

## Textron Inc. (TXT)

**\$69.97** (As of 06/07/21)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/15/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:C

Value: B

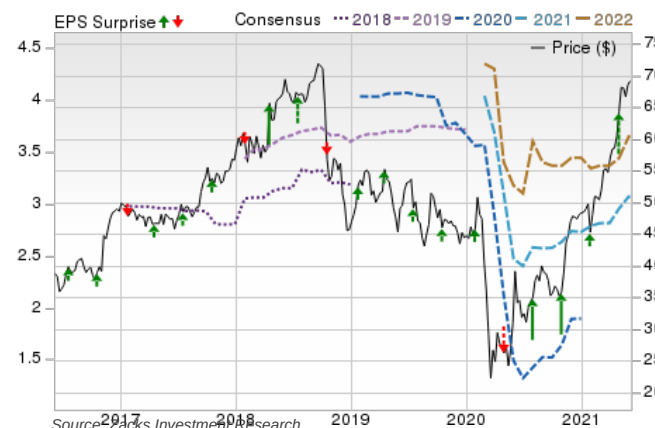
Growth: D

Momentum: D

## Summary

Textron continues to enjoy strong order flows, which not only strengthen its revenue generating capacity but also expand its footprint across the world. The company has been innovating products to capture further market share. Moreover, Textron boasts impressive financial ratios, which further reflect its solid financial position and may boost investor confidence in this stock. Its shares have outperformed its industry in the past year. However, consistently poor air travel trend and dismal outlook for the same are expected to hurt Textron's aftermarket volume. This in turn makes us skeptical about Textron Aviation's performance. Tariffs on imports of steel and aluminum might have pushed up expenses for manufacturing stocks like Textron. If coronavirus returns with a deadlier variant, Textron's operating results might get hurt.

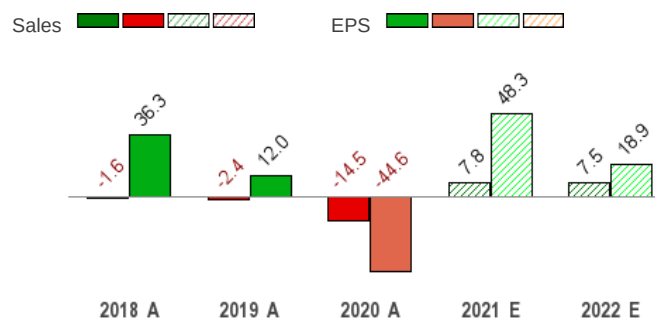
## Price, Consensus & Surprise



## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$70.00 - \$30.06</b>           |
| 20-Day Average Volume (Shares) | <b>1,192,876</b>                   |
| Market Cap                     | <b>\$15.8 B</b>                    |
| Year-To-Date Price Change      | <b>44.8%</b>                       |
| Beta                           | <b>1.80</b>                        |
| Dividend / Dividend Yield      | <b>\$0.08 / 0.1%</b>               |
| Industry                       | <b>Aerospace - Defense</b>         |
| Zacks Industry Rank            | <b>Bottom 25% (187 out of 251)</b> |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>48.9%</b>      |
| Last Sales Surprise           | <b>5.1%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.0%</b>       |
| Expected Report Date          | <b>07/29/2021</b> |
| Earnings ESP                  | <b>0.0%</b>       |
| P/E TTM                       | <b>28.9</b>       |
| P/E F1                        | <b>22.8</b>       |
| PEG F1                        | <b>1.8</b>        |
| P/S TTM                       | <b>1.3</b>        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2022 |         |         |         |         | 13,502 E |
| 2021 | 2,879 A | 2,916 E | 3,118 E | 3,707 E | 12,557 E |
| 2020 | 2,777 A | 2,472 A | 2,735 A | 3,667 A | 11,651 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2022 |          |          |          |          | \$3.65 E |
| 2021 | \$0.70 A | \$0.63 E | \$0.73 E | \$1.07 E | \$3.07 E |
| 2020 | \$0.35 A | \$0.13 A | \$0.53 A | \$1.06 A | \$2.07 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 06/07/2021. The report's text, and the analyst-provided sales estimates, EPS estimates and price target are as of 06/08/2021.

