

Yum! Brands, Inc.(YUM)

\$117.45 (As of 04/13/21)

Price Target (6-12 Months): **\$123.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM: C

Value: D

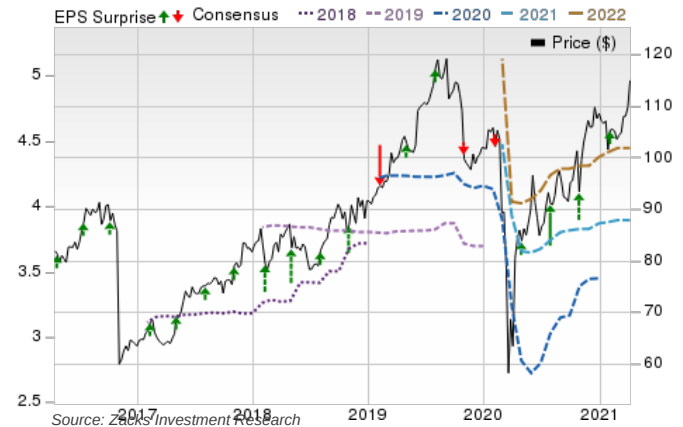
Growth: B

Momentum: C

Summary

Yum Brands' shares have underperformed the industry so far this year. The dismal performance is primarily due to the coronavirus pandemic. Due to the crisis, the company and its franchisees experienced store closures and instances of resurgence in COVID-19 cases, reduced store-level operations, including lesser operating hours and dining-room closures. Moreover, restaurant traffic has been significantly impacted due to the social-distancing protocols. However, continuous focus on off-premise channels, strategic investments in digital technology and refranchising efforts are likely to aid the company going forward. Moreover, the company has implemented various digital features in mobile and online platforms across all brand segments to enhance guest experience. Meanwhile, earnings estimates for 2022 have moved up over the past 30 days.

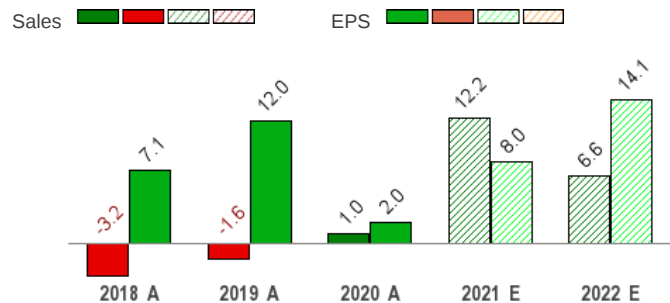
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$117.99 - \$76.48
20-Day Average Volume (Shares)	1,538,462
Market Cap	\$35.1 B
Year-To-Date Price Change	8.2%
Beta	1.08
Dividend / Dividend Yield	\$2.00 / 1.7%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.2%
Last Sales Surprise	0.7%
EPS F1 Estimate 4-Week Change	0.4%
Expected Report Date	04/28/2021
Earnings ESP	4.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,543 E	1,583 E	1,652 E	1,969 E	6,765 E
2021	1,461 E	1,463 E	1,565 E	1,848 E	6,344 E
2020	1,263 A	1,198 A	1,448 A	1,743 A	5,652 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.98 E	\$1.07 E	\$1.16 E	\$1.26 E	\$4.46 E
2021	\$0.85 E	\$0.91 E	\$1.03 E	\$1.14 E	\$3.91 E
2020	\$0.64 A	\$0.82 A	\$1.01 A	\$1.15 A	\$3.62 A

*Quarterly figures may not add up to annual.

P/E TTM	32.4
P/E F1	30.0
PEG F1	2.5
P/S TTM	6.2

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/13/2021. The report's text and the analyst-provided price target are as of 04/14/2021.

