

Mastercard Inc. (MA)

\$327.85 (As of 09/21/20)

Price Target (6-12 Months): **\$344.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/31/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

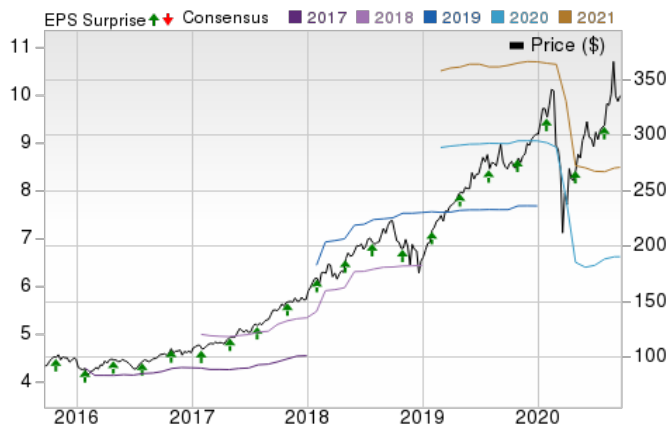
Growth: C

Momentum: A

Summary

Shares of Mastercard have outperformed its industry in a year. The company has undertaken several acquisitions to supplement organic efforts and diversify revenues over the years, which has helped expand its addressable markets and strengthen core product solutions. It is gaining from an increased demand for digital and contactless solutions owing to the COVID crisis. Investment in technology keeps it at the forefront of the rapidly-evolving payments industry. It is also witnessing buoyant demand for its Data & Analytics and Cyber solutions. Mastercard's solid capital position enables investment in business and returning value to shareholders. However, escalating costs might put pressure on the company's margins. It also cancelled its annual 2020 outlook for net revenues and operating expense due to coronavirus-induced business loss.

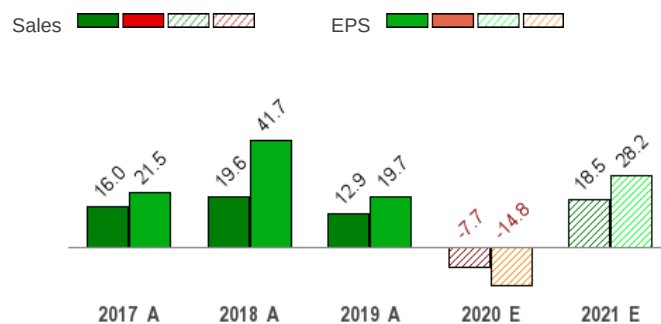
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$367.25 - \$199.99
20-Day Average Volume (Shares)	3,683,607
Market Cap	\$328.2 B
Year-To-Date Price Change	9.8%
Beta	1.11
Dividend / Dividend Yield	\$1.60 / 0.5%
Industry	Financial Transaction Services
Zacks Industry Rank	Top 25% (62 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.3%
Last Sales Surprise	3.4%
EPS F1 Estimate 4-Week Change	0.9%
Expected Report Date	11/03/2020
Earnings ESP	-0.9%
P/E TTM	44.9
P/E F1	49.5
PEG F1	3.0
P/S TTM	20.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,181 E	4,371 E	4,871 E	5,116 E	18,456 E
2020	4,009 A	3,335 A	3,931 E	4,319 E	15,580 E
2019	3,889 A	4,113 A	4,467 A	4,414 A	16,883 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.83 E	\$2.02 E	\$2.28 E	\$2.37 E	\$8.49 E
2020	\$1.83 A	\$1.36 A	\$1.63 E	\$1.79 E	\$6.62 E
2019	\$1.78 A	\$1.89 A	\$2.15 A	\$1.96 A	\$7.77 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/21/2020. The reports text is as of 09/22/2020.

Overview

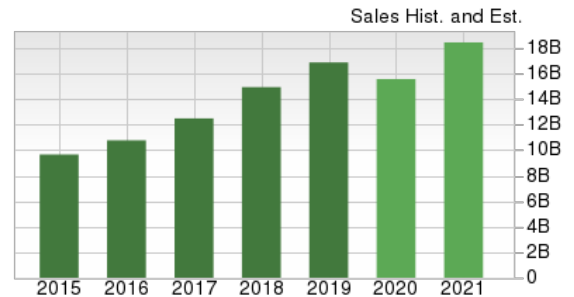
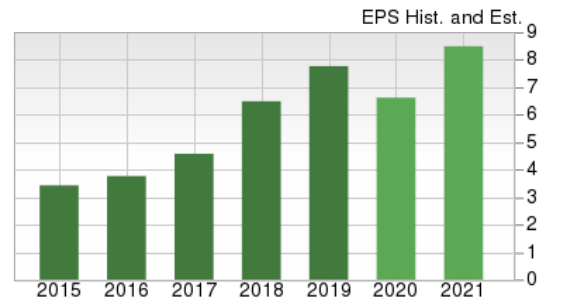
Founded in 1966 and headquartered in Purchase, NY, Mastercard Inc. is a leading global payment solutions company that provides an array of services in support of the credit, debit, mobile, web-based and contactless payments, and other related electronic payment programs to financial institutions and other entities.

