

Brinker International (EAT)

\$58.09 (As of 12/22/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

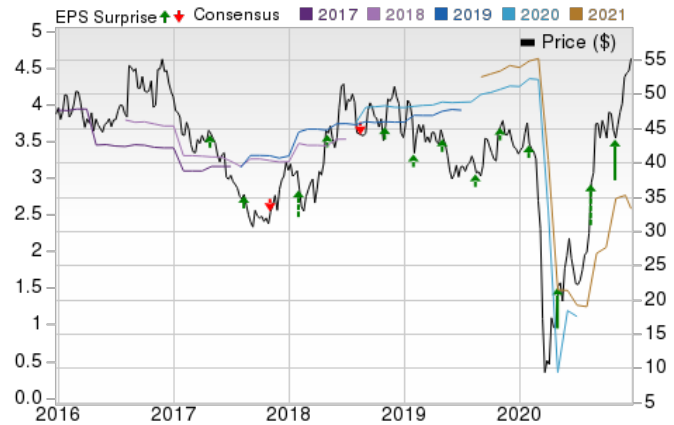
Growth: A

Momentum: F

Summary

Shares of Brinker have outperformed the industry in the past six months. However, comps at Chili's Grill & Bar and Maggiano's Little Italy restaurants were negatively impacted by dining room closures and capacity limitations due to a rise in COVID-19 cases. Moreover, high debt remains a concern. However, the company remains steadfast in its goal to drive traffic and revenues through a range of sales-building initiatives including streamlining of menu, innovation, strengthening its value proposition, better food presentation, advertising campaigns, kitchen system optimization and introduction of better service platform. Notably, strategies like strengthening value proposition with higher-quality ingredients, and new cooking techniques to deliver better food at even compelling price points, benefited Chili's, thereby driving traffic.

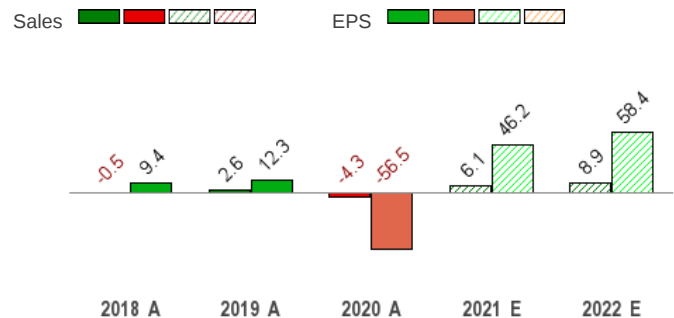
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$59.70 - \$7.00
20-Day Average Volume (Shares)	1,154,464
Market Cap	\$2.6 B
Year-To-Date Price Change	38.3%
Beta	2.62
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Bottom 31% (177 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	255.6%
Last Sales Surprise	1.0%
EPS F1 Estimate 4-Week Change	-11.1%
Expected Report Date	02/03/2021
Earnings ESP	-26.1%

P/E TTM	34.4
P/E F1	23.2
PEG F1	2.9
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	831 E	859 E	913 E	921 E	3,557 E
2021	740 A	774 E	836 E	927 E	3,267 E
2020	786 A	848 A	860 A	563 A	3,079 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.62 E	\$0.88 E	\$1.13 E	\$1.26 E	\$3.96 E
2021	\$0.28 A	\$0.37 E	\$0.71 E	\$1.09 E	\$2.50 E
2020	\$0.41 A	\$1.01 A	\$1.28 A	-\$0.88 A	\$1.71 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 12/22/2020. The reports text and the analyst-provided sales and EPS estimates are as of 12/23/2020.

