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Sep 29, 2020

Quanta Services Inc. (PWR)

$52.89 (As of 09/28/20)

Price Target (6-12 Months): **$56.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/02/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: D	

Summary

Quanta Services' shares have outperformed the industry year to date. It is set to deliver a resilient performance in 2020 despite a challenging environment. Backed by solid strategies and operational excellence, it lifted its adjusted earnings, adjusted EBITDA and non-GAAP free cash flow projection for 2020. Its 80-90% of revenues are derived from utility, communications, and few pipeline and industrial infrastructure services, which continue to be strong. However, lower contribution from the Pipeline and Industrial Infrastructure Services segment has been denting the company's performance. COVID-19 impacts, inadequate resource utilization, regulatory challenges and risks like project delays, stiff competition, and oil & gas volatility also remain concerns.

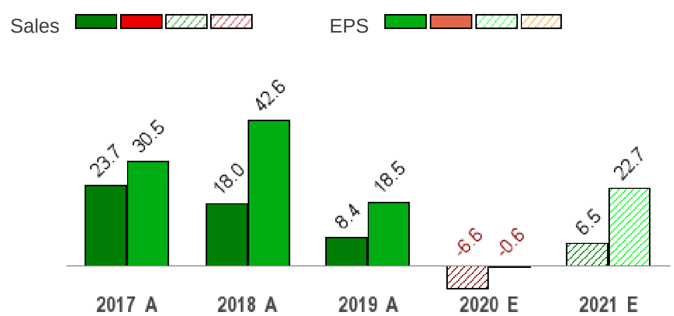
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$53.61 - $23.77**
20-Day Average Volume (Shares)	**1,100,649**
Market Cap	**$7.3 B**
Year-To-Date Price Change	**29.9%**
Beta	**1.21**
Dividend / Dividend Yield	**$0.20 / 0.4%**
Industry	**Engineering - R and D Services**
Zacks Industry Rank	**Bottom 30% (174 out of 250)**
Last EPS Surprise	**54.2%**
Last Sales Surprise	**-1.2%**
EPS F1 Estimate 4-Week Change	**0.5%**
Expected Report Date	**10/29/2020**
Earnings ESP	**0.0%**
P/E TTM	**16.1**
P/E F1	**16.0**
PEG F1	**1.1**
P/S TTM	**0.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	2,757 E	2,941 E	3,157 E	3,085 E	12,046 E
2020	2,764 A	2,506 A	3,046 E	3,011 E	11,313 E
2019	2,807 A	2,839 A	3,353 A	3,113 A	12,112 A

EPS Estimates

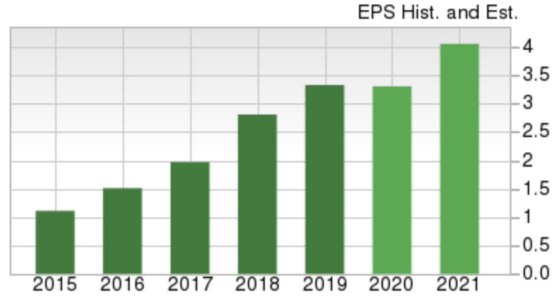
	Q1	Q2	Q3	Q4	Annual*
2021	$0.74 E	$1.11 E	$1.18 E	$1.11 E	$4.06 E
2020	$0.47 A	$0.74 A	$1.10 E	$1.08 E	$3.31 E
2019	$0.96 A	$0.31 A	$1.14 A	$0.93 A	$3.33 A

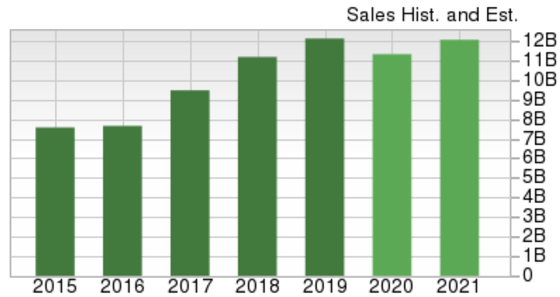
*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 09/28/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/29/2020.

Overview

Quanta Services is a leading national provider of specialty contracting services, and one of the largest contractors serving the transmission and distribution sector of the North American electric utility industry. Quanta Services has operations in United States, Canada, Australia and other selected international markets. The company has two reportable segments that are as follows:





The Electric Power Infrastructure Services segment (which contributed 59% to 2019 revenues) provides comprehensive network solutions to customers in the electric power industry. Services performed include the design, installation, upgrade, repair and maintenance of electric power transmission and distribution networks, and sub-station facilities; emergency restoration services; installation of “smart grid” technology on electric power networks; supports the development of renewable energy generation, including solar, wind, hydro power and backup natural gas generation facilities, and related switchyards and transmission infrastructure; and communications infrastructure services.

