

Citigroup Inc.(C)

\$48.93 (As of 11/11/20)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Shares of Citigroup have underperformed the industry in the past three months. Nevertheless, the company has an impressive earnings surprise history, having beaten the Zacks Consensus Estimate in all of the trailing four quarters. Third-quarter results reflected robust market and investment banking revenues, along with elevated costs and provisions. Citigroup's streamlining efforts, along with strategic investments in core business, bode well. Also, net interest revenues will likely be supported by loan growth and mix, despite low rates. A shrinking cost base due to the wind-down of legacy assets is aiding the bank's bottom-line growth. Moreover, manageable debt level is a tailwind. However, pending litigation issues might keep legal expenses elevated for the company. Additionally, a subdued consumer banking business is a concern.

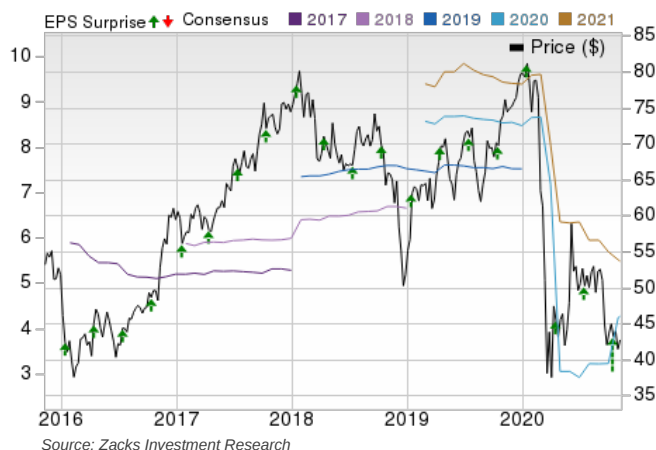
Data Overview

52-Week High-Low	\$83.11 - \$32.00
20-Day Average Volume (Shares)	26,293,964
Market Cap	\$101.9 B
Year-To-Date Price Change	-38.8%
Beta	1.81
Dividend / Dividend Yield	\$2.04 / 4.2%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 48% (120 out of 248)

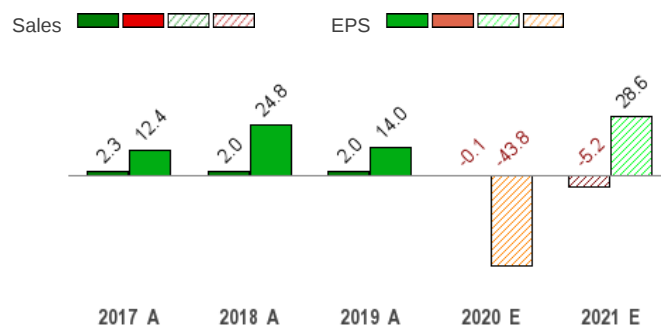
Last EPS Surprise	38.6%
Last Sales Surprise	0.3%
EPS F1 Estimate 4-Week Change	22.5%
Expected Report Date	01/12/2021
Earnings ESP	0.0%

P/E TTM	10.1
P/E F1	11.5
PEG F1	1.0
P/S TTM	1.1

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	18,063 E	17,513 E	17,613 E	17,206 E	70,372 E
2020	20,731 A	19,766 A	17,302 A	16,433 E	74,226 E
2019	18,576 A	18,758 A	18,574 A	18,378 A	74,286 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.69 E	\$1.25 E	\$0.98 E	\$1.44 E	\$5.48 E
2020	\$1.06 A	\$0.50 A	\$1.40 A	\$1.23 E	\$4.26 E
2019	\$1.87 A	\$1.83 A	\$1.98 A	\$1.90 A	\$7.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/11/2020. The reports text is as of 11/12/2020.

Overview

Citigroup Inc. is a globally diversified financial services holding company providing a range of financial products and services including consumer banking and credit, corporate and investment banking, securities brokerage and wealth management to consumers, corporations, governments and institutions. Citigroup has around 200 million customer accounts in over 160 countries and jurisdictions.

