

Tetra Tech Inc. (TTEK)

\$108.03 (As of 10/12/20)

Price Target (6-12 Months): **\$113.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/02/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Increased federal government spending and persistent solid demand for Tetra Tech's services bode well for its businesses associated with each of its four client end markets. Also, acquisitions made by the company over the past few quarters are likely to prove beneficial in the upcoming quarters. Moreover, it remains committed toward increasing the wealth of its shareholders through dividends and share-repurchase programs. In the past three months, its shares have outperformed the industry. However, reduction in oil and gas capital expenditure, commercial buildings work, and some industrial manufacturing programs will adversely impact its near-term results. Further increase in debt levels can raise the company's financial obligations. A stronger U.S. dollar might further depress its overseas business's results in the quarters ahead.

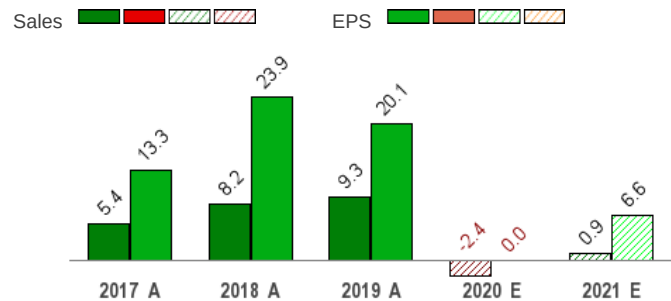
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$108.91 - \$63.61
20-Day Average Volume (Shares)	343,535
Market Cap	\$5.8 B
Year-To-Date Price Change	25.4%
Beta	0.85
Dividend / Dividend Yield	\$0.68 / 0.6%
Industry	Pollution Control
Zacks Industry Rank	Bottom 10% (229 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.9%
Last Sales Surprise	0.8%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/11/2020
Earnings ESP	0.0%
P/E TTM	33.5
P/E F1	32.0
PEG F1	2.1
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	598 E	583 E	597 E	621 E	2,370 E
2020	614 A	584 A	560 A	593 E	2,348 E
2019	553 A	585 A	623 A	640 A	2,406 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.75 E	\$0.86 E	\$0.93 E	\$3.38 E
2020	\$0.84 A	\$0.73 A	\$0.78 A	\$0.84 E	\$3.17 E
2019	\$0.70 A	\$0.70 A	\$0.89 A	\$0.88 A	\$3.17 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 10/12/2020. The reports text is as of 10/13/2020.

Overview

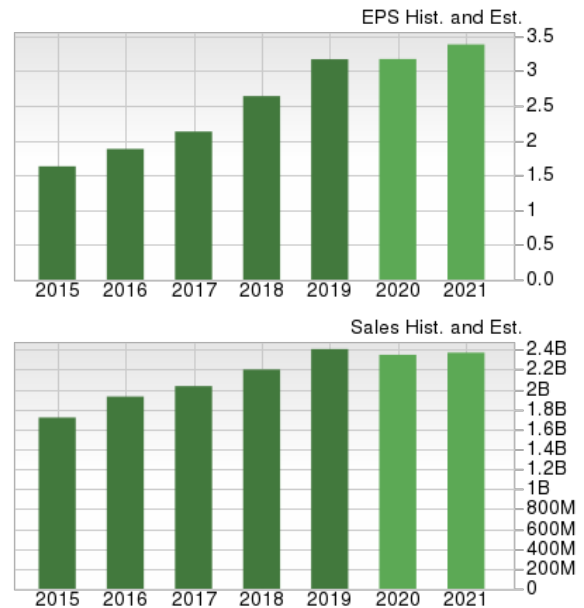
Headquartered in Pasadena, Tetra Tech is a leading provider of consulting, construction management, engineering, program management and technical services. It serves clients by providing cost-effective and innovative solutions on dealing with the fundamental needs for water, environmental and alternative energy services. Tetra Tech's has a diverse base of international and U.S. commercial clients, as well as U.S. federal and U.S. state and local government agencies.

Tetra Tech reports its businesses under the following two segments:

Government Services Group (57% revenues came from this segment in third-quarter fiscal 2020): This segment encompasses operations with U.S. government clients (federal, state and local) and all activities with development agencies.

