

Anheuser-Busch InBev (BUD)

\$55.74 (As of 09/08/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: B

Summary

AB InBev's shares have outpaced the industry in the past six months attributed to its resilient volume trends in second-quarter 2020 due to the gradual reopening of on-premise channels across many countries. Though overall volume declined year over year in the quarter, volume trends improved on a month-to-month basis. Further, strength in the off-premise channel and premium brands remain encouraging. Driven by these trends, it reported better-than-expected top and bottom line result in second-quarter 2020. Additionally, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth in the coming quarters. However, the company's second-quarter top and bottom lines declined year over year driven by significant the impacts of the pandemic.

Price, Consensus & Surprise

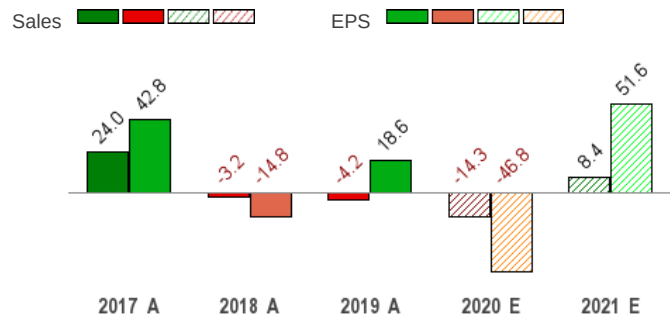


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$98.34 - \$32.58
20-Day Average Volume (Shares)	1,406,338
Market Cap	\$112.4 B
Year-To-Date Price Change	-32.1%
Beta	1.35
Dividend / Dividend Yield	\$0.83 / 1.5%
Industry	Beverages - Alcohol
Zacks Industry Rank	Top 47% (117 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	48.4%
Last Sales Surprise	10.8%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/23/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					48,615 E
2020	11,003 A	10,294 A	11,584 E	10,935 E	44,850 E
2019	12,589 A	13,963 A	13,172 A	13,334 A	52,329 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.29 E
2020	-\$0.42 A	\$0.46 A	\$0.75 E	\$1.12 E	\$2.17 E
2019	\$1.27 A	\$1.25 A	\$1.22 A	\$0.48 A	\$4.08 A

*Quarterly figures may not add up to annual.

P/E TTM	32.0
P/E F1	25.7
PEG F1	3.0
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/08/2020. The reports text is as of 09/09/2020.

Overview

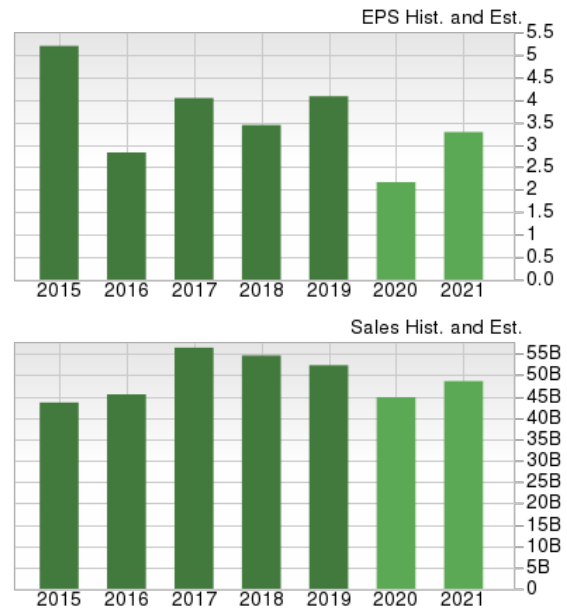
Anheuser-Busch InBev, alias AB InBev, is a global brewing company with more than 500 iconic brands. The company's leading position in majority of its markets and a strong global footprint lends the advantage of economies of scale and growing its multi-country brands globally. Its strategy is based on efforts to develop a portfolio of brands that cater to extensive consumer needs within the market, in terms of price range, flavor profiles, and brand meaning.

Founded in 1366 and based in Leuven, Belgium, Anheuser-Busch InBev, alias AB InBev, is one of the biggest brewing companies (by volume), also ranking among the top five consumer product firms. Following the acquisition of SABMiller in October 2016, the company holds the top spot in the beer industry, controlling about one-third of the global beer market.

