

Roper Technologies (ROP)

\$398.97 (As of 09/08/20)

Price Target (6-12 Months): **\$414.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 09/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

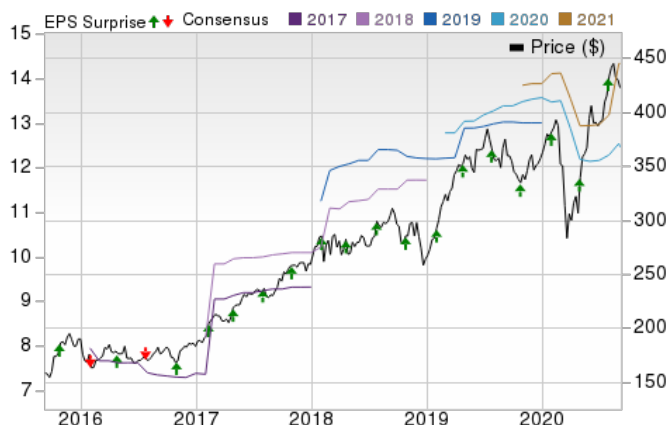
In the past three months, Roper's shares have outperformed the industry. The company is poised to gain from strength across its network software and medical product businesses. Going forward, its unique niche market strategy, strong operational execution and cost-control measures will likely help it drive margins and profitability. Moreover, strong cash flows allow it to effectively deploy capital for making acquisitions — with the recent one being that of Vertafore — and paying out dividends. However, the company expects the pandemic to adversely impact the demand for its products and project timings across most of its segments. Also, weakness in the Process Technologies segment, with organic sales predicted to decline in double digits in second-half 2020 is concerning. High costs and huge debts are other headwinds.

Data Overview

52-Week High-Low	\$455.72 - \$240.00
20-Day Average Volume (Shares)	458,692
Market Cap	\$41.3 B
Year-To-Date Price Change	11.2%
Beta	1.05
Dividend / Dividend Yield	\$2.05 / 0.5%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 49% (127 out of 251)

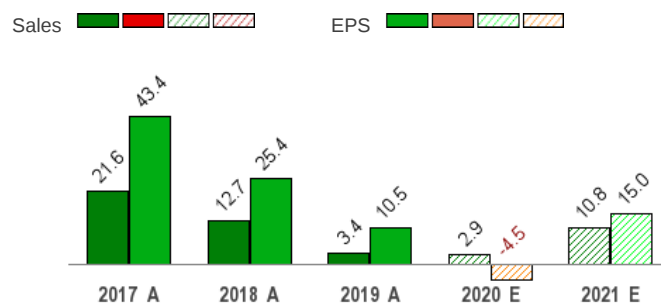
Last EPS Surprise	10.1%
Last Sales Surprise	3.9%
EPS F1 Estimate 4-Week Change	1.9%
Expected Report Date	10/22/2020
Earnings ESP	0.2%
P/E TTM	31.1
P/E F1	32.0
PEG F1	2.9
P/S TTM	7.6

Price, Consensus & Surprise



Source: Zacks Investment Research

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,564 E	1,565 E	1,578 E	1,629 E	6,119 E
2020	1,351 A	1,305 A	1,348 E	1,516 E	5,522 E
2019	1,287 A	1,330 A	1,355 A	1,395 A	5,367 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.42 E	\$3.44 E	\$3.49 E	\$3.61 E	\$14.33 E
2020	\$3.05 A	\$2.94 A	\$2.98 E	\$3.43 E	\$12.46 E
2019	\$3.30 A	\$3.07 A	\$3.29 A	\$3.39 A	\$13.05 A

