

International Paper (IP)

\$53.39 (As of 03/03/21)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/08/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

International Paper's earnings estimates for the current quarter and current year have been stable of late. The company will benefit from the ongoing strong demand for essential products and the e-commerce channel amid the coronavirus pandemic. The Global cellulose fibers segment will gain on demand for absorbent hygiene products and tissue products as a result of the crisis. Further, corrugated packaging demand remains resilient in the current year on account of its critical role in supply chain. Furthermore mergers and acquisitions also remain a key growth strategy for the company to strengthen its packaging business. The company's strong balance sheet will also stoke growth. However, weak paper demand due to the pandemic and higher maintenance outage costs are likely to impact International Paper's performance.

Price, Consensus & Surprise

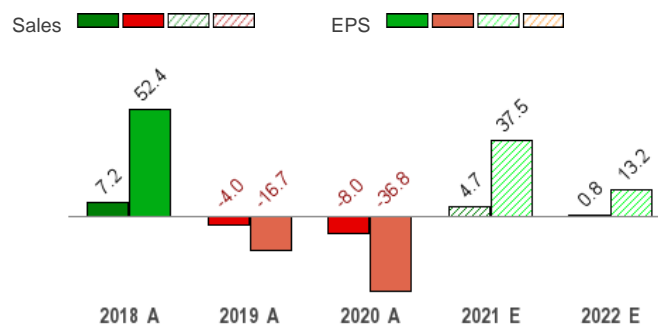


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$53.74 - \$26.38
20-Day Average Volume (Shares)	3,176,007
Market Cap	\$20.9 B
Year-To-Date Price Change	7.0%
Beta	1.08
Dividend / Dividend Yield	\$2.05 / 3.9%
Industry	Paper and Related Products
Zacks Industry Rank	Bottom 34% (168 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-10.7%
Last Sales Surprise	-0.4%
EPS F1 Estimate 4-Week Change	-1.9%
Expected Report Date	04/29/2021
Earnings ESP	0.0%
P/E TTM	19.0
P/E F1	13.9
PEG F1	NA
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	5,344 E	5,217 E	5,229 E	5,505 E	21,728 E
2021	5,313 E	5,309 E	5,396 E	5,545 E	21,556 E
2020	5,352 A	4,866 A	5,123 A	5,239 A	20,580 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.93 E	\$0.90 E	\$1.07 E	\$1.13 E	\$4.36 E
2021	\$0.73 E	\$0.82 E	\$1.15 E	\$1.13 E	\$3.85 E
2020	\$0.57 A	\$0.77 A	\$0.71 A	\$0.75 A	\$2.80 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/03/2021. The report's text and the analyst-provided price target are as of 03/04/2021.

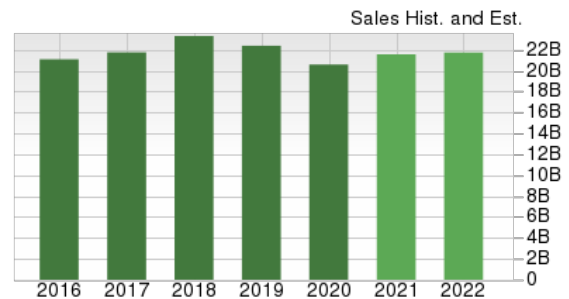
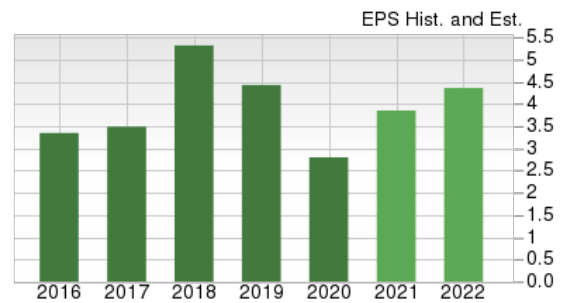
Overview

Incorporated in 1941, Headquartered in Memphis, TN, International Paper Company is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. The company employs approximately 50,000 people and is strategically located in more than 150 countries serving customers worldwide.

