

McCormick & Company (MKC)

\$89.16 (As of 04/07/21)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: D

Momentum: B

Summary

Shares of McCormick have underperformed the industry in the past six months. The company has been grappling with higher costs stemming from the coronavirus outbreak. Notably, pandemic-induced costs put pressure on gross profit margin in the first quarter of fiscal 2021. In fact, management expects to incur pandemic-led costs of nearly \$60 million during fiscal 2021. Nonetheless, the company is gaining from coronavirus-led higher at-home consumption. This boosted its fiscal first-quarter results, with sales and earnings surpassing the Zacks Consensus Estimate and increasing year over year. This indicates gains from base business growth, new product introductions and acquisitions. Apart from this, the company has been gaining from its focus on cost savings and productivity enhancement through the Comprehensive Continuous Improvement (CCI) program.

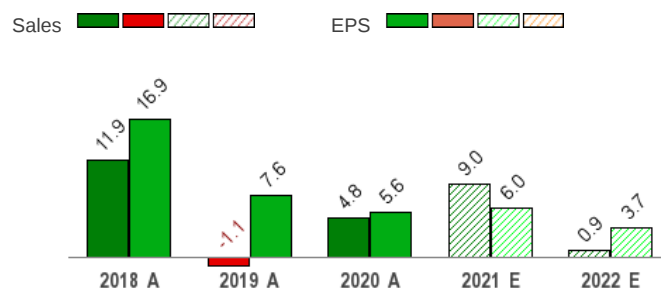
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$105.54 - \$72.79
20-Day Average Volume (Shares)	1,386,476
Market Cap	\$24.0 B
Year-To-Date Price Change	-6.1%
Beta	0.47
Dividend / Dividend Yield	\$1.36 / 1.5%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 36% (163 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.3%
Last Sales Surprise	7.0%
EPS F1 Estimate 4-Week Change	2.1%
Expected Report Date	06/24/2021
Earnings ESP	-1.7%
P/E TTM	19.9
P/E F1	29.7
PEG F1	3.7
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,432 E	1,532 E	1,532 E	1,676 E	6,159 E
2021	1,482 A	1,506 E	1,498 E	1,643 E	6,103 E
2020	1,212 A	1,401 A	1,430 A	1,558 A	5,601 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.66 E	\$0.69 E	\$0.82 E	\$0.96 E	\$3.11 E
2021	\$0.72 A	\$0.64 E	\$0.77 E	\$0.91 E	\$3.00 E
2020	\$0.54 A	\$0.74 A	\$0.77 A	\$0.79 A	\$2.83 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 04/07/2021. The report's text and the analyst-provided price target are as of 04/08/2021.

Overview

Founded in 1889 and based in Sparks, MD, McCormick & Company, Inc. is a leading manufacturer, marketer and distributor of spices, seasonings, specialty foods and flavors to the entire food industry across the entire globe.