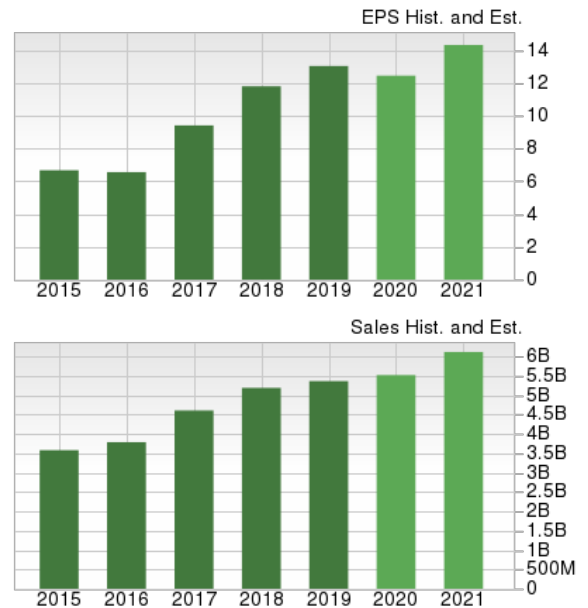
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/08/2020. The reports text is as of 09/09/2020.

Overview

Roper Technologies, Inc. designs, manufactures, and distributes engineered products and solutions as well as softwares. It caters to selected segments of a broad range of markets, which include legal, healthcare, government, food, transportation, oil & gas, medical, and other niche industries. In March 2019, the company restructured its business segments and currently operates under these four segments — Application Software, Network Software & Systems, Measurement & Analytical Solutions, and Process Technologies. The new segments will support the company's diversified, niche market strategy by emphasizing business models.

- Application Software (30.5% of revenues in the second quarter of 2020) segment offers application management software, integrated security solutions, commerce platforms, and housing management systems to government contractors, professional services firms, as well as law and other professional services firms.
- Network Software & Systems (32.3%) offers transportation management software, broker logistics software, fleet compliance, distribution and intermodal services that are designed to serve brokers, carriers, shippers in the United States and Canada. It also offers creative software technologies for design, visualization and entertainment industries.
- Measurement & Analytical Solutions (28%) sells high-resolution cameras and sensors, rugged handheld computers and patient-centric radiotherapy solutions for medical industries. It also offers valves and controls for industrial refrigeration systems apart from optical and electromagnetic measurement systems for industrial test and measurement type businesses.
- Process Technologies (9.2%) offers control, safety solutions for engines, turbines, compressors, marine & other industrial applications. It also provides various flow meters, flow controllers, and ancillary electronics for automotive & industrial markets.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ In the past three months, Roper's shares have gained 7.5% as compared with the industry's growth of 5%. In the second quarter of 2020, the company's revenues surpassed the Zacks Consensus Estimate by 3.8%. The better-than-expected results stemmed from broad-based growth across its network software businesses along with a rise in demand for medical products. Going forward, the company's Network Software & Systems segment is likely to show resilience during the coronavirus outbreak-led global market downturn, backed by high recurring revenue mix, strong customer retention, expanding networks, and strength across its DAT and ConstructConnect businesses. Also, a surge in demand for the medical products at its Verathon and IPA businesses will likely be tailwinds for the Measurement & Analytical Solutions segment. The company anticipates organic revenues for both of its Network Software & Systems and Measurement & Analytical Solutions segments to grow in a mid-single-digit range for the second half of 2020. In the past 60 days, the company's earnings estimates have been raised by 2.6% for 2020 and 10.6% for 2021.
- ▲ Roper's adjusted gross profit margin expanded 70 basis points (bps) to 64.7% year over year in the second quarter on the back of strong operating leverage. In the quarters ahead, the company's unique niche market strategy, strong operational execution and cost-control measures will help it to drive its profitability and maintain a healthy margin performance amid the crisis. Also, strong cash flows allow it to effectively deploy capital for making acquisitions and paying out dividends. For instance, in the first six months of 2020, the company generated net cash of \$813 million from operating activities, marking growth of 37.5% from the year-ago comparable period.
- ▲ Acquisitions have been Roper's preferred mode of business expansion over time. In 2019, the company used \$2.4 billion for making acquisitions, surging 87% from the previous year. In August 2019, it acquired iPipeline Holdings, a provider of cloud-based software solutions to customers in financial services and the life insurance industry. Also, it added ComputerEase Software to its portfolio in the same month. In April 2019, the company acquired Foundry. Beside acquisition, Roper believes in divesting businesses for the best interest of shareholders. It divested Gatan to AMTEK in October 2019. Notably, acquisitions had a positive contribution of 2% and 1% of revenue growth in the first and second quarters of 2020, respectively. In September 2020, the company acquired Denver, CO-based Vertafore for \$5.35 billion in cash. The buyout will help generate revenues of \$590 million and earnings before interest, tax, depreciation and amortization (EBITDA) of \$290 million in 2021. In addition, cash accretion is predicted immediately from the buyout.
- ▲ Roper remains committed to rewarding shareholders handsomely through dividend payments. In the first half of 2020, the company distributed \$106.6 million as dividends. It is worth mentioning here that it increased the quarterly dividend rate by 11% or 5 cents per share to 51.25 cents in November 2019. On an annualized basis, the dividend increased to \$2.05 per share from \$1.85. We believe that such initiatives are reflective of a strong cash position.

