

Kellogg Company (K)

\$63.28 (As of 04/23/21)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: F

Summary

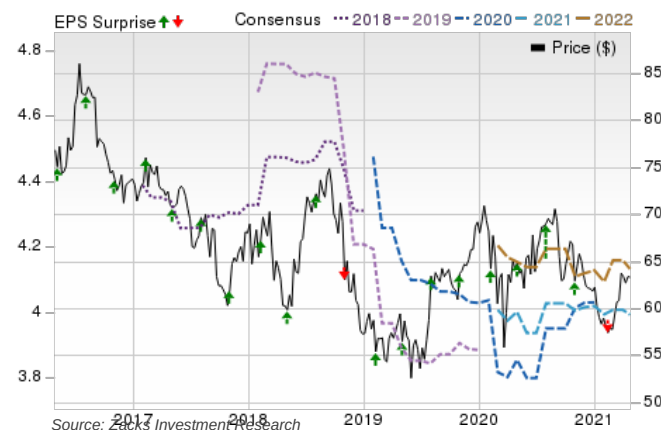
Shares of Kellogg have lagged the industry in the past three months. The stock took a hit from the fourth-quarter 2020 results, wherein both earnings and sales missed the Zacks Consensus Estimate and the former declined year over year, due to elevated expenses related to debt redemption. Also, high COVID-19 costs and increased advertising and consumer promotion investments have been affecting profits to an extent. Apart from this, Kellogg's away-from-home business is likely to remain soft amid the pandemic. Nonetheless, at-home consumption remained high in the quarter, wherein organic sales rose on the back of growth in all regions. Notably, management expects at-home consumption to remain elevated in 2021, wherein it expects organic sales growth on a two-year compound annual basis. Kellogg is also poised to gain on robust e-commerce momentum.

Data Overview

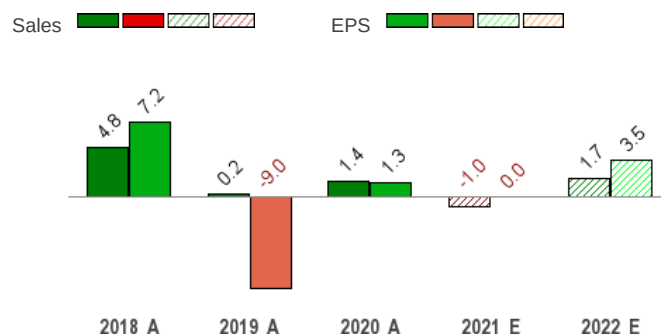
52-Week High-Low	\$72.88 - \$56.61
20-Day Average Volume (Shares)	2,416,096
Market Cap	\$21.5 B
Year-To-Date Price Change	1.7%
Beta	0.66
Dividend / Dividend Yield	\$2.28 / 3.6%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 22% (198 out of 254)

Last EPS Surprise	-4.4%
Last Sales Surprise	-1.8%
EPS F1 Estimate 4-Week Change	-0.4%
Expected Report Date	05/06/2021
Earnings ESP	-0.0%
P/E TTM	15.8
P/E F1	15.9
PEG F1	3.5
P/S TTM	1.6

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,444 E	3,444 E	3,542 E	3,459 E	13,855 E
2021	3,389 E	3,387 E	3,482 E	3,401 E	13,627 E
2020	3,412 A	3,465 A	3,429 A	3,464 A	13,770 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.99 E	\$1.11 E	\$1.05 E	\$1.00 E	\$4.13 E
2021	\$0.95 E	\$1.08 E	\$1.01 E	\$0.94 E	\$3.99 E
2020	\$0.99 A	\$1.24 A	\$0.91 A	\$0.86 A	\$3.99 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 04/23/2021. The report's text and the analyst-provided price target are as of 04/26/2021.

Overview

Headquartered in Battle Creek, MI, **Kellogg Company (K)** manufactures and markets ready-to-eat cereals and convenience foods (including cookies, crackers, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods), and savory snacks. The company has a balanced portfolio of cereal and snack products.

