

Digital Realty Trust (DLR)

\$148.16 (As of 09/03/20)

Price Target (6-12 Months): **\$157.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/08/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: B

Summary

Shares of Digital Realty have outperformed its industry over the past year. Notably, solid fundamentals of the data-center market are anticipated to help Digital Realty ride its growth curve. Data centers are also poised to benefit from heightening reliance on technology amid the coronavirus pandemic. Moreover, the acceleration of digital transformation strategies by enterprises to strengthen business resilience is propelling strong demand, going forward. Capitalizing on such strong demand drivers, the company is expanding its portfolio on the back of accretive acquisition and development efforts. Such moves are supported by a healthy balance sheet. However, amid the competitive data-center landscape, aggressive pricing pressure might prevail in the upcoming period. Also, a global footprint exposes its earnings to foreign currency translation.

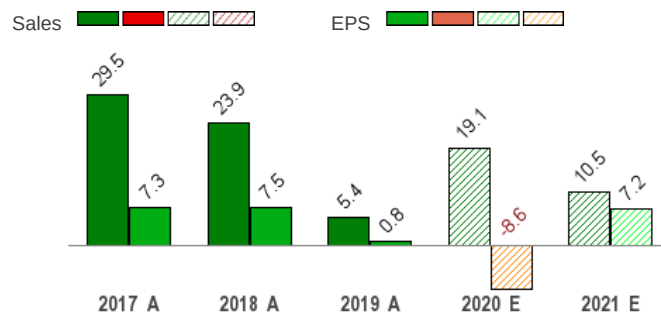
Data Overview

52-Week High-Low	\$165.49 - \$105.00
20-Day Average Volume (Shares)	1,116,793
Market Cap	\$39.9 B
Year-To-Date Price Change	23.7%
Beta	0.19
Dividend / Dividend Yield	\$4.48 / 3.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 10% (225 out of 251)
Last EPS Surprise	4.1%
Last Sales Surprise	6.7%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	11/03/2020
Earnings ESP	0.3%
P/E TTM	23.3
P/E F1	24.4
PEG F1	3.5
P/S TTM	11.7

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,012 E	1,048 E	1,063 E	1,084 E	4,224 E
2020	823 A	993 A	997 E	1,011 E	3,823 E
2019	815 A	801 A	806 A	787 A	3,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.58 E	\$1.64 E	\$1.66 E	\$1.70 E	\$6.52 E
2020	\$1.53 A	\$1.54 A	\$1.47 E	\$1.52 E	\$6.08 E
2019	\$1.73 A	\$1.64 A	\$1.67 A	\$1.62 A	\$6.65 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/03/2020. The reports text is as of 09/04/2020.

Overview

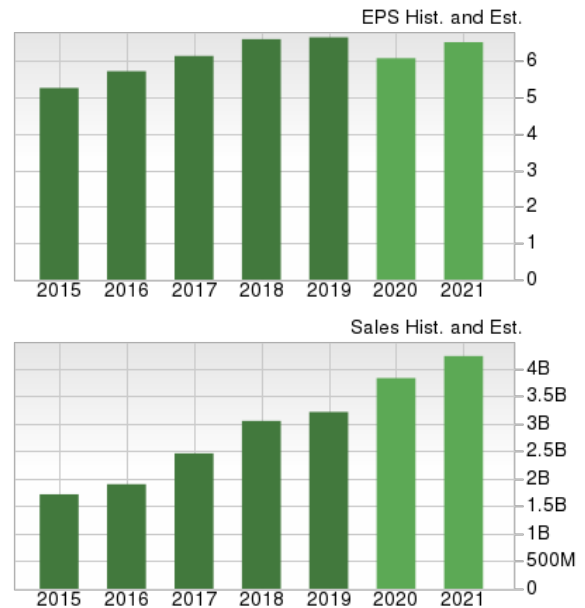
Digital Realty Trust is engaged in the ownership, acquisition, repositioning and management of the technology-related real estate. Specifically, the company offers data center, colocation and interconnection solutions for domestic and international tenants through its portfolio of data centers located throughout North America, Europe, Asia and Australia. The tenants belong to a wide variety of industry verticals, ranging from financial services, cloud and information technology services, to manufacturing, energy, healthcare and consumer products.

The company is headquartered in San Francisco, CA. It has regional U.S. offices in Boston, Chicago, Dallas, Los Angeles, New York, Northern Virginia and Phoenix, as well as regional international offices in Amsterdam, Dublin, London, São Paulo, Singapore, Sydney, Tokyo and Hong Kong.

