

Sysco Corporation (SYN)

\$77.65 (As of 03/24/21)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

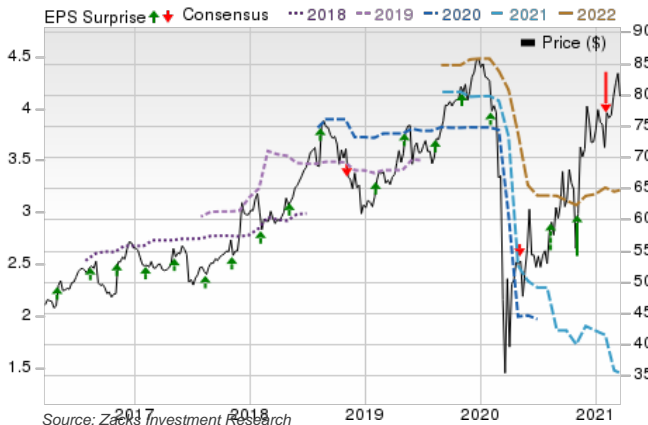
Growth: C

Momentum: A

Summary

Sysco has outpaced the industry in the past three months. The stock got a boost despite posting soft second-quarter fiscal 2021 results — wherein the top and bottom lines fell year over year and lagged the Zacks Consensus Estimate. Management noted that Sysco's customers witnessed increased operational constraints, mainly in December — when restaurant traffic and sales decreased. The company's international unit has been hit hard due to tougher restrictions in regions like Europe, which is likely to remain in different degrees of lockdown for a while. Nonetheless, Sysco has been gaining on efforts to manage business amid the pandemic. To this end, the company is focused on helping out its customers. Also, the company is on track with transformation strategy, as part of which the Sysco Shop digital order platform is doing well.

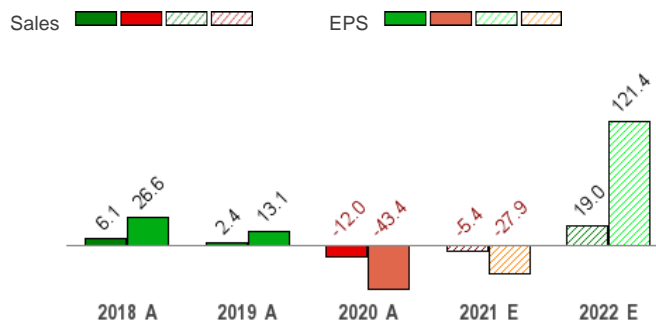
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$83.97 - \$37.20
20-Day Average Volume (Shares)	2,568,771
Market Cap	\$39.6 B
Year-To-Date Price Change	4.6%
Beta	1.44
Dividend / Dividend Yield	\$1.80 / 2.3%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 35% (166 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-51.4%
Last Sales Surprise	-2.5%
EPS F1 Estimate 4-Week Change	-1.8%
Expected Report Date	05/04/2021
Earnings ESP	6.0%
P/E TTM	115.9
P/E F1	53.6
PEG F1	5.4
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	15,123 E	14,521 E	14,484 E	15,188 E	59,552 E
2021	11,777 A	11,559 A	12,184 E	14,807 E	50,030 E
2020	15,303 A	15,025 A	13,699 A	8,867 A	52,893 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.84 E	\$0.78 E	\$0.79 E	\$0.94 E	\$3.21 E
2021	\$0.34 A	\$0.17 A	\$0.21 E	\$0.75 E	\$1.45 E
2020	\$0.98 A	\$0.85 A	\$0.45 A	-\$0.29 A	\$2.01 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/24/2021. The report's text and the analyst-provided price target are as of 03/25/2021.

Overview

Headquartered in Houston, TX, **Sysco Corporation**, through its subsidiaries, markets and distributes a range of food and related products primarily to the foodservice or food-away-from-home industry. The company provides products and related services to approximately 425,000 customers, including restaurants, health care and educational facilities, lodging establishments and other foodservice customers.

