

Groupon Inc. (GRPN)

\$36.50 (As of 02/16/21)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: D

Summary

Groupon is well positioned to benefit from its ongoing pivot strategy in the long haul. Furthermore, the company is shifting focus toward local services market, which it estimates to be \$1 trillion opportunity. Groupon is also forging strategic alliances to expand its business, which holds promise. The company is improving its overall operating efficiency by reducing costs and this is expected to boost profitability going ahead. Coronavirus crisis-led e-commerce boom is an added positive. However, the transition to high-margined local services market amid lower customer traffic will hurt revenues, at least in the near term. Coronavirus crisis-triggered slowdown in the travel domain and intensifying competition in e-commerce space are persistent overhangs. Markedly, shares of the company have underperformed the industry in the past year.

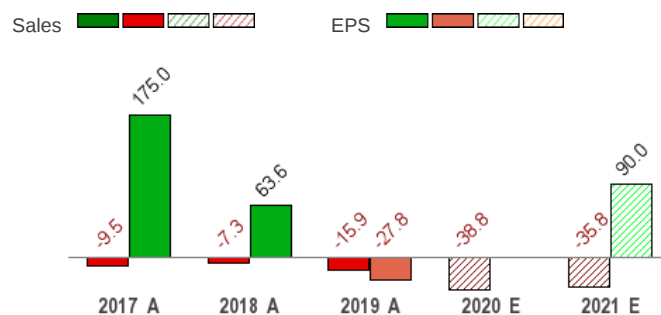
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$61.80 - \$9.60
20-Day Average Volume (Shares)	810,128
Market Cap	\$1.0 B
Year-To-Date Price Change	-6.4%
Beta	2.61
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 23% (194 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	128.9%
Last Sales Surprise	0.9%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/16/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	180 E	193 E	202 E	235 E	872 E
2020	374 A	396 A	304 A	282 E	1,359 E
2019	578 A	533 A	496 A	612 A	2,219 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.65 E	-\$0.19 E	\$0.20 E	\$0.74 E	-\$0.25 E
2020	-\$1.63 A	-\$0.93 A	\$0.15 A	-\$0.18 E	-\$2.49 E
2019	\$0.60 A	\$0.20 A	\$0.20 A	\$1.40 A	\$2.60 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

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

Overview

Headquartered in Chicago, IL, Groupon Inc. (GRPN) operates a website that offers daily discount deals. Through its Local Deals, the company acts as a third-party marketing agent and sells vouchers known as Groupons, which users can redeem against products or services at merchant locations.

Groupon announced a plan to exit the Goods category and focus on local experiences marketplace (includes Things to Do, Beauty & Wellness, and Dining).

Groupon formerly offered deals through its online local commerce marketplaces in three primary categories: Local Deals, Groupon Goods and Groupon Getaways. Collectively, Local and Travel comprises the company's Services offerings while Goods is referred to as Shopping.

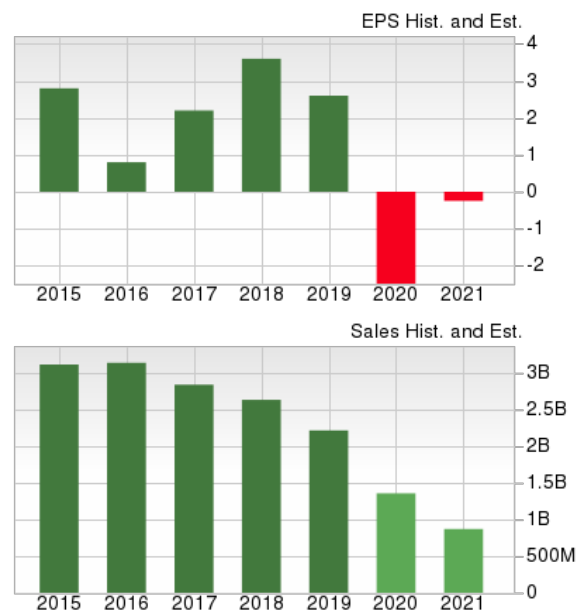
Local: This category includes offerings from local and national merchants, as well as local events. It also incorporates commission revenue and advertising revenue. The local offerings include activities like, beauty and spa, health and fitness, food and drink, home and garden and automotive. This offering also includes deals based on concerts, sports, theater and other live entertainment events.

