

Ventas Inc. (VTR)

\$55.65 (As of 03/05/21)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 02/19/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

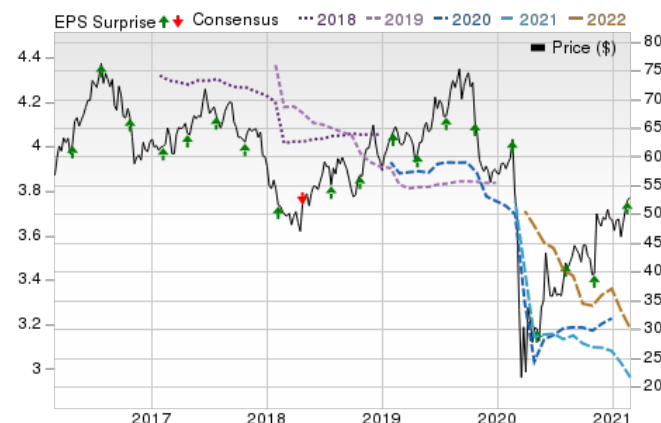
Growth: D

Momentum: C

Summary

Ventas' senior housing business is bearing the brunt of the resurgence of COVID-19 cases. This is resulting in elevated move-outs, limited tours, restrictions on move-ins. Also, it continued to see occupancy loss at its seniors housing communities. These woes are expected to continue, as indicated by the company's soft first-quarter 2021 guidance and are likely to strain net operating income (NOI) growth. Also, continuing its asset sale activities, Ventas expects \$1 billion in asset sales in 2021. Although such efforts enable it to optimize its portfolio, better manage financial obligations and reinvest in its attractive development pipeline; dilution in earnings, and reduced cash flows in the near term from such moves cannot be avoided. Nonetheless, shares of the company have outperformed its industry in the past year.

Price, Consensus & Surprise

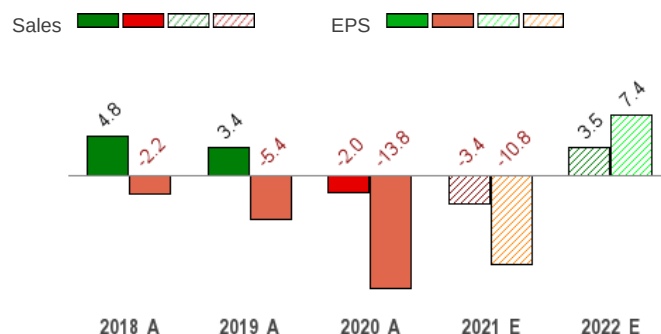


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$56.50 - \$13.35
20-Day Average Volume (Shares)	1,872,726
Market Cap	\$20.7 B
Year-To-Date Price Change	12.4%
Beta	1.31
Dividend / Dividend Yield	\$1.80 / 3.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 15% (215 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	950 E	958 E	967 E	974 E	3,795 E
2021	906 E	909 E	922 E	931 E	3,666 E
2020	1,012 A	943 A	919 A	921 A	3,795 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.76 E	\$0.78 E	\$0.79 E	\$0.81 E	\$3.18 E
2021	\$0.71 E	\$0.73 E	\$0.75 E	\$0.76 E	\$2.96 E
2020	\$0.97 A	\$0.77 A	\$0.75 A	\$0.83 A	\$3.32 A

*Quarterly figures may not add up to annual.

Last EPS Surprise	13.7%
Last Sales Surprise	-0.4%
EPS F1 Estimate 4-Week Change	-2.0%
Expected Report Date	NA
Earnings ESP	-2.0%
P/E TTM	16.6
P/E F1	18.8
PEG F1	7.9
P/S TTM	5.4

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 03/05/2021. The report's text and the analyst-provided price target are as of 03/08/2021.

Overview

Chicago, IL-based Ventas, Inc. is a healthcare real estate investment trust (REIT) that is primarily engaged in acquisition, ownership and leasing of senior housing, life science, research & innovation (R&I) and healthcare properties.