As of Jun 30, 2020, the company's total portfolio comprised 281 data centers. This included 43 properties held as investments in unconsolidated joint ventures. Specifically, 137 data centers are situated throughout the United States, while 102 are located in Europe, 22 in Latin America, 11 in Asia, five in Australia, two in Africa and two in Canada. The portfolio contains 34 million square feet of space, excluding about 6 million square feet under active development and 2.2 million square feet of space held for future development.

In recent years, Digital Realty has opted for strategic acquisitions which helped the company gain scale. Particularly, in March 2020, the company announced that it has completed the acquisition of Interxion, a provider of carrier and cloud-neutral colocation data-center services. The acquisition deal was announced in October 2019 and was valued at \$8.4 billion, including debt. It aids Digital Realty to gain a strong presence in Europe and capitalize on Interxion's expertise in the colocation and interconnection space in the region.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Digital Realty has a high-quality diversified customer base comprising tenants from cloud, content, information technology, network, other enterprise, and financial industries. Tenant roster includes names like Facebook, IBM, Oracle, LinkedIn, Verizon, Comcast and others. Majority of its tenants are investment grade and numerous customers use multiple locations across the portfolio.
- ▲ Digital Realty is expected to ride on its growth curve backed by strategic acquisitions. In March, the company completed the previously-announced acquisition of Interxion, a European provider of carrier and cloud-neutral colocation data-center services for a total consideration of \$8.4 billion, including debt. The combined company will enjoy enhanced presence in major European metro areas, and its size and scale is expected to result in an efficient cost structure and superior EBITDA margins. In July, the company announced the development of its second data center in Hong Kong. The facility — to be named Digital Realty Kin Chuen (HKG11) — will accommodate 24 megawatts of critical IT capacity. It will be a carrier-neutral data center in a purpose-built facility and is scheduled for a mid-2021 completion. Also, the company enhanced its presence in Europe, Australia and Asia in recent years through the development of high-quality facilities. We believe such expansion efforts will drive the company's top and bottom lines in the years ahead.
- ▲ With growth in cloud computing, Internet of Things and big data, and an increasing number of companies opting for third-party IT infrastructure; data-center REITs are experiencing a boom market. Also, the estimated growth rates for the artificial intelligence, autonomous vehicle and virtual/augmented reality markets will remain robust over the next five to six years. Demand is strong in top-tier data center markets and despite enjoying high occupancy, the top-tier markets are absorbing new construction at a faster pace. These are anticipated to drive demand for data centers. Apart from these, data centers are poised to benefit from the heightening reliance on technology in the wake of the coronavirus pandemic.
- ▲ Moreover, the company delivered a healthy performance in second-quarter 2020 on solid data-center demand. Signed total bookings during the reported quarter are estimated to generate \$144 million of annualized GAAP rental revenues. The company signed renewal leases, marking \$169 million of annualized GAAP rental revenues during the same period.
- ▲ The company focuses on maintaining a solid balance sheet and enjoys ample liquidity, with diversified sources of capital. As a result of its proactive balance-sheet management, the company had \$505 million of cash on the balance sheet as of Jun 30 together with \$2.5 billion of availability on its global revolving credit facilities. Its debt maturity schedule is well-laddered, with weighted average maturity of 6.7 years and 3% weighted average coupon. Net debt to adjusted EBITDA is in line with the company's targeted range. Further, 98% of its total debt is unsecured, offering flexibility for capital recycling. Also, Digital Realty currently enjoys BBB/BBB/Baa2 credit rating, with stable outlook from S&P Global, Fitch and Moody's.
- ▲ Additionally, solid dividend payouts are the biggest enticement for REIT shareholders and Digital Realty remains committed to that. In February 2020, the company announced a 4% hike in dividend to \$1.12 per share. The company has raised dividend every year since its initial public offering and the latest dividend hike marked the 15th consecutive year of increase. Given its solid operating platform and balance sheet management efforts, the company remains well poised to sustain the dividend payment.
- ▲ Shares of Digital Realty have outperformed its industry over the past year. The stock has gained 17% against the industry's decline of 7.2% in the same period. Moreover, the trend in estimate revision of current-year FFO per share indicates an upbeat outlook. Over the past month, the Zacks Consensus Estimate for 2020 FFO per share moved marginally upward. Therefore, given the strong fundamentals and upward estimate revisions, the stock has decent upside potential.

Digital Realty is well poised to grow amid robust demand for data centers, accretive acquisitions, development efforts and solid balance-sheet strength. Rising dividends augur well for shareholders.