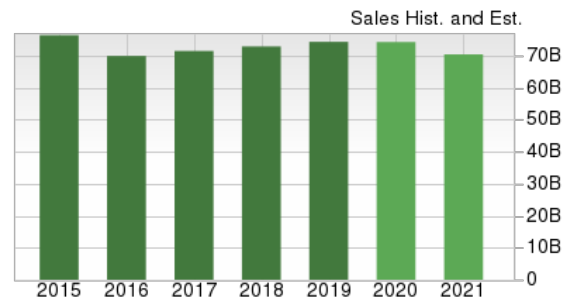
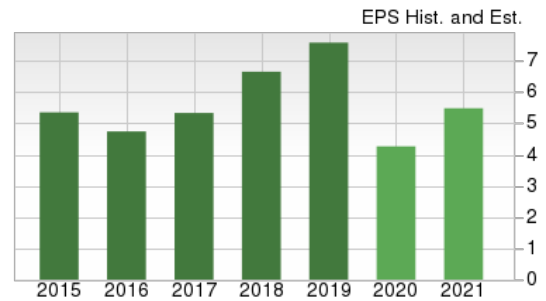
Citigroup currently reports via three business segments effective first-quarter 2017.

- **Global Consumer Banking (GCB)** (contributes 44% to total revenues in 2019) business includes retail banking, Citi-branded cards and Citi retail services in North America, Asia, Latin America, Europe, the Middle East, and Africa.
- **Institutional Clients Group (ICG)** (53%) consists of Banking and Markets and Securities services.
- **Corporate/Other** (3%) comprise global staff functions and other corporate expenses, unallocated global operations, as well as technology, Corporate Treasury and discontinued operations.

In July 2018, Scotiabank's Colombian subsidiary, Banco Colpatria Multibanca Colpatria S.A., acquired the consumer (retail and credit cards), and small and medium enterprise operations of Citibank in Colombia.

In October 2017, Citigroup completed the sale of consumer business in Brazil to Itau Unibanco. The deal was inked for around \$220 million. In August 2017, Citigroup completed the sale of the fixed income analytics (Yield Book) and a fixed income index business. The transaction generated a pre-tax gain on sale of \$580 million (\$355 million after-tax).

In March 2017, Citigroup completed the sale of CitiFinancial, its subprime lending unit in Canada, to an investor group led by private investment firm – JC Flowers and Vårde Partners – initiated in November 2016. Citigroup also completed sell of consumer banking business in Argentina to Banco Santander Rio, entered in October 2016.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ With improvement in the interest-rate scenario following the rate hikes and steady loan growth, strain on net interest revenues continued to ease in the past couple of years. In 2018 and 2019, uptrend in NIR was recorded, after witnessing a declining trend for years. Though results for the first nine months of 2020 disappointed as the Federal Reserve's emergency move to lower interest rates to near zero hampered net interest revenue growth, anticipated loan growth is likely to provide some respite on an economic recovery.
- ▲ Citigroup's long-term strategy to shrink its non-core assets and increase fee-based business mix would improve valuation over time. The rundown of Citi Holdings – its legacy problem assets portfolio – is largely complete. These runoffs ultimately reduce the company's risk profile and free up capital for investment in core businesses.
- ▲ Though operating expenses flared up slightly in the first nine months of 2020 due to compensation and benefits and other operating costs, it witnessed a negative CAGR of 1.5% over the five-year period (2015-2019). Expenses dipped as the impact of higher volume-related expenses, and ongoing investments were more than offset by efficiency savings and the wind-down of legacy assets. Therefore, persistent downtrend in expenses will aid bottom-line expansion.
- ▲ Citigroup has been emphasizing on growth in core businesses through expense management and streamlining operations internationally. Further, the company continues to optimize its branch network, with focus on core urban markets, improving digital channels and reducing branches. The company is also making investment in several areas to stoke growth. For instance, in its Mexico consumer franchise, the company intends to improve operating efficiency and returns, and remains on track with the \$1-billion investment program which is expected to be complete by 2020. Additionally, the ongoing investments in branded cards support the company's growth strategy. Such efforts should help augment the company's profitability and efficiency, over the long term.
- ▲ As of Sep 30, 2020, the company holds a debt level of \$664.9 billion and debt-capital ratio of 0.59X, which have remained volatile over the past few quarters. Therefore, with a time-interest-earned ratio of 2.4X over the past few quarters and a record of consistent earnings, Citigroup carries low credit risk, and has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ Driven by a solid capital position, Citigroup remains committed towards enhancing its shareholders' value with steady capital deployment activities. The company had increased its quarterly dividend by 13.3% in July 2019. Also, it had a share repurchase program in place that was suspended mid-March following the coronavirus crisis. Notably, following the announcement of 2020 stress test results, the company maintained the dividend level as before and kept share repurchases suspended in the third quarter of 2020 as well. Though the dividend payout ratio is below the industry average, the figure indicates constant improvement in earnings over the past few quarters. We believe that the company's financial strength will continue to inspire investors' confidence in the stock.
- ▲ The stock seems undervalued as compared with broader industry. Its price-earnings (F1) and price-to-book value ratios are below the respective industry averages.