Strength in the network software businesses, unique niche market strategy and acquisitions are likely to boost Roper's near-term results.

Reasons To Sell:

- ▼ Going forward, Roper anticipates the coronavirus outbreak to have adverse impacts on demand for its products and project timings across most of its segments. Notably, organic revenues of the Application Software segment are anticipated to be roughly flat in the second half of 2020 due to lower anticipated bookings for its logo software license business. Also, for the second half of the year, the company predicts organic sales of the Process Technologies segment to decline 25% due to continued weakness in the upstream oil & gas businesses.
- ▼ Over time, Roper has been dealing with the adverse impacts of high cost of sales and operating expenses. From 2017 to 2019, the company's cost of sales increased 3.6% (CAGR) and operating expenses rose 5.2% (CAGR). Notably, in the second quarter of 2020, its cost of sales remained high at \$461.3 million. In addition, its selling, general and administrative expenses rose 5.9% to \$510.1 million. Escalation in costs and operating expenses, if not controlled, can severely affect margins and profitability.
- ▼ Roper has a highly leveraged balance sheet. In the last three years (2017-2019), the company's long-term debt jumped 2.4% (CAGR). At the end of the second quarter of 2020, its long-term debt was \$5,263.8 million, up 12.6% on a sequential basis. Also, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, exiting the second quarter, its times interest earned ratio is 11.9, lower than 12.2 recorded at the end of the previous quarter. We believe that further issuances of long-term debts will make the company more leveraged and can also inflate its financial obligations, hurting profitability.
- ▼ On a P/E (TTM) basis, Roper's shares seem overvalued compared with the industry, with respective tallies of 31.09x and 25.71x. The company's multiple is above the industry's three-month highest level of 26.52x. This makes us cautious about the stock. In addition, the company believes in adding complementary businesses to the portfolio via acquisitions. In 2019, it completed several buyouts, including that of Foundry, ComputerEase and iPipeline, while the company added Vertafore to its portfolio in 2020. However, we believe that frequent acquisitions can be a distraction for management's regular activities, posing a threat to organic growth and raising integrations risks.

The coronavirus outbreak-led market downturn, high cost of sales and debt level along with integration risks associated with business acquisitions might dent Roper's near-term profitability.

Last Earnings Report

Roper Q2 Earnings & Revenues Top Estimates, Decline Y/Y

Roper has delivered an earnings and revenues surprise of 10.1% and 3.8%, respectively, in second-quarter 2020.

Adjusted earnings were \$2.94 per share, surpassing the Zacks Consensus Estimate of \$2.67. However, the bottom line decreased 4.2% from the year-ago quarter number of \$3.07 per share.

Inside the Headlines

Roper's net revenues were \$1,305 million, down 1.9% year over year. Notably, adjusted revenues totaled \$1,306 million, down 2% year over year. The decline was primarily attributable to a decrease of 3% in organic revenues, partially offset by 1% gain from acquired assets. The top line beat the Zacks Consensus Estimate of \$1,257 million.

