

Chipotle Mexican Grill (CMG)

\$1,426.50 (As of 05/05/21)

Price Target (6-12 Months): **\$1,498.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

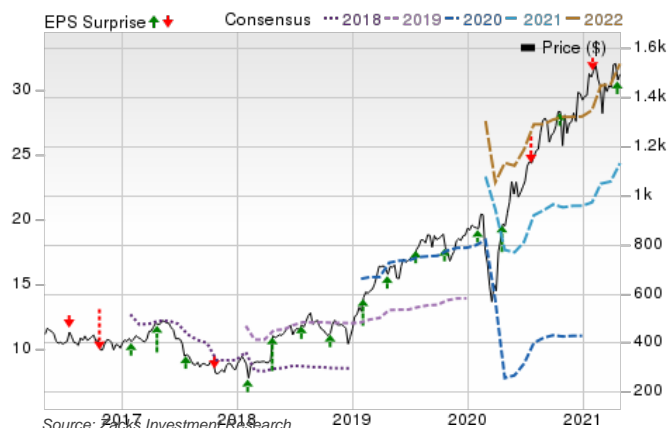
Growth: A

Momentum: A

Summary

Shares of Chipotle have outperformed the industry in the past six months. Also, earnings estimates for 2021 have increased in the past 60 days, depicting analysts optimism regarding the stocks growth potential. Notably, digitalization played a crucial role in sustaining growth for restaurant operators amid the coronavirus crisis. Moreover, initiatives like redesigned online ordering site, online payment for catering, meal customizations as well as collaboration with third-party providers for delivery bode well. However, the pandemic is likely to dent traffic and sales in the coming quarters. Given the volatility and uncertainty regarding the coronavirus impact, it has not provided its comparable restaurant sales growth guidance for 2021. Also rise in other operating expenses remains a concern.

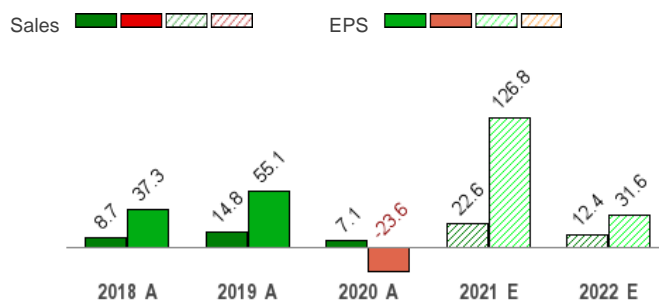
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$1,579.52 - \$867.00
20-Day Average Volume (Shares)	280,659
Market Cap	\$40.2 B
Year-To-Date Price Change	2.9%
Beta	1.35
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 38% (97 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	-0.3%
EPS F1 Estimate 4-Week Change	6.1%
Expected Report Date	07/28/2021
Earnings ESP	-0.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,942 E	2,103 E	2,068 E	2,115 E	8,248 E
2021	1,742 A	1,873 E	1,843 E	1,875 E	7,340 E
2020	1,411 A	1,365 A	1,601 A	1,608 A	5,985 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$7.22 E	\$8.84 E	\$8.33 E	\$8.43 E	\$32.04 E
2021	\$5.36 A	\$6.36 E	\$6.20 E	\$6.30 E	\$24.34 E
2020	\$3.08 A	\$0.40 A	\$3.76 A	\$3.48 A	\$10.73 A

*Quarterly figures may not add up to annual.

P/E TTM	109.7
P/E F1	58.6
PEG F1	3.1
P/S TTM	6.4

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 05/05/2021. The report's text and the analyst-provided price target are as of 05/06/2021.