The Pipeline and Industrial Infrastructure Services segment (41%) provides comprehensive network solutions to customers involved in the transportation of natural gas, oil and other pipeline products. Services include the design, installation, repair and maintenance of oil and gas transmission and distribution systems and related trenching and directional boring services. Also, this segment provides pipeline protection services, integrity testing, rehabilitation and replacement, and the fabrication of pipeline support systems and related structures and facilities for natural gas utilities and midstream companies. It also provides high-pressure and critical-path turnaround services to the downstream and midstream energy markets and instrumentation and electrical services, piping, fabrication and storage tank services.

Source: Zacks Investment Research

Reasons To Buy:

Solid end-market prospects of both of its segments, namely Electric Power and Pipeline and Industrial Infrastructure, are likely to boost profit.

▲ **Robust Growth Strategy**: Quanta Services is pursuing a three-pronged growth strategy focusing on timely delivery of projects to exceed customer expectation; leverage on core business to expand in complementary adjacent service lines and continuation of exploring new service lines. Overall, the company's engineering and project management capabilities allow it to capitalize on market trends that are currently skewed toward an engineering, procurement and construction or EPC model. The company ended the second quarter with total backlog of $13.9 billion and 12-month backlog of $7.7 billion. This compares favorably with $12.8 billion of total backlog and $7.5 billion of 12-month backlog a year ago. This demonstrates the strength of its core operations. It expects utility, communications, and certain pipeline and industrial infrastructure services — which currently account for approximately 80-90% of revenues — to remain robust in 2020. Quanta Services' optimism stems from healthy backlog levels which are expected to grow further.

▲ **Strong Electric Power Operations**: Electric Power operations continued to execute well from a top line perspective. Segment revenues, which comprise revenues from base business activities including communications operations, grew 4.8% in first-half 2020 from the comparable year-ago period. Also, excluding the Latin America unit, the segment's revenues grew 4.8% year over year. Solid performance was backed by base business activities, courtesy of robust spending by electric utilities on grid modernization and infrastructure hardening, particularly in the western United States, as well as by gas utilities on distribution system modernization and safety programs. It is important to note that approximately 65% of Quanta's revenues is directly tied to regulated electric and gas utility customers, which is core to its business.

As of Jun 30, 2020, the segment's 12-month backlog was $5.3 billion and total backlog was $9.7 billion, up 7.7% and 11.5% year over year, respectively. Prospects of the Electric Power segment remain robust, given customers' investment in grid modernization programs to accommodate a changing fuel generation mix toward natural gas and renewables, intended to address the aging infrastructure, strengthen systems for resiliency against extreme weather conditions, and support long-term economic growth.

The company has been witnessing solid Telecom revenues, which are included within the Electric Power segment, mainly from U.S. operations. U.S. telecom revenues have been strong since 2017, when the company officially reentered into the U.S. telecommunications market. With the larger diameter pipeline market expanding, and a multi-year cycle ahead of it, the company remains optimistic about its communications infrastructure services operations. Quanta Services continues to make inroads with customers as they deploy capital for fiber-to-the-home and business, long-haul fiber, and the early stages of 5G. Meanwhile, the North America electric transmission and distribution markets are expected to act as one of the key growth drivers for the company going forward, as the region continues to deploy more capital for transmission and distribution upgrades to improve system reliability, and deliver renewable electricity from new generation sources to the demand centers.

▲ **Robust Prospect for Pipeline and Industrial Infrastructure Services Unit**: Quanta Services' Pipeline and Industrial Infrastructure segment outlook looks equally promising, primarily due to the improving mainline and natural gas distribution, and integrity markets. The release of customer budgets, improved weather, and commencement of scheduled projects should boost the segment's results in the coming quarters. Going forward, the company continues to expect healthy levels of base load work including supporting midstream infrastructure, downstream support services and natural gas distribution. The company expects strong performance from pipeline projects going forward, driven by a considerable increase in large pipeline revenue contributions amid an active bidding and negotiating environment.

Meanwhile, the company's Pipeline and Industrial Infrastructure segment remains strong on the back of base business activity in natural gas distribution, pipeline integrity and industrial services operations, as well as significantly larger pipeline project activity. Moreover, a gradual shift from coal to gas for power generation from commercial and residential customers is expected to boost natural gas pipeline projects in the long run. In addition, the company's infrastructure services business continues to thrive, supported by robust demand from communications industry. Quanta Services plans to grow its infrastructure solutions capabilities with strategic partnerships with customers and capital partners.

