

T-Mobile US, Inc. (TMUS)

\$117.23 (As of 10/09/20)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

Summary

T-Mobile has deployed its mid-band (2.5 GHz) 5G spectrum in almost 210 cities and towns across the United States. The company has the largest nationwide 5G network, covering more than 250 million people. It surpassed AT&T in total branded customers across postpaid and prepaid to become America's #2 wireless operator. T-Mobile aims to deliver \$43 billion of synergies and achieve \$6 billion of annualized cost savings from its merger with Sprint. It plans to continue lighting up the 5G spectrum at an aggressive pace through 2020 and beyond. However, the company operates in a fiercely competitive and almost saturated U.S. telecom market. Low-priced service plans for individual consumers and small business entities have not improved the bottom line. Several promotional activities to lure customers from rivals have eroded its profitability.

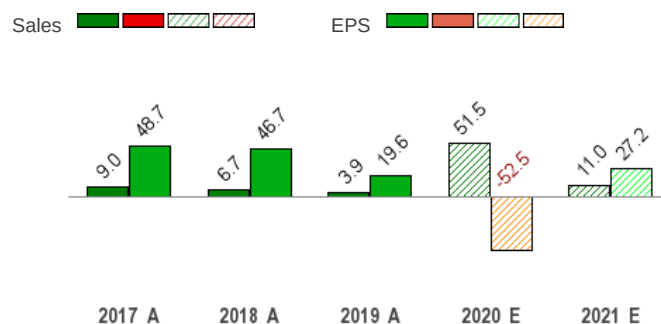
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$119.20 - \$62.68
20-Day Average Volume (Shares)	4,412,086
Market Cap	\$145.1 B
Year-To-Date Price Change	49.5%
Beta	0.32
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Wireless National
Zacks Industry Rank	Top 49% (124 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	454.6%
Last Sales Surprise	-0.6%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	10/26/2020
Earnings ESP	23.2%
P/E TTM	30.3
P/E F1	61.4
PEG F1	3.1
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	18,598 E	18,449 E	18,721 E	19,707 E	75,690 E
2020	11,113 A	17,671 A	18,203 E	19,149 E	68,185 E
2019	11,080 A	10,979 A	11,061 A	11,878 A	44,998 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.50 E	\$0.38 E	\$0.49 E	\$2.43 E
2020	\$1.23 A	\$0.61 A	\$0.54 E	\$0.42 E	\$1.91 E
2019	\$1.17 A	\$1.29 A	\$1.16 A	\$0.87 A	\$4.02 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 10/09/2020. The reports text is as of 10/12/2020.

Overview

Headquartered in Bellevue, WA, T-Mobile US, Inc. is a national wireless service provider. The company operates under two flagship brands, T-Mobile and MetroPCS. Notably, T-Mobile was formed in 2013 after the merger of T-Mobile USA Inc. and MetroPCS Communications Inc. Deutsche Telekom AG was the owner of the former T-Mobile USA Inc. Under the terms of the business combination with MetroPCS, Deutsche Telekom received shares of common stock representing a majority ownership interest in T-Mobile in exchange for its transfer of all of T-Mobile USA's common stock.

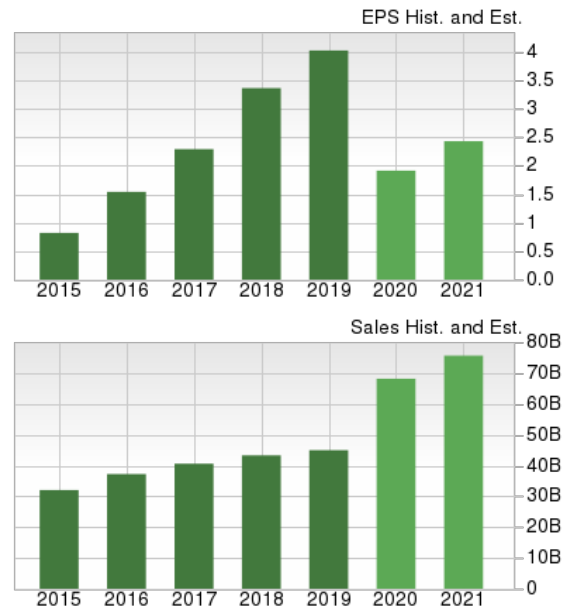
T-Mobile offers mobile voice, messaging, and data services in the postpaid, prepaid, and wholesale markets. The company is extensively deploying 4G LTE (Long-Term Evolution) networks. It also provides wireless devices, such as smartphones, tablets, and other mobile communication devices and accessories manufactured by various suppliers. T-Mobile's business largely depends on its "Un-carrier Value Proposition", which aims to enhance customer satisfaction by means of providing latest products at cheaper rates and uncomplicated terms of conditions. As of Dec 31, 2019, it employed nearly 53,000 full-time and part-time employees, including network, retail, administrative and customer support functions.

