

Newmont Corporation(NEM)

\$63.46 (As of 10/05/20)

Price Target (6-12 Months): **\$73.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 10/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Earnings estimates for Newmont for the third quarter and 2020 have moved up over the past month. Newmont is making notable progress with its growth projects. The company is likely to gain from a number of projects including the Tanami expansion, Subika Underground and Ahafo mill expansion. Moreover, the merger with Goldcorp is expected to be value-accretive to its cash flow and generate significant synergies. Concerns over supply crunch arising from suspensions of operations have also contributed to the gain in gold prices. Higher gold prices are expected to continue boosting earnings amid market volatility and economic uncertainties. It is also making notable progress with efficiency improvement programs. Efforts to lower debt level is also encouraging. It has also outperformed the industry in the past year.

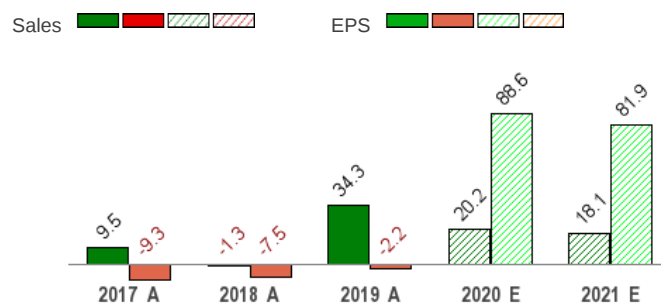
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$72.22 - \$33.00
20-Day Average Volume (Shares)	6,107,812
Market Cap	\$50.7 B
Year-To-Date Price Change	45.3%
Beta	0.36
Dividend / Dividend Yield	\$1.00 / 1.6%
Industry	Mining - Miscellaneous
Zacks Industry Rank	Top 22% (56 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.9%
Last Sales Surprise	-0.2%
EPS F1 Estimate 4-Week Change	10.7%
Expected Report Date	10/29/2020
Earnings ESP	1.0%
P/E TTM	40.0
P/E F1	25.5
PEG F1	NA
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,452 E	3,542 E	3,647 E	3,644 E	13,821 E
2020	2,581 A	2,365 A	3,273 E	3,424 E	11,703 E
2019	1,803 A	2,257 A	2,713 A	2,967 A	9,740 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.09 E	\$1.11 E	\$1.14 E	\$1.14 E	\$4.53 E
2020	\$0.40 A	\$0.32 A	\$0.78 E	\$0.90 E	\$2.49 E
2019	\$0.33 A	\$0.12 A	\$0.36 A	\$0.50 A	\$1.32 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 10/05/2020. The reports text is as of 10/06/2020.

Overview

Colorado-based Newmont Corporation is one of the world's largest producers of gold with several active mines in Nevada, Peru, Australia and Ghana. As of Dec 31, 2019, Newmont had gold reserves of 100.2 million ounces. Its attributable gold production for 2019 was 6.3 million ounces, up 23% year over year.

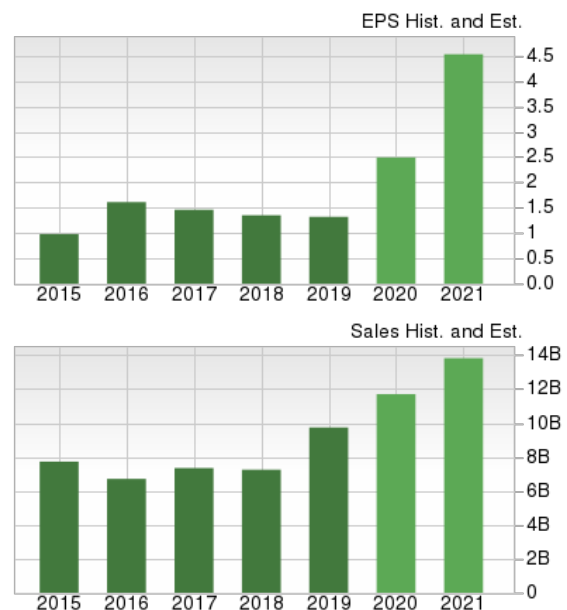
Newmont's operating segments are North America, South America, Australia and Africa.

