

Honeywell (HON)

\$218.88 (As of 03/29/21)

Price Target (6-12 Months): **\$230.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

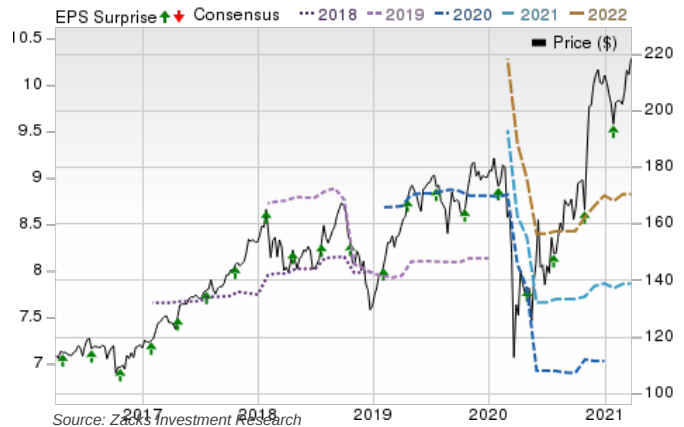
Growth: C

Momentum: D

Summary

Strength in defense and space businesses as well as solid demand for warehouse automation products are likely to boost Honeywell's revenues in the quarters ahead. Also, solid demand for personal protective equipment, along with a strong backlog conversion rate, will act as tailwinds. Increased commercial and operational excellence initiatives are likely to improve its near-term profitability. Also, strong cash flows allow it to effectively deploy capital for making acquisitions and paying out dividends. However, in the past three months, the company's shares have underperformed the industry. It believes that the coronavirus outbreak-led market downturn and weak commercial aerospace will adversely impact its near-term results. Given its extensive geographic presence, its business is subject to political, economic and geopolitical risks.

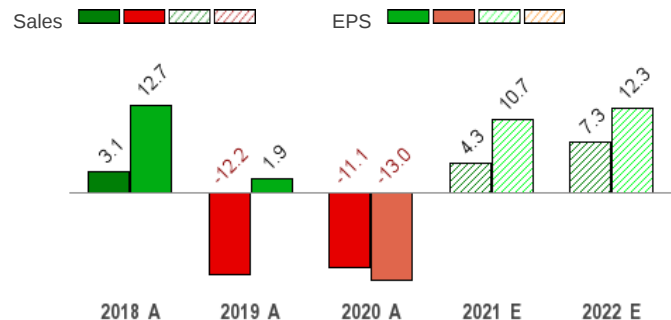
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$219.67 - \$117.11
20-Day Average Volume (Shares)	3,186,620
Market Cap	\$152.2 B
Year-To-Date Price Change	2.9%
Beta	1.17
Dividend / Dividend Yield	\$3.72 / 1.7%
Industry	Diversified Operations
Zacks Industry Rank	Top 42% (106 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	6.5%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	05/07/2021
Earnings ESP	0.0%
P/E TTM	30.8
P/E F1	27.9
PEG F1	3.0
P/S TTM	4.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	8,612 E	9,006 E	9,075 E	10,006 E	36,502 E
2021	8,048 E	8,255 E	8,522 E	9,344 E	34,034 E
2020	8,463 A	7,477 A	7,797 A	8,900 A	32,637 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.09 E	\$2.04 E	\$2.21 E	\$2.60 E	\$8.83 E
2021	\$1.79 E	\$1.82 E	\$1.97 E	\$2.27 E	\$7.86 E
2020	\$2.21 A	\$1.26 A	\$1.56 A	\$2.07 A	\$7.10 A

*Quarterly figures may not add up to annual.

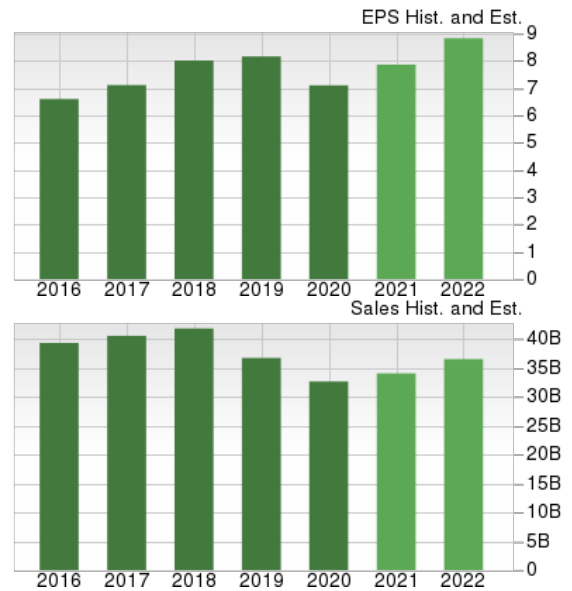
The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/29/2021. The report's text and the analyst-provided price target are as of 03/30/2021.