Goods: This category involves transactions which includes selling merchandise inventory directly to customers. The Goods category provides customers the facility to find discounted merchandise across multiple product lines, including electronics, sporting goods, jewelry, toys, household items and apparel.

Travel: This category includes travel offers at both discounted and market rates, which incorporate hotels, airfare and package deals covering both domestic and international travel.

Groupon reported total revenue of \$2.22 billion in 2019.

As of Sep 30, 2020, the company had approximately 20.2 million active customers based in North America and 13.9 million active customers internationally.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Groupon is trying to change the consumer perception of its brand as it transitions from a deals company to a marketplace company. For this, the company has outlined a new restructuring plan with focus on three key areas namely, marketing, international and shopping. The company now operates in 15 countries across the globe, down from 47 countries that it operated in the beginning of 2015. The shopping business is also being restructured with the lower-margin (specifically empty calories products) being de-emphasized to increase focus on higher-margin healthy food offerings. Most importantly, Groupon is ramping up its marketing activities especially in North America. Additionally, Groupon plans to reorganize its operations over the next couple of years that will improve its overall operating efficiency and reduce SG&A costs. In 2020, the company expects to achieve \$140 million in cost savings under its restructuring endeavors and \$200 million in 2021. In addition, the company is also working to improve its customer service experience. Groupon has been adding new features to its platform like map-based search feature, along with optimizing relevance and search results to enhance customer experience. Apart from consumers, Groupon is working on improving experiences for merchants. In the second quarter of 2020, Groupon launched self-service API tool to aid merchants to connect to Groupon marketplace platform seamlessly. In third-quarter 2020, Groupon rolled out sponsored listings tool to assist merchants in expanding consumer reach. We believe that the successful implementation of these initiatives will boost profitability in the long run.
- ▲ As a part of its growth initiatives, Groupon is also forming strategic partnerships to expand its business. The company's partnership with Grubhub continues to enable customers to order food delivery from more than 80,000 restaurant partners of Grubhub via Groupon platform. Further, partnerships with ParkWhiz, CoreSource, American Express, Major League Baseball, among others are aiding Groupon to cater to just about any local need, consequently aiding it to rapidly penetrate the market. We believe that these partnerships will aid the company to rapidly penetrate the local market, which will drive top-line growth going ahead.
- ▲ Groupon's policy of launching new products on a regular basis is a positive. The company's strategy of offering special deals prior to important events, like Thanksgiving, enhances its popularity. Freebies include over 30,000 digital coupons, codes, sales, giveaways and samples from over 6,000 brands spanning 245,000 merchant locations. Also, Groupon+ offering has been well accepted as the company is enhancing customer experience by investing in voucherless initiatives. Moreover, in August 2019, Groupon introduced Groupon Select membership program, for a monthly subscription of \$4.99, to bolster user engagement and generate repeat purchases by luring customers with extra savings and other perks. These initiatives are expected to favor growth prospects. It is currently operating in more than 500 markets.
- ▲ The company, through its e-commerce platform, offers numerous deals that can be accessed by users anywhere and at any time. Users who search for these live deals generally tend to spend more. The company is working on expanding inventory on its platform as it believes that improved quality and always-available inventory is likely to attract more customers to its platform. Further, the company is lifting restrictions on its deeply-discounted deals and is enabling customers to purchase such deals more than once to improve frequency and drive growth in billings. The company continues to invest in the platform to attract new merchants, which will drive popularity. The company has recently launched Offers initiative under which it aims to launch products with reduced discount rates to boost margin share for the merchants. Groupon's long-term prospects rest upon its ability to offer more innovative products and build a broader local eCommerce platform. The rollout of inventory initiatives as well the company's card-linked platform, Groupon+ that replaces the voucher system and makes discounting processes easy is expected to be a tailwind in the long haul. Markedly, rising e-commerce spending on mobile devices is another positive for Groupon.
- ▲ Groupon portrays a strong balance sheet. Groupon exited the quarter ending Sep 30, 2020, with cash and cash equivalents of \$779 million. As of Sep 30, 2020, the company had \$200 million of outstanding borrowings under revolving credit facility. The company generated \$4.8 million of operating cash flow in the third quarter of 2020. The cash balance is expected to aid the company pursue strategic acquisitions, and investment in growth initiatives. Moreover, strength in cash flow indicates that the company is making investments in the right direction.

