

Hain Celestial Group (HAIN)

\$41.01 (As of 06/02/21)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/12/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Shares of Hain Celestial have outpaced the industry in a year. The stock has been gaining from prudent investments in key brands and transformation efforts including SKU rationalization. The company's well-chalked supply chain initiatives continued to yield in third-quarter fiscal 2021, which in-turn aided gross margin expansion. In fact, higher margins coupled with a lower adjusted effective tax rate fueled the bottom line in the reported quarter. For fiscal 2021, the company continues to anticipate gross margin and adjusted EBITDA margin growth. However, weak sales across North America and International units were a drag on the top line in the third quarter. This can be attributed to unfavorable year-on-year comparison stemming from pantry loading trends in March 2020. Also, divestitures and brand discontinuations have been headwinds.

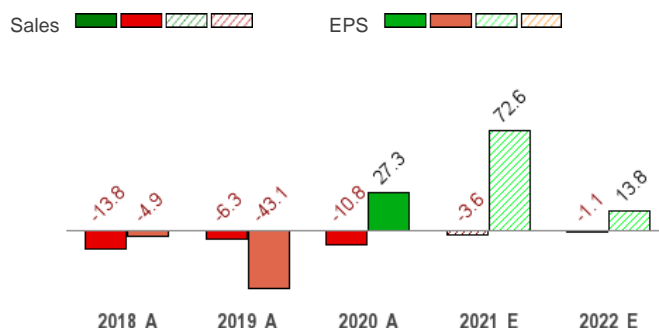
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$46.02 - \$29.61
20-Day Average Volume (Shares)	677,251
Market Cap	\$4.1 B
Year-To-Date Price Change	2.1%
Beta	0.79
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 49% (128 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	15.8%
Last Sales Surprise	-2.3%
EPS F1 Estimate 4-Week Change	6.2%
Expected Report Date	08/24/2021
Earnings ESP	-1.2%
P/E TTM	29.9
P/E F1	28.3
PEG F1	NA
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	479 E	506 E	520 E	494 E	1,959 E
2021	499 A	528 A	493 A	461 E	1,980 E
2020	482 A	507 A	553 A	512 A	2,054 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.34 E	\$0.39 E	\$0.49 E	\$0.47 E	\$1.65 E
2021	\$0.27 A	\$0.34 A	\$0.44 A	\$0.40 E	\$1.45 E
2020	\$0.08 A	\$0.17 A	\$0.28 A	\$0.32 A	\$0.84 A

*Quarterly figures may not add up to annual.

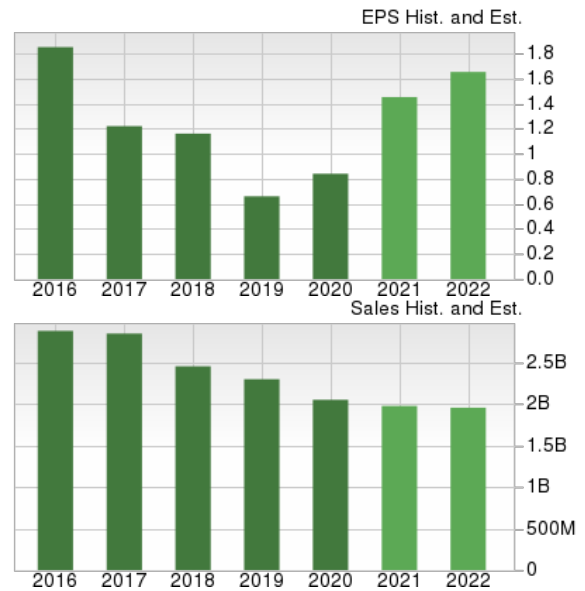
The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/02/2021. The report's text and the analyst-provided price target are as of 06/03/2021.

Overview

Incorporated in 1993 and headquartered in Lake Success, New York, The Hain Celestial Group, Inc. (HAIN) produces, distributes, markets, and sells various natural and organic foods as well as personal care products with operations in North America and Europe. The company offers popular better-for-you groceries (non-dairy beverages and frozen desserts, flour and baking mixes, cereals, condiments, cooking oils, infant and toddler food, etc.), snacks (potato and vegetable chips, organic tortilla style chips, whole grain chips and popcorn, etc.), and tea (include herb teas such as Lemon Zinger, Peppermint, Mandarin Orange Spice, Cinnamon Apple Spice, Red Zinger, etc.). Earlier, Hain Celestial reported its results in three segments United States, United Kingdom and Rest of World.

