

The Clorox Company (CLX)

\$190.77 (As of 04/12/21)

Price Target (6-12 Months): **\$200.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: B

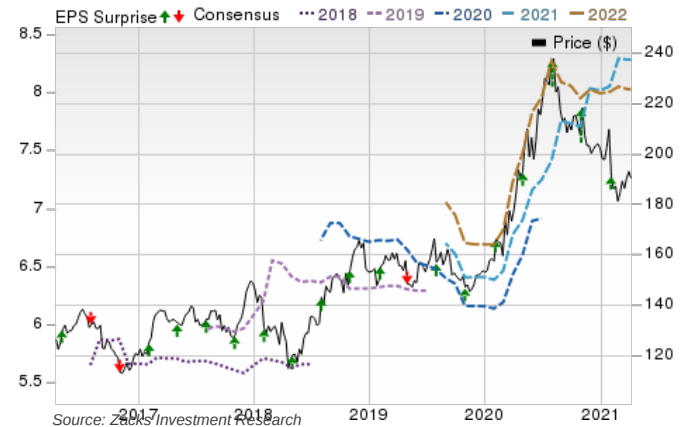
Growth: B

Momentum: A

Summary

Clorox's shares have outpaced the industry year to date on a robust surprise trend. Its top and bottom lines beat the Zacks Consensus Estimate in second-quarter fiscal 2021 and grew year over year. This marked the fifth straight quarter of earnings and sales beat for the company. Earnings benefited from higher sales and improved margins. Sales growth was backed by double-digit sales growth in the majority of the segments, fueled by strong demand for its products due to the pandemic and related shift in trends. Also, progress on its IGNITE strategy bodes well. Clorox revised its fiscal 2021 outlook based on the current trends, including strong demand for its products and aggressive investments in its portfolio. However, it anticipates higher advertising and sales promotion costs in fiscal 2021, driven by increased brand investments.

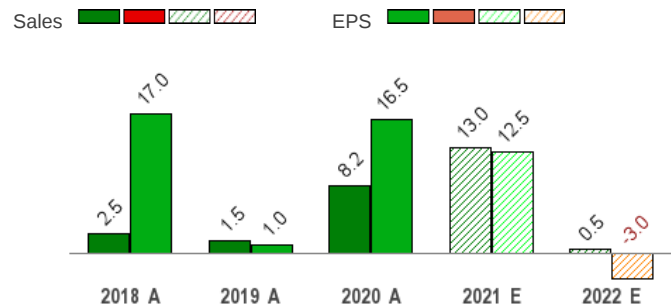
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$239.87 - \$176.73
20-Day Average Volume (Shares)	1,344,098
Market Cap	\$23.9 B
Year-To-Date Price Change	-5.8%
Beta	0.22
Dividend / Dividend Yield	\$4.44 / 2.3%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Bottom 15% (216 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.3%
Last Sales Surprise	4.3%
EPS F1 Estimate 4-Week Change	-0.1%
Expected Report Date	04/30/2021
Earnings ESP	0.0%
P/E TTM	19.9
P/E F1	23.0
PEG F1	4.2
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,851 E	1,835 E	1,924 E	1,989 E	7,632 E
2021	1,916 A	1,842 A	1,856 E	1,938 E	7,592 E
2020	1,506 A	1,449 A	1,783 A	1,983 A	6,721 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.19 E	\$1.71 E	\$1.70 E	\$1.97 E	\$8.03 E
2021	\$3.22 A	\$2.03 A	\$1.47 E	\$1.60 E	\$8.28 E
2020	\$1.59 A	\$1.46 A	\$1.89 A	\$2.41 A	\$7.36 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 04/12/2021. The report's text and the analyst-provided price target are as of 04/13/2021.

Overview

Headquartered in Oakland, CA, The Clorox Company is engaged in the production, marketing and sale of consumer products in the U.S. and international markets. The company sells its products primarily through mass merchandisers, grocery stores and other retail outlets. Clorox markets some of the most trusted and recognized brands, including its namesake bleach and cleaning products, Green Works natural cleaners and laundry products, Poett and Mistolin cleaning products, Armor All and STP auto-care products, Fresh Step and Scoop Away cat litter, Kingsford charcoal, Hidden Valley and K C Masterpiece dressings and sauces, Brita water-filtration systems, Glad bags, wraps and containers, and Burt's Bees natural personal care products. The company manufactures products in over 24 countries and markets them in more than 100 countries.

