

## Berry Global Group (BERY)

**\$59.14** (As of 03/12/21)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

### Summary

Berry Global's diversified business structure enables it to mitigate the adverse impacts of weakness in one end market with strength across others. The RPC Group buyout is enhancing growth opportunities in the plastic and recycled packaging industry. The company's focus on improving operational productivity along with its partnerships across the value chain is likely to benefit it. However, in the past six months, its shares have underperformed the industry. Escalating costs might put pressure on margins in the quarters ahead. Foreign exchange headwinds are also likely to affect its performance. High debt levels are expected to raise the company's financial obligations and hurt profitability. In the past 60 days, its earnings estimates have been decreased for the second and third quarters of fiscal 2021.

### Price, Consensus & Surprise



Source: Zacks Investment Research

### Data Overview

|                                |                                  |
|--------------------------------|----------------------------------|
| 52-Week High-Low               | \$61.00 - \$25.00                |
| 20-Day Average Volume (Shares) | 915,735                          |
| Market Cap                     | \$7.9 B                          |
| Year-To-Date Price Change      | 5.3%                             |
| Beta                           | 1.37                             |
| Dividend / Dividend Yield      | \$0.00 / 0.0%                    |
| Industry                       | Containers - Paper and Packaging |
| Zacks Industry Rank            | Bottom 28% (181 out of 253)      |

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



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 20.4%      |
| Last Sales Surprise           | 7.6%       |
| EPS F1 Estimate 4-Week Change | 0.0%       |
| Expected Report Date          | 05/07/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 10.9       |
| P/E F1                        | 10.9       |
| PEG F1                        | 1.1        |
| P/S TTM                       | 0.7        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 | 3,145 E | 3,176 E | 3,054 E | 3,061 E | 12,743 E |
| 2021 | 3,136 A | 3,166 E | 3,087 E | 3,105 E | 12,658 E |
| 2020 | 2,816 A | 2,975 A | 2,910 A | 3,008 A | 11,709 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$1.27 E | \$1.50 E | \$1.56 E | \$1.44 E | \$5.89 E |
| 2021 | \$1.12 A | \$1.33 E | \$1.47 E | \$1.49 E | \$5.42 E |
| 2020 | \$0.56 A | \$1.19 A | \$1.52 A | \$1.59 A | \$4.85 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 03/12/2021. The report's text and the analyst-provided price target are as of 03/15/2021.

## Overview

**Berry Global Group, Inc.** manufactures and distributes nonwoven specialty materials, engineered materials and consumer packaging products in the market. The company services personal care, healthcare as well as beverage and food markets in South America, North America, Asia and Europe.

This Evansville, IN-based company was formerly known as Berry Plastics Group, Inc., but changed its official name to Berry Global Group, Inc. in April 2017. The company employs approximately 47,000 people globally (as the end of fiscal 2020).

