

## Blackbaud, Inc.(BLKB)

**\$73.86** (As of 03/15/21)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/15/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: C

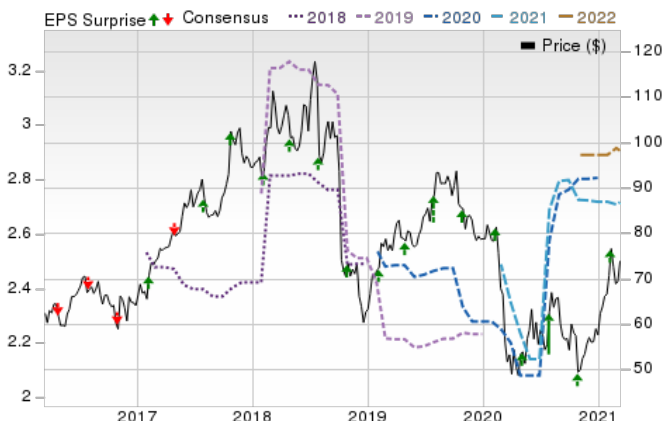
Growth: B

Momentum: B

## Summary

Blackbaud is well-positioned to benefit from rapid migration of enterprises to cloud amid COVID-19 induced digitization, and robust uptake of JustGiving platform and Financial Edge NXT offerings. Further, expansion of product portfolio and strategic collaborations bode well for Blackbaud. The synergies from YourCause buyout positions it well to expand presence in enterprise philanthropy market. Notably, Blackbaud stock has outperformed the industry in the past one year. Nevertheless, coronavirus crisis led macroeconomic weakness, and sluggish demand across small and medium sized businesses has impacted bookings growth and hurt pipeline expansion. Further, a leveraged balance sheet adds to the risk of investing in the company. In fact, Blackbaud has suspended dividend payouts to maintain near-term liquidity amid the COVID-19 crisis.

## Price, Consensus & Surprise



## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$80.00 - \$38.22</b>           |
| 20-Day Average Volume (Shares) | <b>308,150</b>                     |
| Market Cap                     | <b>\$3.6 B</b>                     |
| Year-To-Date Price Change      | <b>28.3%</b>                       |
| Beta                           | <b>1.16</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Computer - Software</b>         |
| Zacks Industry Rank            | <b>Bottom 38% (157 out of 253)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>18.1%</b>      |
| Last Sales Surprise           | <b>6.4%</b>       |
| EPS F1 Estimate 4-Week Change | <b>8.5%</b>       |
| Expected Report Date          | <b>05/04/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | 229 E | 226 E | 220 E | 238 E | 905 E   |
| 2021 | 215 E | 223 E | 217 E | 234 E | 889 E   |
| 2020 | 224 A | 232 A | 215 A | 243 A | 913 A   |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.70 E | \$0.77 E | \$0.74 E | \$0.76 E | \$2.91 E |
| 2021 | \$0.63 E | \$0.71 E | \$0.69 E | \$0.71 E | \$2.72 E |
| 2020 | \$0.51 A | \$0.85 A | \$0.73 A | \$0.85 A | \$2.94 A |

\*Quarterly figures may not add up to annual.

|         |             |
|---------|-------------|
| P/E TTM | <b>25.1</b> |
| P/E F1  | <b>27.2</b> |
| PEG F1  | <b>3.2</b>  |
| P/S TTM | <b>3.9</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/15/2021. The report's text and the analyst-provided price target are as of 03/16/2021.

## Overview

Headquartered in Charleston, SC, Blackbaud Inc. is a leading cloud software company working for social causes. The company combines technology and expertise to help organizations achieve their missions.

It offers a full spectrum of cloud-based and on-premise software solutions and related services for organizations of all sizes including: fundraising, eMarketing, advocacy, constituent relationship management ("CRM"), corporate social responsibility ("CSR"), financial management, payment solutions, analytics and vertical-specific solutions.

