

## Tetra Tech Inc. (TTEK)

**\$89.11** (As of 01/17/20)

Price Target (6-12 Months): **\$94.00**

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: C

### Summary

Over the past year, Tetra Tech's shares have outperformed the industry. The company is currently focusing on high-end consulting and engineering services. It remains bullish about prospects across its clients — the U.S. federal, U.S. state and local, U.S. commercial and international. For fiscal 2020, it anticipates adjusted earnings of \$3.35-\$3.55 per share, suggesting rise from \$3.17 in fiscal 2019. For the fiscal year, the company expects revenues of \$2.4-\$2.6 billion. It recorded \$2.4 billion in revenues in fiscal 2019. However, the stock looks overvalued compared with the industry. Also, rising costs and concerns related to the U.S. federal business might be concerning. In addition, international operations have exposed the company to the adverse impact of macroeconomic cycles in the United States and forex woes.

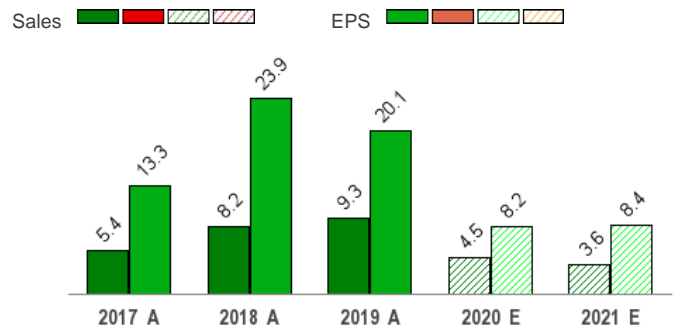
### Price, Consensus & Surprise



### Data Overview

|                            |                                 |
|----------------------------|---------------------------------|
| 52 Week High-Low           | <b>\$90.34 - \$48.52</b>        |
| 20 Day Average Volume (sh) | <b>195,394</b>                  |
| Market Cap                 | <b>\$4.9 B</b>                  |
| YTD Price Change           | <b>3.4%</b>                     |
| Beta                       | <b>1.05</b>                     |
| Dividend / Div Yld         | <b>\$0.60 / 0.7%</b>            |
| Industry                   | <b><u>Pollution Control</u></b> |
| Zacks Industry Rank        | <b>Top 45% (114 out of 254)</b> |

### Sales and EPS Growth Rates (Y/Y %)



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>3.5%</b>       |
| Last Sales Surprise       | <b>0.2%</b>       |
| EPS F1 Est- 4 week change | <b>0.0%</b>       |
| Expected Report Date      | <b>01/29/2020</b> |
| Earnings ESP              | <b>0.0%</b>       |
| P/E TTM                   | <b>28.1</b>       |
| P/E F1                    | <b>26.0</b>       |
| PEG F1                    | <b>1.7</b>        |
| P/S TTM                   | <b>1.6</b>        |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 638 E | 639 E | 647 E | 670 E | 2,605 E |
| 2020 | 609 E | 612 E | 645 E | 650 E | 2,515 E |
| 2019 | 553 A | 585 A | 623 A | 640 A | 2,406 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.83 E | \$0.84 E | \$1.01 E | \$1.02 E | \$3.72 E |
| 2020 | \$0.77 E | \$0.79 E | \$0.94 E | \$0.95 E | \$3.43 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 01/17/2020. The reports text is as of 01/20/2020.

## Overview

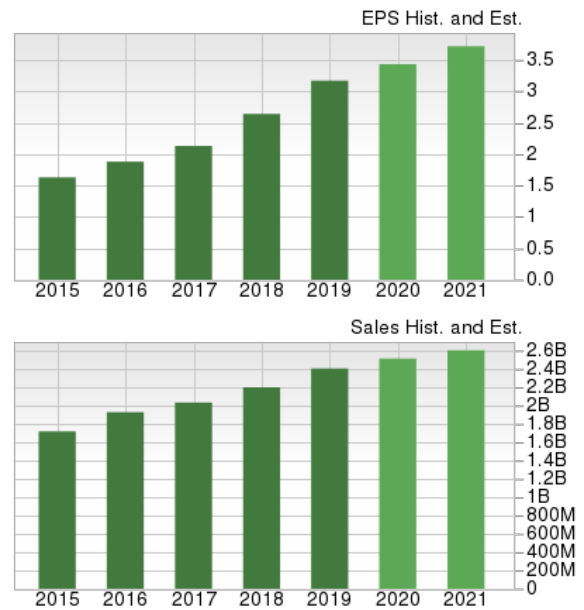
Headquartered in Pasadena, Tetra Tech is a leading provider of consulting, construction management, engineering, program management and technical services. It serves clients by providing cost-effective and innovative solutions on dealing with the fundamental needs for water, environmental and alternative 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:** 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:** 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.