The company's diverse portfolio includes global brands like Budweiser, Corona and Stella Artois; multi-country brands like Beck's, Hoegaarden, Leffe and Michelob Ultra; and local names like Aguila, Antarctica, Bud Light, Brahma, Cass, Castle, Castle Lite, Cristal, Harbin, Jupiler, Modelo Especial, Quilmes, Victoria, Sedrin, and Skol. AB InBev sells its beers in more than 150 countries. It generated revenues of \$52.3 billion in 2019.

The company operates in six management zones including North America (19.3% of 2019 revenues), Middle Americas (23.8%), South America (15.3%), APAC (24.9%), EMEA (16.6%) and Global Export and Holding Companies (0.2%).

In 2019, developed markets represented nearly 41.4% of total revenues while developing markets represented 58.6%.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Improving Market Trends Aid Performance:** Shares of AB InBev surged 9% in the past six months, compared with the industry's growth of 5.8%. The stock's robust performance is attributed to the company's resilient volume trends throughout the second quarter due to the gradual reopening of the on-premise channels across many countries. Though overall volume declined year over year in the second quarter, volume trends improved on a month-to-month basis. The company noted gradual improvement in volume as the quarter progressed. Notably, organic volumes declined 32.4% in April and 21.4% in May, while it improved 0.7% in June. The company attributed this growth to the resilience in the beer category. Further, strength in the off-premise channel and premium brands remain encouraging. Driven by these trends, the company reported better-than-expected top and bottom line result in second-quarter 2020. Additionally, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth in the coming quarters.

Gradual reopening of the on-premise channels across many countries led to improved volume trends on a month-to-month basis for AB InBev. This aided the company's Q2 performance.

▲ **Strong Performance In The United States:** Although AB InBev's revenues declined in second-quarter 2020 due to the effects of COVID-19 pandemic, its commercial strategy helped deliver strong performance in the United States. Notably, US revenues declined 5.9%, while revenue per hectoliter (hl) improved 0.2%. Revenue per hl was aided by its revenue management initiatives, partly offset by the on-premise closures, which hurt sales in brewpubs. Further, the facilitation of the return of kegs from the on-premise channel, in partnership with its wholesalers hurt performance. Notably, the company witnessed a gradual reopening of the on-premise channel throughout the second quarter, while many states have since reinstated restrictions. Moreover, EBITDA margin in the United States expanded 32 bps to 41% on cost efficiencies and the timing of variable compensation accruals.

Additionally, the company's core portfolio in the United States delivered market share gains of 90 basis points (bps) in the second quarter. This was driven by the launch of Bud Light Seltzer earlier this year, which is the company's top innovation in the category by volume in 2020. Further, an uplift of beer sales in the off-premise channel, is aiding sales trends in the United States.

▲ **China Recovery Aids Volume:** As the China markets were re-opened by mid-March, AB InBev continued its recovery gradually throughout the second quarter though volume declined 0.4%. It witnessed volume decline of 17% in China in April, followed by mid-single digit growth in May and June. In June, the company recorded highest ever monthly volume in China, while maintaining healthy levels of inventory in trade. In the second quarter, its Super Premium portfolio continued to witness momentum with volume growth during the quarter. Additionally, its mainstream brands outperformed the local brands in the quarter. While the company is seeing steady recovery in the in-home and restaurant channels in China, the nightlife channel recovery remains slow-paced. In the second quarter, the in-home channel delivered volume growth of high single digits, with strong growth in the e-commerce channel. Further, the on-premise channel in China is witnessing sales rates consistent with the prior-year quarter, as nearly 90% of restaurants were open by the end of June.

▲ **Digital Investments Aid Amid COVID-19:** AB InBev has been investing in new capabilities for several years to better connect with customers and consumers by leveraging technology, such as B2B sales and other e-commerce platforms. These platforms remained more relevant amid the coronavirus pandemic as consumers were confined to their homes. Notably, all markets witnessed dramatically accelerated growth trends for digital sales, e-commerce and online marketing in recent months. Notably, the company is witnessed accelerated growth in its e-commerce channel in the second quarter, via its direct-to-consumer platforms and partnerships with major global online retailers.