Following changes in the strategy that includes creating synergies among its businesses, Hain Celestial reassessed its segment reporting structure. Effective from Jul 1, the company's Canada and Hain Ventures operating units were moved from the Rest of World reporting segment to the United States reportable segment. The combined segment was renamed as "North America". Similarly, the Europe operating segment was combined with the United Kingdom reportable segment. Together, they are reported as the "International" segment.

The Hain Celestial Group is the largest manufacturer in the natural foods segment and has several leading brands. Some of the prominent brands are Earth's Best, Ella's Kitchen, Terra, Garden of Eatin', Sensible Portions, Health Valley, MaraNatha, Imagine, and Other notable brands include The Greek Gods, Yves Veggie Cuisine Cully & Sully, New Covent Garden Soup Co., Yorkshire Provender, Farmhouse Fare, Hartley's, Sun-Pat, Gale's, Robertson's, Frank Cooper's, Lima, Joya, Natumi, JASON, Avalon Organics, Alba Botanica, Live Clean and Queen Helene.



Reasons To Buy:

- ▲ **Strong Q2 Earnings & Margins:** During third-quarter fiscal 2021, the company posted adjusted earnings of 44 cents a share, which surpassed the Zacks Consensus Estimate of 38 cents. This marked the company's seventh consecutive beat. The bottom line also surged 57.1% from 28 cents reported in the prior-year quarter. Higher margins coupled with a lower adjusted effective tax rate fueled the bottom line. Adjusted gross margin expanded 317 bps to 27.4%, buoyed by gains from supply-chain productivity initiatives, higher product mix from SKU rationalization efforts and the sale of the fruits business. Adjusted operating income was \$59.7 million in the reported quarter, up 30.6% from \$45.7 million in the year-ago quarter. Adjusted EBITDA increased 21.6% to \$73.8 million, marking the seventh consecutive quarter of double-digit adjusted EBITDA growth. Meanwhile, adjusted EBITDA margin expanded 400 bps to 15%. The expansion was fueled by a higher gross margin and lower SG&A expenses. This marked the fifth straight quarter of adjusted gross margin and EBITDA margin growth. Moreover, strong margins in the North America and International units aided the bottom line in the reported quarter. We note that the company's shares have increased 34.4% in the past three months compared with the industry's rise of 24.7%.
- ▲ **Outlook:** Management reaffirmed view for fiscal 2021, when it reported third-quarter fiscal 2021 results. The company continues to anticipate gross margin and adjusted EBITDA margin expansion along with double-digit adjusted EBITDA and operating free cash flow improvement for the fiscal. For the fiscal fourth quarter, it expects solid gross margin and EBITDA margin expansion with adjusted EBITDA rising close to 10%. Gross margin for the quarter is expected to increase 100 bps.
- ▲ **Strategic Endeavors:** Hain Celestial is focused on its global strategic goals and continues to make marketing investments in key brands. In this context, the company's Get Bigger brands have been performing quite well. During the third quarter, the consumption of Get Bigger brands was up by nearly 54%, while shipments were up 8%. Further, it is progressing well with its transformation strategy to deliver sustainable profits. The transformation strategy is aimed at simplifying portfolio, identifying additional areas of productivity savings, enhancing margins, reviving top-line growth and improving cash flow. Moreover, well-chalked innovations, marketing and assortment optimization efforts have been supporting the company's top-line. It is also on track with boosting automation capabilities in plants for lowering costs, optimizing infrastructure, redesigning engineered products, and optimizing pricing. It has also been executing its simplified pricing model.
- Furthermore, Hain Celestial is on track to simplify its business in a bid to focus on areas with higher growth potential. In fact, by exiting smaller and non-strategic brands, the company is able to reduce supply-chain complexity and redeploy resources on bigger growth opportunities. The company sold its Danival business in Europe to Wessanen N.V.'s subsidiary. Effective Jan 13, 2021, the company divested its U.K. fruit business including the Orchard House Foods Limited business and associated brands to a U.K.-based private equity company Elaghmore. Upon adjusting for divestitures, discontinued brands and currency fluctuations, net sales during third-quarter fiscal 2021 increased 6% year over year.
- ▲ **SKU Rationalization Program:** Hain Celestial has undertaken a number of initiatives to improve performance and to put itself on the growth trajectory. The company's SKU rationalization program has helped eliminate SKUs based on lower sales volume or weak margins. The company initiated a more aggressive program called the 2018 Project Terra SKU rationalization. This has been contributing to margins and driving the company's overall performance.
- ▲ **Acquisitions Playing a Key Role:** Acquisitions form key part of the company's strategy to build market share. Buyouts have not only expanded the company's geographical presence but have also provided opportunities to cross-sell products in the United States, Canadian and European markets. A healthy balance sheet enables it to target strategic acquisition opportunities, which is likely to result in incremental sales along with providing the company a strong foothold in the packaged food and grocery market. Notably, one of the Hain Celestial's wholly-owned subsidiaries acquired Clarks UK Ltd. (The Natural Sweeteners Company), the leading maple syrup brand, and a natural sweetener brand, in the U.K. Earlier, the company purchased leading packaged grocery brands – Hartley's, Gale's Robertson's, Frank Cooper's and Sun-Pat – from Premier Foods plc. The company also acquired Ella's Kitchen Group Limited that offers organic baby food products under approximately 80 brands. Going ahead, the company plans to keep looking for prudent buyout prospects, especially in its core categories such as snacks.
- ▲ **Financial Analysis:** Hain Celestial ended third-quarter fiscal 2021 with cash & cash equivalents of \$53 million as of Mar, 31, 2021, shows an increase of roughly 13.2% on a quarter-on-quarter basis. The company's long-term debt excluding current portion of \$255.5 million as of Mar 31 shows a decline of 12.9% sequentially. Moreover, the company's debt-to-capitalization ratio at the end of the reported quarter stands at 0.14, compared with 0.16 in the preceding quarter. Moreover, its times earned ratio looks favorable too. The company's times interest earned ratio of 9 as of Mar 31, 2021 has increased from 5.1 as of Dec 31, 2020. Given a healthy balance sheet coupled with expectations of delivering robust free cash flow, Hain Celestial is well poised to reinvest in business and maximize shareholders' value.