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## Reasons To Buy:

▲ In the past year, Tetra Tech's shares have gained 66.7%, compared with the industry's growth of 31%. In fourth-quarter fiscal 2019, the company's earnings surpassed estimates by 3.53% and grew 17.3% from the year-ago quarter. The bottom-line results benefited from strengthening environmental, disaster response, renewable energy and other businesses. In a bid to maximize growth prospects, the company is currently focusing on high-end consulting and engineering services, which are helping it promote high-value and high-margin business, thus differentiating it from peers in the marketplace. For fiscal 2020, the company anticipates adjusted earnings of \$3.35-\$3.55 per share, suggesting rise from \$3.17 recorded in fiscal 2019. Also, it expects earnings of 75-80 cents per share in first-quarter fiscal 2020, whereas it reported 70 cents in the year-ago quarter.

Tetra Tech is enjoying strong backlog level. Also, strengthening business in the U.K. and Europe, acquired assets, and shareholder-friendly policies remain tailwinds for the company.

▲ Tetra Tech's top-line performance in fourth-quarter fiscal 2019 was impressive, with sales beating estimates by 0.22% and rising 14.3% year over year. Backlog at the end of the quarter grew 16.1% year over year to \$3,092 million. For fiscal 2020, the company expects sales from the U.S. federal clients to increase 5-10% on growth in the U.S. federal budget. It anticipates sales from the U.S. commercial clients to grow 3-8%, benefiting from green building design and environmental services. Also, the company expects the U.S. state and local sales to increase 10-15% on strengthening disaster recovering and municipal water infrastructure businesses. It projects International sales growth of 7-12%, driven by environmental and infrastructure programs. Tetra Tech anticipates net revenues of \$2.4-\$2.6 billion for fiscal 2020 and \$600-\$640 million for the first quarter. This compares favorably with net revenues of \$2.4 billion recorded in fiscal 2019 and \$553.4 million recorded in the first quarter of fiscal 2019.

▲ Tetra Tech believes that its acquisitive nature will aid in strengthening data analytical capabilities and business expansion in Europe and the U.K. In July 2019, the company acquired shares of WYG plc, a provider of engineering and consulting services. The buyout is predicted to enhance Tetra Tech's global presence, especially in the U.K. and Europe, and business in environment, water and infrastructure markets. Also, in April, the company acquired eGlobalTech. The buyout has been strengthening Tetra Tech's business from commercial and government customers. eGlobalTech, now part of Government Services Group, launched an AI solution named Auxilium in July 2019. Moreover, Tetra Tech has consistently returned significant cash to shareholders through dividends and share repurchases. During fiscal 2019, the company bought back shares worth \$100 million and distributed dividends worth \$29.7 million. It is worth noting here that Tetra Tech announced a 25% hike in the quarterly dividend rate in April 2019. Notably, it had \$125-million authorization left under its share buyback program at the end of the fourth quarter of fiscal 2019.

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## Reasons To Sell:

- ▼ On an EV/EBITDA (TTM) basis, Tetra Tech's stock looks overvalued compared with the industry, with the respective tallies of 19.22x and 12.77x. Also, the company's current multiple is higher than the industry's one-year highest level of 13.17x. In addition to stock's overvaluation compared with the industry, lowered earnings estimates for the company make us cautious. In the past 90 days, the consensus estimate for its earnings has been lowered by 2.6% to \$3.72 for fiscal 2021. This makes us cautious about the stock.
- ▼ Escalating costs have been concerning Tetra Tech over the past few quarters. For instance, the company's subcontractor costs and other cost of revenues (combined) rose 14.6% in the fourth quarter of fiscal 2019 from the year-ago comparable quarter. Also, other costs of revenues increased 14.9% in the quarter, while selling, general and administrative expenses expanded 25.9%. Adjusted operating margin in the quarter declined 80 basis points year over year. We believe that unwarranted rise in costs and expenses might be detrimental to Tetra Tech's financials in the upcoming quarters.
- ▼ 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 these 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 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 addition, demand for its oil and gas services fluctuates, and depends on customers' willingness to spend to explore, develop, produce, and transport oil and natural gas. Moreover, 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 32% of Tetra Tech's revenues were generated from international operations in the fourth quarter of fiscal 2019.