Overview

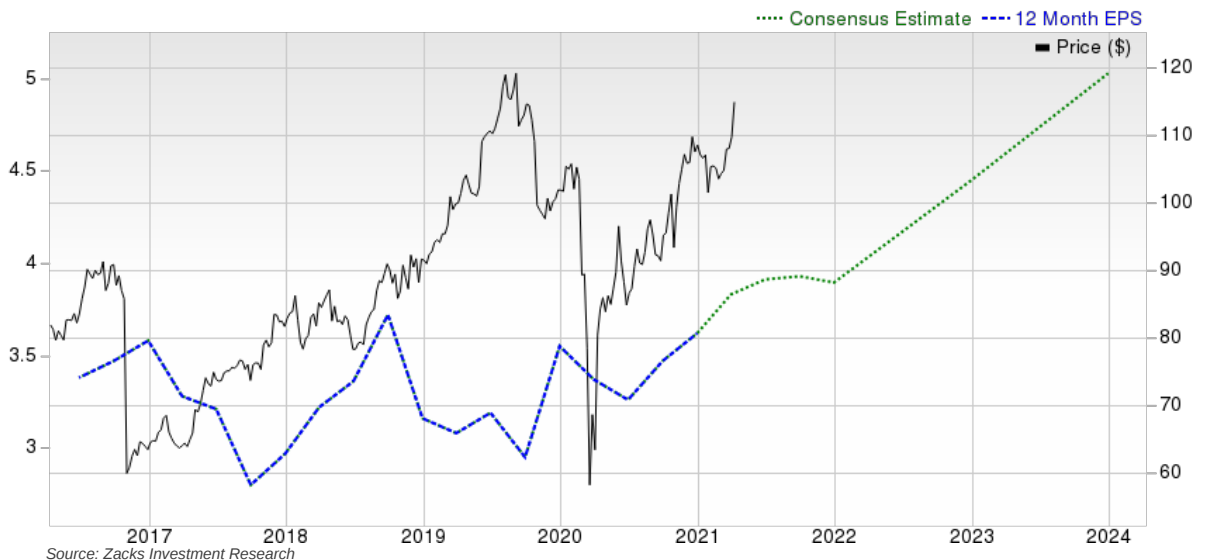
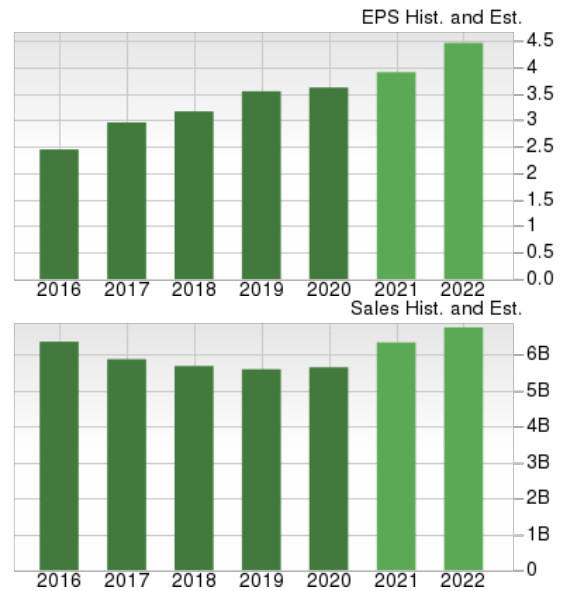
Louisville, KY-based YUM! Brands Inc. — formerly Tricon Global Restaurants, Inc. — had spun off from PepsiCo in October 1997. YUM! Brands is the global leader in multi-branding and offers consumers more choice and convenience at one outlet. The company presently reports through four segments — KFC (40.2% of total 2020 revenues), Pizza Hut (17.7%), Taco Bell (36%) and Habit Burger Grill (6.1%). Notably, Yum! Brands now owns, operates and franchises over 50,000 restaurants in more than 150 countries and territories. As of Mar 31, 2020, the company's 98% of units were operated by independent franchisees or licensees under the terms of franchise or license agreements.

The Company's KFC, Pizza Hut and Taco Bell brands are global leaders of the chicken, pizza and Mexican-style food categories, respectively. On Mar 18, 2020, the company acquired Habit Burger Grill - a fast-casual restaurant concept specializing in made-to-order chargrilled burgers, sandwiches and more.

The company exercises store-level franchise and master franchise programs to grow its businesses. Nearly 30% of its franchised units operate under master franchise programs. The remaining franchised units operate under store-level franchise agreement.

On Oct 31, 2016, Yum! Brands' completed the spin-off of the China business into an independent, publicly-traded company. Yum China Holdings began trading as an independent company, effective Nov 1, 2016, on the New York Stock Exchange (NYSE), under the ticker symbol "YUMC".