▲ **Acquisitions/Partnerships to Boost Market Share & Backlog**: Quanta Services sees acquisitions as a fundamental component of its strategy to boost market share and develop incremental backlog. In July 2020, it acquired a Chicago, IL-based leading professional engineering firm that provides infrastructure engineering and design services to electric utilities, gas utilities and communications services companies, as well as permitting and utility locating services. The acquisition enhanced Quanta's turnkey and communications engineering capabilities in core utility markets.

Again in the first-quarter 2020, the company acquired a Canada-based industrial services business that performs catalyst handling services — including changeover and shutdown maintenance — for customers in refining and chemical industries. Also, it acquired an electric power infrastructure business located in the United States, which primarily provides underground conduit services. Quanta Services invested $400 million in the strategic acquisition of seven companies in 2019 (compared to four buyouts in 2018). 2019 and 2018 buyouts strategically expanded its domestic electric power and communications service offerings.

▲ **Strong Liquidity Position**: Quanta Services has been maintaining a strong liquidity position to navigate through the current environment. The company ended the second quarter with $2.1 billion liquidity, including $530.7 million cash and cash equivalents, along with approximately $1.6 billion of available capacity on a five-year, $2.14-billion revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of $162.2 million, down sequentially from $165 million. Long-term debt obligations (including operating lease liabilities, net of current portion) totaled 1.5 billion, down from $1.8 billion reported at first quarter-end. Meanwhile, the company has no significant debt maturity until Oct 31, 2022.

Reasons To Sell:

- **Coronavirus Woes to Ail Near-Term Results**: Overall energy markets have been facing challenges due to COVID-19. Customers have started restricting onsite activity for other services. Also, they have been deferring maintenance and certain turnaround projects to the latter part of this year or 2021. The company expects these headwinds to persist in the near future.

- **Absence of Larger Pipeline Projects**: Volatility in Pipeline and Industrial operations, and consumer spending have been affecting the company's projects, as well as orders. The segment's first-half 2020 revenues were down 23.9% year over year, primarily due to the absence of larger pipeline projects. Also, operating margin for the period contracted 180 bps from a year ago.

Quanta Services remains vulnerable to COVID-19 impacts, regulatory challenges and risks like project delays, stiff competition, and oil & gas volatility.

- **Regulatory Hurdles/Intense Competition**: Quanta Services operates in a highly uncertain environment. Both the company and its customers face stringent regulatory and permit hurdles for projects, especially regarding product quality, safety measures and environmental protection. Moreover, the company operates in a highly competitive industry, which already contains numerous small owner-operated private companies, few public companies and several large regional companies. Low barriers-to-entry in the industry and adequate financial resources as well as access to technical expertise may further intensify the competition.

  Additionally, as a large chunk of Quanta Services' business involves outdoor activities, it is vulnerable to unfavorable weather conditions. Traditionally, it experiences lower gas distribution business activity in the first quarter due to seasonal weather, which impacts revenues and pressurizes margins.

- **Project Delays**: At present, one of the biggest challenges for Quanta Services is obtaining the sighting and permission of energy infrastructure projects, including major electric transmission programs, and this is seriously weighing on its profitability. Also, Quanta Services deals with many large projects that are inherently prone to weaknesses such as irregular start-ups, delays and sudden stoppage during work. Intensive regional competition and delay in the bidding activity of transmission projects are headwinds that might hurt the performance of this segment going forward.

- **Cyclical Nature of the Business**: Demand for Quanta's services is cyclical and hence, is largely vulnerable to reduction in government and private industrial spending. Historically, volatility in commodity prices has negatively impacted the oil & gas business as well as the business regions whose economies are substantially dependent on commodity prices.

  Persistent volatility in the oil and gas market, given declining prices and decrease in spending levels, is hurting the company's Pipeline and Industrial Infrastructure Services segment.

Last Earnings Report

Quanta Beats on Q2 Earnings, Lifts EPS & Cash Flow View

Quarter Ending	06/2020
Report Date	**Aug 06, 2020**
Sales Surprise	**-1.20%**
EPS Surprise	**54.17%**
Quarterly EPS	**0.74**
Annual EPS (TTM)	**3.28**

Quanta Services Inc. reported impressive earnings for second-quarter 2020. Adjusted earnings not only surpassed the Zacks Consensus Estimate but also grew impressively on a year-over-year basis. Revenues, however, missed analysts' expectation and declined from a year ago.

Detailed Discussion

In the quarter under review, Quanta reported adjusted earnings of 74 cents per share that comfortably topped the consensus estimate of 48 cents by 54.2% and increased an impressive 138.7% from the year-ago profit level of just 31 cents.