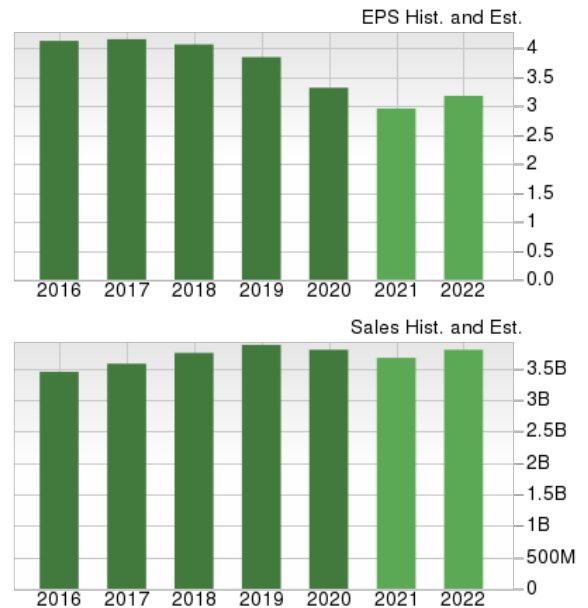
This S&P 500 company has a diverse portfolio of nearly 1,200 properties located in the United States, Canada and the U.K. These properties include senior housing communities, medical office buildings (MOBs), life science, research & innovation (R&I) centers, inpatient rehabilitation facilities, long-term acute-care facilities, and health systems. The company also had 13 properties under development as of Dec 31, 2020.

Ventas offers MOB management, leasing, marketing, facility development and advisory services to well-rated hospitals and health systems throughout the United States through its ownership interest in PMB Real Estate Services LLC and the company's subsidiary, Lillibridge Healthcare Services, Inc. It also makes secured and non-mortgage loans and other investments relating to senior housing and healthcare properties or operators.

As of Dec 31, 2020, Ventas mainly operated through three reportable segments — triple-net leased properties (generated 35% of annualized adjusted NOI at share as of fourth-quarter 2020), senior living operations (30%) and office operations (30%). Corporate assets such as cash, restricted cash, loans receivable and investments, and miscellaneous account receivables are reported under the "all other" segment (4%).

In 2020, it combined its third-party capital ventures under one umbrella, Ventas Investment Management ("VIM"). This included the Ventas Fund and the R&I development joint venture. As of Dec 31, 2020, VIM had more than \$3 billion in assets under management.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ Amid the pandemic, the company's senior living portfolio is witnessing an adverse revenue and occupancy trend. Specifically, the resurgence in COVID-19 cases in November through January led to elevated move-outs, limited tours, restrictions on move-ins. Hence, Ventas is expected to still bear the brunt of the pandemic in its senior housing operating portfolio ("SHOP") segment. In fact, same-store SHOP occupancy has declined over the trailing five quarters. The trend is expected to continue in the first quarter as management expects same-store average occupancy to decline 250-325 basis points (bps), whereas it reported a 90-bps decline to 79.1% in fourth-quarter 2020. Also, operating expenses are likely to remain elevated, driven by higher COVID-19 labor and testing expenses. With significant investments in seniors housing communities, these lackluster trends are discouraging for Ventas and are likely to strain NOI growth in the near term.
- ▼ Solid dividend payouts remain the biggest attraction for REIT investors and Ventas had remained committed to that. However, the company made a 43% sequential reduction in the second-quarter dividend to 45 cents per share, which was paid out on Jul 14, 2020 and has continued paying the divided amount. The company paid out a quarterly cash dividend of 79.25 cents per share for its shareholders in the prior quarter.
- ▼ The company also faces tenant concentration risk in its NNN leased property segment. Specifically, properties leased to Brookdale Senior Living, Ardent and Kindred account for a significant part of Ventas' segmental revenues and NOI. Hence, in case of no lease renewal, change in lease agreements or any adverse development in these three tenants, Ventas' financial condition and results will likely be impacted. In fact, the company made significant changes to senior housing triple-net leases with certain tenants. This is expected to affect the company's near-term NOI.
- ▼ The company is making efforts to unlock value of its assets through opportunistic disposals of non-core assets. In fact, during 2020, the company realized more than \$1 billion in healthcare real estate asset sales. Continuing this momentum in the ongoing year, the company expects an additional \$1 billion in asset sales primarily across senior housing and MOB's verticals in the second half of the year. Although such efforts enable it to optimize its portfolio, better manage financial obligations and reinvest in its attractive development pipeline, dilution in earnings and reduced cash flows in the near term from the sale of assets is unavoidable.
- ▼ Ventas operates in a cut-throat market and competes with national and local healthcare operators on a number of factors, including quality, price and range of services provided, reputation, location and demographics of the population in the surrounding area as well as the financial condition of its tenants and operators. Also, the company's operators contend with peers for occupancy and to manage labor costs. This significantly limits its power to drive profitability as well as crack deals at attractive rates.
- ▼ Shares of Ventas have gained 22.8% compared with the industry's rally of 5.5%. However, the trend in estimate revisions for Ventas' 2021 FFO per share does not indicate a favorable outlook for the company as estimates have moved around 2% downward over the past month. Given the above-mentioned concerns and downward estimate revisions, the stock is unlikely to perform well in the near term.

