

## Infosys Ltd.(INFY)

**\$17.25** (As of 01/04/21)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

## Summary

Infosys is gaining from large deal wins and fast-growing digital services. The company's sustained focus on Agile Digital and artificial intelligence (AI) -driven Core services is a tailwind. Strong demand for its services in cloud, Internet of Things (IoT), cyber security, data and analytics is a key driver. Higher investments by clients in digital transformation, AI and automation are an upside. Stock has outperformed the industry in the past year. However, Infosys is suffering from increasing anti-outsourcing sentiments in certain countries. Higher subcontractor costs and the company's compensation revision with a higher variable pay and incentives are weighing on margins. Weakness in the financial services segment is also a concern. Further, currency volatility between the India rupee and the U.S. dollar is a concern.

## Price, Consensus & Surprise

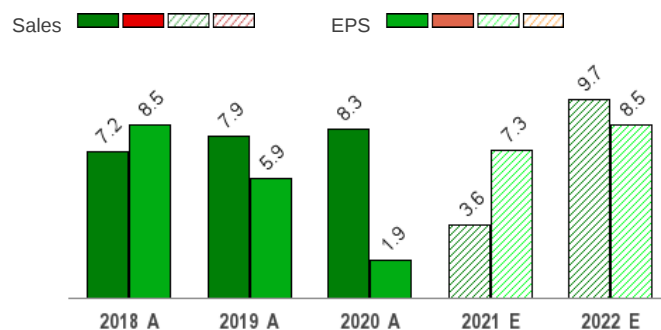


Source: Zacks Investment Research

## Data Overview

|                                |                             |
|--------------------------------|-----------------------------|
| 52-Week High-Low               | \$17.65 - \$6.76            |
| 20-Day Average Volume (Shares) | 6,874,347                   |
| Market Cap                     | \$73.2 B                    |
| Year-To-Date Price Change      | 1.8%                        |
| Beta                           | 0.86                        |
| Dividend / Dividend Yield      | \$0.27 / 1.5%               |
| Industry                       | Computers - IT Services     |
| Zacks Industry Rank            | Bottom 19% (205 out of 254) |

## Sales and EPS Growth Rates (Y/Y %)



|                               |            |
|-------------------------------|------------|
| Last EPS Surprise             | 7.1%       |
| Last Sales Surprise           | 2.4%       |
| EPS F1 Estimate 4-Week Change | 0.0%       |
| Expected Report Date          | 01/13/2021 |
| Earnings ESP                  | 0.0%       |
| P/E TTM                       | 30.3       |
| P/E F1                        | 29.2       |
| PEG F1                        | 3.1        |
| P/S TTM                       | 5.7        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 | 3,462 E | 3,633 E | 3,682 E | 3,672 E | 14,524 E |
| 2021 | 3,121 A | 3,312 A | 3,372 E | 3,408 E | 13,242 E |
| 2020 | 3,131 A | 3,210 A | 3,243 A | 3,197 A | 12,780 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 | \$0.15 E | \$0.16 E | \$0.16 E | \$0.16 E | \$0.64 E |
| 2021 | \$0.13 A | \$0.15 A | \$0.15 E | \$0.15 E | \$0.59 E |
| 2020 | \$0.13 A | \$0.13 A | \$0.15 A | \$0.14 A | \$0.55 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 01/04/2021. The reports text is as of 01/05/2021.

## Overview

Headquartered in India, Infosys Technologies enables its clients to leverage its performance by utilizing its proprietary Global Delivery Model ('GDM').

Infosys operates across the following business segments — Financial Services (31% of total revenues), Retail (16%), Communication (13%), Energy, Utilities, resources & Services (13%), Manufacturing (10%), Hi Tech (8%), Life Sciences (6%) and Others (3%). Others include operating segments of businesses in India, Japan, China, Infosys Public Services and other enterprises in Public Services.