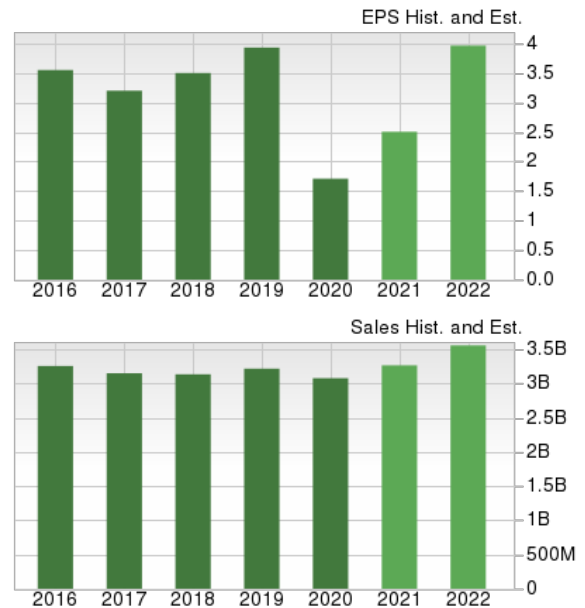
Overview

Based in Dallas, TX, Brinker International primarily owns, operates, develops and franchises various restaurants under Chili's Grill & Bar (Chili's) and Maggiano's Little Italy (Maggiano's) brands. The company took over Chili's, Inc., a Texas corporation from September 1983 and completed the acquisition of Maggiano's in August 1995.

Chili's is a preeminent leader in the bar & grill category of casual dining. The brand has been functioning for over the last 40 years. With a global presence in 31 countries and two territories outside the United States, the brand features typical American menu. Additionally, it is known for gourmet burgers, sizzling fajitas, baby back ribs and hand-shaken margaritas. In fiscal 2018, Brinker relaunched its My Chili's Rewards program and began offering free chips and salsa or soft drink to members at every visit.

Maggiano's is a full-service, national, casual dining Italian restaurant brand, featuring individual and family-style menus, and most restaurants. The brand also has extensive banquet facilities designed to host large party business or social events. The menu features a classic Italian-American range in forms of appetizers and entrees, with portions of pasta, chicken, seafood, veal, prime steaks and desserts.

In first-quarter fiscal 2021, Chili's contributed 92.8% to total revenues, while Maggiano's contributed 7.2%. As of Sep 23, 2020, the company owned, operated or franchised 1,660 restaurants. Among these, 1,607 were Chili's and the remaining 53 were Maggiano's units.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Impressive Earnings Surprise History:** The company reported first-quarter fiscal 2021 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. While the bottom line beat the consensus estimate for the fourth straight quarter, the top line outpaced the same for third consecutive quarter. Moreover, estimates for both current quarter and year have witnessed sharp upward revisions in the past 30 days. Robust earnings surprise history has helped the company to outperform the industry in the past six months. For second-quarter fiscal 2021, adjusted net earnings per share are expected in the range of 40 cents to 60 cents.

Brinker's ambitious expansion plans along with its sales building, digital, operational and remodeling initiatives are encouraging.

▲ **Sales-Building Initiatives to Spur Growth:** Brinker remains steadfast in its goal to drive traffic and revenues through a range of sales-building initiatives such as streamlining of menu and its innovation, strengthening its value proposition, better food presentation, advertising campaigns, kitchen system optimization and introduction of better service platform. Particularly emphasizing on menu innovation to propel revenues, the company started a strategic plan — Vision 2020 — focusing on menu innovation in Chili's, continuous improvement in service and atmosphere to differentiate the brand and gain market traction. On Jun 23, 2020, the company in partnership with DoorDash launched a new virtual brand — It's Just Wings. Notably, 1,050 of the company-owned restaurants were launched nationally.

▲ **Chili's Major Growth Driver:** Chili's turn-around strategies yielded positive results with traffic and sales moving in the positive direction. These strategies are focused on simplifying Chili's core menu by improving recipes, strengthening value proposition with higher-quality ingredients, and new cooking techniques to deliver better food at even more compelling price points. Chili's continues to be leader in casual dining sector, ranking as the number one brand in the KNAPP-TRACK index each month in first-quarter fiscal 2021. The company reported positive traffic in the month of September, which is quite encouraging considering the fact that major states like California and New Jersey are still operating with limited dining capacity. Chili's is likely to report positive traffic in second-quarter fiscal 2021.