Lower occupancy in senior housing communities amid the pandemic and elevated costs are concerning for Ventas. Dependence on few tenants, and competition with national and local operators are woes.

Risks

- The national healthcare expenditure is expected to rise in the upcoming years. Also, senior citizens constitute the major customer base of healthcare services – they end up spending more on healthcare services compared with the average population. Hence, with an expectation of a rising senior citizens' population in the years ahead, Ventas has a strong upside potential, being well-poised to capitalize on this expenditure trend of senior citizens on healthcare services. Moreover, the healthcare sector is relatively immune to the macroeconomic problems faced by office, retail and apartment companies and offers stability to the company amid volatility in the market. This is because even amid tough economic conditions, consumers need to spend on healthcare services while curtailing discretionary purchases.
 - Ventas is focusing on top-quality senior housing assets in strategic markets. The company's senior housing operating portfolio ("SHOP") assets are located in elite markets that enjoy stronger demographic trends. Moreover, despite near-term challenges in the seniors housing space, the post-pandemic operational upside demonstrates the long-term viability of this asset class. Also, all of Ventas' SHOP communities in the United States have received vaccine. This will likely aid normalization of operating performance and the gradual recovery of the company's SHOP segment. In addition, the market for seniors' housing and healthcare real estate is large and fragmented, offering a huge scope of consolidation. This creates a solid opportunity for this healthcare REIT.
 - In 2020, the company combined its pre-existing and new third-party capital vehicles under one umbrella, the VIM business. The investment management platform offers a significant competitive edge to Ventas by broadening its capital source, enhancing financial flexibility and liquidity as well as expanding presence. Moreover, given the significant market opportunity within life science, medical office, and senior housing real estate industry; the platform will facilitate the company to capitalize on it in numerous ways and add an incremental source of earnings.
 - Amid favorable demographics and growing outpatient trends, Ventas is committed to capitalize on this upside with its office segment, which includes MOBs, academic medical and R&I businesses. MOBs and R&I centers are essential for delivery of crucial healthcare services and research related to life-saving vaccines and therapeutics. The company is driving its R&I business forward by capitalizing on the growing healthcare-driven research. In fact, it owns R&I centers in notable life science clusters of Cambridge, South San Francisco and in more than 15 top-tier research university campuses. Further, long-lease terms and top-rated, institutional quality tenants assure steady growth in cash flows for Ventas. The company received 99.2% and 98% of fourth-quarter and January office contractual rent, respectively. Also, with increased admissions and surgery volumes, the demand for MOBs is likely to remain robust, leading to strong near-term leasing. With this, management projects office segment NOI for first-quarter 2021 to be stable compared with the prior quarter.
 - Ventas usually leases its healthcare facilities under triple-net leases, where the tenant pays for taxes, insurance and maintenance of the properties, in addition to rent. These long-term net lease properties produce a steady cash flow with escalations, the majority of which are tied to Consumer Price Index (CPI). This insulates the company from short-term market swings that may adversely affect the operations of a particular facility. Hence, performance of its triple-net assets is likely to remain healthy. The company received substantially all of its fourth-quarter 2020 rents from its triple-net tenants. Such steady rent receipts are expected to drive revenues in the near term. Moreover, acute and post-acute providers have been supported by significant government funding. This has enabled them to maintain liquidity and mitigate pandemic-borne losses.
 - Ventas has a healthy balance sheet, and has been making efforts to enhance its cost structure, liquidity and financial strength. In February, the company closed a \$2.75-billion unsecured credit facility. Further, it had \$3 billion of liquidity, consisting of \$0.3 billion of cash and cash equivalents, \$2.7 billion of available capacity on hand, and no commercial paper outstanding as of Feb 16. Notably, to ride through pandemic challenges, Ventas also undertook several capital-conservation actions such as reductions in corporate positions, dividend cuts and lower planned capital expenditure. Additionally, as of the fourth-quarter end, the company's balance sheet enjoys long-term credit ratings of Baa1 from Moody's as well as BBB+ from Fitch and S&P Global, providing easy access to debt at favorable costs. With weighted average debt maturity of more than six years, Ventas has decent financial flexibility to pursue growth endeavors. Finally, in March 2021, the company intends to use cash on hand from recent dispositions for the full repayment of \$400 million of its 3.1% senior notes due January 2023, thereby, reducing near-term maturities.
-

