Zoom Video (ZM)

$366.47 (As of 09/08/20)

Price Target (6-12 Months): **$404.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/03/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:D
	Value: F | Growth: A	Momentum: A

Summary

Zoom Video gained significant traction from the coronavirus-induced remote-working and online-learning wave in second-quarter fiscal 2021. The company added record number of subscribers. Enterprise customer base also grew rapidly. Easy to deploy, use, manage and solid scalability make Zoom Video's software more popular among its customers. Moreover, the company's expanding international presence is a key catalyst. Its efforts to eliminate the security and privacy loopholes as well as new hardware and Zoom From Home solution's launch are expected to help in expanding clientele. The company's strong free cash-flow generating ability is noteworthy. Shares have outperformed the industry on a year-to-date basis. However, acute competition from the likes of Microsoft and Cisco in the video-communication space does not bode well.

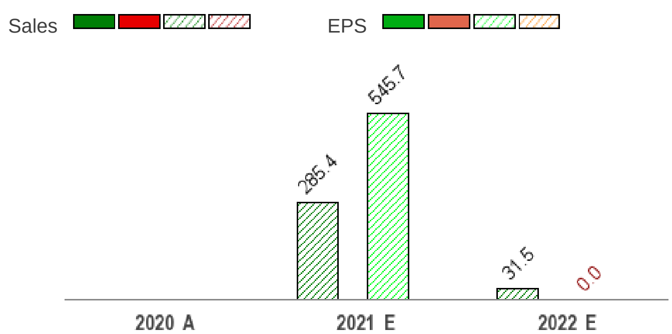
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$478.00 - $60.97**
20-Day Average Volume (Shares)	**10,595,807**
Market Cap	**$99.0 B**
Year-To-Date Price Change	**415.7%**
Beta	**-1.24**
Dividend / Dividend Yield	**$0.00 / 0.0%**
Industry	**Internet - Software**
Zacks Industry Rank	**Bottom 30% (175 out of 251)**
Last EPS Surprise	**104.4%**
Last Sales Surprise	**33.2%**
EPS F1 Estimate 4-Week Change	**92.4%**
Expected Report Date	**12/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**258.0**
P/E F1	**162.2**
PEG F1	**6.1**
P/S TTM	**73.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	753 E	788 E	825 E	861 E	3,157 E
2021	328 A	664 A	694 E	717 E	2,401 E
2020	122 A	146 A	167 A	188 A	623 A

EPS Estimates

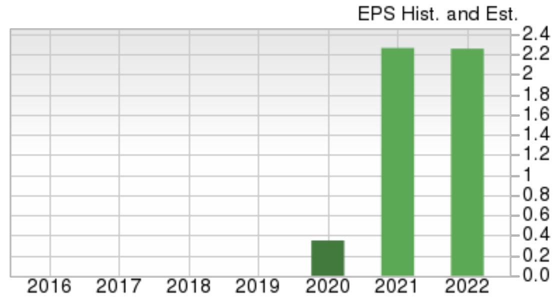
	Q1	Q2	Q3	Q4	Annual*
2022	$0.60 E	$0.63 E	$0.63 E	$0.66 E	$2.26 E
2021	$0.20 A	$0.92 A	$0.75 E	$0.62 E	$2.26 E
2020	$0.03 A	$0.08 A	$0.09 A	$0.15 A	$0.35 A

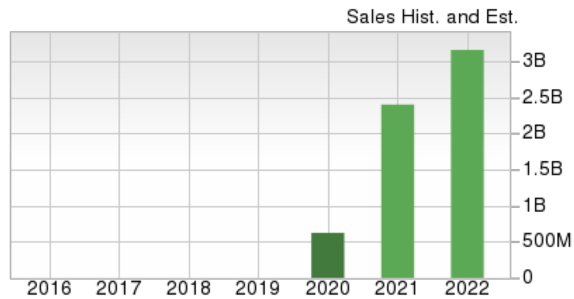
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 09/08/2020. The reports text is as of 09/09/2020.

