

Pentair plc(PNR)

\$57.15 (As of 02/24/21)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 12/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Pentair's fourth-quarter 2020 adjusted earnings per share and revenues improved year over year and beat the Zacks Consensus Estimate. The upbeat performance was aided by ongoing strong demand in the residential focused businesses. Anticipating this strength to continue, the company expects adjusted earnings per share between \$2.60 and \$2.75 in 2021. The mid-point of the range suggests year-over-year growth of 7%. It is also likely to gain from restructuring initiatives, productivity improvement, price hikes, cost control actions and efforts to reduce debt. Moreover, plans to expand in the areas of pool and residential and commercial water treatment through investments and acquisitions will also act as a catalyst. However, unfavorable impacts of the pandemic on commercial systems business and industrial business remain concerns.

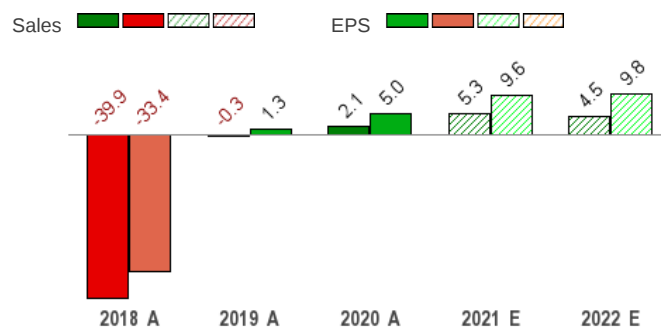
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$59.30 - \$22.01
20-Day Average Volume (Shares)	1,147,603
Market Cap	\$9.5 B
Year-To-Date Price Change	7.7%
Beta	1.19
Dividend / Dividend Yield	\$0.80 / 1.4%
Industry	Manufacturing - Thermal Products
Zacks Industry Rank	Top 25% (63 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	5.9%
EPS F1 Estimate 4-Week Change	1.5%
Expected Report Date	04/29/2021
Earnings ESP	0.0%

P/E TTM	23.4
P/E F1	20.9
PEG F1	3.5
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	769 E	825 E	873 E	878 E	3,322 E
2021	768 E	802 E	790 E	817 E	3,179 E
2020	710 A	713 A	799 A	796 A	3,018 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.66 E	\$0.80 E	\$0.73 E	\$0.78 E	\$3.01 E
2021	\$0.61 E	\$0.72 E	\$0.67 E	\$0.74 E	\$2.74 E
2020	\$0.52 A	\$0.59 A	\$0.70 A	\$0.70 A	\$2.50 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 02/24/2021. The report's text and the analyst-provided price target are as of 02/25/2021.

Overview

Manchester, U.K.-based Pentair delivers a comprehensive range of smart, sustainable water solutions to homes, business and industry globally. Its portfolio of solutions enables customers to access clean, safe water, reduce water consumption, as well as recovering and reusing it. It reports its results under two segments —

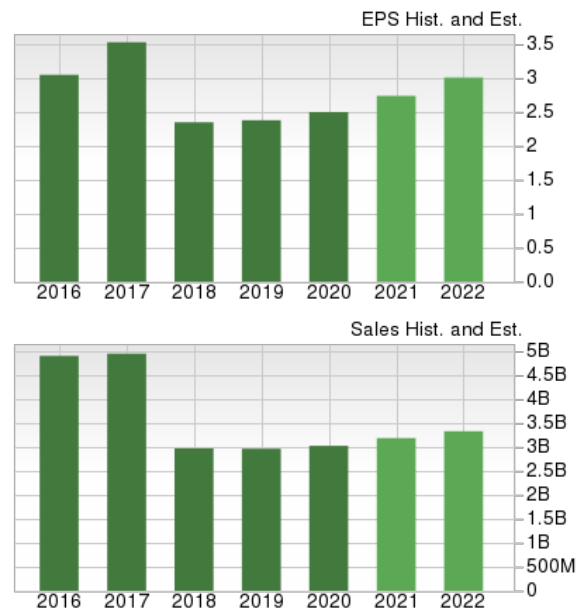
Consumer Solutions (58% of sales in 2020): This segment designs, manufactures and sells energy-efficient residential and commercial pool equipment and accessories, and commercial and residential water treatment products and systems. Residential and commercial pool equipment and accessories include pumps, filters, heaters, lights, automatic controls, automatic cleaners, maintenance equipment and pool accessories.