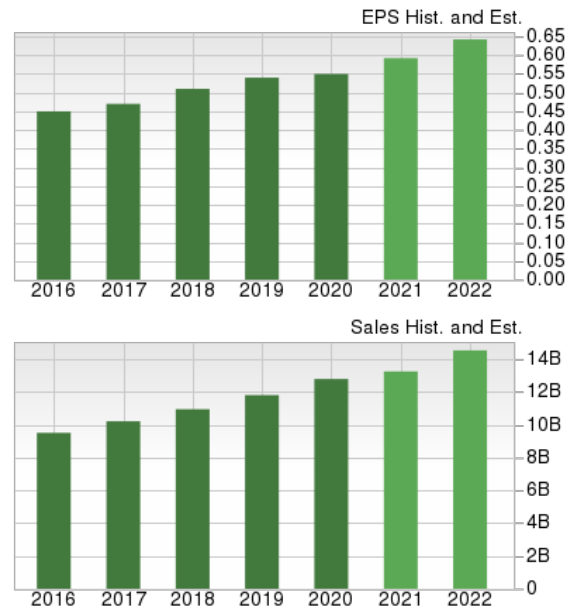
Infosys markets its services to large enterprises in North America, Europe and the Asia Pacific region. Some of the services offered by the company are:

**Business Process Management (BPM) Services and IT Consulting** – Infosys, through its subsidiary Progeon, Ltd., offers its customers the chance to outsource several process-intensive functions related to Customer Relationship Management, Finance and Accounting, and Administration and Sales Order Processing. Also, Infosys' consultants offer technical advice in developing and recommending appropriate IT architecture, hardware and software to deliver IT solutions designed to meet specific business needs of its clients.

**Consulting, Package Implementation & Others** – Infosys is able to create new customized software solutions for its clients, and can increase the functionality of existing software solutions. Also, the company helps its clients to reduce maintenance costs. Infosys also deploys a small group of on-site consultants for its clients, to help streamline and coordinate its support functions.

**Products, Platforms and Others**– Infosys helps its customers to convert existing IT Systems to newer technologies and platforms developed by third-party vendors. Also, the company specializes in enterprise resource planning packages developed by vendors such as SAP or Oracle, Business Intelligence packages from vendors such as Business Objects and Cognos, and enterprise application integration packages from vendors.

Infosys' revenues for fiscal 2020 grew 8.3% year-over-year to \$12.78 billion.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ Infosys is witnessing solid traction in its digital business that now comprises more than 47% of the top line. The high margin digital business is expected to offset the additional investments that the company is undertaking.
- ▲ Infosys has been diligently following the “Renew New” program, which lays the blueprint of its long-term growth. This strategy, which includes restructuring of customer-centric functions, streamlining of sales function, unification of delivery systems and redesigning of other fee and oral processes, is proving to be highly beneficial allowing the company to offset major challenges. Under the “Renew” initiative, Infosys helped clients renew traditional IT services and infrastructure.
- ▲ Of late, innovation has become the keyword of Infosys’ business strategy, fostered by pursuing two avenues, namely, empowering every employee with Zero Distance Program and improving next-generation services with AiKiDo offerings (the acronym for Artificial Intelligence, Knowledge-based IT and Design thinking). Infosys has also taken initiatives like ‘design thinking’ to enhance the training and knowledge base of its employees. Innovative actions like ‘Zero Bench’ program that was devised by the company to eliminate the notion of “bench” in the IT service industry is also proving to be a major asset, bolstering the company’s internal strength. Infosys continues to invest heavily in AI capabilities, including Mana. During 2017, it acquired a highly accomplished team of machine learning experts on Skytree, one of the early startups focused on machine learning. This apart, the company created a \$500 million innovation fund in 2015 with an aim to invest in innovative entrepreneurial ventures in domains related to the company’s core business.
- ▲ Infosys has been strengthening its core competencies by pursuing strategic collaborations and acquisitions. The company’s alliance strategy is targeted at teaming up with leading technology providers, which allows it to cash in on the emerging technologies in a mutually beneficial and cost-competitive manner. Over the last few quarters, Infosys has collaborated with many bigwigs to fortify its portfolio and market share. In order to boost digital, cloud, legacy modernization and automation business, Infosys cemented strategic tie-ups with Google, Adobe, Microsoft, Amazon Web Services and salesforce.com. To drive engineering services, the company has partnered with General Electric to deliver solutions in the field of automation, digital trends and the Internet of Things.
- ▲ Infosys has a strong balance sheet with ample liquidity position and no debt obligations. Cash and investments were \$3 billion as of Sep 30, 2020, slight lower from \$3.4 billion as of Jun 30, 2020. Moreover, in fiscal 2020, the company generated \$2.6 billion of operating cash flows compared with \$2.3 billion in fiscal 2019. During second-quarter fiscal 2021, the company generated free cash flow of \$674 million. It is to be noted that the company has been able to regularly increase its cash from operations since fiscal 2015. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Infosys is growing from renewal of traditional services and rolling out of others in areas such as Cloud Ecosystem, Big Data and Analytics.

