

Lennar Corporation(LEN)

\$73.37 (As of 09/08/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/26/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Lennar's shares have outperformed its industry so far this year. The price performance was backed by solid results, defying unprecedented health crisis and significant business disruption over the past three months. The company has been benefiting from higher demand for new homes, reflective of healthy housing market fundamentals arising from declining mortgage rates and a decline in inventory levels. Effective cost control and focus on making its homebuilding platform more efficient are resulting in higher operating leverage. Focus on lighter land strategy to boost free cash flow will bolster the balance sheet and thereby drive returns. Earnings estimates moved upward over the past 30 days, reflecting analysts' optimism over the company's growth prospect. However, rising land and labor costs remain headwinds.

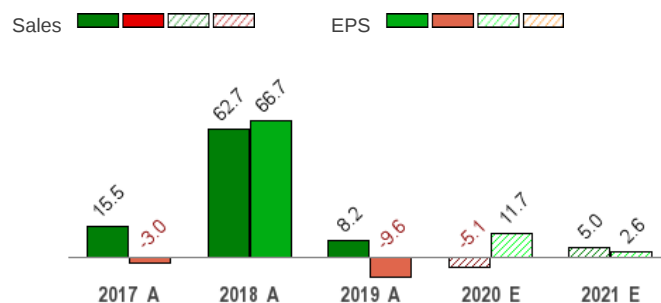
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$80.00 - \$25.42
20-Day Average Volume (Shares)	2,033,544
Market Cap	\$22.9 B
Year-To-Date Price Change	31.5%
Beta	1.64
Dividend / Dividend Yield	\$0.50 / 0.7%
Industry	Building Products - Home Builders
Zacks Industry Rank	Top 2% (5 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.9%
Last Sales Surprise	-0.0%
EPS F1 Estimate 4-Week Change	0.5%
Expected Report Date	09/14/2020
Earnings ESP	3.8%
P/E TTM	11.1
P/E F1	11.5
PEG F1	0.8
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,247 E	5,400 E	5,715 E	6,949 E	22,184 E
2020	4,505 A	5,287 A	5,332 E	6,034 E	21,125 E
2019	3,868 A	5,563 A	5,857 A	6,972 A	22,260 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.05 E	\$1.53 E	\$1.67 E	\$2.25 E	\$6.58 E
2020	\$1.27 A	\$1.65 A	\$1.51 E	\$1.89 E	\$6.41 E
2019	\$0.74 A	\$1.30 A	\$1.59 A	\$2.13 A	\$5.74 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 09/08/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/09/2020.

Overview

Founded in 1954 and based in Miami, FL, **Lennar Corporation** is engaged in homebuilding and financial services in the United States. The company's reportable segments consist of Homebuilding, Lennar Financial Services, Rialto and Lennar Multifamily.

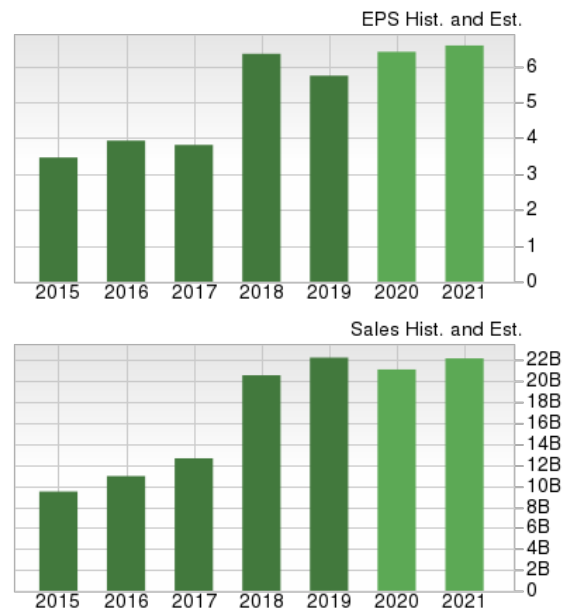
Despite the varied product portfolio, homebuilding remains Lennar's core business. **Homebuilding** operations (accounting for 93.4% of fiscal 2019 total revenues) include the sale and construction of single-family attached and detached homes as well as the purchase, development and sale of residential land directly and through unconsolidated entities. In February 2018, Lennar completed its previously announced merger with CalAtlantic, creating the nation's largest homebuilder based on revenues. The merger makes CalAtlantic a wholly-owned subsidiary of Lennar.

