

Central Garden & Pet (CENT)

\$55.10 (As of 05/24/21)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/24/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

Summary

Shares of Central Garden & Pet have risen and outpaced the industry in the past six months. The company has been taking steps to strengthen its position in the pet supplies and lawn and garden supplies space. It has been developing new products, advancing digital capabilities, optimizing supply chain, and focusing on marketing activities. Impressively, these endeavors aided the company to continue with its stellar performance in second-quarter fiscal 2021. Management now envisions fiscal 2021 earnings per share to be at or above \$2.25. The updated outlook includes the benefit of robust performance in the first half of fiscal 2021 and anticipated investments in capacity expansion, brand building and e-commerce to drive sustainable growth. However, increase in labor and freight costs as well as higher key commodity prices remain headwinds.

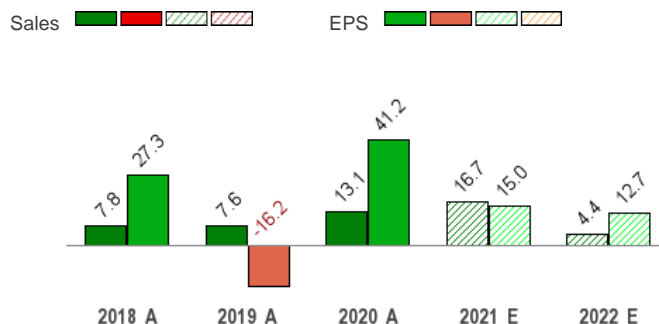
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$62.91 - \$33.04
20-Day Average Volume (Shares)	68,514
Market Cap	\$3.1 B
Year-To-Date Price Change	42.7%
Beta	0.60
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Consumer Products - Discretionary
Zacks Industry Rank	Top 50% (126 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	6.9%
EPS F1 Estimate 4-Week Change	7.1%
Expected Report Date	08/04/2021
Earnings ESP	0.0%
P/E TTM	17.4
P/E F1	21.2
PEG F1	3.0
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	593 E	986 E	961 E	755 E	3,287 E
2021	592 A	935 A	923 E	697 E	3,147 E
2020	483 A	703 A	833 A	676 A	2,696 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.18 E	\$1.45 E	\$1.28 E	\$0.08 E	\$2.93 E
2021	\$0.28 A	\$1.32 A	\$1.01 E	-\$0.02 E	\$2.60 E
2020	-\$0.08 A	\$0.78 A	\$1.32 A	\$0.25 A	\$2.26 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 05/24/2021. The report's text and the analyst-provided price target are as of 05/25/2021.

Overview

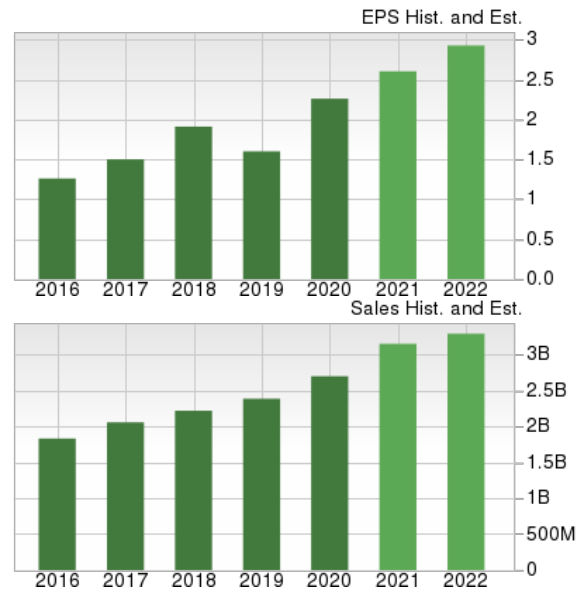
Committed to product innovation, Central Garden & Pet Co. is looking forward to strengthening its position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies space. Unique packaging, point-of-sale displays, logistic capabilities and a high level of customer service are some of its key growth catalysts.

With such upsides, it boasts a wide repertoire of clients, including PetSmart, PETCO, Walmart, Home Depot and Lowe's. Further, the company actively engages in buyout activities to gain market share.