Hain Celestial is focused on strategic goals and continues to make marketing investments in key brands. It is also on track with transformation and rationalization efforts.

Reasons To Sell:

▼ **Weak Sales Picture:** During third-quarter fiscal 2021, the company's net sales amounted to \$492.6 million that declined 11% year on year. Moreover, the top line missed the consensus mark of \$504.2 million. The sales decline can be attributed to sluggish performance in North America and International segments. The downside was mainly due to unfavorable year-on-year comparison stemming from pantry loading trends witnessed in March 2020 due to the pandemic-led stay-at-home orders. Further, the impact of the Brexit volume, which was pulled into the second quarter of fiscal 2021 and the timing of the Hair Care Program, hurt sales by about 700 bps during the fiscal third quarter. Also, divestitures and brand discontinuations hurt sales by 820 bps. For fiscal fourth quarter, the company anticipates a 5-8% year-over-year decline in net sales, when adjusted for foreign exchange, divestitures and discontinued brands.

Hain Celestial's third quarter sales across segments were impacted by tough year-on-year comparison, stemming from pantry loading trends witnessed in March 2020.

Speaking of segments, during the third quarter net sales in the North America unit dropped 10% year over year to \$287.5 million. On adjusting for currency movements, divestitures and discontinued brands, net sales declined 8%. The decline can be attributed to the Personal Care Club program, which was not repeated in the fiscal third quarter as well as tough comparison with the prior-year quarter. In the International unit, net sales declined 12% year over year to \$205.1 million. On adjusting for foreign currency fluctuations, divestitures and discontinued brands, net sales dipped 3% year over year. The decline in net sales was driven by lower customer inventories in the U.K., which were elevated in the fiscal second quarter in anticipation of potential Brexit-related supply disruptions. Additionally, sales were impacted by tough year-on-year comparison.