Notably, the segment offers consulting and engineering services globally for a wide range of U.S. government clients. Some of the notable services offered are environmental monitoring, water and waste management, sustainable infrastructure design, international development and various civil infrastructure master planning and engineering design for transportation, facilities, as well as regional and local development.

Commercial / International Services Group (43%): This segment includes activities with U.S. commercial clients and all international activities excluding work performed for development agencies. The segment provides various services like environmental remediation, infrastructure and related environmental and geotechnical services as well as engineering and project management services.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Tetra Tech has a diversified business structure, which allows it to mitigate the adverse impacts of weakness in one end-market, with strength across others. In a bid to maximize growth prospects, the company has been focusing on high-end consulting, design and engineering services, which are helping it promote high-value and high-margin business, thus differentiating it from peers in the marketplace. In the past three months, Tetra Tech's shares have gained 37.9% compared with the industry's growth of 16.4%. Also, in the past 60 days, the consensus estimate for its earnings has risen 0.6% to \$3.17 per share for fiscal 2020 and 1.5% to \$3.38 for fiscal 2021.
- ▲ Tetra Tech's backlog at the end of the fiscal third quarter increased to \$3.07 billion, up 8% and 3% on a year-over-year and sequential basis, respectively. For the fiscal fourth quarter, the company expects each of its four client end markets — the U.S. Federal, the U.S. state and local, the U.S. commercial, and the international — to grow on a sequential basis. This is due to the higher federal government spending, and persistent solid demand for the company's services related to water supply, wastewater treatment, flood control, and environmental restoration. Also, Tetra Tech's federal advanced analytics practice has been integrated with its business and carries more than \$1 billion in contract capacity for IT services and advanced analytics with the U.S. Federal Government. In fiscal 2020, the company expects to generate revenues of \$200 million from this practice, with the target of achieving revenues of \$500 million by fiscal 2023. In the quarters ahead, the company is also likely to benefit from strength across its renewable energy end market.
- ▲ Acquisitions made over the past few quarters are likely to prove beneficial for Tetra Tech in the upcoming quarters. In July 2019, the company acquired shares of WYG plc, a provider of engineering and consulting services. Also, in April 2019, the company acquired eGlobalTech. Notably, eGlobalTech launched an AI solution named Auxilium in July 2019. In February 2020, Tetra Tech acquired Segue Technologies. The buyout is predicted to strengthen the company's business associated with government clients, especially the U.S. Department of Defense and commercial customers. Moreover, in September 2020, the company took over BlueWater Federal Solutions, Inc., a leading information technology systems and services company. The buyout will enhance its capabilities in cybersecurity solutions, artificial intelligence and mission-critical services for its federal clients. The acquired assets are integrated with Tetra Tech's Government Services Group.
- ▲ Tetra Tech has consistently returned significant cash to shareholders through dividends and share repurchases. During the first three quarters of fiscal 2020, the company bought back shares worth \$102.2 million (\$21 million in the fiscal third quarter) and distributed dividends totaling \$25.6 million (\$9.2 million in the fiscal third quarter). Notably, the quarterly dividend rate was hiked 13% in April 2020. Also, in January 2020, the company received the approval for a new \$200-million share buyback program. Exiting the fiscal third quarter, it is left with \$223 million of share repurchase authorization. Such diligent capital deployment strategies boost shareholders' wealth.

Tetra Tech is enjoying strong backlog level. Also, the diversified business model, acquired assets and shareholder-friendly policies remain tailwinds for the company.

Reasons To Sell:

- ▼ On a Price (P)/Earnings (E) (trailing 12 months - TTM) basis, Tetra Tech looks overvalued compared with the industry, with the respective tallies of 33.45X and 29.39X. Also, the company's current multiple is higher than the industry's three-month highest level of 29.39X. This makes us cautious about the stock. The duration of the coronavirus pandemic and the impacts of it on the company's business operations through some project delays will likely have a bearing on its results. For fiscal 2020, Tetra Tech projects adjusted earnings per share of \$3.13-\$3.18. The mid-point reflects a year-over-year decline of 0.5% from \$3.17 in fiscal 2019. Net revenues are anticipated to be \$2.32-\$2.36 billion, whereas it reported \$2.4 billion in fiscal 2019.
- ▼ International operations have exposed the company to the adverse impacts of macroeconomic cycles in the United States as well as unfavorable foreign currency movements. It is worth mentioning that approximately 30% of Tetra Tech's revenues were generated from international operations in the third quarter of fiscal 2020. A stronger U.S. dollar might further depress its overseas business's results in the quarters ahead.
- ▼ The company derives a significant portion of revenues from the U.S. federal, and the U.S. state and local customers. Such customers usually award multi-year contracts. We believe that any changes in the terms and clauses, and funding of the contracts will be detrimental. Also, the company's services offered in mining, and oil & gas markets are highly cyclical and vulnerable to economic downturns, which in turn are likely to impact its financials. For instance, fluctuations in market prices of metals — including uranium, precious metals, aluminum, copper, iron ore and potash — can cause its mining clients to cancel or curtail their projects, thus adding to the woes. In the quarters ahead, reduction in oil and gas capital expenditure, commercial buildings work, and some industrial manufacturing programs amid the coronavirus outbreak might adversely impact its performance.
- ▼ High debt levels can be concerning for Tetra Tech. In the last five fiscal years (2015-2019), the company's long-term debts recorded an increase of 7.8% (CAGR). Notably, at the end of the third quarter of fiscal 2020, the metric was \$264.7 million. Also, the company's cash and cash equivalents of \$141.7 million (exiting the fiscal third quarter) seems not to be impressive, considering its high debt profile. In addition, the company's ability to meet its debt obligations based on its current income has declined over the past quarter. Notably, its times interest earned ratio is 12.2, lower than 12.3 recorded at the end of the previous quarter. Further, increase in debt levels can raise the company's financial obligations.

High debt level, project delays and headwinds related to international exposure might be concerning for Tetra Tech.

Last Earnings Report

Tetra Tech Beats on Q3 Earnings and Sales, Ups View

Tetra Tech reported better-than-expected results for the third quarter of fiscal 2020 (ended Jun 28, 2020), with earnings surpassing estimates by 6.9%. This was the 12th consecutive quarter of impressive results.

The company's adjusted earnings per share in the reported quarter were 78 cents, surpassing the Zacks Consensus Estimate of 73 cents. Also, its earnings declined 12.4% from the year-ago quarter's 89 cents on weak sales generation, partially offset by lower costs and expenses.

Also, the bottom-line results fared well compared with the company's guidance of 72-75 cents per share.

Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	0.76%
EPS Surprise	6.85%
Quarterly EPS	0.78
Annual EPS (TTM)	3.23

Revenues & Segmental Performance

In the reported quarter, Tetra Tech generated adjusted revenues of \$709.7 million, reflecting a year-over-year decline of 14%. Alternatively, adjusted net revenues (adjusted revenues minus subcontractor costs) were \$560.3 million, reflecting a decline of 10.1% from the year-ago quarter and in line with the higher-end of the company's guidance of \$540-\$560 million.

Further, its revenues surpassed the Zacks Consensus Estimate of \$556.1 million by 0.8%.

Backlog at the end of the quarter was \$3,066.6 million, reflecting growth of 2.6% from the previous quarter.

Revenues from the U.S. Federal customers (accounting for 31% of the quarter's revenues) were flat year over year. Growth in federal IT businesses was more than offset by a delay in international development projects.

However, U.S. Commercial sales (25% of the quarter's revenues) declined 7% year over year due to lower industrial programs. Stability was witnessed in regulatory-driven programs.

The U.S. State and Local sales (14% of the quarter's revenues) increased 5% on strength in water infrastructure business and higher revenues from operational technology. International sales (30% of the quarter's revenues) improved 3% year over year.

The company reports revenues under the segments discussed below:

Net sales of Government Services Group were \$319.2 million, down 9.5% year over year.

Revenues from Commercial / International Services Group totaled \$241 million, reflecting a year-over-year decline of 11%.

Margin Profile

In the reported quarter, Tetra Tech's subcontractor costs totaled \$149.5 million, reflecting a decline of 26.2% from the year-ago quarter. Other costs of revenues were \$445.9 million, down 11.7% year over year. Selling, general and administrative expenses were \$50.8 million, down 4.4% year over year.

Adjusted operating income in the reported quarter decreased 8.8% year over year to \$59.6 million, while adjusted margin increased 10 basis points year over year to 10.6%.

Balance Sheet and Cash Flow

Exiting the fiscal third quarter, Tetra Tech had cash and cash equivalents of \$141.7 million, up 4.9% from \$135 million recorded at the end of the last reported quarter. Long-term debt was down 20.5% sequentially to \$264.7 million.

