PepsiCo Inc. (PEP)

$134.91 (As of 07/13/20)

Price Target (6-12 Months): **$142.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/17/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D	Momentum: A

Summary

Shares of PepsiCo have outpaced the industry year to date on a positive surprise trend. The company's top and bottom line surpassed the Zacks Consensus Estimate for the sixth straight quarter in second-quarter 2020. Despite the coronavirus outbreak, results gained from resilience in the global snacks and foods business. Lifting of restrictions and the gradual easing of challenges as the quarter progressed also aided results by improving business performance and channel mix. The company also 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. However, declines in the beverage category hurt volumes and top line growth in the second quarter. Also, adverse currency rates and higher operating expenses remain headwinds.

Price, Consensus & Surprise

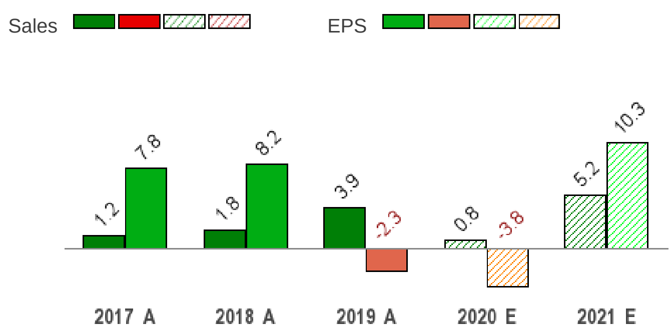
Data Overview

52 Week High-Low	**$147.20 - $101.42**
20 Day Average Volume (sh)	**4,522,018**
Market Cap	**$187.2 B**
YTD Price Change	**-1.3%**
Beta	**0.58**
Dividend / Div Yld	**$4.09 / 3.0%**
Industry	**Beverages - Soft drinks**
Zacks Industry Rank	**Bottom 22% (196 out of 251)**

Last EPS Surprise	**5.6%**
Last Sales Surprise	**2.6%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**10/01/2020**
Earnings ESP	**0.0%**

P/E TTM	**25.0**
P/E F1	**25.4**
PEG F1	**3.6**
P/S TTM	**2.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	13,890 E	16,846 E	17,781 E	21,627 E	71,230 E
2020	13,881 A	15,945 A	17,156 E	21,072 E	67,727 E
2019	12,884 A	16,449 A	17,188 A	20,640 A	67,161 A

EPS Estimates

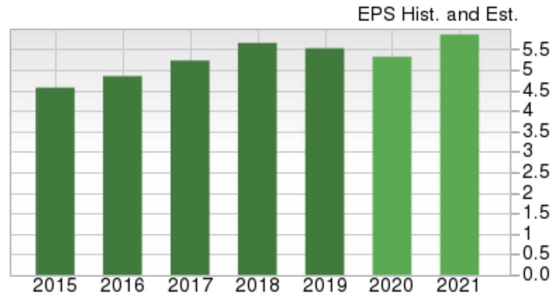
	Q1	Q2	Q3	Q4	Annual*
2021	$1.11 E	$1.48 E	$1.70 E	$1.66 E	$5.87 E
2020	$1.07 A	$1.32 A	$1.53 E	$1.49 E	$5.32 E
2019	$0.97 A	$1.54 A	$1.56 A	$1.45 A	$5.53 A

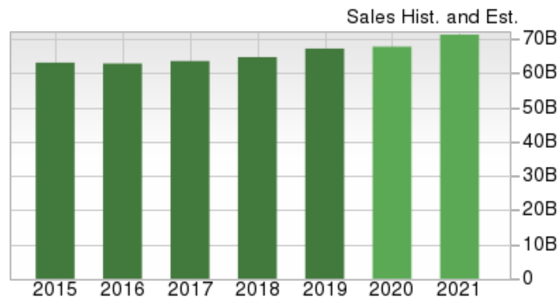
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/13/2020. The reports text is as of 07/14/2020.

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:** Though shares of PepsiCo have fallen 1.3% year to date, it fares better than the industry's decline of 11.8%. The company boasts a robust surprise trend, which continued in second-quarter 2020. The company's top and bottom line surpassed the Zacks Consensus Estimate for the sixth straight quarter in the second quarter. Despite the challenges presented by the coronavirus outbreak, the company's better-than-expected performance can be attributed to resilience in the global snacks and foods business. Further, the second quarter benefited from the lifting of restrictions and the gradual easing of challenges, which resulted in improved business performance and channel mix. The company also 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 the challenges presented by the coronavirus outbreak, PepsiCo's better-than-expected second-quarter 2020 performance can be attributed to resilience in the global snacks and foods business.