- ▼ **Near-Term Headwinds:** Management expects inflation to rise in fiscal 2022 compared with fiscal 2021 levels. Apart from this, the company has been making huge investment in marketing to support innovation, launches and core products alongside higher investments in e-commerce. This may impact the company's profitability in the near term.
- ▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Hain Celestial looks overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 29.93, which is below its median level of 35.95 and the high level of 43.47 scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 22.99 and 27.75, respectively.
- ▼ **Stiff Competition:** Hain Celestial operates in a highly competitive food industry, wherein it faces competition from conventional packaged goods companies as well as natural and organic packaged foods companies. The company competes on grounds of lower cost advantage, pricing, packaging, product quality, taste, geographic reach and responsiveness to changing consumer needs among others. Further, significant consolidation in the grocery and foodservice industry and consumers evolving preferences has intensified competition of late.
- ▼ **Seasonal Risks:** Hain Celestial remains prone to seasonal fluctuations for some of its product lines. For instance, sales for tea, baking products, soup, and hot cereal and desserts are stronger in colder months, while sales for snacks, sunscreen and personal care products are grater in warmer months. Absence of the appropriate season for these products may result in lower sales and in turn weigh on the company's overall performance. Over the recent years, sales and earnings per share in the fiscal first quarter have generally been the lowest in four quarters.
- ▼ **Foreign Currency Woes:** Hain Celestial has operations in the international markets, thus highly exposed to fluctuation in foreign exchange rates. Year-over-year currency fluctuations in the British pound, euro, and Canadian dollar, which when denominated in strong U.S. dollars, may negatively affect sales.
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Last Earnings Report

Hain Celestial Q3 Earnings Beat Estimates, Sales Miss

Hain Celestial posted adjusted earnings of 44 cents a share, which surpassed the Zacks Consensus Estimate of 38 cents. This marked the company's seventh consecutive beat. The bottom line also improved 57.1% from 28 cents reported in the prior-year quarter. Higher margins coupled with a lower adjusted effective tax rate fueled the bottom line.

Net sales of \$492.6 million declined 11% on a reported basis. Moreover, the top line missed the consensus mark of \$504.2 million. The sales decline can be attributed to sluggish sales performance in North America and International segments. The declines were mainly attributed to the pantry loading due to the pandemic-led stay-at-home orders in March 2020. Further, the impact of the Brexit volume, which was pulled into the second quarter of fiscal 2021, and the timing of the Hair Care Program hurt sales by about 700 bps in the fiscal third quarter. Also, divestitures and brand discontinuations hurt sales by 820 bps. However, currency acted as a tailwind and contributed around 320 basis points (bps) to sales. On adjusting for currency fluctuations, divestitures and discontinued brands, net sales advanced 6% year over year. However, when adjusting for all the aforesaid headwinds, the company's sales improved slightly from the prior-year quarter.

Adjusted gross margin expanded 317 bps to 27.4%, buoyed by gains from supply-chain productivity initiatives, higher product mix from SKU rationalization efforts and the sale of the fruits business. This was partly offset by higher distribution and warehousing costs, as a percentage of sales. The increase in the costs can be attributed to elevated freight costs in the United States and higher-than-expected inventory levels, partly mitigated by better truck utilization, driven by its consolidation and efficiency initiatives.

Adjusted operating income was \$59.7 million in the reported quarter, up 30.6% from \$45.7 million in the year-ago quarter. Adjusted EBITDA increased 21.6% to \$73.8 million, marking the seventh consecutive quarter of double-digit adjusted EBITDA growth. Meanwhile, adjusted EBITDA margin expanded 400 bps to 15%. The expansion was fueled by a higher gross margin and lower SG&A expenses.

Segmental Results

Net sales in the North America segment dropped 10% year over year to \$287.5 million. On adjusting for currency movements, divestitures and discontinued brands, net sales declined 8%. The decline can be attributed to the Personal Care Club program, which was not repeated in the fiscal third quarter, as well as tough comparison with the prior-year quarter due to pantry-stocking activities that occurred after the onset of the pandemic. Segment adjusted operating income rose 15% to \$43.9 million. The segment's adjusted EBITDA amounted to \$48.5 million, rising nearly 13%. Moreover, adjusted EBITDA margin expanded 348 bps to 16.9%. The Get Bigger brand is also performing well.

International net sales declined 12% year over year to \$205.1 million. Foreign exchange contributed nearly 660 bps to sales, while divestitures marred sales by 160 bps. On adjusting for foreign currency fluctuations, divestitures and discontinued brands, net sales dipped 3% year over year. The decline in net sales was driven by lower customer inventories in the U.K., which were elevated in the fiscal second quarter in anticipation of potential Brexit-related supply disruptions. Additionally, sales were impacted by last year's pantry stocking due to the pandemic-led stay-at-home orders. Further, segment adjusted operating income rose 28% to \$29.6 million. Adjusted EBITDA was \$36.7 million, up 19% year over year. Adjusted EBITDA margin expanded 463 bps to reach 17.9%.

