ZACKS | Our Research. Your Success.

Jun 28, 2021

The Kroger Co.(KR)

$39.21 (As of 06/25/21)

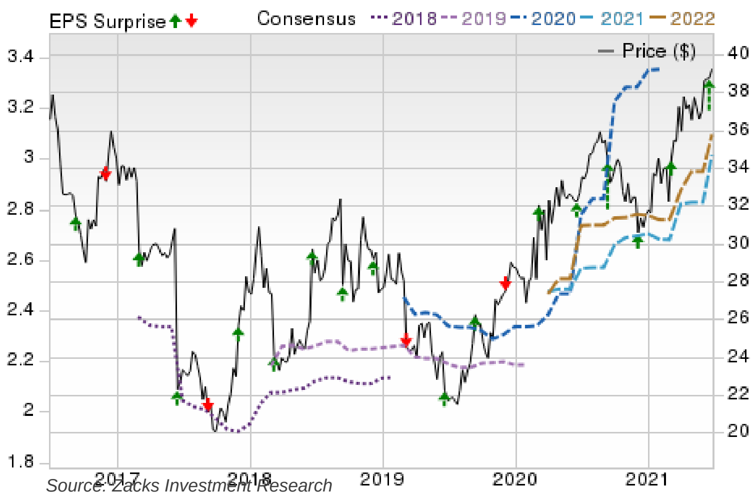
Price Target (6-12 Months): **$41.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/25/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: A | Growth: A | Momentum: A	**3-Hold** VGM:A

Summary

Shares of Kroger have increased and outpaced the industry in the past three months. The company is undertaking every effort to strengthen position not only with respect to products but also in terms of the way consumers shop. It has been making investments to enhance product freshness and quality as well as expand digital capabilities. Such aspects supported the company, when it reported better-than-expected first-quarter fiscal 2021 results. Speaking of bolstering digital operations, we note that the company has been focusing on expanding delivery and payment solutions. Additionally, it has been augmenting "Our Brands" portfolio by launching several new products. Further, management raised its fiscal 2021 projections. However, the raised view continues to suggest tough year-on-year comparison due to the lapping of pandemic-led benefits.

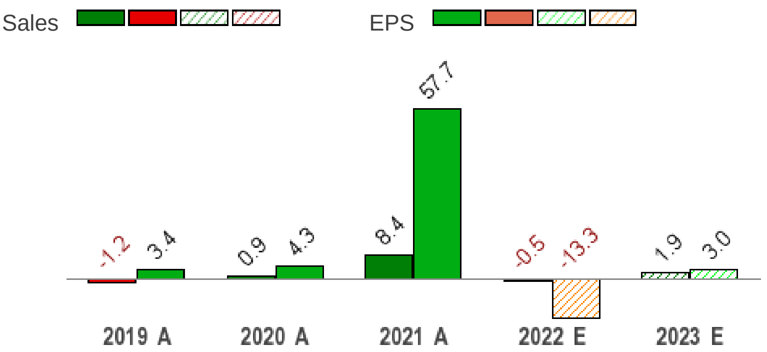
Price, Consensus & Surprise



Data Overview

52-Week High-Low	**$42.99 - $30.35**
20-Day Average Volume (Shares)	**8,203,079**
Market Cap	**$29.7 B**
Year-To-Date Price Change	**23.5%**
Beta	**0.36**
Dividend / Dividend Yield	**$0.84 / 1.8%**
Industry	**Retail - Supermarkets**
Zacks Industry Rank	**Top 29% (72 out of 252)**
Last EPS Surprise	**20.2%**
Last Sales Surprise	**5.3%**
EPS F1 Estimate 4-Week Change	**8.9%**
Expected Report Date	**09/10/2021**
Earnings ESP	**2.6%**
P/E TTM	**11.4**
P/E F1	**13.0**
PEG F1	**2.0**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2023					134,402 E
2022	41,298 A	30,413 E	29,910 E	30,801 E	131,873 E
2021	41,549 A	30,489 A	29,723 A	30,737 A	132,498 A

