

salesforce.com, Inc. (CRM)
\$245.95 (As of 09/08/20)

Price Target (6-12 Months): **\$278.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 08/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: A

Summary

Salesforce is benefiting from a robust demand environment as customers are undergoing a major digital transformation. The rapid adoption of its cloud-based solutions is driving demand for its products. Salesforce's sustained focus on introducing more aligned products as per customer needs is driving its top-line. Continued deal wins in the international market is another growth driver. Furthermore, the recent acquisition of Tableau positions the company to be a leader in business analytics for actionable results in everything from operations to HR. However, stiff competition from Oracle and Microsoft is a concern. Besides, unfavorable currency fluctuations along with increasing investments in international expansions and data centers are an overhang on near-term profitability. The stock has underperformed the industry in the past year.

Price, Consensus & Surprise

Data Overview

52-Week High-Low	\$284.50 - \$115.29
20-Day Average Volume (Shares)	13,659,203
Market Cap	\$219.6 B
Year-To-Date Price Change	48.4%
Beta	1.24
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computer - Software
Zacks Industry Rank	Top 26% (66 out of 251)

Sales and EPS Growth Rates (Y/Y %)


Last EPS Surprise	114.9%
Last Sales Surprise	5.2%
EPS F1 Estimate 4-Week Change	69.4%
Expected Report Date	12/01/2020
Earnings ESP	0.1%
P/E TTM	68.0
P/E F1	65.8
PEG F1	3.0
P/S TTM	11.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,618 E	5,971 E	6,218 E	6,572 E	24,387 E
2021	4,865 A	5,151 A	5,246 E	5,507 E	20,771 E
2020	3,737 A	3,997 A	4,513 A	4,851 A	17,098 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.79 E	\$0.92 E	\$0.95 E	\$1.05 E	\$3.71 E
2021	\$0.70 A	\$1.44 A	\$0.74 E	\$0.86 E	\$3.74 E
2020	\$0.93 A	\$0.66 A	\$0.75 A	\$0.66 A	\$2.99 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 09/08/2020. The reports text is as of 09/09/2020.

Overview

Headquartered in San Francisco, salesforce.com, founded in 1999, is the leading provider of on-demand Customer Relationship Management (CRM) software, which enables organizations to better manage critical operations, such as sales force automation, customer service and support, marketing automation, document management, analytics and custom application development.

Salesforce is currently the largest CRM vendor in the world with a market share of nearly 20% according to reports of Gartner, a global research and advisory firm. Its nearest rival, SAP is way behind at a market share of around 8%. About 90% of the Fortune 100 companies uses at least one Salesforce software.

The company has leveraged its expertise in on-demand software to increase the scale of operations. It also offers a technology platform for customers and developers to build and run business applications.

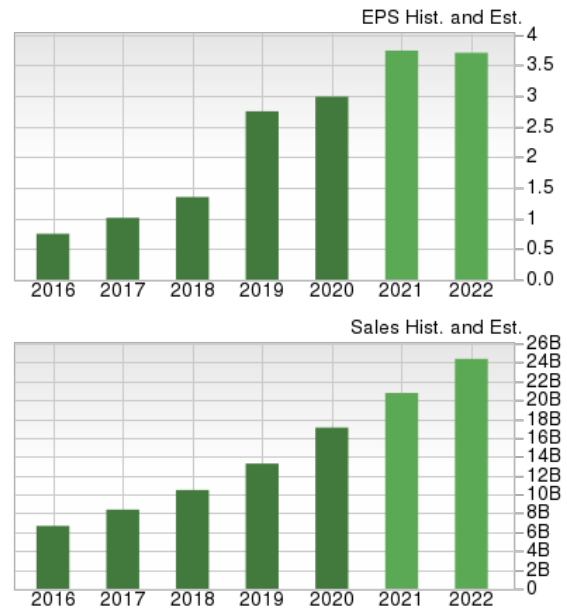
Salesforce helps companies of every size and industry to connect with their customers in new ways through existing and emerging technologies including cloud, mobile, social, IoT and artificial intelligence (AI).

Rapid digital transformation and the company's sustained focus on introducing more aligned products as per customer needs is driving its revenues higher. Over the last five years, Salesforce's annual revenues have tripled from \$5.4 billion in fiscal 2015 to \$17.1 billion in fiscal 2020.

There are two main revenue streams — Subscription and Support and Professional Services & Other.