Overview

Honeywell International Inc. has solid footprints in the aerospace industry, with commercial aviation and defense being two major business sources. Opportunities within unmanned aerial systems (UAS) and urban air mobility (UAM) industries are encouraging too. Newly formed unit — Unmanned Aerial Systems — is working to leverage from these promising markets. Launch of SATCOM — by far smallest and lightest satellite communication system for unmanned aerial vehicles — is a step forward in the direction.

Based in Morris Township, NJ, Honeywell is a global diversified technology and manufacturing company, with a wide range of aerospace products and services. The company has operations in the United States, Europe, Canada, Asia and Latin America. Honeywell operates through four business segments as discussed hereunder:

- Aerospace (33.4% revenues came from this segment in fourth-quarter 2020) is a leading global provider of integrated avionics, engines, systems and service solutions for aircraft manufacturers, airlines, business and general aviation, military, space and airport operations. In April 2018, the segment announced its decision to develop laser communication products for satellite communication in collaboration with market partners.
- Performance Materials and Technologies segment (28.7%) offers leading technologies and high-performance materials, including hydrocarbon processing technologies, catalysts, adsorbents, equipment and services. This segment includes its wholly owned subsidiary, Honeywell UOP, which is an international supplier and licensor of process technology, and consulting services to the petrochemical and petroleum refining industries.
- Honeywell Building Technologies segment (16%) offers environmental & energy solutions, security and fire, and building solutions. Some of the notable products offered by the segment include sensors, switches, control systems and instruments for energy management as well as advanced software applications for building control and optimization.
- Safety and Productivity Solutions (21.9%) includes sensing & productivity solutions and industrial safety, as well as the recently acquired Integrated business.



Reasons To Buy:

- ▲ Honeywell's strength across its defense and space business, supported by stable U.S. government defense budgets, is likely to act as a tailwind in the quarters ahead. In both third and fourth quarters of 2020, its defense and space business reported double digit organic sales growth on a year-over-year basis. Also, signs of recovery in business aviation aftermarket bode well for its aerospace segment. Moreover, it is set to benefit from solid product offerings and growing opportunities within UAS and UAM markets. Notably, it launched SATCOM — the smallest and lightest satellite communication system for unmanned aerial vehicles — in June 2020. For 2021, it anticipates Aerospace segment to be flat to up in low single digits. Going forward, strong demand for warehouse automation products and robust backlog level are likely to support its Intelligrated business. Notably, exiting 2020, its Intelligrated backlog remained in excess of \$2.5 billion. In addition, solid demand for personal protective equipment and growth in productivity solutions and services will act as tailwinds for its Safety and Productivity Solutions segment. Also, in both the third quarter and the fourth quarter, it witnessed double digit year-over-year organic sales growth in Intelligrated and personal protective equipment businesses. For first-quarter 2021, the company expects similar growth in these businesses. It expects Safety and Productivity Solutions segment to grow in double digits in 2021. Honeywell's focus on investing in product introductions, and growth opportunities across building solutions and safety products businesses through partnership with SAP will likely be beneficial for the Building Technologies segment. For 2021, it anticipates Building Technologies segment to grow in low single digits. For 2021, it anticipates revenues to lie in the range of \$33.4-\$34.4 billion, with organic revenues expected to be up 1-4% on a year-over-year basis.
- ▲ Honeywell has been undertaking several cost-control measures to maintain a healthy capital structure amid the coronavirus crisis. Some of the actions are the reduction of discretionary expenses and repositioning actions. Notably, these steps enabled it to reduce costs by approximately \$1,500 million year over year in 2020. The company believes that these measures, along with commercial and operational excellence initiatives, are likely to help it drive margin expansion across all four of its segments in the quarters ahead. In addition, its three transformation initiatives — the Connected Enterprise, Integrated Supply Chain and Honeywell Digital — will drive its profitability.
- ▲ Strong cash flows allow the company to effectively deploy capital for making acquisitions, repurchasing shares and paying out dividend. Notably, for 2021, the company expects free cash flow to be between \$5.1 billion and \$5.5 billion. Also, in 2020, it paid out dividends worth \$2,592 million to shareholders, higher than \$2,442 million paid out in the year-ago. Also, the company repurchased shares worth \$3,714 million during the same time frame. It is worth noting that the quarterly dividend rate was hiked 3.3% in September 2020, marking its 11th increment since 2010. Such diligent capital deployment strategies boost shareholders' wealth.
- ▲ Honeywell has been steadily strengthening business through acquisitions. For instance, the company's agreement to acquire Sparta Systems (anticipated to close by the first quarter of 2021), will help in strengthening its position in digital transformation, industrial automation and enterprise performance management solutions space. In December 2020, Honeywell completed the acquisition of Sine Group, which will allow it to offer its Connected Buildings solutions with added security and safety features to its customers. Also, in October 2020, it acquired Ballard Unmanned Systems. The buyout will enhance growth scopes for Honeywell in the UAS market. Further, its acquisition of Rocky Research in the same month will enhance growth opportunities for its existing offerings in the energy storage, power and thermal management, and power generation arenas. This apart, in December 2019, the company acquired the Rebellion Photonics, which has been augmenting its portfolio of automation, process technologies and gas detection solutions. Also, Honeywell's buyout of TruTrak Flight Systems (July 2019) has been expanding its capabilities in the aviation market.

