

Procter & Gamble Co. (PG)

\$138.87 (As of 11/30/20)

Price Target (6-12 Months): **\$147.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/19/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: C

Summary

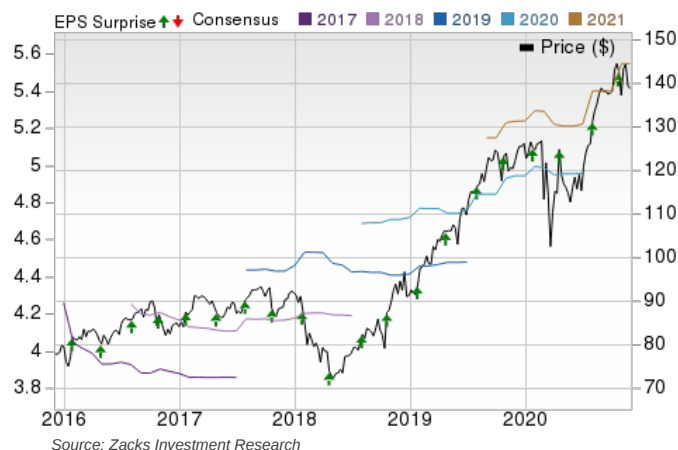
Shares of Procter & Gamble have outpaced the industry in the past year. The company's solid first-quarter fiscal 2021 earnings mark the continuation of its earnings surprise trend. Further, earnings and sales improved year over year in the reported quarter on gains from significant sales increase, related fixed cost leverage and ongoing productivity efforts. Sales were aided by strength across all segments as well as robust shipments, pricing and mix. Cost savings aided core currency-neutral gross and operating margin, which expanded 170 bps and 350 bps, respectively. Also, it delivered adjusted free cash flow productivity of 95% in the fiscal first quarter. Driven by the robust results, the company raised its outlook for fiscal 2021. However, currency headwinds are likely to affect results in fiscal 2021. Also, stiff competition remains a woe.

Data Overview

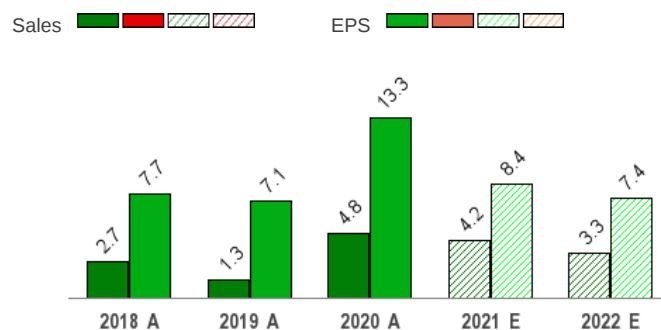
52-Week High-Low	\$146.92 - \$94.34
20-Day Average Volume (Shares)	6,363,714
Market Cap	\$344.3 B
Year-To-Date Price Change	11.2%
Beta	0.37
Dividend / Dividend Yield	\$3.16 / 2.3%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 26% (66 out of 254)

Last EPS Surprise	14.0%
Last Sales Surprise	5.4%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	01/28/2021
Earnings ESP	0.0%
P/E TTM	25.8
P/E F1	25.0
PEG F1	3.4
P/S TTM	4.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	19,661 E	19,690 E	18,098 E	18,858 E	76,397 E
2021	19,318 A	18,988 E	17,421 E	18,147 E	73,939 E
2020	17,798 A	18,240 A	17,214 A	17,698 A	70,950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.71 E	\$1.63 E	\$1.28 E	\$1.39 E	\$5.96 E
2021	\$1.63 A	\$1.50 E	\$1.18 E	\$1.26 E	\$5.55 E
2020	\$1.37 A	\$1.42 A	\$1.17 A	\$1.16 A	\$5.12 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 11/30/2020. The reports text is as of 12/01/2020.

Overview

Headquartered in Cincinnati, OH, The Procter & Gamble Company, also referred to as Procter & Gamble or P&G, is a branded consumer products company which markets its products in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, baby stores, specialty beauty stores, e-commerce, high frequency stores and pharmacies. It has operations in approximately 70 countries. The company has five reportable segments:

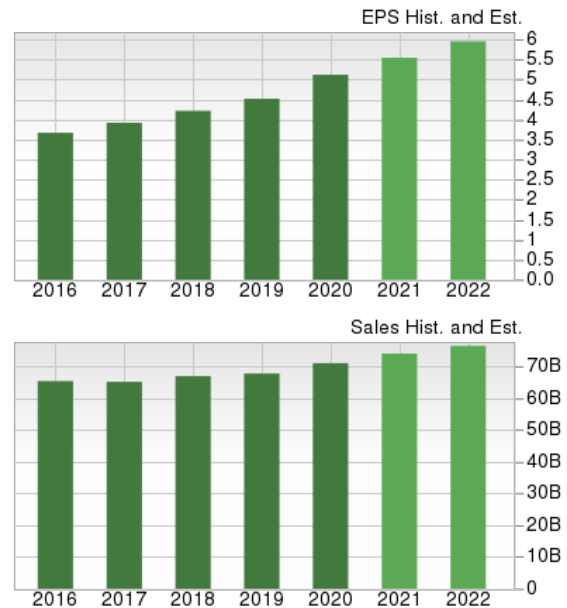
Beauty (18.8% of fiscal 2020 revenues): The segment includes hair care products (conditioner, shampoo, styling aids treatments) antiperspirants and deodorants as well as products for personal cleansing and skin care. Billion Dollar Brands include Head & Shoulders, Olay, Pantene, Old Spice, Safeguard, and SK-II. In Oct 2016, P&G completed its last major step in portfolio transformation with the Beauty Brands divestiture to Coty Inc.

Grooming (8.5%): The segment includes Shave Care products like female and male blades & razors and pre- and post-shave products as well as appliances. Billion Dollar Brands under this segment include Fusion, Gillette, Prestobarba and Mach3.

Health Care (12.7%): The segment includes gastrointestinal, rapid diagnostics, respiratory, vitamins/minerals/supplements and other personal health care product categories along with toothbrush, toothpaste and other oral care, product categories. Billion Dollar Brands include Crest, Oral-B and Vicks.

Fabric and Home Care (33.4%): The segment includes air care, dish care, fabric enhancers, laundry additives and detergents, P&G Professional and surface care product categories. Billion Dollar Brands under this segment are Ariel, Dawn, Downy, Febreze, Gain and Tide. P&G completed sale of its Duracell (Batteries) business to Berkshire Hathaway in exchange for Berkshire's equity stake in P&G in Feb 2016.

Baby, Feminine and Family Care (25.8%): The segment includes baby wipes, diapers and pants, paper towels, tissues, toilet paper, adult incontinence and feminine care products. Billion Dollar Brands include Always, Bounty, Charmin and Pampers.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Earnings Trend, Stock Outperforms:** Shares of Procter & Gamble have gained 13.1% in the past year compared with the industry's growth of 11.9%. The outperformance is mainly attributed to the company's robust trend of delivering earnings surprises for more than a couple of years, which continued in first-quarter fiscal 2021. Moreover, the top line also beat the Zacks Consensus Estimate, whereas both earnings and sales improved year over year. Earnings growth was backed by sturdy sales growth and improved operating margin. Cost leverage and productivity initiatives aided margins, which boosted the bottom line. Sales were aided by strength across all segments coupled with robust shipments, pricing and mix. Net sales for the Beauty; Health Care; Grooming; Fabric & Home Care; and Baby, Feminine and Family Care segments rose 7%, 5%, 11%, 14% and 3%, respectively.

P&G's strong momentum continued in Q1 as reflected by underlying brands strength and appropriate strategies, which led to organic sales growth of 9%. It expects organic sales up 4-5% in FY21.

▲ **Strategies & Brand Strength Aid Organic Sales:** Procter & Gamble's products play a key role in meeting the daily health, hygiene and cleaning needs of consumers around the world. This led to increased consumer demand for its hand soaps, detergents and surface cleaning products during the pandemic. The company witnessed continued strong momentum in the fiscal first quarter as reflected by underlying strength in brands and appropriate strategies, which aided organic sales growth. On an organic basis (excluding the impact of acquisitions, divestitures and foreign exchange), revenues improved 9%, including 7% rise in organic shipment volume as well as one percentage point each gain in pricing and mix. The company reported a positive mix, owing to uneven growth of premium home, health and hygiene products along with strength in the North American business mainly due to an increase in the pandemic-led consumption and inventory.

Additionally, it witnessed broad-based growth with U.S. organic sales up 16%, Greater China up 12%, focused markets up 11% and enterprise markets that reflect significant impacts from the pandemic up 5%. Moreover, the company reported organic sales growth in 9 out of 10 product categories. Notably, all of the company's business segments reported growth in organic sales. Organic sales moved up 7% in the Beauty segment, 6% in Grooming, 12% in Health Care, 14% in Fabric & Home Care and 4% in the Baby, Feminine and Family Care segment.

