

Hormel Foods(HRL)

\$47.96 (As of 01/28/21)

Price Target (6-12 Months): **\$41.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 01/20/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of Hormel Foods have underperformed the industry in the past six months. The company is seeing declines in its foodservice business due to COVID-19 induced social distancing. During fourth-quarter fiscal 2020, net sales in U.S. foodservice channel fell 23%. While management expects to witness modest recovery in the foodservice industry, it is likely to remain below 2019 levels. Apart from this, the company is battling higher supply-chain costs related to the pandemic. These factors hurt fiscal fourth-quarter results, with sales and earnings missing the Zacks Consensus Estimate and declining year over year. Nevertheless, management is impressed with growth witnessed in the International unit as well as across certain retail and deli brands during the quarter. Also, the company is on track with strategic investments for boosting capacity.

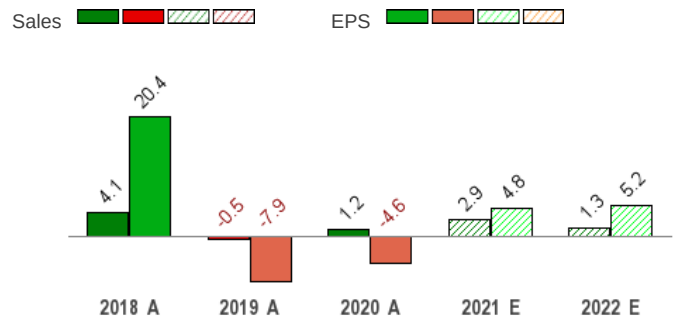
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$52.97 - \$39.01
20-Day Average Volume (Shares)	2,786,264
Market Cap	\$27.3 B
Year-To-Date Price Change	8.4%
Beta	-0.06
Dividend / Dividend Yield	\$0.98 / 2.0%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 20% (202 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.3%
Last Sales Surprise	-7.1%
EPS F1 Estimate 4-Week Change	-1.0%
Expected Report Date	02/18/2021
Earnings ESP	1.0%

P/E TTM	30.2
P/E F1	27.6
PEG F1	4.3
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,498 E	2,481 E	2,502 E	2,610 E	10,016 E
2021	2,389 E	2,403 E	2,413 E	2,682 E	9,887 E
2020	2,384 A	2,422 A	2,381 A	2,420 A	9,608 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.47 E	\$0.49 E	\$0.45 E	\$0.53 E	\$1.83 E
2021	\$0.41 E	\$0.44 E	\$0.42 E	\$0.49 E	\$1.74 E
2020	\$0.45 A	\$0.42 A	\$0.37 A	\$0.43 A	\$1.66 A

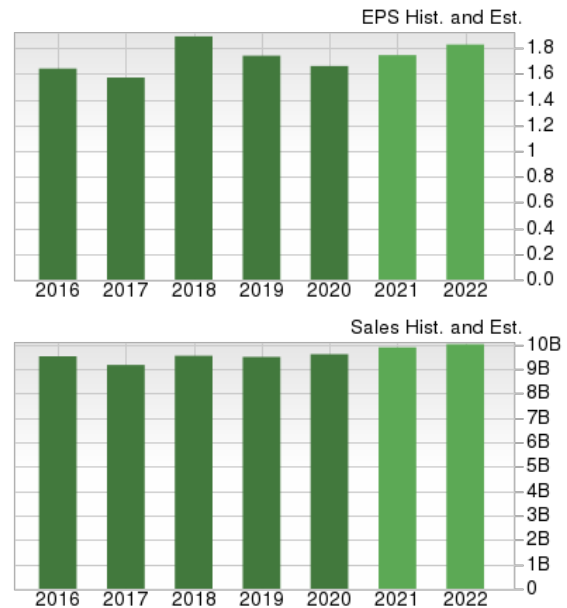
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/28/2021. The reports text is as of 01/29/2021.

Overview

Austin, MN-based **Hormel Foods Corporation (HRL)** is a leading manufacturer and marketer of various meat and food products in the U.S. and international markets. In fiscal 2017, Hormel Foods reported revenue results through five segments: On Nov 21, 2017, Hormel Foods declared that it has consolidated the Specialty Foods segment into the Grocery Products segment.

