

PepsiCo Inc. (PEP)

\$131.55 (As of 05/07/20)

Price Target (6-12 Months): **\$138.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Shares of PepsiCo have risen and outpaced the industry in the past year on a positive surprise trend. The company's top and bottom line surpassed the Zacks Consensus Estimate for the fifth straight quarter in first-quarter 2020. Results gained from its strong portfolio of brands, a responsive supply chain and flexible go-to-market systems, which helped maintain continued supplies amid the coronavirus pandemic. Further, it sees ample flexibility to meet the investment needs of its business and return cash to shareholders. However, the company withdrew its view for 2020 citing uncertainties across its geographies, retail channels and consumer behaviors due to the coronavirus outbreak. It predicts organic revenues to decline at a low single-digit rate in the second quarter. Also, adverse currency rates are likely to hurt results in 2020.

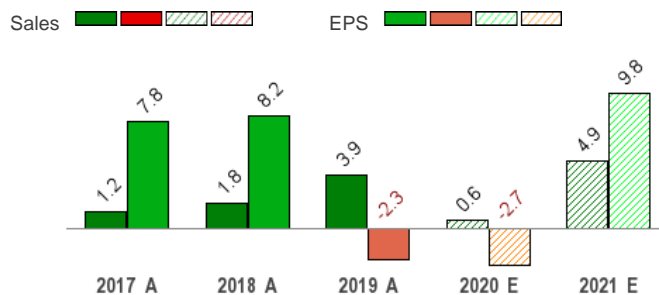
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$147.20 - \$101.42
20 Day Average Volume (sh)	4,725,475
Market Cap	\$182.5 B
YTD Price Change	-3.8%
Beta	0.60
Dividend / Div Yld	\$4.09 / 2.9%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Top 32% (82 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	5.0%
EPS F1 Est- 4 week change	-6.1%
Expected Report Date	07/14/2020
Earnings ESP	0.0%
P/E TTM	23.4
P/E F1	24.5
PEG F1	3.5
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	13,861 E	16,873 E	17,764 E	21,574 E	70,905 E
2020	13,881 A	15,684 E	16,999 E	20,949 E	67,592 E
2019	12,884 A	16,449 A	17,188 A	20,640 A	67,161 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.13 E	\$1.49 E	\$1.72 E	\$1.68 E	\$5.91 E
2020	\$1.07 A	\$1.25 E	\$1.53 E	\$1.50 E	\$5.38 E
2019	\$0.97 A	\$1.54 A	\$1.56 A	\$1.45 A	\$5.53 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 05/07/2020. The reports text is as of 05/08/2020.

Overview

Headquartered in Purchase, NY, PepsiCo, Inc. is one of the leading global food and beverage companies. Its complementary brands/businesses include Frito-Lay snacks, Pepsi-Cola beverages, Gatorade sports drinks, Tropicana juices and Quaker foods. The company serves customers in more than 200 countries and territories.

The company is organized into six reportable segments:

Frito-Lay North America (FLNA - accounted for 25% of total revenues in 2019): The segment produces and sells snack foods in the United States, including some popular names like Cheetos cheese-flavored snacks, Doritos tortilla chips, Fritos corn chips, Lay's potato chips, Ruffles potato chips and Tostitos tortilla chips.

Quaker Foods North America (QFNA - 4%): The segment manufactures and sells cereals, rice, pasta, dairy and other branded products and includes some popular names like Quaker oatmeal and Aunt Jemima mixes and syrups, Quaker grits.