The North America segment (23% of 2019 gold production) is represented by operations at Nevada. In Nevada, its operations include the Carlin, Twin Creeks and Phoenix mines. The South America segment (22%) is represented by operations in Yanacocha, Peru. The Asia Pacific segment (32%) now consists of the operations in Australia. In Australia, Newmont fully owns and operates the Tanami mine. The Super Pit mine in Kalgoorlie are jointly owned with Barrick Gold. It also owns 100% of the Boddington mine. The Africa segment (23%) operations are represented by the fully-owned Ahafo and Akyem mines in Ghana.

The company closed the sale of its 48.5% ownership interest in PT Newmont Nusa Tenggara (PTNNT), which operates the Batu Hijau copper and gold mine in Indonesia, to PT Amman Mineral Internasional (PTAMI) on Nov 2, 2016. The asset's name is now changed to PT Amman Mineral Nusa Tenggara (PTAMNT).

The company, in February 2014, completed the sale of its Midas underground operation and mill complex to Klondex Mines Ltd. The company, in March 2014, also sold its 5.4% equity interest in Paladin Energy Ltd. through a block sale deal with UBS Australia. Moreover, the company, in July 2014, completed the sale of its Jundee underground gold mine in Australia to Northern Star Resources for roughly \$91 million. The company also completed the sale of its 44% stake in the Penmont joint venture in Mexico in October 2014 to Fresnillo plc for \$477 million.

In January 2019, Newmont entered into a definitive deal with Goldcorp to acquire all of the outstanding common shares of the latter in a stock-for-stock transaction. The transaction was successfully closed on Apr 18, 2019. The deal provides the company an investment-grade balance sheet and financial flexibility to pursue promising projects.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Newmont's shares have gained 65% in the past year, outperforming the industry's rise of 12.5%. Newmont continues to invest in growth projects in a calculated manner. The company is pursuing a number of projects including Tanami Expansion in Australia, and Subika Underground and Ahafo mill expansion in Africa. Subika Underground is expected to yield an average annual gold production of 150,000-200,000 ounces per annum for the first five years starting 2019 and has an initial mine life of roughly 11 years. Also, the company's production is likely to be boosted by higher grade production from the Subika Underground project, which reached commercial production in November 2018. It is also pursuing a second expansion at Tanami and advancing greenfields exploration prospects in Western Australia, the Northern Territory and New South Wales. The Tanami Power Project is also fully permitted. It will lower Tanami power costs and carbon emissions by roughly 20% starting 2019. The project was successfully completed in March 2019. The company expects the Tanami power project to deliver net cash savings per ounce of \$34 from 2019 to 2023 and generate an IRR of more than 50%. The Ahafo expansion project represents additional upside. The expansion was also brought on line in third-quarter 2019, with a budget of around \$175 million. It is likely to boost mill capacity to nearly 10 million tons per year. The Africa witnessed 1.1 million ounces of attributable gold production in 2019 at an all-in sustaining cost of less than \$800 per ounce. This was driven by the successfully completion of the Ahafo's expansion projects. It will also add annual gold production of 75,000-100,000 ounces per year from 2020 to 2024.
- ▲ Newmont is well placed benefit from its merger with Goldcorp. The transaction is immediately value-accretive to its cash flow and net asset value per share. It is projected to generate an annual expected benefit of around \$165 million per year. Moreover, annual pre-tax synergies and full potential benefits are expected to be \$265 million, representing value creation potential of more than \$2.5 billion. In 2019, the company generated \$3.7 billion in adjusted EBITDA and realized substantial value from the Goldcorp acquisition that exceeded targets. In 2020, the company expects to achieve \$340 million in cash flow improvements, which represents more than 90% of its commitment for value delivering \$365 million from this transaction. It is also on track to realize \$500 million of cash flow improvements in 2021.
- ▲ Gold has been the bright spot this year as mounting fears over the coronavirus pandemic made it the most attractive safe-haven asset. A slump in crude oil prices, a low interest rate environment and geopolitical tensions also triggered demand for gold. Concerns over supply crunch arising from suspensions of operations by miners per government mandates also contributed to the gain in gold prices. Gold prices crossed the \$1,800-an ounce mark in June 2020 and also surged past the \$1,900 an ounce mark in July. Meanwhile, Newmont's averaged realize price of gold also rose 31% year over year to \$1,724 per ounce in the last reported quarter and boosted margins. Higher gold prices are expected to continue to drive earnings in 2020 amid market volatility and economic uncertainties.
- ▲ Newmont is making notable progress with efficiency improvement programs. Improved operational efficiency is allowing the company to generate positive free cash flow. The company ended the second quarter with \$3.8 billion of consolidated cash. It also generated operating cash flow of \$668 million and free cash flow of \$388 million in the quarter. The company's efforts to lower debt level is also encouraging. Its long-term debt was \$6,028 million at the end of second-quarter 2020, down from \$6,561 million in the prior quarter. Further, its time-interest-earned ratio of 15.7 at the end of the second quarter rose from 13.9 in the prior quarter. As such, the company appears to have a lower default risk.

