

## TopBuild Corp. (BLD)

**\$210.00** (As of 01/19/21)

Price Target (6-12 Months): **\$221.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/04/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

## Summary

Shares of TopBuild have outperformed its industry in the past six-month period. Strengthening housing market prospects, higher sales volumes, higher selling prices, improved labor and sales productivity, and acquisition synergies have been benefitting the company. TopBuild's systematic inorganic strategy will supplement its organic growth and expand access to additional markets and products. Also, the company's strength in the Insulation Installation business and improving repair and remodeling activities raises hope. Estimates for the company's 2021 earnings have moved upward over the past 30 days, reflecting analysts' optimism over its growth potential. However, COVID-19-related project delays, seasonal fluctuations and the federal government's actions are pressing concerns.

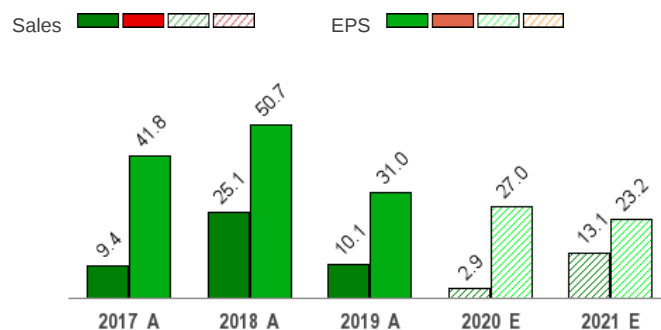
## Price, Consensus & Surprise



## Data Overview

|                                |                                          |
|--------------------------------|------------------------------------------|
| 52-Week High-Low               | <b>\$217.56 - \$54.83</b>                |
| 20-Day Average Volume (Shares) | <b>231,060</b>                           |
| Market Cap                     | <b>\$6.9 B</b>                           |
| Year-To-Date Price Change      | <b>14.1%</b>                             |
| Beta                           | <b>1.61</b>                              |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>                     |
| Industry                       | <b>Building Products - Miscellaneous</b> |
| Zacks Industry Rank            | <b>Top 26% (66 out of 252)</b>           |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>20.0%</b>      |
| Last Sales Surprise           | <b>-0.9%</b>      |
| EPS F1 Estimate 4-Week Change | <b>1.7%</b>       |
| Expected Report Date          | <b>02/23/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>30.2</b>       |
| P/E F1                        | <b>24.5</b>       |
| PEG F1                        | <b>0.9</b>        |
| P/S TTM                       | <b>2.6</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 726 E | 759 E | 811 E | 783 E | 3,053 E |
| 2020 | 653 A | 646 A | 697 A | 703 E | 2,700 E |
| 2019 | 619 A | 660 A | 682 A | 662 A | 2,624 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.83 E | \$2.26 E | \$2.52 E | \$2.35 E | \$8.59 E |
| 2020 | \$1.37 A | \$1.68 A | \$2.10 A | \$1.81 E | \$6.97 E |
| 2019 | \$1.06 A | \$1.43 A | \$1.53 A | \$1.48 A | \$5.49 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 01/19/2021. The reports text is as of 01/20/2021.

## Overview

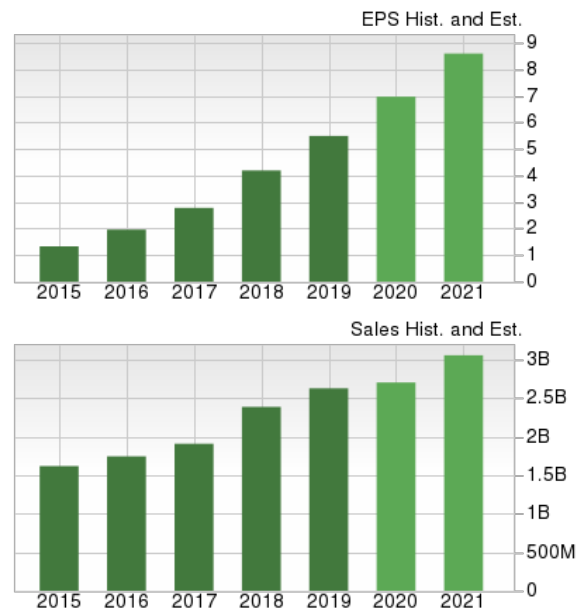
Headquartered in Daytona Beach, FL, **TopBuild Corp.** is an installer and distributor of insulation and other building products to the U.S. construction industry. TopBuild, which earlier operated as a subsidiary of Masco Corporation, provides insulation and building material services across the nation through TruTeam and Service Partners. The company started trading on the NYSE under the symbol "BLD" from Jul 1, 2015.

