

TreeHouse Foods, Inc. (THS)

\$41.13 (As of 11/30/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/06/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

TreeHouse Foods has lagged the industry in the past three months. The company has been reeling under softness in the Food Away From Home channel due to increased social distancing amid the pandemic. This was witnessed in third-quarter 2020, wherein revenues declined year over year and lagged the Zacks Consensus Mark. Also, the company saw high costs associated with COVID-19. Persistence of such trends remains a threat amid the ongoing pandemic. Nonetheless, improved mix and lower operating cost of goods sold helped TreeHouse Foods offset such high costs in the third quarter, wherein earnings grew and delivered a positive surprise. The company continued to benefit from strength in the retail channel, courtesy of increased at-home consumption, which is likely to remain high. Encouragingly, management lifted the lower end of its 2020 guidance.

Price, Consensus & Surprise

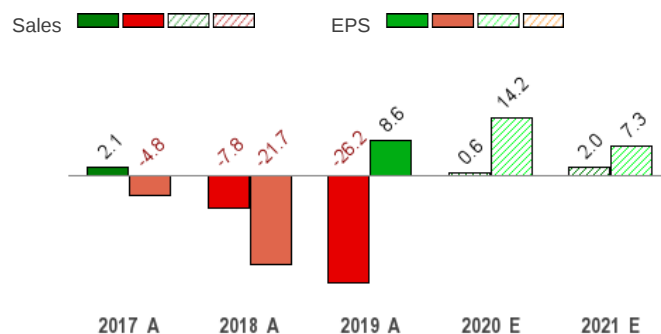


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$53.98 - \$33.84
20-Day Average Volume (Shares)	699,953
Market Cap	\$2.3 B
Year-To-Date Price Change	-15.2%
Beta	0.63
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 19% (207 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.4%
Last Sales Surprise	-1.9%
EPS F1 Estimate 4-Week Change	2.2%
Expected Report Date	02/11/2021
Earnings ESP	0.0%
P/E TTM	14.9
P/E F1	15.1
PEG F1	2.9
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,077 E	1,039 E	1,057 E	1,163 E	4,401 E
2020	1,085 A	1,042 A	1,046 A	1,144 E	4,316 E
2019	1,301 A	1,251 A	1,057 A	1,140 A	4,289 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.59 E	\$0.75 E	\$1.16 E	\$2.93 E
2020	\$0.37 A	\$0.58 A	\$0.71 A	\$1.06 E	\$2.73 E
2019	\$0.13 A	\$0.36 A	\$0.55 A	\$1.10 A	\$2.39 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 11/30/2020. The reports text is as of 12/01/2020.

Overview

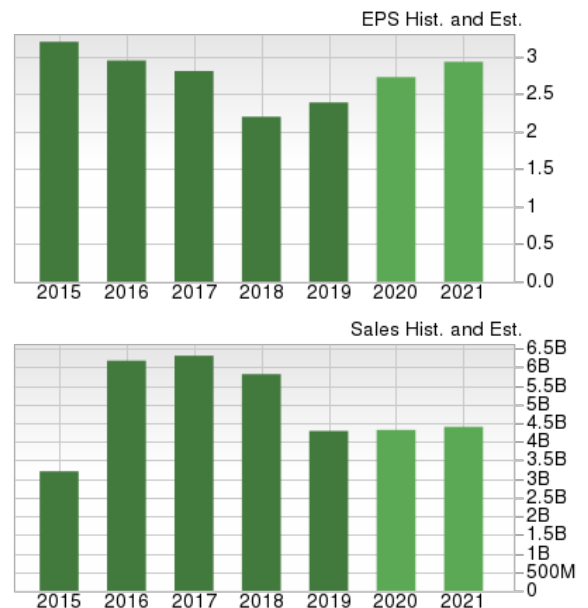
Oak Brook, Ill.-based Treehouse Foods, Inc. is a manufacturer of packaged foods and beverages with more than 50 manufacturing facilities across the United States, Canada and Italy servicing retail grocery, food away from home, and industrial and export customers.

The company manufactures a variety of shelf-stable, refrigerated, and fresh products. The product categories include beverages; salad dressings; snacks; beverage enhancers; pickles; Mexican and other sauces; soup and infant feeding; cereals; dry dinners; aseptic products; jams; and other products. The company also offers natural, organic, and preservative-free ingredients in many categories.

