

## Cognizant Technology (CTSH)

**\$76.15** (As of 01/27/21)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

### Summary

Cognizant's domain expertise and the ability to harness the ongoing digital transition are key catalysts. The company is witnessing strength in high quality, lower cost technology services including cloud and digital engineering services, and increased demand for interactive, IoT and analytics solutions. Moreover, acquisitions have strengthened the company's digital capabilities, clientele and international prospects. However, the company withdrew its 2020 guidance due to the negative impact of the coronavirus outbreak. Additionally, lackluster spending by large banks and ongoing stiff competition in the IT services market are concerns. Also, decline in retail and consumer goods, and travel and hospitality clients are expected to affect Cognizant's top line. Notably, shares have underperformed the industry in the past year.

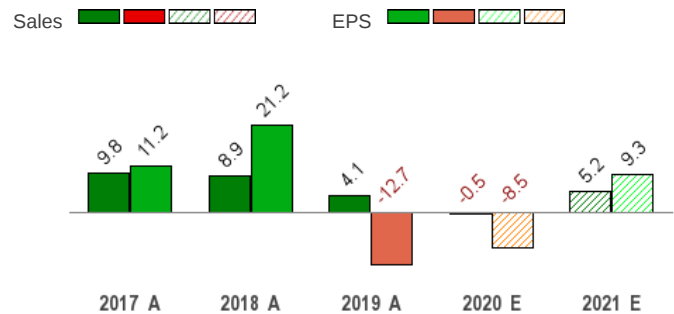
### Price, Consensus & Surprise



### Data Overview

|                                |                                     |
|--------------------------------|-------------------------------------|
| 52-Week High-Low               | <b>\$82.73 - \$40.01</b>            |
| 20-Day Average Volume (Shares) | <b>1,943,534</b>                    |
| Market Cap                     | <b>\$43.1 B</b>                     |
| Year-To-Date Price Change      | <b>-2.9%</b>                        |
| Beta                           | <b>1.12</b>                         |
| Dividend / Dividend Yield      | <b>\$0.88 / 1.2%</b>                |
| Industry                       | <b>Business - Software Services</b> |
| Zacks Industry Rank            | <b>Bottom 49% (129 out of 253)</b>  |

### Sales and EPS Growth Rates (Y/Y %)



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>7.8%</b>       |
| Last Sales Surprise           | <b>2.2%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.4%</b>       |
| Expected Report Date          | <b>02/03/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>20.8</b>       |
| P/E F1                        | <b>19.1</b>       |
| PEG F1                        | <b>1.9</b>        |
| P/S TTM                       | <b>2.6</b>        |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 4,277 E | 4,327 E | 4,478 E | 4,477 E | 17,568 E |
| 2020 | 4,225 A | 4,000 A | 4,243 A | 4,242 E | 16,706 E |
| 2019 | 4,110 A | 4,141 A | 4,248 A | 4,284 A | 16,783 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.91 E | \$0.98 E | \$1.06 E | \$1.04 E | \$3.99 E |
| 2020 | \$0.96 A | \$0.82 A | \$0.97 A | \$0.90 E | \$3.65 E |
| 2019 | \$0.91 A | \$0.94 A | \$1.08 A | \$1.07 A | \$3.99 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 01/27/2021. The reports text is as of 01/28/2021.

## Overview

Headquartered in Teaneck, NJ, Cognizant Technology Solutions Corporation is a leading professional services company. The company was spun off from Dun & Bradstreet in 1996 and went public in 1998.

Cognizant's services include digital services and solutions, consulting, application development, systems integration, application testing, application maintenance, infrastructure services, and business process services.

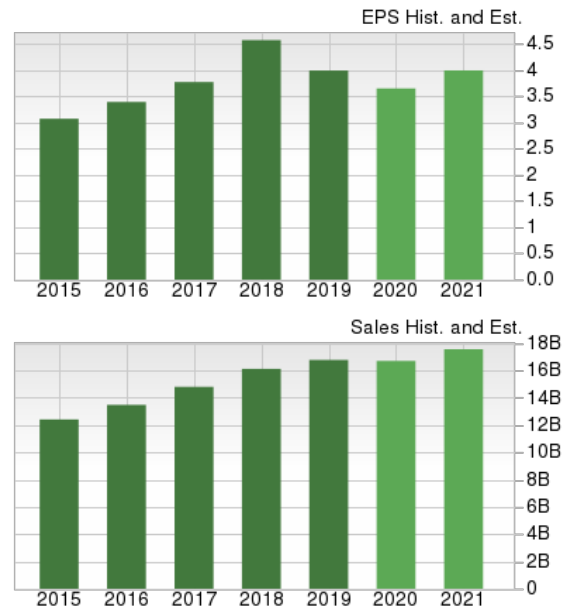
Cognizant reported revenues of \$16.78 billion in 2019. Revenues from clients added during 2019, including those related to acquisitions were \$234 million.