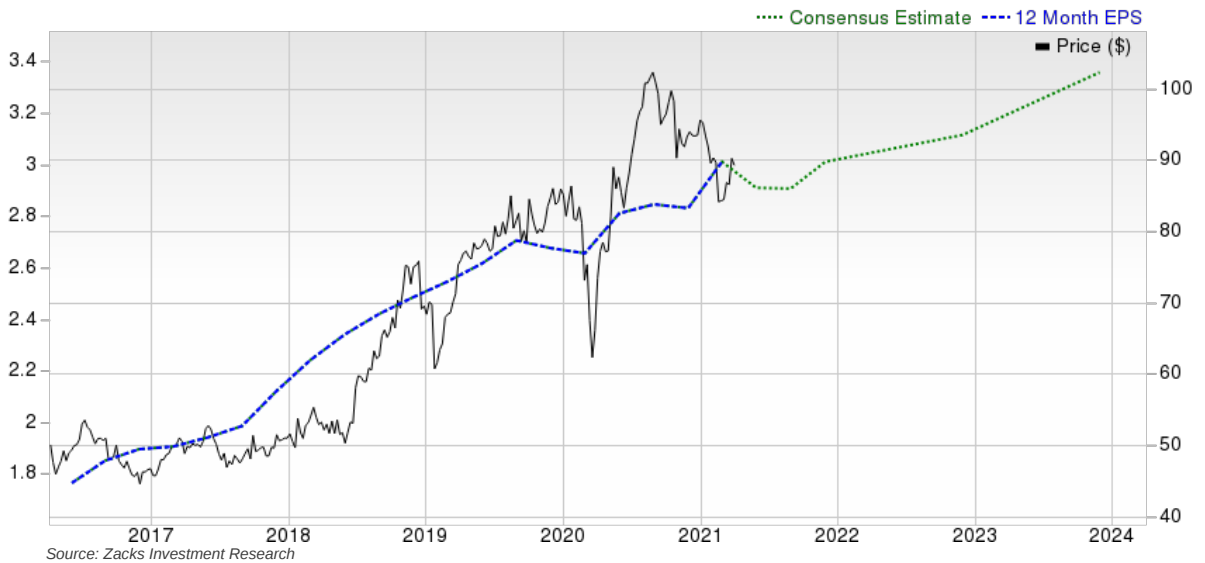
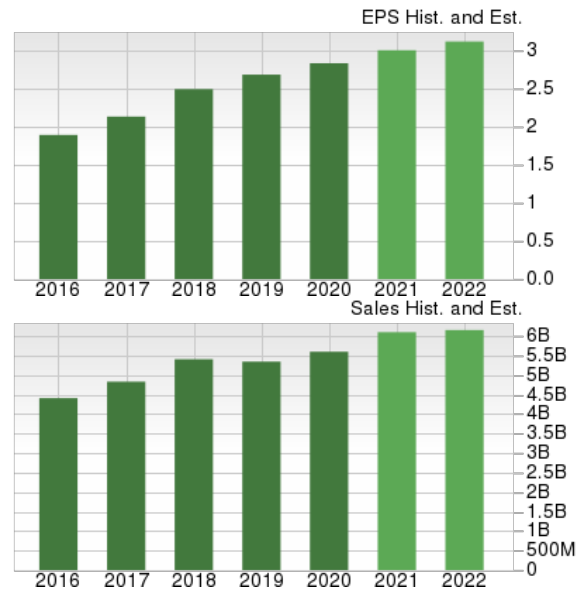
The company's key sales, distribution and production facilities are located in North America and Europe. Furthermore, the company has facilities in China, Australia, Mexico, India, Singapore, Central America, Thailand and South Africa.

McCormick conducts its business through two segments namely Consumer unit and Flavor Solutions unit.

The Consumer Business segment provides spices, herbs, extracts, seasoning blends, sauces, marinades, and specialty foods to the consumer food market. This segment primarily caters to retail outlets like grocery, mass merchandise, warehouse clubs and discount and drug stores among others.

The division markets its products under brand names like McCormick, Lawry's, Zatarain's, Thai Kitchen, Simply Asia and Club House in the U.S.; and Ducros, Vahine, Schwartz and Kamis in Europe; and the Middle East and Africa (EMEA). In Asia-Pacific, the primary brand is McCormick, while in India the company has a joint venture with Kohinoor.

The Flavor Solutions segment sells seasoning blends, natural spices and herbs, wet flavors, coating systems, and compound flavors to food manufacturers and food service customers. The products are sold through distributors worldwide.



Reasons To Buy:

- ▲ **Solid Q1 Results:** McCormick is benefiting from high demand stemming from the coronavirus-led higher at-home consumption. This was seen in first-quarter fiscal 2021 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, sales and earnings increased year over year, reflecting gains from base business growth, new product introductions and acquisitions. Notably, adjusted earnings of 72 cents per share increased 33% mainly due to increased adjusted operating income. Further, sales increased 22%, including favorable impact from currency translation of 2%. On a constant-currency (cc) basis, sales surged 20% on the back of strength in both the segments. Markedly, sustained shift in consumers' behavior toward increased cook and eat at-home amid the coronavirus outbreak fueled demand in the Consumer segment. Moreover, increased sales to packaged food companies drove growth in the Flavor Solutions segment. Sales in the Consumer and Flavor Solutions segment increased 35% and 4%, respectively, during the first quarter.
- ▲ **Raised Outlook:** Based on solid first-quarter performance as well as favorable impact of the recent bond issuance to optimize long-term financing, McCormick raised its fiscal 2021 view. The company continues to anticipate a two-percentage point positive impact from currency rates on these metrics during fiscal 2021. The company now expects to achieve sales growth of 8-10% (up 6-8% at cc) compared with the prior-year's figure. Earlier, management had expected to achieve sales increase of 7-9% (up 5-7% at cc). The view takes into account additional impact of the Cholula and FONA buyouts. Moreover, the company expects to witness organic sales growth in both the segments, backed by new products, brand marketing, category management as well as differentiated customer engagement. Apart from this, management expects to see sustained shift in consumer demand to at-home consumption compared with the pre-pandemic levels. It also expects to see gradual recovery in the demand from restaurant and other foodservice customers. Further, adjusted earnings per share are now expected in the range of \$2.97-\$3.02, reflecting a rise of 5-7%. Earlier, management had expected the metric in the range of \$2.91-\$2.96.
- ▲ **CCI Program Boosts Margin:** McCormick focuses on saving costs and enhancing productivity through its ongoing CCI program. Started in 2009, McCormick's CCI program helped the company to reduce costs and enhance productivity. It has used CCI savings to increase investments, thereby leading to higher sales and profits. McCormick achieved cost savings of \$113 million in fiscal 2020, courtesy of the CCI program. Further, the company expects to achieve CCI-led cost savings of nearly \$110 million in fiscal 2021. Notably, cost savings from CCI program drove gross margin in the first quarter of fiscal 2021, which expanded 20 basis points (bps) to 39%. Further, savings from CCI aided adjusted operating margin which expanded 160 bps. We believe that such cost savings are likely to continue enhancing the company's profits in the future.
- ▲ **Product Innovation & Shift toward Healthy Products:** McCormick regularly enhances products through innovation to remain competitive and tap the evolving demand for new flavors, spices and herbs. Aided by a sturdy brand image, McCormick enjoys strong retail acceptance for its new products. Notably, new product launches are an important part of the company's growth. Management in its last earnings call highlighted that, the company's exceptional product launches in 2020 are providing solid momentum during into this year. Moreover, management is optimistic about its strong product pipeline for 2021. To this end, McCormick is introducing Just 5 dry recipe mixes as well as dips and dressing mixes in French onions among others in the United States. Also, the company recently rolled out Cholula wing sauces in two flavors across the region. Further, management is expanding its range of organic products in Vahine homemade dessert line across France.
- ▲ **Expansion through Acquisitions, Capacity Enhancement:** McCormick has strategically increased its presence through acquisitions to grow its portfolio. In Dec 2020, McCormick announced that it has bought 100% stake in FONA International, LLC and some of its affiliates. FONA's diverse portfolio will help McCormick bolster its value-add offerings and expand the flavor solutions segment into attractive categories. During the same month, McCormick also completed the acquisition of the parent company of Cholula Hot Sauce — a premium Mexico-based hot sauce brand. McCormick believes that the buyout of Cholula accelerates its growth potential across the condiment platform and widens the product portfolio in the hot sauce category.

McCormick focuses on saving costs and enhancing productivity through its CCI program. Also, it has a solid brand portfolio and regularly undertakes innovations.

Further, the company's acquisition of the food division of RB Foods (concluded in Aug 2017) is noteworthy in this regard. With iconic brands like Frank's RedHot, French's and Cattleman's, RB Foods is likely to continue being a profitable asset for McCormick's flavor portfolio. Notably, Frank's RedHot and French's Mustard hold important positions in the company's condiment portfolio. As a result, these brands position the company in the leading U.S. condiments category and place it well for international expansion. Some of the other noteworthy acquisitions of the company are Italy-based Enrico GiottiSpA (Dec 2016) as well as Australia-based Botanical Food Company (April 2016). These takeovers have led to augmenting portfolio strength.

Apart from these, the company is on track to make investments to expand its infrastructure worldwide. Management earlier stated that it is on track to construct a state-of-the-art Northeast Distribution Center in Maryland to optimize its distribution network. Earlier, the company also stated that it is making a new Flavor Solutions production unit in the U.K. to support growing customer base in the region. In China, it is on track to invest in flavor capabilities to enhance Flavor Solutions growth.

