

Telefonica, S.A. (TEF)

\$4.57 (As of 04/16/21)

Price Target (6-12 Months): **\$5.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

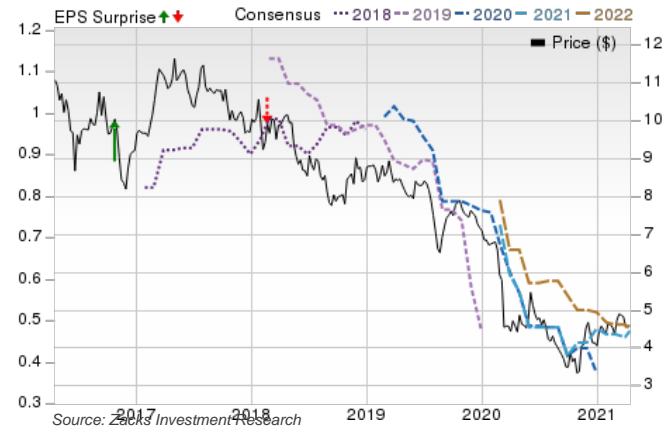
Growth: B

Momentum: A

Summary

Telefonica aims to optimize value creation by prioritizing investment in its core operations for growth. The company's new operating model is expected to boost the digitization of the Group's operations and optimize its Hispam operations to streamline the Group structure while bolstering deleveraging. It has maintained its 2022 guidance, which reflects its confidence in long-term growth trends for connectivity and digital services. However, stifling regulation rules are compelling Telefonica to make its network available to alternative providers, hurting its bottom line. Competitive domestic and Latin American markets, along with a debt-laden balance sheet, act as near-term risks for Telefonica. COVID-19 adversities, along with the existence of critical suppliers in the supply chain, pose risk to its business.

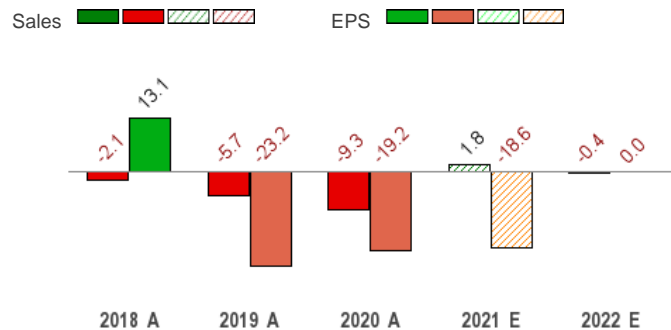
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$5.69 - \$3.22
20-Day Average Volume (Shares)	1,276,944
Market Cap	\$23.7 B
Year-To-Date Price Change	13.1%
Beta	0.80
Dividend / Dividend Yield	\$0.34 / 7.4%
Industry	Diversified Communication Services
Zacks Industry Rank	Bottom 32% (173 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	NA
Last Sales Surprise	NA
EPS F1 Estimate 4-Week Change	1.8%
Expected Report Date	05/06/2021
Earnings ESP	0.0%
P/E TTM	7.5
P/E F1	9.7
PEG F1	0.8
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					49,858 E
2021	12,129 E				50,072 E
2020	12,537 A	11,383 A	12,227 A	13,011 A	49,202 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$0.48 E
2021					\$0.48 E
2020	\$0.12 A	\$0.13 A	\$0.15 A	\$0.21 A	\$0.59 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 04/16/2021. The report's text and the analyst-provided price target are as of 04/19/2021.

Overview

Headquartered in Madrid, Spain, Telefonica, S.A. provides mobile and fixed communication services in Europe and Latin America.

In recent years, Telefonica has invested heavily in the deployment and transformation of its network to provide excellent connectivity in all of its dimensions, capacity, speed, coverage and security. The business operations of the company are classified according to the following geographic regions.

Telefonica Espana (29.4% of aggregate revenues in fourth-quarter 2020): The segment oversees the fixed and mobile telephone, broadband Internet, pay TV and value added services and data businesses in Spain (Espana).