Subscription revenues comprise subscription fees from customers, accessing the company's enterprise cloud computing services (Cloud Services), software licenses and subscription fees recognized from customers for additional support beyond the standard support lent by the company. This segment accounted for more than 94% of Salesforce's fiscal 2020 revenues.

Professional Services & Other revenues consist of fees that the company derives from consulting and implementation services and training. This segment accounted for the remaining 6% of Salesforce's fiscal 2020 revenues.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Salesforce is the world's leading Customer Relationship Management (CRM) company, in the Software-as-a-Service (SaaS) enterprise application market. The company dominates the market owing to its strong clientele. Per IDC's Worldwide Semiannual Software Tracker, Salesforce remained the #1 CRM providers for the seventh straight year, demonstrating the attractiveness of its cloud-based solutions. The company cemented its overall market share position and inflated its revenue base more than any other CRM vendor, the firm added. Management intends to double the company's top line by fiscal year 2024 with a revenue target of \$34-\$35 billion, thus making it the fastest enterprise software entity to attain that milestone.
- ▲ Salesforce's on-demand SaaS business model underscores its focus on sales force automation, marketing, customer responsiveness and support, improved personnel collaboration within an organization, software tools for developers, social media monitoring and marketing, and other social enterprise areas. The company has various SaaS applications and platforms to serve its focus areas. SaaS deployments are easy and help to reduce ownership costs for customers. The company's ability to provide an integrated solution for customers' business problems is the key growth driver. According to IDC estimates, spending on public cloud services will grow from \$229 billion in 2019 to nearly \$500 billion by 2023, at a CAGR of 23%. Per a ResearchAndMarkets.com report, the global CRM software market, valued at \$25.5 billion in 2018, is projected to reach \$36.53 billion at a CAGR of 9.4% through 2022. With its SaaS-based CRM and social enterprise applications, we think that Salesforce is well-positioned to lead the market.
- ▲ Acquisitions have been one of key growth strategies, strengthening the company's position in the CRM solution-providing space. Notably, buyouts of Tableau, ClickSoftware, Mulesoft, Datorama and CloudCraze over the last couple of years have been immensely lucrative for the company. The acquisition of Tableau is in sync with the company's strategy to diversify beyond its customer relationship management and provide more data insights to the clients. Tableau buyout contributed \$652 million to Salesforce's fiscal 2020 revenues and \$273 million to first-quarter fiscal 2021 revenues. Additionally, the company, in February 2020 announced entering agreement to acquire tech start-up Vlocity which builds cloud and mobile software on Salesforce platform. Vlocity acquisition is believed to help Salesforce enhance its capabilities and expand customer base across the communications, media, healthcare, energy, insurance and financial services, and entertainment industries. We believe that Salesforce's sustained focus on expanding its business through strategic acquisitions and investments will drive growth over the long run.
- ▲ Salesforce's partnership agreements with the likes of Amazon and Alphabet for the firms' cloud services have been helping it expand its international operations. The company announced at its Dreamforce event that it entered into a partnership with Apple, which will help it offer new apps for iPhones and iPads. A redesigned Salesforce mobile app will be developed exclusively for iOS, featuring Face ID, Siri shortcuts as well as Apple's business chat. Salesforce also expanded its global strategic alliance with Amazon Web Services to focus on new product integrations that will simplify secure data sharing and synchronizing across AWS and Salesforce services.
- ▲ In keeping with its strategy of growing in Europe, in Aug 2015 Salesforce's investment arm, Salesforce Ventures, announced its decision to invest \$100 million specifically in European start-ups. Over the past few years, Salesforce has invested in several start-ups, be it through acquisitions or partnerships. In Europe, the company opened its first data center in the U.K. in Aug 2014. In 2015, Salesforce opened two more datacenters, one each in France and Germany. The opening of data centers in these countries has helped Salesforce to reach local small and medium businesses as well as government agencies. The initiatives are helping Salesforce generating higher revenues from the European region. Notably, in fiscal 2020, Salesforce's revenues from Europe increased over 34% year over year and accounted for 20% of the total revenue. We believe expansion in Europe would enable Salesforce to diversify its international revenues, going forward.
- ▲ Salesforce is a cash rich company with a strong balance sheet. As of Jul 31, 2020, the company had cash and cash equivalents of nearly \$9.3 billion. The existing cash can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders. Additionally, Salesforce's total debt to total capital ratio of 0.14 is significantly lower than the industry average of 0.5.

Salesforce's diverse cloud offerings, clientele strength, strategic acquisitions and partnerships are key drivers.

