

Martin Marietta (MLM)

\$226.98 (As of 09/17/20)

Price Target (6-12 Months): **\$238.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/14/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: C

Summary

Martin Marietta has been benefiting from strong construction market fundamentals backed by solid infrastructure (particularly for aggregates-intensive highways and streets) and residential (given attractive mortgage rates and affordable homes prices). It has been witnessing strong demand across key markets, including two of its leading vertically-integrated markets — North Texas and the Front Range of Colorado. Moreover, it expects 2020 aggregates pricing to rise 3-4% from the prior year. That said, it anticipates industry-wide decline in product demand over the next few quarters, given the uncertainty of additional U.S. federal economic stimulus actions due to budget shortfalls. Shares of Martin Marietta have outperformed its industry in the past three months.

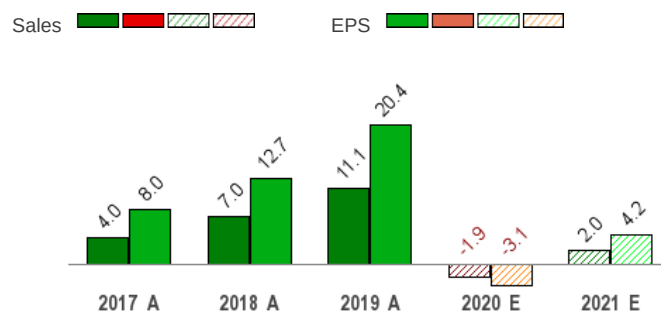
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$281.82 - \$135.08
20-Day Average Volume (Shares)	549,238
Market Cap	\$14.1 B
Year-To-Date Price Change	-18.8%
Beta	0.92
Dividend / Dividend Yield	\$2.28 / 1.0%
Industry	Building Products - Concrete and Aggregates
Zacks Industry Rank	Top 14% (36 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.8%
Last Sales Surprise	3.6%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	22.8
P/E F1	24.0
PEG F1	8.5
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	893 E	1,232 E	1,337 E	1,056 E	4,423 E
2020	891 A	1,190 A	1,265 E	999 E	4,336 E
2019	878 A	1,196 A	1,323 A	1,025 A	4,422 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.66 E	\$3.44 E	\$4.08 E	\$2.08 E	\$9.84 E
2020	\$0.41 A	\$3.49 A	\$3.69 E	\$1.86 E	\$9.44 E
2019	\$0.68 A	\$3.01 A	\$3.96 A	\$2.09 A	\$9.74 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 09/17/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/18/2020.

Overview

Based in Raleigh, NC, **Martin Marietta Materials, Inc.** produces and supplies construction aggregates and other heavy building materials, mainly cement, in the United States. The end uses of the company's aggregates and cement are infrastructure, private residential and private non-residential construction. Railroad, agricultural, utility and environmental industries also use these products. The company supplies aggregates (crushed stone, sand and gravel) through its network of approximately 300 quarries, mines and distribution yards in 27 states, Canada and the Bahamas.

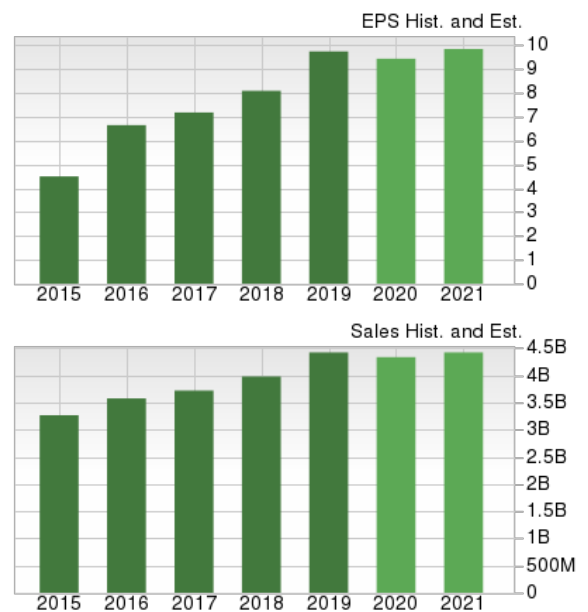
The company's total revenues include sales of products and services to customers (net of any discounts or allowances) and freight revenues.