Reasons To Sell:

- ▼ **Stock Underperforms, Looks Overvalued:** Shares of McCormick have lost 9.1% in the past six months against the industry's growth of 11.8%. Considering the price-to-earnings (P/E) ratio, McCormick looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 29.62, which is below its high level of 36.87 scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry is currently pegged at 22.55.
- ▼ **Pandemic-Led Costs:** McCormick has been grappling with higher costs stemming from the coronavirus outbreak. Notably, pandemic-induced expenses put pressure on gross profit margin as well as adjusted operating margin to some extent during the first quarter of fiscal 2021. In fact, management expects to incur pandemic-related costs of nearly \$60 million during fiscal 2021 majorly due to third-party manufacturing expenses. We note that the metric came in at \$50 million during 2020.
- ▼ **Financial Status:** McCormick's long-term debt of \$4,739.2 million at the end of first-quarter fiscal 2021 (as of Feb 28, 2021) increased from \$3,753.8 million reported in the preceding quarter. Moreover, its debt-to-capitalization ratio of 0.55 stands higher than the preceding quarter's figure of 0.51. Apart from this, the company's short-term borrowings and current portion of long-term debt stood at \$860.2 million as of Feb 28, while its cash and cash equivalents was \$256.1 million.
- ▼ **Intense Competition:** McCormick operates in the highly competitive food industry. The company mainly competed with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

McCormick has been grappling with higher costs stemming from the coronavirus outbreak. Management expects to incur pandemic-related costs of nearly \$60 million during fiscal 2021.

Last Earnings Report

McCormick's Q1 Earnings Beat Estimates, Sales Up Y/Y

McCormick posted first-quarter fiscal 2021 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, sales and earnings increased year over year, reflecting strength across both the segments. Also, management increased its fiscal 2021 outlook.

Quarter in Detail

Adjusted earnings of 72 cents per share increased 33% from 54 cents reported in the year-ago quarter, mainly due to increased adjusted operating income. This was somewhat offset by rise in adjusted income tax rate. Moreover, the metric beat the Zacks Consensus Estimate of 57 cents per share.

This global leader of flavors and spices generated sales of \$1,481.5 million, up 22% year over year. This includes favorable impact from currency translation of 2%. The uptick was driven by sales growth in both the segments. On a constant-currency (cc) basis, sales surged 20% on the back of strength in both the segments. Moreover, sales in the quarter surpassed the Zacks Consensus Estimate of \$1,384.9 million.

Gross profit margin expanded 20 basis points to 39% on the back of favorable product mix and cost savings from the Comprehensive Continuous Improvement (CCI) program. These were partially negated by pandemic-induced costs among others. Operating income rose from \$194 million to \$236 million during the quarter. The upside can be attributed to increased sales as well as gross margin expansion. However, increased brand marketing expenses as well as some transaction and integration expenses were a drag on the metric.

Segment Details

Consumer: Sales increased 35% (up 32% in cc) to \$946.8 million, with the Cholula buyout contributing 3% to growth. The segment gained on the back of sustained shift to cook-at-home trend amid the pandemic. Sales in the Americas surged 30% owing to growth across most categories and brands, especially strength in the McCormick, French's, Frank's RedHot, Zatarain's, Lawry's, Simply Asia and Gourmet Garden brands as well as Cholula acquisition gains. In the Europe, Middle East and Africa (EMEA) region, sales increased 34% on the back of double digit growth across all countries and categories, with particular strength in branded spices and seasonings as well as homemade dessert products. Further, sales in the Asia-Pacific region rallied 65% driven by recovery in consumption across China. Also, double digit growth in the region, thanks to at home and away from home products led to this increase.

Flavor Solutions: Sales in the segment increased 4% (up 3% at cc) to \$534.7 million from the prior-year quarter's figure to \$512.5 million, driven by sales growth from packaged food companies which was somewhat offset by reduced demand from restaurant and other foodservice customers, primarily in the Americas and EMEA regions. Also, contribution from acquisitions was a driver. Sales in the Americas increased 2%, while the metric inched up 1% in the EMEA region. Sales in Asia-Pacific region rose 26% driven by increased sales to quick service restaurants in China and Australia.