Overview

Zoom Video Communications' cloud-native unified communications platform, which combines video, audio, phone, screen sharing and chat functionalities, makes remote-working and collaboration easy. Undoubtedly, the company is benefiting from the work-from-home and online learning wave following the coronavirus pandemic outbreak that forced more and more people to stay home.





Zoom Video's solutions include Zoom Meetings, Zoom Rooms, Zoom Phone (launched in 2019), Zoom Chat, Zoom Conference Room Connector, Zoom Video Webinars, Zoom for Developers and Zoom App Marketplace.

Zoom Video's flagship solution Zoom Meetings provides high-definition video, voice, chat and content sharing across mobile devices, desktops, laptops, telephones and conference room systems. Zoom Meetings integrate with tools, such as Atlassian, Dropbox, Google, LinkedIn, Microsoft, Salesforce and Slack.

Moreover, Zoom Phone is an enterprise cloud phone system that provides inbound and outbound calling via its support for native connectivity to the public switched telephone network (PSTN). Further, Zoom Video Webinars ($40 per month per host) allows users to conduct large-scale online events. It can support more than 10,000 view-only attendees.

Zoom Video went for an Initial Public Offering (IPO) on Apr 17, 2019. This San Jose, CA-based company reported revenues of $622.7 million in fiscal 2020.

The company generates revenues from the sale of subscriptions to its video-first communications platform. Subscription revenues are driven, primarily by the number of paid hosts as well as purchases of additional products including Zoom Rooms, Zoom Video Webinars and Zoom Phone.

Markedly, Zoom Meeting is offered on a per-host-per-month basis in Basic, Pro, Business and Enterprise tiers. Basic is offered for free as part of Zoom Video's "freemium" strategy to convert these users into a Zoom Host, a paying user. Pro, Business and Enterprise are offered at $14.99, $19.99 and $19.99, respectively, with maximum of 9, 10 and 100 hosts, respectively.

Notably, as of Apr 30, 2020, the company had approximately 265.4K customers with more than 10 employees. .

Zoom Video faces significant competition from Cisco Webex, LogMeIn GoToMeeting, Microsoft Teams, Google G Suite, Avaya, RingCentral and 8x8.

Source: Zacks Investment Research

Reasons To Buy:

> Zoom Video is benefiting coronavirus-induced remote working trend. Its efforts to eradicate security and privacy flaws are expected to aid it to expand its user base.

- Zoom Video is undoubtedly the biggest gainer of the coronavirus-induced remote working trend. Demand for the company's video-first collaboration software jumped significantly amid lockdowns and stay-at-home measures undertaken by governments to break the chain of coronavirus pandemic. Easy to deploy, use, manage and scalability makes Zoom Video's software more popular among its customers. For enterprise customers, minimal involvement of IT, lower cost and scalability are major factors behind selecting Zoom Video. Notably, the company had 988 customers, contributing to more than $100,000 of trailing 12 months' (TTM) revenues, in second-quarter fiscal 2021. Moreover, Zoom Video had roughly 370,200 customers with more than 10 employees were more than 370K. Markedly, Zoom Video's trailing 12-month net dollar-expansion rate in customers with more than 10 employees was above 130% for the 9th consecutive quarter.

- Moreover, demand for Zoom Video's platform and solutions is expected to remain robust as healthcare experts believe that some form of social distancing will be required to prevent recurrent transmission of the coronavirus until a vaccine or any effective treatment is developed. Per a study by researchers from Harvard University's T.H. Chan School of Public Health, sporadic periods of social isolation might be required through 2022 in the United States to keep tabs on the number of coronavirus patients falling severely ill, thereby easing the healthcare system. Hence, the work-from-home wave is expected to continue for some time and good news is that it bodes well for Zoom Video in the long haul.

