

Viasat, Inc. (VSAT)

\$36.44 (As of 09/14/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

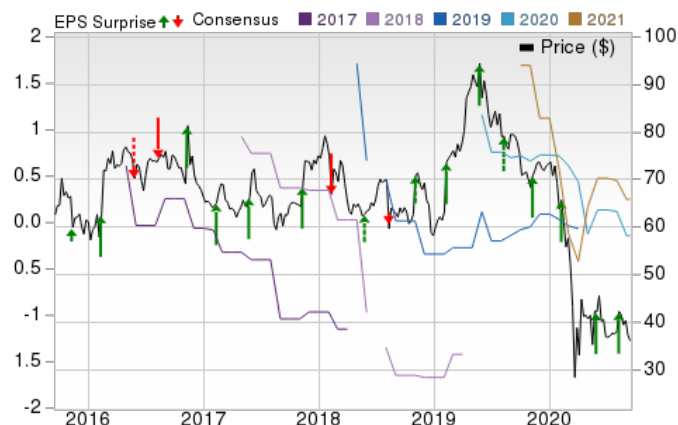
Growth: B

Momentum: C

Summary

Viasat operates in a highly dynamic and competitive market. High R&D expenses related to the commercial launch of Viasat-3 satellites remain a potent headwind. In-Flight Connectivity (IFC) weakness resulting from the COVID-19 pandemic will likely hinder revenue growth in fiscal 2021. IFC is also expected to continue witnessing adverse impacts until air travel recovers. However, Viasat's impressive bandwidth productivity sets it apart from conventional and lower-yield satellites providers who run on incumbent business models. ARPU has also improved on the back of solid retail distribution network. Mobile broadband will likely act as a profit churner for the company as it enjoys a competitive advantage in bandwidth economics, global coverage, flexibility and bandwidth allocation.

Price, Consensus & Surprise

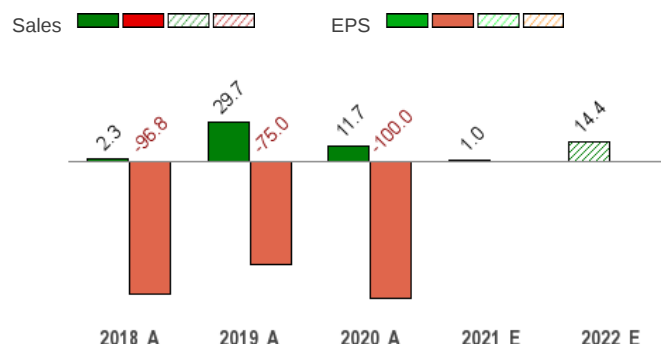


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$80.63 - \$25.10
20-Day Average Volume (Shares)	570,593
Market Cap	\$2.5 B
Year-To-Date Price Change	-50.2%
Beta	1.13
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Wireless Equipment
Zacks Industry Rank	Bottom 29% (178 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	53.5%
Last Sales Surprise	3.0%
EPS F1 Estimate 4-Week Change	1.6%
Expected Report Date	11/05/2020
Earnings ESP	-14.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	628 E	654 E	746 E	761 E	2,670 E
2021	530 A	565 E	607 E	626 E	2,333 E
2020	537 A	592 A	588 A	592 A	2,309 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.13 E	\$0.14 E	\$0.22 E	-\$0.06 E	\$0.25 E
2021	-\$0.20 A	-\$0.05 E	\$0.06 E	\$0.07 E	-\$0.15 E
2020	\$0.10 A	\$0.05 A	\$0.10 A	\$0.03 A	\$0.00 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 09/14/2020. The reports text is as of 09/15/2020.

