

Qualcomm Incorporated (QCOM)

\$149.98 (As of 12/02/20)

Price Target (6-12 Months): **\$158.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

With the rollout of 5G technology, Qualcomm is benefiting from investments toward building a licensing program in mobile. The company is focused on retaining its leadership in the 5G chipset market and mobile connectivity. It resolved a dispute with Huawei and inked a new long-term patent license agreement, which augurs well for long-term revenues. Qualcomm launched low-priced 5G chips for the masses for a seamless transition to 5G while delivering low-power resilient multi-gigabit connectivity. However, lower handset shipments due to the COVID-19 pandemic remain a near-term headwind. Qualcomm is expected to face softness in demand from China. Over the past years, the company's margins have declined due to high operating and research and development expenses. Competition from low-cost chip manufacturers like MediaTek is another concern.

Data Overview

52-Week High-Low	\$153.33 - \$58.00
20-Day Average Volume (Shares)	9,450,574
Market Cap	\$171.1 B
Year-To-Date Price Change	71.4%
Beta	1.34
Dividend / Dividend Yield	\$2.60 / 1.7%
Industry	Wireless Equipment
Zacks Industry Rank	Top 42% (107 out of 254)

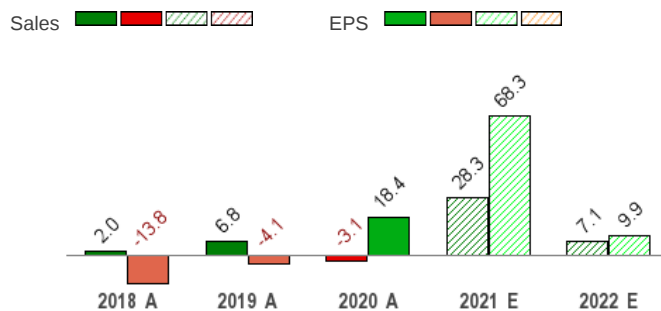
Last EPS Surprise	21.9%
Last Sales Surprise	40.6%
EPS F1 Estimate 4-Week Change	-6.8%
Expected Report Date	02/03/2021
Earnings ESP	0.0%

P/E TTM	36.2
P/E F1	21.3
PEG F1	1.1
P/S TTM	7.3

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	8,756 E	7,610 E	7,682 E	8,696 E	32,342 E
2021	8,236 E	6,968 E	7,039 E	7,932 E	30,197 E
2020	5,077 A	5,216 A	4,893 A	8,346 A	23,531 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.28 E	\$1.73 E	\$1.70 E	\$2.11 E	\$7.75 E
2021	\$1.99 E	\$1.47 E	\$1.53 E	\$1.91 E	\$7.05 E
2020	\$0.99 A	\$0.88 A	\$0.86 A	\$1.45 A	\$4.19 A

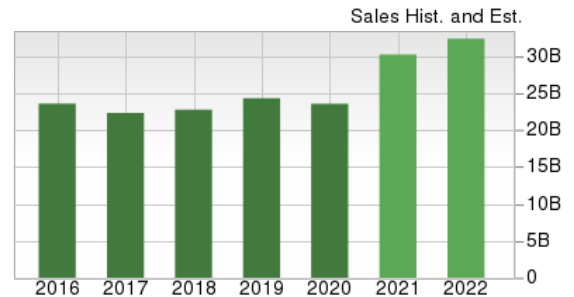
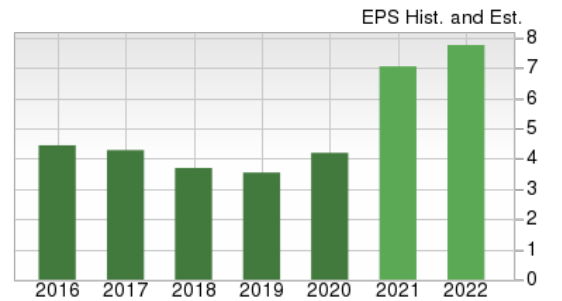
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/02/2020. The reports text is as of 12/02/2020.