Newmont is making notable progress with its growth projects. The merger with Goldcorp will also generate significant synergies. Higher gold prices should also support margins.

Risks

- Higher expected production cost is a concern for the company. Newmont recorded AISC of \$946 per ounce for 2019, up 6% year over year. Its CAS also rose 2% year over year in 2019. Moreover, the company's AISC rose 8% year over year in the last reported quarter. Newmont now expects CAS to be \$760 per ounce in 2020, higher than \$721 per ounce reported in 2019. The company also projects AISC at \$1,015 per ounce, also higher than \$966 per ounce expected earlier. As such, rising cost may continue to weigh on the margins in 2020.
 - Newmont still faces challenges in the copper market stemming from the oversupply of the metal. Copper – an important barometer for the global economy – is a major industrial metal and plays a significant role especially in emerging countries. However, oversupply in the market (with production exceeding demand) poses a threat on copper prices. A slowdown in demand in China amid the coronavirus outbreak adds to the concerns. China's move to tighten credit growth could hurt demand for copper in its property and infrastructure sectors. The company's average realized copper price also declined 4% year over year in 2019 to \$2.63 per pound. Further, copper prices fell 18% year over year in the first six months of 2020. Lower copper production at Boddington is also concerning.
 - The coronavirus outbreak in China may hurt gold demand in the near term. While the companies operating in this space are seeing a spike in gold prices, demand for gold in the country could be in doldrums. China is the largest consumer of gold in the world and the outbreak could have a cascading effect globally. Moreover, gold demand in India, another key market, is expected to witness a considerable fall in 2020 as the country is reeling under the effects of the pandemic. As such, an expected slowdown in demand may have an impact on the company's production and sales.
-

Last Earnings Report

Newmont's Earnings and Sales Miss Estimates in Q2

Newmont reported net income from continuing operations of \$412 million or 51 cents per share in second-quarter 2020, up from \$1 million or breakeven per share in the year-ago quarter.

Barring one-time items, adjusted earnings were 32 cents per share that missed the Zacks Consensus Estimate of 34 cents.

Newmont reported revenues of \$2,365 million, up 4.8% year over year. However, the figure missed the Zacks Consensus Estimate of \$2,368.4 million.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-0.15%
EPS Surprise	-5.88%
Quarterly EPS	0.32
Annual EPS (TTM)	1.58

Operational Highlights

Newmont's attributable gold production declined 20.8% year over year to 1.26 million ounces in the quarter.

Average realized prices of gold rose 31% year over year to \$1,724 per ounce.

The company's CAS for gold was \$748 per ounce, down 1% year over year.

AISC for gold increased 8% year over year to \$1,097 per ounce. The uptick was mainly due to care and maintenance costs related to the coronavirus pandemic, which was partly offset by lower sustaining capital spending.

Regional Performance

North America: Attributable gold production in North America was 232,000 ounces, down 8% year over year. Gold CAS for the region was \$735 per ounce, down 29% year over year.

South America: Attributable gold production in South America was 136,000 ounces, down 48% year over year. Gold CAS for the region rose 20% on a year-over-year basis to \$781 per ounce.

Australia: Attributable gold in the region was 294,000 ounces, down 18% year over year. Gold CAS in the region dropped 1% year over year to \$719 per ounce.

Africa: Production in the region totaled 193,000 ounces of gold in the quarter, down 30% year over year. Gold CAS was \$696 per ounce, up 16% year over year.

Financial Position

The company ended the second quarter with cash and cash equivalents of \$3,808 million, up 108.4% year over year. Long-term debt was \$5,478 million, up from \$5,475 million in the prior-year quarter.

Net cash from operating activities amounted to \$664 million in the quarter.

Outlook

For 2020, Newmont projects attributable gold production of around 6 million ounces. Gold CAS is projected at \$760 per ounce and AISC is expected to be \$1,015 per ounce on higher sustaining capital spending.

The company is progressing with majority of its development and sustaining capital projects, including Tanami Expansion 2 and Subika Underground as well as advancing laybacks at Boddington and Ahafo.