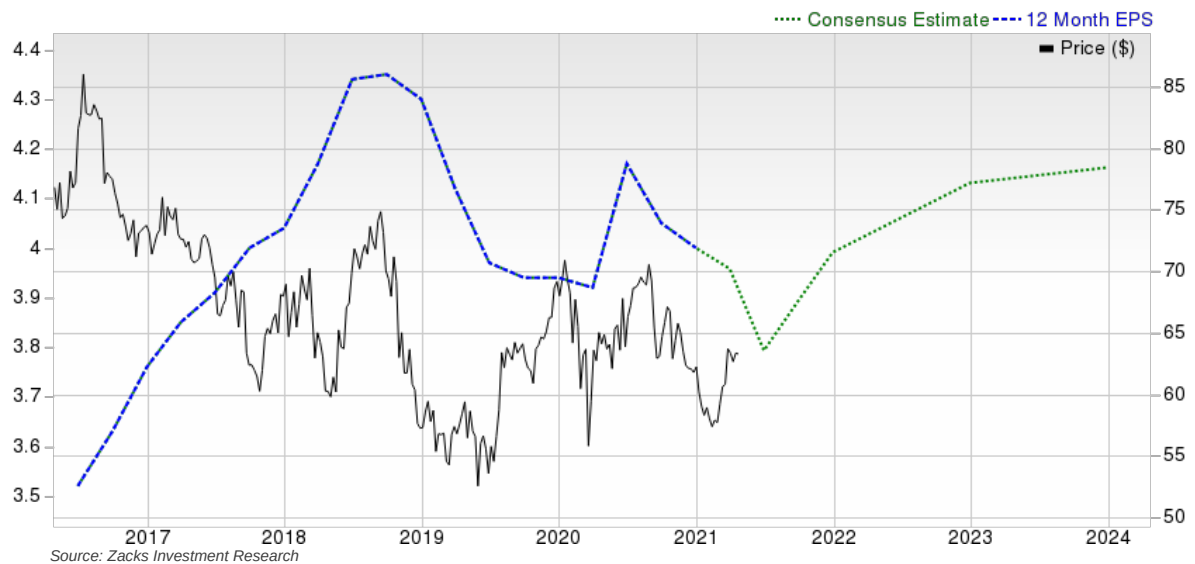
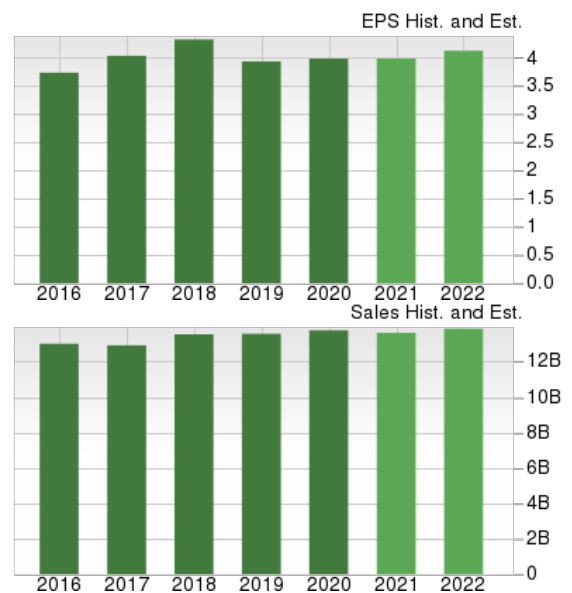
Kellogg's products are manufactured in 20 countries and marketed across 180 nations. Principal markets for the products offered include the United States and United Kingdom.

We note that earlier the company reported results under seven segments namely; U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels, North America Other, Europe, Latin America and Asia Pacific. The U.S. Snacks unit includes items such as crackers, cookies, cereal bars, savory snacks and fruit-flavored snacks. The U.S. Morning Foods unit consist of mainly cereals and toaster pastries. U.S. Specialty Channels consists of food away from home channels, including food service, convenience, vending and food manufacturing. Further, the North America Other unit includes U.S. Frozen, Kashi, Canada, and RX operating segments. The remaining segments are based on geographical locations, namely; Europe, Latin America and the Middle East and Northern Africa.

Concurrent to its fourth-quarter 2018 results, Kellogg unveiled some changes related to its segments for 2019. As part of its efforts to reorganize its North America region, the sub divisions – U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels and North America Other – have been removed.

