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Jun 11, 2021

Abercrombie & Fitch (ANF)

$40.84 (As of 06/10/21)

Price Target (6-12 Months): **$43.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/20/21) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:C
	Value: C | Growth: D	Momentum: A

Summary

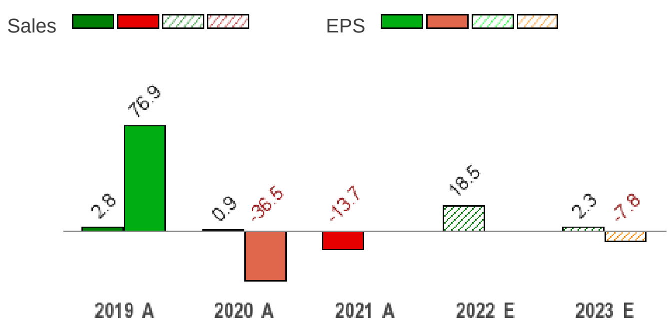
Shares of Abercrombie have outpaced the industry in the past three months, courtesy of better-than-expected first-quarter fiscal 2021 results. This marked the company's return to profits after reporting a loss in the prior quarter. It also reported strong growth in key metrics on a two-year basis, reflecting robust growth from the pre-pandemic levels. Earnings growth was aided by robust digital sales momentum, gross margin expansion and tight expense control. Sales gained from strong digital momentum and the reopening of stores across all regions, except for Western Europe. Moreover, the company resumed its share repurchase program in the quarter. However, it expects higher operating expense in Q2 owing to the reversal of certain COVID-related savings earned in 2020, higher fulfillment costs, and elevated marketing, payroll and digital spending.

Price, Consensus & Surprise

Data Overview

52-Week High-Low	$44.49 - $9.30
20-Day Average Volume (Shares)	2,103,926
Market Cap	$2.5 B
Year-To-Date Price Change	100.6%
Beta	1.91
Dividend / Dividend Yield	$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 13% (33 out of 250)
Last EPS Surprise	271.8%
Last Sales Surprise	13.5%
EPS F1 Estimate 4-Week Change	91.2%
Expected Report Date	08/26/2021
Earnings ESP	12.2%
P/E TTM	12.9
P/E F1	14.4
PEG F1	0.8
P/S TTM	0.7

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2023	798 E	869 E	879 E	1,241 E	3,788 E
2022	781 A	857 E	877 E	1,208 E	3,703 E
2021	485 A	698 A	820 A	1,122 A	3,125 A

EPS Estimates

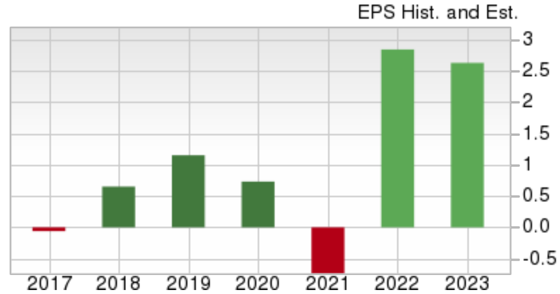
	Q1	Q2	Q3	Q4	Annual*
2023	$0.53 E	$0.65 E	$0.42 E	$1.44 E	$2.62 E
2022	$0.67 A	$0.61 E	$0.50 E	$1.41 E	$2.84 E
2021	-$3.29 A	$0.23 A	$0.76 A	$1.50 A	-$0.73 A

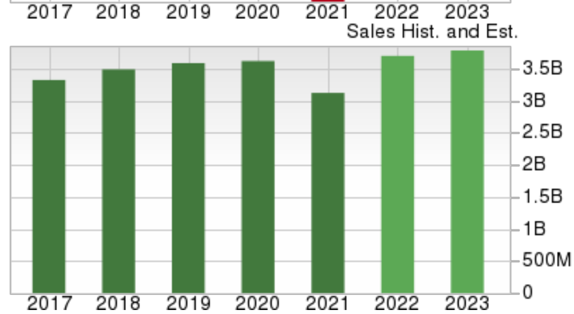
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/10/2021. The report's text and the analyst-provided price target are as of 06/11/2021.