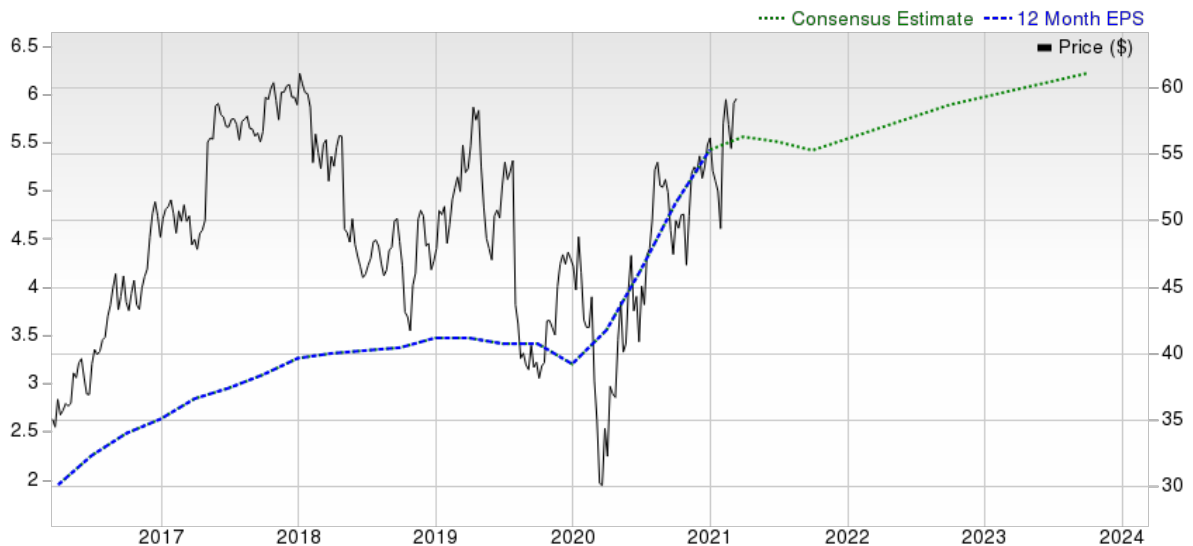
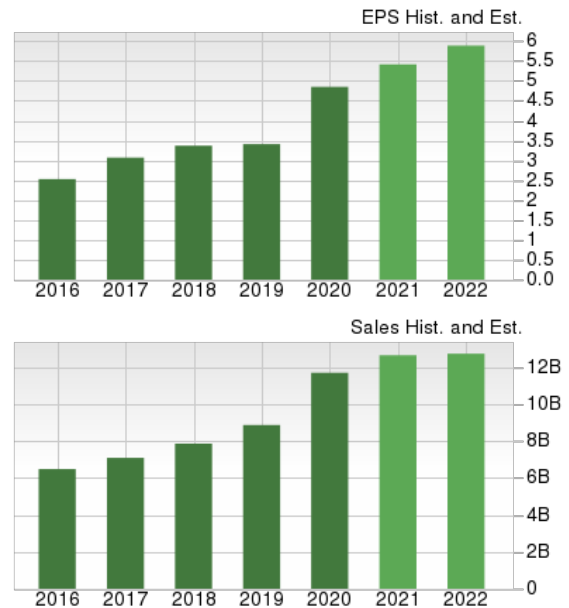
In July 2019, the company acquired United Kingdom-based RPC Group Plc. The latter specializes in providing recycled solutions and plastic packaging. Its products are mainly used by customers, both in the non-packaging and packaging markets. With the completion of the RPC Group buyout, Berry Global revised its business segments from the earlier three segments (Engineered Materials; Health, Hygiene & Specialties; and Consumer Packaging) to four segments — Consumer Packaging - International; Consumer Packaging - North America; Engineered Materials; and Health, Hygiene, and Specialties.

**Consumer Packaging – International** segment (31.5% revenues in first-quarter fiscal 2021): This segment consists of the international businesses of acquired RPC Group. It is engaged in manufacturing several products under products groups of bottles and canisters, containers, polythene films, pharmaceutical devices and technical components.

**Consumer Packaging — North America** segment (21.9%): The segment incorporates the company's legacy Consumer Packaging business and the U.S. portion of the acquired RPC Group business. It offers various products under groups like containers and pails, foodservice, closures and overcaps, bottles and prescription vials and tubes.

**Engineered Materials** segment (23%): This segment is comprised of product groups like stretch and shrink films, converter films, tape products, food and consumer films, retail bags, PVC and agriculture films.