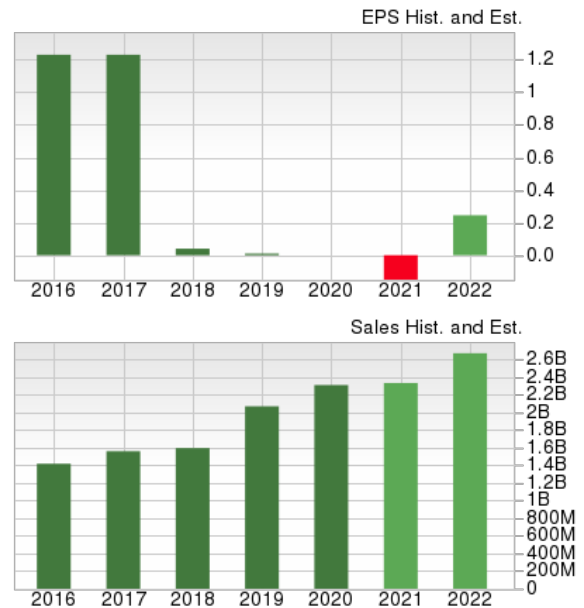
Overview

Headquartered in Carlsbad, CA, Viasat designs, develops and markets advanced digital satellite telecommunications and other wireless networking and signal processing equipment. The company serves its high-bandwidth, high-performance communications solutions to public as well as military, enterprises and governments enterprises.

Viasat provides broadband services named 'Exede' in North America. This features the world's highest capacity satellite – ViaSat-1; satellite broadband networking systems; global mobile satellite services comprising high-speed in-flight Internet as well as global tracking and messaging; and Wi-Fi and other hotspot support, operations and management systems. Apart from these, the company offers cybersecurity and network-centric military communication systems for the U.S. government and its alliances.

Viasat has three operating segments that are as follows:

- **Satellite Services** (38.1% of total revenues in first-quarter fiscal 2021): Under this segment, Viasat offers retail and wholesale satellite-based broadband services to mobile broadband customers and enterprises mainly in the U.S. Apart from providing Exede broadband services, the company presents a platform for network management services provision to national and international satellite service providers.
- **Commercial Networks** (12.7%): The segment creates and produces a varied range of comprehensive and advanced satellite and other wireless communication systems as well as ground networking equipment and products. These offerings are aimed at addressing five key market segments: consumer, enterprise, maritime, in-flight and ground mobile applications.
- **Government Systems** (49.3%): Through this segment, Viasat creates and presents network-centric IP-based fixed and mobile secure government communications systems and solutions for its federal customers such as DoD, armed forces, public safety first-responders and remote government employees. The segment offering is strategized at aiding the collection and distribution of secure real-time digital information between communications nodes, command centers and air defense systems.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Viasat enjoys a leading position in the satellite and wireless communications market. With the rapid proliferation of the smartphone market and usage of mobile broadband, the user demand for coverage speed and quality has increased, which in turn is fueling the demand for network tuning and optimization to maintain high data traffic. The company attracts millions of U.S. consumers and enterprises by its high-quality broadband service. Encouragingly, Viasat's blue-chip customer base, which comprises of the U.S. Department of Defense, civil agencies, allied foreign governments, satellite network integrators as well as large communications service providers and enterprises adds to its strength. Currently, the company's Government Systems is acting as a major profit churner. Despite supply chain disruptions stemming from the COVID-19 pandemic, revenues from Government Systems held its fort in the last reported quarter owing to new orders under IDIQ agreements. Going forward, Viasat is eyeing opportunities to extend broadband satellite mobility to rotary wing aircraft, as it is a large addressable market that can emerge as a key profit churner.
- ▲ Viasat's Satellite Services business is progressing well, with key metrics including steady growth of ARPU (average revenue per user) and revenues showing impressive growth. ARPU is growing on the back of solid retail distribution network, which accounts for a growing proportion of high value and high bandwidth subscriber base. In the last reported quarter, revenues from Satellite Services increased 2.6% year over year to \$202 million, driven by the addition of new subscribers to premium broadband service plans due to increased COVID-19 shelter-in-place orders. Further, growing adoption of in-flight Wi-Fi services in commercial aircrafts are proving conducive to the growth of the Satellite Services business. Viasat's impressive bandwidth productivity sets it apart from conventional and lower-yield satellites providers who run on incumbent business models. Also, Viasat has a competitive advantage in bandwidth economics, global coverage, flexibility and bandwidth allocation, which makes it believe that mobile broadband will act as a profit churner.
- ▲ Viasat is ramping up investments in the development of its revolutionary ViaSat-3 broadband communications platform, which will boast nearly 10 times the bandwidth capacity of ViaSat-2. The ViaSat-3 payload program has begun its transition to the construction phase. These satellites will be capable of covering one-third of the world, including all Americas. The second ViaSat-3 will cover the Europe, the Middle East and Africa region. The ViaSat-3 platform will help to form a global broadband network with sufficient network capacity to allow better consumer choices with an affordable, high-quality, high-speed Internet and video streaming service. In a nutshell, Viasat has garnered enough economics of scale and scope to serve vast emerging markets in South America, Africa, the Middle East and Western Asia. Hence, momentous market traction of ViaSat-1 and ViaSat-2 satellites, coupled with strategically planned ViaSat 3 satellites, are expected to provide Viasat with a solid competitive edge over its peers, thereby bolstering growth in long run.
- ▲ As of Jun 30, 2020, Viasat had \$232.4 million in cash and equivalents with \$134.6 million of other long-term debt. The company currently has a debt-to-capital ratio of 0.51 compared with 0.35 of the sub-industry. Notably, its times interest earned ratio has improved slightly to 1.1 sequentially, higher than 0.9 recorded at the end of the previous quarter. This shows that the company is more likely to clear its debt obligations. However, its cash ratio has declined sequentially from 0.5 to 0.41. This puts forth a doubt about whether the company will likely have sufficient cash reserves to meet its current liabilities in the near term amid disruptions caused by the COVID-19 pandemic, although it generated a record high of \$157 million of cash from operations during the quarter.