Additionally, consistent investments in owned and third-party e-commerce, including more than 20 direct-to-consumer ventures globally, positions the company to lead in online sales. In the second quarter, its owned e-commerce beer store portfolio in Europe more than doubled versus the year-ago quarter. Moreover, it witnessed accelerated growth for online sales in the beer category through Zé Delivery in Brazil. The company has also invented new proprietary platforms to connect with customers amid the crisis, like Tienda Cerca, which is a free online delivery service used by neighborhood shops in eight markets in Latin America. Apart from this, the company is increasing the power of its brands to connect with consumers, while they stay home. For this, it has developed unique activities like Michelob Ultra's at-home fitness programs in the United States, Budweiser's celebration for the return of the English Premier League in U.K. and Brahma's virtual country music concert series in Brazil.

▲ **Financial Flexibility:** AB InBev has demonstrated financial discipline amid the pandemic with several proactive measures. In the second quarter, the company delivered substantial savings from several initiatives while continuing to invest effectively behind its brands and commercial strategy. To maintain strong liquidity, it has proactively managed its debt profile. Earlier, the company drew down its \$9 billion revolving credit facility in full to maintain strong financial liquidity. It also completed a bond issuance worth EUR 4.5 billion and \$6 billion in Apr 2020. Subsequently, in June 2020, it further enhanced its financial position through the completion of the sale of its Australian subsidiary Carlton & United Breweries to Asahi Group Holdings Ltd. for US\$10.8 billion. Further, it witnessed gradual improvement in cash flows through the second quarter. Consequently, it repaid its revolving credit facility in June. Further, it repaid gross net debt of more than \$4.7 billion in July, through the execution of a tender offer for some Euro and US dollar bonds, as well as the redemption of certain US dollar, Australian dollar and Canadian dollar bonds.

Risks

- **Stock Appears Overvalued:** Considering the price-to-earnings (P/E) ratio, AB InBev looks pretty overvalued compared with the broader sector and the S&P 500. The stock has a trailing 12-month P/E ratio of 32.03x, which is above the median level of 18.53x but below the high level of 34.23x. The trailing 12-month P/E ratio for the Consumer Staples sector and S&P 500 are 22.98x and 23.67x, respectively. These factors profess that the stock valuation is quite stretched.
 - **Higher Cost of Sales:** Although AB InBev's cost of sales declined 12.6% and 4.9% on an organic basis in the second quarter, organic cost of sales per hl increased 15.2% due to operational deleverage on volumes due to the COVID-19 outbreak mostly on the closure of beer operations in many regions. Notably, total organic volume declined 17.1%, with a 17.2% decrease in own-beer volume and a 15.5% fall in non-beer volume. Consolidated revenues at its three global brands — Budweiser, Corona and Stella Artois — declined 16.6% globally and 12.6% outside their respective home markets in the second quarter. Moreover, gross profit declined 24.3% on a reported basis and 17.7% on an organic basis. Meanwhile, reported gross margin contracted 580 bps to 56.1% and 588 bps on an organic basis.
 - **Soft Q2 EBITDA:** AB InBev's second-quarter 2020 results reflected significant impacts from the coronavirus outbreak. The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) declined 39.5% year over year and 34.1% on an organic basis. Normalized EBITDA margin contracted 830 bps to 33.2% and declined 825 bps organically.
 - **Higher Taxes May Hurt Performance:** The beer and beverage industry remains susceptible to unfavorable changes in taxes. In many regions, these taxes constitute a major chunk of the cost of beer that is charged to customers. Thus, any rise in excise taxes or indirect taxes on AB InBev's products is likely to shift consumers' preferences to other beverages and weigh upon the overall consumption of the company's products, thus hurting its revenues and margins.
 - **Competitive Threats:** AB InBev faces stiff competition from other players in its distribution network, as stronger purchasing power of other players is bound to compel AB InBev to lower its prices, raise capital investment and increase its marketing expenditure. All these factors are likely to hurt the company's margins and market share. Also, the company faces competitive pressure in terms of its pace of undertaking innovations to keep track of the evolving consumer trends. Further, continued consolidation among retailers in the beer space could hurt the overall profit of the industry. This, in turn, remains a threat to AB InBev's financial performance.
-

Last Earnings Report

AB InBev Beats on Q2 Earnings & Sales as Markets Evolve

Anheuser-Busch InBev SA/NV, alias AB InBev, reported second-quarter 2020 results, wherein the top and bottom lines beat the Zacks Consensus Estimate. However, owing to the significant impacts of the coronavirus outbreak in the second quarter, both earnings and sales declined on a year-over-year basis.

Despite a decline in volumes, the company witnessed gradual improvement on a month-to-month basis, as the situation evolved and the on-premise channels across many countries started opening. Further, strength in the off-premise channel and premium brands remain encouraging.