During the first three quarters of fiscal 2020, the company's proceeds from borrowings amounted to \$298.4 million, while repayments totaled \$297.9 million.

In the first nine months of fiscal 2020, it generated net cash of \$194.6 million from operating activities, reflecting an increase of 71.6% from the prior-year comparable period. Capital expenditure was \$9.4 million, down 6.4% year over year.

Shareholder-Friendly Policy

During the first three quarters of fiscal 2020, the company bought back shares worth \$102.2 million and distributed dividends totaling \$25.6 million.

Exiting the fiscal third quarter, the company has \$223 million worth authorization left under its approved buyback programs.

Outlook

For fiscal 2020 (ending September 2020), Tetra Tech anticipates net revenues of \$2.32-\$2.36 billion, while adjusted earnings are predicted to be \$3.13-\$3.18. The earnings projection is higher than the previously mentioned \$3.05-\$3.13.

For the fiscal fourth quarter (ending September 2020), the company anticipates net revenues of \$560-\$600 million and adjusted earnings per share of 78-83 cents. Tax rate is expected to be 24%.

Recent News

On **Sep 29, 2020**, Tetra Tech completed the acquisition of information technology systems and services company, BlueWater Federal Solutions, Inc. Financial terms of the deal were kept under wraps.

The buyout will enable Tetra Tech to strengthen its advanced analytics business, apart from enhancing its customer reach. In fact, BlueWater's comprehensive offerings of IT solutions and services will help Tetra Tech in boosting its capabilities in cybersecurity solutions, artificial intelligence and mission-critical services for its federal clients.

Notably, BlueWater will be part of the company's Government Services Group business segment.

On **Sep 17, 2020**, Tetra Tech secured a \$4.3-million contract from Toronto Water. Per the five-year, single-award deal, the company will provide advanced technology solutions to Toronto Water for managing its wastewater treatment system.

On **Sep 4, 2020**, Tetra Tech paid out a quarterly cash dividend of 17 cents per share to shareholders on record as of Aug 21, 2020.

On **Sep 1, 2020**, Tetra Tech secured a \$68-million contract from the U.S. Environmental Protection Agency ("EPA"). Per the seven-year, single-award contract, Tetra Tech will be responsible for offering extensive scientific and technical support services under the Superfund Technical Assessment and Response Team ("START V") in the EPA Region 8.

Notably, Tetra Tech's scope of work will include performing several services like contingency planning, field surveys, Superfund and brownfields site assessments, data management, and human health and ecological risk assessments.

On **Aug 25, 2020**, Tetra Tech clinched a \$39-million contract from the U.S. Agency for International Development ("USAID"). Per the five-year, single-award deal, the company will work on executing the Power Central Asia ("PCA") Activity.

The PCA Activity is designed to help countries like Kyrgyzstan, Kazakhstan, Turkmenistan, Tajikistan and Uzbekistan in achieving their national energy objectives and benefits from transborder energy trading apart from boosting energy security. The contract will involve Tetra Tech to offer technical services to utilities, national governments, and other parties in the Central Asia region.

On **Aug 18, 2020**, Tetra Tech secured a \$29.7-million contract from the USAID. Per the five-year, single-award agreement, the company will carry on USAID's Scaling Up Renewable Energy project ("SURE II").

The company will be responsible for offering technical services to facilitate USAID in developing sustainable renewable energy solutions and promoting the use of it in developing countries. Notably, Tetra Tech's scope of work will include creating programs that are focused on renewable energy integration in existent power grids apart from boosting national energy planning to make the best use of renewable technologies. Moreover, the company will help in developing an innovation fund for increasing the adoption of renewable energy technology.

Valuation

Tetra Tech shares are up 25.4% in the year-to-date period and 27.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.8% in the year-to-date period, while the Zacks Industrial Products sector is up 5.9%. Over the past year, the Zacks sub-industry is up 8.7%, while the sector increased 18.7%.

The S&P 500 Index has moved up 8% year to date and increased 17.4% in the past year.

The stock is currently trading at 31.81x forward 12-month earnings per share, which compares to 26.52x for the Zacks sub-industry, 23.44x for the Zacks sector and 22.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.81x and as low as 12.46x, with a 5-year median of 19.52x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$113 price target reflects 33.4x forward 12-month earnings per share.

