

Zimmer Biomet (ZBH)

\$141.08 (As of 10/06/20)

Price Target (6-12 Months): **\$148.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/25/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Zimmer Biomet's sales performances across all operating segments and geographies in the second quarter 2020 was disappointing. The quarter's performance was negatively impacted by COVID-19, which resulted in a significant decline in elective procedure volumes across all regions through each of the months of the second quarter. The company did not provide any update on its full-year guidance this time too. Zimmer Biomet's second quarter performance was a dismal one. Over the past year, Zimmer Biomet underperformed its industry. However, Zimmer Biomet believes the trend has started to reverse and expects its strong fundamentals and capital structure to position it well in overcoming the ongoing challenges. Its promising long-term strategies and a gradually stabilizing market despite challenging conditions buoy optimism.

Data Overview

52-Week High-Low	\$161.11 - \$74.37
20-Day Average Volume (Shares)	970,307
Market Cap	\$29.2 B
Year-To-Date Price Change	-5.8%
Beta	1.34
Dividend / Dividend Yield	\$0.96 / 0.7%
Industry	Medical - Products
Zacks Industry Rank	Top 48% (122 out of 252)

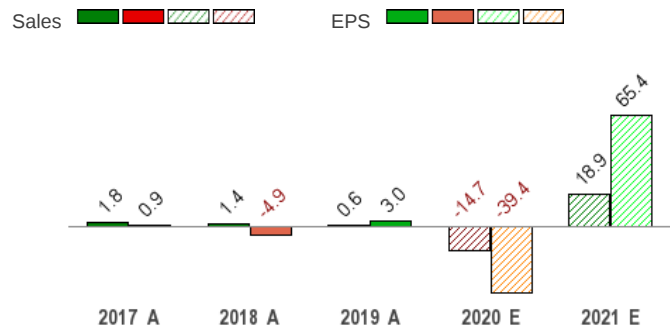
Last EPS Surprise	106.9%
Last Sales Surprise	31.7%
EPS F1 Estimate 4-Week Change	1.2%
Expected Report Date	11/06/2020
Earnings ESP	2.4%

P/E TTM	24.2
P/E F1	29.6
PEG F1	4.3
P/S TTM	4.2

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,961 E	1,984 E	1,944 E	2,222 E	8,091 E
2020	1,784 A	1,226 A	1,704 E	2,084 E	6,807 E
2019	1,976 A	1,989 A	1,892 A	2,126 A	7,982 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.85 E	\$1.91 E	\$1.85 E	\$2.40 E	\$7.89 E
2020	\$1.70 A	\$0.05 A	\$1.03 E	\$1.99 E	\$4.77 E
2019	\$1.87 A	\$1.93 A	\$1.77 A	\$2.30 A	\$7.87 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/06/2020. The reports text is as of 10/07/2020.

Overview

Headquartered in Warsaw, IN, Zimmer Biomet is a leading musculoskeletal healthcare company that designs, manufactures and markets orthopedic reconstructive products; sports medicine, biologics, extremities and trauma products; spine, bone healing, craniomaxillofacial and thoracic products; dental implants; and related surgical products. With operations in over 25 countries, Zimmer markets products in more than 100 countries.

In 2015, Zimmer Holdings, Inc. (the legacy company) acquired Biomet, Inc. to form a new consolidated company.

Zimmer Biomet's Product Portfolio

Four Zimmer product categories has been retained post the merger. These are:

Knees (comprising 35% of total revenues in 2019; up 1.3% from 2018): Major products include Persona personalized knee system, NexGen complete knee solution, Vanguard Knee, Oxford Partial Knee

Hips (24%; up 0.7%): Significant hip brands include Zimmer M/L Taper Hip Prosthesis, Taperloc Hip System, Arcos Modular Hip System, Continuum Acetabular System, G7 Acetabular System

