

Caterpillar Inc. (CAT)

\$207.50 (As of 06/17/21)

Price Target (6-12 Months): **\$241.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 05/03/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: C

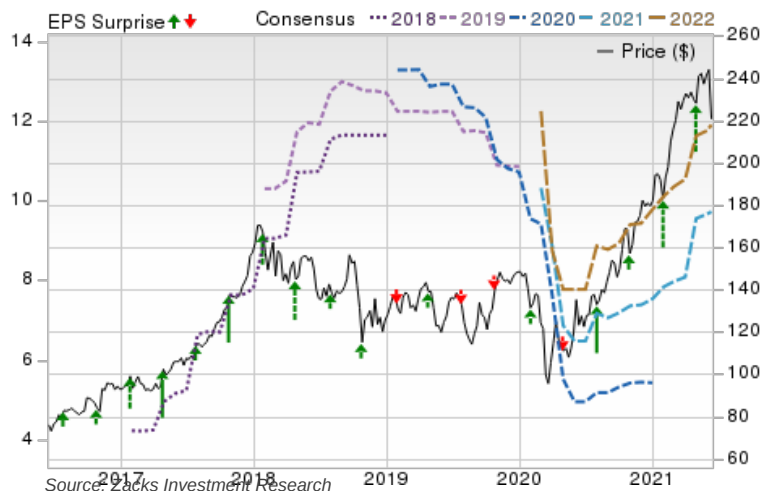
Growth: A

Momentum: A

Summary

Caterpillar's backlog was \$16.9 billion at the end of the first quarter of 2021, up \$2.7 billion sequentially. This bodes well for its performance in the ongoing quarter. In 2021, the company's results are expected to improve, aided by strong demand in China and pickup in global manufacturing activity. The Construction Industries segment is expected to gain on strength in residential construction and recovery in non-residential construction in the United States, and robust construction demand in Brazil. The Resource Industries segment can benefit from improving commodity prices. Savings from its restructuring actions can also boost margins. Further, a robust liquidity position, investments in expanded offerings, and services and digital initiatives are expected to fuel growth. Earnings estimates for current year have gone up lately.

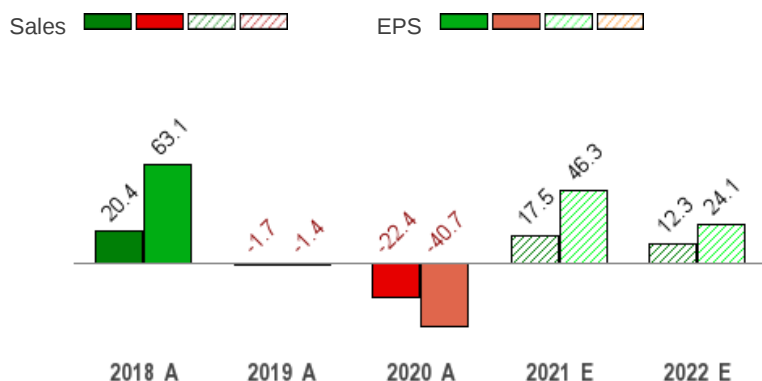
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$246.69 - \$120.80
20-Day Average Volume (Shares)	3,527,991
Market Cap	\$114.7 B
Year-To-Date Price Change	15.1%
Beta	0.93
Dividend / Dividend Yield	\$4.44 / 2.0%
Industry	Manufacturing - Construction and Mining
Zacks Industry Rank	Top 35% (88 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	13,353 E	13,828 E	13,628 E	14,777 E	55,102 E
2021	11,887 A	12,343 E	11,884 E	12,824 E	49,070 E
2020	10,635 A	9,997 A	9,881 A	11,235 A	41,748 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.89 E	\$2.94 E	\$2.85 E	\$2.98 E	\$11.91 E
2021	\$2.87 A	\$2.36 E	\$2.18 E	\$2.33 E	\$9.60 E
2020	\$1.60 A	\$1.03 A	\$1.34 A	\$2.12 A	\$6.56 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	48.7%
Last Sales Surprise	7.6%
EPS F1 Estimate 4-Week Change	0.6%
Expected Report Date	07/30/2021
Earnings ESP	0.0%
P/E TTM	28.5
P/E F1	21.6
PEG F1	1.8
P/S TTM	2.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/17/2021. The report's text and the

analyst-provided price target are as of 06/18/2021.