On Aug 1, 2019, the company completed the divestiture of the Snack business to Atlas Holdings.

The company, which was earlier operating under Baked Goods, Beverages and Meal Solutions segments, has reorganized itself into two segments on the basis of market dynamics – Snacking & Beverages, and Meal Preparation. The reorganization took effect from the first quarter of 2020.

- The **Snacking & Beverages** segment includes categories with increased market growth potential. These particularly include Bars, Broth, Powdered & Liquid Beverages, Griddle, Candy, Cookies & Crackers, Tea, Pita, Pretzels, and Other Blends. The segment will be focused on driving revenues, and undertaking research, development and commercialization per the changing consumer trends. Notably, the Snacking & Beverages division generated revenues of \$1.7 billion in 2019.
- The **Meal Preparation** unit consists of categories — including Bouillion, Cheese & Pudding, Pickles, Pourable & Spoonable Dressings, Hot Cereal, Preserves, Red Sauces, Refrigerated Dough, Non-Dairy Creamer, Pasta & Dry Dinners, Sauces, Single Serve Coffee, and Syrup. The segment will be concentrated on enhancing productivity, efficiency and cash flow. In 2019, the unit produced revenues of \$2.6 billion.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Solid Q3 Earnings & Guidance:** TreeHouse Foods has been benefiting from rising demand due to coronavirus-led stockpiling and increased at-home consumption. This has been aiding the company's retail business, which grew 7% in third-quarter 2020. During the quarter, organic sales grew 0.7% owing to higher volume/mix, backed by elevated retail demand amid the pandemic, which countered distribution loss impacts and weak demand in the food-away-from-home channel. This along with improved gross margin and lower operating costs aided the company's bottom line, which advanced 29% year over year to 71 cents, beating the Zacks Consensus Estimate of 61 cents.

TreeHouse Foods is gaining on increased demand amid coronavirus-led higher at-home consumption. Apart from this, the company has been benefiting from its portfolio refining initiatives.

Management remains encouraged with its operations amid the pandemic-led burgeoning demand. The company remains optimistic about its prospects for the private-label space and sustained momentum for at-home food consumption. The company expects continued eat-at-home trends and elevated grocery demand. Encouragingly, management updated its 2020 net sales view, which is now anticipated to be \$4.2-\$4.4 billion compared with its previously guided range of \$4.10-\$4.40 billion. Adjusted earnings from continuing operations are expected to be \$2.65-\$2.75 per share compared with \$2.55-\$2.75 forecasted earlier.

- ▲ **Improved Gross Margin:** TreeHouse Foods' gross margin came in at 18% in the third quarter, expanding 40 basis points (bps) from the year-ago quarter's figure. This was mainly driven by improved channel mix of greater retail business and reduced operational cost of goods sold, which compensated for higher costs incurred in connection with the pandemic. In fact, adjusted gross margin expanded 160 bps to 19.7%, thanks to higher volumes and lower fixed costs. Further, adjusted EBITDA from continuing operations rose 16.3% to \$131 million on reduced operational cost of goods sold and improved channel mix, partially countered by higher COVID-19-related costs.
- ▲ **Healthy and Organic Products Offerings:** The company focuses on organic foods, as consumers appear to be more interested in foods described as being "better for you," which include fresh or freshly prepared foods, and natural, organic, or specialty foods. The company expects sustained growth in these areas and continues to focus on consumer's needs by developing new formulations, packaging, and sizes.
- ▲ **Focus on Refining Portfolio:** TreeHouse Foods has always been focused on expanding its product offerings through acquisitions. To this end, the company has inked a definitive deal to acquire most of Riviana Foods' U.S. branded pasta portfolio. Riviana Foods is a subsidiary of Ebro. This move is likely to contribute 20-30 cents in the first year post the completion of the deal. Expected to conclude by the fourth quarter of 2020, the buyout will add regional brands, including Skinner, No Yolks, San Giorgio, Prince and Light 'n Fluffy, Mrs. Weiss, and New Mill, among others, to TreeHouse Foods' existing portfolio. This is likely to bolster the company's Meals Preparation segment, of which pasta is a significant and profitable category. Earlier, in February 2016, TreeHouse Foods acquired Private Brands business for \$2.7 billion. The Private Brands Business is a leading manufacturer of private label refrigerated and shelf stable products in the bars, bakery, cereal, condiments, pasta, and snacks categories. The addition of Private Brands has added to the revenues and has helped the company to lower debt. The company's other acquisitions include Flagstone Foods, PFF Capital Group, Inc. ("Protenergy"), Cains Foods, L.P., Associated Brands, and Naturally Fresh, Inc.