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## Reasons To Sell:

- ▼ We believe the coronavirus outbreak will affect Infosys' near-term financial performance. The novel virus has hit the business community hard and therefore, majority of Infosys clients might adjust their planned IT services investments. Nonetheless, the impact is anticipated to be limited as investment in IT Services work streams remain essential and hence, the industry would be the softest hit in comparison to others.
- ▼ Infosys' focus on on-shore business model, with more local hiring, is likely to hurt the company's profitability. Infosys has been struggling to adapt itself to the changing political climate in the United States. Infosys fears that an increase in anti-outsourcing sentiments in certain countries, including the United States and the United Kingdom, is likely to lead to the enactment of restrictive legislations. This in turn could limit companies in those countries from outsourcing work and restrict ability to staff client projects in a timely manner.
- ▼ The company's business is highly prone to currency volatility between the Indian Rupee and the U.S. dollar as majority of its revenues are derived from the U.S. markets. The ongoing commotion related to the Brexit referendum is likely to create uncertainties in the near term, discouraging clients to take up new investments in financial services. The company witnessed pronounced currency volatility especially in the backdrop of Brexit and may continue to do so going forward. In addition, Infosys is expanding capacity in on-site development centers to mitigate any potential risks from visa regulation in the U.S. Steep currency fluctuations, high compensation costs as well as higher variable pays are likely to inflate these costs as well.
- ▼ Spending on technology products and services is subject to fluctuations, depending on many factors, including the economic environment in markets where clients operate. Rapid proliferation of customizable internet-based software has been hampering Infosys' traditional outsourcing business. Management believes that economic conditions in many of its markets remain quite challenging which can weigh on the company's profitability, going ahead. For instance, in many European countries, large government deficits, coupled with downgrading of government debt and credit ratings, have compounded the possibility of continued weakness that may affect Infosys adversely.
- ▼ Infosys operates in a highly competitive and rapidly changing market. The company foresees intensified competition from established IT peers as well as new competitors. In particular, the company expects increased competition from firms that are strengthening their offshore presence in India or other low-cost locations, as well as from firms in market segments that Infosys has recently entered. This apart, the company suffers weakness particularly in its sales and other delivery operations, which poses a direct threat to its profitability in the near term. Apart from this, many long-term client contracts of Infosys contain benchmarking provisions, which if used, could result in lower revenues and profitability under the contract, going forward. In addition, the company remains wary about the actions of activist shareholders, which it believes can adversely affect its ability to execute strategic priorities.

Increasing anti-outsourcing sentiments in certain countries, including the United States and the United Kingdom, is likely to lead to the enactment of restrictive legislations.

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## Last Earnings Report

### Infosys Second-Quarter Fiscal 2021 Results

Infosys' second-quarter adjusted earnings of 15 cents per share surpassed the Zacks Consensus Estimate. Moreover, quarterly earnings jumped 15.4% from the year-ago quarter's earnings per share of 13 cents.

Infosys' fiscal second-quarter revenues increased 3.2% to \$3.31 billion year over year and surpassed the Zacks Consensus Estimate of \$3.23 billion as well. In terms of constant currency (CC), the metric was up 2.2%.

Rise in large deal wins and fast-growing digital services were key catalysts. Solid demand for its services in cloud, IoT, cyber security, SaaS, user experience, data and analytics is a major driver.