The company's payment solutions include payment programs, marketing, product development, technology, processing, consulting and information services. It also provides worldwide transaction processing and other payment-related services, which include facilitating the authorization, clearing and settlement process of transactions, as well as processing cross-border and currency conversion transactions.

In May 2001, the company was incorporated as a Delaware stock corporation.

MasterCard manages and licenses payment card brands including MasterCard, Maestro and Cirrus. The company generates revenues from the fees it charges its customers for transaction processing and other payment-related services. It also earns revenues by charging customers for assessments based on the gross dollar volume (GDV) of activity on the cards that carry MasterCard brands. Revenues of the company are based on factors such as cross-border volumes, number of transactions, GDV and pricing changes.

The company operates a unique and proprietary global payments network that links issuers and acquirers around the globe to facilitate the switching of transactions, permitting account holders to use a Mastercard product at millions of acceptance locations worldwide. Its core network facilitates an efficient and secure means for receiving payments, a convenient payment method for consumers to access their funds and a channel for businesses to receive insight that is derived from its network. Mastercard authorizes, clears, and settles transactions through its core network for issuer customers in more than 150 currencies and in more than 210 countries and territories.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Share Price Performance:** Mastercard's shares have outperformed its industry in a year's time. Given its progress on fundamentals, the stock should keep performing well in the quarters ahead.
- ▲ **Accretive Acquisitions:** Over the years, Mastercard used acquisitions to supplement its organic efforts and diversify its revenues. Most of the acquisitions made by the company focused in areas such as data analytics, cyber and intelligence, loyalty and costs in developing multi-rail solutions for its customers. This has helped expand its addressable markets, drive new revenue streams and strengthen core product solutions. In 2019, the company acquired several businesses in separate transactions for total consideration of \$1.5 billion. Some of the recent acquisitions made by the company are Vyze, Nets, RiskRecon, Finicity among others. During the six months ending Jun 30, 2020, the company acquired businesses worth \$185 million in cash. It expects acquisitions to contribute about 1 ppt to revenues for the ongoing year.
- ▲ **Revenues Set for Long-Term Growth:** Organic growth remained a key factor at Mastercard as evident from a revenue CAGR of 13% from 2010-2019. It was, however, down 8.2% in the first six months of 2020 due to a decline in transactions and volumes due to the effects of border restrictions and social-distancing measures. Despite this temporary downside, we believe, the company's revenues are set for strong growth given its solid market position and an attractive core business that continues to be driven by new deals, renewed agreements and an expansion of service offerings. Ongoing initiatives including digital strategy and continued widening geographic footprints create further optimism.
- ▲ **Shift to Digital Payments:** The COVID crisis accelerated the use of electronic forms of payment with much greater adoption of digital and contactless solutions. The digital form of payments is expected to sustain beyond the pandemic. Key trends include a preference for contactless transactions, rapid adoption of e-commerce and an increased aversion to cash, merchant requirements for omnichannel acceptance and a need to automate business-to-business payments. Each of these provides an opportunity for the company's business to expedite the shift to digital forms of payment.
- ▲ **Strong International Operations:** International markets provide growth and diversification benefits to Mastercard. A major part of the company's revenues is generated from international regions such as the Asia-Pacific, Canada, Europe, Latin America, Africa and the Middle East. Strategic alliances with the governments, banks and corporations of these regions along with the developed nations of Germany, the U.K., Australia, and Japan bode well for expansion into e-commerce in the emerging e-money sector. These markets have the potential to generate growth in the coming years, led by a shift toward card usage and higher consumer spending. The company also received the preliminary approval for its license application to operate in China, which will allow it to set up a joint venture in the region. China is a vital market for the company and should drive long-term growth.

