

Keurig Dr Pepper Inc. (KDP)

\$27.87 (As of 09/21/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Keurig Dr Pepper has gained in the past six months. The stock received a boost from strong top and bottom-line performance in second-quarter 2020, despite the impacts of the COVID-19 pandemic. Results reflected strong sales growth across packaged beverages and coffee businesses, margin expansion and reduced costs. Sales gained from strong volume/mix, particularly in the packaged beverages segment due to a sudden COVID-19 related spike in at-home consumption. Moreover, strong growth in in-home coffee consumption due to the work-from-home trend aided the coffee business. Despite anticipating impacts of the coronavirus outbreak, management reiterated its guidance for 2020. However, its fountain and foodservice business remained drab. Moreover, sales in the Latin America segment reflects significant impacts from negative currency in the second quarter.

Data Overview

52-Week High-Low	\$32.00 - \$18.98
20-Day Average Volume (Shares)	4,079,731
Market Cap	\$39.5 B
Year-To-Date Price Change	-3.1%
Beta	0.56
Dividend / Dividend Yield	\$0.60 / 2.1%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Top 46% (115 out of 251)

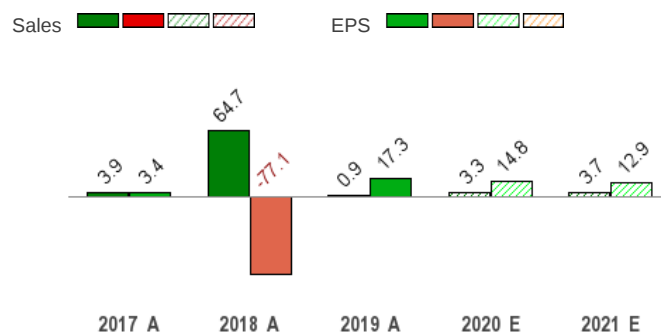
Last EPS Surprise	3.1%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	11/05/2020
Earnings ESP	0.0%

P/E TTM	21.7
P/E F1	19.9
PEG F1	1.3
P/S TTM	3.5

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,651 E	2,987 E	3,079 E	3,127 E	11,912 E
2020	2,613 A	2,864 A	2,972 E	3,042 E	11,487 E
2019	2,504 A	2,812 A	2,870 A	2,934 A	11,120 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.32 E	\$0.39 E	\$0.42 E	\$0.46 E	\$1.58 E
2020	\$0.29 A	\$0.33 A	\$0.37 E	\$0.41 E	\$1.40 E
2019	\$0.25 A	\$0.30 A	\$0.32 A	\$0.35 A	\$1.22 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 09/21/2020. The reports text is as of 09/22/2020.

Overview

With dual headquarters in Burlington, MA, and Plano, TX, Keurig Dr Pepper Inc. was formed with the merger of Keurig Green Mountain and Dr Pepper Snapple Group Inc. on Jul 9, 2018.

Keurig Dr Pepper plans to upgrade to the Texas co-headquarters by relocating the Plano, TX office to a new facility at The Star in Frisco, TX. It will begin operating from the new Texas headquarters after its completion in 2021.

Keurig Dr Pepper is a beverage and coffee company in the United States and Canada, with annual revenues of more than \$11 billion. It sells its products through at-home and away-from-home channels to retailers, including supermarkets, department stores, mass merchandisers, club stores and convenience stores; and restaurants, hospitality accounts, office coffee distributors and partner brand owners, as well as to consumers through its websites.

The company is also a leader in soft drinks, specialty coffee and tea, water, juice and juice drinks and mixers, and markets the No.1 single-serve coffee brewing system in the United States. It offers a wide range of hot and cold beverages, including Keurig, Dr Pepper, Green Mountain Coffee Roasters, Canada Dry, Snapple, Bai, Mott's and The Original Donut Shop.

