

Teledyne Technologies(TDY)

\$406.12 (As of 03/29/21)

Price Target (6-12 Months): **\$430.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/20/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

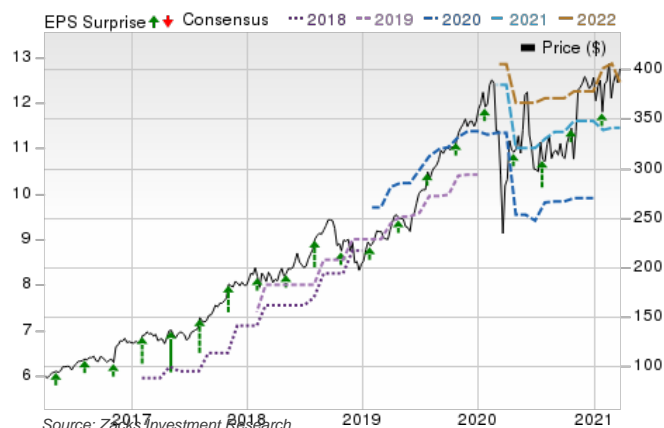
Growth: B

Momentum: F

Summary

Teledyne Technologies witnesses solid contract wins for its cost-effective defense solutions that has been the primary growth driver for the company. Notably, these contract wins bolster the company's backlog, thereby strengthening its revenue-generating capabilities. Apart from generating organic growth through product sales, the company gains significantly from its steady practice of making strategic acquisitions. Its shares have outperformed the industry in the past year. However, continued weakness in the commercial aerospace industry due to the COVID-19 pandemic has been impacting its operational performance. As the pandemic is still prevalent, the stock's commercial business might remain under pressure. A comparative analysis of its historical P/E TTM ratio reflects a relatively gloomy picture, which raises concerns.

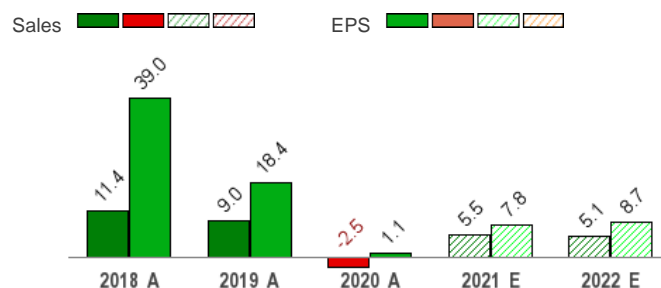
Price, Consensus & Surprise



Data Overview

| | |
|--------------------------------|--------------------------------------|
| 52-Week High-Low | \$413.31 - \$270.10 |
| 20-Day Average Volume (Shares) | 256,439 |
| Market Cap | \$15.0 B |
| Year-To-Date Price Change | 3.6% |
| Beta | 1.08 |
| Dividend / Dividend Yield | \$0.00 / 0.0% |
| Industry | Aerospace - Defense Equipment |
| Zacks Industry Rank | Top 32% (81 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|-------------------------------|-------------------|
| Last EPS Surprise | 1.3% |
| Last Sales Surprise | 1.2% |
| EPS F1 Estimate 4-Week Change | 0.0% |
| Expected Report Date | 04/28/2021 |
| Earnings ESP | 0.0% |
| P/E TTM | 39.1 |
| P/E F1 | 35.5 |
| PEG F1 | NA |
| P/S TTM | 4.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2022 | | | | | 3,423 E |
| 2021 | 780 E | 796 E | 813 E | 867 E | 3,256 E |
| 2020 | 785 A | 743 A | 749 A | 809 A | 3,086 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2022 | | | | | \$12.45 E |
| 2021 | \$2.59 E | \$2.78 E | \$2.90 E | \$3.18 E | \$11.45 E |
| 2020 | \$2.28 A | \$2.43 A | \$2.48 A | \$3.20 A | \$10.62 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 03/29/2021. The report's text and the analyst-provided price target are as of 03/30/2021.

Overview

California-based Teledyne Technologies Incorporated is an industrial conglomerate that has been operating as an independent company since 1999. It serves the markets of aerospace and defense, factory automation, air and water quality environmental monitoring, electronics design and development, oceanographic research, deepwater oil and gas exploration and production, medical imaging and pharmaceutical research.