Last Earnings Report

Ventas Q4 FFO Tops Estimates, Revenues & NOI Decline Y/Y

Ventas reported fourth-quarter 2020 normalized FFO per share of 83 cents, surpassing the Zacks Consensus Estimate of 73 cents. However, the figure declined 10% from the year-ago quarter's number.

The company generated revenues of \$921.2 million in the fourth quarter, which missed the Zacks Consensus Estimate of \$930.7 million. Further, the top line declined 7.5% year over year.

Same-store cash NOI decline in SHOP and triple-net leased portfolio resulted in a year-over-year decrease in revenues.

Per management, "COVID-19 presented the most difficult clinical conditions across the country between November 2020 and through January of this year. As a result, occupancy in our SHOP, after benefitting from steadily improving trends through October 2020, declined in the fourth quarter and into 2021, as operators experienced elevated move-outs and limited tours and move-ins to keep residents safe."

For 2020, the company reported normalized FFO per share of \$3.32, down 13.8% from the prior year's \$3.85. The reported figure, nonetheless, outpaced the Zacks Consensus Estimate of \$3.22. Total revenues of \$3.79 billion declined 2% year over year.

Quarter in Detail

For the fourth quarter, same-store cash NOI growth for the total property portfolio (1,096 assets) declined 11.8% year over year. Segment wise, same-store cash NOI for the triple-net leased portfolio declined 10% year over year, while the SHOP portfolio fell 24.7%. Meanwhile, the office portfolio reported a year-over-year rise of 2.9%.

Balance Sheet Position

Ventas exited fourth-quarter 2020 with cash and cash equivalents of \$413.3 million, up from \$106.4 million recorded as of the 2019 end. Further, as of Dec 31, 2020, its full-year net debt to adjusted pro forma EBITDA ratio was 6.1X.

The company had \$3 billion of liquidity, consisting of \$0.3 billion of cash and cash equivalents, \$2.7 billion of available capacity on hand, and no commercial paper outstanding as of Feb 16.

Outlook

Ventas expects first-quarter 2021 results to continue to be affected by the COVID-19 pandemic. Accordingly, first-quarter 2021 normalized FFO per share is guided at 66-71 cents.