Blackbaud's SKY platform, the company's modern cloud platform, continues to power innovation for its partners and enable them to build capabilities that look and feel like they were built by Blackbaud. With SKY AI and SKY Analytics, the company provides scalable and high-quality services and rapidly reduces the time required to introduce a product in the market.

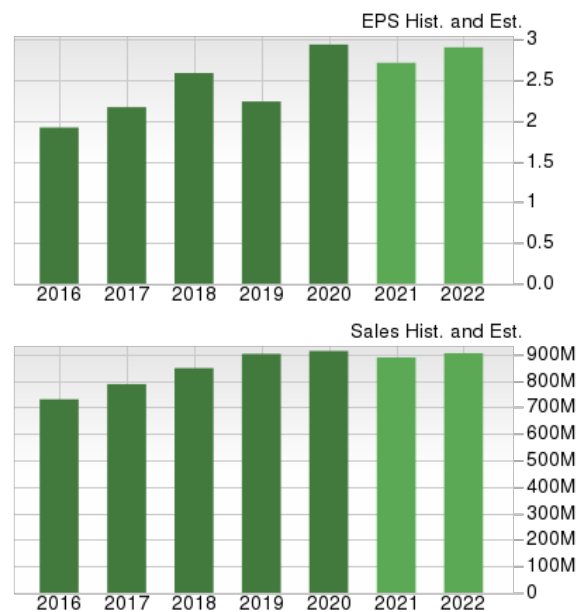
The company works with more than 45,000 customers in over 100 countries that support higher education, healthcare, human services, arts and culture, the environment, independent K-12 education, animal welfare and other charitable causes.

YourCause acquisition (January, 2019) has enabled Blackbaud to boost renewal of cloud solution contracts and sales of subscription-based retained professional services.

The company's current total addressable market ("TAM") is more than \$10 billion. The company has a four-point growth strategy with an objective to deliver innovative products cloud solutions, drive sales effectiveness, expand TAM and improve operational efficiency.

Blackbaud earned non-GAAP revenues of \$913.2 million in 2020.

Blackbaud faces stiff competition from companies that provides software and related services in the non-profit sector. In the general business, the company faces competition from Salesforce.com and Oracle.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Blackbaud's cloud-based suite of applications demonstrates strong growth momentum driven by the transition of organizations from the traditional revenue-base model to the cloud-based subscription-based model. The company's growing clout in the Cloud market is evident from its year-over-year revenue growth of approximately 1.4% in 2020. The company has more than 45,000 customers in 2020. Notably, the overall growth expectation for the public cloud computing services market is very bullish. According to Gartner, the worldwide public cloud services market is expected to grow to \$354.6 billion by 2022 from \$227.8 billion in 2019 at a CAGR of 15.9%. IaaS is projected to be the highest growth service driven by improvement in PaaS along with the massive adoption of artificial intelligence (AI), analytics and the Internet of Things (IoT). IaaS is projected to grow from \$40.3 billion in 2019 to \$74.1 billion in 2022 at a CAGR of 22.5%. Exponential growth in the amount of data, complexity of data formats and the need to scale resources at regular intervals compelled several companies to turn to cloud computing vendors. Consequently, considering the growing need for cloud-based applications and software, we anticipate Blackbaud's investments in this space to bolster long-term growth.
- ▲ Expanding product portfolio as well as frequent product launches is a key catalyst. The company is focusing on providing cloud software solutions and data-driven decisions, powered by artificial intelligence (AI), machine learning (ML), cognitive technology, predictive analytics and other advanced technologies. Blackbaud's SKY platform continues to power innovation for its partners and enable them to build capabilities that look and feel like they were built by Blackbaud. The launch of SKY AI and SKY Analytics provides scalable and high-quality services and rapidly reduces the time required to introduce a product in the market. The company is experiencing strong demand for its software particularly verification and digital design products from customers providing datacenter servers, networking products and smartphones. We believe that increasing investments on emerging trends like Internet-of-things (IoT), digital marketing and cloud-based platforms presents significant growth opportunity for the company in the long haul.
- ▲ Blackbaud remains active on the acquisition front and chooses companies that can be easily integrated within its existing or new product lines. From time to time, Blackbaud also acquires organizations with competing technologies with the intention of killing rival products. The JustGiving acquisition helped the company to increase its TAM by expanding the peer-to-peer fundraising abilities. Buyouts like AcademicWorks and Smart Tuition helped Blackbaud in expanding its offerings in the K-12 technology sector. Over the last three years, the company has aggressively pursued acquisitions likely to boost its presence in the cloud computing and database markets. These buyouts have also expanded the company's total TAM. Moreover, YourCause acquisition is expected to position Blackbaud as one of the industry leaders in offering enterprise philanthropy solutions to non-profit organizations and for-profit companies that deal with social concerns. We believe that Blackbaud will continue to pursue strategic acquisitions to improve its market share and top line in the long haul.

