

Louisiana-Pacific (LPX)

\$31.37 (As of 09/08/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Louisiana-Pacific's shares have outperformed the industry over the past three months. The trend is likely to continue, given strong SmartSide strand performance, increase in OSB pricing, and favorable wood fiber as well as resin costs. Operational efficiency, cost-containment efforts and resilient housing market prospects will drive growth. Moreover, solid repair and remodeling activity, and ample liquidity have been benefiting the company to tide over the pandemic. Earnings estimates for 2020 have moved north in the past seven days, depicting analysts' optimism over its bottom-line growth potential. However, manufacturing and customer disruptions caused by the COVID-19 outbreak could materially impact its third-quarter results. Due to the market uncertainties, it didn't provide SmartSide Strand revenue projection.

Price, Consensus & Surprise

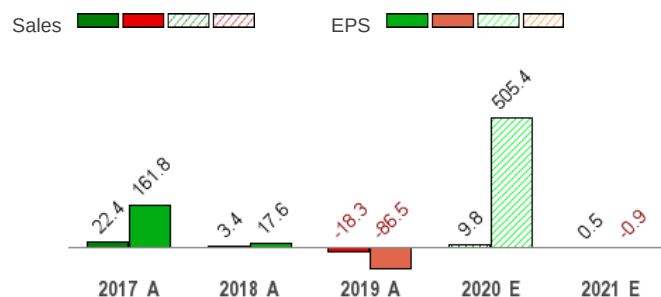


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$34.35 - \$12.97
20-Day Average Volume (Shares)	1,150,690
Market Cap	\$3.5 B
Year-To-Date Price Change	3.8%
Beta	1.88
Dividend / Dividend Yield	\$0.58 / 1.9%
Industry	Building Products - Wood
Zacks Industry Rank	Top 1% (3 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	138.9%
Last Sales Surprise	0.9%
EPS F1 Estimate 4-Week Change	7.2%
Expected Report Date	11/03/2020
Earnings ESP	6.5%
P/E TTM	34.2
P/E F1	14.0
PEG F1	2.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,550 E
2020	585 A	548 A	755 E	697 E	2,537 E
2019	582 A	588 A	603 A	537 A	2,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.22 E
2020	\$0.34 A	\$0.43 A	\$1.28 E	\$1.17 E	\$2.24 E
2019	\$0.13 A	\$0.11 A	\$0.08 A	\$0.05 A	\$0.37 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/08/2020. The reports text is as of 09/09/2020.

Overview

Louisiana-Pacific Corporation is a leading manufacturer of sustainable, quality engineered wood building materials, structural framing products as well as exterior siding for use in residential, industrial and light commercial construction. Currently, the company operates 20 moderns, strategically located facilities in the United States and Canada, two facilities in Chile and one facility in Brazil. It also operates facilities through a joint venture. The company's products are used primarily in new home construction, repair as well as remodeling and outdoor structures.

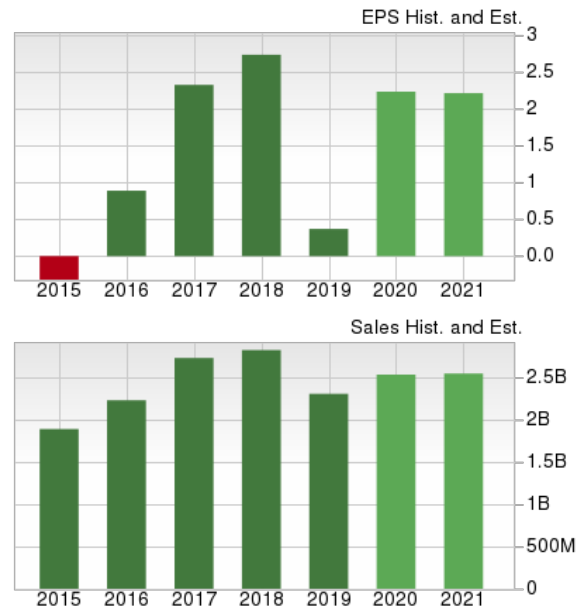
The company has four reportable segments — Siding (contributing 42% of 2019 net sales), North America Oriented Strand Board or OSB (34%), Engineered Wood Products or EWP (17%) and South America (7%). Notably, revenues from Other sources and Inter-segment sales accounted for 1% of its total net sales.