A diverse business model, focus on core operations and streamlining of international businesses will continue to support Citigroup's growth. Further, manageable debt level is a tailwind.

Reasons To Sell:

- ▼ Citigroup's non-interest income witnessed a five-year negative CAGR (2015-2019) of 2.9%, with some annual volatility. The dismal performance of equity-market revenues and volatile underwriting business strained fee income. Though income increased in the first nine months of 2020 on a strong investment banking business, the coming quarters might disappoint on subdued global consumer banking business due to the continued adverse impact of the COVID-19 crisis.
- ▼ Citigroup continues to encounter many investigations and lawsuits from investors and regulators. Though the company resolved certain litigations related to the sale of risky mortgage-backed securities and other issues, many of the cases are yet to be resolved. As Citigroup continues to work through its legacy legal issues, we believe the company might continue to witness elevated legal expenses and litigation provisions, which will likely hurt its financials.
- ▼ Citigroup's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 6.57% has gradually improved over the years, it compares unfavorably with the 7.87% industry average, highlighting that it is less efficient in using shareholders' funds.
- ▼ Shares of Citigroup have underperformed the industry's growth in the past three months. With this unfavorable trend, the company's current-year earnings estimate has been revised 22.4% downward over the last 30 days. Therefore, given the concerns and lack of positive estimate revisions, the stock has limited upside potential.

Citigroup is burdened with numerous investigations and lawsuits escalating legal costs and limiting the company's business growth. Moreover, muted fee income is a concern for the company.

Last Earnings Report

Citigroup Q3 Earnings Beat Estimates, Expenses Escalate

As expected, Citigroup delivered an earnings surprise of 38.6% in third-quarter 2020 on robust market revenues. Earnings per share of \$1.40 for the quarter handily outpaced the Zacks Consensus Estimate of \$1.01. Results are, however, down significantly from the prior-year quarter.

Citigroup recorded higher revenues on investment banking and market revenues during the reported quarter. Notably, equity market revenues (up 15%) were impressive on strong performance in cash equities and derivatives, partially offset by lower prime finance revenues, while fixed income revenues (up 18%) were also on an upswing, reflecting strength in spread products and commodities.

Moreover, investment banking revenues (up 13%) increased on a solid underwriting business, partly muted by lower advisory business. However, consumer banking disappointed due to the continued impact of pandemic. Moreover, elevated cost of credit and elevated expenses were major drags.

Net income was \$3.2 billion compared with the \$4.9 billion recorded in the prior-year quarter.

Revenues Decline, Expenses Escalate

Revenues were down 7% year over year to \$17.3 billion in the third quarter. The reported figure came almost in line with the Zacks Consensus Estimate. Lower revenues from GCB were on the downside, partly offset by higher revenues from ICG. Corporate/Other recorded negative revenues.

In the ICG segment, revenues came in at \$10.4 billion in the quarter, up 5% year over year. Higher investment banking, along with fixed income and equity market revenues, led to this upsurge. These were partly muted by lower corporate lending.

GCB revenues decreased 13% year over year to \$7.2 billion. Lower revenues in North, Latin America and Asia GCB due to the pandemic resulted in this decline. Notably, both retail banking and card revenues witnessed declines.

Corporate/Other revenues came in at negative \$224 million compared with the prior-year quarter's \$434 million. This downside stemmed from the wind-down of legacy assets and impact of low rates along with "marks on securities".

Operating expenses at Citigroup flared up 5% year over year to \$11 billion. Civil money penalty, infrastructure investments, risk management and controls, higher compensation and COVID-19 related expenses resulted in this upswing. These were partly negated by efficiency savings and reduction in marketing and other discretionary expenses.

Stable Balance Sheet

At the end of the July-September quarter, Citigroup's end of period assets was \$2.23 trillion, up slightly on a sequential basis. Deposits were up 2% sequentially to \$1.26 trillion. The company's loans decreased 3% sequentially to \$667 billion.

Credit Quality: A Mixed Bag

Citigroup's costs of credit for the September-end quarter were up 8% year over year to \$2.3 billion. Remarkably, higher allowance for credit loss reserves (ACL) in the ICG segment mainly led to this upsurge. Cost of credit includes elevated net credit losses of \$1.9 billion and a credit reserve build of \$314 million, and other provisions of \$29 million.