Building Materials (accounting for 94.9% of 2019 total revenues): The Building Materials business includes aggregates, cement, ready mixed concrete, asphalt and paving product lines. The Building Materials business includes three reportable segments: The Mid-America Group (30.3%), the Southeast Group (10.5%) and the West Group (54.1%).

Magnesia Specialties (5.1%): The segment produces magnesia-based chemicals products used in industrial, agricultural and environmental applications and dolomitic lime sold primarily to customers in the steel industry.

At the end of the June quarter, the company had \$70.1 million of cash on hand and \$967.7 million unused borrowing capacity under the existing revolving facilities.

At the end of the June quarter, the company had \$70.1 million of cash on hand and \$967.7 million unused borrowing capacity under the existing revolving facilities.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Leading Supplier of Aggregates:** Martin Marietta is a leading supplier of construction aggregates in the United States used for construction of highways, infrastructure projects and residential, commercial and industrial building development. The company has a vast network of aggregate quarries and distribution centers throughout the southern U.S., in the Bahamas and Canada, as well as distribution centers along the Gulf of Mexico and Atlantic coasts. Higher shipments, pricing improvement and benefits from growth initiatives owing to strong underlying demand will boost its sales and profits at the Aggregates business in the forthcoming quarters. The company highlights that Texas (the company's largest revenue producing state) and Colorado (second largest) remain in good health amid coronavirus-related uncertainties. Additionally, in North Carolina, the company booked 10 million tons of aggregates on six large NCDOT projects in first-quarter 2020, and 9.4 million is expected to be shipped in 2020 and 2021. Although NCDOT suspended awards for certain projects due to pre-COVID-19 funding issues, it will benefit from \$700 million in build NC bond revenues to fund the existing transportation programs.

An uptick in public construction activity will boost demand. Acquisitions and healthy balance sheet also bode well.

▲ **Solid Public Infrastructure Demand:** Public sector construction includes spending by federal, state and local governments for construction of highways, bridges, airports, dams, roads and other infrastructure construction. Generally, public sector spending is a lot more stable than the private sector because public construction projects are less affected by general economic cycles and receive predictable government funding. Notably, the infrastructure market represented 35% and 32% of its 2019 and first-quarter 2020 aggregate shipments, respectively. The company expects infrastructure shipments to grow meaningfully in future, driven by healthy state Department of Transportation (DOT) budgets and an expected extension or replacement for the Fixing America's Surface Transportation (FAST) Act.

The company expects the outlook for public infrastructure, particularly for aggregate intensive street/highway work, to remain more resilient during these uncertain times. The outlook for infrastructure construction, particularly for aggregates-intensive highways and streets, is expected to be the most near-term resilient. While shelter-in-place orders have been issued in the vast majority of the United States, most state DOTs have remained operational and continue to advance current and planned transportation projects, capitalizing on reduction of vehicles on the road and related traffic congestion.

Importantly, Trump's impetus to spur massive infrastructure investments in roads, highways, ports and airports bodes well for aggregate producers like Martin Marietta. The plan also addresses the issues related to drinking and wastewater system, energy and rural infrastructure, and veterans' hospitals, to name a few. This will further propel demand for products sold by companies like Martin Marietta.

The multi-year highway bill — five-year, \$305 billion FAST Act — enacted in December 2015 increased the funding certainty for the state transportation and highway programs. This, coupled with state/local municipal-level initiatives to finance infrastructure projects, should propel the increased construction of highways, streets, roads, and bridges in the near term, thereby increasing aggregates demand.

▲ **Healthy Balance Sheet:** As of Jun 30, 2020, the company had \$70.1 million of cash on hand and \$967.7 million of unused borrowing capacity on the existing credit facilities. Notably, it repaid \$300 million of floating rate notes that matured in May 2020. The company's current liquidity position is more than enough to meet the short-term obligation of \$181 million, which is way lower than \$693 million reported at March-end. Moreover, at the end of the second quarter, its long-term debt was flat sequentially and is not likely to mature before 2024. Its total debt to total capital decreased to 37% at June-end from 41.4% at March-end.

▲ **Regular Acquisitions:** The company completed more than 85 smaller acquisitions since its Initial Public Offering in 1994 till 2017, strengthening its position in the Aggregates business. Notably, the company has acquired aggregates and related quarry locations from industry majors like Vulcan Materials, Lafarge North America and CEMEX, Inc.