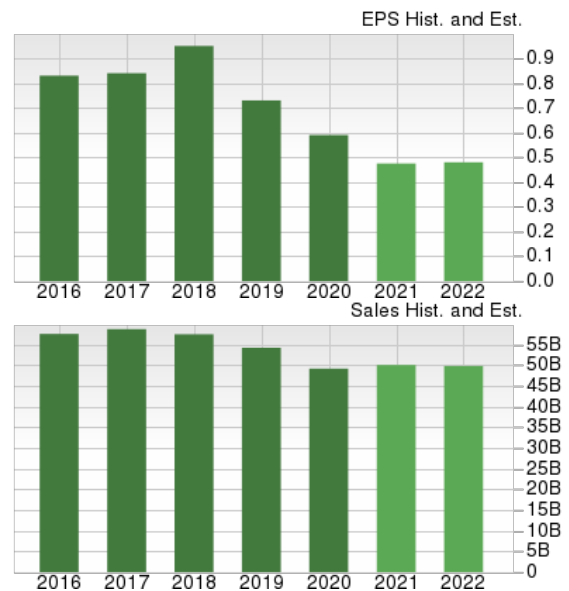
Telefonica Deutschland (18.6%): This segment offers fixed and mobile telephony services, broadband Internet, pay TV, data and value-added services in Germany.

Telefonica UK (16%): This segment offers fixed and mobile telephony services, broadband Internet, pay TV, data and value-added services in the U.K.

Telefonica Brasil (16.1%): This segment offers fixed and mobile telephony services, broadband Internet, pay TV, data and value-added services in Brazil.

Telefonica Hispam (17.8%): This segment offers fixed and mobile telephony services, broadband Internet, pay TV, data and value-added services in Argentina, Chile, Peru and Uruguay.

Telefonica Infra (Telxius) (2%): Beginning first-quarter 2020, Telefonica Infra has become a segment of the Telefonica Group acting as a portfolio manager owing stakes in infrastructure alongside financial investors. Telefonica Infra's consolidation perimeter includes Telxius as its first asset.



Reasons To Buy:

- ▲ Telefonica aims to optimize value creation by prioritizing investment in its core operations (Spain, Germany, UK and Brazil) for profitable growth. The company intends to optimize its Hispam operations to streamline the Group structure and core market focus, reduce exposure to emerging markets and foreign exchange volatility, and to accelerate deleveraging. Telefonica Tech aims to accelerate its existing revenue growth streams, making them more visible and increasing optionality. Telefonica Infra operates as a portfolio manager owning stakes in infrastructure vehicles to maximize value creation for the Group. Telefonica Infra is developing infrastructure assets and making progress in some asset classes such as towers, submarine cable, fiberCos and data centers. Telefonica's new operating model is expected to accelerate the digitization of the Group's operations. The company has maintained its guidance for 2022, which reflects its confidence in long-term growth trends for connectivity and digital services.
- ▲ Telefonica has switched on 5G network in Spain. The company's 5G network is likely to provide almost 75% of the population with advanced mobile Internet services, streamlining the entire communications infrastructure of the country by the end of 2020. In recent years, Telefonica has invested heavily in the deployment and transformation of its network to provide excellent connectivity in all of its dimensions, capacity, speed, coverage and security. Telefonica's acquisition of E-Plus has positioned it as the largest mobile service provider in Germany (in terms of subscriber count). Moreover, the company acquired Vivendi's broadband assets – GVT. For Telefonica, synergies from the acquisition appear quite promising. The GVT deal has put Telefonica in a better position within the broadband segment vis-à-vis stronger rivals like America Movil and Oi. GVT has expanded the company's broadband network to more than 10.4 million homes across 21 Brazilian states apart from strengthening its broadband customer base by an additional 2.5 million.
- ▲ Telefonica has restructured its Latin American business while remaining focused in other key European markets and the United States. With a major upheaval in eight Latin American markets, the company aims to "reinvent" itself amid a challenging macroeconomic environment. The radical restructuring process is likely to feature an "operational spin-off", whereby the company has created two separate business entities, namely Telefonica Tech and Telefonica Infra. With the creation of the new units for digital technology and infrastructure assets, Telefonica expects to generate additional revenues of more than €2 billion a year by 2022. Further, the Group is exploring network sharing agreements to reduce capital intensity and optimize investment. The network sharing agreement signed with AT&T in Mexico represents an important milestone in this respect.
- ▲ Telefonica consolidated three of its global businesses under a single umbrella — Telefonica Global Solutions. The move is part of Telefonica's ongoing transformation process to strengthen its international businesses. As part of this segmental rejig, wholesale and roaming along with multinational business segments have been incorporated into a single unit to speed up operational execution and maximize synergies with greater flexibility. As a wholly owned subsidiary, Telefonica Global Solutions will strengthen global business operations and facilitate seamless connection between customers and partners with a consistent service offering. On the back of almost 400 roaming agreements and alliances, the unit caters to more than 1,500 customers in 170 countries. Apart from delivering innovative solutions to Telefonica customers, the all-in-one segment has been entrusted with the responsibility of undertaking projects for global clientele.
- ▲ Telefonica is capitalizing on the opportunities in the digital world through several growth strategies. The company has accelerated the deployment of ultra-fast networks. It continues to witness increased traction in the smartphone arena. The rollout of fiber and LTE is set to drive considerable growth. Telefonica is augmenting its 5G network infrastructure in Spain by reinforcing long-term partnership with Huawei. The company has adopted a multi-vendor strategy by collaborating with Nokia and Ericsson to establish a 5G infrastructure. Telefonica has inked agreements with global providers, including Amazon Web Services, Microsoft, Google, GE Healthcare and Fortinet. It has invested in Nozomi Networks, a leader in industrial IoT cybersecurity.