The company has two reportable segments — Installation (TruTeam) and Distribution (Service Partners).

The **Installation** segment (which accounted for 72.7% of total 2019 net sales) installs insulation and other building products through the TruTeam contractor services business, which had nearly 200 branches located in 40 states, as of Mar 31, 2020. The company installs various insulation applications including fiberglass batts and rolls, blown-in loose fill fiberglass, blown-in loose fill cellulose and polyurethane spray foam. Also, it installs other building products like rain gutters, glass and windows, fire proofing, garage doors, shower enclosures, as well as closet shelving. The installation process includes procurement supplied by leading manufacturers, project scheduling and logistics, multi-phase professional installation, as well as installation quality assurance.

**Distribution** segment (32.8%) sells and distributes insulation and other building products including rain gutters, fireplaces, closet shelving and roofing materials through the Service Partners business, which had approximately 75 branches located in 32 states, as of Dec 31, 2019. Its Service Partners customer base consists of thousands of insulation contractors of all sizes, gutter contractors, weatherization contractors, other contractors, dealers, metal building erectors and modular home builders.

[Intercompany eliminations accounted for 5.5% of total 2019 net sales.]



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **Strong Performance & Solid ROE:** Shares of TopBuild have outperformed the industry so far this year. The company has been recording solid earnings and revenue growth over the last few quarters. For the first nine months of 2020, although the company's sales increased just 1.8% due to COVID-19-led disruptions, adjusted earnings per share grew 27.8%, adjusted EBITDA was up 18.3% and adjusted EBITDA margin expanded 220 basis points (bps) from the prior-year period. While COVID-19-related woes impacted sales volume, impressive margin expansion led to increased profitability, depicting a flexible operating model and its ability to quickly reduce costs.

Strategic acquisitions and favorable construction market bode well for the company.

Meanwhile, TopBuild's superior return on equity (ROE) is indicative of growth potential. The company's ROE stands at 18.3% compared with 11.4% for the industry it belongs to. This indicates efficiency in using its shareholders' funds.

- ▲ **Inorganic Moves:** Acquisitions are an important part of TopBuild's growth strategy to supplement its organic growth and expand access to additional markets and products. During the first nine months of 2020, the company completed three acquisitions that are expected to generate approximately \$79 million in annual revenues. On Oct. 2020, the company completed the acquisition of Garland Insulating, one of the largest locally owned and operated insulation installation companies in Texas.

It completed one acquisition in 2019 and two in the first half of 2020. On Feb 24, 2020, the company announced that it has acquired Hunter Insulation, an 80-year old residential insulation company based in Long Island, NY. Also, on Feb 20, 2020, it added Cooper Glass Co, LLC — a commercial glass company serving the Memphis market — to its portfolio.

In July 2019, the company acquired Burbank, CA-based Viking Insulation for a purchase price of approximately \$7.7 million. Again in 2018, it had completed the acquisition of three companies: ADO, a distributor of insulation accessories, Santa Rosa, a residential and commercial insulation company, and USI, a leading distributor and installer of insulation in both residential and commercial construction markets. Notably, 2018 buyouts added \$414.8 million to net sales and aided the company to generate \$34.7 million net income in 2019.

Apart from acquisitions, the company plans to close some low-margin businesses to focus on its core areas in a bid to accelerate growth and improve shareholder value.

- ▲ **Strong Liquidity Position:** TopBuild has been maintaining a strong liquidity position to navigate through the current environment. The company ended the second quarter with \$648.5 million liquidity, including \$258.8 million cash and cash equivalents, and \$389.6 million of available capacity on the \$450-million revolving credit facility (whose maturity date is extended to 2025). Its current cash level has increased sequentially from \$187 million and is sufficient to meet the short-term obligation of \$23 million.

Total long-term debt (including long-term lease liabilities) of \$749.1 million was slightly down from \$754 million at first quarter-end. Encouragingly, the company has no significant debt maturities in the next 12 months. Its debt to total capital at June-end was 38.8%, down from 39.7% at March-end.

The company's times interest earned ratio stands at 8.7, better than 8.2 at first quarter-end. The times-interest-earned ratio is very important for some companies as it measures a company's ability to meet debt obligations based on current income.

- ▲ **Driving Shareholder Value:** The company plans to drive shareholder value through investing in new areas of production, selectively pursuing acquisitions with the right fit and return, as well as returning cash to its shareholders through share repurchases. In third-quarter 2020, the company repurchased 57,810 shares at an average price of \$155.63 per share. These shares were purchased as part of its \$200-million share repurchase authorization announced on Feb 26, 2019. As of Sep 30, 2020, \$46 million of the \$200 million authorization remained.

