

Prudential Financial(PRU)

\$61.45 (As of 09/24/20)

Price Target (6-12 Months): **\$65.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: F

Momentum: B

Summary

Prudential Financial continues to benefit from solid asset-based businesses, improved margins in Group Insurance business and international operations. High performing asset management business and deeper reach in the pension risk transfer market are catalysts for long-term growth. The company's strategic initiatives have also strengthened its existing capabilities. Its shares have underperformed the industry in a year. Nevertheless, its policy of returning value to shareholders through share buybacks and dividend payments bodes well. However, exposure to low interest rates and products like annuities and universal life yielding minimum return bothers. Prudential expects third-quarter earnings of \$2.63 per share and net investment income is projected to decline by \$15 million. Also, escalating costs and high debt level remain concerns.

Data Overview

| | |
|--------------------------------|---------------------------------|
| 52-Week High-Low | \$97.24 - \$38.62 |
| 20-Day Average Volume (Shares) | 2,258,944 |
| Market Cap | \$24.3 B |
| Year-To-Date Price Change | -34.5% |
| Beta | 1.69 |
| Dividend / Dividend Yield | \$4.40 / 7.2% |
| Industry | Insurance - Multi line |
| Zacks Industry Rank | Top 48% (121 out of 250) |

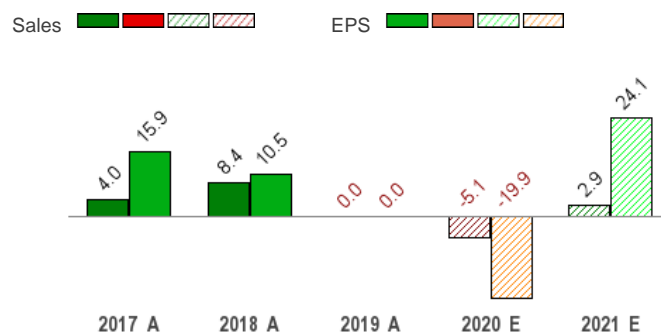
| | |
|-------------------------------|-------------------|
| Last EPS Surprise | 7.6% |
| Last Sales Surprise | 1.1% |
| EPS F1 Estimate 4-Week Change | 0.0% |
| Expected Report Date | 11/02/2020 |
| Earnings ESP | 0.0% |

| | |
|---------|------------|
| P/E TTM | 6.3 |
| P/E F1 | 6.6 |
| PEG F1 | 0.7 |
| P/S TTM | 0.4 |

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | 14,648 E | 13,693 E | 13,998 E | 14,114 E | 56,764 E |
| 2020 | 13,334 A | 13,078 A | 13,877 E | 14,016 E | 55,160 E |
| 2019 | 13,648 A | 14,106 A | 12,928 A | 17,450 A | 58,132 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2021 | \$2.88 E | \$2.91 E | \$2.82 E | \$2.63 E | \$11.63 E |
| 2020 | \$2.32 A | \$1.85 A | \$2.65 E | \$2.54 E | \$9.37 E |
| 2019 | \$3.00 A | \$3.14 A | \$3.22 A | \$2.33 A | \$11.69 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 09/24/2020. The reports text is as of 09/25/2020.

Overview

Headquartered in Newark, NJ, Prudential Financial Inc. was founded in 1875. Through its subsidiaries and affiliates, this a financial services leader offers an array of financial products and services including life insurance, annuities, retirement-related services, mutual funds, investment management and real estate services. These are offered to individual and institutional customers across United States, Asia, Europe and Latin America.

Prudential's principal operations are comprised of five divisions, which together encompass seven segments, and Corporate and Other operations.

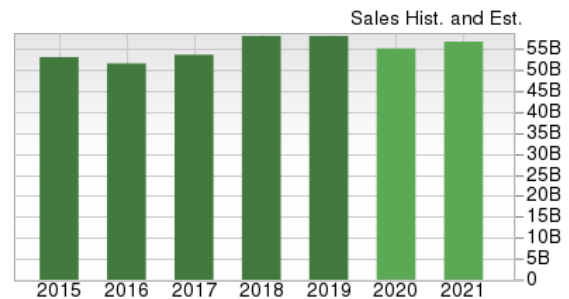
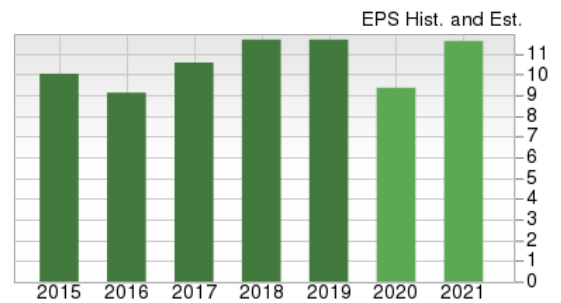
The **U.S. Workplace Solutions division (51.4% of 2019 Revenues)** consists of Retirement and Group Insurance segments. Retirement provides retirement investment and income products and services to retirement plan sponsors in the public, private and not-for-profit sectors. Group Insurance provides a full range of group life, long-term and short-term group disability, and group corporate-, bank- and trust-owned life insurance in the United States.

