

Ecolab Inc. (ECL)

\$210.91 (As of 02/16/21)

Price Target (6-12 Months): **\$221.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Ecolab exited the fourth quarter on a mixed note, wherein earnings were in line with the consensus mark, while revenues missed the same. The company displayed substantial sequential improvement despite the impacts of COVID-19 on its business segments. Ecolab's Global Healthcare and Life Sciences segment exhibited solid performance. The company remains optimistic about its efficiency program that will generate \$335 million of run rate savings by the end of 2022. However, it witnessed weak performance across Global Industrial and Global Institutional business segments in the fourth quarter. Contraction in margins raises concern. Ecolab has also not provided either quarterly or 2021 guidance in view of the continued uncertainty due to the COVID-19 pandemic. Also, shares of the company have underperformed the industry in a year's time.

Data Overview

52-Week High-Low	\$231.36 - \$124.60
20-Day Average Volume (Shares)	862,642
Market Cap	\$62.8 B
Year-To-Date Price Change	1.6%
Beta	1.01
Dividend / Dividend Yield	\$1.92 / 0.9%
Industry	Chemical - Specialty
Zacks Industry Rank	Bottom 30% (177 out of 253)

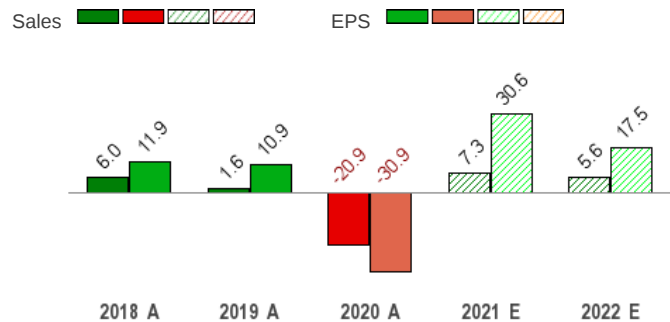
Last EPS Surprise	5.5%
Last Sales Surprise	-1.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/16/2021
Earnings ESP	0.0%

P/E TTM	47.9
P/E F1	40.2
PEG F1	3.8
P/S TTM	4.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					13,368 E
2021	2,933 E	3,091 E	3,256 E	3,331 E	12,654 E
2020	3,581 A	2,686 A	3,019 A	3,065 A	11,790 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$6.17 E
2021	\$0.99 E	\$1.23 E	\$1.46 E	\$1.56 E	\$5.25 E
2020	\$1.13 A	\$0.65 A	\$1.15 A	\$1.23 A	\$4.02 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/16/2021. The report's text and the analyst-provided price target are as of 02/17/2021.

Overview

Headquartered in St. Paul, MN, Ecolab Inc is a leading provider of water, hygiene and energy technologies and services that protect people and vital resources.

The company's programs and services helps in promoting safe food, maintaining clean environments, optimizing water and energy use, and improving operational efficiencies for customers in the food, energy, healthcare, industrial and hospitality markets in more than 170 countries.

With effect from the first quarter of 2020, the company has made modifications to the way it reports through its segments, as discussed below.

Global Industrial segment consists of the Water, Food & Beverage, Paper and Textile Care operating units. The segment provides water treatment & process applications, and cleaning & sanitizing solutions primarily to large industrial customers within the manufacturing, food and beverage processing, chemical, mining and primary metals, power generation, pulp and paper, and commercial laundry industries.

Global Institutional & Specialty segment comprises Institutional, Specialty and Healthcare operating units. The segment offers specialized cleaning and sanitizing products to the foodservice, hospitality, lodging, healthcare, government and education and retail industries.