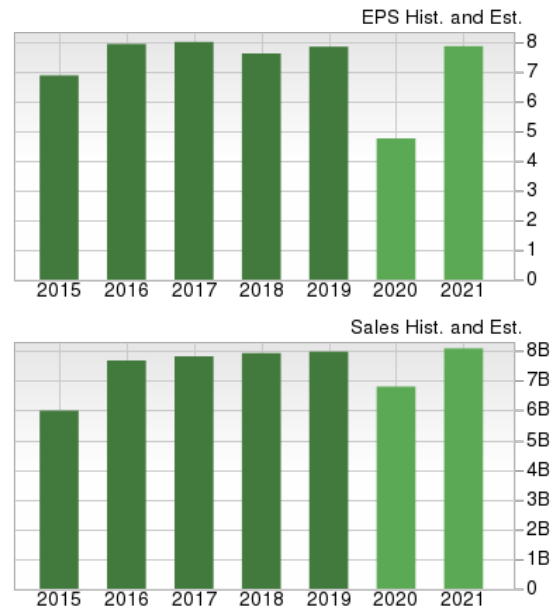
S.E.T. (22%; up 2.5%): This product category has been created comprising Surgical, Sports Medicine, Foot and Ankle, Extremities and Trauma. The brands include Intellicart System, A.T.S. Tourniquet Systems, Juggernaut Soft Anchor System, Gel-One 1 Cross-linked Hyaluronate, Trabecular Metal TM Reverse Shoulder System , Comprehensive Shoulder among others.

SPINE and CMF (9.4%; down 2.2%): Major brands include Polaris Spinal System, Mobi-C Cervical Disc.

Dental (5.2%; up 0.7%): Significant dental brands are Tapered Screw-Vent Implant System and 3i T3 Implant

In addition, there is a standalone **Other** category that includes bone cement and office based technology products.

Zimmer Biomet's geographic segments are the Americas, Europe, Middle East & Africa (EMEA) and Asia Pacific.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Trend Improvement Evident:** Zimmer Biomet noted that, while its second quarter sales witnessed the harshest impact of the pandemic, this period has also started to show the sign of recovery. The company saw the deepest impact on elective procedures and revenue in April, but then saw a rapid recovery with sequential improvement in May and June. According to the company, the overall performance was better than expected across all of the regions in the second quarter. In particular, it saw strength in the United States despite the resurgence of the virus in many of the states. Importantly, this trend reversal has continued into July, even when there are the states with rising COVID numbers like Florida, Texas and Arizona.

Zimmer's strategic acquisitions like Biomet and LDR, recent focus on emerging markets to drive growth, strong balance sheet position, stabilizing market trend bolstered our confidence in this stock.

▲ **Long-term Strategy Looks Promising:** In 2019, Zimmer Biomet pitched its plans to begin delivering 2-3% growth in 2020 and stabilize its business. In order to achieve the goal, the company has designed a three-pillar strategy for 2020 and beyond. First, the company is targeting to be labeled as the most preferred organization to work in. Second, Zimmer Biomet is trying to build the brand image as a trusted partner to its stakeholders. Third, the company wants to deliver high shareholder return. For this, Zimmer Biomet is planning to implement a five-year plan that will help improve the company's financials.

▲ **Gradually Stabilizing Market:** Despite challenging market conditions in the form of pricing pressure, the last few quarters witnessed gradual stability in the global musculoskeletal market with better-than-expected sales growth in certain geographies, banking on improved procedural volume. This was driven by favorable demographics and growing utilization of musculoskeletal healthcare in emerging markets and under-penetrated developed markets. The focused execution of the company's global sales teams amid a stable global musculoskeletal market also helped accelerate global sales for Persona, the personalized knee system.

With its expectation that the market will stabilize further, Zimmer Biomet is confident about its differentiated portfolio that comprises both premium and value-based offerings.

▲ **Favorable Long-term Trends:** Zimmer Biomet should benefit from favorable long term trends that point toward sustained growth driven by obesity, wear and tear of joints from more active lifestyles, growth in emerging markets, new material technologies, advances in surgical techniques and proven clinical benefits of joint replacement procedures.

More importantly, the percentage of population over the age of 65 in the United States, Europe, Japan and other regions is expected to nearly double by the year 2030. In the United States, the oldest baby boomers are now pushing retirement age. We believe Zimmer Biomet is benefiting from this aging demography since knee and hip joints tend to wear out with age and therefore require replacement.

Zimmer Biomet is operating on a more comprehensive and diversified musculoskeletal portfolio with the target of 17% market share and attractive cross selling opportunities. The combined company's research and development spending capability is expected to reach approximately \$360 million.

▲ **Focus on Emerging Markets to Drive Growth:** Over the recent past, Zimmer Biomet has been working to strengthen its foothold in emerging markets that provide long-term opportunities for growth. The company's strategic investments in these regions over the past several quarters to improve operational and sales performance are yielding results. While the integration of Biomet is over, the combined company has started to get benefitted from strong presence in the emerging markets with an extended portfolio that includes upper and lower joints. According to the combined company, this will help develop the extremities and trauma business going forward. Zimmer Biomet expects to establish critical mass in both spine and dental that will position the company to compete effectively and gain share in these significant markets.