Moving on, the company offers products to mass merchants, home improvement centers, lawn and garden nurseries, grocery stores, specialty pet stores, veterinarians' municipalities, and other individual animal buyers. It also produces both branded products and private-label products along with distributing third-party brands. With such a wide array of products in its portfolio, Central Garden & Pet operates under two segments as discussed below.

Pet Segment (58% of Fiscal 2020 total sales): This segment offers food and accessories for dogs, cats, birds, small animals, fishes, horses and livestock under brands, such as Aqueon, Cadet, Comfort Zone, Farnam, Four Paws, Kaytee, K&H Pet Products, Nylabone, Zilla, Adams, Altosid, Arden Companies, Coralife, C&S Products, Interpet, Pet Select, TFH, and Zodiac.

Garden Segment (42% of Fiscal 2020 total sales): This segment offers both proprietary and nonproprietary grass seeds, herbicides, insecticides, pesticides, decorative outdoor lifestyle and lighting products. The segment markets its products under brands such as AMDRO, Pennington, Sevin, Bell Nursery, Ironite, Ferry-Morse, Lilly Miller and Over-N-Out.



Reasons To Buy:

- ▲ **Impressive Q2 Results, View Up, Stock Gains:** Central Garden & Pet continued with its stellar performance in second-quarter fiscal 2021, wherein both the top and the bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year. The quarter marked sixth straight sales and earnings beat. Results primarily benefited from strong organic growth across Pet and Garden segments, prompting management to raise fiscal 2021 earnings view. Management now envisions fiscal 2021 earnings to be at or above \$2.25 versus prior projection of \$1.90 or higher. The updated outlook includes the benefit of robust performance in the first half of fiscal 2021 and anticipated investments in capacity expansion, brand building and e-commerce to drive sustainable growth. Shares of the company have gained 36.9% in the past six months compared with the industry's rise of 1.4%.
- ▲ **Strategic Endeavors Aiding Performance:** Central Garden & Pet is looking forward to strengthening its position as one of the leading companies in the U.S. pet supplies and lawn and garden supplies space. Unique packaging, point-of-sale displays, logistic capabilities and a high level of customer service are some of its key catalysts. Notably, the company has been advancing digital capabilities, optimizing supply chain, expanding data analytics capability and focusing on marketing activities to better engage with customers. The acquisition of DoMyOwn.com further advances the company's digital capabilities to deliver strong omni-channel performance. The company has also partnered with leading e-commerce platform — Profitero, Inc. The partnership enables Central Garden & Pet with a full view of its e-commerce business across eight retail partners. Apart from these, in order to gain market share, the company seeks to develop differentiated products, improve sales capacity, respond to channel shifts and become more cost-effective. The company is also investing in capacity expansion and automation to meet the continuing strong demand. Further, the company is on track with its 'Central to Home' strategy and remains optimistic about gains from its recent acquisitions. Also, Central Garden & Pet is making efforts to lower costs in a bid to improve margins and fuel growth.
- ▲ **Pet Business Gaining Traction:** The COVID-19 storm has ushered in a number of new trends, including work-from-home, learn-at-home, dine-at-home and play-at-home, to name a few. As a result, people increasingly indulge in pet adoptions. Markedly, net sales at the Pet segment increased 21% year over year during the second quarter of fiscal 2021 driven by significant contributions from small animal supplies, distribution, dog and cat as well as outdoor pillows and cushions. At Pet segment e-commerce business grew more than 50% versus prior year. Meanwhile, e-commerce accounted for 21% of the company's branded pet consumer business. According to Packaged Facts, the pet industry is expected to increase at approximately 4% per year through 2025.