Not only this, the company's investment behind B2B platforms, e-commerce channels and digital marketing have accelerated in the past few months, which is likely to aid growth.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	10.78%
EPS Surprise	48.39%
Quarterly EPS	0.46
Annual EPS (TTM)	1.74

Q2 Highlights

The company reported normalized earnings per share of 46 cents, reflecting a decline of 60.7% from \$1.17 reported in the year-ago quarter. However, the bottom line beat the Zacks Consensus Estimate of 31 cents.

Underlying earnings per share (normalized EPS, excluding mark-to-market gains and losses related to the hedging of share-based payment programs, and the impact of hyperinflation) were 40 cents in second-quarter 2020, down 63% from \$1.08 earned in the year-ago quarter.

Revenues of \$10,294 million declined 24.3% from the year-ago quarter. The company registered an organic revenue decline of 17.7% primarily due to a decrease in volume sold due to restrictions related to the coronavirus pandemic. The top line surpassed the Zacks Consensus Estimate of \$9,292 million. Meanwhile, revenues per hectoliter (hl) fell 0.6%.

Total organic volume declined 17.1%, with a 17.2% decrease in own-beer volume and a 15.5% fall in non-beer volume. The company's second-quarter volumes were primarily impacted by the coronavirus outbreak. However, it noted gradual improvement in volume as the quarter progressed. Notably, organic volumes declined 32.4% in April and 21.4% in May, while it improved 0.7% in June. The company attributed this growth to the resilience in the beer category.

Consolidated revenues at its three global brands — Budweiser, Corona and Stella Artois — declined 16.6% globally and 12.6% outside their respective home markets in the second quarter.

The cost of sales declined 12.6% to \$4,524 million and was down 4.9% on an organic basis. However, organic cost of sales per hl increased 15.2% due to operational deleverage on volumes due to the COVID-19 outbreak mostly on the closure of beer operations in many regions.

The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) were \$3,414 million, which declined 39.5% year over year and 34.1% on an organic basis. Normalized EBITDA margin contracted 830 basis points (bps) to 33.2% and declined 825 bps organically.

Recent News

AB InBev Approves Annual Dividend - Jun 3, 2020

AB InBev's board has approved the total dividend of \$1.30 per share for 2019. Out of this, gross interim dividend of 80 cents has already been paid on Nov 19.

AB InBev Completes Sale of Australian Subsidiary – Jun 1, 2020

AB InBev completes the previously announced sale of its Australian subsidiary – Carlton & United Breweries (CUB) to Asahi Group Holdings, Ltd. for A\$16 billion (or about US\$11 billion). The company plans to use nearly all of the proceeds from the divestiture of the Australian business to pay down debt. Per the transaction, AB InBev has granted Asahi Group the rights to commercialize the portfolio of AB InBev's global and international brands in Australia.

Valuation

Anheuser-Busch InBev shares are down 32% in the year-to-date period and 40.9% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 20.3% and 7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 24.4% and 5.5%, respectively.

The S&P 500 index is up 3.6% in the year-to-date period and 12.4% in the past year.

The stock is currently trading at 18.96X forward 12-month earnings, which compares to 25.41X for the Zacks sub-industry, 19.94X for the Zacks sector and 22.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.53X and as low as 10.15X, with a 5-year median of 20.98X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$64 price target reflects 21.77X forward 12-month earnings.

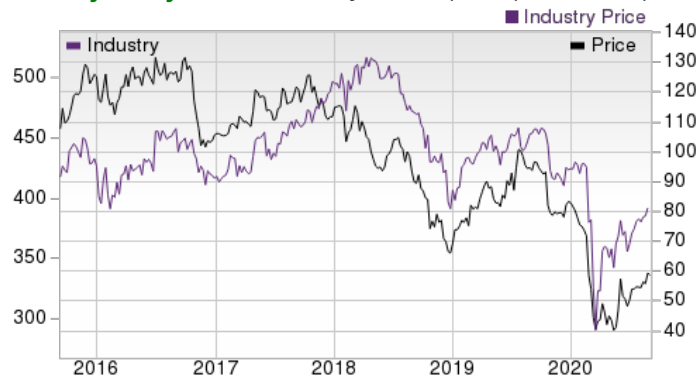
The table below shows summary valuation data for BUD

