

GoPro, Inc. (GPRO)

\$8.26 (As of 12/30/20)

Price Target (6-12 Months): **\$9.25**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/20/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

GoPro's healthy business momentum, along with controlled costs, is likely to boost profitability. The company is well positioned to benefit from a solid portfolio and direct-to-consumer operating framework with a Plus subscription service. Increasing demand for HERO8 Black and HERO9 Black cameras is a major driving factor. GoPro is confident that any kind of operational changes will not affect its product roadmap. It has been working to expand its footprint in emerging markets and is focused on scaling its customer relationship management (CRM) efforts. However, the pandemic-induced market downturn could hurt its top line in the upcoming quarters. GoPro spends a considerable amount on research and development, which strains its margins. The highly competitive camcorder market and product concentration risks are other significant concerns.

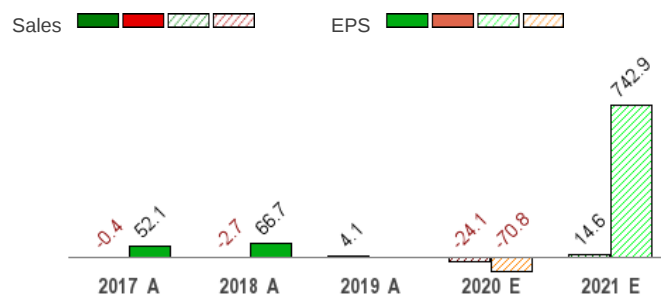
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$9.17 - \$2.00
20-Day Average Volume (Shares)	4,042,185
Market Cap	\$1.2 B
Year-To-Date Price Change	90.3%
Beta	1.26
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Audio Video Production
Zacks Industry Rank	Top 43% (109 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	233.3%
Last Sales Surprise	20.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/03/2021
Earnings ESP	13.6%
P/E TTM	22.9
P/E F1	118.0
PEG F1	NA
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	105 E	140 E	239 E	414 E	1,039 E
2020	119 A	134 A	281 A	376 E	907 E
2019	243 A	292 A	131 A	528 A	1,195 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.07 E	-\$0.13 E	\$0.07 E	\$0.38 E	\$0.59 E
2020	-\$0.34 A	-\$0.20 A	\$0.20 A	\$0.39 E	\$0.07 E
2019	-\$0.07 A	\$0.03 A	-\$0.42 A	\$0.70 A	\$0.24 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/30/2020. The reports text is as of 12/31/2020.

Overview

Headquartered in San Mateo, CA, GoPro is one of the leading manufacturers of the world's most handy camera and enabler of some of today's most immersive and engaging content. The company made its initial public offering in June 2014. GoPro manufactures mountable and wearable capture devices such as action cameras and related accessories. Its core product is the HERO line of capture devices, which was initially launched in 2009.

The company offers cloud connected HERO7 Silver, HERO7 Black, and HERO8 Black waterproof cameras, and MAX, a 360-degree waterproof camera, GoPro Plus, a cloud-based storage solution that enables subscribers to access, edit, and share content. It also offers mounts and accessories comprising equipment-based mounts consisting of helmet, handlebar, roll bar, and tripod mounts that enable consumers to wear the mount on their bodies, such as wrist housings, chest harnesses, and head straps. In addition, GoPro provides advanced software solutions to enhance its core offerings such as GoPro Studio, GoPro App, among others. The GoPro App aids consumers to effortlessly and wirelessly manage and share content from their capture devices. The GoPro Studio enables customers to edit and share simple and complex videos.

