

## Jacobs Engineering (J)

**\$90.50** (As of 08/03/20)

Price Target (6-12 Months): **\$95.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 08/14/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

## Summary

Shares of Jacobs have outperformed the industry year to date. The trend is likely to continue, courtesy of strong third-quarter fiscal 2020 (ended Jun 26, 2020) results. The top and bottom lines beat the respective Zacks Consensus Estimate, driven by healthy segmental businesses, acquisitions, cost savings and prudent strategy execution. Higher quarter-end backlog (\$23.7 billion) reflects solid demand for its consulting services. Jacobs generated \$332 million of free cash flow in the quarter and now expects the same to touch \$400 million in fiscal 2020. Its focus on infrastructure, aerospace, cybersecurity and technical building projects bodes well for growth. However, it expects coronavirus-related disruptions to continue in the fiscal fourth quarter and early fiscal 2021.

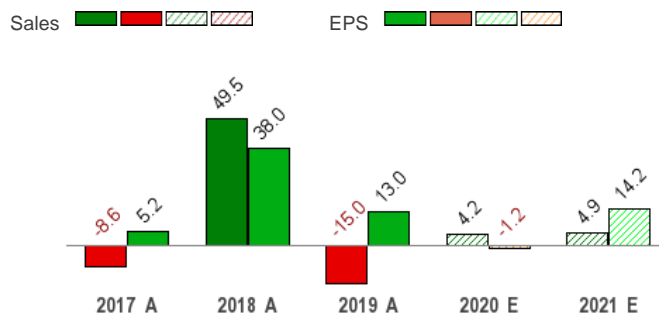
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$104.00 - \$59.29</b>
20 Day Average Volume (sh)	<b>795,418</b>
Market Cap	<b>\$11.8 B</b>
YTD Price Change	<b>0.8%</b>
Beta	<b>0.94</b>
Dividend / Div Yld	<b>\$0.76 / 0.8%</b>
Industry	<b><u>Engineering - R and D Services</u></b>
Zacks Industry Rank	<b>Top 40% (102 out of 254)</b>

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



Last EPS Surprise	<b>27.3%</b>
Last Sales Surprise	<b>3.7%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>11/23/2020</b>
Earnings ESP	<b>-5.2%</b>
P/E TTM	<b>17.0</b>
P/E F1	<b>18.1</b>
PEG F1	<b>1.6</b>
P/S TTM	<b>0.9</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,368 E	3,487 E	3,411 E	3,633 E	13,924 E
2020	3,360 A	3,427 A	3,260 A	3,346 E	13,276 E
2019	3,084 A	3,092 A	3,170 A	3,393 A	12,738 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.30 E	\$1.37 E	\$1.43 E	\$1.69 E	\$5.70 E
2020	\$1.20 A	\$1.39 A	\$1.26 A	\$1.36 E	\$4.99 E
2019	\$0.78 A	\$1.19 A	\$1.40 A	\$1.48 A	\$5.05 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 08/03/2020. The reports text is as of 08/04/2020.

## Overview

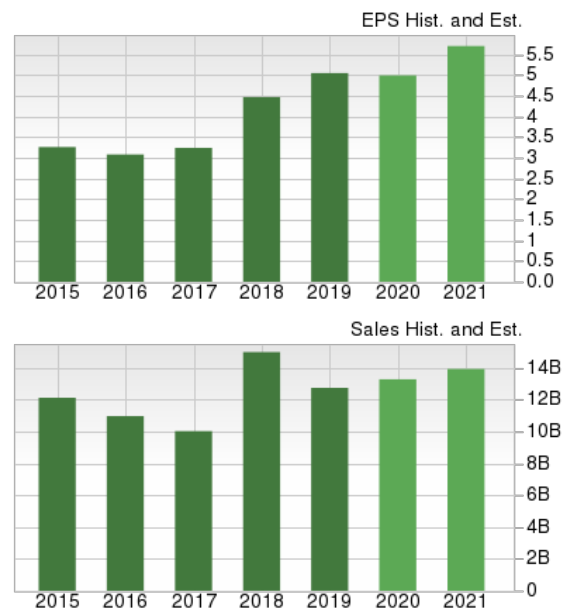
Dallas, TX-based **Jacobs Engineering Group Inc.** is one of the leading providers of professional, technical and construction services to industrial, commercial and governmental clients. During fourth-quarter fiscal 2019 earnings call, the company reported that the stock will trade in NYSE under the ticker symbol "J" instead of JEC, effective Dec 10, 2019.