Risks

- Increased focus on acquisitions could negatively impact Salesforce's balance sheet in the form of a high level of goodwill, which totaled \$25 billion, or approximately 47% of its total assets as of Apr 30, 2020. Furthermore, frequent acquisitions add to integration risks, which may dilute earnings.
 - The latest forecast for worldwide IT spending by Gartner might dampen Salesforce's growth prospects. Worldwide IT spending is anticipated to be \$3.4 trillion in 2020, a decrease of 8% from 2019. The research firm expects worldwide spending on Enterprise Software to decline 6.9% year-over-year to \$458 billion in 2020. Gartner pointed out that companies are prioritizing technology spending that are mission-critical instead of on growth and transformation initiatives amid the ongoing coronavirus crisis and effects of the global economic recession.
 - Salesforce faces stiff competition from Microsoft Corp. and Oracle in the cloud-based CRM market. Oracle has strengthened its cloud position through various strategic acquisitions. Microsoft has also added various key companies like LinkedIn to its portfolio to beef up its Dynamic CRM platform. Additionally, Microsoft offers special pricing for its Dynamics CRM Online service, which is helping it to snatch salesforce's customers. Competition is expected to intensify further, as Microsoft Dynamics CRM software (code-named Titan) gains ground. Titan has been designed to offer direct competition to salesforce's on-demand CRM software model. Moreover, IBM is strengthening its grip on the cloud computing software market with its web-based collaboration software for businesses, including contact management, instant messaging and file sharing programs. Further, the tie-up of Microsoft and Adobe, which aims to boost the sales and marketing capabilities of both companies, is a significant threat to the king of CRM.
 - Salesforce's home market in the United States has hit a saturation point, causing slower growth of its cloud software. There is still a lot of room for salesforce's growth in the international quarters. It still generates only about 30% of total revenues from international operations, which is lower than its rivals like Microsoft or Oracle composition of around 50%. Therefore, the company is investing heavily in global expansion, which is an overhang on its margins.
 - We note that the Salesforce currently has a trailing 12 month P/E ratio of 160.8. This level compares unfavorably to some extent with what the industry saw over the last year. Hence, valuation looks significantly stretched from a P/E perspective.
-

Last Earnings Report

Salesforce delivered better-than-expected results for second-quarter fiscal 2021. The company's fiscal second-quarter non-GAAP earnings soared 118% year over year to \$1.44 per share and beat the Zacks Consensus Estimate of 67 cents.

Salesforce's quarterly revenues of \$5.15 billion climbed 29%, year on year, surpassing the Zacks Consensus Estimate of \$4.9 billion. The top-line figure also improved 29% in constant currency (cc).

The enterprise cloud computing solutions provider has been benefiting from the robust demand environment as customers are undergoing a major digital transformation. The rapid adoption of its cloud-based solutions led to the better-than-expected performance during the fiscal second quarter.

Quarter in Detail

Coming to the company's business segments, revenues at Subscription and Support increased about 29% from the year-earlier period to \$4.84 billion. Professional Services and Other revenues climbed 23% to \$311 million.

Sales Cloud revenues grew 13%, year over year, to \$1.3 billion. Revenues from Service Cloud, one of the company's largest and the fastest-growing businesses, also improved 20% to \$1.3 billion. Moreover, Marketing & Commerce Cloud revenues jumped 21% to \$700 million. Salesforce Platform and Other revenues surged 66% to \$1.5 billion.

Geographically, the company registered revenue growth of 28% in the Americas (70% of total revenues), 23% in the Asia Pacific (9%), and 37% in Europe and Middle East Asia or EMEA (21%) on a year-over-year basis.

Salesforce's gross profit came in at \$3.84 billion, up 26.7% from the prior-year quarter. Additionally, gross margin contracted 130 basis points (bps) to 74.5%.

Salesforce posted a non-GAAP operating income of \$1.04 billion, up 81.5% year on year. Operating margin expanded 590 bps to 20.2% on efficient cost management. Operating expenses flared up 23% year over year to \$3.66 billion.

Salesforce exited the fiscal second quarter with cash, cash equivalents and marketable securities of \$9.3 billion compared with the \$9.8 billion recorded at the end of previous quarter. The company generated an operating cash flow of \$429 million in the fiscal second quarter.

As of Jul 31, 2020, remaining performance obligation, which reflects future revenues under contract, were \$30.6 billion, up 21% on a year-over-year basis.