Lennar's reportable homebuilding segments consist of Homebuilding East, which covers Florida, Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia; Homebuilding Central covers Arizona, Colorado and Texas; Homebuilding West covers California and Nevada; Homebuilding Other covers Illinois, Indiana, Minnesota, Oregon, Tennessee, Utah and Washington. However, Homebuilding Other is not considered a reportable segment.

The **Financial Services** business (3.7%) includes mortgage financing, title insurance and closing services to the company's homebuyers as well as others through Lennar's financial services subsidiaries — Universal American Mortgage Company and Eagle Home Mortgage.

Lennar Multi-Family (2.7%), created in fourth-quarter 2013, is involved in the development, construction and property management of multi-family rental apartments in premium markets of California through unconsolidated entities.

Lennar & Other (0.2%): This segment includes operations primarily from the company's share of carried interests in the Rialto fund investments, retained after the sale of Rialto's asset and investment management platform, along with equity in earnings/loss from the Rialto fund investments and strategic technology investments, including other income (expense).



Source: Zacks Investment Research

Reasons To Buy:

▲ **Strong Performance:** Lennar, which has been continuously delivering strong performances since fiscal 2014, maintained growth momentum in first half of fiscal 2020 as well. Similar to other public builders, Lennar witnessed a pause in homebuyer demand in mid-March that extended through the end of April due to widespread stay-at-home orders and surging national unemployment. Since then, new single-family homes demand has seen a v-shaped recovery throughout the country and Lennar was in a prime position to benefit from the same. A combination of lower interest rates and slower price appreciation has positively impacted affordability, thereby helping the company to deliver solid performance. During second-quarter fiscal 2020, Lennar reported better-than-expected results, defying unprecedented health crisis and significant business disruption over the past three months. This marks the fifth consecutive quarter of an earnings beat. The results mainly benefited from effective cost control and focus on making its homebuilding platform more efficient, which in turn resulted in higher operating leverage. Lennar's core homebuilding results remain consistent with slow and steady housing recovery.

Lennar is poised to gain from solid housing market fundamentals, strategic land investments and improving SG&A leverage

The company was successful in meeting the target of achieving lower SG&A percentage in fiscal 2016, 2017, 2018 and 2019. In first-quarter fiscal 2020, SG&A expenses — as a percentage of revenues from home sales — improved 30 basis points (bps) to 9.2%, courtesy of improved operating leverage as a result of an increase in home deliveries and continued benefits from technology initiatives. Lennar remains focused on continued improvement in the SG&A line from operating leverage and investments in technology. Meanwhile, its focus on making the homebuilding platform more efficient resulted in an SG&A percentage of 8.3% during second-quarter fiscal 2020, an all-time, second quarter low. The company is focused on reducing operating costs in order to drive the bottom line and cash flow.

▲ **Strategic Land Investments, Multiple Growth Platforms:** Lennar strategically focused on acquiring low-cost new home sites in well-positioned markets during the downturn, which placed it well to meet growing demand during the upturn, thus giving it a competitive edge over its peers facing land availability constraints.

In the second quarter of fiscal 2019, Lennar announced a strategic transaction with Level Homes, an Engquist Development in Raleigh, North Carolina. Through this transaction, it purchased 34 homes under construction and 29 developed homesites. Importantly, in view of asset-light land strategy, Lennar has a future right to purchase approximately 1,600 finished homesites across seven communities. These homesites will be delivered by Engquist over the next six years, marking the beginning of a new strategic relationship in the Carolinas. Lennar's acquisition of CalAtlantic Group Inc. in February 2018 made it one of the country's top three home builders in 24 of the top 30 U.S. markets.

Although Lennar's Homebuilding and Financial Services divisions are the primary drivers of near-term revenues and earnings, Multi-Family business provides diversification as well as complementary long-term growth opportunities. Lennar's Multi-Family rental business which began in 2011 is a leading blue-chip developer of apartment communities. These multi-family rental properties are expected to witness a huge demand as the need for such properties is growing. Rental rates are soaring and vacancies are at historic lows with demand rising but supply remaining limited. In 2015, Lennar formed the Lennar Multifamily Venture, a build to core equity fund designed for the development, construction and property management of class-A multifamily assets.

