

The Walt Disney (DIS)

\$171.44 (As of 01/18/21)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 11/16/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

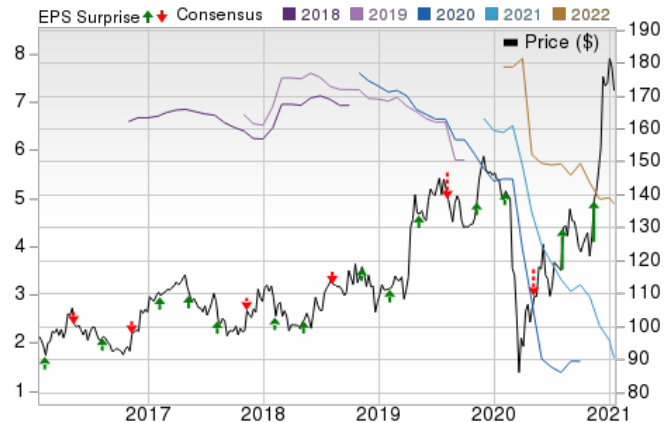
Growth: D

Momentum: F

Summary

Disney's businesses, including parks and hotels, cruise line, and film and TV productions have been affected by the COVID-19 outbreak. The company's re-opened parks and resorts continue to operate at a lower capacity, thereby negatively impacting its overall performance. Theatrical distribution has been hampered as theaters remained closed. Moreover, a leveraged balance sheet remains a headwind. However, Disney benefits from the growing popularity of Disney+, owing to a strong content portfolio and a cheaper bundle offering despite stiff competition. Availability in Nordics and Latin America is expected to help in further expanding user base. The company now expects to see between 230 million and 260 million subscribers on Disney+ by 2024. Shares have outperformed the industry in the past year.

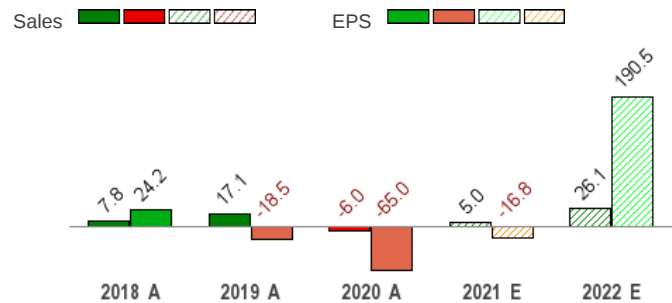
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$183.40 - \$79.07
20-Day Average Volume (Shares)	8,251,355
Market Cap	\$310.4 B
Year-To-Date Price Change	-5.4%
Beta	1.20
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Media Conglomerates
Zacks Industry Rank	Bottom 2% (248 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	70.6%
Last Sales Surprise	2.6%
EPS F1 Estimate 4-Week Change	-9.1%
Expected Report Date	02/11/2021
Earnings ESP	19.9%
P/E TTM	85.3
P/E F1	102.1
PEG F1	18.2
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	21,907 E	21,951 E	22,042 E	24,766 E	86,591 E
2021	15,577 E	16,349 E	17,713 E	20,625 E	68,680 E
2020	20,858 A	18,009 A	11,779 A	14,707 A	65,388 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.03 E	\$1.30 E	\$1.61 E	\$1.52 E	\$4.88 E
2021	-\$0.34 E	\$0.29 E	\$0.85 E	\$1.09 E	\$1.68 E
2020	\$1.53 A	\$0.60 A	\$0.08 A	-\$0.20 A	\$2.02 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 01/18/2021. The reports text is as of 01/19/2021.

Overview

Burbank, CA-based Walt Disney Company has assets that span movies, television, publishing and theme parks. Revenues were \$65.39 billion in fiscal 2020.

Media Networks (43.4% of total revenues) segment includes domestic broadcast television network, television production and distribution operations, domestic television stations, cable networks, domestic broadcast radio networks and stations, and publishing and digital operations. The company operates the ABC Television Network and 8 owned television stations; ESPN and Disney Channel cable networks; ESPN Radio and Radio Disney networks.

Studio Entertainment (14.7% of revenues) segment produces animated and live-action motion pictures, direct-to-video programming, musical recordings, and live stage plays. The library of films is distributed under 5 banners namely Walt Disney Pictures, Touchstone Pictures, Pixar, Marvel, and Lucasfilms.