In fourth-quarter fiscal 2020, the company realigned its Cleaning segment through operational and systems integration. The segment is now called Health and Wellness. As part of the operational and system integration, the company's Digestive Health and Dietary Supplements business units were combined into a new business unit named Vitamins, Minerals and Supplements, while the Laundry and Home Care business units were combined to create the Cleaning business unit. These two newly formed business units as well as the Professional Products business unit collectively make the company's new Health and Wellness segment.

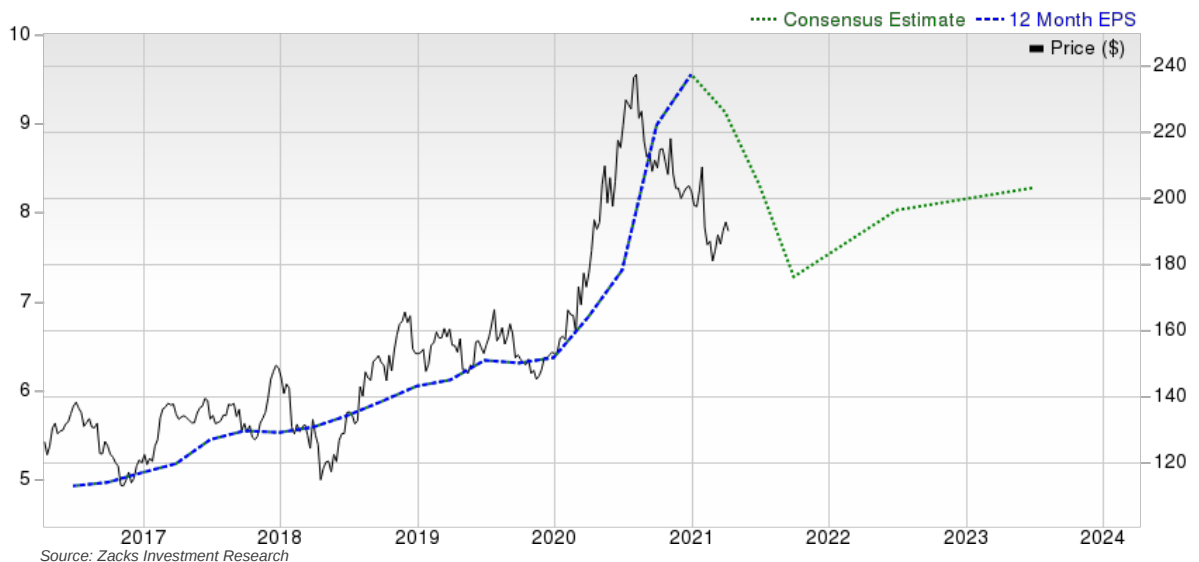
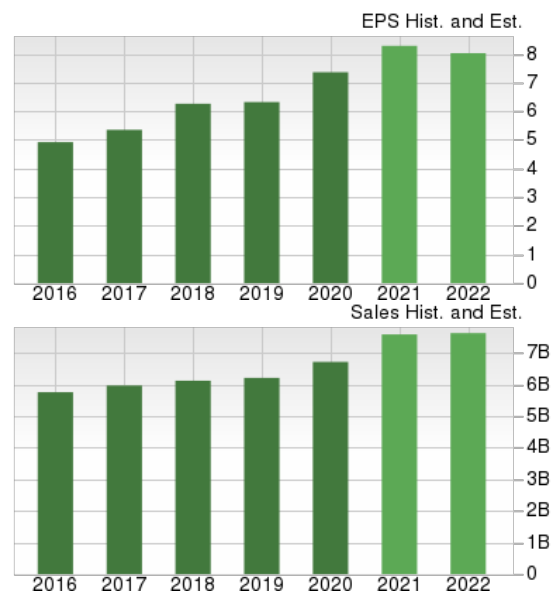
The company operates through the following business units:

Health and Wellness: This new segment represents 40.9% of fiscal 2020 Net Sales.

Household (26.7%) consists of charcoal, cat litter and plastic bags, wraps and containers, marketed and sold in the United States.

Lifestyle (17.2%) consists of food products and water-filtration systems and filters, marketed and sold in the United States, along with all natural personal care products.

International (15.2%) consists of products sold outside the United States.