▲ **Dynamic Pricing Model & Asset Light Strategy:** The company is using its dynamic pricing model, which enables it to set price according to the evolving market conditions. Courtesy of this strategy, Lennar has been taking advantage of the strong demand trend, which is helping it to maximize cash flow and return on inventory. Lennar ended first-quarter fiscal 2020 with backlog of 17,632 homes and potential housing revenues of \$7.16 billion. The company is well positioned to deliver solid results in fiscal 2020, given strong backlog and current housing fundamentals. Based on its solid land position, operating strategy and dynamic pricing model, the company earlier expected to deliver 54,000-55,000 homes in fiscal 2020. However, owing to the current pandemic, the company had to suspend its guidance.

Meanwhile, Lennar has maintained its relentless focus on a land lighter strategy. The company continues to migrate toward a significantly smaller land-owned inventory, driving business and cash flow. Strong operating results and focus on asset base increased its cash flow in fiscal 2019 to \$1.6 billion.

▲ **Enough Liquidity:** The combination of slowing land spend in the fiscal second quarter, strong closings and executing the strategy of building strategic relationships to option homesites resulted in significant cash flow generation. Lennar ended the quarter with \$1.4 billion of cash on the balance sheet and zero borrowed against its revolver. At fiscal second quarter-end, Lennar had \$1.4 billion in cash with no outstanding borrowing under the \$2.45-billion revolving credit facility. Hence, it has a total homebuilding liquidity of \$3.85 billion. Its net debt to total capital was 26.9% at the end of fiscal second quarter (versus 31.4% at fiscal first quarter-end and 36.2% a year ago). Also, the next senior note maturity of \$300 million 2.95% notes is due on Nov 29, 2020.

Reasons To Sell:

▼ **Coronavirus Led Disruptions Likely to Weigh on Near-Term Results:** Although the company is building homes and working remotely, shortage of building lots and fear of general economic slowdown in the future raise concerns. Precisely, a significant rise in unemployment — particularly arising from coronavirus-led shutdowns and stay-at-home orders — is a major headwind.

The coronavirus outbreak, and higher land and labor costs are likely to weigh on the bottom line.

▼ **Higher Labor, Land and Material Costs:** Higher land and labor costs are threatening margins as they limit homebuilders' pricing power. Labor shortages are leading to higher wages while land prices are inflating due to limited availability. This is somewhat denting homebuilders' margins.

Although the company's fiscal 2019 and first-quarter fiscal 2020 gross and operating margins have seen some improvement, the adverse effect of labor shortage in the construction industry is the strongest headwind faced by Lennar. Notably, labor cost represents 43% of Lennar's direct costs. Also, higher construction costs are a cause of concern. Moreover, the recent pandemic crisis is likely to weigh on the its margins going forward.

▼ **Supply Constraints:** Several years of production deficits during the housing downturn limited the supply of both rental and new homes in the country. At present, a shortage of buildable lots, skilled labor and available capital for smaller builders are limiting home production, thereby lowering the inventory of homes, both new and existing. Limited capital for land and land development has left entitled lands in short supply while growing demand drove land prices higher. The labor market has also tightened with limited availability of labor arresting the rapid growth in housing production. If the supply picture does not improve, prices could go up, thereby affecting affordability.

▼ **Federal Government Actions:** The housing industry is cyclical and affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and housing market.

Although strong economy along with labor market strength provide the basis for strong demand, its influence on the homebuilding industry is undeniable and uncertain.

Last Earnings Report

Lennar's Q2 Earnings Beat, Revenues Miss Estimates

Lennar Corporation reported better-than-expected results for second-quarter fiscal 2020 (ended May 31, 2020), defying unprecedented health crisis and significant business disruption over the past three months. This marks the fifth consecutive quarter of an earnings beat. The results mainly benefited from effective cost control and focus on making its homebuilding platform more efficient, which in turn resulted in higher operating leverage.

Stuart Miller, executive chairman of Lennar stated, "While unemployment increased throughout the quarter due to impacts from the COVID-19 pandemic, customers moved from rental apartments and from densely populated areas to purchase homes, and home sales grew steadily, as record-low interest rates and low inventory levels drove a favorable rebound in the homebuilding industry."

The company reported quarterly earnings of \$1.65 per share, handily surpassing the Zacks Consensus Estimate of \$1.29 by 27.9%. Also, the reported figure jumped 27% from \$1.30 in the year-ago quarter. The upside was mainly driven by higher cost control and continued operating leverage, backed by technological efforts. Revenues of \$5.29 billion missed the consensus estimate by 0.03%. The reported figure also decreased 5% year over year.

