Coupa Software (COUP)

$335.96 (As of 12/16/20)

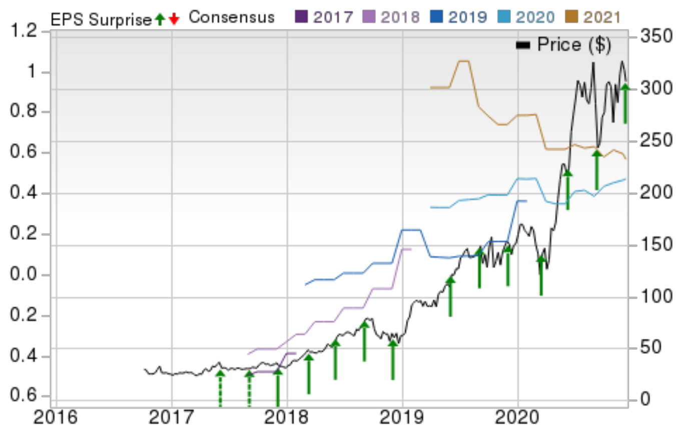
Price Target (6-12 Months): **$290.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/26/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: F | Growth: B	**4-Sell** VGM:D Momentum: F

Summary

Coupa Software's third-quarter fiscal 2021 revenues benefited from strength in its Business Spend Management (BSM) and Coupa Pay solutions as companies strive to optimize budgets to survive economic downturn. Nevertheless, sluggish spend across small and medium sized business (SMB) due to coronavirus-triggered macroeconomic weakness remains a concern and is likely to impede growth at least in the near term. Furthermore, COVID-19 crisis induced lower spend on travel is likely to affect adoption of Coupa Travel Sabre. Also, stiff competition in the Peer-to-Peer Lending (P2P) market from SAP Ariba and Oracle's Procurement Cloud solutions is a persistent woe. Moreover, integration risks from buyouts are likely to weigh on Coupa Software's performance. Notably, shares of the company have outperformed the industry on a year-to-date basis.

Price, Consensus & Surprise

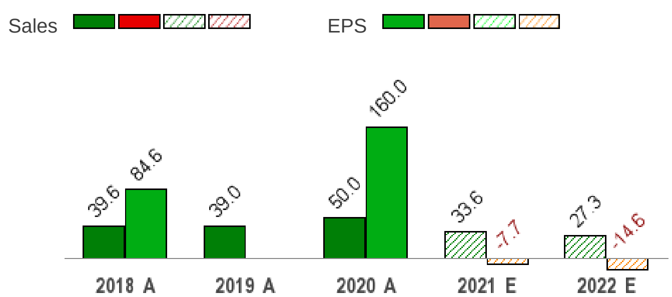


Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$353.55 - $99.01**
20-Day Average Volume (Shares)	**1,192,571**
Market Cap	**$24.2 B**
Year-To-Date Price Change	**129.7%**
Beta	**1.54**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Internet - Software**
Zacks Industry Rank	**Bottom 30% (179 out of 255)**
Last EPS Surprise	**350.0%**
Last Sales Surprise	**7.4%**
EPS F1 Estimate 4-Week Change	**-5.2%**
Expected Report Date	**03/15/2021**
Earnings ESP	**-19.3%**
P/E TTM	**420.0**
P/E F1	**699.9**
PEG F1	**25.4**
P/S TTM	**49.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	146 E	158 E	168 E	183 E	663 E
2021	119 A	126 A	133 A	146 E	521 E
2020	81 A	95 A	102 A	111 A	390 A

EPS Estimates

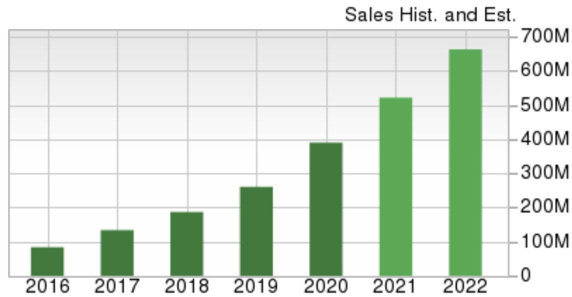
	Q1	Q2	Q3	Q4	Annual*
2022	-$0.03 E	$0.06 E	$0.16 E	$0.23 E	$0.41 E
2021	$0.20 A	$0.21 A	$0.18 A	-$0.10 E	$0.48 E
2020	$0.03 A	$0.07 A	$0.20 A	$0.21 A	$0.52 A

*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 12/16/2020. The reports text is as of 12/17/2020.