Effective fourth-quarter fiscal 2019, the names of Jacobs' line of businesses have been changed to better reflect outcome-focused solutions for customers. The Aerospace, Technology and Nuclear segment will now be known as **Critical Mission Solutions**, and Buildings, Infrastructure and Advanced Facilities segment's name is changed to **People & Places Solutions**. Notably, these name changes have had no impact on reported financials, line of business leadership or customer relationships.

Critical Mission Solutions or CMS (representing 35.2% of first-quarter fiscal 2020 total revenues) serves global automotive, aerospace, telecommunications, defense, and nuclear clients, as well as the intelligence community of the United States. In fiscal 2019, 77% of CMS's revenues were earned from serving the DoD, Intelligence Community and civil governmental entities. Notably, in fiscal 2019, 12% of CMS's revenues were generated from various U.S. commercial sectors, including the telecommunications market, which anticipates a large cellular infrastructure build-out from 4G to 5G technology.

People & Places Solutions or P&PS (64.8%) serves clients of broad sectors like water, transportation, building and semiconductors.

On Jun 12, 2019, Jacobs acquired KeyW. The transaction positions Jacobs as a leader in high-value Government Services. Meanwhile, on Apr 26, Jacobs completed the sale of the Energy, Chemicals and Resources ("ECR") business unit to Australia's WorleyParsons Ltd., as it intends to focus more on highest-margin growth businesses.



## Reasons To Buy:

- ▲ **Stellar Performance:** Jacobs' shares have outperformed its industry in the year-to-date period. The price performance is backed by an impressive earnings surprise history. The company surpassed earnings estimates in 10 of the trailing 12 quarters. The trend is expected to continue in the near term, courtesy of its solid performance for the first nine months of fiscal 2020 despite disruptions caused by the COVID-19 outbreak.

Jacobs registered stellar growth in the first nine months of fiscal 2020. Adjusted earnings from continuing operations came in at \$3.85 per share, reflecting an increase of 7.5% year over year. Revenues were \$10 billion, increasing 7.5% from a year ago. Adjusted operating margin increased 23 basis points (bps) year over year to 8.76%. Although coronavirus-related disruptions are likely to hurt Jacobs in the fiscal fourth quarter and create challenges in early fiscal 2021, it raised its adjusted EBITDA and EPS guidance for fiscal 2020, based on fiscal third-quarter performance and the initial view for the fiscal fourth quarter.

Notably, fiscal 2019 was a transformational year for Jacobs. It completed the divestiture of the Energy, Chemicals and Resources or ECR business in April, acquisition of KeyW in June, and announced the buyout of Wood's nuclear business in August. These moves were in sync with its strategic focus on transitioning from engineering and construction to a global technology-forward solutions company. In first-quarter fiscal 2020, the company changed its ticker symbol to J (formerly JEC), signifying its focus on delivering integrated solutions. Notably, the company intends to change its legal name to Jacobs Solutions.

- ▲ **Strong Backlog:** Efficient project execution has been one of the main characteristics that is driving Jacobs' performance since the past few quarters. The company's ongoing contract wins are a testimony to the fact. Backlog at fiscal third quarter-end was \$23.7 billion, reflecting an increase of 5.4% year over year (up 4% on a pro-forma basis). This reflects persistent solid demand for Jacobs' consulting services. CMS backlog grew 7.2% year over year (up 3% on a pro forma basis) to \$9.1 billion for the fiscal third quarter, which provided a strong visibility into the base business. The company's overall 18-month qualified new business pipeline of \$30 billion remains robust. This segment is benefiting from well-funded government programs and cyber, U.S. Department of Defense or DoD, mission-IT, space, nuclear, as well as 5G-related projects.

PPS backlog was up 4.3% year over year for the quarter to \$14.6 billion. Overall, the backlog growth can be attributed to the company's capitalizing on CH2M and KeyW revenue synergies.

Overall, the company has a robust pipeline of opportunities across all businesses, as it has started to realize synergies from CH2M and KeyW buyouts.