Total revenues of $2.51 billion missed the consensus mark of $2.54 billion by 1.2% and decreased 11.7% year over year due to lower contribution from its Pipeline and Industrial Infrastructure Services segment.

Operating margin for the quarter rose 170 bps from a year ago to 4.5%. Adjusted EBITDA of $214.2 million improved 29.4% from $165.6 million a year ago.

The company reported 12-month backlog of $7.66 billion and total backlog of $13.93 billion at June-end. At June 2019-end, 12-month backlog came in at $7.48 billion and total backlog was $12.77 billion. However, the reported metrics were down from 2019-end respective figures of $7.95 billion and $15 billion.

Segment Details

The company reports results under two reportable segments: Electric Power Infrastructure Services segment (accounting for 71.5% of revenues), and Pipeline and Industrial Infrastructure Services (28.5%).

Revenues from Electric Power Infrastructure Services totaled $1,792.9 million, increasing 3.4% year over year. Operating margins expanded 490 basis points (bps) to 10.3%. The segment's 12-month backlog was $5.34 billion, up from $4.96 billion a year ago. Total backlog of $9.68 billion also grew from $8.69 billion reported in the prior-year quarter.

Within the Pipeline and Industrial Infrastructure Services segment, revenues declined 35.4% from the prior-year quarter to $713.3 million. Operating margin of 3% also contracted 330 bps year over year. Segment's 12-month backlog totaled $2.32 billion, down from $2.52 billion a year ago. Total backlog, however, grew to $4.24 billion from $4.1 billion in the prior year.

Liquidity

As of Jun 30, 2020, Quanta Services had cash and cash equivalents of $530.7 million compared with $164.8 million at 2019-end. The company's long-term debt (net of current maturities) amounted to $1,315.6 million, up from $1,292.2 million as of Dec 31, 2019.

Net cash provided by operating activities was $497.5 million for the quarter versus $108.7 million cash used in operating activities in the prior-year period. Free cash flow was $457.2 million for the quarter versus negative free cash flow of $172.9 million a year ago. On Jun 30, 2020, Quanta Services had total liquidity of $2.1 billion, significantly up from $1.7 billion at March-end.

Recently, the company's board of directors authorized it to repurchase $500 million shares through Jun 30, 2023 of its outstanding common stock under a new repurchase program. As of Aug 5, it had bought back approximately 13 million shares under the prior authorization for an aggregate amount of $413.2 million.

Updates 2020 Guidance

The company now expects revenues in the range of $11-$11.4 billion versus prior expectation of $11.4-$11.8 billion ($12.11 billion reported a year ago). It expects adjusted earnings between $3.18 and $3.48 per share compared with $3.04-$3.36 expected earlier. The mid-point of the current projection is in line with the year-ago figure of $3.33 per share. Adjusted EBITDA is projected within $903-$964 million versus $860-$925 billion of prior projection. This indicates a decrease from $941.8 million reported in 2019. Notably, Quanta increased full-year non-GAAP free cash flow projection to $600-$800 million from $400-$600 million anticipated earlier.

Importantly, the above-mentioned projections are inclusive of the expected results from its LATAM operations. LATAM operations are expected to generate revenues of $20-$30 million. Operating loss of $40-$45 million and a loss of 28-31 cents per share are also expected from the same.

Recent Achievements

In June, the company's joint venture company, LUMA Energy, LLC (equally owned by Quanta and Canadian Utilities Limited arm ATCO Ltd.), was selected by the Puerto Rico Public-Private Partnership Authority for a 15-year Operation and Maintenance Agreement with the Puerto Rico Electric Power Authority or PREPA. LUMA, together with Innovative Emergency Management, Inc., operates, maintains and modernizes PREPA's more than 18,000-mile electric transmission and distribution system in Puerto Rico.

Valuation

Quanta Services' shares are up 29.9% in the year-to-date period and 40% in trailing 12-month period. Stocks in the Zacks sub-industry is down 21.5% but the Zacks Construction sector is up 7.5% in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.1% but sector is up 13.6%.

The S&P 500 index is up 4.1% in the year-to-date period and 12.9% in the past year.

The stock is currently trading at 13.68X forward 12-month earnings, which compares to 16.9X for the Zacks sub-industry, 17.57X for the Zacks sector and 21.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.68X and as low as 6.64X, with a 5-year median of 13.29X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $56 price target reflects 14.48X forward 12-month earnings.