▲ **Continued Expansion & Operational Initiatives:** Brinker is one of the few fast-casual restaurant chains that have been expanding despite a sluggish economic development. Management is gearing up for international expansion as well, especially in the faster growing emerging markets. Notably, the company is on the lookout to expand brand in existing markets and enter new ones. In fiscal 2018, 2019 and 2020, the company had opened 34, 23 and 31 restaurants, respectively, globally. In first-quarter fiscal 2021, the company opened seven new restaurants. Nonetheless, the company anticipates opening 18-21 restaurants in fiscal 2021.

▲ **Remodeling Initiative:** Over the past few quarters, Brinker's remodeling efforts have gained momentum leading to improvement in sales. Notably, the company continues to invest in its reimage program. In fact, the company continues to invest in a brand-wide reimage program that will drive traffic and comps over the next three years. Brinker's remodeling initiative is thus expected to continue to invigorate its potential as a brand and augment guests' experience.

▲ **Strengthening Digital Capabilities:** Brinker is also investing heavily in technology-driven initiatives, like online ordering, to augment sales and boost guest services. Having installed a table top technology at all the company-owned restaurants in partnership with Ziosk, the company has now implemented handheld devices in all of California. This is resulting in increased efficiency and speed. During second-quarter fiscal 2020, the company replaced existing tabletop system with a more advanced system to enhance the guest experience and the efficiencies of the model. Moreover, Brinker effectively uses social media platforms and email database to drive customer awareness and boost traffic. These initiatives will contribute significantly to Brinker's business in the near future. Meanwhile, the To-Go platform has been the fastest growing segment of the company. At Chili's, Brinker's To-Go business has been continuously gaining.

In the first half of fiscal 2020, Maggiano's started testing electronic check presenters that facilitate a pay at the table option to provide convenience and efficiency to guests as well as to increase digital guest engagement. Maggiano's also entered into an exclusive partnership with DoorDash to create a more affordable rate structure, making third party delivery more sustainable and efficient for the brand to operate. During fiscal second quarter, guests were provided the option of online ordering directly through Maggiano's website apart from the DoorDash platforms.

Brinker also stands to gain from integrating its My Chili's Reward program with Plenti — a rewards program by American Express that offers leading brands across multiple categories. It gives Chili's access to Plenti's huge database of members and is likely to improve sales and profits. Moreover, the company launched a digital curbside platform in its company-owned restaurants. Thus, take-out guests can now order, pay, and get their food conveniently, all through the Chili's app. With about half of the company's online guests using it, the service is ensuring simpler, faster, effortless experience to take-out guests, thereby resulting in higher check, this should improve sales in the future. Owing to the integration of DoorDash into the POS system as well as a shift in marketing focus (from national TV spots to digital platform), the company is witnessing gradual increase in e-commerce conversions. Resultantly, digital sales of off-premise meals have grown from low teens to more than 50% in the fiscal fourth quarter.

Reasons To Sell:

▼ **Coronavirus to Hurt Future Results:** The company continues to anticipate some volatility ahead due to the uncertainty regarding the coronavirus pandemic and economy. It has been undertaking numerous measures to protect employees, customers and business partners. It has suspended quarterly cash dividend and all share repurchase activity. Further, salaries of the executive committee have been deducted by 50%.

Coronavirus outbreak and slowdown in some of the major emerging markets remain potent headwinds.

▼ **Resurgence in Coronavirus Cases Hurts:** Although the company saw a solid start to the fiscal second quarter, comps at Chili's Grill & Bar and Maggiano's Little Italy restaurants were negatively impacted by dining room closures and capacity limitations due to a rise in COVID-19 cases.