The company reports revenues under four segments. A brief discussion of the quarterly results is provided below.

Application Software's revenues totaled \$398.4 million, representing 30.5% of the quarter's revenues. On a year-over-year basis, the segment's revenues grew 2%.

Network Software & Systems generated revenues of \$422 million, accounting for 32.3% of second-quarter revenues. Sales grew 15% year over year.

Measurement & Analytical Solutions generated revenues of \$363.9 million, accounting for 27.9% of the quarter's revenues. Sales declined 10.9% year over year.

Process Technologies generated revenues of \$120.7 million, accounting for 9.3% of the quarter's revenues. Sales were down 26.6% year over year.

Margin Details

In the second quarter, Roper's cost of sales decreased 4% year over year to \$461.3 million. Cost of sales was 35.3% of the quarter's revenues compared with 36.1% a year ago. Adjusted gross profit decreased 1% to \$845 million, while adjusted gross margin was 64.7%, reflecting an expansion of 70 basis points (bps).

Selling, general and administrative expenses increased 5.9% to \$510.1 million. It represented 39.1% of total revenues compared with 36.2% in the year-ago quarter. Operating profit declined 7.5% to \$383.9 million, with margin of 29.4%, down 180 bps year over year.

Balance Sheet & Cash Flow

Exiting the second quarter, Roper had cash and cash equivalents of \$1,870.8 million compared with \$709.7 million recorded on Dec 31, 2019. Long-term debt (net of current portion) was \$5,263.8 million compared with \$4,673.1 million at the end of 2019.

In the first six months of 2020, the company generated net cash of \$813 million from operating activities, up 37.5% year over year.

Capital expenditure during the second quarter totaled \$8 million, lower than the year-ago figure of \$12 million. Adjusted free cash flow in the quarter was up 10% to \$315 million on a year-over-year basis.

Outlook

For 2020, adjusted earnings per share are anticipated to be \$11.90-\$12.40 compared with \$11.60-\$12.60 mentioned earlier.

For the third quarter of 2020, earnings are projected to be \$2.90-\$3.00 per share.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	3.85%
EPS Surprise	10.11%
Quarterly EPS	2.94
Annual EPS (TTM)	12.67

Recent News

Roper Acquires Vertafore

On **Sep 3, 2020**, Roper announced the completion of the acquisition of Denver, CO-based Vertafore. The transaction — valued at \$5.35 billion in cash — was originally announced by Roper on Aug 13, 2020.

Vertafore is a leading provider of cloud-based software solutions, designed for simplifying, and automating the property and casualty insurance lifecycle. Notably, the company's services are used by more than 20,000 agencies as well as 1,000 insurance carriers for streamlining their processes and improving efficiency.

Details of the Buyout: As noted, Roper paid the acquisition price with available cash, liquidity under revolving credit facility and funds raised through debt issuance.

Since the transaction is complete now, it is worth mentioning here that Vertafore's identity — its name, brands and office sites — remains the same. It will run under the leadership of its CEO Amy Zupon.

Roper believes that Vertafore's efficient management team, solid market position and customer retention policies will be beneficial. The buyout will help generate revenues of \$590 million and EBITDA of \$290 million in 2021. In addition, cash accretion is predicted immediately from the buyout.

Roper Closes \$2.7B Notes Offering

On **Sep 1, 2020**, Roper announced the completion of its public offering of \$2.7 billion worth senior notes. The company priced the senior notes on Aug 18, 2020.

The notes offered comprised \$300 million of 0.450% senior notes set to mature on Aug 15, 2022; \$700 million of 1.000% senior notes with expiry date on Sep 15, 2025; \$700 million of 1.400% senior notes due on Sep 15, 2027 and \$1 billion worth of 1.750% senior notes due on Feb 15, 2031. The notes on offer will be Roper's senior unsecured obligations.

