, West and Pacific Northwest. The company's product portfolio includes Residential roofing products, Non-residential roofing products and Complementary building products.

In fiscal third-quarter 2020, Residential roofing products comprised 46.7% Beacon Roofing's existing market net sales, Non-residential roofing products accounted for 23.8%, and Complementary building products (siding, windows, insulation and waterproofing, among others) contributed the remaining 29.5%.

On Jan 15, 2020, the company announced rebranding of 40 brands across the United States and Canada that sell exterior products. These exterior product branches will now be named Beacon Building Products. Its interior, insulation, weatherproofing and two-step branches will continue to operate under same brand names.



Source: Zacks Investment Research

---

## Reasons To Buy:

- ▲ **Cost-Reduction Initiatives:** Beacon Roofing is moving forward with the integration of the Allied Building Products acquisition. Regarding the specific synergy components, Beacon Roofing began consolidating procurement programs to secure the best supply arrangement from vendors on a market-by-market basis. It is also progressing on employee transitions process. The cost savings related to these decisions is just beginning to positively contribute to a reduction in operating costs.

During third-quarter fiscal 2019, the company announced fixed cost structure actions to reduce operating costs by \$25 million, in order to focus on growth and debt reduction. The company expects to achieve its target in fiscal 2020.

Encouragingly, adjusted EBITDA margin for fiscal third-quarter 2020 remained flat with the year-ago period despite a challenging environment. The company believes that these initiatives will benefit the bottom line in the future. Notably, adjusted operating costs — as a percentage of net sales — improved 50 basis points (bps) for the quarter. The company expects fiscal fourth-quarter margins to improve sequentially.

- ▲ **Focus on Productivity Enhancement & Digital Platform:** Beacon Roofing remains focused on investing for its employees with additional tools and training that are enhancing productivity for consistently expanding product breadth and depth, including TRI-BUILT private label offering. The company is also targeting new customer subsets, including building bonds with national accounts, large retailers and 2-step customers.

The company will also gain from the successful execution of technology initiative in the growing e-commerce platform. Beacon Roofing expects strong demand environment and no incremental inflation in fiscal 2020. It remains on track with the long-term target of generating \$1 billion annual digital sales. The company continues to enhance the platform and add capabilities based on customer feedback. Given the lower cost to service, digital sales are generally accretive to gross margin.

- ▲ **Strategic Review of the Business:** Last year, the company undertook strategic review decision. Under this, the company integrated 40 brands across the United States and Canada that sell exterior products under Beacon Building Products. The new name reflects its ability to supply customers with a broad range of residential and commercial building products, and a unique service offering across North America.

The company is focused on improving sales and operating performance at exterior and interior branches, and intends to enhance overall customer experience with increased scope and scale of business. With this strategic action, its customers are likely to benefit from the industry's best e-commerce platform, a new OTC (On-Time and Complete) Delivery Network and a newly-designed website. Markedly, the OTC Network is developed to support in-store and online customers with enhanced product availability, delivery tracking and notification.

- ▲ **Enough Liquidity to Overcome Coronavirus Woes:** Beacon Roofing has been maintaining a strong liquidity position to navigate through the current challenging environment due to the COVID-19 pandemic. The company ended the fiscal third quarter with a solid liquidity, including \$1,018 million cash and cash equivalents, along with \$329 million of available capacity on the asset-based revolving lines of credit. Its current cash level is sufficient to meet the short-term obligation of \$13 million.

Long-term debt obligations totaled \$3.3 billion, down from \$3.5 billion at fiscal second quarter-end. Evidently, total debt to total capital at quarter-end decreased to 61.7% from 62.6% at the end of the previous quarter. Notably, the company has no significant debt maturity until 2023.

Beacon Roofing will gain from higher contribution from the Allied Building Products acquisition, favorable price/cost relationship, and focus on productivity enhancement & digital platform

---

## Risks

- **Coronavirus Woes to Put Pressure on Near-Term Results:** Owing to COVID-19 impacts on the global economy, Beacon Roofing didn't provide its fiscal 2020 guidance. Despite being declared an essential business in all markets served, the company witnessed significant disruptions due to government restrictions owing to the virus outbreak. The company is vulnerable to such economic environments as most of the work is outdoor and based on repair and remodeling activity. About 70-75% of overall sales and more than 80% of the roofing business is R&R based, and largely non discretionary.