In April 2018, Martin Marietta acquired Bluegrass Materials Company for \$1.625 billion in cash. The addition of Bluegrass strengthened Martin Marietta's aggregates position in the high-growth regions of Southeastern and Mid-Atlantic. Bluegrass has a portfolio of more than 125 years of strategically-located, high-quality reserves across Georgia, South Carolina, Maryland, Kentucky and Tennessee. In late June, the company acquired several sand and gravel operations and a permitted Greenfield site in Omaha, Nebraska, adding approximately 30 million tons of total reserves to its Midwest business. Martin Marietta continues to expect pursuing selective acquisitions, joint ventures or other business arrangements that will help the company expand footprint.

Reasons To Sell:

- ▼ **Coronavirus-Related Woes:** Although the company has seen minimal disruption from the COVID-19 pandemic through April 2020, it expects softer demand in the coming months as businesses and governments have decreased the scale or postponed the timing of future construction due to lower revenue collections and other short-term funding needs. Despite being designated as "essential business" amid COVID-19-led shutdown, Martin Marietta experienced negative impacts of macroeconomic slowdown. It anticipates industry-wide decline in product demand over the next few quarters, given the uncertainty of additional U.S. federal economic stimulus actions due to budget shortfalls.

Coronavirus-related woes and adverse weather conditions raise concerns

Large non-residential projects are experiencing delays due to prevailing uncertainty owing to the COVID-19 outbreak.

Additionally, it has temporarily paused share repurchases until visibility becomes clearer. Also, the impact of lower state funding could weigh on its second-half 2020 performance (given the absence of congressional action), with varying effects depending on the health of state budgets.

- ▼ **Weather Woes:** Weather-related challenges in many markets are affecting Martin Marietta. All of the company's businesses are subjected to weather-related risks that can significantly affect production schedules and profitability. Excessive rainfall, flooding, or severe drought can jeopardize shipments, production, and profitability in all of the company's markets. The first and fourth quarters are most adversely affected by winter. Hurricane activity in the Atlantic Ocean and Gulf Coast is most active during the third and fourth quarters. In the Downstream business, first-quarter ready mixed concrete shipments decreased 14.1% year over year, resulting from weather-impacted project delays in Texas that more than offset double-digit growth in Colorado. In fourth-quarter 2019, weather-related woes impacted projects in Colorado in the Downstream business.
- ▼ **Lower Margins in Aggregates Downstream Operations:** Martin Marietta's aggregates-related downstream operations have lower gross margins (excluding freight and delivery revenues) than its aggregates product line due to highly competitive market dynamics, lower barriers to entry and volatility in fuel costs. Therefore, as the downstream operations are expanded, overall gross margin (excluding freight and delivery revenues) is likely to be adversely affected.
-

Last Earnings Report

Martin Marietta Q2 Earnings Top Estimates, Margin Up

Martin Marietta Materials, Inc. reported better-than-expected second-quarter 2020 earnings and revenues (products and services) backed by higher demand and operational excellence. Demand for the company's products remained strong across key markets, including two of its leading vertically-integrated markets — North Texas and the Front Range of Colorado.

Ward Nye, chairman and CEO of Martin Marietta, said, "We remain confident that our favorable pricing trends will continue, aided in part by the continued success of our locally-driven pricing strategy. We expect our full-year 2020 aggregates pricing to increase 3 percent to 4 percent, slightly below our pre-COVID-19 forecast, largely due to year-over-year geographic and product mix fluctuations."

Despite being designated as "essential business" amid COVID-19-led shutdown, Martin Marietta experienced negative impacts of macroeconomic slowdown. It anticipates industry-wide decline in product demand over the next few quarters, given the uncertainty of additional U.S. federal economic stimulus actions due to budget shortfalls.

Inside the Headlines

Martin Marietta reported adjusted earnings per share of \$3.49, surpassing the Zacks Consensus Estimate of \$3.04 by 14.8%. The metric also increased 15.9% from the year-ago level of \$3.01 per share. The uptrend was mainly attributable to operational excellence and disciplined execution of its strategic plan to combat COVID-19 impacts.

Total quarterly revenues (including Product and services, and Freight revenues) came in at \$1.27 billion, slightly down from the year-ago figure of \$1.28 billion. Products and services revenues, accounting for 93.65 of total revenues, slipped 0.6% year over year but topped the consensus mark of \$1.15 billion by 3.6%. The upside in demand was driven by attractive customer backlogs and continued construction activity. However, macroeconomic slowdown offset the positives.