In February 2018, Yum! Brands announced a partnership with online food delivery platform Grubhub, to enhance online sales and delivery from its restaurants. As part of the deal, Yum! Brands will acquire \$200 million of Grubhub stock. The proceeds are used by Grubhub to speed up the expansion of its delivery capacity.



Reasons To Buy:

▲ **Better-Than-Expected Q4 Results:** The company reported impressive fourth-quarter 2020 results, wherein both earnings and revenues not only surpassed the Zacks Consensus Estimate but also improved year over year. Strong digital sales, and the company's ability to adjust operations, menu options and marketing worldwide helped it amid the challenging scenario. During 2020, digital sales increased to \$17 billion, reflecting a 45% increase over the prior year. Earnings estimates for 2021 have witnessed upward revisions in the past 30 days, reflecting analyst optimism regarding stock growth potential.

Yum! Brands' increased focus on off-premise channels, strategic investments in digital technology and refranchising efforts bode well.

▲ **Strong Digital & Delivery Services to Enhance Guest Experience:** The digital wave has hit the U.S. fast-casual restaurant sector. More and more restaurants are deploying technology to enhance guest experience. Yum! Brands is also not far behind in the race as the company is continuing the transformation process toward a single point-of-sale system in the United States. Further, it updated its mobile app and Hut Rewards. It also has more than 12 million active users in the loyalty program.

Yum! Brands' partnership with online food delivery platform Grubhub will enhance online sales and delivery from its restaurants. Additionally, the company implemented various digital features in mobile and online platforms across all brand segments to enhance guest experience. The company has also been working toward making its delivery services faster and the results have been positive so far. At the end of fourth-quarter 2020, the company had more than 35,000 restaurants offering delivery globally, up 16% year over year. In 2020, digital sales were reported at \$17 billion, suggesting a 45% increase over the prior year. During the quarter, Pizza Hut U.S. delivered 18% same-store sales growth in the off-premise channel. Moreover, in the Pizza Hut International segment, off-premise sales generated same-store sales growth was 9% in fourth-quarter 2020. The company's newest brand The Habit Burger Grill has generated strong off-premise sales, accounting for almost more than 10% of total sales.

During the fourth quarter, Pizza Hut U.S. launched a menu management system where there is one source for menu customization and pricing that can be synced across multiple digital channels. In case of Taco Bell U.S., the company has initiated testing of new customizable tablet-based application. Going forward, this advanced point-of-sale system is likely to boost member experience through optimization features, accuracy, speed and reliability. Moreover, KFC U.S. began the national rollout of its new e-commerce platform.

▲ **Refranchising Strategy Safeguards Earnings:** Yum! Brands has adopted a de-risking strategy by reducing its ownership of restaurants through refranchising. In fact, the China division's spin-off has largely made Yum! Brands a more asset-light company, as many company-owned restaurants have been in the Chinese market. Although, re-franchising weighs on near-term revenues, we note that refranchising a large portion of the system reduces the company's capital requirements and facilitates earnings per share growth and ROE expansion over the long term. Alongside, free cash flow will continue to grow, facilitating reinvestments to increase brand recognition and shareholder return. Remarkably, this shift to refranchising has substantially benefited the company's operating margin over the years. Thus, Yum! Brands expects to become a "pure play" franchisor with more stable earnings, higher profit margins, lower capital requirements and stronger cash flow conversion. Moreover, since a major portion of its business is refranchised, Yum! Brands will be less affected by food inflation than most of its peers. over the long term, it will reduce the company's capital requirements. Going forward, the company intends to optimize its ownership mix by refranchising restaurants in the United States.

▲ **Menu Innovation:** Yum! Brands continues to innovate core menus to attract customers. During the quarter, Habit restaurants added two new items, namely, Crispy Chicken Sandwich and Chicken Bites. Also, KFC continues to focus on menu innovation through rebundling, repackaging and reconceptualizing core menu items.

▲ **Increased Efficiency & Unit Growth:** Yum! Brands' aims to revamp financial profile. This, in turn, will improve efficiency of its organization and cost structure globally. It believes that a "slimmer Yum Brands" would lead to efficiency gains.