- ▲ **Accretive Acquisitions & Divestiture:** Jacobs is reinforcing the business on the back of meaningful business acquisitions and divestitures. In sync with this, on Mar 6, 2020, a unit of Jacobs completed the acquisition of a nuclear consulting, remediation and program management business of John Wood Group, a U.K.-based energy services company.

In fiscal 2019, Jacobs acquired KeyW, thereby enhancing the higher-margin CMS business through intelligence solutions capabilities in high-security clearance areas. KeyW, which provides engineering/technology solutions in intelligence, cyber and related national security concerned areas for the U.S. government, will compliment Jacobs' CMS segment. Meanwhile, the company's acquisition of CH2M HILL Companies Ltd. (CH2M) in December 2017 strengthened global water business. The CH2M buyout also fortifies businesses across the industrial sector.

Acquisitions of KeyW and John Wood Group's nuclear business will further position Jacobs as a leader in high-value government services and technology-enabled solutions, and enhance its portfolio by adding intellectual property-driven technology with unique proprietary C5ISR (command, control, communications, computer, combat systems, intelligence, surveillance and reconnaissance) rapid solutions. These additions also amplified Jacobs' position as a Tier-1 global nuclear services provider.

Meanwhile, Jacobs exited ECR business in April 2019, which tended to be more cyclical and less profitable. The company's focus on infrastructure, aerospace, cybersecurity and technical building projects bodes well for growth and profitability.

- ▲ **Strong Long-Term View:** Despite short-term challenges associated with COVID-19, Jacobs' long-term outlook for the business remains intact and it expects to generate strong free cash flow for the remainder of 2020. Management had earlier outlined margin targets for the next three years (through 2021), with Jacobs aiming a 125-175 bps expansion in adjusted operating margins. The guidance anticipates 100-150 bps increase in CMS margins and 110-140 bps growth in PPS margin, supported by the elimination of ECR. This will lead to a 125-175 bps rise in overall margins. The margin expansion is expected to be driven by a combination of higher-margin backlog, and focus on generating efficiencies through digital and technological solutions. The company is projecting 3-5% net organic revenue growth, with PPS leading the way with 4-6% top-line CAGR and CMS with 2-3% CAGR. The top-line growth is expected to be driven by recurring revenues that roughly occupy two-thirds of Jacobs' total revenues, in turn reducing overall risks of market volatility. For the CMS business, Jacobs continues to expect more than 10% operating profit CAGR through 2021.

Elevated construction spending in the United States and Trump's impetus to boost infrastructure spending have been triggering demand for Jacob's state-of-the-art construction, and engineering services since the past few quarters.

Jacobs is benefiting major government customers across the Department of Defense, Department of Energy, intelligence community and NASA. Jacobs derived 27% of the fiscal 2019 total revenues, directly or indirectly, from agencies of the U.S. federal government. Meanwhile, within its commercial markets, the 5G wireless build-out continues to provide a robust opportunity. Jacobs' telecom business grew by approximately 50% in fiscal year 2019, benefiting from the shift to 5G small cell sites as cities deploy intelligent infrastructure. The company's telecom team provides differentiated consulting services and infrastructure services to support this multi-decade opportunity in close collaboration with its PPS line of business. Importantly, the company's CMS business is executing well and is positioned to deliver double digit increase in profits on a year-over-year basis in fiscal 2020. The company's focus on long-term mission-critical enterprise contracts

Improved segmental performances, solid backlog, acquisitions and efforts to focus on high-value business will likely improve Jacobs' near-term results

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bodes well. It has a robust pipeline of more than \$30 billion through 2020. These positives are likely to continue to drive Jacobs' bottom-line in the upcoming quarters.

▲ **Enough Liquidity to Tide Over COVID-19 Pandemic:** At fiscal third quarter-end, Jacobs had cash and cash equivalents of \$1 billion (despite repaying approximately \$950 million on the revolving credit facility). Although cash declined from \$1.66 billion in the fiscal second quarter, it was significantly up from \$631.1 million at fiscal 2019-end, with no short-term debt. The company had \$1.63 billion of available borrowing capacity under the \$2.25-billion revolving credit agreement as of Jun 26, 2020. Also, the company's long-term debt decreased to \$2.16 billion at fiscal third quarter-end from \$3.1 billion in the fiscal second quarter. Furthermore, no long-term debt will mature prior to March 2024. Moreover, the company's times interest earned ratio stands at 8.5, higher than the fiscal second quarter's 4.8. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on the current income.