Segment Discussion

The Building Materials segment's (including aggregates, cement, ready-mixed concrete, asphalt, paving product lines and Freight) revenues of \$1.22 billion increased 1.1% year over year. Within the segment, product and services revenues amounted to \$1.14 billion, up 1.3% from the year-ago level. However, freight revenues of \$76.4 million were down 1.4% from the year-ago period.

Again in product and services, Aggregates' revenues of \$754.9 million fell 0.4% from the year-ago quarter. Also, Cement revenues slipped 2.5% year over year to \$109.5 million. On the contrary, Ready Mixed Concrete's revenues grew 1.6% year over year to \$245.1 million. Revenues in Asphalt and paving product lines also increased 30.2% from the year-ago quarter to \$107 million. Aggregates shipments declined 3.7% year over year, while pricing improved 3.3% owing to strong performance across all divisions.

Geographically, Mid-America Group operations' shipments declined 7.2% from the prior-year period due to near-record rainfall in most of the regions served and lower infrastructure shipments in North Carolina. Pricing in the region improved just 2.3% from the prior-year quarter owing to geographic mix. Southeast Group operations' shipments increased 3% from the prior-year quarter. The Florida Department of Transportation boosted certain transportation projects amid the COVID-19 pandemic, which supported the growth. Meanwhile, persistent strength in warehouse, data center and distribution facility construction was partially offset by weather-related construction delays. Pricing improved 0.7% from the prior-year quarter owing to higher percentage of lower-priced base and fines shipments. West Groups' aggregate shipments slipped 1% from a year ago. Double-digit growth in North Texas and Colorado was more than offset by the completion of certain Gulf Coast liquefied natural gas projects and reduced energy-sector shipments. Pricing grew 5.5% year over year.

Cement shipments decreased 2.7% year over year due to reduced demand for West Texas oil-well specialty cement products caused by historically low oil prices. Ready mixed concrete and Colorado asphalt shipments increased 8.7% and 34.6% year over year, respectively.

The Magnesia Specialties segment — including magnesium oxide, magnesium hydroxide and dolomite lime products — reported total revenues of \$53.6 million, reflecting a 29.8% decline from the year-ago period. Product and services revenues of \$48.9 million were down 30.6% year over year. Freight revenues of \$4.7 million were also down 20.3% from the year-ago period. The downside was due to a decline in lime and periclase shipments, along with tepid domestic and international demand for chemicals products.

Operating Highlights

Consolidated gross margin came in at 29.9%, which improved 200 basis points. Also, adjusted EBITDA of \$407 million increased 7.5% year over year, driven by pricing momentum and improved cost management across the Building Materials business.

Liquidity and Cash Flow

As of Jun 30, 2020, Martin Marietta had cash and cash equivalents of \$70.1 million compared with \$21 million at 2019-end. Long-term debt (excluding current maturities) was \$2.62 billion compared with \$2.43 at 2019-end. Net cash provided by operations was \$373.2 million at second quarter-end, up from \$333.7 million in the comparable period of 2019. It had \$967.7 million of unused borrowing capacity on the existing credit facility as of Jun 30, 2020.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	3.63%
EPS Surprise	14.80%
Quarterly EPS	3.49
Annual EPS (TTM)	9.95

Valuation

Martin Marietta's shares are down 7.1% in the year-to-date period and 18.9% in the and trailing 12-month period. Stocks in the Zacks sub-industry are down 9.1% but the Zacks Construction sector is up 6.9% in the year-to-date period. Over the past year, the Zacks sub-industry is down 9% but sector is up 13.8%.

The S&P 500 index is up 4.2% in the year-to-date period and 12.1% in the past year.

The stock is currently trading at 23.34X forward 12-month earnings, which compares to 22.85X for the Zacks sub-industry, 17.65X for the Zacks sector and 22.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.34X and as low as 12.4X, with a 5-year median of 22.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$238 price target reflects 24.5X forward 12-month earnings.