Reasons To Buy:

▲ **Robust Q2 Performance, Stock Outperforms:** Although shares of Clorox have declined 5.5% year to date it fared better than the industry's 13.6% fall. The company reported better-than-expected top and bottom lines in second-quarter fiscal 2021, which marked the fifth straight quarter of surprise. Moreover, earnings and sales grew year over year. The company gained from strong consumer demand for its products, which resulted in double-digit sales growth in three of its four segments. Also, progress on the company's IGNITE strategy and robust product portfolio bode well. Adjusted earnings surged 39% year over year mainly driven by higher net sales and improved margins. Net sales growth of 27% year over year, was backed by double-digit sales growth in the majority of the segments, fueled by strong demand for its products due to the coronavirus outbreak and related shift in trends, particularly the stay-at-home trend. Organic sales increased 26% in the quarter.

Clorox's Q2 results gained from strong consumer demand for its products, which resulted in double-digit sales growth in three of its four segments. Progress on its IGNITE strategy bodes well.

▲ **Upbeat Outlook:** Clorox updated its outlook for fiscal 2021 based on the current trends, expectations of persistent strong demand for cleaning and disinfecting products globally, and aggressive investments in its global portfolio. It now envisions sales growth of 10-13% both on a reported and organic basis in fiscal 2021 compared with double-digit sales growth, on a reported basis, mentioned earlier. Further, organic sales were earlier anticipated to be up 5-9%. It now predicts sales in the second half of fiscal 2021 to remain relatively flat versus the previously mentioned decline. Driven by the strong sales projections, earnings for fiscal 2021 are now estimated to be \$8.05-\$8.25 per share, suggesting year-over-year growth of 9-12%. Earlier, the company anticipated 5-8% growth in earnings per share to \$7.7-\$7.95. It now assumes a contribution of 45-50 cents from the increased stake in its Saudi joint venture compared with a contribution of 45-53 cents mentioned earlier.

▲ **IGNITE Strategy:** Clorox is on track with the IGNITE strategy, its latest and integrated strategy, formulated on a sturdy foundation of its 2020 Strategy. This initiative mainly focuses on the expansion of the key elements under the 2020 Strategy to pace up innovation in each area of business. As a result, the company will be able to boost overall growth and reinforce competitive advantage, hence boost shareholder value. The IGNITE strategy mainly binds Clorox on four strategic areas namely, fuel growth through brand reinvestments, innovate to deliver enhanced customer experience, develop product portfolio, and re-imagine the company's operations. IGNITE's main principle is 'Innovating for Good Growth', delivering sustainable and responsible growth. IGNITE strategy encompasses the long-term financial targets of achieving net sales growth of 2-4%, EBIT margin expansion of 25-50 basis points (bps) and free cash flow generation of 11-13% of sales.

▲ **Cost Saving & Productivity Initiatives:** Clorox remains on track with its cost-saving and productivity initiatives. Backed by the IGNITE strategy, Clorox aims at higher cost savings annually by emphasizing more on technology and integrated design. With this, it expects to achieve EBIT margin expansion of 175 basis points annually. Further, the company's cost-based pricing strategy has enabled it to address the inflationary environment that has persisted for over three years. These cost-saving and pricing actions should continue to support its investment in long-term brands and category growth. In the fiscal second quarter, Clorox witnessed gross margin expansion of 130 basis points (bps), driven by gains from sturdy volume growth, cost-saving initiatives and lower trade promotion, somewhat marred by higher expenses for manufacturing and logistics. Notably, the cost-savings program has meaningfully contributed in generating year-over-year gross-margin expansion for the ninth consecutive quarter.

▲ **International Business Strength:** Clorox is witnessing strong progress in the core International business as it continues to build on the success of the segment's Go Lean strategy. These efforts will help in accelerating profitable growth for the segment. Driven by its IGNITE Strategy, which aims to improve profitability in International business, the company expects to invest selectively in profitable platforms. Furthermore, management continues to explore international opportunities, including the recent acquisition of a majority stake in its joint venture in the Kingdom of Saudi Arabia. Management believes that this acquisition is likely to boost long-term growth in the international segment. During second-quarter fiscal 2021, sales at the International segment increased 23% on increased shipments due to the ongoing strong demand for disinfecting and other household products. Notably, the company witnessed double-digit volume growth across all international regions. The segments' sales also included gains of 9 points from the Saudi joint venture acquisition, partly mitigated by 4 points of negative currency impact. Organic sales for the segment rose 18%. The company's guidance for fiscal 2021 includes a net sales gain of 1-point and 45-50 cents benefit from the Saudi joint venture acquisition.