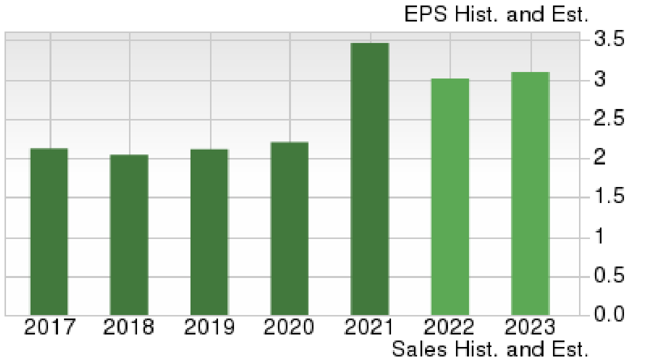
EPS Estimates

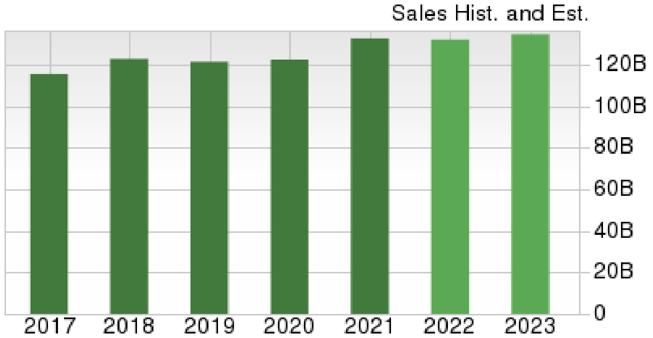
	Q1	Q2	Q3	Q4	Annual*
2023	$1.13 E	$0.67 E	$0.61 E	$0.69 E	$3.10 E
2022	$1.19 A	$0.64 E	$0.58 E	$0.66 E	$3.01 E
2021	$1.22 A	$0.73 A	$0.71 A	$0.81 A	$3.47 A

*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 06/25/2021. The report's text and the analyst-provided price target are as of 06/28/2021.

Overview





The Kroger Co. (KR), which operates in the thin-margin grocery industry, has been undergoing a complete makeover, not only with respect to products but also in terms of the way consumers prefer shopping grocery. The company is launching plant-based products as well as eyeing technological expansion. It acquired meal kit company Home Chef and partnered with British online grocery delivery firm Ocado that reinforces its position in the online ordering, automated fulfillment and home delivery space. It has also introduced grocery delivery service Kroger Ship and inked a deal with driverless car company Nuro.

This Cincinnati, Ohio-based company operates supermarkets under banners including Kroger, City Market, Dillons, Food 4 Less, Fred Meyer, Fry's, Harris Teeter, Jay C, King Soopers, Mariano's, Pick 'n Save, QFC, Ralphs and Smith's. Further, it also manufactures and processes certain food products that are sold in its supermarkets.

Kroger's supermarket and multi-department stores operate under four formats combo stores (combination of food and drug stores), multi-department stores, marketplace stores, and price impact warehouses. The combo stores include natural food and organic sections, pharmacies, general merchandise, and pet centers, as well as offer perishables items such as fresh seafood and organic produce.

The multi-department stores offer a collection of general merchandise products such as apparel, home fashion and furnishings, electronics, automotive products, toys, and fine jewelry. The marketplace stores include full-service grocery and pharmacy departments and a general merchandise area that includes outdoor living products, electronics, home goods, and toys.

The combo stores, multi department stores, and marketplace stores also have fuel centers. The price impact warehouse offers grocery, health, and beauty care items.

Source: Zacks Investment Research

Reasons To Buy:

▲ **Q1 Results Exceed Expectations, View Raised:** During first-quarter fiscal 2021, Kroger's top and the bottom line surpassed the Zacks Consensus Estimate. This was the sixth straight quarter of earnings beat. Management highlighted that identical sales results exceeded initial expectations. Impressively, the company is undertaking efforts to strengthen position not only with respect to products but also in terms of the way consumers prefer shopping. It is making significant investments to enhance product freshness and quality as well as expand digital capabilities. While year-on-year comparisons were impacted by lapping of pandemic-led benefits, on a two-year time horizon the company's adjusted earnings of $1.19 indicates a compounded annual rate of growth of 28.6% from first-quarter fiscal 2019. Also, identical sales without fuel translate to a two-year stacked growth of 14.9%. We note that the company is progressing well with its cost-saving endeavors and achieved growth in its alternative profit business. Cumulatively, these aspects aided the company's performance prompting management to raise fiscal 2021 guidance.

A dominant position among the nation's largest grocery retailers enables Kroger to boost its market share by expanding store base, introducing new items and digital coupons.