The company's strong international business led to an increase in cross-border volume growth for the past several years. For 2020, however, cross-border business is expected to remain under pressure due to COVID-19-related disruption in customer spending. Nevertheless, this downtrend is a temporary blip and the company should be back on track in terms of reaping cross-border revenues once the pandemic subsides.
- ▲ **Continuous Investment in Technology:** The company has been making significant progress in its digital strategy and continuously investing in technology. Some of the company's digital innovations are MasterPass, investment in tokenization technology with its Mastercard Digital Enablement Service (MDES), which supports contactless payments and Digital Secure Remote Payments. The company also plans to offer token services on all of its cards by 2020, allowing consumers to store credentials with merchants without exposing their actual card details. Recently, the company rolled out its solution named Mastercard Identity Check globally, which uses data-rich EMV 3D secure authentication standard, and applies AI and behavioral biometric capabilities to verify the consumer with a single touch or click. It also launched its Secure Remote Commerce framework (SRC) in the second half of 2019, which provides a safe, streamlined and standardized online checkout experience for all the key stakeholders. The company's continuous investments in technology will keep it ahead in the dynamic payments industry. The company has started click to pay service, enabled by new data, AI and machine learning technology.
- ▲ **Service Business Set to Grow:** The crisis also drove demand for the company's services offerings including cybersecurity and data analytics capabilities. These services which offer differentiated solutions that are valued by a wide variety of customer segments and provide the company with a level of revenue diversification. This became particularly evident amid the COVID environment as the company's services lines grew much faster than its core operations in the second quarter.
- ▲ **Strong Cash Generation:** Mastercard has been successfully generating cash flow from operations over the years. Its cash flow generated from operating activities has been increasing since 2009 except in 2014. The same was up 16.5% year over year in the first six months of 2020. This cash flow enables capital management by way of share buyback and dividend payouts. In December 2019, the company increased its quarterly dividend by 21.2% and also authorized share repurchase program of \$8 billion. We believe the company will continue to generate favorable cash from operations on the back of its growing business volumes. Its strong capital position also enables it to pursue acquisitions, which have driven inorganic growth.
- ▲ **Strong Solvency Position:** The company's long-term debt as of Jun 30, 2020 was \$12.5 billion, unchanged sequentially. However, its cash balance of \$10.7 billion along with \$6 billion in credit facility is enough to service its debt. The company has significant capacity to take on additional debt, given its strong investment grade rating of A1 from Moody's and an A+ from S&P. Moreover, its times interest earned of 30.3x is sufficient enough to cover its interest obligation and is higher than the industry average of 18.1x. The company's strategy is to migrate to a more normalized mix of debt and equity over time. Given its ability to generate positive cash flows, a spike in debt should not be a matter of concern for investors.

Mastercard's strategic acquisitions, alliances and technology upgrades, along with product-diversification and geographic-expansion initiatives augur long-term growth.

Reasons To Sell:

▼ **High Expenses:** Mastercard continues face a rise in total expenses. The company is accelerating investments in strategic areas such as safety and security, digital and B2B (business-to-business) products. The company is also witnessing increased operating costs related to higher revenues, particularly to some of its services such as loyalty. We expect growth in operating expenses, driven by investments in digital solutions, safety and security products, data analytics, geographic expansion, and platforms to address new payment flows. The company's continued investments in digital, analytics and security products and platforms to address new payment flows will keep operating expenses at elevated levels.

▼ **High Rebates and Incentives:** The company has been incurring quite high levels of cost under rebates and incentives (it is a contra revenue item), over the past many years, in order to gain customers and new business. The same was up 5.7% in the first six months of 2020. The company expects rebates and incentives as a percentage of gross revenues to increase sequentially reflecting increased deal activity in Q3. We believe increasing client incentives will put pressure on the company's net revenues.

Higher expenses, high rebates and incentives might drag the company's margins.

Last Earnings Report

Mastercard's Q2 Earnings Beat Estimates

Mastercard Inc.'s second-quarter 2020 earnings of \$1.36 per share beat the Zacks Consensus Estimate by 18.3%. However, the bottom line declined 26% year over year.

The year-over-year downside was due to a contraction in gross dollar volume, lower switched transactions and a weak cross-border business. However, decreased rebates and incentives helped earnings to some extent.

Mastercard's revenues of \$3.3 billion beat the Zacks Consensus Estimate by 2.3% but fell 17% on a currency-neutral basis. Total adjusted operating expenses declined 5% to \$1.6 billion owing to a dip in advertising and marketing, travel and professional fee spend.

Adjusted operating margin of 51.8% was down 600 basis points year over year.

Gross dollar volume was down 10% to \$1.4 trillion while cross-border volumes plunged 45% on a local-currency basis.