- **Grocery Products** (24.8% of total revenues in fiscal 2020): This segment consists primarily of the processing, marketing and sale of shelf-stable food products sold predominantly in the retail market.
- **Refrigerated Foods** (54.9% of total revenues in fiscal 2020): This segment includes the Hormel Refrigerated, Burke Corporation (Burke) and Dan's Prize operating segments. It consists primarily of the processing, marketing and sale of branded and unbranded pork and beef products for retail, food service and fresh-product customers.
- **Jennie-O Turkey Store** (13.9% of total revenues in fiscal 2020): This segment consists primarily of the processing, marketing and sale of branded and unbranded turkey products for retail, food service and fresh product customers.
- **International & Other** (6.4% of total revenues in fiscal 2020): This segment includes the Hormel Foods International ('HFI') operating segment, which manufactures markets and sells the company's various miscellaneous corporate products internationally.



The company concluded the divestiture of CytoSport business to PepsiCo. The transaction was valued at nearly \$465 million.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ **Soft Q4 Results:** Shares of Hormel Foods have lost 5.5% in the past six months against the industry's growth of 11.2%. The company posted fourth-quarter fiscal 2020 results, with the top and the bottom line missing the Zacks Consensus Estimate. Also, both sales and earnings declined year over year. Results were hurt by declines in foodservice channel. Most of the company's segments, excluding the International unit, witnessed sales declines.

Notably, earnings of 43 cents per share declined 9%. Higher supply chain costs associated with the COVID-19 pandemic put pressure on the company's bottom-line performance. Net sales of \$2,420.1 million fell 3%, while organic sales went down around 4%. Sluggishness in the U.S. foodservice channel as well as declines across the company's Grocery Products, Jennie-O Turkey Store and Refrigerated Foods segments hampered top-line results. Moreover, total sales volumes were down 2%. On an organic basis, volumes were down 3%.

- ▼ **Escalated Cost Concerns:** Hormel Foods' has been seeing escalated costs associated with COVID-19. During fiscal 2020, the company absorbed more than \$80 million in increased supply chain costs related to the pandemic. These include costs are related to lower production volumes, employee bonuses and expenses to ensure better safety measures in production units. We believe that continuation of this trend is likely to keep hurting the company's performance in the future.
- ▼ **Foodservice Business Challenges:** In spite of strong performance in Hormel Foods' retail business, the company is seeing declines in its foodservice business amid the pandemic. This could be attributed to reduced demand from various foodservice venues in the wake of COVID-19 induced social distancing. During the fourth quarter of fiscal 2020, net sales in U.S. foodservice channel declined 23%. During its earnings call, management noted that although it expects to witness modest recovery in the foodservice industry, but it is likely remain below 2019 levels.
- ▼ **Industry Related Threats:** The food industry is witnessing stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Hormel Foods may have to lower prices for products or indulge in marketing activities to maintain market share. Additionally, the outbreak of any livestock diseases is likely to disrupt the company's operations and profitability.

Weakness in the Foodservice business along with higher supply chain costs related to COVID-19 hurt Hormel Foods' fourth-quarter fiscal 2020 performance.

Risks

- **Robust International & Other Unit:** Hormel Foods' International & Other segment has been performing well for a while now. During the fourth quarter of fiscal 2020, sales in the segment increased 8% to \$157.2 million. Notably, the company saw solid demand for SKIPPY peanut butter and SPAMS luncheon meat. Robust retail and foodservice business in China was also an upside. Segment profit improved 55% on better results in China along with branded export growth and higher income from the company's partners in Europe, Philippines and South Korea. Prior to this, sales in the International & Other segment moved up 2% to \$150.8 million during the fiscal third quarter. We believe that continuation of this trend is likely to keep driving the company's performance in the future.
- **Brand Strength & Innovation:** Hormel Foods' focus on innovation is yielding results. During its fiscal fourth-quarter earnings call, management highlighted that the company achieved its goal of having 15% of sales from new products that were formed in the last five years. Moreover, even amid the coronavirus outbreak Hormel Foods' developed, launched and grew sales from new items. Notably, products such as Hormel Cup N' Crisp pepperoni, SKIPPY peanut butter squeeze packs, Herdez Salsa Cremosas and Happy Little Plants among others have been contributing to the upside. In recent endeavors, the company introduced its new plant-based protein puffs under the Happy Little Plants. With rising health consciousness, plant-based food alternatives are gaining prominence. This provides opportunities for companies like Hormel Foods to diversify and grow.

Well, the company has been making strategic advertisement investments to support growth of its brands. Additionally, it focuses on launching products to meet consumers' preferences. In this regard, Hormel Foods' earlier informed that it has been conducting virtual products showcases amid the coronavirus outbreak.

