

Best Buy Co., Inc.(BBY)

\$100.37 (As of 03/03/21)

Price Target (6-12 Months): **\$105.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/16/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

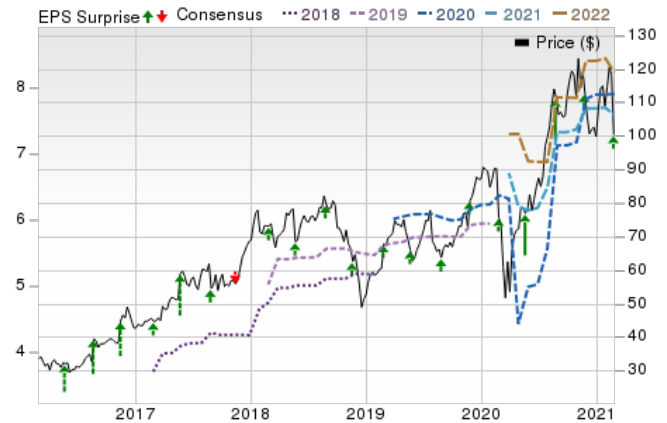
Growth: A

Momentum: A

Summary

Shares of Best Buy have underperformed the industry in the past three months. We note that management is cautious regarding the pandemic's impact upon its business. Management provided a dismal comparable sales view for fiscal 2022, based on the assumption that consumers' spending on stay-at-home products are likely to diminish gradually. Nevertheless, up until the fourth quarter of fiscal 2020, the company continued to gain from increased spending on stay-at-home products, which in turn aided growth in the Domestic segment. Additionally, revenues in the domestic unit gained from growth in online sales. In fact, Domestic comparable online sales soared 89.3% during the fourth quarter. Management expects to keep gaining from growth in the digital realm and has therefore been investing toward boosting omni-channel capabilities.

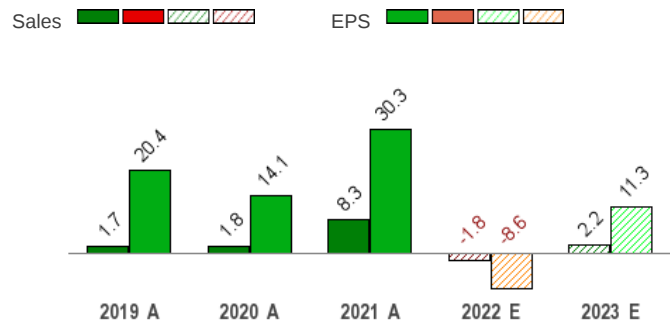
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$124.89 - \$48.11
20-Day Average Volume (Shares)	2,576,951
Market Cap	\$26.0 B
Year-To-Date Price Change	0.6%
Beta	1.50
Dividend / Dividend Yield	\$2.80 / 2.2%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Top 45% (115 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	-1.5%
EPS F1 Estimate 4-Week Change	-6.0%
Expected Report Date	05/20/2021
Earnings ESP	4.9%

P/E TTM	12.7
P/E F1	13.9
PEG F1	1.6
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023	10,615 E	10,200 E	11,058 E	16,721 E	47,428 E
2022	10,115 E	10,236 E	10,343 E	15,929 E	46,400 E
2021	8,562 A	9,910 A	11,853 A	16,937 A	47,262 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023	\$1.48 E	\$1.42 E	\$1.82 E	\$3.62 E	\$8.05 E
2022	\$1.25 E	\$1.36 E	\$1.47 E	\$3.13 E	\$7.23 E
2021	\$0.67 A	\$1.71 A	\$2.06 A	\$3.48 A	\$7.91 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 03/03/2021. The report's text and the analyst-provided price target are as of 03/04/2021.