Markets opportunity is expected to grow to \$66.6 billion by 2025 for the orthopedic implants globally. Within emerging market, we note that strength in Asia Pacific and EMEA markets continued to drive revenue growth so far. Post the COVID-19 mayhem gets past; banking on a cadence of product launches and strong customer adoptions, Zimmer Biomet is expected to continue with this trend.

▲ **Overall Healthy Solvency Structure:** Zimmer Biomet exited the second quarter with cash and cash equivalents of \$713 million compared with \$2.43 billion at first-quarter end. Meanwhile, total debt came up to \$8.21 billion, a fall from the sequentially-last-reported figure of \$9.67 billion. The reported quarter's total debt was much higher than the corresponding cash and cash equivalent level indicating tough solvency position. However, the company has near-term-payable debt of \$450 million on its balance sheet, much lower than the present level of cash in hand. This is a relief for the investors as during the year of global pandemic when the company is facing procedural deferrals and low demand for non-COVID-19 musculoskeletal products, it is holding sufficient cash for debt repayment.

Debt comparison with the industry is, however, favorable as industry's total debt of \$9.67 billion is much higher than the company's debt level.

On the other hand, the quarter's total debt-to-capital ratio stands at 0.41 indicating a moderately leveraged balance sheet. However, it represents a sequential decline from 0.45 in the first quarter. This compares unfavorably with the total debt-to-capital ratio of the industry, which stands at a lower level of 0.37. The overall data concludes that in terms of solvency level of the company, the picture is encouraging.

In the second quarter, the company paid \$49.6 million in dividends and declared a dividend of 24 cent per share. The current payout ratio stands at a low level of 16.5%, representing a sequential rise from 12.5% from the end of the first quarter. Amid the pandemic-led economic crisis, this payout rate looks sustainable. However, this compares favorably with the payout rate of the industry which stands at a higher level (37.4%).

Reasons To Sell:

▼ **Share Price Movement:** Over the past year, Zimmer Biomet underperformed its industry. The stock has gained 7.5% compared with the 12.4% fall of the industry. Zimmer Biomet ended the second quarter on a dismal note with disappointing sales performances across all operating segments and geographies. The company noted that second-quarter performance was negatively impacted by COVID-19, which reached a pandemic level in March and resulted in a significant and sudden decline in elective procedure volumes across all regions since then.

In terms of operating segments, the global knee business declined 47% while global hip business declined 31% in the second quarter. Sports, extremity and trauma sales declined 29%. The trauma market continued to be pressured due to reduced activity levels related to widespread quarantine and stay-at-home orders. Dental, spine and CMFT sales declined 37% in the quarter.

According to Zimmer Biomet, the impact of COVID-19 is still significant and remains very fluid. Owing to lack of clarity around the scope and duration of the pandemic, the company is still unable to gauge the impact on its overall business in 2020. Accordingly, it did not provide any full-year guidance yet again.

▼ **COVID-19 Hurts Near Term Sales:** COVID-19 have a significant unfavorable impact on Zimmer Biomet's business in the near term. The deferral of elective procedures as a result of hospitals redeploying resources to COVID-19 is expected to have a meaningful negative impact through the company's 2020 performance. Zimmer Biomet noted that, this impact became pronounced in April.

The Americas decreased 40% in the second quarter. The COVID-19 impact ramped up materially in mid-March with federal and state government's guidance to defer elective procedures. April sale was the lowest in Americas. Sales in Asia Pacific decreased about 18% in the second quarter versus the same period in the prior year. While China demonstrated sharp V-shaped recovery since April, Japan, the largest market in Asia Pacific, was stable in the second quarter. However, Australia and New Zealand, the third largest market in Asia Pacific observed a sharp decline and a sharp recovery in this period. Smaller markets within Asia Pacific continued to struggle with containing the virus and implementing effective policies, and accordingly procedures were down substantially in the second quarter. EMEA, the region decreased 49% in the second quarter.

▼ **Pricing Pressure Continues to Persist:** Pricing continues to remain a major headwind for Zimmer Biomet. The company's top-line growth in the reported quarter was partially offset by continued pricing pressure, mostly in the Americas and Europe operating segments. We remain concerned about the pricing scenario as it will be affected by cost containment efforts by governmental healthcare, local hospitals and health systems. In 2019, pricing pressure was negative 2.6%, in line with the company's expectations.

▼ **Competitive Landscape:** The presence of a large number of players has made the medical devices market intensely competitive. The orthopedic industry in particular is highly competitive with the presence of players like Stryker, Johnson & Johnson's DePuy, Smith & Nephew and Medtronic. Zimmer Biomet needs to constantly introduce or acquire new products to withstand the competitive pressure and maintain its market share.