Viasat has witnessed solid growth in Government Systems segment and in-flight connectivity while enjoying favorable industry trends. It is ramping up investments for ViaSat-3 communication platform.

Reasons To Sell:

- ▼ Viasat operates in a dynamic and competitive market, which includes stalwarts from varied industries. In its Satellite Services segment, the company faces competition from companies like AT&T, CenturyLink, Comtech and DISH Network. On the other hand, its Government Systems segment faces threats from manufacturers of defense electronics products and systems such as General Dynamics. Hence, to combat such competitive pressure, Viasat has to continuously customize its network offering as per needs, enhance cost-effectiveness of its products and services, and boost the satellite data networks. Increased competition results in price reductions, reduced margins, and loss of market share, which has an adverse effect on the results of operations.
- ▼ Although Viasat's acquisition strategy has significant long-term impact, it has led to integration risks in the near term. Failure to successfully integrate the newly acquired companies into its own business model is likely to hurt the company's financials. Moreover, though the company's research and development activities promise long-term prospects, they weigh on net income in the near term. This apart, the company anticipates incurring huge rise in research and development activities related to the launch of ViaSat-3 satellites that can materially impact its margins and bottom line. In-Flight Connectivity (IFC) weakness resulting from the COVID-19 pandemic will likely hinder Viasat's revenue growth in fiscal 2021. IFC is expected to continue witness negative impacts until air travel recovers. While the company targets mid-2021 for the launch of the first ViaSat-3 class satellite, the coronavirus-induced disruptions pose risk to the payload completion and the final spacecraft assembly, integration and test schedule.
- ▼ Viasat's Satellite Services segment is highly affected by seasonality of demand due to traditional retail selling periods. Historically, March through May of any year proves to be expensive months for the company in terms of subscriber acquisition. Additionally, the sales activity is mostly high during the second half of every calendar year. Any failure in promotional and subscriber retention efforts, changes in third parties, changes in subscribers' approval processes will likely magnify the sales activity and churn rate. In addition, there may be a number of technical problems in relation with the performance of satellites, as they utilize highly complex technology and operate in the harsh environment, which may pose concerns for Viasat's future profitability. For instance, problems associated with the power sub-systems, control sub-systems and degradation or unforeseen anomalies in space can pose material threats to profitability.
- ▼ Viasat depends on U.S. Government contracts for a major part of its revenues. In future, any additional Federal budgetary pressure will likely lead to deeper-than-expected cuts in defense spending, significantly impacting the company's business prospects. A shift in the U.S. Government's foreign policy may result in the termination of some major international contracts. Moreover, as the company's international sales and operations are subject to laws related to trade, export controls and foreign corrupt practices and others, failures to comply with them are expected to hurt its financials.