The company primarily serves four domains: Financial Services (Banking and Insurance), Healthcare (Healthcare and Life Sciences), Products & Resources (Manufacturing & Logistics, Retail & Consumer Goods, Travel & Hospitality and Energy & Utilities) and Communications, Media & Technology (Communications & Media and Technology).

In 2019, Financial Services accounted for 35% of revenues. Healthcare, Products & Resources, Communications, and Media & Technology accounted for 28%, 22.4% and 14.6% of revenues, respectively.

At the end of 2019, Cognizant had roughly 292,500 employees with around 46,400 in North America, 21,200 in Europe and 224,900 in various other locations throughout the rest of the world.

Cognizant faces significant competition from the likes of Accenture, Atos, Capgemini, Deloitte Digital, DXC Technology, EPAM Systems, Genpact, HCL Technologies, IBM Global Services, Infosys Technologies, Tata Consultancy Services, Wipro and numerous local providers.



Source: Zacks Investment Research

---

## Reasons To Buy:

- ▲ Cognizant is consistently developing its capabilities to benefit from the ongoing digital transition especially when it comes to integration of the new digital framework with legacy technology platforms. Its Digital Works platform is designed to aid such business transformations. The company's continuing investments to extend its digital capabilities, including the extensive training and re-skilling of its technical teams, is a key catalyst. Cognizant is also expected to continue expansion of its local workforces in the United States and other markets around the world. These efforts are expected to boost organic revenue growth. Moreover, increasing revenue contribution from the higher margin digital services is expected to drive profitability in the long haul.
- ▲ Over the past few years, Cognizant outpaced its Tier-1 peers as it has more exposure to the fast-growing verticals, like Financial Services and Healthcare. The company has gained deep industry expertise and knowledge of the domain through partnerships with top firms. This strategy has enabled it to deliver more value to clients and capitalize on new opportunities. Additionally, the new slate of domestic and international regulations, particularly in the financial services and healthcare industries, is a key catalyst.
- ▲ Moreover, acquisitions of Merisoft, Zenith Technologies, Contino, Code Zero, El-Technologies, Tin Roof Software and 10th Magnitude are strengthening the company's digital capabilities and clientele. Additionally, these acquisitions have helped the company expand in countries like Ireland, France and Canada. The acquisition of New Signature expands Cognizant's hyperscale cloud advisory services. Notably, New Signature is one of the world's largest independent Microsoft public cloud transformation specialists.
- ▲ Cognizant is expected to continue to benefit from strong demand for high quality, lower cost technology services. Based on its global delivery model and expanding capacity in low cost areas in India, Philippines and Latin America, the company remains well-positioned in the outsourcing market. Moreover, its realignment program and other margin enhancement initiatives are expected to boost profitability.
- ▲ Notably, Cognizant had total cash and investment balance of \$4.57 billion or net cash of \$2.11 billion as of Sep 30. The company had cash and cash equivalents (and short-term investments) of \$4.58 billion as of Jun 30, 2020. The improved liquidity will help Cognizant easily meet its working capital requirements. Notably, the company has no significant debt maturities until 2023.

Cognizant benefits from domain expertise, expanding clientele and accretive acquisitions that are strengthening its digital capabilities.

---

## Reasons To Sell:

- ▼ Cognizant is exposed to significant geographic concentration risks. North America contributes most of the revenues. Hence, any slowdown in the region's economic environment will hurt the company's revenue growth. Moreover, Cognizant earns more than 35% of revenues from the financial services industry. Sluggish spending by top banking customers negatively impacted financial services segment growth so far in 2020. As the trend is expected to continue in the near term, Cognizant's top-line growth is anticipated to suffer.
- ▼ Competition is intense in the IT services industry. The company's direct competitors, including Infosys Technologies, Tata Consultancy Services and Wipro, utilized an integrated global delivery business model as opposed to the hybrid-model used by Cognizant. The company also competes with large IT service providers with greater resources, such as Accenture, HP Enterprise and IBM Global Services.
- ▼ Employees are the primary resource for a company like Cognizant. But there is significant competition for highly skilled and efficient personnel, so the company remains under pressure to raise wages and control the attrition rate. Though Cognizant is investing heavily to retain the best talent around the world, we think employee turnover remains a concern as the offshore staff continues to expand. Though the company has been taking initiatives to retain employees, its attrition rates are still higher than preferred.
- ▼ An additional concern for the company relates to the nature of its business, which necessitates bringing employees into the U.S. for on-site application maintenance work. With continuous pressure from the U.S. government under Donald Trump to limit immigration, there has been an increase in the number of H1-B visa application rejections and delays in processing such applications. This doesn't bode well for Cognizant's operations.

