

Healthpeak Properties (PEAK)

\$35.30 (As of 06/14/21)

Price Target (6-12 Months): **\$37.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/13/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Healthpeak has inked a long-term lease with Turning Point Therapeutics for the entire Callan Ridge densification project. The company announced that it will break ground on another development in the Sorrento Mesa submarket in third-quarter 2021. Its portfolio is well-poised for growth, given its footprint in high barrier-to-entry markets and improving industry fundamentals. Recycling of capital through non-core dispositions of senior housing assets to acquire and fund the development of life science and medical office assets also bode well. Yet, pandemic-related occupancy declines at Healthpeak's senior housing properties are likely to dent revenues. Also, while it is progressing on its senior housing assets sale, the near-term dilutive impacts on earnings are unavoidable. Its shares have underperformed the industry in the past six months.

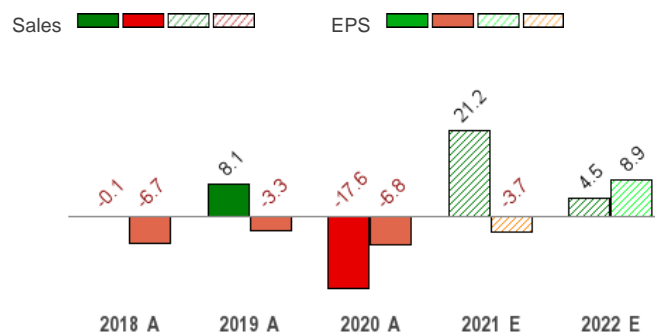
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$35.31 - \$25.13
20-Day Average Volume (Shares)	3,395,118
Market Cap	\$19.0 B
Year-To-Date Price Change	16.8%
Beta	0.70
Dividend / Dividend Yield	\$1.20 / 3.4%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 16% (210 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.6%
Last Sales Surprise	-16.5%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	08/03/2021
Earnings ESP	-2.0%
P/E TTM	21.9
P/E F1	22.3
PEG F1	7.7
P/S TTM	9.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	531 E	537 E	544 E	551 E	2,083 E
2021	455 A	514 E	511 E	521 E	1,993 E
2020	585 A	588 A	598 A	432 A	1,645 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.42 E	\$0.43 E	\$0.43 E	\$0.44 E	\$1.72 E
2021	\$0.40 A	\$0.39 E	\$0.40 E	\$0.41 E	\$1.58 E
2020	\$0.45 A	\$0.40 A	\$0.40 A	\$0.41 A	\$1.64 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 06/14/2021. The report's text and the analyst-provided price target are as of 06/15/2021.

Overview

Headquartered in Denver, CO, Healthpeak Properties, Inc. is a real estate investment trust (REIT) in the United States that acquires, develops, manages, sells and leases a diverse portfolio of healthcare real estate related properties. It is an S&P 500 Index member.

Beginning fourth-quarter 2020, Healthpeak reclassified operating results for its hospitals from other non-reportable segments to the medical office segment. Moreover its one remaining unconsolidated senior housing joint venture was reclassified from senior housing operating portfolio or SHOP segment to other non-reportable segments.

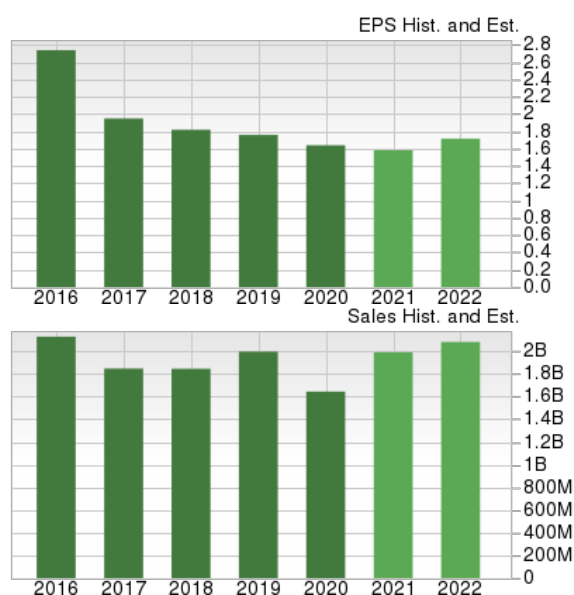
Further, on Dec 31, 2020, the company inferred that the planned dispositions of SHOP and senior housing triple-net assets represented a strategic shift. Hence related operating results should be regarded as discontinued operations and have been removed from the same-store portfolio.