Also, average occupancy at the company's same-store SHOP business is expected to sequentially decline 250-325 bps in first-quarter 2021, while expenses are projected to remain elevated.

Further, Ventas is targeting nearly \$1 billion in asset disposals across primarily seniors housing and MOB asset classes in the second half of 2021.

Sale proceeds are aimed to be used to repay debt and to fund future growth through development and redevelopment capital expenditure of \$0.5 billion, primarily in the office segment and for development of the senior housing communities in Quebec with Le Groupe Maurice.

Quarter Ending 12/2020

Report Date	Feb 18, 2021
Sales Surprise	-0.42%
EPS Surprise	13.70%
Quarterly EPS	0.83
Annual EPS (TTM)	3.32

Recent News

Ventas Closes \$2.75B Credit Facility, Lowers Borrowing Cost – Feb 1, 2021

Ventas closed a \$2.75-billion unsecured credit facility that will be valid for four years. The facility will mature in January 2025 and can be extended for an additional year at the company's option, conditional to the satisfaction of certain norms. At closing, the available borrowing capacity at the facility was \$2.7 billion.

The pricing of the facility at 82.5 bps over LIBOR is a five-basis-point improvement from its earlier unsecured revolving credit facility, which was slated to mature in April this year.

Per management, "Ventas's successful completion of this transaction reinforces our ample liquidity, extends our debt maturities and improves our borrowing costs".

Dividend Update

On Dec 11, Ventas announced the fourth-quarter 2020 cash dividend of 45 cents per share. The dividend was paid out on Jan 20, 2021, to shareholders of record as of Jan 4, 2021.

Valuation

Ventas' shares have been up 22.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance have been up 5.5% and 33.8%, respectively, over the past year.

The S&P 500 Index has been up 42.5% over the trailing 12-month period.

The stock is currently trading at 18.37X forward 12-month FFO, which compares with 19.30X for the Zacks sub-industry, 16.92X for the Zacks sector and 22.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.29X and as low as 4.71X, with a 5-year median of 15.23X. Our underperform recommendation indicates that the stock will perform worse than the market. Our \$46 price target reflects 15.32X FFO.

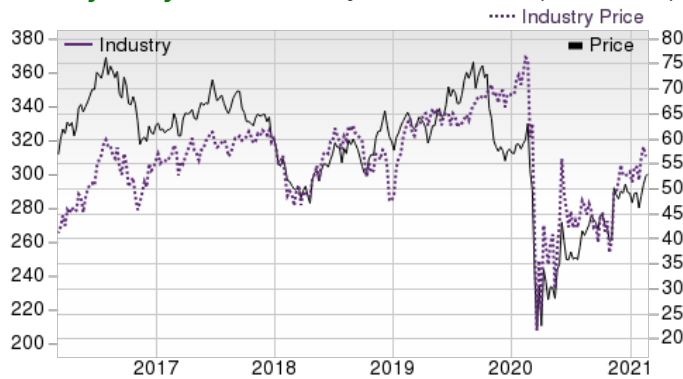
The table below shows summary valuation data for VTR.

Valuation Multiples - VTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.37	19.30	16.92	22.12
	5-Year High	19.29	19.56	17.12	23.80
	5-Year Low	4.71	14.58	11.60	15.30
	5-Year Median	15.23	16.34	14.58	17.90
P/S F12M	Current	5.60	7.48	7.60	4.48
	5-Year High	7.79	7.51	7.60	4.48
	5-Year Low	1.60	5.45	5.02	3.21
	5-Year Median	5.96	6.31	6.13	3.69
P/B TTM	Current	2.01	2.22	3.10	6.51
	5-Year High	2.75	2.72	3.14	6.66
	5-Year Low	0.60	1.63	1.74	3.83
	5-Year Median	2.07	2.32	2.59	4.97

