

Fluor Corporation (FLR)

\$19.74 (As of 03/24/21)

Price Target (6-12 Months): **\$17.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/12/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

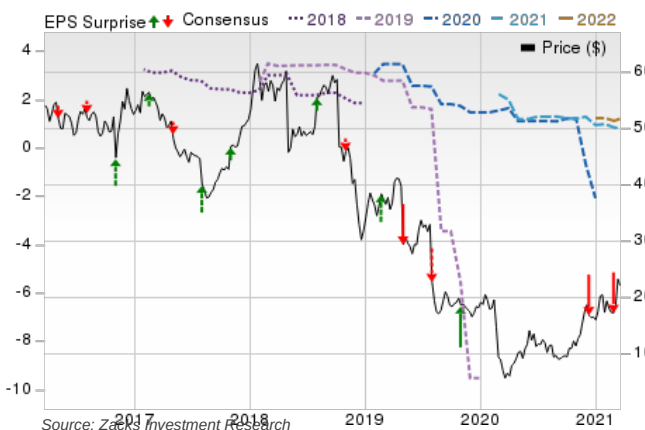
Growth: B

Momentum: B

Summary

Fluor's shares have outperformed the industry over the past six months. However, its earnings estimates for 2021 have been trending downward over the past 30 days, depicting analysts' concerns over the stock's growth potential. Recently, Fluor reported fourth-quarter 2020 results, wherein earnings and revenues not only missed analysts' expectations but also declined from the year-ago period. The top line missed the Zacks Consensus Estimate for the second straight quarter, while the bottom line missed the same for the third consecutive quarter. The downside was primarily caused by lower volumes in Energy & Chemicals and Mining & Industrial projects due to the pandemic. Furthermore, a lower-than-expected 2021 earnings guidance and a drop in new awards for 2020 are headwinds.

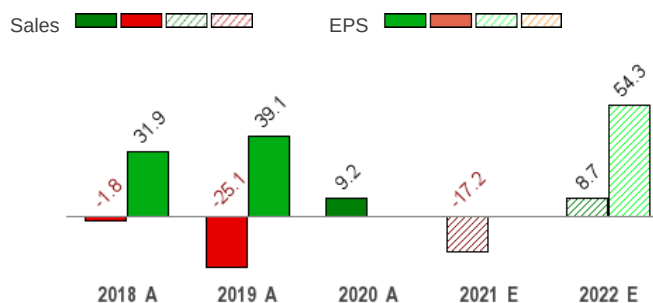
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$24.79 - \$5.74
20-Day Average Volume (Shares)	3,298,436
Market Cap	\$2.8 B
Year-To-Date Price Change	23.6%
Beta	2.89
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Engineering - R and D Services
Zacks Industry Rank	Top 28% (70 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-845.5%
Last Sales Surprise	-0.7%
EPS F1 Estimate 4-Week Change	-42.5%
Expected Report Date	10/28/2021
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	24.4
PEG F1	4.9
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,226 E	3,516 E	3,815 E	3,539 E	14,096 E
2021	3,008 E	3,240 E	3,501 E	3,223 E	12,972 E
2020	4,119 A	4,091 A	3,803 A	3,656 A	15,668 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.25 E	\$0.30 E	\$0.36 E	\$0.31 E	\$1.25 E
2021	\$0.02 E	\$0.12 E	\$0.24 E	\$0.19 E	\$0.81 E
2020	\$0.35 A	-\$0.16 A	\$0.14 A	-\$0.82 A	-\$2.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 03/24/2021. The report's text, and the analyst-provided sales estimates, EPS estimates and price target are as of 03/25/2021.

