

## Abercrombie & Fitch (ANF)

**\$37.81** (As of 04/20/21)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 01/18/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

### Summary

Shares of Abercrombie have outpaced the industry in the past three months, courtesy of impressive fourth-quarter fiscal 2020 results. Results gained from strategic investments in omnichannel capabilities, as well as marketing, data and analytics along with an increased focus on EMEA and APAC regions. Earnings improved year on year, driven by strong margins due to prudent inventory management strategies. Additionally, it is gaining from strong digital sales, backed by higher traffic. This along with store optimization plans is likely to be an upside in the near term. Moreover, the company's plan to resume share repurchase seems encouraging. However, the pandemic has been taking a toll on its top line. Markedly, sales fell during the fourth quarter mainly due to soft traffic trends. Also, elevated COVID-19-related costs remain concerns.

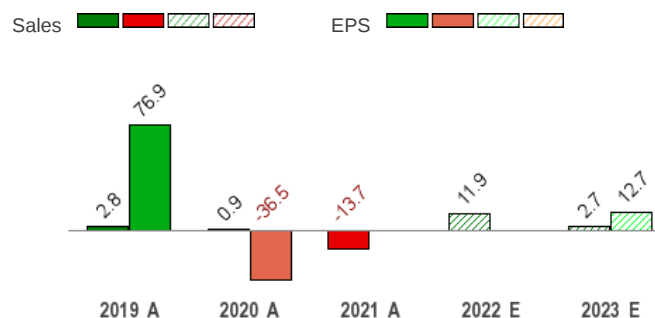
### Price, Consensus & Surprise



### Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$41.08 - \$8.80</b>           |
| 20-Day Average Volume (Shares) | <b>1,409,915</b>                  |
| Market Cap                     | <b>\$2.5 B</b>                    |
| Year-To-Date Price Change      | <b>95.1%</b>                      |
| Beta                           | <b>1.92</b>                       |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>              |
| Industry                       | <b>Retail - Apparel and Shoes</b> |
| Zacks Industry Rank            | <b>Top 29% (73 out of 254)</b>    |

### Sales and EPS Growth Rates (Y/Y %)



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>25.0%</b>      |
| Last Sales Surprise           | <b>0.3%</b>       |
| EPS F1 Estimate 4-Week Change | <b>4.2%</b>       |
| Expected Report Date          | <b>05/27/2021</b> |
| Earnings ESP                  | <b>22.9%</b>      |

### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4      | Annual* |
|------|-------|-------|-------|---------|---------|
| 2023 |       |       |       |         | 3,590 E |
| 2022 | 677 E | 808 E | 851 E | 1,181 E | 3,497 E |
| 2021 | 485 A | 698 A | 820 A | 1,122 A | 3,125 A |

### EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*   |
|------|-----------|----------|----------|----------|-----------|
| 2023 |           |          |          |          | \$1.60 E  |
| 2022 | -\$0.48 E | \$0.05 E | \$0.46 E | \$1.44 E | \$1.42 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.

|         |             |
|---------|-------------|
| P/E TTM | <b>NA</b>   |
| P/E F1  | <b>27.2</b> |
| PEG F1  | <b>1.5</b>  |
| P/S TTM | <b>0.8</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 04/20/2021. The report's text and the analyst-provided price target are as of 04/21/2021.