▲ **Strong Snacks/Food Business Results:** PepsiCo has the competitive advantage of selling both snacks and beverages, which are complementary food categories. The resilience in the snacks/food business worked well for the company amid the coronavirus pandemic. The social distancing and shelter in place norms led to more time spent at home. The stay at home trend resulted in evolved consumer eating habits, giving rise to at-home breakfast, snacking and dinner occasions. This provided an opportunity for the company's Frito-Lay and Quaker food businesses to capitalize and improve household penetration. Although the company's overall volume was hurt by soft beverage volumes, gains in the snacks/food categories offset the decline. Notably, organic volume for snacks/food business improved 4% in the second quarter and 5% in the first half of 2020. Consequently, organic revenues increased 23% at QFNA and 6% at FLNA segments in the second quarter. Organic revenue growth across both FLNA and QFNA business was driven by strong category growth and market share gains. Frito-Lay's revenue gains reflect gains across all major brands including double-digit growth in Tostitos, Fritos and Cheetos, high-single-digit growth in Ruffles and mid-single-digit growth in Doritos. Meanwhile, the Quaker business benefited from increased breakfast occasions, in-home dinners and baking occasions.

▲ **Energy Drinks & Other Beverages Category:** Though the overall beverages business trend remained soft in the second quarter, PepsiCo delivered strong double-digit net revenue growth for both Pepsi Zero Sugar and Bubly. Moreover, its ready-to-drink coffee products delivered high-single digit net revenue growth in the quarter. Further, the company is witnessing robust trends in the energy drinks category. In the second quarter, the company completed the transition and integration of Rockstar, while the distribution of Bang Energy is nearly complete. The company's Energy Drinks strategy mainly focuses on accelerating growth of Rockstar; expanding the distribution of Bang and improving execution in the marketplace; and unlocking the potential for Mountain Dew in the energy category. Going forward, PepsiCo expects strong growth and market share gains for the Energy Drinks category driven by increased depth and breadth of its portfolio and improved distribution capabilities to bolster presence of this category.

▲ **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:** Despite the coronavirus crisis, PepsiCo remains financially sound to run its business and meet obligations. As of Jun 13, 2020, the company's long term debt increased 8.5% sequentially to $38,371 million. Although its cash and cash equivalents at the end of second-quarter reflects a sequentially decline to $8,927 million from $11,089 million as of the first quarter, its cash position remains sufficient to fund its short term debt obligations of about $6,607 million as of Jun 13, 2020. Also, it had $2.8 billion of outstanding commercial paper as of Jun 13. In the second quarter, the company entered a new 364-day unsecured revolving credit agreement, which allows borrowing up to $3.75 billion and expires on May 31, 2021. This is in addition to the existing $3.75 billion unsecured revolving credit agreement, which expires on Jun 3, 2024. As of Jun 13, 2020, there were no outstanding borrowings under both the revolving credit agreements. 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. 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 74.5%, dividend yield of 3.03% and free cash flow yield of 2.7%. 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.

Reasons To Sell:

PepsiCo's beverage business was hurt by decline in the convenience and gas and away-from-home channels, partly offset by increased at-home consumption. Organic beverage volume fell 11% in Q2.

- **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 24.01x, which is below the median level of 24.11x 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 21.67x for the industry and 20.6x for S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

- **Soft Beverage Business:** Amid the coronavirus led restrictions and closures, PepsiCo's beverage business was mainly hurt by decline in the convenience and gas and away-from-home channels, partly offset by increased at-home consumption. Global beverages organic volume declined 11%, which also led to a 2% decline overall volume. Further, organic revenue for the PepsiCo Beverages North America (PBNA) segment declined 7% in the second quarter due to declines in the convenience and gas and foodservice channels, offset growth in other channels like grocery, mass and dollar stores. Further, organic revenues for the international beverage business declined 5% in second quarter.

- **Higher Costs Weigh on Margins:** In second-quarter 2020, reported operating margin contracted 205 bps, while core operating margin declined 195 bps. Core operating margin was included nearly $400 million of incremental COVID-19 related costs to keep employees safe and ensure business continuity. Excluding these costs, the company anticipates core operating margin to have increased in the reported quarter. Moreover, the company has been witnessing higher SG&A expenses for the past few quarters, which has been weighing on operating margin performance. Notably, SG&A expenses increased 3.5% in second-quarter 2020, while as a percentage of sales it increased 260 bps year over year.

  In the third quarter, the company expects core operating margin to contract, although at a lesser rate than the second quarter. The soft margin rate is likely stem from the persistence of higher costs for keeping employees safe. Further, the company notes that there is uncertainty regarding the duration and long-term implications of the coronavirus outbreak. Consequently, the company did not provide any guidance for 2020.