Overview

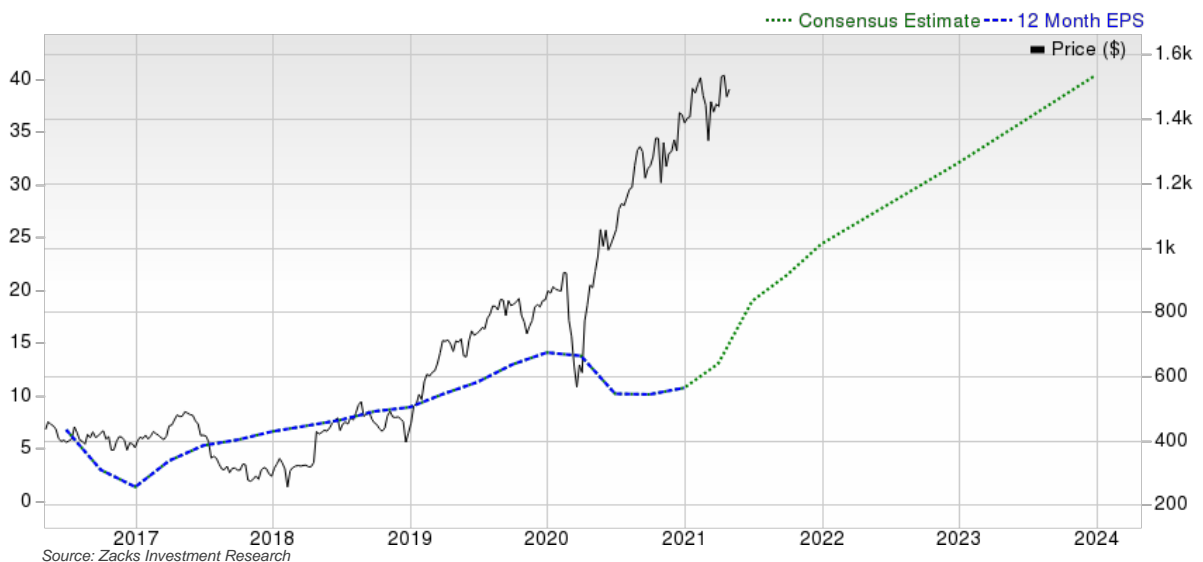
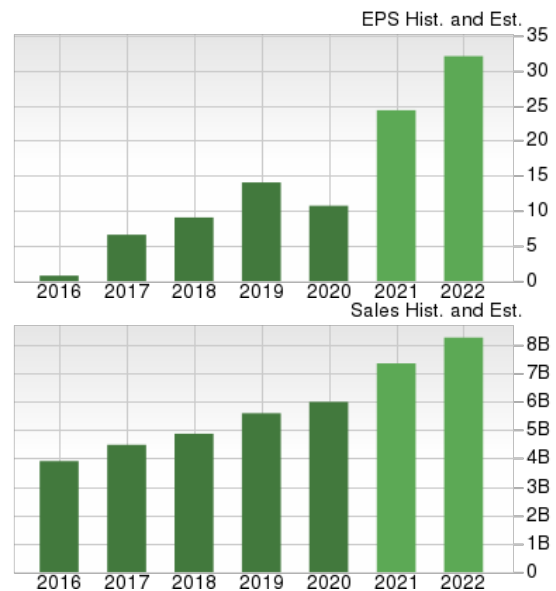
A Delaware corporation, Chipotle Mexican Grill, together with its subsidiaries operates quick-casual and fresh Mexican food restaurant chains. The company was founded in 1993 by Steve Eells who started with a single restaurant in Denver, CO. The company offers a focused menu of burritos, tacos, burrito bowls (a burrito without the tortilla) and salads. Chipotle restaurants feature free-range, hormone-free pork, natural chicken and other meat products cooked through traditional methods and served in a unique atmosphere. Chipotle classifies its restaurants as end-caps (at the end of a line of retail chains), in-lines (in a line of retail chains), free-standing units and others.

Chipotle, being one of the most recognized fast-casual Mexican restaurant chains in the United States, had a good share of negative publicity throughout 2016 due to an issue of food-borne illnesses that surfaced toward 2015-end. As a safety measure, the company was forced to close several outlets. In order to chalk out a viable business strategy, Chipotle discarded its former co-CEO model and appointed former Yum! Brands' executive Brian Niccol as the CEO.

The company is committed to using high-quality real ingredients, classic cooking techniques and distinctive interior design to serve customers. As of Mar 31, 2020, the company operated more than 2,750 restaurants across the United States, Canada, the U.K., France and Germany.

Chipotle's marketing strategy shifted from a promotion driven decentralized approach in 2017 to a more central model designed to generate higher consumer awareness and attract guests. The company utilizes a multiple marketing channels, including national television, digital marketing, social media, fundraising, events and sponsorships to reach consumers. Delivery services are mostly made by third party service providers.

In 2018, Chipotle launched a loyalty program called Chipotle Rewards, which provides customers with the opportunity to earn bonus points or free food. Earned rewards generally expire one to six months after they are issued, and points generally expire if an account is inactive for a period of six months.