Overview

Founded in 2006 and headquartered in San Mateo, CA, Coupa Software is one of the leading providers of Business Spend Management (BSM) solutions. The company is evolving its cloud-based platform on the back of continuous product innovations to offer customers increased spend visibility, aid in mitigating supply chain risk, and increase business agility to adapt to change in spending trends.



The company's BSM platform unifies all business spend — from sourcing to contracts and invoicing to payments, thereby enabling enterprises to be more resilient and ultimately spend smarter.

Coupa Software is the pioneer of procure-to-pay solutions. The company's procurement module aids customers to determine spend policies, and streamline purchase requisition and purchase order processes. Businesses can track and manage purchases in real-time, and reduce time and cost with purchase orders being automatically sent to suppliers for fulfillment and invoicing.

The company's invoicing module aids suppliers to create electronic invoices that comply with government regulations allowing businesses to eliminate paper and further reduce invoice processing costs, all while reducing invoice payment fraud risk.

Expense management module with innovative mobile capabilities such as GPS and geo-location aids customers to gain real-time expense visibility. Coupa Software also offers additional travel management capabilities, including travel price assurance to help companies capture savings from flight and hotel price decreases that occur after the booking has been placed.

Meanwhile, the company's Coupa Pay is a set of solutions that help customers consolidate and optimize their processes to manage working capital and make payments to suppliers and contractors, and employees for travel & expense reimbursements.

Coupa Software became a public company in October 2016. The company's customer base comprises around 1,390 organizations. The company reported revenues of $389.7 million in fiscal 2020.

Subscription revenues amounted to 88.6% of total revenues, while Professional services & other contributed the remaining 11.4%.

Coupa Software faces significant competition from SAP's Ariba, Fieldglass and Concur solutions, and Oracle's Procurement Cloud offerings.

Source: Zacks Investment Research

Reasons To Sell:

Stiff competition in P2P market, business uncertainty induced by coronavirus crisis, and integration risks from buyouts are likely to weigh on Coupa Software's financial performance.

- Coupa Software faces intensifying competition in the Peer to Peer Lending (P2P) market from SAP Ariba and Oracle's Procurement Cloud offerings. Moreover, SAP's Fieldglass and Concur offerings challenge the company's competitive position in the expense management domain. New entrants are likely to pose a threat to the company's market share. This might compel the company to resort to competitive pricing to maintain and capture further market share. Moreover, lack of big-shot international customers remains a concern. We note that revenues from customers outside the United States were 36.3% in fiscal 2020. The company doesn't have significant presence in the Asia-Pacific market, which is gaining momentum for P2P offerings. This is a headwind in our view.

- Moreover, reduced spend across small and medium sized business (SMB) owing to COVID-19 led macroeconomic weakness is likely to limit growth. Also, coronavirus crisis led lower spend on travel is likely to affect adoption of Coupa Travel Sabre, formerly known as Yapta, which in turn, is likely to limit revenue growth. Markedly, during fourth-quarter fiscal 2020, Coupa Software acquired Seattle-based Yapta, with an aim to strengthen Coupa BSM Platform's Travel and Expense offering with travel price optimization capabilities and offer travel savings to businesses in real-time. Notably, in fiscal third-quarter earnings conference, management stated that it anticipates no contribution from the Yapta acquisition in fourth-quarter fiscal 2021. However, it was previously envisioned to contribute $20 million in billings and revenues in fiscal 2021.

- Further, Coupa Software has been incurring operating losses since inception and has an accumulated deficit of $464.4 million as of Oct 31, 2020. The company does not expect to generate profit soon thanks to continuing investments on research & development and sales & marketing. Despite the increasing top line, mounting losses do not augur well for investor confidence in our view.