Total non-accrual assets jumped 40% year over year to \$5.3 billion. The company reported a drop of 9% in consumer non-accrual loans to \$1.7 billion. Nonetheless, corporate non-accrual loans of \$3.6 billion surged 94% from the year-earlier period.

Citigroup's total allowance for loan losses was \$26.4 billion at the end of the reported quarter, or 4% of total loans, compared with the \$12.5 billion, or 1.82%, recorded in the year-ago period.

Solid Capital Position

At the end of the July-September period, Citigroup's Common Equity Tier 1 Capital ratio was 11.8%, up from the prior-year quarter's 11.6%. The company's supplementary leverage ratio for the quarter came in at 6.8%, up from the year-earlier quarter's 6.3%.

As of Sep 30, 2020, book value per share was \$84.48, up 4% year over year, and tangible book value per share was \$71.95, up 4% from the comparable period last year.

Outlook

Looking forward to the fourth quarter, management expects continued pressure in consumer, reflecting the adverse impact of rates and lower levels of activity related to COVID-19. Also, the low-rate environment is likely to continue hurting accrual businesses in ICG. Markets and investment banking businesses are also expected to reflect broader industry trends. Overall, management expects full-year revenues to be roughly flat with the decline in net interest revenues more or less offset by non-interest revenues on a full-year basis.

On the expense side, management remains focused on protecting employees and supporting customers. Targeted investments in the franchise are being made where the best opportunities for the future are foreseen, and accelerated investments done to achieve excellence in the risk and

Quarter Ending	09/2020
Report Date	Oct 13, 2020
Sales Surprise	0.26%
EPS Surprise	38.61%
Quarterly EPS	1.40
Annual EPS (TTM)	4.86

control environment and enhance operations for a fully digital world. As a result, management expects expenses to be up around 2% on a full-year basis.

Based on macro outlook, management does not expect additional reserve builds, but given the remaining uncertainty, any material releases is also unlikely this quarter. Quarterly pre-tax loss in corporate/other segment is expected in Q4 similar to the third-quarter level.

Management expects credit losses to begin to rise next year and peak toward the end of 2021 as government stimulus and other programs roll off and unemployment remain high.

Recent News

Citi to Pay Regulators \$400M for Long-Standing Deficiencies – Oct 7, 2020

Citigroup has been slapped with a \$400-million penalty by The Office of the Comptroller of the Currency (“OCC”) for long-standing deficiencies in its risk management and internal controls processes.

“We are disappointed that we have fallen short of our regulators’ expectations,” the company said in a statement. Further, it added “Citi has significant remediation projects underway to strengthen our controls, infrastructure and governance.”

Allegations

Both the OCC and the Federal Reserve have accused the bank of failing to implement effective risk and internal controls measures that complement with its size, complexity and risk profile.

Further, the Fed identified that the bank did not satisfactorily execute remedial measures relating to the consent order issued back in 2013, when Citigroup was involved in anti-money laundering compliance program. Also, lapses in remedies relating to the order issued in 2015 were found, whereby the bank was required to remove deficiencies in compliance and control infrastructure relating to its foreign-exchange program.

The regulators also identified “unsafe or unsound practices” in relation to internal controls, which included lack of clearly defined roles and responsibilities among employees and other non-compliances.

Comprehensive Corrective Actions

Citigroup is required to take the OCC’s approval before undertaking any significant acquisitions. The regulator also holds authority to implement additional business restrictions or make changes in senior management and the board if it finds that no timely or sufficient progress is made in improving deficiencies.

Furthermore, the Fed has ordered the bank to submit a plan regarding improvement of oversight within 120 days. Also, in the same time frame, it is required to conduct a gap analysis of enterprise-wide risk management framework, data governance state and internal controls systems. These would determine any room for further improvement in capital planning and risk control processes.

Also, the OCC has asked to form a compliance committee of five members, within 15 days, who will be responsible for monitoring and overseeing Citigroup’s compliance with the provisions of this consent order.

Dividend Update

On Oct 22, Citigroup’s board of directors announced a quarterly dividend of 51 cents per share on its common shares. The dividend will be paid on Nov 25, to its shareholders of record as of Nov 2, 2020.

Valuation

Citigroup’s shares are down 38.8% in the year-to-date period and 33.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 26.6% and 9.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 22.4% and 6%, respectively.

The S&P 500 Index is up 10.4% and 15.2% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 9.2X forward 12 months earnings, which compares to 13.05X for the Zacks sub-industry, 17.18X for the Zacks sector and 22.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.28X and as low as 4.07X, with a 5-year median of 9.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$52 price target reflects 9.77X forward earnings.