Reasons To Buy:

- ▲ **Increased Focus on Food and Environment Safety:** As a part of its revival strategy, Chipotle fulfilled its pledge of using no added colors, flavors or preservatives of any kind in any of its ingredients. In fact, Chipotle has long been a pioneer in serving superior quality ingredients including the use of local and organically grown produce, dairy from cows raised on pasture, and meat from animals raised without hormones or antibiotics. Over the past few years, the company has strengthened many of its food-safety initiatives. These include wellness checks before every shift, availability of trained nurses to evaluate employee's health on the job and installation of advanced technology air purification systems to reduce the risk of viruses. It is also offering improved internal training and education as well as a third-party consultant to perform regular inspections of all restaurants. The company has also taken noteworthy steps to reduce the amount of food and packaging waste to be disposed of in landfills. As announced, Chipotle is implementing practices like minimal food waste disposal during the preparation process, recycling and compost programs for food packages, use of reusable lids replacing plastic wraps, and participation in the Harvest Program to donate leftover food to local communities. For ensuring food safety, the company introduced a crew bonus program, which will pay its employees a bonus amount if they achieve their desired goal in food safety. Further, the company recently introduced the Debt-Free Degrees program in addition to its newly expanded tuition reimbursement program to develop a better restaurant culture.
- ▲ **Strengthening Digital Capabilities:** Chipotle is focusing on expanding digital program to drive growth during the coronavirus pandemic. In order to drive digital sales and retain customers amid the coronavirus crisis, the company is leaving no stone unturned to make digital ordering more appealing to customers and more efficient for its restaurants. In this regard, Chipotle has redesigned and simplified its online ordering site, enabled online payment for catering, online meal customizations and collaborated with several well-known third-party providers for delivery. Also, there has been a significant increase in digital orders and guest satisfaction since the rollout of its "Smarter Pickup Times" technology. Meanwhile, the company is advancing with its plans to enhance delivery system. Another initiative that has been benefiting the company is its rewards program. It has more than 21 million enrolled members. The company has increased focus on digitalization due to the coronavirus pandemic. It is increasing digital awareness via advertising. Moreover, partnerships with Uber Eats and Grubhub are attracting new customers. The company has also expanded digital capabilities into Canada. Moreover, collaboration with all the major third-party delivery aggregators has increased orders. In order to boost convenience in the digital ordering platform, the company has also initiated features such as unlimited customization, contactless delivery and group ordering. During first-quarter 2021, the company initiated investment in Nuro for the expansion of its delivery services in Europe. Notably, the idea of using robotics-based autonomous vehicles for delivery purposes is likely to enhance customer experience in the upcoming periods. Meanwhile, digital sales during the quarter surged 133.9% year over year to \$869.8 million during the first-quarter 2021. Notably, Digital sales contributed 50.1% to sales during the quarter. Notably, the company witnessed a rise in order ahead transactions, owing to enhanced guest access and convenience. This along with Chipotlanes additions drove the company's performance.
- ▲ **Chipotlane a Driving Factor:** During the first quarter 2021, Chipotle opened 40 new restaurants, out of which 26 had Chipotlane in it. Compared with non-Chipotlane restaurants, the digital gap (with Chipotlanes) were 15% higher during the quarter. The upside was primarily driven by higher-margin digital pickup orders. Markedly, the addition of Chipotlanes enhanced customer access and convenience as well as boosted new store restaurant sales, margins and returns. For 2021, the company expects more than 70% of its new openings to have a Chipotlane in it.
- ▲ **Solid Comps:** Impressive comps performance continues to drive growth. Despite the pandemic, the company reported comps growth for the third straight quarter. Comps in the first quarter increased 17.2%, following growth of 5.7% in the fourth quarter of 2020. Notably, reopening of dining rooms, introduction of new menu items, effective marketing strategies and strong digital sales contributed to the company's results. Going forward, the company anticipates comps in the range of the high 20% to 30%, for the second quarter 2021. Notably, it expects lower marketing investments and normalizing of quesadilla incidents for the upcoming quarter.
- ▲ **Various Initiatives to Spur Growth:** Chipotle is working on strengthening its brand and recovering sales by shifting its strategy from giveaways, discounts and rewards to new menu items, operational excellence, enhancement of guest experience, technology-driven convenience, and more aggressive brand marketing. Additionally, Chipotle has been working on a new pipeline for its menu offerings. In January 2021, the company launched Cauliflower rice that resonated well with consumers. During the first quarter, the company also launched quesadillas across the United States and Canada as an exclusive digital offering. Also, it is witnessing strong recall for carne asada. The company stated that it has several new products in the pipeline that are in the early-stages of consumer testing. The introduction of new items, solid marketing activities that include a combination of brand-building efforts as well as transaction-driving promotions and advertising are likely to lead to steady inflow of new customers. Moreover, the company is likely to emphasize on Tractor beverages, which is subject to normalization of the pandemic scenario. Nonetheless, increased focus on stage gate process, leveraging digital programs to expand access and convenience, frequent customer interaction through loyalty program, and menu innovation, unit expansion and operational excellence are likely to benefit the company going forward. Notably, these factors will help customers to resonate more with the company.
- ▲ **Enough Liquidity to Tide Over Pandemic:** Chipotle has a strong balance sheet, which will help the company to navigate the current scenario. As of Mar 31, 2020, the company reported \$1.2 billion in cash, restricted cash and short-term investments, compared with \$1.1 billion in the previous quarter. Notably, the amount represents sufficient liquidity to cover short term obligations of \$209.1 million (as of Mar 31, 2021). Moreover, it has access to \$500 million credit facility to help it navigate through the crisis. At the end of the first quarter, the company stated that it has no debt, thereby maintaining strong financial position.

