

Sonoco Products Co. (SON)

\$60.76 (As of 03/04/21)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Sonoco's fourth-quarter 2020 earnings and revenues beat the Zacks Consensus Estimate and increased year over year. It projects adjusted earnings per share between \$3.40 and \$3.60 for the current year indicating year-over-year growth of 3% at mid-point. The company expects sales volume improvement across all segments in 2021. However, recovery in demand might be impacted by the resurgence of coronavirus cases. Sonoco will gain from growth in consumer-packaging businesses driven by solid demand from food packaging. Demand in the Industrial Paper Packaging served markets continues to show sequential improvement. Moreover, the company's focus on optimizing businesses through productivity improvement, standardization and cost control will aid results. However, higher recovered paper, freight and other operating costs might hurt its margins.

Price, Consensus & Surprise

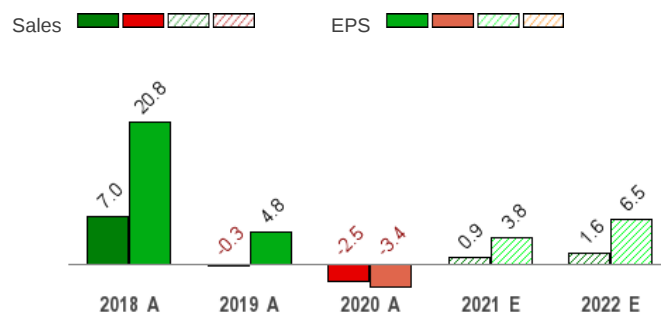


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$62.21 - \$37.30
20-Day Average Volume (Shares)	412,956
Market Cap	\$6.1 B
Year-To-Date Price Change	1.8%
Beta	0.86
Dividend / Dividend Yield	\$1.80 / 3.0%
Industry	Containers - Paper and Packaging
Zacks Industry Rank	Bottom 28% (182 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.5%
Last Sales Surprise	5.4%
EPS F1 Estimate 4-Week Change	1.2%
Expected Report Date	04/22/2021
Earnings ESP	0.0%
P/E TTM	17.7
P/E F1	17.2
PEG F1	3.7
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,321 E	1,249 E	1,365 E	1,331 E	5,370 E
2021	1,311 E	1,284 E	1,338 E	1,353 E	5,286 E
2020	1,303 A	1,245 A	1,312 A	1,376 A	5,237 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.91 E	\$0.91 E	\$0.94 E	\$0.89 E	\$3.77 E
2021	\$0.86 E	\$0.88 E	\$0.92 E	\$0.88 E	\$3.54 E
2020	\$0.94 A	\$0.79 A	\$0.86 A	\$0.82 A	\$3.41 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 03/04/2021. The report's text and the analyst-provided price target are as of 03/05/2021.

Overview

Incorporated in 1899, Hartsville, SC-based Sonoco Products is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services. The company manufactures paperboard, primarily from recycled materials, for both internal use and open market sale. The company reports financial results in four segments.

Sonoco plans change its operating and reporting structure in the current year. The company will report its results in two reportable segments: Consumer Packaging and Industrial Paper Packaging. Remaining businesses will be presented in an All Other group. The Protective Solutions and Display and Packaging segments will be eliminated and their businesses will be shifted into the remaining two segments and All Other.

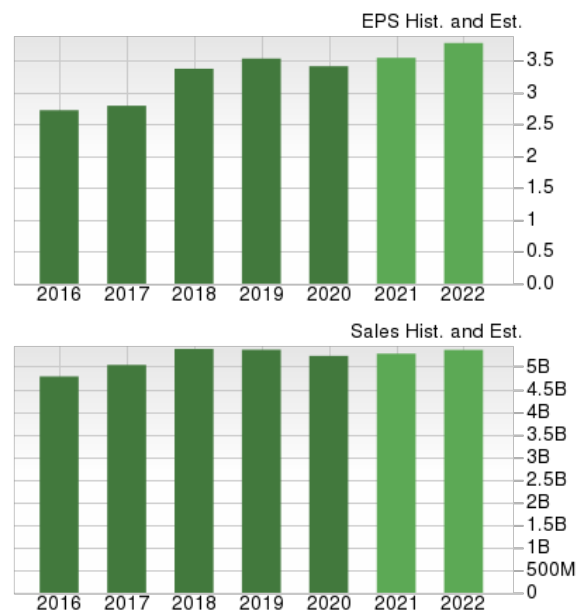
Consumer Packaging (46% of sales in 2020) makes round and shaped rigid containers and trays extruded and injection-molded plastic products; printed flexible packaging; global brand artwork management; and metal and peelable membrane ends and closures.