Overview

Abercrombie & Fitch Co. operates as a specialty retailer of premium, high-quality casual apparel for men, women, and kids through a network of approximately 850 stores across North America, Europe, Asia and the Middle East.





Abercrombie's product portfolio includes knit and woven shirts, graphic T-shirts, fleece, jeans and woven pants, shorts, sweaters, outerwear, personal care products and accessories for men, women and kids, under the Abercrombie & Fitch, abercrombie kids and Hollister brands.

Additionally, the company sells inner wear, personal care products, sleepwear and at-home products for girls through direct-to-consumer operations and Hollister stores under the Gilly Hicks brand. It also sells products through its e-commerce platform.

Region-wise, Abercrombie reports its sales under two segments - U.S. Stores and International Stores.

U.S. Stores includes the results from store operations and direct-to-consumer business in the U.S. and Puerto Rico.

International Stores includes the store operations and direct-to-consumer business in Canada, Europe, Asia, Australia and the Middle East.

Brand-wise, Abercrombie reports in two segments - Abercrombie and Hollister.

Abercrombie includes the Abercrombie & Fitch and abercrombie kids brands. Abercrombie & Fitch, targeted at the college-going crowd, is positioned as a luxury lifestyle concept that uses the finest materials to create high-quality casual wear. abercrombie kids, themed as "classic cool", is aimed at pre-teens and is the children's version of Abercrombie & Fitch.

Hollister is based on a South California theme, and targets youth in their late teens. Stores under this brand also offer intimate products of the Gilly Hicks brand.

Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Q1 Results, Stock Outperforms:** Shares of Abercrombie & Fitch have surged 19.4% in the past three months, against the industry's decline of 0.5%. The stock's bullish run on the bourses can be attributable to better-than-expected first-quarter fiscal 2021 sales and earnings. Also, its earnings and sales improved year over year. Moreover, the fiscal first quarter marked the company's return to profits after reporting a loss in the prior quarter. Earnings growth demonstrated the company's robust digital sales momentum coupled with gross margin expansion and tight expense management. The top line benefited from strong digital momentum as well as the reopening of stores across all regions, except for Western Europe.

Abercrombie's digital momentum continued in first-quarter fiscal 2021, which boosted the top line. Digital net sales advanced 45% year over year, contributing about 52% of total company sales.

Abercrombie's first-quarter fiscal 2021 reported strong growth in key metrics on a two-year basis (compared with first-quarter fiscal 2019), reflecting robust growth from the pre-pandemic levels. Compared with the pre-pandemic levels of first-quarter fiscal 2019, Abercrombie's net sales improved 6% despite the closure of 1.3 million gross square feet (nearly 20%) of its store base from the referred 2019 period. Also, the company recorded 18% sales growth compared with first-quarter fiscal 2019 in the United States, which is its largest market. Digital sales improved nearly 81% from the pre-pandemic levels.

▲ **Cost Optimization Efforts Aid Margins:** Abercrombie has been on track with its cost minimization measures. In fact, prudent expense management strategies including reduced in-store payroll and store occupancy expenses, lower marketing costs and COVID-related rent abatements aided the company's margins in the first quarter of fiscal 2021. Notably, gross margin expanded 900 basis points (bps) to 63.4%, gaining from increased average unit retail on reduced promotions. Additionally, gross margin benefited from tightly managed inventories and favorable responses from new and existing customers, which led to improved price realization. Adjusted operating income totaled $60 million as compared with an operating loss of $166 million in the year-ago quarter. Gross margin expansion along with tight expense management boosted operating income in the reported quarter. Additionally, gross margin expanded by 290 bps and operating margin increased 1,100 bps from the pre-pandemic levels.

Looking ahead, management remains on track to control spending by undertaking measures like occupancy cost reduction through store closures and right-sizing. In fiscal 2021, the company expects to tightly control operating costs, with a focus on using a portion of the occupancy savings for funding fulfillment, marketing and digital investments.

