

Reinsurance Group(RGA)

\$92.31 (As of 09/24/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: D

Summary

Reinsurance Group steadily benefits from a mix of organic and transactional opportunities. Its niche position in reinsurance markets, expansion of international footprint are positives. Individual mortality has matured and provides a base for stable earnings and capital generation. Significant value embedded in in-force business should generate predictable long-term earnings. Also, it is poised to benefit from an improving life reinsurance pricing environment, improved premiums and higher investment income. Shares of Reinsurance Group have underperformed its industry in the past year. Higher expenses tend to hinder margin expansion. Also, the company's premium results have been exposed to unfavorable foreign exchange movements. Lower return on equity, which implies inefficient utilization of shareholders' funds, poses financial risk.

Data Overview

52-Week High-Low	\$169.08 - \$55.39
20-Day Average Volume (Shares)	662,028
Market Cap	\$6.3 B
Year-To-Date Price Change	-43.4%
Beta	1.15
Dividend / Dividend Yield	\$2.80 / 3.0%
Industry	Insurance - Life Insurance
Zacks Industry Rank	Top 32% (80 out of 250)

Last EPS Surprise	233.3%
Last Sales Surprise	-0.0%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/04/2020
Earnings ESP	0.0%

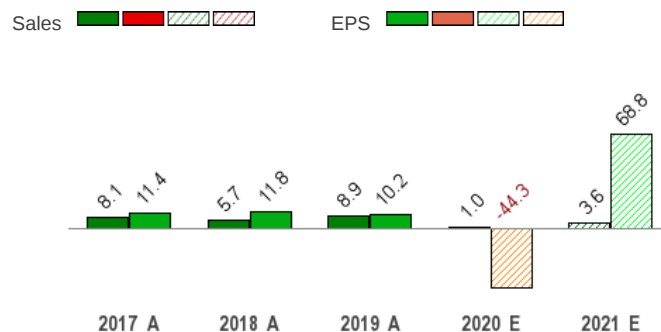
P/E TTM	9.0
P/E F1	12.4
PEG F1	NA
P/S TTM	0.4

Price, Consensus & Surprise



Source: Zacks Investment Research

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,591 E	3,598 E	3,696 E	3,903 E	14,869 E
2020	3,489 A	3,525 A	3,627 E	3,831 E	14,347 E
2019	3,412 A	3,360 A	3,579 A	3,763 A	14,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.24 E	\$2.91 E	\$3.88 E	\$3.42 E	\$12.56 E
2020	\$1.41 A	\$1.36 A	\$1.74 E	\$2.88 E	\$7.44 E
2019	\$2.61 A	\$3.31 A	\$4.02 A	\$3.43 A	\$13.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/24/2020. The reports text is as of 09/25/2020.

Overview

Formed in 1992 in Timberlake, MO, Reinsurance Group of America Inc. is a leading global provider of traditional life and health reinsurance and financial solutions with operations in the United States, Latin America, Canada, Europe, the Middle East, Africa, Asia and Australia.

Its Traditional reinsurance includes individual and group life and health, disability, and critical illness reinsurance. Life reinsurance primarily refers to reinsurance of individual or group-issued term, whole life, universal life, and joint and last survivor insurance policies. Health and disability reinsurance primarily refers to reinsurance of individual or group health policies. Critical illness reinsurance provides a benefit in the event of the diagnosis of a pre-defined critical illness. Its Financial solutions include longevity reinsurance, asset-intensive reinsurance, financial reinsurance and stable value products.

Reinsurance Group reports through four geographic segments:

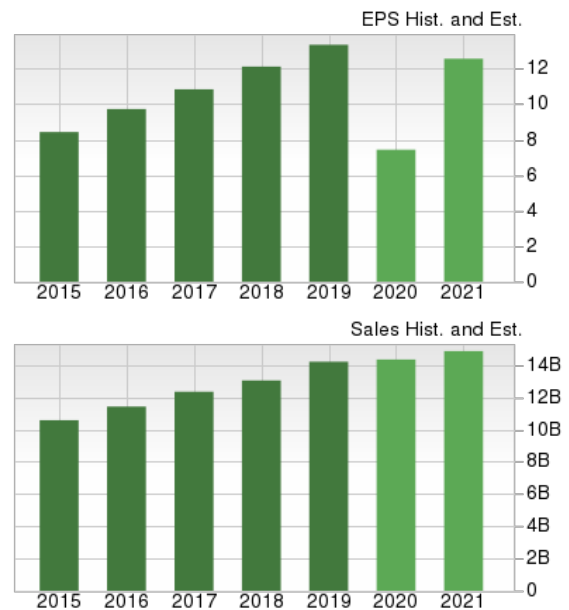
U.S. and Latin America (50.7% of 2019 Net Premiums) – Segmented into traditional and non-traditional businesses, namely individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The non-traditional business also issues fee-based synthetic guaranteed investment contracts such as investment-only, stable-value contracts, to retirement plans.