Overview

Headquartered in San Diego, CA, Qualcomm Incorporated designs, manufactures and markets digital wireless telecom products and services based on the Code Division Multiple Access (CDMA) technology. The products include CDMA-based integrated circuits (ICs) and system software for wireless voice and data communications as well as global positioning system (GPS) products. The company also offers development and other product related services to the U.S. government agencies and their contractors. Qualcomm's business is organized into two reporting segments as follows:

- **Qualcomm CDMA Technologies (QCT)** (76.4% of non-GAAP revenues in fourth-quarter fiscal 2020): This segment reports operating results for sales of CDMA-based integrated circuit devices (chips) and system software for wireless voice and data communications, as well as GPS products. QCT's integrated circuit (IC) products are used mainly in mobile phones, wireless data access cards and infrastructure equipment. The segment is also responsible for supplying products which are specifically designed for the implementation of small cells.
- **Qualcomm Technology Licensing (QTL)** (23.2%): This segment reports revenues received from licenses to the intellectual property portfolio, which comprises various patent rights used in the manufacture and sale of wireless products, including Wideband Code Division Multiple Access (WCDMA) technology solutions. QTL generates revenues from license fees as well as royalties based on global sales by licensees of products incorporating or using Qualcomm's intellectual property.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ With the rollout of 5G technology, Qualcomm is benefiting from investments toward building a licensing program in mobile. The company's patent settlement with Apple has ensured a steady revenue stream as the agreement includes a six-year license agreement effective Apr 1, 2019 along with a two-year extension option and a multi-year chipset supply agreement. Apple is likely to license the chips directly from Qualcomm instead of relying on Original Equipment Manufacturers (OEMs) to do it on its behalf. The company has inked a settlement agreement with Huawei to resolve earlier disputes related to its license agreement that expired on Dec 31, 2019. The company also entered into a new long-term, global patent license agreement, including cross-license rights to certain Huawei's patents, covering sales beginning Jan 1, 2020. This will likely involve recurring payments to the mobile chip manufacturer.
- ▲ For calendar 2020, Qualcomm continues to expect 175-225 million 5G handset units, while for calendar 2021, 5G handsets are expected to witness 150% year-over-year growth at the midpoint to about 450-550 units. With more than 700 5G designs announced or in the development phase, the company remains well poised to gain from solid 5G traction with greater visibility in meeting the long-term revenue targets.
- ▲ Qualcomm has raised the bar for driverless cars as it unveiled the first-of-its-kind automotive platform — Snapdragon Ride — which enables automakers to transform their vehicles into self-driving cars using Artificial Intelligence (AI). Snapdragon's scalable platform comprises the Snapdragon Ride Safety System-on-a-Chip (SoC), Accelerator and the Snapdragon Ride Autonomous Stack. The combination of these self-driving algorithms facilitates a robust architecture of hardware and software that supports advanced driver assistance systems like automatic emergency braking, traffic sign recognition, lane keeping, self-parking and automated highway driving technology, commonly known as Level 1 and Level 2 systems. Next-generation 5G telematics design wins with an automotive design win pipeline of \$8 billion augment its leading market position in the connected cars segment. This augurs well for its long-term growth proposition.
- ▲ Qualcomm is one of the largest manufacturers of wireless chipsets based on baseband technology. The company is focusing to retain its leadership in 5G, chipset market and mobile connectivity with several technological achievements and innovative product launches. Qualcomm has redefined the computing and mobile ecosystem across the globe with the launch of QCA6390 Connectivity SoC product. This game-changing and arguably the most advanced integrated offering from Qualcomm is likely to deliver path-breaking performance in the 5G era and provide it a competitive advantage against rivals. Built on indigenous technologies, the QCA6390 is designed to meet the growing need for faster connectivity options and data speed. Supporting all the feature suites of both Wi-Fi 6 and Bluetooth 5.1, it offers faster, more secure and robust Wi-Fi experiences and enhanced Bluetooth capabilities. These include ultra-high-definition voice and low-latency gaming over wireless headphones, earbuds and speakers. The QCA6390 sets a new industry standard with the world's first announced 14nm integrated SoC that boasts extended features and cutting-edge design. It is likely to help users experience seamless transition to super-fast 5G networks, delivering low-power resilient multi-gigabit connectivity with unprecedented range and Qualcomm's best-in-class security. This, in turn, would further offer the flexibility and scalability needed for broad and fast 5G adoption through accelerated commercialization by OEMs. Notably, Qualcomm is reportedly the only chipset vendor with 5G system level solutions spanning both sub-6 and millimeter wave bands and one of the largest RF (radio frequency) front end suppliers with design wins across all premium-tier smartphone customers.
- ▲ Qualcomm has set a new benchmark for itself as it unveiled a game-changing 5G chipset for low-cost smartphones for the masses. The Snapdragon 690 5G chipset is the first SoC in the 600 series to support 5G services at accessible price points. This is likely to usher in more affordable 5G Android mobile handsets, with a plethora of unique features in its category, by the second half of the year. Compared to its predecessor Snapdragon 675, the new chip is billed to offer up to 20% better central processing unit (CPU) and up to 60% faster graphics performance. The chip has an integrated Snapdragon X51 5G modem that supports global 5G standards with multi-SIM functionality and dynamic spectrum sharing. It supports a download speed of up to 2.5Gbps and upload speed of up to 660Mbps. In addition, the chipset has a new AI engine called ARCSoft that features a Hexagon Tensor Accelerator for enhanced performance in real-time Snapchat filters and smooth transition when switching between ultrawide, wide and telephoto cameras. The chipset also significantly improves multimedia performance with the ability to record in HDR10 format for FHD+ displays with a 120Hz refresh rate and support for 4K video recording at 30fps and stills up to 192MP. Furthermore, the chip boasts a new enhancement for video encoding and supports faster charging with Quick Charge 4+. Leveraging the FastConnect 6200 system that brings Wi-Fi 6, Bluetooth 5.1 and 2x2 multi-user, multiple-input, multiple-output (MU-MIMO) configurations, the Snapdragon 690 is arguably the most powerful SoC yet in the lower mid-range segment. This augurs well for its long-term growth proposition.

