

## The Macerich Company (MAC)

**\$12.67** (As of 04/19/21)

Price Target (6-12 Months): **\$10.50**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 04/19/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: F

### Summary

Shares of Macerich have underperformed its industry over the past three months. Moreover, the retail REIT had to revise its 2021 guidance for funds from operations (FFO) per share to reflect the common stock sold so far under its ATM equity program and the 95% stake sale of Paradise Valley Mall. Macerich is making every effort to boost its liquidity position. Though such efforts are encouraging, the company cannot bypass the dilutive impact from asset sales. In addition, amid the pandemic, the company continues to witness a negative impact on rent receipts and occupancy rates at its properties. Higher e-commerce adoption and social-distancing measures — resulting in lower mall traffic, store closures and tenant bankruptcies — continue to affect the company. Significant portion of tenants requesting rental aid are concerning.

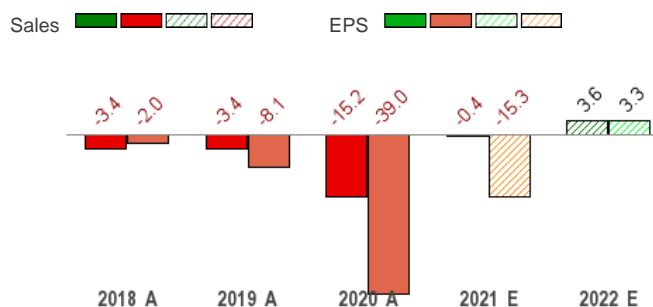
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$25.99 - \$5.43</b>
20-Day Average Volume (Shares)	<b>6,574,946</b>
Market Cap	<b>\$2.0 B</b>
Year-To-Date Price Change	<b>18.1%</b>
Beta	<b>2.01</b>
Dividend / Dividend Yield	<b>\$0.60 / 4.7%</b>
Industry	<b>REIT and Equity Trust - Retail</b>
Zacks Industry Rank	<b>Bottom 29% (180 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-16.7%</b>
Last Sales Surprise	<b>-5.1%</b>
EPS F1 Estimate 4-Week Change	<b>-14.2%</b>
Expected Report Date	<b>05/11/2021</b>
Earnings ESP	<b>-3.4%</b>
P/E TTM	<b>5.8</b>
P/E F1	<b>6.7</b>
PEG F1	<b>4.4</b>
P/S TTM	<b>2.5</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	191 E	190 E	194 E	200 E	811 E
2021	189 E	192 E	196 E	206 E	783 E
2020	227 A	179 A	186 A	195 A	786 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.43 E	\$0.44 E	\$0.47 E	\$0.51 E	\$1.89 E
2021	\$0.46 E	\$0.44 E	\$0.45 E	\$0.49 E	\$1.83 E
2020	\$0.81 A	\$0.39 A	\$0.52 A	\$0.45 A	\$2.16 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 04/19/2021. The report's text and the analyst-provided price target are as of 04/20/2021.

## Overview

Founded in 1994 and headquartered in Santa Monica, CA, The Macerich Company is a retail real estate investment trust (REIT) that owns, acquires, leases, manages, develops, and redevelops regional and community shopping centers in high barrier-to-entry markets.

Macerich primarily focuses on the attractive, densely populated markets of the United States. It has notable presence in the West Coast, Arizona, Chicago, and the Metro New York to Washington, DC corridor.

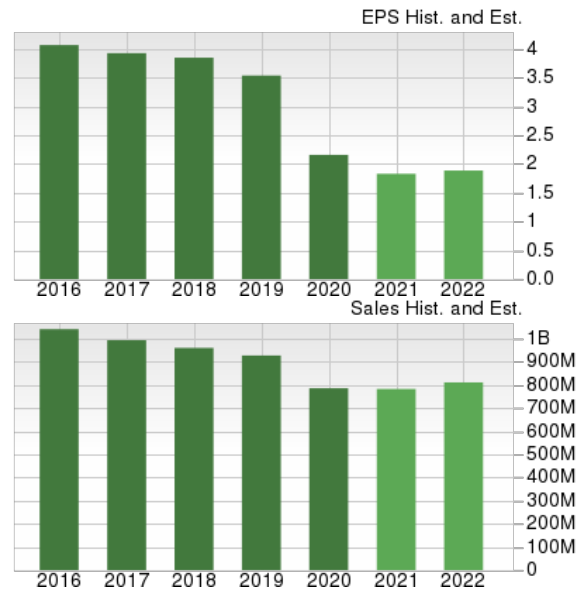
As of Dec 31, 2020, Macerich's real-estate ownership spreads 50 million square feet of gross leasable area, comprising mainly interests in 47 regional shopping centers and five community/ power shopping centers. As of Dec 31, 2020, its mall portfolio occupancy was 89.7%.

