

PNC Financial Services (PNC)

\$112.16 (As of 10/02/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: B

Summary

Shares of PNC Financial have outperformed the industry over the past three months. Also, it has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters and missed in one. The company's commitment to expand the middle-market lending franchise, and bolster its digital products and services offerings bode well. Moreover, execution of inorganic strategies to diversify revenue sources is likely to keep supporting the company's fee income. Also, rising loans balance keeps PNC Financial well poised for growth. However, with growing business and investment in technology, the company's expense base is expected to remain elevated. Further, lack of diversification in loan portfolio is a headwind. Also, unsustainable capital deployment activities keep us apprehensive.

Data Overview

52-Week High-Low	\$161.79 - \$79.41
20-Day Average Volume (Shares)	1,777,086
Market Cap	\$47.6 B
Year-To-Date Price Change	-29.7%
Beta	1.24
Dividend / Dividend Yield	\$4.60 / 4.1%
Industry	Banks - Major Regional
Zacks Industry Rank	Bottom 20% (201 out of 251)

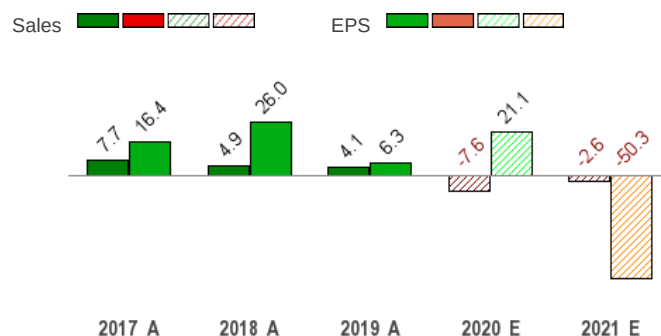
Last EPS Surprise	-315.9%
Last Sales Surprise	-0.7%
EPS F1 Estimate 4-Week Change	-5.6%
Expected Report Date	10/14/2020
Earnings ESP	14.7%

P/E TTM	18.8
P/E F1	8.1
PEG F1	1.1
P/S TTM	2.3

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,844 E	3,939 E	4,021 E	4,081 E	16,041 E
2020	4,517 A	4,076 A	3,965 E	4,029 E	16,476 E
2019	4,286 A	4,439 A	4,493 A	4,609 A	17,827 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.38 E	\$1.52 E	\$1.68 E	\$2.05 E	\$6.85 E
2020	\$1.95 A	-\$1.90 A	\$1.78 E	\$1.63 E	\$13.79 E
2019	\$2.61 A	\$2.88 A	\$2.94 A	\$2.97 A	\$11.39 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 10/02/2020. The reports text is as of 10/05/2020.

Overview

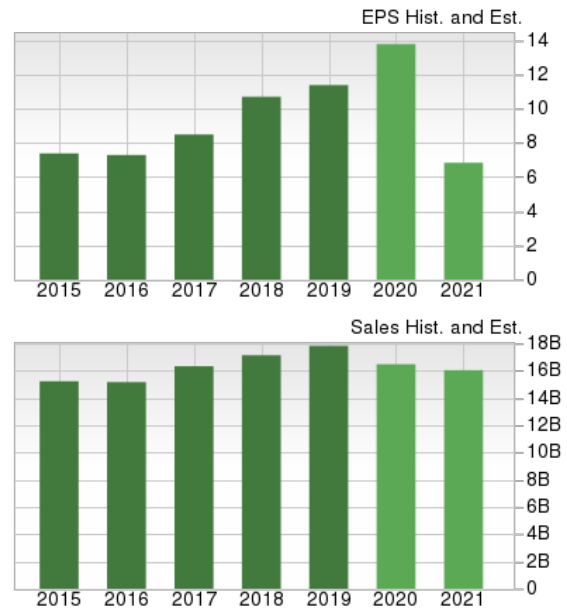
Headquartered in Pittsburgh and incepted in 1983, PNC Financial Services Group Inc. provides consumer and business banking services. The group's principal subsidiary is PNC Bank.

PNC Financial reports mainly through three business segments:

- **Retail Banking** (contributes 46% to total revenue in 2019) provides deposit, lending, brokerage, investment management, and cash management services to consumer and small business customers branch network, ATM's, call centers and online & mobile banking channels.
- **Corporate and Institutional Banking** (35%) provides lending, treasury management, and capital markets-related products and services to mid-sized and large corporations, government entities and not-for-profit organizations.
- **Asset Management Group** (7%) provides a wide range of wealth management products and services to individuals and their families, multi-generational family planning services to ultra-high net worth clients. Institutional Investments serves as an investment manager and trustee for companies, non-profit organizations and retirement plans across the country.