Concerns related to the U.S. federal business, high costs and headwinds related to international exposure might be concerning for Tetra Tech.

## Last Earnings Report

### Tetra Tech Q4 Earnings and Revenues Beat Estimates

Tetra Tech kept its earnings beat streak alive in the fourth quarter of fiscal 2019 (ended September 29, 2019), with earnings surpassing estimates by 3.53%.

The company's adjusted earnings per share in the reported quarter were 88 cents, surpassing the Zacks Consensus Estimate of 85 cents. Also, its earnings grew 17.3% from the year-ago quarter's 75 cents on strengthening businesses related to environmental, disaster response, renewable energy and other businesses.

For fiscal 2019, the company's adjusted earnings per share were \$3.17, up from the year-ago figure of \$2.64.

Quarter Ending **09/2019**

| Report Date      | Nov 13, 2019 |
|------------------|--------------|
| Sales Surprise   | <b>0.22%</b> |
| EPS Surprise     | <b>3.53%</b> |
| Quarterly EPS    | <b>0.88</b>  |
| Annual EPS (TTM) | <b>3.17</b>  |

### Revenues & Segmental Performance

In the reported quarter, Tetra Tech generated adjusted revenues of \$853.9 million, reflecting year-over-year growth of 14.3%. Alternatively, adjusted net revenues (adjusted revenues minus subcontractor costs) were \$640.2 million, reflecting growth of 13.6% from the year-ago quarter.

Further, the company's revenues surpassed the Zacks Consensus Estimate of \$629 million by 0.22%.

Backlog at the end of the quarter was \$3,092 million, reflecting growth of 16.1% from the year-ago figure.

Revenues from the U.S. federal customers (accounted for 28% of the quarter's revenues) rose 8% year over year on growth in environmental and water programs. Conversely, U.S. commercial sales (23% of the quarter's revenues) grew 1% year over year, driven by an increase in the U.S. renewable energy business. Also, the U.S. state and local sales (17% of the quarter's revenues) rose 31% on growth in disaster response & recovery planning as well as the broad-based infrastructure business. International sales (32% of the quarter's revenues) improved 21% on growth in renewable energy and UK environmental businesses.

The company reports revenues under the segments discussed below:

Net sales of Government Services Group were \$357.5 million, up 15% year over year. This improvement was driven by healthy growth in disaster response and recovery planning, and broad-based environmental and water programs.

Revenues from Commercial / International Services Group totaled \$282.7 million, reflecting year-over-year growth of 11.8%. Results were driven by healthy growth in environmental consulting in the U.K. and the strengthening of renewable energy sales in North America.

For fiscal 2019, the company's adjusted net revenues were \$2,406.1 million, reflecting growth of 8.9% from the previous year.

### Operating Margin

In the reported quarter, Tetra Tech's subcontractor costs totaled \$213.8 million, reflecting growth of 14.6% from the year-ago quarter. Other costs of revenues were \$532.7 million, up 14.9% year over year. Selling, general and administrative expenses were \$55.2 million, up 25.9% year over year.

Adjusted operating income in the reported quarter grew 5.1% year over year to \$65 million, while adjusted margin declined 80 basis points year over year to 10.2%.

### Balance Sheet and Cash Flow

Exiting the fiscal fourth quarter, Tetra Tech had cash and cash equivalents of \$120.7 million, up 8.6% from \$111.2 million recorded at the end of the last reported quarter. Long-term debt was down 18.6% sequentially to \$263.9 million.

In fiscal 2019, the company generated net cash of \$208.5 million from operating activities, 12.3% above the previous year. Capital expenditure was \$16.2 million, up from \$9.7 million in fiscal 2018.

During the year, the company bought back shares worth \$100 million and distributed dividends totaling \$29.7 million. It had \$125-million authorization left under the share buyback program at the end of the fiscal fourth quarter.

### Outlook

For fiscal 2020 (ending September 2020), Tetra Tech anticipates sales from U.S. federal clients to increase 5-10%, driven by growth in the U.S. federal budget. It expects sales from U.S. commercial clients to grow 3-8% on gains from green building design and environmental services.

Also, it anticipates that U.S. state and local sales will increase 10-15% on strengthening disaster recovering and municipal water infrastructure businesses. It expects international sales growth of 7-12%, driven by environmental and infrastructure programs.

For fiscal 2020, the company anticipates net revenues of \$2.4-\$2.6 billion while adjusted earnings are predicted to be \$3.35-\$3.55 per share. For the fiscal year, it expects effective tax rate of 23%.