Notably, Macerich's joint venture with Hudson Pacific Properties is engaged in redevelopment of One Westside into 584,000 square feet of creative office space and 96,000 square feet of dining and entertainment space. The full office space has been leased to Google and is projected to be completed in 2022.

Moreover, the company has a 50/50 joint venture with Simon Property Group to develop Los Angeles Premium Outlets in Carson, CA. The first phase will open, with an area spanning 400,000 square feet, and the second phase will comprise additional 165,000 square feet.

In April 2021, Macerich announced completion of the 95% stake sale in Paradise Valley Mall in Phoenix, AZ. The disposition, which was made to a newly-formed JV with an affiliate of RED Development, has helped the company generate \$95 million. This will help boost its liquidity position. Moreover, the retention of the 5% JV interest will help the retail REIT participate in the upside of this multi-year, multi-phased project led by RED Development.

*Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



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## Reasons To Sell:

- ▼ Macerich had to revise its 2021 guidance for FFO per share to reflect the common stock sold so far under its ATM equity program and the sale of Paradise Valley Mall. The company guided for FFO per share of \$1.77-\$1.97. The company had earlier guided for a 2021 FFO per share of \$2.05-\$2.25.
- ▼ Mall traffic continues to decline due to a change in shopping patterns with online purchases taking precedence. This has forced retailers to reconsider their strategy and shift investments from traditional retailing to online channels and optimize their brick-and-mortar presence. These optimization efforts and the consequent decision to close stores by a number of retailers have raised concerns over cash flows of mall landlords. Also, retailers unable to cope with competition have been filing bankruptcies. This is affecting the demand for retail real estate space and emerged as a pressing concern for retail REITs like Macerich. The company has been witnessing higher volumes of tenant bankruptcies and these are expected to weigh on Macerich's operating results. Moreover, the coronavirus pandemic is likely to keep retail REITs on tenterhooks with dwindling footfall in the properties amid social-distancing requirements and higher e-commerce adoption. In fact, the company's mall portfolio occupancy was 89.7% at 2020 end compared with 94% at 2019 end.
- ▼ The escalating number of coronavirus cases forced several retailers to close stores or reduce store hours, while many others kept their e-retail operations running as consumers are now increasingly opting for online purchases. Situations have now improved since the initial virus outbreak, with all of Macerich's centers open by early October 2020. Yet, Macerich, which was already battling store closures and bankruptcy issues, continues to bear the brunt with negative impact on leasing revenues and occupancy rates at its properties. Additionally, given the financial stress, a significant portion of its tenants continue to request rental aid in the form of deferrals and rent reductions. Hence, delayed and reduced rent collections are likely to hinder rental receipt in the near term.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Macerich had remained committed to that. However, the company made a reduction of dividend from 75 cents per share to 50 cents per share for second-quarter 2020 and to 15 cents per share for third-quarter 2020. The company is continuing to pay the same dividend now.
- ▼ The company has a substantial number of centers positioned across California, New York and Arizona. This geographical concentration risk will likely weigh upon its earnings in times of economic and political uncertainty. Also, choppy real estate conditions in New York will likely remain a concern in the near term.
- ▼ Shares of Macerich have declined 4.8% in the past three months as against the industry's rally of 11.9%. Moreover, the trend in estimate revisions for 2021 FFO per share does not indicate a favorable outlook for the company. The Zacks Consensus Estimate for 2021 FFO per share has been revised 2.1% downward over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Shrinking traffic at its properties, store closures and tenant bankruptcy are concerns, while rent collection issues amid the pandemic add to its woes. Substantial asset concentration raises its risk.

