

Best Buy Co., Inc.(BBY)

\$119.35 (As of 10/16/20)

Price Target (6-12 Months): **\$125.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/16/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Although shares of Best Buy increased in the past six months, it has underperformed the industry in the said time frame. The company has been grappling with soft gross margin trends for a while. During the second quarter of fiscal 2021, the company's gross margin contracted 100 basis points (bps) year over year. Moreover the domestic segment's gross margin went down by 120 bps, due to higher supply chain costs on increased mix of online revenues. Gross margin is expected to remain pressurized in fiscal third-quarter owing to high online revenue mix. Nevertheless, the company is benefitting from growth in products that support stay-at-home practices such as tablets and household appliances. It has also been adding functionalities such as curbside pickup, in-store consultations, home installation and digital consultation services.

Data Overview

52-Week High-Low	\$121.10 - \$48.11
20-Day Average Volume (Shares)	2,010,330
Market Cap	\$30.9 B
Year-To-Date Price Change	35.9%
Beta	1.63
Dividend / Dividend Yield	\$2.20 / 1.8%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Top 33% (83 out of 254)

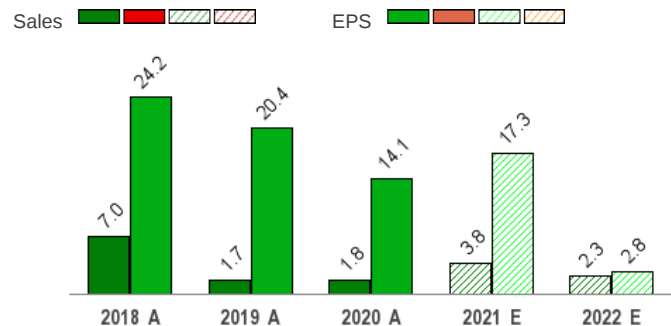
Last EPS Surprise	56.9%
Last Sales Surprise	0.7%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/24/2020
Earnings ESP	0.0%

P/E TTM	18.6
P/E F1	16.8
PEG F1	1.9
P/S TTM	0.7

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	9,276 E	10,146 E	10,755 E	16,308 E	46,344 E
2021	8,562 A	9,910 A	10,831 E	15,901 E	45,307 E
2020	9,142 A	9,536 A	9,764 A	15,196 A	43,638 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.03 E	\$1.63 E	\$1.70 E	\$3.40 E	\$7.32 E
2021	\$0.67 A	\$1.71 A	\$1.66 E	\$3.08 E	\$7.12 E
2020	\$1.02 A	\$1.08 A	\$1.13 A	\$2.90 A	\$6.07 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/16/2020. The reports text is as of 10/19/2020.

Overview

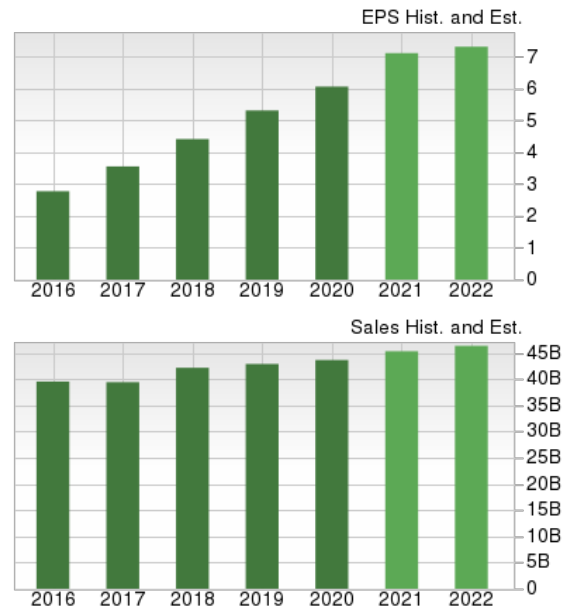
Incorporated in 1966 and headquartered in Richfield, MN, **Best Buy Company Inc. (BBY)** is a multinational specialty retailer of consumer electronics, home office products, entertainment software, communication, food preparation, wellness, health, security, appliances and related services. The company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

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 (92.1% of Q221 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 (7.9% of Q221 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:

- ▲ **Robust Q2 Performance:** Best Buy posted robust second-quarter fiscal 2021 results, with the top and the bottom line improving year on year and surpassing the Zacks Consensus Estimate. Best Buy's second-quarter fiscal 2021 marked the 11th straight quarter of positive earnings surprise. Also, the company's top line surpassed the consensus mark for the fourth successive time. Top-line results in the quarter gained from growth in products that support stay-at-home practices such as tablets, computing devices and household appliances. Moreover, as the company opened its stores more broadly, it witnessed growth across most categories. Management pointed out that large appliances and home theaters benefitted from more experiential shopping.

