

Owens Corning (OC)

\$101.80 (As of 05/05/21)

Price Target (6-12 Months): **\$117.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 04/08/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

Summary

Owens Corning's shares have outperformed the industry year to date. The company recently reported first-quarter 2021 results, wherein earnings and revenues not only surpassed analysts' expectations but also improved 179% and 19.6% year over year, respectively. Adjusted EBIT was \$282 million, up 143.1% year over year. The company witnessed double-digit sales growth in all three business segments. It is benefiting from market-leading businesses, innovative products and process technologies, and capabilities. Faster recovery in residential end markets, particularly in the United States, improved manufacturing leverage and strong cost controls helped it deliver the solid results. Notably, earnings estimates for 2021 have moved up over the past 30 days, depicting analysts' optimism regarding its bottom-line growth potential.

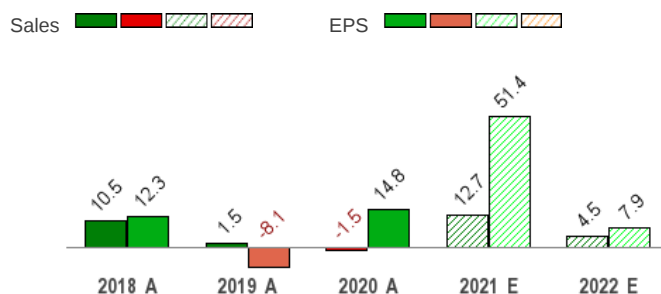
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$102.23 - \$36.18
20-Day Average Volume (Shares)	794,344
Market Cap	\$10.6 B
Year-To-Date Price Change	34.4%
Beta	1.56
Dividend / Dividend Yield	\$1.04 / 1.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 26% (65 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.8%
Last Sales Surprise	5.6%
EPS F1 Estimate 4-Week Change	20.3%
Expected Report Date	08/04/2021
Earnings ESP	0.0%
P/E TTM	16.4
P/E F1	12.9
PEG F1	1.5
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,887 E	1,950 E	2,177 E	1,983 E	8,309 E
2021	1,915 A	1,973 E	2,095 E	1,939 E	7,954 E
2020	1,601 A	1,625 A	1,904 A	1,925 A	7,055 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.56 E	\$2.19 E	\$2.81 E	\$2.37 E	\$8.51 E
2021	\$1.73 A	\$2.07 E	\$2.31 E	\$1.93 E	\$7.89 E
2020	\$0.60 A	\$0.88 A	\$1.70 A	\$1.90 A	\$5.21 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 05/05/2021. The report's text and the analyst-provided price target are as of 05/06/2021.

Overview

Owens Corning is a world leader in building materials systems and composite solutions. Since its inception in 1938, the company has evolved as a market-leading innovator of glass fiber technology. Its products include glass fiber that is used to support composite materials for transportation, electronics, marine, infrastructure, wind energy and other high-performance markets for insulation as well as roofing for residential, commercial and industrial applications.

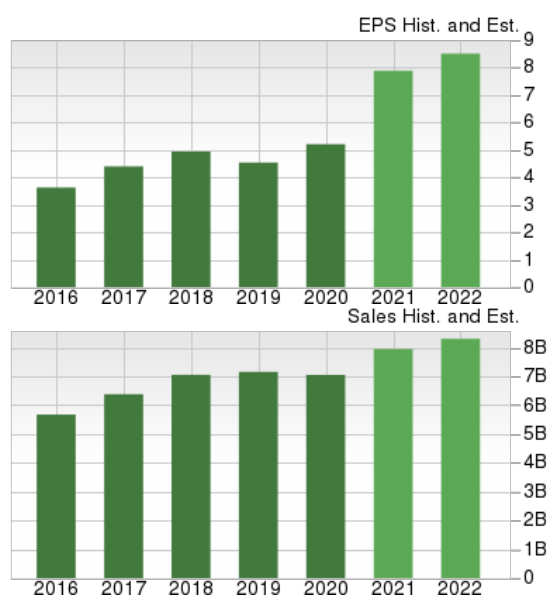
The company has three reportable segments — Composites, Insulation and Roofing.

Composites segment (accounting for 27.8% of total 2020 sales) includes vertically integrated downstream activities and specializes in the production of glass fiber reinforcement materials. Demand for composites is driven by general global economic activity and by the increasing replacement of traditional materials such as aluminum, wood and steel with composites that offer lighter weight, improved strength, lack of conductivity and corrosion resistance.