Reasons To Sell:

- ▼ Digital Realty faces stiff competition in its industry. The company competes with several data-center developers, owners and operators, many of whom enjoy ownership of similar assets in locations same as Digital Realty. Also, there are a number of local developers in the United States, and several regional operators in Europe, Asia and Australia. Given the solid growth potential of the data center real estate market, competition is expected to increase in the upcoming period from existing players, as well as the entry of new players. Amid this, there is likely to be aggressive pricing pressure in the data-center market.
- ▼ Digital Realty has a significant number of properties situated outside the United States. The company is also considering making additional international acquisitions. Although a sound global footprint helps the company meet rising data center requirements of customers around the world, the process exposes the company's earnings to foreign currency translation.
- ▼ While data centers are largely unaffected by the coronavirus pandemic, the company noted tenants accounting for roughly 3% of annualized recurring rent, have requested for rent deferrals. Also, there is likely to be a modest drag from development delivery delays in select markets.

Digital Realty faces cut-throat competition in the industry, leading to aggressive pricing pressure. In addition, notable exposure to foreign currency translation is a concern for the company.

Last Earnings Report

Digital Realty Surpasses Q2 FFO & Revenue Estimates

Digital Realty reported second-quarter 2020 core FFO per share of \$1.54, beating the Zacks Consensus Estimate of \$1.48. However, the reported figure compared unfavorably with the year-ago quarter's \$1.64.

The company reported operating revenues of \$993 million in the second quarter, marking a 24% year-over-year rise. The revenue figure also outpaced the Zacks Consensus Estimate of \$931.1 million.

Decent leasing activities and strong signed total bookings aided results.

Quarter in Detail

Signed total bookings during the reported quarter are estimated to generate \$144 million of annualized GAAP rental revenues. This is expected to include a \$12-million contribution from interconnection. Notably, the weighted-average lag between leases signed during second-quarter 2020 and the contractual commencement date was seven months.

Moreover, the company signed renewal leases, marking \$169 million of annualized GAAP rental revenues in the second quarter. Rental rates on renewal leases signed during the second quarter rolled down 2.8% on a cash basis and up 7.2% on a GAAP basis.

Portfolio Activity

During the June-end quarter, Digital Realty's company, Interxion, purchased a land parcel in Madrid, Spain, spanning an area of 3.6 acres for \$37 million. The new facility will encompass an area of about 375,000 square feet upon completion and is projected to support up to 34 megawatts of critical IT capacity.

Balance Sheet

Digital Realty exited second-quarter 2020 with cash and cash equivalents of \$505.2 million, up from \$89.8 million recorded at the end of 2019.

Further, during the second quarter, the company issued 4.5 million shares of common stock under its at-the-market ("ATM") equity offering program, generating around \$645 million in gross proceeds.

Additionally, as of Jun 30, 2020, the company had \$12.4 billion of total debt outstanding, of which \$12.1 billion was unsecured debt and \$0.2 billion was secured debt. Also, as of the same date, its net debt-to-adjusted EBITDA was 5.7X, while fixed charge coverage was 4.6X.

Guidance

Digital Realty updated its guidance for 2020 core FFO per share to \$6-\$6.10 from the prior estimate of \$5.90-\$6.10.

It expects total revenues to be between \$3.775 billion and \$3.825 billion, and adjusted EBITDA to be \$2.100-\$2.125 billion for the ongoing year.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	6.65%
EPS Surprise	4.05%
Quarterly EPS	1.54
Annual EPS (TTM)	6.36

Recent News

Digital Realty Adds Colocation Capacity at TOR1 Data Center – Aug 25, 2020

Digital Realty announced that it completed the expansion of its One Century Place facility, also known as TOR1, in July. The expansion is anticipated to add 6,000 square feet of space and 1,500 kilowatts of colocation capacity in greater Toronto.

The expansion in Toronto is a strategic fit as the city has emerged as a major regional connectivity tech hub in North America and will offer additional colocation capacity to cater to the region's growing networking needs.

Moreover, as technology and data-centric enterprises move or expand in the region, facilities like One Century Place are imperative for providing customers the flexibility needed to achieve their digital goals and will help them accelerate their digital transformations.

Additionally, Digital Realty aims to help businesses to move to a decentralized infrastructure that will scale new digital transformation initiatives. In fact, the increased capacity will help to address higher demand from distributed data hosting, connectivity and exascale computing in a single campus, network bandwidth requirements and flexibility to easily scale capacity.

Notably, Digital Realty operates more than 20 megawatts of capacity across two data centers in the Toronto region and has the capacity of more than 60 megawatts at full build-out.

Moreover, the company will augment its offerings with IBM's Direct Link 2.0 capabilities. This will provide direct access to the IBM Cloud in Toronto, offering customers broader access to IBM services, including AI, blockchain, data analytics and quantum computing.