T-Mobile mainly reports under the following two segments.

Service (74.9% of total revenues in the second quarter of 2020):

Includes wireless communication services to branded postpaid and branded prepaid customers through a variety of service plan options.

Equipment (24.1%): Includes sale of devices to dealers and third-party distributors for resale through independent third-party retail outlets; while the balance accounts for Other (1%).



Source: Zacks Investment Research

Reasons To Buy:

- ▲ T-Mobile delivered a trailing four-quarter positive earnings surprise of 125.5%, on average. On Jul 1, it completed the divestment of Sprint's prepaid wireless business to DISH Network. The wireless operator fulfilled a major commitment made to the Department of Justice and the Federal Communications Commission as part of the merger. The divestment represents more than 9.3 million customers. T-Mobile will receive about \$1.4 billion subject to a customary post-closing working capital adjustment. With this transaction, T-Mobile and DISH entered into other ancillary agreements that include a spectrum purchase agreement. T-Mobile's commitment to building the world's best nationwide 5G network will likely bring super-fast speeds to urban areas as well as rural locations. Customers will have access to average 5G speeds up to eight times faster than LTE in a few years and 15 times faster over the next six years.
- ▲ T-Mobile has the largest nationwide 5G network, covering more than 250 million people across 1.3 million square miles. It is likely to gain from the deployment of a mid-band 5G spectrum in multiple locations.
- ▲ T-Mobile is confident of its ability to unlock massive synergies and build the world's best 5G network. It has the largest nationwide 5G network, covering more than 250 million people across 1.3 million square miles. T-Mobile has launched its mid-band (2.5 GHz) 5G spectrum in almost 210 cities and towns across the country for customers who want to experience up to gigabit-per-second peak 5G speeds. It plans to continue lighting up this 5G spectrum at an aggressive pace through 2020 and beyond. In many places, mid-band 5G average download speeds are around 300 Mbps with peak speeds approaching 1 Gbps. T-Mobile's 2.5 GHz 5G delivers super-fast speeds and extensive coverage with signals that go through walls and trees, unlike 5G networks that are controlled by the mmWave spectrum. It has almost twice as much low- and mid-band spectrum as AT&T and triple as that of Verizon. The company aims to deliver \$43 billion of synergies and achieve \$6 billion of annualized cost savings from the merger with Sprint.
- ▲ On Apr 1, T-Mobile closed its merger with Sprint to create a new wireless giant that rivals AT&T and Verizon in terms of subscribers. The deal, which allowed T-Mobile and Sprint to join their high- and low-band spectrum for a faster nationwide 5G rollout, has disrupted the competitive landscape of the U.S. telecom market. T-Mobile also completed its planned chief executive officer transition from John Legere to Mike Sievert ahead of schedule. T-Mobile continues to deploy 5G with a mid-band 2.5 GHz spectrum from Sprint. T-Mobile is expected to provide 5G to 99% of the U.S. population. It will likely provide average 5G speeds above 100 Mbps to 90% of the population. T-Mobile's business plan is built on covering 90% of rural America with average 5G speeds of 50 Mbps, up to two times faster than broadband.
- ▲ The company intends to offer the same services at a discounted rate for three years. The revamped T-Mobile will compete for consumers at all price points. Customers, including prepaid and Lifeline, will have access to the same 5G network and services. The combined company's network will have 14 times more capacity than on a standalone basis, which enables it to leapfrog the competition in network capability and customer experience. Moreover, T-Mobile has launched new Magenta for Business plans, with Microsoft 365 included at no extra charge on up to two lines per account. This underscores the company's commitment to supporting small business owners with the plan, devices and solutions they need to adapt to new circumstances. T-Mobile has upgraded its more than 7,000 retail stores to cater to the needs of small businesses across the country. T-Mobile and Microsoft have a shared commitment to helping small businesses save time and money by providing the tools and technology they need to succeed.