Insulation segment (37%) products include thermal and acoustical batts, loose-fill insulation, foam sheathing and accessories, glass fiber pipe insulation, energy efficient flexible duct media, bonded and granulated mineral wool insulation, cellular glass insulation as well as foam insulation. Demand for Owens Corning's insulating products is driven by new residential construction, remodeling and repair activity, commercial and industrial construction activity, increasingly stringent building codes and the growing need for energy efficiency.

Roofing segment (38.2%) products include laminate and strip asphalt roofing shingles, roofing components, synthetic packaging materials and oxidized asphalt. Demand for products in the Roofing segment is generally driven by residential repair and remodeling activity and by new residential construction. Roofing damage from major storms can significantly increase demand in the segment.

[Note: In 2020, corporate eliminations constituted 2.9% of net sales]



Reasons To Buy:

- ▲ **Strategic Initiatives to Drive Performance:** Owens Corning has implemented strategic initiatives to drive overall performance. Segment-wise, in the Insulation business, technical and other building insulation businesses look strong on the back of geographic and product expansion through acquisitions. The company's focus on network optimization and manufacturing performance drove earnings growth in this business. Also, in the North American residential fiberglass business, the company is utilizing automation and additional investments in process technology to improve manufacturing efficiencies, as well as reduce costs. Additionally, the company continues to invest in new insulation materials and systems in nonresidential applications to expand its global product offerings.

Strategic initiatives, acquisitions and enough liquidity bode well for the company

In Composites, the segment has been generating higher volumes backed by its efforts on higher value applications for glass non-wovens and specific markets like India. It is expanding or adding a new production line to its current facility in Fort Smith, AR. For composite business, the company has a two-fold focus. First, it is focused on key markets and geographies where it has a market-leading position like North America, Europe and India. Second, the company is focused on making composite business the most cost-effective network, mainly focusing on productivity and manufacturing performance. Notably, the company focuses on improving low-cost manufacturing position through strategic supply agreements, accomplished large-scale furnace investments and additional productivity.

In the Roofing segment, Owens Corning is leveraging vertical integration, material science capabilities, and commercial strength to design as well as market unique roofing shingles and components that attract contractors, homeowners and distributors. Capital investments in roofing business over the past two years have increased incremental capacity at several of its manufacturing facilities.

Across the enterprise, the company continues to invest in selected growth and productivity initiatives to serve its customers and improve the overall operating performance.

- ▲ **Acquisitions to Boost Top-line Growth:** Acquisitions are an important part of Owens Corning's growth strategy. The company is assessing its investment in bolt-on acquisitions that leverage its commercial, operational and geographic strength and expand its functional areas of offering. The acquisition of Paroc — a leading producer of mineral wool insulation for building and technical applications in Europe — enabled the company to expand its geographic scope in Europe, and augment portfolio in a bid to include insulation products in all three major markets — North America, Europe and China.

- ▲ **Strength in Insulation Business:** Owens Corning's business has been experiencing strong demand for insulating products. This is primarily driven by commercial and industrial construction activity, new residential construction, remodeling and repair activity, and increased energy efficiency. Notably, during the first quarter of 2021, in technical and other insulation, the company witnessed increased volumes across the business with its highly specified products and continuous demand growth in North America and Europe. Although the peak season for home construction and remodeling in the markets served by the company generally corresponds with the second and third calendar quarters, the coronavirus pandemic remains a potent headwind. Nonetheless, its performance has revived in the first quarter of 2021 and the insulation business executed well to deliver strong growth on both the top and the bottom line.

During the first quarter, insulation segment's net sales were \$700 million, up 16.1% year over year and EBIT margin expanded 600 bps points year over year to 12% in the quarter. Positive manufacturing performance in the overall insulation business helped to partially offset the continued transportation headwinds and accelerated material inflation.

- ▲ **Strong Liquidity Position:** Owens Corning maintains a strong balance sheet, liquidity and a well-structured debt maturity profile. In response to the unfavorable demand trends due to the pandemic, the company has been focusing on protecting liquidity and closely managing cash flows. Cash and cash equivalents as of Mar 31, 2021 came in at \$605 million, compared with \$717 million at 2020-end. Also, long-term debt — net of current portion — totaled \$3.15 billion, up from \$3.13 billion at 2020-end. Owens Corning had \$1.7 billion of available liquidity at first quarter 2021-end.