On Dec 3, 2020, the company announced its plan to spin-off its Printing Papers segment into a standalone, publicly-traded company ("SpinCo"). This move will enable International Paper to focus on its Industrial Packaging segment, and capitalize on the growing demand for corrugated packaging, cut costs and improve earnings.

The company currently has three operating segments-

- The **Industrial Packaging** segment (accounting for 73% of 2020 revenues) manufactures containerboard in the United States. Products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. Additionally, the company recycles around \$1 million tons of OCC and mixed and white paper through 18 recycling plants. In EMEA, the company's operations include one recycled fiber containerboard mill in Morocco, a recycled containerboard mill in Spain and 26 container plants in France, Italy, Spain, Morocco and Turkey. Brazil operations include three containerboard mills and four box plants.
- The **Printing Papers** segment (15%) produces papers for use in copiers, desktop and laser printers and digital imaging. The primary product in this segment is uncoated papers. End-use applications include promotional materials like brochures and pamphlets.
- The **Global Cellulose Fibers** segment (12%) primarily makes pulp and represents the combined businesses of legacy pulp operations and acquired pulp business. Cellulose fibers product portfolio includes fluff, market and specialty pulps. The company's market pulp is used for tissue and paper.



Source: Zacks Investment Research

Reasons To Buy:

▲ The company is witnessing strong demand driven by processed food, beverage, proteins, chemicals, paper tissue and towel. The company will continue to benefit from growing e-commerce demand as it has become a primary spending channel for customers owing to the containment measures amid the coronavirus pandemic. In the current year, the company continues to expect solid demand for corrugated packaging as it plays a critical role in supply chain to bring essential products to consumers. Moreover, the Global cellulose fibers segment is riding on strong consumer demand for absorbent hygiene products and tissue products as a result of the pandemic. Also, demand for fluff pulp will be higher in the current year following expected inventory destocking. The company anticipates improvement in price and mix across all segments.

International Paper will gain from strong demand for corrugated packaging and e-commerce activities in the wake of the coronavirus pandemic. A strong balance sheet and acquisitions also bode well.

▲ International Paper has taken initiatives in three areas. First, the company will streamline and simplify its organization to form a packaging-focused company. Second, it will redesign processes to increase efficiency and reduce costs in maintenance and reliability, distribution and logistics, as well as sourcing. Third, the company is identifying opportunities to optimize fleet of assets to make the right products and own the right assets to further fortify cost position. In fact, International Paper is committed to deliver \$350-\$400 million in incremental earnings by the end of 2023. The company will deliver \$50 million to \$100 million of incremental annual earnings growth in its businesses through commercial execution and investment excellence. It will also deliver \$300 million of structural cost reduction.

▲ International Paper continually evaluates its operations for improvement opportunities by focusing on its core businesses, realigning capacity to operate fewer facilities with the same revenue capability, closing high cost facilities, and trimming costs. The company has strategically offloaded businesses in China to focus more on its U.S. operations. It believes that it could cater to the Chinese and Asian markets more effectively by supplying globally competitive products primarily through its Ilim joint venture in Russia and through exports from the United States and other parts of the world.

Recently, International Paper entered into an agreement to divest its 90.38% shareholding in Olmuksan International Paper to Mondi Group for approximately €66 million (\$80.8 million). The divestiture includes Turkey-based corrugated packaging facilities. The deal is expected to close in the first half of the current year. Previously, the company completed the divestiture of its consumer packaging business in North America to Graphic Packaging. The divestiture helped the company to maximize the value of North American Consumer Packaging business by combining it with Graphic Packaging while also focusing on its core businesses and strengthen its balance sheet. The company intends to invest significantly to improve its North American containerboard mill system, enhance product quality, and reduce manufacturing and delivery costs. Solid export demand for containerboard will also benefit the company's performance.