▲ **Upbeat View:** Driven by the robust fiscal first quarter results, Procter & Gamble has raised its outlook for fiscal 2021. The company now anticipates all-in sales growth of 3-4% compared with the earlier mentioned of a 1-3% increase. It now predicts organic sales growth of 4-5% versus a 2-4% rise mentioned earlier. Core earnings per share for fiscal 2021 are now projected to grow 5-8% compared with a 3-7% increase mentioned earlier. This view takes into account an after-tax headwind of \$325 million due to currency woes and \$50 million from higher freight costs. This is likely to be partly offset by \$175 of estimated after-tax gains from lower commodity costs.

▲ **Cost Savings and Productivity Program Aid Margins:** Procter & Gamble remains focused on productivity and cost-saving plans to boost margins. The company's continued investment in business alongside efforts to offset macro cost headwinds and balance top and bottom-line growth underscores its productivity efforts. The company is witnessing cost savings and efficiency improvements across all facets of business driven by its second five-year (fiscal 2017-2021) \$10 billion productivity program. The second five-year restructuring plan targets cutting costs in areas including supply chain and cost of goods sold (COGS), marketing and digitization and promotional spend effectiveness. This plan comprises \$7 billion in COGS savings (\$4.5 billion from raw and packaging materials, \$1.5 billion in manufacturing savings and \$1 billion from transportation/warehousing/other); \$2 billion of marketing cost reductions; \$1.5 billion of trade spending savings (10% efficiency); and \$1-\$2 billion of additional overhead reductions. This brings the total potential savings to \$12-\$13 billion. However, P&G adjusted the level down to up to \$10 billion to take into account the uncertainty associated with operations, especially when projecting out several years.

Notably, the company's core currency-neutral gross and operating margins reflected significant gains from productivity savings and pricing in first-quarter fiscal 2021. Core gross margin (on a currency-neutral basis) expanded 170 basis points (bps) owing to benefits from gross productivity savings, higher pricing, fixed cost leverage and commodity cost declines. Core currency-neutral operating margin expanded 350 bps in the quarter, including 230 bps of total productivity cost savings.

▲ **Strong Free Cash Flows & Shareholder Returns:** Procter & Gamble generates strong free cash flow annually. Cash flow provides management the opportunity to invest in product innovations, acquisitions and brand development in addition to regularly paying dividends and repurchasing shares. Notably, the company generated operating cash flow of \$4.7 billion in the fiscal first quarter. Moreover, adjusted free cash flow productivity was 95% for the fiscal first quarter. Furthermore, the company returned \$4 billion of cash to its shareholders in the fiscal first quarter. This included \$2 billion each of dividend payouts and share buybacks.

The company ended the quarter with long-term debt of \$23,948 million, up 1.7% sequentially. Its debt to capitalization ratio stands at 0.40, reflecting a sequential decline from 0.43. Its times interest earned ratio is at a respectable 35.1, which is unchanged from the prior quarter. For fiscal 2021, the company expects adjusted free cash flow productivity to be 95%. Additionally, the company anticipates returning \$15-\$17 billion of cash to shareholders in fiscal 2021, including dividend payments of \$8 billion. It raised its share repurchases outlook to \$7-\$9 billion for fiscal 2021 compared with \$6-\$8 billion stated earlier.

Reasons To Sell:

- ▼ **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Procter & Gamble looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 25.81x, which is above the median level of 25.27x and below the high level of 27.44x scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry is 20.23x. Given these factors, we believe that the stock is stretched from the P/E aspect.
- ▼ **Currency Headwinds:** Procter & Gamble's significant international presence exposes it to foreign currency risks, which have been weighing on the company's performance. Apparently, currency fluctuations hurt the top line by one percentage point and earnings by 4 cents per share in first-quarter fiscal 2021. Additionally, gross margin, SG&A expense rate and operating margin reflected adverse impacts from foreign currency of 30 bps, 10 bps and 50 bps, respectively, in the fiscal first quarter. Furthermore, unfavorable currency is expected to affect sales by 1% in fiscal 2021. Also, the fiscal 2021 core earnings per share view takes into account an after-tax headwind of \$325 million due to currency woes.
- ▼ **Slowdown of Global Economies:** Procter & Gamble remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower-margin products, thereby impacting margins. Management stated that it is likely to continue facing challenges from a volatile macro and geopolitical environment.
- ▼ **Competitive Pressure:** Procter & Gamble faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Church & Dwight on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share.

Headwinds from foreign exchange rates is likely to adversely impact Procter & Gamble sales and earnings in fiscal 2021.

