

## Emerson Electric Co.(EMR)

**\$80.10** (As of 12/04/20)

Price Target (6-12 Months): **\$84.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

## Summary

Emerson is poised to benefit from strength across its medical, life science, food and beverage, and power end markets as well as a robust backlog level. Also, the company is likely to gain from acquisitions it made over time. It is rewarding shareholders handsomely through dividends and share buybacks. Notably, the company intends to repurchase \$0.5-\$1 billion of shares in fiscal 2021. However, the stock has underperformed the industry on a year-to-date basis. Going forward, the company expects overall demand environment to remain soft, and to witness weakness in process and discrete end markets. For first-quarter fiscal 2021, the company predicts an organic sales decline of 6-7% on a year-over-year basis. Further, high debt levels can increase its financial obligations. Foreign exchange headwinds might affect its performance as well.

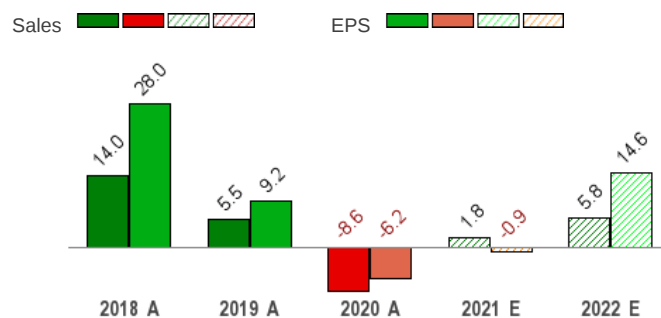
## Price, Consensus & Surprise



## Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$80.44 - \$37.75           |
| 20-Day Average Volume (Shares) | 2,551,640                   |
| Market Cap                     | \$47.9 B                    |
| Year-To-Date Price Change      | 5.0%                        |
| Beta                           | 1.55                        |
| Dividend / Dividend Yield      | \$2.02 / 2.5%               |
| Industry                       | Manufacturing - Electronics |
| Zacks Industry Rank            | Top 42% (106 out of 254)    |

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



|                               |       |
|-------------------------------|-------|
| Last EPS Surprise             | 15.8% |
| Last Sales Surprise           | 1.1%  |
| EPS F1 Estimate 4-Week Change | -0.6% |
| Expected Report Date          | NA    |
| Earnings ESP                  | 0.1%  |
| P/E TTM                       | 23.2  |
| P/E F1                        | 23.4  |
| PEG F1                        | 2.4   |
| P/S TTM                       | 2.9   |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 | 4,223 E | 4,426 E | 4,544 E | 4,951 E | 18,082 E |
| 2021 | 3,939 E | 4,110 E | 4,344 E | 4,718 E | 17,095 E |
| 2020 | 4,151 A | 4,162 A | 3,914 A | 4,558 A | 16,785 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.78 E | \$0.92 E | \$0.98 E | \$1.25 E | \$3.93 E |
| 2021 | \$0.68 E | \$0.82 E | \$0.87 E | \$1.09 E | \$3.43 E |
| 2020 | \$0.67 A | \$0.89 A | \$0.80 A | \$1.10 A | \$3.46 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 12/04/2020. The reports text is as of 12/07/2020.

## Overview

Headquartered in St. Louis, MO, Emerson Electric Co. is a diversified global engineering and technology company, with presence in Europe, the Americas, and Asia, Middle East & Africa. It offers a wide range of products and services to customers in consumer, commercial and industrial markets.

The company reports revenues under two operating segments:

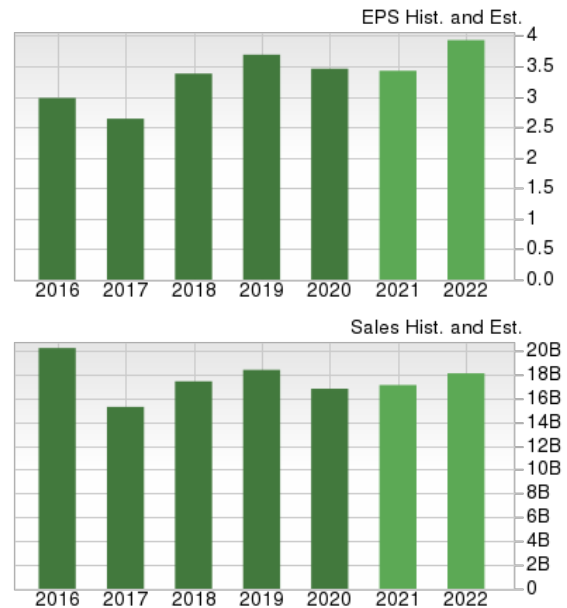
- **Automation Solutions** (65.9% of total revenues in fourth-quarter of fiscal 2020): The segment provides measurement and analytical instrumentation, valves, actuators and regulators, industrial solutions, and process control systems and solutions.