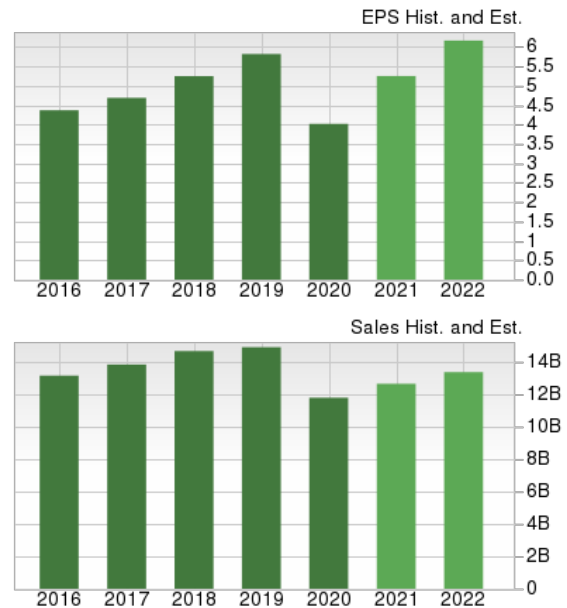
Global Healthcare and Life Sciences segment comprises Healthcare and Life Sciences businesses.

The **Other segment** comprises the remaining two units Pest Elimination and Equipment Care which are primarily fee-for-service businesses.

2020 at a Glance

Ecolab's 2020 revenues totaled \$11.79 billion, down 6%.

Global Industrial sales were \$5.96 billion (50.5% of net sales), Global Institutional & Specialty sales grossed \$3.58 billion (30.3%), Global Healthcare and Life Sciences revenues were \$1.19 billion (10.1%), while Other revenues were \$1.09 billion (9.3%).



Source: Zacks Investment Research

Reasons To Buy:

▲ **Cost Efficiency Program:** During the third quarter of 2020, Ecolab announced the expansion of the Ecolab Efficiency Initiative that will generate \$335 million of projected savings (up from the previous expectation of \$270 million) by the end of 2022. Additionally, in order to acknowledge evolving end markets in Institutional business line and boost its capability in capturing market share, the company granted the Institutional Advancement program (the Institutional program) in the fourth quarter. The program is an advancement of improvements made throughout the past 18 months and is committed toward continued improvement of its sales and service model, while maintaining its focus on growth and excellent customer experience. This, in turn, will further boost the company's sales firepower and maximize its service effectiveness by leveraging its substantial and ongoing investments in digital technology.

A robust product portfolio, new product launches and expanding customer base should drive organic sales while the realization of targeted synergies associated with acquisitions should expand margins.

On the back of the combined effect of these two programs, Ecolab anticipates incurring costs of \$335 million (\$255 million after tax) through the end of 2023, with cumulative cost savings from the two programs projected to generate annual savings of \$365 million by the end of 2024.

▲ **Product-Portfolio Solid:** Ecolab has major launches underway including the new Smartpowerware wash platform, which is expected to drive institutional improvements. Ecolab also continues to invest significantly in customer-facing technology and in infrastructure technology. Ecolab announced that its Synergex Sanitizer & Disinfectant has become the first product to obtain U.S. Environmental Protection Agency (EPA) approval for efficacy against biofilms. Notably, biofilms are a complex community of bacteria on food contact surfaces. In fact, per EPA, biofilms form when bacteria adhere to environmental surfaces, particularly those in close proximity to high moisture.

In October 2020, the company launched a path-breaking product, Sink & Surface Cleaner Sanitizer, to address unexpected hygiene challenges. It is the first EPA-registered concentrated no-rinse, 2-in-1 cleaner and sanitizer for food contact surfaces that can kill emerging viral pathogens in 30 seconds. Interestingly, the Sink & Surface Cleaner Sanitizer is part of the innovative solutions powering the new Ecolab Science Certified Program. Further, in the same month, Ecolab attained product approval from the EPA for use against SARS-CoV-2 — the virus responsible for COVID-19. Ecolab's Peroxide Multi Surface Cleaner and Disinfectant is the first EPA-registered disinfectant, which has been proven to be effective at killing the SARS-CoV-2 virus and has been approved for use with electrostatic spray technology. Plus, the company recently launched the Precision Dispensing System for Membranes — a precise, easy-to-use and dependable programmable logic controller-based (PLC) cleaning chemical dispenser. This automated Precision Dispensing System can boost worker safety, facilitate productivity and extend asset life for whey processors.