▲ **Optimistic View:** Although Abercrombie did not provide guidance for fiscal 2021, it expects to continue with the progress made since 2020. It anticipates retaining the gross margin rate through continued tight inventory management, partly offset by potential cost headwinds in fiscal 2021. In second-quarter fiscal 2021, the company anticipates net sales to be above the comparable 2019 level of $841 million. It does not expect the government mandates for store closures to increase from the current levels. However, it awaits more clarity on when the remaining countries in EMEA will resume full operations. The company anticipates successfully managing the supply chain and labor constraints.

Moreover, the company expects gross margin rate to increase at least 200 bps in the fiscal second quarter from 60.7% reported in the prior-year quarter. The company remains cautiously optimistic about its ability to deliver AUR improvements through reduced promotions and clearance activity as well as potential FX tailwinds. This is likely to be partly offset by higher product costs.

▲ **Focus on Digital & Omni-Channel:** Abercrombie is making significant progress in expanding digital and omni-channel capabilities to better engage with consumers. The company's strong digital momentum continued in first-quarter fiscal 2021, which boosted the top line. Digital net sales advanced 45% year over year, contributing about 52% of total company sales. Notably, digital sales reflected robust growth in every month of the reported quarter. The digital business mainly benefited from the addition of new customers in the channel, backed by robust digital marketing efforts. Also, high customer retention and spend per customer aided sales growth.

Looking ahead, the company remains encouraged with its strong online presence and expects to keep gaining from this platform. The company plans to continue investing toward bolstering omni-channel capabilities including curbside and ship from store services. It is also striving to optimize capacity at its distribution centers to meet increased digital demand. For fiscal 2021, the company expects capital expenditure of $100 million, whereas it spent $102 in fiscal 2020. About 50% of the capital spending is expected to be used for investments in digital and technology.

▲ **Store Optimization Plans:** Abercrombie is working toward rationalizing its store base by reducing dependence on underperforming tourist driven locations. As part of its store optimization plans, Abercrombie plans to reposition larger format flagship locations to smaller omni-channel enabled stores. Progressing on these efforts, the company earlier closed eight European flagship locations in fiscal 2020, bringing the total count of flagship stores to seven at the beginning of fiscal 2021. In the first quarter of fiscal 2021, it closed the Abercrombie & Fitch brand's store in Orchard Road Singapore flagship, bringing the flagships store count to six. Apart from this flagship store, the company closed seven stores in the fiscal first quarter. It also opened four stores in the reported quarter. As of May 1, 2021, the company's total store base was 731, including 533 stores in the United States and 198 stores internationally.

Additionally, we note that the company has been adjusting its store reopening strategies from time-to-time so as to ensure compliance with government regulatory measures as well as to ensure safety of employees and customers. During the fiscal first quarter, the company had 92% of its store base operational, with closures mainly pertaining to Western Europe. Notably, the company witnessed improvement in store performance on both year-over-year and sequential basis. Consequently, global store sales improved 77% year over year in the fiscal first quarter.

▲ **Financial Strength:** Abercrombie's balance sheet had cash and cash equivalents of $909 million and long-term gross borrowings (under senior secured notes) of $344.3 million at the end of the first quarter of fiscal 2021. Also, inventories were $388.6 million, down 8.9% from the prior-year quarter. Moreover, the company had available liquidity of $1.1 billion as of May 1, 2021. Its liquidity comprises cash and equivalents as well as borrowings available under the senior secured asset-based revolving credit facility of nearly $223 million.

In first-quarter fiscal 2021, the company resumed its share-repurchase program, buying back 1.1 million shares for $35 million. As of May 1, 2021, it is eligible to repurchase 8.9 million shares under its current share repurchase authorization of 10 million shares, approved in February 2021.

Reasons To Sell:

- **Higher Costs to Persist:** Abercrombie has been witnessing elevated costs for the past few quarters. Notably, adjusted operating expenses increased 2% year over year in the first quarter of fiscal 2021 owing to higher payroll and customer-facing expenses, which more than offset the decline in store occupancy costs. Also, marketing, general and administrative expenses rose 12% year over year on increase in performance-based compensation and digital media expenses.