- Moreover, frequent acquisitions have escalated integration risks for Coupa Software. We note that the frequent buyouts negatively impacted its balance sheet in the form of high level of goodwill and intangible assets, which accounted for $690 million or 30% of the total assets as of Oct 31, 2020. Buyouts also raise Coupa Software's debt burden, which increases the risk profile of the business. As of Oct 31, the company's net debt was $126 million compared with net debt of $116 million as of Jul 31, 2020. Moreover, total debt to total capital of 78.2% is higher than the prior quarter's figure of 77.3%. Consequently, the company is required to constantly generate adequate amount of cash flows to meet debt requirements.

- The company is trading at premium in terms of Price/Book (P/B). Coupa Software currently has a trailing 12-month P/B ratio of 56.01X, which compares unfavorably with some extent with what the industry witnessed over the last year. Additionally, the ratio is higher than the average level of 35.79X and is near the high end of the valuation range in this period. Hence, valuation looks slightly stretched from P/B perspective

Risks

- Smart and efficient spend-control programs that provide enhanced reporting and analytics have been the primary reason behind Coupa Software's expanding clientele. Coupa Software's customer base includes the likes of 2U, CECO Environmental Corporation, OneMain, 14 West, Canfor Corporation, Confluent Inc., Cycle and Carriage Industries, HammondCare, SalesLoft, Shorelight Education, Strategic Education, Toyota Finance Australia, and Westpac Banking. Per Research and Markets, Business Spend Management (BSM) software market is expected to witness a CAGR of 10.5% between 2019 and 2027. Introduction of Coupa CLM Advanced on synergies from integration of Coupa BSM platform with Exari's technology amid ongoing digital transformation is expected to strengthen its foothold in the BSM software market.

- Coupa Software is poised to gain from strength in cloud based BSM offerings. Notably, the coronavirus outbreak has impacted spending patterns and companies have been striving to optimize budgets to survive the macroeconomic impacts. This is expected to bolster adoption of Coupa Software's BSM solutions, especially across industries like life sciences and healthcare.

- Solid momentum in Coupa Advantage Express, Strategic Sourcing, Risk Assess and Source Together solutions is anticipated to bolster company's subscription services revenues in the quarters ahead. Further, the company has been adding new capabilities to Coupa Supplier Insights and Coupa BSM solutions, which is anticipated to boost adoption. Moreover, coronavirus pandemic has bolstered demand for digital payment offerings. Notably, the company has strengthened Coupa Pay solution with greater payment flexibility capabilities. This is expected to contribute to momentum in solutions such as Coupa Pay, Accelerate, Invoice payments and Virtual Cards for Pos, and augment top line. It has extended these solutions to partners like BNP Paribas, American Express, Citibank, Transfermate, Stripe and PayPal. In October 2020, Coupa Software extended its collaboration with American Express by enabling clients in the United States to use American Express virtual card payment option with Coupa Pay.

- We must note that Coupa Software has a diversified customer base, which is evident from the fact that no single customer accounted for more than 5% of revenues in the last three years. Moreover, a strong pipeline for new business bookings, remains noteworthy. Markedly, at the end of fiscal 2020, cumulative spend under management, remaining performance obligations, and deferred revenues (including unrecognized revenues that have been invoiced) amounted to $1.655 billion, $724.9 million, and $261.8 million, respectively. Moreover, the company has witnessed consistent growth in revenues. For fiscal years ended Jan 31, 2020, 2019, and 2018, revenues were $389.7 million, $260.4 million, and $186.8 million, respectively. We also believe that Coupa Software's increasing investments on cloud-based capabilities to strengthen BSM platform presents significant prospects in the long haul.

