

Sensata Technologies (ST)

\$44.26 (As of 09/17/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/03/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: D

Momentum: A

Summary

Sensata primarily benefits from cost-effective operations backed by greater pricing flexibility. With an accretive customer base, the company invests in innovative technologies to address complex engineering requirements. Performance Sensing is the primary source of long-term growth as it generates majority of revenues from the automotive sensor market. Diverse relationships and robust innovation capabilities are key growth factors. However, severe market contraction due to COVID-19 pandemic and forex woes hampered business operations. Consequently, the company withdrew financial guidance for full year 2020. Sensata is susceptible to seasonality factors, which are likely to dent profitability. High debt load and stiff competition from low-cost suppliers primarily based in China remain other headwinds for the company.

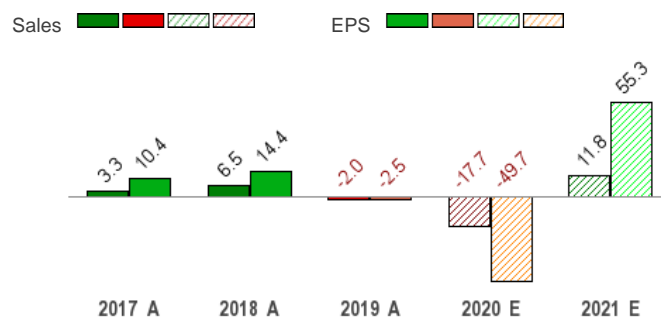
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$54.72 - \$18.25
20-Day Average Volume (Shares)	891,176
Market Cap	\$7.0 B
Year-To-Date Price Change	-17.8%
Beta	1.64
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Instruments - Control
Zacks Industry Rank	Top 26% (66 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	-1.2%
EPS F1 Estimate 4-Week Change	2.7%
Expected Report Date	11/04/2020
Earnings ESP	12.4%
P/E TTM	17.7
P/E F1	24.7
PEG F1	2.2
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	790 E	810 E	795 E	799 E	3,177 E
2020	774 A	577 A	730 E	759 E	2,841 E
2019	871 A	884 A	850 A	847 A	3,451 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.75 E	\$0.71 E	\$0.75 E	\$2.78 E
2020	\$0.53 A	\$0.18 A	\$0.47 E	\$0.62 E	\$1.79 E
2019	\$0.85 A	\$0.93 A	\$0.90 A	\$0.89 A	\$3.56 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/17/2020. The reports text is as of 09/18/2020.

Overview

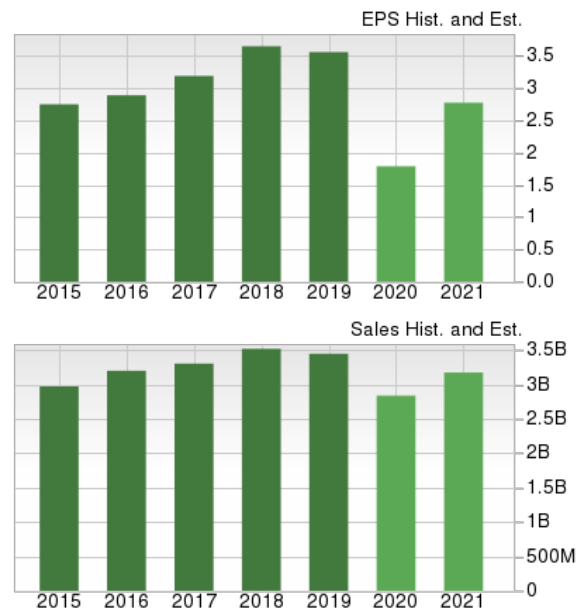
Headquartered in Attleboro, Massachusetts, Sensata Technologies is a global industrial technology company that develops, manufactures and sells innovative sensor-based solutions. Markedly, it is considered as one of the leading suppliers of electrical protection and power management solutions. With an industry rich experience of more than 100 years, the company has its business centers in 11 countries, including Japan, China, Korea and Malaysia, and operates under 14 other brand names apart from Sensata.

Known as the pioneer in mission critical solutions, Sensata has a diversified portfolio of personalized and unique sensor-rich applications from automotive braking systems to aircraft flight controls that are utilized ubiquitously. These sensors are specifically designed to address complex engineering and operating performance requirements that help customers solve significant challenges in industrial, heavy vehicle and off-road as well as aerospace industries. With more than 1.1 billion of Sensata devices shipped annually across the globe, the company focuses on producing equipment that are cleaner, safer, connected and efficient.