## Overview

Textron Inc., incorporated in 1923, is a global multi-industry company that manufactures aircraft, automotive engine components and industrial tools. It also offers solutions and services for aircraft, fastening systems, and industrial products and components. Its products include commercial and military helicopters, light- and mid-size business jets, plastic fuel tanks, automotive trim products, golf carts and utility vehicles, turf-car equipment, industrial pumps and gears, engineered fastening systems and solutions, and other industrial products. It is also a commercial finance company in select markets. Textron is known globally for its most recognizable and valuable brand names, such as Bell Helicopter, Cessna Aircraft Company, Jacobsen, Kautex, E-Z-GO and Greenlee.

Textron operates through five segments – Bell, Textron Systems, Textron Aviation, Industrial and Finance.

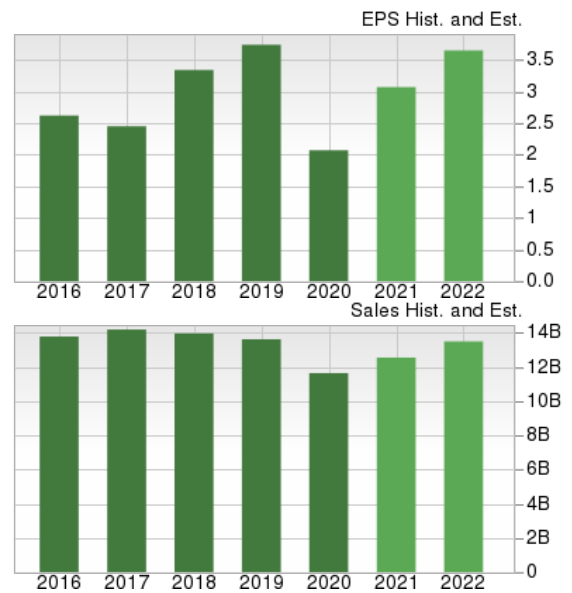
The Bell segment includes Bell Helicopter. Bell Helicopter primarily supplies helicopters and supports corporate and governmental entities. Segment revenues in 2020 were \$3,309 million, representing 28.4% of the top line.

The Textron Systems unit is a provider of integrated fastening systems solutions, which include fasteners, engineered assemblies and automation equipment. Segment revenues in 2020 were \$1,313 million, contributing 11.3% to the top line.

Textron Aviation's principal markets are general aviation aircraft, business jets and commercial transportation. Segment revenues in 2020 were \$3,974 million, contributing 34.1% to the top line.

The Industrial segment manufactures and sells miscellaneous industrial products, such as golf carts, off-road utility vehicles, plastic fuel systems, and industrial pumps and gears. Segment revenues in 2020 were \$3,000 million, accounting for 25.7% of the top line.

Textron Financial Corporation (TFC) is a commercial finance business with operations in aircraft finance, asset-based lending and structured finance. Segment revenues in 2020 were \$55 million, constituting 0.5% of the top line.



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## Reasons To Buy:

- ▲ Textron witnessed solid order activity in the first quarter across its commercial models, both domestically and internationally and across multiple end markets, including corporate, private, utility, and emergency medical services. This reflects modest improvement over the dismal order activity that the company has been experiencing over the past few quarters, courtesy of the COVID-19 impacts. In fact, the company observed increased customer demand for many of its commercial products in the first quarter, relative to levels it experienced since the pandemic began.

New product launch and stable financial position should boost Textron's growth trajectory.

Notably, in the first quarter, the company won a \$607 million contract for the sustainment and modernization of existing shadow systems to the upgraded Block III configuration. It also secured a contract worth \$293 million for competitive demonstration and risk reduction work as part of its Future Long Range Assault Aircraft (FLRAA) program. Such order activities resulted in total backlog count of \$9.6 billion at quarter end, up sequentially. Of this backlog, the company expects to recognize revenues of approximately 73% through 2022, an additional 23% through 2024, and the balance thereafter. These order flows not only strengthen Textron's revenue generating capacity but also expands its footprint across the world, courtesy of solid demand for its products outside the domestic market. Looking ahead, Textron expects a ramp up of its commercial deliveries, which should further boost its top line.