Siding segment consists of LP SmartSide trim and siding, as well as LP Outdoor Building Solutions innovative products for premium outdoor buildings.

OSB segment manufactures and distributes OSB structural panel products including LP OSB, LP TechShield radiant barrier, LP TopNotch sub-flooring, LP Legacy super tough, moisture-resistant sub-flooring, LP WeatherLogic air & water barrier and LP FlameBlock fire-rated sheathing.

EWP segment comprises LP SolidStart I-Joist (IJ), Laminated Veneer Lumber (LVL) and Laminated Strand Lumber (LSL) and other related products.

South America segment manufactures and distributes OSB and siding products in South America and certain export markets.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Business Transformation & Efficient Cost-Reduction Strategy:** Louisiana-Pacific is gradually transforming from a commodity producer to a more stable cash-generative business, by increasing revenues and EBITDA mix. The company remains focused on improving business by growing the Siding unit and simultaneously reducing cost. The company has been mainly focusing on three areas - increasing the efficiency of mills by improving productivity, run time and quality through OEE initiatives; applying best practices to its supply chain including procurement, logistics and working capital across \$1.1 billion of addressable spend; and optimizing infrastructure costs.

Focus on improving business by growing the Siding segment, and simultaneously reducing costs across all businesses, as well as enhancing its shareholders' return bode well

In a bid to reduce costs, Louisiana-Pacific lowered the cost structure of its facilities through Lean Six Sigma efforts, the sale or shutdown of underperforming mills and manufacturing facilities as well as investments in technology. The Lean Six Sigma efforts continue to produce excellent returns from cost-saving and efficiency projects. The company resorts to a strategy of curtailing production at selected facilities to meet customer demand and optimize portfolio as well as margins.

For second-quarter 2020, the Siding business generated the second highest quarterly revenues in its history and witnessed lowest cost of production in the last three years. Also, the OSB unit delivered its best quarterly unit production costs since 2016, signaling excellent efficiency and cost control.

▲ **Enough Liquidity:** During the second quarter, Louisiana-Pacific repaid the \$350 million of revolving credit drawn in March and expanded the existing \$350-million credit facility to \$550 million. Evidently, its cash and cash equivalents reduced to \$259 million from \$488 million reported at March-end.

Nonetheless, due to the repayment its total long-term debt (including non-current operating lease liabilities) reduced significantly to \$381 million sequentially. Total debt to capital also decreased to 27.6% at second quarter-end from 42.7% at March-end. Encouragingly, the company does not have any future obligations under the \$550-million revolving credit facility and 4.875% Senior Notes until May 1, 2023.

Louisiana-Pacific continues to reduce 2020 capital expenditure by 50% to roughly \$70 million, made during its first-quarter conference call.

▲ **Enhancing Shareholders' Return:** Louisiana-Pacific has been consistently enhancing shareholders' return through share repurchases and dividends. In first-half 2020, the company paid \$33 million worth of dividends and \$5 million to repurchase stocks. In order to preserve cash amid the coronavirus-induced crisis situation, it has reduced spending on capital projects and suspended share buybacks. Although its authorization to buy back \$200 million worth of shares remains in effect, Louisiana-Pacific has no plans to buy back shares in 2020 due to uncertain market conditions. As of now, the company remains committed to enhance shareholders' value through dividend payments.

The company has committed to return over time to its shareholders at least 50% of cash flow from operations in excess of capital expenditures in order to sustain core business, as well as grow Siding and value-added OSB. In 2019, the company completed \$600 million accelerated share repurchase and paid \$65 million as dividends.

▲ **Focus on Siding Business Bodes Well:** The company has been making efforts to increase penetration of Siding products in repair/remodel and roll out SmartSide products. It exited the fiber product line to focus more on higher-margin SmartSide strand products. Also, it launched ExpertFinish within the Prefinish product line. The company has been witnessing higher-than-expected demand for Smooth SmartSide and ExpertFinish.

The company remains committed to grow strand Siding revenues in 2020 and beyond. Notably, the Siding unit, which is no longer producing OSB, generated 2% higher revenues during 2019. In fact, SmartSide Strand revenues grew 10% during 2019. Although the segment's revenues declined in the past six months mainly owing to a decrease in SmartSide fiber sales, SmartSide Strand revenues grew 3% year over year.