Strength in Intelligrated, defense and safety products businesses, cost control and operational excellence initiatives, acquisitions and strong cash flow are likely to drive Honeywell's competency.

Reasons To Sell:

- ▼ In the fourth quarter, Honeywell's revenues declined 7% on an organic basis on account of weakness across its end markets due to the coronavirus outbreak. Notably, the company expects headwinds across its commercial original equipment business due to lower air transport, slowdown in original equipment build rates and lower business jet demand to continue affecting its revenues in the near term. Also, persistent low global air transport flight hours, owing to the coronavirus outbreak-led issues, will affect its commercial aftermarket business in the quarters ahead. The company expects the Performance Materials and Technologies segment's revenues to remain challenged in the first quarter of 2021, owing to the soft near-term outlook for oil and gas capital expenditure, persistent weakness in its UOP business and automation project delays in process solutions business. Moreover, persistent weakness in its IoT and gas sensing businesses remains a concern for its top-line performance in the near term. Over the past three months, Honeywell's shares have gained 3% compared with the industry's increase of 7.9%.
- ▼ Honeywell's long-term debt in the last five years (2016-2020) increased 6.1% (CAGR). At the end of 2020, the company's long-term debt was \$16,342 million, up 47.1% on a year-over-year basis. Notably, it had cash and cash equivalents of \$14,275 million. Also, the company's ability of repaying the financial obligations seems to have weakened in the quarter, with times interest earned declining from 18.1x in the third quarter of 2020 to 17.7x in the fourth quarter. High-debt levels can increase its financial obligations and prove detrimental to profitability in the quarters ahead.
- ▼ Although Honeywell's repositioning initiatives hold good for aligning its business to pandemic-related market conditions, it will negatively impact its short-term earnings. For instance, the company incurred repositioning and other charges of \$89 million in the fourth quarter. Also, it incurred \$291 million of capital expenditures in the quarter. Notably, the company expects to incur repositioning and other charges of \$100-\$140 million in the first quarter for executing restructuring programs. High costs and expenses and capital expenditure incurred will negatively impact its short-term profitability. For first quarter of 2021, it anticipates adjusted earnings to be in the range of \$1.68-\$1.83 per share, down 14.8% year over year.
- ▼ The company operates across diverse geographies, which exposes it to certain political, economic and geopolitical issues. Although foreign exchange had no impact on the company's fourth-quarter sales, it adversely impacted sales in both the first and second quarters of 2020 by 1%. Fluctuations in foreign exchange rates might affect the company's top line in the quarters ahead.

The coronavirus outbreak-led market downturn, high-debt levels and unfavorable movements in foreign currencies weigh on Honeywell.

Last Earnings Report

Honeywell Q4 Earnings & Revenues Surpass Estimates

Honeywell has reported better-than-expected fourth-quarter 2020 results, wherein both earnings and revenues surpassed estimates.

Earnings & Revenues

Adjusted earnings were \$2.07 per share, surpassing the Zacks Consensus Estimate of \$2.00. Moreover, the bottom line was up 0.5% year over year.

In 2020, the company's adjusted earnings came in at \$7.10, down 13% year over year.

Honeywell's fourth-quarter revenues were \$8,900 million, surpassing the consensus estimate of \$8,358 million. The top line fell 6% year over year on a reported basis and 7% on an organic basis, owing to weakness in end markets due to the coronavirus outbreak-led issues.

In 2020, the company's revenues were \$32,637 million, down 11% on a year-over-year basis.

