

Simon Property Group (SPG)

\$87.90 (As of 12/11/20)

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

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: F

Summary

Shares of Simon Property have underperformed the industry over the past year. The closure of retail properties at the onset of the pandemic continues to affect the company's domestic and international operations, including lower revenues. Moreover, such store closures hinder its tenants' ability to pay rent. In addition to battling store closures and tenant bankruptcy woes, Simon Property has been witnessing low footfall at properties amid the pandemic and higher e-commerce adoption. This has been affecting occupancy levels at the company's retail centers. Nonetheless, improving leasing environment will benefit its superior assets in premium locations. Also, in November, it negotiated the share price for purchasing the majority stake in Taubman Centers to \$43 per share in cash, down 18% from the previously-agreed price of \$52.50.

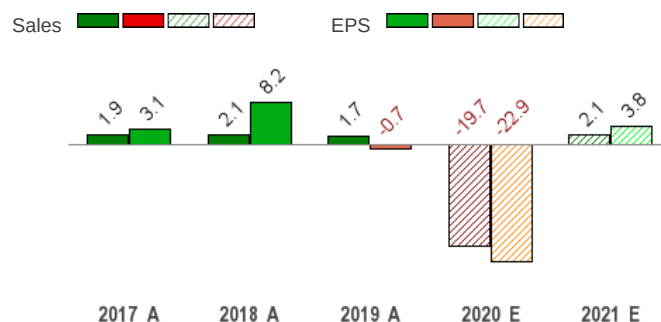
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$149.89 - \$42.25
20-Day Average Volume (Shares)	6,741,652
Market Cap	\$26.9 B
Year-To-Date Price Change	-41.0%
Beta	1.48
Dividend / Dividend Yield	\$5.20 / 5.9%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 4% (244 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.9%
Last Sales Surprise	-5.3%
EPS F1 Estimate 4-Week Change	-1.0%
Expected Report Date	02/02/2021
Earnings ESP	-2.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,116 E	1,140 E	1,158 E	1,197 E	4,722 E
2020	1,353 A	1,062 A	1,061 A	1,153 E	4,623 E
2019	1,453 A	1,397 A	1,417 A	1,489 A	5,755 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.21 E	\$2.38 E	\$2.40 E	\$2.48 E	\$9.63 E
2020	\$2.78 A	\$2.12 A	\$2.05 A	\$2.27 E	\$9.28 E
2019	\$3.04 A	\$2.99 A	\$3.05 A	\$2.96 A	\$12.04 A

*Quarterly figures may not add up to annual.

P/E TTM	8.9
P/E F1	9.5
PEG F1	2.1
P/S TTM	5.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/11/2020. The reports text is as of 12/14/2020.

Overview

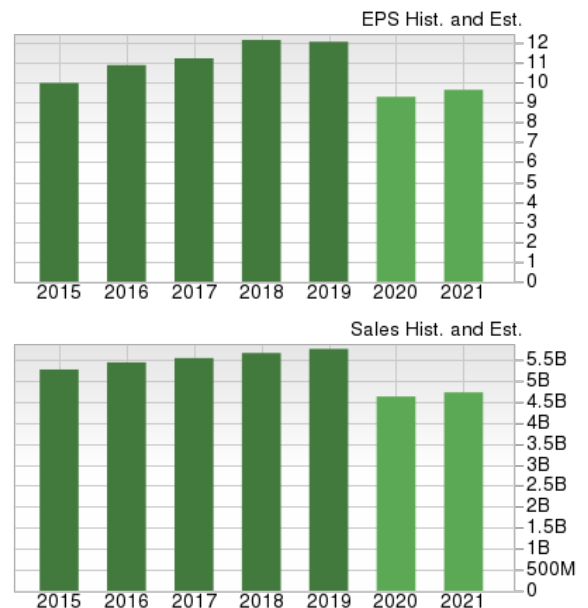
Headquartered in Indianapolis, IN, Simon Property Group Inc. is a leading publicly-traded real estate investment trust (REIT) in the United States, which is engaged in acquiring, owning and leasing of shopping, dining, entertainment and mixed-use destinations. The company's real estate portfolio consists of malls, Premium Outlets and The Mills and International Properties.