- Further, the company's freemium business model helps it win customers rapidly, which it can later convert into paying customer. Notably, new customer subscriptions accounted for approximately 71% of year-over-year revenue growth in first-quarter fiscal 2021. Additionally, Zoom is one of the leading names in the unified communications and collaboration (UC&C) space, which is expected to witness a healthy CAGR of 7.1% during 2019-2023 period, per IDC data. Gartner put Zoom Video in the Leaders Quadrant of the 2019 Magic Quadrant for Meeting Solutions. Moreover, Zoom Video's expanding international footprint is a major driver. Earlier in August, the company announced availability of its Zoom Phone service in 25 additional countries (total 40 countries and territories).

- As schools across the globe, are expected to remain closed for an extended period of time due to the coronavirus pandemic still looming large, Zoom Video is experiencing solid adoption among online educators. The company lifted its 40-minute meeting limit on free basic accounts for K-12 schools in a number of countries including Australia, India, New Zealand, Israel, Canada, Germany, the United Kingdom, the United States et al. Zoom Video solutions are also rapidly getting accepted by telehealth providers. Remote diagnosis is helping telehealth providers adhere to social-distancing norms without compromising on patient healthcare.

- Zoom Video is taking initiatives to solve privacy and security issues that threatened to derail its growth prospects. The company appointed technology experts to beef up security including encryption (AES 256-bit GCM encryption). Notably, its upcoming Zoom 5.0 supports GCM encryption. It added features that now allow users to screen, mute and keep unwarranted people at bay from a video call or meeting. These efforts are expected to help Zoom Video maintain its existing enterprise user base, which comprises the likes of VMware, Goldman Sachs, J.P. Morgan and Financial Industry Regulatory Authority (FINRA) and lure in new users.

- Zoom Video has a strong balance sheet and generates significant cash flow, which makes it an attractive stock for investors. The company has cash and cash equivalents (including marketable securities) worth $1.48 billion as of Jul 31, 2020 compared with $1.11 billion as of Apr 30, 2020. Free cash flow was $373.4 million in second-quarter fiscal 2021 compared with $17.1 million in the year-ago quarter. We believe Zoom Video's ability to generate strong cash flows will enable it to make further investments in product development and acquisitions in the future.

Risks

- Zoom Video endures significant rivalry from legacy web-based meeting services providers including Cisco Webex and LogMeIn GoToMeeting, and bundled productivity solution providers with video functionality including Microsoft Teams and Google G Suite as well as UCaaS and legacy PBX providers including Avaya, RingCentral and 8x8. Facebook is the latest company to jump on the video calling bandwagon with the introduction of Messenger Rooms, which will soon be able to accommodate up to 50 users. Considering Facebook's massive user base, this is a huge setback for Zoom Video. Additionally, Verizon's acquisition of BlueJeans further intensifies competition for the company.

- Zoom Video is facing significant backlash from customers due to security issues. Daimler AG, Ericsson, NXP Semiconductors, Bank of America and Tesla are among a host of companies banning or warning employees against using the app due to security concerns. It was also temporarily banned by the New York City Department of Education and Singapore. Moreover, India deemed Zoom Video as an unsafe platform. These allegations revealed a significant chink in Zoom's armor and could prompt customers to shift to more secure platforms like Teams and Webex that are now free to use.

- Zoom Video is also struggling with privacy issues. The "zoombombing", which occurs when uninvited individuals disrupt a teleconferencing session, is a major privacy risk. Moreover, the company's iOS app is accused of sending user data to Facebook, which ultimately resulted in a class action lawsuit. The company allegedly overstated its ability to protect users on the platform. It failed to inform users that their communications weren't safeguarded by end-to-end encryption.

- International expansion caused cost escalations in the form of marketing expenses. Sales and marketing expenses soared 83.3% year over year to $340.6 million in fiscal 2020, a trend that will likely continue in fiscal 2021 as the company plans to add local sales support in international markets. Notably, revenues from the rest of world (APAC and EMEA) represented 19% of total revenues in fiscal 2020, up from 18% in fiscal 2019.