Further, the company has transferred its Middle East, Turkey and North African businesses from Kellogg Europe to Kellogg Asia-Pacific. Kellogg Asia-Pacific has been rechristened as Kellogg Asia, Middle East & Africa. As per these changes, the company now reports its quarterly outcomes under four segments, namely; North America, Europe, Latin America and the Asia, Middle East & Africa or AMEA region.

In 2020, the company generated sales of \$13.8 billion (60% from North America, 16% from Europe, 17% from AMEA and 7% from Latin America).



Reasons To Buy:

- ▲ **High At-Home Demand Continues to Aid, Organic Sales Up :** Kellogg has been benefiting from increased demand for packaged food products amid the coronavirus-led stockpiling. Such trends also helped the company retain its organic sales trend in fourth-quarter 2020, which moved up 2.5% on the back of growth in all four regions, and strength in the cereal and snacks category. Further, management stated that the at-home consumption growth rate remained high worldwide. We note that elevated demand fueled the company's retail channel in North America. At-home demand is likely to remain relatively high in 2021, though it is expected to lapse major surges in the first two quarters. The company said that it returned to balanced growth in 2020 between net sales, earnings per share, margins and cash flow and expects to continue seeing this trend in 2021 – despite unfavorable comparisons with 2020's pandemic-related demand increase and an additional week.

Kellogg has been gaining on demand for packaged food products amid the coronavirus-led stockpiling. Such trends helped the company retain its robust organic sales trend in the fourth quarter.

Although organic sales in 2021 are estimated to drop nearly 1%, it is mainly due to comparisons with an exceptionally solid pandemic-led growth in the year-ago period. This guidance implies a two-year compound annual increase of nearly 2.5%. Adjusted earnings per share in 2021 are expected to grow about 1% at cc. This indicates a two-year compound annual increase of 4-5%.

- ▲ **E-Commerce Sales Grow:** The company entered 2021 with robust momentum. It has improved its capabilities, reached new households, enhanced its financial flexibility and made supply-chain investments. The company benefiting from its solidified capabilities in the digital, e-commerce, and data and analytics arena and is on track to expand capacity. Incidentally, online shopping for food witnessed a sea change in 2020 wherein Kellogg's e-commerce sales soared in triple digits. This was accountable to the company's brand strength and investments toward enhancing infrastructure and capabilities, which is likely to continue working in the company's favor. Also, management remains focused on making supply-chain investments, though these are likely to entail high costs.
- ▲ **Lucrative Buyouts:** In line with the strategy to diversify its organic offerings, Kellogg acquired protein bar maker, Chicago Bar Company, in 2017. Chicago Bar Company makes RXBAR, which is considered one of the fastest growing nutrition bar brand in the United States. RX now forms part of Kellogg's organic revenues. Additionally, the company's Pringles buyout has been lucrative. Markedly, with the 2012 Pringles deal, Kellogg transformed itself from what was essentially a large U.S. snacks business to a true global snacks player. In fact, despite several snacks businesses witnessing hurdles related to the pandemic, Pringles remained a strong performer in 2020 and is well placed for 2021 as well. Apart from this, the consolidation of Multipro (completed in May 2018), a Nigerian food distributor has been yielding. Markedly, these acquired businesses are expected to continue supporting the company's business. Kellogg also continues to expand its acquired brands through new product introductions.
- ▲ **Financial Analysis:** In the year ended Jan 2, 2021, Kellogg generated cash from operating activities of almost \$1,986 million. Cash flow from operating activities is likely to be nearly \$1.6 billion in 2021. Enhanced cash flow and increased focus on debt reduction led to a faster-than-expected balance sheet deleverage in 2020. As of the end of fourth-quarter 2020 (Jan 2, 2021), Kellogg's long-term debt (including operating lease liabilities) of \$7,266 million declined 3.4% from \$7,523 million as of the end of the third quarter. Moreover, the company's times interest earned ratio was 6.7 as of the end of the quarter.