For the fiscal first quarter (ending December 2019), the company anticipates net revenues of \$600-\$640 million and earnings per share of 75-80 cents.

## Recent News

On **Dec 13, 2019**, Tetra Tech paid out a quarterly dividend of 15 cents per share to shareholders on record as of Dec 2.

On **Dec 11, 2019**, Tetra Tech announced that it has secured a contract from the U.S. Environmental Protection Agency's Office of Science and Technology (EPA/OST). Per the \$21 million, single-award contract, the company will be responsible for supporting the Agency's objective in assessing and managing threats to ecological and human health.

On **Dec 3, 2019**, Tetra Tech announced that it has secured an architect-engineer contract from the U.S. Army Corps of Engineers, Transatlantic Middle East District (TAM). The five-year contract was valued at \$45 million. Notably, the company will provide services, including planning, program development, design generation and construction. These services will be vital in upgrading existing facilities and constructing state-of-the-art facilities for the federal agency.

On **Oct 28, 2019**, Tetra Tech announced that it secured a \$40-million contract from the U.S. Army Corps of Engineers ("USACE"). Per the five-year, multiple-award deal, the company will provide services related to flood risk management and erosion protection.

On **Oct 21, 2019**, Tetra Tech secured a \$30-million contract from the Mongolian government to provide services related to water supply management. The contract is valid for seven years.

## Valuation

Tetra Tech's shares are up 66.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector are up 31% and 15.5%, respectively.

The S&P 500 index has moved up 23.8% in the past year.

The stock is currently trading at 25.32x forward 12-month earnings per share, which compares to 22.49x for the Zacks sub-industry, 18.41x for the Zacks sector and 19.2x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.81x and as low as 12.46x, with a 5-year median of 18.58x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$94 price target reflects 26.71x 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 |
| P/E F12M                   | Current       | 25.32 | 22.49        | 18.41  | 19.2    |
|                            | 5-Year High   | 26.81 | 22.55        | 19.91  | 19.34   |
|                            | 5-Year Low    | 12.46 | 14.23        | 12.6   | 15.17   |
|                            | 5-Year Median | 18.58 | 18.2         | 16.54  | 17.44   |
| EV/EBITDA F12M             | Current       | 16.8  | 12.5         | 17.82  | 12.66   |
|                            | 5-Year High   | 17.17 | 12.5         | 18.22  | 12.66   |
|                            | 5-Year Low    | 6.88  | 5.16         | 10.69  | 9.08    |
|                            | 5-Year Median | 10.72 | 7.8          | 14.03  | 10.78   |
| EV/Sales F12M              | Current       | 1.96  | 1.84         | 3.14   | 3.26    |
|                            | 5-Year High   | 1.97  | 1.84         | 3.14   | 3.37    |
|                            | 5-Year Low    | 0.8   | 0.86         | 1.76   | 2.3     |
|                            | 5-Year Median | 1.29  | 1.35         | 2.28   | 2.79    |

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



## Top Peers

|   |            |
|---|------------|
| Leidos Holdings, Inc. (LDOS)                  | Outperform |
| AECOM (ACM)                                   | Neutral    |
| Advanced Emissions Solutions, Inc. (ADES)     | Neutral    |
| Booz Allen Hamilton Holding Corporation (BAH) | Neutral    |
| CECO Environmental Corp. (CECE)               | Neutral    |
| Casella Waste Systems, Inc. (CWST)            | Neutral    |
| Exponent, Inc. (EXPO)                         | Neutral    |
| ICF International, Inc. (ICFI)                | Neutral    |