### Revenue Details

Digital Revenues (47.3% of total) climbed 27.4% year over year (25.4% at cc) to \$1.57 billion, while Core Revenues (52.7%) declined 11.9% (down 12.1% at cc) to \$1.74 billion.

The company recorded revenue growth across all of its geographical regions. India recorded the highest growth of 15.8% on a reported basis and 20.4% on CC. Revenues across North America, Europe, and Rest of the World regions recorded year-over-year increase of 2.1%, 4%, and 4.5%, respectively, on a reported basis. On a constant-currency basis, the regions registered respective growth of 1.9%, 0.6%, and 3.7%.

Segment wise, Hi Tech registered the highest growth of 24.4%. Life Sciences, Financial Services, and Retail rose 9.3%, 3.7% and 0.7%, respectively. However, Manufacturing, Communication, and Energy, Utilities, Resources & Services recorded a decline of 7%, 0.8% and 2.8%, respectively.

The company added 96 clients during the fiscal second quarter. It also signed multiple large deals of contract value (TCV) worth \$3.15 billion. The TCV recorded during the quarter was highest ever in the company's history.

Though headwinds in the financial services segment are still a concern, growing traction in the commercial and corporate bank, consumer, cost and payments, wealth management and custody plus mortgage portfolios of its business is an upside.

The company reported that its clients worth more than \$100 million now add up to 30, up from the first-quarter number of 25 clients.

### Other Financial Details

Gross profit climbed 10.9% year over year to \$1.19 billion. Gross margin expanded 250 basis points (bps) on a year-over-year basis to 35.8%.

The company's operating income jumped 20.7% year over year to \$840 million. Operating margin expanded 370 bps to 25.4%.

Infosys ended the fiscal second quarter with cash and cash equivalents of \$3.04 billion, up from the fiscal first-quarter level of \$2.52 billion.

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| Quarter Ending   | 09/2020      |
|------------------|--------------|
| Report Date      | Oct 14, 2020 |
| Sales Surprise   | 2.43%        |
| EPS Surprise     | 7.14%        |
| Quarterly EPS    | 0.15         |
| Annual EPS (TTM) | 0.57         |

## Recent News

On Dec 22, Infosys announced entering into a strategic partnership with Daimler AG, to deliver hybrid cloud-based innovation & build a robust technology-driven IT Infrastructure transformation for the latter.

On Dec 16, Infosys announced that its Finacle Digital Banking Solution Suite was selected by RBL Bank, a private sector bank in India.

On Dec 14, Infosys announced entering into a strategic partnership with El Paso Water, a municipal utility in El Paso, TX, to implement Oracle Utilities Customer to Meter (C2M) and facilitate the transformation of the latter's customer information systems (CIS).

On Dec 14, Infosys launched its Modernization Suite, part of Infosys Cobalt, to accelerate cloud transformation journey for enterprises.

On Dec 2, Infosys announced entering a strategic partnership with Rolls-Royce for sourcing engineering and R&D Services for latter's Civil Aerospace business.

On Nov 11, Infosys launched Live Enterprise Application Management Platform to deliver cloud-powered, cognitive-first managed services for IT operations.

On Nov 10, Infosys launched Infosys Applied AI to enable the enterprises scale and future-proof AI-powered transformation.

On Nov 9, Infosys announced that it has partnered with Arizona State University to enhance the learning experience for engineering graduate students, using digital solutions.

On Nov 9, Infosys announced that its Finacle Digital Banking SaaS was selected by Resimac, a non-bank lender in Australia and New Zealand, to build Australia's first Neo-Non-Bank.

On Nov 5, Infosys announced the implementation of Oracle Utilities Customer to Meter (C2M) at Citizens Energy Group to enhance customer experience with a new Customer Information System (CIS).

On Oct 28, Infosys announced that it has completed the acquisition of Blue Acorn iCi.

On Oct 12, Infosys announced that it has completed the acquisition of Kaleidoscope Innovation.