Digital Realty Collaborates With Core Scientific to Deploy Data Hub - Jul 28, 2020

Digital Realty announced that in collaboration with Core Scientific, the company has deployed Data Hub powered by the NVIDIA DGX A100 at its Interxion Digital Docklands Campus close to the heart of London's financial center.

Introducing AI-ready infrastructure solution by Digital Realty is speeding up digital transformation, enabling customers to make fast deployment of AI models in close proximity to their data sets. Notably, the data-center REIT continues to enhance its AI potential in an effort to leverage on one of the fastest growing market opportunities in the world.

Digital Realty's Unit Acquires Freehold to Frankfurt Campus – Jul 13, 2020

Digital Realty's — Interxion — has acquired the freehold to the land under its Hanauer Landstraße campus in Frankfurt. The move has resulted in Interxion owning the freehold to all 15 data centers on its Frankfurt campus.

Interxion has also reached a separate deal to acquire an expansion parcel for supporting a development of 180 megawatts of additional capacity. Previously known as the Neckermann property, this parcel totals 107,000 square meters and is located within roughly one kilometer of the Hanauer Landstraße campus. It will be fully connected to the present campus. This buyout is expected to close in two stages, with the final transfer of ownership slated for early 2021.

The latest acquisition of freehold to the existing campus, together with the deal for buyout of the site for further expansion, is a strategic fit as there is a solid demand for such facilities in Europe. The moves would enable the company to grow by capitalizing on customers need for large-scale digital transformations. Interxion Frankfurt has emerged as one of the leading cloud and connectivity hubs across the globe, offering direct access to several global cloud platforms and more than 700 carriers and internet service providers, per management.

The Hanauer Landstraße campus encompasses 43,000 square meters on 6.5 hectares of land. More than half of the campus is occupied by Interxion through its nine data centers, which were previously subject to leasehold agreements. The site also has the German headquarters office of Interxion.

Furthermore, 40% of the campus is leased to 21 customers, with a weighted-average remaining lease term of roughly four years. When the leases to third parties expire, Interxion has plans to redevelop those portions for building out additional data-center capacity.

Digital Realty Develops Second Data Center in Hong Kong – Jul 1, 2020

Digital Realty announced the development of its second data center in Hong Kong. The facility — to be named Digital Realty Kin Chuen (HKG11) — will accommodate 24 megawatts of critical IT capacity. It will be a carrier-neutral data center in a purpose-built facility and is scheduled for a mid-2021 completion.

The HKG11 facility will encompass 21,000 square meter of space. It will have a total of 12 floors, with eight of those dedicated for customer deployments. It will offer better connectivity through close access to several facilities-based operators. The development effort of Digital Realty reflects the noteworthy expansion of PlatformDIGITAL™ across the Asia Pacific. The data-center REIT recently announced the groundbreaking of its new data center in Seoul, Korea.

Hong Kong has emerged as a leader in cloud readiness in the region. The city has occupied the top spot in the recent Cloud Readiness Index (CRI) based on cloud infrastructure, security, and regulation, per the Asia Cloud Computing Association (ACCA). Already a solid regional performer in fundamental readiness areas, like cloud regulation and infrastructure, the city has scope to fortify areas, like cloud governance and security, to spur broader and faster cloud adoption, per the study. Also, adoption of cloud services and digital transformation has increased amid the heightening reliance on technology in the wake of the coronavirus pandemic.

Digital Realty set foot in Hong Kong in 2012, with the buyout of Digital TKO (HKG10) situated within the Tsuen Kwan O industrial estate and

efficient to deliver up to 18 megawatts of critical IT capacity. The latest facility is positioned in Kwai Chung, Hong Kong's fast-developing new data-center cluster, and will cater to diverse, multi-site workloads.

Apart from the latest developments in Hong Kong and Seoul, Digital Realty already enjoys a decent presence in the Asia-Pacific region, operating a network of data centers in Tokyo, Osaka, Singapore, Sydney and Melbourne.

Dividend Update

On Aug 11, the company announced a quarterly cash dividend to \$1.12 per share. The dividend will be paid out on Sep 30 to the common stockholders as of Sep 15, 2020.

Valuation

Digital Realty shares have been up 17% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 7.2% and 6.2% in the past year, respectively.

The S&P 500 Index is up 15.9% in the past year.

The stock is currently trading at 23.25X forward 12-month FFO, which compares to 19.66X for the Zacks sub-industry, 16.94X for the Zacks sector and 23.94X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 25.26X and as low as 11.51X, with a 5-year median of 17.21X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$157 price target reflects 24.64X FFO.

The table below shows summary valuation data for DLR.