- Strategic acquisition strategy has played a pivotal part in developing the company's business in the last few years. In November 2020, Coupa Software acquired LLamasoft for $1.5 billion to boost its supply chain capabilities. LLamasoft offers AI-based design and planning solutions for supply chains. Further, the company had acquired BELLIN, a leader in treasury management. BELLIN's offering, now Coupa Treasury Management, provides real-time transparency on cash balances, centralizes the control of cash accounts to prevent fraud, offers efficient liquidity management and supports direct bank-to-bank communications for money transfer. The company's buyout of ConnXus will strengthen its supplier management software offerings. These along with acquisitions of Exari Group, Inc. in May 2019, Hiperos LLC in December 2018, Vinimaya, Inc. in October 2018, have enabled the company to bolster its BSM platform with new and innovative capabilities. We anticipate Coupa Software to pursue tuck-in acquisitions, which will further expand product portfolio in the long term.

Last Earnings Report

Coupa Software Q3 Earnings & Revenues Beat Estimate

Quarter Ending	10/2020
Report Date	Dec 07, 2020
Sales Surprise	7.41%
EPS Surprise	350.00%
Quarterly EPS	0.18
Annual EPS (TTM)	0.80

Coupa Software Incorporated reported third-quarter fiscal 2021 non-GAAP earnings of 18 cents per share that topped the Zacks Consensus Estimate by 350%. However, earnings deteriorated 10% from the year-ago quarter's reported figure.

Revenues of $133 million outpaced the Zacks Consensus Estimate by 7.4%. Further, the top line improved 30.6% from the prior-year quarter's figure.

Subscription revenues (88.8% of total revenues) surged 31% year over year to $118.1 million. Meanwhile, Professional services & other revenues (11.2%) climbed 28.2% year over year to $14.9 million.

The top line benefited from strong uptake of the company's Business Spend Management (BSM) and Coupa Pay offerings. The company is witnessing robust adoption of spend management offerings amid coronavirus crisis-triggered macroeconomic weakness and work-from-home wave.

Apart from the United States and Europe, Coupa Software witnessed improvement in emerging markets. The company added that sales doubled in the last 12 months across Asia-Pacific, Japan, Latin America, the Middle East and Africa.

Major Highlights

Coupa Software continued to add new clients to customer base in the reported quarter. Some of the notable new deal wins in the quarter include Casey's General Stores, Immunovant, GIS International, GlobalLogic, Downer EDI Services, Elevate Textiles, Flender, Ibstock Brick, LKAB, miR Scientific, Mayne Pharma, OES Equipment, Ovid Therapeutics, SafetyCulture, Sam's Mart, Welbilt and ZoomInfo.

To help customers with deployments, Coupa Software has been organizing Smarter Together webinar virtual events to engage the entire customer community.

The company also extended collaboration with American Express to enable clients in the United States to use American Express virtual card payment option with Coupa Pay.

In the current quarter, Coupa Software's Coupa Source to Pay solution was leveraged by Walmart to modernize its source-to-pay operations. Also, Coupa solutions are being deployed by United States House of Representatives to upgrade its administrative systems.

We believe that innovation and product enhancements will allow Coupa Software to capitalize on the opportunity in the BSM market presented by ongoing digital transformation triggered by coronavirus crisis.

Margin Details

Non-GAAP gross margin expanded 40 basis points (bps) from the prior-year quarter's level to 72.5%.

Non-GAAP Research and development expenses climbed 27.3% year over year to $22.8 million.

Non-GAAP Sales and marketing expenses surged 30% year over year to $40.7 million.

Non-GAAP General and administrative expenses increased 48% year over year to $18.5 million.

Non-GAAP operating income soared 23.6% year over year to $14.3 million.

Non-GAAP operating margin contracted 60 bps on a year-over-year basis to 10.7%.

Balance Sheet & Cash Flow

Coupa Software had cash and cash equivalents and marketable securities of $1.354 billion as of Oct 31, 2020, compared with $1.342 billion as of Jul 31, 2020.

Cash flow from operations totaled $19 million compared with $23.4 million in the second quarter of fiscal 2021. Adjusted free cash flow totaled $17.3 million during fiscal third quarter compared with adjusted free cash flow of $35.7 million in the last reported quarter.