Considering its existing footprint of more than 50,000 restaurants worldwide, YUM! Brands believes it can roughly triple its current global presence over the long term. The company increased focus on leveraging its scale and reinforcing the growth model, by accelerating investments in digital technology to enhance customer experience and unit economics. During the first, second, third and fourth quarter of 2020, the company opened 515, 328, 556 and 1,024 gross new restaurants, respectively. During the fourth quarter, the company opened restaurants in China, Russia, Thailand and Eastern Europe. Moreover, master franchise agreements in Brazil (Taco Bell), Spain (Taco Bell), and Russia (Pizza Hut), and the international growth alliance with Telepizza to accelerate the development of Pizza Hut in key European markets as well as consolidate franchisees in Latin America and the Caribbean are likely to drive growth.

▲ **Taco Bells Posts Robust Growth:** Taco Bell has impressed investors with robust results during fourth-quarter 2020. Taco Bell's comps rose 1% in the reported quarter compared with the year-ago quarter's growth of 2%. Its operating margin was up 10 bps year over year to 33.8%. It was primarily driven by lower general and administrative expenses, same-store sales increase, and higher company restaurant margins in the reported quarter. Taco Bell recorded 93 gross new restaurants openings in the during the quarter under review. Also, the company continues to reopen its temporarily-closed restaurants.

During the fourth quarter, the segment not only expanded to additional market places but also boosted its media presence with the launch of its loyalty program. This along with its product offerings boosted sales in the quarter, thereby resulting in a high-single-digit sales mix. Notably, the segment's digital sales mix contributed 12% to total sales in the quarter under review. It also generated more than \$1 billion in sales for 2020.

Reasons To Sell:

- ▼ **Coronavirus Impact:** The coronavirus pandemic has negatively affected the company's operations through 2020. Due to the crisis, the company and its franchisees experienced store closures and instances of resurgence in COVID-19 cases, reduced store-level operations, including lesser operating hours and dining-room closures. Moreover, restaurant traffic has been significantly impacted due to the social-distancing protocols.
- ▼ **Dismal Performance at Pizza Hut:** Despite effective innovation across products, marketing and promotions, Pizza Hut sales trend has been choppy in the recent quarter. In first, second, third and fourth-quarter 2020, Pizza Hut same-store sales declined 11%, 9%, 3% and 1% respectively. Although, YUM! Brands is focusing on transforming its Pizza Hut business to a modern delivery asset base in the United States, there have been 1745 pizza hut restaurant closures during 2020 owing to COVID-related disruptions.. The company believes that the choppy sales trend will likely continue.
- ▼ **High Debt a Concern:** A strong balance sheet will help the company tide over the ongoing crisis. At the end of Dec 31, 2020, the company's long-term debt stood at \$10.2 billion, compared with \$10.6 billion at Sep 30, 2020. Moreover, the company ended fourth-quarter 2020 with cash and cash equivalent of \$730 million, which may not be enough to manage the high debt level.
- ▼ **High Costs:** Increase in the cost of employee wages, benefits and insurance, and other operating costs such as rent and energy costs put significant pressure on the company's margins. A competitive retail environment also strained the restaurants' costs. The company is also susceptible to profit margin pressure owing to relentless expansion. In fourth-quarter 2020, the company's restaurant expenses amounted to \$460 million compared with \$385 million in the year-ago quarter. Further, costs associated with brand positioning in all key markets and ongoing investments in initiatives are likely to weigh on margins in the near term.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Yum Brands operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. Competition among fast-casual restaurants is expected to remain fierce with respect to price, service, location and concept, so if it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Yum! Brands same-store sale declined at KFC & Pizza hut division. COVID-related disruptions continue to hurt the business.

Last Earnings Report

YUM! Brands Q4 Earnings & Revenues Beat Estimates

YUM! Brands reported strong fourth-quarter 2020 results, wherein both earnings and revenues surpassed the Zacks Consensus Estimate. Both the metrics also improved year over year.

Strong digital sales, and the company's capabilities to adjust operations, menu options and marketing worldwide helped it amid the challenging scenario. In 2020, digital sales amounted to \$17 billion, up 45% year over year.

The company's adjusted earnings of \$1.15 beat the Zacks Consensus Estimate of 99 cents. In the prior-year quarter, the company had reported adjusted earnings of \$1.00.