Blackbaud's expanding product portfolio, acquisition synergies, higher investments in emerging markets as well as transition the cloud-based subscription-based model are the key catalysts.

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## Reasons To Sell:

- ▼ Blackbaud faces stiff competition from companies that provides software and related services in the non-profit sector. In the general business, the company faces competition from Salesforce.com and Oracle. Intensifying competition negatively impacts pricing power, which keeps margins under pressure. Moreover, in order to remain competitive, the company has to increase spending on research & development, which may further negatively impact operating margin. Further, coronavirus crisis led macroeconomic weakness, and sluggish demand across small and medium sized businesses is anticipated to impact bookings growth and limit pipeline expansion through 2021.
- ▼ The company continues to make acquisitions. While this improves revenue opportunities, business mix and profitability, it also adds to integration risks. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, going forward. Frequent buyouts have escalated integration risks for Blackbaud. We note that the frequent acquisitions negatively impacted the company's balance sheet in the form of high level of goodwill and intangible assets, which totaled \$913.4 million or 44.7% of total assets as of Dec 31, 2020.
- ▼ Moreover, Blackbaud has a leveraged balance sheet, which adds to the risk of investing in the company. As of Dec 31, 2020, net debt amounted to \$495.3 million, compared with \$477.7 million as of Sep 30, 2020. Further, total debt to total capital of 55.5% is higher than the prior quarter's figure of 53.5%, which indicates a higher liability in clearing debts. Also, times interest earned is 2.3X compared with the prior quarter's figure of 2.6X. The high debt level can not only jeopardize its ability to sustain dividend payout and buy back shares but also pursue accretive acquisitions. In fact, on May 5, Blackbaud suspended quarterly cash dividend payouts to maintain near-term liquidity and financial flexibility amid the COVID-19 crisis.

Stiff competition in the non-profit sector, macroeconomic weakness, highly leveraged balance sheet and integration risk remains potential headwinds.

## Last Earnings Report

### Blackbaud Q4 Earnings Beat Estimates

Blackbaud, Inc. delivered fourth-quarter 2020 non-GAAP earnings of 85 cents per share, which beat the Zacks Consensus Estimate by 18.06%. The bottom line improved 66.7% year over year.

Total non-GAAP revenues increased 1.9% year over year to \$242.6 million and surpassed the consensus mark by 6.4%.

#### Quarter in Detail

Total non-GAAP **recurring** revenues for the reported quarter were \$229.5 million, and contributed 95% to total revenues. The figure increased 4.3% year over year.

Non-GAAP organic revenues improved 1.9% year over year to \$242.6 million. Non-GAAP organic revenues on a constant currency (CC) basis amounted to \$241.9 million, up 1.6% year over year.

Non-GAAP organic recurring revenues improved 4.3% year over year to \$229.5 million.

**One-time services and other** revenues (5% of total revenues) amounted to \$13.1 million, down 27% year over year.

#### Key Business Highlights

Blackbaud announced technology innovations specifically designed to support the unique needs of social organizations amid the COVID-19 outbreak, which may have enhanced the reputation of the company's brand and enhanced recognition for its products.