Valuation Multiples - BUD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.96	25.41	19.94	22.19
	5-Year High	31.53	27.52	22.37	23.44
	5-Year Low	10.15	18.8	16.63	15.26
	5-Year Median	20.98	23.43	19.66	17.63
P/S F12M	Current	2.37	17.14	9.49	4.08
	5-Year High	4.81	20.67	11.15	4.29
	5-Year Low	1.35	13.04	8.12	3.11
	5-Year Median	3.2	17.27	9.89	3.66
EV/EBITDA TTM	Current	8.66	40.47	37.85	14.42
	5-Year High	15.82	53.27	45.11	15.6
	5-Year Low	3.53	27.03	27.25	9.51
	5-Year Median	10.01	43.28	38.46	13

As of 09/08/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 47% (117 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
The Boston Beer Company, Inc. (SAM)	Outperform	1
BrownForman Corporation (BF.B)	Neutral	2
Craft Brew Alliance, Inc. (BREW)	Neutral	2
Carlsberg AS (CABGY)	Neutral	3
Heineken NV (HEINY)	Neutral	4
Constellation Brands Inc (STZ)	Neutral	2
Molson Coors Beverage Company (TAP)	Neutral	3
Diageo plc (DEO)	Underperform	5

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

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	BUD	X Industry	S&P 500	DEO	HEINY	TAP
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	4	3
VGM Score	D	-	-	B	B	A
Market Cap	112.39 B	10.30 B	22.91 B	86.24 B	51.59 B	8.18 B
# of Analysts	2	1.5	14	4	2	6
Dividend Yield	1.50%	0.00%	1.66%	3.26%	2.04%	0.00%
Value Score	B	-	-	D	C	A
Cash/Price	0.22	0.04	0.07	0.05	0.04	0.09
EV/EBITDA	8.56	9.48	12.82	17.43	9.98	9.47
PEG F1	2.96	3.65	2.90	3.65	NA	1.71
P/B	1.64	2.59	3.15	8.10	2.66	0.62
P/CF	8.82	16.29	12.45	15.64	10.36	4.40
P/E F1	25.69	26.41	21.08	24.87	35.68	10.25
P/S TTM	2.35	1.83	2.43	NA	NA	0.67
Earnings Yield	3.89%	3.30%	4.52%	4.02%	2.79%	9.75%
Debt/Equity	1.55	0.45	0.70	1.80	0.77	0.61
Cash Flow (\$/share)	6.32	1.53	6.93	8.61	4.32	8.59
Growth Score	F	-	-	A	B	B
Historical EPS Growth (3-5 Years)	-7.49%	7.14%	10.41%	NA	NA	7.18%
Projected EPS Growth (F1/F0)	-46.81%	-4.63%	-4.73%	-1.55%	-48.35%	-18.83%
Current Cash Flow Growth	11.61%	-2.83%	5.22%	20.52%	2.45%	-5.29%
Historical Cash Flow Growth (3-5 Years)	0.84%	4.16%	8.49%	4.91%	5.02%	11.28%
Current Ratio	1.17	1.49	1.35	1.77	0.68	0.67
Debt/Capital	60.81%	31.20%	42.95%	64.27%	43.57%	37.83%
Net Margin	2.55%	2.55%	10.25%	NA	NA	-1.33%
Return on Equity	9.03%	9.29%	14.59%	NA	NA	7.18%
Sales/Assets	0.41	0.51	0.50	NA	NA	0.42
Projected Sales Growth (F1/F0)	-15.47%	0.00%	-1.42%	-0.74%	-11.94%	-8.01%
Momentum Score	B	-	-	F	B	C
Daily Price Change	-4.62%	-0.88%	-1.95%	1.16%	-2.23%	-1.46%
1-Week Price Change	-1.22%	0.00%	-1.28%	-2.05%	-2.20%	1.13%
4-Week Price Change	-0.34%	-0.07%	-1.93%	-0.81%	-2.03%	-1.18%
12-Week Price Change	6.76%	0.90%	3.73%	-6.27%	-5.01%	-5.13%
52-Week Price Change	-40.83%	-9.81%	-0.29%	-18.14%	-15.59%	-33.29%
20-Day Average Volume (Shares)	1,406,338	31,201	1,798,028	483,043	65,945	1,321,227
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.32%
EPS F1 Estimate 12-Week Change	26.53%	5.36%	3.98%	-7.28%	-24.85%	25.22%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	NA	NA	0.48%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	D

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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