Canada Operations (9.4%) – Reinsures traditional life products and creditor reinsurance, group life and health reinsurance, non-guaranteed critical illness products, and longevity reinsurance.

Europe, Middle East and Africa (12.8%) – Includes a variety of life and health products, critical illness and longevity business throughout Europe and in South Africa, in addition to other markets.

Asia Pacific (24%) – Includes life, critical illness, health, disability, superannuation and financial reinsurance.

Corporate and Other (3.1%) – Includes results from, among others, RGA Technology Partners, Inc., a wholly owned subsidiary that develops and markets technology solutions for the insurance industry, interest expense related to debt and investment income and expense associated with the company's collateral finance facility.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Shares of Reinsurance Group have lost 42.6%, wider than the industry's decline of 17.2% in a year's time. Nevertheless, its solid fundamentals should continue drive the stock going forward.
- ▲ Reinsurance Group is a leader in the U.S. and Latin American traditional market. It successfully expands its product line with market leading services, capabilities, expertise and innovation. Individual mortality has matured and provides a base for stable earnings and capital generation. Significant value embedded in the in-force business is anticipated to generate predictable long-term earnings. Product-line expansion would also contribute to risk diversification. Finally, given an experienced management team, the company has a strong appetite and capacity for attractive block opportunities. Nonetheless, we expect expanded product offerings, underwriting, analytics and innovation to consistently support growth and benefit the company's clients.
- ▲ In Canada, Reinsurance Group is a market leader with solid growth and profitability. It has a sizable block of in-force business which acts as a significant source of future earnings. Reinsurance Group expects longevity insurance, which is projected to see steady demand, to see long-term growth in the Canadian market. While longevity insurance provides a source of diversified income, it also acts as a hedge to a large mortality position. However, net premiums declined 1% year over year to \$514 million in the first half of 2020 due to adverse foreign currency effects of \$12 million.
- ▲ Reinsurance Group derives 33% of its net premiums from international operations. In Asia, the company has a significant presence in Hong Kong, Japan, India, Korea and Taiwan. Premiums from Europe, Middle East and Africa (EMEA) in the Traditional business increased 27% to \$742 million in the first half of 2020. EMEA Traditional results reflect COVID-19 claim costs in the U.K., partially offset by favorable mortality experience in other countries and favorable morbidity experience overall. EMEA Financial Solutions results reflect favorable longevity experience. The company expects some benefit in the second half of the year in this segment. Moreover, a favorable claims experience in the region should contribute to bottom line.
- ▲ Despite low interest rate, the company's net investment income has been improving over the years. It increased 45% over the last five years with another 6.4% increase in the first half of 2020 to \$1.2 billion. The upside is primarily attributable to an increase in the average invested asset base. Management noted that its high-quality investment portfolio is well positioned as it remains diversified across asset classes, sectors, issuers and geography.
- ▲ Reinsurance Group has also been managing capital effectively via share buybacks and dividend payments and prudent investments. The company has hiked dividend double-digit percentage increase for 10 straight years. The company bought back \$153 million worth shares in the first half of 2020. However, on May 6, 2020, it suspended its stock repurchases until further notice. Infact, it has exited the second quarter with \$1.4 billion in excess capital.

Reinsurance Group is poised to benefit from the changing life reinsurance pricing environment, expanding business in the pension risk transfer market and disciplined capital management.