## 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.

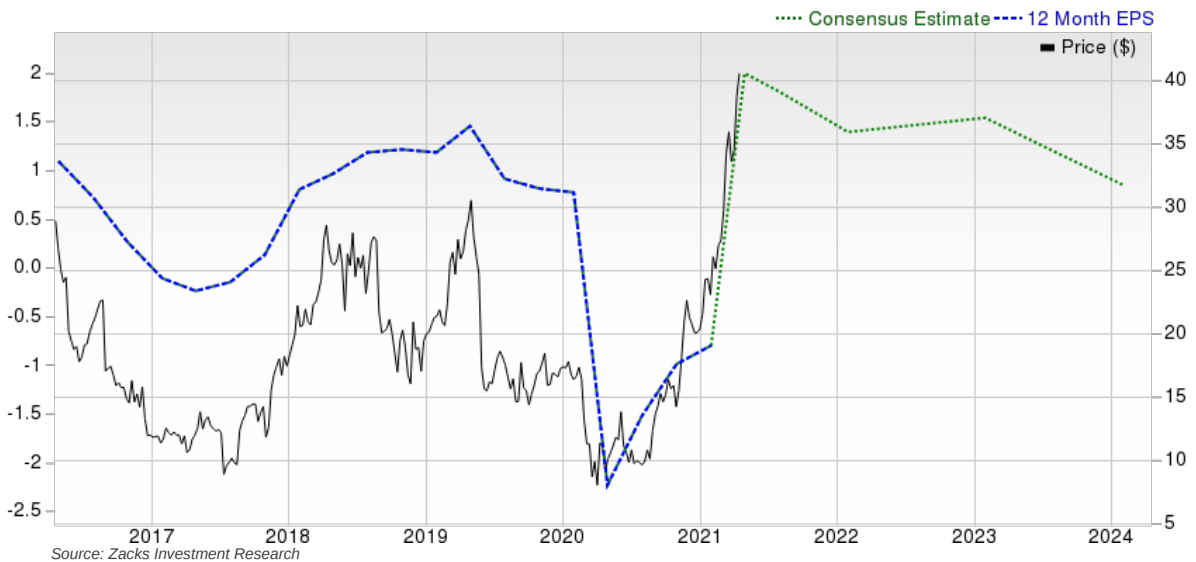
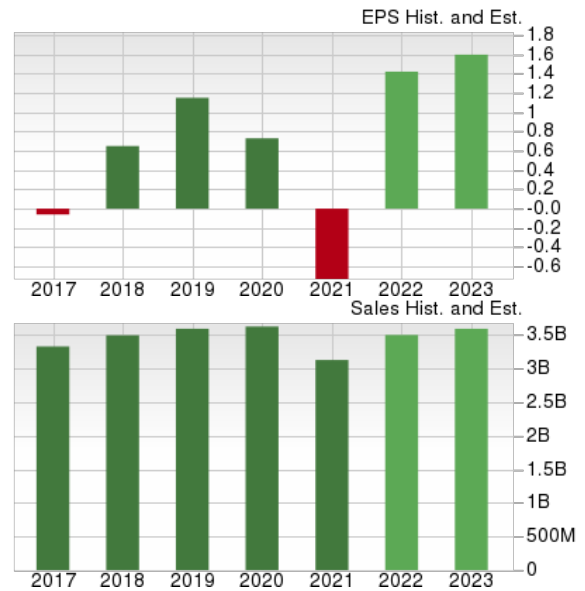
U.S. Stores includes the results from store operations and direct-to-consumer business in the U.S. and Puerto Rico.

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.



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## Reasons To Buy:

- ▲ **Q4 Results Beat Expectations, Gross Margin Strong:** Shares of Abercrombie & Fitch have surged 55.4% in the past three months, outperforming the industry's growth of 7.3%. The stock's bullish run on the bourses can be attributable to better-than-expected fourth-quarter fiscal 2020 results. Results gained from strategic investments in omnichannel capabilities, marketing, data and analytics along with an increased focus on EMEA and APAC regions. Moreover, the bottom line improved year on year, driven by strong margins stemming from prudent inventory management strategies. Gross margin expanded 230 basis points (bps) to 60.5%, gaining from increased average unit retail and reduced average unit cost. Adjusted operating income totaled \$131 million compared with \$125 million in the year-ago quarter. Tight control over expenses boosted operating income in the reported quarter. Going ahead, management expects gross margin to grow at least 500 bps year over year in the fiscal first quarter.
- ▲ **Focus on Digital & Omni-Channel:** Abercrombie is making significant progress in expanding digital and omni-channel capabilities to better engage with consumers. The company witnessed strong online show amid the coronavirus pandemic, which continued in fourth-quarter fiscal 2020. Digital net sales advanced 34% year over year to \$639 million. Markedly, digital sales reflected robust growth in every month of the quarter. Continued strength in traffic across the company's websites and apps led to its highest ever digital sales and gross margins in the past eight years. Going 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.
- ▲ **Store Optimization Plans:** The company 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 closed eight European flagship locations in fiscal 2020, bringing the total count of flagship stores to seven. Additionally, 129 non-flagship stores were shut down in the aforementioned period. Stores in London, Paris, Munich and Dusseldorf have been shut down while the ones in Brussels, Madrid and Fukuoka closed due to lease expiry during the fourth quarter. The eighth store in Dublin remain closed due to latest COVID-19 restrictions. Further, it opened 15 stores, revamped four and right-sized six. As of Jan 30, 2021, the company's total store base included 537 stores in the United States and 198 stores internationally. Going ahead the company remains focused on closing more such stores, which do not meet its terms and conditions, especially after the disruptions caused by the coronavirus situation.
- 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 fourth quarter, the company had 88% of their global store base open. These stores operated with reduced working hours and limited capacity with approximately 75% productivity.
- ▲ **Cost Optimization Efforts:** 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 performance during the fourth quarter of fiscal 2020. This led to significant cost savings in 2020, which were later utilized to improve customers' shopping experience. Going ahead, management remains on track to control spending by undertaking measures like occupancy cost reduction through store closures and right-sizing.
- ▲ **Financial Strength:** Abercrombie's balance sheet had cash and cash equivalents of \$1,104.9 million and long-term gross borrowings (under senior secured notes) of \$343.9 million at the end of the fourth quarter of fiscal 2020. For fiscal 2020, net cash provided by operating activities amounted to \$405 million. Moreover, the company boasts liquidity of \$1.3 billion as of Jan 30, 2021, compared with a liquidity of \$914 million as of Feb 1, 2020. The company's liquidity comprises cash and equivalents as well as borrowings available under the senior-secured asset-based revolving credit facility of nearly \$215 million.