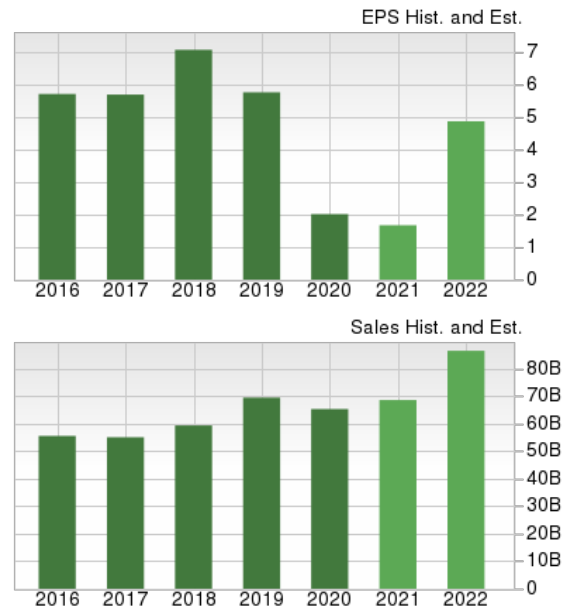
Parks, Experiences & Consumer Products (25.2% of revenues) segment is a combination of global consumer products business with Parks and Resorts. Parks and Resorts owns and operates the Disney World Resort in Florida, the Disneyland Resort in California, the Disney Vacation Club, the Disney Cruise Line, and Adventures by Disney. The company also has ownership interests in Disneyland Paris, in Hong Kong Disneyland Resort and in Shanghai Disney Resort, and licenses the operations of the Tokyo Disney Resort in Japan.

Consumer products business engages with licensees, manufacturers, publishers and retailers to design, develop, publish, promote and sell a wide variety of products based on existing and new Disney characters and other intellectual property via its Merchandise Licensing, Publishing and Retail businesses throughout the world.

Direct-to-Consumer (DTC) & International segment (25.9% of revenues) comprises Disney's direct-to-consumer streaming services, international media operations and global advertising sales and ad technology for Disney media properties including Freeform, ESPN, ABC and Disney Channels.

On Mar 20, 2019, Disney completed the acquisition of 21st Century Fox and got hold of Fox's production, animation and television assets. National Geographic channel, FX Networks and international networks were also part of the deal.

Additionally, the company has acquired full operational control of Hulu.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ Coronavirus dealt a severe blow to Disney's top-line growth and profitability. Disneyland Resort and cruise line business remained closed in the fourth quarter. The company's re-opened parks and resorts operated at a lower capacity, thereby negatively impacting overall performance. The pandemic affected Disney's segmental operating income by \$3.1 billion in fourth-quarter fiscal 2020. Parks, Experiences and Products segment's operating income dented by a headwind of \$2.4 billion. The trend is expected to continue which doesn't bode well for its top line, at least for the next couple of quarters.
- ▼ Moreover, theatrical distribution was hampered by coronavirus as theaters closed domestically beginning mid-March and internationally at different times starting late January. The Studio Entertainment business is expected to suffer delayed releases. Further, the timeline by which film and content production can resume is uncertain. Despite a healthy portfolio of new releases, the lack of visibility poses a challenge to Studio business.
- ▼ ESPN's results were negatively impacted by higher programming and production costs. Despite resumption in sports events, we believe ESPN's ad business will remain under pressure in fiscal 2021.
- ▼ Disney+ is facing significant competition in the streaming market from the likes of Netflix and Amazon Prime. Netflix enjoys a first-mover advantage in the streaming market and its solid original programming portfolio is a major differentiator. Amazon is also catching up. With the entrance of Apple TV+, HBO Max and Comcast's Peacock, the competition is likely to get stiffer. In fact, we believe Disney is significantly late to the streaming market and thus have to spend a significant amount to attract subscribers.
- ▼ Disney has a leveraged balance sheet. Total borrowings were \$58.63 billion as of Oct 3, 2020 compared with \$64.42 billion as of Jun 27, 2020. The company issued \$11 billion of term debt in May and reduced its commercial paper balances by roughly \$2 billion. Disney's indebtedness compares unfavorably with cash, cash equivalents and its current marketable investment securities balance of \$17.91 billion.

Adverse impact of Coronavirus on major businesses, higher programming costs at ESPN, heavy investments in ESPN+ and Disney+ and softness in tourism in China are factors that may hamper growth.