▲ Mergers and acquisitions are a key strategy for International Paper to strengthen its packaging business. In North America, the company envisions a large opportunity within its industrial packaging businesses, which continue to generate the best margins in the industry. The company is taking initiatives to drive further margin expansion over time across the business. International Paper recently announced its plan to spin-off the company's Printing Papers segment into a standalone, publicly-traded company ("SpinCo"). This move will enable International Paper to focus on its Industrial Packaging segment, and capitalize on the growing demand for corrugated packaging, cut costs and improve earnings. The transaction will be implemented through the distribution of SpinCo shares to shareholders of International Paper. The transaction is expected to close in the third quarter of the current year. International expects to generate approximately \$17 billion in sales, of which 85% will flow in from Industrial Packaging and the balance 15% from Global Cellulose Fibers.

▲ The company's efforts to reduce its debt levels appear encouraging. The company repaid \$1.7 billion of debt to further strengthen balance sheet. International Paper's total debt has gone down from \$11 billion at the end of 2016 to \$8.1 billion as of Dec 31, 2020. In 2020, International Paper generated \$2.3 billion of free cash flow aided by strong commercial and operational performance, and cost management actions. For full-year 2020, the company returned \$800 million to shareholders. Over the past five years, the company returned \$5.2 billion to shareholders through dividends and share repurchases. The company remains committed to a sustainable dividend with a target range of 40% to 50% of free cash flow. The company expects capital expenditure in the current year to be around \$800 million. Moreover, cash and temporary investments aggregated \$595 million as of Dec 31, 2020 compared with \$511 million as of Dec 31, 2019.

Reasons To Sell:

- ▼ The coronavirus pandemic has affected paper consumption in schools, offices and businesses due to stay-at-home measures implemented to stem the spread of the coronavirus. This has strained demand for paper. Even though demand for printing papers is improving, it remained below than prior year levels. Challenges related to the printing paper demand will prevail until offices and schools resumes. The company has also experienced unprecedented decline in commercial printing segments due to the significant pullback in print advertising. This will weigh on the Printing Paper segment's performance in the near term. Further, the transition to digital media has led to declines in demand for paper and remains a persistent woe. Paperless communication, increased use of email, less print advertising, more electronic billing and fewer catalogs have dented paper demand. This remains a concern.
- ▼ The company is experiencing significant rail, truck and ocean transportation congestion, and thus expects recovered fiber and distribution costs to trend higher in the current year. In the industrial packaging segment, the company is witnessing higher input costs driven by higher recovered fiber, seasonal energy and distribution costs. The company expects maintenance outage expense to shoot up by \$87 million and input costs will likely be up \$30 million.
- ▼ In global cellulose fibers segment, input costs are expected to flare up \$10 million, mostly due to higher seasonal wood and energy costs while maintenance outage expense might be down \$6 million. In the Printing Papers business, volume is expected to decrease by \$15 million on lower, seasonal demand in Latin America and Russia. Maintenance outage expense is expected to be up \$2 million, and input costs might rise \$10 million, mostly due to higher seasonal wood and energy costs. The company expects overall maintenance outage costs of \$155 million for the current year.
- ▼ Demand for processed foods is normalizing as shopping activity is picking up. There has been a modest improvement in fresh produce and beverage as restaurants and food service activity are slowly reopening. However, this recovery may not sustain considering the resurgence in coronavirus cases in many areas as this might lead to the governments imposing further shutdowns.

International Paper's results will bear the impact of the coronavirus pandemic. Weak demand for printing paper and decline in commercial printing will weigh on its top-line performance.

Last Earnings Report

International Paper Q4 Earnings Lag Estimates, Down Y/Y

International Paper reported fourth-quarter 2020 adjusted earnings of 75 cents per share, which missed the Zacks Consensus Estimate of 84 cents. The bottom line also declined 31% year over year from \$1.09 reported in the prior year quarter due to higher input and operating costs.