Notably, the segment sells its products globally through various distribution channels like network of sales representatives, direct sales force and independent distributors. Notably in the United States, half of the products are sold through a direct sales force, while the rest mainly through independent sales representatives and distributors. In Europe and Asia, the segment primarily employs a direct sales force.

- **Commercial and Residential Solutions** (34.1%): The segment provides products and services used in commercial air conditioning, residential cooling and heating, industrial and commercial refrigeration, and cold chain management. Also, the segment offers professional tools and appliance solutions.

This segment employs a direct sales channel in an effort to distribute its products and solutions to end users and original equipment manufacturers. It also uses online retailers and independent distributor networks to market its products in various countries.

Notably, the company's two business segments feature market leading brands, consisting of differentiated products within their respective markets. The company's diverse portfolio of products includes leading brands like Aventics, Bettis, Branson, DeltaV, Copeland, Dixell and Fusite.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Emerson is experiencing continued strength across its medical, life science, food and beverage, and power end markets. Also, robust backlog level — which was \$4.7 billion at the end of the fiscal fourth quarter — at its Automation Solutions segment is likely to support its revenues in the quarters ahead. In addition, the company's focus on operational efficiency and cost-control measures will likely support its margins, going forward.
- ▲ Acquisitions have been Emerson's preferred mode of business expansion. For instance, in February 2019, the company acquired General Electric Company's Intelligent Platforms business and integrated it with its Automation Solutions segment. It is worth mentioning that the buyout expanded Emerson's opportunities across process and discrete industries as well as hybrid markets like metals and mining, food and beverage, life sciences, and packaging. Also, the company completed the acquisition of Verdant (March 2020), a leading provider of energy management solutions. Notably, the buyout has been enabling Emerson to strengthen its portfolio of thermostat and sustainability solutions for the hotel and hospitality industries, and serve a stronger customer base. In addition, its buyout of American Governor Company (April 2020) will enable it to boost its offerings for its power customers. Further, the company's acquisition of Open Systems International (October 2020) will strengthen its offerings under the Automation Solutions segment. Its buyout of Progea Group (October 2020) will also enhance its offerings within control and embedded software space. In addition, its buyout of 7AC Technologies (November 2020) will enable it to boost its offerings within heating, ventilation and air conditioning space. The company used \$469 million and \$126 million for making acquisitions (net of cash acquired) in fiscal 2019 and fiscal 2020, respectively. Notably, it expects acquisitions to have a positive impact of 1% on sales growth in fiscal 2021.
- ▲ Strong cash flows allow Emerson to effectively deploy capital for making acquisitions, repurchasing shares and paying out dividends. For instance, in the fiscal 2020, the company generated net cash of \$3,083 million from operating activities, marking growth of 2.6% on a year-over-year basis. It repurchased shares worth \$942 million in fiscal 2020 (no repurchasing activities were made in the fiscal fourth quarter) apart from dividend disbursement of \$1,209 million. It is worth noting that in November 2020, it hiked the annual dividend rate by 2 cents. For fiscal 2021, the company anticipates operating cash flow of \$3.1 billion and free cash flow of \$2.5 billion. In addition, it intends to repurchase \$0.5-\$1 billion of shares in fiscal 2021.

Emerson's dominant position in key markets and acquired assets are likely to drive its competency in the long run. Also, strong cash flows are likely to be beneficial.

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## Reasons To Sell:

- ▼ Year to date, Emerson's shares have moved up 8.3% compared with the industry's growth of 19%. In fourth-quarter fiscal 2020, the company's organic revenues declined 9% year over year on weak demand environment due to the coronavirus outbreak-led weakness across most end markets. It expects overall demand to remain challenging in the quarters ahead owing to weakness across process and discrete end markets along with persistent softness in oil and gas space. Emerson anticipates revenues to return to growth in the third quarter of fiscal 2021. For first-quarter fiscal 2021, the company predicts an overall organic sales decline of 6-7% on a year-over-year basis. On a segmental basis, organic sales of Automation Solutions are likely to decline 12-13%.
- ▼ Emerson's long-term debt in the last three fiscal years (2018-2020) increased 26.3% (CAGR). At the end of fiscal 2020, the company's long-term debt was \$6,326 million, up 15% sequentially. Moreover, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.43, higher than the industry's 0.28. Moreover, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio was 16 at the end of the fiscal fourth quarter of 2020, lower than 16.4 recorded at the end of the previous quarter. High-debt levels can increase its financial obligations and prove detrimental to its profitability.
- ▼ Emerson's operations are spread across the world, the majority of which are outside the United States. Therefore, the company is exposed to global economic and political risks as well as unfavorable movements in foreign currencies. Although foreign exchange had a positive impact of 1% on Emerson's fiscal fourth-quarter sales on a year-over-year basis, it hurt its sales by 2% and 1% in the second and third quarters of fiscal 2020, respectively. Fluctuations in foreign exchange rates may affect the company's top line in the quarters ahead.

