

Restaurant Brands(QSR)

\$70.41 (As of 05/03/21)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: B

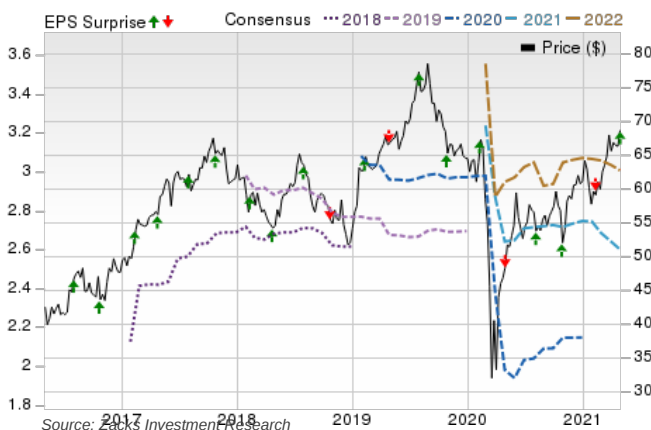
Growth: C

Momentum: B

Summary

Shares of Restaurant Brands have outperformed the industry so far this year. Recently, the company reported strong first-quarter 2021 results, with earnings and revenues surpassing the Zacks Consensus Estimate. Moreover, the top and bottom line increased 2.9% and 14.6% on a year-over-year basis. Notably, the company benefitted from a rise in retail sales at Tim Hortons. Increase in system-wide sales at Burger King and Popeyes added to the upside. Also, it is benefiting from robust loyalty program and digitalization efforts. However, coronavirus related woes persists. Although the company reopened most of its restaurants, the company is likely to witness dismal traffic due the social distancing protocols. During the first quarter, sales in Canada, Europe and Brazil were negatively impacted by the reimposed lockdowns.

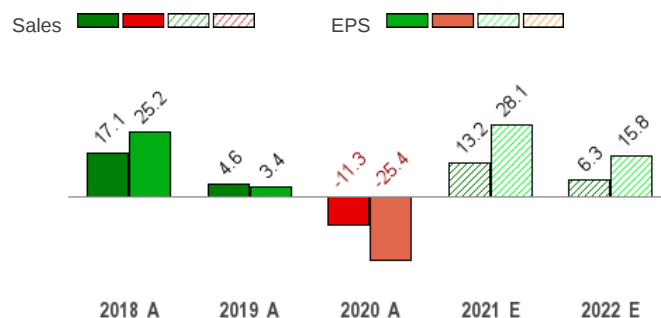
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$71.12 - \$48.09
20-Day Average Volume (Shares)	1,155,237
Market Cap	\$21.6 B
Year-To-Date Price Change	15.2%
Beta	1.19
Dividend / Dividend Yield	\$2.12 / 3.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 39% (99 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.0%
Last Sales Surprise	0.6%
EPS F1 Estimate 4-Week Change	-1.2%
Expected Report Date	08/05/2021
Earnings ESP	-2.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,362 E	1,468 E	1,552 E	1,576 E	5,979 E
2021	1,260 A	1,362 E	1,494 E	1,496 E	5,626 E
2020	1,225 A	1,048 A	1,337 A	1,358 A	4,968 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.58 E	\$0.70 E	\$0.84 E	\$0.81 E	\$3.01 E
2021	\$0.55 A	\$0.61 E	\$0.76 E	\$0.74 E	\$2.60 E
2020	\$0.48 A	\$0.33 A	\$0.68 A	\$0.53 A	\$2.03 A

*Quarterly figures may not add up to annual.

P/E TTM	33.7
P/E F1	27.1
PEG F1	2.9
P/S TTM	4.3

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 05/03/2021. The report's text and the analyst-provided price target are as of 05/04/2021.

Overview

Based in Canada, Restaurant Brands International Inc. or RBI is one of the world's largest quick service restaurant companies.