The **International Insurance division (27.4%)** consists of International Insurance segment, and the Closed Block division consists of Closed Block segment. International Insurance develops and distributes life insurance, retirement products and certain accident and health products with fixed benefits.

The **U.S. Individual Solutions division (12.3%)** consists of Individual Annuities and Individual Life segments. Individual Annuities develops and distributes individual variable and fixed annuity products. Individual Life develops and distributes term life, variable life and universal life insurance products.

The **PGIM division (8.9%)** provides asset management services related to public and private fixed income, public equity and real estate, commercial mortgage origination and servicing, and mutual funds and other retail services.

Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested or placed in run-off.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Shares of Prudential have lost 31.5% in the past year, compared with the industry's decline of 26.7%. Nevertheless, strong fundamentals are likely to help the stock gain going forward.
- ▲ Prudential is witnessing huge demand for retirement benefits' products for baby boomers, which is expected to continue. The U.S. Census Bureau projects that nearly 25% of the population will be 65 years or older by 2050. Prudential's vast distribution network, compelling product portfolio and superior brand image will give it a competitive edge.
- ▲ Prudential has emerged to be among the top five individual life insurance companies in the U.S. with new recurring premium sales, greater scale, expanded product offerings and broader distribution capabilities. Premiums have increased consistently since 2015. Given the company's leading position in universal, term and variable life insurance and expanding Retirement business, we expect premium growth to continue in the coming quarters.
- ▲ Prudential remains focused on repricing as well as moving toward lower risk and less capital-intensive products. This has enabled the company to achieve cost savings of \$45 million in the second quarter. It has already set a target of \$143 million cost savings for 2020, out of which \$75 million has been achieved year to date. The company aims to achieve cost savings target of \$500 million by 2022.
- ▲ Prudential undertakes several strategic initiatives, which poise it well for long-term growth. In May, its business unit Prudential Group Insurance collaborated with PlanSource Boost to enhance the process of choosing and managing group benefits. Last year, Prudential acquired Assurance to bolster financial wellness solutions business. The acquisition will help generate cost savings between \$50 million and \$100 million, in addition to expected margin expansion of \$500 million by 2022. Prudential projects mid-to-high single digit earnings growth in the U.S. Financial Wellness business in the intermediate term. Such initiatives bode well as it expands the company's existing set of capabilities.
- ▲ Prudential has a strong international presence that gives it more organic growth opportunities than its peers. Expanding its international business (mainly in Japan and China) is vital for long-term growth. Prudential has a strong footprint in Japan, which offers attractive opportunities to capitalize on protection products and retirement needs and which has historically generated ROE in the 20% range. Sales in Japan declined in the third quarter due to COVID-19 restrictions imposed on sales activities. Nevertheless, the sales have somewhat rebounded in June following the easing of stringent lockdown measures by the state. The company's business in Brazil has gained sufficient scale and should become an important contributor to earnings growth in the international division over the next few years. The company also expanded in Malaysia which is an attractive market, with low life insurance penetration, a well-developed regulatory environment and long-term growth potential. Prudential remains upbeat about expanding its international footprint with focus on directing earnings mix to higher-growth markets. To that end, the company divested Prudential of Korea business, the proceeds of which worth \$1.7 billion are expected by the end of 2020. The company also looks for strategic alternatives in the form of divesting for Taiwan business.
- ▲ Prudential has successfully generated investors' value by resorting to shareholder-friendly measures such as dividend payments and share repurchases, over time. The company has been increasing its dividend for the past 12 years. Its dividend yield of 7.2% compares favorably with the industry's figure of 3.1%. In December 2019, it authorized the repurchase of 2 billion shares for 2020. However, the company has suspended share buyback in the wake of the pandemic. Prudential envisions about 65% free cash flow ratio of adjusted operating income on average over time.