Overview

Caterpillar, known for its iconic yellow machines, is the largest global manufacturer of construction and mining equipment. Given that it serves a gamut of sectors - infrastructure, construction, mining, oil & gas and transportation, the company is considered a bellwether of the global economy.

Since 1925, Caterpillar's product portfolio has evolved and currently boasts 20 brands and generated revenues of \$41.7 billion in 2020. It has more than 4 million of products with an extensive dealer network of 165 dealers spanning 191 countries.

Caterpillar started using telematics in the 1990's and reached its target of 1 million connected assets in 2019. The combination of innovation, cutting-edge technology, coupled with the formidable reputation, sets Caterpillar apart from its peers.

Caterpillar is the 71st-largest company in the S&P 500 Index with a market capitalization of around \$115 billion. Caterpillar holds the 44th position in Fortune's "World's most admired companies" and 11th in the Dow Jones Industrial Average, with 4.08% weight of the index.

The Deerfield, IL-based company has six operating segments. Machinery, Energy & Transportation (ME&T) (93% of total revenues in 2020) includes

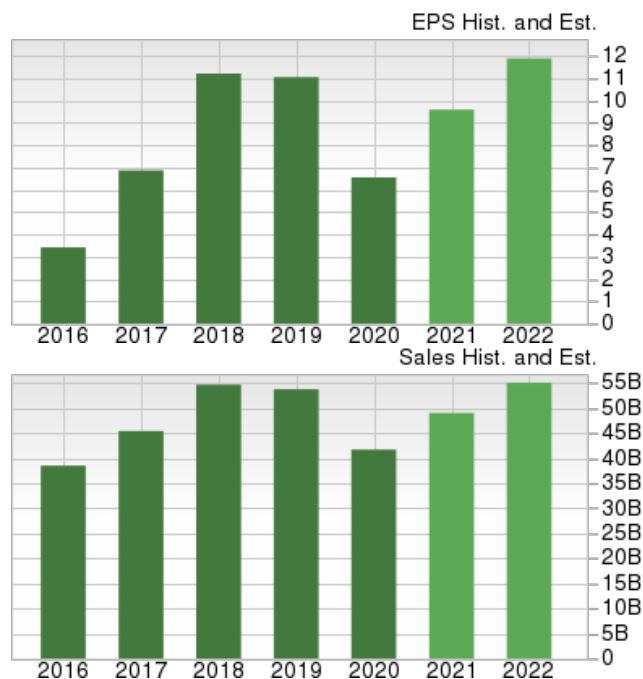
The Construction Industries segment manufactures machinery utilized in infrastructure, forestry and building construction.

The Resource Industries segment caters to customers using machinery in mining, quarry and aggregates, heavy construction, waste and material handling applications.

The Energy & Transportation segment supports customers in oil and gas, power generation, marine, rail and industrial applications.

All Other Segments primarily comprise activities such as the re-manufacturing of CAT engines and components and re-manufacturing services for other companies and product management, development, manufacturing, marketing and product support.

Financial Products Segment (7%) provides retail and wholesale financing alternatives for Caterpillar products.



Reasons To Buy:

▲ Aided by better-than-expected end user demand, Caterpillar delivered year-over-year growth in both earnings and revenues in first-quarter 2021 after suffering declines for four straight quarters. This was primarily due to the COVID-19 pandemic, which impacted most of its markets and dealers had cut down inventories. Caterpillar's first-quarter backlog of \$16.9 billion was up \$2.7 billion on a sequential basis and \$2.8 billion on a year-over-year basis. Caterpillar continued to monitor end-user demand, commercial shipments, dealer inventory, orders and backlog and plans to adjust production levels accordingly. The company has also been successful in reducing lead times, which enable both the company and dealers to adapt quickly to changing market conditions. Also, in the wake of the coronavirus crisis, the company has been taking actions to reduce costs that will help sustain margins. Further, the company's restructuring efforts in 2020 made good progress and it expects a benefit of \$150 million in 2021 from these actions.

