

## Flowers Foods, Inc.(FLO)

**\$24.17** (As of 06/25/21)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/01/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

### Summary

Shares of Flowers Foods have underperformed the industry in the past three months. The company witnessed softness in branded retail and store branded retail categories in the first quarter of fiscal 2021. Incidentally, fiscal first-quarter sales declined year over year and missed the Zacks Consensus Estimate. Notably, volumes fell 6.9% owing to unfavorable year over year comparisons in most channels. In fact, Flowers Foods' fiscal 2021 guidance reflects year-over-year sales decline. Nevertheless, the company has been gaining on its focus toward innovation. Well, Flowers Foods is on track with its core priorities, which includes developing its team, concentrating on brands, prioritizing margins as well as looking for prudent mergers and acquisitions. Moreover, the company is progressing well with Project Centennial, which has been yielding.

### Price, Consensus & Surprise



### Data Overview

52-Week High-Low **\$25.48 - \$21.55**

20-Day Average Volume (Shares) **1,251,139**

Market Cap **\$5.1 B**

Year-To-Date Price Change **6.8%**

Beta **0.28**

Dividend / Dividend Yield **\$0.84 / 3.5%**

Industry **Food - Miscellaneous**

Zacks Industry Rank **Bottom 30% (177 out of 252)**

Last EPS Surprise **10.8%**

Last Sales Surprise **-0.3%**

EPS F1 Estimate 4-Week Change **0.7%**

Expected Report Date **08/05/2021**

Earnings ESP **0.0%**

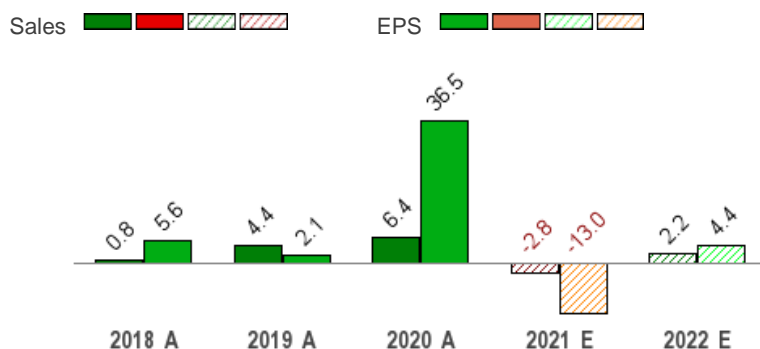
P/E TTM **18.5**

P/E F1 **21.2**

PEG F1 **NA**

P/S TTM **1.2**

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



### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,335 E	1,040 E	1,023 E	972 E	4,357 E
2021	1,302 A	1,009 E	1,000 E	953 E	4,264 E
2020	1,349 A	1,026 A	990 A	1,023 A	4,388 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.39 E	\$0.28 E	\$0.27 E	\$0.24 E	\$1.19 E
2021	\$0.41 A	\$0.28 E	\$0.23 E	\$0.22 E	\$1.14 E
2020	\$0.41 A	\$0.33 A	\$0.29 A	\$0.28 A	\$1.31 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 06/25/2021. The report's text and the

---

analyst-provided price target are as of 06/28/2021.

## Overview

Headquartered in Thomasville, Georgia, Flowers Foods, Inc. (FLO) produces packaged bakery foods in the United States. The company specializes in baked food products as well as produces a wide range of breads, buns, rolls, snack cakes and tortillas

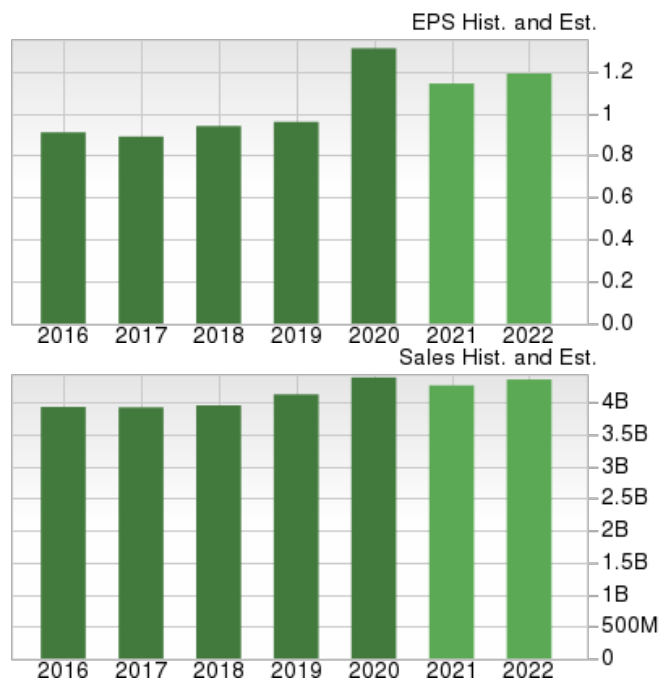
Flowers Foods emphasizes on providing high-quality baked items, developing strong brands, making innovations to improve capabilities and undertaking prudent acquisitions. Along with these, the company strives toward developing technology advanced bakeries.