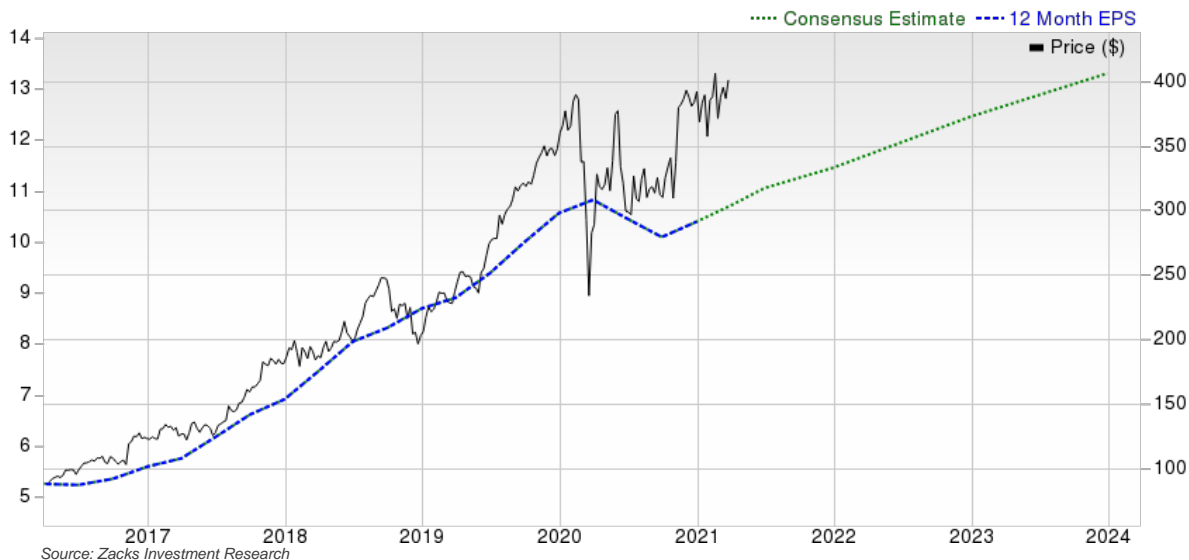
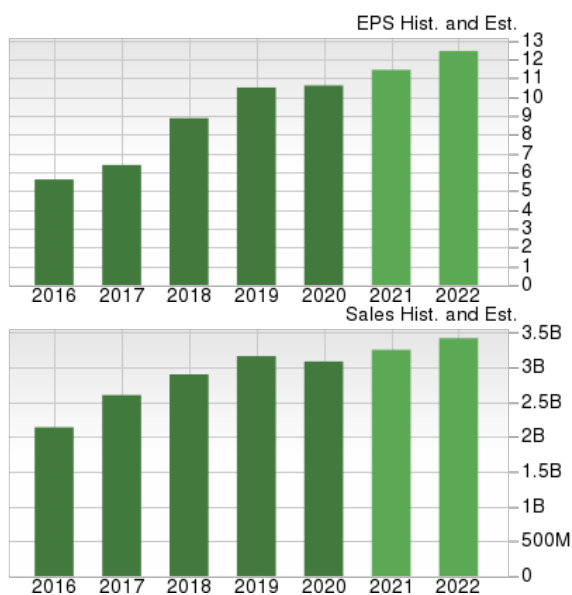
Teledyne Technologies operates through the following business segments:

Instrumentation: This business segment offers monitoring and control instruments for marine, environmental, industrial along with electronic test and measurement equipment. Within marine instrumentation, it manufactures geophysical streamer cables, hydrophones, seismic energy sources and specialty products. In 2020, this division contributed 35.5% to total adjusted sales.

Digital Imaging: This unit produces high-performance image sensors and digital cameras to be used in industrial, scientific, medical and photogrammetry applications. Also, it builds image processing products for automatic data collection in industrial and medical applications. The segment develops high-resolution, low-dose X-ray sensors as well. In 2020, this division contributed 31.9% to the company's total adjusted sales.

Aerospace and Defense Electronics: This division offers sophisticated electronic components, and subsystems and communications products, including defense electronics, harsh environment interconnects, data acquisition and communications equipment for aircraft, and components and subsystems for wireless as well as satellite communications, and general aviation batteries. In 2020, this division contributed 19.1% to the company's total adjusted sales.

Engineered Systems: This unit offers innovative systems engineering and integration, advanced technology development and complex manufacturing solutions for defense, space, environmental and energy applications. It manufactures electrochemical energy systems and small turbine engines as well. In 2020, this division contributed 13.5% to the company's total adjusted sales.