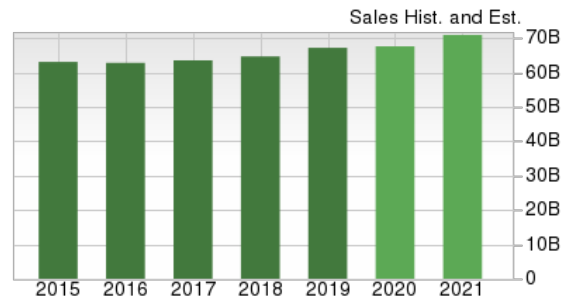
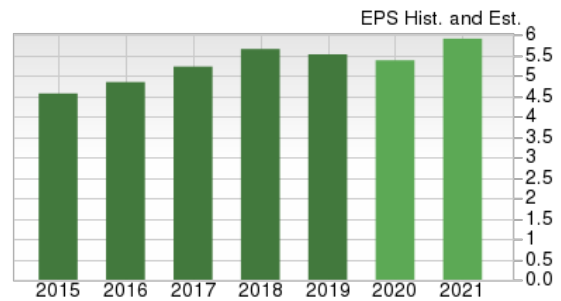
PepsiCo Beverages North America (PBNA - 33%): The segment includes all beverage businesses in the United States and Canada. The segment, formerly known as North America Beverages (NAB), manufactures and sells beverage concentrates, fountain syrups and many carbonated soft drinks (CSD) and non-carbonated beverages (NCB). It also sells ready-to-drink tea and coffee products through joint ventures (JV) with Unilever and Starbucks along with brands like Crush and Dr Pepper.

Latin America (LatAm - 11%): The segment includes all beverage, food and snack businesses in Latin America.

Europe (18%): The segment includes all beverage, food and snack businesses in Europe. It also sells ready-to-drink tea products through an international JV with Unilever (under the Lipton brand name) and some leading dairy products.

Africa, Middle East and South Asia (AMESA - 5%): The segment includes all beverage, food and snack businesses in Africa, Middle East and South Asia.

Asia Pacific, Australia and New Zealand and China (APAC - 4%): The segment includes all beverage, food and snack businesses in Asia Pacific, Australia and New Zealand and China.



Reasons To Buy:

- ▲ **Robust Surprise Trend:** Shares PepsiCo have shown resilience with a growth of 4.4% in the past year driven by its robust surprise trend. Meanwhile, the industry registered a decline of 9.2% in the same period. Notably, the company's top and bottom line surpassed the Zacks Consensus Estimate for the fifth straight quarter in first-quarter 2020. Results primarily gained from its strong portfolio of brands, a responsive supply chain and flexible go-to-market systems, which helped maintain continued supplies amid the coronavirus pandemic. On an organic basis, the company's revenues rose 7.9% year over year in the first quarter. Revenue growth, on a reported and organic basis, was primarily driven by strength in all of the company's businesses as well as robust pricing and volume. Notably, all segments witnessed organic and reported revenue growth in the first quarter. This was driven by strong progress on its strategic priorities, and investments made in its capabilities, brands, manufacturing, supply chain and go-to-market capacity, which helped deliver growth amid the coronavirus pandemic. Moreover, foreign currency impacts on revenues and earnings remained neutral in the quarter.
- ▲ **Opportunities Linked To Coronavirus Pandemic:** While the coronavirus is wrecking havoc everywhere, PepsiCo sees many opportunities with some risks in the situation. The company is evaluating the various stages of the pandemic and the resulting consumer behavior, and adjusting supplies accordingly to serve consumers better. The social distancing and shelter in place norms have shifted consumption habits more toward at-home channels, reflecting a marked increase in the e-commerce channel and increased basket size. Further, the stay at home trend has resulted in increase in the habit of eating breakfast and more snacking during the day, which provides an opportunity for the Frito and Quaker food businesses to capitalize and improve household penetration. In response to these shifts, the company is adjusting its advertising, revenue management and go-to-market priorities across the businesses and channels. Further, it is focused on privatizing SKUs to maximize manufacturing capacity and supply chain efficiencies. Overall, the company is witnessing a general trend of more resilient snacks and food businesses compared with the less discretionary beverages. As the company has a strong portfolio for both snacking and beverage categories, it has a natural hedge to the current situation where growth in snacks and foods business will compensate for the decline in beverages.
- ▲ **Strong International Presence:** PepsiCo generates a significant part of its revenues outside the United States. Developing and emerging markets have significant growth potential due to their relatively low per-capita consumption. The company has been expanding in developing/emerging markets like Russia, Mexico, China, India, Brazil and Africa through tailored distribution models as well as by offering locally relevant innovation and value-added products. In Mexico and India, PepsiCo has a massive expansion plan in place over the next five years. In first-quarter 2020, the company delivered solid organic revenue growth in each of its international segments. Notably, developing and emerging markets led the way with a double-digit increase in organic revenue in Mexico, India, Egypt, Turkey, Pakistan, Saudi Arabia and South Africa. Further, it delivered high single-digit growth in Colombia and mid-single-digit increase in Brazil, Russia and Poland. The growth in these regions was mostly balanced between snacks and beverages, driven by strong investments in advertising and improved manufacturing and selling capacity. Additionally, the SodaStream business continued to deliver robust growth of more than 20% as more customers experimented with this environment-friendly at-home platform.
- ▲ **Productivity Improvement and Cost Savings Program:** PepsiCo has been continually focused on driving greater efficiency and effectiveness, by driving down costs and plowing back these savings to develop scale and core capabilities. In 2019, the company delivered in excess of \$1 billion in productivity savings, keeping it on track with its goal of generating productivity savings of at least \$1 billion annually through 2023. The company expects to achieve this productivity goal through savings generated from restructuring actions. These actions are likely to position the company to further simplify, synchronize and automate processes; re-engineer the go-to-market and information systems; simplify the organization and optimize its manufacturing and supply chain footprint. As part of these restructuring actions, the company estimates incurring pre-tax charges of nearly \$2.5 billion through 2023 (with cash portion of nearly \$1.6 billion). Savings from the productivity and restructuring plans should go a long way in driving top line and margins.
- ▲ **Financial Flexibility:** Even amid the coronavirus crisis, PepsiCo remains financially sound to run its business and meet obligations. As of Mar 21, 2020, the company's long term debt increased 21.3% sequentially to \$35,361 million. Meanwhile, its cash and cash equivalents at the end of first-quarter more than doubled sequentially to \$11,089 million compared with \$5,509 million as of the fourth quarter of 2019. Notably, its cash position remains sufficient to fund its short term debt obligations of about \$5,882 million as of Mar 21, 2020. Also, it had \$7.5 billion of undrawn capacity under its committed bank credit facilities as of Mar 21. Based on all of the aforementioned factors and strong cash flow generation, the company believes it has ample flexibility to meet the investment needs of its business and return cash to shareholders in the foreseeable future.
- ▲ **Shareholder Returns:** PepsiCo regularly returns value through higher dividends and share buybacks and reinvests greatly in its business. PepsiCo's six-year annualized dividend per share (as of Dec 2018) has grown at a compounded growth rate of 9%, while cash returns over the same period were more than \$45 billion. It has been increasing dividend for 48 consecutive years, including increases of 7.1% in 2020, 3% in 2019, 15% in 2018, 7% in 2017, 7.1% in 2016, 7.3% in 2015, 15% for 2014 and 5.6% for 2013. Also, it bought back shares worth \$3.2 billion in 2012, \$3 billion in 2013, \$5 billion each in 2014 and 2015, \$3 billion in 2016, and \$2 billion in both 2017 and 2018. Recently, the company announced a quarterly dividend of \$1.0225 per share, which is payable on Jun 30, 2020. We note that the company's current annualized dividend rate of \$4.09 a share reflects a 7.1% increase from the year-ago period. Notably, PepsiCo has a dividend payout ratio of 61.6%, dividend yield of 2.9% and free cash flow yield of 2.8%. Moreover, management plans to return \$7.5 billion of cash to shareholders in 2020, through dividend payments worth \$5.5 billion and share repurchases of \$2 billion.

PepsiCo primarily gains from its strong portfolio of brands, a responsive supply chain and flexible go-to-market systems, which helped maintain continued supplies amid the coronavirus pandemic.

Reasons To Sell:

▼ **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, PepsiCo looks overvalued compared with the industry and the S&P 500 index. The stock has a trailing 12-month P/E ratio of 23.41x, which is below the median level of 24.1x and the high level of 26.63x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is higher than 21.75x for the industry and 18.2x for S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

PepsiCo's withdrew its view for 2020 citing unprecedented uncertainties across its geographies, retail channels and consumer behaviors due to the coronavirus outbreak.