Challenging demand environment, persistent weakness in process, discrete and oil and gas end markets, and high debt level remain concerning for Emerson.

## Last Earnings Report

### Emerson Electric Q4 Earnings & Revenues Beat Estimates

Emerson's fourth-quarter fiscal 2020 (ended Sep 30, 2020) adjusted earnings of \$1.10 per share beat the Zacks Consensus Estimate of 95 cents. On a year-over-year basis, the bottom line improved 2.8%.

In fiscal 2020, the company's adjusted earnings were \$3.46, down 6% on a year-over-year basis.

#### Inside the Headlines

Emerson's net sales were \$4,558 million in the quarter, reflecting a decline of 8.3% from the year-ago quarter. Underlying sales were down 9% on account of the decline in demand owing to the coronavirus outbreak. Forex woes had a 1% positive impact on sales, while acquired assets had no impact. Notably, the top line beat the Zacks Consensus Estimate of \$4,509 million.

In fiscal 2020, the company's net sales were \$16,785 million, down 8.6% on a year-over-year basis.

The company reports net sales under two segments — **Automation Solutions**, and **Commercial & Residential Solutions**. Fiscal fourth-quarter segmental results are briefly discussed below:

Automation Solutions' net sales were \$3,005 million, decreasing 10.8% year over year. Underlying sales declined 11%, while foreign exchange and acquired assets had no impact on sales.

Commercial & Residential Solutions generated net sales of \$1,555 million in the fiscal fourth quarter, down 3.3% year over year. Underlying sales were down 3%, while foreign exchange and acquired assets had no impact on sales. Under the segment, Climate Technologies' sales declined 2.7% year over year to \$1,111 million, and that from Tools & Home Products decreased 4.7% to \$444 million.

#### Gross Margin

In the quarter under review, Emerson's cost of sales decreased 5.9% year over year to \$2,676 million. It represented 58.7% of net sales compared with 57.2% in the year-ago quarter. Gross margin was at 41.3%, down 150 basis points. Selling, general and administrative (SG&A) expenses declined 14.7% to \$946 million. As a percentage of sales, SG&A expenses were 20.8% compared with 22.3% in the year-ago quarter.

#### Balance Sheet and Cash Flow

Exiting fiscal 2020, Emerson had cash and cash equivalents of \$3,315 million, up from \$1,494 million at the end of the fiscal 2019. Long-term debt balance increased 47.9% year over year to \$6,326 million. During fiscal 2020, the company repaid debts of \$503 million.

In fiscal 2020, it generated net cash of \$3,083 million from operating activities, reflecting an increase of 2.6% from a year ago. Capital expenditure was \$538 million, down from \$594 million.

During fiscal 2020, the company paid out dividends amounting to \$1,209 million and repurchased shares worth \$942 million.

#### Outlook

For fiscal 2021 (ending September 2021), it anticipates net sales growth of 1-4%. Underlying sales are expected to lie in the range of a decline of 1% to growth of 2%.

Adjusted earnings per share are predicted to be \$3.45 for fiscal 2021.

Emerson expects Automation Solutions' net sales to lie in the range of a decline of 1% to growth of 2%, while Commercial & Residential Solutions' net sales are projected to increase 5-8%.

Notably, the company anticipates challenging but gradually improving demand environment in the fiscal first quarter and in the quarters ahead.

| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Nov 03, 2020 |
| Sales Surprise   | 1.09%        |
| EPS Surprise     | 15.79%       |
| Quarterly EPS    | 1.10         |
| Annual EPS (TTM) | 3.46         |

## Recent News

On **Nov 23, 2020**, Emerson announced that it completed the acquisition of Beverly, MA-based 7AC Technologies, Inc. Financial terms of the transaction have not been disclosed by the company.

The solutions provided by 7AC as well as its expertise in providing energy-efficient products will add more value to Emerson Electric's product line dedicated to heating, ventilation and air conditioning. Notably, 7AC will form part of Emerson Electric's Commercial & Residential Solutions segment.