Rising e-commerce spending on mobile devices and Groupon's improving mix of products along with accelerating consumer activities are key catalysts.

Reasons To Sell:

- ▼ Groupon's business model makes it heavily dependent on daily deals, which is a major headwind. Since most of the offerings are consumer discretionary products, demand is heavily dependent on macroeconomic conditions. As redemptions are high and unused Groupons are low (revenues recognized upfront in daily deals, so an unused Groupon boosts the company's revenues), the transition is expected to negatively impact the top line in the near term.
- ▼ Moreover, Groupon needs to continue spending on generating awareness about its offerings, which will drive up costs. Further, the company is likely to incur sizeable expenses owing to the ongoing restructuring activities, which can weigh down on its profitability. Additionally, aggressive investments for mobile, infrastructure and product development will continue to drive operating expenses higher. Moreover, Groupon is investing quite a bit in the transition, which is expected to affect its near-term financials.
- ▼ Groupon is yet to earn significant profits since its inception. The company has accumulated deficit of \$1.33 billion as of Sep 30, 2020. Moreover, revenues have been on the decline in the last couple of years. Revenues have declined consistently from \$3.01 billion in 2016, to \$2.22 billion in 2019. Furthermore, restructuring plan to focus on domestic deals, directly contradicts the company's earlier business model per which it undertook rapid international expansion at the cost of profits. As such, the increased uncertainties even cast a shadow on the growth prospects from the increase in e-commerce spending on mobile devices.
- ▼ Intensifying competition remains a major headwind, which is also likely to hurt profitability. The company expects competition in eCommerce generally, and group buying in particular, to continue to increase. In addition, increasing presence of the social media companies in the e-commerce space can also pose serious challenges to Groupon's recovery as merchants are increasingly adopting these platforms to sell their products. Growing competition is anticipated to keep Groupon's pricing under tremendous pressure in the near term. Moreover, it reduces the company's bargaining power with the merchants.
- ▼ Groupon announced a plan to exit the Goods category and focus on local experiences marketplace (includes Things to Do, Beauty & Wellness, and Dining). The market's worth is estimated to be more than \$1 trillion. Intense competition in Groupon's Goods category, weak consumer sentiment in Europe, particularly the U.K., and a customer shift toward lower margin Local offerings is negatively impacting profitability.

Intensifying competition amid increased uncertainty remains a major headwind. The transition to high margined local services market and lower customer traffic adds to the woes.

Last Earnings Report

Groupon Q3 Earnings and Revenues Top Estimates

Groupon reported third-quarter 2020 non-GAAP earnings of 15 cents per share, versus the Zacks Consensus Estimate of a loss of 52 cents. The company had reported non-GAAP earnings of 27 cents in the prior-year quarter.

Revenues of \$304 million beat the Zacks Consensus Estimate by 0.9%. The figure, however, declined 38.7% on a year-over-year basis (down 40.1% excluding foreign exchange effect).

Region-wise, North America revenues plunged 40.6% from the year-ago quarter's level to \$180.3 million. International revenues fell 35.6% (down 39.2% excluding foreign exchange effect) year over year to \$123.7 million.

Quarter Details

Service revenues (51% of revenues) were down 42.2% year over year to \$155.1 million. Product revenues (49% of revenues) deteriorated 34.5% to \$149 million.

Local revenues of \$135.1 million declined 43.8% from the year-ago quarter. North America Local revenues declined 43.7% and International Local revenues fell 47.2%, excluding foreign exchange effect.

Goods revenues declined 31% year over year to \$161 million. North America Goods revenues declined 32.9%. International Goods revenues also deteriorated 33.2%, excluding foreign exchange effect.

Travel revenues fell 63.6% year over year to \$7.89 million. North America Travel revenues plunged 65.3%. International Travel revenues declined 63.2%, excluding foreign exchange effect.

In the third quarter, gross billings were \$597.1 million, down 46.6%, excluding foreign exchange effect.

North America billings were \$362.3 million, down 49.4% year over year. International billings were \$234.8 million, down 41.4% excluding foreign exchange effect.

North America Local and Travel gross billings declined 54.9% and 67.1%, respectively, while Goods gross billings decreased 18.5% on a year-over-year basis.