On the flip side, the company remains committed toward exiting underperforming businesses and shifting focus toward areas with high growth potential. To this end, the company completed the divestiture of the Snack business to Atlas Holdings on Aug 1, 2019. Further, TreeHouse Foods offloaded two of its in-store bakery facilities to Rich Products Corporation in April 2020.

Reasons To Sell:

- ▼ **Food Away from Home Demand Soft:** Shares of TreeHouse Foods have declined 5.6% in the past three months compared with the industry's decline of 0.4%. The company has been reeling under softness in the Food Away From Home channel owing to increased social distancing and at-home consumption amid the pandemic. During the third quarter of 2020, the Food Away From Home business tumbled 22% and affected the company's net sales, which came in at \$1,045.7 million, lagging the consensus mark of \$1,066 million and declining 1.1% year over year. This was mainly accountable to distribution losses and weakness in food-away-from-home demand. This was particularly witnessed in the Meal Preparation segment, wherein sales fell 2.1% year over year to \$642.7 million. This can be attributable to adverse volume/mix, primarily stemming from distribution losses and lower food-away-from-home demand.

Food Away From Home business of TreeHouse Foods went down by nearly \$40 million and \$11 million in the second and first quarters of 2020, respectively. This channel is likely to remain weak, given the continuation of stay-at-home trends. Also, competition from private-label brands is a concern.

- ▼ **COVID-19 Related Costs:** While TreeHouse Foods' profits grew year over year in the third quarter of 2020, it continued to incur high costs associated with COVID-19. During the quarter, the company spent \$26 million as costs related to the pandemic. These include costs associated with greater production shifts, increased sanitization measures, supplemental payments and protective equipment. These costs weighed on the gross margin as well as the adjusted EBITDA from continuing operations to an extent in the quarter under review, though it was made up by improved mix and lower operating cost of goods sold. Persistence of such elevated costs remains a concern. Also, the company remains cautious about a tight labor market and supply limitations in the fourth quarter.
- ▼ **Debt Analysis:** TreeHouse Foods' long-term debt (including operating lease liabilities) of \$2,346 million as of the end of third-quarter 2020 (Sep 30, 2020) increased 5.1% sequentially. Further, the company's debt-to-capitalization ratio of about 0.55 stands higher than the industry's ratio of 0.44. Also, TreeHouse Foods' debt-to-capitalization ratio has increased from 0.54 at the end of the second quarter.
- ▼ **Unfavorable Currency Translations:** TreeHouse foods has manufacturing facilities in the United States, Canada and Italy. Thus, the company's overseas subsidiaries buy several raw materials abroad, keeping it exposed to the risk of adverse currency movements. This can hamper overall profitability. Evidently, foreign currency headwinds had a slight negative impact on organic sales during the third quarter of 2020.

TreeHouse Foods grapples with softness in the Food Away From Home business due to higher social-distancing trends amid the pandemic. Also, volatile currency movements are a concern.

Last Earnings Report

TreeHouse Foods Q3 Earnings Beat Estimates, Sales Lag

TreeHouse Foods posted third-quarter 2020 results, wherein the bottom line beat the Zacks Consensus Estimate while sales lagged the same. Further, the company revised its financial guidance for 2020 and issued fourth-quarter view. Adjusted earnings from continuing operations amounted to 71 cents per share that surpassed the Zacks Consensus Estimate of 61 cents. Further, the bottom line advanced 29% year over year.

Net sales of \$1,045.7 million came below the consensus mark of \$1,066 million and declined 1.1% year over year. Organic sales grew 0.7% owing to higher volume/mix, backed by elevated retail demand due to the pandemic, which countered distribution loss impacts and weak demand in the food-away-from-home channel. Also, better pricing efforts, particularly in the Snacking & Beverages segment, contributed to quarterly growth.