- ▲ Textron has been innovating new products to capture more shares in the market place. To this end, in the first quarter, certification program for its Cessna SkyCourier aircraft continued to progress well, as the company remains on track for this jet to enter in service in the second half of 2021. In relation to future vertical lift, Bell's V-280 continued to demonstrate impressive flight hour performance, with this jet having flown more than 215 flight hours for more than three years. As far as its FLRAA program is concerned, Bell is currently building the Invictus 360 prototype, where the company is progressing through the manufacturing process in anticipation of the first flight in the fourth quarter of 2022. Meanwhile, Textron Systems delivered the first RCV medium prototype to the Army customer as they look to test these vehicles and define requirements for the future of robotic combat vehicle programs. The company also delivered its new CJ4 Gen2 aircraft for the first time in the first quarter. Such deliveries of new products and more in pipeline, as is evident from the above discussion, are expected to boost the company's future operating results significantly and must have boosted investors' confidence in this stock. Evidently, the company's shares have gained 72.5% in the past year compared with the industry's 3.6% growth.
- ▲ Textron's cash and cash equivalents were \$2.08 billion at the end of first-quarter 2021. While its long-term debt was \$3.84 billion as of Mar 31, 2021, the company's current portion of long-term debt was \$0.26 billion. Although the long-term debt value is higher than its cash reserve, its current debt is lower than the cash balance. So, it is safe to say that the company boasts the ability to pay off its debt obligations in the short term.

Moreover, the company boasts impressive financial ratios, which further reflect its solid financial position. Notably, the company's current ratio at the end of the fourth quarter was 2.64, which being more than 1 indicates that this utility possesses sufficient capital on hand to meet its short-term obligations. This ratio also came in higher than the prior quarter value of 2.52. Also, the company's interest coverage ratio came in at 3.4 at the end of the first quarter, which improved sequentially from 2.7. Further, its debt-to-capital ratio at the end of first quarter was 0.41, lower than 0.43 at the end of fourth-quarter 2020. Such improving financial ratios should further boost investor confidence in this stock.

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## Reasons To Sell:

- ▼ In January 2020, former U.S. president, Donald Trump's administration announced plans to expand its existing tariffs on imports of steel and aluminum, stating that from Feb 8, steel and aluminum derivatives will also come under the tariff mandate. As a result of such impositions, Textron is expected to have been hit by higher prices, with the U.S. aerospace and defense industry involving significant manufacturing activities, which depend heavily on imported aluminum. However, the new United States administration has not yet announced any constructive plan to lift the aluminum and steel tariffs imposed by Donald Trump in 2018. Unless that is done, manufacturing stocks like Textron are projected to incur consistently higher expenses.
- ▼ Poor air travel trend continues as the pandemic continues to wreak havoc across the globe. This makes us skeptical about Textron's aftermarket volume, which in turn may continue to impact its Aviation segment's operational performance. To this end, it is imperative to mention that in a report published in April 2021, the International Air Transport Association (IATA) lowered its global revenue passenger kilometer (RPK) forecast to 26% for 2021. Considering such dismal outlook, there lies a slim chance of witnessing any stark improvement in Textron's aftermarket revenues, at least in the near term.
- ▼ It's true that a relatively improved situation over the past few months has boosted air travel to a certain extent. Consequently, Textron experienced improved demand for its commercial products in the first quarter. However, there remains no guarantee that the coronavirus will not return with a deadlier variant in the coming days, as it has in some parts of the world like India. If that happens, economic and other impacts of the pandemic may once again result in weak demand for Textron's aviation and commercial helicopter products and services, the delay or cancellation of existing orders, lower flight hours, and consequently, lower demand for parts and maintenance. It might also hurt its delivery performance.

Tariffs on imports of steel and aluminum along with poor air travel outlook might be a cause of concern for investors

## Last Earnings Report

### Textron Q1 Earnings Beat Estimates, Revenues Rise Y/Y

Textron reported first-quarter 2021 adjusted earnings of 70 cents per share, which exceeded the Zacks Consensus Estimate of 47 cents by 48.9%. The bottom line also improved 100% from 35 cents in the year-ago quarter.

Including one-time items, the company posted GAAP earnings of 75 cents per share compared with 22 cents generated in the year-ago quarter.

This year-over-year improvement can be attributed higher revenues as well as segment profit generated in the first quarter.

### Revenues

Total revenues came in at \$2,879 million, which beat the Zacks Consensus Estimate of \$2,741 million by 5%. The reported figure also improved 3.7% from the year-ago quarter's \$2,777 million on higher contributions from the company's Bell and Industrial segments.