In 2019, it bought back 1.3 million shares for \$111 million through the repurchase program (including \$50 million accelerated share repurchase).

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## Reasons To Sell:

- ▼ **Coronavirus-Induced Disruptions Weigh on Results:** TopBuild has been witnessing negative impacts of coronavirus-induced shutdown. During the first nine months of 2020, its sales were somewhat impacted by the coronavirus outbreak, increasing just 1.8%, with nearly flat volumes due to the negative impact of the COVID-19 pandemic on business activity. The company has been experiencing delays in some of its commercial projects due to social distancing protocols. Although it remains confident about long-term growth of the commercial business, commercial recovery is expected to be slower than residential.

Coronavirus-related woes, higher material costs, along with lower volumes mar the company's prospects.

Owing to uncertainty caused by the pandemic, the company did not provide its 2020 revenue and adjusted EBITDA guidance. Although it remains confident about its prospects backed by a strong liquidity position, cost-cutting measures and the ERP system, we wait for better visibility.

- ▼ **Raw Material Inflation:** Higher raw material costs remain a concern for TopBuild. Although inflation was moderate during 2019, it may hurt the company in the future. In 2018, gross margin was under significant pressure due to record material cost increases driven by tighter supply and higher freight costs. Also, during 2019, higher material costs remained a significant concern for the company. Manufacturers announced a cost increase from January 2020, which will certainly weigh on the bottom line.

Although the company has been working to recover higher commodity costs through price increases, ongoing volatility in material costs and tightened capacity remain concerns.

- ▼ **Seasonal Influence on Business:** TopBuild's business has been historically subjected to seasonal influences. The company typically realizes higher sales in the third and fourth calendar quarters, corresponding with the peak season for residential new construction and residential repair/remodel activity. Sales during winters are seasonally slower due to lower construction activity. Hurricanes, severe storms, earthquakes, droughts, floods, fires and other natural disasters also hamper its performance.

- ▼ **Federal Government Actions:** As TopBuild's business prospects are highly correlated with U.S. housing market condition and repair and remodeling activity, any untoward situation influencing the construction and housing sectors will impact the company's financials. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn may hurt both the economy and the housing market.
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## Last Earnings Report

### TopBuild (BLD) Q3 Earnings Beat Estimates

TopBuild Corp. reported better-than-expected results for third-quarter 2020. Its earnings not only surpassed the Zacks Consensus Estimate but also grew impressively from the prior-year quarter, backed by margin improvement in both the segments.

However, the company did not provide its revenue and EBITDA guidance for 2020 due to uncertainty related to the COVID-19 pandemic. Nonetheless, it remains bullish about the long-term health of the residential and commercial markets served.

In this regard, Jerry Volas, chief executive officer of TopBuild, stated, "We are pleased with our overall results that included strong adjusted operating and EBITDA margins. Looking ahead, we are bullish on the overall fundamentals of our end markets and our ability to leverage our size and scale to drive market share."

### Inside the Headlines

The company reported adjusted earnings of \$2.10 per share, which surpassed the consensus estimate of \$1.75 by 20% and grew 37.3% from the prior-year period.

Total net sales of \$697.2 million missed the consensus mark of \$703 million by 0.9%. However, the top line grew 2.2% on a year-over-year basis on the back of increased volume and sales from acquisitions.

### Segmental Performance

For the third quarter, Installation (TruTeam) revenues decreased 1.2% year over year to \$492.2 million. Acquisitions and selling price added 0.9% and 1.2% to revenues, respectively. Volumes fell 3.4% from the prior-year quarter. Adjusted operating margin for the quarter expanded 300 bps to 17%.

For the quarter, revenues at the Distribution (Service Partners) segment grew 10.5% year over year to \$244.1 million, driven by 12.2% volume growth, partially offset by a 1.7% selling price decline. Operating margin improved 280 bps from the year-ago level to 13.4%.

### Operating Highlights

Adjusted gross margin of 28.5% expanded 220 bps. Adjusted operating profit of \$101.7 million also increased 26.2% year over year. Adjusted operating margin improved 280 bps from the year-ago period to 14.6%. Notably, the gross margin improvements were driven by operational efficiencies, savings from cost-reduction initiatives, material deflation and lower insurance costs. The operating margin improvement was attributed to the aforementioned factors, along with reduced travel and entertainment activity.