Gross margin came in at 18%, expanding 40 basis points (bps) from the year-ago quarter's figure. This was mainly driven by improved channel mix of greater retail business and reduced operational expenses, which more than offset higher costs incurred in connection with the pandemic, like higher production shifts, increased sanitization measures, supplemental payments and protective equipment. In fact, adjusted gross margin expanded 160 bps to 19.7%, thanks to higher volumes and lower fixed costs.

Total operating expenses, as a percentage of sales, dropped 8.7 percentage points to 14.2%, on the back of gains from hedging activities and favorable currency movements. However, adjusted EBITDA from continuing operations rose 16.3% to \$131 million on reduced operational expenses and improved channel mix, partially countered by higher employee costs and other COVID-19-related costs.

Segment Details

Meal Preparation: During the quarter, sales in the segment fell 2.1% year over year to \$642.7 million. This can be attributable to adverse volume/mix, primarily stemming from distribution losses and lower food-away-from-home demand. Also, negative pricing actions marred the Single Serve Beverages unit. Direct operating income (DOI) margin in the segment declined 1.6 percentage points as labor shortages and warehouse expansion costs in a bid to fulfill COVID-19-induced demand acted as deterrents.

Snacking & Beverages: Net sales rose 0.5% to \$403 million on improved volume/mix, increased pricing efforts and innovation, which compensated for distribution losses and adverse mix associated with divestitures. DOI margin rose 6 percentage points owing to productivity gains led by pandemic-induced demand along with better pricing and reduced operation costs.

Other Updates & Guidance

The company concluded the quarter with cash and cash equivalents of \$365.1 million, long-term debt (excluding operating lease liabilities) of \$2,201.5 million and total shareholders' equity of \$1,827.3 million. In the first nine months of 2020, cash provided by operating activities of continuing operations amounted to \$124.5 million.

Management remains encouraged with its operations amid the pandemic-led burgeoning demand. The company remains optimistic about its prospects for the private-label space and sustained momentum for at-home food consumption. Encouragingly, it updated its 2020 sales view and issued a fourth-quarter guidance.

For 2020, net sales are now anticipated to be \$4.2-\$4.4 billion compared with its previously guided range of \$4.10-\$4.40 billion. Adjusted earnings from continuing operations are expected to be \$2.65-\$2.75 per share compared with \$2.55-\$2.75 forecasted earlier. Also, it foresees adjusted EBITDA in the range of \$490-\$510 million. Net sales for the fourth quarter of 2020 are expected in a band of \$1.11-\$1.17 billion. Adjusted EBITDA from continuing operations is anticipated in a band of \$140-\$160 million. Further, management expects adjusted earnings from continuing operations of \$1-\$1.1 per share.

TreeHouse has inked a definitive deal to acquire most of Ebro-owned Riviana Foods' portfolio for \$242.5 million in cash. This move is likely to contribute 20-30 cents in the first year post the completion of the deal. Further, regional brands, including Skinner, No Yolks, American Beauty, Creamette, San Giorgio, Prince and Light 'n Fluffy, Mrs. Weiss, Wacky Mac, P&R Procino-Rossi and New Mill, will be added to the company's existing portfolio. That said, the deal is subjected to customary closing conditions and estimated to be concluded by the fourth quarter of 2020.

Quarter Ending	09/2020
Report Date	Nov 05, 2020
Sales Surprise	-1.90%
EPS Surprise	16.39%
Quarterly EPS	0.71
Annual EPS (TTM)	2.76

Valuation

TreeHouse Foods shares are down 15.2% in the year-to-date period and 17.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 0.2% and 1.7%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry went up 3.6% while the sector gained 0.6%.

The S&P 500 index is up 13.3% in the year-to-date period and 17.3% in the past year.

The stock is currently trading at 14.1X forward 12-month earnings, which compares to 19.25X for the Zacks sub-industry, 20.18X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.56X and as low as 11.73X, with a 5-year median of 20.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 14.74X forward 12-month earnings.