Guidance

The revenue guidance for fourth-quarter fiscal 2021 includes impact of the LLamasoft buyout and assumption of no revenue contribution from Coupa Travel Sabre formerly known as Yapta. In November 2020, the company acquired LLamasoft for $1.5 billion. LLamasoft offers AI-based supply chain solutions and lists Boeing and Nestle, among others, as its clients.

For fourth-quarter fiscal 2021, revenues are anticipated to be $145-$146 million.

While Subscription revenues are expected between $124.5 million and $125.5 million, professional services revenues are anticipated to be approximately $20.5 million.

Non-GAAP loss from operations is estimated in the range of $6 million to $8 million.

Non-GAAP net loss is projected in the band of 11-13 cents per share.

For fiscal 2021, Coupa Software projects revenues between $523 million and $524 million compared with previous range of $496.5-$498.5 million.

Non-GAAP income from operations is anticipated to be $34-$36 million compared with the previous range of $33.5-$35.5 million.

Non-GAAP net income is now expected in the band of 47-49 cents per share compared with prior guidance of 43-45 cents per share.

Recent News

On Nov 30, Coupa Software revealed that charity organization, The Salvation Army Australia is leveraging its Business Spend Management solutions to bolster operational efficiency and augment relief work amid COVID-19 crisis.

On Nov 5, Coupa Software collaborated with Walmart to upgrade the latter's source-to-pay operations. Coupa Sofware's BSM solution will assist Walmart in achieving operational efficiency and boost cost savings efforts.

On Nov 2, Coupa Software announced the buyout of LLamasoft for $1.5 billion. LLamasoft is engaged in providing AI-based supply chain solutions and counts Boeing and Nestle among its clients.

On Oct 21, Coupa Software was designated as a leader in Gartner's 2020 Magic Quadrant for Procure-to-Pay Suites for the fifth time in a row.

On Oct 19, Coupa Software collaborated with American Express to allow businesses across the globe to use American Express virtual card payment option with Coupa Pay.

On Sep 22, Coupa Software and Flexera announced integration with an aim to offer Flexera SaaS Manager in the Coupa Business Spend Management (BSM) Platform. Coupa Software certified the Flexera SaaS Manager for use within its cloud-based platform to provide customers with seamless business visibility and control required to make smarter spending decisions.

On Jul 28, Coupa Software announced that it has been recognized as a leader in the report titled, "Forrester Wave: Supplier Risk And Performance Management Platforms, Q3 2020," which evaluated 10 different software vendors providing supplier risk and performance management (SRPM) solutions.

On Jun 29, Coupa Software announced that its Business Spend Management (BSM) platform has been selected by humanitarian aid agency — World Vision — to help people adversely affected by the coronavirus pandemic.

Valuation

Coupa Software shares are up 119.5% in the year-to-date period and 123.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 107.9% and 38.2% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and sector are up 108.6% and 39.4%, respectively.

The S&P 500 index is up 14.9% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 37.56X forward 12-month sales, which compares to 11.01X for the Zacks sub-industry, 4.5X for the Zacks sector and 4.28X for the S&P 500 index.

Over the past three years, the stock has traded as high as 40.91X and as low as 7.82X, with a 3-year median being at 18.18X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $290 price target reflects 33.93X forward 12-month sales.

The table below shows summary valuation data for COUP

Valuation Multiples - COUP

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	37.56	11.01	4.5	4.28
	3-Year High	40.91	11.01	4.5	4.29
	3-Year Low	7.82	4.96	2.77	3.2
	3-Year Median	18.18	6.15	3.51	3.78
P/B TTM	Current	56.01	13.33	8.73	6.27
	3-Year High	56.01	13.33	8.73	6.28
	3-Year Low	8.32	5.03	4.57	3.83
	3-Year Median	18.69	6.86	5.93	5.12
EV/Sales TTM	Current	44.48	12.71	5.36	4.31
	3-Year High	47.61	12.71	5.36	4.32
	3-Year Low	8.5	4.61	3.11	2.61
	3-Year Median	21.34	6.81	4.02	3.67