Jacobs generated \$332 million of free cash flow in the quarter and now expects the same to touch \$400 million in fiscal 2020.

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## Reasons To Sell:

▼ **Coronavirus-Related Disruptions to Weigh on Near-Term Results:** Although Jacobs has been successful in enhancing its ability to adapt to physical distancing, it expects a net impact from the COVID-19 pandemic of 35 cents per share in second-half fiscal 2020. Jacobs acknowledged the fact that COVID-19 woes will continue to impact the company in the fourth quarter and likely pose challenges in early fiscal 2021.

Coronavirus-related disruptions, stiff industry rivalry and currency headwinds are concerns

▼ **Competitive Pressure & Risk of Cost Overruns:** Low-entry barriers in engineering, architectural, consulting and designing market segments have escalated threats of market rivalry for Jacobs. Poor competency or business inefficiencies in the long run might diminish the market share and profitability of Jacobs from such business fragments. Moreover, the maintenance and construction sites of the company are subject to certain risks related to safety issues. Any adverse happenings at these sites might generate severe financial losses for the company.

Jacobs' contracts, particularly fixed-price ones, are subjected to risks of cost overruns. The company may experience reduced profits or losses if costs increase its budget or if the projects experiences delays. In fiscal 2019, approximately 24% of its total revenues were earned from fixed-price contracts. Both fixed-price and cost reimbursable contracts require estimation of total cost of the project in advance.

▼ **Currency Headwind:** Jacobs intends to underpin its business through increased business internationalization. In fiscal 2019 and first-quarter fiscal 2020, clients outside the United States accounted for approximately 29% and 24.6% of revenues, respectively. However, constant appreciation of the U.S. dollar with respect to other major currencies such as Euro and Yen might continue to hurt its overseas market revenues as well as profitability. This is because a strengthening dollar raises the prices of the company's construction services and subsequently, renders them less competent in markets with relatively lower exchange rates.

▼ **Overvalued Compared to Peers:** On a P/E (TTM) basis, Jacobs' stock looks a bit overvalued than the industry, with respective tallies of 16.6x and 11.8x in the past year.

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## Last Earnings Report

### Jacobs (J) Tops Q3 Earnings & Revenue Estimates, Raises View

Jacobs Engineering Group Inc. reported third-quarter fiscal 2020 (ended Jun 26, 2020) results, wherein earnings and revenues beat the respective Zacks Consensus Estimate, courtesy of solid project execution. Meanwhile, the company raised its adjusted EBITDA and EPS guidance for fiscal 2020, based on improved performance so far this year.

Jacobs' president and CFO Kevin Berryman said, "The strategy we developed and have been executing since 2016 to build a company aligned to sustainable higher growth markets has proved its resilience during one of the most severe economic shocks in history. The highly recurring mission-critical nature of our work, combined with our ability to rapidly adjust virtually, enabled us to deliver solid earnings and strong free cash flow generation during this unprecedented pandemic."

Quarter Ending **06/2020**

Report Date	Aug 03, 2020
Sales Surprise	<b>3.72%</b>
EPS Surprise	<b>27.27%</b>
Quarterly EPS	<b>1.26</b>
Annual EPS (TTM)	<b>5.33</b>

### Earnings & Revenue Discussion

For the reported quarter, its adjusted earnings of \$1.26 per share topped the consensus estimate of 99 cents by 27.3% but decreased 10% from the year-ago period.

Jacobs' revenues totaled \$3.3 billion, which surpassed the consensus mark of \$3.1 billion by 3.7% and grew 2.9% year over year. The improvement was driven by healthy segmental performance.

Backlog at fiscal third quarter-end totaled \$23.7 billion, up 5.4% from a year ago.

### Segment Details

Revenues from the Critical Mission Solutions segment of \$1.21 billion increased 4.7% year over year. Backlog at quarter-end was \$9.1 billion, up 7.2% year over year.