Impressive digital sales have been aiding Abercrombie's performance. It is also on track with store fleet optimization.

The company now plans to resume share repurchase, which was earlier suspended in the wake of the COVID-19 outbreak. Prior to this, it returned nearly \$28 million to shareholders in the form of share repurchases and dividends. As of Jan 30, 2021, roughly 3.2 million shares were available for repurchase under its existing share repurchase authorization, which was approved in June 2019. However, the board, on Feb 19, 2021, has replaced this with a new share repurchase plan of 10 million shares, which brings the total number of shares that can be repurchased to 10 million.

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## Risks

- **Unimpressive Sales Picture:** Abercrombie's top-line has been dismal for a while, thanks to adversities stemming from the coronavirus pandemic. During fourth-quarter fiscal 2020, net sales totaled \$1,122 million, reflecting a 5% decline from the year-ago quarter's figure. This was mainly due to sluggish store traffic owing to the pandemic. As some countries in EMEA re-entered lockdown, store sales suffered a setback particularly in the U.K. which is one of the largest international markets of the company. This also weighed on the top-line results during the fourth quarter. Prior to this, during the third and second quarters of fiscal 2020, the company's top line had declined 5% and 17% year over year, mainly due to weak store traffic trends. Brand-wise, net sales declined 8% and 2% year over year for the Hollister and Abercrombie brands, respectively. From a geographical viewpoint, net sales fell 3% in the United States and 10% in International markets. Although management envisions net sales growth of 30%-40% for the fiscal first quarter, it remains exposed to the uncertainty surrounding the pandemic situation.
  - **High Cost Woes:** Abercrombie has been witnessing elevated costs related to the COVID-19 crisis. Notably, marketing, general and administrative expenses rose 11.7% year over year to \$137.3 million in the fiscal fourth quarter. This was mainly due to a rise in compensation-related costs. Also, the metric as a percentage of sales expanded 180 bps to 12.2%. prior to this, the metric grew 6.1% in the preceding quarter. Any further rise in such expenses may weigh on the company's profitability in the near term.
  - **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. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focusing on necessities for the time being.
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## Last Earnings Report

### Abercrombie & Fitch Beats Q4 Earnings & Sales Estimates

Abercrombie & Fitch came out with its fourth-quarter fiscal 2020 results, wherein both top and bottom lines came ahead of the Zacks Consensus Estimate. Results gained from strategic investments in omnichannel capabilities, marketing, data and analytics along with an increased focus on EMEA and APAC regions. However, management continued to witness adverse impacts of the COVID-19 pandemic that put pressure on the top line.

Going ahead, management noted that the first quarter of fiscal 2021 started on a solid note, driven by improved products, better marketing efforts, digital strength and a strong liquidity position. Also, it is on track with plans to rationalize stores, optimize square footage as well as digital transformation and market share gains.

| Quarter Ending   | 01/2021      |
|------------------|--------------|
| Report Date      | Mar 02, 2021 |
| Sales Surprise   | 0.26%        |
| EPS Surprise     | 25.00%       |
| Quarterly EPS    | 1.50         |
| Annual EPS (TTM) | -0.80        |

### Q4 Highlights

Abercrombie delivered adjusted earnings of \$1.50 per share in the fiscal fourth quarter, up 14.5% year over year from \$1.31 in the year-ago quarter. The figure also surpassed the Zacks Consensus Estimate of \$1.20.

Net sales totaled \$1,122 million and exceeded the Zacks Consensus Estimate of \$1,119 million. However, the top line declined 5% from the year-ago quarter's figure due to adverse impacts of the COVID-19 pandemic.

Digital net sales were strong during the quarter, up 34% year over year to \$639 million. Markedly, digital sales reflected robust growth in every month of the quarter.