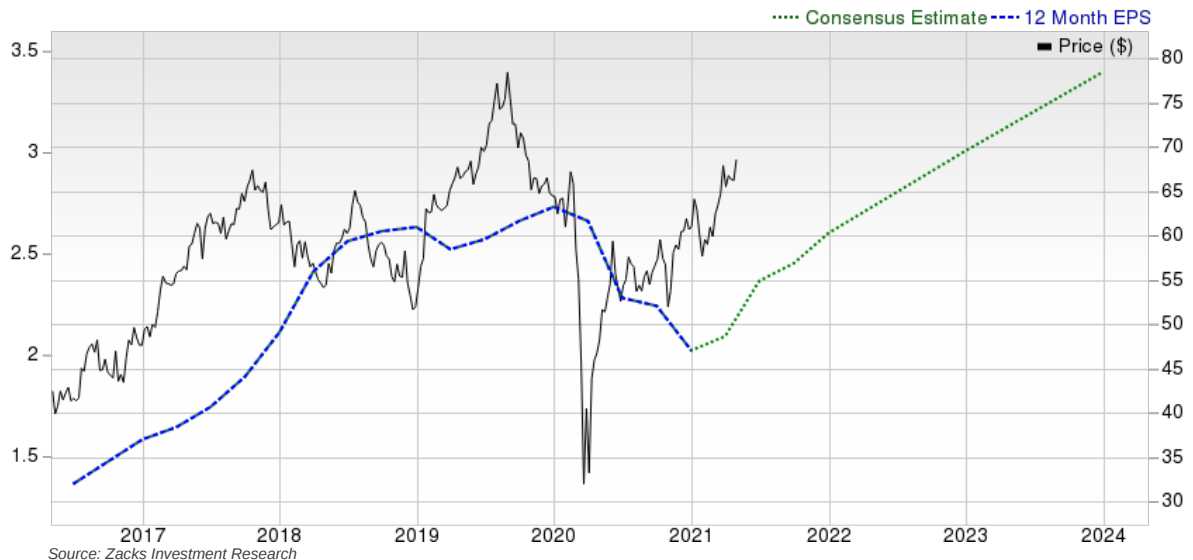
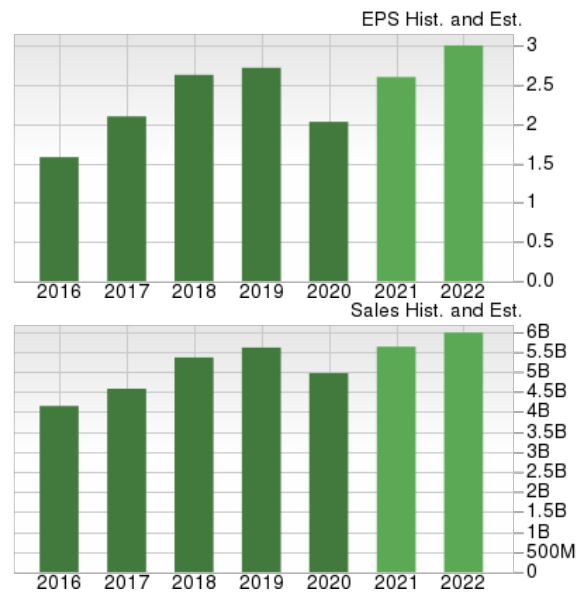
Formed on Aug 25, 2014, the company came into existence with the merger of Canadian coffee shop and restaurant chain – Tim Hortons Inc. – and American fast food restaurant chain –Burger King Worldwide Inc. It is now the parent company to these two iconic quick-service restaurant brands. On Mar 27, 2017, Restaurant Brands acquired quick service restaurant chain, Popeyes Louisiana Kitchen, for \$79.00 per share in cash, or \$1.8 billion.

These independently-operated brands have been serving their respective customers, franchisees and communities customers for more than 40 years and have similar franchise business models with complementary daypart mixes.

Restaurant Brands has three operating and reportable segments: Tim Hortons, Burger King and Popeye's Louisiana Kitchen. As of Mar 31, 2021, the company owned or franchised a total of 27,173 restaurants in more than 100 countries.