**Health, Hygiene & Specialties** segment (23.6%): This segment consists of several product groups including health products, hygiene products and specialties products.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Berry Global has a diversified business structure, which allows it to mitigate the adverse impacts of weakness in one end market with strength across others. Also, the company boasts a strong portfolio of products, bulk of which includes consumer non-discretionary products. Going forward, the company expects its Consumer Packaging — North America segment to benefit from strength across the grocery and consumer-centric end markets. The Health, Hygiene & Specialties segment is likely to continue benefiting from higher demand for its healthcare products. Strength across consumer-centric end markets and signs of improvement in other end markets will be beneficial for the Consumer Packaging — International segment. The Engineered Materials segment is likely to gain from strength in consumer films, including snacking and e-commerce end markets and recovery of other end markets. For fiscal 2021, the company expects the Health, Hygiene & Specialties segment to grow mid-to-high single digits, on a year-over-year basis. For the fiscal year, it also anticipates its other segments to grow in low- to-mid single digit range on a year-over-year basis. For fiscal 2021, the company anticipates to generate overall organic sales growth of 4%, higher than 2% anticipated earlier.
- ▲ Over time, Berry Global has strengthened its product portfolio and leveraged business opportunities through the addition of assets. In July 2019, the company acquired RPC Group Plc. The buyout has been enhancing Berry Global's growth opportunities in the plastic and recycled packaging industry. Notably, the company expects this buyout to generate annual cost synergies of \$150 million, with \$50 million of it expected to be realized in fiscal 2021. Notably, in fiscal 2020, buyouts contributed 28.6% to the company's net sales. Moreover, it noted that organic growth investments have been benefiting its Health, Hygiene & Specialties segment.
- ▲ Berry Global follows a balanced capital allocation strategy. It utilizes its cash flow for improving organic growth capabilities, acquisitions, repaying debts and repurchasing shares. In fiscal 2020 and first-quarter fiscal 2021, the company repaid long-term debt of \$2,436 million and \$985 million, respectively. Further, improvement in cash flows is likely to support the company's capital-allocation strategies. For fiscal 2021, Berry Global anticipates cash flow from operations of \$1,525-\$1,625 million, capital expenditures of \$650 million and free cash flow of \$875-\$975 million. In addition, its focus on improving operational productivity and partnerships across the value chain is likely to continue improving margins and its financial performance in the quarters ahead. In the fiscal first quarter, the company's adjusted operating margin climbed 190 basis points on a year-over-year basis to 10.5%. Moreover, in October 2020, it reorganized portions of its four business segments, which will enable it to better align its several businesses for long-term growth.

Diversified products portfolio, anticipated synergistic gains from acquired assets and sound capital-allocation strategies are likely to be beneficial for Berry Global.

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## Reasons To Sell:

- ▼ Escalating cost of goods sold has been a major cause of concern for Berry Global over time. In the last five fiscal years (2016-2020), the company's cost of goods sold increased 12.3% (CAGR). Notably, in fiscal 2020 and first-quarter fiscal 2021, the metric jumped 28.1% and 9.7%, respectively, on a year-over-year basis, despite its cost-reduction initiatives. Also, in fiscal 2020 and first-quarter fiscal 2021, the company's selling, general and administrative expenses jumped 45.8% and 5.2%, respectively. Notably, high operating and inflation related costs elevated its aggregate costs. We believe, if unchecked, higher costs and operating expenses will continue to impact its margins and profitability.
- ▼ Berry Global's long-term debt in the last five fiscal years (2016-2020) increased 12.2% (CAGR). Despite its efforts to reduce debt leverage, its current and long-term debt remained high at \$10,081 million at the end of first-quarter fiscal 2021. Any further increase in debt levels can raise the company's financial obligations. Berry Global's stock looks more leveraged than the industry. Its debt/capital ratio is currently pegged at 0.80, significantly higher than 0.59 of the industry. This makes us cautious toward the stock.
- ▼ Berry Global has a significant presence in international markets. As a result, its financial performance is subject to various risks like foreign currency exchange rate, interest rate fluctuations and hyperinflation in some foreign countries. As a result, an increase in the value of the U.S. dollar relative to the local currencies of foreign markets might affect the company's top line in the quarters ahead. In the past six months, its shares have gained 15.6% compared with the industry's growth of 19.3%. In addition, analysts have increasingly become bearish on the company, as evident from negative earnings estimate revisions. In the past 60 days, the company's earnings estimates have been revised downward 4.3% and 3.3%, respectively, for the second and third quarters of fiscal 2021.

Escalating costs and high debt levels might be detrimental to Berry Global in the quarters ahead.

## Last Earnings Report

### Berry Global Q1 Earnings & Revenues Top Estimates

Berry Global reported better-than-expected first-quarter fiscal 2021 (ended Jan 2, 2021) results. Its earnings surpassed estimates by 20.43% — this being the sixth consecutive quarter of earnings beat. Also, the quarter's sales topped estimates by 7.58%.

The company's adjusted earnings of \$1.12 per share surpassed the Zacks Consensus Estimate of 93 cents. Also, the bottom line doubled from the year-ago number of 56 cents.