Last Earnings Report

Zoom Video Q2 Earnings Top Estimates, Revenues Jump Y/Y

Quarter Ending	07/2020
Report Date	**Aug 31, 2020**
Sales Surprise	**33.19%**
EPS Surprise	**104.44%**
Quarterly EPS	**0.92**
Annual EPS (TTM)	**1.36**

Zoom Video's second-quarter fiscal 2021 adjusted earnings of 92 cents per share beat the Zacks Consensus Estimate by 104.4%. The company reported earnings of 8 cents per share in the year-ago quarter.

Moreover, revenues of $663.5 million surpassed the consensus mark by 33.2% and also soared 355% year over year. This outperformance was primarily driven by new customer subscriptions, which accounted for approximately 81% growth. Existing customer subscriptions represented roughly 19% of year-over-year growth.

Revenues from Americas (68.5% of revenues) jumped 287.9% year over year to $454.2 million. EMEA (19.3% of revenues) soared a whopping 671.1% from the year-ago quarter to $128 million. APAC (12.3% of revenues) were $81.4 million, up a massive 572.7% year over year.

User Base Jumps in Q2

As anticipated, Zoom Video benefited from the coronavirus-induced work-from-home and online-learning wave.

At the end of the fiscal second quarter, Zoom Video had roughly 370,200 customers (with more than 10 employees), up 458% year over year. Markedly, Zoom Video's trailing 12-month net dollar-expansion rate in customers with more than 10 employees was above 130% for the 9th consecutive quarter.

Moreover, the company had 988 customers (with more than $100,000 in trailing 12-month revenues), up 112% year over year. ExxonMobil and Activision Blizzard were notable enterprise customer additions in the reported quarter.

While ExxonMobil chose Zoom Video as its unified communications platform, Activision Blizzard committed to a full-enterprise rollout of Zoom Meeting and Zoom Rooms to replace its mix of legacy video-conferencing products.

Zoom Video also expanded its presence in ServiceNow. During the quarter, the companies announced a commitment to use each other's technology solutions to make the work-from-anywhere experience better.

Operating Details

Non-GAAP gross margin in the quarter under review was 72.3%, significantly down from 82.2% reported in the year-ago quarter.

Research & development (R&D) expenses as a percentage of revenues decreased 430 basis points (bps) on a year-over-year basis to 4.3%. Further, general & administrative (G&A) expenses decreased 440 bps to 7.7%.

Moreover, sales & marketing (S&M) expenses as a percentage of revenues were 18.5%, significantly down from 47.2% reported in the year-ago quarter.

Non-GAAP operating income surged to $277 million from $20.7 million reported in the year-ago quarter. Operating margin expanded to 41.7% from 14.2% reported in the year-ago quarter.

Balance Sheet & Cash Flow

As of Jul 31, 2020, cash and cash equivalents and marketable securities were $1.48 billion compared with $1.11 billion as of Apr 30, 2020.

Free cash flow was $373.4 million in the quarter under review compared with $251.7 million in the previous quarter and $17.1 million in the year-ago quarter.

Remaining Performance Obligation (RPO) was $1.42 billion, up 209.2% year over year. The company expects to recognize nearly 72% or $1 billion of the total RPO as revenues over the next 12 months.

Other Developments

During the reported quarter, the company launched Zoom Hardware as a Service (HaaS). Notably, Zoom HaaS offers customers a variety of subscription options for phone and meeting-room hardware from leading hardware manufacturers.

Moreover, the company's Zoom Phone was authorized under the FedRAMP program. This now enables federal agencies to use Zoom's unified modern cloud solutions.

In August, Zoom Video expanded the availability of Zoom Phone service to 25 additional countries and territories. Zoom Video now provides local telephone service and domestic calling in more than 40 countries and territories.

Moreover, the company launched Zoom for Home, its new innovative category of software-experience and hardware-device partnerships to support remote-work use cases. The company launched this program with its partner DTEN in July.

In August, Zoom Video announced the expansion of Zoom for Home to smart displays including Amazon Echo Show, Portal from Facebook, and Google Nest Hub Max. While Zoom on Portal is expected to be available publicly in September, Zoom on Echo Show and Zoom on Assistant-enabled Smart Displays, including Google Nest Hub Max, are expected to be available by the end of 2020.

