

The Hershey Company(HSY)

\$151.61 (As of 12/17/20)

Price Target (6-12 Months): **\$158.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/21/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Hershey has outpaced the industry year to date. The company is gaining on strength in the North America unit, which remained sturdy in third-quarter 2020. Earnings and sales increased year over year and beat the Zacks Consensus Estimate. Results gained from efficient cost management, solid volumes, pricing benefits as well as gains from ONE Brands' buyout. Markedly, volumes in the North America unit were backed by retailer inventory replenishment and strong consumer takeaway in everyday chocolate and baking products. However, the company's International and Other segment remained soft due to currency woes along with low retail footfall stemming from reduced travel and capacity restrictions. While management expects sales growth in 2020, the guidance includes a 2 point pandemic-related headwind in International & Other unit.

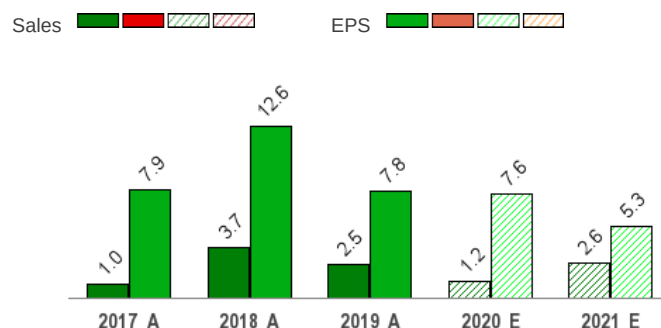
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$161.83 - \$109.88
20-Day Average Volume (Shares)	952,010
Market Cap	\$31.3 B
Year-To-Date Price Change	2.3%
Beta	0.30
Dividend / Dividend Yield	\$3.22 / 2.1%
Industry	Food - Confectionery
Zacks Industry Rank	Bottom 15% (217 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.8%
Last Sales Surprise	3.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	02/04/2021
Earnings ESP	0.6%
P/E TTM	24.7
P/E F1	24.4
PEG F1	3.2
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,087 E	1,795 E	2,249 E	2,129 E	8,297 E
2020	2,037 A	1,707 A	2,220 A	2,118 E	8,085 E
2019	2,016 A	1,767 A	2,134 A	2,068 A	7,986 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.75 E	\$1.40 E	\$1.96 E	\$1.42 E	\$6.56 E
2020	\$1.63 A	\$1.31 A	\$1.86 A	\$1.44 E	\$6.23 E
2019	\$1.59 A	\$1.31 A	\$1.61 A	\$1.28 A	\$5.78 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/17/2020. The reports text is as of 12/17/2020.

Overview

Founded in 1894 and based in Hershey, PA, The Hershey Company (HSY), is the largest chocolate manufacturer in North America as well as a global leader in chocolate and non-chocolate confectionery. In addition, Hershey manufactures pantry items like baking ingredients, toppings and beverages; and gum and mint refreshment products; snack bites and mixes, as well as spreads.

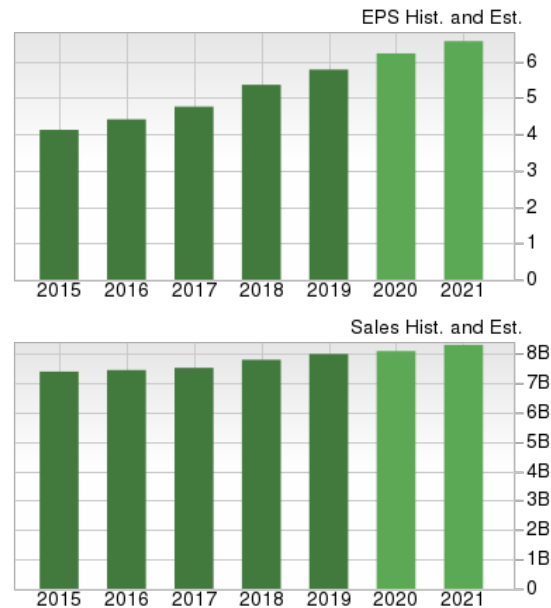
Hershey's operating segments comprise geographic regions — North America (contributed 88% to 2019 net sales) as well as International and Other (12%). International and Other segment includes operations in China, Mexico, Brazil, India and Malaysia, as well as export to markets in Asia, Latin America, Middle East, Europe, Africa and other regions).