The company's distribution facilities are located throughout the United States, Bahamas, Canada, Republic of Ireland and Northern Ireland. In fiscal 2017 that ended July 1, 2017, the company generated sales of more than \$55 billion.

In the foodservice industry, Sysco caters to restaurants, hospitals and nursing homes, hotels and motels, schools and colleges and industrial caterers among others. Some of the products distributed by the company include a full line of canned and dry foods; beverage products; fresh meat and sea foods; imported specialties; a full line of frozen foods (like meat, fruits, vegetables, desserts) and more.

Additionally, Sysco supplies non-food items like paper products (disposable plates, napkins etc), cookware (pots and utensils), cleaning supplies, restaurant and kitchen supplies and tableware (like silverware).

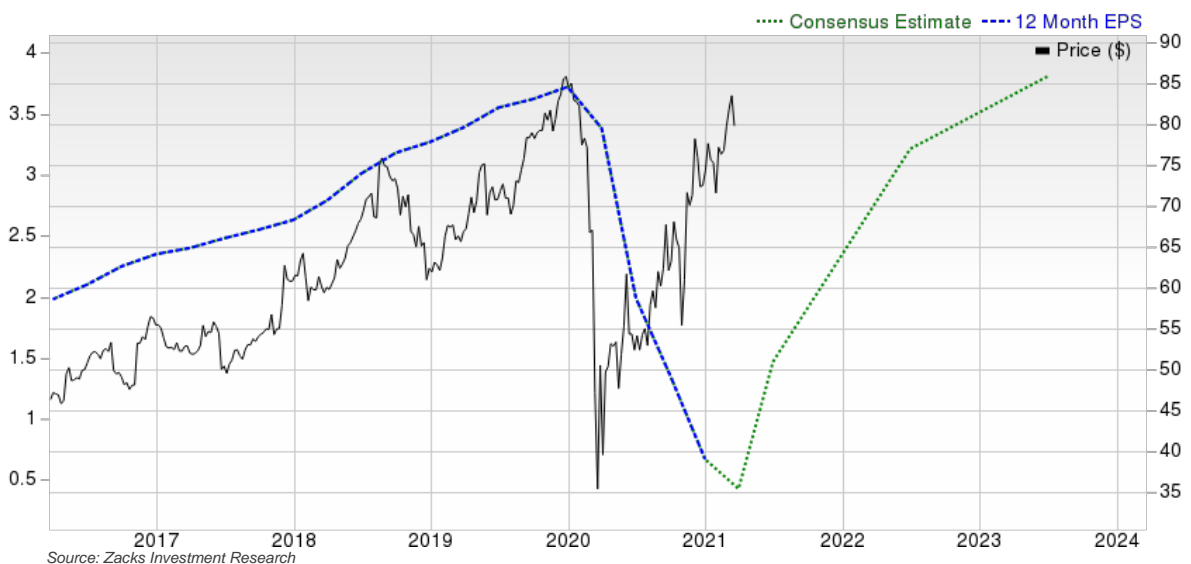
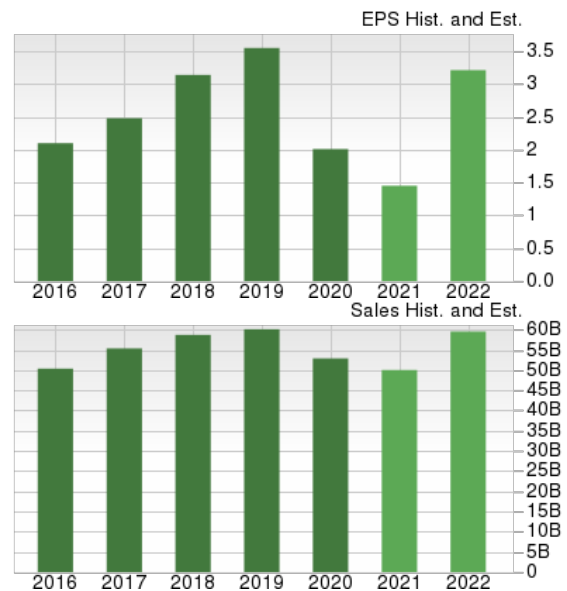
The company reports through these operating segments:

U.S. Foodservice Operations primarily includes U.S. broadline operations, Specialty Meat and FreshPoint (the specialty produce companies). In second-quarter fiscal 2021, the segment contributed roughly 68.5% to total revenues.