Reasons To Sell:

- ▼ Reinsurance Group's expenses have been increasing over the years due to higher claims and other policy benefits, interest credited, operating costs and interest expense. Total benefits and expenses increased 4.7% year over year to \$6.7 billion in the first half of 2020. Such a rise in expenses has been weighing on margin, which has been fluctuating over the last few years. In the second quarter, net margin contracted 30 bps sequentially and 190 bps year over year. The company expects additional mortality claim costs pretax in the range of \$200 million to \$300 million in the U.S. segment. The company expects United States to be the key driver of COVID-19 mortality claims in the near term. The next largest mortality claim costs are expected to be in the U.K. and Canada, although both are expected to be considerably lower than the United States. It estimates future additional pretax mortality claim costs in the range of \$400 million to \$600 million.
- ▼ Reinsurance Group's debt levels have remained relatively stable in the past few years. As of Jun 30, 2020, the company's long-term debt was \$3.6 billion, which increased 19.8% from the 2019-end level. Total debt to total capital of 22.2% deteriorated 180 bps from 2019 level and compared unfavorably with the industry's measure of 11.6%. Further, the company's times interest earned of 5.4 in second quarter was lower when compared with the 2019 figure of 7.5 and the industry's measure of 14.3, implying that its earnings are not sufficient to cover interest obligations. Thus, the company's inadequate financial flexibility remains a concern for investors.
- ▼ About one-third of the company's net premiums came from operations in Europe, the Middle East and Africa and the Asia Pacific. Reinsurance Group's results are thus exposed to foreign exchange volatility. The company's premium results have been exposed to volatility from foreign exchange fluctuation. The first half of 2020 witnessed adverse net foreign currency effects of \$79 million on premiums. In the second quarter of 2020, net foreign currency fluctuations had an adverse effect of 4 cents per share on adjusted operating income compared with the prior year.
- ▼ Reinsurance Group's return on equity of 5.8% compares unfavorably with the industry average of 11.8%. This shows the company's relative inefficiency in managing shareholders' funds.

Increasing expenses weighing on margin expansion, volatility from foreign exchange fluctuation and evolving capital requirements could pose as near-term headwinds for Reinsurance Group.

Last Earnings Report

Reinsurance Group Q2 Earnings Beat, Revenues Miss

Reinsurance Group of America, Incorporated reported second-quarter 2020 adjusted operating income of \$1.36 per share against the Zacks Consensus Estimate of a loss of \$1.02. However, the bottom line declined 58.9% from the year-ago quarter's figure.

Net foreign currency fluctuations had an adverse impact of 4 cents on the bottom line. Reinsurance Group witnessed increased net premiums and solid results in Asia/Pacific, and Europe, Middle East and Africa (EMEA) segments, offset by soft performance at U.S. and Latin America and Canada segments.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-0.03%
EPS Surprise	233.33%
Quarterly EPS	1.36
Annual EPS (TTM)	10.22

Operational Update

Reinsurance Group's operating revenues of \$3.5 billion improved 2% year over year. However, the top line missed the Zacks Consensus Estimate by 0.02%. Net premiums of \$2.8 billion rose 0.9% year over year. Investment income (excluding spread-based businesses and the value of associated derivatives) decreased 1% from the prior-year quarter to \$305 million. Average investment yield decreased 31 basis points from the prior-year period to 4.07% due to lower variable investment income and an increase in cash and cash equivalents.

Total benefits and expenses at Reinsurance Group increased 6.4% year over year to \$3.4 billion. Higher claims and other policy benefits, interest credited and policy acquisition costs and other insurance expenses resulted in cost escalation.

Quarterly Segment Update

U.S. and Latin America: Total pre-tax adjusted operating loss was \$78 million in the quarter under discussion against pre-tax income of \$148 million in the year-ago quarter. The Traditional segment reported pre-tax adjusted operating loss of \$165 million against the year-ago income of \$59 million, reflecting unfavorable individual mortality experience due to excess claims that were probably COVID-19 related. Net premiums rose 3.1% from the year-ago quarter to \$1.4 billion. Asset Intensive segment's pre-tax adjusted operating income decreased 8.7% to \$63 million. Capital Solutions business reported pre-tax adjusted operating income of \$24 million, which increased 20% year over year, attributable to new business.

Canada: Total pre-tax adjusted operating income declined 10.2% to \$44 million. Traditional segment's pre-tax adjusted operating income decreased 11.1% to \$40 million due to negative impact from COVID-19 claims, partially offset by favorable Group experience. However, forex had an adverse effect of \$1 million on the metric. Net premiums decreased 3.8% to \$254 million due to adverse foreign currency effects of \$9 million. Financial Solutions segment's pre-tax adjusted operating income of \$4 million remained unchanged from the year-ago period. Net foreign currency fluctuations had an immaterial effect on pre-tax income and pre-tax adjusted operating income.