While the Tim Hortons brand maintains a strong base of restaurants across Canada, the United States and the Middle East; Burger King mostly serves customers in the United States and in markets outside. Popeye's Louisiana Kitchen operates restaurants in the United States and 25 other countries.

Restaurant Brands generates revenues from four primary sources: (i) sales to franchisees associated with the company's supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers; (ii) franchise revenues, consisting mainly of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (iii) property revenues from properties it leases or subleases to franchisees; and (iv) sales at company-owned restaurants.



Reasons To Buy:

- ▲ **Leveraging Three Strong Brands:** Restaurant Brands' quick service restaurant ("QSR") segment includes three iconic brands, each of which has a rich heritage, a unique value proposition, and significant growth potential. The QSR segment has witnessed solid growth, which is evident from high demand of franchisees. The company is optimistic about its strategies that could drive comparable sales and profitability for all three iconic brands in the long run. Among the three brands, Tim Hortons is one of the largest restaurant chains in North America and the largest in Canada and is known for its coffee and donuts. Meanwhile, Burger King restaurants appeal to a wide spectrum of consumers, with multiple dayparts and product platforms appealing to diverse customer groups. With over 60 years of operating history, Burger King has developed a scalable and cost-efficient QSR hamburger restaurant model that provides guests fast and delicious food. Popeyes too is one of the leading quick service restaurant chicken concepts in the world. It reported strong comparable sales growth of 13.8% in 2020, among the brand's strongest growth rates in the past few decades.
- ▲ **Better-Than-Expected Q2 Results:** Restaurant Brands reported strong first-quarter 2021 results, with earnings and revenues surpassing the Zacks Consensus Estimate. Moreover, the top and bottom line improved 2.9% and 14.6% on a year-over-year basis. Notably, the company benefitted from a rise in retail sales at Tim Hortons. Increase in system-wide sales at Burger King and Popeyes added to the upside.
- ▲ **Solid Expansion Efforts:** Restaurant Brands believes that there is a huge opportunity to grow all its brands around the world by expanding its presence in existing markets as well as entering new markets. Currently, it has more than 27,000 restaurants worldwide, which includes 4,987 Tim Hortons restaurants, 18,691 Burger King restaurants and 3,495 Popeyes restaurants. Nonetheless, it continues to focus on its pipeline to deliver solid net restaurant growth in 2021. Restaurant Brands also continues to evaluate opportunities to speed up international development of all the three brands by establishing master franchisees with exclusive development rights and joint ventures with new and existing franchisees.

Various sales-boosting initiatives undertaken by the company coupled with its solid expansion efforts should drive growth

Furthermore, the company is confident about the Tim Hortons brand's long-term growth prospects and remains committed to deliver on its international growth strategy of expanding the brand worldwide. Additionally, the prospects of the company's business in Canada appear bright. Evidently, the company has formed master franchise joint venture partnerships (MFJVs) for the brand in Mexico and Spain. Moreover, the company is optimistic about the major expansion opportunity that lies ahead for the brand in the United States. During the first quarter 2021, Tim Hortons announced new round of funding from Tencent (existing investor) and Sequoia Capital and Eastern Bell (new investors), to support the opening of 200 new Tim Hortons restaurants in China in 2021. Also, it projects to open 1500 restaurants over the initial term of the agreement. Meanwhile, the company announced plans to expand Popeyes in the U.K., India, Mexico and Saudi Arabia. Going forward, the company plans to open 1,000 Popeyes restaurants over the next 10 years.

- ▲ **Reinforcing Tim Hortons in Canada:** Restaurant brands continues to focus on Tim Hortons positioning in Canada through the enhancement of core platforms, product innovation and by leveraging technology.