It intends to continue investment in selling and marketing of the said business in 2020 and beyond.

▲ **Strategic Investments:** Louisiana-Pacific's business banks on acquisitions, business combinations and divestures of low-profitable businesses. In sync with the strategy, in June 2020, it completed the divestiture of the Nova Scotia, Canada-based East River facility to Maibec, Inc. for \$16 million. Maibec also took charge of the assets and brand rights of CanExel — the fiber-based siding product manufactured in the East River facility. Moreover, LP's Siding business will now focus exclusively on meeting higher customer demand for its strand-based siding products.

On Oct 8, 2019, the company acquired the prefinishing assets at a Granite City, Ill., prefinish facility, which was owned by BlueLinX. Again, on Jun 3, 2019, it acquired a Green Bay, WI-based prefinished siding company, Prefinished Staining Product Incorporated ("PSP"). These buyouts enabled the company to boost the Siding business and transform itself into a leading building solution provider. The acquisitions allowed it to utilize PSP's existing facilities, capability and expertise to enter the market, and drive growth of the Siding business as well as LP SmartSide brand.

Moreover, improving housing market prospects are resulting in higher demand for both OSB, as well as repair and remodel activity.

Risks

- **Coronavirus-Related Disruptions:** Due to uncertainties surrounding the impact of coronavirus, governmental responses and subsequent economic recovery, LP suspends its SmartSide Strand sales growth guidance for 2020. The company believes manufacturing and customer disruptions caused by the COVID-19 outbreak could materially impact third-quarter results.
- **Lower Contribution From EWP Segment:** Louisiana-Pacific's EWP segment sales, which comprised nearly 14% of total second-quarter sales, declined 26% year over year during the quarter. Adjusted EBITDA also fell a whopping 70% from the prior-year period, resulting in the contraction of margin by 500 basis points. The decline was primarily attributable to difficult year-over-year comparison in respect to volumes, temporary shutdown of the I-Joist manufacturing unit in Quebec and reduced demand for EWP products. Moreover, significant increase in lumber prices recently is likely to inflate costs of I-Joist and LVL, which may further put pressure on margin.
- **Dependence on Housing Market:** Demand for the company's products has a strong relationship to the level of new home construction activity in North America, which historically has been characterized by significant cyclicity. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits can affect consumer confidence and spending levels, which in turn can hurt the economy and the housing market. The company believes that nearly 40% of SmartSide revenues come from single-family housing.
- **Tariff-Related Woes & Higher Expenses:** Higher costs and expenses have been a concern for all wood industry players. Wood fiber is the primary raw material used by Louisiana-Pacific, while the primary source of wood fiber is timber. The cost of different varieties of wood fiber is subject to volatility owing to governmental, economic or industry conditions. The imposition of tariff on imported lumber raises concern.

Along with wood fiber, the company uses a significant quantity of various resins in the manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products as well as demand for and availability of resin products.

Apart from wood fiber costs, increased marketing investments associated with accelerating repair and remodel channel penetration, along with new product introductions have been denting its performance over the last few quarters. Selling, general and administrative expenses were 10% up in 2019 due to increased investments in sales and marketing to drive siding growth.

- **Product Concentrated Around OSB Segment:** The company has a high degree of product concentration in OSB. OSB accounted for about 66%, 54%, 54% and 51% of its North American sales in 2019, 2018, 2017 and 2016 respectively. Louisiana-Pacific expects OSB sales to continue to account for a substantial portion of its revenues and profits in the future. Increased concentration around one segment makes the company susceptible to commodity pricing and price volatility.

Although OSB prices have increased recently, pricing pressure under the OSB segment has been impacting the company's overall operating results since 2018. The headwind continued in 2019 as well. In 2019, its adjusted earnings declined more than 73% from the year-ago level due to lower OSB pricing across North American operations, and higher costs and expenses. In fact, the segment's adjusted EBITDA was just \$10 million compared with \$425 million reported a year ago. The decreases are primarily related to \$407 million of reduction in OSB prices and a 17% decrease in commodity shipments. The effect is expected to continue in near future as well. Particularly in the third quarter of 2019, average selling price for OSB (lowest in the past four years) was down 35% and volume declined 14% year over year.

Importantly, management has removed all commodity OSB production from its Siding mills and reduced production at the Peace Valley facility in British Columbia.

