

ServiceNow Inc. (NOW)

\$501.96 (As of 11/09/20)

Price Target (6-12 Months): **\$529.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/28/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

Summary

ServiceNow's third-quarter 2020 results benefited from robust growth seen in subscription revenues. Based on strong adoption of its digital workflow solutions, ServiceNow raised 2020 guidance for subscription revenues, billings, operating margin and free cash flow margin. As businesses, government agencies and others continue to cloudify their infrastructure, the company is poised to boost uptake of its Now platform. Further, its expanding global presence, solid partner base and strategic buyouts are expected to bolster growth prospects. Notably, shares of the company have outperformed the industry on a year-to-date basis. However, ServiceNow's exposure to coronavirus-hit industries like transportation, hospitality, retail, and energy, is likely to hinder growth. Further, intense competition and unfavorable forex headwinds are concerns.

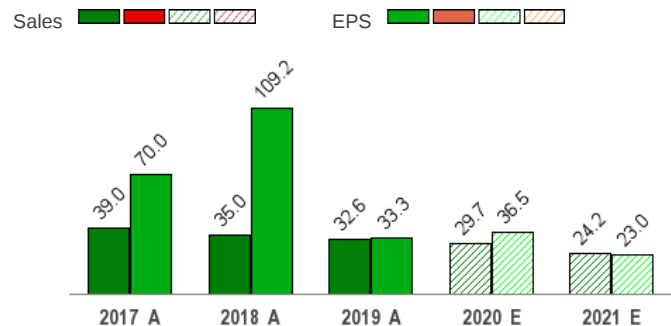
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$537.53 - \$238.93
20-Day Average Volume (Shares)	1,406,826
Market Cap	\$97.9 B
Year-To-Date Price Change	77.8%
Beta	1.22
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Computers - IT Services
Zacks Industry Rank	Top 49% (122 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.5%
Last Sales Surprise	3.8%
EPS F1 Estimate 4-Week Change	9.0%
Expected Report Date	02/03/2021
Earnings ESP	0.0%
P/E TTM	112.8
P/E F1	110.8
PEG F1	4.0
P/S TTM	23.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,290 E	1,342 E	1,429 E	1,511 E	5,574 E
2020	1,046 A	1,071 A	1,152 A	1,218 E	4,487 E
2019	789 A	834 A	886 A	952 A	3,460 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.26 E	\$1.39 E	\$1.47 E	\$1.45 E	\$5.57 E
2020	\$1.05 A	\$1.23 A	\$1.21 A	\$1.07 E	\$4.53 E
2019	\$0.67 A	\$0.71 A	\$0.99 A	\$0.96 A	\$3.32 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 11/09/2020. The reports text is as of 11/10/2020.

Overview

Santa Clara, CA-based ServiceNow Inc. provides cloud computing services that automate digital workflows to accelerate enterprise IT operations. The company's Now Platform enables enterprises to enhance productivity by streamlining system processes.

By utilizing ServiceNow's product portfolio, customers can design any workflow application to reduce the manual time taken by complex processes, and consequently optimize total cost of ownership or TCO.

The company's solutions address the needs of many departments within an enterprise, including IT, human resources (HR), facilities, field service, marketing, customer service, security, legal and finance.

Now platform is the foundation of the company's cloud-based services.

The company has three product suites for IT management and operations. These are IT Service Management (ITSM), IT Operations Management (ITOM) and IT Business Management (ITBM) solutions.

Non-IT products include Customer Service, HR and Security Operations.

ServiceNow's end-markets are quite varied, which includes financial services, consumer products, IT services, health care, government, education and technology.

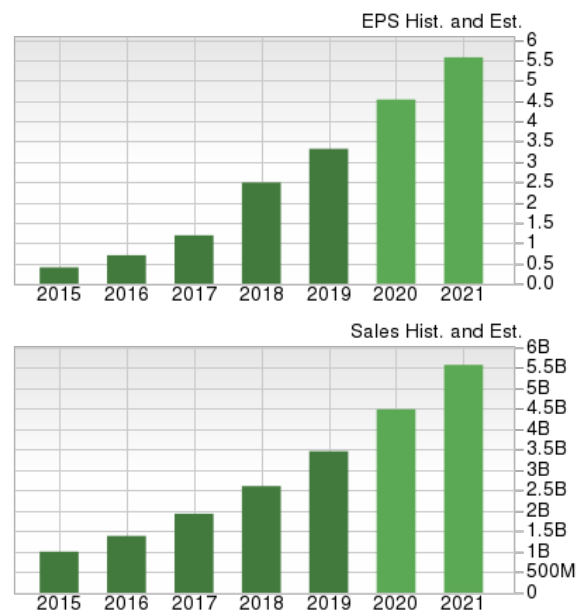
In 2019, total revenues came in at \$3.460 billion.