Some of the most popular brands of the company include — Nature's Own, Wonder, Dave's Killer Bread and Tastykake. The company supports brands through advertising and marketing across diverse social media platforms. It also provides store coupons. Additionally, the company focuses on providing exceptional customer services.

Earlier, Flowers Foods had two operating segments, namely, Direct-Store-Delivery Segment (the DSD Segment) and Warehouse Delivery Segment (the Warehouse Segment). DSD Segment consisted of fresh breads, buns, rolls, tortillas and snack cakes. Nature's Own, Wonder, Cobblestone Bread Company, Tastykake and Dave's Killer Bread were the top brands in this segment. The Warehouse Segment included fresh snack cakes and frozen breads and rolls. Mrs. Freshley's, Alpine Valley Bread, and European Bakers were the top brands in this segment.

Following Project Centennial's organizational restructuring, the company has consolidated all its operations under a single segment, which was reflected in the company's first-quarter 2019 results.

Additionally, the company identifies sales under three categories — branded retail sales, Store branded retail sales and Non-retail and other sales.



---

## Reasons To Buy:

▲ **Strategic Priorities & Long-Term Goals:** Management is on track with its core priorities, which include developing its team, concentrating on brands, prioritizing margins and looking out for prudent mergers and acquisitions. To this end, the company intends to shift focus toward value-added branded retail products, which are anticipated to aid top-line growth and enhance margins. Also, the company expects its optimized portfolio to drive market share gains through innovation. In its last earnings call, management highlighted that its recent innovations including Dave's Killer Bread (DKB) and Nature's Own Perfectly Crafted Rye breads, Nature's Own Perfectly Crafted flatbreads as well as Wonder English muffins bode well. Flowers Foods' sales mix shifted to more profitable branded retail sales. The percentage rose to 66.1% in first-quarter fiscal 2021 compared with 66% in the year-ago quarter and 59.9% in the same quarter in 2019. Further, Flowers Foods remains focused on optimizing supply chain, while enhancing efficiency and reducing costs.

Flowers Foods is progressing well with Project Centennial and is focusing on acquisitions to strengthen its product portfolio. Also, the company is shifting focus on branded retail sales.

Moving to margins, the company's brand-building efforts such as plans to shift a larger proportion of sales mix to branded retail are likely to aid margin performance. Notably, adjusted EBITDA margin expanded 30 basis points to 12.4% on the back of favorable pricing and mix in fiscal first quarter. Well, the company is on track to achieve \$30-\$40 million in portfolio optimization savings during 2021. Finally, management intends to remain committed toward making marketing investments, undertaking innovation and go for smart M&A activities in line with its portfolio strategy. Management had earlier highlighted that over the long term, it expects sales growth of 1-2% annually, EBITDA growth of 4-6% and earnings per share increase of 7-9%. Both sales and EBITDA outlook exclude impacts of any future buyouts.

▲ **Acquisitions Fuel Market Share:** Flowers Foods has been focusing on acquisitions to strengthen its product portfolio and expand in untapped markets. Notably, the company has acquired more than 100 companies since 1968, and believes that there's still plenty of potential with respect to M&A activities. Recently, the company purchased the assets of Koffee Kup Bakery, Inc. in Burlington, VT. Management believes that the buyout expands Flowers Foods' presence in the key Northeast market. In 2015, the company bought DKB and Alpine Valley Bread company. With the acquisition of DKB, the company got access to the Pacific Northwest market. In December 2018, the company completed the acquisition of Canyon Bakehouse, which has helped Flowers Foods foray into the growing gluten-free bakery space. Well, Flowers Foods has successfully integrated Canyon Bakehouse, which is yielding positive results. Additionally, brands like DKB, Nature's Own and Canyon Bakehouse brands continue to perform well. During the first quarter of fiscal 2021, tracked channel sales of Canyon Bakehouse and DKB increased almost 14% and 7%, respectively, despite unfavorable year-over-year comparisons. Further, Canyon, DKB and Nature's Own sales increased nearly 101%, 42%, and 16%, respectively compared with first-quarter fiscal 2019 figures (pandemic level).