Financial Update

McCormick exited the quarter with cash and cash equivalents of \$256.1 million, long-term debt of \$4,739.2 million and total shareholders' equity of \$4,164.7 million. For the three months ended Feb 28, net cash used by operating activities was \$32.2 million.

Fiscal 2021 Outlook

Based on the strong first-quarter performance as well as the favorable impact of its recent bond issuance to optimize its long-term financing, management has raised its sales, operating income and earnings per share (EPS) view for fiscal 2021. Additionally, the company continues to anticipate a two-percentage point positive impact from currency rates on these metrics during fiscal 2021.

The company now expects to achieve sales growth of 8-10% (up 6-8% at cc) compared with the prior-year's figure. Earlier, management had expected to achieve sales increase of 7-9% (up 5-7% at cc). The view takes into account additional impact of the Cholula and FONA buyouts. Moreover, the company expects to witness organic sales growth in both the segments, backed by new products, brand marketing, category management as well as differentiated customer engagement. Apart from this, management expects to see sustained shift in consumer demand to at-home consumption when compared with the pre-pandemic levels. It also expects to see gradual recovery in the demand from restaurant and other foodservice customers.

Further, adjusted operating income is now expected to increase in the band of 9-11% (up 7-9% at cc). Earlier, the metric was projected to grow in the band of 8-10%, (up 6-8% at cc). Adjusted EPS are now expected in the range of \$2.97-\$3.02, reflecting a rise of 5-7%. Earlier, management had expected the metric to be in the range of \$2.91-\$2.96. The outlook suggests solid growth in base business as well as contributions from acquisitions. This is likely to be somewhat offset by impact from incremental 2021 business transformation and pandemic-related costs among others.

Quarter Ending	02/2021
Report Date	Mar 30, 2021
Sales Surprise	6.98%
EPS Surprise	26.32%
Quarterly EPS	0.72
Annual EPS (TTM)	3.01

Recent News

McCormick Declares Dividend – Mar 31, 2021

McCormick announced quarterly dividend of 34 cents per share, payable on Apr 26, 2021 to shareholders of record as of Apr 12.

Valuation

McCormick's shares are down 6.8% in the year-to-date period and up 15.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.7% while the Zacks Consumer Staples sector gained 2.6% in the year-to-date period. Over the past year, the Zacks sub-industry went up 28.5% while the sector gained 22.2%.

The S&P 500 index is up 9% in the year-to-date period and 49.1% in the past year.

The stock is currently trading at 29.26X forward 12-month earnings, which compares to 20.13X for the Zacks sub-industry, 20.45X for the Zacks sector and 22.86X for the S&P 500 index.

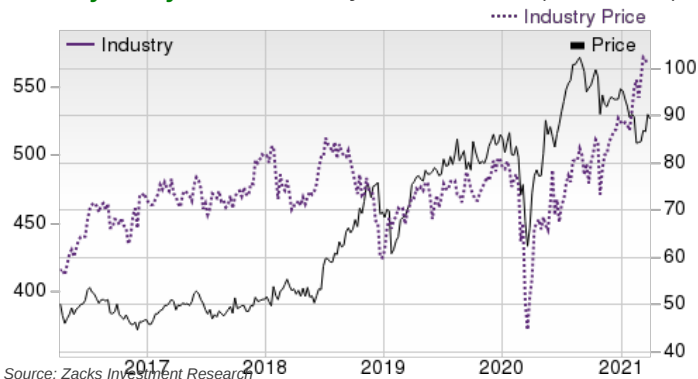
Over the past five years, the stock has traded as high as 37.19X and as low as 19.38X, with a 5-year median of 25.42X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$94 price target reflects 30.85X forward 12-month earnings.