ServiceNow derives revenues from two sources – subscriptions (94% of 2019 revenues) and professional services and other (6% of 2019 revenues).

North America, Europe, the Middle East and Africa (EMEA), and Asia Pacific & Other contributed approximately 67%, 24% and 9% of revenues, respectively in first-quarter 2020.

The company operates data centers in Australia, Brazil, Canada, Hong Kong, Netherlands, Singapore, Switzerland, UK and the U.S.

ServiceNow has approximately 6,200 enterprise customers, including more than 44% of the world's 2,000 largest companies, as outlined by an annual ranking by the Forbes magazine. The figure also represents more than 80% of the Fortune 500 companies, as defined by an annual ranking by the Fortune magazine.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ ServiceNow is a dominant name in the IT service market (ITSM). The company continues to win market share by replacing legacy on-premise systems with cloud-based processes. G2K customers contribute approximately 50% of the top-line and the company expects the mix to remain steady in the long haul. The growing penetration at Fortune 500 clientele (80%) has been driving ServiceNow's top-line growth. Further, it is focusing primarily on public and big private entities, rapidly, which will further drive top-line growth in the long run. Moreover, ServiceNow has been named a Leader in the 2020 Gartner Magic Quadrant for IT Risk Management. The company was evaluated for its Governance, Risk, and Compliance ("GRC") platform.
- ▲ ServiceNow is rapidly expanding into non-ITSM markets like human resource and security solutions by launching new products and services. Shorter-sales cycle of these new products (particularly security solutions) as compared with the traditional ITSM business is driving top-line growth. The company is also focused on strengthening sales team across the different non-ITSM markets, which will expand customer base going ahead. Notably, on Jun 10, ServiceNow announced that it had been named as a leader in the 2020 Gartner Magic Quadrant for the CRM Customer Engagement Center.
- ▲ ServiceNow has a diversified customer base, which is evident from the fact that none of the customers exceeded 10% of revenues in the last couple of years. Notably, the number of customers with annualized contract value (ACV) greater than \$1 million has also increased from 157 at the end of 2014 to 892 at the end of 2019. In third-quarter 2020, ServiceNow completed 41 transactions with more than \$1 million in net new ACV. It company has 1,012 total customers with more than \$1 million in ACV, up 25% year over year. Given the company's expanding product portfolio (including emerging products), increasing multi-product customer base and strong renewal rate (almost 97%), we expect the company to achieve this target much earlier. ACV is also expected to improve from \$1 million in 2016 to \$2 million by 2020, which will help the company in achieving the top-line target of \$10 billion.
- ▲ Acquisitions have played an important part in ServiceNow's growth trajectory over the years. The acquisitions of Neebula Systems (2014), BrightPoint Security and ITapp (both in 2016) has aided the company to expand product portfolio, particularly security and ITOM solutions. Also in 2017, the company had acquired Qlue, a developer of virtual messaging agents. The buyout is expected to enhance its customer experience. The acquisitions of Telepathy and SkyGiraffe (both concluded in 2017) are expected to enhance the company's enterprise mobile experience. The acquisitions of DxContinuum (2017), Parlo (2018), FriendlyData (2018), Appsee (2019), Loom Systems (2020) and Passage AI (2020) are expected to boost its predictive modelling capabilities, consequently expanding ServiceNow's intelligent automation product portfolio going ahead.
- ▲ ServiceNow has a strong balance sheet with ample liquidity position. As of Sep 30, 2020, ServiceNow had cash and cash equivalents and short-term investments of \$2.95 billion compared with \$2.34 billion as of Jun 30, 2020. During third-quarter 2020, cash from operations came in at \$241.5 million, up 14.9% year over year. ServiceNow generated free cash flow of \$216.3 million, up 78.3% year over year. Further, free cash flow margin was 19%, up 500 bps on a year-over-year basis. At the end of the third quarter, remaining performance obligations were \$7.3 billion, surging 31% year over year and up 28% after adjusting for forex. The increasing liquidity and cash flow trend reflect that the company is making investments in the right direction. Moreover, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Dominant position in the ITSM, ITOM markets, growing fortune 500 customer base, rapid growth in non-ITSM markets like HR, Security and product enhancements via strategic acquisitions are key catalysts.