- **Efforts to Enhance Capacity:** Hormel Foods is on track with strategic investments for boosting capacity. During the fourth quarter of fiscal 2020, the company carried out the Burke pizza toppings plant expansion. Moreover, its facility expansion in Nevada, Iowa will be operational during the first quarter of fiscal 2021, providing the company additional capacity for pizza toppings. Also, Hormel Foods plans to open its new dry sausage manufacturing unit in Omaha, NE during the first half of 2021. This new facility will produce products for Columbus charcuterie. Management also highlighted that it is focusing on expanding the capacity of its pepperoni business. Notably, the company expects to incur capital expenditures of \$350 million for fiscal 2021. Moreover, the company recently announced the opening of a new manufacturing plant — Papillion Foods — situated in Papillion, NE. The new 535,000-square feet facility will manufacture salami and dry sausage items under the Columbus Craft Meats and Hormel brands.
- **Financial Analysis, Dividend Hike:** Hormel Foods' long-term debt (less current maturities) totaled \$1,044.9 million at the end of fourth-quarter fiscal 2020 (as of Oct 25, 2020), down from \$1,046.8 million reported in the fiscal third quarter. Also, the company ended fiscal fourth-quarter with cash and cash equivalents of \$1,714.3 million and current maturities of long-term debt of \$258.7 million.

Recently, the company announced a 5% hike in its annual dividend. As a result, its new annual dividend rate currently stands at 98 cents per share up from the prior rate of 93 cents. This marks the 55th consecutive year, in which the company raised its annual dividend. We note that on Nov 16, the company paid out its 369th straight quarterly dividend of 93 cents. Further, management announced a quarterly dividend of 24.50 cents per share to be paid on Feb 16, 2021, to shareholders as of record as on Jan. 11.

Last Earnings Report

Hormel Foods Q4 Earnings Miss Estimates, Sales Down Y/Y

Hormel Foods posted fourth-quarter fiscal 2020 earnings of 43 cents per share missed the Zacks Consensus Estimate of 44 cents. The bottom line declined 9% year over year. Higher supply chain costs put pressure on the company's bottom-line performance.

Net sales in the fourth quarter were \$2,420.1 million, which missed the Zacks Consensus Estimate of \$2,604 million. Moreover, the top line fell 3% year over year, while organic sales went down around 4%. Sluggishness in the U.S. foodservice channel as well as declines across the company's Grocery Products, Jennie-O Turkey Store and Refrigerated Foods segments hampered top-line results. Moreover, total sales volumes were 1,209.4 million lbs, down 2% year on year. On an organic basis, volumes were down 3%. Channel-wise, net sales across U.S. retail, U.S. deli and International climbed up 7%, 1%, and 2%, respectively. However, net sales in U.S. foodservice channel declined 23%.

Selling, general and administrative expenses rose 3.8% to \$190.7 million. Further, operating margin in the fourth quarter stood at 11.4%, down 140 basis points.

Segment Details

Sales in the **Grocery Products** unit declined nearly 1% to \$580.6 million. Volumes were also down 1%. The segment's sales were affected by lower inventory levels as well as production limitations, stemming from the pandemic on certain center store products and lower sales for MegaMex foodservice items. Nevertheless, demand for center store brands such as Herdez, SKIPPY and Hormel Compleats were strong. Profits in the unit improved 1% owing to growth in the nut butter portfolio.

Net sales in the **Jennie-O Turkey Store** segment dropped 6% to \$373.4 million, with volumes declining 2%. Sales were marred by weak demand for foodservice products. Nevertheless, sales and volumes for Jennie-O lean ground products and whole birds remained strong. Segment profit tanked 21% due to contraction in foodservice earnings. Also, high supply chain costs associated with the pandemic dented profits.

The company's **Refrigerated Foods** generated sales of \$1,308.8 million, down 5% year over year. Also, volumes were down 4%. Gains from growth in retail and deli brands such as Applegate, Hormel Black Label and Columbus as well as the acquisition of Sadler's Smokehouse were offset by significant decline in foodservice sales.

Moreover, sales in the unit were adversely impacted by the COVID-19 pandemic-led production limitations along with reduced inventory levels. Segment profit decreased 17% due to sluggish foodservice sales, high supply chain costs related to pandemic and lower commodity profits.