Qualcomm anticipates witnessing healthy growth momentum backed by new product launches including devices with 5G chipsets and growth in adjacent businesses.

Reasons To Sell:

- ▼ Over the past years, Qualcomm's margins have declined due to high operating expenses and R&D costs. The company expects softness in the handset market and weaker overall mix of devices to remain in the near future. In addition, Qualcomm faces huge concentration risks as bulk of its revenues is generated from a handful of customers — a trend that is expected to continue in the ensuing quarters. Moreover, majority of these customers include Chinese manufacturers, which further cloud the revenue-generating potential owing to strained bilateral trade relationship with the United States.
- ▼ Shift in the share among OEMs at the premium tier has reduced Qualcomm's near-term opportunity to sell integrated chipsets from the Snapdragon platform. Aggressive competition in the mobile phone chipset market is also likely to hurt Qualcomm's profits in the future. The company is facing severe competitive threat from its closest rival Intel, which has been redesigning its chipsets for the mobile computing market. Competition is also likely to come from formidable rivals like Broadcom and Nvidia. Moreover, Qualcomm has been facing challenges from low-cost chip manufacturers like MediaTek and Rockchip as well as handset manufacturers' SoC projects such as Exynos by Samsung. Although the global smartphone market is expected to maintain its momentum over the next three to four years, major portion of this growth is likely to come from the low-cost emerging markets, which may weigh on Qualcomm's margins. In addition, adverse court rulings relating to its licensing business could impair its growth potential to some extent.
- ▼ Qualcomm is expected to face softness in demand from China. Chinese OEMs are pulling back on new 4G device orders and managing their inventory in advance for the transition to 5G. Consequently, Qualcomm expects a significant impact on device shipment as sell-in and sell-through growth rates realign and channel inventory levels are drawn down in China. Global 3G, 4G, 5G device shipments are anticipated to be affected by lengthening of handset replacement rates due to adverse economic impact from the coronavirus pandemic, likely impacting unit volumes. For calendar 2020, Qualcomm expects a 5% reduction in handset shipments compared to the prior year.
- ▼ As of Sep 30, 2020, the company had \$6,707 million in cash and cash equivalents and \$15,226 million of long-term debt compared with the respective tallies of \$10,600 million and \$15,425 million at the end of the previous quarter. The company has suspended its stock buyback program for the near term to maintain financial liquidity position and flexibility amid the pandemic. Qualcomm currently has a debt-to-capital ratio of 0.83 compared with 0.35 of the industry. However, the times interest earned (TIE) ratio has improved from the last quarter to 10.5 at present relative to 8.7 of the industry. It remains to be seen whether Qualcomm can turn the tables in the coming days amid disruptions stemming from the COVID-19 crisis.