As of Sep 30, 2020, Simon Property owned or held interests in 204 properties in the United States. This consist 99 malls, 69 Premium Outlets, 14 Mills, four lifestyle centers and 18 other retail properties across 37 states and Puerto Rico. As of the same date, the company had ownership in 31 Premium Outlets and Designer Outlet properties, mainly located in Asia, Europe and Canada. Additionally, the company had a 22.4% equity stake in Klépierre, a publicly-traded French real estate company, which owns interest in shopping centers across 15 countries in Europe.

After backing out of the merger deal with Taubman Centers, Inc. in June, Simon Property negotiated the share price for purchasing the majority stake in the former company. On Nov 15, both companies reached a definitive agreement per which Simon Property will pay the purchase price of \$43 per share in cash, down 18% from the previously-agreed price of \$52.50 in February. It will acquire an 80% stake in The Taubman Realty Group Limited Partnership, while the Taubman family will remain a 20% partner. The merger is anticipated to close in late 2020 or early 2021, conditional to Taubman Centers' shareholder approval and customary closing norms.

Moreover, in February 2020, Authentic Brands Group, Simon Property and Brookfield Property Partners announced the buyout of an apparel and accessories retailer Forever 21 that had filed for bankruptcy earlier. In September 2016, the company and a group of co-investors acquired certain assets and liabilities of Aéropostale, another retailer of apparel and accessories, out of bankruptcy, and renamed Sparc Group.

Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ With the shift in consumers' preferences toward online channels for purchases, bankruptcies and store closures have emerged as pressing concerns over the recent years for retail REITs and Simon Property is not immune these. In fact, for the U.S. Malls and Premium Outlets portfolio, third-quarter occupancy was 91.4% as of Sep 30, 2020, shrinking 330 basis points year over year primarily due to tenant bankruptcy activities. Though the company has been striving to counter this pressure through various initiatives, implementation of such measures requires a decent upfront cost and therefore, will limit any robust growth in profit margins in the near term.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores or reduce store hours. In fact, the company's retail properties were closed in total for 10,500 shopping days during the second quarter. Moreover, during the third quarter, seven retail properties in California were temporarily closed on Jul 15 because of a restrictive governmental order. While six of these properties reopened on Aug 31, the seventh property reopened on Oct 7 on the easing of governmental restrictions in Los Angeles. While situations now improved compared to the start of the pandemic, high infection rates remain concerning. In addition, given the financial stress on its tenants, rent collection is likely to suffer in the near term. Particularly, per the company's third-quarter earnings release, Simon Property's rent collections from U.S. retail portfolio, including rent deferrals amounted to roughly 78% of its net billed rents for the second quarter and 85% for the third quarter. Moreover, the company's third-quarter results reflect the coronavirus pandemic's adverse impacts on its domestic and international operations, with an impact of \$1.10 per share, mainly on reduced revenues.
- ▼ In response to the pandemic and its impact on business, Simon Property has suspended or eliminated more than \$1 billion of redevelopment and new development projects. However, for some redevelopment and new development projects in the United States and internationally that are nearing completion, construction continues. The company's share of the remaining required cash funding is roughly \$140 million for these projects that are slated for completion by the end of 2021. The contributions from its redevelopment and development efforts are likely to remain subdued for an extended time period.
- ▼ Shares of Simon Property have depreciated 39.7% in the past year, which is wider than the industry's decline of 12.1%. Moreover, the trend in its 2020 FFO per share estimate revisions does not indicate a favorable outlook for the company as the estimate has moved marginally south over the past week. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock is unlikely to perform well in the near term.

Shrinking traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues have added to the company's woes.