Significantly, the company priced the notes due in 2022 at 99.913% of the principal amount. Interest on these notes will be paid twice a year on Feb 15 and Aug 15 with the first payment due on Feb 15, 2021. Further, Roper offered the 2025 notes at 99.868% of the principal amount. It will pay interest each year on Mar 15 and Sep 15 (with the first payment to go on Mar 15, 2021) on these notes.

For the 2027 notes, interest payment will be made on Mar 15 and Sep 15 (the first to be cleared on Mar 15, 2021). These notes were offered to the public at 99.860% of the principal amount. In addition, the 2031 notes were offered at 99.839% of the principal amount. Interest on these notes will be paid out on Feb 15 and Aug 15 every year — the first payment to be made on Feb 15, 2021.

Roper will have to compulsorily redeem all the senior notes if the Vertafore buyout is not completed on or before Feb 12, 2021, and the date of termination of Vertafore's acquisition agreement (whichever comes earlier). Per the special mandatory redemption, the price for the notes will be 101% of the principal amount plus interest (accrued and unpaid).

In addition to the special redemption, Roper has the option to redeem the 2022 senior notes before Aug 15, 2022, for a consideration equal to Treasury+10 basis points and accrued interest, if applicable. For the 2025 notes, the redemption can be done before Aug 15, 2025, for Treasury+15 basis points or on par plus accrued interest (if applicable) on or after Aug 15, 2025.

The optional redemption for the 2027 notes can be done before Jul 15, 2027, for Treasury+15 basis points. If the redemption is carried out on or after Jul 15, 2027, the price will be equal to the par value plus accrued interest (if applicable). Similarly, for the 2031 notes, the optional redemption can be executed before Nov 15, 2030, for Treasury+20 basis points or on par plus accrued interest (if applicable) on or after Nov 15, 2030.

The company noted that part of the proceeds from the offerings will be used for paying for the Vertafore buyout and its related expenses. The remaining proceeds will likely be used for general corporate purposes.

Dividend

On **Jul 22, 2020**, Roper paid out a quarterly cash dividend of 51.25 cents per share to shareholders of record as of Jul 8.

Completion of Senior Notes Offering

On **Jun 22, 2020**, Roper completed \$600 million worth of senior notes offering. Notably, the public offering of notes was originally announced by the company on Jun 8.

As mentioned, the notes were offered at 98.877% of the principal amount and are now the company's senior unsecured obligations. The maturity date of the notes is Jun 30, 2030, while its coupon rate is 2.000%. Interest on notes will be paid out semi-annually, each on Jun 30 and Dec 30. The first interest payment will be made on Dec 30, 2020.

The issuer has the option to redeem the senior notes before Mar 30, 2030, for a consideration equal to Treasury+20 basis points and accrues interest, if applicable. Further, the notes can be redeemed on or after Mar 30, 2030, for a value equal to par value and accrued interest.

Notably, the offering was rated Baa2 (Stable) by Moody's and BBB+ (Stable) by S&P. Roper will use funds raised from the notes offering for general corporate purposes (that include acquisitions).

Valuation

Roper shares are up 11.2% and 11.3% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 6.9% and 3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 1.5% and 6.5%, respectively.

The S&P 500 index has moved up 3.6% year to date, while increased 12.5% in the past year.

The stock is currently trading at 28.65X forward 12-month earnings per share, which compares to 26.57X for the Zacks sub-industry, 21.72X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.31X and as low as 18.81X, with a 5-year median of 24.94X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$414 price target reflects 30.08X forward 12-month earnings per share.

The table below shows summary valuation data for ROP.