On **Nov 3, 2020**, Emerson's board of directors approved the payment of a quarterly dividend of 50.5 cents per share. The quarterly dividend rate is higher than the previous rate of 50 cents paid by the company in September of 2020. The dividend payment will be made on Dec 10, 2020, to shareholders on record as of Nov 13, 2020.

On **Oct 1, 2020**, Emerson announced that it completed the buyout of Minneapolis, MN-based Open Systems International, Inc. for \$1.6 billion in cash. Concurrently, the company stated that it acquired Modena, Italy-based Progea Group.

The Open Systems buyout will assist Emerson's customers (in the utilities and other industries) to digitize operations and thus help in the use of renewable energy sources and enhancing energy efficiency. The Progea buyout will boost Emerson's offerings within control and embedded software space. Both Open Systems and Progea will be part of Emerson's Automation Solutions segment.

On **Sep 22, 2020**, Emerson clinched a deal to provide its Ovation automation technology for upgrading 14 hydroelectric turbine governors at the Salto Grande Hydroelectric Complex, situated between Uruguay and Argentina.

On **Sep 21, 2020**, Emerson announced the introduction of the Rosemount 8800 Quad Vortex flow meter. The product is developed to meet strict safety standards in environments as well as applications that need safety instrumented systems.

On **Sep 17, 2020**, Emerson entered into a joint commercialization deal with Integra CMS to facilitate fast adoption of continuous manufacturing processes throughout the pharmaceutical industry.

On **Sep 15, 2020**, Emerson announced the launch of a wireless automatic recovery module for its AVENTICS G3 electronic fieldbus platform. The product enables technicians to perform pneumatic valve system commissioning and diagnostics.

## Valuation

Emerson's shares are up 8.3% in the year-to-date period and increased 9.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 19%, while the Zacks Industrial Products sector is up 19.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 22.6% and 22.8%, respectively.

The S&P 500 Index has moved up 17.2% year to date and increased 20.5% in the past year.

The stock is currently trading at 22.76x forward 12-month earnings per share, which compares to 24.61x for the Zacks sub-industry, 23.2x for the Zacks sector and 22.91x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.04x and as low as 10.26x, with a 5-year median of 19.52x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$84 price target reflects 23.87x forward 12-month earnings per share.

The table below shows summary valuation data for EMR.

| Valuation Multiples - EMR |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 22.76 | 24.61        | 23.2   | 22.91   |
|                           | 5-Year High   | 25.04 | 24.61        | 23.2   | 23.47   |
|                           | 5-Year Low    | 10.26 | 13.62        | 12.61  | 15.27   |
|                           | 5-Year Median | 19.52 | 17.79        | 17.76  | 17.77   |
| P/Sales F12M              | Current       | 2.77  | 3.3          | 3.33   | 4.31    |
|                           | 5-Year High   | 2.82  | 3.3          | 3.33   | 4.31    |
|                           | 5-Year Low    | 1.28  | 1.53         | 1.6    | 3.17    |
|                           | 5-Year Median | 2.3   | 2.09         | 2.11   | 3.68    |

As of 12/04/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                    | Rec          | Rank |
|-------------------------------------|--------------|------|
| A. O. Smith Corporation (AOS)       | Outperform   | 2    |
| Regal Beloit Corporation (RBC)      | Outperform   | 2    |
| ABB Ltd (ABB)                       | Neutral      | 3    |
| Energysys (ENS)                     | Neutral      | 3    |
| Eaton Corporation, PLC (ETN)        | Neutral      | 3    |
| Murata Manufacturing Inc. (MRAAY)   | Neutral      | 3    |
| Schneider Electric SE (SBGSY)       | Neutral      | 2    |
| Capstone Turbine Corporation (CPST) | Underperform | 4    |