Valuation Multiples - DLR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.25	19.66	16.94	23.94
	5-Year High	25.26	19.66	16.94	23.94
	5-Year Low	11.51	14.32	11.60	15.25
	5-Year Median	17.21	16.12	14.26	17.60
P/S F12M	Current	9.73	8.53	6.23	4.40
	5-Year High	12.08	8.53	6.67	4.40
	5-Year Low	4.48	5.97	4.97	2.53
	5-Year Median	7.32	7.04	6.07	3.07
P/B TTM	Current	2.45	2.51	2.58	4.66
	5-Year High	5.88	3.03	2.91	4.76
	5-Year Low	2.05	1.81	1.72	2.83
	5-Year Median	2.74	2.51	2.54	3.76

As of 09/03/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (225 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Tower Corporation REIT (AMT)	Neutral	3
Crown Castle International Corporation (CCI)	Neutral	3
CyrusOne Inc (CONE)	Neutral	4
CoreSite Realty Corporation (COR)	Neutral	3
Equinix, Inc. (EQIX)	Neutral	3
Iron Mountain Incorporated (IRM)	Neutral	3
SBA Communications Corporation (SBAC)	Neutral	3
QTS Realty Trust, Inc. (QTS)	Underperform	4

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	DLR	X Industry	S&P 500	CONE	COR	EQIX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	B	C	D
Market Cap	39.85 B	1.95 B	23.52 B	9.37 B	5.07 B	67.52 B
# of Analysts	10	4	14	10	9	8
Dividend Yield	3.02%	3.72%	1.62%	2.49%	4.09%	1.40%
Value Score	D	-	-	D	D	D
Cash/Price	0.01	0.06	0.07	0.01	0.00	0.07
EV/EBITDA	24.21	14.36	13.12	23.01	22.53	30.12
PEG F1	3.40	3.92	2.97	0.94	1.09	2.28
P/B	2.45	1.33	3.20	3.81	38.57	6.50
P/CF	17.06	11.04	12.72	21.50	19.39	34.15
P/E F1	23.59	15.44	21.67	20.69	22.85	31.06
P/S TTM	11.69	5.04	2.49	9.30	8.62	11.79
Earnings Yield	4.10%	5.73%	4.40%	4.84%	4.38%	3.22%
Debt/Equity	0.76	0.90	0.70	1.29	12.28	1.12
Cash Flow (\$/share)	8.68	2.05	6.93	3.73	6.15	22.33
Growth Score	C	-	-	B	B	C
Historical EPS Growth (3-5 Years)	5.79%	0.73%	10.41%	12.84%	14.71%	15.22%
Projected EPS Growth (F1/F0)	-8.62%	-2.49%	-4.75%	6.75%	2.37%	7.63%
Current Cash Flow Growth	14.13%	3.36%	5.22%	24.40%	4.75%	12.38%
Historical Cash Flow Growth (3-5 Years)	19.36%	12.74%	8.49%	30.81%	17.21%	22.24%
Current Ratio	0.57	1.62	1.35	1.34	0.14	1.55
Debt/Capital	41.24%	47.87%	42.95%	56.42%	92.47%	52.93%
Net Margin	20.57%	10.49%	10.25%	2.01%	12.77%	8.69%
Return on Equity	6.72%	3.32%	14.59%	3.32%	39.91%	5.43%
Sales/Assets	0.12	0.13	0.50	0.16	0.28	0.23
Projected Sales Growth (F1/F0)	19.13%	0.00%	-1.42%	4.98%	5.63%	7.15%
Momentum Score	B	-	-	A	C	B
Daily Price Change	-4.41%	-0.30%	-2.14%	-3.33%	-2.97%	-4.65%
1-Week Price Change	-0.17%	1.60%	2.59%	0.43%	-0.25%	0.62%
4-Week Price Change	-5.63%	0.67%	2.25%	-4.68%	-5.78%	-3.74%
12-Week Price Change	10.63%	2.29%	11.04%	13.16%	2.33%	15.40%
52-Week Price Change	16.97%	-22.16%	2.01%	8.78%	0.13%	38.38%
20-Day Average Volume (Shares)	1,116,793	563,811	1,827,096	580,817	291,159	366,419
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.13%	0.00%	0.00%	0.52%	-0.00%	0.00%
EPS F1 Estimate 12-Week Change	0.57%	0.00%	3.89%	1.11%	1.28%	0.65%
EPS Q1 Estimate Monthly Change	-0.11%	0.00%	0.00%	-0.12%	0.17%	0.00%

Source: Zacks Investment Research

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	C
Momentum Score	B
VGM Score	D

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

Disclosures

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.