Risks

- Disney launched its own direct-to-consumer service Disney+ on Nov 12, 2019 in the United States, Canada and The Netherlands. The service offers nearly 500 movies and 7,500 episodes of television from brands such as Disney, Pixar, Marvel, Star Wars and National Geographic and Disney+ originals. Disney+ costs \$6.99 a month or \$69.99 a year. Notably, the service can also be purchased in the United States as part of a bundle that includes Hulu (with ads) and ESPN for \$12.99 a month. Moreover, during the fiscal third quarter, Disney+ was launched in India through the Disney+ Hotstar service, in France, in strategic partnership with Canal+, and in Japan via a limited launch with NTT DOCOMO. Furthermore, Disney is set to launch Disney+ in Nordics, Belgium, Luxembourg and Portugal in September, and in Latin America in November 2020. By year end, Disney+ will be available in nine of the top 10 economies in the world.
 - Disney+, as of Oct 3, had 73.7 million paid subscribers. Disney's strategy to add exclusive content like *Artemis Fowl*, *Mulan* and *Soul* has been a key catalyst. The company now expects to see between 230 million and 260 million subscribers on Disney+ by 2024, which basically triples its prior guidance of reaching between 60 million and 90 million subscribers by 2024.
 - Disney is benefiting from the acquisition of majority of Fox's assets. Fox's television business is expected to help the company strengthen its TV slate globally, which has been facing some issues in terms of distribution or subscribers. Disney's international footprint will increase substantially post the acquisition. Notably, Fox Networks International operates above 350 channels in 170 countries, while Star India has 69 channels serving 720 viewers per month.
 - Disney's Studio Entertainment segment has an impressive line-up of big budget movies slated to be released over the next 18 months. Additionally, following Fox's acquisition, the company's slate of movie releases has increased. The movies scheduled to release include *Free Guy* and *Black Widow*.
 - ESPN+ offers tournaments like Major League Baseball, National Hockey League, Major League Soccer, Grand Slam tennis, Italy's Serie A soccer and thousands of college sports. Although global sports, affected by coronavirus, will take some time to resume, prospects for ESPN+ is rosy over the long term. The service currently has more than 8.5 million paid subscribers, which is expected to expand through continued investments in content.
-

Last Earnings Report

Disney Reports Loss in Q4 on Y/Y Decline in Revenues

The Walt Disney reported adjusted loss of 20 cents per share in fourth-quarter fiscal 2020, beating the Zacks Consensus Estimate by 70.6%. The company had reported earnings of \$1.07 per share in the year-ago quarter.

Revenues decreased 23.1% from the year-ago quarter to \$14.71 billion but comfortably surpassed the consensus mark by 2.6%.

The coronavirus pandemic affected Disney's segmental operating income by \$3.1 billion.

Segment Details

Media Networks' (49% of revenues) revenues grew 10.8% year over year to \$7.21 billion. Revenues from Cable Networks increased 11% to \$4.72 billion. Moreover, Broadcasting revenues were up 10% year over year to \$2.49 billion.

Media Networks' segmental operating income climbed 5% year over year to \$1.86 billion. COVID-19's impact on profitability was roughly \$500 million.

Cable Networks' operating income declined 7% to \$1.16 billion. However, broadcasting operating income soared 47% to \$553 million.

Cable Networks' operating income decline was primarily attributed to weak ESPN performance, which suffered from higher programming and production costs.

Broadcasting operating income benefited from higher affiliate revenues and lower network programming and production costs as well as marketing expenses.

Parks, Experiences and Products segments revenues (17.5% of revenues) decreased 61.2% year over year to \$2.58 billion. Operating loss was \$1.10 billion against the year-ago quarter's operating income of \$1.38 billion.

Disneyland Resort and cruise line business remained closed in the reported quarter. The companies re-opened parks and resorts operated at a lower capacity, thereby negatively impacting overall performance.

Disney estimates that the coronavirus pandemic has hurt segmental operating income by \$2.4 billion.

Studio Entertainment segment (10.8% of revenues) revenues decreased 51.8% to \$1.60 billion. Operating income fell 61% to \$419 million.

Theatrical distribution was hampered by coronavirus as theaters remained closed domestically and internationally. No significant title was released in the quarter under review.

Direct-to-Consumer (DTC) & International segment's (33% of revenues) revenues came in at \$4.85 billion, up 40.8% year over year.

ESPN+ had 10.3 million paid subscribers at the end of fiscal fourth quarter compared with 3.5 million at the end of the year-ago quarter.

Disney+, as of Oct 3, had 73.7 million paid subscribers, reflecting strong growth since its launch in November 2019. The company added more than 16 million users sequentially.

The rapidly growing subscriber base strengthens Disney's position in the increasingly saturated streaming space currently dominated by Netflix. Launch of new services from Apple, Comcast and AT&T has further intensified competition.

Hulu ended the quarter with 36.6 million paid subscribers, up 28% year over year.

The average monthly revenue per paid subscriber for ESPN+ declined 12% year over year to \$4.54 due to a shift in the mix of subscribers to Disney's bundled offering and lower per-subscriber advertising revenue.