Risks

- Simon Property enjoys a wide exposure to retail assets across the United States. Moreover, the company's international presence fosters sustainable long-term growth as compared with its domestically-focused peers. The company's ownership stake in Klépierre facilitates the expansion of its global footprint, which gives it access to premium retail assets in the high barrier-to-entry markets of Europe. We believe that diversification, with respect to both product and geography will help it grow over the long-term.
 - Amid retail apocalypse narrative, adoption of an omni-channel strategy and successful tie-ups with premium retailers has been a saving grace for Simon Property. The company had been restructuring its portfolio, aiming at premium acquisitions and transformative redevelopments. In fact, for the past years, the company has been investing in billions to transform its properties focused on creating value and drive footfall at the properties. Moreover, the company's online retail platform, weaved with an omni-channel strategy, will likely be accretive to Simon Property's long-term growth. Notably, in November, the company collaborated with Narvar to facilitate easy drop-off returns for retail brands. Specifically, the service lets consumers make quick drop-off returns from roughly two dozen brands at a participating Simon location. Additionally, Simon Property is exploring the mixed-use development option, which has gained immense popularity in recent years as it helps catch the attention of people who prefer to live, work and play in the same area. Moreover, reliance on value-creating opportunities and the purchase of bankrupt retailers have been on the agenda for Simon Property in recent years and the mall owner remains committed to that the same. This opens new growth avenues as the company can utilize such brands across its brick-and-mortar footprint.
 - With the relaxation of the shelter-in-place orders, the resumption of the economy and improving leasing environment, the retail REIT is poised to benefit from its superior assets in premium locations. As of Oct 7, all of the company's U.S. properties were open and operating. Also, the federal stimulus led to lessening the income impact of unemployment. Furthermore, in response to the pandemic and its impact on business, Simon Property has substantially reduced all non-essential corporate spending as well as property operating expenses. Such efforts are likely to help the company sail through the current crisis.
 - So far in the current year, Simon Property made efforts to bolster its financial flexibility. This enabled the company to exit third-quarter 2020 with more than \$9.7 billion of liquidity, comprising \$1.5 billion of cash on hand, including its share of joint-venture cash, as well as \$8.2 billion of available capacity under its revolving credit facilities and term loan, net of \$623 million outstanding under its U.S. commercial paper program. Following the quarter-end, it priced an upsized public offering of 19.25 million shares of common stock, up from the 17.5 million disclosed earlier, at \$72.50 per share for net proceeds of \$1.35 billion. Simon Property's net debt to net operating income (NOI) was 6.2X, while fixed-charge coverage ratio was 4.5 as of Sep 30, 2020. Moreover, the company enjoyed corporate investment-grade credit rating of A from S&P and senior unsecured rating of A1 from Moody's as of the third-quarter end. With solid balance strength and available capital resources, it remains well-poised to navigate through the current blues and capitalize on opportunities generating from the market dislocations.
-

Last Earnings Report

Simon Property Q3 FFO and Revenues Miss Estimates

Simon Property's third-quarter 2020 FFO per share of \$2.05 missed the Zacks Consensus Estimate of \$2.25. The reported figure also plunged 32.8% from the year-ago quarter's \$3.05.

Further, the company generated revenues of \$1.06 billion during the quarter, lagging the Zacks Consensus Estimate of \$1.12 billion. The revenue figure also comes in 25.1% lower than the prior-year quarter reported tally.

Results reflect the coronavirus pandemic's adverse impact on the company's domestic and international operations, with an impact of \$1.10 per share, mainly on reduced revenues. However, these negatives were partly offset by roughly 23 cents per share from cost-reduction moves.

The company noted that all of its U.S. retail properties are presently open. However, during the third quarter, seven retail properties in California were temporarily closed on Jul 15 because of a restrictive governmental order. While six of these properties reopened on Aug 31, the seventh property reopened on Oct 7 on the easing of governmental restrictions in Los Angeles.

Finally, as of Nov 6, Simon Property's rent collections from U.S. retail portfolio, amounted to 72% of its net billed rents for the second quarter and 85% of its net billed rents for the third.

"Despite COVID-19, we are encouraged by the increases we are seeing in shopper traffic, retailer sales and tenant rent collections across our portfolio" noted David Simon, the company's chairman, chief executive officer and president.

Inside the Headline Numbers

For the U.S. Malls and Premium Outlets portfolio, occupancy was 91.4% as of Sep 30, 2020, shrinking 330 basis points, year on year. Base minimum rent per square feet was \$56.13 as of Sep 30, 2020, up 2.9% year on year.

Comparable property NOI for the reported quarter fell 24.4% and portfolio NOI declined 22.4%. Reduced revenues from agreed upon tenant rent abatements, higher provisions for uncollectible rents, lower sales-based rents and a reduction in ancillary property income, including Simon Brand Ventures sponsorship income, chiefly resulted in this decrease, though cost-reduction efforts provided some support.

Portfolio Update

During the September-end quarter, the company accomplished the redevelopment of former department store spaces at Broadway Square and Cape Cod Mall. Moreover, the 110,000-square-foot phase V expansion of Rinku Premium Outlets (Izumisano, Osaka, Japan) opened during the third quarter, resulting in Rinku Premium Outlets becoming western Japan's largest outlet center. Notably, Simon enjoys 40% ownership of this center.