COVID-19-related headwinds and high unemployment are likely to weigh on its future results.

- **Higher Cost & Expenses:** Beacon Roofing has been posting dismal earnings over the last few quarters. Although fiscal third-quarter 2020 earnings topped analysts' expectation and grew on a year-over-year basis, the company has been witnessing higher input costs. Gross margin for the quarter contracted 45 bps. Moreover, its adjusted operating cost declined due to reduced employee-related expenses. However, the cost reduction was temporary. Elevated costs will weigh on the company's future earnings performance.

During second-quarter fiscal 2020, it generated adjusted loss of 27 cents per share. Also, its fiscal first-quarter adjusted earnings declined a whopping 46.7% on a year-over-year basis. Despite undertaking various cost-saving initiatives, the company witnessed increased depreciation expenses, and high costs for fleet repairs, health care and customer-specific events. Also, increase in amortization expense, merit increases, higher health insurance costs, and volume-driven payroll increase impacted the company's bottom line. Notably, its earnings lagged the Zacks Consensus Estimate in eight of the trailing 12 quarters.

Weather-related woes, higher costs and competitive pricing have been pressurizing Beacon Roofing's margins over the last few quarters. As a distributor of residential roofing supplies, the company is sensitive to asphalt prices, which are highly volatile and often linked to oil prices. This is because oil is a significant input in asphalt production. Going ahead, increased prices might impact demand for these products, resulting in lower sales volumes.

- **Pricing Pressure & Stiff Competition:** The commercial roofing market has been experiencing heightened competitive pricing pressures, of late. Moreover, even though repair remodel represents the majority product demand for Beacon Roofing, the timing of these replacement decisions can vary due to economic factors and weather conditions. Beacon Roofing belongs to a highly competitive industry. The maintenance, repair & operations (MRO) supply market is highly fragmented, with many smaller local players competing directly on price. Furthermore, general market softness, volatile exchange rates and uncertainty regarding weather conditions remain matters of concern.
  - **Financial Results are Prone to Seasonal Fluctuations:** Beacon Roofing's business can be significantly impacted by inclement weather conditions, as a large portion of its work is done outdoors. Financial results of the company are also prone to seasonal fluctuations due to the same. Consequently, extended periods of adverse weather impact the company's earnings during the winter. Historically, the company generates lower earnings and substantially low sales during the second quarter.
-

---

## Last Earnings Report

### Beacon's Q3 Earnings & Sales Beat Estimates

Beacon Roofing Supply, Inc. reported impressive third-quarter fiscal 2020 results. The top and bottom lines surpassed the Zacks Consensus Estimate, mainly backed by exceptional operating cost and cash flow performance for the quarter.

Julian Francis, Beacon's president and chief executive officer said, "Our limited reliance on discretionary product categories and our diverse mix of residential and non-residential markets provides our business with stability in this challenging environment."

Quarter Ending 06/2020

| Report Date      | Aug 06, 2020 |
|------------------|--------------|
| Sales Surprise   | 1.85%        |
| EPS Surprise     | 52.46%       |
| Quarterly EPS    | 0.93         |
| Annual EPS (TTM) | 2.02         |

### Quarter in Detail

Beacon reported adjusted earnings of 93 cents per share, which topped the consensus mark of 61 cents by 52.5% and grew 1.1% from the year-ago figure of 92 cents. Despite low revenues, aggressive cost-cutting actions — including reduction in both hours worked and headcount, as well as decrease in fleet costs and other discretionary expenditures — aided the bottom line.

Net sales of \$1.79 billion surpassed the consensus mark of \$1.76 billion by 1.9% but fell 6.9% year over year due to soft demand — especially in April — owing to government mandates, partially offset by stable sales in states/provinces.

Sales of residential roofing products (accounting for 46.7% of net sales), non-residential roofing products (23.8%) and complementary products (29.5%) declined 1.3%, 9.6% and 12.5%, respectively.

### Operating Highlights

Cost of goods sold, as a percentage of net sales, surged 50 basis points (bps) to 75.9%.