The table below shows summary valuation data for TTEK.

Valuation Multiples - TTEK

Stock	Sub-Industry	Sector	S&P 500
-------	--------------	--------	---------

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	31.81	26.52	23.44	22.6
	5-Year High	31.81	27.45	23.44	23.47
	5-Year Low	12.46	14.29	12.55	15.27
	5-Year Median	19.52	18.83	17.68	17.68
P/S F12M	Current	2.45	1.67	3.13	4.16
	5-Year High	2.45	1.7	3.13	4.31
	5-Year Low	0.75	0.85	1.6	3.18
	5-Year Median	1.3	1.32	2.07	3.67

As of 10/12/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
AECOM (ACM)	Neutral	2
Booz Allen Hamilton Holding Corporation (BAH)	Neutral	3
CECO Environmental Corp. (CECE)	Neutral	3
Casella Waste Systems, Inc. (CWST)	Neutral	3
Donaldson Company, Inc. (DCI)	Neutral	3
Exponent, Inc. (EXPO)	Neutral	3
ICF International, Inc. (ICFI)	Neutral	3
Leidos Holdings, Inc. (LDOS)	Neutral	3

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

Industry Comparison Industry: Pollution Control				Industry Peers		
	TTEK	X Industry	S&P 500	ACM	EXPO	ICFI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	C	C	A
Market Cap	5.82 B	85.26 M	23.69 B	7.47 B	3.91 B	1.30 B
# of Analysts	3	2.5	13	3	2	3
Dividend Yield	0.63%	0.00%	1.59%	0.00%	1.00%	0.81%
Value Score	C	-	-	C	D	B
Cash/Price	0.03	0.12	0.07	0.18	0.05	0.01
EV/EBITDA	24.29	10.92	13.64	27.00	33.63	13.36
PEG F1	2.11	2.28	2.95	1.56	NA	1.88
P/B	5.86	1.44	3.55	1.92	11.73	1.84
P/CF	25.52	18.70	13.58	10.48	44.18	11.97
P/E F1	31.68	28.70	22.44	19.26	55.02	18.84
P/S TTM	1.89	1.13	2.67	0.50	9.53	0.88
Earnings Yield	3.13%	1.36%	4.29%	5.20%	1.82%	5.31%
Debt/Equity	0.27	0.18	0.70	0.53	0.00	0.63
Cash Flow (\$/share)	4.23	0.10	6.93	4.44	1.71	5.76
Growth Score	A	-	-	C	A	A
Historical EPS Growth (3-5 Years)	17.90%	25.29%	10.41%	-4.43%	19.58%	11.95%
Projected EPS Growth (F1/F0)	6.59%	-9.74%	-2.99%	16.56%	-10.13%	-11.81%
Current Cash Flow Growth	11.46%	7.42%	5.49%	-0.31%	19.56%	8.66%
Historical Cash Flow Growth (3-5 Years)	7.28%	14.42%	8.51%	15.22%	13.57%	9.89%
Current Ratio	1.31	1.66	1.35	1.27	3.50	1.56
Debt/Capital	21.04%	19.20%	42.91%	34.51%	0.00%	38.47%
Net Margin	4.56%	-2.46%	10.28%	-2.91%	19.87%	4.27%
Return on Equity	18.03%	5.95%	14.79%	9.85%	23.87%	11.02%
Sales/Assets	1.35	0.94	0.51	1.06	0.78	0.97
Projected Sales Growth (F1/F0)	0.95%	0.00%	-0.59%	-1.01%	-5.09%	-0.81%
Momentum Score	D	-	-	F	D	C
Daily Price Change	5.33%	0.00%	0.65%	0.84%	2.24%	2.62%
1-Week Price Change	4.04%	2.72%	4.06%	4.79%	4.59%	6.79%
4-Week Price Change	17.02%	5.97%	3.76%	19.33%	-1.59%	3.02%
12-Week Price Change	31.76%	4.51%	8.70%	26.70%	-5.72%	7.42%
52-Week Price Change	27.33%	-0.64%	6.31%	17.85%	8.80%	-9.96%
20-Day Average Volume (Shares)	343,535	24,821	2,117,216	1,729,192	360,128	114,893
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	4.80%	-5.79%	3.69%	-2.03%	3.38%	2.04%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
Momentum Score	D
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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