Quarter Ending **12/2020**

|                  |              |
|------------------|--------------|
| Report Date      | Feb 05, 2021 |
| Sales Surprise   | 7.58%        |
| EPS Surprise     | 20.43%       |
| Quarterly EPS    | 1.12         |
| Annual EPS (TTM) | 5.42         |

### Revenue Details

In the quarter under review, Berry Global's net sales were \$3,136 million, reflecting year-over-year increase of 11.4%. The improvement was driven by 7% growth in organic volumes, positive impact of \$50 million from favorable movements in foreign currencies and \$112 million benefit from extra shipping days, partially offset by \$15 million of divestiture sales.

The top line surpassed the consensus estimate of \$2,915 million.

The company reports results under four segments — **Consumer Packaging–International, Consumer Packaging–North America, Health, Hygiene & Specialties**, and **Engineered Materials**. A brief snapshot of fiscal first-quarter segmental sales is provided below:

Consumer Packaging–International's sales were \$988 million compared with \$930 million in the year-ago quarter. The increase was attributable to 4% growth in organic volumes and positive impact of \$44 million from favorable movements in foreign currencies, partially offset by a \$28 million adverse impact of decline in selling prices. It accounted for 31.5% of the quarter's net sales.

Consumer Packaging–North America's sales were \$686 million, up 12.3% year over year. The increase was attributable to 8% rise in organic volumes and advantages of extra shipping days. It accounted for 21.9% of the quarter's net sales.

Revenues generated from Health, Hygiene & Specialties amounted to \$740 million, up 21.3% year over year. The improvement was driven by 15% increase in organic volumes and positive impact of \$7 million from higher selling prices and advantages of extra shipping days. It accounted for 23.6% of the quarter's net sales.

Revenues from Engineered Materials increased 8.6% year over year to \$722 million. The rise was driven by 2% increase in organic volumes and positive impact of \$7 million from favorable movements in foreign currencies and advantages of extra shipping days. It accounted for 23% of the quarter's net sales.

### Margin Profile

In the fiscal first quarter, Berry Global's cost of goods sold increased 9.7% to \$2,518 million. It represented 80.3% of net sales compared with 81.5% in the year-ago quarter. Selling, general and administrative expenses rose 5.2% to \$241 million and represented 7.7% of net sales.

Adjusted operating income in the quarter increased 36.4% to \$330 million. Also, adjusted operating margin came in at 10.5%, up 190 basis points year over year. Net interest expenses were \$97 million, down 17.8%.

### Balance Sheet & Cash Flow

Exiting fiscal first quarter, Berry Global's cash and cash equivalents were \$847 million, up 12.9% from \$750 million in the previous quarter. Current and long-term debt decreased 1.5% to \$10,081 million sequentially.

In the fiscal first quarter, the company repaid \$985 million of borrowings. Its proceeds from borrowings totaled \$750 million.

In the reported quarter, it generated net cash of \$315 million from operating activities, up 44.5% from the year-ago quarter. Free cash flow in the quarter increased 119% to \$153 million.

### Outlook

For fiscal 2021 (ending September 2021), Berry Global anticipates witnessing organic sales growth of 4% on a year-over-year basis, with operating EBITDA in the range of \$2.175-\$2.225 billion.

For fiscal 2021, Berry Global predicts a free cash flow in the range of \$875-\$975 million, with cash flow from operations of \$1,525-\$1,625 million and capital expenditure of \$650 million.

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## Recent News

### Berry Global Issues Senior Notes

On **Mar 4, 2021**, Berry Global completed the issuance of \$775 million worth of first-priority senior secured notes. The notes were offered by Berry Global, Inc. — a wholly-owned subsidiary of the Berry Global Group.

As noted, the notes offered are due to mature in 2026, and carry a 1.57% coupon rate.

### Berry Global's Investment in Wipe Substrate Capabilities

On **Feb 4, 2021**, Berry Global announced its investment of more than \$70 million in its United States wipe substrate capabilities. The company's investment includes a new line and additional manufacturing capacity of its business.

### Berry Global Issues \$800M Senior Notes

On **Jan 15, 2021**, Berry Global completed the issuance of \$800 million worth of first-priority senior secured notes. The notes were offered to private investors by Berry Global, Inc. — a wholly-owned subsidiary of the Berry Global Group.

As noted, the notes offered are due to mature on Feb 15, 2024, and carry a 0.95% coupon rate. The interest will be paid out semi-annually, with instalments made each year on Feb 15 and Aug 15. The first interest payment will be made on Aug 15, 2021.