Reasons To Sell:

- ▼ ServiceNow faces stiff competition in the non-ITSM markets from the likes of Oracle and salesforce.com, which are well-established players. Although the company has an edge in the security response market, the customer service and HR solutions faces significant competition from these players. As non-ITSM markets become a larger contributor to the company's total revenue, increasing competition can weigh on growth. Moreover, cut-throat competition can hurt pricing power as well as lengthen the sales cycle, which will negatively impact top-line.
- ▼ ServiceNow has been incurring losses over the last five years and has an accumulated deficit of \$250.4 million as of Sep 30, 2020. The company anticipates reporting loss in the near term due to increased costs such as non-cash charges associated with equity awards, business combinations and other expenses. Despite the improving top line, mounting losses doesn't bode well for investor confidence.
- ▼ ServiceNow generates a significant portion of revenues from the International market (34.2% in 2019). Adverse foreign currency exchange rates are likely to impede revenue growth in the near term owing to the strengthening of the U.S. dollar compared with the Euro and other foreign currencies, which is a significant concern.
- ▼ The company is trading at premium in terms of Price/Book (P/B). ServiceNow currently has a trailing 12-month P/B ratio of 36.63X. This level compares unfavorably with what the industry witnessed in the prior year. Additionally, the ratio is higher than the median level of 32.86X and is towards the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/B perspective.

Stiff competition in non-ITSM product segments, modest growth in professional business, continuing losses, muted free cash flow growth and stretched valuation are key negatives.

Last Earnings Report

ServiceNow Q3 Earnings Top Estimates, Raises '20 View

ServiceNow reported third-quarter 2020 adjusted earnings of \$1.21 per share, which beat the Zacks Consensus Estimate by 17.48% and improved 22.2% year over year.

Revenues of \$1.15 billion surpassed the consensus mark by 3.75% and increased 30% year over year. After adjusting for forex, revenues of \$1.137 billion surged 28% year over year.

Subscription revenues surged 31% year over year to \$1.091 billion. After adjusting for forex, subscription revenues jumped 29% year over year to \$1.077 billion.

Professional services and other revenues increased 19% year over year to \$61 million. After adjusting for forex, professional services and other revenues climbed 17% to \$60 million.

Following impressive third-quarter results and increasing adoption of its solutions and solid pipeline, ServiceNow raised 2020 guidance for subscription revenues, billings, operating margin and free cash flow margin.

Quarter Ending	09/2020
Report Date	Oct 28, 2020
Sales Surprise	3.75%
EPS Surprise	17.48%
Quarterly EPS	1.21
Annual EPS (TTM)	4.45

Billing Details

Total billings on a non-GAAP basis rose 25% year over year to \$1.139 billion. After adjusting for forex, total billings increased 23% year over year to \$1.126 billion.

Subscription billings of \$1.081 billion increased 25% year over year. After adjusting for forex, subscription billings were \$1.069 billion, up 24%.

Professional services and other billings increased 13% to \$58 million. After adjusting for forex, professional services and other billings were \$57 million, up 12%.

Expanding Customer Base Remains Noteworthy

ServiceNow's safe-workplace application suite and dashboard that have been downloaded by more than 800 organizations worldwide including Raymond James, Standard & Poor's, and Rutgers University. Notably, Rutgers University is utilizing Safe Workplace apps for health screening, room reservations and contact tracing to "ensure a safe and secure environment for all students and faculty."

Moreover, ServiceNow announced a new integration with Uber for Business to help their employees feel safe when commuting to and from work as soon as it's safe to reopen.

In the quarter under review, ServiceNow completed 41 transactions with more than \$1 million in net new annual contract value (ACV).

Currently, the company has 1,012 total customers with more than \$1 million in ACV, up 25% year over year.

ServiceNow's consistent renewal rate of 98% reflects the resilience of the business as the Now platform remains a mission-critical part of its customer's operations.

The company closed the largest deal ever with more than \$40 million in ACV. On the heels of solid momentum of Now platform, the company raised full-year guidance.

Notably, all of the company's top 20 deals included three or more products. ITSM Pro led 16 of the 17 ITSM deals included in the top 20 deals. Further, 18 of the top 20 deals also included ITOM.

ServiceNow marked its largest federal quarter with nine federal customers over \$10 million in ACV.

Deal wins include Mount Sinai, the federal Defense Information Systems Agency, the US Air Force, US Army and the US Department of Veteran Affairs, the US Senate and Federal Claims Court and the Department of Veteran Affairs.

In fact, ServiceNow has been named a Leader in the 2020 Gartner Magic Quadrant for IT Risk Management. The company was evaluated for its Governance, Risk, and Compliance ("GRC") platform.