- ▲ **Garden Business Gaining Prominence:** Amid the pandemic people have been showing great interest in gardening activities that also eases concerns over food security. According to The Freedonia Group, lifestyle changes and shifts in demographics are creating new opportunities in gardening. According to Numerator, household penetration grew from 67.2% in 2019 to 72.7% in 2020. About 70% of homeowners are doing more home projects and about 7.1 million households picked up gardening as a hobby or leisure activity in 2020. At the Garden segment, net sales advanced 49% year over year during the second quarter of fiscal 2021 mainly driven by organic growth of 23%, with notable strength in distribution, fertilizers and controls, wild bird feed, and grass seed, coupled with \$76 million contribution from acquisitions. Garden e-commerce business, while still small, surged triple digits.
- ▲ **Acquisitions Playing a Key Role:** Central Garden & Pet company has been a disciplined buyer in the garden and pet areas and has concluded more than 50 acquisitions since 1992. The company through buyouts also looks to enhance manufacturing capabilities, operating synergies, or developing distribution network. Over the years, the company has bought several new businesses including entering into the live plant and outdoor seat cushion businesses. In this regard, Central Garden & Pet acquired C&S Products in May 2019, which has been complementing its existing wild bird feed business. This buyout has been boosting the company's top line. Prior to this, the company acquired the remaining 55% stake at Arden Companies in February 2019. Earlier, the company bought Bell Nursery, a leading grower and distributor of live flowers and plants in March 2018, while the same year in April, it acquired General Pet Supply, a supplier of pet food and supplies. In December, 2020, the company acquired the live goods grower — Hopewell Nursery. In January, 2021 the company acquired DoMyOwn.com, which is a fast-growing online retailer of professional-grade control products across the United States. Recently, it concluded the buyout of Green Garden Products, which is a key provider of vegetables, seed starters, herb and flower seed packets, and plant nutrients across North America. Early estimates suggests that the net impact of acquisitions of DoMyOwn.com, Hopewell Nursery and Green Garden Products will be accretive to fiscal 2021 earnings in the band 11-16 cents a share. During the second quarter of fiscal 2021, the same contributed 7 cents to earnings per share.
- ▲ **Healthy Commercial Relationship:** Being the leading producer of garden and pet supplies products in the United States with a diversified portfolio of brands has aided Central Garden & Pet in developing healthy commercial relationships with giant retailers such as PetSmart, PETCO, Walmart, Home Depot and Lowe's. We believe this provides the company significant opportunity to grow. Sales to Walmart represented approximately 28%, 28% and 29%, sales to Lowe's represented approximately 24%, 22% and 21%, and sales to Home Depot represented approximately 31%, 29% and 27% of Garden segment's net sales in fiscal 2020, 2019 and 2018, respectively. Walmart, the company's largest customer, represented approximately 17% of total net sales in each of the fiscal years 2020, 2019 and 2018. Home Depot, the second largest customer, represented about 13%, 12% and 11% of total net sales in fiscal 2020, 2019 and 2018, respectively. Lowe's, Costco and PetSmart are also significant customers, and together with Walmart and Home Depot, accounted for approximately 52% of net sales in fiscal 2020, 49% in fiscal 2019 and 48% in fiscal 2018.