Segmental Breakup

Aerospace's quarterly revenues were \$2,978 million, down 19% year over year. Honeywell Building Technologies' revenues declined 3% to \$1,426 million. Performance Materials and Technologies' revenues totaled \$2,556 million, down 11%, while that for Safety and Productivity Solutions increased 28% to \$1,940 million.

Costs/Margins

The company's total cost of sales in the reported quarter was \$5,976 million, down 5.6% year over year. Selling, general and administrative expenses declined 15.3% to \$1,248 million. Interest expenses and other financial charges were \$95 million compared with \$91 million a year ago.

Operating income margin in the fourth quarter was 18.8%, up 100 basis points year over year.

Balance Sheet/Cash Flow

Exiting 2020, Honeywell had cash and cash equivalents of \$14,275 million compared with \$9,067 million as of Dec 31, 2019. Long-term debt was \$16,342 million, higher than \$11,110 million recorded at the end of 2019.

In 2020, the company generated \$6,208 million in cash from operating activities compared with \$6,897 million a year ago. Capital expenditure was \$906 million compared with \$839 million incurred in 2019.

Adjusted free cash flow in the quarter was \$2,491 million, up 8.7% year over year.

Outlook

Honeywell provided guidance for full-year 2021. For the year, the company anticipates earnings to be in the range of \$7.60 to \$8.00 per share, suggesting 9.9% year-over-year improvement at the mid-point. It anticipates revenues to be between \$33.4 billion and \$34.4 billion, with organic revenues expected to be up 1-4%.

For 2021, it also expects operating cash flow in the range of \$5.7 billion to \$6.1 billion, and free cash flow to be between \$5.1 billion and \$5.5 billion.

Quarter Ending	12/2020
Report Date	Jan 29, 2021
Sales Surprise	6.49%
EPS Surprise	3.50%
Quarterly EPS	2.07
Annual EPS (TTM)	7.10

Recent News

On **Mar 15, 2021**, Honeywell announced a suite of enhanced supply chain software that features digital disruptors. The software is developed to increase the efficiencies of mobile workers throughout the manufacturing, retail, pharmaceutical and logistics industries.

On **Mar 12, 2021**, Honeywell paid out a quarterly dividend of 93 cents per share to shareholders on record as of Feb 26, 2021.

On **Mar 10, 2021**, Honeywell announced that it has entered into an agreement to purchase a majority stake in Fiplex Communications, Inc. The financial terms of the transaction have not been disclosed. Notably, the buyout will facilitate Honeywell in expanding its in-building connectivity and communications solutions for its customers.

On **Feb 12, 2021**, Honeywell's board of directors approved the payment of a quarterly dividend of 93 cents per share. Notably, the dividend will be paid on Mar 12, 2021, to shareholders on record as of Feb 26, 2021.

On **Jan 25, 2020**, Honeywell introduced its Cabin Pressure Control and Monitoring System with applications in both commercial and military aircraft.

On **Dec 22, 2020**, Honeywell announced that it has decided to buy Sparta Systems from New Mountain Capital. The buyout, which is expected to be completed by the first quarter of 2021 subject to certain regulatory approvals, is valued at \$1.3 billion in cash. Hamilton, N.J.-based Sparta Systems is engaged in providing enterprise quality management software for the life sciences industry.

The acquisition will enable Honeywell to strengthen its position in digital transformation, industrial automation and enterprise performance management solutions space. Notably, Honeywell will leverage Sparta's expertise in artificial intelligence enabled software as a service-based solutions and combine it with Honeywell Forge and Experion Process Knowledge System to further expand into the life sciences market.

On **Dec 14, 2020**, Honeywell announced that it has completed the acquisition of Sine Group. Based in Adelaide, Australia, Sine Group is a software as a service company engaged in offering visitor management, supply chain and workplace solutions, which are easily compatible with mobile devices. The financial terms of the transaction were kept under wraps.

On **Dec 7, 2020**, Honeywell introduced Honeywell Small and Medium Building Administrator — its building portfolio management system developed particularly for small and medium scale buildings.

On **Dec 1, 2020**, Honeywell introduced a catalyst for aircraft cabin air systems. Its new fourth-generation Combined Hydrocarbon Ozone Catalyst (CHOC4) improves in-cabin air quality, thus ensuring comfortable and safe travel experience for passengers.

Valuation

Honeywell shares are up 3% in the year-to-date period while increased 63.7% over the trailing 12-month period. Stocks in both the Zacks sub-industry and the Zacks Conglomerates sector are up 7.9% in the year-to-date period. Over the past year, both the Zacks sub-industry and sector are up 57.4%.