GoPro follows both Gopro.com and Retail channel for selling its products. The Gopro.com channel (29% of total revenues in third-quarter 2020) comprises its website and various types of specialty retailers. The company uses the retail channel (71%) to expand the reach of its offerings throughout national and international markets as well as in several specialty markets. GoPro operates through wholly owned subsidiaries in Germany, Hong Kong, the Netherlands and the Cayman Islands.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ GoPro has sold more than 950,000 cameras in the third quarter of 2020. It aims to translate the healthy momentum in its business along with controlled cost into growth and profitability. The company is optimistic about its prospects, mainly on account of strong demand for its products in end markets. It plans to enhance its Plus subscription service through enhanced benefits and user awareness and aims to work more closely with its retail partners, both in North America and abroad. GoPro ended the reported quarter with 501,000 subscribers, up 65% from the prior-year quarter's figure. The company launched HERO9 Black in third-quarter 2020, which was further bolstered by solid traction in GoPro subscription service. The company anticipates surpassing 700,000 subscribers by 2020 end with continued surge in demand for the bundled offer of the camera along with an annual 'GoPro subscription'. The subscription includes unlimited cloud storage of a user's GoPro footage, a high-quality live-streaming service, no-questions-asked damaged camera replacement, discount on cameras and GoPro's vast line of accessories including a new line of travel and active-lifestyle bags, clothing and lighting products. The company is also making investments in merchandising and retail advertising to drive a bigger brand presence while continuing to innovate. It intends to expand footprint in emerging markets like India and remains focused on scaling its CRM (customer relationship management) efforts to augment customer base.
- ▲ GoPro intends to transform itself from the 'camera maker' to 'content maker' and has taken significant steps to diversify into higher-margin businesses including video editing and virtual reality. In the last reported quarter, the company witnessed more than two-fold rise in revenues, which came in at \$280.5 million, up 113.9% from \$131.2 million in the year-ago quarter. The surge in revenues was mainly driven by robust sales across all regions and channels coupled with an accretive subscriber base despite adversities stemming from the COVID-19 pandemic. It shipped 923,000 camera units during the reported quarter, up 92.7% year over year. Markedly, cameras with prices above \$300 contributed 83% to revenues in the reported quarter, reflecting higher demand for GoPro's premium products. The company is developing various types of software solutions and hardware to curtail the complexity of managing, editing and sharing contents on different media platforms. GoPro's app Quik enable users to instantly edit their GoPro footage on their phones and create short videos for networking sites like Facebook and Instagram. The company also launched QuikStories, a new GoPro App feature that automatically copies footage from the user's GoPro to their phone, and the GoPro App then creates a ready-to-share video. Additionally, the company is marketing the combined GoPro and smartphone experience to its existing community, which is focused on out-of-home, paid search and rich media, OTT (over-the-top) videos designed to funnel conversions. We believe that these efforts will pay off in the long term, and go a long way toward opening GoPro to a wider audience and expanding the company's user base. GoPro ended the quarter with \$132.8 million in inventory compared with \$250 million in the year-ago quarter. The year-over-year inventory reductions were mainly driven by an upward sell-through trend across all geographies, particularly in EMEA and APAC.
- ▲ After some painful quarters of booking charges related to inventory write downs, the company has now eliminated entry-level products, and has a clean distribution channel. Such radical steps to streamline business will work in GoPro's favor as it seeks to boost margins and swing back to profitability. GoPro should be able to attain these massive cost reductions, in light of its recent business restructuring, which did away with many high-cost operations. A large part of the reduction would be driven by the company's decision to reduce employee headcount. In addition, GoPro affirmed that these cost-cutting efforts will not interfere with its pipeline of hardware and software product launches. Currently, GoPro is undertaking direct-to-consumer growth initiatives with an effective operating business model. Consequently, this restructuring will result in an estimated charge of \$31-\$49 million. Overall, the company is optimistic about its prospects in end markets mainly on account of enhanced marketing programs, expense control measures, improving channel management as well as upcoming product launches.
- ▲ GoPro has been taking steps to solidify its position in the burgeoning virtual reality (VR) market. It also announced additional software advancements with its new GoPro VR app. Its products seem well-positioned to dominate the trending VR market. Moreover, GoPro has been focusing on offering its immersive imagery video experience to millions of people across the world through its GoPro Channel. GoPro is collaborating with technology and content partners like Adobe and Fox Sports as well as content platforms like Facebook, in order to optimize the program. The program will allow content creators to generate revenue from their content and GoPro can license this content to global advertising brands to generate revenues. GoPro has been diligently working towards spreading its popularity across the spectrum, through concentrated and successful marketing efforts.

GoPro intends to translate the healthy momentum in its business along with controlled cost into growth and profitability.