Caterpillar will gain from cost control efforts and improving demand in end markets. Launch of new products, investment in expanded offerings and digital capabilities will also drive growth.

▲ This year the manufacturing sector has come out of the COVID-19 induced slowdown, courtesy of resumption of the global economic activities and reopening of businesses. The pickup in global industrial activity is likely to contribute to Caterpillar's top-line performance in the coming quarters. In North America, the ongoing strength in residential activity will boost demand for Caterpillar's construction equipment, while non-residential construction is expected to recover at a gradual pace throughout the year. In China, the outlook for the construction sector holds promise backed by government spending on infrastructure and building activity. Demand is also improving in Europe. In Latin America, Brazil's construction sector will support machine demand.

▲ In Resource Industries, mining orders are picking up, courtesy of improving metal prices. Further, due to the uncertainty associated earlier with the pandemic situation, several miners had deferred rebuilds and maintenance from 2020 to 2021, which will aid the segment's performance this year. The company also expects a recovery in heavy construction and quarry and aggregates from their low levels in 2020. In the Energy & Transportation segment, the company anticipates some improvement in power generation supported by data center activity, and sales to improve in transportation courtesy of increase in rail services and international businesses. Industrial is expected to see growth with activity strengthening across most applications. Overall, sales in 2021 are likely to be stronger owing to the lack of a dealer inventory reduction as seen last year and improving market conditions.

▲ In the first quarter of 2021, Caterpillar generated ME&T robust free cash flow of \$1.7 billion. It remains on track to deliver its ME&T free cash flow target of \$4 billion to \$8 billion for 2021. Its cash and liquidity position remains strong with the company ending first-quarter 2021 with cash and short-term investments of \$11.3 billion. ME&T debt at the end of first-quarter 2021 stood at \$11.05 billion. Caterpillar's current ratio is at 1.60 and times interest earned ratio is currently at 5.1. These figures indicate that the company is in a good position to meet its debt obligations. Caterpillar announced that it has hiked its quarterly dividend by 8% to \$1.11 per share. Caterpillar has paid higher dividends to shareholders for 27 consecutive years and is a member of the S&P 500 Dividend Aristocrat Index. The company suspended buyback plans in April 2020 owing to the pandemic but expects to revisit the decision later this year. Recently, Caterpillar has entered into an agreement with Weir Group PLC to acquire its Oil & Gas business for a cash price of \$405 million. The buyout will expand Caterpillar's offerings in the oil & gas market.

▲ Caterpillar continues to focus on customers and on the future by continuing to invest in digital capabilities, connecting assets and jobsites along with developing the next generation of more productive and efficient products. The company plans to fund initiatives that drive long-term profitable growth focused on areas of expanded offerings and services and digital initiatives like e-commerce. In sync with this, Caterpillar launched new GX line of excavators in China in November 2020, which has been received well by customers. The GX Series provides durability, safety and services, and 15% lower fuel consumption than the prior models. It also offers 25% lower maintenance cost.

The company displayed some of its mining technology at the Consumer Electronics Show for the first time. It featured Cat MineStar, a suite of technology and solutions that powers its autonomous trucks. Cat MineStar, ensured safety, efficiency and operations are more consistent and productive. Customers have realized productivity increases of up to 30% with zero reportable injuries. The company's autonomous capabilities provide it with a competitive edge in mining.

Risks

- Caterpillar refrained from providing any guidance with the first-quarter 2021 results due to the ongoing uncertainty related to the pandemic. In the early part of 2020, Caterpillar had to suspend operations temporarily at certain facilities on account of supply chain issues, weak demand or as per government mandates to stem the spread of the coronavirus. Though currently all of the company's primary production facilities are operational, it may have to suspend operations temporarily again if necessary. The recent acceleration in COVID-19 cases in several markets, particularly India, and the pandemic's impact on the supply chain remain concerns.
 - Caterpillar incurred restructuring costs of around \$350 million in 2020. The company expects restructuring expenses in 2021 to be around \$400 million as it continues to take necessary actions to improve cost competitiveness. Also, the headwind from incentive compensation will now be approximately \$325 million per quarter compared with \$225 million estimated earlier. This will lead to higher SG&A expenses through the year. The company is also ramping up R&D project spending to support services growth strategy and new product development.
 - For the second quarter, the company's top-line results will reflect typical seasonality, increased end user demand in Construction particularly in North America, improvement in Resources industry and year-over-year growth in Energy & Transportation. The company expects slight improvement in transportation sales. While marine will improve, it will remain at low levels and rail is expected to be relatively flat. Oil and gas sales is expected to display slight growth but customers will remain disciplined with their spending. Due to the timing of deliveries, solar had a strong second quarter in 2020. This will make the comparisons tougher in the ongoing quarter. In the second quarter, operating margin is likely to be lower on a sequential basis due to rising material costs and freight headwinds.
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Last Earnings Report