Adjusted EBITDA for the third quarter grew 21.6% from the year-ago quarter to \$119.2 million. Adjusted EBITDA margin improved 270 bps to 17.1% for the quarter.

### Financial Update

As of Sep 30, 2020, cash and cash equivalents were \$315.3 million, up from \$184.8 million at 2019-end. The company has \$389.6 million of borrowing capacity available under the revolving facility.

For the third quarter, long-term debt came in at \$688.9 million compared with \$698 million at 2019-end. For the first nine months of 2020, net cash provided by operating activities was \$255.7 million compared with \$182.8 million in the corresponding year-ago period.

During the third quarter, it repurchased 57,810 shares for \$155.63 per share. As of Sep 30, 2020, \$46 million remained under the \$200-million stock repurchase authorization.

### Other Updates

On Oct 1, 2020, the company acquired Garland Insulating, an insulation installation company in Texas.

Meanwhile, TopBuild has announced three acquisitions year to date and expects \$79 million in annual revenue additions owing to the same.

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| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 03, 2020 |
| Sales Surprise   | -0.89%       |
| EPS Surprise     | 20.00%       |
| Quarterly EPS    | 2.10         |
| Annual EPS (TTM) | 6.63         |

## Valuation

TopBuild shares are up 71.7% in the past six-month period and 84.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector is up 26.4% and 26.7% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 31.9% and 21.1%, respectively.

The S&P 500 index is up 16.4% in the past six-month period and 15.2% in the past year.

The stock is currently trading at 24.16X forward 12-month earnings, which compares to 18.77X for the Zacks sub-industry, 17.11X for the Zacks sector and 22.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.64X and as low as 8.76X, with a 5-year median of 17.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$221 price target reflects 24.17X forward 12-month earnings.

The table below shows summary valuation data for BLD.

| Valuation Multiples - BLD |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 24.16 | 18.77        | 17.11  | 22.84   |
|                           | 5-Year High   | 27.64 | 19.32        | 18.99  | 23.79   |
|                           | 5-Year Low    | 8.76  | 7.21         | 10.77  | 15.3    |
|                           | 5-Year Median | 17.07 | 13.82        | 16.07  | 17.83   |
| P/S F12M                  | Current       | 2.26  | 1.6          | 2.23   | 4.48    |
|                           | 5-Year High   | 2.26  | 3.56         | 2.23   | 4.48    |
|                           | 5-Year Low    | 0.49  | 0.7          | 1.18   | 3.2     |
|                           | 5-Year Median | 1.03  | 0.96         | 1.69   | 3.68    |
| EV/EBITDA TTM             | Current       | 18.79 | 23.27        | 25.64  | 17.07   |
|                           | 5-Year High   | 32.01 | 30.47        | 25.84  | 17.37   |
|                           | 5-Year Low    | 7.25  | 13.79        | 12.37  | 9.53    |
|                           | 5-Year Median | 14.74 | 22.68        | 18     | 13.23   |

As of 1/19/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 26% (66 out of 252)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                          | Rec          | Rank |
|-------------------------------------------|--------------|------|
| Aegion Corporation (AEGN)                 | Neutral      | 4    |
| Frontdoor, Inc. (FTDR)                    | Neutral      | 3    |
| Installed Building Products, Inc. (IBP)   | Neutral      | 3    |
| James Hardie Industries PLC. (JHX)        | Neutral      | 3    |
| Patrick Industries, Inc. (PATK)           | Neutral      | 2    |
| Advanced Drainage Systems, Inc. (WMS)     | Neutral      | 3    |
| Arcosa, Inc. (ACA)                        | Underperform | 4    |
| Foundation Building Materials, Inc. (FBM) | Underperform | 3    |