International Local and Travel gross billings declined 47.7% and 44.8%, respectively while Goods gross billings decreased 30.2% on a year-over-year basis, excluding foreign exchange effect.

Owing to the coronavirus crisis-induced negative impact on demand, global units sold during the reported quarter declined 40% year over year to 21 million.

Region wise, North America units were down 13% in Goods and 50% in Local categories. International units were down 20% in Goods and 49% in Local categories.

Customer Metrics

As of Sep 30, 2020, Groupon had approximately 13.9 million active customers internationally compared with 15.3 million at the end of the previous quarter.

Moreover, as of Sep 30, 2020, the company had approximately 20.2 million active customers based in North America compared with 22.8 million at the end of the prior quarter.

Operating Details

In the third quarter, gross profit came in at \$160 million, down 42.4% (down 43.5%, excluding foreign exchange effect) year over year.

International gross profit declined 44.7% year over year, excluding foreign exchange effect, to \$50.3 million. Under the International segment, Local, Travel and Goods categories reported gross profit decline of 47.9%, 65.3% and 24.8%, respectively, excluding foreign exchange effect.

Coming to North America region, gross profit plunged 42.9% to \$109.7 million, primarily due to negative impact of coronavirus crisis on volume. Local, Travel and Goods categories posted gross profit declines of 43.6%, 63.9% and 30.4%, respectively.

Adjusted EBITDA came in at \$30.8 million compared with adjusted EBITDA of \$50 million reported in the prior-year quarter.

Selling, general and administrative (SG&A) expenses fell 37.4% year over year to \$124.3 million in the reported quarter. The reduction in expenses was primarily driven by lower variable compensation and reduced payroll expenditures along with restructuring initiatives.

Groupon continues to expect \$140 million in cost savings under its restructuring initiatives for 2020.

In the third quarter, marketing expenses declined 58.1% year over year to \$31.4 million owing to lower offline marketing investments and accelerated traffic declines.

The company incurred operating loss of \$16.2 million compared with operating income of \$4.6 million in the prior-year quarter.

Quarter Ending 09/2020

Report Date	Nov 05, 2020
Sales Surprise	0.89%
EPS Surprise	128.85%
Quarterly EPS	0.15
Annual EPS (TTM)	-1.01

Balance Sheet & Cash Flow

Groupon exited the quarter ending Sep 30, 2020, with cash and cash equivalents of \$779 million, up from \$784.7 million, as of Jun 30, 2020.

As of Sep 30, 2020, the company had \$200 million of outstanding borrowings under revolving credit facility.

In the third quarter, the company generated \$4.8 million of operating cash flow compared with \$87.1 million generated in the prior quarter.

Free cash outflow came was \$7 million compared with \$72.8 million of free cash flow reported in the previous quarter.

Recent News

On Nov 10, Groupon announced partnership with digital travel booking and reservation platform, Xola for its Groupon Connect API platform. The collaboration will facilitate merchants on Xola's platform to link their Xola bookings to the Groupon promotions.

On Sep 1, 2020, Groupon inked a deal with Hemphill Brothers Coach Company to offer one luxurious road trip in a recreational vehicle (RV) on its marketplace platform.

On Aug 18, Groupon inked a deal with Rezdy whereby the latter becomes the first API partner of Groupon Connect. This integration will enable tour and other attraction operators to link their Rezdy bookings directly to the Groupon Marketplace.

On Jun 29, Groupon adopted TransPerfect's GlobalLink platform to manage multilingual content across the organization. This will aid Groupon's in-house linguistic resources by giving them access to robust tools needed to manage the entire translation process.

On Jun 10, Groupon announced that company's board of directors has approved a reverse stock split of the Company's common stock at a ratio of 1:20, following approval of the split by the company's stockholders. The reverse split became effective from the same day.

Valuation

Groupon's shares are up 26.4% in the past six-month period but down 40.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the are down 1.1% but Zacks Retail-Wholesale sector is up 7.8% in the past six-month period. In the past year, the Zacks sub-industry and sector are up 42.4% and 33.3%, respectively.

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

The stock is currently trading at 1.2X forward 12-month sales, which compared with 4.94X for the Zacks sub-industry, 1.38X for the Zacks sector and 4.59X for the S&P 500 index

In the past five years, the stock has traded as high as 1.33X and as low as 0.21X, with a five-year median of 0.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 1.25X forward 12-month sales.