Reasons To Sell:

- ▼ The U.S. wireless market is highly competitive and almost saturated. T-Mobile has multiple wireless competitors, some of which have greater resources than it has and compete for customers based principally on service or device offerings, price, network coverage, speed, and quality and customer service. Success in the wireless service business largely depends on technical superiority, quality of services and scalability. In all three areas, T-Mobile is arguably behind its main rivals, Verizon Wireless and AT&T. Aggressive competition could limit the company's ability to attract and retain customers and may adversely affect its operating and financial results.
- ▼ To lure customers from competitors, T-Mobile has launched several low-priced service plans for individual consumers as well as small business entities. Although the company has increased its top line by adding customers, it has not significantly improved its bottom-line numbers. Importantly, the costs incurred to gain customers and enhance revenues have not rewarded its shareholders yet.
- ▼ Management's strategy of introducing several promotional activities such as free music streaming, video offer and price cuts on service plans and adoption of phone leasing plans, where equipment revenues are not booked upfront, creates a margin squeeze for the company. Furthermore, wireless carriers are engaging in leasing strategy to gain more customers, which expose them to credit risk. The financial impact of high leverage will be significantly adverse if the economic conditions deteriorate. Residual value of the surrendered phones, which the companies look to sell in other markets, may induce liquidity risk if the plan falls apart.
- ▼ As of Jun 30, 2020, the company had \$11,076 million in cash and equivalents with \$87,522 million of long-term debt compared with the respective tallies of \$1,112 million and \$36,916 million at the end of the previous quarter. T-Mobile currently has a debt-to-capital ratio of 0.59 compared with 0.52 of the industry. The times interest earned (TIE) ratio has declined since the last quarter to 2.9 at present relative to 3.9 of the industry. This indicates that the company is less likely to meet its debt obligations. It is to be seen whether T-Mobile can turn the tables in the coming days amid disruptions stemming from the COVID-19 pandemic.

T-Mobile operates in a fiercely competitive and almost saturated U.S. telecom market. Low-priced service plans for individual consumers and small business entities have not improved the bottom line.

Last Earnings Report

T-Mobile Beats Q2 Earnings on Sprint-Merger Synergies

T-Mobile reported stellar second-quarter 2020 results, with the bottom line beating the Zacks Consensus Estimate. This was the firm's first quarter as the New T-Mobile, since the closing of its merger with Sprint on Apr 1.

The Bellevue, WA-based company reportedly surpassed AT&T in total branded customers across postpaid and prepaid to become America's #2 wireless provider. Also, it has become the world's first operator to launch a nationwide standalone 5G network.

Quarter Ending 06/2020

Report Date	Aug 06, 2020
Sales Surprise	-0.57%
EPS Surprise	454.55%
Quarterly EPS	0.61
Annual EPS (TTM)	3.87

Net Income

Net income in the June-end quarter was \$110 million or 9 cents per share compared with \$939 million or \$1.09 per share in the year-ago quarter. The downside was due to the Sprint merger-related costs, impacts of COVID-19 and non-cash impairments. Adjusted earnings per share came in at 61 cents, which beat the Zacks Consensus Estimate by 50 cents and marked an earnings surprise of 454.6%.

Revenues

Quarterly aggregate revenues soared 61% year over year to \$17,671 million, driven by the Sprint merger and customer growth at T-Mobile. The figure excludes almost \$1.3 billion of Boost revenues that are reflected in discontinued operations. Nevertheless, the top line lagged the consensus estimate of \$17,773 million.

Segment Results

Total **Service** revenues increased 54.8% year over year to \$13,230 million. In this segment, postpaid revenues were \$9,959 million, up 77.4% year over year. The company recorded 1,112,000 postpaid net customer additions and 253,000 postpaid phone net customer additions in the quarter. Postpaid phone average revenue per user (ARPU) increased 4.1% year over year to \$47.99. Prepaid revenues were \$2,311 million, down 2.9% year over year. Prepaid net customer additions were 133,000 in the quarter. Prepaid ARPU inched up 0.9% to \$37.80. Wholesale revenues were \$408 million, up 30.4% year over year. Roaming and other service revenues were \$552 million, up 129%.

Equipment revenues totaled \$4,269 million, up 88.6% year over year. Other revenues were \$172 million, up 1.2%.

Other Details

Total operating expenses increased to \$16,851 million from \$9,438 million in the year-ago quarter. Operating income declined to \$820 million from \$1,541 million in the prior-year quarter. T-Mobile recorded adjusted EBITDA of \$7,017 million compared with \$3,461 million in the prior-year quarter.

Cash Flow & Liquidity

In the first half of 2020, T-Mobile generated \$2,394 million of net cash from operating activities compared with \$3,539 million in the year-ago period. In the first six months of 2020, free cash flow was \$2,173 million compared with \$1,787 million in the prior-year period. As of Jun 30, the company had \$11,076 million in cash and cash equivalents with \$62,783 million of long-term debt.