Notably, Sensata classifies its reporting segments into Performance Sensing (66.8% of total revenues in second-quarter 2020) and Sensing Solutions (33.2%).

Performance Sensing: This segment is primarily involved in the production of pressure sensors and are used in mission-critical systems and subsystems of automobiles as well as off-road equipment. Considered as one of the largest manufacturers of sensors and sensor-based solutions in key markets, it caters to a wide array of customers ranging from construction and agriculture OEMs to various aftermarket distributors.

Sensing Solutions: This segment is considered to be a major player in industrial sensing, electrical and power protection industries globally. It is engaged in the production and development of a broad portfolio of control and application-specific sensor devices that are used in factory automation and water management markets. It caters to a wide range of customers ranging from Tier 1 aerospace and compressor suppliers to commercial and industrial manufacturers in medical, telecom, semiconductor and material handling industries.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Being the leading provider of mission critical solutions, Sensata benefits from cost-effective operations. The company offers a streamlined set of products, which helps in eliminating redundant costs and gives greater pricing flexibility. It invests in cutting-edge technology that enables the hybrid and electric vehicles to be more efficient, cost effective, robust and safe. Markedly, Sensata's sensing solutions business has a strong product portfolio and greater scale to capitalize on attractive opportunities in the \$24.1-billion global automotive sensor market. Moreover, the company believes that its evolving portfolio and accretive customer base serve as the cornerstone for its long-term growth across a diverse set of markets.
- ▲ Catering to a wide range of customers from Tier 1 compressor suppliers to industrial manufacturers, Sensata shares a long-standing relationship with a geographically diverse base of multinational companies and leading original equipment manufacturers. It develops mission-critical sensor-rich solutions to address both current and evolving technological needs. The company primarily relies on third-party distributors to sell its products across the globe. Sensata's strong relationships combined with robust innovation capabilities serve as its key growth drivers. With these capabilities, the company is focused on establishing and optimizing a highly-efficient global manufacturing as well as supply chain network that will aid in generating positive cash flow with an accretive customer base.
- ▲ Sensata has successfully implemented an effective capital deployment strategy that has boosted shareholders' value and provided greater operating flexibility. With diligent execution of operations, the company has been considerably outgrowing its end markets. Moreover, its strong balance sheet position enables Sensata to effectively capture M&A cost synergies with accelerated growth in industrial, aerospace and Heavy Vehicle & Off Road (HVOR) industries. Markedly, Sensata has completed 11 acquisitions till date, which have enabled it to add new capabilities in wireless sensing and software, while generating stronger returns for shareholders. All these factors bode well for its long-term growth.

Sensata's cost-effective operations, robust M&A strategies and augmented geographical presence makes it poised to generate positive cash flow for long-term growth.

Reasons To Sell:

- ▼ Sensata offers its services in a highly-competitive environment and utilizes a broad range of raw materials for the manufacture of products in both Performance Sensing and Sensing Solutions segment. In the last reported quarter, Performance Sensing revenues declined 40.2% to \$385.2 million from \$644.5 million in the year-ago quarter due to end-market production decline and foreign exchange setbacks. Also, Sensing Solutions revenues declined 20% to \$191.3 million from \$239.2 million in the year-ago quarter mainly due to adversities stemming from COVID-19 pandemic. The price and availability of the raw materials are subject to significant volatility, which includes trade barriers, tariffs, foreign exchange fluctuations and interruptions in production facilities by suppliers. This, in turn, raises the price of such products, which makes it difficult for the company to acquire new customers and retain the existing relationships. In the last reported quarter, service revenues declined 34.8% to \$576.5 million from \$883.7 million in the year-ago quarter due to foreign exchange fluctuations and end-market contraction thanks to COVID-19 pandemic. Notably, cost of goods sold witnessed a CAGR of 10.3% from 2013 to 2019. Hence, a considerable change in price can apparently increase its operating costs and affect its scale of operations.
- ▼ Sensata's business is susceptible to seasonality factors as well as numerous global and local risks that could potentially lower revenues and affect profitability. The markets in which Sensata operates are primarily impacted by dynamic technological advancements. As a result, the company is under constant pressure to continually design, develop, manufacture and sell innovative products as well as modify existing products to address the rapidly changing customer requirements in the global arena. Also, Sensata constantly evaluates the strategic fit of specific businesses that may result in numerous acquisitions and divestitures. However, these restructuring options might affect the operational activities and thereby threaten its financial condition. Notably, Sensata operates in markets that are highly susceptible to competitive pressures and are under constant threat by low-cost suppliers, primarily based in China. Consequently, any change in prices might result in reduced demand of Sensata's products globally. Owing to its international exposure, the company is exposed to foreign exchange fluctuations that could negatively impact its cash flow position. Further, its high debt-load could also restrict the company from making further strategic acquisitions and limit its ability to repurchase shares, thereby affecting its financial condition in the days to come.
- ▼ Due to global uncertainty owing to coronavirus pandemic, Sensata has withdrawn its 2020 guidance. Nevertheless, the company provided guidance for third-quarter 2020. The company expects revenues in the range of \$675-\$705 million. Adjusted earnings per share are estimated in the band of 38-46 cents, while adjusted net income is expected in the range of \$60-\$74 million. The Zacks Consensus Estimate for the company's current-year earnings has been revised 56.6% downward in the past year to \$1.74, while that for the next year declined 37.1% over the same time frame to \$2.73, thereby reinforcing negative investor sentiments.
- ▼ As of Jun 30, the company had \$1,242.9 million in cash and equivalents with \$3,220.8 million of long-term debt compared with the respective tallies of \$803 million and \$3,220.4 million at the end of the prior quarter. The management has temporarily suspended the share repurchase program in a bid to improve Sensata's financial flexibility. The company had \$16.1 million under the revolving credit facility. Also, to continue its business operations amid COVID-19 pandemic, the company leveraged revolving credit facility to enhance its liquidity position. However, the stock looks more leveraged than the sub-industry. Sensata currently has a debt-to-capital ratio of 0.60 compared with 0.53 of the sub-industry. This shows that the company has a debt-laden balance sheet and is unlikely to clear its debt in the near future due to disruptions caused by COVID-19 pandemic. The times interest earned has decreased steadily over the past few quarters to 1.9 at present relative to 2.7 for the sub-industry. This shows that the company is less likely to clear its debt.

Intense competitive pressures and volatile factors such as trade barriers remain major headwinds for Sensata's top-line growth. Also, higher operating costs and debt level dent its profitability.

Last Earnings Report

Sensata Q2 Earnings Beat Estimates, Revenues Down Y/Y

Sensata reported tepid second-quarter 2020 financial results, with the top line lagging the Zacks Consensus Estimate and the bottom line surpassing the same. Further, lower segmental revenues due to COVID-19 pandemic, foreign exchange headwinds, logistic challenges and productivity woes affected Sensata's performance.

Bottom Line

On an adjusted basis, quarterly net income was \$27.7 million or 18 cents per share compared with \$150.4 million or 93 cents per share in the year-ago quarter. The year-over-year decline was primarily caused by lower revenues. However, the bottom line surpassed the consensus estimate by 2 cents.

On a GAAP basis, net loss in the June quarter came in at \$42.5 million or a loss of 27 cents per share against net income of \$73.4 million or 45 cents per share in the prior-year quarter. The significant year-over-year deterioration was driven by top-line contraction due to lower demand amid the coronavirus-induced turmoil.

Revenues

Quarterly service revenues amounted to \$576.5 million compared with \$883.7 million in the year-ago quarter. The 34.8% year-over-year decline was mainly due to foreign exchange fluctuations and end-market contraction due to COVID-19 pandemic. The top line missed the consensus estimate of \$584 million. Further, organic revenues declined 33.9% primarily due to the adverse impact of the virus outbreak.

Quarterly Segment Results

Performance Sensing revenues declined 40.2% to \$385.2 million from \$644.5 million in the year-ago quarter. Accounting 66.8% of total revenues, the decline was primarily due to productivity headwinds and foreign exchange setbacks. Although the segment witnessed HVOR market outgrowth, its operating income declined 65% to \$60.8 million from \$173.4 million due to declining revenues and lower production levels in manufacturing facilities owing to COVID-19 adversities. However, it was partially offset by short-term cost-reduction initiatives.

Sensing Solutions revenues declined 20% to \$191.3 million from \$239.2 million in the year-ago quarter. Accounting 33.2% of total revenues, the year-over-year decline was led by adverse impact of the virus outbreak. Also, industrial and aerospace businesses declined 14.6% and 39.4% organically coupled with OEM production delays in a weaker aftermarket. Further, the segment was hurt by forex woes. Its operating income declined 28.2% to \$55.8 million from \$77.7 million mainly due to lower revenues and reduced productivity. Nevertheless, the acquisition of PRECO Electronics reinforces Sensata's image and object sensing capabilities.