International & Other sales increased 8% to \$157.2 million, while volumes fell 1%. Notably, the company saw solid global demand for SPAM luncheon meat. Higher sales in China were also an upside. Segment profit improved 55% on better results in China along with branded export growth and higher income from the company's partners in Europe, Philippines and South Korea.

Balance Sheet & Cash Flow

The company ended the quarter with cash and cash equivalents of \$1,714.3 million and long-term debt of \$1,044.9 million (excluding current maturities). In fourth-quarter fiscal 2020, Hormel Foods generated cash of \$249.9 million from operating activities. Operating free cash flow amounted to \$109.2 million. Management expects capital expenditures of \$350 million for fiscal 2021.

In a separate release, the company announced a 5% hike in its annual dividend. As a result, the company new dividend rate currently stands at 98 cents per share. This marks the 55th consecutive year, in which the company raised its annual dividend. We note that on Nov 16, the company paid out its 369th straight quarterly dividend of 93 cents.

Other Details

Management is impressed with growth witnessed in the international unit, as well as across certain retail and deli brands. However, the company continues to support its distributors and operators community as foodservices channel remain sluggish. Management is also cautious regarding the economic uncertainties emerging out of the resurgence of COVID-19 in certain communities.

However, the company expects to meet such challenges on the back of its strong business fundamentals across retail, deli and foodservices channels. Additionally, management expects that majority of its supply chain expenses are temporary in nature and is likely to contract when the pandemic subsides.

Additionally, the company is on track with strategic investments for boosting capacity. During the fourth quarter, it carried out the Burke pizza toppings plant expansion. Additionally, the company is on track with the opening of a new dry sausage production facility for Columbus charcuterie products. Management also highlighted that it is focusing on expanding the capacity of its pepperoni business.

Quarter Ending 10/2020

Report Date	Nov 24, 2020
Sales Surprise	-7.06%
EPS Surprise	-2.27%
Quarterly EPS	0.43
Annual EPS (TTM)	1.67

Recent News

Hormel Foods Opens New Production Unit to Boost Capacity – Dec 23, 2020

Hormel Foods announced the opening of a new manufacturing plant — Papillion Foods — situated in Papillion, NE. The new 535,000-square foot facility will manufacture salami and dry sausage items under the Columbus Craft Meats and Hormel brands. Notably, the new production facility is a state-of-the-art food processing unit that includes latest sustainability processes like automated guided vehicles to transfer products across the plant. The unit also includes automatic rack assists to lift objects and LED lighting with motion sensors. Apart from this, the newly-opened plant will provide a number of job opportunities to people in the local community. Clearly, the Papillion Foods plant will provide additional capacity to the company and boost growth.

Hormel Foods Expands Plant-Based Protein Offerings – Dec 15, 2020

Hormel Foods introduced its new plant-based protein puffs under the Happy Little Plants brand line-up. The Happy Little Plants brand was first introduced by the company in 2019. The brand offers a range of products that help consumers incorporate plant-based protein in their diet. The new protein puffs are likely to enable consumers to follow a convenient and healthy snacking habit. The company is launching the latest plant-based protein puffs in three distinctive flavors namely; Ranch, Nacho Cheese, and Cinnamon & Sugar. Markedly, the product contains 16 gms of protein per serving. Also they are free from preservatives and gluten. The company highlights that the protein puffs will be available for purchase only on Amazon.com, Inc.

Hormel Foods Announces Annual Dividend Hike – Nov 23, 2020

Hormel Foods announced a 5% hike in its annual dividend. As a result, its new annual dividend rate currently stands at 98 cents per share up from the prior rate of 93 cents. This marks the 55th consecutive year, in which the company raised its annual dividend.

We note that on Nov 16, the company paid out its 369th straight quarterly dividend of 93 cents. Further, management announced a quarterly dividend of 24.50 cents per share to be paid on Feb 16, 2021, to shareholders as of record as on Jan 11.

Valuation

Hormel Foods shares are down 5.5% in the past six months and 0.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.2%, while the Zacks Consumer Staples sector gained 5.6% in the past six months. Over the past year, the Zacks sub-industry went down 4.3% and the sector declined 2.1%.

The S&P 500 index is up 16.6% in the past six months and 16.3% in the past year.

The stock is currently trading at 27.18X forward 12-month earnings, which compares to 18.77X for the Zacks sub-industry, 19.16X for the Zacks sector and 22.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.83X and as low as 17.63X, with a 5-year median of 22.86X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$41 price target reflects 23.1X forward 12-month earnings.