The S&P 500 Index has moved up 6% in the year-to-date period and increased 55.6% in the past year.

The stock is currently trading at 27.03x forward 12-month P/E, which compares to 27.56x for both the Zacks sub-industry and the Zacks sector, and 22.43x for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.55x and as low as 12x, with a 5-year median of 18.57x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$230 price target reflects 28.41x forward 12-month earnings per share.

The table below shows summary valuation data for HON.

Valuation Multiples - HON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.03	27.56	27.56	22.43
	5-Year High	27.55	27.56	27.56	23.83
	5-Year Low	12	15.67	15.67	15.3
	5-Year Median	18.57	18.62	18.62	17.9
P/Sales F12M	Current	4.38	4.65	4.65	4.59
	5-Year High	4.47	4.65	4.65	4.59
	5-Year Low	1.94	2.27	2.27	3.21
	5-Year Median	2.73	3.04	3.04	3.69

As of 03/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Emerson Electric Co. (EMR)	Outperform	2
Danaher Corporation (DHR)	Neutral	2
General Electric Company (GE)	Neutral	4
Garmin Ltd. (GRMN)	Neutral	3
3M Company (MMM)	Neutral	4
ParkerHannifin Corporation (PH)	Neutral	3
Zebra Technologies Corporation (ZBRA)	Neutral	2
Safran SA (SAFRY)	Underperform	3

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

Industry Comparison Industry: Diversified Operations				Industry Peers		
	HON	X Industry	S&P 500	GE	MMM	PH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	4	3
VGM Score	C	-	-	B	A	A
Market Cap	152.23 B	2.53 B	29.36 B	113.76 B	113.42 B	40.94 B
# of Analysts	10	3.5	13	8	7	10
Dividend Yield	1.70%	0.31%	1.34%	0.31%	3.02%	1.11%
Value Score	C	-	-	B	B	C
Cash/Price	0.10	0.19	0.06	0.39	0.04	0.01
EV/EBITDA	20.80	10.59	16.54	9.67	14.66	19.90
PEG F1	3.00	2.02	2.39	12.97	2.16	1.91
P/B	8.56	1.37	3.96	3.06	8.73	5.75
P/CF	25.14	9.74	16.53	18.53	16.13	20.98
P/E F1	27.71	20.92	21.88	55.11	20.50	22.49
P/S TTM	4.66	1.43	3.37	1.43	3.52	3.03
Earnings Yield	3.59%	4.18%	4.51%	1.78%	4.88%	4.45%
Debt/Equity	0.92	0.72	0.66	1.90	1.39	0.93
Cash Flow (\$/share)	8.71	2.45	6.78	0.70	12.13	15.12
Growth Score	C	-	-	C	B	B
Historical EPS Growth (3-5 Years)	4.80%	12.39%	9.36%	-39.64%	2.00%	15.82%
Projected EPS Growth (F1/F0)	10.72%	17.20%	15.07%	2,250.00%	9.23%	30.72%
Current Cash Flow Growth	-14.09%	9.67%	0.44%	-45.62%	1.21%	-2.94%
Historical Cash Flow Growth (3-5 Years)	1.22%	8.85%	7.37%	-19.35%	1.95%	7.19%
Current Ratio	1.47	1.58	1.39	1.58	1.88	1.50
Debt/Capital	47.89%	41.83%	41.42%	65.47%	58.18%	48.11%
Net Margin	14.64%	2.22%	10.59%	7.16%	16.73%	10.60%
Return on Equity	27.93%	4.43%	14.86%	1.96%	44.24%	23.93%
Sales/Assets	0.52	0.71	0.50	0.31	0.70	0.68
Projected Sales Growth (F1/F0)	4.93%	0.00%	7.28%	-0.68%	6.72%	2.00%
Momentum Score	D	-	-	C	D	A
Daily Price Change	0.16%	0.00%	-0.42%	-0.31%	0.44%	-0.13%
1-Week Price Change	2.64%	0.00%	2.12%	-1.74%	3.27%	2.10%
4-Week Price Change	6.14%	0.54%	3.83%	-1.22%	10.96%	6.59%
12-Week Price Change	5.26%	13.93%	11.63%	23.69%	13.89%	19.23%
52-Week Price Change	66.13%	54.31%	59.04%	64.13%	42.11%	143.33%
20-Day Average Volume (Shares)	3,186,620	166,401	2,357,830	107,541,848	2,838,938	963,940
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	-3.80%	-0.09%	0.18%
EPS F1 Estimate 12-Week Change	-0.05%	3.19%	2.19%	-20.68%	1.07%	15.84%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-25.93%	-0.58%	0.39%

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	C

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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