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## Risks

- Macerich has a high concentration of premium malls in vibrant U.S. markets. These properties are located in densely-populated areas, where affluent consumers with significant disposable incomes live and play, offering the company solid scope to generate decent cash flows. The company also has a number of well-capitalized retailers in its tenant roster that are well poised to navigate through the ongoing retail blues.
  - Macerich has been focusing on an aggressive capital-recycling program, which involves the divestiture of non-core and slower-growth assets, and usage of the proceeds in higher-growth properties through acquisitions, developments and redevelopment initiatives. In fact, the company raised \$1.8 billion over the past six years through its capital-recycling program, disposing of lesser quality assets in slower-growing, secondary and tertiary markets. Apart from raising capital, the strategic dispositions reduced impending bankruptcy issues across the lower quality disposed portfolio. Meanwhile, the company's joint venture with Hudson Pacific Properties is redeveloping One Westside into 584,000 square feet of creative office space and 96,000 square feet of dining and entertainment space, which will serve as Google's new office campus. We expect such moves to offer an upside potential to the company and strengthen its high-end portfolio.
  - With the relaxation of the shelter-in-place orders, resumption of the economy and shoppers returning to malls, this retail REIT is poised to benefit from reopening of its superior assets in premium locations. Last October, Macerich announced reopening of all of its 47 retail properties ahead of the commencement of 2020 holiday season. This led to improvement in December sales at its malls. Also, the federal stimulus is lessening the income impact of unemployment and hence, retail traffic and sales are likely to benefit, in turn, supporting the retail landlords which house the retailers. In fact, the company is renewing and replacing numerous near-term lease expirations, supported by pent-up demand for in-store retail experience. This is facilitating steady progress amid current difficult times and will likely drive higher footfall and sales.
  - Macerich has been making efforts to enhance its assets quality as well as customer relationships through increasing adoption of the omni-channel model. In light of the pandemic, the omni-channel business model has become crucial among several store retailers, while digital brands are focusing on enhancing their brick-and-mortar presence and are playing a key role in satisfying orders. Amid the current crisis, several retailers have been fulfilling orders out of their mall-based stores. Also, retailers have already been catering to thousands of curbside/online pick-up orders daily. Even subsequent to reopening of all business, curbside pick-up is likely to gain attention. Macerich remains committed to accommodate curbside pick-up for its retailers and such efforts are likely to add competitive advantage. Also, shift towards re-use and mixed-use properties through recapture and repositioning of anchor tenants remains a key emphasis, while bringing brands to new markets at its mall will likely attract shoppers.
  - In light of the coronavirus pandemic, the resultant uncertainty and a disrupted rent-collection environment, Macerich rolled out cost-containment measures to preserve its liquidity. The company reduced 2020 development expenditure by around \$100 million. Further, it is making every effort to boost its liquidity position, including the sale of 36 million shares of common stock under its "at the market" ("ATM") equity program as well as a 95% stake sale in Paradise Valley Mall in Phoenix, AZ. Particularly, the selling of 36 million shares of common stock under its ATM equity program at a weighted average price of \$13.54 per share through Mar 25, 2021, helped the company reap gross proceeds of \$487.3 million. Roughly 1 million shares remain available to be issued under the program. Moreover, Macerich completed the 95% stake sale in Paradise Valley Mall in Phoenix, AZ. The disposition has helped the company generate \$95 million. Apart from these moves to bolster its liquidity position, in April, Macerich closed on the renewal of its corporate credit facility. The \$700-million facility comprised both a revolving line of credit aggregating \$525 million and a term loan totaling \$175 million. Its cash and cash equivalents, including pro-rata share of joint ventures, amounted to roughly \$950 million as of Mar 25, 2021. However, the total liquidity following the close of the new credit facility as well as the Paradise Valley stake sale was estimated to be \$1.65-\$1.85 billion before paying off the current line of credit. Such concerted efforts to bolster liquidity are likely to help the company withstand the current turbulence in the retail real estate market. Furthermore, the reopening of all its malls has been driving operating cash flow.
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## Last Earnings Report

### Macerich Q4 FFO & Revenues Lag Estimates

Macerich reported adjusted FFO per share of 45 cents, which missed the Zacks Consensus Estimate of 54 cents. The figure also plunged 54% year over year. Adjusted FFO per share for the quarter excludes financing expenses in relation to Chandler Freehold.