Overview

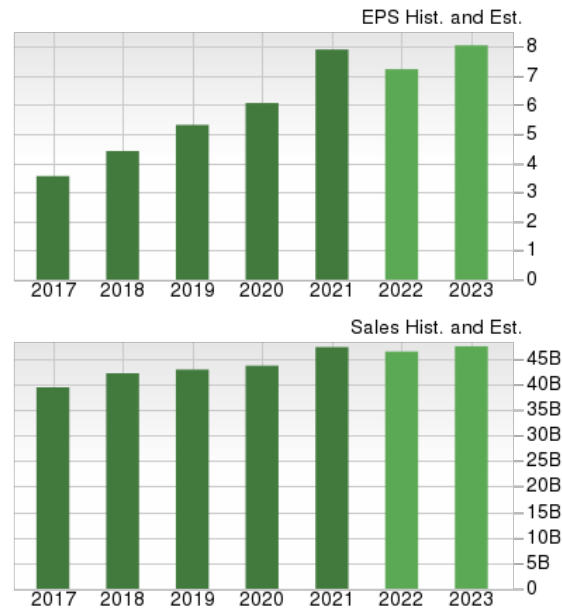
Incorporated in 1966 and headquartered in Richfield, MN, **Best Buy Company Inc. (BBY)** is a multinational specialty retailer of consumer electronics, home office products, entertainment software, communication, food preparation, wellness, health, security, appliances and related services. The company operates in the United States and Canada.

Both segments are engaged in the development of merchandise and service offerings, supply chain and procurement, pricing and promotions, online and mobile operations along with marketing and advertisements on omnichannel platforms. Moreover, Best Buy provides its customers with the option to pick a product at its store or to get the product directly delivered to their homes. The delivery of Best Buy's products is fulfilled through its distribution centers or retail stores. Further, the company's ship-from-store facility enables it to expedite the delivery process and improve product availability.

Best Buy operates through two business segments:

Domestic Operations (90.9% of Q421 total revenues): Best Buy's domestic operations comprises all store, call center and online operations, operating under the brand names Best Buy, bestbuy.com, Best Buy Direct, Best Buy Express, Best Buy Mobile, Geek Squad, Magnolia Audio Video and Pacific Sales.