Switched transactions, which indicate the number of times a company's products were used to facilitate transactions, declined 10% year over year.

Share Repurchase and Dividend Payout

During the second quarter, Mastercard paid \$401 million in dividends. The company resumed its share buyback program at the end of the second quarter. Quarter to date through Jul 27, the company bought back shares worth \$1.0 billion, leaving \$5.9 billion under the current repurchase authorization.

Balance Sheet Position

The company's long-term debt as of Jun 30, 2020 was \$12.5 billion, up 46% from the level as of Dec 31, 2019 because a \$4-billion long-term debt was issued in March. However, cash and cash equivalents of \$11.1 billion soared 59.4% from the level as of Dec 31, 2019.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	3.40%
EPS Surprise	18.26%
Quarterly EPS	1.36
Annual EPS (TTM)	7.30

Recent News

Mastercard Partners With Usio to Boost City Possible Network – Sep 21, 2020

The company's City Possible recently partnered with Usio, Inc., which is best known for offering integrated electronic payment solutions. The tie-up has paved the way for continuous integration of Usio's prepaid platform into the City Possible network. Notably, shares of Mastercard have lost 1.2% on Sep 18, replicating the declines in the broader markets.

It is to be noted that collaboration forms the crux of the City Possible network, where members work closely with each other for promoting sustainable urban development.

Mastercard, Flywire Tie Up to Ease Cross-Border Tuition Fees – Sep 18, 2020

The company has teamed up with Flywire to provide discounted foreign exchange rates on cross-border tuition costs to students, when paid with Mastercard. The relief is aimed at helping students from UAE, Saudi Arabia, Qatar, Kuwait, Kenya and Ghana.

Students belonging to these locations who are part of any school across the globe, which accepts Flywire as a preferred payment method for international tuition fees, will be able to avail of this offer during the 2020 fall term. The tuition charges can be paid by students in their local currencies with the help of Mastercard credit or debit cards as the lowest cost card payment choice with Flywire.

Mastercard Delves Deeper Into BNPL Space With Global Payments – Sep 2, 2020

Mastercard has partnered with Global Payments' subsidiary Total System Services (TSYS) to help issuers and merchants in North America provide flexible payment options to its cardholders. The partnership will aid customers holding Mastercard cards to break up the payment for their purchases into parts or installments. TSYS is a perfect fit to enhance Mastercard's buy-now-pay-later (BNPL) ecosystem.

Mastercard & Emburse to Automate Expense Process for Clients – Sep 1, 2020

Mastercard's corporate cardholders will be able to enjoy the benefits of a new integrated solution provided by Emburse. The solution intends to streamline the expense process for Amazon Business customers. The new solution is enabled to generate e-receipts directly into the customer's receipt wallet.

Mastercard Expands in BNPL Market With QuadPay Partnership – Aug 31, 2020

Mastercard has partnered with QuadPay, a leading player in Buy Now Pay Later (BNPL) market. Per the deal, the company's Mastercard Vyze, the leading alternative financing platform, will provide an instalment-based payment shopping experience, both online and in-store, for businesses and customers.

Mastercard Innovates Solutions to Simplify Payments for Users – Aug 28, 2020

Mastercard has rolled out a suite of frictionless solutions named Shop Anywhere and AI Powered Drive Through. These services will provide customers with a safer payment mode, which will be contact free, involve minimal or no physical interaction and keep the social-distancing measures intact.

Mastercard, TransferWise Expand Tie-Up to Serve More Markets – Aug 20, 2020

Mastercard has extended its partnership with TransferWise, thereby broadening its global reach. With this expansion, cards can be issued in any market around the world where Mastercard is accepted and TransferWise is licensed. TransferWise currently partners with Mastercard across the EEA (European Economic Area), US, Singapore, Australia and New Zealand. Services in Japan are due to be launched later this year.

Valuation

Mastercard's shares are up 9.8% in the year-to-date period, and up 20% over the trailing 12-month period. Stocks in the Zacks sub-industry are up but the Zacks Business Services sector is down 2.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 6.9% and 0.6%, respectively.

The S&P 500 index is up 1.8% in the year-to-date period but up 10% in the past year.

The stock is currently trading at 41.08x forward 12-month earnings, which compares to 30.95x for the Zacks sub-industry, 28.84x for the Zacks sector and 21.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 46.68x and as low as 21.36x, with a 5-year median of 28.31x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$344 price target reflects 43.13x forward earnings.