The **Other** category includes residual activities that do not meet the criteria for disclosure as a separate reportable business.

In April 2017, PNC Financial acquired U.S.-based commercial and vendor finance business of ECN Capital Corp in an all-cash transaction valued at \$1.1 billion. Further, in December 2017, it acquired The Trout Group, LLC, an investor relations and strategic advisory firm. PNC Financial also acquired Fortis Advisors with a view to expand advisory business.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ PNC Financial remains committed toward developing its business through strategic initiatives. In 2017, it expanded middle-market franchise to Dallas, Kansas City and Minneapolis and has plans to target more cities in future. Also, the company continues to build its technology platform in order to serve clients better. Moreover, in 2017, PNC Financial acquired two companies, which helped strengthen its advisory services. Notably, it plans to extend the reach of middle market corporate banking franchise into new markets, and expand its retail banking brand nationally. Thus, the company's bottom line is likely to get further support, if it continues to make planned investments.
- ▲ PNC Financial's net interest margin (NIM) has benefited from the higher interest-rate environment, increased yields and growth in loan balances in the past. In 2017 and 2018, the company reported a rise in NIM and net interest income (NII), after facing a volatile trend since 2009. While NII continued to rise in 2019 and first-half 2020, NIM shrunk due to lower rates. Notably, growth momentum in NII was recorded owing to lower borrowing and deposit costs along with higher securities yields, partly offset by reduced loan yields. Though management expects NII to be down 1% sequentially in the third quarter, interest income might get support from a decent lending scenario.
- ▲ With one of the most attractive business mixes in the banking industry, PNC Financial continues to make steady progress toward improving its non-interest income. The company's fee income has seen a four-year CAGR (2016-2019) of 5.1%. The positive trend continued mainly on increasing other non-interest revenues, along with higher fees from consumer and corporate services. Moreover, asset-management fees escalated with some annual volatility. Notably, growth momentum continued in the first-half of 2020. Amid coronavirus crisis, management expects fee income to decline 3-5% sequentially, with core fee revenue to remain stable while other non-interest income to be lower in the third quarter.
- ▲ As of Jun 30, 2020, the company holds a debt level of \$47 billion and debt-capital ratio of 0.47X, which have been declining over the past few quarters. Therefore, with a volatile time-interest-earned ratio of 3.7X over the past few quarters and a record of consistent earnings, PNC Financial carries low credit risk, and has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ PNC Financial stands solid from the balance-sheet perspective. Notably, total loans and deposits have witnessed a five-year CAGR (2015-2019) of 3.8% and 3.7%, respectively, with the trend continuing in the first-half of 2020 on liquidity needs due to crisis. Notably, additional expected funding needs of commercial and consumer customers amid crisis is likely to escalate loans and deposits balance.
- ▲ Shares of PNC Financial have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have been revised 2.1% upward over the past 30 days. Also, the stock seems undervalued when compared with the broader industry. Its price-to-earnings (F1) and PEG ratios are below the respective industry average. Also, the stock has a Value Score of B. Therefore, given the solid fundamentals and positive estimate revisions, the stock has upside potential.

PNC Financial's continues to undertake strategic initiatives with support from strong balance sheet. Moreover, rising fee income and steady loan growth are expected to further benefit the company.

Reasons To Sell:

- ▼ After witnessing stable trend in the three-year period ended 2016, PNC Financial's expenses climbed at four-year CAGR (2016–2019) of 3.7%, with slight decrease in 2018. Higher levels of business activity, along with investments in technology and business infrastructure contributed to this upside. Though the company aims to fund part of its investments through continued improvement-savings program goals (\$300 million for 2020) that target cost containment, a rising expenses base is likely to continue impacting the bottom line in the near term. Notably, expenses declined slightly in the first six months of 2020.
- ▼ Following the 2020 stress test results, PNC Financial maintain its quarterly dividend and continues to suspend its buyback plan to enhance liquidity amid coronavirus concerns till the fourth quarter of 2020. Though PNC Financial boasts an impressive capital deployment plan, its debt/equity ratio and dividend payout ratio are unfavorable compared with the broader industry. Hence, its capital deployment activities might not be sustainable.
- ▼ Majority of PNC Financial's loan portfolio — nearly 70% as of Jun 30, 2020 — comprises total commercial loans. Such high exposure to commercial loans depicts lack of diversification, which can be risky for the company amid uncertain economy and competitive markets.
- ▼ PNC Financial's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 5.78% has gradually improved over the years, it compares unfavorably with the 8.52% industry average, highlighting that it is less efficient in using shareholders' funds.