Europe, Middle East and Africa (EMEA): Total pre-tax adjusted operating income of \$95 million increased 46.1% from the prior-year quarter's figure. Pre-tax adjusted operating income of the traditional segment was \$16 million, flat year over year. The results were in line with management's expectations as the negative impact from COVID-19 claims in the U.K. were offset by favorable morbidity experience overall and favorable mortality experience in Continental Europe. Net foreign currency fluctuations had a negative impact of \$2 million. Premiums increased 0.3% year over year to \$352 million.

Foreign currency exchange rates adversely impacted net premiums by \$20 million. Financial Solutions segment delivered pre-tax adjusted operating income of \$79 million, up 61.2% from the year-ago quarter, indicating favorable longevity experience. Net foreign currency fluctuations had an adverse impact of \$2 million on the metric.

Asia/Pacific: Total pre-tax adjusted operating income of nearly \$59 million increased 55.3% from the prior-year quarter. Traditional segment's pre-tax adjusted operating income of \$47 million was up 38.2%. Net foreign currency fluctuations had a favorable effect of \$2 million on the metric. Premiums increased 0.2% to \$607 million. Foreign currency exchange rates had an adverse effect of \$12 million on net premiums. Financial Solutions segment's pre-tax adjusted operating income increased 200% to \$12 million, attributable to continued new business growth in Asia. Net premiums decreased 29.5% to \$31 million. Foreign currency exchange rates had a favorable effect of \$1 million on net premiums.

Corporate and Other: Pre-tax adjusted operating loss was \$11 million, narrower than \$33 million in the prior-year period.

Financial Update

As of Jun 30, 2020, Reinsurance Group had assets worth \$80.7 billion, up 5.2% from the level at 2019 end. As of Jun 30, 2020, Reinsurance Group's book value per share, excluding accumulated other comprehensive income, grew 0.2% year over year to \$128.82. Adjusted return on equity was 7.8%, reflecting a contraction of 320 bps year over year. The company exited the quarter with \$1.4 billion in excess capital.

Capital Deployment

The board of directors approved a dividend of 70 cents. The dividend will be paid out on Sep 1, 2020 to shareholders of record as of Aug 14.

Recent News

Reinsurance Group of America Units Get Rating Actions - Sep 11, 2020

Reinsurance Group of America and its subsidiaries' Long-Term Issuer Credit Ratings (Long-Term ICR) of "aa-" and the Financial Strength Rating of A+ (Superior) have been affirmed by A.M. Best.

Also, A.M. Best affirmed the Long-Term ICR of "a-" and all Long-Term Issue Credit Ratings (Long-Term IR) on the debt securities and indicative shelf ratings of Reinsurance Group of America, Incorporated with a stable outlook.

Reinsurance Group to Divest Dutch Life Insurance Company – Jul 7, 2020

Reinsurance Group will divest its Dutch life insurance company, Leidsche Verzekering Maatschappij N.V. (Leidsche) to De Goudse N.V. (De Goudse) for an undisclosed amount. The company noted that the move will be in the best interest of Leidsche and will enable the latter to execute its long-term growth strategy in the protection market. Reinsurance Group also stated that the divestment of Leidsche will help it serve its clients in its reinsurance business in the Netherlands better.

Valuation

Reinsurance Group shares are down 43.5% in the year-to-date period and 42.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 24.8% and 20.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17.2% and 15.5%, respectively.

The S&P 500 index are up 0.8% in the year-to-date period and 9.4% in the past year.

The stock is currently trading at 0.45x forward 12-months earnings, which compares to 1.27x for the Zacks sub-industry, 2.39x for the Zacks sector and 5.58x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.31x and as low as 0.31x, with a 5-year median of 0.98x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$98 price target reflects 0.48x trailing 12- month book value.

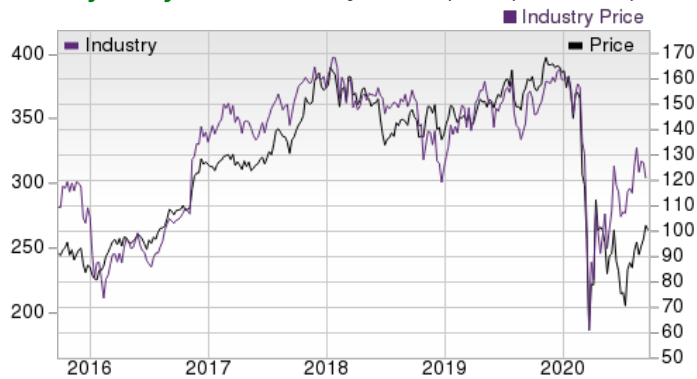
The table below shows summary valuation data for RGA