Segment Details

Homebuilding: Revenues at the segment totaled \$4.95 billion, down 5% from the prior-year quarter. The downside was due to lower average sales price or ASP of homes delivered. Within the Homebuilding umbrella, home sales contributed \$4.93 billion to total revenues, down 4.8% from a year ago, while land sales accounted for \$19.8 million, up 20.5%.

Home deliveries during the reported quarter remained on par with the year-ago level at 12,653 units as a result of the coronavirus pandemic and economic shutdown. The average sales price of homes delivered was \$389,000, reflecting a 4% year-over-year decline owing to continued shift to lower-priced communities and regional product mix due to stay-at-home orders in certain higher-priced markets. New orders declined 10% from the year-ago quarter to 13,015 homes. The potential value of net orders also decreased 16% year over year to \$4.9 billion.

Backlog at fiscal second quarter-end decreased 6% from a year ago to 17,975. Potential housing revenues from backlog also declined 8% year over year to \$7.1 billion.

Homebuilding Margins

Gross margin on home sales was 21.6% in the quarter, up 150 basis points (bps). The upside can be attributed to its efforts toward reducing construction costs. Selling, general and administrative or SG&A expenses — as a percentage of home sales — improved 10 bps to 8.3% on improved operating leverage. Operating margin on home sales also improved 170 bps year over year to 13.3% in the quarter.

Financial Services: The segment's revenues decreased 3.9% year over year to \$196.3 million in the reported quarter. That said, operating earnings came in at \$150.6 million, up from \$62.5 million a year ago on strong mortgage business owing to higher volumes and margins.

Lennar Multi-Family: Revenues of \$123.1 million at the segment decreased 16.5% from the prior-year quarter. However, the segment incurred operating loss of \$0.638 million in the quarter, narrower than \$4.322 million loss a year ago.

Lennar Other: The segment's revenues totaled \$18.5 million, up 18.2% from \$15.7 million a year ago. Operating loss was \$18 million during the quarter versus operating earnings of \$1.8 million in the comparable period of 2019.

Financials

Lennar had homebuilding cash and cash equivalents of \$1.4 billion as of May 31, 2020, up from \$1.2 billion on Nov 30, 2019. Total homebuilding debt was \$7.5 billion as of May 31, 2020 compared with \$6.58 billion on Nov 30, 2019. Total homebuilding debt to capital at the end of the fiscal second quarter was 31.2% compared with 32.8% at fiscal 2019-end.

Guidance

For the fiscal third quarter, Lennar expects deliveries in the range of 13,200-13,400 homes; ASP within \$38,000-\$385,000; homebuilding gross margin in the 21.5%-21.75% band; and homebuilding SG&A of 8.3-8.5%. New orders are expected within 12,800-13,000.

For the fiscal fourth quarter, it expects deliveries in the range of 14,300-14,600 homes; ASP of \$38,000; homebuilding gross margin in the range of 21.75-22%; and homebuilding SG&A of 8%. New orders are expected within 12,000-12,250.

For fiscal 2020, the company expects deliveries in the range of 50,500-51,000 homes, with a gross margin on home sales of 21.5% and net margin on home sales of 13%.

Quarter Ending	05/2020
Report Date	Jun 15, 2020
Sales Surprise	-0.03%
EPS Surprise	27.91%
Quarterly EPS	1.65
Annual EPS (TTM)	6.64

Valuation

Lennar shares are up 31.5% in the year-to-date period and 37.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 19.4% and 3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 27% and 12.3%, respectively.

The S&P 500 index is up 3.6% in the year-to-date period and 12.5% in the past year.

The stock is currently trading at 11.22X forward 12-month earnings, which compares to 10.78X for the Zacks sub-industry, 17.61X for the Zacks sector and 22.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.65X and as low as 4.67X, with a 5-year median of 10.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$77 price target reflects 11.8X forward 12-month earnings.

The table below shows summary valuation data for LEN.