International Foodservice Operations, which includes Canada, Europe, Bahamas, International Food Group, and the joint ventures in Mexico and Costa Rica. In second-quarter fiscal 2021, the segment contributed roughly 17% to total revenues.

SYGMA: The company's customized distribution subsidiary. In second-quarter fiscal 2021, the segment contributed approximately 13% to total revenues.

Other: This mainly includes hotel supply operations and Sysco Labs.



Reasons To Buy:

▲ **Supporting Customers Amid Crisis:** Shares of Sysco have gained 5.2% in the past three months compared with the industry's growth of 4.4%. The company remains on track with its business transformation as it navigates through the pandemic. Sysco is focused on enhancing services to customers, and efforts to differentiate itself from its competitors. It is gearing up to meet the anticipated demand increase and management stated that the company is well placed for a solid rebound. Sysco has been committed toward supporting the company's customers amid the crisis, as part of which its Restaurants Rising program is worth noting. In connection with this, management announced plans to remove minimum delivery requirements in November 2020. Further, the company, in its second-quarter earnings call, said that it doesn't intend to remove delivery service days in the second wave of the pandemic. Though these actions might inflate expenses for the company, it is likely to support customers' operations.

Sysco is focused on transformation initiatives. The company is working toward becoming more digitally oriented, concentrating on improving sales model, regionalizing U.S. operations and cutting costs.

Apart from this, the company's sales consultants are utilizing the Restaurants Rising program to help Sysco draw new customers, alongside retaining the existing ones. Incidentally, sales consultants are aiding customers with establishing touchless menus, optimizing delivery and takeout options, and assisting with marketing plans among other services. Markedly, the additional closure rate of Sysco's customers is 50% below the industry's average, per the second-quarter earnings call. Apart from helping customers, Sysco is focused on investing in its people — as part of which it is purposely retaining the company's drivers even after witnessing volume declines in December. This is likely to ensure their availability at the time of volume recovery. Again, this is likely to flare up the company's transportation cost in the short term but is likely to be beneficial over the long run. Sysco is committed toward working capital investments as part of its efforts to stay well placed for business recovery. Lastly, the company is also making technological investments to enhance customers' experience. This includes Sysco Shop technology, the company's new pricing software as well as enhancements to supply-chain systems.

▲ **Transformation Initiatives on Track:** Sysco is focused on its transformation initiatives. To this end, the company has been committed toward becoming more digitally oriented, as part of which its main priority is to enhance its Sysco Shop digital order platform among other efforts. The proportion of orders placed via Sysco Shop kept rising considerably throughout the second quarter. Also, the company's new pricing software is underway in the first test market, with plans to be rolled out across the country. Moving on, Sysco has been on track with its next priority, which is concentrating on transforming its sales model and making it more customer-centric. This includes transforming sales structure to be more focused, coordinating sales force incentives more closely with the company's business goals and enhancing partnership of sales teams across its different business lines. Management said that its sales transformation process is working well, with team-based selling gaining traction. Finally, Sysco concluded regionalizing its field leadership structure at the second-quarter beginning, which is likely to enhance the company's efficiency.

Apart from this, Sysco has been focused on removing structural fixed costs. The company is making solid progress with regard to eliminating annualized permanent fixed costs of about \$350 million from its business in fiscal 2021. Apart from these savings, management had earlier outlined other cost-reduction opportunities which are expected to deliver savings from fiscal 2022 onwards.