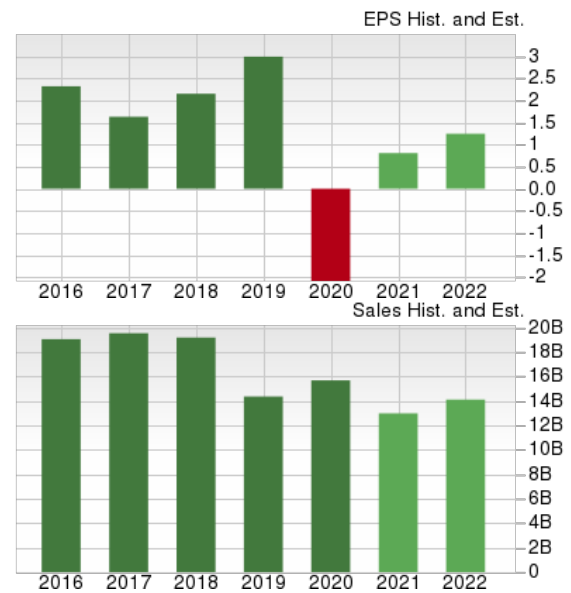
Overview

Meanwhile, Fluor's plan to sell the AMECO equipment business remains unchanged. It expects to complete the AMECO equipment business sale within first-half 2021. Headquartered in Irving, TX, Fluor Corporation provides engineering, procurement, construction and maintenance services (EPCM) through a number of subsidiaries. Incorporated in September 2000, Fluor also provides operation and maintenance services to major industrial clients. It continues to develop and implement innovative solutions for complex project issues in diverse industries, including oil and gas, chemicals and petrochemicals, mining and metals, infrastructure, life sciences, advanced manufacturing and advanced technologies.

As of Dec 31, 2020, the company operated the business through six main segments, namely, Energy & Chemicals (accounting for 33.6% of 2020 revenues); Mining & Industrial (26.5%); Infrastructure & Power (10.2%); Government (18.6%); Diversified Services (10.4%); and Other (0.7%). Meanwhile, beginning the first quarter of 2021, Fluor will operate through three business segments: Energy Solutions, Urban Solutions and Mission Solutions.

Energy & Chemicals serves the upstream, midstream, downstream, chemical, petrochemical, offshore and onshore oil and gas production, liquefied natural gas, along with pipeline markets. Mining & Industrial segment provides design and EPCM services to mining and metals, life sciences, advanced manufacturing, as well as advanced technologies sectors. Infrastructure & Power provides design and EPCM services to the infrastructure sector. Diversified Services segment provides a wide array of asset maintenance, asset integrity and staffing services. Other segment includes the financial information for NuScale and two lump-sum projects for the U.S. government. NuScale — a small modular nuclear reactor ("SMR") technology company — is a leader in the development of light water, passively safe SMRs.

Meanwhile, Fluor's plan to sell the AMECO equipment business remains unchanged. It expects to complete the AMECO equipment business sale within first-half 2021.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ **COVID-Related Woes:** At 2020-end, Fluor had a backlog of \$25.6 billion versus \$27.8 billion at third-quarter 2020-end and \$31.9 billion in 2019. Its total new awards in 2020 came in at \$9 billion compared with \$12.6 billion in 2019. Lower new awards reflect the pandemic-related impact on clients. It also reflects Fluor's stringent pursuit criteria and strategy to reduce risk.

The COVID-19 pandemic continues to impact the business as clients are deferring capital investment decisions and the pandemic has slowed down its ability to fully staff and execute projects.

- ▼ **Commodity Price Volatility & Foreign Currency Fluctuations:** Volatility in commodity prices, and the cyclical nature of the company's commodity-based business lines, poses significant challenges for Fluor in the forthcoming quarters. Going forward, the company believes that clients of Energy & Chemicals segment will maintain a cautious approach while taking investment decisions which will add to the company's woes.

Moreover, certain contracts of the company are subject to foreign currency risk, especially when project contract revenue is denominated in a currency different than the contract costs. For instance, the company's results reported by foreign subsidiaries with non-U.S. dollar functional currencies are particularly affected by foreign currency volatility.

- ▼ **Intense Competition:** Fluor faces intense competition in the global engineering, procurement and construction industry, which can pressurize its contract prices and profit margins. Further, the increasing competition, coupled with the inclination toward globalization, has triggered a trend of consolidation across all industries especially in the engineering and construction sector. The power market is extremely competitive and Fluor continues to face a series of challenges in this market. Amid the prevailing uncertainty, the companies are coming together via mergers and acquisitions to thrive in the global economy.

COVID-related woes, uncertainties related to the energy market, volatility of commodity prices and intense competition pose significant challenges

Risks

- **Refined Strategy:** The company has been focusing on new strategy, "Building a Better Future," within which it has outlined four strategic priorities for driving shareholders' value. First, the company intends to drive growth across portfolios by enhancing markets outside of the traditional oil and gas sector, including energy transition, advanced technology and life sciences, high-demand metals, infrastructure and mission solutions. Second, Fluor aims to pursue contracts with fair and balanced commercial terms that reward value, with a bias toward reimbursable contracts. The company has decided that it will not bid competitive fixed-priced EPC in the Energy & Chemicals segment and will be more selective in Infrastructure. This marks a significant shift from the prior management team's high-risk, high-margin strategy. Third, it intends to reinforce financial discipline, maintaining a solid balance sheet by generating predictable cash flow and earnings. Lastly, foster a high-performance culture with purpose by advancing diversity, equity and inclusion efforts and promoting social progress and sustainability.