Chipotle's increased focus on food safety and enhancing customer experience, along with various sales-building and strategic initiatives bode well.

Reasons To Sell:

- ▼ **Coronavirus Hurt Results:** Chipotle results in the coming quarters are likely to be impacted by the coronavirus outbreak. The restaurant industry has been facing declining traffic for quite some time now. We believe the coronavirus outbreak will continue to hurt traffic and sales in the coming quarter. Although majority of dining services are open, traffic is still low compared with pre-pandemic levels. Given the volatility and uncertainty regarding the coronavirus impact, it has not provided its comparable restaurant sales growth guidance for 2021. Nonetheless, the company is adhering to all guidelines provided by the CDC, FDA, state and local agencies to ensure safety of employees and guests. The steps include increased sanitization of high-touch, dense-traffic areas, providing masks to employees and a tamper-evident packaging seal.
- ▼ **Cost Issues Keeping Profits Under Pressure:** Chipotle's continued efforts to connect with customers in order to regain their trust and loyalty, and bring them back to its stores on the back of high marketing and promo expenses have been hurting profitability. Moreover, costs to support the company's newly designed food safety program can weigh on the company's margins. Also, implementation of food safety practices has increased the amount of labor required to prepare and serve food, resulting in higher labor costs that may continue to keep profits under pressure. During the first quarter, other operating expenses moved up 16.9% year over year, owing to a surge in delivery fees.
- ▼ **Valuation Looks Stretched:** Chipotle's valuation looks a bit stretched compared with its industry average. Looking at the company's forward 12-month price-to-earnings (P/E) ratio, which is one of the most commonly used valuation ratios and is best suited for evaluating restaurants, investors might not want to pay any further premium. It currently has a forward 12-month P/E ratio of 52.84. So, the stock is relatively overvalued right now compared with its peers as the industry's average P/E is currently at 29.51.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Chipotle operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

High costs associated with U.S. restaurant space and the coronavirus outbreak remains potent headwinds.

Last Earnings Report

Chipotle Q1 Earnings Beat Estimates, Increase Y/Y

Chipotle reported first-quarter 2021 results, with earnings surpassing the Zacks Consensus Estimate and revenues missing the same. However, the top and the bottom line increased on a year-over-year basis.

Following the announcement, Brian Niccol, chairman and CEO, Chipotle, stated, "Chipotle is off to a great start in 2021 thanks to our employees and their incredible level of collaboration and tireless dedication. As vaccines roll out and we get closer to moving past this pandemic, I believe Chipotle is well positioned for growth."

Quarter Ending 03/2021

Report Date	Apr 21, 2021
Sales Surprise	-0.27%
EPS Surprise	8.94%
Quarterly EPS	5.36
Annual EPS (TTM)	13.00

Q1 Earnings & Revenues Discussion

During the first-quarter 2021, adjusted earnings of \$5.36 per share beat the Zacks Consensus Estimate of \$4.92 by 8.9%. Moreover, the bottom line surged 74% from \$3.08 reported in the year-ago quarter.

Meanwhile quarterly revenues of \$1,741.6 million missed the consensus mark of \$1,746 million by 0.3%. Nevertheless, the top line increased 23.4% on a year-over-year basis. The upside can be primarily attributed to strength in digital sales, rise in delivery menu price along with new restaurant openings. In the quarter under review, Chipotle opened 40 new restaurants and closed five, taking the total restaurant count to 2,803.