Last Earnings Report

Procter & Gamble Q1 Earnings & Sales Beat Estimates

Procter & Gamble, popularly known as P&G, has reported better-than-expected top and bottom lines in first-quarter fiscal 2021. Moreover, both earnings and sales have improved year over year. Results have been driven by robust top-line growth as well as improved margins. Driven by the robust results, the company has raised its outlook for fiscal 2021.

Procter & Gamble's earnings of \$1.63 per share rose 19% year over year and outpaced the Zacks Consensus Estimate of \$1.43 on the back of sturdy sales growth and improved operating margin. Meanwhile, currency-neutral core earnings per share (EPS) have increased 22%.

The company reported net sales of \$19,318 million, increasing 9% year over year and surpassing the Zacks Consensus Estimate of \$18,329.8 million. Sales growth was attributed to strength across all segments coupled with robust shipments, pricing and mix. Currency headwinds hurt the top line by one percentage point.

Net sales for the Beauty; Health Care; Grooming; Fabric & Home Care; and Baby, Feminine and Family Care segments rose 7%, 5%, 11%, 14% and 3%, respectively.

On an organic basis (excluding the impact of acquisitions, divestitures and foreign exchange), revenues improved 9% based on a 7% rise in organic shipment volume as well as one percentage point each gain in pricing and mix. The company reported a positive mix, owing to uneven growth of premium home, health and hygiene products along with strength in the North American business mainly due to an increase in the pandemic-led consumption and inventory.

Moreover, all of the company's business segments reported growth in organic sales. Organic sales moved up 7% in the Beauty segment, 6% in Grooming, 12% in Health Care, 14% in Fabric & Home Care and 4% in the Baby, Feminine and Family Care segment.

Margins

In the reported quarter, gross margin expanded 140 basis points (bps) year over year to 52.7%, including 30 bps of adverse impacts of foreign currency. On a currency-neutral basis, gross margin expanded 170 bps, owing to benefits from gross productivity savings, higher pricing, fixed cost leverage and commodity cost declines. This was partly offset by unfavorable product mix and other costs.

Selling, general and administrative expenses (SG&A), as a percentage of sales, declined 170 bps from the year-ago quarter core SG&A expenses, to 25.3%. Adverse currency negatively impacted SG&A expenses by 10 bps. The metric dropped 180 bps on a currency-neutral basis. This can be attributable to gains robust sales leverage, and savings from overhead and marketing costs, offset by marketing reinvestments, inflation and other expenses.

Moreover, operating margin expanded 300 bps from the year-ago quarter's core operating margin. Unfavorable currency hurt operating margin by 50 bps. On a currency-neutral basis, the metric improved 350 bps, driven by 230 bps of total productivity cost savings.

Financials

Procter & Gamble ended the reported quarter with cash and cash equivalents of \$13,392 million, long-term debt of \$23,948 million, and total shareholders' equity of \$48,576 million. Cash flow from operating activities amounted to \$4,739 million for first-quarter fiscal 2021. Moreover, adjusted free cash flow productivity was 95%.

Furthermore, the company returned \$4 billion of cash to its shareholders in the fiscal first quarter. This included \$2 billion each of dividend payouts and share buybacks.

Fiscal 2021 Guidance

Driven by the strong fiscal first-quarter results, management raised its guidance for fiscal 2021. The company now anticipates all-in sales growth of 3-4% compared with the earlier mentioned of a 1-3% increase. It now predicts organic sales growth of 4-5% versus a 2-4% rise mentioned earlier. Unfavorable currency is expected to affect sales by 1% in fiscal 2021.

Further, earnings per share on a reported basis are now expected to grow 4-9% compared with 6-10% growth stated previously. The revised GAAP earnings per share guidance takes into account non-core charges of 15-20 cents per share due to the early debt retirement project adopted early this month.

Core earnings per share for fiscal 2021 are now projected to grow 5-8% compared with a 3-7% increase mentioned earlier. This view takes into account an after-tax headwind of \$325 million due to currency woes and \$50 million from higher freight costs. This is likely to be partly offset by \$175 of estimated after-tax gains from lower commodity costs.

Adjusted free cash flow productivity is estimated to be 95% for fiscal 2021. In addition to this, the company anticipates returning \$15-\$17 billion of cash to shareholders in fiscal 2021, including dividend payments of \$8 billion. It raised its share repurchases outlook to \$7-\$9 billion for fiscal 2021 compared with \$6-\$8 billion stated earlier.

Quarter Ending	09/2020
Report Date	Oct 20, 2020
Sales Surprise	5.39%
EPS Surprise	13.99%
Quarterly EPS	1.63
Annual EPS (TTM)	5.38

Recent News

Procter & Gamble Announces Dividend Hike – Oct 13, 2020

Procter & Gamble has approved a dividend of 79.07 cents per share on the common shares of class A and B. The dividend is payable on or after Nov 16 as of shareholders record on Oct 23.