Valuation Multiples - ROP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.65	26.57	21.72	22.83
	5-Year High	35.31	27.53	21.84	23.44
	5-Year Low	18.81	15.6	12.55	15.26
	5-Year Median	24.94	19.88	17.51	17.63
P/S F12M	Current	6.95	3.38	2.95	4.19
	5-Year High	8.54	3.49	2.96	4.29
	5-Year Low	4.11	1.58	1.52	3.11
	5-Year Median	5.46	2.27	2.05	3.66

As of 09/08/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 49% (127 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Regal Beloit Corporation (RBC)	Outperform	2
Colfax Corporation (CFX)	Neutral	3
Dover Corporation (DOV)	Neutral	3
Flowserve Corporation (FLS)	Neutral	3
GEA GROUP AG SP (GEAGY)	Neutral	2
The Middleby Corporation (MIDD)	Neutral	3
Xylem Inc. (XYL)	Neutral	3
Applied Industrial Technologies, Inc. (AIT)	Underperform	5

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	ROP	X Industry	S&P 500	FLS	GEAGY	XYL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	D	-	-	A	D	C
Market Cap	41.25 B	1.25 B	22.91 B	3.69 B	6.60 B	14.64 B
# of Analysts	5	3	14	8	1	7
Dividend Yield	0.52%	0.00%	1.66%	2.82%	1.19%	1.28%
Value Score	D	-	-	B	D	D
Cash/Price	0.04	0.10	0.07	0.15	0.09	0.11
EV/EBITDA	15.73	12.04	12.82	8.97	14.86	18.12
PEG F1	2.91	3.01	2.90	3.41	NA	4.40
P/B	4.16	2.00	3.15	2.18	2.83	5.11
P/CF	22.83	10.75	12.45	9.42	19.85	15.39
P/E F1	32.02	25.47	21.08	17.19	29.98	44.01
P/S TTM	7.63	1.30	2.43	0.95	1.23	2.96
Earnings Yield	3.16%	3.34%	4.52%	5.82%	3.34%	2.27%
Debt/Equity	0.53	0.50	0.70	0.81	0.19	1.06
Cash Flow (\$/share)	17.25	2.49	6.93	3.01	1.84	5.29
Growth Score	D	-	-	C	C	B
Historical EPS Growth (3-5 Years)	20.23%	10.00%	10.41%	-9.02%	NA	11.31%
Projected EPS Growth (F1/F0)	-4.54%	-25.19%	-4.73%	-25.00%	205.17%	-38.79%
Current Cash Flow Growth	11.79%	-0.29%	5.22%	15.12%	-1.68%	21.58%
Historical Cash Flow Growth (3-5 Years)	16.15%	5.59%	8.49%	-8.93%	NA	13.56%
Current Ratio	1.27	2.06	1.35	2.23	1.30	2.40
Debt/Capital	34.76%	34.31%	42.95%	44.72%	16.31%	51.41%
Net Margin	29.75%	4.34%	10.25%	3.77%	-3.20%	5.09%
Return on Equity	14.20%	9.59%	14.59%	14.96%	-7.30%	14.72%
Sales/Assets	0.30	0.73	0.50	0.81	0.83	0.63
Projected Sales Growth (F1/F0)	2.89%	-7.84%	-1.42%	-7.58%	0.26%	-9.66%
Momentum Score	B	-	-	A	D	B
Daily Price Change	-6.76%	-1.24%	-1.95%	-3.60%	-1.16%	-0.64%
1-Week Price Change	-1.78%	-1.01%	-1.28%	-3.64%	4.60%	-0.13%
4-Week Price Change	-9.38%	-3.76%	-1.93%	-10.42%	0.33%	1.31%
12-Week Price Change	-1.18%	2.99%	3.73%	-4.48%	15.80%	21.60%
52-Week Price Change	11.25%	-10.66%	-0.29%	-39.89%	25.92%	3.83%
20-Day Average Volume (Shares)	458,692	51,670	1,798,028	809,486	8,321	621,518
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.95%	0.00%	0.00%	0.92%	37.08%	-1.07%
EPS F1 Estimate 12-Week Change	2.46%	4.13%	3.98%	16.71%	3.83%	30.30%
EPS Q1 Estimate Monthly Change	0.25%	0.00%	0.00%	1.32%	NA	-1.61%

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	D
Growth Score	D
Momentum Score	B
VGM Score	D

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.