Reasons To Buy:

▲ Increased contract wins for its cost-effective defense solutions have been serving as a primary growth driver for Teledyne. Notably, these contract wins bolster the company's backlog, thereby strengthening its revenue-generating capabilities. Keeping up with its usual trend, during the fourth quarter, the company's Teledyne Brown Engineering division received a \$85-million contract modification to supply NASA with two additional Launch Vehicle Stage Adapters (LVSA) for the Artemis II and III moon missions. We may expect these contract wins to duly boost Teledyne's top line in the coming quarters.

Solid backlog, strategic buyouts and favorable macroeconomic condition in the United States should boost Teledyne Technologies' growth

▲ The macroeconomic environment in the nation has been boosting growth prospects of Teledyne given widespread geo-political uncertainty along with the current U.S. administration's inclination toward increased defense spending. Impressively, as part of the fiscal 2021 defense budget, \$740.5 billion is being kept as funding for the Pentagon, reflecting 3% growth from the fiscal 2020 budget. This increased spending provision highlights the U.S. government's decision to spend more on defense primes like Teledyne.

▲ Teledyne's cash and cash equivalents at the end of 2020 were \$673.1 million, up sequentially from \$455 million. The company's long-term debt as of Dec 31, 2020, was \$680.9 million, down from \$761 million on a sequential basis. Although the long-term debt level lies slightly above the company's cash reserve, its current debt worth \$97.6 million as of Dec 31, 2020, remains lower than the cash reserve. This reflects the company's capability to duly meet obligations over the short run.

Moreover, the company's current ratio as of Dec 31, 2020, is 2.26. The fact that it is more than 1 indicates that the company has sufficient capital on hand to meet its short-term obligations. Also, its interest coverage ratio of 31.7 improved sequentially from 28.6. All these favorable ratio levels make us optimistic about the company's ability to meet debt obligations in the near future.

▲ Apart from generating organic growth through product sales, a steady practice of making strategic acquisitions has always been part of Teledyne's growth story. In January 2021, Teledyne Technologies and FLIR Systems entered into a definitive agreement under which Teledyne will acquire FLIR Systems in a cash-and-stock transaction valued at approximately \$8 billion. Teledyne expects to close the deal in the middle of 2021, subject to the receipt of regulatory approvals. It further anticipates the acquisition to be immediately accretive to earnings, excluding transaction costs and intangible asset amortization, and accretive to GAAP earnings in the first full calendar year following the acquisition. No doubt, this significant transaction will boost the company's position in the aerospace and defense industry, which in turn, might have boosted investors' confidence. Shares of the company have gained 36.6% in a year's time compared to the industry's 18.4% rise.

Reasons To Sell:

▼ Lower oil and natural gas prices, as well as instability in the Middle East or other oil producing regions, and new regulations or restrictions relating to energy production, might adversely affect Teledyne's businesses that supply the oil and gas industry. This is because, when crude oil and natural gas prices are low, the level of marine seismic exploration activity typically decreases, potentially resulting in reduced demand for the company's products used in offshore energy exploration.

Fluctuations in energy market and the Covid-19 pandemic impact may hurt Teledyne Technologies' growth

▼ The continued weakness in the commercial aerospace industry due to COVID-19 has affected sales of aerospace electronics. This in turn impacted the company's Aerospace and Defense Electronics segment during 2020. In particular, revenues from this unit declined 14.6% year over year in 2020. Going ahead, disruptions due to production delay of Boeing's 737 Max aircraft and continued weakness in the commercial aerospace industry owing to the pandemic are expected to affect Teledyne's aerospace electronics businesses.

Moreover, the pandemic may have an adverse impact on the company's existing and planned operations, supply chains and distribution systems and thus, increase overall expenses. Since the pandemic is unlikely to end anytime soon, it might turn out to be a major growth inhibitor for this stock, going ahead.

▼ Unable to withstand the adverse effects of the pandemic, OneWeb Global Limited and its subsidiaries declared bankruptcy at the end of March 2020. Although Teledyne's customer, Airbus OneWeb Satellites (AOS), which is a joint venture between Airbus and OneWeb Global, has not yet declared any bankruptcy, in the worst-case scenario, Teledyne might feel the heat. As a result of this, the company has potential exposure of approximately \$40 million related to certain receivables, inventories and additional AOS-related expenses. In case of adversities, Teledyne might incur notable losses if AOS suffers financially.