Digital sales surged 133.9% year over year to \$869.8 million during the first-quarter 2021. Notably, Digital sales contributed 50.1% to sales during the quarter. Notably, the company witnessed a rise in order ahead transactions, owing to enhanced guest access and convenience. This along with Chipotlanes add-ons drove the company's performance.

Comps in the first quarter increased 17.2%, following growth of 5.7% in the fourth quarter of 2020. Notably, introduction of new menu items, effective marketing, strong digital sales and government stimulus funding contributed to the company's results.

Costs, Operating Highlights & Net Income

During first-quarter 2021, food, beverage and packaging costs, as a percentage of revenues, declined 280 basis points (bps) year over year to 30%. The upside can be attributed to increase in menu prices, favorable usage of protein mix and better waste control management. However, this was partially offset by fewer sales of high margin beverages along with a rise in cauliflower rice costs.

During the first quarter, restaurant-level operating margin came in at 22.3%, up from 17.6% recorded in the year-ago quarter. The uptick was primarily backed by leverage from the comparable restaurant sales growth as well as rise in menu prices. However, this was partially offset by increased delivery expenses and wage inflation.

Adjusted net income in the reported quarter amounted to \$153.1 million compared with \$87.2 million in the prior-year quarter.

Balance Sheet

A strong balance sheet will help the company tide over the coronavirus-induced crisis. The company had \$1.2 billion in cash, restricted cash and short-term investments as of Mar 31. The company doesn't have any debt.

Moreover, the company has access to \$500 million credit facility to help it navigate through the crisis.

Inventory totaled \$24.3 million as of Mar 31, 2021, down from \$26.4 million as of Dec 31, 2020. Goodwill (as a percentage of total assets) came in at 0.4% at the end of first-quarter 2021.

Meanwhile, the board of directors have resumed the buyback program in late February and have repurchased \$61.2 million of stock at an average price of \$1,425. Further, the management has also approved an additional \$100 million (exclusive of commissions) to repurchase shares. As of Mar 31, the company had approximately \$153.8 million available for the buyback program.

2021 Outlook

For the second quarter 2021, the company expects comps in the range of high twenties to 30%. Notably, it expects normalizing of quesadilla incidence as well as lower marketing investments. Owing to the volatility and uncertainty regarding the coronavirus impact, the company did not provide its comparable restaurant sales growth guidance for 2021.

Meanwhile, the company expects to open nearly 200 new restaurants in 2021. However, the new openings might face minimal construction and permit delays owing to the pandemic. Also, it expects 2021 tax rate in the range of 25-27%.

Valuation

Chipotle's shares are up 2.8% in the year-to-date period and 58.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 10.1%, but the Zacks Retail-Wholesale sector are down by 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry was up by 41.6%, while sector was up by 33.1%.

The S&P 500 index is up 11.7% in the year-to-date period and 47% in the past year.

The stock is currently trading at 52.84X forward 12-month earnings, which compares to 29.51X for the Zacks sub-industry, 31.2X for the Zacks sector and 22.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 206.3x and as low as 23.8x, with a 5-year median of 47.67x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1,498 price target reflects 55.5x forward 12-month earnings.

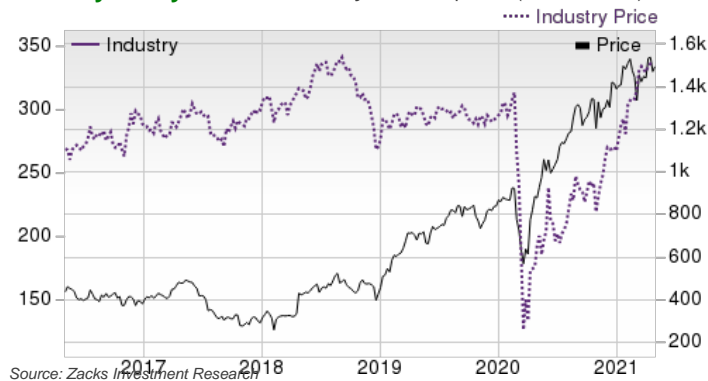
The table below shows summary valuation data for CMG.