Valuation

Procter & Gamble shares are up 11.2% in the year-to-date period and nearly 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 11.8% but the Zacks Consumer Staples sector is down 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 11.9% and 0.6%, respectively.

The S&P 500 index is up 13.2% in the year-to-date period and 17.3% in the past year.

The stock is currently trading at 24.29X forward 12-month earnings, which compares to 23.34X for the Zacks sub-industry, 20.18X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.16X and as low as 16.02X, with a 5-year median of 21.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$147 price target reflects 25.71X forward 12-month earnings.

The table below shows summary valuation data for PG

Valuation Multiples - PG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.29	23.34	20.18	22.64
	5-Year High	26.16	24.18	22.37	23.47
	5-Year Low	16.02	17.89	16.62	15.27
	5-Year Median	21.59	21.58	19.57	17.75
P/S F12M	Current	4.59	2.86	9.93	4.25
	5-Year High	4.88	2.9	11.17	4.3
	5-Year Low	2.61	2.02	8.14	3.17
	5-Year Median	3.46	2.36	9.91	3.67
EV/EBITDA TTM	Current	18.21	12.46	38.52	16.26
	5-Year High	20.54	14.72	45.12	16.26
	5-Year Low	11.61	9.26	27.22	9.55
	5-Year Median	14.81	11.18	38.5	13.13

As of 11/30/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Church & Dwight Co., Inc. (CHD)	Neutral	3
ColgatePalmolive Company (CL)	Neutral	3
The Clorox Company (CLX)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	3
Henkel AG & Co. (HENKY)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	3
Unilever PLC (UL)	Neutral	2
Unilever NV (UN)	Neutral	NA

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

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers	
	PG	X Industry	S&P 500	HENKY	UL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2
VGM Score	C	-	-	A	A
Market Cap	344.34 B	62.76 B	26.04 B	42.32 B	71.35 B
# of Analysts	9	7.5	14	2	3
Dividend Yield	2.28%	2.01%	1.48%	1.37%	3.00%
Value Score	D	-	-	B	B
Cash/Price	0.04	0.05	0.07	0.09	0.09
EV/EBITDA	18.42	19.51	14.61	NA	NA
PEG F1	3.43	4.42	2.76	NA	4.57
P/B	7.22	5.17	3.58	2.11	3.56
P/CF	20.89	20.85	13.64	12.15	7.35
P/E F1	25.02	23.08	21.85	19.41	21.35
P/S TTM	4.75	4.05	2.84	1.88	NA
Earnings Yield	4.00%	4.37%	4.38%	5.17%	4.68%
Debt/Equity	0.50	0.84	0.70	0.03	NA
Cash Flow (\$/share)	6.65	3.45	6.93	1.99	8.31
Growth Score	C	-	-	B	A
Historical EPS Growth (3-5 Years)	7.66%	9.81%	9.72%	NA	NA
Projected EPS Growth (F1/F0)	8.31%	6.65%	0.45%	-17.55%	0.00%
Current Cash Flow Growth	11.93%	11.90%	5.23%	-7.30%	1.99%
Historical Cash Flow Growth (3-5 Years)	2.25%	5.95%	8.33%	5.53%	5.95%
Current Ratio	0.87	0.97	1.38	1.10	0.86
Debt/Capital	33.02%	44.43%	41.99%	3.14%	NA
Net Margin	18.92%	16.65%	10.44%	NA	NA
Return on Equity	30.69%	30.69%	14.99%	NA	NA
Sales/Assets	0.62	1.06	0.50	NA	NA
Projected Sales Growth (F1/F0)	4.21%	3.81%	0.23%	0.99%	1.55%
Momentum Score	C	-	-	C	F
Daily Price Change	0.19%	0.09%	-0.06%	-0.12%	0.91%
1-Week Price Change	-0.50%	-2.83%	0.21%	3.95%	2.14%
4-Week Price Change	0.27%	0.76%	12.93%	5.55%	5.62%
12-Week Price Change	0.66%	0.25%	11.06%	9.25%	3.21%
52-Week Price Change	13.16%	13.84%	5.57%	0.42%	3.00%
20-Day Average Volume (Shares)	6,363,714	1,581,129	2,159,544	48,349	1,615,335
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.85%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.74%	3.01%	3.64%	2.47%	3.06%
EPS Q1 Estimate Monthly Change	0.00%	-1.35%	0.00%	NA	NA

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	C
Momentum Score	D
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 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.