YUM! Brands' total revenues of \$1,743 million surpassed the consensus estimate of \$1,731 million. The top line also improved 3% year over year. The upside can be attributed to increase in company sales.

Worldwide system sales — excluding foreign currency translation — declined 2% year over year with Taco Bell, KFC and Pizza Hut decreasing 3%, 1% and 6%, respectively.

Divisional Performance

YUM! Brands primarily reports results under three divisions — KFC, Pizza Hut and Taco Bell.

For fourth-quarter 2020, revenues from **KFC** totaled \$711 million, down 3% year over year. Comps at this division declined 2% against the year-ago quarter's growth of 3%.

This segment's operating margin contracted 140 basis points (bps) year over year to 37.6% primarily due to increase in general and administrative expenses, and dismal franchise same-store sales.

In the quarter under review, KFC Division opened 587 gross new restaurants.

At **Pizza Hut**, revenues amounted to \$289 million, down 3% on a year-over-year basis. Comps declined 1% in the reported quarter, compared with a decrease of 2% in the prior-year quarter.

The segment's operating margin was down 150 bps year over year to 28.7% due to dismal international same-store sales, higher general and administrative expenses, and net unit decrease, which offset U.S. franchise bad debt recoveries.

Pizza Hut Division opened 337 gross new restaurants during the fourth quarter.

Taco Bell's revenues were \$628 million, down 6% from the year-ago quarter. Comps rose 1% in the reported quarter compared with the year-ago quarter's growth of 4%. Its operating margin was up 10 bps year over year to 33.8%. It was primarily driven by lower general and administrative expenses, and higher company restaurant margins in the reported quarter.

Taco Bell recorded 93 gross new restaurants openings during the quarter under review.

Habit Burger sales amounted to \$115 million. Comps at this division declined 5%. In the quarter, the company opened seven gross new restaurants.

Other Financial Details

Cash and cash equivalents as of Dec 31, 2020, totaled \$730 million compared with \$605 million on Dec 31, 2019. Long-term debt at the end of the reported quarter was \$10,272 million compared with \$10,131 million at 2019-end.

Quarter Ending	12/2020
Report Date	Feb 04, 2021
Sales Surprise	0.71%
EPS Surprise	16.16%
Quarterly EPS	1.15
Annual EPS (TTM)	3.62

Valuation

Yum! Brands shares are up 8.2% in the year-to date period and 51.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up by 9.5% and 1.2%, respectively, in the year-to date period. Over the past year, the Zacks sub-industry is up 49.7% and the sector is up 39.3%.

The S&P 500 index is up by 10.9% in the year-to date period and 51.7% in the past year.

The stock is currently trading at 28.99X forward 12-month earnings, which compares to 30.59X for the Zacks sub-industry, 32.09X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.54X and as low as 14.1X, with a 5-year median of 24.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$123 price target reflects 30.37X forward 12-month earnings.

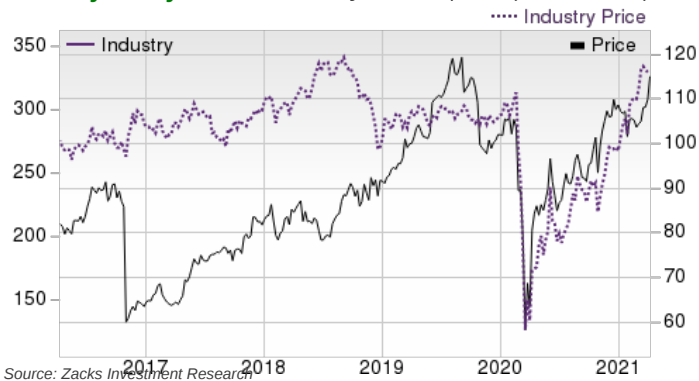
The table below shows summary valuation data for YUM.