Outlook

For the second half of 2020, T-Mobile expects postpaid net customer additions between 1.7 million and 1.9 million. Adjusted EBITDA is estimated between \$12.4 billion and \$12.7 billion, which includes leasing revenues of \$2.4-\$2.6 billion. Cash purchases of property and equipment, including capitalized interest, are projected between \$6.5 billion and \$6.9 billion. Free cash flow, including payments for merger-related costs, is anticipated between \$300 million and \$500 million.

Recent News

On Sep 29, 2020, T-Mobile announced that it is bringing its mid-band 5G spectrum in parts of 121 additional cities and towns for customers who want to experience up to gigabit-per-second peak 5G speeds. With this move, the wireless operator's much-appreciated 5G network is available in almost 210 cities and towns across the country. T-Mobile plans to continue lighting up this 5G spectrum at an aggressive pace through 2020 and beyond. It has almost twice as much low- and mid-band spectrum as AT&T and triple as that of Verizon.

On Sep 21, T-Mobile announced the launch of new Magenta for Business plans, with Microsoft 365 included at no extra charge on up to two lines per account. This underscores the company's commitment to supporting small business owners with the plan, devices and solutions they need to adapt to new circumstances. T-Mobile has upgraded its more than 7,000 retail stores to cater to the needs of small businesses across the country. T-Mobile and Microsoft have a shared commitment to helping small businesses save time and money by providing the tools and technology they need to succeed. Small businesses are the lifeblood of the U.S. economy. The COVID-19 pandemic has hit them the most. T-Mobile Magenta for Business customers gets access to Office apps, Microsoft Teams and cloud storage. With the new offering, it is making Microsoft 365 tools available to its business customers. This, in turn, would help small business owners stay connected and become productive in a world of remote work.

On Jul 8, T-Mobile announced that it has opened up the Home Internet pilot to Kent, Muskegon and Ottawa county residents. The Home Internet pilot provides home broadband on T-Mobile's LTE network. With additional capacity unlocked by the merger with Sprint, T-Mobile is preparing to launch 5G Home Internet commercially nationwide, covering more than 50% of U.S. households within six years.

On Jul 1, T-Mobile announced the completion of the divestment of Sprint's prepaid wireless business to DISH Network. With this, the wireless carrier fulfilled a major commitment made to the Department of Justice and the Federal Communications Commission as part of the merger. The divestment of Sprint's prepaid business represents more than 9.3 million customers. T-Mobile will receive about \$1.4 billion subject to a customary post-closing working capital adjustment. With this transaction, T-Mobile and DISH entered into other ancillary agreements that include a spectrum purchase agreement. Per the deal, the divested prepaid customers and DISH's new wireless customers will have access to the new T-Mobile network in a phased approach. This will be achieved through a mobile virtual network operator arrangement as well as an infrastructure mobile network operator. This will enable roaming in certain areas until DISH's 5G network is ready.

Valuation

T-Mobile's shares are up 49% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 1% over the past year, but stocks in the Zacks Computer and Technology sector are up 39.3% in the same period.

The S&P 500 Index is up 17.4% in the past year.

The stock is currently trading at 13.22X trailing 12-month EV/EBITDA, which compares to 6.17X for the Zacks sub-industry, 15.03X for the Zacks sector and 15.24X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 14.53X and as low as 4.57X, with a 5-year median of 7.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$123 price target reflects 2.43X forward 12-month earnings.

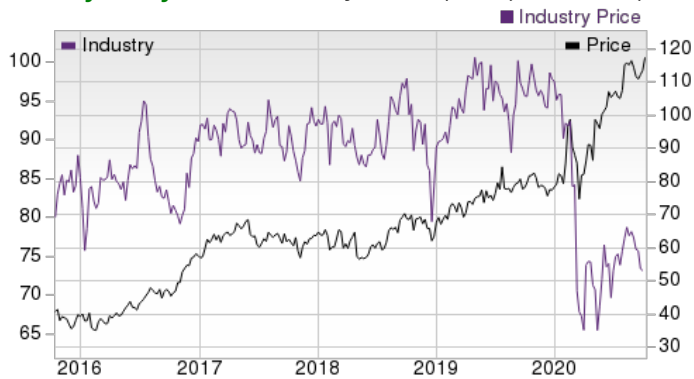
The table below shows summary valuation data for TMUS

