ZACKS | Our Research. Your Success.

Jan 06, 2021

NetApp, Inc. (NTAP)

$65.17 (As of 01/05/21)

Price Target (6-12 Months): **$75.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/04/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: F	

Summary

NetApp is benefitting from strength in all-flash business, and Public Cloud Services. The company is also gaining from growing clout of cloud-integrated all-flash solutions; File, Block and Object Software products; and hybrid multi-cloud offerings. Moreover, recent acquisitions of Spot, Cloud Jumper and Talon Storage have been immediately accretive to revenues, which bodes well. Additionally, the company provided an upbeat guidance for fiscal third quarter of fiscal 2021, which holds promise. Notably, shares of NetApp have outperformed the industry in the past year. Nonetheless, coronavirus crisis-induced sluggish IT spending and supply chain constraints are likely to weigh on revenues. Growing expenses on product enhancements amid stiff competition from Pure Storage in the all-flash storage market is likely to limit margin expansion.

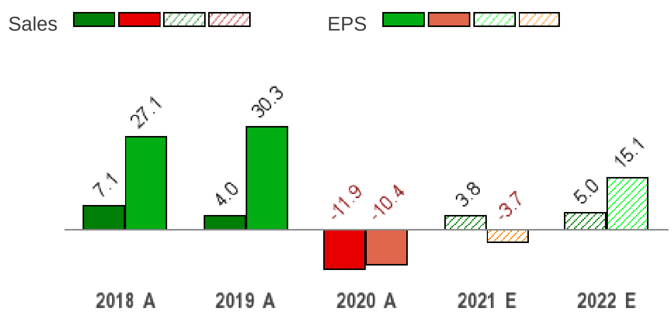
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$67.63 - $34.66**
20-Day Average Volume (Shares)	**1,736,899**
Market Cap	**$14.6 B**
Year-To-Date Price Change	**-1.6%**
Beta	**1.35**
Dividend / Dividend Yield	**$1.92 / 2.9%**
Industry	**Computer- Storage Devices**
Zacks Industry Rank	**Top 41% (104 out of 254)**
Last EPS Surprise	**45.8%**
Last Sales Surprise	**8.0%**
EPS F1 Estimate 4-Week Change	**-0.8%**
Expected Report Date	**02/10/2021**
Earnings ESP	**1.2%**
P/E TTM	**15.8**
P/E F1	**16.7**
PEG F1	**1.4**
P/S TTM	**2.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,355 E	1,440 E	1,493 E	1,548 E	5,898 E
2021	1,303 A	1,416 A	1,434 E	1,459 E	5,616 E
2020	1,236 A	1,371 A	1,404 A	1,401 A	5,412 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	$0.88 E	$1.11 E	$1.17 E	$1.32 E	$4.49 E
2021	$0.73 A	$1.05 A	$1.01 E	$1.10 E	$3.90 E
2020	$0.65 A	$1.09 A	$1.16 A	$1.19 A	$4.05 A

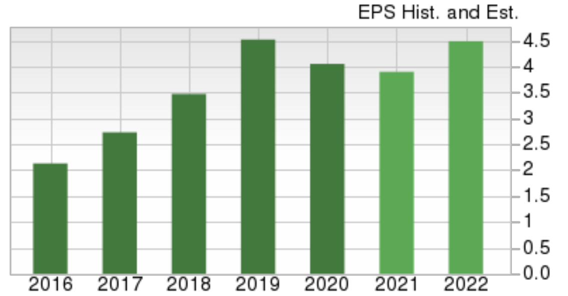
*Quarterly figures may not add up to annual.

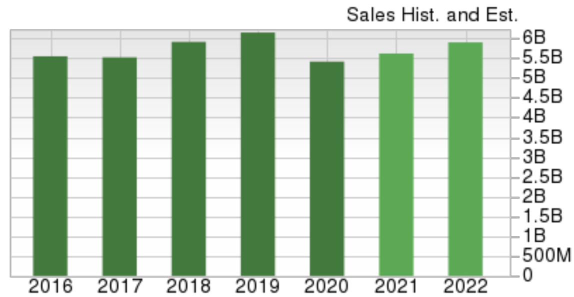
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/05/2021. The reports text is as of 01/06/2021.