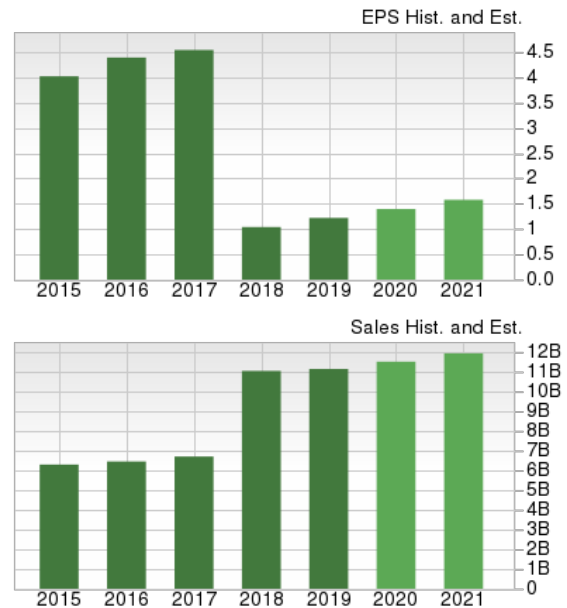
With over 25,000 employees, the company operates more than 120 offices, manufacturing plants, warehouses and distribution centers in North America. The company operates in four reportable segments:

Coffee Systems segment manufactures and distributes finished goods relating to its coffee system, pods and brewers, in the United States and Canada.

Packaged Beverages segment manufactures and distributes finished beverages and other products in the United States and Canada, through the Direct Store Delivery system and the Warehouse Direct system. Other products include the company's own brands and third-party brands.

Beverage Concentrates segment includes the sale of branded concentrates and syrup to third-party bottlers primarily in the United States and Canada. Most of the brands in this segment are carbonated soft drink brands.

Latin America Beverages segment manufactures and distributes concentrates, syrup and finished beverages in Mexico, the Caribbean, and other international markets.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Q2 Earnings Performance:** Keurig Dr Pepper reported better-than-expected second-quarter 2020 results, wherein both top and bottom lines improved year over year. Results reflected strong sales growth across packaged beverages and coffee businesses, margin expansion and reduced costs. Earnings improvement can be attributed to strong top-line growth along with increase in adjusted operating income. Net sales growth was driven by a higher volume/mix of 4.3%, partially negated by an unfavorable net price realization of 1.4%. On a constant-currency basis, net sales increased 2.9% year over year. Robust performance across the packaged beverages and coffee businesses contributed to top-line growth. Adjusted operating income grew 10.4% year over year on strong net sales growth, solid productivity and merger synergies as well as reduced marketing and other discretionary expenses. Adjusted operating margin expanded 210 basis points (bps). Shares of Keurig Dr Pepper have gained 21% in the past six months compared with the industry's 28.7% growth.

Keurig Dr Pepper's second-quarter 2020 results reflected strong sales growth across packaged beverages and coffee businesses, margin expansion and reduced costs.

▲ **Coronavirus Aids Packaged Beverages Trend:** Keurig Dr Pepper witnessed robust top line growth in the second quarter, particularly due to solid volume/mix benefits from the Packaged Beverages segment. The segment reported sales growth of 6.2% in the second quarter, driven by a 6.6% increase in volume/mix. This growth can be attributable to sudden spike in at-home consumption, stemming from the COVID-19 outbreak as well as strong market share. Notably, it witnessed market share gains across several major categories — CSD's3, premium unflavored water, shelf stable fruit drinks, shelf stable vegetable juice and shelf stable apple juice and apple sauce. The upside was driven by strength in Dr Pepper and Canada Dry CSDs, CORE hydration and evian premium water, Snapple juice drinks, Clamato vegetable juice and Motts apple juice and apple sauce.

▲ **Opportunity for the Coffee Business Amid the Pandemic:** The stay-at-home orders issued in March led to a change in consumers' behavior regarding what they are buying and where they are buying. The company believes these shifts may be lasting and may continue post crisis. One such shift is the shift to in-home consumption, which is likely to persist after the crisis. The company notes that there has been strong growth in in-home coffee consumption due to the work from home trend and the inability to visit coffee shops. Consequently, the Coffee Systems segment's sales increased 5.4%, backed by improved volume/mix of 8.3%. Growth in volume/mix stemmed from a 9.5% increase in pod volumes on rise in at-home business, offset by decline in away-from-home office and hospitality channels. Meanwhile, brewer volumes advanced 11.6% on robust innovation in the past 12 months and investments to boost household penetration.