▼ **Coronavirus to Hurt Q2, 2020 View Withdrawn:** Despite a strong first-quarter performance, PepsiCo expects unprecedented uncertainties across its geographies, retail channels and consumer behaviors due to the coronavirus outbreak. Consequently, it withdrew guidance for 2020. Though some of the company's businesses have performed well so far, declines in immediate consumption channels, disruptions due to retail closures and other restrictions relating to the pandemic have been concerning. Moreover, the company is incurring higher labor, logistics and service costs to meet customer demands, which are likely to persist. To overcome these cost hurdles, it is tightly managing discretionary expenses, reducing non-essential advertising and marketing spend and optimizing revenue management. Despite all efforts, there remains profound uncertainty regarding duration of the pandemic and resulting changes in consumer habits. These factors might hurt the results in the quarters ahead.

Based on the aforementioned adversities, the company predicts organic revenue to decline at a low single-digit rate in the second quarter. However, the company's recent acquisitions of Pioneer Foods and ROCKSTAR and the distribution agreement with Bang Energy will start contributing to results in the second quarter. It also expects the weakness in immediate consumption channels, retail closures and coronavirus-related restrictions to mar operating margin.

▼ **Higher SG&A Expenses:** PepsiCo has been grappling with higher SG&A expenses for the past few quarters, which has been weighing on operating margin performance. Notably, SG&A expenses increased 7.8% in first-quarter 2020, while as a percentage of sales it remained flat year over year. The increase in SG&A expenses can be attributed to some charges incurred owing to the coronavirus pandemic as well as higher advertising and marketing expenses. Driven by the higher SG&A expenses, reported operating margin contracted 172 bps in the first quarter, while core operating margin declined 18 bps.

▼ **Unfavorable Foreign Currency:** PepsiCo's significant international presence exposes it to foreign currency risks. Although, foreign currency effects on revenues and earnings remained neutral in the first quarter, the company estimates currency headwinds to hurt revenues and core EPS by 3-4 percentage points in 2020, based on current rates. Moreover, the company predicts adverse currency impacts of low to mid-single-digit percentage rate on net revenue and core earnings per share in the second quarter.

▼ **Macro Challenges:** The beverage industry presents substantial challenges for PepsiCo, primarily related to dynamic retail and consumer landscape, a very competitive environment, as well as operating and commodity cost inflation. The company's profits and margins are particularly pressured due to higher transportation cost, product mix costs and stepped-up advertising expense.

Last Earnings Report

PepsiCo Beats Earnings and Revenue Estimates in Q1

PepsiCo reported strong first-quarter 2020 results, wherein earnings and sales surpassed estimates. The company primarily gained from its strong portfolio of brands, a responsive supply chain and flexible go-to-market systems, which helped maintain continued supplies amid the coronavirus pandemic.

Despite a strong first-quarter performance, the company expects unprecedented uncertainties across its geographies, retail channels and consumer behaviors due to the coronavirus outbreak. Consequently, it withdrew guidance for 2020. However, it expects to maintain a strong balance sheet, increased cash generation and ample liquidity to invest in its business and reward shareholders.

For 2020, the company plans to return \$7.5 billion of cash to shareholders, comprising \$5.5 billion of dividends and \$2 billion of share repurchases. Further, it expects core effective tax rate of 21%. Moreover, it expects currency headwinds to hurt revenues and core EPS by 3-4 percentage points in 2020, based on current rates.

Quarter in Detail

PepsiCo's first-quarter core EPS of \$1.07 beat the Zacks Consensus Estimate of \$1.02. However, core EPS increased 10% year over year. In constant currency too, core earnings were up 10% from the year-ago period. The company's reported EPS of 96 cents declined 4% year over year.

Net revenues of \$13,881 million advanced 7.7% year over year and surpassed the Zacks Consensus Estimate of \$13,226 million. On an organic basis, revenues rose 7.9% year over year. Foreign currency impacts on revenues and earnings remained neutral in the first quarter.

Revenue growth, on a reported and organic basis, was primarily driven by strength in all of the company's businesses as well as robust pricing and volume. Notably, all segments witnessed organic and reported revenue growth in the first quarter. This was driven by strong progress on its strategic priorities, and investments made in its capabilities, brands, manufacturing, supply chain and go-to-market capacity, which helped deliver growth amid the coronavirus pandemic.