On Oct 8, Infosys announced entering a definitive agreement to acquire Blue Acorn iCi, Adobe Platinum partner in the US, and a leader in digital customer experience, commerce and analytics.

On Oct 7, Infosys announced that it has been selected by Mobile Health AG, a Switzerland-based Health Tech startup, to enhance the go-to-market (GTM) strategy for its electronically patient-reported outcomes (ePRO) platform, Consilium Care.

On Oct 5, Infosys announced that it has completed the acquisition of GuideVision.

## Valuation

Shares of Infosys increased 72.1% in the 6-month period and 72.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and Computer & Technology sector gained 31.9% and 21.7%, respectively, in the past six months. Over the past year, the Zacks sub-industry and the sector increased 42.4% and 37.7%, respectively.

The S&P 500 Index has gained 18.3% in the past six months and 18.1% in the past year.

The stock is currently trading at 27.35X forward 12-month earnings, which compares to 32.29X for the Zacks sub-industry, 28.22X for the Zacks sector and 23.10X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.94X and as low as 11.70X with a 5-year median of 17.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$18 price target reflects 28.72X forward 12-month earnings.

The table below shows summary valuation data for INFY

| Valuation Multiples - INFY |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 27.35 | 32.29        | 28.22  | 23.10   |
|                            | 5-Year High   | 27.94 | 32.37        | 28.22  | 23.79   |
|                            | 5-Year Low    | 11.70 | 15.29        | 16.94  | 15.30   |
|                            | 5-Year Median | 17.55 | 23.19        | 19.93  | 17.82   |
| P/S F12M                   | Current       | 5.15  | 6.84         | 4.78   | 4.49    |
|                            | 5-Year High   | 5.15  | 10.11        | 4.78   | 4.49    |
|                            | 5-Year Low    | 2.11  | 3.90         | 2.77   | 3.21    |
|                            | 5-Year Median | 3.38  | 6.75         | 3.47   | 3.67    |
| EV/SalesTTM                | Current       | 5.41  | 7.01         | 5.32   | 4.38    |
|                            | 5-Year High   | 5.41  | 7.34         | 5.46   | 4.43    |
|                            | 5-Year Low    | 2.10  | 3.59         | 2.85   | 2.62    |
|                            | 5-Year Median | 3.38  | 5.76         | 3.89   | 3.59    |

As of 01/04/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 254)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                                      | Rec        | Rank |
|-------------------------------------------------------|------------|------|
| Avnet, Inc. (AVT)                                     | Outperform | 2    |
| CDW Corporation (CDW)                                 | Outperform | 3    |
| ASGN Incorporated (ASGN)                              | Neutral    | 2    |
| Amdocs Limited (DOX)                                  | Neutral    | 2    |
| DXC Technology Company. (DXC)                         | Neutral    | 3    |
| ServiceNow, Inc. (NOW)                                | Neutral    | 4    |
| PERSPECTA INC (PRSP)                                  | Neutral    | 3    |
| Science Applications International Corporation (SAIC) | Neutral    | 3    |