▲ **Market Share Gains Reflect Strength:** Keurig Dr Pepper witnessed strong in-market performance across most of the business in the first quarter. The company witnessed dollar consumption growth, with market share gains across several major categories — CSD's3, premium unflavored water, shelf stable fruit drinks, shelf stable vegetable juice and shelf stable apple juice and apple sauce. The upside was driven by strength in Dr Pepper and Canada Dry CSDs, CORE hydration and evian premium water, Snapple juice drinks, Clamato vegetable juice and Motts apple juice and apple sauce. Further, in coffee, retail consumption for single-serve pods manufactured by KDP advanced nearly 15% in channels tracked by IRI. The dollar market share for KDP-manufactured pods was a robust 82% in the second quarter, with improved share trends in its owned and licensed brand portfolio.

▲ **View for 2020 Intact:** Given the uncertainty concerning the ongoing COVID-19 situation, Keurig Dr Pepper anticipates significant impacts on its 2020 results. Despite this, management reiterated its guidance for 2020, driven by a solid product portfolio and a robust distribution network. The company expects net sales growth to be at the lower end of 3-4% for 2020. However, it anticipates adjusted earnings per share of \$1.38-\$1.40, which suggest growth of 13-15%. Aggressive cost-containment actions, productivity improvement plans and gains from partnerships are expected to aid 2020 results.

▲ **Financial Stability:** Keurig Dr Pepper is displaying strength, with robust cash flow generation, which enables it to significantly pay down debt and offer shareholder value. In second-quarter 2020, it generated free cash flows of \$524 million, resulting in an impressive adjusted free cash flow conversion rate of 112%. Driven by the strong cash flow, it paid down structured payables of \$78 million and reduced bank debt by \$274 million in the second quarter. Consequently, the company ended the quarter with \$149 million of cash and cash equivalents at the end of second-quarter 2020, reflecting a substantial growth sequentially. Lowered debt and adjusted EBITDA growth resulted in a debt-to-adjusted EBITDA ratio (management leverage ratio) of 4x at the end of second-quarter 2020 compared with 4.5x at the end of 2019. This indicates that the company is on track to rapidly deleverage to reach the long-term target leverage ratio of less than 3x. Moreover, the company continues to expect leverage ratio of 3.5x to 3.8x at the end of 2020.

As of Jun 30, 2020, the company's long-term debt of \$11,849 million declined 4.7% sequentially. Moreover, its debt-to-capitalization ratio of 0.34 represents a sequential improvement from 0.35 reported in the prior quarter. Moreover, the company is likely to stay afloat, amid the coronavirus pandemic, with a strategic refinancing completed in April 2020 that extends its debt maturities and enhances liquidity profile. This included a \$1.5 billion senior notes issuance and the refinancing and the doubling of its \$750 million, 364-day credit facility to \$1.5 billion of borrowing capacity.

Reasons To Sell:

- ▼ **Impacts of Coronavirus:** While Keurig Dr Pepper reported a strong quarter overall, the impacts of the coronavirus outbreak were felt across some segments during the second quarter. Although all segments reported sales growth in the second quarter, the company significant impacts on its fountain and foodservice business and office coffee business. In the second-quarter, the away-from-home coffee channel were significantly impacted due to office closures and hospitality shutdowns caused by the pandemic. Further, volume/mix was mainly affected by a steep decline in the fountain foodservice business, which includes the restaurant and hospitality sectors, due to coronavirus-related shelter-in-place orders and change in consumer behavior. However, it witnessed recovery on a month-over-month basis from July.
- ▼ **Currency Headwinds:** Keurig Dr Pepper's cross-border presence exposes it to unfavorable currency movements due to a strong U.S. dollar. Unfavorable foreign currency movement weighed on sales for Latin America Beverages in second-quarter 2020. Any further adverse changes in foreign current is likely to have a significant impact on Latin America Beverages segment's reported net sales in the near term.
- ▼ **Stiff Competition:** Aggressive competition is a major threat against the company. Though the company has an advantage of diversified snacks and beverage portfolio, competing with the leading soft-drinks makers is crucial for the company's business growth. Additionally, the company is facing headwinds due to the growing healthy lifestyle trend, which is driving lower consumer preference for sugary sodas and salty snacks.
- ▼ **Macro Challenges:** The beverage industry presents substantial challenges for Keurig, primarily related to dynamic retail and consumer landscape, a very competitive environment, as well as operating and commodity cost inflation. The company's profits and margins are particularly pressured due to higher transportation cost, product mix costs and stepped-up advertising expense.