Total volume was up 6% in the reported quarter. Meanwhile, volume for organic snacks/food and beverage increased 5.5% and 6%, respectively, in the reported quarter. Meanwhile, net pricing improved 2% in the first quarter, driven by strong pricing across almost all segments.

On a consolidated basis, reported gross margin expanded 1 basis point (bps), while core gross margin improved 27 bps. Reported operating margin contracted 172 bps, while core operating margin declined 18 bps. The decline in operating margin was mainly owing to higher SG&A expenses.

Segment Details

Reported revenues improved 14% in Europe, 9% in AMESA, 6% each in APAC and Latin America, and 7% each in PBNA, FLNA and QFNA segments. Meanwhile, organic revenues increased 14% each at AMESA and Europe, 8% at Latin America, 7% each at APAC, FLNA and QFNA, and 6% each PBNA segment.

Operating profit (on a reported basis) declined 24% for the PBNA segment. However, it grew 33% for APAC, 28% for Europe, 26% for AMESA, 8% for QFNA, 4% for FLNA and 1% for Latin America.

Financials

The company ended first-quarter 2020 with cash and cash equivalents of \$11,089 million, long-term debt of \$35,361 million, and shareholders' equity (excluding non-controlling interest) of \$13,465 million. Net cash used in operating activities was \$749 million as of Mar 21, 2020, compared with \$345 million of cash used as of Mar 23, 2019.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	4.96%
EPS Surprise	4.90%
Quarterly EPS	1.07
Annual EPS (TTM)	5.62

Recent News

PepsiCo Declares Quarterly Dividend – May 5, 2020

PepsiCo declares quarterly dividend of \$1.0225 per share, a rise of 7% year over year. The dividend is payable on Jun 30 to shareholders with record as on Jun 5.

PepsiCo's Rockstar Buyout Likely to Step Up Energy Drinks Game – Mar 11, 2020

With the market buzzing with energy drink offerings, PepsiCo inked a deal to buy Rockstar Energy Beverages. Energy drinks have taken the whole beverage industry by storm, given consumers' growing health concerns and shifting preferences for caffeine-infused, low-sugar and non-carbonated options. PepsiCo's latest deal is worth \$3.85 billion and anticipated to be concluded by the first half of 2020. However, the transaction will not have any material impact on the company's 2020 results.

Notably, PepsiCo has had a long-standing partnership with Rockstar from 2009. Rockstar is involved in the production of beverages designed for athletes and rock stars with an active lifestyle. It offers products in more than 30 flavors, which are available in convenience and grocery stores in more than 30 countries.

The addition of Rockstar to PepsiCo's portfolio is in sync with the latter's plans to expand its energy drinks category in response to customers' growing demand for functional beverages. The company's energy product portfolio already includes Mountain Dew's Kickstart, GameFuel and AMP.

Despite false claims of PepsiCo discontinuing Mountain Dew, it is poised to getting it back on track. In doing so, the company is making efforts to move this product line to the energy drinks category by introducing variants, including Kickstart and GameFuel, along with non-sugar options and new flavors.

Valuation

PepsiCo shares are down 3.8% in the year-to-date period but up nearly 4.4% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 15.2% and 17.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9.2% and 12.8%, respectively.

The S&P 500 index is down 10.5% in the year-to-date period but up 0.2% in the past year.

The stock is currently trading at 23.62X forward 12-month earnings, which compares to 21.9X for the Zacks sub-industry, 18.45X for the Zacks sector and 20.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.84X and as low as 16.44X, with a 5-year median of 20.92X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$138 price target reflects 24.78X forward 12-month earnings.