In November 2020, Ecolab unveiled Exelerate TUFSOIL, a breakthrough ready-to-use gel cleaner and degreaser for food and protein manufacturers. Exelerate TUFSOIL aids in more effective cleaning, while reducing time spent eradicating tough, burnt-on soils in fryers, ovens, smokehouses, dryers, racks, catwalks and environmental areas. In the same month, the company became the first to receive U.S. Environmental Protection Agency (EPA) product approval for disinfection of biofilms in wastewater drains for its Virasept product. It is a crucial component of an elaborate environmental hygiene program developed to proficiently help combat bacterial growth in hospitals. In December, the FDA granted Emergency Use Authorization to Ecolab's Bioquell Technology System to decontaminate specific N95 respirators. The company's decontamination technology aids in respirator reuse by healthcare personnel to help address shortages.

Ecolab has been gaining traction in digital technology markets also. The company expects huge investments in the coming quarters to enhance its digital portfolio. New customer digital programs like SMARTPOWER, 3D CIP, 3D TRASAR, new QSR and FRS digital safety platforms continue to improve field efficiency, customer service and capability.

▲ **Global Industrial Drives Growth:** Sales at the segment decreased 1.9% year over year to \$1.55 billion. A substantial decrease in Downstream sales and a decline in Water more than offset modest sales growth in Food & Beverage and Paper sub units. The segment witnessed a modest decline in sales in the fourth quarter as a result of end-market activity gradually returning to more normal levels, while income growth remained strong, courtesy of pricing and lower costs.

In 2019, Ecolab acquired New York-based Cascade Water Services Inc., a privately-held company that provides water treatment programs and services to the U.S. institutional market. Notably, acquisition broadens services and improves opportunities in strategic water treatment market in the Global Industrial unit.

▲ **Strong Business:** Ecolab's consistent delivery of considerable earnings growth despite the current challenging business environment continues to impress. One can derive comfort from the company's large base of recurring revenues and its industry-leading technologies along with excellent field service, to support long-term growth for the company. Management remains optimistic regarding improvement in its ability to attract new customers, and opportunities for greater customer penetration through new product development.

Although Ecolab expects to see a substantial impact on the economy and its end markets due to COVID-19 as it progresses in 2021, the company is optimistic that its solid business wins, product and service innovation, investments in new hygiene and digital technologies, and successful sales and profit initiatives will deliver year-over-year earnings growth in 2021. The company expects its first quarter to witness a year-over-year percentage decline, exhibiting modest sequential improvement from the fourth quarter and the remaining quarters of 2021 to display strong growth on a year-over-year basis. The company continues to invest in the key drivers for its business. Moreover, Ecolab's expedited investments in hand care and sanitizer capacity are showing good results, while sustained digital investments and accelerated field technology deployment are helping it to offer extremely good customer support, thereby enabling better value delivery and boosting efficiency in its cost to serve.

▲ **Strategic Acquisitions & Divestments:** Ecolab continues to focus on investment in key growth businesses and bolt-on acquisitions to gain market traction and boost profits.

In May, Ecolab completed the acquisition of CID Lines — a leading global provider of livestock biosecurity and hygiene solutions — forming a new Animal Health division. On the back of the combined strengths and experience, Ecolab will be able to build and expand the hygiene solutions for the future of the food industry.

- ▲ **Separation of ChampionX Business:** On Dec 19, 2019, Ecolab entered into a definitive agreement wherein it decided to separate the ChampionX business and at the same time combining it with Apergy Corporation in a tax-free Reverse Morris Trust transaction. The transaction is likely to build a stronger business that can push through the current downturn and also become a successful, long-term market leader with more robust cash generation, low capital intensity and large base of consumable revenues.

The transaction was completed on Jun 3, 2020. Notably, ChampionX will be accounted as a discontinued operation for Ecolab's full-year 2020.