Reasons To Sell:

- ▼ GoPro faced multiple operational stumbles including product recalls, messed up launches, production delays and missed deadlines in the past. It operates in a highly-competitive camera and camcorder market. The market has an extensive presence of well-known camera makers such as Canon, Nikon and Olympus. In addition, many electronics giants like Sony, Samsung and Panasonic have penetrated into capture devices market, thereby pushing the level of competition a notch higher. GoPro's market share has been threatened by lower-cost alternatives from established industry players like Sony, Xiaomi, Garmin, HTC as well as new entrants, which have led to the increasing commoditization of action cameras. This commoditization hurts GoPro's premium brand image, and impacts prices and margins.
- ▼ GoPro generates majority of its revenues from capture devices and, hence, faces a high product concentration risk. Moreover, the company has been witnessing huge competition between its new and old products. These persistent demand issues could drag down its top-line growth in coming times, even as it strives to expand its user base and explore revenue streams. Constrained demand and price cuts might impact the top line in the coming quarters.
- ▼ In order to maintain its dominant market share, the company continues to spend a significant amount on R&D (research and development), which strain margins. Although it is utilizing R&D more efficiently, increasing competition has put the pricing under pressure, as evidenced by the company's recent pricing actions. Additionally, as GoPro operates in consumer goods sector, it has to considerably invest for advertising and marketing, as failure to do the same impacts consumer demand.
- ▼ As of Sep 30, 2020, the company had \$147 million in cash and cash equivalents with \$157 million of long-term debt compared with the respective tallies of \$80 million and \$154 million at the end of the prior quarter. GoPro's debt-laden balance sheet is a major concern. Its debt-to-capital ratio is currently 0.6 compared with the sub-industry's figure of 0.2. Consequently, this highly leveraged balance sheet is more likely to inflate the company's financial obligations and hurt profitability. Also, its debt-to-equity ratio has increased sequentially from 1.02 to 1.39. This indicates that GoPro is likely to be more dependent on debt-financing to generate earnings in the near future, which is often associated with high risk. Also, its times interest earned (TIE) ratio has declined significantly to -3.9, which indicates that GoPro is unlikely to clear its debt in the near term.

GoPro operates in an intensely competitive camera and camcorder market, and remains susceptible to high product concentration risk.

Last Earnings Report

GoPro Q3 Earnings Top Estimates, Revenues Surge Y/Y

GoPro reported impressive third-quarter 2020 results, with the bottom line and top line surpassing the respective Zacks Consensus Estimate. Solid sales of HERO8 and HERO9 Black cameras across various geographies and accretive subscriber base, coupled with a direct-to-consumer strategy, buoyed GoPro's quarterly performance despite the pandemic.

Bottom Line

On a GAAP basis, net income in the September quarter came in at \$3.3 million or 2 cents per share against net loss of \$74.8 million or loss of 51 cents per share in the year-ago quarter. The year-over-year improvement was primarily driven by a more than two-fold rise in the top line.

Quarterly non-GAAP net income came in at \$31 million or 20 cents per share against net loss of \$61.3 million or loss of 42 cents per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 14 cents.

Revenues

GoPro generated revenues of \$280.5 million, up a whopping 113.9% from \$131.2 million in the year-ago quarter. The surge in revenues was mainly driven by robust sales across all geographies and channels coupled with an accretive subscriber base despite adversities stemming from the COVID-19 pandemic. Further, the company witnessed an upward sell-through trend of more than 950,000 GoPro camera units in the reported quarter. The top line surpassed the consensus estimate of \$233 million.

Markedly, GoPro ended the reported quarter with 501,000 subscribers, up 65% from the prior-year quarter's figure. It expects to surpass 700,000 subscribers by the year-end. The company launched HERO9 Black in third-quarter 2020, which was further bolstered by solid traction in GoPro subscription service.

Region wise, revenues from the Americas came in at \$157.7 million (56.2% of total revenues), up 161.1% from \$60.4 million in the year-ago quarter. Revenues from Europe, Middle East and Africa (EMEA) were \$64.6 million (23%), up 30.8% from \$49.4 million, and Asia and Pacific (APAC) generated \$58.2 million (20.8%), up 172% from \$21.4 million.

On the basis of channels, revenues from Gopro.com were \$81.3 million (29% of total revenues), up 247.4% from \$23.4 million. The year-over-year increase in GoPro.com was primarily driven by continued investments to enhance the e-commerce experience, which ultimately led the healthy momentum in website engagement and conversion. Solid demand for HERO8 Black and HERO9 Black cameras was also a contributing factor. Revenues from Retail channel came in at \$199.2 million (71%), up 84.8% from \$107.8 million year over year.