Although the company continues to expect a decline in identical sales, owing to tough year-on-year comparison, on a two-year stacked basis, its identical sales projection suggests 10.1-11.6% growth. Management expects full-year adjusted net earnings per diluted share in the range of $2.95-$3.10, indicating a two-year CAGR of 16-19%. The company had earlier forecast earnings in the range of $2.75-$2.95 per share. Moreover, FIFO operating profit is anticipated in the band $3.5-$3.7 billion, up from prior projection of $3.3-$3.5 billion. Shares of Kroger have risen 3.3% in the past three months compared with the industry's rise of 1.4%.

▲ **Strategic Endeavors & Strong Digital Business:** A dominant position among the nation's largest grocery retailers enables Kroger to boost market share with expansion of plant-based products, digital coupons, order online pick up in store and smart shopping lists. The company's Customer 1st strategy enriches the consumers shopping experience and convinces them of returning to the store. The company started accepting Supplemental Nutrition Assistance Program (SNAP) benefits for pickup orders. Moreover, we note that the company is undertaking every effort to boost profits as well as save costs. Impressively, Kroger has been introducing new items under its "Our Brands" portfolio. Markedly, it launched 253 new items under this banner during the first quarter.

Kroger's digital business remains one of its key growth drivers. Evidently, customers are opting e-commerce solutions for their grocery and other household essentials. Considering the current scenario, the company has been focusing on no-contact delivery option, low-contact pickup service and ship-to-home orders. It also continued to expand contactless payment solutions like Kroger Pay, Scan as well as Bag and Go. Additionally, Kroger has been expanding its Customer Fulfillment Center (CFC) so as to ensure efficient deliveries. Undoubtedly, the company is doing everything to meet the rising demand for Pickup orders that help in minimizing person-to-person interaction. We note that digital sales rallied 16% during first-quarter fiscal 2021. Markedly, the company expanded to 2,233 Pickup locations and 2,488 Delivery locations. The company also opened its first two Kroger Delivery facilities, powered by Ocado, in Ohio and Florida. It expanded the capacity for Pickup by 15% with focus on adding high-demand time slots. Apart from these, the company announced Kroger Drone Delivery pilot in partnership with Drone Express, reinforcing the importance of timely delivery to customers.

▲ **Boosting Shareholder Returns:** Kroger is among those handful companies that continued to reward shareholders, despite the pandemic. Backed by sound fundamentals, the company has time and again highlighted its commitment to enhancing shareholder value. Recently, the company announced an increase in its quarterly dividend. Impressively, the hike marked Kroger's 15th successive year of dividend increase. The company's board of directors raised the quarterly dividend by 17% to 21 cents a share in June 2021. It has a dividend payout of 20.9%, dividend yield of 1.8% and free cash flow yield of 6.6%. With an annual free cash flow return on investment of 18.7%, the dividend payment is likely to be sustainable. Apart from these, the company announced a new $1-billion share buyback program.

▲ **Major Buyouts & Partnership:** Management continues to deploy capital to concentrate more on remodels, merchandising, and other viable projects to overcome competition in the grocery space. The industry has been undergoing a fundamental change with technology playing a key role as focus shifts to online shopping. In this regard, Kroger's buyout of meal kit provider, Home Chef, is noteworthy. This apart, the company has partnered with British online grocery delivery company Ocado that reinforces its position in the online ordering, automated fulfillment and home delivery space. The company also makes use of Nuro's fully autonomous, driverless vehicles for grocery delivery services. Also, Kroger in association with ClusterTruck announced the launch of two on-premise kitchens at stores in Metro Indianapolis, IN and Metro Columbus, OH. Kroger's delivery services wing — Kroger Ship — partnered with Mirakl, a leading software platform enabling B2C and B2B digital marketplaces. Further, Kroger has expanded its partnership with 80 Acres Farms, whereby the latter will serve 316 Kroger locations across Ohio, Indiana and Kentucky.

▲ **"Restock Kroger" Program:** The company's "Restock Kroger" program involving investments in omni-channel platform, identifying margin-rich alternative profit streams, merchandise optimization, and lowering of expenses has been gaining traction. Management is targeting margin-rich alternative profit streams such as Kroger Personal Finance, Media, and Customer Data Insights. Under the program, the company is also passing the benefit of cost containment to customers by lowering prices. The company attained more than $1 billion of cost savings for the third straight year in fiscal 2020. Alternative profit continues to be a major catalyst contributing $150 million of incremental operating profit in fiscal 2020, on top of the $100 million in fiscal 2019.

Reasons To Sell:

The grocery business is highly competitive and fragmented, and Kroger faces stiff competition from big players. Also, any volatility in fuel prices and heightened promotional environment may make things tough.