Strong International Presence: Ecolab has a significant presence in the international market. The largest international operations of the company are in Europe, Asia-Pacific, Latin America and Canada. Ecolab operates on a smaller scale in Africa and the Middle East. Latin America represents a key growth area for the company's overseas operation. Ecolab's strong international presence has boosted its growth and we believe will continue doing so in the coming years, buoyed by the strong performance from emerging markets.

- ▲ **Stable Liquidity Position:** Ecolab exited the fourth quarter with cash and cash equivalents of \$1.26 billion, higher than \$1.03 billion sequentially. Meanwhile, long-term debt amounted to \$6.67 billion in the quarter, remaining flat sequentially. The long-term debt level is significantly higher than the quarter's cash and cash equivalent level. However, we can see that the current debt level of \$17.3 million in the quarter (significantly down from \$247.3 million sequentially) is in fact substantially lower than the short-term cash level. This is good news in terms of the company's solvency level as at least during economic downturn, it has sufficient cash for debt repayment.
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Reasons To Sell:

▼ **Weak Stock Performance:** In a year's time, Ecolab's stock has gained 1.6% compared to the industry's growth of 17.9%. The company's decision to not issue either quarterly or 2021 outlook due to sustained uncertainty related to the COVID-19 pandemic has put an impact on the stock's performance. Softness across Global Industrial and Institutional segments also raise concern. Further, intense competition and cost fluctuations continue to weigh on the company's overall growth.

Intensifying competition, foreign exchange volatility, higher raw material costs and integration risks are primary headwinds.

▼ **Suspension of 2021 Outlook:** The company has not issued either quarterly or 2021 outlook due to the continued uncertainty surrounding the COVID-19 pandemic, and the full scope of its impact on the global economy and duration of the same.

Sales at the Healthcare & Life Sciences segment for 2021 are anticipated to exhibit moderate improvement compared with the previous year's solid growth. Both Industrial segment business and Institutional and Other segment sales are projected to show substantial growth on a year-over-year basis in 2021.

Per management, the pandemic will continue to remain a key economic factor throughout 2021, especially in the early part of the year.

▼ **Segmental Softness:** In fourth-quarter 2020, Ecolab's Global Industrial sales declined 1.9% year over year to \$1.55 billion. A substantial decrease in Downstream sales and a decline in Water more than offset modest sales growth in Food & Beverage and Paper. Further, sales at the Global Institutional segment plunged 21.9% year over year to \$881.4 million, owing to a steep decline in the Institutional business and a modest decrease in Specialty sales. With respect to the Other segment, sales fell 8.1% year over year to \$282.9 million.

▼ **Cutthroat Competition:** Ecolab operates in highly competitive markets. The company's competitors can be grouped into two classes: large companies, selling directly or through distributors, and many smaller regional players who focus on limited geographical areas, product line, and/or end-user division. Notably, Ecolab faces competition from bigwigs like P&G, Unilever, PuroClean and ChemStation. The company's U.S. Cleaning & Sanitizing and International divisions face stiff competition from Clorox and Church & Dwight.

▼ **Cost Fluctuations:** The fluctuation in the cost of raw materials, especially in Europe, has the potential to affect Ecolab adversely. The frequent changes in oil or raw material prices, the absence of adequate and reasonably priced raw materials or their substitutes coupled with other factors, can hinder the business model of the company. Although Ecolab employs effective pricing strategies to offset raw material inflation, raw material cost is expected to remain a headwind, moving ahead.

Last Earnings Report

Ecolab Q4 Earnings In Line With Estimates, Revenues Lag

Ecolab Inc. reported fourth-quarter 2020 adjusted earnings per share of \$1.23, which were in line with the Zacks Consensus Estimate. However, the bottom line declined 15.2% on a year-over-year basis.

The year-over-year decline in the bottom line was due to COVID-associated volume declines, unfavorable business mix and investments in the business, which more than offset favorable pricing, lower variable compensation and cost-saving initiatives.