In-Flight Connectivity (IFC) weakness resulting from the COVID-19 pandemic will likely hinder Viasat's revenue growth in fiscal 2021.

Last Earnings Report

Viasat Records Narrower-Than-Expected Q1 Loss

Viasat reported relatively healthy first-quarter fiscal 2021 results, with the top and bottom lines surpassing the respective Zacks Consensus Estimate. An accretive subscriber base, prudent working capital management and solid progress in ViaSat-3 constellation, coupled with sustained momentum in the Government Systems and Satellite Services segments, supported the quarterly results.

Net Income

On a GAAP basis, net loss for the June quarter was \$12.4 million or a loss of 20 cents per share compared with net loss of \$11.5 million or a loss of 19 cents in the year-ago quarter. The wider loss was primarily driven by top-line contraction. Nevertheless, the bottom line was narrower than the Zacks Consensus Estimate of a loss of 43 cents.

Non-GAAP net income came in at \$4.8 million or 8 cents per share compared with \$6.4 million or 10 cents per share in the prior-year quarter.

Revenues

Quarterly total revenues decreased 1.2% year over year to \$530.5 million. The decline was primarily driven by a steep fall in commercial air traffic due to the virus outbreak and associated lockdown measures, partially offset by modest revenue growth in the Satellite Services backed by a record backlog. While product revenues totaled \$250.6 million, down 4.9% year over year, service revenues rose 2.4% to \$279.9 million. The top line surpassed the consensus mark of \$515 million.

Segment Results

Revenues from **Satellite Services** increased 2.6% year over year to \$202 million, driven by more subscribers and incremental bandwidth demand per subscriber. Markedly, the segment witnessed high demand for video streaming services and high-speed data for coronavirus-induced social-distancing measures. Average revenue per user was up 18% year over year to \$99, primarily driven by the addition of new subscribers to premium broadband service plans due to increased COVID-19 shelter-in-place orders. However, the IFC business, which comprises less than 10% of annual revenues, suffered a major setback due to reduced air travel.

Impressively, Viasat added about 9,000 new subscribers in the reported quarter. The company ended the quarter with 45% of 1,390 aircraft inactive in the commercial IFC business due to the adverse impact of the virus outbreak. The segment's operating loss was \$1.9 million compared with an operating loss of \$2.1 million in the year-ago quarter. Adjusted EBITDA was \$71.4 million, up 6.4% driven by a diversified service portfolio.

Commercial Networks revenues were down 14.9% to \$67.2 million with sales of commercial air equipment falling 90% year over year. However, this was partially offset by 36% growth in antenna systems with strong demand for remote sensing and earth observation. Markedly, the segment continues to invest in R&D to reinforce high-priority, long-term strategic growth opportunities. The segment's operating loss was \$51.4 million compared with a loss of \$49.9 million in the year-ago quarter. Adjusted EBITDA was negative \$34.1 million compared with negative \$35.2 million in the year-ago quarter.

Despite supply-chain disruptions, stemming from the COVID-19 pandemic, revenues from **Government Systems** remained flat at \$261.3 million. The company secured new orders worth \$334 million in the quarter under IDIQ agreements. The segment's operating profit was \$49.5 million, up 7.8% year over year on stringent cost-cutting initiatives. Adjusted EBITDA was \$67.5 million, up 4% year over year, mainly due to better business mix and lower R&D expenses.

Other Details

Total operating loss was \$5.3 million compared with an operating loss of \$8.1 million in the year-earlier quarter. Adjusted EBITDA came in at \$104.7 million compared with \$96.8 million a year ago. New contract awards during the quarter aggregated \$736.9 million, up from \$505.8 million, while sales backlog was a record high at \$2,114.6 million, up from \$1,839.8 million a year ago.

Cash Flow & Liquidity

During first-quarter fiscal 2021, Viasat generated a record high of \$157 million of cash from operations, driven by robust earnings performance and working capital management. The company issued a secondary offering worth \$400 million and utilized the proceeds to repay debt under its revolving credit facility.