The company's portfolio in North America includes a wide range of products, which are marketed and sold under brands like Hershey's, Reese's and Kisses, along with other popular chocolate and non-chocolate confectionery brands like Jolly Rancher, Almond Joy, Brookside, barkTHINS, Cadbury, Good & Plenty, Heath, Kit Kat, Lancaster, Payday, Rolo, Twizzlers, Whoppers and York.

In North America, the company also provides premium chocolates through Scharffen Berger and Dagoba brands. Further, it offers Ice Breakers mints and chewing gum, Breathsavers mints and Bubble Yum bubble gum as part of gum and mint products. Hershey's pantry and snack items include baking products, toppings and sundae syrups sold under the Hershey's, Reese's and Heath brands, as well as Hershey's and Reese's chocolate spreads, snack bites and mixes, Popwell half-popped corn snacks, baked and trans fat free Pirate's Booty snacks and other better-for-you snack brands such as Oatmega among others.

In the International and Other regions, Hershey produces and sells the same brands. It also provides other brands, which are marketed regionally. These include Pelon Pelo Rico confectionery products in Mexico, IO-IO snack products in Brazil, and Nutrine and Maha Lacto confectionery products and Jumpin and Sofit beverage products in India.

The company manufactures and markets several products through licensing agreements with Kraft Foods Ireland (York, Peter Paul Almond Joy and Peter Paul Mounds), Cadbury U.K. (Cadbury and Caramello) and Nestle (Kit-Kat and Rolo).



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **North America Strength Aids Q3 Results, Stock Outperforms:** Shares of Hershey have gained 2.3% year to date while the industry is 0.0%. The company has been benefiting from strength in the North America segment, which remained sturdy in third-quarter 2020. During the quarter, the top and the bottom line increased year over year and came ahead of the Zacks Consensus Estimate. Results benefited from solid cost management and solid performance in the North America segment, which gained from improved volumes and pricing. Also, gains from ONE Brands' buyout drove Hershey's top line in the quarter.

Hershey has been undertaking buyouts to augment portfolio strength as well as boost revenues. Also, the company regularly brings innovation to its core brands to meet consumer demand.

Notably, the company gained confectionary market share of nearly 190 basis points (bps) in the United States. North America (the United States and Canada) net sales increased 6.3% year over year to \$2,014.2 million. Markedly, price realization and net impact of acquisitions and divestitures boosted the unit's sales by 3.3 points and 0.9 points, respectively. Volumes contributed 2.2 points driven by retailer inventory replenishment and strong consumer takeaway in everyday chocolate and baking products. Hershey expects net sales to rise nearly 1% for 2020. Further, the company envisions adjusted EPS for 2020 in the range of \$6.18–\$6.24. This view indicates a rise of 7-8% from the reported figure in 2019.

- ▲ **Gains From Buyouts:** Hershey has been undertaking buyouts to augment portfolio strength as well as boost revenues. Buyouts and divestitures had a net favorable impact of 0.8 point on the top line in the third quarter, thanks to the acquisition of ONE Brands (concluded in September 2019). Further, net impact of buyouts and divestitures are expected to make 0.5 point positive impact on the top line in 2020. Prior to this, the company acquired Pirate Brands in September 2018 to bolster its snacking business. Additionally, the company has been gaining from Amplify Snack Brands, which was acquired in January 2018, to expand in the snacking category. In earlier developments, the acquisition of New York-based barkTHINS (April 2016) premium chocolate snacking brand has been aiding the company's better-for-you snacks portfolio. The SkinnyPop buyout has also been driving growth in the ready-to-eat popcorn category.

- ▲ **Strong Brand Portfolio & Focus on Innovation:** Hershey is the largest producer of quality chocolate products in the United States. It markets some of the world's leading brands which enjoy widespread consumer acceptance. The company is also a global leader in sugar confectionery products, which is attractive category as confectionery products are easily available, affordable and highly indulgent, thus making the industry almost recession resistant. Hershey's core brands — Hershey's, Reese's, Hershey's Kisses, Jolly Rancher, Brookside, Sofit and Ice Breakers — have been growing strongly on the back of advertising investments, in-store merchandising, and programming and innovation.

In fact, Hershey regularly brings innovation to its core brands to meet consumer demand and needs that are not addressed by its current portfolio. In this respect, its Kit Kat Duos innovation and expansion to THINS platform are noteworthy. Further, the company relaunched the Take5 brand under the Reese's banner. The launch of Kisses brand in India is also reaping benefits. An important strategy of the company is to create a unique and holistic portfolio for every season, which can meet consumers' seasonal shopping needs.