Revenues from the People & Places Solutions segment totaled \$2.05 billion, which increased 1.8% year over year. Revenues, excluding pass through revenues, declined 0.6% from the year-ago period. Backlog at quarter-end was \$14.6 billion, up 4.3% year over year.

### Margins Profile

For the quarter under review, adjusted gross profit increased 0.4% year over year to \$630.9 million.

Adjusted operating margin expanded 80 basis points to 8.9%.

### Balance Sheet & Cash Flow

At fiscal third quarter-end, Jacobs had cash and cash equivalents of \$1.02 billion, significantly up from \$631.1 million at fiscal 2019-end. Long-term debt balance increased to \$2.16 billion at the end of the reported quarter from \$1.2 billion at fiscal 2019-end.

The company provided \$359.5 million cash for operating activities for the quarter compared with \$169.1 million of cash used in operating activities a year ago.

### 2020 Guidance Raised

Jacobs now expects adjusted EBITDA between \$1,000 million and \$1,050 million compared with \$950-\$1,050 million expected earlier. Also, it anticipates adjusted earnings within \$5.05-\$5.30 per share compared with \$4.80-\$5.30 expected earlier.

Jacobs has been transitioning off a lower margin classified procurement contract, which will affect short-term revenue growth but have little impact on operating profit for the fiscal fourth quarter.

## Recent News

### Jacobs Wins US Air Force Contract for Critical Mission Systems - Jul 29, 2020

Jacobs received a contract from the Air Force Life Cycle Management Center's Strategic Warning & Surveillance Systems Division for Operations, Maintenance and Sustainment (OM&S) of critical mission systems for the North American Aerospace Defense Command (NORAD) Cheyenne Mountain Complex (NMC). This Integrated Tactical Warning/Attack Assessment (ITW/AA) and Space Support Contract II (NISSC II) has a maximum value of \$455 million over a six-year period of performance to Jacobs.

### Jacobs (J) Inks Contract to Improve Sydney Rail Network - Jul 21, 2020

Jacobs Engineering Group Inc. along with Australian rail group John Holland has been selected by Transport for New South Wales (TfNSW) to deliver design and construction services for the More Trains, More Services - North Works Package project.

The project — worth approximately \$195 million — comprises upgrade of critical infrastructure along T4 Illawarra, T8 Airport and South Coast lines between Central and Hurstville in Sydney. This will support the roll out of new suburban and intercity trains, remove bottlenecks, as well as increase the frequency of services for Sydney rail customers.

### Jacobs Wins Solar Photovoltaic Power Plant Contract in Malaysia - Jul 9

Jacobs has won an engineer services contract from Hanwha Energy Corporation to support the design, engineering, procurement, construction, installation, testing and commissioning of a new 100 megawatt alternating current (MWac) solar photovoltaic power plant in Pekan, Pahang, Malaysia.

### Jacobs Wins 4-Year Framework From LLW Repository, Boosts CMS - Jul 1

Jacobs has won a contract from LLW Repository Ltd (LLWR) to provide infrastructure program support for low-level waste repository in U.K.

### Jacobs to Upgrade K&C Valley Water Treatment Plant in India - Jul 1

Jacobs has received a project management consultancy contract from Bangalore Water Supply and Sewerage Board (BWSSB) to rehabilitate the Koramangala & Challaghatta (K&C) Valley Used Water Treatment Plant in Belur Nagasandra, India.

## Valuation

Jacobs shares are up 0.4% in the year-to-date period and 11.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 23.6% but are up 3.5% in the Zacks Construction sector in the year-to-date period. Over the past year, the Zacks sub-industry is down 9.5% but sector is up 20.9%.

The S&P 500 index is up 2.3% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 16.18X forward 12-month earnings, which compares to 17.18X for the Zacks sub-industry, 18.84X for the Zacks sector and 22.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.59X and as low as 10.35X, with a 5-year median of 15.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$95 price target reflects 17X forward 12-month earnings.