The company divides its operations into the following four reportable segments — continuing care retirement community or “CCRC” (3.1% of total portfolio adjusted NOI for first-quarter 2021), life science (47.9%), and medical office (48.9%). It also has a non-reportable segment (2%), primarily consisting of interests in an unconsolidated senior housing joint venture and debt investments.

As of Mar 31, 2021, Healthpeak’s portfolio of investments, including properties in unconsolidated joint ventures and excluding investments classified as discontinued operations, comprised interests in 463 properties.

In January 2020, the company closed the previously announced transaction with Brookdale Senior Living, acquiring Brookdale’s 51% interest in 13 CCRCs for \$541 million and the sale of a triple-net portfolio, consisting 18 properties, for cash proceeds of \$385 million. In January 2021, Healthpeak sold the remaining 24 senior housing assets under a triple-net lease with Brookdale for \$510 million.

Note: All EPS numbers presented in this report represent funds from operations (“FFO”) per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Healthpeak has one of the most diversified, high-quality and well-balanced portfolios across three core asset classes of life science, medical office, and CCRC real estate. The diverse product mix of the company allows it to explore the opportunities available in various areas, based on individual market dynamics. Moreover, the company's total portfolio is now significantly private pay and this is likely to increase its overall profitability over the long run. Specifically, this will help the company leverage on the baby-boomer demographics but avoid the complications surrounding government reimbursement.
- ▲ Going forward, national healthcare expenditure is expected to rise. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared to the average population. Hence, with an expectation of a high senior citizens' population in the years ahead, we believe Healthpeak has a strong upside potential, being well-poised to capitalize on this expenditure trend of senior citizens on healthcare services. Moreover, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid volatility in the market. This is because even amid tough economic conditions, consumers need to spend on healthcare services while curtailing discretionary purchases.
- ▲ Healthpeak is making concerted portfolio-repositioning efforts to focus on life-science, medical office and CCRC assets. As part of such efforts, the company is recycling capital through non-core dispositions of SHOP and triple-net leased assets to acquire and fund development of life science and medical office assets in high barrier-to-entry markets. In fact, such expansion moves have enabled it to benefit from favorable operating trends and tenant demand, thereby renewing growth opportunities for the company. In April, the company closed the buyout of a 14-property medical office portfolio, spanning 833,000 square feet, for \$371 million. Moreover, in March, Healthpeak announced a development project in South San Francisco and the Callan Ridge densification in Torrey Pines submarket of San Diego.
- ▲ Increasing life expectancy of the U.S. population, and biopharma drug development growth opportunities have promoted the life-science real estate market fundamentals. Moreover, in light of global efforts to develop vaccines and treatments for the coronavirus, there is higher demand for drug innovation. This is driving sector fundamentals, leasing activity and rent growth. Hence, Healthpeak's focus on the life-science segment is a strategic fit and it expects the majority of its future growth to be driven by such assets. Notably, the company follows a cluster strategy in three premier life-science epicenters — San Diego, San Francisco and Boston — to assemble assets through acquisitions, developments and redevelopments. On the back of these portfolio moves, the company is gaining scale and is well-poised to meet the growing demand from life-science tenants. In fact, for 2021, Healthpeak expects same-store cash NOI growth of 4.5-5.5%.
- ▲ Healthpeak has been taking steps to bolster its near-term liquidity. On May 4, the company used proceeds from its senior housing sales to commence tender offers of up to an additional \$550 million of senior unsecured notes maturing in 2025, which have a weighted average coupon of 3.7%. Pro-forma debt repayment, the company has no senior unsecured notes maturing until February 2025, thereby, extending weighted average debt maturity to 6.5 years. Further, weighted average interest rate has been reduced to 3%. Healthpeak had cash and cash equivalents of \$34 million as of Mar 31, 2021. Additionally, as of Mar 31, 2021, the company enjoyed long-term credit ratings of Baa1 from Moody's and BBB+ from Fitch and S&P Global. With investment-grade credit ratings and provision to issue \$1.25 billion additional shares under its at-the-market program, the company can easily access the debt and equity markets to fund capital commitments at favorable costs. Therefore, Healthpeak, with its sound liquidity position and limited near-term capital needs, is anticipated to sail efficiently through any unexpected negative externalities in the future.