GoPro shipped 923,000 camera units during the reported quarter, up 92.7% year over year. The company had \$132.8 million in inventory compared with \$250 million in the year-ago quarter. The year-over-year inventory reductions were mainly driven by an upward sell-through trend across all geographies, particularly in EMEA and APAC. Non-GAAP gross margin was 36.2% compared with 23.4% in the prior-year quarter. Impressively, cameras with prices above \$300 contributed 83% to revenues in the reported quarter, reflecting burgeoning demand for GoPro's premium products.

Cash Flow & Liquidity

During the first nine months of 2020, GoPro utilized \$12.5 million of net cash for operating activities compared with \$112.7 million of cash utilization in the year-ago period. As of Sep 30, the company had \$146.9 million in cash and cash equivalents with \$156.8 million of long-term debt.

Q4 and Full-Year 2020 Guidance

GoPro provided the guidance for both fourth-quarter and full-year 2020. For fourth quarter, revenues are estimated to be \$365 million +/- \$10 million, while adjusted gross margins are expected to be 38% +/- 50 basis points. Sell-through of GoPro camera units is expected to be 1.3 million. Meanwhile, adjusted earnings are anticipated to be 37 cents +/- 5 cents per share. For full-year 2020, revenues are expected to be \$900 million +/- \$10 million, while adjusted gross margins are estimated to be 36%. Sell-through of GoPro camera units is expected to be 3.7 million. Adjusted earnings are anticipated to be 6 cents +/- 5 cents per share.

Moving Forward

Despite the uncertainties stemming from the pandemic, GoPro has delivered an impressive performance on the back of a resilient business model. Although the action video camera maker's upcoming results might get affected by the COVID-19 pandemic, GoPro is confident that any kind of operational changes will not hurt its 2020 product roadmap, which includes new hardware, software and subscription products.

Notably, in the third quarter, GoPro's direct-to-consumer and subscription-centric strategy not only expanded margins but also increased subscriber base with lowered channel inventories and efficient working capital management. It believes that a more direct-to-consumer-centric approach with a lower operating expense model is better aligned with the present business climate as well as is accretive to the average selling price of products and gross margin. This, in turn, will enable the company to tap potential opportunities, which bodes well for long-term growth.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	20.26%
EPS Surprise	233.33%
Quarterly EPS	0.20
Annual EPS (TTM)	0.36

Recent News

On Dec 17, 2020, GoPro unveiled a new ruggedized, waterproof, Bluetooth remote for its HERO9 Black flagship camera. Dubbed "The Remote", the latest firmware update is compatible with HERO9 Black and provides up to 30% faster wireless transfer of content from the camera to the GoPro app. It is also equipped with a slo-mo shortcut slider button and supports live streaming with the Max Lens Mod.

On Dec 3, 2020, GoPro announced that it witnessed record-breaking sales over the Black Friday-Cyber Monday Period, which led the subscriber count to surge past 670,000. Also, the company hit a milestone by selling its 40 millionth camera since 2009.

On Oct 6, 2020, GoPro announced that it reached the unique milestone of 500,000 paid GoPro subscribers driven by high demand for its new flagship camera, HERO9 Black. The company anticipates to exceed its previously-set target of 600,000 to 700,000 paid subscribers by year-end 2020 with continued surge in demand for the bundled offer of the camera along with an annual 'GoPro subscription'. The subscription includes unlimited cloud storage of a user's GoPro footage, a high-quality live-streaming service, no-questions-asked damaged camera replacement, discount on cameras and GoPro's vast line of accessories including a new line of travel and active-lifestyle bags, clothing and lighting products.

Valuation

GoPro's shares are up 90.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 42.3% over the past year, and stocks in the Zacks Consumer Discretionary sector have moved up 15.4% in the same period.

The S&P 500 Index is up 17.7% in the past year.

The stock is currently trading at 1.2X forward 12-month sales, which compares to 1.21X for the Zacks sub-industry, 2.73X for the Zacks sector and 4.37X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 1.57X and as low as 0.26X, with a 5-year median of 0.84X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$9.25 price target reflects 7.71X forward 12-month sales.