▼ **Exposed to Currency Movement:** Zimmer Biomet records a significant portion its sales from the international market. This makes it highly exposed to currency fluctuations. In the second quarter, adverse currency translation impacted sales by 0.3%.

Factors like macroeconomic uncertainties, pricing pressure and unfavorable currency fluctuations adversely impacted Zimmer Biomet's sales during the reported quarter.

Last Earnings Report

Zimmer Biomet Q2 Sales Suffer on Procedural Deferrals

Zimmer Biomet posted second-quarter 2020 adjusted earnings per share of 5 cents in contrast to the Zacks Consensus Estimate of a loss of 72 cents per share. The figure however was way below from adjusted earnings per share of \$1.93 in the year-ago period.

On a reported basis, the company registered loss of \$1.00 per share against year-ago earnings of 65 cents per share.

A significant year-over-year decline in the company's second-quarter revenues and margins, negatively impacted by the coronavirus outbreak, resulted in poor earnings performance of Zimmer Biomet.

Revenue Details

Second-quarter net sales of \$1.23 billion decreased 38.3% (down 38% at constant exchange rate or CER) year over year. The figure however exceeded the Zacks Consensus Estimate by 31.7%. The company noted that the coronavirus pandemic resulted in significant deferral of elective procedures through the quarter. However, according to the company, the maximum decline in those procedures to date was seen in April 2020, with incremental improvement in May and June.

During the second quarter, sales generated in the Americas totaled \$733.7 billion (down 39.5% year over year at CER) while the same in EMEA (Europe, the Middle East and Africa) grossed \$218.7 million (down 49% year over year at CER). Asia-Pacific registered 18.2% decline at CER to \$273.7 million.

Segments

Sales in the Knees unit declined 46.5% year over year at CER to \$374.2 million. Hips recorded a 30.7% drop at CER to \$329.7 million. Revenues in the S.E.T. (Sports Medicine, Extremities and Trauma) unit declined 28.7% year over year to \$252.6 million.

Among other segments, Dental, Spine & CMFT (Craniofacial and Thoracic) dropped 37.4% at CER to \$182.5 million. Other revenues were down 44.3% to \$87.1 million.

Margins

Gross margin after excluding intangible asset amortization came in at 65.4%, reflecting a contraction of 538 basis points (bps) in the second quarter. Selling, general and administrative expenses declined 20.7% to \$665 million. Research and development expenses declined 21.8% to \$87.7 million. Despite the lower expenses, adjusted operating margin contracted 1896 bps to 3.9% during the quarter.

Cash Position

Zimmer Biomet exited the second quarter with cash and cash equivalents of \$713.4 million compared with \$2.43 billion at first-quarter end. Long-term debt at the end of the quarter totaled \$8.21 billion, reflecting a rise from \$7.72 billion at the end of the first quarter.

Cumulative net cash provided by operating activities at the end of the second quarter was \$398.1 million compared with \$584.6 million in the year-ago period.

2020 Guidance

According to Zimmer Biomet, the impact of COVID-19 is still significant and remains very fluid. Owing to lack of clarity around the scope and duration of the pandemic, the company is still unable to gauge the impact on its overall business in 2020. Accordingly, it did not provide any full-year guidance yet again.

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	31.71%
EPS Surprise	106.94%
Quarterly EPS	0.05
Annual EPS (TTM)	5.82

Recent News

Zimmer Biomet Adds New Features to mymobility: Jun 22, 2020

Zimmer Biomet announced the addition of features to mymobility with Apple Watch, thus creating a first-of-its-kind remote care management system.

Valuation

Zimmer Biomet shares are down 5.7% and up 7.5% in the year-to-date period and the trailing 12-month periods, respectively. Stocks in the Zacks subindustry are down 2.9% while the Zacks Medical sector is down 2% in the year-to-date period. Over the past year, the subindustry is down 3.9% and sector is up 12.4%.

The S&P 500 index is up 4.5% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 19.8X Forward 12-months earnings, which compares to 27.8X for the Zacks sub-industry, 21.8X for the Zacks sector and 21.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.2X and as low as 9.5X, with a 5-year median 14.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$148 price target reflects 20.8X forward 12-months earnings.

The table below shows summary valuation data for ZBH.