The table below shows summary valuation data for GRPN

Valuation Multiples - GRPN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.2	4.94	1.38	4.59
	5-Year High	1.33	5.97	1.38	4.59
	5-Year Low	0.21	3.19	0.84	3.21
	5-Year Median	0.77	4.67	1.02	3.68
P/B TTM	Current	10.67	7.54	5.86	6.7
	5-Year High	17.33	11.19	6.49	6.7
	5-Year Low	0.7	5.27	3.8	3.84
	5-Year Median	6.64	8.05	5.12	4.96

As of 02/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 23% (194 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cars.com Inc. (CARS)	Neutral	NA
Etsy, Inc. (ETSY)	Neutral	3
MercadoLibre, Inc. (MELI)	Neutral	4
MONOTARO (MONOY)	Neutral	3
OCADO GROUP PLC (OCDDY)	Neutral	4
Overstock.com, Inc. (OSTK)	Neutral	3
TripAdvisor, Inc. (TRIP)	Neutral	3
Yunji Inc. Sponsored ADR (YJ)	Neutral	3

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

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	GRPN	X Industry	S&P 500	MELI	OCDDY	YJ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	D	-	-	C	F	C
Market Cap	1.02 B	5.01 B	27.89 B	96.90 B	27.67 B	720.31 M
# of Analysts	3	3.5	13	4	2	1
Dividend Yield	0.00%	0.00%	1.41%	0.00%	0.00%	0.00%
Value Score	C	-	-	F	F	C
Cash/Price	0.76	0.09	0.06	0.04	0.06	0.25
EV/EBITDA	4.73	10.56	14.83	2,927.93	NA	-38.76
PEG F1	NA	3.41	2.38	NA	NA	NA
P/B	10.37	7.51	3.89	55.32	18.98	3.43
P/CF	7.68	27.52	15.37	4,592,821.50	1,202.47	NA
P/E F1	NA	56.07	20.93	540.79	NA	66.80
P/S TTM	0.61	3.73	3.06	29.18	NA	0.76
Earnings Yield	-0.70%	0.99%	4.72%	0.18%	-0.80%	1.50%
Debt/Equity	2.29	0.10	0.68	0.35	0.93	0.00
Cash Flow (\$/share)	4.75	0.40	6.70	0.00	0.06	-0.06
Growth Score	C	-	-	A	D	B
Historical EPS Growth (3-5 Years)	NA%	5.29%	9.32%	-55.53%	NA	NA
Projected EPS Growth (F1/F0)	90.08%	32.09%	14.04%	393.87%	-31.11%	66.67%
Current Cash Flow Growth	-29.11%	1.34%	3.17%	-99.77%	-64.24%	77.55%
Historical Cash Flow Growth (3-5 Years)	11.55%	11.25%	7.55%	-83.10%	NA	NA
Current Ratio	0.99	1.67	1.38	1.64	2.75	1.72
Debt/Capital	69.61%	16.23%	41.31%	27.66%	48.12%	0.00%
Net Margin	-13.34%	-0.61%	10.59%	-0.12%	NA	-1.10%
Return on Equity	-31.31%	4.12%	14.89%	-0.22%	NA	0.70%
Sales/Assets	1.21	0.92	0.51	0.65	NA	2.12
Projected Sales Growth (F1/F0)	-35.84%	20.79%	6.39%	45.00%	14.05%	24.19%
Momentum Score	D	-	-	F	F	D
Daily Price Change	2.61%	0.00%	-0.23%	-0.16%	2.36%	1.20%
1-Week Price Change	-0.31%	2.97%	1.44%	1.30%	-5.90%	14.38%
4-Week Price Change	4.67%	14.24%	2.06%	1.39%	5.48%	42.62%
12-Week Price Change	15.91%	25.32%	5.88%	34.78%	28.57%	-21.21%
52-Week Price Change	-40.16%	85.83%	8.47%	166.30%	150.29%	-21.76%
20-Day Average Volume (Shares)	810,128	502,435	2,045,498	502,435	39,467	1,577,392
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-4.12%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.66%	-4.12%	-34.09%	0.00%
EPS F1 Estimate 12-Week Change	0.00%	0.00%	1.97%	-5.98%	-34.09%	-82.14%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.38%	0.00%	NA	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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.