In the Infrastructure business, the company intends to exit the markets in Europe and Australia, and focus on select markets in the United States. It has been further refining its approach toward this market and will no longer pursue large scale projects for clients where there is a history of onerous contractual terms and inadequate program management.

- **Diversity in Business:** Fluor's market diversity remains a key strength that helps it mitigate the cyclicity of markets in which it operates. The company's strategy of maintaining a good business portfolio mix permits it to focus on the more stable business markets and capitalize on developing the cyclical markets at suitable times. The long-term prospects of the company also remain strong with existing growth opportunities in renewable energy, gas-fired combined cycle generation and air emissions compliance projects for existing coal-fired power plants. Further, in a cut-throat competitive environment, Fluor continuously emphasizes on cost controls so that it delivers not only the performance requirements specified by its clients but also their budgetary needs.

Fluor is presently focusing on transforming its EPC model into the one integrated solution. The company believes that this will help in expanding its scope of work on a project, improve client satisfaction and provide an opportunity to generate greater returns. Going forward, Fluor has plans to implement data analytics to projects, minimizing risks and maximizing returns. These initiatives give Fluor the extra edge and a distinct competitive advantage.

- **NuScale Nuclear Prospects:** Fluor, being an industry leader in nuclear remediation at government facilities throughout the United States, is expected to benefit from rising demand for energy across the globe. With global electricity demand on a steady rise, nuclear energy is emerging as one of the best alternatives to the world's dependence on a finite oil supply and subsequent environmental degradation.

Fluor also has exclusive rights to service NuScale nuclear projects, the first of which is moving along the pipeline. In August 2020, the company announced that NuScale received the U.S. Nuclear Regulatory Commission approval for its design. This approval establishes NuScale as the preeminent leader in the small modular reactor technology market and allows Fluor to respond to customers looking for a unique, flexible, safe, as well as carbon-free energy solution. The company expects NuScale to be an important part of its vision of providing a wide array of environmental solutions.

Last Earnings Report

Fluor (FLR) Q4 Earnings & Revenues Lag Estimates

Fluor Corporation reported fourth-quarter results with earnings and revenues missing the Zacks Consensus Estimate. The top line missed the Zacks Consensus Estimate for the second straight quarter, while the bottom line missed the same for the third consecutive quarter. The company also provided lower-than-expected 2021 earnings guidance.

Quarter Ending 12/2020

Report Date	Feb 26, 2021
Sales Surprise	-0.69%
EPS Surprise	-845.45%
Quarterly EPS	-0.82
Annual EPS (TTM)	-0.49

Inside the Headlines

During the fourth-quarter 2020, the company reported loss of 82 cents per share against the Zacks Consensus Estimate of earnings of 11 cents. In the prior-year quarter, the company had reported a loss (from continuing operations) of \$2.10 per share. Quarterly Revenues of \$3,655.7 million missed the consensus mark of \$3,681 million and decreased 17.1% from the year-ago level of \$4,408.7 million. The downside was primarily caused by lower volumes in Energy & Chemicals and Mining & Industrial projects due to the pandemic. Total Revenues in 2020 came in at \$15,668.5 million compared with \$17,317.3 million in 2019. Fluor's total new awards in 2020 came in at \$9 billion compared with \$12.6 billion in 2019. Consolidated backlog for the year came in at \$25.6 billion, down from \$31.9 billion in 2019.

2020 Segmental Discussions

Energy & Chemicals segment's revenues fell 9.7% year over year to \$5,260.4 million in 2020. For the year, the segment reported profit of \$164 million against loss of \$95 million in 2019. Notably, the profits were primarily driven by charges taken in 2019, partially offset by reduced execution activity and margin diminution owing to the pandemic. New awards came in at \$2 billion, down from \$3.7 billion in 2019. Backlog at the end of 2020 was \$11 billion compared with \$14.1 billion in 2019.

Revenues in the Mining & Industrial segment totaled \$4,149.1 million, down 18% on a year-over-year basis. The downside was primarily driven by a six-month suspension of a large mining project in South America along with deferred execution activities of a large life sciences project and two mining projects owing to the COVID-19 pandemic. Segment profit came in at \$122 million for 2020, down from \$159 million in 2019. New awards came in at \$2.8 billion, up from \$1.9 billion in 2019. Backlog at the end of 2020 was \$4 billion compared with \$5.4 billion in 2019.

Revenues in the Infrastructure & Power segment totaled \$1,595.5 million, up 16.4% on a year-over-year basis. The segment reported profit of \$13.7 million, against a loss of \$244 million in 2019. Notably, the company benefitted from a positive settlement of a cancelled rail project (in 2019), partially offset by charges for cost growth in the infrastructure legacy portfolio. The segment booked new awards worth \$764 million, down from \$2.6 billion in 2019. Backlog at the end of 2020 was \$5.2 billion compared with \$6.1 billion in 2019.