Notably, comps at Chili's for the week ended Oct 28, Nov 4, Nov 11, Nov 18, Nov 25, Dec 2 and Dec 9 declined 1%, 3.9%, 5.7%, 6.5%, 13.3%, 13.8% and 12.3% compared with the prior-year week, respectively. Despite the negative trend, it is worth mentioning that Chili's comparable restaurant sales have outpaced the casual dining industry during the fiscal second quarter.

Meanwhile, comps at Maggiano's for the week ended Oct 28, Nov 4, Nov 11, Nov 18, Nov 25, Dec 2 and Dec 9 decreased 34%, 44.1%, 42.4%, 44.5%, 39.4%, 53.8% and 63.9%, respectively. Moreover, comps at company-owned were down 4.9%, 8.9%, 10.3%, 11.4%, 16.4%, 21.1% and 21.7%, for the week ended Oct 28, Nov 4, Nov 11, Nov 18, Nov 25, Dec 2 and Dec 9, respectively.

▼ **High Debt a Concern:** A strong balance sheet will help a company tide over the ongoing crisis. Long-term debt as of Sep 23, 2020, totaled \$1,158.3 million compared with \$1,209 million as on Jun 24, 2020. The company's debt-to-capitalization came in at 167.1%, compared with 165.7% at the end of Jun 24, 2020. However, its "Times Interest Earned" ratio stood at 1.0, indicating a decline from 1.1 reported in the prior quarter. Moreover, the company ended the quarter with cash and cash equivalents of \$58.8 million, which may not be enough to manage the high debt level.

▼ **Weak Maggiano's Performance:** Brinker is witnessing weak sales trend at Maggiano's. In the fiscal first quarter, Maggiano's sales fell 40.7% year over year to \$53.6 million primarily due to lower dining sales on account of COVID-19. However, this was partially offset by increased off-premise sales. Comps slumped 38.6% year over year. Maggiano's company restaurant expenses (as a percentage of company sales) in the fiscal first quarter soared 100.2% year over year compared with the prior-year quarter's 96.2%. The increase was primarily led by sales deleverage and high expenses related to delivery fees and supplies. However, these were partially negated by lower advertising, labor, repairs and maintenance expenses, better menu item mix, lower utilities expenses and favorable menu pricing.

▼ **Slowdown in International Market:** Brinker's international comps might be under pressure in the coming quarters, due to a slowdown in some of the international markets that it operates in. Brinker is highly exposed to various emerging nations, which has been exhibiting decelerating growth for some time due to various macro headwinds. This might limit discretionary spending, in turn hurting the company's top line. For instance, the company's business in the Middle East is widely challenged, given the adverse economic factors impacting the region. In fourth-quarter fiscal 2020, the company reported dismal international franchise comparable sales at Chili's restaurants.

Last Earnings Report

Brinker Q1 Earnings and Revenues Surpass Estimates

Brinker reported first-quarter fiscal 2021 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. While the bottom line beat the consensus estimate for the fourth straight quarter, the top line outpaced the same for third consecutive quarter. However, both the metrics declined year over year.

Earnings & Revenue Discussion

The company reported adjusted earnings per share of 28 cents, which compares favorably with the Zacks Consensus Estimate of a loss of 18 cents. Notably, Brinker had reported adjusted earnings of 41 cents in the year-ago quarter.

Quarterly revenues of \$740.1 million beat the consensus mark of \$733. However, the top line declined 5.8% on a year-over-year basis. Notably, the downside can primarily be attributed to the COVID-19 pandemic, which negatively impacted the dining room sales. This was partially mitigated by the acquisition of 116 Chili's restaurants in first-quarter fiscal 2020 and an increase in off-premise sales.

Brand Performances

Brinker primarily engages in ownership, operation, development and franchising of various restaurant brands under Chili's Grill & Bar (Chili's) and Maggiano's Little Italy (Maggiano's).

Chili's

Chili's revenues in the fiscal first quarter fell 1.3% year over year to \$686.5 million, primarily due to lower traffic and dismal dining room sales. However, this was partly offset by the buyout of 116 Chili's restaurants (during first-quarter fiscal 2020) and increased off-premise sales.