▲ **Financial Status:** Clorox's long-term debt of \$2,483 million declined 10.7% sequentially at the end of second-quarter fiscal 2021. Its debt-to-capitalization ratio of 0.67 at the end of fiscal second quarter shows a decline from 0.75 at the end of the preceding quarter. Although the company's cash and cash equivalents of \$732 million as of Dec 31, 2020, shows a sequential decline of 15.9%, it looks sufficient to fund its short-term obligations. Further, the company generated \$629 million of net cash from continuing operations in the first half of fiscal 2021.

In addition, Clorox looks well placed on the dividend-payout front. In November, the company announced a quarterly cash dividend of \$1.11 per share which is payable on Feb 21, 2021 to its shareholders of record as of Jan 27. The company has a current annualized dividend rate of \$4.44 a share. Notably, Clorox has a dividend payout of 46.5%, dividend yield of 2.32% and free cash flow yield of 5.63%. With an annual free cash flow return on investment of 40.84%, ahead of the industry's nearly 23.94%; the dividend payment is likely to be sustainable.

Reasons To Sell:

▼ **Higher Costs to Linger:** Although Clorox continued to witness gross margin expansion in the fiscal second quarter, growth was partly marred by 420 bps impacts from higher manufacturing and logistics expenses, including pandemic-related costs. This, along with increased selling and administrative costs and advertising investments, partly hurt the bottom line. Selling and administrative expenses, increased 28.1% to \$269 million. Further, advertising and sales promotion investments of \$187 million were up 33.6% from the year-ago period reflecting stronger investments to support its targeted of accelerated long-term profitable growth. Overall advertising and sales promotion expense, as a percentage of sales was about 10%.

For fiscal 2021, gross margin is now estimated to witness a slight decline compared with the previously mentioned flat gross margin. The revised guidance stems from a rise in commodity costs as well as increased expenses for manufacturing and logistics. SG&A expenses, as a percentage of sales, are still expected to be 14% due to continued investments in long-term growth initiatives. The company expects advertising and sales promotion expenses of 11% of net sales, based on 12% growth witnessed in the second half of fiscal 2020. The higher spending mainly relates to an increase in brand investments to support its robust innovation pipeline and customer engagement efforts.

▼ **Currency Headwinds:** Clorox's significant international presence exposes it to major foreign currency risks, which have been weighing on the company's performance. Net sales for the fiscal second quarter included 1 percentage point of negative impacts of foreign currency translations. Unfavorable currency fluctuations also hurt gross margin in the reported quarter. Additionally, adverse currency effects of 4 percentage points marred sales for the International segment. The company's sales view for fiscal 2021 reflects about 1 point of negative impact from foreign exchange.

▼ **Competitive Pressure:** Clorox faces intense competition from other well-established players in the consumer products industry, such as Church & Dwight, Colgate, and Procter & Gamble on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share, and in turn, dent its top- and bottom-line performances.

For 2021, SG&A expenses, as a percentage of sales, are projected at 14% on continued investments in long-term growth initiatives. Advertising and sales promotion cost is expected at 11% of net sales.

Last Earnings Report

Clorox Q2 Earnings, Sales Top Estimates on Strong Demand

Clorox reported better-than-expected top and bottom lines in second-quarter fiscal 2021. Moreover, earnings and sales grew year over year. The company gained from strong consumer demand for its products, which resulted in double-digit sales growth in three of its four segments. Further, it is progressing well with its IGNITE strategy. The company also raised its sales view for fiscal 2021.

Adjusted earnings increased 39% year over year to \$2.03 per share, beating the Zacks Consensus Estimate of \$1.73. The upside was mainly driven by higher net sales and improved margins.

The company posted net sales of \$1,842 million, up 27% year over year, surpassing the Zacks Consensus Estimate of \$1,766 million. This was backed by double-digit sales growth in the majority of the segments, fueled by strong demand for its products due to the coronavirus outbreak and related shift in trends, particularly the stay-at-home trend. Net sales also included 1 point gain from the acquisition of the majority shares of the company's joint venture in Saudi Arabia and adverse foreign currency impact. Organic sales increased 26% in the quarter.