Water treatment products and systems comprise pressure tanks, control valves, activated carbon products, conventional filtration products, and point-of-entry and point-of-use systems. Applications for the pool business's products include residential and commercial pool maintenance, repair, renovation, service and construction.

The water treatment products and systems are utilized in residential whole home water filtration, drinking water filtration and water softening solutions in addition to commercial total water management and filtration in foodservice operations.

Industrial & Flow Technologies (IFT) (42% of sales in 2020): This segment manufactures and sells a variety of fluid treatment and pump products and systems, including pressure vessels, gas recovery solutions, membrane bioreactors, wastewater reuse systems and advanced membrane filtration, separation systems, water disposal pumps, water supply pumps, fluid transfer pumps, turbine pumps, solid handling pumps, and agricultural spray nozzles. It serves the global residential, commercial and industrial markets.

These products and systems are used across a range of applications including fluid delivery, ion exchange, desalination, food and beverage, separation technologies for the oil and gas industry, residential and municipal wells, water treatment, wastewater solids handling, pressure boosting, circulation and transfer, fire suppression, flood control, agricultural irrigation and crop spray.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Pentair has been implementing actions to reduce its cost structure in the wake of uncertainty on account of the coronavirus pandemic. Further, productivity improvement and price hikes implemented to combat higher input costs will continue to aid results. In order to improve customer's purchasing decision, the company has re-organized its business into two reporting segments, Consumer Solutions and IFT. The segment restructuring is focused on better alignment of customer products and service offerings to boost customer experience while also driving growth. These business restructuring initiatives will also help in reducing its fixed cost structure and contribute to margin growth in this year. In its IFT segment, the company has commenced certain initiatives to lessen complexity thereby reducing costs. This includes the discontinuation of several product lines.

Pentair will gain from introduction of products, acquisitions and investments in sync with its growth initiatives in the areas of pool and residential and commercial water treatment.

- ▲ Pentair is focused on optimizing free cash flow and liquidity. Through 2020, the company generated free cash flow of around \$512 million in free cash flow and returned over \$275 million to shareholders through dividends and buybacks. On December 2020, Pentair announced a 5% hike in quarterly dividend payout marking the 45th consecutive year of dividend increase for Pentair. Its board of directors has also sanctioned the repurchase of shares worth up to \$750 million, effective immediately. The new program has an expiration date of Dec 31, 2025 and supplements the prior \$750 million authorization, which is set to expire on May 31, 2021. The company has \$100 million remaining available under its old repurchase program as of Dec 7, 2020.

Meanwhile, the company has also been focused on lowering its debt levels. Its total debt to total capital ratio stands at 0.28 at the end of 2020, lower than 0.34 at the end of 2019. Further, Pentair's times interest earned ratio has also improved over the last few quarters and is currently pegged at 19.1X. Its strong balance sheet positions it well to navigate through the current turbulent situation. For 2021, the company expects free cash flow to exceed 100% of net income.

- ▲ Pentair is focused on expanding digital transformation, innovation, technology and brand building. The company has a strong product pipeline for 2021. In Water Treatment business, Pentair is investing in innovative components, such as flat connected valve for water softeners. The company continues to invest in new areas around commercial office water and total water management within its commercial systems business. Within Water Treatment, the company is of the opinion that there are opportunities to rapidly expand its \$50 million end-to-end residential services business, and reinforce its position in advanced technology and connected solutions in residential point-of-use solutions through its existing technology and the Rocean buyout. Pentair is well poised to gain from these investments over the long term.

The company is focused on leveraging solid product and technology offerings to help customers deliver smart, sustainable solutions. Moreover, Pentair Home app and Pentair Pro app for consumers and dealers will connect an entire suite of soon-to-be-launched residential products, including a smart water softening valve, two pool automation systems, and a host of residential flow control products. It has also launched a brand redesign of the Pentair.com website allowing for better cross-functional use and microsite enablement based on customer. These solutions will enable the company to generate higher revenues.

- ▲ Pentair continues to witness strong improvement in its Residential facing businesses, which is expected to continue in 2021. Demand for new pools and pool maintenance also remains strong. The company's pool business has benefited from increased demand for swimming pools as consumers were forced to stay at home amid the pandemic, which triggered the desire to invest in their backyards. Notably, the pool business witnessed growth slightly above 15% in 2020. Considering that nearly 80% of Consumer Solutions serves residential markets, the ongoing momentum bodes well for the segment.