Guidance

Buoyed by stronger-than-expected second-quarter results, Salesforce raised its revenue outlook for fiscal 2021 to \$20.7-\$20.8 billion from the \$20 billion projected earlier. The company now expects full-fiscal non-GAAP earnings per share to come in at \$3.72-\$3.74, up from the earlier expectation of \$2.93-\$2.95.

Operating cash flow is projected to be between 12% and 13%, up from the previous guided range of 10-11% on a year-over-year basis.

Coming to the fiscal third quarter, revenues are estimated between \$5.24 billion and \$5.25 billion, calling for 16% growth, year on year.

Furthermore, Salesforce anticipates non-GAAP earnings per share in the band of 73-74 cents for the fiscal third quarter.

Quarter Ending	07/2020
Report Date	Aug 25, 2020
Sales Surprise	5.15%
EPS Surprise	114.93%
Quarterly EPS	1.44
Annual EPS (TTM)	3.55

Recent News

On Sep 2, Salesforce announced a multi-year agreement with Humana to help deliver a more connected, personalized healthcare experience for its members.

On Aug 11, Salesforce announces Work.com for schools and grants \$20 million to help schools reopen safely and support student learning anywhere.

On Aug 10, Salesforce and CVS Health form a strategic partnership under which customers would get access to each company's COVID-19 return to work and campus solutions together.

On Aug 10, Salesforce announced the University of Kentucky will deploy Salesforce's Work.com to help it safely welcome back students, faculty, and staff to its campus on August 17.

On Jun 29, Salesforce and the Canadian Chamber of Commerce announced 62 businesses received the \$10,000 grant from the Canadian Business Resilience Network Small Business Relief Fund.

On Jun 25, Salesforce introduced Salesforce Anywhere, through which organizations can work, sell, service, market, collaborate, and access data from anywhere.

On Jun 23, Salesforce revealed that it has collaborated with Siemens to develop new workplace technology that will support organizations globally to safely reopen, and build smart and connected workplaces for the future.

On Jun 18, Salesforce launches Government Cloud Plus – a dedicated multi-tenant cloud infrastructure for U.S. federal, state, and local government customers, U.S. government contractors, and federally funded research and development centers.

On Jun 17, Salesforce revealed that Forrester Research has positioned Salesforce Commerce Cloud as a leader in The Forrester Wave™: B2C Commerce Suites Q2 2020 report, and also in The Forrester Wave™: B2B Commerce Suites Q2 2020 report.

On the same day, Salesforce also announced an expanded relationship with Pentagon Federal Credit Union, under which it will transform member platform and improve remote financial services amid the current pandemic.

On May 28, Salesforce and AT&T entered into a multi-year strategic agreement, under which the later will deploy Salesforce Customer 360 to create a single view of every customer across every touchpoint.

On May 22, Salesforce revealed that it has been named as #1 CRM provider for the seventh straight year by IDC in its latest Worldwide Semiannual Software Tracker.

On May 13, Salesforce announced the appointment of Gavin Patterson as the company's President and Chief Revenue Officer.

On Apr 24, Salesforce announced granting equity awards under its 2014 Inducement Equity Incentive Plan to new employees who joined the company in connection with the acquisition of Evergage.

On Mar 11, Salesforce announced an expanded relationship with Build-A-Bear Workshop, Inc., under which the later would leverage real-time data and analytics from Salesforce Customer 360 to deliver personalized, cross-channel guest experiences and drive its growth.

On Feb 25, Salesforce announced entering into an agreement to acquire Vlocity, Inc. for \$1.33 billion.

On Feb 25, Salesforce announced that the company's co-CEO Keith Block has resigned from his post.

Valuation

Salesforce shares gained 48.3% in the year-to-date (YTD) period and 61.3% over the trailing 12-month period. Stocks in the Zacks sub-industry have gained 26%, while the Zacks Computer & Technology sector increased 19.5% YTD. Over the past year, the Zacks sub-industry and the sector have increased 39.8% and 32.3%, respectively.

The S&P 500 Index has gained 6.6% YTD and 15.7% in the past year.

The stock is currently trading at 9.56X forward 12-month sales, which compares to 7.8X for the Zacks sub-industry, 4.33X for the Zacks sector and 4.19X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 11.27X and as low as 4.43X with a 5-year median of 6.48X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$278 price target reflects 11X forward 12-month sales.