Central Garden & Pet has been advancing digital capabilities, optimizing supply chain, expanding data analytics capability and focusing on marketing activities to better engage with customers.

Reasons To Sell:

- ▼ **Near-Term Headwinds:** Headwinds such as increase in labor and freight costs as well as key commodity prices in addition to resuming more normal levels of promotional activity are likely to hurt the company's margin. Further, the company anticipates second-half headwinds associated with lapping almost ideal weather for the gardening season and the COVID-19 tailwinds in 2020. Again, in supply chain, the company may continue to experience increased operational and logistics costs.
- ▼ **SG&A Deleverage a Concern:** SG&A expenses climbed \$26.8 million or 19% year over year to \$167.8 million during the second quarter of fiscal 2021. Selling and delivery expense increased to \$83.1 million during the second quarter compared with \$71.8 million in the prior year quarter. This was due to higher delivery expense, as a result of increased sales volumes, rise in payroll-related costs and the selling and delivery expenses from three recent acquisitions in Garden Segment. These were partly offset by lower travel and entertainment expense due to COVID-19 related safety measures. We also note that warehouse and administrative expense jumped \$15.5 million or 22.3% year over year to \$84.7 million during the quarter under review. The increase was mainly due to the warehouse and administrative costs associated with three recent acquisitions — DoMyOwn.com, Hopewell Nursery and Green Garden Products — including the amortization of intangibles related to purchase accounting. Additionally, both operating segments experienced increased labor and payroll-related expense.
- ▼ **Tough Competition:** Central Garden & Pet operates in highly-competitive markets. It faces intense competition from regional and national firms on grounds of price, product quality, number of products offered, brand awareness and customer service. The company's growth and success depend on its ability to offer high-quality distinguished products at a competitive price. In fact, the company's lawn and garden products compete against national and regional products and private label products produced by various suppliers. The company's turf and forage grass seed products, fertilizers, pesticides and combination products compete primarily against products marketed by The Scotts Miracle-Gro Company ("Scotts"). Additionally, Spectrum Brands and S.C. Johnson & Son, Inc. are strong competitors in yard and household insecticides. The company's branded pet products compete against national and regional branded products and private label products produced by various suppliers. The company's largest competitors in the product categories are Spectrum Brands and Hartz Mountain. The segment's sales and distribution network compete with Animal Supply Co., Phillips Pet Food & Supplies and a number of smaller local and regional distributors.
- ▼ **Financial Status:** Central Garden's cash and cash equivalents (including restricted cash) at the end of second-quarter fiscal 2021 was \$52.5 million, which declined 91.6% sequentially. Again, net interest expense increased 8.7% year over year to \$10.2 million primarily due to higher debt balances outstanding during the quarter. The company ended the quarter with long-term debt of \$979 million, which reflects an increase of 24.1% on a sequential basis. As a result, debt-to-capitalization ratio increased to 0.46 as of Mar 27, 2021 from 0.42 as of Dec 26, 2020.
- ▼ **Seasonality of Garden Segment:** Gardening is generally limited to the period between spring to summer, which makes the garden business highly seasonal in nature. A major part of the sales occurs during the second and third fiscal quarters. Failure to perform during the season is likely to have a significant impact on the company's yearly financials. In fiscal 2020, approximately 67% of Garden segment's net sales and 57% of total net sales occurred during the second and third quarters.
- ▼ **Supply Disruptions May Hurt Sales:** The restrictions on import of pet birds and the supply of small animals by the federal government and many state governments have hurt the demand. If these restrictions become more stringent, or similar restrictions are imposed on pet fish, sales of these products would suffer, and in turn impact the company's overall profitability. The company's Segrest subsidiary is the largest supplier of aquarium fish in the United States and also supplies pet birds and small animals. In fiscal 2019, Walmart exited the live fish business, which adversely impacted Segrest's sales. If other retailers follow suit, demand for aquarium fish may further soften.

Continued supply chain pressure owing to higher demand levels and inflationary pressure in key commodities may weigh on margins.

Last Earnings Report

Central Garden & Pet Q2 Earnings & Sales Beat, View Up

Central Garden & Pet Company posted impressive second-quarter fiscal 2021 results, wherein both top and bottom lines improved year over year. Notably, the quarter marked the sixth straight earnings beat. Results gained from continued strength in Pet and Garden. Management raised its fiscal 2021 bottom-line view.

Let's Delve Deeper

Central Garden & Pet delivered adjusted earnings of \$1.32 per share that beat the Zacks Consensus Estimate of \$1.08. Moreover, the figure surged 69% year over year from 78 cents reported in the year-ago period. The uptick can be attributable to organic growth and gains of 7 cents from acquisitions.

Central Garden & Pet Company generated net sales of \$935.3 million, surpassing the Zacks Consensus Estimate of \$875 million. Further, the top line improved 33% from the year-ago period, benefiting from organic growth of 23%, along with contributions from recent buyouts to the tune of \$76 million.

The company registered sturdy performance across both Pet and Garden in the e-commerce channel, including pure play, omni-channel and direct-to-consumer. At Pet segment e-commerce business grew more than 50% versus prior year, while in Garden segment, e-commerce business surged triple digits. Moreover, e-commerce accounted for 21% of the company's branded pet consumer business and 6% of total garden sales.

Gross profit grew 32% to \$272.4 million. Meanwhile, gross margin contracted 40 basis points to 29.1% due to higher commodity, labor and freight costs as well as adverse impacts from initial purchase accounting adjustments related to buyouts.

Operating income jumped 58% year over year to \$105 million in the quarter under review. Moreover, operating margin increased 180 basis points to 11.2% due to gross margin gains and operating efficiencies.