Cognizant is exposed to significant geographic, domain concentration risks amid a stiff competition from peers.

## Last Earnings Report

### Cognizant Q3 Earnings and Revenues Beat Estimates

Cognizant Technology Solutions reported third-quarter 2020 non-GAAP earnings of 97 cents per share that beat the Zacks Consensus Estimate by 7.8%. However, the figure declined 46.1% from the year-ago quarter.

Third-quarter revenues of \$4.24 billion beat the consensus mark by 2%. The figure declined 0.7% year over year at constant currency (cc).

Quarter Ending 09/2020

| Report Date      | Oct 28, 2020 |
|------------------|--------------|
| Sales Surprise   | 2.16%        |
| EPS Surprise     | 7.78%        |
| Quarterly EPS    | 0.97         |
| Annual EPS (TTM) | 3.82         |

### Quarter Details

Segment-wise, Financial services (34.6% of revenues) declined 2.2% on a year-over-year basis at cc to \$1.46 billion due to declines in both banking and insurance. Growth in regional banks and capital markets in North America was offset by weakness in select global banking accounts and in Europe.

Healthcare (29% of revenues) increased 4.2% year over year at cc to \$1.23 billion, driven by increased revenues from life sciences. Growth in bio pharmaceutical clients and revenues from Zenith Technologies (acquired in July 2019) offset weakness in medical device clients. Within healthcare, performance among payer clients improved.

Products and Resources (21.8% of revenues) decreased 4.6% year over year at cc to \$927 million due to decline in retail and consumer goods, and travel and hospitality clients affected by the coronavirus pandemic. This was partially offset by double-digit cc growth in manufacturing, logistics, energy and utilities.

Communications, Media and Technology revenues (14.5% of revenues) were \$616 million, down 0.2% from the year-ago quarter at cc, hurt by the company's decision to exit certain portions of its content services business.

Consulting & Technology services accounted for 62% of revenues. Outsourcing services contributed 38% of revenues. Additionally, 37% of Cognizant's revenues were from fixed-price contracts.

Region-wise, revenues from North America decreased 1.4% year over year at cc and represented 74.9% of total revenues.

Revenues from Europe decreased 0.5% from the year-ago quarter at cc and accounted for 18.4% of total revenues. Rest of the World revenues rose 7.1% at cc and represented 6.6% of total revenues.

### Operating Details

Selling, general & administrative (SG&A) expenses, as a percentage of revenues, expanded 230 basis points (bps) from the year-ago quarter to 18.9%.

Net headcount declined approximately 2.3% year over year, including roughly 10,000 associates exited under the Fit for Growth plan.

Quarterly annualized attrition was 18%, down 6% sequentially.

Cognizant reported non-GAAP operating margin of 15.9%, which contracted 140 bps year over year.

### Balance Sheet

The company had cash and cash equivalents (and short-term investments) of \$4.57 billion as of Sep 30, 2020, close to \$4.58 billion as of Jun 30, 2020.

Cognizant generated \$925 million in cash from operations compared with \$979 million reported in the previous quarter. Free cash flow was \$821 million compared with \$886 million reported in the previous quarter.

Notably, the company has no significant debt maturities until 2023. As of Sep 30, 2020, the company had a total debt of \$2.45 billion, which remained flat sequentially.

Since the beginning of the third quarter through Oct 27, the company returned to shareholders over \$700 million through share repurchases and \$120 million in dividends.

### Guidance

Full-year 2020 revenues are expected to be 16.7 billion, recording a decline on a cc basis of 0.4%. The consensus mark for 2020 revenues is currently pegged at \$16.5 billion, indicating a decline of 1.2% from the year-ago quarter.

The company expects adjusted operating margin to be around 15% in 2020.

Full-year 2020 adjusted earnings are expected to be in the range of \$3.63-3.67 per share.

## Recent News

On Jan 19, 2021 Cognizant announced that it has entered into an agreement to acquire Magenic Technologies, a privately-held custom software development services company headquartered in Minneapolis, MN. The acquisition will expand Cognizant's software product engineering footprint, adding 475 employees across seven locations in the United States and more than 350 employees in Manila, Philippines.

On Jan 11, 2021 Cognizant announced that it has agreed to acquire Linium, a cloud transformation consultancy group specializing in the ServiceNow platform and solutions for smart digital enterprise workflows.