Including one-time items, the company posted earnings per share of 39 cents in fourth-quarter 2020 compared with the year-ago quarter's 42 cents.

Net sales declined 5% to \$5.24 billion in the fourth quarter from the year-ago quarter. The top line also lagged the Zacks Consensus Estimate of \$5.26 billion.

Adjusted cost of sales was \$3,654 million, up 1% from the prior-year quarter's \$3,620 million. Gross profit declined 16% year over year to \$1,585 million. Adjusted selling and administrative expenses fell 10% year over year to \$396 million during the reported quarter. Adjusted operating profit was \$296 million, reflecting year-over-year plunge of 31% due to higher input and operating costs.

Segment Performance

Industrial Packaging: Sales in this segment remained flat year over year at \$3.8 billion. Operating profit fell 29% year over year to \$431 million.

Global Cellulose Fibers: In the reported quarter, the segment's sales inched up 1% to \$582 million from the prior-year quarter. The segment incurred an operating loss of \$114 million in the quarter under review, compared with the year-ago quarter's operating loss of \$45 million.

Printing Papers: Sales of this segment amounted to \$802 million, reflecting a plunge of 25% from the year-earlier quarter. The segment's operating profit declined 27% year over year to \$80 million in fourth-quarter 2020.

Financial Position

Cash and temporary investments aggregated \$595 million as of Dec 31, 2020 compared with \$511 million as of Dec 31, 2019. Through 2020, the company returned \$800 million to shareholders and reduced debt by \$1.7 billion. As of 2020-end, the company's long-term debt was at \$8.1 billion.

Cash flow from operating activities was \$3 billion in 2020 compared with \$3.6 billion in the prior year. Free cash flow was \$2.3 billion in 2020, flat compared with the prior year.

2020 Results

International Paper's adjusted earnings per share plunged 37% year over year to \$2.80 in 2020 and missed the Zacks Consensus Estimate of \$2.88. Including one-time items, the bottom line was \$1.22, down 60% from the \$3.07 in 2019. Sales declined 8% year over year to \$20.6 billion from the prior year's \$22.4 billion. The top-line figure matched the Zacks Consensus Estimate.

Quarter Ending **12/2020**

Report Date	Feb 04, 2021
Sales Surprise	-0.37%
EPS Surprise	-10.71%
Quarterly EPS	0.75
Annual EPS (TTM)	2.80

Recent News

International Paper Buys Berkley's Molded Fiber Unit

On **Feb 25, 2021**, International Paper acquired Berkley International's Molded Fiber (pulp) manufacturing unit, Berkley MF LLC.

In 2019, Berkley shifted its operations into an 80,400-square-foot state-of-the-art molded fiber manufacturing plant outside of Reno, NV, following seven years of manufacturing outside of Los Angeles.

Berkley International teams up with companies which are focused on using their sustainable packaging technology for e-commerce and food packaging applications. Berkley MF is a provider of in-house design, manufacturing and distribution of custom-made molded fiber packaging products. In fact, Berkley is committed to bringing the domestic molded pulp manufacturing sector a cost-effective alternative to single-use plastic, and foam-based packaging mediums like EPS (Styrofoam).

International Paper to Divests Corrugated Packaging Facilities in Turkey

On **Jan 5, 2021**, International Paper has entered into an agreement to divest its 90.38% shareholding in Olmuksan International Paper to Mondi Group for approximately €66 million (\$80.8 million). The divestiture includes Turkey-based corrugated packaging facilities with an approximate annual revenue of TRY1,093 million (€150 million) (\$147 million). The deal is expected to close in the first half of the current year.