Caterpillar Q1 Earnings Top Estimates on Improving Demand

Caterpillar reported first-quarter 2021 adjusted earnings per share of \$2.87, which beat the Zacks Consensus Estimate of \$1.93 by a margin of 49%. The bottom line surged 74% from the prior-year quarter as all of its segments reported improved performances courtesy of higher demand in end markets.

Including one-time items, Caterpillar's first-quarter earnings per share was \$2.77, reflecting growth of 40% from the prior-year quarter figure of \$1.98.

Quarter Ending 03/2021

Report Date	Apr 29, 2021
Sales Surprise	7.62%
EPS Surprise	48.70%
Quarterly EPS	2.87
Annual EPS (TTM)	7.36

Improving Demand Fuels Revenue Growth

The company's first-quarter revenues of \$11.9 billion surpassed the Zacks Consensus Estimate of \$11.05 billion. The top line also indicated an improvement of 12% from the year-ago quarter. This upbeat performance was driven by higher sales volume aided by higher end-user demand and the impact from changes in dealer inventories. Notably, dealers increased their inventories by \$700 million during the reported quarter compared to \$100 million in the prior-year quarter, which marked the outbreak of the coronavirus pandemic.

Sales in Asia Pacific impressed with year-over-year growth of 31% followed by Latin America, which witnessed an increase of 24% in sales. Sales in EAME were up 13% while in North America were flat compared with the year-ago quarter.

Margins Gain on Higher Sales Volume

In first-quarter 2021, cost of sales increased 10% year over year to \$8 billion. Manufacturing costs were higher in the quarter owing to higher short-term incentive compensation expense, which were partially offset by favorable material costs and lower warranty expense. Gross profit rose 15% year over year to \$3.87 billion primarily on the back of improved sales. Gross margin was 32.6% in the quarter under review compared with 31.7% in the prior-year quarter.

Selling, general and administrative (SG&A) expenses increased 10.5% to around \$1.2 billion. Research and development (R&D) expenses went up 5% to \$374 million from the prior-year quarter. Both SG&A and R&D expenses in the quarter were up year over year due to higher short-term incentive compensation expense, which was reinstated in 2021.

Adjusted operating profit in the quarter surged 30% year over year to \$1.88 billion, reflecting increased volumes and higher profit from Financial Products. These gains were partially offset by higher SG&A and R&D expenses, unfavorable price realization and rising manufacturing costs. Adjusted operating margin was 15.8% in the reported quarter, up 230 basis points from the prior-year quarter.

Segments Deliver Improved Performances

Machinery and Energy & Transportation (ME&T) sales rose 13% year over year to \$11.2 billion in the quarter under review. Construction Industries sales were up 27% year over year to \$5.4 billion owing to increased sales volumes reflecting improving end-user demand and the impact of changes in dealer inventories.

Sales at Resource Industries increased 6% year over year to around \$2.2 billion on higher sales volume owing to changes in dealer inventories and higher end-user demand for equipment and aftermarket parts. The favorable currency impact from the Australian dollar, was offset by unfavorable price realization. While the segment noted increased demand in mining, demand in heavy construction and quarry and aggregates were reportedly weak.

Sales of Energy & Transportation segment in the quarter were around \$4.5 billion, reflecting growth of 4% from the prior-year quarter. Sales were up in Power Generation and Oil and Gas. However, lower sales in Transportation had a dampening effect.