Other Details

Total operating expenses were \$578.4 million compared with \$736.3 million in the prior-year quarter, primarily due to lower cost of revenue and R&D expenses. Adjusted operating income was \$75 million, down 63.4% from \$205.1 million in the year-ago quarter. The year-over-year downturn was caused by underutilized manufacturing capacity, higher logistics costs, higher costs to safeguard employees, temporary salary reductions and lower revenues due to end-market downfall caused by COVID-19 pandemic. Adjusted gross profit in the quarter declined 47.2% to \$165.4 million due to lower revenues. Adjusted EBITDA totaled \$104.5 million compared with \$231.2 million a year ago.

During the quarter, the company incurred restructuring charges of \$26 million associated with workforce reduction initiatives.

Cash Flow & Liquidity

In the first six months of 2020, Sensata generated \$170.3 million of net cash from operating activities compared with \$252.2 million in the prior-year period. Free cash flow came in at \$113.6 million for the first half of the year compared with \$170.6 million in the year-ago period.

As of Jun 30, the company had \$1,242.9 million in cash and equivalents with \$3,220.8 million of net long-term debt. Impressively, the company had \$16.1 million under the revolving credit facility. As part of its share repurchase program, Sensata repurchased nearly 0.9 million shares for a total consideration of \$35.2 million. However, on Apr 2, 2020, the management took the decision of temporarily suspending its share repurchase program in a bid to improve financial flexibility.

Q3 Guidance Issued & 2020 Outlook Withdrawn

Sensata has issued guidance for third-quarter 2020. The company expects revenues in the range of \$675-\$705 million. Adjusted earnings per share is estimated in the band of 38-46 cents, while adjusted net income is expected to be in the vicinity of \$60-\$74 million.

Sensata has undertaken several cost-saving initiatives to enhance its financial flexibility amid the global pandemic. These positive undertakings are expected to result in cost savings of nearly \$60-\$65 million in 2021. Also, restructuring charges are estimated to be in the range of \$43-\$49 million.

With global economies gradually stabilizing in Europe, Asia and the United States, Sensata has witnessed a considerable growth in its monthly deliveries and order rates. However, given the macroeconomic uncertainties pertaining to the COVID-19 pandemic, Sensata is maintaining a skeptical approach and has not provided a definite financial outlook for 2020. With a flexible cost structure, Sensata is efficiently managing its working capital and leveraged revolving credit facility to enhance its liquidity position. It has also minimized its capital expenditures to keep a track on its operating expenses. With an optimistic view, Sensata is committed to align its costs with normalized demand levels in order to serve the requirements of customers amid this crisis.

Quarter Ending	06/2020
Report Date	Jul 28, 2020
Sales Surprise	-1.20%
EPS Surprise	12.50%
Quarterly EPS	0.18
Annual EPS (TTM)	2.50

Recent News

On Sep 9, 2020, Sensata has raised its guidance for third-quarter 2020. The company currently expects revenues in the range of \$735-\$765 million, up from \$675-\$705 million anticipated earlier. Adjusted earnings per share is estimated in the band of 50-56 cents (prior expectations 38-46 cents), while adjusted net income is expected to be in the vicinity of \$79-\$89 million (prior expectations \$60-\$74 million). The improved guidance is driven by increased business activities, especially in Automotive business in Europe and the United States, translating into higher orders and deliveries within the quarter.

On Apr 3, 2020, Sensata announced that in response to the COVID-19 pandemic, the company has withdrawn its guidance, stated previously, for first-quarter and full year 2020 earnings. The industrial technology company, further communicated that it will not be able to quantify its business impact amid this hour of crisis. However, apart from ensuring the safety of the employees, Sensata intends to undertake necessary steps to ramp down production volumes and reduce operating costs to enhance its financial flexibility.

Valuation

Sensata's shares are down 13.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 11.5%, while stocks in the Zacks Computer and Technology sector are up 30.9% in the same time frame.

The S&P 500 index is up 12% in the past year.

The stock is currently trading at 2.79X trailing 12-month book value, which compares to 3.05X for the Zacks sub-industry, 7.44X for the Zacks sector and 5.77X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 5.83X and as low as 1.43X, with a 5-year median of 3.49X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$47 price target reflects 16.84X trailing 12-month book value.