Keurig Dr Pepper's fountain and foodservice, and office coffee businesses were badly hit by the COVID-10 pandemic in the second quarter. Also, unfavorable currency remains a concern.

Last Earnings Report

Keurig Beats Q2 Earnings & Sales Estimates

Keurig reported better-than-expected results for second-quarter 2020, wherein both the top and the bottom line improved year over year. Results reflected strong sales growth across packaged beverages and coffee businesses, margin expansion and reduced costs.

Adjusted earnings of 33 cents per share improved 10% year over year, surpassing the Zacks Consensus Estimate of 32 cents. This improvement was driven by strong top-line growth along with increase in adjusted operating income.

Net sales of \$2,864 million exceeded the Zacks Consensus Estimate of \$2,847 million and grew 18% from net sales of \$2,812 million in the year-ago quarter. The increase was driven by a higher volume/mix of 4.3%, partially negated by an unfavorable net price realization of 1.4%. On a constant-currency basis, net sales increased 2.9% year over year. Robust performance across the packaged beverages and coffee businesses contributed to top-line growth.

In the second quarter, the company benefited from strong in-market performance in tracked channels. Keurig Dr Pepper witnessed market share gains across several major categories — CSD's3, premium unflavored water, shelf stable fruit drinks, shelf stable vegetable juice and shelf stable apple juice and apple sauce. The upside was driven by strength in Dr Pepper and Canada Dry CSDs, CORE hydration and evian premium water, Snapple juice drinks, Clamato vegetable juice and Motts apple juice and apple sauce.

Further, in coffee, retail consumption for single-serve pods manufactured by KDP advanced nearly 15% in channels tracked by IRI. The dollar market share for KDP manufactured pods was a robust 82% in the second quarter, with improved share trends in its owned and licensed brand portfolio.

Adjusted operating income grew 10.4% year over year to \$775 million, driven by strong net sales growth, solid productivity and merger synergies as well as reduced marketing and other discretionary expenses. This was partly compensated by lower pricing, input costs and logistics inflation, and higher operating costs related to perked up consumer demand. Adjusted operating margin expanded 210 basis points (bps) to 27.1%. On a constant-currency basis, adjusted operating income increased 11.1%.

Segmental Details

Sales at the **Beverage Concentrates** segment declined 16.5% year over year to \$309 million compared with \$370 million in the year-ago period. Net revenues were primarily impacted by an 11.4% decline in volume/mix, 4.8% fall in price realizations and 0.3% negative currency translations. Volume/mix was mainly affected by a steep decline in the fountain foodservice business, which includes the restaurant and hospitality sectors, due to coronavirus-related shelter-in-place orders and change in consumer behavior.

Sales at the **Packaged Beverages** segment totaled \$1.39 billion, up 6.2% from net sales of \$1.31 billion in the year-ago quarter. This can be primarily attributed to a 6.6% increase in volume/mix, partly negated by a 0.3% fall in price realizations and 0.1% negative currency translations.

Sales from the **Latin America Beverages** segment fell 14.9% to \$120 million from \$141 million in the prior-year quarter. This decline was the result of unfavorable currency translations. On a constant-currency basis, sales rose 1.4% driven by 6.1% growth in price realization, partly offset by unfavorable volume/mix of 4.7%.