Last Earnings Report

Louisiana-Pacific Q2 Earnings Beat Estimates

Louisiana-Pacific Corporation reported impressive results for second-quarter 2020, wherein both the top and bottom lines surpassed the Zacks Consensus Estimate. Its adjusted earnings surged nearly 300% year over year despite lower revenues. The upside was backed by strong SmartSide strand revenues, increase in OSB pricing, and favorable wood fiber as well as resin costs. Operational efficiency and cost-containment efforts also supported the growth.

The company continues to suspend SmartSide Strand revenue growth projection for 2020 but expects high single-digit improvement for the third quarter. Also, it still expects 2020 capital expenditure to be \$70 million.

Notably, the company announced the CanExel sale completion for \$14 million in cash.

Detailed Discussion

Louisiana-Pacific reported second-quarter adjusted earnings of 43 cents per share, which beat the Zacks Consensus Estimate of 18 cents by 138.9%. The metric also increased a whopping 290.9% from the year-ago reported figure of 11 cents per share.

Net sales of \$548 million topped the consensus estimate of \$543 million by 0.9% but decreased 6.8% from the year-ago period. Softness across the segments, barring OSB, impacted the results.

Single-family housing starts declined 12.8% year over year. Multi-family starts also fell 28.8% from the prior year.

Segmental Analysis

Siding: The segment's sales of \$220 million were down 5% from the prior-year period. The decline was due to a decrease in SmartSide fiber sales, partially offset by a 3% increase in SmartSide strand volume.

Adjusted EBITDA improved 13% and margin rose 400 basis points (bps) from the prior-year quarter to \$51 million and 23%, respectively. The upside was backed by a rise in SmartSide strand revenues, increased production at the Dawson Creek facility, and sourcing and operational efficiency savings. This was partially offset by a decrease in SmartSide fiber sales.

OSB: Sales in the segment increased 3% year over year to \$204 million. The company's adjusted EBITDA margin also jumped significantly to 23% from negative 2% reported a year ago. Increased OSB prices, lower raw material costs and cost-containment efforts helped it gain during the quarter.

EWP: Segment's sales declined 26% year over year to \$79 million. Adjusted EBITDA margin also contracted 500 bps year over year to 4%. Difficult year-over-year comparison, temporary shutdown of the I-Joist manufacturing unit in Quebec, and reduced demand for EWP products hurt the segment.

South America: Sales of \$38 million decreased 5% but adjusted EBITDA margin of 29% expanded 600 bps from the year-ago quarter due to unfavorable foreign currency fluctuations.

Operating Highlights

Gross margin expanded 810 bps year over year to 21.4%. Selling, general and administrative expenses — as a percentage of revenues — contracted 80 bps.

Adjusted EBITDA of \$97 million was up 83% from the prior-year figure of \$53 million. Adjusted EBITDA margin also rose a whopping 670 bps to 17.7%, driven by higher OSB prices.

Financials

As of Jun 30, 2020, Louisiana-Pacific had cash and cash equivalents of \$259 million compared with \$181 million at 2019-end. The company repaid the \$350 million of revolving credit drawn in March. Also, it expanded the existing \$350-million credit facility to \$550 million.

Long-term debt was \$348 million, flat with 2019-end. For the second quarter, net cash provided by operations was \$129 million, significantly up from \$54 million reported in the year-ago period.

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	0.92%
EPS Surprise	138.89%
Quarterly EPS	0.43
Annual EPS (TTM)	0.90

Valuation

Louisiana-Pacific's shares are up 3.8% in the year-to-date period and 28.2% over the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Construction sector is up 7.2% and 3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 19.5% 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 14.01X forward 12-month earnings, which compares to 26.49X 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 132.8X and as low as 7.33X, with a 5-year median of 14.89X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$35 price target reflects 15.93X forward 12-month earnings.