Healthpeak is likely to gain from a diversified portfolio, rising healthcare spending and aging population. Accretive investments, tie-ups and opportunistic developments will drive cash flow growth.

Reasons To Sell:

- ▼ Healthpeak's senior housing business has been adversely impacted by the pandemic. Move-ins have been low in light of the pandemic-related protocols, reduced in-person tours and incidences of coronavirus outbreaks at the company's facilities. This along with significant move-outs has resulted in year-over-year declines in occupancy rates at its CCRC portfolio, thereby denting revenues and NOI. While situations have now improved with accelerated vaccinations and relaxation of restrictions, the issues might continue in the near term. In fact, as of the end of first-quarter 2021, occupancy at its same-store CCRC portfolio was at 75.8% down from 78% reported at 2020-end. Such occupancy declines are likely to continue for at least the duration of the pandemic. Also, senior housing assets are seeing significant cost increases. For 2021, CCRCs average daily census occupancy is expected to be 79-86%.

The adverse impacts on the company's senior housing portfolio amid the coronavirus pandemic have been worrisome. Moreover, earnings dilution from large-scale asset dispositions is a concern.
 - ▼ Over the past few years, Healthpeak has significantly reduced the size of both SHOP and triple-net portfolios. Eliminating SHOP and triple-net exposure through divestures will reduce COVID-19 related operational uncertainty for the company in the near term and offer stability to earnings going forward. Moreover, sale of such non-core assets will allow it to rebalance portfolio toward life science and medical office businesses. In line with this, the company made significant progress on its \$4-billion planned sale of SHOP and triple-net leased assets. Particularly, it aggregated gross proceeds of \$3.5 billion from closed dispositions since July 2020. Although such efforts are a strategic fit for the long term, the dilutive impact on earnings and reduced cash flows in the near term from the sale of assets is unavoidable.
 - ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Healthpeak had remained committed to that. However, on Feb 9, aligning its payout ratio with the targeted life science, medical office and CCRC portfolio and strategy, the company slashed its dividend by 19% to 30 cents from 37 cents paid out earlier. The dividend was paid out on Mar 5 to shareholders of record as of Feb 22, 2021. The company has maintained the dividend amount.
 - ▼ Shares of Healthpeak have underperformed its industry over the past six months. The company's shares have rallied 16.1% in the past six months compared with the industry's growth of 20%. Also, the trend in estimate revisions for 2021 FFO per share does not indicate a favorable outlook for the company as it has been unchanged over the past month. Therefore, given the above-mentioned concerns and lack of upward estimate revisions, the stock has limited upside potential in the near term.
-

Last Earnings Report

Healthpeak Q1 FFO Surpasses Estimates, Revenues Miss

Healthpeak reported first-quarter 2021 FFO as adjusted of 40 cents per share, surpassing the Zacks Consensus Estimate by a whisker. However, the reported figure compared unfavorably with FFO as adjusted of 45 cents per share recorded in the prior-year quarter.

The healthcare REIT generated revenues of \$455.3 million, missing the Zacks Consensus Estimate of \$544.9 million. Nonetheless, the figure was 19.5% higher than the year-ago number.