The table below shows summary valuation data for HRL

Valuation Multiples - HRL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.18	18.77	19.16	22.47
	5-Year High	29.83	19.1	22.42	23.8
	5-Year Low	17.63	11.48	16.5	15.3
	5-Year Median	22.86	15.48	19.57	17.82
P/S F12M	Current	2.62	1.01	10.22	4.45
	5-Year High	2.86	1.11	11.97	4.45
	5-Year Low	1.7	0.8	8.59	3.2
	5-Year Median	2.15	0.95	10.5	3.67
EV/EBITDA F12M	Current	17.19	10.24	35.58	17.2
	5-Year High	19.78	19.95	38.25	18.8
	5-Year Low	11.46	8.36	25.83	12.92
	5-Year Median	15.03	9.93	34.15	15.69

As of 01/28/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
CONAGRA BRANDS (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Post Holdings, Inc. (POST)	Neutral	3
Pilgrims Pride Corporation (PPC)	Neutral	3
Red River Bancshares, Inc. (RRBI)	Neutral	2
Sanderson Farms, Inc. (SAFM)	Neutral	3
Tyson Foods, Inc. (TSN)	Neutral	3
Beyond Meat, Inc. (BYND)	Underperform	5

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

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	HRL	X Industry	S&P 500	PPC	SAFM	TSN
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	A	A	A
Market Cap	27.27 B	4.84 B	26.41 B	4.89 B	3.07 B	23.59 B
# of Analysts	7	3.5	13	2	4	5
Dividend Yield	1.94%	0.00%	1.45%	0.00%	1.28%	2.75%
Value Score	C	-	-	A	B	A
Cash/Price	0.07	0.07	0.06	0.16	0.02	0.06
EV/EBITDA	18.79	6.88	14.73	6.40	19.62	7.35
PEG F1	4.33	2.84	2.43	2.06	1.08	3.61
P/B	4.24	1.83	3.66	2.01	2.15	1.52
P/CF	23.25	8.39	14.44	7.13	19.45	7.19
P/E F1	27.56	20.31	19.77	10.82	60.80	11.60
P/S TTM	2.84	0.69	2.84	0.41	0.86	0.55
Earnings Yield	3.45%	6.01%	4.98%	9.26%	1.64%	8.63%
Debt/Equity	0.16	0.15	0.69	1.07	0.02	0.69
Cash Flow (\$/share)	2.06	2.52	6.85	2.79	7.08	9.04
Growth Score	B	-	-	A	A	A
Historical EPS Growth (3-5 Years)	3.32%	-1.56%	9.69%	-14.26%	-33.83%	7.69%
Projected EPS Growth (F1/F0)	5.08%	39.45%	12.80%	66.37%	651.22%	-0.96%
Current Cash Flow Growth	0.30%	-11.15%	4.88%	16.70%	-22.60%	3.37%
Historical Cash Flow Growth (3-5 Years)	5.08%	0.05%	8.07%	-4.98%	-12.48%	10.38%
Current Ratio	2.38	2.12	1.38	1.80	2.58	1.86
Debt/Capital	13.98%	12.83%	41.57%	51.78%	1.73%	40.89%
Net Margin	9.45%	1.55%	10.44%	1.55%	0.79%	4.96%
Return on Equity	14.55%	9.83%	15.37%	9.83%	-0.66%	13.79%
Sales/Assets	1.06	1.26	0.51	1.66	1.88	1.26
Projected Sales Growth (F1/F0)	2.90%	6.75%	5.98%	NA	10.61%	1.51%
Momentum Score	B	-	-	B	A	D
Daily Price Change	-5.03%	0.00%	1.38%	-0.95%	0.23%	0.28%
1-Week Price Change	1.20%	3.96%	-0.02%	6.58%	10.06%	2.73%
4-Week Price Change	2.90%	1.43%	0.04%	1.43%	4.18%	0.81%
12-Week Price Change	-3.23%	12.56%	8.96%	16.66%	6.04%	12.56%
52-Week Price Change	0.17%	-2.96%	7.48%	-26.14%	-2.96%	-23.35%
20-Day Average Volume (Shares)	2,786,264	211,647	1,962,643	676,396	211,647	2,004,517
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.97%	1.25%	0.26%	2.20%	76.91%	0.29%
EPS F1 Estimate 12-Week Change	-3.25%	-2.33%	1.63%	-4.87%	20.53%	-1.41%
EPS Q1 Estimate Monthly Change	0.50%	-1.49%	0.05%	NA	0.00%	-2.99%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.