The table below shows summary valuation data for J

Valuation Multiples - J					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.18	17.18	18.84	22.59
	5-Year High	19.59	17.56	18.99	22.59
	5-Year Low	10.35	10.36	10.74	15.25
	5-Year Median	15.23	14.12	15.86	17.55
P/S F12M	Current	0.85	0.79	2.1	3.6
	5-Year High	0.98	0.79	2.12	3.6
	5-Year Low	0.37	0.37	1.17	2.53
	5-Year Median	0.62	0.6	1.63	3.04
EV/EBITDA TTM	Current	10.79	6.72	19.02	12.76
	5-Year High	18.8	10.42	21.52	12.85
	5-Year Low	6.45	5.05	12.49	8.24
	5-Year Median	10.39	7.62	17.81	10.89

As of 08/03/2020

## Industry Analysis Zacks Industry Rank: Top 40% (102 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
AECOM (ACM)	Neutral	3
Dycom Industries, Inc. (DY)	Neutral	2
Fluor Corporation (FLR)	Neutral	3
KBR, Inc. (KBR)	Neutral	3
MasTec, Inc. (MTZ)	Neutral	2
Primoris Services Corporation (PRIM)	Neutral	3
Quanta Services, Inc. (PWR)	Neutral	3
Willdan Group, Inc. (WLDN)	Neutral	3

Industry Comparison Industry: Engineering - R And D Services				Industry Peers		
	J	X Industry	S&P 500	ACM	FLR	PWR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	C	-	-	B	A	B
Market Cap	11.77 B	2.33 B	22.67 B	5.96 B	1.50 B	5.67 B
# of Analysts	8	2	13.5	3	4	7
Dividend Yield	0.84%	0.00%	1.77%	0.00%	3.84%	0.49%
Value Score	C	-	-	A	A	B
Cash/Price	0.15	0.12	0.07	0.20	NA	0.07
EV/EBITDA	20.32	9.01	13.08	22.80	NA	7.69
PEG Ratio	1.62	1.46	2.94	1.46	NA	0.90
Price/Book (P/B)	2.00	1.94	3.10	1.61	0.89	1.49
Price/Cash Flow (P/CF)	14.05	8.00	12.34	8.39	2.67	8.00
P/E (F1)	18.27	19.36	21.71	18.03	8.64	12.99
Price/Sales (P/S)	0.88	0.51	2.46	0.36	0.09	0.47
Earnings Yield	5.51%	4.78%	4.38%	5.56%	11.60%	7.69%
Debt/Equity	0.37	0.60	0.75	0.57	NA	0.47
Cash Flow (\$/share)	6.44	1.90	6.94	4.44	4.01	5.15
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	12.95%	14.38%	10.46%	-3.33%	NA	27.20%
Proj. EPS Growth (F1/F0)	-1.14%	-22.54%	-7.08%	-24.85%	112.01%	-4.76%
Curr. Cash Flow Growth	6.22%	3.89%	5.47%	-0.31%	14.03%	14.87%
Hist. Cash Flow Growth (3-5 yrs)	9.65%	8.80%	8.55%	15.22%	-9.29%	4.47%
Current Ratio	1.69	1.45	1.32	1.23	NA	1.78
Debt/Capital	26.81%	41.19%	44.21%	36.19%	NA	32.05%
Net Margin	4.11%	0.57%	10.25%	-2.63%	NA	2.65%
Return on Equity	12.25%	8.44%	14.72%	10.15%	NA	9.72%
Sales/Assets	1.09	1.09	0.52	1.15	NA	1.44
Proj. Sales Growth (F1/F0)	4.23%	-4.72%	-1.79%	-36.26%	-1.87%	-4.58%
Momentum Score	C	-	-	D	A	C
Daily Price Chg	6.03%	1.08%	0.27%	2.96%	4.91%	3.08%
1 Week Price Chg	1.68%	-0.04%	0.14%	-1.09%	-14.37%	-1.75%
4 Week Price Chg	6.58%	1.28%	2.96%	1.28%	-9.41%	5.64%
12 Week Price Chg	15.18%	16.64%	10.90%	6.52%	2.39%	24.96%
52 Week Price Chg	11.73%	-2.33%	2.35%	11.42%	-49.31%	26.15%
20 Day Average Volume	795,418	30,541	2,043,624	763,532	2,024,369	957,304
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.82%	0.00%	0.00%	0.87%
(F1) EPS Est 12 week change	-5.27%	-10.08%	0.59%	7.27%	0.00%	-15.86%
(Q1) EPS Est Mthly Chg	-1.27%	0.00%	0.25%	0.00%	0.00%	1.57%



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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 have an excellent 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	C
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

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