Valuation Multiples - CMG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	52.84	29.51	31.2	22.06
	5-Year High	206.3	34.23	34.1	23.83
	5-Year Low	23.8	20.37	19.13	15.3
	5-Year Median	47.67	23.1	23.87	18.01
P/S F12M	Current	5.25	4.26	1.39	4.71
	5-Year High	6.01	4.26	1.39	4.71
	5-Year Low	1.44	2.81	0.84	3.21
	5-Year Median	2.78	3.39	1.02	3.71
EV/EBITDA TTM	Current	66.47	25.81	19.65	16.34
	5-Year High	88.78	26	20.84	17.7
	5-Year Low	14.76	10.66	11.18	9.61
	5-Year Median	33.49	14.63	13.38	13.38

As of 05/05/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Bloomin Brands, Inc. (BLMN)	Outperform	1
Darden Restaurants, Inc. (DRI)	Outperform	1
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	4
Dominos Pizza Inc (DPZ)	Neutral	3
Brinker International, Inc. (EAT)	Neutral	3
Restaurant Brands International Inc. (QSR)	Neutral	3
Yum Brands, Inc. (YUM)	Neutral	2

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	CMG	X Industry	S&P 500	BLMN	QSR	YUM
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	2
VGM Score	B	-	-	B	C	B
Market Cap	40.16 B	936.28 M	30.33 B	2.69 B	21.21 B	36.16 B
# of Analysts	17	6	12	7	11	10
Dividend Yield	0.00%	0.00%	1.27%	0.00%	3.07%	1.65%
Value Score	D	-	-	C	C	F
Cash/Price	0.03	0.07	0.06	0.04	0.07	0.02
EV/EBITDA	73.45	14.61	17.38	97.35	21.02	26.81
PEG F1	3.05	3.20	2.28	6.42	2.10	2.45
P/B	19.15	4.56	4.11	59.20	5.30	NA
P/CF	73.44	23.86	17.76	17.58	18.11	28.99
P/E F1	58.61	35.88	22.08	16.06	26.29	29.35
P/S TTM	6.36	1.92	3.49	0.85	4.24	6.15
Earnings Yield	1.71%	2.37%	4.47%	6.22%	3.80%	3.41%
Debt/Equity	0.00	0.36	0.66	20.96	3.17	-1.29
Cash Flow (\$/share)	19.42	0.76	6.78	1.72	3.81	4.18
Growth Score	A	-	-	A	D	A
Historical EPS Growth (3-5 Years)	36.72%	-4.17%	9.70%	2.05%	10.42%	1.75%
Projected EPS Growth (F1/F0)	126.82%	70.17%	18.79%	372.88%	29.29%	13.95%
Current Cash Flow Growth	-10.96%	-45.12%	0.61%	-58.64%	-21.84%	3.17%
Historical Cash Flow Growth (3-5 Years)	-2.15%	-2.17%	7.37%	-17.05%	9.34%	-6.13%
Current Ratio	1.75	1.01	1.39	0.29	1.48	0.98
Debt/Capital	0.00%	46.50%	41.55%	95.45%	76.04%	NA
Net Margin	6.44%	-1.84%	11.70%	-1.75%	10.41%	19.52%
Return on Equity	19.45%	-13.65%	15.89%	-17.90%	25.25%	-15.62%
Sales/Assets	1.09	0.76	0.51	0.94	0.22	0.98
Projected Sales Growth (F1/F0)	22.64%	9.32%	8.55%	27.95%	14.78%	12.75%
Momentum Score	A	-	-	A	B	B
Daily Price Change	-1.62%	-0.48%	0.18%	-2.07%	-1.22%	1.44%
1-Week Price Change	1.60%	1.60%	0.07%	12.10%	3.56%	1.53%
4-Week Price Change	-4.90%	1.04%	3.65%	9.09%	3.68%	6.17%
12-Week Price Change	-7.65%	10.27%	11.89%	27.88%	14.86%	15.52%
52-Week Price Change	64.53%	95.65%	56.64%	215.22%	41.07%	45.59%
20-Day Average Volume (Shares)	280,659	231,898	1,795,059	1,713,979	1,164,421	1,327,034
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	56.53%	0.98%	1.28%
EPS F1 Estimate 4-Week Change	6.06%	3.27%	0.97%	70.28%	-0.32%	5.93%
EPS F1 Estimate 12-Week Change	8.08%	4.64%	2.39%	111.22%	-4.59%	6.41%
EPS Q1 Estimate Monthly Change	6.91%	2.40%	0.72%	234.14%	-2.07%	4.67%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	A
Momentum Score	A
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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