Chili's company restaurant expenses (as a percentage of company sales) in the fiscal first quarter declined to 87.5% year over year compared with 88% in the prior-year quarter. The downside can primarily be attributed to lower advertising expenses, decline in manager and hourly labor expenses, and reduced repairs and maintenance expenses. This was marginally negated by sales deleverage and increase in expenses primarily related to delivery fees.

In first-quarter fiscal 2021, company-owned comps declined 7.2% from the prior-year quarter.

Comps at Chili's franchised restaurants declined 11.5% compared with 0.3% fall in the year-ago quarter. At international franchised Chili's restaurants, the same fell 21.9% compared with the year-ago quarter's decline of 1.3%. Meanwhile, at the U.S. franchised units, comps declined 5.6% against the year-ago quarter's growth of 0.4%.

At Chili's, domestic comps (including company-owned and franchised) fell 7% versus the prior-year quarter's increase of 2.3%.

Maggiano's

Maggiano's sales fell 40.7% year over year to \$53.6 million primarily due to lower dining sales on account of COVID-19. However, this was partially offset by increased off-premise sales. Comps plunged 38.6% year over year.

Maggiano's company restaurant expenses (as a percentage of company sales) in the fiscal first quarter soared 100.2% year over year compared with the prior-year quarter's 96.2%. The increase was primarily led by sales deleverage and high expenses related to delivery fees and supplies. However, these were partially negated by lower advertising, labor, repairs and maintenance expenses, better menu item mix, lower utilities expenses and favorable menu pricing.

Operating Results

Total operating costs and expenses declined to \$715.7 million from \$754.8 million in the year-ago quarter. Moreover, restaurant operating margin — as a percentage of company sales — was 11.6% compared with 11% in the prior-year quarter.

Balance Sheet

As of Sep 23, 2020, cash and cash equivalents amounted to \$58.8 million compared with \$29 million as on Sep 25, 2019.

Long-term debt was \$1,158.3 million as of Sep 23, 2020, compared with \$1,208.5 million on Jun 24, 2020. Total shareholders' deficit in the reported quarter came in at (\$465.1) million compared with (\$479.1) million as of Jun 24, 2020.

Q2 Outlook

For second-quarter fiscal 2021, adjusted net earnings per share are expected in the range of 40 cents to 60 cents. The Zacks Consensus Estimate for the same is currently pegged at earnings of 38 per share. Comparable restaurant sales are expected to be in the negative mid-single digit range.

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	1.03%
EPS Surprise	255.56%
Quarterly EPS	0.28
Annual EPS (TTM)	1.69

Valuation

Brinker's shares are up 38.3% in the year-to-date period and 38.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 12.9%, and the Zacks Retail-Wholesale sector is up by 37.8%, in the year-to-date period. Over the past year, the Zacks sub-industry is up by 12.9%, while the sector is up by 38.4%.

The S&P 500 index is up by 16.6% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 17.9X forward 12-month earnings, which compares to 29.89X for the Zacks sub-industry, 30.88X for the Zacks sector and 22.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.27x and as low as 1.73x, with a 5-year median of 12.23x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$61 price target reflects 18.82x forward 12-month earnings.

The table below shows summary valuation data for EAT.

Valuation Multiples - EAT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.9	29.89	30.88	22.94
	5-Year High	32.27	34.28	34.06	23.79
	5-Year Low	1.73	20.43	19.08	15.3
	5-Year Median	12.23	23.14	23.62	17.81
P/S F12M	Current	0.77	3.84	1.31	4.34
	5-Year High	0.93	3.93	1.32	4.34
	5-Year Low	0.08	2.82	0.83	3.17
	5-Year Median	0.58	3.36	1.01	3.67
P/CF	Current	11.01	32.29	16.48	20.33
	5-Year High	11.01	34.25	18.96	23.64
	5-Year Low	0.97	8.62	11.01	12.87
	5-Year Median	6.67	17.03	13.42	18.41