Valuation Multiples - TMUS					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	13.22	6.17	15.03	15.24
	5-Year High	14.53	11.55	15.78	15.68
	5-Year Low	4.57	5.27	8.24	9.55
	5-Year Median	7.6	6.66	11.84	13.09
P/E F12M	Current	50.62	12.84	27.01	22.61
	5-Year High	58.7	15	28	23.47
	5-Year Low	15.35	10.1	16.95	15.27
	5-Year Median	23.19	12.49	19.95	17.68
P/S F12M	Current	1.96	1.61	4.23	4.16
	5-Year High	2.35	1.68	4.48	4.31
	5-Year Low	0.8	1.22	2.77	3.18
	5-Year Median	1.26	1.48	3.44	3.67

As of 10/09/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
GCI Liberty, Inc. (GLIBA)	Outperform	1
Gogo Inc. (GOGO)	Neutral	3
Liberty Latin America Ltd. (LILA)	Neutral	3
CenturyLink, Inc. (LUMN)	Neutral	3
ATT Inc. (T)	Neutral	4
United States Cellular Corporation (USM)	Neutral	3
Verizon Communications Inc. (VZ)	Neutral	3
Cogent Communications Holdings, Inc. (CCOI)	Underperform	5

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

Industry Comparison Industry: Wireless National				Industry Peers		
	TMUS	X Industry	S&P 500	T	USM	VZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	A	A	B
Market Cap	145.11 B	870.43 M	23.82 B	201.78 B	2.68 B	245.51 B
# of Analysts	5	5	14	16	4	16
Dividend Yield	0.00%	0.00%	1.59%	7.34%	0.00%	4.23%
Value Score	C	-	-	A	A	B
Cash/Price	0.08	0.16	0.07	0.08	0.16	0.03
EV/EBITDA	16.68	7.79	13.54	5.23	3.90	7.79
PEG F1	3.13	4.19	2.94	1.60	NA	3.64
P/B	2.59	1.44	3.51	1.05	0.62	3.83
P/CF	9.96	8.83	13.47	3.23	3.24	6.70
P/E F1	61.38	24.92	22.09	8.84	17.15	12.41
P/S TTM	2.81	1.21	2.67	1.15	0.67	1.89
Earnings Yield	1.63%	1.89%	4.31%	11.30%	5.84%	8.06%
Debt/Equity	1.14	0.37	0.70	0.79	0.37	1.66
Cash Flow (\$/share)	11.77	3.57	6.92	8.77	9.62	8.85
Growth Score	F	-	-	B	A	B
Historical EPS Growth (3-5 Years)	46.26%	6.43%	10.45%	7.55%	27.17%	6.18%
Projected EPS Growth (F1/F0)	-52.44%	-5.59%	-3.01%	-10.26%	26.22%	-0.65%
Current Cash Flow Growth	7.57%	-0.75%	5.47%	14.11%	4.94%	-0.75%
Historical Cash Flow Growth (3-5 Years)	16.70%	4.16%	8.50%	15.33%	10.62%	4.16%
Current Ratio	1.05	1.34	1.35	0.81	2.46	0.96
Debt/Capital	53.35%	44.22%	42.90%	44.22%	27.40%	62.35%
Net Margin	5.19%	4.48%	10.28%	6.84%	4.48%	14.76%
Return on Equity	9.60%	8.21%	14.79%	13.03%	4.24%	32.15%
Sales/Assets	0.46	0.48	0.51	0.32	0.48	0.45
Projected Sales Growth (F1/F0)	51.53%	0.00%	-0.62%	-6.42%	-0.97%	-3.00%
Momentum Score	B	-	-	B	C	F
Daily Price Change	1.51%	0.00%	0.24%	-1.01%	1.76%	0.24%
1-Week Price Change	1.24%	0.97%	2.13%	2.28%	-0.10%	-0.25%
4-Week Price Change	4.93%	0.00%	4.78%	-2.04%	-10.04%	-0.34%
12-Week Price Change	12.19%	2.88%	7.34%	-6.81%	-1.14%	6.36%
52-Week Price Change	49.72%	-3.62%	6.73%	-24.32%	-11.67%	-0.84%
20-Day Average Volume (Shares)	4,412,086	300,707	2,121,744	33,883,480	144,722	13,255,039
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.04%	0.00%	-0.06%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	-0.14%	0.00%	-0.06%
EPS F1 Estimate 12-Week Change	37.84%	13.61%	3.47%	0.53%	21.57%	0.53%
EPS Q1 Estimate Monthly Change	-5.47%	0.00%	0.00%	-0.10%	0.00%	0.12%

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	C
Growth Score	F
Momentum Score	B
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.