Valuation Multiples -RGA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.45	1.27	2.39	5.58
	5-Year High	1.31	2.47	2.91	6.17
	5-Year Low	0.31	0.91	1.72	3.75
	5-Year Median	0.98	1.78	2.54	4.85
P/S F12M	Current	0.43	1.89	6.44	3.95
	5-Year High	0.83	10.81	6.67	4.29
	5-Year Low	0.24	1.69	4.97	3.11
	5-Year Median	0.67	3.28	6.07	3.66
P/E F12M	Current	8.24	7.08	15.32	21.31
	5-Year High	15.13	14.89	16.72	23.44
	5-Year Low	4.15	5.51	11.6	15.26
	5-Year Median	11.15	9.7	14.27	17.63

As of 09/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Manulife Financial Corp (MFC)	Outperform	2
Sun Life Financial Inc. (SLF)	Outperform	2
American Equity Investment Life Holding Company (AEL)	Neutral	4
Athene Holding Ltd. (ATH)	Neutral	2
Brighthouse Financial, Inc. (BHF)	Neutral	3
Globe Life Inc. (GL)	Neutral	3
Lincoln National Corporation (LNC)	Neutral	3
Voya Financial, Inc. (VOYA)	Underperform	4

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

Industry Comparison Industry: Insurance - Life Insurance				Industry Peers		
	RGA	X Industry	S&P 500	BHF	GL	LNC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	D
Market Cap	6.27 B	4.21 B	22.77 B	2.39 B	8.28 B	5.82 B
# of Analysts	3	4	14	3	4	5
Dividend Yield	3.03%	0.10%	1.72%	0.00%	0.96%	5.31%
Value Score	A	-	-	A	B	B
Cash/Price	0.65	0.59	0.07	4.51	0.07	1.82
EV/EBITDA	4.19	2.59	12.78	4.12	5.69	0.62
PEG F1	NA	2.33	2.82	NA	NA	NA
P/B	0.45	0.61	3.12	0.12	1.06	0.28
P/CF	6.82	5.39	12.37	3.38	6.46	4.51
P/E F1	12.41	9.34	20.56	3.65	11.30	3.83
P/S TTM	0.44	0.59	2.34	0.16	1.80	0.34
Earnings Yield	8.06%	10.75%	4.60%	27.41%	8.86%	26.08%
Debt/Equity	0.28	0.16	0.70	0.19	0.16	0.32
Cash Flow (\$/share)	13.53	3.00	6.93	7.58	12.04	6.68
Growth Score	F	-	-	F	C	F
Historical EPS Growth (3-5 Years)	9.13%	9.89%	10.41%	NA	13.09%	12.28%
Projected EPS Growth (F1/F0)	-44.29%	-14.61%	-4.56%	203.95%	2.00%	79.50%
Current Cash Flow Growth	9.01%	20.42%	5.26%	30.25%	6.55%	-29.24%
Historical Cash Flow Growth (3-5 Years)	8.98%	8.98%	8.49%	NA	6.53%	-2.94%
Current Ratio	0.15	0.25	1.35	0.66	0.08	0.21
Debt/Capital	22.16%	13.66%	42.92%	15.95%	13.95%	24.52%
Net Margin	3.99%	6.17%	10.25%	33.37%	15.84%	1.21%
Return on Equity	5.79%	6.56%	14.59%	4.55%	10.31%	8.21%
Sales/Assets	0.18	0.11	0.50	0.07	0.18	0.05
Projected Sales Growth (F1/F0)	1.64%	0.00%	-1.44%	17.25%	4.24%	1.28%
Momentum Score	D	-	-	B	D	D
Daily Price Change	-0.19%	0.00%	0.21%	-1.54%	0.48%	-0.99%
1-Week Price Change	-1.82%	-1.35%	0.79%	-4.13%	1.22%	-2.29%
4-Week Price Change	-1.76%	-3.45%	-5.64%	-19.57%	-8.59%	-18.56%
12-Week Price Change	22.23%	2.45%	1.89%	-4.11%	7.24%	-12.92%
52-Week Price Change	-42.48%	-17.74%	-2.71%	-36.98%	-19.03%	-49.90%
20-Day Average Volume (Shares)	662,028	385,588	2,095,310	783,426	527,796	2,159,145
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	2.93%	2.64%	4.08%	-12.84%	-0.65%	-9.30%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	F
Momentum Score	D
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 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.