Notably, in November 2019, the company began offering a bundled subscription package of Disney+, ESPN+ and Hulu, which has a lower average retail price per service compared to the average retail price of each service on a standalone basis.

The average monthly revenue per paid subscriber for Disney+ was \$4.52. Moreover, the average monthly revenue per paid subscriber for Disney's Hulu SVOD-only service slipped 1% year over year to \$12.59 due to lower per-subscriber advertising revenue and bundled subscription package.

The average monthly revenue per paid subscriber for Disney's Hulu Live TV + SVOD service rose 22% from the year-ago quarter to \$71.90 owing to higher retail pricing and Live TV per-subscriber advertising revenues.

Operating loss narrowed to \$580 million from \$751 million reported in the year-ago quarter. Cost associated with Disney+ hurt profitability, partially offset by better results at Hulu and ESPN+.

Other Quarterly Details

Quarter Ending	09/2020
Report Date	Nov 12, 2020
Sales Surprise	2.58%
EPS Surprise	70.59%
Quarterly EPS	-0.20
Annual EPS (TTM)	2.01

Costs & expenses declined 10% year over year to \$15.16 billion in the reported quarter.

Segmental operating income decreased 82.3% year over year to \$606 million.

Moreover, Disney recorded charges totaling \$393 million in the reported quarter due to severance costs.

Additionally, Disney recognized a non-cash gain of \$591 million to adjust its investment in DraftKings.

Further, interest expenses increased 12% year over year to \$464 million due to higher average debt balances.

Balance Sheet

As of Oct 3, 2020, cash and cash equivalents were \$17.91 billion compared with \$23.12 billion as of Jun 27, 2020.

Total borrowings were \$58.63 billion as of Oct 3, 2020 compared with \$64.42 billion as of Jun 27, 2020.

Outlook

Disney expects continued negative impact from the coronavirus pandemic in fiscal 2021.

For the first quarter of fiscal 2021, the company currently expects COVID-19 to hurt its Parks and Experiences business.

Disneyland Resort is expected to remain close at least through the end of fiscal first quarter. Disneyland Paris is also currently closed.

Lack of any significant theatrical release will also hurt Studio Entertainment results. Moreover, home entertainment, stage play and studio TV SVOD results are anticipated to decline year over year.

Additionally, higher rights and production costs due to the shift of four NBA finals games and three additional college football playoff games into the fiscal first quarter 2021 will hurt ESPN's results.

Operating results at DTC and international channels businesses are expected to decline by roughly \$100 million and \$300 million, respectively.

Capital expenditure for fiscal 2021 is expected to be \$500 million higher than roughly \$4 billion spent in fiscal 2020.

Recent News

On Dec 11, Disney announced that it now expects to see between 230 million and 260 million subscribers on Disney+ by 2024, which basically triples its prior guidance of reaching between 60 million and 90 million subscribers by 2024.

While the company expects Disney+ operating loss to peak in fiscal 2021, it forecasts the streaming service to attain profitability in fiscal 2024.

Moreover, Hulu (including Hulu+ Live TV service) is expected to garner 50-60 million subscribers by the end of 2024 while ESPN+ is expected to reach between 20 million and 30 million subscribers and hit profitability in fiscal 2023. Across its streaming services including Hulu and ESPN+, Disney forecasts 300-350 million subscribers by 2024.

Markedly, the company's portfolio of direct-to-consumer services has exceeded a total of 137 million global paid subscriptions including 11.5 million ESPN+ subscribers, 38.8 million Hulu subscribers, and a staggering 86.8 million Disney+ subscribers since its launch in November 2019.

On Nov 13, Disney's board of directors announced that it will not declare a semi-annual cash dividend for the second half of fiscal 2020, in light of the ongoing impact of COVID-19 and the company's decision to prioritize investment in its direct-to-consumer initiatives.

On Oct 12, Disney announced that the company will be centralizing its media businesses into a single organization that will be responsible for content distribution, ad sales and Disney+ to further accelerate its direct-to-consumer strategy.

Valuation

Disney shares are up 45.5% in the past six-month period and 18.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 42.7% while the same in the Zacks Consumer Discretionary sector are up 25.8% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 16% and 11%, respectively.

The S&P 500 Index is up 16.4% in the past six-month period and 15% in the past year.

The stock is currently trading at 64.7X forward 12-month earnings, which compares to 59.83X for the Zacks sub-industry, 33.43X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 76.25X and as low as 13.4X, with a 5-year median of 16.65X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$146 price target reflects 55X forward 12-month earnings.