▼ A comparative analysis of the company's historical P/E TTM ratio reflects a relatively gloomy picture, which might be a cause for investors' concern. Evidently, the stock has a current trailing 12-month P/E ratio of 39.32. This level lies near the high end of its past year's range. Moreover, the company's P/E TTM ratio remained much above the industry's P/E TTM ratio of 31.77 in a year.

Last Earnings Report

Teledyne Technologies Q4 Earnings & Sales Beat Estimates

Teledyne Technologies reported fourth-quarter 2020 adjusted earnings of \$3.20 per share, which surpassed the Zacks Consensus Estimate of \$3.16 by 1.3%. The bottom line, however, improved 20% from the year-ago quarter's \$2.90.

Including one-time items, the company reported GAAP earnings of \$3.48 per share, which improved 13.7% from the year-ago quarter's \$3.06.

The company's 2020 adjusted earnings came in at \$10.62 compared with \$10.73 in 2019. The full-year figure exceeded the Zacks Consensus Estimate of \$10.30.

Quarter Ending 12/2020

| | |
|------------------|--------------|
| Report Date | Jan 27, 2021 |
| Sales Surprise | 1.15% |
| EPS Surprise | 1.27% |
| Quarterly EPS | 3.20 |
| Annual EPS (TTM) | 10.39 |

Operational Highlights

Total sales in the fourth quarter amounted to \$809.3 million, which exceeded the Zacks Consensus Estimate of \$800 million by 1.1%. The top line however declined 3% from \$834.2 million reported a year ago. Notably, all segments, except Engineered Systems recorded lower year-over-year sales in the quarter.

For the full year, Teledyne reported sales of \$3.09 billion, down 2.4% from \$3.16 billion in the year-ago period. The full-year top-line figure however exceeded the Zacks Consensus Estimate by a mere 0.3%.

Segmental Performance

Instrumentation: Sales at this segment declined 6.2% year over year to \$282.8 million in the fourth quarter. Lower sales of marine instrumentation and environmental instrumentation led to the downside.

The segment's operating income improved 6.2% year over year to \$63.2 million.

Digital Imaging: Quarterly sales at this division fell 2.3% year over year to \$262 million. The decline can be attributed to lower sales of X-ray products for dental and medical imaging applications.

However, the segment's operating income rose 20.4% year over year to \$56.7 million due to a favorable product mix.

Aerospace and Defense Electronics: At this segment, sales of \$145.2 million dropped 14.8% from the prior-year quarter due to reduced sales of aerospace electronics and defense and space electronics.

Operating income also plunged 29.3% year over year to \$23.2 million on lower sales.

Engineered Systems: Sales at this division grew 26.8% year over year to \$119.3 million in the fourth quarter on higher sales of engineered products and services, and turbine engines.

Operating income rose 46.7% to \$15.4 million on account of higher sales and a greater mix of high-margin fixed-price manufacturing programs.

Financial Condition

Teledyne's cash totaled \$673.1 million as of Jan 3, 2021 compared with \$199.5 million at the end of 2019. Total long-term debt was \$680.9 million compared with \$750 million at 2019 end.

Cash provided by operating activities was \$236.4 million for the fourth quarter of 2020 compared with \$167.9 million for the fourth quarter of 2019.

In the reported quarter, capital expenditures amounted to \$19.4 million compared with \$23.9 million in the year-ago quarter. Moreover, the company generated free cash flow of \$217 million in the fourth quarter, reflecting 50.7% year-over-year growth.

Guidance

Teledyne expects to generate GAAP earnings of \$2.55-\$2.60 per share in the first quarter of 2021.

For 2021, the company expects earnings of \$11.25-\$11.45 per share, which does not reflect the pending acquisition of FLIR and related acquisition and financing costs. The Zacks Consensus Estimate for Teledyne's full-year earnings stands at \$11.60, higher than the company's expectations.

Recent News

On **Mar 22, 2021**, Teledyne Technologies announced that it has completed all permanent financing for the pending acquisition of FLIR Systems, Inc. Given the permanent financing, together with certain continuing debt, Teledyne expects its weighted average borrowing cost to be less than two percent upon closing the acquisition.

On **Mar 15, 2021**, Teledyne Technologies announced that it has obtained FAA Supplemental Type Certification (STC) approval for installation of its new innovative Aircraft Cabin Environment Sensor (ACES) on Boeing 737 aircraft. ACES is a complete and autonomous solution based on sensors and technologies in Teledyne's environmental monitoring businesses that enables air transport operators to monitor and measure air quality in the cabin and flight deck. It is the first FAA-certified product of its type and is a major step toward giving airlines the data they need to ensure a safe and positive flying experience for passengers and crew. Certification for other aircraft types is in progress.