International Operations (9.1% of Q421 total revenues): Best Buy's international operations consist of all store, call center and online operations in Canada under the brand names Best Buy, Best Buy Mobile, bestbuy.ca and Geek Squad. The company also carries out operations in Mexico under the brand names Best Buy, Best Buy Express, bestbuy.com.mx and Geek Squad.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strong Q4 Performance:** Best Buy registered top- and bottom-line growth, when it reported fourth-quarter fiscal 2021 results. Markedly, Enterprise revenues rose 11.5% year over year to \$16,937 million. This provider of technology products, services and solutions witnessed enterprise comparable sales rise of 12.6% compared with 3.2% growth recorded in the prior-year quarter. Speaking of segments, revenues increased 11.2% in the Domestic segment, backed by comparable sales increase of 12.4%. The segment witnessed comparable sales growth across most of its categories, with the largest drivers being computing, gaming, home theater, virtual reality and appliances. The International segment registered revenue growth of 14%, owing to comparable sales growth of 14.9% and gains from favorable foreign currency exchange rates to the tune of 160 basis points. Apart from these, the company's strong supply chain expertise, flexible store operating model and ability to shift quickly to digital have been supporting its performance. Such upsides have been helping the company meet increased demand for products and services that support stay-at-home lifestyle.
- ▲ **Surging Digital Sales:** Best Buy's online sales continued to grow in the fourth quarter of fiscal 2021, owing to consumers growing inclination toward digital transactions, especially amid the pandemic. In fact, the company's Domestic comparable online sales soared 89.3% to \$6.66 billion. As a percentage of overall Domestic revenues, online revenues rose nearly 43.2% compared with 25.4% in the last year. This followed an increase of 173.7%, 242.2% and 155.4% registered in the third, second and first quarter, respectively. Best Buy continues to focus on improving digital capabilities, including boosting omni-channel services such as buy online, pickup in store services. Management highlighted that stores played an important role in the fulfillment of online sales during the fourth quarter. In fact, two-thirds of the online sales were picked up in stores or curbside, shipped from store or delivered by store employees. For fiscal 2022, online sales are expected to contribute 40% to Domestic sales. The company's strong omni-channel capabilities are likely to keep supporting online revenue growth. Markedly, the company's contactless curbside pickup services have been receiving favorable consumer response. Also, it is on track with adding new functionalities to its curbside pickup services for driving frequency, retention and personalization opportunities. Moreover, almost all its stores provide same-day delivery on thousands of products. In fact, several store locations are being strategically positioned to be able to ship out more volumes. Such well-chalked plans are likely to keep supporting the company's online revenues. Apart from these, the company has been focusing on increasing customer engagement through its app. It has also been offering virtual consultations and advisory functions online to assist customers amid the pandemic and thereby minimize direct contact.
- ▲ **Building the New Blue:** Under the next phase of its "Building the New Blue" program called "Building the New Blue: Chapter Two", Best Buy's top most priority has been to pursue growth opportunities, better execution in key areas, cost containment, and investing in people and systems. The company is also testing new store formats reducing the shoppable square footage to about 15,000 square feet from an average of 27,000. Meanwhile, the company has been progressing well with programs like Total Tech Support, which provides support for fixing computers, laptops, appliances, smart home devices and connected devices. Further, Best Buy expanded its In-Home Advisor program that includes advisors, who guide customers to find out the right technology solutions and provide free in-home consultations. Moreover, it is making a significant headway into healthcare technology business by undertaking strategic buyouts in the space. The company entered into a partnership with Validic, an industry-leading technology platform. Validic collects data from connected devices, processes it and then offers meaningful insights. Other series of purchases include GreatCall, and Critical Signal Technologies that provides personal emergency response systems and telehealth monitoring services for seniors at home. It has also acquired BioSensics, a provider of wearable sensor technologies for clinical research and medical applications.
- ▲ **Financial Flexibility:** Even with a total debt (both short and long-term debt) of \$1,363 million, as of Jan 30, 2021, Best Buy looks quite comfortable from liquidity point of view. The company's cash & equivalents were \$5,494 million at the end of the fourth quarter of fiscal 2021. In the fourth quarter, the company retired \$650 million in 5.5% notes with had an original maturity date of March 2021, by exercising its option to redeem the notes at par. These notes were replaced by the net proceeds received from public bond offering completed during the third quarter for \$650 million in 1.95% notes due in October 2030. Also, the company's "times interest earned" ratio of 46.7 has improved from 41.4 at the end of the third quarter. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. Apart from these, during the fourth quarter, the company returned a total of \$392 million to shareholders through share repurchases of \$250 million and dividends worth \$142 million. Additionally, the company announced a 27% hike in its quarterly dividend rate to 70 cents per share. The raised dividend will be paid out on Apr 8, 2021, to shareholders of record as on Mar 18. Notably, the company has a dividend payout of 35.4% and dividend yield of 2.8%. With an annual free cash flow return on investment of 104.6%, ahead of the industry's nearly 87.8%, we believe that the dividend payment is likely to be sustainable. Further, management approved a new share repurchase authorization plan worth \$5 billion. This replaces the company's existing share repurchase authorization, under which \$1.7 billion was remaining as at the end of fiscal 2021. The company expects to carry out share repurchases of at least \$2 billion in fiscal 2022.
- ▲ **Long-Term Goal:** Best Buy is aiming high, banking on plans to exploit areas of potential to the fullest. The key growth initiatives underlined by the company are Best Buy Health and supply-chain transformation. Naturally, it is committed toward strengthening partnerships with vendors, focusing on offering services and solutions to meet varied customer needs, and optimizing costs. These endeavors are expected to lift the company's top line and overall profitability. Management had earlier guided Enterprise revenues of approximately \$50 billion with adjusted operating income rate of 5% by fiscal 2025. The consumer electronics retailer also projected to lower costs by about \$1 billion by the said period. Apart from these, in order remain in tune with the changing retail scenario and consumers shopping habits, the company envisions to emerge as a strong omni-channel retailer with a large store footprint for support and fulfillment.

Best Buy's top most priority has been to boost omni-channel capabilities, pursue growth opportunities, better execution in key areas, and investing in people and systems.

Reasons To Sell:

▼ **Unimpressive Comparable Sales View:** Best Buy continues to remain cautious regarding the impact of the pandemic upon its business. For fiscal 2022, management expects enterprise comparable sales between a decline of 2% and growth of 1% year on year. The top-line view is based upon management's assumption that consumers will resume or accelerate spending on areas that were slowed down during the pandemic such as travel and outdoor dining, especially in the back half of the year. As a result, spending on products which support stay-at-home practices, such as household appliances and other electronic devices, are likely to diminish gradually. Apart from this management continues to remain cautious regarding business disruptions that may arise due to the pandemic. We note that shares of Best Buy have underperformed the industry in the past three months. In the said period, the stock has declined 4.9%, when compared with the industry's gain of 13.6%.