- ▲ **Pricing Strategies & Cost Management:** Hershey has been undertaking strategic pricing initiatives to improve its performance. Notably, price realization benefited Hershey's top line by 2.9 points in the quarter under review. Improved pricing along with robust cost management helped Hershey counter commodity and warehouse-related cost pressure in the third quarter and boosted margins. Adjusted gross margin expanded 60 bps to 45.4% on the back of favorable pricing. Adjusted operating profit margin expanded 220 bps to 24.5% led by solid price realization in the North America segment as well as corporate and operational cost management.

Selling, marketing and administrative costs dropped 2.6%. Advertising and related consumer marketing expenses fell 4.6%. Selling, marketing and administrative costs excluding advertising and related consumer marketing dropped 1.5%. Pandemic-related travel and meeting cost savings and the timing of investments in key strategic initiatives were a reason.

- ▲ **Financial Position:** Hershey's total debt-to-capital ratio as of the end of the third quarter of 2020 (Sep 27, 2020) stood at 0.7, which is better than the ratio of 0.74 as of the end of the second quarter. Additionally, the company's times-interest-earned ratio of 10.7 improved quarter over quarter. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. Markedly, Hershey's long-term debt of \$4,093.2 million as of Sep 27 remained almost in line with the previous quarter's level. Moreover, the company had had cash and cash equivalents of \$1,205.9 million as of the end of the third quarter, while its current debt stood at \$788.3 million. Apart from this, Hershey has unsecured revolving credit facility of \$1.5 billion, which can be expanded by another \$500 million.

Notably, Hershey looks well placed on the dividend-payout front. Along with its third-quarter earnings release, the company declared a quarterly dividend of 80.4 cents per share for its common stock and 73.1 cents for Class B common stock. Notably, this marks the company's 364th and 145th straight dividend payout on its common stock and Class B common stock, respectively. Hershey has a dividend payout of 51.9%, dividend yield of 2.1% and free cash flow yield of 4.8%. With an annual free cash flow return on investment of 27.1%, ahead of the industry's 21.3%; the dividend payment is likely to be sustainable.

Reasons To Sell:

- ▼ **International Segment Weak:** Hershey is seeing weakness in the International segment for a while now. In third-quarter 2020, net sales in the International and Other segment fell 14.4% to \$205.7 million. On a cc basis, net sales declined 9.3%. Volumes hit sales by 9.6 points, mainly due to lower sales in the company's owned retail locations. Although retail locations reopened during the quarter, footfall was low due to reduced consumer travel and capacity restrictions imposed by government.

Also, reduced air travel was a reason. Combined net sales in Mexico, Brazil, China and India, dropped 13.9%. Excluding currency headwinds, combined organic sales from these markets declined 2.3% at cc. We note that management's sales guidance for 2020 includes 2 point pandemic-related headwind in the International & Other segment.

Hershey is seeing weakness in its International segment for a while. Management's sales guidance for 2020 includes 2 point pandemic-related headwind in the International & Other segment.

- ▼ **Currency Headwinds:** Hershey remains exposed to volatile currency movements despite a low international presence. Markedly, currency had an adverse impact of 0.6 points on the company's top line in the third quarter of 2020. Also, unfavorable currency fluctuations are expected to have a 0.5 point negative impact on sales growth in 2020.
 - ▼ **Cost Woes:** While Hershey's margins expanded in the third quarter of 2020, the company's performance was partly affected by adverse commodity cost movements and escalated warehouse costs associated with increased demand in North America. Persistence of these factors is a threat. Apart from this, costs associated with COVID-19 are likely to linger next year.
 - ▼ **Stiff Competition:** Hershey operates in highly competitive markets, along with several global multinational, national, regional and local firms. The company has some competitors, which are big entities with considerable resources and significant international operations. Well, Hershey competes on the basis of product innovation, product quality, price, efficacy of marketing and promotional strategies and the ability to cater to consumer preferences among other things. Of late, the company also witnessed heightened competition from other snack items, which in turn puts pressure on the confectionery category.
 - ▼ **Soft Macroeconomic Environment:** The North American food industry remains exposed to shifting consumer preferences (for example, shift toward products with less artificial sweeteners, sodium and saturated fat), changes in consumer dynamics, demographic shifts, and also a spending shift toward lower-priced products. Further, Hershey is dependent on consumer discretionary spending environment, which is affected by the general macroeconomic conditions like consumer confidence and employment levels.
-

Last Earnings Report

Hershey's Q3 Earnings Surpass Estimates, Sales Up

Hershey reported robust third-quarter 2020 results, which gained from solid performance in the North America segment. Notably, the company gained confectionary market share of nearly 190 basis points (bps) in the United States. Adjusted earnings per share (EPS) of \$1.86 came ahead of the Zacks Consensus Estimate of \$1.71 and increased 15.5% year over year.