The table below shows summary valuation data for PWR

Valuation Multiples - PWR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.68	16.9	17.57	21.94
	5-Year High	25.68	18.94	18.98	23.46
	5-Year Low	6.64	10.36	10.75	15.26
	5-Year Median	13.29	14.26	15.88	17.63
P/B TTM	Current	1.86	2.04	3.58	5.77
	5-Year High	1.87	2.83	6.74	6.19
	5-Year Low	0.84	0.82	1.71	3.75
	5-Year Median	1.41	1.92	3.31	4.86
EV/EBITDA TTM	Current	9	6.95	18.05	14.52
	5-Year High	12.02	10.5	21.22	15.65
	5-Year Low	5.21	5.27	12.35	9.53
	5-Year Median	8.49	7.62	17.79	13.06

As of 09/28/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Bottom 30% (174 out of 250)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Dycom Industries, Inc. **(DY)**	Outperform	1
AECOM **(ACM)**	Neutral	3
Fluor Corporation **(FLR)**	Neutral	3
Gates Industrial Corporation PLC **(GTES)**	Neutral	2
Jacobs Engineering Group Inc. **(J)**	Neutral	3
KBR, Inc. **(KBR)**	Neutral	3
MasTec, Inc. **(MTZ)**	Neutral	3
Willdan Group, Inc. **(WLDN)**	Neutral	3

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

Industry Comparison Industry: Engineering - R And D Services

	PWR	X Industry	S&P 500	ACM (Industry Peers)	FLR	KBR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	B	A
Market Cap	7.34 B	2.51 B	23.11 B	6.56 B	1.29 B	3.23 B
# of Analysts	5	2	14	3	4	4
Dividend Yield	0.38%	0.00%	1.66%	0.00%	0.00%	1.76%
Value Score	B	-	-	B	A	B
Cash/Price	0.07	0.09	0.08	0.21	NA	0.20
EV/EBITDA	8.82	9.65	13.15	24.02	NA	7.78
PEG F1	1.10	1.95	2.88	1.60	NA	NA
P/B	1.86	1.99	3.29	1.69	0.81	1.97
P/CF	10.27	9.25	12.83	9.21	2.28	9.30
P/E F1	15.89	18.12	21.32	19.73	7.41	13.92
P/S TTM	0.63	0.60	2.49	0.44	0.08	0.56
Earnings Yield	6.26%	5.06%	4.44%	5.06%	13.55%	7.17%
Debt/Equity	0.34	0.62	0.70	0.53	NA	0.65
Cash Flow ($/share)	5.15	1.68	6.92	4.44	-10.49	2.44
Growth Score	A	-	-	B	B	A
Historical EPS Growth (3-5 Years)	29.97%	13.22%	10.43%	-4.43%	NA	18.13%
Projected EPS Growth (F1/F0)	-0.66%	-23.06%	-4.22%	-24.61%	110.32%	-3.40%
Current Cash Flow Growth	14.87%	3.72%	5.47%	-0.31%	-360.73%	23.99%
Historical Cash Flow Growth (3-5 Years)	4.47%	9.65%	8.52%	15.22%	-9.29%	7.96%
Current Ratio	1.74	1.61	1.35	1.27	NA	1.27
Debt/Capital	25.14%	38.33%	42.91%	34.51%	NA	39.39%
Net Margin	3.13%	0.23%	10.28%	-2.91%	NA	-0.50%
Return on Equity	11.02%	8.27%	14.73%	9.85%	NA	13.83%
Sales/Assets	1.40	1.07	0.50	1.06	NA	1.11
Projected Sales Growth (F1/F0)	-6.60%	-4.50%	-1.38%	-35.53%	11.14%	1.35%
Momentum Score	D	-	-	F	D	A
Daily Price Change	2.28%	2.22%	1.85%	3.83%	-4.59%	2.20%
1-Week Price Change	-0.37%	-4.58%	-2.32%	-1.43%	1.80%	-8.25%
4-Week Price Change	3.20%	-2.11%	-2.53%	3.54%	-3.89%	-9.08%
12-Week Price Change	35.62%	7.65%	4.17%	11.20%	-22.46%	2.71%
52-Week Price Change	39.92%	-7.34%	0.12%	8.92%	-52.17%	-7.42%
20-Day Average Volume (Shares)	1,100,649	24,196	2,098,704	1,296,816	2,825,089	1,538,879
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.54%	0.00%	0.00%	0.00%	-6.50%	0.00%
EPS F1 Estimate 12-Week Change	4.98%	4.98%	4.22%	0.32%	-7.07%	2.80%
EPS Q1 Estimate Monthly Change	-2.72%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
Momentum Score	D
VGM Score	A

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

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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.

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 forwardlooking 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 mediumterm 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 mostrecent 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.