▲ **Project Centennial:** Flowers Foods is progressing well with Project Centennial, which has been yielding favorably. The company launched "Project Centennial" in fiscal 2016, which is an enterprise-wide multi-year initiative. The plan is aimed at streamlining operations, fueling efficiencies, improving margins by curtailing cost, optimizing supply chain and making prudent investments to solidify Flowers Foods' competitive position, aid revenue growth, and return value to stockholders. The project has propelled the company to evolve from sales and operations focused to a brand-focused packaged foods company. In fact, based on the restructuring endeavors related to Project Centennial, the company has consolidated all operations under a single segment. Project Centennial's key priorities include curtailing costs, developing leading capabilities, reinvigorating core businesses and utilizing product adjacencies.

▲ **Financial Analysis:** Flowers Foods' long-term debt of \$889.6 million as of the end of first-quarter fiscal 2021 (Apr 24, 2021) declined from \$960.1 million reported in the fourth quarter. Moreover, its debt-to-capitalization ratio of 0.39 stands better than the industry's figure of 0.44. Further, the company's times interest earned ratio stands at 8.8, higher than the preceding quarter's level of 6.2 and the industry's ratio of 3.5. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on its current income.

Flowers Foods looks well placed on the dividend payout front. The company which generated cash flow from operating activities of almost \$98 million during fiscal first quarter paid out dividends worth \$42.5 million in the same time. Recently, the company announced a quarterly dividend of 21 cents per share. The dividend was payable on Jun 24, 2021. Notably, this is the company's 75th consecutive quarterly dividend. Well, the increase in dividend now takes the annualized rate to 84 cents per share from 80 cents per share declared in the year-ago quarter. Flowers Foods has a dividend payout of 63.4%, dividend yield of 3.4% and free cash flow yield of 6.8%. With an annual free cash flow return on investment of almost 15%, ahead of the industry's 7.9%; the dividend payment is likely to be sustainable. Apart from this, the company had 6.1 million shares remaining under the ongoing repurchase program, as of the first-quarter earnings release.

---

## Reasons To Sell:

▼ **Dismal Sales, Soft View:** Flowers Foods reported first-quarter fiscal 2021 results, with the top line declining year over year and falling short of the Zacks Consensus Estimate. Sales came in at \$1,302.2 million which declined 3.5% thanks to softness in branded retail and store branded retail categories. Further, sales decline was caused by reduced volumes to the tune of 6.9% owing to unfavorable year over year comparisons in most channels. We note that the metric compares with record results posted in the year-ago quarter, which was backed by pandemic-led demand. During the fiscal first quarter, branded retail sales declined 3.3% to \$861.4 million mainly due to weak volume in cake as well as white and soft variety bread. Further, store branded retail sales declined 14.6% to \$162.9 million mainly due to volume declines stemming from shift in consumers' purchases to branded retail products.

The company's performance in first-quarter fiscal 2021 was challenged by dismal sales thanks to unfavorable volumes.

For fiscal 2021, management projects sales in the range of \$4.23-\$4.30 billion, suggesting a decline of about 3.5-2% year over year. This includes a 1.8% sales reduction owing to one less week in fiscal 2021. Shares of Flowers Foods have dropped 0.9% in the past three months against the industry's rise of 0.3%.

▼ **Competition:** The bakery industry in the United States is intensely competitive. Flowers Foods competes with largely advertised branded products as well as with store branded products that are generally sold at lower prices. Flowers Foods competes with Bimbo Bakeries USA and Campbell Soup Company along with smaller independent regional bakers, local bakeries, and retailer-owned bakeries.

Hence, the company undertakes aggressive pricing strategies and promotional activities to counter competition. The intense competitive pressure may result in loss of market share as well as decline in sales and operating margins.

▼ **Dependency on Few Customers:** Flowers Foods' top ten customers contributed 53.6% of sales in fiscal 2020. Notably, the company's largest customer Walmart/Sam's Club contributed 21.2% of the company's sales in the time period. We note that the company's performance could be affected due to loss in sales to any one of its key customers.