Other Financials

The company ended the reported quarter with cash and cash equivalents of \$53 million, long-term debt (excluding current portion) of \$255.5 million and total shareholders' equity of \$1,501.7 million.

Cash provided by operating activities from continuing operations was \$42 million and operating free cash flow from continuing operations was \$18.6 million in the reported quarter. During the year-to-date period through fiscal third quarter, cash provided by operating activities from continuing operations was \$146.5 million and operating free cash flow from continuing operations was \$93.5 million.

In the quarter under review, the company repurchased 0.2 million shares for \$8.6 million, excluding commissions under its share buyback program. It had shares worth \$109.5 million remaining under its buyback authorization as of Mar 31, 2021.

Outlook

Driven by a robust fiscal third-quarter performance, management reaffirmed its view for the fiscal year. The company continues to anticipate gross margin and adjusted EBITDA margin expansion. Additionally, it expects double-digit adjusted EBITDA and operating free cash flow improvement for fiscal 2021.

For the fiscal fourth quarter, it expects solid gross margin and EBITDA margin expansion, with adjusted EBITDA rising close to 10%. Gross margin for the quarter is expected to increase 100 bps. For the fiscal fourth quarter, the company anticipates a 5-8% year-over-year decline in net sales, when adjusted for foreign exchange, divestitures and discontinued brands. When compared with the fourth quarter of fiscal 2019, net sales are expected to increase in mid-single digits, after adjusting for foreign currency, divestitures and discontinued brands. For fiscal 2021, capital expenditure is projected to be close to 5% of net sales, suggesting growth from the year-ago reported figure. Adjusted effective tax rate is anticipated between 24% and 25%.

Quarter Ending 03/2021

Report Date	May 06, 2021
Sales Surprise	-2.29%
EPS Surprise	15.79%
Quarterly EPS	0.44
Annual EPS (TTM)	1.37

Recent News

Hain Celestial's Non-core Assets Sale Boosts Portfolio – Apr 15, 2021

Hain Celestial concluded the divestment of its North America non-dairy beverages brands, including Dream and Westsoy to SunOpta for \$33 million.

Notably, the latest divestiture signifies the ongoing transformation of Hain Celestial's brand portfolio, and aligns with portfolio simplification and prioritization efforts of its Get Bigger brands. The aforesaid non-dairy beverage business was considered to be non-core within its North American business, and hence the divestiture increases the company's growth profile.

Valuation

Hain Celestial shares are up 2.1% in the year-to-date period and 34.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 10.7% while the Zacks Consumer Staples sector is up 6.7%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 24.7% and 21.2%, respectively.

The S&P 500 index is up 12.6% in the year-to-date period and 37.3% in the past year.

The stock is currently trading at 25.05X forward 12-month earnings, which compares to 19.84X for the Zacks sub-industry, 20.76X for the Zacks sector and 21.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.52X and as low as 12.55X, with a 5-year median of 23.83X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$43 price target reflects 26.27X forward 12-month earnings.

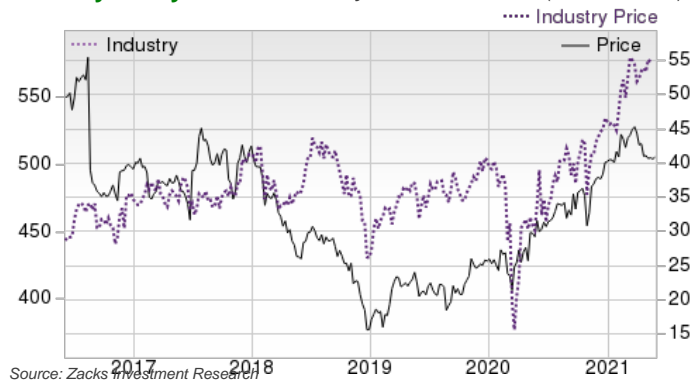
The table below shows summary valuation data for HAIN