The table below shows summary valuation data for MA

Valuation Multiples - MA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.08	30.95	28.84	21.58
	5-Year High	46.68	32.88	31.05	23.44
	5-Year Low	21.36	20.78	18.69	15.26
	5-Year Median	28.31	23.33	20.95	17.63
	Current	18.58	11.01	4	4

P/S F12M	5-Year High	21.05	11.89	4.3	4.29
	5-Year Low	8.42	7.18	3.06	3.11
	5-Year Median	12.12	8.78	3.6	3.66
P/B TTM	Current	50.51	7.65	4.7	4.66
	5-Year High	61.06	12.78	6.71	4.76
	5-Year Low	14.85	5.22	3.27	2.83
	5-Year Median	32.95	8.11	5.22	3.76

As of 09/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 25% (62 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Alliance Data Systems Corporation (ADS)	Neutral	3
Diebold Nixdorf, Incorporated (DBD)	Neutral	3
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Fiserv, Inc. (FISV)	Neutral	3
Global Payments Inc. (GPN)	Neutral	3
Ingenico Group (INGIY)	Neutral	3
Visa Inc. (V)	Neutral	3
The Western Union Company (WU)	Neutral	3

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

Industry Comparison Industry: Financial Transaction Services				Industry Peers		
	MA	X Industry	S&P 500	FIS	FISV	V
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	C	C	F
Market Cap	328.20 B	2.59 B	22.78 B	89.24 B	66.70 B	383.52 B
# of Analysts	16	5	13	15	15	17
Dividend Yield	0.49%	0.00%	1.7%	0.97%	0.00%	0.61%
Value Score	D	-	-	D	C	D
Cash/Price	0.04	0.08	0.07	0.01	0.01	0.05
EV/EBITDA	28.28	15.73	12.89	31.48	26.20	24.20
PEG F1	2.98	1.38	2.91	1.53	1.38	3.00
P/B	50.51	4.64	3.17	1.81	2.02	12.69
P/CF	34.39	14.09	12.48	17.71	14.88	29.93
P/E F1	49.52	25.74	20.84	26.23	22.53	39.41
P/S TTM	20.23	4.53	2.44	7.31	4.63	16.76
Earnings Yield	2.02%	3.81%	4.53%	3.81%	4.44%	2.54%
Debt/Equity	1.92	0.45	0.70	0.30	0.65	0.59
Cash Flow (\$/share)	9.53	2.39	6.93	8.13	6.70	6.60
Growth Score	C	-	-	C	B	D
Historical EPS Growth (3-5 Years)	23.16%	17.88%	10.41%	16.96%	17.88%	20.82%
Projected EPS Growth (F1/F0)	-14.76%	-5.05%	-4.56%	-2.13%	10.52%	-7.90%
Current Cash Flow Growth	13.13%	13.06%	5.26%	57.47%	147.85%	14.82%
Historical Cash Flow Growth (3-5 Years)	15.42%	14.80%	8.49%	26.53%	29.38%	8.28%
Current Ratio	1.95	1.28	1.35	0.71	1.04	1.55
Debt/Capital	65.88%	36.58%	42.95%	23.27%	39.73%	33.48%
Net Margin	45.12%	6.22%	10.25%	0.25%	5.82%	51.37%
Return on Equity	129.52%	16.87%	14.66%	6.60%	8.34%	40.65%
Sales/Assets	0.55	0.47	0.50	0.15	0.19	0.31
Projected Sales Growth (F1/F0)	-7.72%	-2.50%	-1.44%	22.18%	37.81%	-5.21%
Momentum Score	A	-	-	C	F	D
Daily Price Change	-2.21%	-2.55%	-2.45%	-1.79%	-3.76%	-2.55%
1-Week Price Change	1.55%	2.48%	0.79%	1.68%	11.22%	0.96%
4-Week Price Change	-4.59%	-7.57%	-3.66%	1.66%	3.52%	-4.34%
12-Week Price Change	11.92%	3.17%	5.24%	9.80%	2.68%	3.17%
52-Week Price Change	20.03%	-0.14%	-2.08%	9.50%	-5.17%	12.89%
20-Day Average Volume (Shares)	3,683,607	446,579	2,038,285	2,953,787	5,570,943	8,251,879
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.92%	0.00%	0.00%	0.21%	-0.11%	0.00%
EPS F1 Estimate 12-Week Change	2.91%	3.50%	4.10%	0.72%	0.30%	0.28%
EPS Q1 Estimate Monthly Change	0.53%	0.00%	0.00%	0.00%	0.00%	0.07%

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	C
Momentum Score	A
VGM Score	C

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.