Telefonica aims to optimize value creation by prioritizing investment in its core operations for profitable growth. Its new operating model is expected to accelerate the digitization of the Group's operations.

Reasons To Sell:

- ▼ Telefonica is experiencing a significant impact from the COVID-19 pandemic, with pressure across the Group's markets in both its B2C and B2B segments. The pandemic has contributed to significant depreciation of Latin American currencies versus the euro. Telefonica classified its operations across Latin America (excluding Brazil) as non-core, given the challenging market conditions across these markets and their declining contribution to revenues and profitability in recent years.
- ▼ The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets with a high concentration in a small number of suppliers, poses risks which could affect Telefonica's business. Domestic competition poses a major hurdle as the unbundled local loop (ULL) regulation is compelling Telefonica to make its network available to alternative providers. The ULL regulation coupled with increased exposure to direct access competitors continue to be primary factors behind the company's wireline telephony access erosion.
- ▼ The Telefonica Group operates in highly competitive markets and it is possible that the Group may not be able to market its products and services effectively or respond successfully to the different commercial actions carried out by its competitors. The Group may also fail to meet its growth plans or to retain its customers. Moreover, the Telefonica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs. Telefonica faces increased competition in Brazil, the largest contributor to its Latin American revenues, which has contracted bottom-line growth.
- ▼ Telefonica has a debt-laden balance sheet. As of Dec 31, 2020, the company had \$9,252 million in cash and cash equivalents with \$48,316 million of long-term debt compared with the respective tallies of \$10,699 million and \$50,100 million at the end of the previous quarter. Although the company is striving to bring down its debt through modified financial strategies, accumulating debt may pose problem for its credit ratings. Telefonica has a debt-to-capital ratio of 0.73 compared with 0.7 of the industry. The times interest earned (TIE) ratio has decreased over the past few quarters to 2.1 at present relative to 1.6 of the industry. This indicates that the company is reeling under pressure to meet its debt obligations. However, Telefonica has a dividend payout rate of 52.4%. The rate has also improved over the past quarters, suggesting that the company is sharing more of its earnings with shareholders. It is to be seen if Telefonica can turn the tables in the coming days amid disruptions stemming from the COVID-19 pandemic.

Competitive domestic and Latin American markets together with a debt-laden balance sheet act as near-term risks for Telefonica.

Last Earnings Report

Telefonica Q4 Earnings Increase, Revenues Down Y/Y

Telefonica reported mixed fourth-quarter 2020 results, wherein the top line declined on a year-over-year basis. However, the bottom line increased significantly.

Bottom Line

In the December quarter, the Spanish telecom giant's net income was €911 million or 16 cents per share against net loss of €202 million or a loss of €5 cents per share in the year-ago period. The improvement was mainly driven by higher operating income. In full-year 2020, net income was €1,582 million or 24 cents per share compared with €1,142 million or 16 cents per share in 2019.

Further, adjusted earnings per share came in at 21 cents compared with 20 cents in the prior-year quarter.

Revenues

Quarterly total revenues declined 12% year over year to €10,909 million (\$13,009.2 million), primarily due to the impact of COVID-19 and unfavorable forex dynamics. In full-year 2020, revenues came in at €43,076 million compared with €48,422 million in 2019.

Results by Business Units

Telefonica Espana: Revenues in Spain slipped 2.9% year over year on a reported basis to €3,192 million, affected by the COVID-19 pandemic. Moreover, the performance deteriorated for service revenues with lower handset sales due to the global pandemic. OIBDA margin declined to 41.1% from 41.9% in the year-ago quarter.

Telefonica Deutschland: Revenues inched up 2.7% to €2,023 million. This was driven by the strong performance of the O2 Free portfolio coupled with robust demand for high value handsets. OIBDA margin was 31.5% compared with 31.9% in the year-ago quarter. The fall was primarily due to the COVID-19 mayhem.