Performance was backed by revenue growth. However, weakness in the CCRC portfolio affected results.

Quarter Ending	03/2021
Report Date	May 04, 2021
Sales Surprise	-16.45%
EPS Surprise	2.56%
Quarterly EPS	0.40
Annual EPS (TTM)	1.61

Behind the Headlines

For first-quarter 2021, the company registered 4.3% growth in the three-month cash same-store portfolio NOI, including government grants received under the CARES Act.

It witnessed 8.5% and 2.1% year-over-year growth in the three-month cash same-store portfolio NOI for its life-science segment and the medical office segment, respectively. However, three-month cash same-store portfolio NOI for the CCRC portfolio declined 16.5% year over year, including government grants received under the CARES Act.

Portfolio Activity

Healthpeak earlier initiated a strategy to dispose of its senior housing triple-net and SHOP assets worth \$4 billion. Making significant progress on the strategy, it aggregated gross proceeds of \$3.5 billion from closed dispositions since July 2020.

In April, the company closed the buyout of a 14-property medical office portfolio, spanning 833,000 square feet, for \$371 million.

Liquidity

Healthpeak had cash and cash equivalents of \$34 million as of Mar 31, 2021, down from \$44.2 million recorded at the end of 2020.

On May 4, the company used proceeds from its senior housing sales to commence tender offers of up to an additional \$550 million of senior unsecured notes maturing in 2025 that have a weighted average coupon of 3.7%.

Pro forma debt repayment, the company has no senior unsecured notes maturing until February 2025, thereby, extending weighted average debt maturity to 6.5 years. Further, weighted average interest rate has been reduced to 3%.

Outlook

The company updated the guidance for 2021 and expects FFO as adjusted per share of \$1.53-\$1.61 compared with \$1.50-\$1.60 mentioned earlier. This indicates an increase of 2 cents at the mid-point.

Same-store cash adjusted NOI growth for 2021 is expected to be 1.75-3.25% for the total portfolio.

Recent News

Healthpeak Leases Life-Science Asset, To Construct Another – Jun 7, 2021

Healthpeak Properties is seeing robust demand for its life-science properties in key markets. Recently, the company announced that it has inked a long-term lease with Turning Point Therapeutics, Inc. for the entire Callan Ridge densification project that was announced this March. The lease is anticipated to begin at the end of 2022, after the completion of the construction.

Markedly, the company earlier unveiled plans to densify its Callan Ridge campus at 3020-3030 Callan Road in the Torrey Pines submarket of San Diego to double the current leasable area. It will replace the existing outdated 90,000-sq-ft building with a new class A life science campus, consisting of two buildings with 185,000 square feet of space.

The property is located in the center of Healthpeak-owned Torrey Pines Science Park, which spans more than 20 acres and will continue to cater to San Diego's life-science tenants' needs. The company has another ground-up development in the Torrey Pines submarket — The Boardwalk — which is also fully pre-leased and will likely be delivered for initial occupancy in fourth-quarter 2021.

Following the successful pre-leasing of its two ground-up developments of The Boardwalk and Callan Ridge campuses in San Diego, Healthpeak has announced that it will break ground on another development in the Sorrento Mesa submarket in third-quarter 2021, marking its third in San Diego since 2020.

Particularly, the company will begin construction of Sorrento Gateway, a Class-A development, which will comprise a five-story building, spanning nearly 163,000 square feet. It will be purpose-built with numerous amenities, allowing the company to capitalize on the demand from existing and new tenants alike. The project is expected to be delivered for initial occupancy in first-quarter 2023. It is likely to see strong demand, similar to Callan Ridge, supported by industry tailwinds that are benefiting life-science epicenters such as San Diego.

The aging demography and increasing life expectancy of the U.S. population are driving the demand for life-changing therapies and cures. This is offering scope for scientific innovation and biopharma drug development by biotechs. Moreover, in light of global efforts to develop vaccines and treatments for coronavirus, there is a higher demand for drug innovation.