Manufacturing revenues increased 3.7% to \$2,864 million. Revenues at the Finance division improved 7.1% to \$15 million.

### Segmental Performance

**Textron Aviation:** In the quarter under review, revenues at this segment slipped 0.8% to \$865 million from \$872 million in the year-ago quarter. The decline was primarily due to lower volume, primarily reflecting lower aftermarket volume.

The company delivered 28 jets, up from 23 in the year-ago quarter. It also delivered 14 commercial turboprops, down from 16 in first-quarter 2020.

The segment generated profit of \$47 million in the quarter compared with \$3 million earned in the year-ago quarter, driven by a favorable impact from performance of \$25 million and a favorable mix of products sold. The order backlog at the end of the quarter was \$2.1 billion.

**Bell:** Revenues from this segment were \$846 million, up 2.8% from the year-ago quarter's \$823 million, primarily due to higher commercial revenues.

The segment delivered 17 commercial helicopters in the quarter, up from 15 in last year's quarter.

Segment profits were down 8.7% to \$105 million on account of favorable performance. Bell's order backlog at the end of the quarter was \$5.2 billion, down \$0.5 billion sequentially.

**Textron Systems:** Revenues at this segment came in at \$328 million, flat year over year.

Segmental profits increased 96.2% year over year to \$51 million in the first quarter.

Textron Systems' backlog at the end of the first quarter was \$2.4 billion, up \$0.5 billion sequentially.

**Industrial:** Revenues at this segment improved 11.5% to \$825 million, primarily due to higher volume and mix of \$47 million and a favorable impact of \$20 million from pricing, primarily in the Specialized Vehicles product line. Also, foreign exchange rate fluctuations benefited revenues.

Moreover, segment profit was \$47 million compared with \$9 million in the previous-year quarter owing to higher volume and mix.

**Finance:** Revenues at this segment increased to \$15 million from \$14 million in the year-ago quarter.

### Financials

As of Apr 3, 2021, cash and cash equivalents totaled \$1,897 million compared with \$2,146 million as of Jan 2, 2021.

Cash flow from operating activities amounted to \$107 million at the end of the first quarter against cash outflow of \$393 million at the end of the prior-year period.

Capital expenditures were \$53 million in first-quarter 2021 compared with \$50 million in first-quarter 2020.

Long-term debt was \$3,183 million as of Apr 3, 2021, compared with \$3,198 million as of Jan 2, 2021.

| Quarter Ending   | 03/2021      |
|------------------|--------------|
| Report Date      | Apr 29, 2021 |
| Sales Surprise   | 5.05%        |
| EPS Surprise     | 48.94%       |
| Quarterly EPS    | 0.70         |
| Annual EPS (TTM) | 2.42         |

## Recent News

On **Apr 9, 2021**, Textron Inc.'s business unit, Textron Aviation secured a contract, per which it will provide sustaining engineering and program management services for the T-6 aircraft. The deal has been awarded by the Air Force Life Cycle Management Center, Tinker Air Force Base, OK. Valued at \$95.1 million, the contract is expected to get completed by Apr 12, 2026. Work related to the deal is scheduled to be executed in Wichita, KS.

On **Mar 8, 2021**, Textron announced that Textron Aviation has received Federal Aviation Administration (FAA) Supplemental Type Certificate (STC) approval for the new Beechcraft King Air Ground Cooling aftermarket upgrade for Beechcraft King Air 200 and 300 series turboprops. With King Air Ground Cooling installed, customers can provide flood cooling into the cabin before departure, enhancing passenger and crew comfort.

On **Feb 24, 2021**, Textron announced that Textron Aviation has delivered nearly 560 aircraft to customers worldwide in 2020, leading the General Aviation Manufacturers Association (GAMA) annual shipments and billings report published this week. In total, Textron Aviation delivered more than a quarter of all general aviation aircraft last year. The report also reveals Textron Aviation as the world's third largest jet manufacturer after Boeing and Airbus, while surpassing Boeing's turbine fixed-wing deliveries 251 to 210.

## Valuation

Textron's shares are up 44.7% in the year-to-date period and 72.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 16.6% in the year-to-date period, while the Zacks Aerospace sector are up 16.2%. Over the past year, the Zacks sub-industry is up 3.6% while the sector is up 3.3%.

The S&P 500 index is up 13.2% in the year-to-date period and 33.1% in the past year.