As of 03/05/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Healthcare Realty Trust Incorporated (HR)	Neutral	3
Healthcare Trust of America, Inc. (HTA)	Neutral	3
Medical Properties Trust, Inc. (MPW)	Neutral	3
Omega Healthcare Investors, Inc. (OHI)	Neutral	3
Healthpeak Properties, Inc. (PEAK)	Neutral	3
Sabra Healthcare REIT, Inc. (SBRA)	Neutral	3
LTC Properties, Inc. (LTC)	Underperform	4
Welltower Inc. (WELL)	Underperform	5

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

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	VTR	X Industry	S&P 500	PEAK	SBRA	WELL
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	4	-	-	3	3	5
VGM Score	D	-	-	F	D	F
Market Cap	20.66 B	2.80 B	27.37 B	16.06 B	3.82 B	29.33 B
# of Analysts	11	4	13	9	6	11
Dividend Yield	3.26%	3.32%	1.39%	4.03%	6.63%	3.47%
Value Score	C	-	-	D	B	D
Cash/Price	0.02	0.04	0.06	0.01	0.02	0.07
EV/EBITDA	19.58	16.48	15.70	20.62	14.14	26.82
PEG F1	7.93	3.30	2.31	7.83	NA	7.52
P/B	2.01	1.46	3.84	2.19	1.10	1.74
P/CF	13.51	14.96	15.77	16.60	11.89	14.46
P/E F1	18.80	16.63	20.72	18.64	10.58	22.56
P/S TTM	5.44	6.73	3.22	7.29	6.38	6.37
Earnings Yield	5.37%	5.60%	4.69%	5.37%	9.44%	4.43%
Debt/Equity	1.16	0.88	0.67	0.86	0.70	0.82
Cash Flow (\$/share)	4.08	1.78	6.78	1.80	1.52	4.86
Growth Score	D	-	-	D	D	F
Historical EPS Growth (3-5 Years)	-4.04%	0.68%	9.32%	-12.29%	-6.33%	-3.67%
Projected EPS Growth (F1/F0)	-10.82%	7.53%	14.54%	-2.51%	-1.63%	-12.51%
Current Cash Flow Growth	2.35%	-2.12%	0.74%	31.62%	25.79%	-10.86%
Historical Cash Flow Growth (3-5 Years)	2.33%	10.20%	7.37%	241.03%	17.21%	3.37%
Current Ratio	0.85	1.51	1.39	0.46	1.15	3.30
Debt/Capital	53.65%	46.95%	41.42%	46.16%	41.03%	45.58%
Net Margin	11.57%	9.37%	10.59%	18.73%	23.13%	21.25%
Return on Equity	4.21%	2.98%	14.75%	3.80%	4.09%	7.13%
Sales/Assets	0.15	0.11	0.51	0.14	0.10	0.14
Projected Sales Growth (F1/F0)	-3.40%	6.32%	7.02%	2.66%	3.52%	-3.84%
Momentum Score	C	-	-	D	D	B
Daily Price Change	3.22%	0.91%	2.33%	1.09%	3.01%	0.76%
1-Week Price Change	0.97%	0.22%	-1.51%	-2.32%	-3.64%	-0.72%
4-Week Price Change	13.86%	4.32%	2.57%	-2.87%	1.57%	9.94%
12-Week Price Change	12.92%	7.23%	7.04%	0.91%	3.49%	9.73%
52-Week Price Change	6.47%	-4.04%	25.36%	-13.89%	-9.95%	-7.76%
20-Day Average Volume (Shares)	1,872,726	626,011	2,065,461	3,842,477	1,612,030	2,560,216
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.29%
EPS F1 Estimate 4-Week Change	-2.02%	0.00%	0.04%	-1.56%	-1.82%	-2.00%
EPS F1 Estimate 12-Week Change	-4.33%	-0.68%	2.17%	-4.78%	-0.68%	-7.05%
EPS Q1 Estimate Monthly Change	-3.94%	0.00%	0.00%	0.00%	-6.43%	-1.08%

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	D
Momentum Score	C
VGM Score	D

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.