Consolidated net sales of \$2,219.8 million increased 4% year over year and surpassed the Zacks Consensus Estimate of \$2,154.9 million. Price realization and volume growth were 2.9 point and 0.9 point, respectively, thanks to strength in the North America segment. Moreover, the net impact of acquisitions and divestitures was positive to the tune of 0.8 point stemming from benefits of ONE Brands buyout. However, unfavorable foreign currency rates affected sales by 0.6 point. Further, organic sales on a constant-currency (cc) basis increased 3.8%.

Quarter Ending	09/2020
Report Date	Nov 06, 2020
Sales Surprise	3.01%
EPS Surprise	8.77%
Quarterly EPS	1.86
Annual EPS (TTM)	6.08

Margins in Detail

Adjusted gross margin expanded 60 bps to 45.4% on the back of favorable pricing, which was somewhat offset by unfavorable commodities and escalated warehouse costs.

Selling, marketing and administrative costs dropped 2.6%. Advertising and related consumer marketing expenses fell 4.6%. Selling, marketing and administrative costs excluding advertising and related consumer marketing decreased 1.5%. Pandemic-related travel and meeting cost savings and the timing of investments in key strategic initiatives were a reason. Adjusted operating profit amounted to \$543.3 million, up 13.9% from the prior-year quarter's figure. Adjusted operating profit margin expanded 220 bps to 24.5% led by solid price realization in the North America segment as well as corporate and operational cost management.

Segmental Update

North America (the United States and Canada) net sales increased 6.3% year over year to \$2,014.2 million. Markedly, price realization and net impact of acquisitions and divestitures boosted the unit's sales by 3.3 points and 0.9 points, respectively. Volumes contributed 2.2 points driven by retailer inventory replenishment and strong consumer takeaway in everyday chocolate and baking products. However, currency translations dented the unit by 0.1 point.

Net sales in the **International and Other** segment fell 14.4% to \$205.7 million. On a cc basis, net sales declined 9.3%. Volumes hit sales by 9.6 points, mainly due to lower sales in the company's owned retail locations. Although retail locations reopened during the quarter, footfall was low stemming from reduced consumer travel and capacity restrictions imposed by government. Also, reduced air travel was a reason. Combined net sales in Mexico, Brazil, China and India, dropped 13.9%. Excluding currency headwinds, combined organic sales from these markets decreased 2.3% at cc. Nevertheless, favorable net price realization of 0.3 points offered some respite.

Financials

Hershey ended the quarter with cash and cash equivalents of \$1,205.9 million, long-term debt of \$4,093.2 million and total shareholders' equity of \$2,068.8 million.

In a separate press release, the company declared a quarterly dividend of 80.4 cents per share for its common stock and 73.1 cents for Class B common stock. These are payable on Dec 15 to shareholders of record as of Nov 20. Notably, this marks the company's 364th and 145th straight dividend payout on its common stock and Class B common stock, respectively.

Outlook

Hershey expects net sales to rise nearly 1% for 2020 reflecting a 2 point pandemic-related headwind in International & Other segment. Net impact of buyouts and divestitures are expected to make 0.5 point positive impact on the top line growth. Also, unfavorable currency fluctuations are expected to have a 0.5 point negative impact on sales growth.

Further, the company envisions adjusted EPS for 2020 in the range of \$6.18–\$6.24. This view indicates a rise of 7-8% from the reported figure in 2019.

Valuation

Hershey's shares are up 2.3% in the year-to-date period and 3.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are 0.0% and the Zacks Consumer Staples sector are up 0.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector gained 0.8% and 1.2%, respectively.

The S&P 500 index is up 14.8% in the year-to-date period and 16% in the past year.

The stock is currently trading at 22.98X forward 12-month earnings, which compares to 20.83X for the Zacks sub-industry, 20.54X for the Zacks sector and 22.68X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.02X and as low as 16.46X, with a 5-year median of 21.64X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$158 price target reflects 24.16X forward 12-month earnings.