As of Jun 30, 2020, the satellite and wireless networking technology provider had \$232.4 million in cash and equivalents with \$134.6 million of other long-term debt.

Moving Forward

Despite uncertainties pertaining to the COVID-19 pandemic, Viasat delivered impressive results in first-quarter fiscal 2021 and continues to hold a leading position in the satellite and wireless communications market. With the rapid proliferation of the smartphone market and usage of mobile broadband, the user demand for coverage speed and quality has increased, which in turn is fueling demand for network tuning and optimization to maintain high data traffic. Backed by a robust vertically-integrated business model, the company remains focused on the launch of ViaSat-3 class satellite in mid-2021.

Markedly, the company has also undertaken cost-reduction initiatives to tackle softness in the IFC business and increase its market-share post

Quarter Ending	06/2020
Report Date	Aug 06, 2020
Sales Surprise	3.03%
EPS Surprise	53.49%
Quarterly EPS	-0.20
Annual EPS (TTM)	-0.02

the COVID-19 crisis. With major shifts in satellite and broadband connectivity, Viasat expects to witness increasing demand for broadband services globally. Equipped with a resilient business portfolio, the company expects to maintain financial prudence in capital investments and witness potential strategic growth opportunities with augmented geographic presence.

Recent News

On Jul 23, 2020, Viasat announced the deployment of its Ka-band In-Flight Connectivity business aviation services in two Bombardier Challenger business jets — Challenger 300 and Challenger 350 aircrafts. The Ka-band services will enable Viasat to strengthen business-critical productivity and promote enhanced customer experience. This will enable more efficient utilization of passenger and flight crew applications. Viasat's Ka-band solutions enable business jet customers to enjoy high-speed Internet connectivity from takeoff to touchdown. It empowers aviation clients to reinforce their IFC investments and helps customers to stay connected with streamlined web browsing and streaming services.

On Jul 16, Viasat announced that its U.K. counterpart joined forces with a leading cybersecurity solutions provider, Cyber1st, to reinforce crypto capabilities and deploy reliable communications services to the government. Apart from catering to the security demands of commercial customers, the collaboration will deliver data and voice services to the U.K. Ministry of Defence. Viasat UK is leading player in the delivery of resilient satellite communications. It enables defense customers to deter threat attacks with an active cyber defense and hybrid adaptive network. It also maximizes operational capabilities with an unparalleled bandwidth capacity for improved connectivity. The UK subsidiary is focused on the establishment of a sovereign Network and Cyber Security Operations Centre for the delivery of leading cybersecurity services.

On Jun 10, Viasat and Honeywell announced a partnership adding Viasat's VR-12T shipset to Honeywell's Maintenance Service Plan (MSP). Honeywell's MSP is a well-established maintenance protection plan that offers full coverage options for avionics across a wide range of platforms and operations. The move will likely enhance Viasat's In-Flight Connectivity offering by giving Viasat Ku-Advanced customers the option to add their Ku system to their MSP contract.

Valuation

Viasat shares are down 47.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 27.4% over the past year, and stocks in the Zacks Computer and Technology sector are up 43.4% in the same period.

The S&P 500 Index is up 20.3% in the past year.

The stock is currently trading at 10.74X trailing 12-month EV/EBITDA, which compares to 27.04X for the Zacks sub-industry, 14.44X for the Zacks sector and 14.64X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 32.3X and as low as 8.97X, with a 5-year median of 16.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 32.48X trailing 12-month book value.