The table below shows summary valuation data for LPX

Valuation Multiples - LPX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.01	26.49	17.61	22.19
	5-Year High	132.8	41.06	18.97	23.44
	5-Year Low	7.33	16.74	10.74	15.26
	5-Year Median	14.89	23.67	15.86	17.63
P/S F12M	Current	1.38	2.86	2	4.08
	5-Year High	1.71	3.5	2.13	4.29
	5-Year Low	0.59	1.45	1.18	3.11
	5-Year Median	1.23	2.78	1.65	3.66
EV/EBITDA TTM	Current	14.84	24.55	18.58	14.42
	5-Year High	81.85	26.43	21.28	15.6
	5-Year Low	3.05	10.01	12.38	9.51
	5-Year Median	9.57	16.71	17.89	13

As of 09/08/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 1% (3 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
BlueLinx Holdings Inc. (BXC)	Outperform	1
FloorDecor Holdings, Inc. (FND)	Outperform	1
JELDWEN Holding, Inc. (JELD)	Outperform	1
Norbord Inc. (OSB)	Outperform	1
Potlatch Corporation (PCH)	Outperform	2
Universal Forest Products, Inc. (UFPI)	Outperform	2
Rayonier Inc. (RYN)	Neutral	3
Weyerhaeuser Company (WY)	Neutral	2

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

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	LPX	X Industry	S&P 500	BXC	FND	OSB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	1	1	1
VGM Score	B	-	-	A	F	B
Market Cap	3.46 B	2.74 B	22.91 B	166.80 M	7.27 B	2.63 B
# of Analysts	4	2.5	14	1	11	3
Dividend Yield	1.88%	0.00%	1.66%	0.00%	0.00%	2.82%
Value Score	D	-	-	A	F	D
Cash/Price	0.07	0.05	0.07	0.06	0.02	0.01
EV/EBITDA	32.54	17.39	12.82	13.57	35.32	29.17
PEG F1	2.80	1.10	2.90	NA	2.66	0.21
P/B	3.46	2.56	3.15	NA	8.54	3.83
P/CF	21.53	19.34	12.45	9.21	36.67	25.06
P/E F1	14.00	17.94	21.08	25.19	61.03	7.68
P/S TTM	1.52	1.54	2.43	0.06	3.52	1.55
Earnings Yield	7.28%	5.52%	4.52%	3.97%	1.64%	13.01%
Debt/Equity	0.35	0.67	0.70	-37.74	1.30	0.96
Cash Flow (\$/share)	1.43	1.90	6.93	1.92	1.92	1.30
Growth Score	B	-	-	A	D	C
Historical EPS Growth (3-5 Years)	0.52%	2.84%	10.41%	NA	18.11%	-38.15%
Projected EPS Growth (F1/F0)	504.73%	69.92%	-4.73%	156.00%	0.08%	1,246.84%
Current Cash Flow Growth	-67.52%	-27.92%	5.22%	-284.67%	30.45%	-80.52%
Historical Cash Flow Growth (3-5 Years)	32.59%	21.03%	8.49%	92.45%	48.52%	18.17%
Current Ratio	3.15	2.11	1.35	3.09	1.56	1.91
Debt/Capital	26.42%	43.21%	42.95%	NA	56.48%	48.92%
Net Margin	0.75%	2.00%	10.25%	-0.43%	7.04%	0.53%
Return on Equity	9.74%	9.74%	14.59%	NA	13.31%	4.64%
Sales/Assets	1.16	1.12	0.50	2.59	0.86	0.91
Projected Sales Growth (F1/F0)	9.83%	6.35%	-1.42%	1.51%	11.06%	13.58%
Momentum Score	A	-	-	B	C	A
Daily Price Change	-2.69%	-2.46%	-1.95%	-8.08%	-0.21%	-2.66%
1-Week Price Change	-6.64%	-5.58%	-1.28%	-7.61%	-3.92%	-7.54%
4-Week Price Change	-0.68%	-1.72%	-1.93%	-8.22%	6.20%	3.46%
12-Week Price Change	25.88%	18.70%	3.73%	97.20%	24.34%	55.49%
52-Week Price Change	28.24%	29.95%	-0.29%	-41.87%	44.02%	31.84%
20-Day Average Volume (Shares)	1,150,690	332,722	1,798,028	225,809	1,129,674	229,207
EPS F1 Estimate 1-Week Change	2.29%	0.00%	0.00%	0.00%	0.00%	8.53%
EPS F1 Estimate 4-Week Change	7.19%	0.00%	0.00%	0.00%	0.00%	22.52%
EPS F1 Estimate 12-Week Change	280.85%	127.64%	3.98%	151.47%	44.62%	631.61%
EPS Q1 Estimate Monthly Change	7.28%	0.00%	0.00%	0.00%	0.00%	20.83%

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	D
Growth Score	B
Momentum Score	A
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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