So far, the company has rolled out its new fresh brewers across 90% of its locations in Canada. Also, the company boosted its menu offerings with the launch of improved Dark Roast, Tims Craveables and Dream Donuts, in Canada. Also, it rolled out fresh cracked eggs, backed with positive Canadian consumer feedback. Coming to modernization, the company rolled out approximately 1,300 outdoor digital menu boards in 2020, while the remaining are likely to get upgraded in 2021. Going forward, the company anticipates that continued substantial progress on the back of its strategy is likely to reinforce the depth and quality as well as drive solid growth in the long term.

- ▲ **Re-imaging Restaurants & Innovating Menu to Boost Sales:** Restaurant Brands continues to focus on improving its level of service through comprehensive training, improved restaurant operations, reimagining efforts and attractive menu options to enhance overall guest satisfaction, and thereby drive comps. Restaurant Brands believes that new product development is a key driver of long-term success for its brands and will continue to be in focus. This is expected to drive traffic by expanding the customer base, spreading out into new dayparts, and continuing to build brand leadership in food quality and taste. During the third quarter 2019, the company reinvented its donut line up with premium donuts that include maple bacon dream donut and the PB&J dream donut. The company launched three dream donuts flavors nationally across Canada, in January 2020, gaining momentum in markets on an operational perspective and seamlessly fitting into its core baked goods assortment category.

During the first quarter 2021, the company made solid progress with regards to its core products with ingredients. This includes French toast sandwich, The Sourdough King and Cheesy Tots from Burger King and Cajun Flounder Sandwich from Popeyes. Also, the company initiated the roll out of hand breaded chicken sandwich in half of its Burger King restaurants in the United States.

The company has an unwavering focus on its goal to drive traffic and revenues at its restaurants through core product platforms, a continual focus on a balanced menu design, expansion of delivery business, promotional offerings, efforts to grow breakfast daypart and product launches. Growth across each of its breakfast, lunch and dinner dayparts, supported by new products is driving incremental sales at Tim Hortons restaurants. Its coffee, cold beverage, and sandwich platforms, particularly continue to reflect strength.

Restaurant Brands is also taking initiatives to re-image its restaurants to a more modern décor. In March 2018, Restaurant Brands announced a new Tim Hortons restaurant design called the welcome image, which entails a redesign of Tim Hortons restaurants. The company plans to re-image a majority of its restaurants across Canada over the next four years. Notably, the company intends to revolutionize the drive-through experience at Burger King and Tim Hortons through the rollout of outdoor digital menu boards on an expedited basis. The digital menu boards comprise of add remote, contactless payment and loyalty scanning functionality, thereby, simplifying operations at the pickup window and boosting speed of service in its drive-thru lanes. Nonetheless, the company plans to install outdoor digital menu board technology at more than 10,000 drive-thrus locations by mid-2022.

Notably, increased focus on off-premise capabilities through reimaging, drive-thru enhancements, loyalty program and applications are likely to drive growth in the upcoming periods.

- ▲ **Increased Focus on Loyalty Program:** Restaurant Brands' loyalty program, Tim's Rewards, is gaining popularity. The company said that following a rapid ramp-up phase, nearly half of the customers pay through Tim's Rewards. Also, Restaurant Brands is presently testing a loyalty program in Canada across different markets as high loyalty card adoption rates have been witnessed in these test markets. Moreover, it plans to integrate loyalty cards into the digital channel, basically through their mobile app.

During the first quarter 2021, the company rolled out new Royal Perks loyalty program at its Burger King restaurants. Moreover, the company unveiled a new digital first loyalty program at Popeyes. With significant progress made in terms of user experience and gaining more active users, the company is optimistic about its potential for the brand over the long term.

- ▲ **Digitalization to Drive Growth:** The company has been focusing on expansion of delivery via digital platform amid the pandemic. Two years ago, the company had just couple of hundred restaurants in North America on delivery. However, currently, the company has more than 10,000 active restaurants across its three brands with most offering delivery via the company's digital platforms. Since, February 2020, the company has added approximately 3,000 new restaurants onto delivery in the United States and Canada. In Canada, the company provides delivery services from nearly 1,200 restaurants compared with nearly 200 restaurants at the beginning of the year. Restaurant Brands' announced that delivery sales have increased significantly compared with their pre-crisis levels. In 2020, delivery sales at Burger King and Popeyes have unfolded 2 times and 3 times growth, respectively compared with 2019 levels.