| Industry Comparison Industry: Pollution Control |              |            |           | Industry Peers |              |              |
|---|--------------|------------|-----------|----------------|--------------|--------------|
|   | TTEK Neutral | X Industry | S&P 500   | ACM Neutral    | EXPO Neutral | ICFI Neutral |
| <b>VGM Score</b>                                | <b>B</b>     | -          | -         | <b>A</b>       | <b>D</b>     | <b>B</b>     |
| Market Cap                                      | 4.88 B       | 71.37 M    | 24.65 B   | 7.91 B         | 3.74 B       | 1.74 B       |
| # of Analysts                                   | 3            | 3          | 13        | 3              | 3            | 3            |
| Dividend Yield                                  | 0.67%        | 0.00%      | 1.73%     | 0.00%          | 0.89%        | 0.61%        |
| <b>Value Score</b>                              | <b>C</b>     | -          | -         | <b>A</b>       | <b>F</b>     | <b>B</b>     |
| Cash/Price                                      | 0.03         | 0.09       | 0.04      | 0.15           | 0.06         | 0.00         |
| EV/EBITDA                                       | 20.51        | 10.93      | 14.11     | 33.36          | 35.62        | 17.59        |
| PEG Ratio                                       | 1.73         | 1.67       | 2.08      | 1.23           | NA           | 2.01         |
| Price/Book (P/B)                                | 4.92         | 2.25       | 3.39      | 2.04           | 10.45        | 2.53         |
| Price/Cash Flow (P/CF)                          | 21.05        | 19.34      | 13.81     | 11.33          | 50.50        | 17.43        |
| P/E (F1)  | 25.98        | 24.76      | 19.19     | 15.19          | 45.14        | 20.11        |
| Price/Sales (P/S)                               | 1.57         | 1.10       | 2.69      | 0.39           | 9.36         | 1.19         |
| Earnings Yield                                  | 3.85%        | 3.95%      | 5.21%     | 6.58%          | 2.22%        | 4.98%        |
| Debt/Equity                                     | 0.27         | 0.26       | 0.72      | 0.84           | 0.05         | 0.54         |
| Cash Flow (\$/share)                            | 4.23         | 0.09       | 6.94      | 4.44           | 1.43         | 5.29         |
| <b>Growth Score</b>                             | <b>A</b>     | -          | -         | <b>A</b>       | <b>A</b>     | <b>B</b>     |
| Hist. EPS Growth (3-5 yrs)                      | 17.13%       | 29.71%     | 10.56%    | -1.32%         | 16.23%       | 13.00%       |
| Proj. EPS Growth (F1/F0)                        | 8.31%        | 43.04%     | 7.57%     | 20.48%         | 6.45%        | 9.55%        |
| Curr. Cash Flow Growth                          | 11.46%       | 4.93%      | 14.73%    | -0.31%         | 15.81%       | 14.24%       |
| Hist. Cash Flow Growth (3-5 yrs)                | 7.28%        | 7.28%      | 9.00%     | 15.22%         | 11.06%       | 10.36%       |
| Current Ratio                                   | 1.40         | 1.40       | 1.24      | 1.17           | 3.48         | 1.51         |
| Debt/Capital                                    | 21.06%       | 21.83%     | 42.99%    | 45.73%         | 4.94%        | 35.05%       |
| Net Margin                                      | 5.11%        | 0.18%      | 11.14%    | -1.29%         | 19.88%       | 4.68%        |
| Return on Equity                                | 17.92%       | 2.93%      | 17.16%    | 10.32%         | 23.62%       | 11.87%       |
| Sales/Assets                                    | 1.55         | 1.04       | 0.55      | 1.37           | 0.79         | 1.08         |
| Proj. Sales Growth (F1/F0)                      | 5.91%        | 8.69%      | 4.16%     | 5.02%          | 5.84%        | 7.45%        |
| <b>Momentum Score</b>                           | <b>C</b>     | -          | -         | <b>F</b>       | <b>D</b>     | <b>D</b>     |
| Daily Price Chg                                 | -0.15%       | 0.00%      | 0.27%     | 0.12%          | -0.74%       | -0.43%       |
| 1 Week Price Chg                                | 0.05%        | 0.27%      | 0.39%     | 7.80%          | -0.26%       | 0.64%        |
| 4 Week Price Chg                                | 3.93%        | 1.05%      | 2.95%     | 16.99%         | 3.53%        | 1.49%        |
| 12 Week Price Chg                               | 1.60%        | -3.45%     | 7.76%     | 24.00%         | 10.55%       | 11.10%       |
| 52 Week Price Chg                               | 68.77%       | 10.36%     | 22.29%    | 72.36%         | 35.96%       | 40.58%       |
| 20 Day Average Volume                           | 195,394      | 27,793     | 1,536,375 | 1,459,589      | 196,573      | 73,812       |
| (F1) EPS Est 1 week change                      | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.00%        | -1.36%       |
| (F1) EPS Est 4 week change                      | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.00%        | -1.36%       |
| (F1) EPS Est 12 week change                     | -1.06%       | -1.06%     | -0.40%    | -0.20%         | -0.21%       | -1.01%       |
| (Q1) EPS Est Mthly Chg                          | 0.00%        | 0.00%      | 0.00%     | 0.00%          | 0.00%        | -2.14%       |

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## 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 have an excellent 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.

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### 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 | C |
| 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.

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### Disclosures

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

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