The decrease was primarily due to a revenue decline from COVID-related rent abatements. Macerich also saw a decline in same-center net operating income (NOI).

The company generated revenues of \$194.6 million in the December-end quarter. The figure declined 19.5% year over year and missed the Zacks Consensus Estimate of \$205.2 million.

In fact, the company is seeing an improvement in rental receipts, and has collected 89% and 92% of billings in the third and fourth quarters, respectively.

For 2020, the company reported an adjusted FFO per share of \$2.16, down 39% from the prior year's \$3.54. The reported figure also lagged the Zacks Consensus Estimate of \$2.24. Total revenues of \$786.1 million slid 15.3% year over year.

Moreover, at the end of 2020, its mall portfolio occupancy was 89.7%, declining 430 basis points year over year. Also, 2020 same center NOI, excluding lease termination income, dipped 22% on a year-over-year basis.

### Behind the Headlines

As of Dec 31, 2020, average rent per square foot rose 1.3% year over year to \$61.87. During the December-end quarter, Macerich signed 217 leases for 900,000 square feet of space.

Same-center NOI (excluding lease termination income) slumped 33.3% to \$153.5 million from the prior-year number.

As of Dec 31, 2020, it had cash and cash equivalents of \$555 million.

### Guidance

The company expects 2021 FFO per share of \$2.05-\$2.25.

In 2021, it expects to generate more than \$200 million in cash flow from operations, after accounting for recurring operating and leasing capital expenditure as well as dividend distribution.

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**Quarter Ending** **12/2020**

Report Date	Feb 11, 2021
Sales Surprise	-5.12%
EPS Surprise	-16.67%
Quarterly EPS	0.45
Annual EPS (TTM)	2.17

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## Recent News

### Macerich Announces Corporate Credit Facility Renewal - April 14, 2021

Macerich announced closing on the renewal of its corporate credit facility. Particularly, the \$700-million facility comprised both a revolving line of credit aggregating \$525 million and a term loan totaling \$175 million.

Notably, the revolver has a two-year initial term plus a one-year extension option, while the term loan has a three-year term. Moreover, at closing, the floating interest rate will be LIBOR + 2.75%, and \$495 million will be drawn on the facility. Further, subject to certain conditions, the revolver may be expanded up to \$800 million at any time during the term. The facility comprised security in the form of mortgages on certain prior unencumbered wholly-owned assets and pledges of the company's equity stakes in some other assets.

### Macerich Reaps \$95M by Selling Stake in Phoenix Asset - Apr 1, 2021

Macerich completed the 95% stake sale in Paradise Valley Mall in Phoenix, AZ. The disposition, which was made to a newly-formed JV with an affiliate of RED Development, has helped the company generate \$95 million.

Per management, Macerich's move to realize the market value of this non-core asset comes as the retail landscape continues to evolve in Arizona and across the country. This will help boost its liquidity position. Moreover, the retention of the 5% JV interest will help the retail REIT participate in the upside of this multi-year, multi-phased project led by RED Development.

Notably, the JV partnership will redevelop Paradise Valley Mall as 92-Acre, mixed-use project. The Mall has been rezoned, and its uses will comprise high-end grocery, restaurants, multi-family residences, offices, retail shops and other elements.

Ed Coppola, president, Macerich commented, "Our focus remains on Macerich's top-tier, market-dominant properties that will continue to benefit from the industry's increasing momentum toward high-quality destinations."

Apart from the selling of the 95% stake in Paradise Valley Mall, Macerich has also resorted to the sale of 36 million shares of common stock under its "at the market" ("ATM") equity program as part of its effort to boost its liquidity position. Particularly, the selling of 36 million shares of common stock under its ATM equity program at a weighted average price of \$13.54 per share through Mar 25, 2021, helped the company reap gross proceeds of \$487.3 million. Roughly 1 million shares remain available to be issued under the program now.

The retail REIT also obtained commitments for a new revolving line of credit and credit facility from its joint lead lenders. The line and the credit facility's total capacity is estimated to range between \$600 million and \$800 million, and the facility is likely to close this month.