  In fiscal 2021, the company anticipates potential cost headwinds through the rest of the year to partly offset gross margin growth. For second-quarter fiscal 2021, the company expects operating expenses to increase 15-20% year over year from adjusted operating expenses of $404 million reported last year. Operating expense growth is likely to be driven by the reversal of certain COVID-related savings earned in 2020, higher fulfillment expenses, and increased marketing, payroll and digital project spending.

Operating expense is likely to increase in Q2 owing to the reversal of some COVID-related savings earned in 2020, higher fulfillment costs, and increased marketing, payroll and digital spending.

- **Competitive Pressure:** We believe that a challenging retail landscape, aggressive promotional strategies and waning store traffic are a threat to Abercrombie's performance. The company faces intense competition from a diverse group of competitors, including online retailers, mass merchants, specialty retailers, and numerous direct-to-consumer service providers. This may adversely impact its sales.

- **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels as well as high household debt levels, which may affect their sentiment. The novel coronavirus has wreaked havoc, with significant adverse impacts on the retail sector.

Last Earnings Report

Abercrombie Q1 Earnings & Sales Top Estimates

Quarter Ending	04/2021
Report Date	May 26, 2021
Sales Surprise	13.52%
EPS Surprise	271.79%
Quarterly EPS	0.67
Annual EPS (TTM)	3.16

Abercrombie & Fitch reported better-than-expected top and bottom-line numbers for first-quarter fiscal 2021. Also, its earnings and sales improved year over year. Further, the fiscal first quarter marked the company's return to profits after reporting a loss in the prior quarter. Moreover, it reported strong growth in key metrics on a two-year basis (compared with first-quarter fiscal 2019), reflecting robust growth from the pre-pandemic levels.

Abercrombie delivered adjusted earnings of 67 cents per share in first-quarter fiscal 2021 against a loss per share of $3.29 reported in the year-ago quarter. The figure also surpassed the Zacks Consensus Estimate of a loss of 39 cents. Earnings growth demonstrates the company's robust digital sales momentum coupled with gross margin expansion and tight expense management.

Total net sales of $781.4 million advanced 61% year over year and surpassed the Zacks Consensus Estimate of $688.4 million. The top line benefited from strong digital momentum, with digital sales increasing 45% year over year to $403 million. Digital sales contributed about 52% to total sales. Notably, digital sales reflected robust growth in every month of the reported quarter. The digital business mainly benefited from the addition of new customers in the channel, backed by robust digital marketing efforts. Also, high customer retention and spend per customer aided sales growth.

Additionally, the company is gaining from the reopening of stores across all regions, except for Western Europe. In the reported quarter, it had 92% of its store base operational, with closures mainly pertaining to Western Europe. Notably, the company witnessed improvement in store performance on both year-over-year and sequential basis. Consequently, global store sales improved 77% year over year in the fiscal first quarter.

Compared with the pre-pandemic levels of first-quarter fiscal 2019, Abercrombie's net sales improved 6% despite the closure of 1.3 million gross square feet (nearly 20%) of its store base from the referred 2019 period. Also, compared with first-quarter fiscal 2019 the company recorded 18% sales growth in the United States, which is its largest market. Digital sales improved nearly 81% from the pre-pandemic levels.

Brand-wise, net sales advanced 62% year over year to $442.4 million and 60% to $339 million, respectively, for the Hollister and Abercrombie brands. From a geographical viewpoint, net sales rose 72% in the United States and 40% in International markets, including growth of 41% in EMEA and 42% in APAC.

Gross margin expanded 900 basis points (bps) year over year to 63.4%, gaining from increased average unit retail on reduced promotions. Additionally, gross margin benefited from tightly managed inventories and favorable responses from new and existing customers, which led to improved price realization. From the pre-pandemic levels, the gross margin expanded by 290 bps.

Adjusted operating expenses increased 2% year over year. Meanwhile, adjusted operating expenses, as a percentage of sales, of 55.9% declined significantly from 88.6% in the year-ago quarter.

Adjusted operating income totaled $60 million as compared with an operating loss of $166 million in the year-ago quarter. Moreover, the operating margin expanded by 1,100 bps from the pre-pandemic levels. Gross margin expansion along with tight expense management boosted operating income in the reported quarter.