The table below shows summary valuation data for C

Valuation Multiples - C

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.2	13.05	17.18	22.33
	5-Year High	14.28	14.2	17.18	23.47
	5-Year Low	4.07	8.01	11.59	15.27
	5-Year Median	9.51	11.55	14.45	17.72
P/TB TTM	Current	0.68	1.66	3.62	17.72
	5-Year High	1.35	2.68	4	17.75
	5-Year Low	0.51	1.21	2.01	7.43
	5-Year Median	0.97	2.11	3.48	10.74
P/S F12M	Current	1.44	3.13	6.06	4.15
	5-Year High	2.88	4.59	6.66	4.3
	5-Year Low	0.98	2.39	4.96	3.17
	5-Year Median	2.19	3.59	6.05	3.67

As of 11/11/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 48% (120 out of 248)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Fifth Third Bancorp (FITB)	Outperform	1
Bank of America Corporation (BAC)	Neutral	3
JPMorgan ChaseCo. (JPM)	Neutral	3
KeyCorp (KEY)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	3
U.S. Bancorp (USB)	Neutral	3
Wells FargoCompany (WFC)	Neutral	3

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	C	X Industry	S&P 500	BAC	JPM	WFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	F	F	F
Market Cap	101.87 B	34.20 B	24.85 B	236.51 B	349.87 B	100.01 B
# of Analysts	11	9	14	10	10	11
Dividend Yield	4.17%	3.67%	1.52%	2.63%	3.14%	1.65%
Value Score	D	-	-	F	F	F
Cash/Price	10.81	2.12	0.07	4.22	4.18	4.30
EV/EBITDA	-12.81	-0.33	14.28	-7.21	-9.24	-1.27
PEG F1	0.93	2.18	2.75	2.20	3.07	6.20
P/B	0.58	0.96	3.54	0.96	1.45	0.62
P/CF	4.80	7.07	13.53	7.45	8.18	3.65
P/E F1	11.26	13.62	21.77	15.42	15.36	60.20
P/S TTM	1.08	2.14	2.82	2.38	2.63	1.17
Earnings Yield	8.71%	7.35%	4.44%	6.47%	6.51%	1.65%
Debt/Equity	1.55	0.79	0.70	1.04	1.16	1.34
Cash Flow (\$/share)	10.20	6.63	6.92	3.67	14.04	6.63
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	7.27%	9.00%	9.77%	19.27%	12.00%	-13.90%
Projected EPS Growth (F1/F0)	-43.75%	-32.57%	0.37%	-35.53%	-30.32%	-90.83%
Current Cash Flow Growth	2.56%	2.66%	5.29%	3.02%	9.35%	-1.58%
Historical Cash Flow Growth (3-5 Years)	7.31%	9.49%	8.33%	27.50%	10.67%	1.85%
Current Ratio	0.97	0.88	1.38	0.87	0.88	0.87
Debt/Capital	58.41%	42.22%	42.01%	48.75%	52.39%	54.23%
Net Margin	12.72%	18.68%	10.44%	19.50%	19.16%	3.72%
Return on Equity	6.57%	7.87%	15.07%	8.00%	10.85%	3.18%
Sales/Assets	0.04	0.04	0.50	0.04	0.04	0.04
Projected Sales Growth (F1/F0)	-0.08%	-1.96%	0.23%	-6.11%	2.06%	-15.07%
Momentum Score	A	-	-	C	B	A
Daily Price Change	2.69%	-1.58%	-0.12%	-1.16%	-1.49%	0.00%
1-Week Price Change	3.11%	2.07%	5.72%	2.57%	5.02%	2.14%
4-Week Price Change	13.71%	14.38%	5.01%	15.75%	14.53%	4.04%
12-Week Price Change	-2.70%	16.47%	8.82%	7.22%	16.47%	0.50%
52-Week Price Change	-33.80%	-19.20%	5.93%	-16.62%	-10.66%	-54.61%
20-Day Average Volume (Shares)	26,293,964	5,810,824	2,124,074	67,785,448	16,361,536	43,128,104
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	22.45%	5.37%	1.87%	2.37%	15.33%	173.27%
EPS F1 Estimate 12-Week Change	32.67%	21.31%	4.07%	12.99%	25.29%	1,224.07%
EPS Q1 Estimate Monthly Change	32.65%	9.83%	0.86%	9.83%	16.01%	52.31%

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	D
Growth Score	F
Momentum Score	A
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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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