The table below shows summary valuation data for DIS

Valuation Multiples - DIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	64.7	59.83	33.43	22.85
	5-Year High	76.25	59.83	35.23	23.79
	5-Year Low	13.4	12.9	16.19	15.30
	5-Year Median	16.65	17.62	19.97	17.83
P/B TTM	Current	3.52	2.19	3.85	6.47
	5-Year High	3.88	2.89	4.85	6.58
	5-Year Low	1.63	0.98	2.24	3.73
	5-Year Median	3.2	1.8	4.14	4.94
EV/EBITDA TTM	Current	24.16	16.66	12.71	17.07
	5-Year High	25.37	17.43	17.89	17.37
	5-Year Low	9.7	5.78	8.28	9.53
	5-Year Median	11.88	7.48	12.21	13.23

As of 01/15/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 2% (248 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Apple Inc. (AAPL)	Neutral	2
Amazon.com, Inc. (AMZN)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
DISH Network Corporation (DISH)	Neutral	4
Lions Gate Entertainment Corp. (LGF.A)	Neutral	3
Netflix, Inc. (NFLX)	Neutral	3
AT&T Inc. (T)	Neutral	4
Cable One, Inc. (CABO)	Underperform	3

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

Industry Comparison Industry: Media Conglomerates				Industry Peers		
	DIS	X Industry	S&P 500	AAPL	CMCSA	NFLX
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	3	3
VGM Score	F	-	-	D	C	B
Market Cap	310.39 B	9.64 B	27.23 B	2,138.91 B	222.77 B	220.01 B
# of Analysts	14	8	13	12	15	15
Dividend Yield	0.00%	0.00%	1.44%	0.64%	1.89%	0.00%
Value Score	D	-	-	D	B	D
Cash/Price	0.06	0.20	0.06	0.04	0.06	0.04
EV/EBITDA	34.38	10.36	14.76	27.47	9.10	18.92
PEG F1	18.23	4.97	2.58	2.75	1.69	1.84
P/B	3.51	0.47	3.73	33.08	2.54	21.29
P/CF	22.10	12.27	14.32	31.57	8.10	19.53
P/E F1	102.48	59.06	20.57	31.59	16.58	55.06
P/S TTM	4.75	7.39	2.98	7.79	2.14	9.24
Earnings Yield	0.98%	0.98%	4.78%	3.17%	6.04%	1.82%
Debt/Equity	0.60	0.72	0.70	1.51	1.20	1.50
Cash Flow (\$/share)	7.76	3.24	6.92	4.03	6.01	25.49
Growth Score	D	-	-	C	D	A
Historical EPS Growth (3-5 Years)	-8.19%	113.75%	9.72%	11.10%	16.84%	102.39%
Projected EPS Growth (F1/F0)	-17.04%	61.11%	12.26%	22.71%	15.49%	44.34%
Current Cash Flow Growth	-1.67%	-0.66%	5.20%	0.98%	21.54%	26.74%
Historical Cash Flow Growth (3-5 Years)	4.66%	4.66%	8.37%	1.15%	11.76%	30.03%
Current Ratio	1.32	0.85	1.38	1.36	0.93	1.24
Debt/Capital	41.33%	41.89%	41.97%	60.16%	54.86%	60.07%
Net Margin	-4.38%	-64.67%	10.44%	20.91%	9.90%	11.78%
Return on Equity	4.05%	-3.51%	15.40%	75.15%	15.45%	31.48%
Sales/Assets	0.32	0.03	0.50	0.84	0.39	0.66
Projected Sales Growth (F1/F0)	4.08%	35.45%	6.01%	16.83%	8.07%	17.98%
Momentum Score	F	-	-	C	F	B
Daily Price Change	-1.15%	-0.23%	-0.59%	-1.37%	-1.80%	-0.58%
1-Week Price Change	-1.37%	-1.16%	2.23%	-0.48%	-1.64%	-5.61%
4-Week Price Change	-1.22%	-1.31%	2.58%	-1.21%	-5.20%	-6.55%
12-Week Price Change	34.40%	29.36%	11.96%	9.84%	7.94%	2.63%
52-Week Price Change	18.14%	9.61%	5.71%	61.33%	3.88%	47.06%
20-Day Average Volume (Shares)	8,251,355	512,505	1,749,628	102,481,136	15,406,608	3,331,133
EPS F1 Estimate 1-Week Change	-3.27%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-9.05%	0.00%	0.06%	0.00%	0.63%	0.41%
EPS F1 Estimate 12-Week Change	-43.11%	-6.45%	2.44%	0.50%	-2.86%	3.33%
EPS Q1 Estimate Monthly Change	-16.65%	-16.65%	0.00%	0.00%	0.00%	0.05%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	D
Momentum Score	F
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.