For 2020, the company reported adjusted EPS of \$4.02, down 21.5% from that reported in 2019. The figure also missed the consensus mark by 0.2%.

Quarter Ending	12/2020
Report Date	Oct 27, 2020
Sales Surprise	-1.01%
EPS Surprise	5.50%
Quarterly EPS	1.23
Annual EPS (TTM)	4.59

Revenue Details

This Zacks Rank #2 (Buy) company's quarterly net sales were 3.07 billion, down 5.5% from the year-ago figure. Also, the top line missed the Zacks Consensus Estimate by 1%.

For 2020, the company reported net sales of \$11.79 billion, down 6% from the previous year. The figure also missed the consensus mark by 0.9%.

Segmental Analysis

With effect from the first quarter of 2020, the company has made modifications to the way it reports through its segments, as discussed below.

Global Industrial

Sales at the segment fell 1.9% year over year to \$1.55 billion. Substantial decrease in Downstream sales and a decline in Water more than offset modest sales growth in Food & Beverage and Paper.

Global Institutional & Specialty

Sales plunged 21.9% year over year to \$881.4 million owing to a steep decline in the Institutional business and a modest decrease in Specialty sales.

Global Healthcare and Life Sciences

Sales at the segment improved 23% year over year to \$314.1 million, courtesy of higher sales owing to the coronavirus-related demand in both the Healthcare and Life Sciences business lines.

Other

Sales declined 8.1% year over year to \$282.9 million.

Margin Analysis

Ecolab reported adjusted gross profit of \$1.29 billion, down 12.6% year over year. As a percentage of revenues, adjusted gross margin in the fourth quarter was 42%, down 270 basis points (bps).

Adjusted operating income in the quarter was \$479.1 million, down 16% year over year. Adjusted operating margin in the quarter was 15.6%, which contracted 180 bps year over year.

Guidance

The company has not issued either quarterly or 2021 outlook due to the continued uncertainty surrounding the COVID-19 pandemic and the full scope of its impact on the global economy and duration of the same.

Full-year 2021 sales at the Healthcare & Life Sciences segment are anticipated to exhibit moderate improvement compared with the previous year's solid growth. Both Industrial segment business and Institutional and Other segment sales are projected to show substantial growth on a year-over-year basis in 2021.

Per management, the pandemic will continue to remain a key economic factor throughout 2021, especially in the early part of the year.

Recent News

Ecolab Gets EPA Nod for Biofilm Disinfectant Virasept : Nov 19, 2020

Ecolab recently became the first company to receive U.S. Environmental Protection Agency (EPA) product approval for disinfection of biofilms in wastewater drains for its Virasept product.

Ecolab Introduces Exelerate TUFSOIL for Food Manufacturers: Nov 12, 2020

Ecolab recently unveiled Exelerate TUFSOIL, a breakthrough ready-to-use gel cleaner and degreaser for food and protein manufacturers.

Valuation

Ecolab's shares are up 8.6% and 1.7% in the six-month period and trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Basic Materials Market are up 30.7% and 22.9% in the six-month period, respectively. Over the past year, stocks in the Zacks sub-industry and market are up 17.9% and 33.1%, respectively.

The S&P 500 index is up 17.1% in the past six-months period and 18.7% in the past year.

The stock is currently trading at 4.7X Forward 12-months sales, which compares to 5.5X for the Zacks sub-industry, 2.1X for the Zacks sector and 4.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.1X and as low as 2.1X, with a 5-year median 2.8X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$221 price target reflects 4.9X forward 12-months sales.

The table below shows summary valuation data for ECL.