The table below shows summary valuation data for MKC

Valuation Multiples - MKC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.26	20.13	20.45	22.86
	5-Year High	37.19	22.91	22.4	23.83
	5-Year Low	19.38	14.75	16.52	15.3
	5-Year Median	25.42	18.53	19.53	18
P/S F12M	Current	3.89	1.78	10.34	4.71
	5-Year High	5.09	2.03	11.96	4.71
	5-Year Low	2.3	1.38	8.6	3.21
	5-Year Median	3.05	1.69	10.35	3.71
EV/EBITDA F12M	Current	21.78	13.12	38.31	15.8
	5-Year High	27.09	13.88	38.69	16.2
	5-Year Low	13.85	10.71	26.67	10.79
	5-Year Median	17.92	12.89	35.07	13.5

As of 04/07/2021 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 36% (163 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Flowers Foods, Inc. (FLO)	Neutral	3
Ingredion Incorporated (INGR)	Neutral	2
The Kraft Heinz Company (KHC)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	3
Post Holdings, Inc. (POST)	Neutral	3
Tate & Lyle PLC (TATYY)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	3
B&G Foods, Inc. (BGS)	Underperform	4

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MKC	X Industry	S&P 500	BGS	INGR	POST
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	2	3
VGM Score	C	-	-	A	A	B
Market Cap	23.95 B	4.35 B	29.90 B	1.97 B	6.05 B	7.03 B
# of Analysts	6	3	12	4	1	4
Dividend Yield	1.52%	0.00%	1.3%	6.26%	2.84%	0.00%
Value Score	D	-	-	A	A	B
Cash/Price	0.01	0.07	0.06	0.03	0.11	0.16
EV/EBITDA	23.93	14.94	16.78	11.79	8.91	15.60
PEG F1	3.74	3.47	2.38	NA	NA	NA
P/B	5.75	3.51	4.00	2.35	2.03	2.48
P/CF	25.65	13.86	16.82	8.57	9.50	13.09
P/E F1	29.94	21.08	21.96	13.51	13.58	30.09
P/S TTM	4.08	1.58	3.43	1.00	1.01	1.23
Earnings Yield	3.34%	3.77%	4.46%	7.41%	7.36%	3.33%
Debt/Equity	1.14	0.50	0.66	2.81	0.59	2.40
Cash Flow (\$/share)	3.48	2.55	6.78	3.52	9.48	8.27
Growth Score	D	-	-	B	B	C
Historical EPS Growth (3-5 Years)	11.93%	2.34%	9.39%	-1.09%	-2.46%	14.55%
Projected EPS Growth (F1/F0)	6.01%	11.88%	15.29%	-0.55%	6.58%	33.86%
Current Cash Flow Growth	5.89%	1.10%	0.44%	25.59%	-4.94%	-25.16%
Historical Cash Flow Growth (3-5 Years)	10.81%	6.70%	7.37%	13.65%	0.37%	12.67%
Current Ratio	0.81	1.75	1.39	3.00	1.82	2.54
Debt/Capital	53.23%	34.52%	41.26%	73.72%	37.95%	70.59%
Net Margin	13.02%	4.41%	10.59%	6.71%	5.81%	-0.30%
Return on Equity	20.64%	10.61%	14.86%	17.75%	15.30%	6.44%
Sales/Assets	0.51	0.94	0.51	0.58	0.93	0.47
Projected Sales Growth (F1/F0)	8.96%	1.71%	7.36%	4.81%	0.00%	2.93%
Momentum Score	B	-	-	A	C	C
Daily Price Change	-0.64%	-0.15%	-0.22%	-0.59%	-0.14%	-0.80%
1-Week Price Change	-1.08%	-0.44%	0.35%	-9.45%	-2.77%	-1.40%
4-Week Price Change	3.80%	0.91%	3.66%	-4.67%	-1.46%	5.71%
12-Week Price Change	-4.40%	10.17%	8.52%	10.71%	14.27%	8.67%
52-Week Price Change	19.60%	33.64%	54.42%	81.43%	12.35%	21.56%
20-Day Average Volume (Shares)	1,386,476	174,196	2,089,350	1,288,202	419,200	340,301
EPS F1 Estimate 1-Week Change	0.07%	0.00%	0.00%	0.33%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.09%	0.00%	0.00%	0.33%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.67%	-0.65%	2.27%	-6.74%	3.11%	-1.69%
EPS Q1 Estimate Monthly Change	-5.43%	0.00%	0.00%	2.58%	NA	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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	D
Momentum Score	B
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 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.