International Paper to Divest Printing Papers Segment

On **Dec 3, 2020**, International Paper announced its plan to spin-off the company's Printing Papers segment into a standalone, publicly-traded company ("SpinCo"). This move will enable International Paper to focus on its Industrial Packaging segment, and capitalize on the growing demand for corrugated packaging, cut costs and improve earnings. Increased digitization and lower paper consumption in schools, offices and businesses amid the COVID-19 pandemic have been weighing on the Printing Paper segment, lately.

The transaction will be implemented through the distribution of SpinCo shares to shareholders of International Paper. International Paper will retain up to 19.99% of the shares of SpinCo at the time of the separation. The company intends to monetize these shares in the future. Consistent with International Paper's capital-allocation policy of paying a competitive and sustainable dividend at 40-50% of free cash flow, International Paper expects to reduce its current dividend by 15-20% in proportion to the cash generated by SpinCo upon completion of the spin-off. SpinCo will pay a dividend to International Paper, which will be used to pay down the latter's debt.

The transaction, which is expected to close in the third quarter of 2021, will result in two streamlined, leading companies — SpinCo and International Paper. SpinCo will have approximately \$4 billion in sales and operate 8 mills with 2.9 million metric tons of annual capacity and 0.4 million metric tons of coated paperboard capacity.

International Paper will have 20 containerboard mills, with 14.5 million tons of annual capacity, 8 pulp mills with 3.2 million metric tons of annual capacity, and 220 converting facilities. The company expects to generate approximately \$17 billion in sales, of which 85% will flow in from Industrial Packaging and the balance 15% from Global Cellulose Fibers. In 2019, the company generated \$22.4 billion sales, with the Industrial Packaging segment contributing 69%, and the Global Cellulose Fibers and Printing Papers segment accounting for 12% and 19% of sales, respectively.

Valuation

International Paper's shares are up 36.3% in trailing six-month period and 45.7% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry and the Zacks Basics Materials sector are up 42.2% and 26.4% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 46.6% and 51.2% respectively.

The S&P 500 index is up 13.8% in the trailing six-month period and 30.4% in the past year.

The stock is currently trading at 13.50X forward 12-month earnings, which compares with 7.50X for the Zacks sub-industry, 11.55X for the Zacks sector and 22.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.66X and as low as 6.59X, with a 5-year median of 12.33X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$56 price target reflects 14.20X Forward 12-month earnings.

The table below shows summary valuation data for IP:

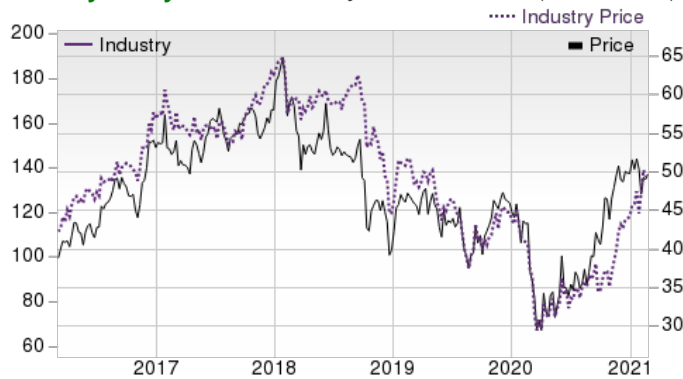
Valuation Multiples - IP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.5	7.5	11.55	22.31
	5-Year High	18.66	13.88	21.06	23.8
	5-Year Low	6.59	4.11	10.24	15.3
	5-Year Median	12.33	9.46	13.2	17.87
	Current	7.4	6.15	11.6	17.24

EV/EBITDA TTM	5-Year High	11.55	14.57	18.38	17.54
	5-Year Low	4.14	3.95	6.46	9.63
	5-Year Median	6.6	7.56	9.71	13.29
	Current	2.66	5.69	3.27	6.85
P/B TTM	5-Year High	5.47	7.22	3.46	7.07
	5-Year Low	1.35	1.72	1.22	3.84
	5-Year Median	3	2.36	2.25	4.97