The underlying demand drivers are strengthening life-science fundamentals, leasing activity and rent growth. Also, favorable drug approval trends and high life-science funding have been positives. Amid these, with an existing biotech-heavy tenant base, Healthpeak is seeing decent demand and retention at its lab properties. In fact, for 2021, the company expects same-store cash net operating income growth of 4.5-5.5%.

Healthpeak Announces Two Life-Science Developments – Mar 18, 2021

In line with its portfolio-repositioning strategy to focus on life-science assets in key markets, Healthpeak announced two developments, each in South San Francisco and the Torrey Pines submarket of San Diego.

The class-A development in South San Francisco will be called Nexus on Grand and is located on 233 East Grand Avenue. The development will comprise a five-floor building spanning 141,000 square feet of space. It will be purpose-built, enabling it to accommodate a number of life science uses.

Further, the notable location of the property will likely attract decent demand. This marks the company's third ground-up development in the market since 2015 following The Cove at Oyster Point and The Shore at Sierra Point.

Also, Healthpeak has announced its plan to densify its Callan Ridge campus at 3020-3030 Callan Road in the Torrey Pines submarket of San Diego to double the current leasable area. The company will replace the existing outdated 90,000-square-foot building with a new class A life science campus consisting of two buildings with a total of 185,000 square feet of space.

The property is located in the center of Healthpeak-owned Torrey Pines Science Park that spans more than 20 acres and will continue to cater to San Diego's life-science tenants' needs.

It has another ground-up development in the Torrey Pines submarket — The Boardwalk — which is expected to be delivered for initial occupancy in fourth-quarter 2021.

Dividend Update

On Apr 29, the company announced a quarterly cash dividend of 30 cents per common share. The dividend was paid out on May 21 to shareholders of record as of May 10, 2021.

Valuation

Healthpeak's shares have been up 23.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have been up 20.7% and 43.4%, respectively, over the past year.

The S&P 500 Index has been up 38% over the trailing 12-month period.

The stock is currently trading at 21.47X forward 12-month FFO, which compares with 22.27X for the Zacks sub-industry, 16.62X for the Zacks sector and 21.85X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.47X and as low as 10.46X, with a 5-year median of 16.02X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$37.50 price target reflects 22.81X FFO.

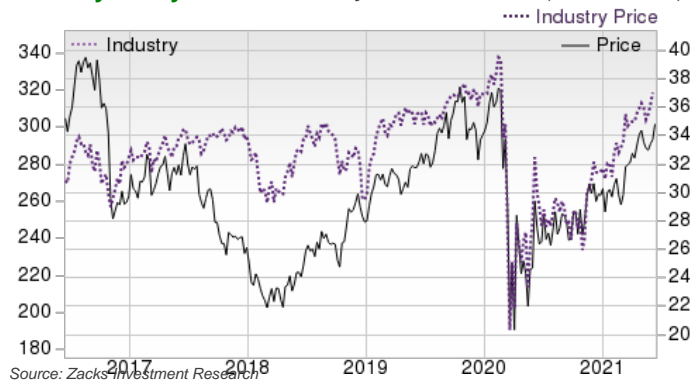
The table below shows summary valuation data for PEAK.

Valuation Multiples - PEAK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.47	22.27	16.62	21.85
	5-Year High	21.47	22.27	17.24	23.83
	5-Year Low	10.46	14.57	11.60	15.31
	5-Year Median	16.02	16.41	14.94	18.05
P/S F12M	Current	9.36	8.71	8.56	4.73
	5-Year High	9.36	8.71	8.56	4.74
	5-Year Low	4.59	5.47	5.08	3.21
	5-Year Median	6.91	6.41	6.21	3.72
P/B TTM	Current	2.60	2.78	3.39	7.07
	5-Year High	2.88	2.80	3.42	7.07
	5-Year Low	1.31	1.63	1.77	3.84
	5-Year Median	2.23	2.33	2.64	5.02