Aggressive competition in the mobile phone chipset market continues to bother Qualcomm. In addition, margins have decreased sharply over the years due to high operating expenses and R&D costs.

Last Earnings Report

Qualcomm Q4 Earnings Beat on 5G Traction

Despite a challenging macroeconomic environment triggered by the coronavirus pandemic, Qualcomm reported solid fourth-quarter fiscal 2020 results, primarily driven by the ramp-up in 5G-enabled chips. Both top and bottom-line figures beat the Zacks Consensus Estimate, backed by the strength of the business model and the ability to respond pro-actively to the evolving market scenario. A long-term settlement deal with Huawei further propelled the stock to a record high, with shares up 14.1% to \$147.11 in the aftermarket trading post the earnings release.

Quarter Ending	09/2020
Report Date	Nov 04, 2020
Sales Surprise	40.62%
EPS Surprise	21.85%
Quarterly EPS	1.45
Annual EPS (TTM)	4.18

Net Income

On a GAAP basis, net income for the September quarter was \$2,960 million or \$2.58 per share compared with \$506 million or 42 cents per share in the prior-year quarter. The significant improvement in GAAP earnings was primarily attributable to an accretive patent settlement agreement with Huawei and royalties related to sales to it.

Quarterly non-GAAP net income came in at \$1,669 million or \$1.45 per share compared with \$947 million or 78 cents in the year-ago quarter. Undeterred by the adverse impact of the virus outbreak, record high non-GAAP earnings per share were largely driven by top-line growth. The bottom line exceeded management's guidance and beat the Zacks Consensus Estimate by 26 cents.

In fiscal 2020, GAAP net income increased to \$5,198 million or \$4.52 per share from \$4,386 million or \$3.59 per share in fiscal 2019. Non-GAAP earnings in fiscal 2020 were \$4,816 million or \$4.19 per share compared with \$4,323 million or \$3.54 per share in fiscal 2019.

Revenues

On a GAAP basis, total revenues in the fiscal fourth quarter were \$8,346 million compared with \$4,814 million in the prior-year quarter. The radical increase in revenues was driven by 5G ramp up and Huawei settlement with diligent execution of operational plans and resilient business culture acting as the catalysts.

Non-GAAP revenues for the reported quarter were \$6,502 million compared with \$4,804 million in the year-earlier quarter. The figure surpassed the consensus mark of \$5,935 million and was well above the company's guided range, driven by 5G strength, high-performing core chipsets and new RF front-end content.

In fiscal 2020, GAAP revenues decreased slightly to \$23,531 million from \$24,273 million, while non-GAAP revenues improved 12% year over year to \$21,654 million.