The table below shows summary valuation data for VSAT

Valuation Multiples - VSAT					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	10.74	27.04	14.44	14.64
	5-Year High	32.3	29.46	15.82	15.61
	5-Year Low	8.97	9.84	8.27	9.51
	5-Year Median	16.12	17.05	11.82	13
P/B TTM	Current	1.17	7.52	7.54	5.82
	5-Year High	3.36	8.19	8.27	6.17
	5-Year Low	0.84	2.62	4.1	3.75
	5-Year Median	2.22	4.06	5.56	4.84
P/S F12M	Current	0.99	3.56	4.22	4.13
	5-Year High	2.6	3.84	4.49	4.29
	5-Year Low	0.67	2.07	2.7	3.11
	5-Year Median	2.06	2.8	3.43	3.66

As of 09/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 29% (178 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Aviat Networks, Inc. (AVNW)	Outperform	1
Comtech Telecommunications Corp. (CMTL)	Neutral	3
Juniper Networks, Inc. (JNPR)	Neutral	3
Sonim Technologies, Inc. (SONM)	Neutral	4
Sierra Wireless, Inc. (SWIR)	Neutral	3
T-Mobile US, Inc. (TMUS)	Neutral	3
Ubiquiti Inc. (UI)	Neutral	4
InterDigital, Inc. (IDCC)	Underperform	5

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

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	VSAT	X Industry	S&P 500	SWIR	TMUS	UI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	C	-	-	C	C	A
Market Cap	2.46 B	382.08 M	23.63 B	385.46 M	138.97 B	9.70 B
# of Analysts	4	3	13	3	5	1
Dividend Yield	0.00%	0.00%	1.61%	0.00%	0.00%	1.05%
Value Score	C	-	-	D	C	D
Cash/Price	0.10	0.18	0.07	0.16	0.08	0.01
EV/EBITDA	10.58	9.05	13.23	-14.70	16.18	20.71
PEG F1	NA	1.78	2.98	NA	4.77	1.78
P/B	1.17	1.55	3.24	1.11	2.48	NA
P/CF	6.62	12.98	12.74	NA	9.54	24.12
P/E F1	NA	20.08	21.70	NA	58.72	24.17
P/S TTM	1.07	1.26	2.48	0.59	2.69	7.55
Earnings Yield	-0.41%	4.55%	4.46%	-9.06%	1.70%	4.14%
Debt/Equity	0.86	0.19	0.70	0.19	1.14	-2.19
Cash Flow (\$/share)	5.50	0.49	6.93	-0.10	11.77	6.31
Growth Score	B	-	-	B	F	A
Historical EPS Growth (3-5 Years)	-97.89%	-6.20%	10.41%	-28.57%	46.26%	26.05%
Projected EPS Growth (F1/F0)	NA%	10.81%	-4.75%	-9,466.70%	-52.44%	6.60%
Current Cash Flow Growth	36.25%	-8.77%	5.26%	-108.17%	7.57%	15.77%
Historical Cash Flow Growth (3-5 Years)	5.53%	5.53%	8.49%	NA	16.70%	17.65%
Current Ratio	1.63	1.88	1.35	1.25	1.05	2.22
Debt/Capital	46.38%	22.60%	42.95%	15.88%	53.35%	NA
Net Margin	-0.05%	2.76%	10.25%	-10.68%	5.19%	29.61%
Return on Equity	-0.06%	4.86%	14.59%	-11.21%	9.60%	-131.03%
Sales/Assets	0.49	0.73	0.50	1.01	0.46	1.85
Projected Sales Growth (F1/F0)	1.01%	0.00%	-1.43%	-12.13%	50.70%	10.40%
Momentum Score	C	-	-	C	A	B
Daily Price Change	1.38%	0.00%	1.47%	0.95%	0.62%	-0.81%
1-Week Price Change	-3.35%	-3.20%	-1.87%	-10.56%	-2.37%	-6.88%
4-Week Price Change	-11.79%	-11.79%	-0.20%	-22.06%	-3.94%	-16.92%
12-Week Price Change	-7.65%	-5.54%	6.74%	16.74%	5.32%	-11.28%
52-Week Price Change	-54.44%	-6.61%	0.79%	-7.18%	41.11%	29.72%
20-Day Average Volume (Shares)	570,593	108,729	1,845,187	178,976	3,180,208	107,234
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1.64%	0.00%	0.00%	0.00%	1.47%	-1.72%
EPS F1 Estimate 12-Week Change	-217.65%	2.58%	4.00%	-4.33%	63.47%	-1.72%
EPS Q1 Estimate Monthly Change	4.55%	0.00%	0.00%	0.00%	6.81%	NA

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	B
Momentum Score	C
VGM Score	C

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.