Telefonica UK: Revenues decreased 9.5% year over year to €1,742 million, due to reduced roaming revenues and COVID-19 impacts. OIBDA margin was 30.7% compared with 27% in the year-ago quarter, driven by robust financial position.

Telefonica Brasil: Revenues in Brazil fell 30.1% to €1,748 million, primarily due to the impact of COVID-19 and the legacy fixed businesses. However, OIBDA margin increased to 45.9% from 45.7% in the prior-year quarter, driven by operating expenditure efficiencies.

Telefonica Infra (Telxius): Revenues in this segment inched up 4.7% year over year to €217 million. The tower business accelerated its rate of revenue growth driven by higher colocation revenues and towers acquired in LATAM and Germany. OIBDA margin improved to 59.9% from 59.2%.

Telefonica Hispam: Revenues in this segment fell 20.4% to €1,934 million mainly due to the impact of COVID-19. Nevertheless, there have been improvements in Chile, Peru and Colombia.

Other Details

Overall, OIBDA (operating income before depreciation and amortization) came in at €3,751 million, up 2.2% year over year. This was mainly driven by the goodwill impairment of Telefonica Argentina, capital gains from sale of assets, restructuring costs along with operating model transformation of Telefonica Mexico in the year-ago quarter. OIBDA margin was 34.4% compared with 29.6% in the year-ago quarter. Operating income was up 60.9% to €1,471 million.

Cash Flow & Liquidity

In full-year 2020, Telefonica generated €13,196 million of net cash from operating activities compared with €15,022 million a year ago.

As of Dec 31, the company had €5,604 million (\$6,873 million) in cash and cash equivalents with €42,297 million (\$51,872 million) of non-current financial liabilities compared with respective tallies of €6,042 million and €43,288 million in the year ago period.

Conversion rate used:

€ 1 = \$1.192521 (period average from Oct 1, 2020 to Dec 31, 2020)

€ 1 = \$1.226373 (as of Dec 31, 2020)

Quarter Ending	12/2020
Report Date	Feb 25, 2021
Sales Surprise	NA
EPS Surprise	NA
Quarterly EPS	0.21
Annual EPS (TTM)	0.61

Recent News

On Mar 17, 2021, Telefonica's subsidiary, Telefonica Tech, announced the launch of "NextDefense" which will protect large-scale organizations from malicious cyber threats in an effective manner. The next-gen cybersecurity brand encompasses a number of innovative features like Vulnerability Risk Management and Cyber Threat Intelligence solutions.

On Mar 2, 2021, Telefonica Group announced that it has partnered with Caisse de dépôt et placement du Québec ("CDPQ") to construct and operate an independent optical fibre wholesale network in Brazil with the creation of FiBrasil. Markedly, the fibre-optic networks will be operational in selected mid-sized cities across Brazil outside the state of Sao Paulo. Upon completion of the agreement, Telefónica Group and CDPQ will individually hold 50% in FiBrasil under a co-control governance model.

On Feb 8, 2021, Telefonica announced its collaboration with Amazon Web Services ("AWS") and Mavenir to develop an innovative cloud native IoT connectivity service. As part of the project, Telefonica will capitalize on AWS' cloud infrastructure and Mavenir's packet core solution to modernize the IoT connectivity services by combining cloud technology with cellular connectivity with utmost flexibility.

On Jan 13, 2021, Telefonica inked a definitive agreement to divest its non-core mobile phone masts in Europe and Latin America to U.S.-based telecom infrastructure operator — American Tower Corporation. The transaction, worth €7.7 billion euros (\$9.41 billion) in cash, is likely to help the company reduce its huge debt burden. Per the deal, Telefonica is selling 30,700 tower sites across Spain, Germany, Brazil, Peru, Chile and Argentina as it seeks to de-lever its balance sheet. The divestment is reportedly the biggest such deal by the Spanish company, which expects to book a capital gain of around €3.5 billion, simultaneously trimming its net debt by about €4.6 billion.

Valuation

Telefonica's shares are up 25.5% in the past six months, and up 2.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 16.6% over the past six months, while stocks in the Zacks Utilities sector are up 10.9% in the same period. Over the past year, the Zacks sub-industry and sector are up 17.2% and 17.1%, respectively.

The S&P 500 Index is up 23% in the past six months and 51.1% in the past year.

The stock is currently trading at 1.14X trailing 12-month book value, which compares to 3.68X for the Zacks sub-industry, 3.72X for the Zacks sector and 7.11X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 2.06X and as low as 0.75X, with a 5-year median of 1.44X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$5.00 price target reflects 4.38X trailing 12-month book value.