During the first quarter 2021, digital sales from Burger King represented 9% of total sales, while digital sales from Popeyes contributed 17% of total sales. At Tim Hortons in Canada, digital sales contributed 31% to total sales during the quarter.

- ▲ **Enough Liquidity to Tide Over Pandemic:** Enough Liquidity to Tide Over Pandemic: As of Mar 31, 2021, the company's cash and cash equivalents totaled nearly \$1.6 billion, almost flat sequentially. Also, the company exited the first quarter with a revolving credit facility of approximately \$998 million. Although, the company's long-term debt as of Mar 31, 2021 stood at \$12.4 billion (almost flat sequentially), the company had adequate funds to cover near term obligations of \$112 million. Meanwhile, Times Interest Earned during the quarter came in at 2.7x compared with 2.6x in the previous quarter. Increase in times interest earned gives an indication that the company is more capable of meeting its debt obligations.
-

Reasons To Sell:

- ▼ **Coronavirus to Hurt Future Results:** The company is currently committed to the health and well-being of partners and guests, and cooperating with local and government officials working to contain the coronavirus. Although the company has reopened most of its restaurants, the company is likely to witness dismal traffic due the social distancing protocols. During the first quarter, sales in Canada, Europe, and Brazil were negatively impacted by the reimposed lockdowns. Due to a rise in COVID-19 cases in different parts of Canada, municipal bodies have reimposed restrictions, thereby, temporarily closing dining rooms. Notably, the environment in Canada remains challenging.
- ▼ **Dismal Comps at Tim Hortons Hurt:** During the first quarter, comparable store sales at Tim Hortons declined 2.3% compared with 10.3% fall in the prior-year quarter. The downtick was primarily caused by temporary closures of certain restaurants, owing to the pandemic.
- ▼ **Franchised Model Restricts Operational Implementation:** Although the company's fully-franchised model has a lot of positives, it also has its share of drawbacks and risks. Under this business model, the company's prospects depend on its ability to attract new franchisees for all its brands, and the willingness of franchisees to open restaurants in the existing and new markets. The company also has limited influence over its franchisees, as a result of which its ability to control restaurants' operations, and implement operational initiatives and business strategies is restricted.
- ▼ **Cutthroat Competition:** Competition among fast-casual, quick-service and casual dining segments of the restaurant industry is expected to remain fierce with respect to price, food quality, service, location and concept, which may adversely impact Restaurant Brands' revenues.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** QSR operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Greater dependence on franchisees, intense competition and coronavirus related woes are potential headwinds.

Last Earnings Report

Restaurant Brands Q1 Earnings Top Estimates, Rise Y/Y

Restaurant Brands reported strong first-quarter 2021 results, with earnings and revenues surpassing the Zacks Consensus Estimate. Moreover, the metrics improved on a year-over-year basis.

Earnings & Revenues Discussion

The company's adjusted earnings of 55 cents per share surpassed the Zacks Consensus Estimate of 50 cents by 10%. Moreover, the bottom line increased 14.6% from the prior-year quarter's figure of 48 cents.

During the first quarter, net revenues of \$1,260 million surpassed the consensus mark of \$1,252 million. Moreover, the top line increased 2.9% on a year-over-year basis, owing to favorable FX movements. This along with a rise in retail sales at Tim Hortons coupled with an increase in system-wide sales at Burger King and Popeyes, added to the upside.

Segmental Revenues

Restaurant Brands operates through three segments — Tim Hortons, Burger King and Popeye's Louisiana Kitchen.

During first-quarter 2021, revenues in Tim Hortons totaled \$710 million compared with \$699 million in the prior-year quarter. System-wide sales declined 4.9% year over year compared with 9.9% fall in the prior-year quarter. Comps in the segment declined 2.3% year over year compared with 10.3% fall in the prior-year quarter. The downtick was primarily caused by temporary closures of certain restaurants, owing to the pandemic. In the quarter, net restaurant growth was recorded at 1.3% compared with 1.2% in the prior-year quarter.