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

| Industry Comparison Industry: Manufacturing - Electronics |           |            |           | Industry Peers |           |         |
|-----------------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                           | EMR       | X Industry | S&P 500   | ENS            | ETN       | MRAAY   |
| Zacks Recommendation (Long Term)                          | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                                   | 3         | -          | -         | 3              | 3         | 3       |
| VGM Score                                                 | C         | -          | -         | B              | B         | C       |
| Market Cap                                                | 47.87 B   | 3.41 B     | 26.46 B   | 3.57 B         | 47.36 B   | 58.36 B |
| # of Analysts                                             | 10        | 4          | 13        | 2              | 9         | 1       |
| Dividend Yield                                            | 2.52%     | 0.32%      | 1.48%     | 0.84%          | 2.46%     | 0.83%   |
| Value Score                                               | C         | -          | -         | A              | B         | D       |
| Cash/Price                                                | 0.07      | 0.08       | 0.07      | 0.12           | 0.02      | 0.06    |
| EV/EBITDA                                                 | 15.21     | 14.77      | 14.74     | 13.19          | 14.43     | 15.55   |
| PEG F1                                                    | 2.42      | 2.60       | 2.78      | 1.89           | 2.60      | NA      |
| P/B                                                       | 5.67      | 3.32       | 3.64      | 2.48           | 3.26      | 3.49    |
| P/CF                                                      | 16.21     | 16.21      | 13.99     | 10.81          | 15.03     | 18.62   |
| P/E F1                                                    | 23.35     | 28.09      | 22.22     | 18.86          | 28.56     | 29.58   |
| P/S TTM                                                   | 2.85      | 2.57       | 2.85      | 1.21           | 2.57      | 5.21    |
| Earnings Yield                                            | 4.28%     | 3.50%      | 4.36%     | 5.30%          | 3.50%     | 3.38%   |
| Debt/Equity                                               | 0.75      | 0.13       | 0.70      | 0.72           | 0.48      | 0.09    |
| Cash Flow (\$/share)                                      | 4.94      | 1.93       | 6.94      | 7.74           | 7.91      | 1.16    |
| Growth Score                                              | B         | -          | -         | B              | C         | D       |
| Historical EPS Growth (3-5 Years)                         | 5.37%     | 4.59%      | 9.72%     | 2.60%          | 5.92%     | NA      |
| Projected EPS Growth (F1/F0)                              | -0.98%    | -7.31%     | 0.83%     | -5.13%         | -26.61%   | 10.61%  |
| Current Cash Flow Growth                                  | -5.22%    | -3.96%     | 5.23%     | 18.95%         | 0.36%     | -0.69%  |
| Historical Cash Flow Growth (3-5 Years)                   | 1.59%     | 2.98%      | 8.33%     | 2.95%          | 2.58%     | 7.14%   |
| Current Ratio                                             | 1.52      | 2.11       | 1.38      | 2.76           | 1.49      | 3.72    |
| Debt/Capital                                              | 42.82%    | 11.79%     | 42.00%    | 42.00%         | 32.37%    | 8.11%   |
| Net Margin                                                | 11.71%    | 6.24%      | 10.40%    | 3.27%          | 7.53%     | 14.47%  |
| Return on Equity                                          | 25.98%    | 8.01%      | 14.99%    | 12.76%         | 11.94%    | 10.47%  |
| Sales/Assets                                              | 0.77      | 0.77       | 0.50      | 0.89           | 0.59      | 0.54    |
| Projected Sales Growth (F1/F0)                            | 1.85%     | -2.00%     | 0.35%     | -4.71%         | -17.08%   | 3.20%   |
| Momentum Score                                            | F         | -          | -         | D              | B         | A       |
| Daily Price Change                                        | 6.12%     | 1.04%      | 1.31%     | 3.00%          | 1.79%     | -0.78%  |
| 1-Week Price Change                                       | 2.90%     | 3.95%      | 2.18%     | 4.07%          | 3.83%     | 9.11%   |
| 4-Week Price Change                                       | 13.67%    | 12.67%     | 8.28%     | 12.48%         | 8.21%     | 19.75%  |
| 12-Week Price Change                                      | 18.65%    | 21.42%     | 15.74%    | 24.93%         | 17.64%    | 40.47%  |
| 52-Week Price Change                                      | 8.27%     | 28.35%     | 7.50%     | 18.13%         | 29.35%    | 45.00%  |
| 20-Day Average Volume (Shares)                            | 2,551,640 | 231,147    | 2,053,456 | 236,305        | 1,965,826 | 296,197 |
| EPS F1 Estimate 1-Week Change                             | -1.01%    | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 10.61%  |
| EPS F1 Estimate 4-Week Change                             | -0.55%    | 0.00%      | 0.00%     | 0.00%          | 1.90%     | 10.61%  |
| EPS F1 Estimate 12-Week Change                            | -0.50%    | 6.21%      | 3.77%     | 0.00%          | 5.79%     | 58.70%  |
| EPS Q1 Estimate Monthly Change                            | 8.57%     | 0.00%      | 0.00%     | 0.85%          | 3.37%     | NA      |

Source: Zacks Investment Research

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## 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.

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### 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    | C |
| Growth Score   | B |
| Momentum Score | F |
| VGM Score      | C |

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.

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## 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.

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**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.

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**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.

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**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.