Paper and Industrial Converted Products (36%) makes paperboard tubes, cones, and cores; fiber-based construction tubes; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and material recycling services.

Display and Packaging (9%) is engaged in designing, manufacturing, assembling, packing and distributing temporary, semi-permanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; retail packaging, including printed backer cards, thermoformed blisters and heat sealing equipment; and paper amenities, such as coasters and glass covers.

Protective Solutions (9%) offers custom-designed paperboard-based and expanded foam protective packaging and temperature-assurance packaging.

Due to its geographic footprint and the cost-competitive nature of its businesses, the company is constantly seeking the most cost-effective means and structure to serve its customers and to respond to fundamental changes in its markets. As such, restructuring costs have been<



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Sonoco is an essential provider of consumer, industrial and medical packaging. Hence, the company's global operations continue to operate and are serving customers' critical needs during the coronavirus crisis. Sonoco anticipates global business activity will begin to return to the pre-pandemic levels after mid-2021. For the current year, the company projects adjusted earnings per share between \$3.40 and \$3.60. The mid-point of the range indicates year-over-year growth of 3%. In 2021, it expects sales volume improvement across all segments. Sonoco's consumer packaging businesses will keep performing well as sales from food packaging will continue to benefit from at-home eating. Approximately 80% of the Consumer Packaging segment's sales come from food packaging where the company is witnessing increased orders. Moreover, demand in the Industrial Paper Packaging served markets continues to show sequential improvement. Sonoco also anticipates solid demand in pharmaceutical and industrial markets. Its focus on optimizing businesses through productivity improvement, standardization and cost control will also aid results in the near term.
- ▲ Paperboard operations in North America are likely to be relatively steady as increased demand for tissue and towel market will help offset declines from some industrial converted-product businesses. The Protective Solutions segment is likely to witness improved demand in the March-end quarter, particularly in the pharmaceutical and appliance served markets. The ThermoSafe temperature-assured packaging business is likely to gain from a strong flu vaccine season, and improved demand from its base pharmaceutical and food customers during the current quarter. The company is responding to the pandemic-related crisis with cost-reduction initiatives, and is focused on continuing production and shipping products to customers without supply-chain disruptions.
- ▲ Sonoco's \$114 million total capital investment in project Horizon over the next two years will significantly lower uncoated recycled paperboard mill operating costs in the United States and Canada. The investment will transform Hartsville corrugated medium machine to a state-of-the-art URB operation with annual production capacity of roughly 180,000 tons. The machine conversion is expected to be completed in early 2022. Once completed, this project will drive \$30 million annualized cost savings. The new machine will be able to produce a wide range of URB paper grades and will enable to meet internal and trade customer needs. This will create larger opportunity for the company's North America URB system. Sonoco expects current year capital expenditure of \$85 million on project Horizon.
- ▲ Sonoco is focused on driving profitable growth, margin expansion and generating solid free cash flow. Sonoco's balance sheet strength and availability of substantial liquidity in the form of cash and revolving credit facilities will stoke growth. The company repaid \$442 million of debt during fourth-quarter 2020. Its current debt stands at \$1.7 billion. Sonoco's net debt to total capital decreased from 45.8% at the end of 2019 to 37% at the end of 2020. Recently, the company hiked its dividend by 4.7%. It currently has \$500 million available under its revolving credit facility and cash in hand of approximately \$565 million. For 2021, management expects free cash flow in between \$270 million and \$300 million, while capital expenditure is expected at \$300 million. It is also taking aggressive actions to reduce operating costs and selling, general and administrative expenses.
- ▲ In the December-end quarter, Sonoco registered top line growth from TEQ and Can Packaging acquisitions in consumer segment. The buyout of Corenso Holdings North America strengthened Sonoco's domestic paperboard operations. The company also penetrated the growing healthcare market with the addition of Thermoformed Engineered Quality LLC, and Plastique Holdings, LTD, (together TEQ) in January 2020. During the third quarter 2020, Sonoco acquired France-based Can Packaging company, Habsheim for \$49 million in cash. The company also sold its lower-margin Europe contract packaging business, to Prairie Industries Holdings. The divestiture supports the company's efforts to simplify its operating structure and focus on growing the core Consumer and Industrial packaging businesses. Net proceeds from the transaction are expected to be used to reduce short-term debt and improve its liquidity position.

Sonoco is poised to gain from consumer packaging business, strong productivity and cost control. Further its strong balance sheet enables the company to invest in growth as well as acquisitions.