The table below shows summary valuation data for CRM

Valuation Multiples - CRM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	9.56	7.80	4.33	4.19
	5-Year High	11.27	8.21	4.49	4.29
	5-Year Low	4.43	3.88	2.70	3.11
	5-Year Median	6.48	5.76	3.42	3.66
	Current	48.3%	61.3%	26%	19.5%

EV/Sales TTM	Current	10.99	8.68	4.87	3.91
	5-Year High	12.87	9.40	5.22	4.15
	5-Year Low	5.00	3.31	2.85	2.60
	5-Year Median	7.87	5.81	3.81	3.55
EV/EBITDA TTM	Current	82.08	19.47	14.73	14.87
	5-Year High	96.11	21.08	15.79	15.60
	5-Year Low	25.66	7.75	8.27	9.51
	5-Year Median	47.60	12.58	11.80	13.00

As of 09/08/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Adobe Systems Incorporated (ADBE)	Neutral	3
HubSpot, Inc. (HUBS)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
Microsoft Corporation (MSFT)	Neutral	3
ServiceNow, Inc. (NOW)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
SAP SE (SAP)	Neutral	2
Atlassian Corporation PLC (TEAM)	Underperform	4

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

Industry Comparison Industry: Computer - Software				Industry Peers		
	CRM	X Industry	S&P 500	ADBE	MSFT	ORCL
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	F	-	-	B	B	D
Market Cap	219.56 B	1.56 B	22.91 B	221.67 B	1,533.66 B	169.76 B
# of Analysts	15	4	14	12	13	11
Dividend Yield	0.00%	0.00%	1.66%	0.00%	1.01%	1.74%
Value Score	F	-	-	D	D	B
Cash/Price	0.04	0.08	0.07	0.02	0.08	0.25
EV/EBITDA	57.29	17.89	12.82	54.03	21.29	11.51
PEG F1	3.03	2.36	2.90	2.96	2.31	1.25
P/B	5.71	6.37	3.15	20.37	12.96	13.35
P/CF	55.15	22.60	12.45	56.43	26.87	11.83
P/E F1	65.76	33.22	21.08	47.32	31.68	13.72
P/S TTM	11.33	4.40	2.43	18.40	10.72	4.35
Earnings Yield	1.55%	2.84%	4.52%	2.11%	3.16%	7.28%
Debt/Equity	0.07	0.24	0.70	0.38	0.50	5.44
Cash Flow (\$/share)	4.37	1.19	6.93	8.19	7.54	4.68
Growth Score	D	-	-	B	A	D
Historical EPS Growth (3-5 Years)	97.45%	9.39%	10.41%	45.00%	19.44%	9.05%
Projected EPS Growth (F1/F0)	25.15%	10.25%	-4.73%	24.10%	11.07%	4.70%
Current Cash Flow Growth	36.39%	6.56%	5.22%	27.62%	17.66%	-2.42%
Historical Cash Flow Growth (3-5 Years)	40.05%	9.63%	8.49%	41.64%	10.19%	-0.39%
Current Ratio	1.15	1.51	1.35	1.29	2.52	3.03
Debt/Capital	6.50%	27.95%	42.95%	27.44%	33.49%	84.48%
Net Margin	12.21%	6.61%	10.25%	30.72%	30.96%	25.94%
Return on Equity	3.99%	10.54%	14.59%	35.53%	39.45%	72.76%
Sales/Assets	0.36	0.60	0.50	0.58	0.50	0.37
Projected Sales Growth (F1/F0)	21.48%	2.10%	-1.42%	13.81%	8.57%	0.17%
Momentum Score	A	-	-	A	A	F
Daily Price Change	-5.27%	-1.62%	-1.95%	-6.06%	-5.41%	-0.74%
1-Week Price Change	-6.05%	-3.20%	-1.28%	-4.74%	-6.40%	-3.71%
4-Week Price Change	25.67%	-0.35%	-1.93%	6.18%	-0.35%	1.93%
12-Week Price Change	33.68%	3.61%	3.73%	12.26%	4.70%	1.34%
52-Week Price Change	61.22%	16.72%	-0.29%	67.35%	48.93%	-0.27%
20-Day Average Volume (Shares)	13,659,203	150,971	1,798,028	2,877,849	31,629,222	11,590,391
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	69.41%	0.00%	0.00%	0.00%	0.08%	-0.33%
EPS F1 Estimate 12-Week Change	69.78%	4.91%	3.98%	0.57%	2.82%	-2.04%
EPS Q1 Estimate Monthly Change	-6.80%	0.00%	0.00%	0.00%	0.01%	-0.47%

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	D
Momentum Score	A
VGM Score	F

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.