Although the company generated sequentially lower cash, the company had enough liquidity. At first-quarter end, it had approximately \$1.7 billion of liquidity and nearly \$1.1 billion of combined availability on its bank debt facilities. Furthermore, in the first quarter of 2021, net cash provided by operating activities was \$204 million versus \$52 million of cash used in operating activities a year ago. Free cash flow came in at \$120 million for the reported quarter, up from (\$144) million a year ago. The company has a total debt-to-capital ratio of 44.2, remaining flat sequentially.

Notably, the company's current liquidity is more than enough to meet the short-term obligation (including Other current liabilities and current operating lease liabilities) of \$1,467 million.

The company remains focused on consistently generating strong free cash flow, returning at least 50% to investors over time and maintaining an investment-grade balance sheet.

Risks

- **Coronavirus to Hurt Near-Term Results:** Owens Corning's businesses are witnessing negative trend in global industrial production, U.S. housing starts, and global commercial and industrial construction activity. Although these markets have improved from pandemic-driven lows, it anticipates persistence of COVID-19 impacts to hurt its end markets. Although the company expects the impact of the pandemic to continue to lessen through effective distribution of vaccines, Owens Corning's continues to observe economic uncertainties associated with the COVID-19 pandemic. The company anticipates the pandemic to continue to create uncertainty in its end markets. However, the magnitude of the crisis will depend on the duration of its stay.
- **Pricing Headwind & Input Cost Inflation:** The company expects some pricing weakness in insulation business in the upcoming quarters. During the first quarter of 2021, roofing segment margins are slightly impacted by competitive pricing pressure and the rising cost of raw materials due to the availability-related constraints.

Meanwhile, the company is facing some inflationary headwinds with respect to transportation cost, material cost and energy cost. This is dampening Owens Corning's operating performance. Also, the company witnessed an increase in asphalt, resin and other input material costs during the reported quarter. In 2020, the Composites business witnessed higher input cost inflation, lower selling prices and negative foreign currency translation. Although the company has been working to recover higher commodity cost through price increases, but it expects this ongoing volatility in material costs to persist in the near term as well.

- **Currency Headwinds:** Owens Corning is witnessing negative foreign currency translation, which is hurting overall bottom-line results. Owens Corning is exposed to foreign exchange rate fluctuation risks due to its operations in Europe and Asia-Pacific.
-

Last Earnings Report

Owens Corning (OC) Q1 Earnings Beat Estimates, Improve Y/Y

Owens Corning reported first-quarter 2021 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate. While earnings beat the consensus estimate for the eighth straight quarter, revenues outpaced the same for the fourth consecutive quarter. Moreover, both the metrics improved year over year for the first quarter 2021.

The company's results reflected improving customer demand in most of the end markets served. The main factors that positively impacted the company's businesses are residential repair and remodeling activity, U.S. housing starts, global commercial construction activity, and global industrial production. Moreover, market-leading businesses, innovative product and process technologies contributed to the results. Its commercial and industrial markets are also registering improvement. Notably, all three of its businesses delivered double-digit EBIT margins for the third consecutive quarter.

Quarter Ending	03/2021
Report Date	Apr 28, 2021
Sales Surprise	5.59%
EPS Surprise	21.83%
Quarterly EPS	1.73
Annual EPS (TTM)	6.21

Inside the Headlines

The company reported adjusted earnings of \$1.73 per share, surpassing the Zacks Consensus Estimate of \$1.42 by 21.8%. Moreover, the bottom line improved 179% year over year.

Net sales of \$1.92 billion outpaced the consensus mark of \$1.81 billion by 5.6% and increased 19.6% year over year. The upside was driven by robust revenue growth in the Roofing, Composites and Insulation business.

Segment Details

Net sales at the **Composites** segment rose 13.2% year over year to \$559 million driven by stronger-than-expected volume growth attributable to demand for downstream applications serving the building, construction and wind markets. Notably, earnings before interest and taxes (EBIT) margin of 14% expanded 500 basis points (bps) from the year-ago quarter's 9%.

Insulation segment's net sales were \$700 million, up 16.1% year over year. This upside is attributed to robust growth in U.S. new construction activity and increased demand in the commercial end markets. In technical and other insulation, the company witnessed increased volume across the business with its highly specified products and continuous demand growth in North America and Europe. EBIT margin expanded 600 bps points year over year to 12% in the quarter. Positive manufacturing performance in the overall insulation business helped to partially offset the continued transportation headwinds and accelerated material inflation.