Reasons To Sell:

- ▼ Sonoco expects first-quarter 2021 adjusted earnings per share between 80 cents and 90 cents compared with the earnings of 94 cents reported in first-quarter 2020. Further, the company expects the divestiture of display and packaging in Europe to unfavorably impact its bottom-line results in the first quarter. Even though the company expects stable global macroeconomic environment, this recovery might be short lived due to the resurgence of coronavirus cases, slowing the reopening of business activities.
- ▼ Sonoco's Paper and Industrial Converted Products segment will be affected by a negative price/cost relationship during the current quarter due to year-over-year higher recovered paper, freight and other operating costs. The Display and Packaging business will continue to face weak retail promotional display activity. Moreover, higher Old Corrugated Containers (OCC) price might erode the company's margins.
- ▼ Uncertainty regarding the impact of the outbreak is weighing on the sector's customers. Customers have thus taken a conservative stance to manage their businesses by aggressively destocking inventory and holding back on new product launches. This slowdown in customer orders remains a major headwind.
- ▼ Over the past few years, Consumer Packaging volumes have been affected as consumers' preference for packaged food is clearly being impacted by changing taste for more fresh and natural products. Sonoco's plastic business continues to struggle, particularly in the Perimeter of the Store and industrial operations. Further, impact of tariffs on steel, aluminum and other products will continue to hurt Sonoco's margins. The company is also facing inflationary cost pressure from higher freight, wages, and elevated cost for materials, particularly resins.

Uncertain impact of the pandemic on the company's operations and the slowdown in customer orders will weigh on Sonoco's top line. Higher material and other costs will dent margins.

Last Earnings Report

Sonoco Q4 Earnings & Revenue Beat Estimates, Up Y/Y

Sonoco reported adjusted earnings of 82 cents in fourth-quarter 2020, surpassing the Zacks Consensus Estimate of 77 cents and management's guidance of 70-80 cents. Moreover, the bottom line improved 9% year over year on strong productivity improvements, higher volumes and contribution from acquisitions. However, these gains were somewhat offset by a negative price/cost relationship on account higher year-over-year recovered paper costs, which primarily impacted the Paper and Industrial Converted Products segment and increased interest expense.

On a reported basis, including one-time items, the company reported a loss per share of 12 cents per share against an earnings per share of 44 cents in the year-ago quarter.

Sonoco's net sales were \$1.38 billion, which beat the Zacks Consensus Estimate of \$1.31 billion. The top line also recorded year-over-year growth of 3% on strong volume gains, higher selling prices and benefits from acquisitions.

Operational Update

Cost of sales were \$1,102 million compared with the \$1,062 million in the year-earlier quarter. Gross profit during the reported quarter totaled \$275 million, up 11% year over year. Gross margin came in at 20%, a 110 basis point expansion year over year reflecting higher volumes and strong productivity results.

Selling, general and administrative expenses amounted to \$157 million, up 16% year over year. Adjusted operating income increased 11% year over year to \$126 million during the quarter under review. Operating margin came in at 9.2% compared with the year-ago quarter's 8.7%.

Segment Performance

The Consumer Packaging segment's net sales were up 10% year over year to \$616 million. Operating profit amounted to \$68.6 million, reflecting an increase of 47% from the \$47 million in the comparable period last year.

Net sales in the Paper and Industrial Converted Products segment totaled \$509 million, reflecting year-over-year growth of 4%. Operating profit totaled \$36 million compared with \$50 million reported in the year-ago period.

The Display and Packaging segment's net sales slumped 20% year over year to \$109 million. The segment reported an operating profit of \$5.8 million, which came in 11% lower than the year-earlier quarter.

The Protective Solution segment's net sales amounted to \$142 million, up 17% from the prior-year quarter. Operating profit of the segment improved 43% year over year to \$16 million.

Sonoco also announced that it will change its operating and reporting structure in 2021 and will henceforth report its results in two segments — Consumer Packaging and Industrial Paper Packaging. The remaining businesses, which will primarily comprise healthcare and protective packaging businesses will be reported as "All Other" in its forthcoming results.

Financial Performance

Sonoco reported cash and cash equivalents of \$565 million at the end of 2020 compared with \$145 million at the end of fiscal 2019. The company generated cash flow from operating activities of a record \$706 million in 2020, an improvement from \$426 million in 2019. In 2020, free cash flow was \$349 million compared with \$74 million in 2019.

As of the 2020-end, total debt was \$1.70 billion compared with \$1.68 billion at the end of 2019. At the end of 2020, Sonoco's total debt to total capital was 47.1% compared with 48.1% at the end of 2019.