Segment Results

Quarterly non-GAAP revenues from **Qualcomm CDMA Technologies (QCT)** improved 38% year over year to \$4,967 million driven by strength in handsets and higher demand in adjacent platforms beyond mobile (RF front-end, automotive and IoT), coupled with higher Mobile Station Modem (MSM) chip shipments despite adverse coronavirus impacts. MSM shipments in the quarter were 162 million, up from 152 million a year ago with strong rebound in emerging markets. EBT margin increased to 20% from 14%.

Qualcomm Technology Licensing (QTL) revenues totaled \$1,507 million, up 30% year over year, driven by higher royalty revenues from Huawei, better-than-expected global handset shipments and a favorable OEM mix. EBT margin was 73% compared with 68% in the year-ago quarter on top-line growth.

Cash Flow & Liquidity

Qualcomm generated \$5,814 million of net cash from operating activities in fiscal 2020 compared with \$7,286 million a year ago. At fiscal 2020 end, the company had \$6,707 million in cash and cash equivalents and \$15,226 million of long-term debt compared with respective tallies of \$11,839 million and \$13,437 million a year ago.

Guidance

For the first quarter of fiscal 2021, Qualcomm expects GAAP revenues of \$7.8-\$8.6 billion. Non-GAAP earnings are projected to be \$1.95-\$2.15 per share, while GAAP earnings are likely to be \$1.67-\$1.87 per share, buoyed by the Huawei settlement. Revenues at QTL are expected between \$1.6 billion and \$1.8 billion. For QCT, the company anticipates revenues between \$6.2 billion and \$6.8 billion.

For calendar 2020, Qualcomm continues to expect 175-225 million 5G handset units, while for calendar 2021, 5G handsets are expected to witness 150% year-over-year growth at the midpoint to about 450-550 units. With more than 700 5G design announced or in the development phase, the company remains well poised to gain from solid 5G traction.

Recent News

On Nov 11, 2020, Qualcomm announced its plans to collaborate with DISH Network to assist it with the deployment of 5G network on the back of open and cloud-based solutions. DISH will capitalize on Qualcomm's 5G Radio Access Network (RAN) platforms to accelerate the rollout of its first cloud-native, Open RAN-compliant 5G network across the United States. These semiconductor platforms have been specifically designed to fast-track the commercialization of Virtualized RAN with the deployment of scalable 5G networks in the competitive North American market.

On Sep 22, Qualcomm announced its partnership with Microsoft to extend the latter's App Assure program, which will help deliver superior user experiences for enterprise customers and consumers across Windows 10 on ARM64 devices, including the global Snapdragon-powered PC ecosystem.

On Sep 17, Qualcomm announced its collaboration with two leading tech forerunners — Ericsson and United States Cellular Corporation. Markedly, the companies completed an extended-range data call test leveraging 5G NR millimeter Wave (mmWave) technology. Tested on U.S. Cellular's live 5G network, this industry-leading technology is expected to augment broadband connectivity while effectively bridging the digital gap between rural and urban areas in the United States.

Valuation

Qualcomm's shares are up 87.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 42.6% over the past year, and stocks in the Zacks Computer and Technology sector are up 42.3% in the same period.

The S&P 500 Index is up 18.8% in the past year.

The stock is currently trading at 27.84X trailing 12-month EV/EBITDA, which compares to 28.34X for the Zacks sub-industry, 15.64X for the Zacks sector and 16.17X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 27.84X and as low as 4.71X, with a 5-year median of 10.54X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$158 price target reflects 7.49X forward 12-month earnings.