Valuation Multiples - HAIN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.05	19.84	20.76	21.76
	5-Year High	39.52	22.92	22.4	23.83
	5-Year Low	12.55	14.67	16.51	15.3
	5-Year Median	23.83	18.26	19.49	18.03
P/S F12M	Current	2.09	1.77	10.44	4.7
	5-Year High	2.24	2.02	11.94	4.74
	5-Year Low	0.65	1.35	8.58	3.21
	5-Year Median	1.28	1.66	10.32	3.72
EV/EBITDA TTM	Current	17.22	14.02	42.51	17.23
	5-Year High	25.56	23.29	45.74	17.73
	5-Year Low	12.32	14.78	27.43	9.62
	5-Year Median	18.28	14.78	39.28	13.44

As of 06/02/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 49% (128 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Aramark (ARMK)	Neutral	3
B&G Foods, Inc. (BGS)	Neutral	3
The Chefs Warehouse, Inc. (CHEF)	Neutral	3
GREENCORE GRP (GNCGY)	Neutral	3
Lancaster Colony Corporation (LANC)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	3
Nomad Foods Limited (NOMD)	Neutral	2
SunOpta, Inc. (STKL)	Neutral	3

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	HAIR	X Industry	S&P 500	BGS	CHEF	GNCGY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	D	A
Market Cap	4.09 B	4.50 B	30.48 B	2.21 B	1.21 B	1.05 B
# of Analysts	6	3	12	4	2	1
Dividend Yield	0.00%	0.00%	1.29%	5.57%	0.00%	0.00%
Value Score	B	-	-	A	C	A
Cash/Price	0.01	0.05	0.06	0.02	0.15	0.33
EV/EBITDA	41.05	15.58	17.46	12.51	-21.66	14.24
PEG F1	NA	3.45	2.16	NA	NA	NA
P/B	2.72	3.40	4.19	2.63	3.68	2.46
P/CF	29.96	13.83	17.54	9.69	NA	9.99
P/E F1	28.19	23.63	21.67	15.42	NA	24.09
P/S TTM	2.01	1.61	3.51	1.09	1.19	NA
Earnings Yield	3.54%	4.11%	4.49%	6.48%	-2.51%	4.15%
Debt/Equity	0.17	0.48	0.66	2.77	1.21	1.57
Cash Flow (\$/share)	1.37	2.55	6.82	3.52	-0.87	0.80
Growth Score	A	-	-	F	C	A
Historical EPS Growth (3-5 Years)	-12.09%	1.85%	9.39%	-0.47%	16.58%	NA
Projected EPS Growth (F1/F0)	72.82%	6.74%	21.04%	-2.10%	61.41%	120.00%
Current Cash Flow Growth	16.71%	1.10%	0.74%	25.59%	-156.34%	-38.69%
Historical Cash Flow Growth (3-5 Years)	-11.10%	5.85%	7.32%	13.65%	NA	NA
Current Ratio	1.80	1.74	1.39	3.51	3.07	0.87
Debt/Capital	14.54%	34.21%	41.55%	73.49%	54.73%	61.15%
Net Margin	1.97%	5.58%	11.92%	6.46%	-8.53%	NA
Return on Equity	9.54%	12.33%	16.34%	18.10%	-19.38%	NA
Sales/Assets	0.91	0.96	0.51	0.58	1.02	NA
Projected Sales Growth (F1/F0)	-3.59%	2.94%	9.37%	4.54%	30.59%	15.59%
Momentum Score	B	-	-	D	F	A
Daily Price Change	1.36%	0.84%	0.06%	12.98%	2.31%	0.00%
1-Week Price Change	0.64%	0.37%	1.01%	4.40%	-1.47%	-13.87%
4-Week Price Change	1.13%	2.68%	1.16%	16.41%	0.73%	-8.62%
12-Week Price Change	-7.76%	5.74%	9.34%	7.74%	-3.72%	-6.58%
52-Week Price Change	33.06%	29.97%	37.13%	41.87%	89.47%	24.02%
20-Day Average Volume (Shares)	677,251	134,275	1,831,507	1,264,339	313,996	64
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	6.22%	0.00%	0.16%	-1.56%	0.00%	83.33%
EPS F1 Estimate 12-Week Change	6.22%	0.66%	3.26%	-1.78%	-76.67%	83.33%
EPS Q1 Estimate Monthly Change	4.85%	-1.15%	0.00%	-13.21%	0.00%	NA

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	B
Growth Score	A
Momentum Score	B
VGM Score	A

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

Disclosures

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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.