The table below shows summary valuation data for GPRO

Valuation Multiples - GPRO					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.2	1.21	2.73	4.37
	5-Year High	1.57	1.21	2.9	4.37
	5-Year Low	0.26	0.13	1.7	3.21
	5-Year Median	0.84	0.67	2.49	3.67
P/B TTM	Current	8.67	2.11	3.89	6.42
	5-Year High	9.3	2.11	4.85	6.43
	5-Year Low	1.26	0.98	2.24	3.74
	5-Year Median	3.5	1.52	4.15	4.93
EV/Sales TTM	Current	1.18	0.85	3.73	4.42
	5-Year High	2.06	0.85	3.73	4.43
	5-Year Low	0.23	0.22	2.28	2.62
	5-Year Median	0.77	0.48	3.37	3.59

As of 12/30/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
Turtle Beach Corporation (HEAR)	Outperform	1
Sony Corporation (SNE)	Outperform	1
LiveXLive Media, Inc. (LIVX)	Neutral	3
Panasonic Corp. (PCRFY)	Neutral	2
Sonos, Inc. (SONO)	Neutral	3
Dolby Laboratories (DLB)	Underperform	5
IMAX Corporation (IMAX)	Underperform	5
Nikon Corp. (NINYO)	Underperform	4

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

Industry Comparison Industry: Audio Video Production				Industry Peers		
	GPRO	X Industry	S&P 500	DLB	LIVX	SONO
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	D	C	B
Market Cap	1.25 B	122.40 M	25.87 B	9.74 B	242.99 M	2.65 B
# of Analysts	4	3	13	5	2	4
Dividend Yield	0.00%	0.00%	1.49%	0.91%	0.00%	0.00%
Value Score	C	-	-	D	F	C
Cash/Price	0.11	0.21	0.06	0.12	0.08	0.15
EV/EBITDA	47.49	1.55	14.64	25.98	-8.96	126.53
PEG F1	NA	2.25	2.81	2.49	NA	1.21
P/B	8.67	2.58	3.64	4.00	18.33	8.71
P/CF	42.55	13.38	13.90	29.67	NA	158.97
P/E F1	119.71	28.28	22.04	32.40	NA	34.47
P/S TTM	1.17	1.17	2.84	8.39	5.44	1.99
Earnings Yield	0.85%	3.09%	4.38%	3.09%	-14.84%	2.90%
Debt/Equity	1.10	0.06	0.70	0.00	1.20	0.06
Cash Flow (\$/share)	0.19	-0.02	6.93	3.27	-0.51	0.15
Growth Score	C	-	-	B	B	A
Historical EPS Growth (3-5 Years)	NA%	7.04%	9.71%	6.80%	NA	NA
Projected EPS Growth (F1/F0)	-69.79%	3.34%	1.26%	0.88%	28.26%	477.78%
Current Cash Flow Growth	-197.78%	-24.95%	5.23%	-3.61%	3.62%	-48.46%
Historical Cash Flow Growth (3-5 Years)	-27.97%	5.98%	8.33%	5.53%	NA	19.12%
Current Ratio	1.60	1.34	1.38	5.79	0.74	1.68
Debt/Capital	52.28%	12.93%	41.97%	0.00%	54.48%	5.77%
Net Margin	-1.45%	-0.95%	10.40%	19.91%	-78.54%	-1.52%
Return on Equity	16.39%	3.54%	14.99%	9.89%	NA	3.32%
Sales/Assets	1.63	1.07	0.50	0.40	0.72	1.78
Projected Sales Growth (F1/F0)	-24.08%	0.00%	0.35%	3.81%	65.24%	11.14%
Momentum Score	B	-	-	F	B	F
Daily Price Change	0.36%	0.00%	0.52%	1.65%	1.97%	1.69%
1-Week Price Change	-3.95%	-0.96%	-0.44%	2.73%	10.97%	0.41%
4-Week Price Change	6.03%	7.81%	1.34%	7.76%	37.55%	5.16%
12-Week Price Change	28.86%	29.65%	12.07%	45.20%	53.18%	63.80%
52-Week Price Change	90.32%	25.00%	6.26%	41.10%	118.12%	50.06%
20-Day Average Volume (Shares)	4,042,185	215,568	1,776,892	430,323	939,665	3,355,249
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-11.00%
EPS F1 Estimate 12-Week Change	13.16%	13.16%	3.68%	-10.93%	-10.00%	155.64%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.41%

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	C
Momentum Score	B
VGM Score	C

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

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.