### Macerich Boosts Liquidity, Revises '21 FFO View - Mar 26, 2021

Macerich is making every effort to boost its liquidity position, including the sale of 36 million shares of common stock under its "at the market" ("ATM") equity program as well as opting for a 95% stake sale in Paradise Valley Mall in Phoenix, AZ.

However, the company had to revise its 2021 guidance for FFO per share to reflect the common stock sold so far under its ATM equity program and the pending sale of Paradise Valley Mall. The company now guides for FFO per share of \$1.77-\$1.97. The company had earlier guided for a 2021 FFO per share of \$2.05-\$2.25.

Particularly, the selling of 36 million shares of common stock under its ATM equity program at a weighted average price of \$13.54 per share through Mar 25, 2021, helped the company reap gross proceeds of \$487.3 million. Roughly 1 million shares remain available to be issued under the program now.

Moreover, the company is in a contract to sell a 95% stake in a non-core asset in Phoenix for \$100 million. This transaction, which is anticipated to close in the ongoing quarter, is likely to help the company generate net proceeds of around \$95 million. It will, however, keep its 5% JV interest in this multi-year re-development.

Apart from these moves to bolster its liquidity position, Macerich also obtained commitments for a new revolving line of credit and credit facility from its joint lead lenders. The line and the credit facility's total capacity is estimated to range between \$600-\$800 million, and the facility is expected to close this April.

Macerich's concerted efforts to bolster liquidity are likely to help the company withstand the current turbulence in the retail real estate market. Its cash and cash equivalents, including pro-rata share of joint ventures, amounted to roughly \$950 million as of Mar 25, 2021. However, the total liquidity following the close of the new credit facility as well as the Paradise Valley stake sale is estimated to be \$1.65-\$1.85 billion before paying off the current line of credit.

As a matter of fact, businesses of physical stores widely depend on customer traffic but consumers have been avoiding crowded public spaces due to the pandemic and increasingly opting for online purchases. This, in turn, has been taking a huge toll on tenants' liquidity, thereby making it difficult to meet their rental obligations. As a result, retail REITs, which have already been battling store closures and bankruptcy issues, have been feeling the heat.

Nonetheless, the relaxations in restrictions continue to improve the operating conditions. Moreover, widespread vaccinations and a likely uplift in consumer confidence in the second half of the current year are anticipated to buoy retailers' businesses, in turn, helping cash flows of their landlords.

Particularly, the company's major markets of California and New York, which were severely capacity-restricted markets in 2020, are witnessing the loosening of the pandemic-related restrictions. Also, sales within the company's Arizona region during January and February 2021 were 99%

of pre-COVID, January and February 2020 sales, excluding capacity-restricted food and beverage uses, the company said.

In addition, Tom O'Hern, the CEO of Macerich commented that "we also are experiencing resilient leasing demand, including from a wide variety and breadth of categories and uses, which supports our optimism for occupancy improvement and recovery."

### Dividend Update

On Jan 28, Macerich announced a quarterly cash dividend of 15 cents per share. The dividend was paid out on Mar 3 to shareholders of record as of Feb 19, 2021.

### Valuation

Macerich's shares have been up 101.7% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have increased 59.9% and 54.9%, respectively, over the past year.

The S&P 500 Index has been up 55.3% over the trailing 12-month period.

The stock is currently trading at 6.79X forward 12-month FFO, which compares to 17.35X for the Zacks sub-industry, 16.93X for the Zacks sector and 23.11X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.02X and as low as 1.52X, with a 5-year median of 12.79X. Our underperform recommendation indicates that the stock will perform worse than the market. Our \$10.50 price target reflects 5.63X FFO.

The table below shows summary valuation data for MAC.