2020 Results

Sonoco's adjusted earnings per share in 2020 was \$3.41, down 3% from the prior-year's figure of \$3.53. The bottom line beat the Zacks Consensus Estimate of \$3.36 and the company's guidance of adjusted earnings per share between \$3.29 and \$3.39. Including one-time items, the company delivered an earnings per share of \$2.05 in 2020 compared with \$2.88 in 2019.

Sales decreased 2% year over year to \$5.27 billion from the prior-year figure of \$5.37 billion. The top line beat the Zacks Consensus Estimate of \$5.17 billion.

Other Updates

On Nov 30, 2020, Sonoco completed the sale of its Europe contract packaging business to Prairie Industries Holdings for \$120 million in cash. The business was part of the Display and Packaging Segment. The divestiture is in sync with the company's efforts to simplify its operating structure and focus on growing its core Consumer and Industrial packaging businesses. Net proceeds from the transaction are expected to be utilized to reduce short-term debt and improve its liquidity position.

Guidance

Sonoco expects first-quarter 2021 adjusted earnings per share between 80 cents and 90 cents compared with earnings of 94 cents reported in first-quarter 2020. For 2021, the company projects adjusted earnings per share between \$3.40 and \$3.60. The mid-point of the range indicates

Quarter Ending	12/2020
Report Date	Feb 11, 2021
Sales Surprise	5.37%
EPS Surprise	6.49%
Quarterly EPS	0.82
Annual EPS (TTM)	3.41

year-over-year growth of 3%. The guidance is based on the assumption that global business activity will begin to return to pre-pandemic levels after mid-2021.

The company anticipates cash flow from operations to range between \$570 million and \$600 million in 2021 and free cash flow is expected in the range of \$270 million to \$300 million.

The company expects the Consumer Packaging segment to continue benefiting from consumers' at-home eating habits. Demand in the Industrial Paper Packaging served markets continues to show sequential improvement. However, the company expects a negative price/cost relationship due to mounting year-over-year recovered paper, freight and other operating costs. In All Other segments, demand is anticipated to remain strong in pharmaceutical and industrial markets.

Recent News

Sonoco Hikes Prices for Paperboard Tubes & Cores

On **Feb 4, 2021**, Sonoco announced the price rise for all paperboard tubes and cores by 6% in the United States and Canada. The price hike will be effective relating to the shipments beginning on or after Mar 1, 2021. This move is in response to the escalating uncoated recycled paperboard (URB) costs.

Sonoco Hikes Prices for Uncoated Recycled Paperboard

On **Feb 1, 2021**, Sonoco hiked prices for all grades of uncoated recycled paperboard (URB) by \$50 per ton in the United States and Canada. The price hike will be effective relating to the shipments beginning on Mar 1, 2021. This move is in response to the escalating input costs as well as extended order backlogs at its mills.

Sonoco Inks Deal with ISI, Expands Automation Services

On **Jan 26, 2021**, Sonoco announced its partnership with Integrated Systems, Inc. (ISI) in a bid to expand its automation usage to improve the efficiency of the company's global manufacturing operations. ISI is a provider of vertically integrated robotics and advanced automation. Per the deal, ISI will aid Sonoco in developing and executing its global automation strategy as well as designing, engineering, building, programming, and installing custom-made robotics and automation systems.

Valuation

Sonoco's shares are up 10.3% in the trailing six-month period and 19.2% over the trailing 12-month period. Stocks in Containers - Paper and Packaging industry and the Zacks Industrial Products sector are up 12.8% and 26% in the trailing six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 36.7% and 42.3% respectively.

The S&P 500 index is up 10.8% in the trailing six-month period and 29.3% in the past year.

The stock is currently trading at 16.83X forward 12-month earnings, which compares to 16.12X for the Zacks sub-industry, 22.70X for the Zacks sector and 21.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.80X and as low as 10.55X, with a 5-year median of 16.70X.

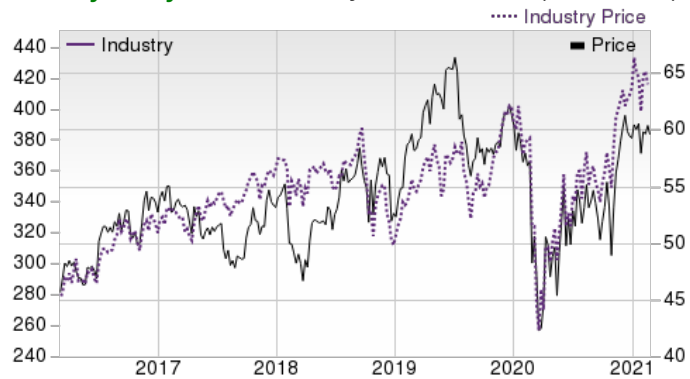
Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64 price target reflects 17.86X forward 12-month earnings.