The stock is currently trading at 21.1X of forward 12-month earnings, which compares to 21.9X for the Zacks sub-industry, 23.3X for the Zacks sector and 21.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.3X and as low as 5.9X, with a 5-year median of 17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$74 price target reflects 22.3X earnings value.

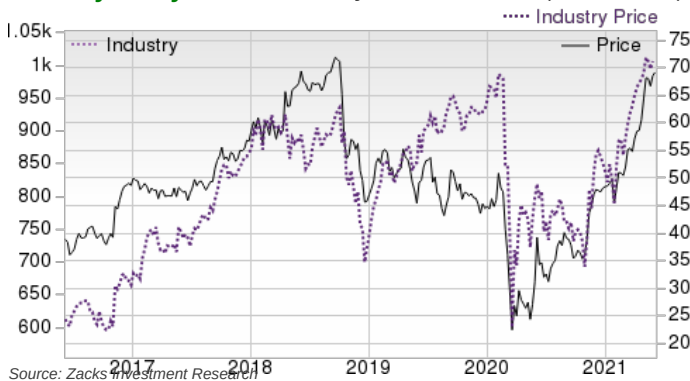
The table below shows summary valuation data for TXT

| Valuation Multiples - TXT |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 21.06 | 21.87        | 23.34  | 21.84   |
|                           | 5-Year High   | 23.29 | 22.54        | 23.34  | 23.83   |
|                           | 5-Year Low    | 5.9   | 14.52        | 14.31  | 15.31   |
|                           | 5-Year Median | 16.95 | 18.9         | 18.1   | 18.05   |
| P/S F12M                  | Current       | 1.22  | 1.44         | 2.03   | 4.72    |
|                           | 5-Year High   | 1.22  | 1.64         | 2.03   | 4.74    |
|                           | 5-Year Low    | 0.35  | 0.99         | 0.97   | 3.21    |
|                           | 5-Year Median | 0.87  | 1.32         | 1.29   | 3.72    |
| EV/SALES TTM              | Current       | 1.49  | 2.19         | 2.85   | 4.84    |
|                           | 5-Year High   | 1.49  | 2.19         | 3      | 4.85    |
|                           | 5-Year Low    | 0.49  | 1.04         | 1.16   | 2.65    |
|                           | 5-Year Median | 1.09  | 1.6          | 1.74   | 3.64    |

As of 06/07/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 25% (187 out of 251)



## Top Peers

| Company (Ticker)                                | Rec     | Rank |
|-------------------------------------------------|---------|------|
| The Boeing Company (BA)                         | Neutral | 3    |
| Embraer Empresa Brasileira de Aeronautica (ERJ) | Neutral | 3    |
| General Dynamics Corporation (GD)               | Neutral | 3    |
| Huntington Ingalls Industries, Inc. (HII)       | Neutral | 3    |
| Leidos Holdings, Inc. (LDOS)                    | Neutral | 3    |
| L3Harris Technologies Inc (LHX)                 | Neutral | 3    |
| Lockheed Martin Corporation (LMT)               | Neutral | 3    |
| Northrop Grumman Corporation (NOC)              | Neutral | 3    |