The company introduced an updated marketplace in a bid to offer increased innovation to social good organizations.

The company also launched a formal Environmental, Social and Governance (ESG) program in order to support community needs.

Additionally, higher education and healthcare institutions worldwide are turning to Blackbaud solutions to power fundraisers for COVID-19 vaccines and lifesaving equipment.

Blackbaud's Cloud Solution for Higher Education, which is aimed at aiding clientele to drive efficiency, increase revenues and deepen engagement during the pandemic, is witnessing traction across colleges and universities.

In fact, its end-to-end cloud solutions power 24 of the top 25 private U.S. colleges, per a ranking released by Forbes. Notably, the solutions facilitate students with admissions and advancement services, and fundraising and alumni engagement amid coronavirus crisis-led online learning wave.

Enhanced capabilities are anticipated to drive adoption of Blackbaud's solutions in the days ahead and boost retention among existing customers.

#### Margin Details

Non-GAAP gross margin expanded 110 basis points (bps) to 57.1%.

Total operating expenses climbed 5.2% to \$123.9 million. As a percentage of revenues, the figure expanded 40 bps to 54%.

Non-GAAP operating margin expanded 910 bps from the year-ago quarter's figure to 24%.

#### Balance Sheet & Cash Flow

As on Dec 31, 2020, Blackbaud had total cash, cash equivalents and restricted cash of \$645 million compared with \$234.2 million as of Sep 30, 2020.

Total debt (including current portion) as of Dec 31 amounted to \$531 million compared with \$508.3 million as of Sep 30.

Cash provided by operating activities for 12 months ended Dec 31, 2020, was \$148 million compared with \$182.5 million for 12 months ended Dec 31, 2020.

Non-GAAP free cash flow for 12 months ended Dec 31, 2020 was \$76.1 million compared with \$124.1 million of free cash outflow for 12 months ended Dec 31, 2019.

In November 2020, Blackbaud's board of directors reauthorized and expanded its existing share repurchase program to \$250 million. Through Jan 31, 2021, the company has repurchased approximately 1.2 million shares worth \$69 million.

| Quarter Ending   | 12/2020      |
|------------------|--------------|
| Report Date      | Feb 08, 2021 |
| Sales Surprise   | 6.37%        |
| EPS Surprise     | 18.06%       |
| Quarterly EPS    | 0.85         |
| Annual EPS (TTM) | 2.94         |

## Recent News

On Mar 3, Blackbaud announced that Blackbaud CRM was being leveraged by number of educational institutions including University of Louisville, Baylor University, University of Houston, University of Saskatchewan, Clemson University, University of South Carolina and West Virginia University Foundation.

On Dec 16, Blackbaud rolled out new updates for its Blackbaud Marketplace platform to help its customers foster innovation. The latest updates include various integrations that now connect marketing automation solutions like Autopilot, Active Campaign, MailChimp, Campaign Monitor, to Blackbaud Raiser's Edge NXT.

On Dec 2, Blackbaud announced its long-term outlook at an investors conference call. The company is aiming to achieve the 'Rule of 40' with mid-to-high single digit organic revenue growth. Blackbaud defines Rule of 40 as non-GAAP organic revenue growth plus non-GAAP adjusted EBITDA margin.

For the near-term (during pandemic), Blackbaud expects non-GAAP organic revenue growth to be variable whereas for mid-term (3-4 years post-pandemic) it is expected to be in mid-single digits. For long-term, non-GAAP organic revenue growth is expected to be up in mid to high single digits.

For Rule of 40, growth is expected to be over 25% in the near term and over 35% in the mid-term. For long term, growth for Rule of 40 is likely to be over 40%.

On Nov 13, Blackbaud stated that it will be conducting a conference call on Dec 2, 2020 to provide investors with the company's long-term outlook. The company also raised its share buyback authorization by another \$200 million, bringing the total shares under buyback authorization to be worth \$250 million.