---

## Last Earnings Report

### Flowers Foods Q1 Earnings Beat Estimates, Sales Down Y/Y

Flowers Foods reported first-quarter fiscal 2021 results, with the top line declining year over year and falling short of the Zacks Consensus Estimate. Further, the bottom line was flat on a year-over-year basis. Nevertheless, the metric came ahead of the consensus mark. Notably, the company benefited from gains in the non-retail and other sales category. However, these were countered by declines in branded retail and store branded retail categories.

#### Q1 in Detail

Adjusted earnings per share (EPS) of 41 cents came ahead of the Zacks Consensus Estimate of 37 cents. The bottom line remained unchanged from 41 cents reported in the year-ago quarter.

Sales declined 3.5% to \$1,302.2 million, which missed the Zacks Consensus Estimate of \$1,306.6 million. We note that the metric compares with record results posted in the year-ago quarter, which was backed by pandemic-led demand. While pricing/mix increased 3.4%, volumes fell 6.9%.

#### Costs & Margins

Materials, labor, supplies and other production expenses (exclusive of depreciation and amortization), as a percentage of sales, contracted 30 basis points (bps) year over year to 49.4%. This can be attributed to reduced short-term compensation and improved plant efficiencies. These were somewhat offset by higher ingredient and packaging costs, as a percentage of revenues. Also, the year-ago quarter's figure included \$1.7 million in start-up costs related to the conversion of the company's Lynchburg, VA facility to an organic bakery.

Adjusted selling, distribution and administrative (SD&A) costs, as a percentage of sales, were flat at 38.2%. Notably, reduced bad debt expenses and distributor distribution fees were countered by higher e-commerce marketing costs. Adjusted EBITDA inched down 1% to \$161.6 million, whereas adjusted EBITDA margin expanded 30 bps to 12.4%.

#### Category Performance

**Branded retail** sales declined 3.3% to \$861.4 million mainly due to weak volume in cake as well as white and soft variety bread. These were somewhat countered by volume gains in organic and gluten-free products. Also, favorable price/mix was an upside.

**Store branded retail** sales declined 14.6% to \$162.9 million mainly due to volume declines stemming from shift in consumers' purchases to branded retail products.

Further, **non-retail and other** sales rose 3.6% to \$277.9 million compared with drab sales in the year-ago quarter owing to the pandemic. Well, favorable price/mix were somewhat offset by reduced volume.

#### More Financial Aspects

The company ended the quarter with cash and cash equivalents of \$250.6 million and long-term debt of \$889.6 million. Further, stockholders' equity amounted to \$1,413.4 million.

For 16 weeks ended Apr 24, 2021, the company's cash flow from operating activities amounted to almost \$98 million, while it incurred capital expenditures of \$27.3 million. Capital expenditures are projected in the range of \$140-\$150 million for fiscal 2021. Flowers Foods paid out dividends worth \$42.5 million in the aforementioned period and has 6.1 million shares remaining under the ongoing repurchase program.

#### Fiscal 2021 Guidance

Management projects sales in the range of \$4.23-\$4.30 billion for fiscal 2021, suggesting a decline of about 3.5-2% year over year. This includes a 1.8% sales reduction owing to one less week in fiscal 2021. Earlier, the company had projected sales in the range of \$4.21-\$4.30 billion for fiscal 2021, suggesting decline of 4-2% year over year.

Further, EPS is now envisioned in the range of \$1.10-\$1.17 that includes an effect of nearly 2 cents from one fewer week in fiscal 2021. Prior to this, EPS was anticipated in the range of \$1.07-\$1.17 including an effect of nearly 2 cents from one fewer week in fiscal 2021. The company expects net interest expenses of about \$10 million and an effective tax rate of nearly 24.5% for the fiscal year.

#### Quarter Ending 03/2021

Report Date	May 20, 2021
Sales Surprise	-0.34%
EPS Surprise	10.81%
Quarterly EPS	0.41
Annual EPS (TTM)	1.31

## Recent News

### Flowers Foods Buys Koffee Kup Bakery's Assets – Jun 7, 2021

Flowers Foods purchased the assets of Koffee Kup Bakery, Inc. (KKB) in Burlington, VT. Notably, the transaction includes three closed bakeries situated in Burlington; Brattleboro, Vermont and North Grosvenor Dale, Connecticut. Additionally, the company acquired Koffee Kup Bakery and Vermont Bread Company brands. The company acquired these assets from the court-appointed receiver of the assets.