Best Buy's comparable sales in fiscal 2022 is likely to be affected by gradual decline in consumers' spending on products that support stay-at-home needs.

▼ **Soft Gross Margin Trend:** Best Buy's gross margin rate was pressured in the fourth quarter of fiscal 2021. Gross margin declined 40 basis points (bps) to 20.9%. Moreover, adjusted gross margin decreased 60 bps to 20.7% during the quarter under review, following a contraction of 30 bps and 100 bps in the third and second quarter, respectively. We note that the Domestic segment's gross margin contracted 30 bps year over year to 20.9% during the fourth quarter owing to higher supply chain costs because of the increased mix of online revenues. For fiscal 2022 and for the first-quarter, management expects gross margin rate to be slightly lower, on a year-over-year basis. Additionally, inventory constraints are expected to continue in certain key categories.

▼ **Higher SG&A Expenses:** Adjusted SG&A expenses increased 4.4% during the fourth quarter of fiscal 2021. We note that the metric rose 4.8% and 0.5% across Domestic and International segments, respectively, during the quarter under review. Domestic SG&A expenses jumped on account of higher incentive compensation expense; increased variable expense related to the higher sales growth, including items such as credit card processing fees; and increased investments in technology and other initiatives. Management projected low single-digit range increase in adjusted SG&A expenses in fiscal 2022, while the metric is expected to rise by nearly 10% during the fiscal first quarter. This increase is expected to be driven by incentive compensation, increased variable costs from the higher expected sales and investments in both health business and technology. These are anticipated to be partly offset by slightly lower store payroll expense.

▼ **COVID-19 Impact:** Due to the outbreak of novel coronavirus, there has been a shift in consumer shopping pattern and behavior. There is shift in category sales mix to lower-margin non-discretionary merchandise. Industry experts are apprehensive about costs associated with digital fulfillment and supply chain as well as COVID-19 related expenses. We note that costs related to additional employee payments and benefits, along with investments undertaken to preserve safety and health of customers and team members amid the coronavirus crisis may weigh on profits to some extent.

Last Earnings Report

Best Buy Q4 Earnings Exceeds Estimates, Sales Up Y/Y

Best Buy posted fourth-quarter fiscal 2021 results, with the top and the bottom line increasing year on year. Also, quarterly earnings surpassed the Zacks Consensus Estimate. However, sales fell short of the consensus mark.

Markedly, sales increased across both the Domestic and the International segments. Online sales remained strong in the domestic channel. Management highlighted that stores played an important role in the fulfillment of online sales. Well, these factors contributed toward top-line growth in the reported quarter. Additionally management provided comparable sales view for fiscal 2022 as well as for the first quarter.

Quarter Ending 01/2021

Report Date	Feb 25, 2021
Sales Surprise	-1.50%
EPS Surprise	0.58%
Quarterly EPS	3.48
Annual EPS (TTM)	7.92

Q4 Details

Best Buy delivered adjusted earnings of \$3.48 per share, which surpassed the Zacks Consensus Estimate of \$3.46. Moreover, the bottom line increased 20% from earnings of \$2.90 reported in the year-ago quarter.

Enterprise revenues rose 11.5% year over year to \$16,937 million, but missed the Zacks Consensus Estimate of \$17,194 million. Enterprise comparable sales increased 12.6% compared with 3.2% growth recorded in the prior-year quarter. Moreover, revenues increased across both the Domestic and the International segments.

We note that adjusted gross profit grew 8.4% to \$3,509 million. However, adjusted gross margin contracted 60 basis points to 20.7%. Markedly, adjusted operating income came in at \$1,161 million, up from \$986 million reported in the year-ago quarter. Again, adjusted operating margin increased 40 basis points to 6.9%.

Segment Details

Domestic segment revenues increased 11.2% to \$15,400 million. This year-over-year growth was mainly driven by comparable sales increase of 12.4%, partly offset by loss of revenues from permanent store closures in the past year. The company registered comparable sales growth across most of its categories, with the largest drivers being computing, gaming, home theater, virtual reality and appliances. These were partly offset by decline in mobile phone and headphone sales.