On Oct 23, Blackbaud announced Peer-to-Peer Fundraising capability aimed to enhance a fundraising page with livestream feature, powered by JustGiving.

## Valuation

Blackbaud shares are up 31.8% in the past six-month period and 64% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 9.8% and 21.3% in the past six-month period, respectively. In the past year, the Zacks sub-industry and sector are up 57.9% and 77.7%, respectively.

The S&P 500 index is up 18.2% in the past six-month period and 58.2% in the past year.

The stock is currently trading at 44.47X forward 12-month earnings compared with 31.43X for the Zacks sub-industry, 27.02X for the Zacks sector and 22.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.23X and as low as 29.8X, with a five-year median of 47.67X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$78 price target reflects 46.96X forward 12-month earnings.

The table below shows summary valuation data for BLKB

| Valuation Multiples - BLKB |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 44.47 | 31.43        | 27.02  | 22.48   |
|                            | 5-Year High   | 73.23 | 35.41        | 28.39  | 23.8    |
|                            | 5-Year Low    | 29.8  | 19.83        | 16.95  | 15.3    |
|                            | 5-Year Median | 47.67 | 26.01        | 20.04  | 17.9    |
| P/S F12M                   | Current       | 4     | 8.1          | 4.74   | 4.59    |
|                            | 5-Year High   | 6.23  | 8.23         | 4.74   | 4.59    |
|                            | 5-Year Low    | 2.09  | 4.26         | 2.78   | 3.21    |
|                            | 5-Year Median | 4.21  | 6.14         | 3.5    | 3.69    |
| EV/Sales TTM               | Current       | 3.87  | 8.61         | 5.43   | 4.7     |
|                            | 5-Year High   | 7.14  | 9.44         | 5.76   | 4.7     |
|                            | 5-Year Low    | 2.07  | 3.81         | 3.05   | 2.64    |
|                            | 5-Year Median | 4.86  | 6.18         | 3.95   | 3.62    |

As of 03/15/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)               | Rec          | Rank |
|--------------------------------|--------------|------|
| Adobe Inc. (ADBE)              | Neutral      | 3    |
| salesforce.com, inc. (CRM)     | Neutral      | 3    |
| CommVault Systems, Inc. (CVLT) | Neutral      | 2    |
| HubSpot, Inc. (HUBS)           | Neutral      | 3    |
| ServiceNow, Inc. (NOW)         | Neutral      | 3    |
| Oracle Corporation (ORCL)      | Neutral      | 3    |
| Workiva Inc. (WK)              | Neutral      | 4    |
| Verint Systems Inc. (VRNT)     | Underperform | 5    |