We note that Flowers Foods is not planning to reopen the bakeries immediately. The company is on track to assess its strategic options related with the opening of these bakeries. All being said, management believes that the buyout expands Flowers Foods' presence in the key Northeast market.

### Flowers Foods Announces Dividend – May 27, 2021

Flowers Foods announced a quarterly dividend of 21 cents per share. The dividend is payable on Jun 24, 2021 to shareholders of record as on June 10. Notably, this is the company's 75th consecutive quarterly dividend. Well, the increase in dividend now takes the annualized rate to 84 cents per share from 80 cents per share declared in the year-ago quarter.

## Valuation

Flowers Foods shares are up 6.8% in the year-to-date period and 8.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7% and the Zacks Consumer Staples sector gained 6.2% in the year-to-date period. Over the past year, the Zacks sub-industry went up 22.4% while the sector gained 24.4%.

The S&P 500 index is up 14.8% in the year-to-date period and 42.5% in the past year.

The stock is currently trading at 20.73X forward 12-month earnings, which compares to 19.24X for the Zacks sub-industry, 20.48X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.26X and as low as 14.05X, with a 5-year median of 20.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$26 price target reflects 22.3X forward 12-month earnings.

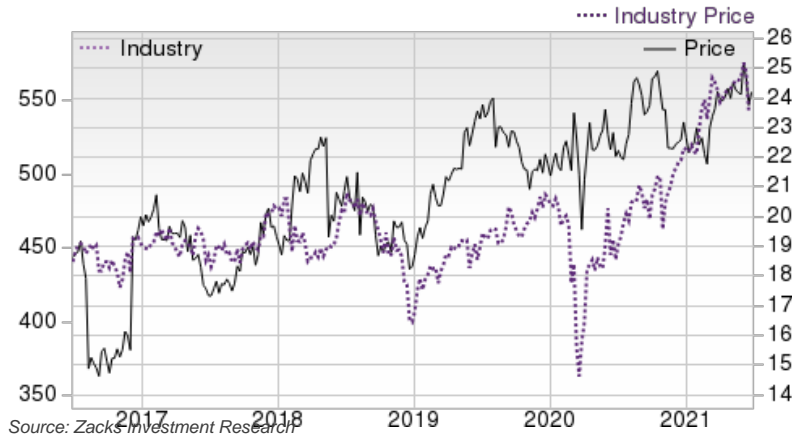
The table below shows summary valuation data for FLO

Valuation Multiples - FLO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.73	19.24	20.48	21.82
	5-Year High	23.26	22.92	22.4	23.83
	5-Year Low	14.05	14.67	16.52	15.31
	5-Year Median	20.31	18.34	19.51	18.05
P/S F12M	Current	1.19	1.72	10.22	4.75
	5-Year High	1.25	2.02	11.95	4.75
	5-Year Low	0.76	1.35	8.58	3.21
	5-Year Median	1.08	1.66	10.31	3.72
EV/EBITDA F12M	Current	12.14	12.92	36.45	15.9
	5-Year High	13.45	13.77	38.68	16.53
	5-Year Low	8.23	10.5	26.62	10.79
	5-Year Median	11.32	12.7	34.99	13.6

As of 06/25/2021 Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Darling Ingredients Inc. (DAR)	Outperform	1
B&G Foods, Inc. (BGS)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	3
McCormick & Company, Incorporated (MKC)	Neutral	4
Nomad Foods Limited (NOMD)	Neutral	2
TreeHouse Foods, Inc. (THS)	Neutral	4
Campbell Soup Company (CPB)	Underperform	5
Tate & Lyle PLC (TATYY)	Underperform	5