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## Valuation

Berry Global's shares are up 5.2% in the year-to-date period and increased 119.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 3.6% in the year-to-date period, while that in the Zacks Industrial Products sector increased 14.6%. Over the past year, the Zacks sub-industry and the sector are up 87.7% and 98.6%, respectively.

The S&P 500 index has moved up 5.3% in the year-to-date period, while increased 67.9% in the past year.

The stock is currently trading at 10.51x forward 12-month earnings per share, which compares to 16.96x for the Zacks sub-industry, 26.39x for the Zacks sector and 22.53x for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.43x and as low as 6.19x, with a 5-year median of 13.31x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$62 reflects 11.04x forward 12-month earnings per share.

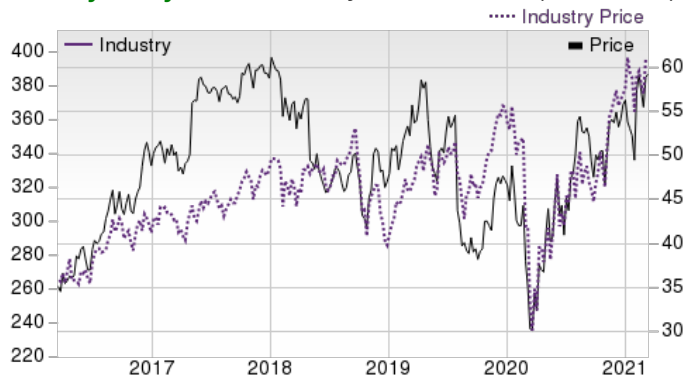
The table below shows summary valuation data for BERY.

| Valuation Multiples - BERY |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 10.51 | 16.96        | 26.39  | 22.53   |
|                            | 5-Year High   | 19.43 | 18.98        | 26.39  | 23.8    |
|                            | 5-Year Low    | 6.19  | 7.2          | 12.66  | 15.3    |
|                            | 5-Year Median | 13.31 | 16.04        | 18.03  | 17.9    |
| P/S F12M                   | Current       | 0.62  | 1.94         | 4.37   | 4.57    |
|                            | 5-Year High   | 1.08  | 5.08         | 4.37   | 4.57    |
|                            | 5-Year Low    | 0.29  | 1.49         | 1.62   | 3.21    |
|                            | 5-Year Median | 0.79  | 1.94         | 2.13   | 4.57    |

As of 03/12/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 28% (181 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                        | Rec     | Rank |
|-----------------------------------------|---------|------|
| AptarGroup, Inc. (ATR)                  | Neutral | 3    |
| Greif, Inc. (GEF)                       | Neutral | 3    |
| Graphic Packaging Holding Company (GPK) | Neutral | 3    |
| 3M Company (MMM)                        | Neutral | 3    |
| Packaging Corporation of America (PKG)  | Neutral | 3    |
| Sealed Air Corporation (SEE)            | Neutral | 3    |
| Silgan Holdings Inc. (SLGN)             | Neutral | 3    |
| Sonoco Products Company (SON)           | Neutral | 3    |