Other Financials

Abercrombie ended the reported quarter with cash and cash equivalents of $909 million, and long-term gross borrowings (under senior secured notes) of $344.3 million. Also, inventories were $388.6 million, down 8.9% from the prior-year quarter. Moreover, the company had available liquidity of $1.1 billion as of May 1, 2021. Its liquidity comprises cash and equivalents as well as borrowings available under the senior secured asset-based revolving credit facility of nearly $223 million.

As of May 1, 2021, net cash used for operating activities amounted to $131.4 million. Capital expenditure in the fiscal first quarter was $14.4 million.

For fiscal 2021, the company expects capital expenditure of $100 million, whereas it spent $102 in fiscal 2020. About 50% of the capital spending is expected to be used for investments in digital and technology.

In first-quarter fiscal 2021, the company resumed its share-repurchase program, buying back 1.1 million shares for $35 million. As of May 1, 2021, it is eligible to repurchase 8.9 million shares under its prior authorization approved in February 2021.

Store Update

As part of its store-optimization plans, Abercrombie plans to reposition larger format flagship locations to smaller omni-channel enabled stores. Progressing on the efforts, the company earlier closed eight European flagship locations in fiscal 2020, bringing the total count of flagship stores to seven at the beginning of fiscal 2021. In the first quarter of fiscal 2021, it closed the Abercrombie & Fitch brand's store in Orchard Road Singapore flagship, bringing the flagships store count to six.

Including the aforementioned closure, the company closed eight stores in the fiscal first quarter. It also opened four stores in the reported quarter. As of May 1, 2021, the company's total store base was 731, including 533 stores in the United States and 198 stores internationally.

Outlook

Abercrombie did not provide guidance for fiscal 2021. However, the company expects to continue with the progress made since 2020. It anticipates retaining the gross margin rate through continued tight inventory management, which is likely to offset the potential cost headwinds for the rest of the year. For operating expenses, the company expects to tightly control costs, with a focus on using a portion of the occupancy savings for funding fulfillment, marketing and digital investments.

In second-quarter fiscal 2021, the company anticipates net sales above the comparable 2019 level of $841 million. It does not expect the government mandates for store closures to increase from the current levels. However, it awaits more clarity on when the remaining countries in EMEA will resume full operations. The company anticipates successfully managing the supply chain and labor constraints.

It expects the gross margin rate to increase at least 200 bps in the fiscal second quarter from 60.7% reported in the prior-year quarter. The company remains cautiously optimistic about its ability to deliver AUR improvements through reduced promotions and clearance activity as well as potential FX tailwinds. This is likely to be partly offset by higher product costs. Operating expenses are expected to increase 15-20% year over year from adjusted operating expenses of $404 million reported last year. Operating expense growth is likely to be driven by the reversal of certain COVID-related savings earned in 2020, higher fulfillment expenses, and increased marketing, payroll and digital project spending. This is expected to be partly offset by lower occupancy costs.

Valuation

Abercrombie shares are up 100.6% in the year-to-date period and nearly 266.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 26.6% but the Zacks Retail-Wholesale sector is down 2.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is up 162.3% and 20.9%, respectively.

The S&P 500 index is up 13.1% in the year-to-date period and 40.9% in the past year.

The stock is currently trading at 0.69X forward 12-month sales, which compares to 1.22X for the Zacks sub-industry, 1.31X for the Zacks sector and 4.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.77X and as low as 0.14X, with a 5-year median of 0.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $43 price target reflects 0.9X forward 12-month sales.

The table below shows summary valuation data for ANF

Valuation Multiples - ANF

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.69	1.22	1.31	4.7
	5-Year High	0.77	1.3	1.41	4.74
	5-Year Low	0.14	0.34	0.84	3.21
	5-Year Median	0.32	0.83	1.02	3.72
P/B TTM	Current	2.67	9.64	5.47	7.02
	5-Year High	2.87	10.49	6.5	7.03
	5-Year Low	0.47	1.39	3.8	3.84
	5-Year Median	1.07	4.44	5.17	5.02
EV/EBITDA F12M	Current	3.99	9.44	13.11	17.23
	5-Year High	5.34	10.24	13.21	18.83
	5-Year Low	0.27	3.89	8.86	13.04
	5-Year Median	2.75	6.31	11.34	15.9