Additionally, 13 of the top 20 deals included customer service management (CSM) wins, reflecting growing momentum in its business, out of which eight deals were greater than \$1 million.

Operating Details

In the third quarter, non-GAAP gross margin was 82%, up 100 basis points (bps) on a year-over-year basis. Subscription gross margin was flat year over year at 86%. Professional services and other gross margin was 19% compared with year ago figure of 1%.

Total operating expenses on a non-GAAP basis came in at \$648.8 million in the reported quarter, up 31.7% year over year.

ServiceNow's non-GAAP operating margin was 26%, flat on a year-over-year basis. Notably, management had anticipated non-GAAP operating margin to be 22%. Better-than-expected performance was driven by robust subscription revenues and lower expenses related to coronavirus.

Balance Sheet & Cash Flow

As of Sep 30, 2020, ServiceNow had cash and cash equivalents and short-term investments of \$2.95 billion compared with \$2.34 billion as of Jun 30, 2020.

During the reported quarter, cash from operations was \$241.5 million, compared with \$368.1 million reported in the previous quarter.

ServiceNow generated free cash flow of \$216.3 million, up 78.3% year over year. Further, free cash flow margin was 19%, up 500 bps on a year-over-year basis.

At the end of the third quarter, remaining performance obligations were \$7.3 billion, surging 31% year over year and up 28% after adjusting for forex.

Q4 Guidance

For fourth-quarter 2020, non-GAAP adjusted subscription revenues are anticipated between \$1.141 billion and \$1.146 billion (adjusted for constant currency), which indicates growth of 27% year over year.

Non-GAAP adjusted subscription billings are projected between \$1.612 billion and \$1.632 billion, which suggests an increase of 24-26% year over year.

Further, ServiceNow expects non-GAAP operating margin to be 21%.

Markedly, ServiceNow anticipates marketing spend shift from the third quarter into the fourth quarter and incremental investments into pipeline generating activities to limit margin expansion.

2020 Guidance

For 2020, ServiceNow revised guidance. The company now projects non-GAAP adjusted subscription revenues between \$4.251 billion and \$4.256 billion, suggesting growth of 31% over 2019. Earlier guided range was \$4.210 billion-\$4.225 billion.

Non-GAAP adjusted subscription billings are projected to be \$4.780-\$4.800 billion, which suggests a rise of 26-27% from the year-ago reported figure, prior range being \$4.660-\$4.700 billion. After adjusting for forex and fluctuations in billings duration, subscription billings are expected between \$4.779 billion and \$4.799 billion, indicating year-over-year growth of 26-27%.

Further, ServiceNow expects non-GAAP subscription margin to be 86% and non-GAAP operating margin to be 24.5% (up from previous guidance of 24%).

Moreover, non-GAAP free cash flow margin is expected to be 31.5% (up from previous guidance of 29.5%).

Recent News

On Oct 29, ServiceNow appointed Apple's executive Larry Jackson to its board of directors, bringing the total number of directors on board to 11.

On Oct 6, ServiceNow announced the availability of Workplace Service Delivery solutions, in a bid to offer enhanced digital experiences to employees driving productivity in evolving workplace trends.

On Sep 23, ServiceNow expanded partnership with Microsoft to provide employees with enhanced digital experiences. At Microsoft Ignite 2020, the company rolled out new workflows inbuilt with Microsoft Teams to improve employee productivity with faster case resolution and seamless self-service.

On Sep 3, ServiceNow collaborated with Cisco's DNA Spaces to improve its Contact Tracing app to create a safer return to workplace environment amid the coronavirus outbreak.

On Aug 14, ServiceNow announced that it has been named a Leader in the 2020 Gartner Magic Quadrant for IT Risk Management. The company was evaluated for its Governance, Risk, and Compliance ("GRC") platform.

On Aug 6, ServiceNow announced the pricing of a public offering of \$1.5 billion aggregate principal amount of 1.400% senior notes due 2030. The company estimates that the net proceeds from the offering will be approximately \$1.481 billion after deducting the underwriting discount and estimated offering expenses.

Moreover, ServiceNow announced a new integration with Uber for Business to help their employees feel safe when commuting to and from work, as soon as it's safe to reopen.

Valuation

ServiceNow shares are up 77.7% in the year-to-date period and 102% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 30.9% and 29.4%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 40% and 35.8%, respectively.

The S&P 500 index is up 10.6% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 18.06X forward 12-month sales compared with 6.23X for the Zacks sub-industry, 4.22X for the Zacks sector and 4.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.3X and as low as 5.38X, with a five-year median of 10.26X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$529 price target reflects 19.03X forward 12-month sales.