- **Unfavorable Foreign Currency:** PepsiCo's significant international presence exposes it to foreign currency risks. Foreign currency impacted revenues and earnings by 4% and 3%, respectively, in the second quarter. Moreover, the company expects currency headwinds to hurt revenues and core earnings per share by 3 percentage points in the third quarter and in 2020, based on current rates.

- **Stiff Competition:** Aggressive competition is a major threat against the company. Though the company has an advantage of diversified snacks and beverage portfolio, competing with the leading soft-drinks maker Coca-Cola is crucial for the company's business growth. Additionally, the company is facing headwinds due to the growing healthy lifestyle trend, which is driving lower consumer preference for sugary sodas and salty snacks.

- **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 Q2 Earnings & Sales Beat Estimates

Quarter Ending	06/2020
Report Date	Jul 13, 2020
Sales Surprise	2.59%
EPS Surprise	5.60%
Quarterly EPS	1.32
Annual EPS (TTM)	5.40

PepsiCo has reported strong second-quarter 2020 results, wherein earnings and sales surpassed estimates. Despite the challenges presented by the coronavirus outbreak, the company's better-than-expected performance can be attributed to resilience in the global snacks and foods business. Further, the second quarter benefited from the lifting of restrictions and the gradual easing of challenges, which resulted in improved business performance and channel mix.

The company also 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.

It notes that there is uncertainty regarding the duration and long-term implications of the coronavirus outbreak. Consequently, the company did not provide any 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, the company expects currency headwinds to hurt revenues and core earnings per share (EPS) by 3 percentage points in 2020, based on current rates.

Quarter in Detail

PepsiCo's second-quarter core EPS of $1.32 beat the Zacks Consensus Estimate of $1.25. However, core EPS declined 15% year over year. In constant currency, core earnings were down 11% from the year-ago period. The company's reported EPS of $1.18 declined 18% year over year.

Net revenues of $15,945 million declined 3.1% year over year and surpassed the Zacks Consensus Estimate of $15,542.5 million. On an organic basis, revenues fell 0.3% year over year. Foreign currency impacted revenues and earnings by 4% and 3%, respectively, in the second quarter. The decline in the top line was mainly caused by the impacts of the coronavirus pandemic.

Although revenues were hurt by soft volume, it gained from robust pricing during the quarter. Total volume was down 2% in the reported quarter. Notably, organic volume for snacks/food business improved 4%, while it declined 11% for the beverage business. Meanwhile, net pricing improved 1.5% in the second quarter, driven by strong pricing across almost all segments.

On a consolidated basis, reported gross margin expanded 56 basis points (bps), while core gross margin improved 6 bps. Reported operating margin contracted 205 bps, while core operating margin declined 195 bps. The decline in operating margin was mainly owing to higher SG&A expenses.

Segment Details

On a segmental basis, the company witnessed organic and reported revenue growth for the snacks and food businesses as well as APAC.

Reported revenues improved 7% in FLNA, 23% in QFNA and 10% in APAC, whereas it declined 9% in Europe, 17% in Latin America, 7% in PBNA and 1% in AMESA segments. Organic revenues increased 23% at QFNA, 6% at FLNA and 15% at APAC. However, organic revenues declined 7% each at AMESA and PBNA, and 2.5% at Europe. Meanwhile, organic revenues remained flat in Latin America.

Operating profit (on a reported basis) declined 42% for the PBNA segment, 22% for Latin America and 75% for AMESA. However, it grew 63% for APAC, 3% for Europe, 55% for QFNA and 2% for FLNA.

Financials

The company ended second-quarter 2020 with cash and cash equivalents of $8,927 million, long-term debt of $38,371 million, and shareholders' equity (excluding non-controlling interest) of $12,491 million.

Net cash provided by operating activities was $1,462 million as of Jun 13, 2020, compared with $1,388 million as of Jun 15, 2019.

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 1.3% in the year-to-date period but up nearly 0.6% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 11.8% and 11.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.3% each.

The S&P 500 index is down 0.8% in the year-to-date period but up 6.5% in the past year.