Demographic changes working in favor of Prudential, proven acquisition and integration track record, brand value, wide agent network and growing international business are positives.

The company has a solid liquidity that includes \$4 billion credit facility and access to \$3 billion of funding from a contingent capital facility.

Reasons To Sell:

- ▼ Prudential's exposure to products like annuities and universal life, which guarantee minimum return, will strain its capital. Its results have been suffering due to additional reserve accretion required when the low interest rate increases the value of these liabilities. The company expects repricing and repositioning of products, and impact from COVID-19 outbreak to weigh on individual annuities sales in the near term and sales at Individual Life.
- ▼ Prudential anticipates third-quarter earnings of \$2.63 per share, which includes net mortality claims of around \$55 million. Fatality rates due to the COVID-19 pandemic, which has lowered to some extent, are anticipated to reduce operating income by \$70 million.
- ▼ Over the last few years, the company has been witnessing increase in expenses. However, benefits and expenses of the company fell 0.8% year over year in the first half of 2020 owing to lower interest credited to policyholders' account balances and dividends to policyholders. Despite reduction in benefits and expenses, net margin came in at a negative figure of 0.2%, which compares unfavorably with year-over-year figure of 6.4%. In relation to the pandemic, the company expects to incur operating costs of \$25 million in the third quarter. Nevertheless, the company expects implementation costs to reduce by \$130 million in the third quarter. For the second half of 2020, Prudential anticipates incremental operating costs of \$60 million due to the pandemic, out of which \$40 million is likely to be incurred in the third quarter. Travel and entertainment expenses are expected to decline by \$30 million in the second half of the year.
- ▼ Prudential's debt level has been increasing over the last few quarters with deterioration in debt to capital ratio. In March 2020, the company issued \$1.5 billion of senior debt to address maturities through 2021. Debt level at second quarter end increased 3.5% from 2019-end level. However, debt to capital for second-quarter end improved 10 basis points from 2019 end to 24.3%. Increasing debt level has also been inducing increase in interest expenses too, which however, remained flat in the first half of 2020.
- ▼ Return on equity, a profitability measure, represents how efficiently a company is utilizing shareholder's funds to generate earnings. Prudential's return on equity of 6.1% compares unfavorably with the industry average of 7.5%.

Low interest rates, an underperforming group disability business, regulatory control increase in expenses weighing on margin expansion remain concerns.

Last Earnings Report

Prudential Q2 Earnings Beat Estimates, Decline Y/Y

Prudential's second-quarter 2020 operating net income of \$1.85 per share beat the Zacks Consensus Estimate by 7.6%. However, the bottom line declined 41.1% year over year owing to lower contributions from U.S. Individual Solutions, U.S. Workplace Solutions and International Businesses.

Operational Update

Total revenues of \$13.1 billion plunged 7.3% year over year due to lower premiums, net investment income, and decrease in asset management fees, commissions and other income.

However, the decline was partly mitigated by higher policy charges and fee income. Moreover, the top line outpaced the Zacks Consensus Estimate by 1.1%.

Total benefits and expenses of \$12.1 billion inched up 0.6% year over year in the quarter. This increase in expenses was mainly due to higher interest expense, and general and administrative expenses.

Quarterly Segment Update

Prudential Global Investment Management (PGIM) reported adjusted operating income of \$324 million, which improved 22.7% year over year. The upside can be attributed to improved Other Related revenues courtesy of increased strategic investment earnings, lower expenses and higher asset management fees. PGIM assets under management improved 9% year over year to \$1.394 trillion at the end of the reported quarter, driven by market appreciation and public fixed income inflows, partly offset by public equity outflows.

U.S. Workplace Solutions' adjusted operating income was \$286 million, which plunged 47.8% from the year-ago quarter owing to lower contribution from Retirement and Group Insurance business.

U.S. Individual Solutions reported adjusted operating income of \$185 million, down 43.4% mainly due to lower contribution from Individual Annuities, partly offset by lower loss reported in Individual Life.

International delivered adjusted operating income of \$693 million, down 12.3% from the year-earlier period, due to lower net investment spread results and increased expenses. These were partially offset by business growth, higher earnings from joint venture investments due to market performance and more favorable underwriting results.

Corporate and Other incurred adjusted operating loss of \$541 million, wider than loss of \$335 million reported a year ago. The deterioration reflects increased expenses and lower net investment income, partly mitigated by higher income from pension and other employee benefit plans.