The table below shows summary valuation data for ST

Valuation Multiples - ST					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	2.79	3.05	7.44	5.77
	5-Year High	5.83	4.25	8.27	6.17
	5-Year Low	1.43	1.9	4.1	3.75
	5-Year Median	3.49	3.45	5.56	4.84
P/E F12M	Current	17.75	21.88	25.68	22.15
	5-Year High	20.07	21.88	27.95	23.44
	5-Year Low	6.48	12.28	16.75	15.26
	5-Year Median	12.99	15.74	19.93	17.63
P/S F12M	Current	2.26	2.34	4.16	4.1
	5-Year High	2.9	2.42	4.49	4.29
	5-Year Low	1.05	1.53	2.7	3.11
	5-Year Median	2.2	2.04	3.43	3.66

As of 09/17/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Allied Motion Technologies, Inc. (AMOT)	Outperform	2
Watts Water Technologies, Inc. (WTS)	Outperform	1
Badger Meter, Inc. (BMI)	Neutral	3
Roper Technologies, Inc. (ROP)	Neutral	2
Transcat, Inc. (TRNS)	Neutral	3
Woodward, Inc. (WWD)	Neutral	3
Xylem Inc. (XYL)	Neutral	3
Thermon Group Holdings, Inc. (THR)	Underperform	4

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

Industry Comparison Industry: Instruments - Control				Industry Peers		
	ST	X Industry	S&P 500	BMI	WTS	WWD
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	B	-	-	C	C	B
Market Cap	6.96 B	376.13 M	23.91 B	1.86 B	3.47 B	5.32 B
# of Analysts	8	2	13.5	2	7	6
Dividend Yield	0.00%	0.00%	1.62%	1.13%	0.89%	0.38%
Value Score	B	-	-	D	F	B
Cash/Price	0.19	0.09	0.07	0.05	0.05	0.02
EV/EBITDA	10.99	11.57	13.24	20.67	14.64	11.74
PEG F1	2.23	3.20	2.97	NA	3.83	1.68
P/B	2.79	2.95	3.29	5.46	3.52	2.78
P/CF	8.35	14.98	12.82	26.11	18.78	11.56
P/E F1	24.64	31.96	21.49	42.65	30.67	22.90
P/S TTM	2.28	1.85	2.52	4.48	2.29	1.97
Earnings Yield	4.04%	3.13%	4.40%	2.34%	3.26%	4.36%
Debt/Equity	1.30	0.32	0.70	0.00	0.27	0.38
Cash Flow (\$/share)	5.30	2.22	6.93	2.45	5.48	7.38
Growth Score	D	-	-	B	C	B
Historical EPS Growth (3-5 Years)	5.10%	13.64%	10.41%	13.89%	13.39%	16.60%
Projected EPS Growth (F1/F0)	-49.75%	-24.47%	-4.73%	-6.83%	-17.52%	-23.67%
Current Cash Flow Growth	-3.40%	4.02%	5.26%	3.00%	5.03%	26.08%
Historical Cash Flow Growth (3-5 Years)	5.87%	6.29%	8.49%	8.54%	6.29%	13.42%
Current Ratio	2.46	3.13	1.35	3.56	2.39	2.31
Debt/Capital	56.58%	24.33%	42.95%	0.00%	21.04%	27.63%
Net Margin	2.96%	4.18%	10.25%	11.15%	7.67%	9.25%
Return on Equity	15.56%	12.03%	14.66%	13.93%	13.15%	15.51%
Sales/Assets	0.44	0.78	0.50	0.97	0.89	0.68
Projected Sales Growth (F1/F0)	-17.68%	-3.52%	-1.43%	-5.24%	-9.08%	-14.29%
Momentum Score	A	-	-	D	B	B
Daily Price Change	0.34%	0.09%	-0.48%	0.19%	0.94%	0.65%
1-Week Price Change	0.35%	-0.32%	-1.87%	-0.64%	1.57%	-2.67%
4-Week Price Change	11.01%	-0.35%	0.96%	-0.70%	9.48%	3.90%
12-Week Price Change	25.17%	19.74%	8.69%	4.90%	29.78%	14.45%
52-Week Price Change	-13.72%	2.59%	1.36%	17.14%	7.08%	-21.78%
20-Day Average Volume (Shares)	891,176	79,770	1,917,443	134,007	196,179	249,390
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.65%	0.00%	0.00%	0.00%	4.21%	0.00%
EPS F1 Estimate 12-Week Change	2.51%	2.51%	4.14%	-5.36%	17.43%	5.62%
EPS Q1 Estimate Monthly Change	9.63%	0.00%	0.00%	0.00%	6.91%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.