As of 12/16/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 30% (179 out of 255)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Ceridian HCM Holding Inc. **(CDAY)**	Neutral	3
Cornerstone OnDemand, Inc. **(CSOD)**	Neutral	2
HubSpot, Inc. **(HUBS)**	Neutral	3
Oracle Corporation **(ORCL)**	Neutral	3
Paycom Software, Inc. **(PAYC)**	Neutral	3
Paylocity Holding Corporation **(PCTY)**	Neutral	3
SAP SE **(SAP)**	Neutral	4
Workday, Inc. **(WDAY)**	Neutral	3

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

Industry Comparison Industry: Internet - Software

	COUP	X Industry	S&P 500	HUBS	ORCL	SAP
				Industry Peers		
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	D	-	-	D	B	B
Market Cap	24.25 B	1.68 B	26.40 B	17.37 B	184.83 B	149.20 B
# of Analysts	10	5	14	10	13	6
Dividend Yield	0.00%	0.00%	1.51%	0.00%	1.53%	1.00%
Value Score	F	-	-	D	A	C
Cash/Price	0.06	0.08	0.06	0.07	0.21	0.06
EV/EBITDA	2,396.09	-0.94	14.41	1,967.39	12.32	19.79
PEG F1	26.16	5.83	2.80	22.08	1.61	2.50
P/B	56.01	8.12	3.58	23.70	21.45	4.35
P/CF	678.31	32.03	13.86	559.49	13.42	21.63
P/E F1	721.38	76.86	21.99	331.18	14.50	20.02
P/S TTM	49.53	6.50	2.77	21.26	4.69	4.79
Earnings Yield	0.14%	0.25%	4.33%	0.30%	6.90%	4.99%
Debt/Equity	2.13	0.01	0.70	0.65	7.37	0.48
Cash Flow ($/share)	0.50	-0.00	6.94	0.68	4.68	5.78
Growth Score	B	-	-	C	D	B
Historical EPS Growth (3-5 Years)	NA%	17.57%	9.69%	NA	10.83%	9.08%
Projected EPS Growth (F1/F0)	-7.12%	4.87%	1.00%	-23.80%	12.49%	9.18%
Current Cash Flow Growth	-355.18%	4.17%	5.22%	-1,293.74%	-2.42%	-1.75%
Historical Cash Flow Growth (3-5 Years)	26.88%	20.21%	8.33%	21.83%	-0.39%	3.01%
Current Ratio	1.59	1.91	1.38	3.65	2.17	1.13
Debt/Capital	68.06%	6.83%	42.00%	39.28%	88.06%	32.50%
Net Margin	-29.17%	-16.91%	10.44%	-9.78%	26.34%	17.59%
Return on Equity	-12.12%	-6.69%	14.99%	-4.76%	101.26%	17.39%
Sales/Assets	0.26	0.57	0.50	0.48	0.36	0.46
Projected Sales Growth (F1/F0)	33.78%	8.02%	0.35%	28.51%	2.46%	5.83%
Momentum Score	F	-	-	A	A	A
Daily Price Change	4.66%	0.23%	-0.25%	-0.36%	1.49%	1.57%
1-Week Price Change	0.09%	0.94%	-1.29%	1.07%	1.08%	-3.04%
4-Week Price Change	11.61%	11.47%	3.00%	5.33%	11.61%	6.00%
12-Week Price Change	26.25%	22.43%	18.91%	33.68%	6.48%	-17.82%
52-Week Price Change	133.58%	50.75%	6.25%	144.16%	17.59%	-6.29%
20-Day Average Volume (Shares)	1,192,571	538,728	1,961,038	594,450	11,915,966	921,084
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	2.18%	0.00%
EPS F1 Estimate 4-Week Change	-5.19%	0.00%	0.00%	0.00%	2.18%	4.42%
EPS F1 Estimate 12-Week Change	-12.45%	6.19%	3.94%	11.12%	2.73%	6.63%
EPS Q1 Estimate Monthly Change	-32.26%	0.00%	0.00%	0.00%	5.40%	0.29%

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	F
Growth Score	B
Momentum Score	F
VGM Score	D

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

Disclosures

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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.

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 forwardlooking 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 mediumterm 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 mostrecent 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.