The table below shows summary valuation data for PEP

Valuation Multiples - PEP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.62	21.9	18.45	20.81
	5-Year High	24.84	23.2	22.37	20.81
	5-Year Low	16.44	18.37	16.5	15.19
	5-Year Median	20.92	21.46	19.68	17.44
P/S F12M	Current	2.66	4.35	8.63	3.25
	5-Year High	2.91	5.31	11.16	3.44
	5-Year Low	2.02	3.64	8.1	2.54
	5-Year Median	2.42	4.5	9.89	3.01
EV/EBITDA TTM	Current	15.55	16.88	32.06	10.57
	5-Year High	29.18	20.73	45.12	12.86
	5-Year Low	9.7	12.22	27.24	8.28
	5-Year Median	13.65	17.56	38.4	10.77

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Top 32% (82 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Outperform	2
Conagra Brands Inc (CAG)	Neutral	2
Fomento Economico Mexicano SAB de CV (FMX)	Neutral	3
Kellogg Company (K)	Neutral	3
CocaCola Company The (KO)	Neutral	3
Mondelez International Inc (MDLZ)	Neutral	3
Monster Beverage Corporation (MNST)	Neutral	3
Coca Cola Femsa SAB de CV (KOF)	Underperform	4

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	PEP	X Industry	S&P 500	FMX	KO	MNST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	F	D
Market Cap	182.53 B	130.86 M	19.51 B	22.99 B	191.55 B	32.69 B
# of Analysts	8	1	14	3	9	8
Dividend Yield	2.90%	0.00%	2.15%	2.30%	3.68%	0.00%
Value Score	D	-	-	C	D	D
Cash/Price	0.06	0.10	0.06	0.33	0.09	0.04
EV/EBITDA	16.04	5.02	11.77	6.86	15.65	21.18
PEG Ratio	3.50	3.74	2.54	3.38	4.03	3.74
Price/Book (P/B)	13.46	2.67	2.67	1.31	9.66	8.00
Price/Cash Flow (P/CF)	17.97	10.11	10.44	9.40	18.25	28.47
P/E (F1)	24.45	20.92	19.30	21.66	23.79	29.57
Price/Sales (P/S)	2.68	1.02	1.99	0.87	5.15	7.57
Earnings Yield	4.09%	4.47%	4.91%	4.62%	4.19%	3.38%
Debt/Equity	2.61	0.47	0.75	0.61	1.57	0.00
Cash Flow (\$/share)	7.32	0.31	7.01	6.83	2.44	2.18
Growth Score	D	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	5.38%	7.18%	10.87%	4.62%	1.54%	19.63%
Proj. EPS Growth (F1/F0)	-2.64%	-8.57%	-9.87%	-3.36%	-11.17%	3.45%
Curr. Cash Flow Growth	-2.46%	13.73%	5.88%	14.92%	4.40%	9.91%
Hist. Cash Flow Growth (3-5 yrs)	1.04%	6.34%	8.55%	6.34%	-1.10%	18.17%
Current Ratio	1.10	1.30	1.24	1.60	0.87	3.50
Debt/Capital	72.28%	34.91%	44.23%	38.01%	61.06%	0.00%
Net Margin	10.62%	-0.28%	10.68%	5.40%	26.95%	26.07%
Return on Equity	55.74%	7.71%	16.36%	8.21%	45.26%	27.36%
Sales/Assets	0.86	0.83	0.55	0.77	0.42	0.84
Proj. Sales Growth (F1/F0)	0.64%	0.00%	-2.26%	-10.43%	-8.32%	2.11%
Momentum Score	D	-	-	F	C	F
Daily Price Chg	0.59%	0.00%	1.52%	-0.36%	-0.34%	1.29%
1 Week Price Chg	-3.14%	0.00%	0.53%	10.40%	0.37%	-0.47%
4 Week Price Chg	-1.56%	0.00%	0.73%	6.96%	-8.98%	2.61%
12 Week Price Chg	-10.19%	-19.83%	-21.09%	-32.59%	-25.18%	-10.91%
52 Week Price Chg	4.36%	-33.74%	-10.17%	-33.74%	-5.91%	0.27%
20 Day Average Volume	4,725,475	122,746	2,398,409	702,562	16,889,552	2,524,996
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.71%	0.00%	-2.10%
(F1) EPS Est 4 week change	-6.06%	0.00%	-6.95%	-12.06%	-8.27%	-5.65%
(F1) EPS Est 12 week change	-9.18%	-26.00%	-15.68%	-27.73%	-16.94%	-7.02%
(Q1) EPS Est Mthly Chg	-21.69%	-3.16%	-13.12%	NA	-23.81%	-11.83%

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 have an excellent 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	D
VGM Score	F

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

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