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

| Industry Comparison Industry: Containers - Paper And Packaging |         |            |           | Industry Peers |           |           |
|----------------------------------------------------------------|---------|------------|-----------|----------------|-----------|-----------|
|                                                                | BERY    | X Industry | S&P 500   | GEF            | GPK       | MMM       |
| Zacks Recommendation (Long Term)                               | Neutral | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                        | 3       | -          | -         | 3              | 3         | 3         |
| VGM Score                                                      | A       | -          | -         | A              | A         | A         |
| Market Cap                                                     | 7.92 B  | 6.73 B     | 28.54 B   | 2.86 B         | 4.74 B    | 107.09 B  |
| # of Analysts                                                  | 8       | 5          | 13        | 3              | 8         | 7         |
| Dividend Yield                                                 | 0.00%   | 2.11%      | 1.38%     | 2.98%          | 1.69%     | 3.20%     |
| Value Score                                                    | A       | -          | -         | A              | A         | B         |
| Cash/Price                                                     | 0.11    | 0.06       | 0.06      | 0.04           | 0.04      | 0.05      |
| EV/EBITDA                                                      | 8.57    | 10.86      | 16.11     | 9.41           | 9.02      | 13.92     |
| PEG F1                                                         | 1.09    | 1.81       | 2.38      | 1.63           | 0.56      | 2.04      |
| P/B                                                            | 3.24    | 3.56       | 3.92      | 2.27           | 2.61      | 8.25      |
| P/CF                                                           | 5.23    | 10.86      | 16.30     | 6.60           | 6.04      | 15.24     |
| P/E F1                                                         | 10.93   | 17.76      | 21.26     | 16.35          | 14.01     | 19.35     |
| P/S TTM                                                        | 0.66    | 1.34       | 3.30      | 0.63           | 0.72      | 3.33      |
| Earnings Yield                                                 | 9.15%   | 5.63%      | 4.59%     | 6.12%          | 7.11%     | 5.16%     |
| Debt/Equity                                                    | 4.09    | 1.05       | 0.67      | 1.87           | 1.71      | 1.39      |
| Cash Flow (\$/share)                                           | 11.31   | 4.15       | 6.78      | 8.95           | 2.93      | 12.13     |
| Growth Score                                                   | B       | -          | -         | C              | A         | B         |
| Historical EPS Growth (3-5 Years)                              | 15.56%  | 10.15%     | 9.34%     | 11.10%         | 9.49%     | 2.00%     |
| Projected EPS Growth (F1/F0)                                   | 11.65%  | 14.92%     | 14.75%    | 12.11%         | 12.84%    | 9.32%     |
| Current Cash Flow Growth                                       | 39.89%  | 4.27%      | 0.74%     | -1.52%         | 12.14%    | 1.21%     |
| Historical Cash Flow Growth (3-5 Years)                        | 21.65%  | 10.44%     | 7.37%     | 10.57%         | 8.34%     | 1.95%     |
| Current Ratio                                                  | 1.74    | 1.37       | 1.39      | 1.36           | 1.09      | 1.88      |
| Debt/Capital                                                   | 80.37%  | 50.23%     | 41.42%    | 65.41%         | 63.10%    | 58.18%    |
| Net Margin                                                     | 5.34%   | 6.02%      | 10.59%    | 2.20%          | 2.55%     | 16.73%    |
| Return on Equity                                               | 36.29%  | 15.97%     | 14.70%    | 15.78%         | 16.16%    | 44.24%    |
| Sales/Assets                                                   | 0.71    | 0.83       | 0.51      | 0.82           | 0.86      | 0.70      |
| Projected Sales Growth (F1/F0)                                 | 8.10%   | 5.82%      | 6.93%     | 5.82%          | 3.91%     | 6.72%     |
| Momentum Score                                                 | B       | -          | -         | C              | F         | C         |
| Daily Price Change                                             | 0.41%   | 0.80%      | 0.64%     | 2.09%          | 1.37%     | 0.19%     |
| 1-Week Price Change                                            | 6.12%   | 4.45%      | 2.46%     | 13.33%         | 5.23%     | 3.28%     |
| 4-Week Price Change                                            | 1.83%   | 5.54%      | 4.45%     | 21.70%         | 6.43%     | 4.35%     |
| 12-Week Price Change                                           | 8.93%   | 8.93%      | 7.65%     | 21.67%         | 6.82%     | 4.68%     |
| 52-Week Price Change                                           | 110.39% | 87.19%     | 62.34%    | 134.82%        | 42.82%    | 38.43%    |
| 20-Day Average Volume (Shares)                                 | 915,735 | 410,390    | 2,210,456 | 188,106        | 3,199,726 | 2,263,885 |
| EPS F1 Estimate 1-Week Change                                  | 0.00%   | 0.00%      | 0.00%     | 0.00%          | -0.79%    | -0.01%    |
| EPS F1 Estimate 4-Week Change                                  | 0.00%   | 0.00%      | 0.00%     | 4.34%          | -2.22%    | -0.01%    |
| EPS F1 Estimate 12-Week Change                                 | 0.81%   | 0.81%      | 2.01%     | 0.14%          | 5.22%     | 1.38%     |
| EPS Q1 Estimate Monthly Change                                 | 0.00%   | -0.41%     | 0.00%     | -0.83%         | -12.26%   | 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.

### 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   | B |
| 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.

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## Disclosures

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.