The **Coffee Systems** segment's sales increased 5.4% to \$1.04 billion. Net sales, on a constant-currency basis, were up 5.8%. The increase was backed by improved volume/mix of 8.3%, somewhat offset by lower net price realization of 2.5% and unfavorable foreign currency translation of 0.4%. Growth in volume/mix stemmed from a 9.5% increase in pod volumes on rise in at-home business, offset by decline in away-from-home office and hospitality channels. Meanwhile, brewer volume advanced 11.6% driven by robust innovation in the past 12 months and investments to boost household penetration.

Financials

Keurig Dr Pepper ended second-quarter 2020 with cash and cash equivalents of \$149 million as of Jun 30, 2020. Long-term obligations totaled \$11,849 million and total stockholders' equity was \$22,923 million. Net cash provided by operating activities totaled \$1,062 million as of Jun 30.

Outlook

The company is encouraged by its diverse brand portfolio and extensive distribution system, which has helped it steer through the coronavirus crisis. Thus, it is optimistic about its performance in the second half of 2020.

Keurig Dr Pepper retained guidance for 2020. The company anticipates adjusted earnings per share of \$1.38-\$1.40, which suggests growth of 13-15%. Aggressive cost-containment actions, productivity improvement plans and gains from partnerships are expected to aid 2020 results.

The company expects net sales growth at the low end of 3-4% for 2020. Additionally, the company still expects a leverage ratio of 3.5 to 3.8 at the end of 2020. Further, it reiterated its leverage ratio target of less than 3.0 in two to three years since the closing of the merger in July 2018.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	0.58%
EPS Surprise	3.13%
Quarterly EPS	0.33
Annual EPS (TTM)	1.29

Recent News

Keurig Approves Quarterly Dividend - Sep 15, 2020

Keurig Dr Pepper's board has announced a quarterly dividend of 15 cents per share to be paid on Oct 16, 2020 as of shareholders record on Oct 2.

Keurig's Top Shareholder to Redistribute Shares – Sep 8, 2020

Keurig Dr Pepper's largest shareholder JAB Holdings B.V. which functions through its subsidiary Maple Holdings BV, will redistribute 76 million shares to minority partners namely - BDT Capital Partners, Quadrant Capital Advisors and the JCF Consumer Fund. This represents nearly 5.4% of Keurig Dr Pepper's shares outstanding. Post the distribution, JAB and Maple will own 44% of Keurig Dr Pepper's shares on a combined basis.

Keurig's Listing on Nasdaq to Attract More Investors - Sep 8, 2020

Keurig Dr Pepper is about to be listed on the Nasdaq Stock Market starting later this month. The company is currently trading on the New York Stock Exchange. This latest move is seen as an important milestone for the beverage company as it will join the ranks of the largest companies on Nasdaq. This is amid the various measures undertaken by the company to diversify its shareholder base.

Keurig Inks Long-Term Deal With Polar Beverages - Jul 30, 2020

Keurig and Polar Beverages have joined hands to distribute Polar Seltzer sparkling seltzer waters, including Polar Seltzer'ade and SeltzerJR via Keurig's direct store delivery and manufacturing facilities.

Valuation

Keurig Dr Pepper shares are down 3.1% in the year-to-date period but up 3.3% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 8.2% and 7.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7% and 5.6%, respectively.

The S&P 500 index is up 3% in the year-to-date period and 11.3% in the past year.

The stock is currently trading at 18.35X forward 12-month earnings, which compares to 22.9X for the Zacks sub-industry, 19.58X for the Zacks sector and 21.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.56X and as low as 4.18X, with a 5-year median of 20.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 19.63X forward 12-month earnings.