Gross margin expanded 130 basis points (bps) to 45.4% in the fiscal second quarter. This marked the company's ninth straight quarter of gross margin expansion. The rise in gross margin was driven by gains from sturdy volume growth, cost-saving initiatives and lower trade promotion, somewhat marred by higher expenses for manufacturing and logistics.

Segmental Discussion

Sales of the **Health and Wellness** segment rose 42% to \$817 million on double-digit growth in two of the three business units. Higher shipments of cleaning and disinfecting products across the U.S. retail and professional portfolios, owing to increased demand, were the primary growth drivers.

The **Household** segment's sales improved 20% to \$411 million, driven by growth across all business units. Particularly, the company witnessed strong double-digit growth in the Grilling and Litter businesses, owing to much stronger consumer demand.

Sales in the **Lifestyle** segment grew 9% to \$317 million on double-digit sales growth in the Food and Water Filtration businesses on higher shipments, stemming from strong consumer demand and strategic brand investments. However, the Natural Personal Care business witnessed a double-digit decline. The brand continued to face headwinds as it adapts to the new consumer habits for shopping and usage.

In the **International** segment, sales increased 23% to \$297 million from the year-ago quarter on increased shipments due to the ongoing strong demand for disinfecting and other household products. Notably, the company witnessed double-digit volume growth across all international regions. The segments' sales also included gains of 9 points from the Saudi joint venture acquisition, partly mitigated by 4 points of negative currency impact. Organic sales for the segment rose 18%.

Financials

Clorox ended the quarter with cash and cash equivalents of \$732 million and long-term debt of \$2,483 million. In the first six months of fiscal 2021, the company generated \$629 million of net cash from continuing operations.

Fiscal 2021 Guidance

Clorox updated its outlook for fiscal 2021 based on the current trends, expectations of persistent strong demand for cleaning and disinfecting products globally, and aggressive investments in its global portfolio. It now envisions sales growth of 10-13% both on a reported and organic basis in fiscal 2021 compared with double-digit sales growth, on a reported basis, mentioned earlier. Further, organic sales were earlier anticipated to be up 5-9%. It now predicts sales in the second half of fiscal 2021 to remain relatively flat versus the previously mentioned decline. However, the sales projection for the second half of fiscal 2021 compares with 19% growth witnessed in the second half of fiscal 2020. The sales guidance also assumes a 1-point currency headwind and a 1-point gain from its Saudi joint venture acquisition.

Gross margin for fiscal 2021 is now estimated to witness a slight decline compared with the previously mentioned flat gross margin. The revised guidance stems from a rise in commodity costs as well as increased expenses for manufacturing and logistics. SG&A expenses, as a percentage of sales, are still expected to be 14% due to continued investments in long-term growth initiatives. The company expects advertising and sales promotion expenses of 11% of net sales, based on 12% growth witnessed in the second half of fiscal 2020. The higher spending mainly relates to an increase in brand investments to support its robust innovation pipeline and customer engagement efforts. Effective tax rate is anticipated to be 21-22%.

Driven by the strong sales projections, earnings for fiscal 2021 are now estimated to be \$8.05-\$8.25 per share, suggesting year-over-year growth of 9-12%. Earlier, the company anticipated 5-8% growth in earnings per share to \$7.7-\$7.95. It now assumes a contribution of 45-50 cents from the increased stake in its Saudi joint venture compared with a contribution of 45-53 cents mentioned earlier.

Quarter Ending	12/2020
Report Date	Feb 04, 2021
Sales Surprise	4.30%
EPS Surprise	17.34%
Quarterly EPS	2.03
Annual EPS (TTM)	9.55

Recent News

Clorox Announces Quarterly Dividend – Feb 9, 2021

Clorox's board approved a quarterly dividend of \$1.11 per share which is payable on May 7, 2021 to its shareholders of record as of Apr 21, 2021.

Valuation

Clorox shares are down 5.5% in the year-to-date period and nearly 1.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 13.6% but the Zacks Consumer Staples sector is up 2.8% in the year-to-date period. Over the past year, the Zacks sub-industry is down 1% but the sector is up 19.9%.

The S&P 500 index is up 10.6% in the year-to-date period and 48.2% in the past year.

The stock is currently trading at 23.61X forward 12-month earnings, which compares to 22.04X for the Zacks sub-industry, 20.42X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.15X and as low as 18.27X, with a 5-year median of 23.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$200 price target reflects 24.75X forward 12-month earnings.