SG&A expenses were \$167.8 million, up 19% year over year driven by higher sales volumes, partly offset by increased SG&A expenses. As a percentage of net sales, SG&A expenses contracted 220 basis points to 17.9%.

Segment in Detail

In the **Garden segment**, net sales advanced 49% year over year to \$443 million, driven by organic growth of 23%, with notable strength in distribution, fertilizers and controls, wild bird feed, and grass seed, coupled with \$76 million contribution from acquisitions. The segment's operating income grew 53% to \$66 million and operating margin expanded 40 basis points to 14.9% in the reported quarter. Garden segment EBITDA increased 63% to \$75 million driven by volume strength and operating leverage as well as contributions from recent acquisitions.

Net sales in the **Pet segment** increased 21% year over year to \$492 million, driven by significant contributions from small animal supplies, distribution, dog and cat as well as outdoor pillows and cushions. The segment's operating income grew 43% year over year to \$62 million. Notably, operating margin expanded 190 basis points to 12.6%. Pet segment EBITDA increased 34.7% to \$71 million driven by solid sales volume and favorable product mix as well as overhead efficiencies.

Financial Details

Central Garden & Pet ended the quarter with cash and cash equivalents of \$39.9 million, total debt of \$979 million and shareholders' equity of \$1,160.6 million, excluding non-controlling interest. At the end of the quarter, the company had \$190 million of borrowings under \$400 million credit line. Cash used by operating activities during six-month period ended Mar 27, 2021 was \$120.2 million. Management incurred capital expenditures of \$19 million during the quarter under review. The company is investing in capacity expansion and automation to meet the continuing strong demand. During the quarter, the company did not buy any shares, and still has \$100 million remaining under its existing share repurchase program. Also, management issued \$400 million in senior notes following the end of the fiscal second quarter.

Outlook

Driven by impressive first-half performance, management now envisions fiscal 2021 earnings to be at or above \$2.25 versus prior projection of \$1.90 or higher. The revised outlook includes the benefit of robust performance in the first half of fiscal 2021 and anticipated investments in capacity expansion, brand building and e-commerce to drive sustainable growth. The guidance also takes into account increasing costs for key commodities, labor and freight, resuming more normal levels of promotional activity, as well as second-half headwinds associated with lapping almost ideal weather for the gardening season and the COVID-19 tailwinds in fiscal 2020. The updated view does not take into consideration the impact of recent buyouts, as purchase accounting has not yet been finalized. However, early estimates suggests that the net impact of these acquisitions will be accretive to fiscal 2021 earnings in the band 11-16 cents a share.

Quarter Ending	03/2021
Report Date	May 05, 2021
Sales Surprise	6.91%
EPS Surprise	22.22%
Quarterly EPS	1.32
Annual EPS (TTM)	3.17

Recent News

Central Garden & Pet Inks Partnership With Profitero – Apr 27, 2021

Central Garden & Pet Company announced its collaboration with the leading e-commerce platform — Profitero, Inc. The new global partnership with Profitero will enable Central Garden & Pet with a full view of its e-commerce business across eight retail partners. The company will be able to utilize Profitero's digital shelf analytics and share data capabilities to augment its online strategy. This is likely to help strengthen digital supply chain and product content, thereby optimizing retail media campaigns. Moreover, the partnership will expand basket size and drive attachment rates within the digital channel.

Valuation

Central Garden & Pet Company shares are up 42.8% in the year-to-date period and 57.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 11.6% and 0.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 9.1% but the sector is up 35.1%.

The S&P 500 index is up 13.1% in the year-to-date period and 44.5% in the past year.

The stock is currently trading at 19.59X forward 12-month earnings, which compares to 21.78X for the Zacks sub-industry, 30.3X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.29X and as low as 12.79X, with a 5-year median of 19.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$58 price target reflects 20.77X forward 12-month earnings.