The table below shows summary valuation data for TEF

Valuation Multiples - TEF					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	1.14	3.68	3.72	7.11
	5-Year High	2.06	4.65	3.92	7.11
	5-Year Low	0.75	2	2.37	3.83
	5-Year Median	1.44	2.49	2.75	4.99
P/E F12M	Current	9.59	12.66	14.23	23.29
	5-Year High	14.75	17.09	15.17	23.83
	5-Year Low	6.22	10.06	11.39	15.3
	5-Year Median	9.7	14.38	13.54	18.01
P/S F12M	Current	0.47	1.05	2.77	4.83
	5-Year High	1.11	3.94	3.22	4.83
	5-Year Low	0.35	1.04	1.8	3.21
	5-Year Median	0.77	1.28	2.2	3.71

As of 04/16/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
BCE, Inc. (BCE)	Neutral	3
Cincinnati Bell Inc (CBB)	Neutral	3
Swisscom AG (SCMWY)	Neutral	4
Telenor ASA (TELNY)	Neutral	3
Telecom Italia S.P.A. (TIAY)	Neutral	2
Telstra Corp. (TLSYY)	Neutral	3
TELUS Corporation (TU)	Neutral	3
Vivendi SA (VIVHY)	Neutral	3

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

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	TEF	X Industry	S&P 500	BCE	TIAY	VIVHY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	3
VGM Score	A	-	-	C	C	D
Market Cap	23.73 B	8.81 B	30.15 B	42.03 B	NA	40.65 B
# of Analysts	2	3.5	12	7	3	3
Dividend Yield	7.35%	0.34%	1.28%	5.63%	5.84%	1.43%
Value Score	A	-	-	B	C	C
Cash/Price	0.39	0.13	0.06	0.00	NA	0.03
EV/EBITDA	10.99	8.67	17.10	9.57	NA	17.42
PEG F1	0.75	1.91	2.40	3.72	1.53	1.91
P/B	1.14	2.53	4.08	3.25	NA	2.17
P/CF	6.67	6.07	17.07	7.74	1.73	28.98
P/E F1	9.77	17.40	22.39	18.89	10.01	21.84
P/S TTM	0.48	0.85	3.46	2.46	NA	NA
Earnings Yield	10.28%	5.52%	4.41%	5.29%	10.06%	4.58%
Debt/Equity	2.32	0.55	0.66	1.38	NA	0.25
Cash Flow (\$/share)	0.69	2.05	6.78	6.00	3.10	1.18
Growth Score	B	-	-	C	C	D
Historical EPS Growth (3-5 Years)	-7.30%	-0.64%	9.34%	-1.06%	NA	NA
Projected EPS Growth (F1/F0)	-19.49%	0.97%	15.70%	9.33%	-22.22%	28.69%
Current Cash Flow Growth	-11.16%	-3.84%	0.61%	-6.50%	94.31%	-28.08%
Historical Cash Flow Growth (3-5 Years)	-10.91%	0.32%	7.37%	2.03%	-2.51%	12.94%
Current Ratio	1.20	0.83	1.39	0.69	NA	0.63
Debt/Capital	69.85%	39.10%	41.26%	52.85%	NA	20.25%
Net Margin	3.69%	7.68%	10.59%	11.26%	NA	NA
Return on Equity	16.05%	9.76%	14.98%	15.83%	NA	NA
Sales/Assets	0.40	0.44	0.51	0.37	NA	NA
Projected Sales Growth (F1/F0)	1.86%	0.00%	7.43%	9.30%	-1.59%	10.74%
Momentum Score	A	-	-	B	D	C
Daily Price Change	2.24%	0.09%	0.49%	0.09%	1.61%	0.29%
1-Week Price Change	0.88%	0.00%	1.54%	1.36%	-4.94%	1.94%
4-Week Price Change	-7.11%	2.38%	5.18%	2.38%	-2.54%	3.10%
12-Week Price Change	1.11%	5.83%	11.23%	6.80%	22.88%	5.83%
52-Week Price Change	1.11%	37.65%	59.10%	13.62%	43.20%	62.36%
20-Day Average Volume (Shares)	1,276,944	48,936	1,960,937	1,374,049	23,468	48,936
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.79%	0.00%	0.04%	0.41%	0.00%	-0.21%
EPS F1 Estimate 12-Week Change	-0.35%	-0.65%	1.93%	-4.90%	7.33%	-0.95%
EPS Q1 Estimate Monthly Change	NA%	0.00%	0.00%	0.00%	NA	NA

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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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

Disclosures

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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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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.