- **Tough Year-on-Year Comparison:** While Kroger posted better-than-expected results in the first quarter, both top and bottom line metrics fell year-on-year. Last year, the company benefitted from higher demand for grocery items induced by pandemic-led stock hoarding. Now that the situation is gradually returning to the old normal, thanks to the roll-out of vaccines, consumers have begun spending more time outdoors. This has led to an increase in outdoor dining trends. The trend has moderated at-home consumption practices and a drop in stock hoarding, leading to dismal year-over-year comparisons, which was quite apparent in the first-quarter. The company may continue to face tough year-over-year comparisons in sales, as COVID-19 benefits are lapped. Despite raising fiscal 2021 guidance, the company continues to expect a decline in identical sales. It envisions identical sales, without fuel, to be down 2.5-4% in fiscal 2021. The company had previously expected a decline of 3-5% in the metric. Markedly, identical sales without fuel grew 14.1% in fiscal 2020. Also, the company's adjusted earnings projection of $2.95-$3.10, reflects a decline from of $3.47 per share in reported fiscal 2020.

- **Gross Margin Weak:** During first-quarter fiscal 2021, the company's gross margin contracted 170 basis points to 22.6%. FIFO gross margin, excluding fuel, declined 65 basis points from the year-ago period's levels. The downside suggests sales deleverage, higher shrink, continued price investments, and charges related to COVID-19. Adjusted FIFO operating profit came in at $1,375 million, down from $1,453 million reported in the prior-year quarter. Moreover, any deleverage in operating, general and administrative (OG&A) expenses may hurt margins. Again, costs related to additional employee payments and benefits, along with investments undertaken to preserve safety and health of customers and team members amid the pandemic may weigh on margins.

- **Debt Analysis:** Kroger ended first-quarter fiscal 2021 with long term debt o(including obligations under finance leases) of $12,974 million as of May 22, 2021, which showcased an increase from $12,502 million at the end of the preceding quarter. Moreover, its debt-to-capitalization ratio is high when compared with its industry. The company's debt-to-capitalization ratio was 0.60 at the end of the quarter compared with that of the industry's 0.36. Also, its times interest earned ratio of 4.7 was below 7.2 in the fourth quarter and that of the industry's 9.7.

- **Stiff Competition & Promotional Activities:** Stiff competition, volatility in food prices and an aggressive promotional environment are the primary headwinds with which Kroger is encountering. The grocery business is highly competitive and fragmented, and Kroger faces intense competition from big players such as Amazon, Walmart and Safeway, other conventional retailers and specialty gourmet retailers with respect to price, store expansion and promotional activities. This may dent the company's sales and margins.

Last Earnings Report

Kroger Beats on Q1 Earnings & Sales, Lifts FY21 Guidance

Quarter Ending	04/2021
Report Date	Jun 17, 2021
Sales Surprise	5.29%
EPS Surprise	20.20%
Quarterly EPS	1.19
Annual EPS (TTM)	3.44

Kroger came up with first-quarter fiscal 2021 results, wherein both the top and the bottom lines surpassed the Zacks Consensus Estimate. Management highlighted that identical sales results exceeded initial expectations. We note that the company's digital business remains a key growth driver.

The company has been making significant investments to enhance product freshness and quality, and expand digital capabilities. Impressively, Kroger has been introducing new items under its "Our Brands" portfolio — launched 253 new items during the quarter under review. Cumulatively, these have aided the company's performance prompting management to raise fiscal 2021 guidance.

Let's Introspect

Kroger posted adjusted earnings of $1.19 per share that surpassed the Zacks Consensus Estimate of 99 cents but decreased from $1.22 reported in the prior-year quarter.

Total sales of $41,298 million outpaced the Zacks Consensus Estimate of $39,222 million. However, the metric declined marginally 0.6% year over year. Excluding fuel, sales dropped 4% from the year-ago period. The company's digital sales increased 16%, while identical sales, without fuel, fell 4.1%.

We note that gross margin contracted 170 basis points to 22.6%. FIFO gross margin, excluding fuel, declined 65 basis points from the year-ago period. This decrease reflects sales deleverage, higher shrink, continued price investments, and charges related to COVID-19, partly offset by sourcing benefits and growth in Alternative Profits. Adjusted FIFO operating profit came in at $1,375 million, down from $1,453 million reported in the prior-year quarter.