The table below shows summary valuation data for KDP

Valuation Multiples - KDP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.35	22.9	19.58	21.85
	5-Year High	24.56	23.56	22.37	23.44
	5-Year Low	4.18	18.43	16.62	15.26
	5-Year Median	20.38	21.67	19.58	17.63
P/S F12M	Current	3.35	4.59	9.34	4.04
	5-Year High	24.43	5.35	11.15	4.29
	5-Year Low	2.2	3.71	8.12	3.11
	5-Year Median	2.88	4.57	9.89	3.66
EV/EBITDA TTM	Current	14.02	20.93	37.72	14.33
	5-Year High	30.27	21.94	45.11	15.61
	5-Year Low	6.08	12.26	27.23	9.51
	5-Year Median	13.58	17.87	38.44	13.01

As of 09/18/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 46% (115 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Monster Beverage Corporation (MNST)	Outperform	2
Campbell Soup Company (CPB)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
CocaCola Company The (KO)	Neutral	4
Nestle SA (NSRGY)	Neutral	3
PepsiCo, Inc. (PEP)	Neutral	3
Starbucks Corporation (SBUX)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3

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

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	KDP	X Industry	S&P 500	KO	MNST	PEP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	3
VGM Score	B	-	-	D	D	C
Market Cap	39.47 B	417.72 M	23.70 B	216.70 B	41.66 B	182.04 B
# of Analysts	8	2	13	8	8	8
Dividend Yield	2.14%	0.00%	1.63%	3.25%	0.00%	3.11%
Value Score	C	-	-	D	D	C
Cash/Price	0.00	0.08	0.07	0.09	0.03	0.05
EV/EBITDA	16.79	4.79	13.12	17.91	27.34	16.41
PEG F1	1.30	4.40	2.93	5.84	2.92	4.40
P/B	1.72	4.54	3.26	11.29	9.85	14.49
P/CF	16.27	10.15	12.78	20.65	36.22	17.96
P/E F1	19.90	22.67	21.44	28.07	34.95	24.64
P/S TTM	3.50	1.77	2.49	6.31	9.67	2.69
Earnings Yield	4.99%	4.33%	4.44%	3.57%	2.86%	4.06%
Debt/Equity	0.52	0.31	0.70	1.97	0.00	3.05
Cash Flow (\$/share)	1.72	0.50	6.94	2.44	2.18	7.32
Growth Score	B	-	-	C	C	B
Historical EPS Growth (3-5 Years)	-28.65%	8.72%	10.42%	1.58%	19.03%	5.05%
Projected EPS Growth (F1/F0)	14.44%	-14.45%	-4.74%	-14.81%	11.33%	-3.53%
Current Cash Flow Growth	26.76%	9.45%	5.29%	4.40%	9.91%	-2.46%
Historical Cash Flow Growth (3-5 Years)	22.17%	13.28%	8.50%	-1.10%	18.17%	1.04%
Current Ratio	0.31	1.35	1.35	1.09	3.51	0.97
Debt/Capital	34.08%	31.14%	42.92%	66.29%	0.00%	75.30%
Net Margin	10.32%	1.87%	10.26%	26.77%	26.57%	10.13%
Return on Equity	7.91%	7.91%	14.69%	41.44%	27.95%	54.77%
Sales/Assets	0.23	0.77	0.51	0.38	0.85	0.82
Projected Sales Growth (F1/F0)	3.30%	0.00%	-1.42%	-9.89%	7.54%	1.72%
Momentum Score	C	-	-	D	C	D
Daily Price Change	-0.92%	-0.03%	-1.15%	-0.20%	-2.13%	-1.30%
1-Week Price Change	-2.40%	-1.13%	-1.90%	0.04%	-1.13%	-2.13%
4-Week Price Change	-3.91%	-2.96%	0.06%	6.55%	-4.84%	-3.84%
12-Week Price Change	-1.23%	2.41%	7.27%	12.29%	14.38%	0.05%
52-Week Price Change	1.59%	-18.47%	0.33%	-7.47%	34.36%	-2.96%
20-Day Average Volume (Shares)	4,079,731	95,043	1,916,343	14,458,342	1,948,295	4,065,054
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.16%
EPS F1 Estimate 4-Week Change	0.09%	0.00%	0.00%	0.00%	0.00%	-0.16%
EPS F1 Estimate 12-Week Change	0.81%	2.19%	4.12%	-1.64%	9.24%	0.23%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	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	C
Growth Score	B
Momentum Score	C
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.