Rising cost base due to investments in technology deter PNC Financial's bottom-line expansion. Also, unsustainable capital deployment activities and lack of loan diversification remain concerns.

Last Earnings Report

PNC Financial Reports Q2 Loss, Revenues Down

PNC Financial reported second-quarter 2020 loss from continuing operations per share of \$1.90 as against the earnings of \$2.47 reported in the prior-year quarter. Higher provisions due to the coronavirus pandemic's crippling impact on the economy resulted in this dismal performance. The Zacks Consensus Estimate was pegged at 88 cents.

Including income from discontinued operations on the divestment of 22.4% equity investment in BlackRock in May, net income came in at \$3.7 billion or \$8.40 per share compared with the \$1.4 billion or \$2.88 per share witnessed in the prior-year quarter.

Lower revenues on decline in fee income, along with higher provisions, were the headwinds. Moreover, a lower net interest margin and decrease in loans were undermining factors. However, expenses dropped, while net interest income improved slightly.

Segment wise, quarterly net loss was reported in Corporate & Institutional Banking, Retail banking and the Other segments. The Asset Management Group segment registered a 65% plunge.

Revenues Down, Costs Decline

Total revenues for the reported quarter came in at \$4.1 billion, down 3% year over year. The top-line figure came in line with the Zacks Consensus Estimate.

Net interest income inched up 1% from the year-ago quarter to \$2.5 billion. Lower rates on deposits and borrowings, along with elevated average loans, balances held with the Federal Reserve Bank and securities, were partially negated by lower yields on earning assets. However, the net interest margin contracted 39 basis points to 2.52% due to lower yields on earning assets, partially muted by lower funding costs.

Non-interest income was down 10% year over year to \$1.5 billion on lower asset management, consumer, service charges on deposits and other income. This was partially muted by higher corporate services and residential mortgage income.

PNC Financial's non-interest expenses totaled \$2.5 billion, down 4% from the year-ago figure. This decline primarily resulted from the fall in marketing and occupancy costs, along with other costs, partly offset by higher equipment and personnel costs.

Efficiency ratio was 62%, in line with the prior-year quarter.

As of Jun 30, 2020, total loans were down 2% sequentially to \$258.2 billion. However, total deposits improved 13% to \$346 billion.

Credit Quality: A Concern

Credit metrics deteriorated during the June-end quarter. Non-performing assets escalated 6% year over year to \$1.95 billion. Net charge-offs surged 66% to \$236 million.

Allowance for loan and lease losses more than doubled on a year-over-year basis to \$5.9 billion. Provision for credit losses escalated significantly from the year-earlier quarter to \$2.5 billion.

Steady Capital Position

As of Jun 30, 2020, the Basel III common equity Tier 1 capital ratio was 11.3% compared with 9.7% as of Jun 30, 2019.

Return on average assets and average common equity came in at 3.21% and 30.11%, respectively, compared with the 1.39% and 11.75% witnessed in the prior-year quarter.

Share Repurchase

In mid-March, the company temporarily suspended share buybacks through the second quarter, following the "unprecedented challenge" from the coronavirus pandemic. Notably, the suspension will continue through the third quarter as well.

Outlook

Management anticipates no substantial reserve builds during the remainder of 2020.

As expected, management continues to see an increase in the nonperforming loans, which represents around 4% of current outstandings in the portfolio.

Third-Quarter 2020

The company expects sequential decline in low-single digits in average loans.

Management expects NII to be down 1% sequentially. Fee income is expected to decline 3-5% sequentially, mainly reflecting management's expectation that core fee revenue will be stable while other non-interest income will be lower in the quarter. Notably, consumer services are expected to pick up a little bit, corporate services maybe to fall off a little bit and asset management and residential mortgage essentially stable.

Quarter Ending	06/2020
Report Date	Jul 15, 2020
Sales Surprise	-0.73%
EPS Surprise	-315.91%
Quarterly EPS	-1.90
Annual EPS (TTM)	5.96

Non-interest expenses are expected to be flat to down.

Net loan charge-offs are estimated in the range of \$250-\$350 million.

Full-Year 2020 Compared With Full-Year 2019

Management anticipates revenues to decrease 2-5%.

Further, non-interest expenses are predicted to be down 2-5%.