Valuation Multiples - MAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.79	17.35	16.93	23.11
	5-Year High	21.02	19.41	17.16	23.83
	5-Year Low	1.52	9.68	11.60	15.30
	5-Year Median	12.79	14.72	14.82	18.01
P/S F12M	Current	2.48	9.38	7.89	4.80
	5-Year High	12.70	14.44	7.89	4.80
	5-Year Low	0.78	5.54	5.03	3.21
	5-Year Median	8.11	8.38	6.16	3.71
P/B TTM	Current	0.80	3.25	3.20	7.08
	5-Year High	2.91	5.69	3.21	7.11
	5-Year Low	0.26	1.76	1.74	3.83
	5-Year Median	1.96	3.27	2.61	4.99

As of 04/19/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
Brixmor Property Group Inc. (BRX)	Neutral	3
Federal Realty Investment Trust (FRT)	Neutral	3
Kimco Realty Corporation (KIM)	Neutral	3
Regency Centers Corporation (REG)	Neutral	3
SITE CENTERS CORP. (SITC)	Neutral	3
Simon Property Group, Inc. (SPG)	Neutral	3
STORE Capital Corporation (STOR)	Neutral	3
National Retail Properties (NNN)	Underperform	3

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	MAC	X Industry	S&P 500	FRT	KIM	REG
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	D	-	-	F	D	F
Market Cap	1.95 B	2.10 B	29.93 B	8.31 B	8.55 B	10.10 B
# of Analysts	8	6	12	8	10	8
Dividend Yield	4.76%	3.42%	1.28%	3.96%	3.45%	4.00%
Value Score	B	-	-	D	C	D
Cash/Price	0.25	0.04	0.06	0.10	0.03	0.04
EV/EBITDA	19.12	18.78	17.13	22.84	9.74	22.22
PEG F1	4.22	3.54	2.40	3.92	2.40	2.68
P/B	0.77	1.65	4.09	3.39	1.50	1.67
P/CF	17.39	15.65	17.07	20.94	6.66	20.64
P/E F1	6.46	17.48	22.40	23.77	16.11	19.07
P/S TTM	2.48	6.44	3.49	9.95	8.08	9.94
Earnings Yield	14.92%	5.71%	4.40%	4.21%	6.19%	5.25%
Debt/Equity	2.52	1.06	0.66	1.83	0.94	0.65
Cash Flow (\$/share)	0.73	1.42	6.78	5.11	2.98	2.90
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	-7.98%	-2.14%	9.39%	-0.47%	-3.44%	1.86%
Projected EPS Growth (F1/F0)	-13.02%	4.02%	15.50%	-0.44%	4.62%	5.68%
Current Cash Flow Growth	-75.55%	-21.32%	0.72%	-34.85%	87.34%	-15.42%
Historical Cash Flow Growth (3-5 Years)	-35.48%	0.70%	7.37%	0.58%	0.81%	10.01%
Current Ratio	1.97	1.30	1.39	4.36	3.50	1.73
Debt/Capital	71.63%	51.55%	41.26%	63.85%	48.65%	39.31%
Net Margin	-29.29%	8.57%	10.59%	15.76%	94.61%	4.47%
Return on Equity	-9.34%	2.51%	15.09%	5.57%	18.45%	0.99%
Sales/Assets	0.09	0.11	0.50	0.11	0.09	0.09
Projected Sales Growth (F1/F0)	-0.41%	2.07%	7.49%	2.86%	3.56%	4.94%
Momentum Score	F	-	-	F	B	F
Daily Price Change	0.56%	0.09%	-0.35%	0.08%	0.76%	0.50%
1-Week Price Change	3.53%	1.91%	1.43%	1.46%	1.65%	1.88%
4-Week Price Change	-2.39%	5.00%	5.03%	6.35%	7.46%	6.77%
12-Week Price Change	-26.51%	19.31%	11.52%	20.33%	16.61%	25.28%
52-Week Price Change	102.40%	96.72%	55.92%	49.55%	132.13%	60.69%
20-Day Average Volume (Shares)	6,574,946	682,443	1,809,778	638,691	4,275,911	1,071,787
EPS F1 Estimate 1-Week Change	0.80%	0.00%	0.00%	-1.15%	0.43%	-0.79%
EPS F1 Estimate 4-Week Change	-14.23%	0.00%	0.05%	-1.26%	0.45%	-1.58%
EPS F1 Estimate 12-Week Change	-18.20%	-0.89%	1.87%	-7.05%	-2.78%	-6.59%
EPS Q1 Estimate Monthly Change	-16.74%	-0.26%	0.00%	-1.43%	-0.98%	-5.52%

Source: Zacks Investment Research



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</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.

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## Disclosures

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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.

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**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.

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**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.