As of 03/03/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 34% (168 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Clearwater Paper Corporation (CLW)	Neutral	5
D S SMITH PLC (DITHF)	Neutral	3
MONDI PLC UNS (MONDY)	Neutral	2
Stora Enso Oyj (SEOAY)	Neutral	2
SMURFIT KAPPA (SMFKY)	Neutral	3
Sappi Ltd. (SPPJY)	Neutral	3
WestRock Company (WRK)	Neutral	3
Veritiv Corporation (VRTV)	Underperform	5

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

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	IP	X Industry	S&P 500	SEOAY	SMFKY	WRK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	D	A	A
Market Cap	20.92 B	1.38 B	27.40 B	16.06 B	12.74 B	12.63 B
# of Analysts	7	1	13	2	1	6
Dividend Yield	3.85%	0.00%	1.43%	3.48%	1.80%	1.67%
Value Score	A	-	-	C	B	A
Cash/Price	0.03	0.10	0.06	0.10	0.09	0.02
EV/EBITDA	11.92	9.21	15.43	8.64	NA	7.86
PEG F1	NA	1.80	2.30	2.20	NA	0.75
P/B	2.66	1.49	3.79	1.90	2.95	1.15
P/CF	8.74	8.22	15.48	8.84	9.93	3.52
P/E F1	13.87	15.19	20.65	17.86	17.15	13.68
P/S TTM	1.02	0.71	3.18	1.64	NA	0.72
Earnings Yield	7.23%	6.55%	4.77%	5.60%	5.83%	7.31%
Debt/Equity	1.02	0.82	0.67	0.48	0.83	0.80
Cash Flow (\$/share)	6.09	1.97	6.77	2.30	4.98	13.62
Growth Score	C	-	-	F	B	A
Historical EPS Growth (3-5 Years)	3.35%	-9.59%	9.32%	0.73%	NA	5.67%
Projected EPS Growth (F1/F0)	37.65%	79.53%	14.54%	123.53%	7.46%	26.87%
Current Cash Flow Growth	-22.12%	12.23%	0.74%	50.09%	-3.68%	39.12%
Historical Cash Flow Growth (3-5 Years)	-3.29%	-3.29%	7.37%	6.37%	6.80%	20.84%
Current Ratio	1.36	1.94	1.39	1.38	1.46	1.60
Debt/Capital	50.62%	45.15%	41.42%	32.42%	45.21%	44.41%
Net Margin	2.34%	-1.86%	10.59%	7.33%	NA	-3.86%
Return on Equity	15.33%	5.48%	14.75%	5.48%	NA	6.48%
Sales/Assets	0.64	0.73	0.51	0.59	NA	0.59
Projected Sales Growth (F1/F0)	4.74%	0.00%	7.02%	9.36%	9.53%	2.96%
Momentum Score	D	-	-	B	B	C
Daily Price Change	1.82%	0.94%	-0.42%	0.94%	2.24%	2.44%
1-Week Price Change	1.43%	-0.10%	-1.51%	-0.10%	-5.97%	-0.82%
4-Week Price Change	5.14%	9.74%	2.34%	10.23%	-0.28%	12.62%
12-Week Price Change	7.43%	22.25%	5.72%	14.96%	9.56%	6.73%
52-Week Price Change	40.35%	39.55%	19.32%	64.91%	39.55%	42.63%
20-Day Average Volume (Shares)	3,176,007	224,371	2,030,734	48,041	10,400	2,157,584
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.86%	0.00%	0.12%	3.17%	-3.68%	0.00%
EPS F1 Estimate 12-Week Change	6.47%	10.06%	2.13%	14.00%	0.70%	10.06%
EPS Q1 Estimate Monthly Change	-2.68%	0.00%	0.00%	NA	NA	0.00%

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	A
Growth Score	C
Momentum Score	D
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.