Valuation Multiples - LEN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.22	10.78	17.61	22.19
	5-Year High	15.65	14.36	18.97	23.44
	5-Year Low	4.67	6.34	10.74	15.26
	5-Year Median	10.63	10.72	15.86	17.63
P/B TTM	Current	1.38	1.49	3.43	5.73
	5-Year High	2.16	2.29	6.76	6.17
	5-Year Low	0.57	0.66	1.71	3.75
	5-Year Median	1.41	1.49	3.31	4.83
P/S F12M	Current	1.04	1.07	2	4.08
	5-Year High	1.42	1.12	2.13	4.29
	5-Year Low	0.4	0.57	1.18	3.11
	5-Year Median	0.86	0.92	1.65	3.66

As of 09/08/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 2% (5 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Beazer Homes USA, Inc. (BZH)	Outperform	1
D.R. Horton, Inc. (DHI)	Outperform	1
KB Home (KBH)	Outperform	2
MI Homes, Inc. (MHO)	Outperform	1
Meritage Homes Corporation (MTH)	Outperform	1
NVR, Inc. (NVR)	Outperform	2
PulteGroup, Inc. (PHM)	Outperform	1
Toll Brothers Inc. (TOL)	Neutral	2

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

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	LEN	X Industry	S&P 500	DHI	PHM	TOL
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	1	1	2
VGM Score	A	-	-	B	A	A
Market Cap	22.91 B	3.03 B	22.91 B	24.74 B	11.58 B	5.27 B
# of Analysts	4	5	14	17	3	6
Dividend Yield	0.68%	0.00%	1.66%	1.03%	1.11%	1.05%
Value Score	B	-	-	C	B	B
Cash/Price	0.06	0.16	0.07	0.16	0.15	0.11
EV/EBITDA	11.59	9.68	12.82	11.39	9.08	9.98
PEG F1	0.83	1.30	2.90	0.84	1.08	3.68
P/B	1.38	1.15	3.15	2.18	1.98	1.11
P/CF	12.10	9.34	12.45	14.78	11.06	8.85
P/E F1	11.62	11.49	21.08	11.52	10.15	13.79
P/S TTM	1.01	0.72	2.43	1.31	1.09	0.76
Earnings Yield	8.74%	8.72%	4.52%	8.68%	9.86%	7.26%
Debt/Equity	0.45	0.45	0.70	0.38	0.47	0.82
Cash Flow (\$/share)	6.06	3.90	6.93	4.60	3.90	4.72
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	15.69%	19.96%	10.41%	23.36%	32.05%	18.98%
Projected EPS Growth (F1/F0)	11.59%	7.57%	-4.73%	37.60%	21.97%	-24.90%
Current Cash Flow Growth	-6.27%	-2.58%	5.22%	3.66%	-2.58%	-11.99%
Historical Cash Flow Growth (3-5 Years)	22.34%	18.38%	8.49%	23.21%	15.54%	13.21%
Current Ratio	14.21	4.02	1.35	6.82	1.13	6.34
Debt/Capital	31.07%	31.75%	42.95%	27.50%	32.13%	44.99%
Net Margin	9.30%	7.02%	10.25%	10.82%	10.94%	6.51%
Return on Equity	13.08%	13.03%	14.59%	18.53%	20.10%	9.38%
Sales/Assets	0.77	0.98	0.50	1.13	0.98	0.65
Projected Sales Growth (F1/F0)	-5.10%	0.00%	-1.42%	12.91%	0.82%	-10.27%
Momentum Score	B	-	-	A	C	B
Daily Price Change	-0.34%	-0.33%	-1.95%	-0.32%	-0.05%	1.16%
1-Week Price Change	-3.04%	-4.62%	-1.28%	-5.03%	-4.66%	-3.96%
4-Week Price Change	-0.27%	-0.64%	-1.93%	-1.49%	-2.66%	6.43%
12-Week Price Change	14.75%	11.65%	3.73%	17.24%	18.23%	22.19%
52-Week Price Change	37.65%	14.90%	-0.29%	37.59%	26.07%	12.23%
20-Day Average Volume (Shares)	2,033,544	237,921	1,798,028	3,296,152	2,318,468	2,318,694
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.48%	0.00%	0.00%	0.00%	0.00%	9.53%
EPS F1 Estimate 12-Week Change	15.18%	28.95%	3.98%	28.51%	35.95%	6.14%
EPS Q1 Estimate Monthly Change	1.34%	0.00%	0.00%	0.00%	0.00%	11.93%

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	B
Growth Score	A
Momentum Score	B
VGM Score	A

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.