Burger King's revenues totaled \$407 million in the first-quarter 2021 compared with \$388 million in the prior-year quarter. The upside was primarily driven by a rise in system-wide sales along with favorable FX movements. System-wide sales in the segment increased 1.8% year over year against 3% decline in the prior-year quarter. Also, comps inched up 0.7% year over year against 3.7% fall in the prior-year quarter. In the first quarter, net restaurant growth was recorded at (0.8%) against 5.8% growth reported in the prior-year quarter.

Popeye's Louisiana Kitchen reported revenues of \$143 million in the first quarter of 2021 compared with \$138 million in the prior-year quarter. System-wide sales increased 7% year over year compared with 32.3% growth recorded in the prior-year quarter. Meanwhile, net restaurant growth came in at 4.8% compared with 6.9% growth in the prior-year quarter. Comps in the segment inched up 1.5% compared with 26.2% growth in the prior-year quarter.

Operating Performance

In the quarter under review, the company's adjusted EBITDA increased 8.2% year over year to \$480 million. On an organic basis, the upside was driven by an increase in Tim Hortons, Burger King and Popeyes adjusted EBITDA.

Segment-wise, Tim Horton's adjusted EBITDA increased 9.5% from the year-ago quarter's tally. Burger King's adjusted EBITDA rose 8.5% year over year. Meanwhile, Popeye's adjusted EBITDA moved up 1.8% from the year-ago quarter's levels.

Cash and Capital

Restaurant Brands ended first quarter with cash and cash equivalent balance of \$1,563 million compared with \$2,498 million in the prior-year quarter. As of Mar 31, 2020, its net debt stood at \$11.4 billion compared with \$10.9 billion as on Mar 31, 2020. The company's board of directors announced a dividend payout of 53 cents per common share and partnership exchangeable unit of RBI LP for the second-quarter 2021. The dividend is payable on Jul 7, 2021, to shareholders of record at the close of business as of Jun 23, 2021.

Other Updates

As of March-end, 95% of the company's restaurants remained open worldwide that included all restaurants in North America and Asia Pacific. Meanwhile, 92% of the restaurants remained open in Europe, Middle East and Africa and 84% of its restaurants remained open in Latin America. During the quarter, markets in Canada, Europe and Brazil witnessed re-imposed lockdowns and curfews. Going forward, the company expects the pandemic to negatively impact operations in 2021.

Quarter Ending 03/2021

Report Date	Apr 30, 2021
Sales Surprise	0.64%
EPS Surprise	10.00%
Quarterly EPS	0.55
Annual EPS (TTM)	2.09

Valuation

Restaurant Brands' shares are up by 15.3% in the year-to-date period and 43.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up by 11.4%, while the Zacks Retail-Wholesale sector are up by 1.5% in the year-to-date period. Over the past year, the Zacks sub-industry was up by 46.6%, while sector was up by 37.3%.

The S&P 500 index is up 12.5% in the year-to-date period and 48.7% in the past year.

The stock is currently trading at 25.72x 12-month forward earnings, which compares to 29.9x for the Zacks sub-industry, 31.69x for the Zacks sector and 22.32x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.83x and as low as 9.33x, with a 5-year median of 23.24x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 27.1x forward 12-month earnings.

The table below shows summary valuation data for QSR.