The company also announced the acquisition of Servian, an Australia-based, privately held enterprise transformation consultancy specializing in data analytics, artificial intelligence, digital services, experience design and cloud.

On Dec 21, Cognizant announced the acquisition of Inawisdom, a privately-held consultancy specializing in artificial intelligence, machine learning, and data analytics to help businesses make better and faster decisions that improve business outcomes.

On Nov 6, Cognizant announced the launch of Pandemic Response Challenge in collaboration with XPRIZE, the global leader in designing and operating incentive competitions to solve humanity's grand challenges.

On Nov 3, Cognizant announced completion of the acquisition of Bright Wolf, a privately-held technology services provider, specializing in custom Industrial Internet of Things (IIoT) solutions for Fortune 1000 companies. Combining Bright Wolf's experience in production-class IIoT deployments with Cognizant's expertise in foundational IIoT technologies will increase client resiliency, operational efficiency, and competitive advantage for Cognizant.

On Oct 1, Cognizant announced that it has completed the acquisition of Chicago-based 10th Magnitude, a leading cloud specialist focused exclusively on the Microsoft Azure cloud computing platform. The acquisition will expand the Microsoft Azure expertise within Cognizant's new Microsoft Business Group, adding development and managed services hubs in major cities throughout the United States.

## Valuation

Cognizant shares are up 17.5% in the past six-month period and 21% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 20.3% and 28.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 39% and 41.9%, respectively.

The S&P 500 index is up 16.2% in the past six-month period and 16.6% in the past year.

The stock is currently trading at 18.95X forward 12-month earnings, which compares to 30.75X for the Zacks sub-industry, 29.38X for the Zacks sector and 22.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.65X and as low as 10.04X, with a 5-year median of 17.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$80 price target reflects 19.9X forward 12-month earnings.

The table below shows summary valuation data for CTSH

| Valuation Multiples - CTSH |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 18.95 | 30.75        | 29.38  | 22.47   |
|                            | 5-Year High   | 21.65 | 35.31        | 29.38  | 23.8    |
|                            | 5-Year Low    | 10.04 | 7.29         | 16.94  | 15.30   |
|                            | 5-Year Median | 17.19 | 21.73        | 19.93  | 17.82   |
| P/S F12M                   | Current       | 2.33  | 13.1         | 5.05   | 4.45    |
|                            | 5-Year High   | 3.02  | 13.1         | 5.05   | 4.45    |
|                            | 5-Year Low    | 1.29  | 6.88         | 2.77   | 3.20    |
|                            | 5-Year Median | 2.35  | 8.83         | 3.47   | 3.67    |
| EV/EBITDA TTM              | Current       | 11.6  | 62.35        | 17.4   | 17.04   |
|                            | 5-Year High   | 14.18 | 65.29        | 17.4   | 17.54   |
|                            | 5-Year Low    | 6.06  | 32.91        | 8.25   | 9.53    |
|                            | 5-Year Median | 10.45 | 43.23        | 12.14  | 13.23   |

As of 01/27/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 49% (129 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                                  | Rec          | Rank |
|---------------------------------------------------|--------------|------|
| Accenture PLC (ACN)                               | Neutral      | 3    |
| Automatic Data Processing, Inc. (ADP)             | Neutral      | 4    |
| DXC Technology Company. (DXC)                     | Neutral      | 3    |
| EPAM Systems, Inc. (EPAM)                         | Neutral      | 3    |
| Genpact Limited (G)                               | Neutral      | 3    |
| Infosys Limited (INFY)                            | Neutral      | 3    |
| Wipro Limited (WIT)                               | Neutral      | 2    |
| International Business Machines Corporation (IBM) | Underperform | 3    |