The table below shows summary valuation data for NOW

Valuation Multiples - NOW					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	18.06	6.23	4.22	4.17
	5-Year High	19.3	10.11	4.48	4.3
	5-Year Low	5.38	3.9	2.77	3.17
	5-Year Median	10.26	6.76	3.44	3.67
P/B TTM	Current	36.63	20.33	7.93	6.28
	5-Year High	44.95	31.78	8.31	6.28
	5-Year Low	13.22	7.05	4.09	3.74
	5-Year Median	36.33	11.77	5.6	4.9
EV/Sales TTM	Current	22.5	6.54	4.88	4.12
	5-Year High	24.04	7.76	5.22	4.12
	5-Year Low	6.66	3.59	2.85	2.61
	5-Year Median	13.12	5.73	3.83	3.56

As of 11/09/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 49% (122 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
CDW Corporation (CDW)	Outperform	2
Fair Isaac Corporation (FICO)	Outperform	2
ASGN Incorporated (ASGN)	Neutral	3
Amdocs Limited (DOX)	Neutral	3
EPAM Systems, Inc. (EPAM)	Neutral	3
Infosys Limited (INFY)	Neutral	2
Inovalon Holdings, Inc. (INOV)	Neutral	3
DXC Technology Company (DXC)	Underperform	4

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

Industry Comparison Industry: Computers - It Services				Industry Peers		
	NOW	X Industry	S&P 500	CDW	DOX	EPAM
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	C	-	-	B	B	B
Market Cap	97.93 B	3.13 B	24.57 B	20.58 B	8.19 B	17.83 B
# of Analysts	11	5	13	7	5	10
Dividend Yield	0.00%	0.00%	1.51%	1.06%	2.16%	0.00%
Value Score	D	-	-	B	A	D
Cash/Price	0.03	0.07	0.07	0.06	0.15	0.05
EV/EBITDA	174.56	9.17	14.21	16.85	10.15	48.74
PEG F1	3.73	1.90	2.73	1.75	1.52	3.61
P/B	36.63	4.19	3.52	16.62	2.25	9.56
P/CF	163.24	13.34	13.46	17.87	10.66	53.26
P/E F1	104.46	29.46	21.50	22.91	12.90	52.85
P/S TTM	23.20	2.08	2.74	1.14	1.97	6.94
Earnings Yield	0.90%	2.38%	4.43%	4.36%	7.75%	1.89%
Debt/Equity	0.64	0.19	0.70	3.12	0.24	0.01
Cash Flow (\$/share)	3.07	1.07	6.92	8.05	5.70	5.98
Growth Score	B	-	-	B	C	A
Historical EPS Growth (3-5 Years)	NA%	17.19%	9.77%	22.10%	6.42%	28.93%
Projected EPS Growth (F1/F0)	36.53%	6.88%	0.37%	3.00%	7.09%	11.20%
Current Cash Flow Growth	49.82%	13.18%	5.29%	10.39%	2.45%	27.45%
Historical Cash Flow Growth (3-5 Years)	106.38%	15.72%	8.33%	13.51%	3.85%	26.53%
Current Ratio	1.40	1.48	1.38	1.50	1.84	4.22
Debt/Capital	38.95%	27.07%	41.97%	75.70%	19.39%	1.33%
Net Margin	16.60%	3.41%	10.44%	4.08%	11.71%	12.31%
Return on Equity	9.79%	10.20%	14.92%	88.43%	15.30%	18.29%
Sales/Assets	0.64	0.74	0.50	2.11	0.73	1.08
Projected Sales Growth (F1/F0)	29.65%	1.64%	0.14%	-0.77%	3.15%	15.17%
Momentum Score	C	-	-	C	C	B
Daily Price Change	-6.21%	0.00%	2.76%	4.27%	4.72%	-6.92%
1-Week Price Change	7.56%	5.24%	5.72%	12.60%	2.91%	10.77%
4-Week Price Change	-1.40%	-0.74%	3.51%	10.72%	1.55%	-7.69%
12-Week Price Change	13.47%	-0.44%	7.01%	26.69%	-1.24%	3.29%
52-Week Price Change	101.96%	15.39%	5.23%	7.34%	-9.34%	63.96%
20-Day Average Volume (Shares)	1,406,826	373,102	2,079,064	718,573	643,987	240,889
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	8.99%	0.00%	1.67%	8.97%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	8.99%	0.81%	3.62%	8.97%	0.00%	0.00%
EPS Q1 Estimate Monthly Change	-41.11%	0.00%	0.81%	10.96%	0.00%	10.36%

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	B
Momentum Score	C
VGM Score	C

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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