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

| Industry Comparison Industry: Building Products - Miscellaneous |         |            |           | Industry Peers |         |         |
|-----------------------------------------------------------------|---------|------------|-----------|----------------|---------|---------|
|                                                                 | BLD     | X Industry | S&P 500   | FBM            | JHX     | PATK    |
| Zacks Recommendation (Long Term)                                | Neutral | -          | -         | Underperform   | Neutral | Neutral |
| Zacks Rank (Short Term)                                         | 3       | -          | -         | 3              | 3       | 2       |
| VGM Score                                                       | B       | -          | -         | A              | B       | B       |
| Market Cap                                                      | 6.94 B  | 1.84 B     | 27.37 B   | 830.87 M       | 12.87 B | 1.73 B  |
| # of Analysts                                                   | 5       | 3          | 13        | 6              | 1       | 3       |
| Dividend Yield                                                  | 0.00%   | 0.00%      | 1.42%     | 0.00%          | 0.00%   | 1.51%   |
| Value Score                                                     | C       | -          | -         | A              | D       | B       |
| Cash/Price                                                      | 0.05    | 0.08       | 0.06      | 0.02           | 0.04    | 0.04    |
| EV/EBITDA                                                       | 21.13   | 12.89      | 15.02     | 6.30           | 28.66   | 10.44   |
| PEG F1                                                          | 0.90    | 1.93       | 2.57      | 1.63           | NA      | 1.31    |
| P/B                                                             | 5.41    | 2.34       | 3.76      | 1.87           | 10.90   | 3.29    |
| P/CF                                                            | 29.32   | 13.65      | 14.62     | 5.43           | 28.13   | 11.04   |
| P/E F1                                                          | 25.25   | 20.24      | 20.57     | 17.73          | 30.50   | 12.36   |
| P/S TTM                                                         | 2.61    | 2.01       | 2.99      | 0.41           | 4.85    | 0.76    |
| Earnings Yield                                                  | 4.09%   | 4.69%      | 4.68%     | 5.62%          | 3.20%   | 7.63%   |
| Debt/Equity                                                     | 0.54    | 0.34       | 0.70      | 0.99           | 1.06    | 1.28    |
| Cash Flow (\$/share)                                            | 7.16    | 2.31       | 6.92      | 3.54           | 1.03    | 6.71    |
| Growth Score                                                    | A       | -          | -         | A              | A       | B       |
| Historical EPS Growth (3-5 Years)                               | 39.71%  | 14.37%     | 9.72%     | 80.78%         | -19.81% | 16.16%  |
| Projected EPS Growth (F1/F0)                                    | 23.34%  | 22.83%     | 12.51%    | 12.26%         | 27.40%  | 39.28%  |
| Current Cash Flow Growth                                        | 28.04%  | -4.68%     | 5.20%     | 52.18%         | 31.36%  | -8.44%  |
| Historical Cash Flow Growth (3-5 Years)                         | 34.19%  | 13.33%     | 8.36%     | 71.37%         | 9.37%   | 30.81%  |
| Current Ratio                                                   | 1.91    | 2.19       | 1.38      | 2.03           | 1.89    | 2.10    |
| Debt/Capital                                                    | 34.96%  | 29.50%     | 41.72%    | 49.84%         | 51.57%  | 56.17%  |
| Net Margin                                                      | 8.36%   | 4.86%      | 10.44%    | 2.22%          | 5.58%   | 3.50%   |
| Return on Equity                                                | 18.32%  | 11.29%     | 15.37%    | 10.74%         | 31.83%  | 15.75%  |
| Sales/Assets                                                    | 1.00    | 1.01       | 0.50      | 1.45           | 0.65    | 1.49    |
| Projected Sales Growth (F1/F0)                                  | 13.08%  | 6.40%      | 6.04%     | 2.76%          | 8.33%   | 15.89%  |
| Momentum Score                                                  | C       | -          | -         | D              | D       | C       |
| Daily Price Change                                              | 4.88%   | 0.05%      | 0.32%     | 0.10%          | 2.54%   | 6.04%   |
| 1-Week Price Change                                             | 8.05%   | 0.68%      | -0.33%    | -0.26%         | -0.87%  | 0.84%   |
| 4-Week Price Change                                             | 5.64%   | 8.33%      | 4.08%     | 0.00%          | 1.75%   | 8.07%   |
| 12-Week Price Change                                            | 26.70%  | 26.21%     | 15.82%    | 26.60%         | 16.17%  | 33.68%  |
| 52-Week Price Change                                            | 84.36%  | 14.35%     | 6.40%     | -0.93%         | 38.13%  | 37.78%  |
| 20-Day Average Volume (Shares)                                  | 231,060 | 157,372    | 1,494,171 | 187,554        | 17,255  | 111,701 |
| EPS F1 Estimate 1-Week Change                                   | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%   |
| EPS F1 Estimate 4-Week Change                                   | 1.70%   | 0.00%      | 0.10%     | 0.00%          | 0.00%   | 1.80%   |
| EPS F1 Estimate 12-Week Change                                  | 10.15%  | 6.29%      | 2.34%     | -11.89%        | 6.29%   | 11.55%  |
| EPS Q1 Estimate Monthly Change                                  | 2.24%   | 0.00%      | 0.00%     | 0.00%          | NA      | 2.31%   |

Source: Zacks Investment Research

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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | C |
| Growth Score   | A |
| Momentum Score | C |
| VGM Score      | B |

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

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## Disclosures

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

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

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## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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