▲ **Financial Analysis:** Sysco remains solid from the balance-sheet view point. As of the end of the second quarter of fiscal 2021, the company had cash balance of \$5.8 billion, along with access to available borrowing capacity of \$2 billion. Certainly, Sysco is in good shape from the liquidity perspective to navigate through the current situation. We note that Sysco's long-term debt (including operating lease liabilities) came in at nearly \$13 billion as of the end of the second quarter of fiscal 2021 (Dec 26, 2020), almost in line with the preceding quarter's level. The company's cash balance (of \$5.8 billion) remains sufficient to fund its short-term debt (including operating lease liabilities) of \$1.5 billion.

Additionally, Sysco recently announced a quarterly cash dividend of 45 cents a share, which is payable on Apr 23, 2021, to shareholders of record as of Apr 1. The company has a dividend yield of 2.2% and free cash flow yield of 3.2%. With an annual free cash flow return on investment of 10%, ahead of the industry's 7.3%, the dividend payment is likely to be sustainable.

▲ **SYGMA Unit Strong:** Sysco's SYGMA segment has been performing well, of late. Sales in this unit rose 4% to \$1.5 billion in the second quarter of fiscal 2021, on the back of the success of national and regional quick service restaurant catering to drive-through traffic. Notably, this represented the second straight quarter of sales improvement in this unit. Management continues to witness new business wins in this unit and remains encouraged about the overall growth. Moreover, segment gross profit jumped 4.1% and the adjusted operating income grew 5% in the fiscal second quarter. Continuation of such trends is likely to be a driving factor for Sysco.

▲ **Strong Business Portfolio:** Sysco has a portfolio of businesses which comprise broadline, specialty meat, chain restaurant distribution, specialty produce, hotel amenities, as well as specialty import and export which serve customers across a wide array of business segments. The company also has a sales force of marketing associates and multi-regional presence in the United States and Canada. We believe that the company's efforts to explore opportunities to provide new and improved products, technologies and services to its customers will help it to retain customers and profitably accelerate sales from both existing and new customers. Further, the company's continued focus on providing value to its local customers through innovative product offerings, value-added services, and improved e-commerce capabilities has enabled growth with local customers consistently.

Reasons To Sell:

▼ **COVID-19 Hurts Q2 Results:** Sysco has been bearing the brunt of coronavirus-related hurdles. This continued into the fiscal second quarter as well, wherein both top and bottom lines deteriorated year over year and missed the Zacks Consensus Estimate. The company posted adjusted earnings of 17 cents per share, which fell short of the Zacks Consensus Estimate of 35 cents. Moreover, the bottom line slumped 80% from the year-ago period figure. This year-over-year deterioration can be attributed to reduced sales and margins. Incidentally, Sysco reported sales of nearly \$11,559 million, which slid 23.1% year over year as well as missed the Zacks Consensus Estimate of \$11,853 million. Sales declined in both — the U.S. Foodservice and International Foodservice segments. Certainly, lower volumes in the food-away-from-home channel have been a deterrent. Increased social distancing has had a considerable adverse impact on the company's restaurant, education and hospitality customer segments.

The company has been bearing the brunt of coronavirus-related hurdles. This was also witnessed in second-quarter fiscal 2021 results, wherein both top and bottom lines deteriorated year over year.

Management noted that Sysco's customers witnessed increased operational constraints during the fiscal second quarter, most significantly in December — when restaurant traffic and sales decreased. Also, the company's international unit has been battered hard due to tougher limitations in the countries where Sysco operates. Businesses in Europe, Latin America and Canada have been majorly hit by the recent shutdowns, as they are tougher than the U.S. lockdowns. Incidentally, Europe underwent a lockdown in December 2020 and is anticipated to continue being in different degrees of lockdown for a major part of the second half. Management, on its second-quarter call, stated that these hurdles will be overcome week by week and region by region in the next few quarters — until the vaccine is extensive and there is stable business recovery.