On **Feb 23, 2021**, Teledyne Technologies announced that its business unit, Teledyne LeCroy has launched the CrossSyn PHY interposers and software options, enabling the first-ever link between an oscilloscope and a protocol analyzer to allow engineers to get a complete picture when testing the PCI Express (PCIe) interface standard.

On **Feb 9, 2021**, Teledyne SP Devices, a business unit of Teledyne Technologies Incorporated announced the release of ADQ32 – a fourth-generation modular data acquisition board optimized for high-throughput applications. The combination of on-board open field-programmable gate array (FPGA) and high-speed data streaming makes it ideal even for the most computationally demanding applications.

On **Jan 4, 2021**, Teledyne Technologies and FLIR Systems jointly announced that they have entered into a definitive agreement under which Teledyne will acquire FLIR in a cash and stock transaction valued at approximately \$8.0 billion.

Under the terms of the agreement, FLIR stockholders will receive \$28.00 per share in cash and 0.0718 shares of Teledyne common stock for each FLIR share, which implies a total purchase price of \$56.00 per FLIR share based on Teledyne's 5-day volume weighted average price as of December 31, 2020. The transaction reflects a 40% premium for FLIR stockholders based on FLIR's 30-day volume weighted average price as of December 31, 2020.

Valuation

Teledyne Technologies' shares are up 3.6% in the year-to-date period and 36.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 4.3% and 8.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 18.4%, while the sector is up 19.6%.

The S&P 500 index is up 6.1% in the year-to-date period and 55.6% in the past year.

The stock is currently trading at 34.7X of forward 12-month earnings, which compares to 26.2X for the Zacks sub-industry, 22.7X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 37.4X and as low as 16.4X, with a 5 year median of 25.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$430 price target reflects 36.8X forward 12-month earnings.

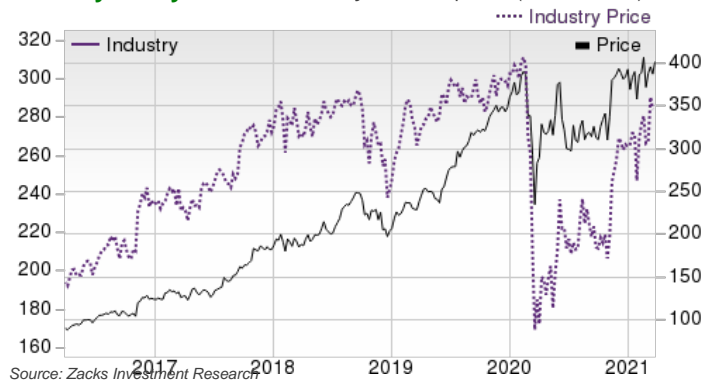
The table below shows summary valuation data for TDY

| Valuation Multiples -TDY | | | | | |
|--------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 34.73 | 26.16 | 22.72 | 22.44 |
| | 5-Year High | 37.38 | 27.12 | 22.72 | 23.83 |
| | 5-Year Low | 16.42 | 13.36 | 14.38 | 15.3 |
| | 5-Year Median | 25.64 | 17.46 | 18.05 | 17.9 |
| P/S F12M | Current | 4.56 | 1.77 | 1.91 | 4.59 |
| | 5-Year High | 4.6 | 1.77 | 1.91 | 4.59 |
| | 5-Year Low | 1.3 | 0.78 | 0.93 | 3.21 |
| | 5-Year Median | 2.63 | 1.08 | 1.26 | 3.69 |
| EV/SALES TTM | Current | 4.86 | 2.85 | 2.87 | 4.71 |
| | 5-Year High | 4.86 | 4.63 | 2.91 | 4.72 |
| | 5-Year Low | 1.59 | 1.29 | 1.13 | 2.65 |
| | 5-Year Median | 3.05 | 1.66 | 1.69 | 3.62 |

As of 03/29/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 254)



Top Peers

| Company (Ticker) | Rec | Rank |
|------------------------------------|--------------|------|
| CAE Inc (CAE) | Neutral | 2 |
| Hexcel Corporation (HXL) | Neutral | 3 |
| Leidos Holdings, Inc. (LDOS) | Neutral | 3 |
| L3Harris Technologies Inc (LHX) | Neutral | 3 |
| Moog Inc. (MOG.A) | Neutral | 2 |
| Transdigm Group Incorporated (TDG) | Neutral | 3 |
| Triumph Group, Inc. (TGI) | Neutral | 3 |
| CurtissWright Corporation (CW) | Underperform | 3 |