The table below shows summary valuation data for THS

Valuation Multiples - THS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.1	19.25	20.18	22.64
	5-Year High	28.56	22.9	22.37	23.47
	5-Year Low	11.73	14.74	16.62	15.27
	5-Year Median	20.05	18.44	19.57	17.75
P/S F12M	Current	0.53	1.74	9.93	4.25
	5-Year High	1.16	2.05	11.17	4.3
	5-Year Low	0.34	1.4	8.14	3.17
	5-Year Median	0.61	1.71	9.91	3.67
EV/EBITDA F12M	Current	8.03	13.59	35.22	15.04
	5-Year High	13.83	14.54	37.47	15.48
	5-Year Low	6.78	10.79	25.86	10.69
	5-Year Median	9.25	13.08	33.8	13.28

As of 11/30/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 19% (207 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Neutral	3
Darling Ingredients Inc. (DAR)	Neutral	3
Flowers Foods, Inc. (FLO)	Neutral	4
Lamb Weston Holdings Inc. (LW)	Neutral	3
McCormick & Company, Incorporated (MKC)	Neutral	3
Sysco Corporation (SYY)	Neutral	3
Tate & Lyle PLC (TATYY)	Neutral	2
Post Holdings, Inc. (POST)	Underperform	5

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

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	THS	X Industry	S&P 500	CPB	FLO	LW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	A	A	C
Market Cap	2.32 B	3.53 B	25.55 B	15.12 B	4.70 B	10.59 B
# of Analysts	6	3	13	7	3	4
Dividend Yield	0.00%	0.00%	1.48%	2.80%	3.61%	1.27%
Value Score	B	-	-	C	B	C
Cash/Price	0.16	0.07	0.06	0.06	0.07	0.10
EV/EBITDA	26.47	13.17	14.57	13.38	13.65	16.93
PEG F1	2.87	3.89	2.76	11.83	NA	4.48
P/B	1.27	2.44	3.49	5.88	3.47	31.84
P/CF	6.71	12.16	13.64	12.33	13.47	19.15
P/E F1	15.11	18.00	21.68	17.04	17.43	31.23
P/S TTM	0.54	1.33	2.76	1.74	1.10	2.88
Earnings Yield	6.64%	4.49%	4.45%	5.88%	5.72%	3.21%
Debt/Equity	1.20	0.57	0.70	1.94	0.76	8.98
Cash Flow (\$/share)	6.13	2.68	6.93	4.06	1.65	3.78
Growth Score	D	-	-	A	A	B
Historical EPS Growth (3-5 Years)	-6.81%	4.27%	9.72%	-2.54%	4.30%	6.25%
Projected EPS Growth (F1/F0)	14.15%	14.04%	0.14%	-0.48%	32.64%	-7.30%
Current Cash Flow Growth	-1.33%	2.55%	5.22%	7.36%	1.85%	-13.39%
Historical Cash Flow Growth (3-5 Years)	5.96%	5.61%	8.33%	2.72%	1.66%	8.09%
Current Ratio	1.69	1.69	1.38	0.78	1.68	3.44
Debt/Capital	54.64%	36.72%	42.00%	66.03%	43.13%	89.98%
Net Margin	-0.12%	3.51%	10.44%	18.73%	2.30%	9.24%
Return on Equity	8.63%	11.37%	14.99%	40.53%	19.41%	130.91%
Sales/Assets	0.82	0.95	0.50	0.70	1.28	0.93
Projected Sales Growth (F1/F0)	-9.10%	0.00%	0.17%	-3.39%	5.80%	-5.99%
Momentum Score	D	-	-	A	A	C
Daily Price Change	2.77%	0.00%	-0.83%	2.12%	-0.31%	-1.11%
1-Week Price Change	3.01%	1.15%	2.18%	0.00%	-0.09%	5.13%
4-Week Price Change	5.06%	6.71%	10.14%	4.91%	-7.15%	10.22%
12-Week Price Change	-3.95%	2.21%	9.59%	5.13%	-7.73%	15.92%
52-Week Price Change	-17.36%	2.92%	6.28%	6.11%	2.92%	-13.86%
20-Day Average Volume (Shares)	699,953	141,161	2,163,247	1,625,332	1,082,432	1,131,832
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.29%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.18%	0.00%	0.09%	0.29%	4.37%	-1.07%
EPS F1 Estimate 12-Week Change	2.18%	1.91%	3.81%	1.38%	4.37%	11.28%
EPS Q1 Estimate Monthly Change	-2.98%	0.00%	0.00%	0.40%	4.41%	-1.99%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

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

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.