▼ **Food Cost Inflation in the U.S. Foodservice Unit:** Sysco has been encountering product cost inflation in the U.S. Foodservice unit for a while now. During the second quarter of fiscal 2021, U.S. Broadline saw a 1.6% product cost inflation, mainly due to dairy and poultry categories, as well as paper and disposables. Gross profit decreased 23.9% to \$1,559.3 million, while gross margin remained stable at 19.68%. Persistence of such trends poses threats to margins.

▼ **Stiff Competition:** Sysco operates in a highly fragmented and competitive foodservice distribution industry. Thus, the company faces competition from various local, regional, multi-regional distributors and specialty players on grounds of lower cost advantage, pricing, product assortment, geographic reach and responsiveness to changing consumer needs among others.

Volatile and price-sensitive demand for food-away-from-home products also restricts the company to undertake price increases, despite rising input costs and inflationary trends in the industry. Additionally, rising competition from non-traditional players like club stores or commercial wholesale markets, which have a lower cost structure, creates pricing pressure and remains a threat to Sysco's margins.

▼ **Currency Volatility:** Sysco generates solid business from its international operations, which are spread across Canada, Europe and Latin America. Evidently, sales from its International Foodservice operations constituted roughly 17% of the company's total revenues in the second quarter of fiscal 2021. Thus, any unfavorable currency translations may hurt the company's performance.

Last Earnings Report

Sysco's Q2 Earnings & Sales Lag Estimates, Decline Y/Y

Sysco Corporation reported second-quarter fiscal 2021 results, wherein, both top and bottom lines deteriorated year over year and missed the Zacks Consensus Estimate. We believe that the company's performance continued to bear the brunt of the coronavirus mayhem.

The company posted adjusted earnings of 17 cents per share, which fell short of the Zacks Consensus Estimate of 35 cents. Moreover, the bottom line slumped 80% from the year-ago period figure. This year-over-year deterioration can be attributed to reduced sales and margins.

The global food product maker and distributor reported sales of nearly \$11,559 million, which slid 23.1% year over year as well as missed the Zacks Consensus Estimate of \$11,853 million. Foreign currency had a favorable impact of 0.4% on the top line.

Gross profit in the quarter declined 25.8% to \$2,098.5 million and the gross margin contracted 67 basis points (bps) to 18.15%. Foreign currency had a positive impact of 0.4% on gross profit. Adjusted operating income of \$234.1 million plummeted 62.7% year on year and the respective margin shrunk 215 bps to 2.03%.

Segment Details

U.S. Foodservice Operations: During the reported quarter, segment sales declined 23.9% to \$7,924.1 million. Local case volumes within U.S. Broadline operations fell 19.7% (including organic sales decline of 19.7%) and total case volumes dropped 23.7% (wherein organic sales declined 23.7%). Gross profit decreased 23.9% to \$1,559.3 million, while gross margin remained unchanged at 19.68%. U.S. Broadline saw a 1.6% product cost inflation, mainly due to dairy and poultry categories, as well as paper and disposables.

International Foodservice Operations: Segment sales plunged 31.9% to \$1,967.8 million in the fiscal second quarter. Foreign-exchange fluctuations positively impacted segment sales by 1.8%. On a constant-currency (cc) basis, sales fell 33.8% to \$1,914.4 million. At cc, gross profit declined 38.2% to \$362.4 million and gross margin fell 135 bps to 18.93%. Currency movements aided the segment's gross profit by 2%.

SYGMA sales grew 4.4% to \$1,520.4 million. Gross profit rose 4.1% to \$129.3 million, whereas the gross margin contracted 3 bps to 8.5%.

Other segment sales tumbled 44.8% to \$146.6 million.

Other Updates

Sysco ended the fiscal second quarter with cash and cash equivalents of \$5,767 million, long-term debt of \$12,463.3 million and total shareholders' equity of \$1,426.8 million. In the first 26 weeks of fiscal 2021, Sysco generated cash flow from operations of \$936.7 million and free cash flow amounted to \$788.2 million.