The ME&T segment reported operating profit of \$1,664 million, which highlighted an increase of 24% year over year. The Energy & Transportation segment's operating profit went up 11% year over year to \$666 million as benefits from higher sales volume and favorable variable manufacturing costs were partially offset by higher SG&A/R&D expenses.

The Construction Industries segment witnessed a 62% surge in operating profit to \$1 billion courtesy of higher volume. The Resource Industries segment's operating profit increased 8% year over year to \$328 million in the quarter under review. Gains from favorable manufacturing costs and higher sales volume were somewhat negated by unfavorable price realization and higher SG&A/R&D expenses.

Financial Products' revenues climbed 7% to \$761 million from the prior-year quarter. Financial Products' profits were \$244 million in the reported quarter — a whopping improvement of 132% year over year. This was due to a favorable impact from equity securities in Insurance Services and lower provision for credit losses at Cat Financial, partially offset by an increase in SG&A expenses.

Strong Cash Position

At the end of the first quarter, operating cash flow was \$1.9 billion compared with \$1.13 billion in the prior year quarter. Caterpillar ended the first

quarter with cash and short-term investments of \$11.3 billion compared with \$9.3 billion as of 2020 end.

Recent News

Caterpillar Rewards Shareholders With 8% Dividend Hike

On Jun 9, Caterpillar announced that it has hiked its quarterly dividend by 8% to \$1.11 per share to boost shareholder value. Caterpillar has paid higher dividends to shareholders for 27 consecutive years and is a member of the S&P 500 Dividend Aristocrat Index.

Caterpillar's Global Retail Sales up 13% in Q1

Caterpillar announced that its global retail sales were up 13% in the first quarter of 2021 — marking an improvement from the 2% global retail sales decline in the fourth quarter of 2020. This also marks a massive turnaround from a plunge of 23% in the second quarter of 2020.

Looking at the region-wise breakup of the company's sales during the quarter, Latin America and Asia Pacific delivered growth of 54% and 27%, respectively. Sales in EAME increased 5%. This was offset by a decline of 1% in North America. It is worth mentioning sales growth in Latin America has accelerated from 31% growth in the fourth quarter of 2020. Sales growth in Asia Pacific has also increased significantly from growth of 7% witnessed in the fourth quarter of 2020.

Coming to the segments, the Resource Industries segment's global retail sales remained flat in the first quarter. Nevertheless, it reflects an improvement from 3% drop in the previous quarter and 31% plunge in the third quarter of 2020. Sales in EAME and North America were down 9% and 21%, respectively. Latin America registered an impressive growth of 85%. Sales in Asia Pacific inched up 1%.

Sales in the Construction Industries segment were up 17% — an improvement from decline of 1% in the fourth quarter of 2020. The segment witnessed growth in sales across the board. Sales in Latin America were up 38% followed by Asia Pacific with growth of 36%. Sales in EAME and North America were also up 11% and 5%, respectively.

Sales in the Energy & Transportation segment declined 5% in the first quarter. Sales to the Power Generation sector increased 7%. This was offset in decline in sales to the Transportation, Oil & Gas and Industrial sectors of 40%, 9% and 4% respectively.

Valuation

Caterpillar's shares have gone up 16.2% in the last six-month period and up 64.4% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products sector are up 16.4% and 9.4% in the last six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 65.3% and 47.3%, respectively.

The S&P 500 index is up 14.6% in the last six-month period and up 38.4% in the past year.

The stock is currently trading at 19.52X forward 12-month earnings, which compares with 19.43X for the Zacks sub-industry, 21.15X for the Zacks sector and 21.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.58X and as low as 8.88X, with a 5-year median of 18.96X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$241 price target reflects 22.46X forward 12-month earnings.

The table below shows summary valuation data for CAT.