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

| Industry Comparison Industry: Aerospace - Defense Equipment | | | | Industry Peers | | |
|---|---------|------------|-----------|----------------|---------|-----------|
| | TDY | X Industry | S&P 500 | MOG.A | TDG | TGI |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 2 | - | - | 2 | 3 | 3 |
| VGM Score | D | - | - | A | C | C |
| Market Cap | 15.03 B | 2.57 B | 29.36 B | 2.60 B | 31.67 B | 963.22 M |
| # of Analysts | 1 | 2 | 13 | 2 | 7 | 5 |
| Dividend Yield | 0.00% | 0.00% | 1.34% | 1.24% | 0.00% | 0.00% |
| Value Score | F | - | - | B | D | D |
| Cash/Price | 0.05 | 0.08 | 0.06 | 0.04 | 0.15 | 0.48 |
| EV/EBITDA | 25.02 | 13.41 | 16.54 | 25.91 | 22.53 | 10.42 |
| PEG F1 | NA | 3.65 | 2.39 | NA | 3.65 | NA |
| P/B | 4.64 | 2.39 | 3.96 | 2.00 | NA | NA |
| P/CF | 29.38 | 13.32 | 16.53 | 10.69 | 24.82 | 3.26 |
| P/E F1 | 35.47 | 28.92 | 21.88 | 18.38 | 49.92 | NA |
| P/S TTM | 4.87 | 1.82 | 3.37 | 0.92 | 6.67 | 0.46 |
| Earnings Yield | 2.82% | 3.10% | 4.51% | 5.45% | 2.00% | -0.57% |
| Debt/Equity | 0.21 | 0.25 | 0.66 | 0.69 | -5.21 | -1.88 |
| Cash Flow (\$/share) | 13.82 | 2.10 | 6.78 | 7.57 | 23.33 | 5.37 |
| Growth Score | B | - | - | B | C | C |
| Historical EPS Growth (3-5 Years) | 19.06% | 8.67% | 9.36% | 8.67% | 10.39% | -29.30% |
| Projected EPS Growth (F1/F0) | 7.82% | 5.20% | 15.07% | -8.42% | -19.83% | -103.84% |
| Current Cash Flow Growth | 0.75% | -0.19% | 0.44% | -8.07% | -6.51% | 28.84% |
| Historical Cash Flow Growth (3-5 Years) | 13.07% | 8.21% | 7.37% | -0.92% | 17.94% | -6.18% |
| Current Ratio | 2.26 | 2.62 | 1.39 | 2.05 | 4.53 | 2.09 |
| Debt/Capital | 17.42% | 28.88% | 41.42% | 40.80% | NA | NA |
| Net Margin | 13.02% | 2.11% | 10.59% | -0.17% | 9.38% | -21.66% |
| Return on Equity | 13.24% | 7.86% | 14.86% | 11.47% | -16.47% | -2.74% |
| Sales/Assets | 0.64 | 0.64 | 0.50 | 0.85 | 0.26 | 0.82 |
| Projected Sales Growth (F1/F0) | 5.49% | 0.00% | 7.28% | -2.60% | -4.58% | -35.98% |
| Momentum Score | F | - | - | D | B | A |
| Daily Price Change | 1.33% | -0.14% | -0.42% | -1.57% | -1.24% | -3.95% |
| 1-Week Price Change | 3.72% | -1.78% | 2.12% | -0.82% | -2.51% | -5.93% |
| 4-Week Price Change | 6.79% | -2.46% | 3.83% | 0.10% | -2.96% | 12.31% |
| 12-Week Price Change | 12.07% | 9.29% | 11.63% | 5.27% | -1.44% | 49.23% |
| 52-Week Price Change | 37.49% | 61.91% | 59.04% | 61.91% | 68.98% | 171.63% |
| 20-Day Average Volume (Shares) | 256,439 | 191,186 | 2,357,830 | 123,356 | 247,604 | 1,560,885 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 30.67% |
| EPS F1 Estimate 12-Week Change | 0.44% | 1.28% | 2.19% | 7.57% | 2.24% | 78.95% |
| EPS Q1 Estimate Monthly Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 4.76% |

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 | F |
| Growth Score | B |
| Momentum Score | F |
| VGM Score | D |

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

Disclosures

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

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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.

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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