Recent News

Newmont Forms 50-50 JV With Agnico Eagle in Colombia

On **Sep 29, 2020**, Newmont announced the formation of an exploration joint venture (JV) with Agnico Eagle Mines Limited in Colombia. The 50-50 JV will be operated by Agnico Eagle. It aims to explore the Anza project in Colombia and advance other prospective gold targets in the country.

The Anza gold exploration project comprises of exploration contracts and applications in the Mid-Cauca belt in Colombia. Newmont stated that Agnico Eagle will solely fund the JV until expenditures equal Newmont's previous investment of around \$2.9 million in the Anza project. After that, the parties to the JV will continue funding the project on a 50-50 basis.

Newmont Divests Royalty Portfolio to Maverix for \$90M

On **Sep 21, 2020**, Newmont announced that it has inked a definitive agreement with Maverix Metals Inc. to divest a portfolio of 11 royalties for around \$90 million. The consideration includes \$15 million in cash, 12 million common shares of Maverix and contingent cash payments of up to \$15 million that is payable after completion of certain milestones.

These royalties will provide exposure to five gold assets that are owned and operated by growth-oriented mining companies. It includes royalties on Mother Lode and Imperial in the United States, Cerro Blanco in Guatemala as well as Ana Paula and Camino Rojo in Mexico.

The transaction provides Newmont with additional participation in a growing royalty and streaming business. The deal is expected to close in fourth-quarter 2020, which is subject to customary closing conditions. Post completion of the transaction, Newmont's ownership interest in Maverix will increase to around 32% from 26%. Per Newmont, the deal will also strengthen its strategic partnership with Maverix and generate additional value for the respective shareholders.

Newmont Inks Strategic Alliance With Kirkland Lake Gold

On **Aug 17, 2020**, Newmont announced that it has inked a Strategic Alliance Agreement with Kirkland Lake Gold to jointly evaluate regional exploration opportunities around the former's Timmins properties and Kirkland Lake Gold's Ontario, Canada-based Holt Complex.

Through the strategic deal, Newmont purchased an option from Kirkland Lake Gold on the mining and mineral rights subject to a royalty payable to Royal Gold, Inc. (Holt Royalty) by Newmont in exchange for a \$75 million payment to Kirkland Lake Gold. In case Kirkland Lake Gold plans to restart operations at the Holt Mine and process material subject to the Holt Royalty, Newmont will be able to exercise this option.

Further, Kirkland Lake Gold has the right to assume Newmont's obligations pertaining to the Holt Royalty and terminate the option. The structure of the option is such that Newmont will have no additional liability exposure related to the Holt Royalty.

Newmont stated that through the strategic alliance and the option mention earlier, it will be able to remove around \$350 million liability for the Holt Royalty on its balance sheet as of Jun 30, 2020. The move will lead to a gain of roughly \$275 million in its third-quarter results.

Kirkland Lake Gold will act as manager of the strategic alliance activities. The formation of this alliance also provides Kirkland Lake Gold with capital to assess future strategic alternatives for the Holt mining complex along with exploring existing opportunities and evaluate other regional opportunities where both companies can cooperate in future.

Newmont Announces Quarterly Dividend

On **Jul 23, 2020**, Newmont's board declared quarterly dividend of 25 cents per share, which was paid on Sep 24, 2020, to stockholders of record at the close of business on Sep 10, 2020.

Valuation

Newmont's shares are up 45% in the year-to-date period and up 65% over the trailing 12-month period. Stocks in the Zacks Mining - Miscellaneous industry and the Zacks Basic Materials sector are up 5.7% and down 0.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 12.5% and 13.3%, respectively.

The S&P 500 index is up 5.9% in the year-to-date period and up 16.2% in the past year.

The stock is currently trading at 15.59X forward 12-month earnings, which compares to 8.69X for the Zacks sub-industry, 13.15X for the Zacks sector and 21.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 38.43X and as low as 15.47X, with a 5-year median of 24.51X.

Our Outperform recommendation indicates that the stock will perform better than the market. Our \$73 price target reflects 18.03X forward 12-month earnings per share.