Valuation Multiples - CAT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.52	19.43	21.15	21.69
	5-Year High	32.58	30.83	23.56	23.83
	5-Year Low	8.88	9.47	12.65	15.31
	5-Year Median	18.96	19.5	18.28	18.05
P/S F12M	Current	2.21	1.82	3.48	4.70
	5-Year High	2.71	2.21	3.58	4.74
	5-Year Low	1.02	0.92	1.61	3.21
	5-Year Median	1.50	1.26	2.11	3.72
EV/EBITDA TTM	Current	16.60	14.28	22.96	17.34
	5-Year High	19.58	16.84	27.92	17.74
	5-Year Low	6.66	5.95	11.10	9.63
	5-Year Median	10.84	9.55	15.53	13.47

As of 06/17/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Deere & Company (DE)	Outperform	2
Astec Industries, Inc. (ASTE)	Neutral	3
H&E Equipment Services, Inc. (HEES)	Neutral	2
HITACHI CONSTR (HTCMY)	Neutral	3
Komatsu Ltd. (KMTUY)	Neutral	3
Lonking Holdings Ltd. (LONKF)	Neutral	3
The Manitowoc Company, Inc. (MTW)	Neutral	3
Terex Corporation (TEX)	Neutral	3

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

Industry Comparison Industry: Manufacturing - Construction And Mining				Industry Peers		
	CAT	X Industry	S&P 500	HTCMY	KMTUY	TEX
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	A	-	-	A	B	A
Market Cap	114.73 B	2.14 B	29.66 B	6.79 B	25.58 B	2.95 B
# of Analysts	11	4	12	1	2	8
Dividend Yield	1.97%	0.61%	1.35%	0.42%	0.48%	1.14%
Value Score	C	-	-	A	A	A
Cash/Price	0.09	0.13	0.05	0.13	0.08	0.17
EV/EBITDA	17.23	14.06	16.95	9.74	8.15	26.44
PEG F1	1.80	1.71	2.09	NA	1.60	NA
P/B	6.90	1.74	4.06	1.27	1.41	3.11
P/CF	18.93	14.17	17.27	11.94	9.74	49.83
P/E F1	21.61	18.89	20.99	18.41	14.94	16.64
P/S TTM	2.67	1.01	3.39	0.88	1.28	0.95
Earnings Yield	4.58%	5.30%	4.65%	5.43%	6.69%	6.02%
Debt/Equity	1.59	0.47	0.66	0.33	0.27	1.03
Cash Flow (\$/share)	11.06	3.15	6.83	5.29	2.70	0.85
Growth Score	A	-	-	B	D	A
Historical EPS Growth (3-5 Years)	21.27%	1.69%	9.44%	-10.37%	4.34%	-11.28%
Projected EPS Growth (F1/F0)	46.40%	71.27%	21.49%	272.83%	66.04%	1,851.00%
Current Cash Flow Growth	-31.90%	-27.22%	0.99%	-29.21%	-25.24%	-79.27%
Historical Cash Flow Growth (3-5 Years)	0.67%	2.40%	7.28%	NA	2.40%	-29.38%
Current Ratio	1.60	1.93	1.39	1.66	1.93	2.27
Debt/Capital	61.33%	32.16%	41.51%	24.72%	21.46%	50.71%
Net Margin	7.99%	1.75%	11.95%	1.28%	3.98%	1.75%
Return on Equity	26.63%	6.62%	16.48%	1.92%	4.54%	8.34%
Sales/Assets	0.55	0.70	0.51	0.70	0.59	1.06
Projected Sales Growth (F1/F0)	17.54%	14.94%	9.41%	11.66%	15.69%	21.83%
Momentum Score	A	-	-	A	C	A
Daily Price Change	-3.55%	-3.41%	-0.04%	0.57%	-3.27%	-7.23%
1-Week Price Change	-9.56%	-5.41%	-0.41%	0.79%	-4.97%	-8.74%
4-Week Price Change	-10.87%	-9.96%	1.51%	-3.81%	-10.26%	-15.87%
12-Week Price Change	-6.60%	-4.85%	7.99%	1.10%	-13.35%	-5.80%
52-Week Price Change	64.16%	46.51%	35.52%	19.94%	28.06%	116.57%
20-Day Average Volume (Shares)	3,527,991	144,262	1,771,802	218	80,658	576,299
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.63%	0.00%	0.03%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	18.97%	15.28%	3.37%	2.69%	15.28%	16.68%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	0.00%	:	0.00%	0.00%	0.00%
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	C
Growth Score	A
Momentum Score	A
VGM Score	A

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

Disclosures

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

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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.

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Additional Disclosure

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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.