 10 S. Riverside Plaza Suite 1600 • Chicago, IL 60606

Overview

NetApp provides enterprise storage as well as data management software and hardware products and services. The Sunnyvale, CA-based company's product line comprises two storage platforms - FAS storage platform and E-Series platform. The company's all-flash storage portfolio comprises NVMe-based storage systems and new cloud-based services in order to provide hybrid storage architecture.





FAS Storage Platform is based on the NetApp Data ONTAP operating system, which combines storage efficiency, data management and data protection. The FAS product line includes FAS6200, FAS3200 and FAS2000 series. The E-series platform helps in the deployment of Hadoop Big Data infrastructure. The E-series product line comprises EF540 Flash Array and EF550.

Moreover, the company's Cloud Volumes ONTAP storage data management service helps in data protection and storage competence. The company has built relationships with over 300 cloud service providers and hyperscaler providers, which includes Amazon Web Services (AWS), Google, IBM SoftLayer and Microsoft Azure. Further, Cloud Volumes ONTAP offers data access, insights and control to aid customers to move traditional database applications or legacy NAS applications to the cloud.

Leveraging these solutions, the company addresses both the Storage Area Network (SAN) and Networked Attached Storage (NAS) markets. A networked storage necessarily provides external data repository that can be shared through LAN, thus freeing local storage space. Also, network storage also supports automated backup programs that prevent data loss.

NetApp also offers support, consulting and training services. The company markets and distributes products worldwide through a direct sales force, value-added resellers, system integrators, original equipment manufacturers and distributors.

NetApp reported revenues of $5.412 billion in fiscal 2020. The company derived 55.3% of revenues from Products, 19.1% from Software maintenance, and 25.6% from Hardware Maintenance and Other Services.

On geographical basis, NetApp generated 53% of revenues in fiscal 2020 from the Americas (the United States, Canada and Latin America), 32% from Europe, Middle East and Africa (EMEA) and the remaining 15% from Asia Pacific (APAC).

NetApp faces stiff competition from companies like HP, Dell, IBM and Oracle.

Source: Zacks Investment Research

Reasons To Buy:

> NetApp is gaining momentum in flash-based solutions with the newly introduced all-flash array, which will help it to gain traction in the storage market.

- NetApp is expected to gain from the shift from traditional dedicated storage to shared storage in virtualized IT infrastructures. The company is gaining traction in the network-attached storage (NAS) market. Enterprises are shifting to NAS primarily due to its easy deployment capabilities and support for several networking environments. Other advantages include regulatory compliance needs, tremendous growth in digital data due to shift of legacy and media content to digital formats and general IT trends such as server virtualization, need for improved efficiency of storage devices and data center consolidation. Further, growing clout of NetApp ONTAP AI aided the company in gaining recognition as a leader in IDC's latest report on scale-out, file-based storage, titled, IDC MarketScape Worldwide Scale-Out File-Based Storage 2019 Vendor Assessment.

- The company is gaining from robust growth in Public Cloud Services, which recorded annualized recurring revenues of $216 million in the second quarter of fiscal 2021, up 200% year over year. Adoption of Microsoft Azure NetApp Files is a key catalyst. The company's partnerships with Alphabet's Google Cloud platform and Amazon's Amazon Web Services are expected to bolster adoption of its Cloud Data Services and expand customer base.

- NetApp is witnessing higher demand for its flash-based solutions. The company boasts of cloud-capable all-flash storage solutions primarily aimed at expanding presence among smaller enterprises looking to manage business across hybrid cloud platforms. The company's all-flash storage portfolio comprises NVMe-based storage systems and new cloud-based services in order to provide hybrid storage architecture. The company continues to launch new products for all segments of the market. Moreover, with IT organizations increasingly preferring the flash-based storage systems, due to its cost effectiveness, faster speeds in read and write tasks, NetApp with broad portfolio of array-based flash solutions should be able to capitalize on this opportunity. During the second quarter of fiscal 2021, the company's All-Flash Array Business annualized net revenue run rate came in at $2.5 billion, up 15% year over year.