Expecting strength in its residential focused businesses to continue, Pentair anticipates adjusted earnings per share between \$2.60 and \$2.75 in 2021. The mid-point of the guidance range suggests a 7% growth from the adjusted earnings of \$2.50 in 2020. Sales are expected to be up approximately 3-5% on a reported basis. The company also anticipates price hikes and productivity. For first-quarter 2021, the company expects adjusted earnings per share between 55 cents and 63 cents. The company anticipates first-quarter sales to be up approximately 7-12% on a reported basis compared with the prior-year quarter. The mid-point of the range depicts year-over-year growth of 13%.

- ▲ Pentair is focused on expanding particularly in the areas of pool and residential and commercial water treatment through acquisitions. In February 2019, as part of Consumer Solutions, Pentair completed the acquisitions of Aquion, Inc. and Pelican Water Systems. Aquion offers a diverse line of water conditioners, water filters, drinking-water purifiers, ozone and ultraviolet disinfection systems, reverse osmosis systems and acid neutralizers for the residential and commercial water treatment industry. Pelican provides residential whole home water treatment systems. These acquisitions present attractive growth opportunities. In December 2020, Pentair completed the acquisition of Rocean in a bid to expand its core water treatment solutions in the residential and commercial water business.

Reasons To Sell:

- ▼ Pentair's Consumer Solutions segment is made up of pool and water solutions. The segment's 20% of revenues are generated from the commercial business. Pentair's commercial systems business has large exposure to restaurants and hospitality, which has borne the brunt of muted demand due to temporary shutdowns across hospitality and restaurant industries for the remainder of the current year. Sales in Commercial Systems business have been down for three consecutive quarters. It is expected to recover through the year.
- ▼ Pentair's IFT segment comprises residential and irrigation flow, commercial and infrastructure flow and industrial filtration businesses. Pentair's commercial and industrial business are likely to remain challenged for the current year due to weak demand. The segment's top line in the current year will reflect the reduction in capital spending and aftermarket sales orders by commercial and industrial customers. The backlog-driven Commercial & Infrastructure Flow business manufactures larger engineered pumps for fire suppression and flood control. This business has been affected by slowing orders due to the coronavirus pandemic-related delays.
- ▼ Pentair continues to witness inflation in material and other costs which includes the impact of tariffs. The company anticipates the current economic environment to result in continuing price volatility for many of its raw materials. This is likely to dent Pentair's margins in the near term. Though the company continues to implement price hikes to counter the impact of higher input costs, it might not always be feasible, considering the competitive environment.
- ▼ The COVID-19 pandemic has impacted factory productivity and supply chain. These supply chain and capacity challenges have led to higher transportation and labor costs in order to deliver finished goods to customers in a timely manner. Restrictions or disruptions of transportation, such as reduced availability of air transport, port closures and increased border controls or closures, have in certain cases resulted in higher costs and delays, both for obtaining raw materials and components, and shipping finished goods to customers. This might impact the company's margins until the situation stabilizes.

Pentair's commercial systems business and Industrial & Flow Technologies business will be affected by impact of the pandemic. Material cost inflation are likely to dent its margins.

Last Earnings Report

Pentair Earnings and Sales Surpass Estimates in Q4

Pentair reported fourth-quarter 2020 adjusted earnings per share of 70 cents, beating the Zacks Consensus Estimate of 63 cents. The bottom line also improved 3% from 68 cents reported in the prior-year quarter. The improvement can be attributed to ongoing strong demand in the residential focused businesses. Including one-time items, earnings were 60 cents compared with the prior-year quarter's 61 cents.

Net sales improved 5% year over year to \$796 million. Further, the top line surpassed the Zacks Consensus Estimate of \$751 million. Excluding the impact of acquisitions, divestitures and currency translation, core sales rose 3% in the reported quarter.

Cost of sales advanced 6.5% year over year to \$513 million. Gross profit in the reported quarter amounted to \$284 million, up 3% from the prior-year quarter. Gross margin came in at 35.6% compared with the year-ago quarter's 36.3%.

Selling, general and administrative expenses totaled \$142 million compared with \$134 million in the prior-year quarter. Research and development expenses increased 13.6% year over year to \$20 million. Adjusted segmental operating income remained flat year over year at \$141 million.