The table below shows summary valuation data for CLX

Valuation Multiples - CLX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.3	21.34	19.91	22.23
	5-Year High	32.15	25.08	22.4	23.8
	5-Year Low	18.27	17.53	16.5	15.3
	5-Year Median	23.94	21.93	19.48	17.9
P/S F12M	Current	3.13	3.27	10.54	4.5
	5-Year High	4.36	3.54	11.95	4.5
	5-Year Low	2.34	2.34	8.58	3.21
	5-Year Median	2.96	2.79	10.45	3.69
EV/EBITDA TTM	Current	14.88	13.15	42.88	17.26
	5-Year High	21.95	15.77	46.53	17.55
	5-Year Low	12.73	10.19	28.1	9.62
	5-Year Median	15.84	12.19	39.95	13.32

As of 03/10/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (216 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Church & Dwight Co., Inc. (CHD)	Neutral	3
ColgatePalmolive Company (CL)	Neutral	4
The Hain Celestial Group, Inc. (HAIN)	Neutral	3
Henkel AG & Co. (HENKY)	Neutral	4
KimberlyClark Corporation (KMB)	Neutral	3
Procter & Gamble Company The (PG)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	2
Unilever PLC (UL)	Neutral	3

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

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CLX	X Industry	S&P 500	CHD	CL	KMB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	C	B	B
Market Cap	23.92 B	55.27 B	29.81 B	21.27 B	67.62 B	46.20 B
# of Analysts	6	6.5	12	10	7	5
Dividend Yield	2.34%	1.84%	1.33%	1.16%	2.21%	3.34%
Value Score	B	-	-	C	B	B
Cash/Price	0.03	0.03	0.06	0.01	0.01	0.01
EV/EBITDA	17.59	17.10	16.97	18.83	17.10	13.56
PEG F1	4.22	3.58	2.38	3.58	4.03	3.49
P/B	17.33	6.33	4.01	7.14	62.11	53.22
P/CF	21.52	17.18	17.10	24.06	21.66	13.47
P/E F1	23.04	22.96	22.05	28.61	24.21	17.47
P/S TTM	3.18	4.11	3.42	4.34	4.11	2.41
Earnings Yield	4.35%	4.35%	4.47%	3.49%	4.14%	5.72%
Debt/Equity	1.80	0.54	0.66	0.60	6.66	9.07
Cash Flow (\$/share)	8.87	3.67	6.78	3.63	3.70	10.19
Growth Score	B	-	-	D	B	B
Historical EPS Growth (3-5 Years)	11.79%	11.79%	9.34%	12.86%	1.26%	6.11%
Projected EPS Growth (F1/F0)	12.52%	7.85%	15.26%	7.21%	7.70%	1.09%
Current Cash Flow Growth	11.90%	9.55%	0.61%	12.83%	7.20%	4.52%
Historical Cash Flow Growth (3-5 Years)	7.62%	8.31%	7.37%	11.02%	1.09%	3.84%
Current Ratio	1.21	0.90	1.39	0.80	0.99	0.80
Debt/Capital	64.28%	34.59%	41.26%	37.50%	86.95%	90.07%
Net Margin	16.28%	16.36%	10.59%	16.05%	16.36%	12.29%
Return on Equity	114.11%	31.43%	14.86%	23.72%	324.36%	533.67%
Sales/Assets	1.17	1.07	0.51	0.68	1.07	1.16
Projected Sales Growth (F1/F0)	12.96%	5.88%	7.37%	5.02%	6.11%	4.90%
Momentum Score	A	-	-	B	B	C
Daily Price Change	0.34%	0.40%	0.24%	0.71%	0.48%	0.40%
1-Week Price Change	-1.40%	1.04%	1.54%	0.30%	1.57%	-0.21%
4-Week Price Change	1.23%	5.15%	2.84%	5.44%	5.92%	2.22%
12-Week Price Change	-3.42%	1.59%	10.11%	2.55%	-2.10%	4.52%
52-Week Price Change	2.86%	18.08%	55.81%	28.35%	15.35%	3.41%
20-Day Average Volume (Shares)	1,344,098	1,646,652	1,992,726	1,646,652	4,694,293	2,301,289
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.10%	0.00%	0.00%	0.00%	0.00%	-0.84%
EPS F1 Estimate 12-Week Change	3.21%	1.10%	2.05%	-0.20%	1.10%	-0.48%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.12%

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	B
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.

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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