The stock is currently trading at 24.03X forward 12-month earnings, which compares to 22.31X for the Zacks sub-industry, 19.48X for the Zacks sector and 22.69X 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 21.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $142 price target reflects 25.87X 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	24.03	22.31	19.48	22.69
	5-Year High	24.84	22.85	22.37	22.69
	5-Year Low	16.44	18.35	16.63	15.25
	5-Year Median	21.02	21.49	19.57	17.52
P/S F12M	Current	2.69	4.47	9.23	3.55
	5-Year High	2.91	5.31	11.15	3.55
	5-Year Low	2.02	3.66	8.1	2.53
	5-Year Median	2.44	4.51	9.89	3.02
EV/EBITDA TTM	Current	16.31	18.49	34.42	11.84
	5-Year High	29.18	21.08	45.11	12.86
	5-Year Low	9.7	12.2	28	8.25
	5-Year Median	13.75	17.67	38.54	10.86

As of 07/13/2020

Industry Analysis **Zacks Industry Rank:** Bottom 22% (196 out of 251)

Top Peers

Company (Ticker)	Rec	Rank
Conagra Brands Inc. **(CAG)**	Neutral	2
Campbell Soup Company **(CPB)**	Neutral	3
Kellogg Company **(K)**	Neutral	2
CocaCola Company The **(KO)**	Neutral	3
Mondelez International, Inc. **(MDLZ)**	Neutral	3
Monster Beverage Corporation **(MNST)**	Neutral	2
Fomento Economico Mexicano S.A.B. de C.V. **(FMX)**	Underperform	5
Coca Cola Femsa S.A.B. de C.V. **(KOF)**	Underperform	5

Industry Comparison Industry: Beverages - Soft Drinks

	PEP	X Industry	S&P 500	FMX	KO	MNST
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	2
VGM Score	D	-	-	B	F	B
Market Cap	187.19 B	177.62 M	21.41 B	20.66 B	194.34 B	37.15 B
# of Analysts	8	1	14	3	8	8
Dividend Yield	3.03%	0.00%	1.92%	1.28%	3.62%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.06	0.06	0.07	0.35	0.09	0.02
EV/EBITDA	16.41	5.43	12.70	6.26	15.86	24.46
PEG Ratio	3.63	4.76	2.87	4.76	5.17	3.95
Price/Book (P/B)	13.81	2.91	3.02	1.18	9.80	9.60
Price/Cash Flow (P/CF)	18.43	10.15	11.61	8.45	18.52	32.35
P/E (F1)	25.36	21.56	21.07	22.61	24.88	33.94
Price/Sales (P/S)	2.77	1.53	2.23	0.78	5.23	8.61
Earnings Yield	3.94%	4.08%	4.47%	4.42%	4.02%	2.95%
Debt/Equity	2.61	0.23	0.76	0.61	1.57	0.00
Cash Flow ($/share)	7.32	0.31	6.94	6.83	2.44	2.18
Growth Score	D	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	5.38%	8.19%	10.85%	4.62%	1.54%	19.54%
Proj. EPS Growth (F1/F0)	-3.73%	-0.65%	-9.37%	-16.83%	-13.80%	2.40%
Curr. Cash Flow Growth	-2.46%	9.45%	5.51%	14.92%	4.40%	9.91%
Hist. Cash Flow Growth (3-5 yrs)	1.04%	8.15%	8.55%	6.34%	-1.10%	18.17%
Current Ratio	1.10	1.33	1.30	1.60	0.87	2.92
Debt/Capital	72.28%	35.44%	44.46%	38.01%	61.06%	0.00%
Net Margin	10.13%	3.04%	10.59%	5.40%	26.95%	26.07%
Return on Equity	53.20%	7.96%	15.75%	8.21%	45.26%	27.77%
Sales/Assets	0.84	0.81	0.55	0.77	0.42	0.85
Proj. Sales Growth (F1/F0)	0.84%	0.00%	-2.54%	-10.43%	-9.44%	2.39%
Momentum Score	A	-	-	A	F	B
Daily Price Chg	0.33%	-0.67%	-0.19%	-1.90%	0.22%	-1.54%
1 Week Price Chg	1.21%	0.60%	-0.41%	-5.58%	0.60%	3.45%
4 Week Price Chg	3.40%	-2.33%	-0.91%	-11.93%	-2.27%	2.54%
12 Week Price Chg	0.27%	3.12%	10.22%	1.26%	-2.75%	14.94%
52 Week Price Chg	0.57%	-25.91%	-7.40%	-41.16%	-13.20%	8.11%
20 Day Average Volume	4,522,018	151,860	2,267,087	619,206	16,067,485	1,818,519
(F1) EPS Est 1 week change	0.26%	0.00%	0.00%	0.00%	-0.61%	0.48%
(F1) EPS Est 4 week change	0.02%	0.00%	0.00%	0.00%	-0.48%	0.48%
(F1) EPS Est 12 week change	-7.11%	-4.72%	-6.60%	-24.31%	-10.99%	-6.60%
(Q1) EPS Est Mthly Chg	0.13%	0.00%	0.00%	0.00%	-0.83%	0.57%

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	A
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.