Quarter Ending **12/2020**

Report Date	Feb 02, 2021
Sales Surprise	-2.48%
EPS Surprise	-51.43%
Quarterly EPS	0.17
Annual EPS (TTM)	0.67

Recent News

Sysco Adds New Foodie Solutions Toolkits, Aids Customers - Mar 18, 2021

Sysco launched three new toolkits under the Foodie Solutions platform. These include Brunch, Protecting Your Business and Turning Your Tables. We note that the Brunch toolkit includes famous brunch and take-out offerings like Mother's Day "Berry Me in Chocolate" strawberry kit and Bloody Mary cocktail kits. Apart from these concepts, it also includes "Sea-cuterie boards" — a trend that took off in 2020. Further, the Protecting Your Business toolkit includes resources related to tamper-evident packaging and labels, to ensure delivery and carryout meals are safe. Lastly, Turning Your Tables toolkit provides information related to technological and offline methods to ensure maximum profitability and enhanced guest experience. This toolkit bodes well amid pandemic-led capacity restrictions in restaurants.

Sysco Announces Dividend - Feb 25, 2021

Sysco announced a quarterly cash dividend of 45 cents a share, which is payable on Apr 23, 2021, to shareholders of record as of Apr 1.

Sysco's Innovative Concepts to Aid Foodservice Operators – Feb 15, 2021

Sysco launched nine innovative concepts through its Cutting Edge Solutions platform. These newly-launched offerings from Sysco are aimed at providing foodservice operators with differentiated menu offerings, environmentally-friendly cleaning and beverage items as well as innovative meal solutions.

The Spring 2021 Cutting Edge Solutions products include On-Trend Plant-Based Vegetable Pastas, Labor-Saving Chicken Concepts, Latin-Inspired Innovation and Desserts with a Twist among others. Notably, plant-based pastas have gained popularity for diners who are looking for grain-free alternatives. The company's ready-to-serve Simply Plant-Based Vegetable Pastas are pre-cooked as well as provide impressive flavor and texture. Further, Sysco Imperial Shredded Chicken Tenderloins under its Labor-Saving Chicken Concepts are pre-cooked that can be used in a number of menu concepts. Impressively, the product provides heat-and-serve convenience thus eliminating the requirement of hand-shredding. This helps operators save labor and enhance profits. Under its Latin-Inspired Innovation concept the company offers Portico Classic Mexican Street Corn Breaded Shrimp. The product combines the differentiated flavors of Mexican street corn (elote) and shrimp.

Moving on, the Perfect Fries for Takeout and Delivery concept provides the Sysco Imperial Red Battered Jumbo Crinkle Cut Fries. This product gives a savory potato flavor coupled with striking visual appearance. Further, Better for the Environment concept includes sustainable and durable — Centra Smart Eco-Friendly Microfiber Towels —that are suitable for any foodservice application. Also, the Sustainable Agave Company Agave Straws are certified biodegradable and compostable.

Valuation

Sysco shares are up 4.6% in the year-to-date period and 45.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 4.4% and 0.3%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry went up 35.9% while the sector gained 27.5%.

The S&P 500 index is up 4.5% in the year-to-date period and 50.9% in the past year.

The stock is currently trading at 28.3X forward 12-month earnings, which compares to 19.47X for the Zacks sub-industry, 20.1X for the Zacks sector and 22.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.29X and as low as 7.81X, with a 5-year median of 20.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$82 price target reflects 29.72X forward 12-month earnings.