Brand-wise, net sales declined 8% and 2% to \$655.4 million and \$466.6 million for the Hollister and Abercrombie brands, respectively. From a geographical viewpoint, net sales fell 3% in the United States and 10% in International markets.

### Margins

Gross margin expanded 230 basis points (bps) to 60.5% gaining from increased average unit retail and reduced average unit costs.

Adjusted operating income totaled \$131 million as compared to \$125 million in the year-ago quarter. Tight expense management boosted operating income in the reported quarter.

### Other Financials

Abercrombie ended the quarter with cash and cash equivalents of \$1,104.9 million and long-term gross borrowings (under senior secured notes) of \$343.9 million. Also, inventories were \$404.1 million, down 7% from the prior-year quarter.

For fiscal 2020, net cash provided by operating activities amounted to \$405 million. Net cash used for investments amounted to \$52 million. Capital expenditures for fiscal 2020 came in at \$102 million.

We note that the company now plans to resume share repurchase, which was earlier suspended in the wake of the COVID-19 outbreak. Prior to this, it returned nearly \$28 million to shareholders in the forms of share repurchases and dividends. As of Jan 30, 2021, roughly 3.2 million shares were available for repurchase under its existing share repurchase authorization, which was approved in June 2019. However, the board, on Feb 19, 2021, has replaced this with a new share repurchase plan of 10 million shares, which brings the total number of shares that can be repurchased to 10 million.

That said, the company boasts a liquidity of \$1.3 billion as of Jan 30, 2021, compared with a liquidity of \$914 million as of Feb 1, 2020. The company's liquidity comprises cash and equivalents as well as borrowings available under the senior-secured asset-based revolving credit facility of nearly \$215 million.

### Store Update

As part of its store optimization plans, Abercrombie plans to reposition larger format flagship locations to smaller omnichannel enabled stores. Progressing on these efforts, the company closed eight European flagship locations in fiscal 2020, bringing the total count of flagship stores to seven. Additionally, 129 non-flagship stores were shut down in the aforementioned period. Meanwhile, it opened 15 stores, revamped four and right-sized six locations.

As of Jan 30, 2021, the company's total store base included 537 stores in the United States and 198 stores internationally.

## Valuation

Abercrombie shares are up 85.7% in the year-to-date period and nearly 313.2% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 21.9% but the Zacks Retail-Wholesale sector is down 0.4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is up 224.5% and 35.5%, respectively.

The S&P 500 index is up 11.4% in the year-to-date period and 53.1% in the past year.

The stock is currently trading at 0.67X forward 12-month sales, which compares to 1.25X for the Zacks sub-industry, 1.39X for the Zacks sector and 4.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.72X and as low as 0.14X, with a 5-year median of 0.32X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$43 price target reflects 0.76X 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       | 0.67  | 1.25         | 1.39   | 4.77    |
|                           | 5-Year High   | 0.72  | 1.3          | 1.39   | 4.77    |
|                           | 5-Year Low    | 0.14  | 0.35         | 0.84   | 3.21    |
|                           | 5-Year Median | 0.32  | 0.85         | 1.02   | 3.71    |
| P/B TTM                   | Current       | 2.49  | 9.31         | 5.29   | 7.03    |
|                           | 5-Year High   | 2.66  | 9.95         | 6.5    | 7.11    |
|                           | 5-Year Low    | 0.47  | 1.45         | 3.81   | 3.83    |
|                           | 5-Year Median | 1.06  | 4.52         | 5.15   | 4.99    |
| EV/EBITDA F12M            | Current       | 4.83  | 9.99         | 13.71  | 15.8    |
|                           | 5-Year High   | 6.1   | 11.08        | 14.54  | 16.2    |
|                           | 5-Year Low    | 0.24  | 3.47         | 8.8    | 10.78   |
|                           | 5-Year Median | 3.15  | 6.67         | 11.42  | 13.5    |

As of 04/20/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 29% (73 out of 254)