Revenues in the Government segment in 2020, totaled \$2,922.8 million, down 1.6% on a year-over-year basis. The segment generated profit of \$88 million, down from \$200 million in 2019. The decline was substantially driven by the favorable settlement of two nuclear power plant projects (in 2019) coupled with pandemic-related woes. The segment booked new awards worth \$1.9 million, down from \$2 billion in 2019. Backlog at the end of 2020 was \$2.8 billion compared with \$3.6 billion in 2019.

Diversified Services (including certain retained AMECO operations) revenues dipped 20.1% on a year-over-year basis to \$1,630.9 million. The decline was primarily attributed to reduced volumes of higher-margin operations and maintenance activities owing to the pandemic. However, this was partially offset by a decline in overhead costs. The segment generated profit of \$14 million, down from \$15 million in 2019. New awards in 2020 totaled \$1.5 billion, down from \$2.2 million in 2019. Backlog decreased to \$2.4 billion from \$2.5 billion in 2019.

The Other segment — which now includes NuScale and the Radford and Warren government projects — reported revenues of \$109.8 million, up from \$56.6 million in 2019. Backlog in 2020 amounted to \$119.2 million, down from \$244 million in 2019. It reported loss of \$85 million compared with a loss of \$220 million in 2019.

Other Updates

Fluor is focusing on debt retirement to improve its liquidity position. During the fourth-quarter 2020, the company entered into an amended and restated credit facility of \$1.65 billion, replacing its previous letter of credit facilities. Extended through February 2023, the management believes that the facility will offer flexibility to support its business and reduce its risk profile. At the end of December 2020, Fluor's cash balance (including Marketable securities) was \$2.2 billion, up from \$2.1 billion at September-end.

Other 2020 Highlights

Operating cash flow in 2020 came in at \$186 million compared with \$219 million in 2019. Corporate general and administrative expenses in 2020 came in at \$240.7 million compared with \$165.9 million in 2019. In 2020, net loss from continuing operations came in at \$2.09 per share compared with a loss of \$10.89 per share in the previous year.

2021 Guidance

For 2021, Fluor expects adjusted earnings per share in the range of 50-80 cents. Analysts expected earnings of 97 cents per share. However, the guidance excludes impacts related to NuScale expenses, foreign currency exchange as well as restructuring or impairments. Meanwhile, the company remains optimistic for new awards in second half of 2021, subject to improvement in post-pandemic capital spending. Capital expenditures in 2021 are anticipated to be below \$100 million.

Recent News

Fluor Unveils Strategic Goals at its 2021 Strategy Day - Jan, 28, 2021

During its 2021 Strategy Day, Fluor unveiled four new strategies.

Drive growth across Fluor's portfolio – By 2023, the company anticipates 70% of revenues to be generated from non-traditional oil and gas segments.

Pursue contracts with fair and balanced terms – Also, Fluor intends to improve its backlog quality by executing work in fair and balanced ways. The company's backlog will be more than 75% reimbursable by 2024.

Reinforce financial discipline - By 2024, the company expects to lower and maintain a debt-to-capitalization ratio corridor between 20% and 40%, generate return on invested capital of more than 20%. Fluor is aiming to achieve earnings per share range of \$3.00 to \$3.50 by 2024.

Foster a high-performance culture with purpose – The company is dedicated to increasing woman leadership roles and creating a positive culture that can drive growth and individual performance. Also, the company is committed to achieve Net Zero for scopes 1 and 2 CO2 equivalent emissions by the end of 2023.

Valuation

Fluor shares are up 115.8% in the past six months and up 171.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 52.3% and 20.6% in the past six months, respectively. Over the past year, the Zacks sub-industry and the sector are up 79.3% and 84%, respectively.

The S&P 500 index is up 17.5% in the past six months and 50.9% in the past year.

The stock is currently trading at 28.11X forward 12-month earnings, which compares to 22.36X for the Zacks sub-industry, 16.02X for the Zacks sector and 22.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.19X and as low as 2.04X, with a 5-year median of 15.17X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$17 price target reflects 23.89X forward 12-month earnings.

The table below shows summary valuation data for FLR.