Meanwhile, comparable online sales soared 89.3% to \$6.66 billion. As a percentage of overall Domestic revenues, online revenues rose nearly 43.2% compared with 25.4% in the last year.

We note that the segment's gross margin contracted 30 basis points year over year to 20.9% owing to higher supply chain costs stemming from increased mix of online revenues.

Moving on to the International segment, revenues increased 14% to \$1,537 million. This upside was backed by comparable sales growth of 14.9% and gains from favorable foreign currency exchange rates to the tune of 160 basis points. The segment's gross margin expanded 100 basis points to 21.6%.

Other Details

Best Buy ended the quarter with cash and cash equivalents of \$5,494 million, long-term debt of \$1,253 million and total equity of \$4,587 million.

During the quarter, the company returned a total of \$392 million to shareholders through share repurchases of \$250 million and dividends worth \$142 million. Additionally, the company announced a 27% hike in its quarterly dividend rate to 70 cents per share. The raised dividend will be paid out on Apr 8, 2021, to shareholders of record as on Mar 18. Further, management approved a new share repurchase authorization plan worth \$5 billion. This replaces the company's existing share repurchase authorization, under which \$1.7 billion was remaining, as at the end of fiscal 2021. The company expects to carry out share repurchases of at least \$2 billion in fiscal 2022. Capital expenditures in fiscal 2022 are expected in the range of \$750-\$850 million.

Additionally, in recognition of the efforts of employees amid the pandemic, the company will provide bonuses worth \$500 to full-time and \$200 to part-time employees, in the upcoming weeks.

Guidance

For fiscal 2022, management expects enterprise comparable sales to range between a decline of 2% and growth of 1%. The top-line view is based upon the assumption that consumers will resume or accelerate spending on areas that were slowed during the pandemic such as travel and outdoor dining, especially in the back half of the year. Additionally, online sales are expected to contribute 40% to Domestic sales. Gross margin is expected to be slightly lower than fiscal 2021 levels.

For first-quarter fiscal 2022, the company expects enterprise comparable sales growth of nearly 20%. Moreover, gross margin is expected at a slightly lower level than first-quarter fiscal 2021.

Valuation

Best Buy shares are up 0.6% in the year-to-date period and 28.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 21.4% but the Zacks Retail-Wholesale sector is down 1.3% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 29.2% and 36.8%, respectively.

The S&P 500 index is up 3.4% in the year-to-date period and 30.4% in the past year.

The stock is currently trading at 13.15X forward 12-month earnings, which compares to 24.57X for the Zacks sub-industry, 29.74X for the Zacks sector and 22.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.83X and as low as 7.95X, with a 5-year median of 13.32X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$105 price target reflects 13.76X forward 12-month earnings.

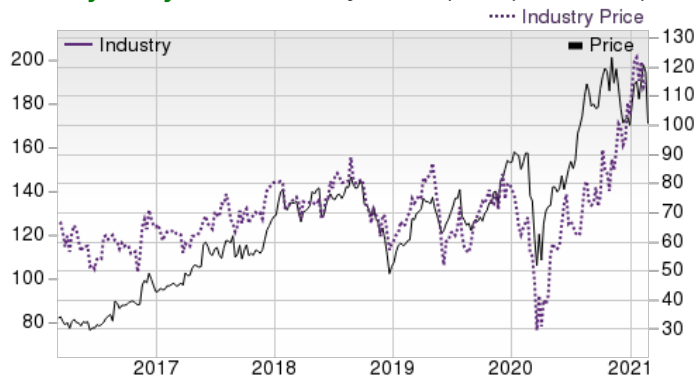
The table below shows summary valuation data for BBY

Valuation Multiples - BBY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.15	24.57	29.74	22.31
	5-Year High	18.83	32.31	34.11	23.8
	5-Year Low	7.95	8.85	19.1	15.3
	5-Year Median	13.32	11.9	23.74	17.87
P/S F12M	Current	0.56	0.6	1.32	4.51
	5-Year High	0.69	0.83	1.34	4.51
	5-Year Low	0.24	0.23	0.84	3.21
	5-Year Median	0.44	0.34	1.02	3.68
EV/EBITDA TTM	Current	6.07	6.59	18.02	17.24
	5-Year High	8.99	9.95	20.81	17.54
	5-Year Low	3.37	2.81	11.17	9.63
	5-Year Median	6.4	4.59	13.22	13.3