Valuation Multiples - ECL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	4.72	5.45	2.06	4.59
	5-Year High	5.12	6.22	2.34	4.59
	5-Year Low	2.13	2.96	1.35	3.21
	5-Year Median	2.8	3.89	1.96	3.68
P/B TTM	Current	9.95	9.22	3.35	6.7
	5-Year High	10.66	10.76	3.47	6.7
	5-Year Low	4.14	4.17	1.22	3.84
	5-Year Median	5.5	7.37	2.25	4.96

As of 02/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Celanese Corporation (CE)	Outperform	3
H. B. Fuller Company (FUL)	Neutral	3
Green Plains, Inc. (GPPE)	Neutral	3
Givaudan SA (GVDNY)	Neutral	4
Israel Chemicals Shs (ICL)	Neutral	3
Orbia Advance Corporation, S.A.B. de C.V. Un-sponsored ADR (MXCHY)	Neutral	3
Valvoline Inc. (VTV)	Neutral	3
Axalta Coating Systems Ltd. (AXTA)	Underperform	5

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

Industry Comparison Industry: Chemical - Specialty				Industry Peers		
	ECL	X Industry	S&P 500	CE	GVDNY	MXCHY
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	B	F	B
Market Cap	62.76 B	3.18 B	28.13 B	15.52 B	37.95 B	5.25 B
# of Analysts	12	2	13	9	1	1
Dividend Yield	0.87%	0.43%	1.4%	2.05%	0.96%	1.57%
Value Score	D	-	-	B	D	B
Cash/Price	0.02	0.05	0.06	0.10	NA	0.24
EV/EBITDA	21.49	10.60	14.95	6.28	NA	5.92
PEG F1	3.80	3.29	2.36	2.25	NA	NA
P/B	10.38	2.35	3.85	3.98	NA	1.71
P/CF	22.72	12.15	15.17	12.15	NA	7.01
P/E F1	40.17	18.57	20.78	13.41	43.72	22.73
P/S TTM	4.79	1.84	3.05	2.74	NA	0.83
Earnings Yield	2.39%	5.05%	4.73%	7.46%	2.29%	4.40%
Debt/Equity	1.10	0.63	0.68	0.83	NA	1.29
Cash Flow (\$/share)	9.29	2.08	6.76	10.79	NA	0.71
Growth Score	C	-	-	D	D	D
Historical EPS Growth (3-5 Years)	6.00%	4.13%	9.27%	8.88%	NA	NA
Projected EPS Growth (F1/F0)	30.46%	29.55%	14.04%	29.60%	4.44%	10.00%
Current Cash Flow Growth	8.14%	1.73%	3.29%	-18.38%	NA	NA
Historical Cash Flow Growth (3-5 Years)	4.49%	5.28%	7.74%	-0.29%	NA	7.34%
Current Ratio	1.61	2.40	1.38	1.91	NA	1.43
Debt/Capital	52.43%	39.23%	41.33%	45.31%	NA	56.33%
Net Margin	-8.21%	2.72%	10.58%	35.10%	NA	2.01%
Return on Equity	18.14%	9.37%	14.86%	28.97%	NA	5.22%
Sales/Assets	0.66	0.60	0.51	0.57	NA	0.61
Projected Sales Growth (F1/F0)	6.35%	7.88%	6.33%	10.68%	2.17%	9.57%
Momentum Score	C	-	-	B	F	A
Daily Price Change	-4.08%	0.00%	0.39%	-1.21%	-1.83%	0.00%
1-Week Price Change	3.34%	3.63%	4.58%	4.25%	3.38%	0.00%
4-Week Price Change	-2.32%	2.46%	1.47%	-1.07%	0.44%	0.00%
12-Week Price Change	-3.83%	12.68%	9.09%	-4.60%	2.39%	1.42%
52-Week Price Change	1.56%	36.94%	8.71%	21.69%	17.56%	4.17%
20-Day Average Volume (Shares)	862,642	186,920	2,105,275	921,117	24,249	1
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.62%	6.63%	-4.08%	-4.35%
EPS F1 Estimate 12-Week Change	-0.33%	1.22%	1.93%	9.50%	-2.59%	22.22%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.30%	17.29%	NA	NA

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	F
Growth Score	C
Momentum Score	D
VGM Score	F

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

Disclosures

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

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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.

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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.