The table below shows summary valuation data for SON:

Valuation Multiples - SON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.83	16.12	22.70	21.72
	5-Year High	19.8	18.98	22.99	23.8
	5-Year Low	10.55	7.2	12.64	15.3
	5-Year Median	16.7	16.08	17.99	17.87
P/S F12M	Current	1.14	2.74	3.62	4.51
	5-Year High	1.23	5.08	3.62	4.51
	5-Year Low	0.7	1.49	1.62	3.21
	5-Year Median	1.03	1.92	2.12	3.68
EV/ EBITDA TTM	Current	8.74	21.48	24.30	17.24
	5-Year High	10.55	28.6	24.51	17.54
	5-Year Low	6.24	13.28	11.1	9.63
	5-Year Median	8.77	16.02	15.28	13.3

As of 03/04/2021 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 28% (182 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
AptarGroup, Inc. (ATR)	Neutral	3
Berry Global Group, Inc. (BERY)	Neutral	3
Ball Corporation (BLL)	Neutral	3
Crown Holdings, Inc. (CCK)	Neutral	2
Greif, Inc. (GEF)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3
Silgan Holdings Inc. (SLGN)	Neutral	3

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

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SON	X Industry	S&P 500	ATR	CCK	SEE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	A	-	-	C	B	A
Market Cap	6.06 B	6.34 B	26.64 B	8.50 B	12.98 B	6.63 B
# of Analysts	5	5	13	8	8	8
Dividend Yield	2.99%	2.06%	1.43%	1.10%	0.00%	1.50%
Value Score	B	-	-	C	C	A
Cash/Price	0.09	0.06	0.06	0.04	0.05	0.08
EV/EBITDA	11.56	10.42	15.34	16.68	12.14	10.06
PEG F1	3.68	1.71	2.27	4.62	2.79	1.60
P/B	3.17	3.41	3.76	4.56	4.98	38.47
P/CF	10.08	10.05	15.31	18.23	10.14	9.87
P/E F1	17.16	17.02	20.37	32.32	13.97	12.66
P/S TTM	1.16	1.26	3.15	2.90	1.12	1.35
Earnings Yield	5.87%	5.87%	4.82%	3.09%	7.15%	7.90%
Debt/Equity	0.65	1.05	0.67	0.57	3.08	21.63
Cash Flow (\$/share)	5.98	4.15	6.78	7.15	9.48	4.34
Growth Score	A	-	-	A	C	A
Historical EPS Growth (3-5 Years)	7.90%	10.15%	9.32%	5.03%	9.76%	5.59%
Projected EPS Growth (F1/F0)	3.87%	14.92%	14.54%	10.85%	16.28%	5.92%
Current Cash Flow Growth	0.76%	4.27%	0.74%	1.57%	6.15%	14.10%
Historical Cash Flow Growth (3-5 Years)	5.04%	9.39%	7.37%	6.85%	12.67%	-2.14%
Current Ratio	1.21	1.37	1.39	1.75	1.15	1.38
Debt/Capital	39.44%	50.23%	41.42%	36.31%	75.50%	95.58%
Net Margin	3.96%	6.02%	10.59%	7.31%	5.00%	10.26%
Return on Equity	18.79%	15.97%	14.75%	14.19%	34.67%	-3,624.73%
Sales/Assets	0.96	0.83	0.51	0.76	0.73	0.84
Projected Sales Growth (F1/F0)	0.93%	5.82%	7.02%	8.25%	9.69%	5.44%
Momentum Score	B	-	-	F	B	B
Daily Price Change	-1.62%	-0.79%	-1.49%	-0.50%	-1.43%	-2.93%
1-Week Price Change	-1.33%	-1.54%	-1.51%	-1.64%	-5.40%	-4.03%
4-Week Price Change	3.32%	1.42%	0.04%	-5.51%	5.84%	-2.53%
12-Week Price Change	-2.25%	0.18%	3.94%	-0.05%	-1.20%	-5.79%
52-Week Price Change	19.79%	44.01%	22.81%	25.41%	29.12%	44.01%
20-Day Average Volume (Shares)	412,956	367,716	2,051,279	262,479	934,506	1,351,618
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.20%	0.20%	0.04%	-2.68%	7.73%	3.80%
EPS F1 Estimate 12-Week Change	1.68%	1.68%	2.17%	-1.88%	8.26%	3.84%
EPS Q1 Estimate Monthly Change	-1.62%	-1.22%	0.00%	-12.62%	3.80%	5.48%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	A
Momentum Score	B
VGM Score	A

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

Disclosures

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.