SG&A expenses decreased 10.2% year over year. As a percentage of net sales, SG&A improved 60 bps year over year. Adjusted EBITDA declined 6.5% and margin remained flat year over year, reflecting strong operating cost-control measures.

### Cash Position

At fiscal third quarter-end, Beacon had cash and cash equivalents of \$1,018.4 million, significantly up from \$72.3 million at fiscal 2019-end. Long-term debt — net of current portion — was \$2.5 billion, almost in line with the last reported quarter and the year-ago figure.

Cash provided to operations was reported at \$250.4 million in the first nine months of fiscal 2020 versus \$194.9 million cash used in operations a year ago.

## Valuation

Beacon Roofing's shares are up 8.6% in the year-to-date period and 5.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 24.3% and 34.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 20.8% and 39.3%, respectively.

The S&P 500 index is up 10.6% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 13.78X forward 12-month earnings, which compares to 20.94X for the Zacks sub-industry, 31.4X for the Zacks sector and 22.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.47X and as low as 4.55X, with a 5-year median of 14.57X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$40 price target reflects 15.87X forward 12-month earnings.

The table below shows summary valuation data for BECN.

| Valuation Multiples - BECN |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 13.78 | 20.94        | 31.4   | 22.23   |
|                            | 5-Year High   | 24.47 | 23.64        | 34.05  | 23.47   |
|                            | 5-Year Low    | 4.55  | 16.02        | 19.09  | 15.27   |
|                            | 5-Year Median | 14.57 | 19           | 23.6   | 17.72   |
| P/S F12M                   | Current       | 0.33  | 1.61         | 1.33   | 4.12    |
|                            | 5-Year High   | 0.85  | 1.71         | 1.33   | 4.3     |
|                            | 5-Year Low    | 0.11  | 1.06         | 0.84   | 3.17    |
|                            | 5-Year Median | 0.41  | 1.3          | 1.01   | 3.67    |
| EV/EBITDA TTM              | Current       | 7.36  | 12.21        | 18.32  | 15.52   |
|                            | 5-Year High   | 20.06 | 14.91        | 20.74  | 15.63   |
|                            | 5-Year Low    | 6.04  | 8.09         | 11.16  | 9.52    |
|                            | 5-Year Median | 10.94 | 10.82        | 13.02  | 13.09   |

As of 11/09/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 15% (37 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                          | Rec        | Rank |
|-------------------------------------------|------------|------|
| Builders FirstSource, Inc. (BLDR)         | Outperform | 3    |
| Owens Corning Inc (OC)                    | Outperform | 2    |
| Simpson Manufacturing Company, Inc. (SSD) | Outperform | 2    |
| Armstrong World Industries, Inc. (AWI)    | Neutral    | 4    |
| BMC Stock Holdings, Inc. (BMCH)           | Neutral    | 3    |
| GMS Inc. (GMS)                            | Neutral    | 3    |
| Gibraltar Industries, Inc. (ROCK)         | Neutral    | 3    |
| Tecnoglass Inc. (TGLS)                    | Neutral    | 2    |