Effective tax rate expected to be in low teens.

Recent News

PNC Financial Concludes Sale of BlackRock Ownership - May 15, 2020

PNC Financial recently announced the completion of the sale of its ownership stake in BlackRock, Inc. The company sold 31.6 million shares of BlackRock at a price of \$420 per share.

Notably, the underwriters also exercised their previously-announced option to purchase an additional amount of BlackRock shares. Blackrock's repurchase of 2.65 million shares from PNC Financial at a price of \$414.96 per share was also completed.

With the conclusion of this sale and the exercising of the option by the underwriters, PNC Financial sold its entire holding in BlackRock, excluding 500,000 BlackRock shares which the bank has retained for donating to the PNC Foundation by the end of this June.

PNC Financial made an investment in BlackRock in 1995. The stake was in the form of common stock and convertible participating preferred shares that shall convert to common stock upon selling.

Per PNC Financial management, this is the right time to divest its stake in BlackRock and realize a substantial return on the investment. Moreover, this stake sale will bolster the bank's balance sheet and liquidity position.

Also, the divestiture of stake in BlackRock will free PNC Financial from any regulatory obligations associated with the ownership of a large position in another diversified financial services company.

PNC Financial Ratings Affirmed by Moody's, Outlook Stable - May 13, 2020

Despite the pending sale of PNC Financial's equity investment in BlackRock, Inc., the ratings and assessments of the company and its banking subsidiary, PNC Bank, have been affirmed by Moody's Investors Service, the rating division of Moody's Corporation. The bank's senior debt has been given A3 rating. Also, the ratings outlook remained stable.

The subsidiary's deposit rating was Aa2/Prime-1, has an a2 standalone Baseline Credit Assessment (BCA) and the senior debt were rated A2.

Reasons for Ratings Affirmation

Per Moody's, the divestiture will solidify PNC Financial's capital and liquidity positions to grasp the increased expected credit costs in the coming quarters due to the coronavirus crisis. Though the bank holds a strong capital currently, Moody's views it to be of weak credit strength given PNC Financial's strong asset risk and liquidity profiles.

Notably, the bank recorded a Common Equity Tier 1 (CET1) capital ratio of 9.4% as of Mar 31, 2020, down from the prior year's 9.8%. Per Moody's, the proceeds from the sale of the BlackRock investment will augment the ratio by 1.8%.

On the contrary, with the boost to capital and liquidity, the divestiture carries the risk of reduction of a steady source of non-interest income for PNC Financial, thus weakening the company's overall revenue diversification. Notably, the bank recorded 9% of total non-interest income in first-quarter 2020 from BlackRock investment and averaged 13% since the first quarter of 2017. Nevertheless, the ratings are supported by the company's sustainable business model, revenue mix and diverse sources of earnings.

Per PNC Financial's management, the divestiture will help the company explore investment opportunities in the current market. Though Moody's considers the bank to be a regulated acquirer, any large acquisition escalating the asset risk, depleting capital, or weakening the bank's standalone credit profile would be negative for creditors. Moreover, Moody's views increased shareholder distributions as a negative for the ratings, as it impacts the bank's capability of absorbing unexpected losses at the time of enormous uncertainty.

Moody's ratings are supported by PNC Financial's ability of generating solid earnings on its retail and commercial banking businesses and balanced revenue base. Further, the bank's direct banking franchise supports financials with a sizable, low-cost core deposit base, healthy liquidity and geographic diversity. Also, the bank's recently-launched retail national expansion strategy bodes well, along with its efforts to fortify presence in untapped markets. The company's healthy market position and strong treasury management franchise support funding.

Also, PNC Financial's efforts to conservatively manage loan growth and limit concentration risks are expected to help the bank survive, even in an unfavorable economic environment. Moody's unchanged assessment of the bank's credit profile is reflected in the stable ratings.

Dividend Update

On Oct 1, PNC Financial's board of directors announced quarterly common stock dividend of \$1.15. The dividend will be paid on November 5 to shareholders on record as of Oct 16.

Valuation

PNC Financial's shares are down 29.8% in the year-to-date period and 19.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 36.3% and 17.5% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 24.9% and 9.8%, respectively.

The S&P 500 Index is up 4% and 14.1% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 13.19X forward 12 months earnings, which compares to 12.3X for the Zacks sub-industry, 15.92X for the Zacks

sector and 21.89X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.26X and as low as 6.95X, with a 5-year median of 12.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$118 price target reflects 13.88X forward earnings.