Segmental Performance

Net sales in the Consumer Solutions segment rose 10% year over year to \$482 million. The segment's operating earnings increased 9% year over year to \$124 million.

Net sales in the Industrial and Flow Technologies segment totaled \$314 million, down 0.6% from the prior-year quarter. Operating earnings for the segment slumped 22% year over year to \$33 million.

Financial Update

Pentair had cash and cash equivalents of \$82.1 million as of Dec 21, 2020 compared with \$82.5 million as of Dec 31, 2019. Net cash from operating activities was around \$574 million during 2020 compared with \$345 million in the prior year. The company generated free cash flow of \$512 million in 2020 compared with \$295 million witnessed in the prior year. The company had long-term debt of \$840 million as of Dec 31, 2020, down from \$1,029 million as of Dec 31, 2019.

2020 Results

Pentair reported adjusted earnings per share of \$2.50 in 2020, up 5% from the prior year's \$2.38. Earnings beat the Zacks Consensus Estimate of \$2.44 and came ahead of management's guidance of adjusted earnings per share between \$2.35 and \$2.40. Including one-time items, the bottom line was \$2.13 compared with \$2.12 in 2019.

Sales increased 2% year over year to \$3.02 billion in fiscal 2020. The top line outpaced the Zacks Consensus Estimate of \$2.97 billion.

Guidance

Expecting strength in its residential focused businesses to continue this year, Pentair anticipates adjusted earnings per share between \$2.60 and \$2.75 in 2021. Sales are expected to be up approximately 3-5% on a reported basis.

For first-quarter 2021, the company expects adjusted earnings per share between 55 cents and 63 cents. The company anticipates first-quarter sales to be up approximately 7-12% on a reported basis compared with the prior-year quarter.

Quarter Ending	12/2020
Report Date	Jan 28, 2021
Sales Surprise	5.92%
EPS Surprise	11.11%
Quarterly EPS	0.70
Annual EPS (TTM)	2.51

Recent News

Pentair Acquires Rocean, Expands Water Treatment Solutions

On **Dec 28, 2020**, Pentair has completed the acquisition of Be the Change Labs, Inc., d/b/a Rocean in a bid to expand its core water treatment solutions in the residential and commercial water business. Rocean is a leading innovator in smart, sustainable, water solutions. Notably, its smart filtration devices provide countertop filtration solutions and help reduce the usage of single-use plastic water bottles in homes and businesses.

Pentair Hikes Dividend, Okays New Share Buyback Program

On **Dec 9, 2020** Pentair announced a 5% hike in quarterly dividend payout and a new share repurchase program of up to \$750 million of the company's shares. These moves are in sync with its long-standing commitment of returning capital to shareholders. It's worth mentioning that this marks the 45th consecutive year of dividend increase for Pentair.

The company's board of directors approved a 5% or 1 cent per share hike in the quarterly dividend rate. This takes the quarterly payout to 20 cents and translates to an annual dividend of 80 cents. Pentair will pay the revised dividend on Feb 5, 2021, to shareholders on record as of Jan 22, 2021.

Its board of directors has also sanctioned the repurchase of shares worth up to \$750 million, effective immediately. The new program has an expiration date of Dec 31, 2025 and supplements the prior \$750 million authorization that is set to expire on May 31, 2021. The company has \$100 million remaining available under its old repurchase program as of Dec 7, 2020.

Valuation

Pentair's shares are up 24.3% in the trailing six-month period and 36.6% over the trailing 12-month period. Stocks in the Zacks Manufacturing – Thermal Products industry and the Industrial Products sector are up 54.5% and 27.6% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 84.5% and 35.4%, respectively.

The S&P 500 index is up 12.2% in the trailing six-month period and 26.2% in the past year.

The stock is currently trading at 20.55X forward 12-month earnings, which compares with 28.47X for the Zacks sub-industry, 23.43X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.69X and as low as 8.90X, with a 5-year median of 16.99X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 21.57X forward 12-month earnings.