- The company has been active on the acquisition front. SolidFire buyout strengthened NetApp's position in the all-flash array market by adding new flash offerings. SolidFire's flash storage arrays, apart from improving cache performance, are primary storage for applications requiring high speed like in cloud computing and virtualization. The acquisition boosts NetApp's flash-based storage product portfolio and helps it maintain a dominant position in the flash storage market. Moreover, the acquisition of StackPointCloud, a provider of cloud-based Kubernetes as-a-service (KaaS), has helped expand NetApp's converged infrastructure capabilities. NetApp has also acquired Talon Storage, in a bid to strengthen NetApp Cloud Volumes and Azure NetApp Files offerings, and aid customers to centralize and consolidate IT storage infrastructure to the public clouds to facilitate remote work. Furthermore, the company recently announced the acquisition of CloudJumper, a cloud software company offering virtual desktop infrastructure (VDI) solutions and remote desktop services (RDS) that aid enterprises to accelerate public cloud deployments for work-from-home setup, branch offices and enterprises. We believe that the acquisitions will expand NetApp's customer base and market share driven by higher demand from enterprises.

- Management execution has been favorable in recent times. Solid net-cash balance of $1.016 billion as of Oct 30, 2020, provides the flexibility required to pursue any growth strategy, whether through acquisitions or otherwise. Moreover, the strong balance sheet helps NetApp continue shareholder-friendly initiatives of dividend payouts. Notably, NetApp's total debt to total capital of 87.7% is lower than the prior quarter's 90.3%. In second-quarter fiscal 2021, the company returned $107 million to shareholders through dividend payouts. In the reported quarter, the company has paused share buybacks, and did not make any share repurchases, owing to coronavirus crisis-induced business uncertainty and limited visibility. It must be noted that, management is encouraged by the stability in business, owing to positive trends in broader macro trends and optimism regarding COVID-19 vaccine trials, on the basis of which the company intends to reinitiate share repurchase program during the fiscal third quarter. The company generated net cash from operations of $161 million and free cash flow was $121 million during the fiscal second quarter. The company's ability to generate solid free cash flow is expected to help it in sustaining its current dividend payout (0.55) level at least in the near term.

Risks

- NetApp continues to acquire a large number of companies. While this improves revenue opportunities, it increases integration risks. Notably, large acquisitions negatively impact the balance sheet in the form of high level of goodwill and net intangible assets, which totaled $2.16 billion or 25.7% of total assets, as of Oct 30, 2020.

- NetApp faces stiff competition from bellwethers such as HP Inc., Dell, IBM and Oracle. NetApp's competitors are revamping their product lines with faster and efficient products. Notably, Pure Storage is a major competitor in all-flash business and cloud-based storage offerings. Although the Public Cloud Services vertical remains strong, the competitive pressure at the core storage business remains intense and is likely to hurt profitability.

- NetApp's original equipment manufacturer (OEM) revenues have been declining. The company's OEM revenues declined in two straight fiscals as OEM customers such as IBM, Teradata, Fujitsu, etc., are developing their own product lines or are reacting to the weak demand environment. Coronavirus crisis-induced supply chain constraints, weak demand, and logistical challenges are likely to dampen growth prospects at least in the near term.

- NetApp is heavily dependent on sales through indirect channels, value-added resellers, systems integrators, distributors, OEMs and strategic business partners, which accounted for 79% of revenues in fiscal 2020. Thus, loss of any key customer, reseller or distributor could affect the company's overall results.

- Moreover, the company is trading at premium in terms of Price/Book (P/B). NetApp currently has a trailing 12-month P/B ratio of 38.92X. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is higher than the average level of 35.86X. Consequently, the valuation looks slightly stretched from P/B perspective.

Last Earnings Report

NetApp Q2 Earnings & Revenues Beat Estimates

Quarter Ending	10/2020
Report Date	Dec 01, 2020
Sales Surprise	8.00%
EPS Surprise	45.83%
Quarterly EPS	1.05
Annual EPS (TTM)	4.13

NetApp reported second-quarter fiscal 2021 non-GAAP earnings of $1.05 per share, which surpassed the Zacks Consensus Estimate by 45.83%. However, the bottom line declined 3.7% from the year-ago quarter.