Other Financial Aspects

Kroger ended the quarter with cash of $360 million, total debt of $14,124 million, and shareowners' equity of $9,229 million. Net total debt increased by $1,005 million over the last four quarters. The company's board of directors approved new $1 billion share buyback program.

Management estimates capital expenditures in the band of $3.4-$3.6 billion and expects to generate free cash flow between $1.8 billion and $2 billion in fiscal 2021.

Fiscal 2021 View

Management now envisions identical sales, without fuel, to be down 2.5-4% in fiscal 2021. The company had previously expected a decline of 3-5% in the metric. The company anticipates FIFO operating profit in the band $3.5-$3.7 billion, up from prior projection of $3.3-$3.5 billion.

Management now anticipates fiscal 2021 earnings between $2.95 and $3.10 per share. The Zacks Consensus Estimate for earnings for the fiscal year currently stands at $2.83, which is likely to witness an upward revision in the coming days. The company had earlier forecast earnings in the range of $2.75 and $2.95 per share.

Recent News

Kroger Ups Dividend – Jun 24, 2021

Kroger raised the quarterly dividend by 17% to 21 cents a share, which is payable on Sep 1, 2021 to shareholders of record at the close of business on Aug 13, 2021. Impressively, the hike marked Kroger's 15th successive year of dividend increase. Last year in June, the company increased its regular quarterly dividend by 13% to 18 cents.

Kroger Opens Fulfillment Center in Florida – Jun 9, 2021

Kroger has announced the opening of its latest CFC in Groveland, FL. This is powered by a renowned firm in technology for grocery e-commerce, Ocado Group. With this, the company enters the Florida market with an e-commerce delivery service along with vertical integration, machine learning and robotics with quick and affordable delivery.

Kroger to Hire Associates – Jun 7, 2021

Kroger has announced its Family of Companies' first nationwide hybrid hiring event. This event aims at hiring 10,000 associates to manage retail, e-commerce, pharmacy, manufacturing and logistics operations.

Kroger Launches New Highly Automated Fulfillment Center – Apr 14, 2021

Kroger is launching a highly-advanced Customer Fulfillment Center (CFC) in Monroe, OH. The company's new first-of-its-kind CFC in the United States is powered by Ocado's leading e-commerce technology. The facility combines vertical integration, machine learning as well as robotics with efficient and affordable delivery services.

Valuation

Kroger shares are up 23.4% in the year-to-date period and nearly 14.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.6% while the Zacks Retail-Wholesale sector inched-up 0.8%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 15.7% and 21.5%, respectively.

The S&P 500 index is up 14.8% in the year-to-date period and 42.4% in the past year.

The stock is currently trading at 12.71X forward 12-month earnings, which compares to 21.15X for the Zacks sub-industry, 28.17X for the Zacks sector and 21.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.31X and as low as 9.24X, with a 5-year median of 12.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $41 price target reflects 13.29X forward 12-month earnings.

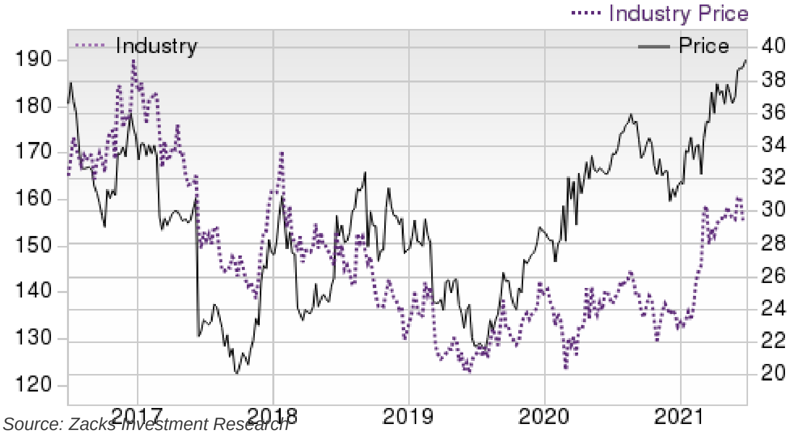
The table below shows summary valuation data for KR

Valuation Multiples - KR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.71	21.15	28.17	21.82
	5-Year High	16.31	24.32	33.84	23.83
	5-Year Low	9.24	15.4	19.06	15.31
	5-Year Median	12.66	19.58	23.86	18.05
P/S F12M	Current	0.22	0.52	1.33	4.75
	5-Year High	0.3	0.52	1.4	4.75
	5-Year Low	0.13	0.35	0.84	3.21
	5-Year Median	0.19	0.42	1.02	3.72
EV/EBITDA TTM	Current	5.93	9.6	19.34	17.59
	5-Year High	10.87	12.53	20.6	17.74
	5-Year Low	4.91	6.35	11.08	9.63
	5-Year Median	6.62	7.59	13.4	13.48