As of 06/14/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 16% (210 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Healthcare Realty Trust Incorporated (HR)	Neutral	3
Healthcare Trust of America, Inc. (HTA)	Neutral	3
Medical Properties Trust, Inc. (MPW)	Neutral	3
Omega Healthcare Investors, Inc. (OHI)	Neutral	3
Ventas, Inc. (VTR)	Neutral	3
Welltower Inc. (WELL)	Neutral	3
LTC Properties, Inc. (LTC)	Underperform	4
Sabra Healthcare REIT, Inc. (SBRA)	Underperform	5

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	PEAK	X Industry	S&P 500	MPW	VTR	WELL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	D	D
Market Cap	19.02 B	3.08 B	30.26 B	12.92 B	22.12 B	33.91 B
# of Analysts	8	4	12	7	11	11
Dividend Yield	3.40%	2.72%	1.29%	5.10%	3.05%	3.00%
Value Score	D	-	-	C	C	D
Cash/Price	0.01	0.03	0.05	0.14	0.01	0.08
EV/EBITDA	22.88	19.58	17.28	28.04	20.53	29.92
PEG F1	7.59	3.34	2.12	1.29	6.87	6.12
P/B	2.60	1.64	4.16	1.58	2.20	2.03
P/CF	19.66	16.59	17.62	16.51	14.45	16.71
P/E F1	22.09	19.97	21.40	12.63	20.45	26.63
P/S TTM	9.18	7.78	3.49	9.81	5.99	7.71
Earnings Yield	4.48%	4.89%	4.58%	7.92%	4.88%	3.76%
Debt/Equity	0.79	0.87	0.66	1.23	1.17	0.87
Cash Flow (\$/share)	1.80	1.70	6.83	1.33	4.08	4.86
Growth Score	D	-	-	D	C	C
Historical EPS Growth (3-5 Years)	-11.29%	0.82%	9.44%	3.20%	-4.91%	-4.49%
Projected EPS Growth (F1/F0)	-3.43%	6.25%	21.49%	10.83%	-13.14%	-14.35%
Current Cash Flow Growth	31.62%	-2.35%	0.86%	33.39%	2.35%	-10.86%
Historical Cash Flow Growth (3-5 Years)	241.03%	10.49%	7.28%	27.07%	2.33%	3.37%
Current Ratio	1.26	1.63	1.39	5.42	0.69	3.89
Debt/Capital	44.06%	46.73%	41.51%	55.19%	53.87%	47.11%
Net Margin	13.47%	10.86%	11.95%	39.02%	-2.47%	16.82%
Return on Equity	-1.56%	2.60%	16.36%	7.03%	-0.89%	5.66%
Sales/Assets	0.13	0.11	0.51	0.08	0.15	0.13
Projected Sales Growth (F1/F0)	-9.55%	6.44%	9.48%	19.26%	-2.84%	-4.67%
Momentum Score	C	-	-	C	F	C
Daily Price Change	1.50%	0.00%	0.18%	0.97%	1.50%	1.92%
1-Week Price Change	3.24%	3.06%	0.68%	3.13%	2.34%	4.22%
4-Week Price Change	5.94%	7.79%	2.21%	4.57%	8.64%	11.06%
12-Week Price Change	11.57%	12.10%	7.98%	2.66%	9.57%	14.38%
52-Week Price Change	25.35%	25.43%	38.76%	10.79%	47.73%	44.71%
20-Day Average Volume (Shares)	3,395,118	608,577	1,769,004	4,306,844	1,484,671	1,489,026
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.24%	0.00%	0.02%	0.00%	-0.15%	0.00%
EPS F1 Estimate 12-Week Change	0.33%	0.37%	3.44%	0.48%	-1.58%	-1.29%
EPS Q1 Estimate Monthly Change	0.28%	0.00%	0.00%	-0.28%	0.21%	1.63%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	D

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.