Revenues of $1.416 billion increased 3.3% year over year, outpacing the Zacks Consensus Estimate by 8%. The improvement was driven by strength in all-flash storage business, and Public Cloud Services, which per management "outperformed the expectations." Nevertheless, unfavorable foreign exchange movement limited growth by "one point."

Region wise, the Americas, EMEA and Asia Pacific accounted for 55%, 30% and 15% of total revenues, respectively.

Direct and Indirect revenues represented 25% and 75%, respectively, of total revenues.

Top Line Details

Product revenues (52.9% of total revenues) decreased 3% year over year to $749 million. The decline can be attributed to coronavirus crisis-induced macroeconomic headwinds. Nevertheless, the company witnessed gains from momentum in digital transformation and hybrid cloud projects across enterprise and public sector end-markets.

In a bid to provide more visibility in to high-margined software business, the company is now breaking up product revenues into software and hardware. Revenues from products under Hardware grouping were $332 million, down 18% year over year. Revenues from products under Software grouping amounted to $417 million, up 14% year over year driven by solid traction witnessed by All-flash FAS products.

Software Maintenance revenues (21.4%) were $303 million, up 19.3% year over year.

Hardware Maintenance and Other Services revenues (25.7%) were $364 million, up 5.2% year over year. Revenues from Hardware Maintenance Support Contracts totaled $296 million, up 3.5% year over year. Revenues from Professional and Other Services were $68 million, up 13.3% year over year.

Key Metrics

During the fiscal second quarter, the company's All-Flash Array Business annualized net revenue run rate came in at $2.5 billion, up 15% year over year. Moreover, all-flash revenues totaled $632 million, up 15% on a year-over-year basis.

Public Cloud Services recorded annualized recurring revenues (ARR) of $216 million, up 200% year over year and 21% on a quarter-over-quarter basis. The company is witnessing solid momentum across customer cohorts with fiscal second-quarter dollar-based net retention rate of 207%. Management is optimistic and noted that the company is on track to deliver $250-$300 million in fiscal 2021 in Cloud ARR and cross $1 billion mark in Cloud ARR in fiscal 2025. Moreover, its partnerships with Microsoft's Azure, Google Cloud platform, Amazon Web Services, are expected to aid it in expanding customer base.

Recurring maintenance and cloud revenues of $599 million were up 11% on a year-over-year basis, accounting for 42% of total net revenues.

Operating Details

Non-GAAP gross margin was 66.9%, which contracted 160 basis points (bps) from the year-ago quarter.

On a non-GAAP basis, Product gross margin of 53% contracted 430 bps year over year. Management noted sequential improvement of 160 bps was driven by higher-margined all-flash mix. Meanwhile, Software Maintenance gross margin of 93.7% contracted 200 bps, and Hardware Maintenance and Other Services gross margin shrunk 30 bps to 73.4% year over year.

Further, management noted that recurring maintenance, cloud and other services business is a growth driver, with gross margin coming in at 82.6%.

Non-GAAP operating expenses climbed 4.1% year over year to $657 million. As a percentage of net revenues, the figure expanded 40 bps on a year-over-year basis to 46.4%.

Non-GAAP operating margin contracted 200 bps to 20.6%.

Balance Sheet & Cash Flow

NetApp exited the quarter ending Oct 30, 2020, with $3.646 billion in cash, cash equivalents and investments compared with $3.773 billion as of Jul 31, 2020. Long-term debt (including current portion) was $2.63 billion as of Oct 30, 2020, unchanged compared with the tally as of Jul 31, 2020.

The company generated net cash from operations of $161 million during the reported quarter compared with $240 million in the fiscal first quarter.

Free cash flow was $121 million compared with $188 million in the previous quarter.

Further, the company returned $107 million to shareholders through dividend payouts. The company has paused share buybacks and did not make any share repurchases during the reported quarter due to coronavirus crisis-induced business uncertainty and limited visibility.