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

| Industry Comparison Industry: Aerospace - Defense |           |            |           | Industry Peers |           |         |
|---------------------------------------------------|-----------|------------|-----------|----------------|-----------|---------|
|                                                   | TXT       | X Industry | S&P 500   | GD             | LMT       | NOC     |
| Zacks Recommendation (Long Term)                  | Neutral   | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                           | 2         | -          | -         | 3              | 3         | 3       |
| VGM Score                                         | C         | -          | -         | C              | A         | C       |
| Market Cap                                        | 15.79 B   | 13.73 B    | 30.32 B   | 54.19 B        | 108.81 B  | 59.85 B |
| # of Analysts                                     | 5         | 6          | 12        | 9              | 9         | 6       |
| Dividend Yield                                    | 0.11%     | 0.06%      | 1.29%     | 2.48%          | 2.66%     | 1.69%   |
| Value Score                                       | B         | -          | -         | A              | A         | A       |
| Cash/Price                                        | 0.13      | 0.07       | 0.06      | 0.03           | 0.03      | 0.06    |
| EV/EBITDA                                         | 20.92     | 10.96      | 17.33     | 12.25          | 11.62     | 12.37   |
| PEG F1                                            | 1.81      | 1.87       | 2.13      | 2.39           | 3.20      | NA      |
| P/B                                               | 2.63      | 3.62       | 4.17      | 3.53           | 17.18     | 5.69    |
| P/CF                                              | 18.49     | 13.41      | 17.93     | 13.60          | 13.25     | 11.85   |
| P/E F1                                            | 22.79     | 17.16      | 21.52     | 17.16          | 14.64     | 15.17   |
| P/S TTM                                           | 1.34      | 1.38       | 3.52      | 1.41           | 1.65      | 1.60    |
| Earnings Yield                                    | 4.39%     | 4.39%      | 4.55%     | 5.83%          | 6.83%     | 6.59%   |
| Debt/Equity                                       | 0.64      | 0.69       | 0.66      | 0.65           | 1.84      | 1.21    |
| Cash Flow (\$/share)                              | 3.78      | 1.42       | 6.83      | 14.10          | 29.54     | 31.37   |
| Growth Score                                      | D         | -          | -         | D              | A         | D       |
| Historical EPS Growth (3-5 Years)                 | 0.84%     | 15.19%     | 9.44%     | 4.17%          | 19.38%    | 22.23%  |
| Projected EPS Growth (F1/F0)                      | 48.31%    | 12.97%     | 21.30%    | 1.63%          | 9.14%     | 3.63%   |
| Current Cash Flow Growth                          | -32.66%   | -11.78%    | 0.98%     | -6.21%         | 11.52%    | 7.37%   |
| Historical Cash Flow Growth (3-5 Years)           | -5.66%    | 3.26%      | 7.28%     | 3.26%          | 12.19%    | 18.58%  |
| Current Ratio                                     | 2.64      | 1.36       | 1.39      | 1.35           | 1.38      | 1.46    |
| Debt/Capital                                      | 39.01%    | 42.04%     | 41.53%    | 39.45%         | 64.80%    | 54.81%  |
| Net Margin                                        | 3.66%     | 2.98%      | 11.95%    | 8.22%          | 10.53%    | 12.10%  |
| Return on Equity                                  | 9.61%     | 9.37%      | 16.36%    | 21.27%         | 134.40%   | 40.40%  |
| Sales/Assets                                      | 0.76      | 0.76       | 0.51      | 0.76           | 1.30      | 0.86    |
| Projected Sales Growth (F1/F0)                    | 7.77%     | 4.41%      | 9.30%     | 2.88%          | 4.41%     | -3.11%  |
| Momentum Score                                    | D         | -          | -         | D              | B         | D       |
| Daily Price Change                                | 1.26%     | 0.15%      | -0.33%    | -0.93%         | -0.66%    | -1.50%  |
| 1-Week Price Change                               | 0.92%     | 1.48%      | 0.58%     | 1.93%          | 3.11%     | 3.18%   |
| 4-Week Price Change                               | 2.82%     | 0.87%      | 0.12%     | -1.45%         | -0.41%    | -0.52%  |
| 12-Week Price Change                              | 26.53%    | 8.52%      | 6.91%     | 8.52%          | 13.02%    | 21.62%  |
| 52-Week Price Change                              | 72.55%    | 11.24%     | 29.97%    | 14.30%         | -5.50%    | 6.61%   |
| 20-Day Average Volume (Shares)                    | 1,192,876 | 515,929    | 1,799,698 | 953,062        | 1,219,779 | 750,879 |
| EPS F1 Estimate 1-Week Change                     | 0.00%     | 0.00%      | 0.00%     | 0.10%          | -0.03%    | -0.10%  |
| EPS F1 Estimate 4-Week Change                     | 0.00%     | 0.00%      | 0.01%     | 0.10%          | 0.07%     | -0.10%  |
| EPS F1 Estimate 12-Week Change                    | 9.12%     | 1.60%      | 3.36%     | 1.05%          | 1.60%     | 3.87%   |
| EPS Q1 Estimate Monthly Change                    | 1.36%     | 0.00%      | 0.00%     | -1.32%         | 0.46%     | 0.26%   |

Source: Zacks Investment Research

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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 maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

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

### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>D</b> |
| Momentum Score | <b>D</b> |
| VGM Score      | <b>C</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

**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.

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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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## 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.

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**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.

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**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.

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**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.