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

| Industry Comparison Industry: Computer - Software |         |            |           | Industry Peers |           |            |
|---------------------------------------------------|---------|------------|-----------|----------------|-----------|------------|
|                                                   | BLKB    | X Industry | S&P 500   | ADBE           | CRM       | ORCL       |
| Zacks Recommendation (Long Term)                  | Neutral | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                           | 3       | -          | -         | 3              | 3         | 3          |
| VGM Score                                         | B       | -          | -         | C              | C         | B          |
| Market Cap                                        | 3.57 B  | 3.21 B     | 28.65 B   | 213.14 B       | 194.17 B  | 197.72 B   |
| # of Analysts                                     | 5       | 4          | 13        | 13             | 18        | 13         |
| Dividend Yield                                    | 0.00%   | 0.00%      | 1.38%     | 0.00%          | 0.00%     | 1.43%      |
| Value Score                                       | C       | -          | -         | D              | D         | B          |
| Cash/Price                                        | 0.18    | 0.06       | 0.06      | 0.03           | 0.06      | 0.18       |
| EV/EBITDA                                         | 26.03   | 25.94      | 16.24     | 42.16          | 49.88     | 13.34      |
| PEG F1                                            | 3.19    | 3.17       | 2.38      | 1.97           | 3.35      | 1.86       |
| P/B                                               | 8.59    | 7.91       | 3.92      | 16.07          | 4.68      | 20.52      |
| P/CF                                              | 21.58   | 31.13      | 16.36     | 43.55          | 30.94     | 14.48      |
| P/E F1                                            | 26.74   | 36.47      | 21.26     | 39.47          | 61.73     | 15.30      |
| P/S TTM                                           | 3.91    | 5.41       | 3.30      | 16.56          | 9.14      | 4.98       |
| Earnings Yield                                    | 3.68%   | 2.53%      | 4.59%     | 2.53%          | 1.62%     | 6.54%      |
| Debt/Equity                                       | 1.22    | 0.23       | 0.67      | 0.31           | 0.06      | 6.59       |
| Cash Flow (\$/share)                              | 3.42    | 1.31       | 6.78      | 10.28          | 6.88      | 4.68       |
| Growth Score                                      | B       | -          | -         | B              | B         | D          |
| Historical EPS Growth (3-5 Years)                 | 0.38%   | 11.10%     | 9.32%     | 39.40%         | 86.69%    | 11.42%     |
| Projected EPS Growth (F1/F0)                      | -7.62%  | 7.68%      | 14.55%    | 11.45%         | -30.13%   | 13.99%     |
| Current Cash Flow Growth                          | 14.96%  | 8.05%      | 0.72%     | 23.73%         | 62.21%    | -2.42%     |
| Historical Cash Flow Growth (3-5 Years)           | 8.63%   | 8.63%      | 7.32%     | 35.45%         | 46.81%    | -0.39%     |
| Current Ratio                                     | 0.81    | 1.67       | 1.39      | 1.48           | 1.23      | 2.16       |
| Debt/Capital                                      | 54.87%  | 21.25%     | 41.42%    | 23.69%         | 6.05%     | 86.83%     |
| Net Margin                                        | 0.85%   | 6.43%      | 10.59%    | 40.88%         | 19.16%    | 32.32%     |
| Return on Equity                                  | 17.36%  | 13.12%     | 14.65%    | 35.81%         | 7.38%     | 116.15%    |
| Sales/Assets                                      | 0.50    | 0.57       | 0.51      | 0.58           | 0.36      | 0.35       |
| Projected Sales Growth (F1/F0)                    | -2.65%  | 6.80%      | 6.95%     | 18.31%         | 20.87%    | 3.00%      |
| Momentum Score                                    | B       | -          | -         | B              | C         | A          |
| Daily Price Change                                | 0.05%   | 0.00%      | 0.92%     | 0.74%          | 0.28%     | 0.85%      |
| 1-Week Price Change                               | 6.55%   | 2.64%      | 2.96%     | 0.79%          | 0.69%     | -4.02%     |
| 4-Week Price Change                               | -3.50%  | -2.82%     | 4.69%     | -10.27%        | -11.47%   | 7.37%      |
| 12-Week Price Change                              | 30.10%  | 8.74%      | 10.09%    | -10.19%        | -6.04%    | 5.04%      |
| 52-Week Price Change                              | 65.90%  | 83.49%     | 74.12%    | 56.48%         | 71.20%    | 58.54%     |
| 20-Day Average Volume (Shares)                    | 308,150 | 126,762    | 2,323,115 | 2,847,035      | 8,676,217 | 16,162,061 |
| EPS F1 Estimate 1-Week Change                     | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 1.23%     | 1.65%      |
| EPS F1 Estimate 4-Week Change                     | 8.48%   | 0.00%      | 0.00%     | 0.00%          | -9.56%    | 1.65%      |
| EPS F1 Estimate 12-Week Change                    | 8.48%   | 1.86%      | 2.09%     | -0.15%         | -10.01%   | 1.86%      |
| EPS Q1 Estimate Monthly Change                    | 0.00%   | 0.00%      | 0.00%     | 0.00%          | 68.97%    | 2.90%      |

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    | C |
| Growth Score   | B |
| Momentum Score | B |
| 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

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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.