Management is encouraged by the stability in business, owing to positive trends in broader macro trends and optimism regarding COVID-19 vaccine trials, on the basis of which the company intends to reinitiate share repurchase program during the fiscal third quarter.

Q3 Guidance

NetApp is banking on improvement in adoption of Public Cloud Services offerings.

The company anticipates non-GAAP earnings for third-quarter fiscal 2021 between 94 cents and $1.02 per share. Moreover, net revenues are anticipated to be $1.34-$1.49 billion.

Notably, for third-quarter fiscal 2021, NetApp expects non-GAAP gross margin and non-GAAP operating margin to be 67% and 20%, respectively.

Recent News

On Dec 1, NetApp announced quarterly cash dividend of 48 cents per share to be paid out on Jan 27, 2021, to shareholders of record as of Jan 8, 2021.

On Oct 26, NetApp rolled out a new solution for containerized applications under its Spot by NetApp portfolio that facilitates organizations to make multi-cloud management easier along with lowering of costs.

On Oct 20, NetApp rolled out updates to its NetApp ONTAP data management software to help organizations to accelerate digital transformation and optimize costs while improving security. The company also unveiled a new NetApp SolidFire Enterprise SDS solution and announced a flexible NetApp Keystone Flex Subscription service.

On Sep 23, NetApp announced that Spot's Elastigroup is enabling its customers to accelerate production workloads in Microsoft Azure Spot Virtual Machines (VMs), with up to 90 percent cost savings. Notably, NetApp concluded acquisition of Israel-based cloud services startup — Spot on Jul 13, whose suite of tools includes Elastigroup.

On Aug 4, NetApp made Azure NetApp files available on Microsoft Azure in the government region data centers. This high-performance file storage service will enable federal, state, and local agencies to easily conform with the stringent government security and regulatory compliance requirements.

On Jul 13, NetApp announced that it has concluded acquisition of Israel-based cloud services startup — Spot. The deal is expected to aid NetApp to address the growing demand for efficient and cost-effective cloud infrastructure and boost customer experience.

Valuation

NetApp's shares are up 51.4% in the past six-month period and 4.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 31.9% and 22.2%, respectively in the past six-month period. In the past year, the Zacks sub-industry is down 4.4% but the sector is up 36.1%.

The S&P 500 index is up 18.6% in the past six-month period and 16.3% in the past year.

The stock is currently trading at 15.07X forward 12-month earnings compared with 15.93X for the Zacks sub-industry, 27.84X for the Zacks sector and 22.76X for the S&P 500 index.

In the past five years, the stock has traded as high as 23.65X and as low as 9.06X, with a 5-year median of 16.73X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $75 price target reflects 17.34X forward 12-month earnings.

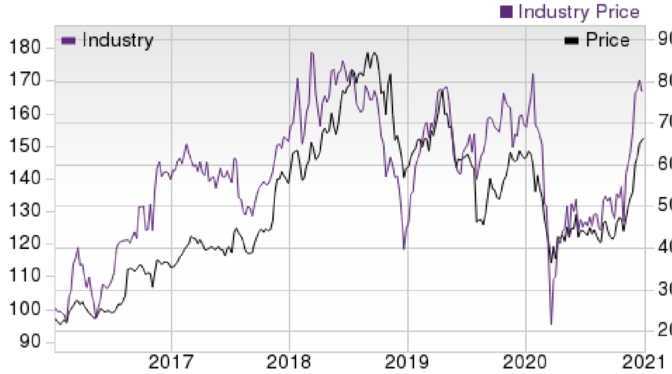
The table below shows summary valuation data for NTAP

Valuation Multiples - NTAP

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	15.07	15.93	27.84	22.76
	5-Year High	23.65	18.49	27.96	23.79
	5-Year Low	9.06	9.94	16.94	15.3
	5-Year Median	16.73	12.76	19.93	17.82
P/S F12M	Current	2.49	1.26	4.72	4.43
	5-Year High	3.58	1.41	4.72	4.43
	5-Year Low	1.08	0.8	2.77	3.21
	5-Year Median	2.07	1.12	3.47	3.67
EV/Sales TTM	Current	2.42	1.54	5.32	4.38
	5-Year High	3.22	1.71	5.46	4.43
	5-Year Low	0.49	0.55	2.85	2.62
	5-Year Median	1.58	1.36	3.89	3.59