As of 12/22/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 31% (177 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
The Cheesecake Factory Incorporated (CAKE)	Neutral	3
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	3
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
DINE BRANDS GLOBAL, INC. (DIN)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
Darden Restaurants, Inc. (DRI)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	2

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	EAT	X Industry	S&P 500	ARCO	CAKE	CBRL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	F	D
Market Cap	2.63 B	595.39 M	26.07 B	993.47 M	1.69 B	3.22 B
# of Analysts	11	7	13	2	6	4
Dividend Yield	0.00%	0.00%	1.49%	2.50%	0.00%	0.00%
Value Score	A	-	-	B	C	C
Cash/Price	0.02	0.13	0.06	0.13	0.14	0.19
EV/EBITDA	16.45	12.86	14.52	6.72	7.88	15.91
PEG F1	2.86	3.10	2.81	NA	NA	NA
P/B	NA	3.18	3.62	6.38	5.24	5.43
P/CF	11.41	11.47	13.87	4.89	8.05	19.26
P/E F1	23.32	34.87	22.02	NA	NA	30.84
P/S TTM	0.87	1.33	2.83	0.47	0.80	1.33
Earnings Yield	4.30%	0.79%	4.36%	-13.33%	-3.02%	3.24%
Debt/Equity	-2.49	0.49	0.70	4.96	1.17	1.54
Cash Flow (\$/share)	5.09	1.79	6.93	0.98	4.60	7.04
Growth Score	A	-	-	F	F	D
Historical EPS Growth (3-5 Years)	-3.98%	-0.61%	9.71%	-12.77%	-13.75%	-17.02%
Projected EPS Growth (F1/F0)	46.46%	-21.00%	1.22%	-266.29%	-142.85%	115.44%
Current Cash Flow Growth	-23.98%	-0.39%	5.23%	42.39%	-1.46%	-49.60%
Historical Cash Flow Growth (3-5 Years)	-7.82%	4.19%	8.33%	93.55%	2.15%	-6.78%
Current Ratio	0.47	1.01	1.39	0.78	0.76	1.86
Debt/Capital	NA%	49.67%	41.97%	83.21%	64.51%	60.60%
Net Margin	0.67%	-1.89%	10.40%	-6.50%	-1.89%	3.92%
Return on Equity	-12.26%	-11.49%	14.99%	-55.12%	-8.77%	3.54%
Sales/Assets	1.23	0.80	0.50	0.94	0.76	0.98
Projected Sales Growth (F1/F0)	6.87%	0.00%	0.39%	-35.37%	-17.25%	8.53%
Momentum Score	F	-	-	A	F	F
Daily Price Change	3.55%	0.00%	-0.77%	-3.42%	-0.83%	1.24%
1-Week Price Change	3.41%	0.14%	0.87%	-2.43%	0.75%	-0.21%
4-Week Price Change	11.20%	2.96%	1.83%	-1.64%	-1.67%	-6.77%
12-Week Price Change	33.33%	20.01%	14.52%	16.79%	36.90%	19.01%
52-Week Price Change	38.18%	-5.46%	5.55%	-39.95%	-5.17%	-13.74%
20-Day Average Volume (Shares)	1,154,464	241,992	2,035,313	885,254	902,326	352,227
EPS F1 Estimate 1-Week Change	-11.61%	0.00%	0.00%	0.00%	-3.87%	0.00%
EPS F1 Estimate 4-Week Change	-11.07%	-0.66%	0.00%	7.25%	0.45%	-14.87%
EPS F1 Estimate 12-Week Change	22.29%	6.97%	3.79%	8.57%	12.52%	-3.99%
EPS Q1 Estimate Monthly Change	-34.79%	-0.29%	0.00%	0.00%	-17.46%	-55.90%

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	A
Growth Score	A
Momentum Score	F
VGM Score	A

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.