The table below shows summary valuation data for QCOM

Valuation Multiples - QCOM					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	27.84	28.34	15.64	16.17
	5-Year High	27.84	29.46	15.81	16.26
	5-Year Low	4.71	9.84	8.25	9.55
	5-Year Median	10.54	17.65	11.97	13.14
P/E F12M	Current	21.1	21.66	27.43	22.5
	5-Year High	37.26	31.82	28.01	23.47
	5-Year Low	11.29	13.61	16.95	15.27
	5-Year Median	16.87	18.88	19.95	17.75
P/S F12M	Current	5.6	4.31	4.37	4.23
	5-Year High	6.39	4.31	4.49	4.3
	5-Year Low	2.82	2.07	2.77	3.17
	5-Year Median	3.86	2.82	3.46	3.67

As of 12/01/2020 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 42% (107 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Ubiquiti Inc. (UI)	Outperform	1
Ericsson (ERIC)	Neutral	3
Intel Corporation (INTC)	Neutral	4
Motorola Solutions, Inc. (MSI)	Neutral	3
Nokia Corporation (NOK)	Neutral	4
Viasat Inc. (VSAT)	Neutral	3
Zte Corp. (ZTCOY)	Neutral	3
Juniper Networks, Inc. (JNPR)	Underperform	5

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

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	QCOM	X Industry	S&P 500	ERIC	NOK	ZTCOY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	A	B	D
Market Cap	171.08 B	503.45 M	25.67 B	41.31 B	22.81 B	11.95 B
# of Analysts	10	3	13	4	5	1
Dividend Yield	1.72%	0.00%	1.47%	0.82%	0.00%	0.86%
Value Score	C	-	-	B	C	B
Cash/Price	0.07	0.18	0.07	0.15	0.41	0.47
EV/EBITDA	22.70	9.85	14.52	20.01	8.09	8.45
PEG F1	1.08	2.42	2.76	0.73	10.64	NA
P/B	28.08	1.72	3.54	4.44	1.28	1.72
P/CF	32.60	14.90	13.83	31.02	7.12	14.73
P/E F1	21.27	22.55	21.98	21.18	15.86	23.55
P/S TTM	7.27	1.54	2.82	1.70	0.92	0.92
Earnings Yield	4.66%	3.85%	4.41%	4.68%	6.40%	4.25%
Debt/Equity	2.51	0.12	0.70	0.27	0.34	0.37
Cash Flow (\$/share)	4.64	0.49	6.94	0.40	0.57	0.35
Growth Score	A	-	-	A	B	D
Historical EPS Growth (3-5 Years)	-7.59%	-3.96%	9.72%	-29.86%	-4.44%	NA
Projected EPS Growth (F1/F0)	68.21%	16.67%	0.83%	431.82%	2.40%	-37.14%
Current Cash Flow Growth	3.17%	-8.77%	5.22%	33.18%	-0.59%	-169.88%
Historical Cash Flow Growth (3-5 Years)	-8.18%	10.37%	8.33%	-16.79%	14.32%	16.90%
Current Ratio	2.14	2.06	1.38	1.26	1.53	1.37
Debt/Capital	71.47%	17.37%	42.00%	21.16%	25.09%	27.16%
Net Margin	22.09%	4.22%	10.44%	6.35%	3.31%	5.66%
Return on Equity	90.74%	5.25%	14.99%	20.57%	9.34%	13.30%
Sales/Assets	0.71	0.71	0.50	0.81	0.56	0.63
Projected Sales Growth (F1/F0)	28.32%	0.10%	0.30%	3.24%	-3.90%	8.14%
Momentum Score	F	-	-	C	B	F
Daily Price Change	2.78%	0.74%	0.90%	1.23%	0.74%	1.97%
1-Week Price Change	-1.51%	2.68%	2.18%	2.64%	4.56%	-1.30%
4-Week Price Change	20.57%	17.68%	9.00%	7.74%	19.76%	10.92%
12-Week Price Change	37.80%	8.73%	13.34%	14.09%	-0.98%	3.39%
52-Week Price Change	87.71%	7.98%	7.41%	34.38%	17.00%	0.10%
20-Day Average Volume (Shares)	9,450,574	120,842	2,137,857	6,228,257	30,430,000	10,420
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-6.83%	0.00%	0.10%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	-6.83%	1.75%	3.77%	3.54%	-5.88%	-18.52%
EPS Q1 Estimate Monthly Change	-0.29%	0.00%	0.00%	0.00%	5.00%	NA

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.