As of 06/25/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 29% (72 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. **(AMZN)**	Outperform	3
Target Corporation **(TGT)**	Outperform	1
Companhia Brasileira de Distribuicao **(CBD)**	Neutral	2
Costco Wholesale Corporation **(COST)**	Neutral	2
Carrefour SA **(CRRFY)**	Neutral	3
Dollar Tree, Inc. **(DLTR)**	Neutral	3
Marks and Spencer Group PLC **(MAKSY)**	Neutral	3
Walmart Inc. **(WMT)**	Neutral	2

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

Industry Comparison Industry: Retail - Supermarkets

				Industry Peers		
	KR	X Industry	S&P 500	COST	TGT	WMT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	1	2
VGM Score	A	-	-	B	C	B
Market Cap	29.69 B	3.12 B	30.37 B	174.40 B	119.01 B	388.18 B
# of Analysts	8	4.5	12	11	13	14
Dividend Yield	1.84%	1.59%	1.33%	0.80%	1.13%	1.59%
Value Score	A	-	-	D	C	B
Cash/Price	0.11	0.19	0.06	0.06	0.07	0.06
EV/EBITDA	5.40	5.44	17.25	23.81	13.62	12.03
PEG F1	2.05	1.42	2.09	4.17	1.53	4.23
P/B	3.22	1.36	4.15	10.27	7.96	4.61
P/CF	4.88	6.23	17.53	31.25	16.63	14.66
P/E F1	13.05	13.48	21.20	38.04	20.34	23.27
P/S TTM	0.22	0.23	3.42	0.93	1.21	0.69
Earnings Yield	7.68%	7.45%	4.61%	2.63%	4.91%	4.30%
Debt/Equity	1.41	0.45	0.66	0.44	0.77	0.52
Cash Flow ($/share)	8.03	3.66	6.86	12.62	14.47	9.45
Growth Score	A	-	-	B	B	A
Historical EPS Growth (3-5 Years)	10.55%	5.86%	9.59%	15.27%	15.48%	5.63%
Projected EPS Growth (F1/F0)	-13.15%	17.66%	21.79%	17.20%	25.53%	8.66%
Current Cash Flow Growth	20.45%	1.47%	1.02%	8.77%	22.82%	6.44%
Historical Cash Flow Growth (3-5 Years)	8.17%	4.05%	7.28%	10.07%	6.93%	2.01%
Current Ratio	0.82	0.84	1.39	1.00	1.07	0.95
Debt/Capital	58.43%	31.04%	41.51%	30.63%	43.48%	34.26%
Net Margin	1.14%	1.96%	12.06%	2.53%	6.30%	2.18%
Return on Equity	27.82%	17.54%	16.59%	27.30%	45.70%	19.92%
Sales/Assets	2.73	2.26	0.51	3.27	1.96	2.30
Projected Sales Growth (F1/F0)	-0.47%	0.00%	9.56%	15.03%	9.13%	-1.31%
Momentum Score	A	-	-	C	D	C
Daily Price Change	0.15%	-0.08%	0.33%	0.62%	0.30%	1.18%
1-Week Price Change	1.19%	2.49%	2.74%	3.58%	4.35%	2.49%
4-Week Price Change	6.03%	-0.63%	1.82%	4.29%	6.01%	-2.46%
12-Week Price Change	9.07%	2.15%	6.49%	11.15%	19.84%	2.15%
52-Week Price Change	19.98%	19.98%	42.26%	33.03%	105.56%	17.08%
20-Day Average Volume (Shares)	8,203,079	92,943	1,881,795	1,713,974	2,947,499	6,838,305
EPS F1 Estimate 1-Week Change	-0.30%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	8.90%	0.03%	0.02%	3.82%	0.00%	0.03%

EPS F1 Estimate 12-Week Change	9.12%	5.14%	3.59%	4.88%	37.72%	9.84%
EPS Q1 Estimate Monthly Change	20.66%	0.00%	0.00%	1.12%	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

Value Score	A
Growth Score	A
Momentum Score	A
VGM Score	A

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.

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.

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 forwardlooking 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 mediumterm 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 mostrecent 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.