Valuation Multiples - ZBH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	19.77	27.78	21.83	21.97
	5-Year High	25.16	31.01	23.12	23.47
	5-Year Low	9.53	17.09	15.87	15.27
	5-Year Median	14.56	20.6	18.99	17.70
P/S F12M	Current	3.75	3.8	2.75	4.04
	5-Year High	4.08	3.92	3.26	4.30
	5-Year Low	2.01	2.9	2.24	3.18
	5-Year Median	3.06	3.33	2.85	3.67
P/B TTM	Current	2.51	3.18	3.79	5.84
	5-Year High	2.78	3.48	5.08	6.20
	5-Year Low	1.34	2.2	2.96	3.75
	5-Year Median	2.21	2.85	4.3	4.88

As of 10/06/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 48% (122 out of 252)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
Globus Medical, Inc. (GMED)	Outperform	2
Medtronic PLC (MDT)	Neutral	3
NuVasive, Inc. (NUVA)	Neutral	3
SmithNephew SNATS, Inc. (SNN)	Neutral	4
Stryker Corporation (SYK)	Neutral	3
DENTSPLY SIRONA Inc. (XRAY)	Neutral	3
JohnsonJohnson (JNJ)	Underperform	5

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

Industry Comparison Industry: Medical - Products				Industry Peers		
	ZBH	X Industry	S&P 500	JNJ	MDT	SYK
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	D	-	-	B	F	C
Market Cap	29.21 B	324.23 M	23.33 B	385.08 B	138.96 B	78.94 B
# of Analysts	14	3	14	9	14	15
Dividend Yield	0.68%	0.00%	1.65%	2.76%	2.24%	1.09%
Value Score	C	-	-	C	C	C
Cash/Price	0.03	0.13	0.07	0.05	0.09	0.08
EV/EBITDA	16.41	-0.30	13.33	15.86	19.06	25.19
PEG F1	4.26	3.91	2.84	3.24	3.37	3.56
P/B	2.51	3.31	3.43	6.11	2.75	6.19
P/CF	10.74	19.49	13.07	12.70	15.62	20.11
P/E F1	29.58	38.78	21.41	18.63	26.21	33.47
P/S TTM	4.16	5.21	2.59	4.78	4.98	5.61
Earnings Yield	3.38%	0.14%	4.47%	5.37%	3.81%	2.99%
Debt/Equity	0.67	0.07	0.70	0.40	0.45	0.93
Cash Flow (\$/share)	13.14	0.00	6.92	11.52	6.62	10.47
Growth Score	F	-	-	C	F	D
Historical EPS Growth (3-5 Years)	-0.29%	10.67%	10.45%	8.66%	3.21%	10.79%
Projected EPS Growth (F1/F0)	-39.36%	3.90%	-2.97%	-9.55%	-14.07%	-23.83%
Current Cash Flow Growth	-24.63%	5.71%	5.47%	3.68%	-9.02%	11.85%
Historical Cash Flow Growth (3-5 Years)	13.79%	8.04%	8.50%	7.62%	7.68%	12.35%
Current Ratio	2.18	2.91	1.35	1.25	1.87	2.91
Debt/Capital	39.99%	13.58%	42.90%	28.47%	31.19%	48.08%
Net Margin	0.52%	-17.25%	10.28%	22.69%	15.80%	11.38%
Return on Equity	10.07%	-10.37%	14.79%	35.21%	10.47%	20.53%
Sales/Assets	0.29	0.51	0.51	0.51	0.30	0.48
Projected Sales Growth (F1/F0)	-14.72%	0.00%	-0.62%	-1.46%	0.73%	-6.20%
Momentum Score	A	-	-	B	F	A
Daily Price Change	-0.36%	0.00%	-1.00%	-1.33%	-0.32%	-1.62%
1-Week Price Change	1.96%	0.00%	2.13%	0.40%	-1.16%	1.60%
4-Week Price Change	2.02%	0.00%	1.65%	-0.68%	-1.15%	5.25%
12-Week Price Change	13.62%	-3.19%	6.15%	-1.12%	9.22%	15.26%
52-Week Price Change	7.51%	1.45%	5.99%	10.94%	-1.55%	1.30%
20-Day Average Volume (Shares)	970,307	215,800	2,153,235	6,151,900	4,225,264	1,282,794
EPS F1 Estimate 1-Week Change	0.63%	0.00%	0.00%	0.00%	0.00%	0.08%
EPS F1 Estimate 4-Week Change	1.24%	0.00%	0.00%	0.00%	-0.38%	0.08%
EPS F1 Estimate 12-Week Change	28.50%	4.73%	3.50%	1.99%	12.53%	1.15%
EPS Q1 Estimate Monthly Change	0.18%	0.00%	0.00%	0.00%	-2.88%	0.17%

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	F
Momentum Score	A
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.