Financial Update

Cash and cash equivalents of \$21.1 billion at quarter end increased 29.5% from 2019 end level. Debt balance totaled \$21.3 billion as of Jun 30, 2020, up 3.5% from the level as of 2019 end. As of Jun 30, 2020, Prudential Financial's assets under management increased 7.2% year over year to \$1.6 trillion.

Adjusted book value per common share, a measure of the company's net worth, came in at \$92.07 as of Jun 30, 2020, down 5.2% year over year.

Operating return on average equity was 7.8% in the second quarter, contracting 490 basis points year over year.

Quarter Ending 06/2020

| Report Date | Aug 04, 2020 |
|------------------|--------------|
| Sales Surprise | 1.14% |
| EPS Surprise | 7.56% |
| Quarterly EPS | 1.85 |
| Annual EPS (TTM) | 9.72 |

Recent News

Prudential Financial to Redeem Junior Subordinated Notes – Aug 25, 2020

Prudential Financial unveiled that it will entirely redeem the \$575,000,000, 5.75% Junior Subordinated Notes, which is due to mature on 2052. It will also fully redeem the \$710,000,000, 5.70% Junior Subordinated Notes set to mature on 2053. Both the series of notes are likely to be redeemed this month on Sep 23. For the purpose of funding the redemption, the company tends to utilize funds received from the company's underwritten public offering of \$1,300,000,000 aggregate principal amount of Junior Subordinated Notes, which was closed on Aug 21, 2020.

Prudential's Junior Subordinated Notes Get Rating Action – Aug 21, 2020

AM Best has assigned a Long-Term Issue Credit Rating of "bbb" to the 30-year, \$800 million, 3.7% junior subordinated note, and the 40-year, \$500 million, 4.125% junior subordinated note, which have been newly issued by Prudential Financial. The outlook of these ratings is stable. However, the ratings of the company and its units have remained unchanged.

Prudential Declares Quarterly Dividend – Aug 11, 2020

The company's board of directors has announced a quarterly dividend of \$1.10 per share, which was paid on Sep 17, 2020 to shareholders of record as of Aug 25. This indicates the company's commitment of returning value to shareholders.

Prudential to Sell Taiwan Unit to Streamline Business – Aug 11, 2020

Prudential has inked a deal with Taiwan-based Taishin Financial Holding to sell its insurance arm — The Prudential Life Insurance Company of Taiwan Inc. However, the completion of the new transaction is subject to customary approval. Per the agreement, Prudential Financial will sell 100% of its life insurance business in Taiwan.

Valuation

Prudential shares are down 34.5% and 31.5% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.8% and 20.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 26.7% and 15.6%, respectively.

The S&P 500 index is up 0.7% in the year-to-date period and up 9.1% in the past year.

The stock is currently trading at 5.57x forward 12-month earnings, which compares to 7.39x for the Zacks sub-industry, 15.32x for the Zacks sector and 21.31x for the S&P 500 index.

Over the past five years, the stock has traded as high as 11.8x and as low as 3.22x, with a 5-year median of 7.72x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$65 price target reflects 5.89x forward 12-month earnings.

The table below shows summary valuation data for PRU

| Valuation Multiples - PRU | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 5.57 | 7.39 | 15.32 | 21.31 |
| | 5-Year High | 11.8 | 12.61 | 16.72 | 23.44 |
| | 5-Year Low | 3.22 | 6.62 | 11.6 | 15.26 |
| | 5-Year Median | 7.72 | 9.85 | 14.27 | 17.63 |
| P/S F12M | Current | 0.43 | 0.77 | 6.44 | 3.95 |
| | 5-Year High | 1 | 1.74 | 6.67 | 4.29 |
| | 5-Year Low | 0.26 | 0.77 | 4.97 | 3.11 |
| | 5-Year Median | 0.74 | 1.26 | 6.07 | 3.66 |
| P/B TTM | Current | 0.37 | 1.09 | 2.39 | 5.58 |
| | 5-Year High | 1.06 | 1.98 | 2.91 | 6.17 |
| | 5-Year Low | 0.25 | 0.85 | 1.72 | 3.75 |
| | 5-Year Median | 0.77 | 1.48 | 2.54 | 4.85 |

As of 09/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 250)



Source: Zacks Investment Research

Top Peers

| Company (Ticker) | Rec | Rank |
|--|---------|------|
| Aegon NV (AEG) | Neutral | 4 |
| Aflac Incorporated (AFL) | Neutral | 2 |
| American International Group, Inc. (AIG) | Neutral | 3 |
| Cigna Corporation (CI) | Neutral | 3 |
| MetLife, Inc. (MET) | Neutral | 3 |
| Prudential Public Limited Company (PUK) | Neutral | 4 |
| Swiss Re Ltd. (SSREY) | Neutral | 4 |
| Zurich Insurance Group Ltd. (ZURVY) | Neutral | 3 |