The table below shows summary valuation data for NEM:

Valuation Multiples - NEM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.59	8.69	13.15	21.89
	5-Year High	38.43	33.26	21.06	23.47
	5-Year Low	15.47	8.12	9.84	15.27
	5-Year Median	24.51	10.1	13.33	17.7
P/B TTM	Current	2.21	1.42	2.23	5.81
	5-Year High	2.75	2.96	3.07	6.2
	5-Year Low	0.6	0.52	1.23	3.75
	5-Year Median	1.56	1.54	2.21	4.88
P/S TTM	Current	4.78	7.58	2.75	4.22
	5-Year High	5.33	8.14	3.43	4.52
	5-Year Low	1.28	2.96	1.45	2.81
	5-Year Median	2.78	5.91	2.68	3.86

As of 10/05/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Agnico Eagle Mines Limited (AEM)	Outperform	1
AngloGold Ashanti Limited (AU)	Neutral	3
Yamana Gold Inc. (AUY)	Neutral	2
B2Gold Corp (BTG)	Neutral	3
Eldorado Gold Corporation (EGO)	Neutral	2
Gold Fields Limited (GFI)	Neutral	3
Barrick Gold Corporation (GOLD)	Neutral	3
Kinross Gold Corporation (KGC)	Neutral	3

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

Industry Comparison Industry: Mining - Miscellaneous				Industry Peers		
	NEM	X Industry	S&P 500	BTG	GOLD	KGC
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	B	B	A
Market Cap	50.70 B	155.13 M	23.68 B	6.95 B	50.44 B	11.50 B
# of Analysts	6	2	14	5	6	7
Dividend Yield	1.58%	0.00%	1.64%	2.43%	1.13%	0.00%
Value Score	D	-	-	B	C	B
Cash/Price	0.08	0.06	0.07	0.09	0.08	0.14
EV/EBITDA	8.84	-7.65	13.45	8.91	7.59	7.02
PEG F1	NA	6.25	2.88	0.74	14.35	NA
P/B	2.21	1.69	3.39	3.05	1.64	2.05
P/CF	17.41	5.67	13.14	17.45	55.92	9.93
P/E F1	25.49	15.37	21.79	14.39	28.70	12.95
P/S TTM	4.77	1.92	2.55	4.80	4.45	3.06
Earnings Yield	3.94%	-0.71%	4.42%	6.92%	3.49%	7.77%
Debt/Equity	0.26	0.01	0.70	0.20	0.17	0.48
Cash Flow (\$/share)	3.63	-0.01	6.92	0.38	0.51	0.92
Growth Score	D	-	-	A	B	A
Historical EPS Growth (3-5 Years)	4.73%	10.18%	10.45%	63.04%	2.63%	63.88%
Projected EPS Growth (F1/F0)	88.77%	12.13%	-2.97%	230.00%	93.79%	107.56%
Current Cash Flow Growth	51.58%	-5.84%	5.47%	-4.32%	120.54%	28.17%
Historical Cash Flow Growth (3-5 Years)	12.12%	7.89%	8.50%	-14.11%	-18.05%	2.79%
Current Ratio	2.81	2.09	1.35	3.51	3.82	3.76
Debt/Capital	20.93%	6.47%	42.90%	16.46%	14.33%	32.48%
Net Margin	36.79%	-19.41%	10.28%	30.06%	39.00%	23.96%
Return on Equity	5.70%	-7.57%	14.79%	18.02%	4.24%	11.03%
Sales/Assets	0.27	0.28	0.51	0.51	0.25	0.40
Projected Sales Growth (F1/F0)	20.16%	0.00%	-0.79%	42.54%	27.95%	19.31%
Momentum Score	B	-	-	F	A	C
Daily Price Change	1.35%	1.44%	1.71%	1.68%	1.72%	2.81%
1-Week Price Change	1.42%	0.08%	2.13%	2.67%	0.69%	1.60%
4-Week Price Change	-3.40%	-3.24%	0.26%	3.10%	-2.34%	5.91%
12-Week Price Change	6.03%	6.03%	8.70%	15.45%	8.57%	24.52%
52-Week Price Change	65.00%	23.22%	4.20%	100.30%	61.01%	90.02%
20-Day Average Volume (Shares)	6,107,812	122,542	2,164,008	7,132,523	16,307,094	15,617,123
EPS F1 Estimate 1-Week Change	3.25%	0.00%	0.00%	0.00%	1.19%	0.00%
EPS F1 Estimate 4-Week Change	10.66%	1.43%	0.00%	0.00%	4.77%	4.22%
EPS F1 Estimate 12-Week Change	1.70%	9.87%	3.80%	-0.86%	20.32%	32.09%
EPS Q1 Estimate Monthly Change	21.52%	0.00%	0.00%	0.00%	18.28%	-2.78%

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	D

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.