As of 06/10/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 13% (33 out of 250)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. **(AEO)**	Outperform	1
Foot Locker, Inc. **(FL)**	Outperform	3
Genesco Inc. **(GCO)**	Outperform	1
Urban Outfitters, Inc. **(URBN)**	Outperform	1
Burberry Group PLC **(BURBY)**	Neutral	3
Chicos FAS, Inc. **(CHS)**	Neutral	2
Designer Brands Inc. **(DBI)**	Neutral	3
Tapestry, Inc. **(TPR)**	Neutral	2

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

Industry Comparison Industry: Retail - Apparel And Shoes

	ANF	X Industry	S&P 500	BURBY	DBI	URBN
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	3	3	1
VGM Score	C	-	-	B	B	C
Market Cap	2.51 B	1.35 B	30.26 B	12.64 B	1.22 B	3.74 B
# of Analysts	9	4	12	3	4	11
Dividend Yield	0.00%	0.00%	1.28%	0.00%	0.00%	0.00%
Value Score	C	-	-	B	D	D
Cash/Price	0.37	0.15	0.06	0.13	0.04	0.14
EV/EBITDA	13.36	6.20	17.41	10.86	-2.91	29.06
PEG F1	0.80	1.53	2.14	NA	NA	1.40
P/B	2.67	4.15	4.16	6.19	4.64	2.44
P/CF	21.08	17.55	17.71	17.55	NA	32.14
P/E F1	14.38	16.81	21.55	26.91	24.16	16.14
P/S TTM	0.73	0.79	3.49	NA	0.50	0.99
Earnings Yield	6.95%	4.87%	4.55%	3.72%	4.12%	6.20%
Debt/Equity	0.36	0.03	0.66	0.19	1.05	0.00
Cash Flow ($/share)	1.94	0.85	6.83	1.78	-2.67	1.18
Growth Score	D	-	-	A	B	C
Historical EPS Growth (3-5 Years)	47.58%	-6.25%	9.44%	NA	5.42%	-30.28%
Projected EPS Growth (F1/F0)	488.59%	102.09%	21.30%	31.82%	117.76%	23,500.00%
Current Cash Flow Growth	-45.47%	-45.04%	0.98%	-13.58%	-196.36%	-64.22%
Historical Cash Flow Growth (3-5 Years)	-14.40%	-4.43%	7.28%	1.49%	NA	-20.61%
Current Ratio	1.82	1.64	1.39	2.82	1.08	1.44
Debt/Capital	26.60%	15.62%	41.53%	16.00%	51.12%	0.00%
Net Margin	5.02%	1.96%	11.95%	NA	-10.42%	5.10%
Return on Equity	22.88%	9.75%	16.36%	NA	-43.70%	13.39%
Sales/Assets	1.06	1.14	0.51	NA	1.15	1.08
Projected Sales Growth (F1/F0)	18.48%	23.31%	9.37%	23.44%	36.19%	24.05%
Momentum Score	A	-	-	D	A	C
Daily Price Change	-1.59%	-0.75%	0.21%	-1.11%	-2.79%	0.66%
1-Week Price Change	-7.45%	0.00%	0.58%	2.14%	-8.06%	-5.01%
4-Week Price Change	6.00%	5.42%	1.55%	9.36%	-10.15%	7.06%
12-Week Price Change	14.08%	5.88%	7.72%	7.03%	4.43%	-4.35%
52-Week Price Change	268.59%	117.72%	46.01%	60.88%	149.33%	117.72%
20-Day Average Volume (Shares)	2,103,926	295,223	1,775,554	31,183	1,451,133	2,160,593
EPS F1 Estimate 1-Week Change	12.91%	0.00%	0.00%	0.43%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	91.24%	9.86%	0.03%	-0.57%	81.05%	28.90%
EPS F1 Estimate 12-Week Change	108.07%	16.08%	3.52%	7.74%	182.65%	42.31%
EPS Q1 Estimate Monthly Change	914.58%	30.43%	0.00%	NA	326.09%	42.17%

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	D
Momentum Score	A
VGM Score	C

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

Disclosures

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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.