Valuation Multiples - QSR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.72	29.9	31.69	22.32
	5-Year High	31.83	34.23	34.1	23.83
	5-Year Low	9.33	20.37	19.13	15.3
	5-Year Median	23.24	23.1	23.87	18.01
P/S F12M	Current	3.77	4.3	1.41	4.74
	5-Year High	3.89	4.3	1.41	4.74
	5-Year Low	1.44	2.81	0.84	3.21
	5-Year Median	2.97	3.39	1.02	3.71
EV/EBITDA TTM	Current	17.4	26	19.88	16.46
	5-Year High	17.4	26	20.84	17.7
	5-Year Low	7.87	10.66	11.18	9.61
	5-Year Median	13.7	14.63	13.38	13.38

As of 05/03/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Bloomin Brands, Inc. (BLMN)	Outperform	1
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	4
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
Brinker International, Inc. (EAT)	Neutral	3
Mitchells & Butlers Plc (MBPFF)	Neutral	4
Yum Brands, Inc. (YUM)	Neutral	2

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	QSR	X Industry	S&P 500	BLMN	CMG	YUM
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	1	3	2
VGM Score	C	-	-	B	B	B
Market Cap	21.64 B	940.01 M	30.45 B	2.73 B	41.41 B	35.83 B
# of Analysts	11	6	12	7	17	10
Dividend Yield	3.01%	0.00%	1.28%	0.00%	0.00%	1.67%
Value Score	B	-	-	C	D	D
Cash/Price	0.07	0.07	0.06	0.04	0.03	0.02
EV/EBITDA	21.30	14.73	17.44	98.43	75.80	26.62
PEG F1	2.88	3.27	2.29	7.59	3.27	2.42
P/B	5.41	4.62	4.10	60.06	19.74	NA
P/CF	18.48	24.11	17.49	17.84	75.73	28.73
P/E F1	26.88	36.47	22.03	18.97	60.44	29.09
P/S TTM	4.32	1.95	3.47	0.87	6.56	6.10
Earnings Yield	3.69%	2.23%	4.46%	5.28%	1.65%	3.44%
Debt/Equity	3.17	0.36	0.66	20.96	0.00	-1.29
Cash Flow (\$/share)	3.81	0.76	6.78	1.72	19.42	4.18
Growth Score	C	-	-	A	A	A
Historical EPS Growth (3-5 Years)	10.42%	-4.17%	9.70%	2.05%	36.72%	1.75%
Projected EPS Growth (F1/F0)	28.17%	70.17%	18.42%	334.36%	126.82%	13.95%
Current Cash Flow Growth	-21.84%	-45.12%	0.72%	-58.64%	-10.96%	3.17%
Historical Cash Flow Growth (3-5 Years)	9.34%	-2.17%	7.37%	-17.05%	-2.15%	-6.13%
Current Ratio	1.48	1.01	1.39	0.29	1.75	0.98
Debt/Capital	76.04%	46.50%	41.53%	95.45%	0.00%	NA
Net Margin	10.41%	-1.84%	11.55%	-1.75%	6.44%	19.52%
Return on Equity	25.25%	-13.65%	15.47%	-17.90%	19.45%	-15.62%
Sales/Assets	0.22	0.76	0.51	0.94	1.09	0.98
Projected Sales Growth (F1/F0)	13.25%	9.32%	8.42%	25.16%	22.64%	12.75%
Momentum Score	B	-	-	A	A	A
Daily Price Change	2.62%	0.00%	0.61%	-2.94%	-1.41%	0.38%
1-Week Price Change	3.56%	1.60%	0.07%	12.10%	1.60%	1.53%
4-Week Price Change	7.53%	4.23%	3.53%	15.47%	1.30%	8.44%
12-Week Price Change	17.55%	12.01%	11.85%	31.91%	-2.19%	16.08%
52-Week Price Change	43.72%	91.55%	56.89%	194.34%	68.12%	44.40%
20-Day Average Volume (Shares)	1,155,237	210,511	1,797,906	1,741,784	300,517	1,359,579
EPS F1 Estimate 1-Week Change	0.10%	0.00%	0.00%	34.44%	0.63%	5.04%
EPS F1 Estimate 4-Week Change	-1.18%	1.70%	0.59%	46.25%	6.22%	5.93%
EPS F1 Estimate 12-Week Change	-5.42%	4.02%	2.24%	81.41%	11.01%	6.31%
EPS Q1 Estimate Monthly Change	-1.74%	1.99%	0.39%	234.48%	7.17%	4.79%

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	C
Momentum Score	B
VGM Score	C

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 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.