As of 01/05/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 41% (104 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Dell Technologies Inc. **(DELL)**	Neutral	2
Netlist, Inc. **(NLST)**	Neutral	4
Pure Storage, Inc. **(PSTG)**	Neutral	3
Quantum Corporation **(QMCO)**	Neutral	3
Qumu Corporation **(QUMU)**	Neutral	3
Super Micro Computer, Inc. **(SMCI)**	Neutral	3
Seagate Technology PLC **(STX)**	Neutral	3
Teradata Corporation **(TDC)**	Neutral	2

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

Industry Comparison Industry: Computer- Storage Devices

	NTAP	X Industry	S&P 500	PSTG	SMCI	TDC
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	2
VGM Score	F	-	-	D	C	C
Market Cap	14.56 B	948.13 M	25.64 B	6.37 B	1.61 B	2.53 B
# of Analysts	11	5	13	11	1	5
Dividend Yield	2.95%	0.00%	1.48%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	B	B
Cash/Price	0.25	0.18	0.06	0.19	0.18	0.22
EV/EBITDA	11.91	11.20	14.63	-76.11	11.47	15.27
PEG F1	1.40	4.83	2.59	8.24	NA	0.93
P/B	39.10	6.57	3.64	8.39	1.52	6.57
P/CF	14.19	10.96	13.98	NA	9.98	11.94
P/E F1	16.71	15.81	20.08	167.95	13.73	14.89
P/S TTM	2.64	1.51	2.88	3.81	0.49	1.38
Earnings Yield	5.98%	4.98%	4.86%	0.60%	7.28%	6.70%
Debt/Equity	7.11	0.48	0.70	1.02	0.01	1.28
Cash Flow ($/share)	4.59	0.08	6.93	-0.17	3.12	1.94
Growth Score	F	-	-	B	F	C
Historical EPS Growth (3-5 Years)	24.67%	-7.79%	9.71%	NA	NA	-29.88%
Projected EPS Growth (F1/F0)	-3.77%	-8.43%	12.12%	-52.04%	-18.05%	30.37%
Current Cash Flow Growth	-17.99%	-28.62%	5.22%	-37.62%	68.68%	-7.74%
Historical Cash Flow Growth (3-5 Years)	1.04%	1.84%	8.33%	11.70%	8.07%	-17.98%
Current Ratio	1.65	1.84	1.38	2.64	2.51	1.08
Debt/Capital	87.67%	49.57%	41.97%	50.45%	1.10%	56.21%
Net Margin	12.44%	-2.16%	10.40%	-14.01%	2.56%	5.49%
Return on Equity	263.77%	9.94%	15.07%	-19.09%	12.14%	15.12%
Sales/Assets	0.69	0.89	0.50	0.70	1.76	0.87
Projected Sales Growth (F1/F0)	3.77%	0.00%	5.94%	1.13%	-1.36%	1.51%
Momentum Score	F	-	-	D	C	F
Daily Price Change	0.48%	1.26%	0.70%	1.83%	0.35%	4.09%
1-Week Price Change	0.67%	2.32%	1.16%	-5.71%	3.74%	0.40%
4-Week Price Change	7.63%	5.06%	-0.20%	8.85%	0.78%	2.48%
12-Week Price Change	39.01%	24.40%	9.90%	27.65%	11.89%	7.08%
52-Week Price Change	5.20%	12.20%	5.28%	31.90%	34.89%	-12.32%
20-Day Average Volume (Shares)	1,736,899	287,467	1,674,861	4,090,291	272,534	973,658
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.79%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	16.26%	2.68%	2.44%	1.15%	12.21%	2.68%
EPS Q1 Estimate Monthly Change	-0.14%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	F
Momentum Score	F
VGM Score	F

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.

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 forwardlooking 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 mediumterm 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 mostrecent 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.