## Top Peers

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

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

| Industry Comparison Industry: Retail - Apparel And Shoes |            |            |           | Industry Peers |           |            |
|----------------------------------------------------------|------------|------------|-----------|----------------|-----------|------------|
|                                                          | ANF        | X Industry | S&P 500   | BURBY          | DBI       | URBN       |
| Zacks Recommendation (Long Term)                         | Outperform | -          | -         | Neutral        | Neutral   | Neutral    |
| Zacks Rank (Short Term)                                  | 1          | -          | -         | 2              | 3         | 3          |
| VGM Score                                                | A          | -          | -         | A              | D         | A          |
| Market Cap                                               | 2.47 B     | 1.14 B     | 29.78 B   | 11.82 B        | 1.21 B    | 3.64 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                                              | B          | -          | -         | D              | D         | A          |
| Cash/Price                                               | 0.44       | 0.15       | 0.06      | 0.13           | 0.05      | 0.16       |
| EV/EBITDA                                                | 10.89      | 4.75       | 17.06     | NA             | -2.83     | 26.11      |
| PEG F1                                                   | 1.51       | 2.39       | 2.40      | NA             | NA        | 1.76       |
| P/B                                                      | 2.61       | 4.05       | 4.08      | 7.28           | 4.96      | 2.45       |
| P/CF                                                     | 19.51      | 14.10      | 17.22     | 14.10          | NA        | 29.74      |
| P/E F1                                                   | 27.20      | 21.62      | 22.30     | 25.02          | 43.53     | 20.23      |
| P/S TTM                                                  | 0.79       | 0.84       | 3.45      | NA             | 0.54      | 1.05       |
| Earnings Yield                                           | 3.50%      | 3.95%      | 4.41%     | 4.01%          | 2.28%     | 4.94%      |
| Debt/Equity                                              | 0.36       | 0.06       | 0.66      | 0.23           | 1.12      | 0.00       |
| Cash Flow (\$/share)                                     | 1.94       | 0.78       | 6.78      | 2.03           | -2.67     | 1.18       |
| Growth Score                                             | A          | -          | -         | A              | C         | B          |
| Historical EPS Growth (3-5 Years)                        | 21.17%     | -5.86%     | 9.39%     | NA             | 4.93%     | -33.51%    |
| Projected EPS Growth (F1/F0)                             | 290.41%    | 80.73%     | 15.71%    | 40.00%         | 109.81%   | 18,209.00% |
| Current Cash Flow Growth                                 | -45.47%    | -34.23%    | 0.72%     | 39.78%         | -196.36%  | -64.22%    |
| Historical Cash Flow Growth (3-5 Years)                  | -14.40%    | -4.56%     | 7.37%     | 1.72%          | NA        | -20.61%    |
| Current Ratio                                            | 1.73       | 1.61       | 1.39      | 1.95           | 1.04      | 1.35       |
| Debt/Capital                                             | 26.59%     | 20.95%     | 41.26%    | 18.85%         | 52.84%    | 0.00%      |
| Net Margin                                               | -3.65%     | -4.90%     | 10.59%    | NA             | -21.87%   | 0.04%      |
| Return on Equity                                         | -5.28%     | -0.66%     | 15.09%    | NA             | -74.14%   | 0.87%      |
| Sales/Assets                                             | 0.95       | 1.01       | 0.50      | NA             | 1.00      | 1.00       |
| Projected Sales Growth (F1/F0)                           | 11.51%     | 15.87%     | 7.51%     | 15.55%         | 29.74%    | 22.07%     |
| Momentum Score                                           | A          | -          | -         | B              | B         | A          |
| Daily Price Change                                       | -4.83%     | -2.63%     | -0.61%    | -2.12%         | -1.02%    | -4.86%     |
| 1-Week Price Change                                      | 4.68%      | 0.00%      | 1.43%     | 1.84%          | -1.66%    | -4.77%     |
| 4-Week Price Change                                      | 18.97%     | 1.79%      | 5.71%     | 3.61%          | 7.15%     | -4.06%     |
| 12-Week Price Change                                     | 55.02%     | 14.80%     | 11.34%    | 20.91%         | 47.67%    | 28.53%     |
| 52-Week Price Change                                     | 287.40%    | 141.17%    | 58.53%    | 65.00%         | 223.14%   | 108.09%    |
| 20-Day Average Volume (Shares)                           | 1,409,915  | 264,103    | 1,796,198 | 36,216         | 1,436,800 | 1,364,985  |
| EPS F1 Estimate 1-Week Change                            | 4.24%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.50%      |
| EPS F1 Estimate 4-Week Change                            | 4.24%      | 0.00%      | 0.05%     | 0.57%          | 0.00%     | 10.41%     |
| EPS F1 Estimate 12-Week Change                           | 26.63%     | 3.80%      | 1.89%     | 10.06%         | 56.12%    | -1.12%     |
| EPS Q1 Estimate Monthly Change                           | 8.79%      | 0.00%      | 0.00%     | NA             | 0.00%     | 113.22%    |

Source: Zacks Investment Research

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## 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    | B |
| Growth Score   | A |
| Momentum Score | A |
| VGM Score      | A |

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.

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## Disclosures

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## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.