Improved business conditions and better financial flexibility are likely to help management restart share buybacks in 2021. To top it, the company is on track to raise its quarterly dividend in the second quarter. Certainly, this reflects its commitment toward shareholders and confidence in future prospects. The company currently has a dividend payout ratio of 57%, a dividend yield of 3.9% and free cash flow yield of 7.4%. With an annual free cash flow return on investment of 13.1%, the dividend payment is likely to be sustainable.
- ▲ **Strong Brand Portfolio:** Kellogg boasts a legacy of over 100 years built on solid product portfolio and brand identity in both cereals and snacks. Its portfolio consists of strong brands such as Pringles, RXBAR, Bear Naked, Cheez-It, Rice Krispies Treats among many others. The company's frozen foods brands like Morningstar Farms and Eggo have also been depicting strong growth. Kellogg is also dedicated toward augmenting its portfolio through adding more products under existing brands, innovation and marketing initiatives. The company has been focused on investing in brand-building efforts. In this respect, it invests in digital media, consumer promotions and traditional advertising. Kellogg has also been enhancing its in-store capabilities like increasing sales force of its struggling businesses.

Reasons To Sell:

▼ **Soft Q4 Results Hurt Stock:** Shares of Kellogg have gained 1.5% in the past three months compared with the industry's rise of 7.2%. The stock took a hit from fourth-quarter 2020 results, wherein both earnings and sales fell short of the Zacks Consensus Estimate and the former declined year over year. Adjusted earnings of 86 cents per share dropped 5.5% year over year due to elevated expenses associated with debt redemption. On a constant currency or cc basis, adjusted earnings per share declined 6.6% to 85 cents. Also, the bottom line came below the Zacks Consensus Estimate of 90 cents.

Adjusted operating profit in 2021 is expected to decline roughly 2% at cc, due to tough year-over-year comparisons with the year-ago period that included robust coronavirus-led growth and an additional week. Nonetheless, this implies a two-year compound annual increase of 3-4%.

▼ **Away-from-Home Business Under Pressure:** While higher at-home consumption is driving Kellogg's retail demand, the company's foodservice business has been under pressure due to declines in food sold in the away-from-home network. This continued to be witnessed in the fourth quarter of 2020, wherein away-from-home business declined in double digits. Further, Kellogg expects the away-from-home business to remain soft in 2021, though it is likely to moderate over time. Also, growth in emerging markets is expected to be affected by tough macro conditions.

▼ **Elevated Costs:** In the fourth quarter of 2020, Kellogg continued to incur high costs associated with COVID-19. Apart from this, the company saw a double-digit rise in advertising and consumer promotion investments. Additionally, increased performance-based compensation weighed on the adjusted operating profit to some extent. Persistence of these factors remains a threat to the company's performance.

▼ **Food Industry Headwinds:** The food industry grapples with stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Kellogg may have to lower prices or indulge in marketing activities to maintain market share. Additionally, since the company operates in a highly regulated nutritional food space, its products are frequently inspected by government agencies. Moreover, nutritional products usually have a lower shelf life which requires products to move off the shelves rapidly, to prevent expiry.

Softness in the away-from-home food business amid the pandemic is concerning. Also, high COVID-19-related costs and increased investments have been affecting profits to an extent.

Last Earnings Report

Kellogg Q4 Earnings Miss Estimates, Sales Increase Y/Y

Kellogg reported soft results for fourth-quarter 2020, as both earnings and sales fell short of the Zacks Consensus Estimate and the former declined year over year. Nonetheless, sales were up, with organic sales benefiting from growth in all regions.

Since the onset of the pandemic, Kellogg has performed well with regard to its priorities of focusing on the health and safety of its workers, helping communities and ensuring food supply to the marketplace. The company has undertaken considerable investments in this regard. Despite the pandemic-led uncertainty, the company offered 2021 view, which indicates growth on a two-year basis.

Quarter Ending 12/2020

Report Date	Feb 11, 2021
Sales Surprise	-1.78%
EPS Surprise	-4.44%
Quarterly EPS	0.86
Annual EPS (TTM)	4.00

Quarter in Detail

Adjusted earnings of 86 cents per share dropped 5.5% year over year due to elevated expenses associated with debt redemption, partially offset by increased adjusted operating profit. On a constant currency or cc basis, adjusted earnings per share declined 6.6% to 85 cents. Also, the bottom line came below the Zacks Consensus Estimate of 90 cents.

The company delivered net sales of \$3,464 million, which advanced 7.5% year on year, though it missed the consensus mark of \$3,527 million. Net sales were aided by an additional week. Organic sales moved up 2.5% on the back of growth in all four regions.