Guidance

For third-quarter fiscal 2021, Zoom Video expects revenues between $685 million and $690 million. Non-GAAP income from operations is expected between $225 million and $230 million. Moreover, non-GAAP earnings are expected in the73-74 cents-per-share range.

For the full fiscal, Zoom Video now expects revenues between $2.37 billion and $2.39 billion (up from the previous revenue guidance of $1.775-$1.8 billion). The company expects fiscal gross margin to be similar to second-quarter reported figure.

Moreover, management expects churn rate to increase particularly within customers with 10 or fewer employees, which currently comprises 36% of revenues.

Further, Zoom Video expects operating margins to decrease from the second-quarter level over the balance of this year due to increased hiring and spending.

Non-GAAP income from operations is expected between $730 million and $750 million (up from the past outlook of $355-$380 million). Moreover, non-GAAP earnings are expected in the $2.40-$2.47 per-share range (up from previous outlook of $1.21-$1.29 per share).

Recent News

On Aug 25, Zoom Video announced that Cardinal Health has selected its UCaaS platform to consolidate and optimize workflow. The initial rollout includes more than 17,000 Zoom users including video webinar, rooms, cloud-room connectors and phone licenses.

On Aug 19, Zoom Video announced expansion of Zoom for Home to smart displays including Amazon Echo Show, Portal from Facebook, and Google Nest Hub Max. While Zoom on Portal is expected to be available publicly in September, Zoom on Echo Show and Zoom on Assistant-enabled Smart Displays, including Google Nest Hub Max, are expected to be available by the end of 2020.

On Aug 17, Zoom Video announced general availability of its Zoom Phone cloud phone service in 25 additional countries and territories. Zoom now provides local telephone service and domestic calling in over 40 countries and territories around the world.

On Jul 21, Zoom Video announced that it will expand its presence in India by opening a new technology center in Bangalore.

On Jul 16, Zoom Video and Formula 1 announced a new digital partnership to deliver the first ever virtual Paddock Club experience.

On Jul 15, Zoom Video introduced Zoom for Home, a new category of software experiences and hardware devices to support remote working.

On Jul 7, Zoom Video and ServiceNow announced a commitment to use each other's technology solutions to make work-from-anywhere experience better. Zoom Video is using ServiceNow's Customer Service Management to scale its customer-service operations. It will also deploy the Now Platform, including new AIOps capabilities, to enable its new Hardware as a Service ("HaaS") business model. Zoom will also expand its implementation of ServiceNow's CSM to provide HaaS customer support.

On the other hand, ServiceNow has been using Zoom Video for remote working. The company now plans to replace its legacy hardware phone system with Zoom Phone.

On Jul 2, Zoom Video and the Los Angeles Unified School District announced plans to enter a formal agreement under which the latter will provide a safe, secure solution for remote-learning.

On Jun 24, Zoom Video announced the appointment of Jason Lee as its Chief Information Security Officer, effective Jun 29, 2020.

Per a report published in Nikkei Asian Review on May 19, Zoom Video suspended individual users from signing up in China. Moreover, from May 1 onward, individual free users can no longer host meetings on Zoom but will still be able to join them. The facility is currently available to paid enterprise accounts and individuals only.

On May 14, Zoom Video announced that it will open two new research and development centers in the greater Phoenix, AZ and Pittsburgh, PA, respectively. The company plans to hire up to 500 software engineers between Phoenix and Pittsburgh in the next few years.

On May 7, Zoom Video announced its acquisition of Keybase, a secure messaging and file-sharing service. The takeover will accelerate the company's plan to build end-to-end encryption service.

Valuation

Zoom Video shares are up 336.7% in the past year. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 56.9% and 32.3% over the same period, respectively. Moreover, the S&P 500 index is up 12.5%.

Our Outperform recommendation indicates that the stock will perform better than the market. Our $404 price target reflects 84.7X trailing 12-month (TTM) sales.