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

| Industry Comparison Industry: Computers - It Services |           |            |           | Industry Peers |           |         |
|-------------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                       | INFY      | X Industry | S&P 500   | CDW            | DXC       | SAIC    |
| Zacks Recommendation (Long Term)                      | Neutral   | -          | -         | Outperform     | Neutral   | Neutral |
| Zacks Rank (Short Term)                               | 3         | -          | -         | 3              | 3         | 3       |
| VGM Score                                             | C         | -          | -         | A              | A         | A       |
| Market Cap                                            | 73.18 B   | 3.78 B     | 25.35 B   | 18.18 B        | 6.59 B    | 5.39 B  |
| # of Analysts                                         | 9         | 5          | 13        | 7              | 6         | 7       |
| Dividend Yield                                        | 1.55%     | 0.00%      | 1.48%     | 1.26%          | 0.00%     | 1.60%   |
| Value Score                                           | C         | -          | -         | B              | A         | A       |
| Cash/Price                                            | 0.05      | 0.07       | 0.06      | 0.07           | 0.47      | 0.03    |
| EV/EBITDA                                             | 19.89     | 8.43       | 14.42     | 15.11          | 2.96      | 14.90   |
| PEG F1                                                | 3.13      | 2.07       | 2.57      | 1.46           | NA        | NA      |
| P/B                                                   | 7.56      | 4.18       | 3.64      | 14.68          | 1.39      | 3.57    |
| P/CF                                                  | 26.72     | 13.03      | 13.82     | 15.79          | 0.64      | 11.33   |
| P/E F1                                                | 29.71     | 29.13      | 20.14     | 19.17          | 12.55     | 15.22   |
| P/S TTM                                               | 5.69      | 2.67       | 2.83      | 1.01           | 0.35      | 0.78    |
| Earnings Yield                                        | 3.42%     | 2.03%      | 4.86%     | 5.21%          | 7.99%     | 6.57%   |
| Debt/Equity                                           | 0.00      | 0.19       | 0.70      | 3.12           | 1.69      | 1.62    |
| Cash Flow (\$/share)                                  | 0.65      | 0.95       | 6.93      | 8.05           | 40.21     | 8.18    |
| Growth Score                                          | B         | -          | -         | B              | B         | A       |
| Historical EPS Growth (3-5 Years)                     | 5.25%     | 18.05%     | 9.71%     | 22.10%         | 14.13%    | 18.14%  |
| Projected EPS Growth (F1/F0)                          | 7.68%     | 11.90%     | 12.14%    | 5.59%          | -62.99%   | 7.57%   |
| Current Cash Flow Growth                              | 4.82%     | 8.73%      | 5.22%     | 10.39%         | 133.97%   | 74.09%  |
| Historical Cash Flow Growth (3-5 Years)               | 4.59%     | 16.04%     | 8.33%     | 13.51%         | 44.41%    | 23.85%  |
| Current Ratio                                         | 2.77      | 1.77       | 1.38      | 1.50           | 0.96      | 0.98    |
| Debt/Capital                                          | 0.00%     | 20.52%     | 41.97%    | 75.70%         | 62.87%    | 61.83%  |
| Net Margin                                            | 18.85%    | 2.99%      | 10.40%    | 4.08%          | -20.44%   | 2.99%   |
| Return on Equity                                      | 27.14%    | 9.68%      | 15.07%    | 88.43%         | 14.08%    | 25.09%  |
| Sales/Assets                                          | 1.01      | 0.70       | 0.50      | 2.11           | 0.69      | 1.22    |
| Projected Sales Growth (F1/F0)                        | 3.61%     | 6.51%      | 5.94%     | 4.06%          | -10.75%   | 11.83%  |
| Momentum Score                                        | F         | -          | -         | B              | D         | A       |
| Daily Price Change                                    | 1.77%     | -0.88%     | -1.64%    | -3.51%         | 0.66%     | -2.11%  |
| 1-Week Price Change                                   | 2.11%     | -0.72%     | 1.16%     | 1.98%          | 12.45%    | -2.24%  |
| 4-Week Price Change                                   | 10.44%    | 3.00%      | -0.51%    | -4.35%         | 7.15%     | -4.05%  |
| 12-Week Price Change                                  | 10.93%    | 8.43%      | 7.68%     | -2.19%         | 28.44%    | 12.76%  |
| 52-Week Price Change                                  | 68.95%    | 14.17%     | 5.11%     | -9.87%         | -26.64%   | 4.80%   |
| 20-Day Average Volume (Shares)                        | 6,874,347 | 528,089    | 1,660,295 | 777,323        | 2,390,104 | 349,738 |
| EPS F1 Estimate 1-Week Change                         | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                         | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.72%   |
| EPS F1 Estimate 12-Week Change                        | 7.03%     | 1.44%      | 2.53%     | 4.86%          | -5.99%    | 0.05%   |
| EPS Q1 Estimate Monthly Change                        | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.36%     | 2.53%   |

Source: Zacks Investment Research

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## 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.

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### 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 | F |
| VGM Score      | C |

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

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## 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.

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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.

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## 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.

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**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.

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**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.

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**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.