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

| Industry Comparison Industry: Building Products - Retail |            |            |           | Industry Peers |         |            |
|----------------------------------------------------------|------------|------------|-----------|----------------|---------|------------|
|                                                          | BECN       | X Industry | S&P 500   | BLDR           | BMCH    | OC         |
| Zacks Recommendation (Long Term)                         | Outperform | -          | -         | Outperform     | Neutral | Outperform |
| Zacks Rank (Short Term)                                  | 2          | -          | -         | 3              | 3       | 2          |
| VGM Score                                                | A          | -          | -         | B              | A       | A          |
| Market Cap                                               | 2.39 B     | 2.39 B     | 24.57 B   | 3.76 B         | 2.82 B  | 7.15 B     |
| # of Analysts                                            | 7          | 5          | 13        | 5              | 6       | 7          |
| Dividend Yield                                           | 0.00%      | 0.00%      | 1.51%     | 0.00%          | 0.00%   | 1.45%      |
| Value Score                                              | A          | -          | -         | B              | B       | A          |
| Cash/Price                                               | 0.43       | 0.10       | 0.07      | 0.09           | 0.10    | 0.09       |
| EV/EBITDA                                                | 11.96      | 11.90      | 14.21     | 10.07          | 11.84   | 8.18       |
| PEG F1                                                   | 1.43       | 1.11       | 2.73      | NA             | NA      | 1.42       |
| P/B                                                      | 1.42       | 2.06       | 3.52      | 3.73           | 2.55    | 1.84       |
| P/CF                                                     | 5.21       | 12.61      | 13.46     | 10.69          | 14.53   | 7.51       |
| P/E F1                                                   | 14.62      | 15.30      | 21.50     | 12.86          | 16.49   | 15.05      |
| P/S TTM                                                  | 0.34       | 0.69       | 2.74      | 0.48           | 0.73    | 1.05       |
| Earnings Yield                                           | 7.08%      | 6.58%      | 4.43%     | 7.76%          | 6.07%   | 6.64%      |
| Debt/Equity                                              | 1.98       | 0.52       | 0.70      | 1.56           | 0.32    | 0.80       |
| Cash Flow (\$/share)                                     | 6.66       | 2.88       | 6.92      | 3.01           | 2.88    | 8.80       |
| Growth Score                                             | A          | -          | -         | C              | A       | A          |
| Historical EPS Growth (3-5 Years)                        | 5.47%      | 16.24%     | 9.77%     | 42.38%         | 29.97%  | 9.78%      |
| Projected EPS Growth (F1/F0)                             | 17.89%     | 15.85%     | 0.37%     | 19.81%         | 33.59%  | -3.24%     |
| Current Cash Flow Growth                                 | 11.78%     | 0.60%      | 5.29%     | 7.81%          | -0.49%  | -2.64%     |
| Historical Cash Flow Growth (3-5 Years)                  | 40.23%     | 10.93%     | 8.33%     | 62.81%         | 45.68%  | 13.33%     |
| Current Ratio                                            | 2.25       | 1.99       | 1.38      | 1.90           | 2.28    | 1.95       |
| Debt/Capital                                             | 61.58%     | 46.75%     | 41.97%    | 60.97%         | 24.17%  | 44.54%     |
| Net Margin                                               | -1.80%     | 3.73%      | 10.44%    | 2.76%          | 3.37%   | -7.94%     |
| Return on Equity                                         | 9.45%      | 16.62%     | 14.92%    | 29.40%         | 14.22%  | 11.99%     |
| Sales/Assets                                             | 1.02       | 1.74       | 0.50      | 2.14           | 1.89    | 0.72       |
| Projected Sales Growth (F1/F0)                           | 3.42%      | 1.71%      | 0.14%     | 14.66%         | 12.87%  | -4.27%     |
| Momentum Score                                           | B          | -          | -         | A              | A       | B          |
| Daily Price Change                                       | 0.96%      | -2.11%     | 2.76%     | -5.51%         | -5.57%  | -4.23%     |
| 1-Week Price Change                                      | 12.05%     | 8.67%      | 5.72%     | 12.51%         | 11.95%  | 5.41%      |
| 4-Week Price Change                                      | -4.30%     | -4.30%     | 3.51%     | -6.75%         | -7.17%  | -11.92%    |
| 12-Week Price Change                                     | 10.04%     | 7.30%      | 7.01%     | 7.30%          | 24.07%  | -1.84%     |
| 52-Week Price Change                                     | 5.72%      | 24.87%     | 5.23%     | 32.22%         | 49.57%  | 4.41%      |
| 20-Day Average Volume (Shares)                           | 388,306    | 573,249    | 2,079,064 | 1,955,042      | 573,249 | 948,516    |
| EPS F1 Estimate 1-Week Change                            | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 20.56%  | 0.00%      |
| EPS F1 Estimate 4-Week Change                            | 4.58%      | 2.92%      | 1.67%     | 22.03%         | 20.86%  | 10.77%     |
| EPS F1 Estimate 12-Week Change                           | 12.77%     | 15.72%     | 3.62%     | 25.96%         | 24.56%  | 13.85%     |
| EPS Q1 Estimate Monthly Change                           | 34.07%     | 29.88%     | 0.81%     | 162.50%        | 62.05%  | 5.69%      |

Source: Zacks Investment Research

---

## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

---

### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | A |
| Momentum Score | B |
| 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.

---

## Disclosures

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

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

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

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

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.



---

## 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.

---

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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