The table below shows summary valuation data for CENT

Valuation Multiples - CENT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.59	21.78	30.3	21.9
	5-Year High	26.29	27.05	35.41	23.83
	5-Year Low	12.79	10.31	16.24	15.3
	5-Year Median	19.94	16.13	20.33	18.02
P/S F12M	Current	0.95	7.21	2.72	4.7
	5-Year High	1.06	10	2.94	4.74
	5-Year Low	0.51	0.57	1.73	3.21
	5-Year Median	0.83	0.97	2.51	3.71
EV/EBITDA F12M	Current	12.49	8.93	11.52	17.21
	5-Year High	14.39	13.12	12.4	18.81
	5-Year Low	7.13	3.84	8.09	13.02
	5-Year Median	10.25	9.82	10.8	15.85

As of 05/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Chewy Inc. (CHWY)	Neutral	2
Freshpet, Inc. (FRPT)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Prestige Consumer Healthcare Inc. (PBH)	Neutral	3
Party City Holdco Inc. (PRTY)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3
SP Plus Corporation (SP)	Neutral	3
Spectrum Brands Holdings Inc. (SPB)	Neutral	3

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

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	CENT	X Industry	S&P 500	CHWY	GIS	SPB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	C	C	A
Market Cap	3.07 B	440.48 M	30.19 B	29.78 B	38.46 B	3.85 B
# of Analysts	3	2	12	8	8	2
Dividend Yield	0.00%	0.00%	1.3%	0.00%	3.24%	1.86%
Value Score	B	-	-	F	B	A
Cash/Price	0.02	0.06	0.06	0.02	0.07	0.08
EV/EBITDA	15.62	12.19	17.47	-485.28	12.43	12.75
PEG F1	2.93	3.47	2.19	17.82	2.27	NA
P/B	2.64	3.40	4.16	NA	4.19	2.57
P/CF	16.63	12.37	17.45	NA	13.75	10.70
P/E F1	21.05	17.45	21.83	356.32	17.00	14.86
P/S TTM	1.01	1.01	3.51	4.17	2.06	0.87
Earnings Yield	4.72%	5.15%	4.49%	0.28%	5.88%	6.72%
Debt/Equity	0.84	0.44	0.66	0.00	1.06	1.71
Cash Flow (\$/share)	3.30	0.50	6.82	-0.14	4.59	8.43
Growth Score	D	-	-	A	D	B
Historical EPS Growth (3-5 Years)	13.93%	7.58%	9.39%	NA	6.31%	NA
Projected EPS Growth (F1/F0)	15.19%	13.23%	20.29%	123.61%	2.74%	48.17%
Current Cash Flow Growth	24.71%	-3.96%	0.74%	-74.37%	9.11%	-25.49%
Historical Cash Flow Growth (3-5 Years)	20.10%	18.76%	7.37%	NA	3.48%	55.21%
Current Ratio	2.62	1.67	1.39	0.89	0.69	1.94
Debt/Capital	45.73%	42.30%	41.55%	NA	51.53%	63.06%
Net Margin	5.30%	3.44%	11.70%	-1.29%	13.68%	6.72%
Return on Equity	15.85%	8.22%	16.07%	NA	27.90%	20.92%
Sales/Assets	1.23	1.09	0.51	5.06	0.59	0.86
Projected Sales Growth (F1/F0)	16.75%	0.07%	9.14%	25.24%	1.66%	15.32%
Momentum Score	A	-	-	C	B	B
Daily Price Change	-1.36%	0.00%	0.09%	-2.64%	0.37%	0.28%
1-Week Price Change	-5.11%	0.00%	-0.49%	0.01%	-0.43%	-2.24%
4-Week Price Change	-3.82%	0.00%	0.85%	-15.92%	3.05%	2.01%
12-Week Price Change	20.46%	-5.91%	12.34%	-33.28%	14.76%	16.31%
52-Week Price Change	59.22%	55.58%	46.29%	58.50%	5.29%	102.11%
20-Day Average Volume (Shares)	68,514	100,099	1,936,476	3,221,914	3,508,755	248,207
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.04%	0.00%
EPS F1 Estimate 4-Week Change	7.13%	5.03%	1.65%	18.38%	0.00%	12.19%
EPS F1 Estimate 12-Week Change	23.97%	3.56%	2.64%	265.41%	-1.00%	11.26%
EPS Q1 Estimate Monthly Change	-4.72%	0.00%	0.83%	33.33%	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	B
Growth Score	D
Momentum Score	A
VGM Score	C

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

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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.