Adjusted operating profit climbed 1.6% to \$410 million, while the same rose 0.6% to \$406 million at cc. The company's reported operating profit was aided by increased sales, an extra week and reduced one-time charges, partly countered by high COVID-19 costs and a double-digit jump in advertising and consumer promotion investments.

Segment Discussion

Sales in the North America segment amounted to \$1,894 million, which grew 7.5% year over year, backed by the inclusion of an extra week. Sales grew less than 1% on an organic basis, as sustained consumption gains in the retail channel were countered by unfavorable shipment timing in several categories as well as continued softness in the away-from-home channel. Adjusted operating profit increased about 6% at cc.

Revenues in the Europe segment totaled \$526 million, up 15.4% year on year, courtesy of solid business momentum and the impact of the extra week in the fourth quarter. Further, sales rose more than 7% on an organic basis, on continued strength in cereal, which has been seeing increased demand amid the pandemic. Also, the snacks category reverted to growth and contributed to the upside. Adjusted operating profit grew approximately 11% at cc.

Revenues in Latin America totaled \$233 million, down 1.7% year on year on account of currency headwinds and the absence of divested businesses. Sales grew roughly 10% on an organic basis on high cereal demand, along with robust growth at Pringles, in Brazil. Adjusted operating profit slumped about 55% at cc.

Revenues in the Asia, the Middle East & Africa segment totaled \$570 million, up 3.5% year over year. Sales were aided by the additional week as well as organic sales growth of more than 2%, somewhat negated by currency headwinds. Growth can be accountable to robust demand for cereal, growth in Pringles, and growth of noodles in the Middle East and Africa. These were partly negated by the pandemic-induced school closures in North Africa. Adjusted operating profit was up around 9% at cc.

Other Financials & Guidance

Kellogg ended the quarter with cash and cash equivalents of \$435 million, long-term debt of \$6,746 million and total equity of \$3,636 million. In the year ended Jan 2, 2021, the company generated cash from operating activities of \$1,986 million. Cash flow from operating activities is likely to be nearly \$1.6 billion in 2021. Capital expenditures are expected to be around \$0.5 billion. Consequently, cash flow is estimated to be roughly \$1.1 billion.

The company said that it entered 2021 with robust momentum. It has improved its capabilities, reached new households, enhanced its financial flexibility and made supply-chain investments. The company, which is on solid footing, issued its 2021 view that does not include any major supply-chain or prolonged market disturbances associated with the pandemic.

Organic sales in 2021 are estimated to drop nearly 1% due to comparisons with an exceptionally solid pandemic-led growth in the year-ago period. This, however, implies a two-year compound annual increase of nearly 2.5%. Adjusted operating profit is expected to decline roughly 2% at cc, again due to tough year-over-year comparisons with the year-ago period that included robust coronavirus-led growth and an additional week. This implies a two-year compound annual increase of 3-4%. Adjusted earnings per share are expected to grow about 1% at cc. This indicates a two-year compound annual increase of 4-5%.

Recent News

Kellogg Declares Dividend – Feb 11, 2021

Kellogg's board approved a dividend of 57 cents per share, payable on Mar 15, 2021, to shareholders in record as on Mar 1.

Valuation

Kellogg's shares are up 1.7% in the year-to-date period and down 2.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.5% in the year-to-date period, and the Zacks Consumer Staples sector gained 4.5%. Over the past year, the Zacks sub-industry is up 24.2% and the sector gained 24.7%.

The S&P 500 index is up 12.2% in the year-to-date period and 48.1% in the past year.

The stock is currently trading at 15.68X forward 12-month earnings, which compares to 20.19X for the Zacks sub-industry, 20.8X for the Zacks sector and 22.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.71X and as low as 12.45X, with a 5-year median of 15.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 16.46X forward 12-month earnings.