Construction is on for some redevelopment and new development projects in the United States and internationally that are nearing completion. The company's share of the remaining required cash funding is roughly \$140 million for these projects that are slated for completion by the end of 2021.

Balance Sheet Position

Simon Property exited third-quarter 2020 with more than \$9.7 billion of liquidity. This comprised \$1.5 billion of cash on hand, including its share of joint-venture cash, as well as \$8.2 billion of available capacity under its revolving credit facilities and term loan, net of \$623 million outstanding under its U.S. commercial paper program.

During the reported quarter, the company accomplished a three tranche senior notes offering, aggregating \$2 billion. It used cash on hand and proceeds from the offering for repayment of \$2.5 billion outstanding under its credit facilities.

Quarter Ending	09/2020
Report Date	Nov 09, 2020
Sales Surprise	-5.31%
EPS Surprise	-8.89%
Quarterly EPS	2.05
Annual EPS (TTM)	9.91

Recent News

Simon Property Taps Equity Market to Finance Taubman Deal – Nov 23, 2020

Simon Property closed an upsized public offering of 22.13 million shares of common stock, including 2.88 million shares allotted to underwriters. Net proceeds, post underwriting discounts and commissions, are \$1.56 billion.

This comes as part of the company's move to finance the Taubman Centers, Inc. transaction, wherein Simon Property will acquire an 80% interest in The Taubman Realty Group Limited Partnership, while the Taubman family will remain a 20% partner. The company also intends to use the proceeds for other general business needs, including repaying or repurchasing indebtedness, working capital and capital expenditures.

Simon Property Ties Up With Narvar for Easy Return Program – Nov 17, 2020

Simon Property and Narvar tied up to facilitate easy drop-off returns for retail brands. Specifically, the service lets consumers make quick drop-off returns from roughly two dozen brands at a participating Simon location, per the company.

Simon Property & Taubman Centers Lower Merger Price – Nov 15, 2020

After backing out of the merger deal with Taubman Centers, Inc in June, Simon Property has now negotiated the share price for purchasing the majority stake in the former company.

Both companies have reached a definitive agreement to change certain terms of the original merger agreement. Now, Simon Property will pay the purchase price of \$43 per share in cash, down 18% from the previously-agreed price of \$52.50 in February.

Moreover, per the modified merger agreement, Taubman Centers will not pay a dividend on its common stock before Mar 1, 2021.

Nonetheless, Simon Property will continue to acquire an 80% ownership stake in The Taubman Realty Group Limited Partnership, while the Taubman family will remain a 20% partner. The revised terms of the merger have been approved by the board of directors of both companies and Taubman Centers' Special Committee of independent directors.

The merger is anticipated to close in late 2020 or early 2021, conditional to Taubman Centers' shareholder approval and customary closing norms.

Notably, on Jun 10, Simon Property called off its merger agreement with Taubman Centers by exercising its contractual rights to the termination, based on two separate and independent grounds. First, the coronavirus pandemic has significantly impacted Taubman Centers' operations, relative to other retail real estate industry peers.

Moreover, amid the coronavirus mayhem, Taubman Centers breached its obligations to operate its business in the ordinary course. Particularly, unlike others in the industry, the company was unable to take necessary steps to mitigate the impacts of the pandemic, including failing to make essential reductions in operating expenses and capital expenditure.

With the termination of the deal, Simon Property had also filed a lawsuit against Taubman Centers. Nonetheless, both companies have now settled their pending litigation in Michigan state court.

Dividend Update

On Sep 29, Simon Property announced third-quarter cash dividend of \$1.30 per share of common stock. The dividend was paid out on Oct 23 to shareholders of record as of Oct 9, 2020.

Valuation

Simon Property's shares have plunged 39.7% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 12.1% and 4.6%, respectively, over the past year.

The S&P 500 Index has increased 15.1% over the trailing 12-month period.

The stock is currently trading at 9.14X forward 12-month FFO, which compares with the 15.47X for the Zacks sub-industry, 16.89X for the Zacks sector and 22.58X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.04X and as low as 3.61X, with a 5-year median of 13.66X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$74 price target reflects 7.69X FFO.

The table below shows summary valuation data for SPG.