The **Roofing** segment's net sales increased 28% year over year to \$711 million driven by 25% volume growth. The Roofing business produced its strongest first quarter as the company continued to operate in a sold-out environment. The U.S. asphalt shingle market grew 26% for the quarter as compared to the prior year with U.S. shingle volumes outperforming the market. EBIT margin expanded 1,000 bps year over year to 22% due to higher sales volumes in both shingles and roofing components along with persistent deflationary impact of asphalt.

Operating Highlights

Adjusted EBIT for the quarter totaled \$282 million, reflecting growth of 143.1% on a year-over-year.

Balance Sheet

As of Mar 31, 2021, the company had cash and cash equivalents of \$605 million compared with \$717 million at 2020-end. Long-term debt — net of current portion — totaled \$3.15 billion, up from \$3.13 billion at 2020-end. Owens Corning had \$1.7 billion of available liquidity at first quarter 2021-end. In the first quarter of 2021, net cash provided by operating activities was \$204 million versus \$52 million of cash used in operating activities a year ago. Free cash flow came in at \$120 million for the reported quarter, up from (\$144) million a year ago.

During first-quarter 2021, the company repurchased 1.6 million shares of common stock for \$131 million. It returned \$197 million to shareholders through share repurchases and dividends.

Second-Quarter 2021 Outlook

For the ongoing quarter, the company expects the U.S. residential market to remain strong and the commercial and industrial markets to continue to strengthen.

Insulation: For the North American residential fiberglass insulation business, the company expects the volume to be up 25% from the second quarter last year with additional price realization. In the technical and other building insulation businesses, volumes are expected to rise mid-teens from second-quarter 2020 with stable to slightly positive pricing. The Insulation business is expected to benefit from \$30-million fixed cost absorption while facing material and transportation inflation. Margins are expected to expand sequentially, approaching mid-teens.

Composites: The company anticipates volumes to grow at a strong pace, approximately 30% versus the prior year. The price is expected to rise low to mid-single digits over prior year. The business is likely to benefit from \$30 million of curtailment reversals. Additionally, continued favorable productivity may partially offset input material and transportation inflation and margins are projected to remain flat with respect to first-quarter 2021.

Roofing: The company expects industry shipments for U.S. shingle end-market demand to rise 15% to 20% over the prior year and volumes are expected to rise mid to high-single digits. Additional price realization is also expected during the quarter. Increased material and transportation

inflation with price/cost is likely to remain favorable for the company and sequential EBIT margins are expected to increase, approaching mid 20%.

2021 Outlook

Owens Corning's businesses are dependent on residential repair and remodeling activity, U.S. housing starts, global commercial construction activity as well as global industrial production. Although the company expects the COVID-19 pandemic to continue to create market uncertainty, it anticipates the U.S. residential housing market to remain robust and the commercial and industrial markets to strengthen.

General corporate expenses are expected between \$135 million and \$145 million. Capital additions is estimated approximately \$460 million, that is below the anticipated depreciation and amortization of \$480 million. Interest expenses are estimated between \$120 million and \$130 million. The company estimates an effective tax rate of 26-28% and a cash tax rate of 18-20%, both on adjusted pre-tax earnings.

Valuation

Owens Corning's shares are up 34.4% in the year-to-date period 144.2% and over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 18.2% and 25.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 79.8% and 90.8%, respectively.

The S&P 500 index is up 11.7% in the year-to-date period and 47% in the past year.

The stock is currently trading at 13.32X forward 12-month earnings, which compares to 17.65X for the Zacks sub-industry, 17.19X for the Zacks sector and 22.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.71X and as low as 6X, with a 5-year median of 13.85X. Our Outperform recommendation indicates that the stock will perform better-than with the market. Our \$117 price target reflects 15.31X forward 12-month earnings.

The table below shows summary valuation data for OC.