The table below shows summary valuation data for K

Valuation Multiples - K					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.68	20.19	20.8	22.99
	5-Year High	22.71	22.91	22.4	23.83
	5-Year Low	12.45	14.75	16.52	15.3
	5-Year Median	15.86	18.53	19.53	18.01
P/S F12M	Current	1.57	1.78	10.48	4.81
	5-Year High	2.28	2.03	11.96	4.81
	5-Year Low	1.32	1.38	8.6	3.21
	5-Year Median	1.72	1.69	10.41	3.71
EV/EBITDA F12M	Current	11.86	12.69	35.6	17.2
	5-Year High	13.78	13.75	37.91	18.8
	5-Year Low	10.23	10.61	25.83	13.02
	5-Year Median	11.88	12.73	34.09	15.78

As of 04/23/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Aramark (ARMK)	Neutral	3
BRF S.A. (BRFS)	Neutral	2
CONAGRA BRANDS (CAG)	Neutral	3
Campbell Soup Company (CPB)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
Tingyi Cayman Islands Holdings Corp. (TCYMF)	Neutral	2
B&G Foods, Inc. (BGS)	Underperform	4

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	K	X Industry	S&P 500	ARMK	CAG	GIS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	F	B	D
Market Cap	21.54 B	4.27 B	30.46 B	10.03 B	18.05 B	37.37 B
# of Analysts	10	3	12	7	8	8
Dividend Yield	3.60%	0.00%	1.25%	1.11%	2.92%	3.33%
Value Score	A	-	-	D	A	B
Cash/Price	0.02	0.06	0.06	0.12	0.00	0.07
EV/EBITDA	11.80	15.29	17.18	27.65	14.22	12.12
PEG F1	3.47	3.37	2.41	NA	2.05	2.20
P/B	5.99	3.10	4.13	3.75	2.17	4.07
P/CF	11.74	14.19	17.29	11.95	12.18	13.34
P/E F1	15.64	21.51	22.45	NA	14.38	16.52
P/S TTM	1.56	1.54	3.40	0.89	1.54	2.01
Earnings Yield	6.31%	3.80%	4.40%	-0.96%	6.97%	6.06%
Debt/Equity	1.86	0.51	0.66	3.03	0.99	1.06
Cash Flow (\$/share)	5.39	2.55	6.78	3.31	3.09	4.59
Growth Score	C	-	-	D	C	D
Historical EPS Growth (3-5 Years)	2.39%	2.39%	9.39%	3.62%	3.17%	6.31%
Projected EPS Growth (F1/F0)	0.03%	11.68%	16.46%	-124.37%	14.69%	2.74%
Current Cash Flow Growth	1.05%	2.55%	0.72%	-27.61%	22.57%	9.11%
Historical Cash Flow Growth (3-5 Years)	0.68%	5.85%	7.37%	-0.24%	4.34%	3.48%
Current Ratio	0.66	1.77	1.39	1.50	0.80	0.69
Debt/Capital	64.98%	34.75%	41.19%	75.21%	49.84%	51.53%
Net Margin	9.09%	5.81%	11.06%	-6.08%	10.15%	13.68%
Return on Equity	39.85%	11.52%	15.32%	-9.79%	16.95%	27.90%
Sales/Assets	0.75	0.94	0.51	0.75	0.53	0.59
Projected Sales Growth (F1/F0)	-1.04%	1.68%	7.53%	-1.95%	1.08%	1.65%
Momentum Score	F	-	-	F	B	F
Daily Price Change	-1.08%	0.00%	1.07%	0.92%	-1.47%	-1.24%
1-Week Price Change	1.10%	0.43%	1.43%	1.93%	3.76%	1.95%
4-Week Price Change	0.88%	2.05%	5.81%	0.46%	-0.71%	2.91%
12-Week Price Change	5.17%	7.21%	14.32%	10.86%	8.39%	3.20%
52-Week Price Change	-1.89%	34.89%	60.09%	71.11%	10.68%	2.60%
20-Day Average Volume (Shares)	2,416,096	202,501	1,772,423	1,424,689	3,276,890	4,630,219
EPS F1 Estimate 1-Week Change	-0.41%	0.00%	0.00%	0.00%	0.00%	-0.10%
EPS F1 Estimate 4-Week Change	-0.41%	0.00%	0.09%	-11.10%	0.77%	-0.90%
EPS F1 Estimate 12-Week Change	0.48%	-0.97%	1.97%	-34.23%	0.72%	-0.97%
EPS Q1 Estimate Monthly Change	-0.46%	0.00%	0.00%	-16.30%	-0.14%	-2.21%

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	F
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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