The table below shows summary valuation data for SY

Valuation Multiples - SY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.3	19.47	20.1	22.13
	5-Year High	32.29	22.91	22.4	23.8
	5-Year Low	7.81	14.75	16.52	15.3
	5-Year Median	20.11	18.53	19.53	17.9
P/S F12M	Current	0.7	1.74	10.66	4.52
	5-Year High	0.75	2.03	11.96	4.52
	5-Year Low	0.25	1.38	8.6	3.21
	5-Year Median	0.54	1.69	10.47	3.69
EV/EBITDA F12M	Current	15.34	12.7	35.6	17.22
	5-Year High	16.06	13.75	38.26	18.82
	5-Year Low	6.92	10.61	25.84	13.03
	5-Year Median	11.76	12.76	34.1	15.77

As of 03/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 35% (166 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
CONAGRA BRANDS (CAG)	Neutral	4
General Mills, Inc. (GIS)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
Mondelez International, Inc. (MDLZ)	Neutral	3
Post Holdings, Inc. (POST)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	3
United Natural Foods, Inc. (UNFI)	Neutral	2
Campbell Soup Company (CPB)	Underperform	3

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	SYN	X Industry	S&P 500	CPB	KHC	UNFI
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	2
VGM Score	B	-	-	B	A	A
Market Cap	39.63 B	4.19 B	28.51 B	14.78 B	46.76 B	1.86 B
# of Analysts	5	3	13	7	8	5
Dividend Yield	2.32%	0.00%	1.41%	3.03%	4.19%	0.00%
Value Score	B	-	-	B	B	A
Cash/Price	0.14	0.06	0.06	0.06	0.07	0.02
EV/EBITDA	25.16	14.44	15.86	13.08	21.83	7.81
PEG F1	5.38	3.51	2.30	5.82	2.94	NA
P/B	27.78	3.31	3.82	5.05	0.93	1.51
P/CF	18.15	12.59	15.83	12.02	10.66	2.07
P/E F1	53.32	20.65	21.27	15.90	14.70	9.78
P/S TTM	0.86	1.52	3.23	1.65	1.79	0.07
Earnings Yield	1.87%	4.13%	4.64%	6.29%	6.80%	10.21%
Debt/Equity	8.74	0.50	0.67	1.71	0.56	2.04
Cash Flow (\$/share)	4.28	2.58	6.78	4.06	3.59	15.91
Growth Score	C	-	-	C	B	A
Historical EPS Growth (3-5 Years)	-3.80%	1.77%	9.32%	-1.12%	-2.10%	0.28%
Projected EPS Growth (F1/F0)	-27.76%	14.39%	14.55%	3.97%	-9.68%	24.04%
Current Cash Flow Growth	-17.79%	1.83%	0.61%	7.36%	4.94%	31.69%
Historical Cash Flow Growth (3-5 Years)	5.26%	6.70%	7.32%	2.72%	10.20%	32.71%
Current Ratio	1.79	1.75	1.39	0.91	1.34	1.59
Debt/Capital	89.75%	34.52%	41.42%	63.07%	35.84%	67.12%
Net Margin	-0.74%	4.15%	10.59%	9.01%	1.36%	0.74%
Return on Equity	23.22%	10.61%	14.75%	37.35%	7.05%	20.33%
Sales/Assets	2.08	0.93	0.51	0.72	0.26	3.53
Projected Sales Growth (F1/F0)	-5.41%	2.93%	6.95%	-3.04%	-5.87%	6.57%
Momentum Score	A	-	-	D	C	B
Daily Price Change	-0.17%	-1.17%	0.03%	-3.67%	-1.77%	-4.46%
1-Week Price Change	-4.44%	0.05%	-0.30%	3.82%	2.70%	-10.52%
4-Week Price Change	-4.11%	-0.71%	0.23%	5.47%	1.68%	22.00%
12-Week Price Change	5.95%	7.55%	7.22%	1.56%	10.27%	108.20%
52-Week Price Change	70.10%	39.17%	61.36%	17.77%	66.51%	258.31%
20-Day Average Volume (Shares)	2,568,771	248,892	2,433,322	2,433,322	7,570,586	1,717,341
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-1.76%	0.00%	0.00%	1.51%	0.00%	5.11%
EPS F1 Estimate 12-Week Change	-21.94%	0.33%	2.13%	1.37%	2.05%	4.54%
EPS Q1 Estimate Monthly Change	12.16%	0.00%	0.00%	-2.48%	0.00%	-0.68%

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	C
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.