The table below shows summary valuation data for PNC

Valuation Multiples - PNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.19	12.3	15.92	21.89
	5-Year High	20.26	14.2	16.72	23.46
	5-Year Low	6.95	8.01	11.6	15.26
	5-Year Median	12.79	11.55	14.35	17.67
P/TB TTM	Current	1.12	1.46	3.3	15.15
	5-Year High	2.13	2.68	4	16.26
	5-Year Low	0.92	1.21	2.01	7.46
	5-Year Median	1.63	2.11	3.48	10.67
P/S F12M	Current	2.95	2.71	6.44	4.02
	5-Year High	4.42	4.59	6.67	4.3
	5-Year Low	1.95	2.39	4.97	3.18
	5-Year Median	3.45	3.59	6.07	3.67

As of 10/02/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 20% (201 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Citigroup Inc. (C)	Neutral	4
Fifth Third Bancorp (FITB)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
KeyCorp (KEY)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
Regions Financial Corporation (RF)	Neutral	4
U.S. Bancorp (USB)	Neutral	3
Wells FargoCompany (WFC)	Underperform	4

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	PNC	X Industry	S&P 500	FITB	MTB	USB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	D	-	-	B	F	D
Market Cap	47.61 B	30.77 B	23.15 B	15.59 B	12.00 B	55.39 B
# of Analysts	6	8	14	9	7	13
Dividend Yield	4.10%	4.10%	1.66%	4.93%	4.70%	4.57%
Value Score	B	-	-	B	C	C
Cash/Price	1.27	2.60	0.08	2.19	2.01	0.99
EV/EBITDA	3.96	-1.27	13.23	0.40	-1.27	4.83
PEG F1	1.09	2.12	2.82	1.84	3.75	2.39
P/B	0.90	0.82	3.31	0.76	0.82	1.19
P/CF	7.47	6.06	12.85	6.02	5.53	7.46
P/E F1	8.28	13.33	21.20	15.15	10.55	14.35
P/S TTM	2.32	1.69	2.51	1.69	1.81	2.08
Earnings Yield	12.29%	7.53%	4.49%	6.58%	9.47%	6.96%
Debt/Equity	0.89	0.88	0.70	0.79	0.43	0.92
Cash Flow (\$/share)	15.01	6.63	6.92	3.64	16.90	4.93
Growth Score	F	-	-	D	F	F
Historical EPS Growth (3-5 Years)	8.49%	10.96%	10.45%	10.96%	16.43%	6.78%
Projected EPS Growth (F1/F0)	21.07%	-41.64%	-2.97%	-47.86%	-35.53%	-40.96%
Current Cash Flow Growth	3.95%	2.66%	5.47%	17.50%	5.45%	2.66%
Historical Cash Flow Growth (3-5 Years)	5.26%	9.49%	8.52%	6.10%	11.65%	3.99%
Current Ratio	0.87	0.89	1.35	0.90	1.07	0.84
Debt/Capital	47.04%	44.79%	42.68%	42.23%	28.39%	44.79%
Net Margin	35.52%	18.16%	10.32%	16.55%	22.36%	19.70%
Return on Equity	5.78%	8.52%	14.77%	7.37%	10.22%	11.82%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Projected Sales Growth (F1/F0)	-7.42%	-0.96%	-0.89%	-9.54%	-4.78%	-0.96%
Momentum Score	B	-	-	B	F	A
Daily Price Change	2.49%	1.83%	0.46%	4.09%	1.43%	2.14%
1-Week Price Change	-6.14%	-6.46%	-2.32%	-5.84%	-10.30%	-6.54%
4-Week Price Change	0.44%	-3.39%	-1.82%	3.69%	-9.83%	-1.84%
12-Week Price Change	13.46%	7.24%	7.71%	25.88%	-1.76%	7.45%
52-Week Price Change	-17.97%	-21.31%	3.04%	-16.07%	-38.08%	-30.69%
20-Day Average Volume (Shares)	1,777,086	5,437,356	2,142,397	6,132,012	979,689	6,456,234
EPS F1 Estimate 1-Week Change	1.80%	1.29%	0.00%	1.64%	-0.54%	1.77%
EPS F1 Estimate 4-Week Change	-5.63%	0.70%	0.00%	4.50%	-0.45%	2.46%
EPS F1 Estimate 12-Week Change	-40.96%	15.16%	3.87%	15.16%	17.42%	17.81%
EPS Q1 Estimate Monthly Change	4.71%	3.14%	0.00%	6.83%	-1.87%	8.39%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	F
Momentum Score	B
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.