Valuation Multiples - OC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.32	17.65	17.19	22.02
	5-Year High	21.71	19.29	19.03	23.83
	5-Year Low	6	7.1	10.82	15.3
	5-Year Median	13.85	13.69	16.2	18.01
P/S F12M	Current	1.34	1.66	2.46	4.71
	5-Year High	1.67	3.58	2.46	4.71
	5-Year Low	0.46	0.76	1.23	3.21
	5-Year Median	1.02	1.06	1.66	3.71
EV/EBITDA TTM	Current	9.04	23.56	26.67	16.35
	5-Year High	10.72	30.5	26.67	17.7
	5-Year Low	2.92	12.56	11.61	9.61
	5-Year Median	7.62	22.79	17.58	13.38

As of 05/05/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries, Inc. (AWI)	Neutral	3
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Installed Building Products, Inc. (IBP)	Neutral	2
Lumber Liquidators Holdings, Inc (LL)	Neutral	3
Masco Corporation (MAS)	Neutral	2
Gibraltar Industries, Inc. (ROCK)	Neutral	3
Simpson Manufacturing Company, Inc. (SSD)	Neutral	3
United Rentals, Inc. (URI)	Neutral	2

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	OC	X Industry	S&P 500	AWI	MAS	URI
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	2
VGM Score	B	-	-	D	C	A
Market Cap	10.63 B	2.73 B	30.33 B	5.00 B	16.63 B	24.08 B
# of Analysts	6	2.5	12	4	7	10
Dividend Yield	1.02%	0.00%	1.27%	0.80%	0.85%	0.00%
Value Score	B	-	-	D	C	B
Cash/Price	0.06	0.06	0.06	0.02	0.05	0.01
EV/EBITDA	9.72	12.85	17.38	-300.28	13.29	8.48
PEG F1	1.52	2.07	2.28	2.00	2.19	1.19
P/B	2.68	2.68	4.11	10.57	76.63	5.07
P/CF	5.39	15.79	17.76	19.31	17.88	7.34
P/E F1	12.93	24.25	22.08	26.90	18.20	15.99
P/S TTM	1.44	2.17	3.49	5.32	2.19	2.85
Earnings Yield	7.75%	4.06%	4.47%	3.71%	5.49%	6.25%
Debt/Equity	0.79	0.35	0.66	1.48	13.62	1.79
Cash Flow (\$/share)	18.90	2.00	6.78	5.41	3.66	45.35
Growth Score	C	-	-	C	C	B
Historical EPS Growth (3-5 Years)	7.95%	17.97%	9.70%	18.27%	18.48%	23.01%
Projected EPS Growth (F1/F0)	51.44%	21.90%	18.79%	7.02%	15.38%	19.27%
Current Cash Flow Growth	113.79%	6.12%	0.61%	-16.93%	17.24%	-8.28%
Historical Cash Flow Growth (3-5 Years)	27.64%	10.06%	7.37%	1.26%	11.44%	10.06%
Current Ratio	1.87	2.00	1.39	2.03	1.83	1.09
Debt/Capital	44.22%	32.21%	41.55%	59.74%	93.21%	64.17%
Net Margin	10.10%	5.70%	11.70%	17.28%	10.40%	10.87%
Return on Equity	17.38%	11.66%	15.89%	37.17%	361.42%	29.36%
Sales/Assets	0.78	0.90	0.51	0.57	1.36	0.48
Projected Sales Growth (F1/F0)	12.75%	8.86%	8.55%	12.50%	12.68%	8.32%
Momentum Score	B	-	-	B	C	B
Daily Price Change	0.89%	0.00%	0.18%	-1.74%	-0.03%	0.84%
1-Week Price Change	1.00%	-0.41%	0.07%	4.07%	-1.34%	0.32%
4-Week Price Change	5.14%	5.10%	3.65%	9.77%	7.23%	3.33%
12-Week Price Change	19.85%	12.36%	11.89%	27.24%	18.52%	20.19%
52-Week Price Change	147.57%	70.04%	56.64%	42.68%	58.68%	200.25%
20-Day Average Volume (Shares)	794,344	207,992	1,795,059	290,462	1,651,657	657,367
EPS F1 Estimate 1-Week Change	6.53%	0.00%	0.00%	0.00%	0.10%	9.47%
EPS F1 Estimate 4-Week Change	20.34%	0.00%	0.97%	-1.15%	8.11%	12.09%
EPS F1 Estimate 12-Week Change	40.52%	4.42%	2.39%	-1.02%	12.99%	12.98%
EPS Q1 Estimate Monthly Change	24.30%	0.00%	0.72%	9.49%	3.08%	11.83%

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	B
Growth Score	C
Momentum Score	B
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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