Industry Analysis **Zacks Industry Rank:** Bottom 30% (175 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Avaya Holdings Corp. **(AVYA)**	Neutral	2
Cisco Systems, Inc. **(CSCO)**	Neutral	3
Facebook, Inc. **(FB)**	Neutral	2
Alphabet Inc. **(GOOGL)**	Neutral	3
Microsoft Corporation **(MSFT)**	Neutral	3
Verizon Communications Inc. **(VZ)**	Neutral	3
Slack Technologies, Inc. **(WORK)**	Neutral	3
Ringcentral, Inc. **(RNG)**	Underperform	4

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

Industry Comparison Industry: Internet - Software

	ZM	X Industry	S&P 500	CSCO	GOOGL	MSFT
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	B	B	B
Market Cap	98.98 B	1.06 B	22.91 B	169.34 B	1,036.30 B	1,533.66 B
# of Analysts	11	5	14	12	12	13
Dividend Yield	0.00%	0.00%	1.66%	3.60%	0.00%	1.01%
Value Score	F	-	-	C	C	D
Cash/Price	0.01	0.10	0.07	0.17	0.11	0.08
EV/EBITDA	1,225.62	-1.03	12.82	9.26	17.88	21.29
PEG F1	6.11	5.44	2.90	2.06	2.09	2.31
P/B	109.74	6.37	3.15	4.47	5.00	12.96
P/CF	1,240.25	27.79	12.45	11.91	21.94	26.87
P/E F1	162.15	83.03	21.08	12.86	34.06	31.68
P/S TTM	73.51	4.69	2.43	3.43	6.24	10.72
Earnings Yield	0.64%	0.22%	4.52%	7.78%	2.94%	3.16%
Debt/Equity	0.07	0.12	0.70	0.31	0.02	0.50
Cash Flow ($/share)	0.28	-0.00	6.93	3.36	69.45	7.54
Growth Score	A	-	-	B	B	A
Historical EPS Growth (3-5 Years)	NA%	16.77%	10.41%	9.17%	22.11%	19.44%
Projected EPS Growth (F1/F0)	546.49%	1.09%	-4.73%	-3.14%	-9.00%	11.07%
Current Cash Flow Growth	122.56%	5.94%	5.22%	-2.66%	12.62%	17.66%
Historical Cash Flow Growth (3-5 Years)	NA%	21.66%	8.49%	2.34%	19.91%	10.19%
Current Ratio	1.72	1.57	1.35	1.72	3.41	2.52
Debt/Capital	6.53%	23.24%	42.95%	23.39%	1.90%	33.49%
Net Margin	17.10%	-17.32%	10.25%	22.75%	18.99%	30.96%
Return on Equity	30.96%	-12.17%	14.59%	34.75%	15.62%	39.45%
Sales/Assets	0.89	0.60	0.50	0.53	0.61	0.50
Projected Sales Growth (F1/F0)	285.56%	7.30%	-1.42%	-2.14%	7.51%	8.57%
Momentum Score	A	-	-	D	B	A
Daily Price Change	-5.14%	-1.31%	-1.95%	-2.01%	-3.64%	-5.41%
1-Week Price Change	23.60%	-5.80%	-1.28%	-3.27%	-3.55%	-6.40%
4-Week Price Change	51.87%	-0.63%	-1.93%	-15.24%	2.91%	-0.35%
12-Week Price Change	44.66%	4.08%	3.73%	-13.94%	5.33%	4.70%
52-Week Price Change	336.69%	19.86%	-0.29%	-18.72%	26.37%	48.93%
20-Day Average Volume (Shares)	10,595,807	516,132	1,798,028	26,647,948	1,589,785	31,629,222
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	92.41%	0.00%	0.00%	-0.80%	0.00%	0.08%
EPS F1 Estimate 12-Week Change	93.29%	3.84%	3.98%	-0.63%	7.88%	2.82%
EPS Q1 Estimate Monthly Change	132.65%	0.00%	0.00%	-7.03%	0.00%	0.01%

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	F
Growth Score	A
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

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

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 forwardlooking 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 mediumterm 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 mostrecent 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.