Valuation Multiples - SPG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.14	15.47	16.89	22.58
	5-Year High	20.04	19.44	16.89	23.47
	5-Year Low	3.61	9.72	11.60	15.27
	5-Year Median	13.66	14.66	14.46	17.77
P/S F12M	Current	5.70	8.09	7.07	4.25
	5-Year High	12.55	13.91	7.07	4.30
	5-Year Low	2.51	5.43	5.01	3.17
	5-Year Median	9.15	8.12	6.10	3.68
P/B TTM	Current	13.62	2.82	2.76	6.21
	5-Year High	16.67	5.57	2.93	6.28
	5-Year Low	5.02	1.77	1.74	3.74
	5-Year Median	12.24	3.29	2.57	4.92

As of 12/11/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 4% (244 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
CBL & Associates Properties, Inc. (CBL)	Neutral	3
Federal Realty Investment Trust (FRT)	Neutral	4
Kimco Realty Corporation (KIM)	Neutral	3
Macerich Company The (MAC)	Neutral	4
Pennsylvania Real Estate Investment Trust (PEI)	Neutral	3
Tanger Factory Outlet Centers, Inc. (SKT)	Neutral	2
Washington Prime Group Inc. (WPG)	Neutral	3
Taubman Centers, Inc. (TCO)	Underperform	5

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

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	SPG	X Industry	S&P 500	FRT	KIM	MAC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	3	4
VGM Score	D	-	-	F	F	D
Market Cap	26.90 B	1.89 B	25.68 B	6.82 B	6.38 B	1.74 B
# of Analysts	9	6	14	8	9	7
Dividend Yield	5.92%	2.19%	1.51%	4.70%	4.34%	5.16%
Value Score	B	-	-	C	C	B
Cash/Price	0.04	0.07	0.06	0.12	0.05	0.30
EV/EBITDA	12.21	13.12	14.50	15.00	14.87	11.92
PEG F1	2.13	4.97	2.76	2.08	NA	NA
P/B	13.62	1.42	3.60	3.02	1.15	0.66
P/CF	8.06	8.22	13.75	11.47	9.05	3.69
P/E F1	9.47	13.15	21.75	19.72	12.61	4.92
P/S TTM	5.42	4.74	2.82	7.97	5.88	2.09
Earnings Yield	10.56%	7.62%	4.40%	5.07%	7.93%	20.29%
Debt/Equity	12.74	0.97	0.70	2.01	0.97	2.21
Cash Flow (\$/share)	10.91	2.19	6.94	7.86	1.63	3.15
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	2.24%	-1.47%	9.69%	1.59%	-2.43%	-5.30%
Projected EPS Growth (F1/F0)	-22.94%	-20.29%	1.03%	-27.76%	-20.41%	-33.21%
Current Cash Flow Growth	-7.76%	0.37%	5.22%	22.11%	-14.81%	5.81%
Historical Cash Flow Growth (3-5 Years)	5.60%	5.61%	8.33%	12.40%	1.91%	-2.91%
Current Ratio	1.95	1.95	1.38	3.86	NA	2.71
Debt/Capital	92.63%	49.26%	42.00%	65.99%	49.26%	68.84%
Net Margin	27.22%	12.12%	10.40%	21.56%	83.81%	-1.55%
Return on Equity	56.28%	3.76%	14.99%	7.72%	17.35%	-1.03%
Sales/Assets	0.15	0.11	0.50	0.11	0.10	0.09
Projected Sales Growth (F1/F0)	-19.67%	-6.88%	0.35%	-11.65%	-6.98%	-8.04%
Momentum Score	F	-	-	D	D	F
Daily Price Change	-2.81%	-0.28%	-0.29%	-1.40%	-0.47%	-3.08%
1-Week Price Change	9.77%	2.98%	1.73%	5.35%	3.58%	9.59%
4-Week Price Change	27.13%	14.70%	4.56%	5.65%	8.86%	35.39%
12-Week Price Change	22.29%	19.90%	11.59%	7.77%	14.79%	48.91%
52-Week Price Change	-38.96%	-27.24%	5.88%	-29.34%	-27.77%	-56.11%
20-Day Average Volume (Shares)	6,741,652	1,041,701	1,937,653	1,036,913	4,227,354	7,691,799
EPS F1 Estimate 1-Week Change	-0.07%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-0.96%	0.00%	0.00%	-0.19%	0.00%	0.12%
EPS F1 Estimate 12-Week Change	-5.52%	-2.02%	3.80%	-1.10%	-2.40%	-7.17%
EPS Q1 Estimate Monthly Change	-1.85%	0.00%	0.00%	-0.76%	1.06%	0.60%

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	F
Momentum Score	F
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.