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	FLO	X Industry	S&P 500	LW	TATYY	THS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	5	4
VGM Score	A	-	-	C	A	A
Market Cap	5.12 B	4.72 B	30.37 B	11.80 B	4.78 B	2.57 B
# of Analysts	4	3	12	4	1	6
Dividend Yield	3.48%	0.00%	1.33%	1.17%	5.87%	0.00%
Value Score	A	-	-	C	A	A
Cash/Price	0.05	0.05	0.06	0.06	0.12	0.02
EV/EBITDA	15.12	13.71	17.25	18.63	NA	13.71
PEG F1	NA	3.06	2.09	2.46	NA	2.93
P/B	3.62	3.33	4.15	26.14	2.50	1.37
P/CF	12.19	13.13	17.53	21.35	7.90	7.15
P/E F1	21.23	21.58	21.20	26.52	14.37	16.22
P/S TTM	1.18	1.46	3.42	3.36	NA	0.60
Earnings Yield	4.72%	3.97%	4.61%	3.77%	6.96%	6.16%
Debt/Equity	0.63	0.44	0.66	6.00	0.51	1.04
Cash Flow (\$/share)	1.98	2.52	6.86	3.78	5.16	6.40
Growth Score	A	-	-	D	A	B
Historical EPS Growth (3-5 Years)	7.52%	2.14%	9.59%	-3.66%	NA	-3.66%
Projected EPS Growth (F1/F0)	-12.79%	3.61%	21.79%	42.01%	-11.53%	3.42%
Current Cash Flow Growth	20.32%	4.01%	1.02%	-13.39%	6.59%	3.80%
Historical Cash Flow Growth (3-5 Years)	5.05%	5.21%	7.28%	8.09%	7.74%	6.44%
Current Ratio	1.71	1.74	1.39	2.98	2.34	1.21
Debt/Capital	38.71%	32.68%	41.51%	85.72%	33.82%	50.86%
Net Margin	5.29%	5.55%	12.06%	7.14%	NA	1.08%
Return on Equity	20.32%	12.26%	16.59%	70.00%	NA	8.41%
Sales/Assets	1.30	0.96	0.51	0.81	NA	0.81
Projected Sales Growth (F1/F0)	-2.83%	1.84%	9.56%	10.32%	5.15%	2.94%
Momentum Score	B	-	-	B	C	A
Daily Price Change	1.81%	0.13%	0.33%	0.81%	-5.07%	-0.43%
1-Week Price Change	1.85%	0.95%	2.74%	3.50%	-3.06%	-1.67%
4-Week Price Change	0.33%	-2.38%	1.82%	-2.19%	-5.95%	-5.97%
12-Week Price Change	0.96%	0.95%	6.49%	3.33%	-5.34%	-14.39%
52-Week Price Change	9.86%	32.86%	42.26%	29.03%	24.43%	8.30%
20-Day Average Volume (Shares)	1,251,139	172,504	1,881,795	836,866	1,944	712,897
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.66%	0.00%	0.02%	1.84%	-3.73%	0.00%
EPS F1 Estimate 12-Week Change	1.78%	0.33%	3.59%	3.05%	-8.39%	-5.32%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.



---

EPS Q1 Estimate Monthly Change	0.00%	:	0.00%	:	0.00%	:	-2.05%	:	NA	:	0.00%
--------------------------------	-------	---	-------	---	-------	---	--------	---	----	---	-------

Source: Zacks Investment Research

---

## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

### Zacks Style Scores

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

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

Value Score	A
Growth Score	A
Momentum Score	B
VGM Score	A

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

---

## Disclosures

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

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

---

## Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

**Returns quoted represent past performance which is no guarantee of future results.** Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

## Glossary of Terms and Definitions

**52-Week High-Low:** The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

**20-Day Average Volume (Shares):** The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

**Daily Price Change:** This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

**1-Week Price Change:** This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

**4-Week Price Change:** This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

**12-Week Price Change:** This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

**52-Week Price Change:** This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

**Market Cap:** The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

**Year-To-Date Price Change:** Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

**# of Analysts:** Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

**Beta:** A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

**Dividend:** The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

**Dividend Yield:** The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

**S&P 500 Index:** The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is

---

proportionate to its market value.

**Industry:** One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

---

**Zacks Industry Rank:** The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

**Last EPS Surprise:** The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

**Last Sales Surprise:** The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

**Expected Report Date:** This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

**Earnings ESP:** The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

**Periods:**

**TTM:** Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

**F1:** Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

**F2:** Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

**F12M:** Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

**P/E Ratio:** The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

**PEG Ratio:** The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

**P/S Ratio:** The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

**Cash/Price Ratio:** The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

**EV/EBITDA Ratio:** The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

**EV/Sales Ratio:** The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

**EV/CF Ratio:** The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-

---

term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

**EV/FCF Ratio:** The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

**P/EBITDA Ratio:** The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

**P/B Ratio:** The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.