As of 03/03/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 45% (115 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Conns, Inc. (CONN)	Outperform	1
Target Corporation (TGT)	Outperform	2
The Aarons Company, Inc. (AAN)	Neutral	3
Amazon.com, Inc. (AMZN)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
GameStop Corp. (GME)	Neutral	4
Systemax Inc. (SYX)	Neutral	3
Walmart Inc. (WMT)	Underperform	5

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

Industry Comparison Industry: Retail - Consumer Electronics				Industry Peers		
	BBY	X Industry	S&P 500	AAN	GME	SYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	A	-	-	A	D	B
Market Cap	25.99 B	1.77 B	27.40 B	756.96 M	8.66 B	1.38 B
# of Analysts	11	4	13	8	5	1
Dividend Yield	2.19%	0.00%	1.43%	0.00%	0.00%	1.52%
Value Score	A	-	-	A	C	B
Cash/Price	0.21	0.22	0.06	0.10	0.08	0.06
EV/EBITDA	6.66	6.66	15.43	3.72	-28.38	18.50
PEG F1	1.55	1.19	2.30	2.68	NA	NA
P/B	5.67	5.67	3.79	1.05	24.36	8.19
P/CF	8.91	25.19	15.48	1.11	71.00	25.54
P/E F1	13.59	12.52	20.65	11.35	NA	20.23
P/S TTM	0.55	1.68	3.18	NA	1.68	1.34
Earnings Yield	7.20%	3.58%	4.77%	8.81%	-0.05%	4.94%
Debt/Equity	0.27	0.46	0.67	0.00	0.65	0.00
Cash Flow (\$/share)	11.27	0.92	6.77	19.94	1.75	1.44
Growth Score	A	-	-	A	D	A
Historical EPS Growth (3-5 Years)	21.58%	21.58%	9.32%	NA	-30.93%	34.09%
Projected EPS Growth (F1/F0)	-8.55%	61.63%	14.54%	-35.43%	97.10%	8.33%
Current Cash Flow Growth	19.59%	-13.95%	0.74%	7.00%	-66.61%	5.05%
Historical Cash Flow Growth (3-5 Years)	12.35%	10.50%	7.37%	NA	-26.81%	49.91%
Current Ratio	1.19	1.12	1.39	0.87	1.05	1.75
Debt/Capital	21.45%	39.40%	41.42%	0.12%	39.40%	0.00%
Net Margin	3.80%	-1.62%	10.59%	NA	-5.32%	6.36%
Return on Equity	52.47%	-0.71%	14.75%	NA	-33.58%	42.31%
Sales/Assets	2.58	0.70	0.51	NA	2.01	2.57
Projected Sales Growth (F1/F0)	-1.82%	8.25%	7.02%	-2.87%	11.92%	4.57%
Momentum Score	A	-	-	F	C	D
Daily Price Change	-2.10%	0.00%	-0.42%	1.70%	5.08%	0.41%
1-Week Price Change	-14.96%	0.00%	-1.51%	3.73%	150.65%	-18.27%
4-Week Price Change	-9.02%	11.20%	2.34%	23.01%	34.38%	-15.18%
12-Week Price Change	-4.19%	42.28%	5.72%	27.99%	809.08%	2.45%
52-Week Price Change	24.82%	98.08%	19.32%	NA	3,193.90%	74.62%
20-Day Average Volume (Shares)	2,576,951	173,194	2,030,734	335,035	38,607,456	104,491
EPS F1 Estimate 1-Week Change	-5.89%	0.00%	0.00%	-2.19%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-6.00%	0.00%	0.12%	-2.32%	0.00%	1.11%
EPS F1 Estimate 12-Week Change	-5.86%	-0.33%	2.13%	-1.02%	-25.00%	1.11%
EPS Q1 Estimate Monthly Change	21.12%	3.19%	0.00%	30.42%	0.00%	-3.33%

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	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.