The table below shows summary valuation data for HSY

Valuation Multiples - HSY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.98	20.83	20.54	22.68
	5-Year High	27.02	24.52	22.42	23.47
	5-Year Low	16.46	15.67	16.5	15.27
	5-Year Median	21.64	19.54	19.58	17.77
P/S F12M	Current	3.77	2.46	10.75	4.27
	5-Year High	4.2	2.74	11.97	4.29
	5-Year Low	2.35	1.63	8.6	3.17
	5-Year Median	2.99	2.13	10.51	3.68
EV/EBITDA F12M	Current	16.06	10.85	36.75	14.93
	5-Year High	18.31	12.26	38.91	15.47
	5-Year Low	11.28	7.36	26.69	10.69
	5-Year Median	13.61	9.67	35.06	13.32

As of 12/16/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (217 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
B&G Foods, Inc. (BGS)	Neutral	2
Campbell Soup Company (CPB)	Neutral	3
Flowers Foods, Inc. (FLO)	Neutral	4
General Mills, Inc. (GIS)	Neutral	3
McCormick & Company, Incorporated (MKC)	Neutral	3
Tyson Foods, Inc. (TSN)	Neutral	3
HOSTESS BRANDS (TWNK)	Neutral	3
The Simply Good Foods Company (SMPL)	Underperform	4

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

Industry Comparison Industry: Food - Confectionery				Industry Peers		
	HSY	X Industry	S&P 500	MKC	SMPL	TWNK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	B	C	A
Market Cap	31.28 B	2.22 B	26.40 B	24.74 B	2.47 B	1.83 B
# of Analysts	8	6	14	6	6	5
Dividend Yield	2.14%	0.00%	1.51%	1.34%	0.00%	0.00%
Value Score	C	-	-	D	D	B
Cash/Price	0.04	0.06	0.06	0.01	0.04	0.08
EV/EBITDA	17.71	17.45	14.41	24.71	28.47	15.65
PEG F1	3.18	3.15	2.80	5.73	NA	NA
P/B	15.12	2.30	3.58	6.27	1.99	1.14
P/CF	19.34	20.53	13.86	28.13	21.72	15.76
P/E F1	24.37	24.14	21.99	31.75	27.45	18.53
P/S TTM	3.89	3.46	2.77	4.47	3.02	1.87
Earnings Yield	4.14%	4.14%	4.33%	3.15%	3.65%	5.37%
Debt/Equity	1.98	0.59	0.70	0.95	0.48	0.69
Cash Flow (\$/share)	7.77	1.25	6.94	3.30	1.19	0.89
Growth Score	B	-	-	B	B	C
Historical EPS Growth (3-5 Years)	8.93%	7.79%	9.69%	12.27%	NA	6.64%
Projected EPS Growth (F1/F0)	7.70%	15.84%	1.00%	2.31%	3.11%	23.61%
Current Cash Flow Growth	9.40%	14.57%	5.22%	7.80%	100.26%	19.10%
Historical Cash Flow Growth (3-5 Years)	7.63%	5.50%	8.33%	9.99%	NA	5.50%
Current Ratio	1.44	2.73	1.38	0.90	3.64	1.82
Debt/Capital	66.43%	36.68%	42.00%	48.64%	32.62%	40.74%
Net Margin	14.87%	9.40%	10.44%	13.75%	4.25%	6.43%
Return on Equity	70.30%	7.24%	14.99%	20.93%	6.72%	5.84%
Sales/Assets	0.91	0.45	0.50	0.52	0.40	0.30
Projected Sales Growth (F1/F0)	1.24%	5.35%	0.35%	3.61%	9.46%	12.57%
Momentum Score	A	-	-	A	D	A
Daily Price Change	0.03%	0.03%	-0.25%	1.02%	0.16%	-0.07%
1-Week Price Change	-1.17%	1.55%	-1.29%	-0.56%	8.01%	1.70%
4-Week Price Change	-0.24%	4.41%	3.00%	1.77%	6.27%	4.41%
12-Week Price Change	11.86%	12.57%	18.91%	-0.04%	20.66%	12.57%
52-Week Price Change	3.06%	-4.32%	6.25%	10.72%	-8.43%	-4.32%
20-Day Average Volume (Shares)	952,010	744,673	1,961,038	937,853	744,673	1,234,773
EPS F1 Estimate 1-Week Change	0.02%	0.02%	0.00%	0.14%	0.00%	0.27%
EPS F1 Estimate 4-Week Change	0.01%	0.01%	0.00%	0.95%	0.00%	0.27%
EPS F1 Estimate 12-Week Change	3.32%	1.34%	3.94%	4.13%	-4.83%	1.34%
EPS Q1 Estimate Monthly Change	0.40%	0.40%	0.00%	1.75%	0.00%	1.01%

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	A
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 a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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