Valuation Multiples - FLR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.11	22.36	16.02	22.13
	5-Year High	34.19	22.89	19.01	23.8
	5-Year Low	2.04	10.79	10.78	15.3
	5-Year Median	15.17	14.8	16.14	17.9
P/B TTM	Current	2.2	3.13	4.12	6.6
	5-Year High	2.76	3.34	6.78	6.71
	5-Year Low	0.3	0.9	1.74	3.83
	5-Year Median	1.91	2.01	3.36	4.97
EV/EBITDA TTM	Current	18.49	13.82	24.99	17.38
	5-Year High	22.79	14.59	26.16	17.68
	5-Year Low	0.13	5.65	12.18	9.62
	5-Year Median	6.84	7.94	18.17	13.33

As of 03/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Gates Industrial Corporation PLC (GTES)	Outperform	1
Howmet Aerospace Inc. (HWM)	Outperform	1
AECOM (ACM)	Neutral	3
Alfa Laval AB Un-sponsored ADR (ALFVY)	Neutral	2
Babcock International Group PLC (BCKIY)	Neutral	3
Jacobs Engineering Group Inc. (J)	Neutral	3
KBR, Inc. (KBR)	Neutral	3
Quanta Services, Inc. (PWR)	Neutral	3

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

Industry Comparison Industry: Engineering - R And D Services				Industry Peers		
	FLR	X Industry	S&P 500	ACM	HWM	J
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	5	-	-	3	1	3
VGM Score	B	-	-	B	F	B
Market Cap	2.78 B	3.94 B	28.51 B	9.05 B	13.16 B	16.04 B
# of Analysts	3	3	13	3	3	7
Dividend Yield	0.00%	0.00%	1.41%	0.00%	0.00%	0.68%
Value Score	C	-	-	B	F	C
Cash/Price	0.71	0.10	0.06	0.11	0.12	0.09
EV/EBITDA	-303.43	17.13	15.86	15.95	18.32	19.43
PEG F1	4.93	1.46	2.30	0.99	NA	1.93
P/B	2.20	2.80	3.82	3.00	3.74	2.61
P/CF	48.31	14.56	15.83	16.80	19.02	14.98
P/E F1	24.65	22.40	21.27	22.83	33.23	21.44
P/S TTM	0.18	0.94	3.23	0.68	1.93	1.18
Earnings Yield	4.10%	4.38%	4.64%	4.38%	3.00%	4.66%
Debt/Equity	1.35	0.58	0.67	0.68	1.33	0.29
Cash Flow (\$/share)	0.41	1.50	6.78	3.65	1.60	8.23
Growth Score	B	-	-	B	C	B
Historical EPS Growth (3-5 Years)	-21.03%	10.72%	9.32%	-6.12%	13.66%	16.77%
Projected EPS Growth (F1/F0)	138.60%	23.49%	14.55%	24.80%	14.17%	4.95%
Current Cash Flow Growth	-90.80%	-10.01%	0.61%	-16.55%	-54.08%	22.71%
Historical Cash Flow Growth (3-5 Years)	-41.26%	11.59%	7.32%	-11.30%	-19.85%	13.85%
Current Ratio	1.41	1.66	1.39	1.15	2.21	1.66
Debt/Capital	57.51%	36.87%	41.42%	40.37%	56.78%	22.63%
Net Margin	-2.78%	-0.88%	10.59%	-1.51%	3.82%	3.62%
Return on Equity	-5.58%	6.83%	14.75%	10.52%	13.93%	12.77%
Sales/Assets	2.15	1.01	0.51	1.03	0.52	1.07
Projected Sales Growth (F1/F0)	-17.21%	4.15%	6.95%	0.22%	-24.90%	2.56%
Momentum Score	B	-	-	D	F	C
Daily Price Change	-1.84%	0.00%	0.03%	1.59%	-0.07%	1.23%
1-Week Price Change	-4.86%	-1.21%	-0.30%	-1.21%	0.86%	-2.44%
4-Week Price Change	-5.73%	0.00%	0.23%	2.29%	0.70%	2.96%
12-Week Price Change	21.33%	14.79%	7.22%	23.81%	7.02%	14.71%
52-Week Price Change	216.85%	77.61%	61.36%	126.35%	87.69%	68.33%
20-Day Average Volume (Shares)	3,298,436	58,401	2,433,322	987,153	3,809,777	608,198
EPS F1 Estimate 1-Week Change	0.90%	0.00%	0.00%	0.00%	-3.86%	-0.18%
EPS F1 Estimate 4-Week Change	-42.47%	0.00%	0.00%	-1.11%	-3.86%	0.52%
EPS F1 Estimate 12-Week Change	-30.86%	4.03%	2.13%	3.07%	4.98%	0.58%
EPS Q1 Estimate Monthly Change	-89.47%	0.00%	0.00%	-2.63%	-5.69%	1.06%

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	C
Growth Score	B
Momentum Score	B
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.