Valuation Multiples - YUM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.99	30.59	32.09	23.11
	5-Year High	30.54	34.23	34.07	23.83
	5-Year Low	14.1	20.37	19.1	15.3
	5-Year Median	24.61	23.12	23.77	18
P/S F12M	Current	5.43	4.29	1.4	4.77
	5-Year High	6.62	4.29	1.4	4.77
	5-Year Low	1.65	2.81	0.84	3.21
	5-Year Median	4.93	3.38	1.02	3.71
P/CF	Current	27.63	35.95	14.92	25.46
	5-Year High	77.54	35.95	19	25.46
	5-Year Low	12.75	8.59	11.02	12.87
	5-Year Median	25.29	17.32	13.74	18.7

As of 04/13/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	3
Dominos Pizza Inc (DPZ)	Neutral	3
JAKKS Pacific, Inc. (JAKK)	Neutral	2
McDonalds Corporation (MCD)	Neutral	3
Papa Johns International, Inc. (PZZA)	Neutral	3
Red Robin Gourmet Burgers, Inc. (RRGB)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Yum China Holdings Inc. (YUMC)	Neutral	4

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

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	YUM	X Industry	S&P 500	DPZ	MCD	YUMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	C	-	-	B	D	B
Market Cap	35.07 B	887.33 M	29.89 B	15.32 B	172.59 B	25.32 B
# of Analysts	10	6	12	13	17	6
Dividend Yield	1.70%	0.00%	1.32%	0.95%	2.23%	0.40%
Value Score	D	-	-	C	D	B
Cash/Price	0.02	0.07	0.06	0.03	0.02	0.17
EV/EBITDA	26.10	15.43	16.97	23.88	22.43	13.53
PEG F1	2.45	3.27	2.38	2.56	3.18	3.21
P/B	NA	4.70	4.02	NA	NA	3.91
P/CF	28.12	24.82	16.88	28.46	27.42	23.78
P/E F1	30.04	40.39	22.11	30.78	27.53	32.59
P/S TTM	6.20	1.84	3.45	3.72	8.99	3.06
Earnings Yield	3.33%	2.38%	4.47%	3.25%	3.63%	3.07%
Debt/Equity	-1.30	0.41	0.66	-1.25	-4.50	0.00
Cash Flow (\$/share)	4.18	0.67	6.78	13.88	8.44	2.53
Growth Score	B	-	-	A	D	B
Historical EPS Growth (3-5 Years)	0.49%	-2.91%	9.34%	30.94%	5.77%	0.20%
Projected EPS Growth (F1/F0)	8.01%	69.72%	15.29%	6.84%	38.86%	20.80%
Current Cash Flow Growth	3.17%	-41.66%	0.61%	17.39%	-17.42%	-8.21%
Historical Cash Flow Growth (3-5 Years)	-6.13%	-2.17%	7.37%	18.25%	0.10%	7.12%
Current Ratio	1.01	1.01	1.39	1.85	1.01	2.39
Debt/Capital	NA%	46.50%	41.26%	NA	NA	0.62%
Net Margin	15.99%	-3.54%	10.59%	11.93%	24.63%	9.49%
Return on Equity	-13.85%	-13.33%	14.86%	-14.44%	-51.75%	12.85%
Sales/Assets	0.93	0.76	0.51	2.67	0.38	0.95
Projected Sales Growth (F1/F0)	12.16%	12.69%	7.37%	4.17%	14.65%	22.50%
Momentum Score	C	-	-	C	A	F
Daily Price Change	0.88%	0.00%	-0.14%	1.10%	0.16%	0.33%
1-Week Price Change	4.70%	0.93%	1.54%	4.54%	2.78%	1.22%
4-Week Price Change	7.95%	-2.75%	3.29%	7.90%	5.21%	-3.09%
12-Week Price Change	9.37%	12.65%	9.63%	5.98%	10.63%	1.59%
52-Week Price Change	47.01%	95.60%	51.26%	10.24%	25.72%	30.96%
20-Day Average Volume (Shares)	1,579,834	258,875	1,987,536	532,576	3,212,839	1,645,626
EPS F1 Estimate 1-Week Change	0.41%	0.00%	0.00%	0.10%	0.21%	-0.63%
EPS F1 Estimate 4-Week Change	0.41%	0.38%	0.00%	0.88%	0.49%	-0.63%
EPS F1 Estimate 12-Week Change	1.01%	-1.32%	2.05%	0.24%	1.70%	-2.63%
EPS Q1 Estimate Monthly Change	0.42%	0.00%	0.00%	0.50%	0.41%	-1.11%

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	D
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.