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

| Industry Comparison Industry: Business - Software Services |           |            |           | Industry Peers |           |           |
|------------------------------------------------------------|-----------|------------|-----------|----------------|-----------|-----------|
|                                                            | CTSH      | X Industry | S&P 500   | ACN            | INFY      | WIT       |
| Zacks Recommendation (Long Term)                           | Neutral   | -          | -         | Neutral        | Neutral   | Neutral   |
| Zacks Rank (Short Term)                                    | 2         | -          | -         | 3              | 3         | 2         |
| VGM Score                                                  | A         | -          | -         | B              | B         | B         |
| Market Cap                                                 | 43.14 B   | 8.70 B     | 26.55 B   | 166.69 B       | 75.73 B   | 36.89 B   |
| # of Analysts                                              | 11        | 4          | 13        | 12             | 9         | 4         |
| Dividend Yield                                             | 1.11%     | 0.00%      | 1.45%     | 1.39%          | 1.49%     | 0.19%     |
| Value Score                                                | B         | -          | -         | C              | C         | C         |
| Cash/Price                                                 | 0.10      | 0.11       | 0.06      | 0.05           | 0.05      | 0.17      |
| EV/EBITDA                                                  | 12.64     | 14.72      | 14.63     | 17.89          | 20.17     | 15.71     |
| PEG F1                                                     | 1.95      | 2.85       | 2.53      | 3.08           | 2.89      | 2.85      |
| P/B                                                        | 3.87      | 5.30       | 3.85      | 9.05           | 7.68      | 5.09      |
| P/CF                                                       | 15.12     | 27.65      | 14.48     | 23.39          | 27.06     | 24.03     |
| P/E F1                                                     | 19.71     | 39.81      | 20.44     | 30.78          | 28.95     | 25.66     |
| P/S TTM                                                    | 2.57      | 4.52       | 2.92      | 3.73           | 5.76      | 4.47      |
| Earnings Yield                                             | 5.02%     | 2.51%      | 4.80%     | 3.25%          | 3.47%     | 3.86%     |
| Debt/Equity                                                | 0.22      | 0.15       | 0.69      | 0.00           | 0.00      | 0.00      |
| Cash Flow (\$/share)                                       | 5.04      | 2.01       | 6.90      | 10.52          | 0.65      | 0.28      |
| Growth Score                                               | B         | -          | -         | A              | B         | B         |
| Historical EPS Growth (3-5 Years)                          | 8.36%     | 13.16%     | 9.69%     | 9.94%          | 5.41%     | 4.27%     |
| Projected EPS Growth (F1/F0)                               | 9.42%     | 9.33%      | 12.69%    | 10.16%         | 12.12%    | 14.77%    |
| Current Cash Flow Growth                                   | -2.96%    | 11.37%     | 4.97%     | 17.75%         | 4.82%     | -1.07%    |
| Historical Cash Flow Growth (3-5 Years)                    | 10.46%    | 14.18%     | 8.07%     | 12.30%         | 4.59%     | -0.38%    |
| Current Ratio                                              | 2.62      | 1.76       | 1.38      | 1.45           | 2.61      | 1.78      |
| Debt/Capital                                               | 17.80%    | 16.73%     | 41.88%    | 0.32%          | 0.00%     | 0.04%     |
| Net Margin                                                 | 8.78%     | 4.79%      | 10.47%    | 11.74%         | 19.06%    | 16.51%    |
| Return on Equity                                           | 19.04%    | 9.91%      | 15.37%    | 29.32%         | 27.05%    | 17.72%    |
| Sales/Assets                                               | 0.95      | 0.71       | 0.50      | 1.24           | 1.00      | 0.71      |
| Projected Sales Growth (F1/F0)                             | 5.63%     | -0.81%     | 6.10%     | 8.13%          | 6.00%     | -2.02%    |
| Momentum Score                                             | A         | -          | -         | B              | A         | C         |
| Daily Price Change                                         | -4.27%    | -1.29%     | -2.74%    | -2.72%         | -2.13%    | 2.01%     |
| 1-Week Price Change                                        | 0.40%     | 1.47%      | -0.02%    | 0.44%          | 0.06%     | 2.50%     |
| 4-Week Price Change                                        | -6.07%    | 5.22%      | -0.38%    | -4.44%         | 3.19%     | 17.20%    |
| 12-Week Price Change                                       | 4.29%     | 23.80%     | 9.81%     | 7.98%          | 19.00%    | 32.47%    |
| 52-Week Price Change                                       | 21.03%    | 23.79%     | 6.94%     | 18.34%         | 57.96%    | 75.80%    |
| 20-Day Average Volume (Shares)                             | 1,943,534 | 410,430    | 1,872,056 | 1,710,148      | 8,258,986 | 2,137,419 |
| EPS F1 Estimate 1-Week Change                              | 0.09%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%     |
| EPS F1 Estimate 4-Week Change                              | 0.37%     | 0.00%      | 0.22%     | 0.00%          | 4.13%     | 7.45%     |
| EPS F1 Estimate 12-Week Change                             | 0.09%     | 4.59%      | 1.79%     | 2.37%          | 4.13%     | 7.45%     |
| EPS Q1 Estimate Monthly Change                             | 0.31%     | 0.00%      | 0.00%     | 0.00%          | 6.44%     | 8.33%     |

Source: Zacks Investment Research

---

## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

---

### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>A</b> |

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

---

## Disclosures

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

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

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

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

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

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

---

## Additional Disclosure

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.