The table below shows summary valuation data for PNR:

Valuation Multiples - PNR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.55	28.47	23.43	22.72
	5-Year High	21.69	28.47	23.43	23.8
	5-Year Low	8.9	11.44	12.64	15.3
	5-Year Median	16.99	16.78	17.94	17.84
P/S F12M	Current	2.97	5.46	3.62	4.58
	5-Year High	3.1	5.46	3.62	4.58
	5-Year Low	1.26	1.19	1.62	3.21
	5-Year Median	2.34	2.67	2.12	3.68
EV/EBITDA TTM	Current	17.12	32.1	24.43	15.86
	5-Year High	17.72	32.1	24.43	16.99
	5-Year Low	8.29	10.68	11.1	9.62
	5-Year Median	13.32	14.19	15.28	13.28

As of 02/24/2021 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Crane Co. (CR)	Neutral	3
Carlisle Companies Incorporated (CSL)	Neutral	3
Dover Corporation (DOV)	Neutral	2
Flowserve Corporation (FLS)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Lennox International, Inc. (LII)	Neutral	3
Rockwell Automation, Inc. (ROK)	Neutral	3
Timken Company The (TKR)	Neutral	2

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

Industry Comparison Industry: Manufacturing - Thermal Products				Industry Peers		
	PNR	X Industry	S&P 500	FLS	IEX	ROP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	B	C	D
Market Cap	9.49 B	4.64 B	27.72 B	5.05 B	14.98 B	39.75 B
# of Analysts	11	5	13	7	6	6
Dividend Yield	1.40%	0.00%	1.45%	2.06%	1.01%	0.59%
Value Score	B	-	-	C	D	C
Cash/Price	0.01	0.01	0.06	0.18	0.07	0.01
EV/EBITDA	19.30	19.82	15.30	11.66	24.99	17.10
PEG F1	3.54	2.38	2.37	2.81	3.35	2.47
P/B	4.51	4.51	3.89	2.86	5.90	3.79
P/CF	19.20	23.42	15.89	15.38	31.11	21.15
P/E F1	20.91	27.04	21.11	22.45	33.46	25.95
P/S TTM	3.14	2.97	3.19	1.35	6.37	7.19
Earnings Yield	4.79%	3.90%	4.65%	4.46%	2.99%	3.85%
Debt/Equity	0.40	0.40	0.66	0.97	0.41	0.86
Cash Flow (\$/share)	2.98	2.98	6.64	2.52	6.36	17.92
Growth Score	B	-	-	C	C	F
Historical EPS Growth (3-5 Years)	-11.32%	16.71%	9.34%	-6.15%	11.02%	19.05%
Projected EPS Growth (F1/F0)	9.60%	21.74%	13.95%	-0.82%	13.97%	14.60%
Current Cash Flow Growth	1.92%	-5.62%	1.21%	-16.71%	-7.79%	4.66%
Historical Cash Flow Growth (3-5 Years)	-10.89%	15.90%	7.62%	-8.93%	6.18%	16.15%
Current Ratio	1.26	1.26	1.38	2.54	4.15	0.72
Debt/Capital	28.50%	28.81%	41.22%	49.35%	29.13%	46.38%
Net Margin	11.88%	8.82%	10.59%	3.11%	16.06%	17.18%
Return on Equity	20.96%	20.95%	14.82%	13.52%	16.82%	13.41%
Sales/Assets	0.72	0.81	0.51	0.75	0.56	0.26
Projected Sales Growth (F1/F0)	5.35%	5.25%	6.82%	-5.64%	10.27%	13.51%
Momentum Score	C	-	-	D	B	A
Daily Price Change	2.62%	2.62%	1.31%	-2.02%	0.57%	-2.33%
1-Week Price Change	5.63%	2.76%	-0.16%	-1.43%	-1.56%	-1.80%
4-Week Price Change	0.09%	11.87%	6.83%	5.82%	5.10%	-9.80%
12-Week Price Change	11.23%	16.35%	9.51%	15.50%	4.24%	-9.38%
52-Week Price Change	36.56%	41.03%	18.76%	-6.78%	24.24%	3.79%
20-Day Average Volume (Shares)	1,147,603	173,802	2,013,595	967,452	477,963	734,558
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-17.43%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.48%	3.07%	0.62%	-17.43%	1.20%	1.21%
EPS F1 Estimate 12-Week Change	2.03%	2.56%	1.91%	-14.96%	2.70%	1.21%
EPS Q1 Estimate Monthly Change	6.40%	1.73%	0.15%	0.00%	4.03%	-4.27%

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	B
Momentum Score	C
VGM Score	B

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.