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

| Industry Comparison Industry: Insurance - Multi Line | | | | Industry Peers | | |
|--|-----------|------------|-----------|----------------|-----------|-----------|
| | PRU | X Industry | S&P 500 | AIG | CI | MET |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | B | - | - | C | A | C |
| Market Cap | 24.27 B | 2.88 B | 22.77 B | 22.81 B | 59.08 B | 32.45 B |
| # of Analysts | 4 | 2 | 14 | 6 | 14 | 4 |
| Dividend Yield | 7.16% | 2.79% | 1.72% | 4.83% | 0.02% | 5.15% |
| Value Score | A | - | - | B | A | A |
| Cash/Price | 2.07 | 0.32 | 0.07 | 1.25 | 0.14 | 1.15 |
| EV/EBITDA | -2.05 | 3.59 | 12.78 | 2.77 | 6.93 | 0.99 |
| PEG F1 | 0.73 | 1.06 | 2.82 | 1.02 | 0.78 | 1.56 |
| P/B | 0.36 | 0.78 | 3.12 | 0.37 | 1.25 | 0.43 |
| P/CF | 4.66 | 7.07 | 12.37 | 2.53 | 5.93 | 6.09 |
| P/E F1 | 6.55 | 9.64 | 20.56 | 10.25 | 8.69 | 6.45 |
| P/S TTM | 0.43 | 0.73 | 2.34 | 0.47 | 0.38 | 0.48 |
| Earnings Yield | 15.23% | 10.12% | 4.60% | 9.74% | 11.51% | 15.50% |
| Debt/Equity | 0.30 | 0.27 | 0.70 | 0.63 | 0.67 | 0.20 |
| Cash Flow (\$/share) | 13.20 | 3.42 | 6.93 | 10.45 | 27.12 | 5.87 |
| Growth Score | F | - | - | C | A | F |
| Historical EPS Growth (3-5 Years) | 5.05% | 8.76% | 10.41% | 2.87% | 20.75% | 5.58% |
| Projected EPS Growth (F1/F0) | -19.89% | -6.10% | -4.56% | -43.72% | 8.55% | -9.29% |
| Current Cash Flow Growth | 2.41% | 7.19% | 5.26% | 41.46% | 138.17% | 6.34% |
| Historical Cash Flow Growth (3-5 Years) | 1.57% | 1.69% | 8.49% | -3.88% | 31.41% | -4.47% |
| Current Ratio | 0.13 | 0.47 | 1.35 | 0.34 | 0.74 | 0.16 |
| Debt/Capital | 23.26% | 21.39% | 42.92% | 38.47% | 40.17% | 16.93% |
| Net Margin | -0.25% | 4.27% | 10.25% | -9.46% | 3.41% | 10.65% |
| Return on Equity | 6.13% | 6.45% | 14.59% | 3.28% | 15.89% | 7.71% |
| Sales/Assets | 0.06 | 0.19 | 0.50 | 0.09 | 0.99 | 0.09 |
| Projected Sales Growth (F1/F0) | -5.11% | 0.00% | -1.44% | -7.51% | 11.16% | -7.79% |
| Momentum Score | B | - | - | D | D | F |
| Daily Price Change | -0.82% | 0.00% | 0.21% | 0.19% | 0.24% | -0.94% |
| 1-Week Price Change | 0.04% | -1.87% | 0.79% | -1.44% | -0.85% | 3.77% |
| 4-Week Price Change | -11.40% | -8.97% | -5.64% | -10.78% | -9.15% | -8.50% |
| 12-Week Price Change | 3.63% | -6.28% | 1.89% | -11.50% | -15.54% | 0.28% |
| 52-Week Price Change | -31.52% | -24.92% | -2.71% | -52.61% | 7.40% | -24.07% |
| 20-Day Average Volume (Shares) | 2,258,944 | 167,966 | 2,095,310 | 7,578,943 | 2,153,983 | 5,680,901 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.04% | 0.00% |
| EPS F1 Estimate 12-Week Change | 1.86% | 1.80% | 4.08% | -12.58% | 0.37% | 1.74% |
| EPS Q1 Estimate Monthly Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | -0.16% |

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 | A |
| Growth Score | F |
| Momentum Score | B |
| 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.

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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.

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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 a 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.