The table below shows summary valuation data for MLM

Valuation Multiples - MLM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.34	22.85	17.65	22.15
	5-Year High	33.34	27.42	18.97	23.44
	5-Year Low	12.4	12.88	10.74	15.26
	5-Year Median	22.35	20.34	15.86	17.63
P/S F12M	Current	3.21	2.16	2.06	4.1
	5-Year High	4.01	2.66	2.13	4.29
	5-Year Low	1.89	1.52	1.18	3.11
	5-Year Median	3.08	2.12	1.65	3.66
EV/EBITDA TTM	Current	13.17	18.44	19.2	14.51
	5-Year High	22.71	22.67	21.28	15.61
	5-Year Low	9.36	12.93	12.4	9.51
	5-Year Median	15.71	17.76	17.89	13.01

As of 09/17/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 14% (36 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Cornerstone Building Brands, Inc. (CNR)	Outperform	1
Eagle Materials Inc (EXP)	Outperform	2
Summit Materials, Inc. (SUM)	Outperform	2
U S Concrete, Inc. (USCR)	Outperform	2
Cemex S.A.B. de C.V. (CX)	Neutral	3
FORTERRA INC (FRTA)	Neutral	3
Vulcan Materials Company (VMC)	Neutral	3
Cementos Pacasmayo S.A.A. (CPAC)	Underperform	4

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

Industry Comparison Industry: Building Products - Concrete And Aggregates				Industry Peers		
	MLM	X Industry	S&P 500	CNR	SUM	VMC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	1	2	3
VGM Score	B	-	-	B	A	B
Market Cap	14.13 B	1.92 B	23.91 B	1.11 B	1.92 B	17.71 B
# of Analysts	7	2	13.5	1	4	7
Dividend Yield	1.00%	0.00%	1.62%	0.00%	0.00%	1.02%
Value Score	C	-	-	B	A	C
Cash/Price	0.01	0.13	0.07	0.52	0.13	0.05
EV/EBITDA	13.36	8.33	13.24	8.71	8.42	15.59
PEG F1	8.56	2.54	2.97	NA	NA	2.54
P/B	2.57	1.54	3.29	2.97	1.31	3.07
P/CF	14.43	6.83	12.82	3.57	5.75	17.68
P/E F1	24.22	18.82	21.49	NA	18.82	28.74
P/S TTM	2.98	0.84	2.52	0.24	0.84	3.56
Earnings Yield	4.16%	4.72%	4.40%	-5.05%	5.29%	3.48%
Debt/Equity	0.48	0.66	0.70	9.46	1.27	0.48
Cash Flow (\$/share)	15.73	2.93	6.93	2.50	2.93	7.56
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	16.92%	10.00%	10.41%	NA	-20.22%	19.37%
Projected EPS Growth (F1/F0)	-3.12%	-3.63%	-4.73%	-215.38%	-4.79%	-0.97%
Current Cash Flow Growth	15.01%	15.68%	5.26%	126.38%	46.64%	12.71%
Historical Cash Flow Growth (3-5 Years)	17.98%	15.48%	8.49%	45.03%	27.62%	19.87%
Current Ratio	2.67	1.97	1.35	2.57	2.44	1.95
Debt/Capital	32.33%	39.52%	42.95%	90.44%	55.85%	32.58%
Net Margin	13.12%	3.83%	10.25%	-10.33%	4.53%	12.60%
Return on Equity	11.62%	9.31%	14.66%	-8.69%	9.31%	11.46%
Sales/Assets	0.46	0.58	0.50	0.86	0.56	0.46
Projected Sales Growth (F1/F0)	-1.94%	0.00%	-1.43%	0.00%	4.38%	-0.69%
Momentum Score	C	-	-	F	F	C
Daily Price Change	0.90%	-0.02%	-0.48%	-2.62%	-1.41%	0.35%
1-Week Price Change	-2.41%	0.29%	-1.87%	-0.26%	12.14%	0.78%
4-Week Price Change	8.50%	4.41%	0.96%	6.07%	6.38%	6.06%
12-Week Price Change	10.27%	12.32%	8.69%	54.69%	4.53%	14.40%
52-Week Price Change	-15.52%	-11.01%	1.36%	51.53%	-25.02%	-11.01%
20-Day Average Volume (Shares)	549,238	26,356	1,917,443	585,060	1,177,960	843,268
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.49%
EPS F1 Estimate 12-Week Change	10.75%	15.45%	4.14%	68.31%	97.14%	7.74%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	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	C
Growth Score	B
Momentum Score	C
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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