Best Buy's strong digital sales along with growth across most product categories due to store openings have been encouraging.

During the second quarter, the company's enterprise revenues rose nearly 4% year over year to \$9,910 million. In fact, enterprise sales growth was nearly 16% in the last seven weeks of the second quarter, after the company had fully reopened its stores. It's worthwhile to note here that for the first six weeks of the quarter, the company's stores were open on an appointment-only basis. Further, enterprise comparable sales were up 5.8% compared with 1.6% growth recorded in the prior-year quarter.

Additionally, during the second-quarter adjusted operating income surged nearly 54% to \$588 million, while adjusted operating margin expanded 190 bps to 5.9%. Operating margin gained from lower SG&A expenses stemming from balanced but prudent decisions to lower costs, in response to the pandemic-induced uncertainties.

- ▲ **Robust Online Division:** Best Buy's online sales continued to grow in the second quarter of fiscal 2021, backed by the shift in consumers shopping patterns amid the pandemic. In fact, the company's domestic comparable online sales increased 242.2% to \$4.85 billion, mainly owing to higher traffic and conversion rates. As a percentage of overall domestic revenues, online revenues skyrocketed 3,700 bps to 53.1% compared with 16.1% recorded in the prior-year quarter. During the quarter, the company witnessed strong demand for some of its newer products like digital health and fitness, at-home fitness equipment, sustainable living, outdoor activities and camping equipment.

Best Buy continues to focus on improving the buy online, pickup in store services. Markedly all of the company's stores are capable of shipping out online orders. In fact, 250 locations are being strategically positioned to be able to ship out more volumes. The company is also continuing to add third party physical pickup locations for online orders to enhance flexibility and convenience for its customers. Also, it is adding new functionalities to its curbside pickup services for driving frequency, retention and personalization opportunities. Such well-chalked plans are likely to keep supporting the company's online revenues. Markedly, domestic online sales are up nearly 175% for the first three weeks of August.

- ▲ **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. The company's long-term financial goal is the testimony to the same. Management continues to envision enterprise revenues of approximately \$50 billion with adjusted operating income rate of 5% by fiscal 2025. The consumer electronics retailer also intends to reduce costs by about \$1 billion by the said period.

- ▲ **Debt Analysis:** Best Buy's long-term debt of \$632 million as of Aug 1, 2020 decreased 49.3% sequentially. In addition, Best Buy had cash and cash equivalents of \$5,305 million as of Aug 1, which increased 35.4% from the previous quarter and is higher than the company's long-term debt. Moreover, the company's times interest earned ratio stands at 35.4 at the end of the second quarter, higher than the industry's ratio of 12.6. 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. As of April 22, 2020, the company's corporate credit ratings from Standard & Poor's and Moody's Investors Service are BBB (stable outlook) and Baa1 (stable outlook), respectively.

- ▲ **Shareholder-Friendly Moves:** In the fiscal second quarter, the company returned about \$143 million to shareholders via dividends. On a year-to-date basis, the company has returned \$346 million to shareholders, via share repurchases worth \$62 million and dividend payouts worth \$284 million. We note that Best Buy looks well placed on the dividend-payout front. Notably, the company's current annualized dividend rate of \$2.20 a share reflects a 10% increase from the year-ago period. It has a dividend payout of 34.3%, dividend yield of 2% and free cash flow yield of 9.08%. Further, the company's board of directors has approved a quarterly dividend of 55 cents per share, payable on Oct 6, 2020 to shareholders of record as on Sep 15. With an annual free cash flow return on investment of 60.3%, ahead of the industry's nearly 42.7%, the dividend payment is likely to be sustainable.

Reasons To Sell:

- ▼ **Weak Gross Margin Trend:** Best Buy continued to witness soft gross margins during the second quarter of fiscal 2021. The company recorded gross profit of \$2,270 million, down 0.5% year over year. Also, gross margin contracted 100 basis points (bps) to 22.9%. Moreover, the domestic segment's gross margin contracted 120 bps year over year to 22.8% due to higher supply chain costs on increased mix of online revenues. Prior to this, during the first quarter of fiscal 2021, gross margin contracted 70 bps to 23%. Management expects gross margin to remain pressurized in fiscal third-quarter, on account of increased mix of online revenues. We note that although shares of Best Buy have increased 71% in the past six months, it has underperformed the industry's rally of 77% in the said time frame.
- ▼ **Growth Likely to Slow Down:** Although the company has continued to witness sales growth in the first three weeks of third-quarter fiscal 2020, management is somewhat cautious regarding the ongoing uncertainties induced by the pandemic. For the third quarter, even though sales are expected to rise year-on-year, the rate of growth is likely to slow down.
- ▼ **Competitive Pressure:** We believe that challenging retail landscape, aggressive promotional strategies and waning store traffic might hurt Best Buy's performance. The company faces intense competition from a diverse group of competitors, especially online retailers such as Amazon, Wal-Mart and other consumer electronics retailers, mass merchants, mobile phone service carriers, specialty home office retailers, and numerous direct-to-consumer websites. 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, and high household debt levels, which may negatively impact 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. Also, uncertainty surrounding government stimulus and a contentious November election may impact consumer spending activity.
- ▼ **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.

Best Buy continued to report soft gross margin during the second quarter of fiscal 2021. Also, slowed rate of sales growth for the third-quarter is a concern.

Last Earnings Report

Best Buy Q2 Earnings & Sales Beat Estimates, Up Y/Y

Best Buy reported robust second-quarter fiscal 2021 results, with the top and the bottom line improving year on year and surpassing the Zacks Consensus Estimate. Notably, this marked the 11th straight quarter of earnings beat, while sales have surpassed estimates four times in a row.

Top-line results in the quarter gained from growth in products that support stay-at-home practices such as tablets, computing devices and household appliances. Moreover, as the company opened its stores more broadly, it witnessed growth across most categories and services.

Although the company has continued to witness growth in the first three weeks of fiscal third-quarter, management is somewhat cautious regarding the ongoing uncertainties induced by the pandemic. For the third quarter, even though sales are expected to rise year-on-year, the rate of growth is likely to slow down from the current quarter-to-date level of approximately 20%.

Detailed Quarterly Discussion

This consumer electronics retailer's adjusted earnings per share of \$1.71 have surpassed the Zacks Consensus Estimate of \$1.09. The bottom line increased nearly 58% year over year.

On a GAAP basis, earnings per share came in at \$1.65, up from 89 cents in the year-ago quarter.

The company's Enterprise revenues rose nearly 4% year over year to \$9,910 million and beat the consensus mark of \$9,841 million. Enterprise comparable sales were up 5.8% compared with 1.6% growth recorded in the prior-year quarter.

Markedly, enterprise sales in the quarter gained from higher demand for computing products, appliances and tablets. In fact, enterprise sales growth was nearly 16% in the last seven weeks of the second quarter, after the company opened its stores.

The company recorded gross profit of \$2,270 million, down 0.5% year over year. Also, gross margin contracted 100 basis points (bps) to 22.9%. Nevertheless, adjusted operating income surged nearly 54% to \$588 million, while adjusted operating margin expanded 190 bps to 5.9%.

Segment Details

Domestic segment revenues increased 3.5% year over year to \$9,128 million. Growth was mainly driven by comparable sales rise of 5%, partly offset by revenue loss from the closure of 25 stores. Comparable sales during the quarter gained from growth in computing, appliances and tablets, which were partly negated by declines in mobile phones, digital imaging and services.

Meanwhile, comparable online sales at this division increased 242.2% to \$4.85 billion, mainly owing to higher traffic and conversion rates. As a percentage of overall Domestic revenues, online revenues grew by a substantial 3,700 bps to 53.1% compared with 16.1% recorded in the prior-year quarter.

However, the segment's gross margin contracted 120 bps year over year to 22.8% due to higher supply chain costs due to higher mix of online revenue.

International segment revenues increased 9.4% to \$782 million. The upside was backed by comparable sales rise of 15.1%, partly offset by the adverse impact of currency exchange rates to the tune of 490 bps. The segment's gross margin was flat year-on-year at 23.8%.

Other Financial Details

Best Buy ended the quarter with cash and cash equivalents of \$5,305 million, long-term debt of \$632 million and total equity of \$3,778 million.

In the fiscal second quarter, the company returned about \$143 million to shareholders via dividends. On a year-to-date basis, the company has returned \$346 million to shareholders, via share repurchases worth \$62 million and dividend payouts worth \$284 million.

In addition, the company's board of directors approved a quarterly dividend of 55 cents per share. The dividend will be paid out on Oct 6, 2020 to shareholders of record as on Sep 15.

Quarter Ending 07/2020

Report Date	Aug 25, 2020
Sales Surprise	0.70%
EPS Surprise	56.88%
Quarterly EPS	1.71
Annual EPS (TTM)	6.41

Recent News

Best Buys Kicks off Black Friday With 2-Day Event – Oct 8, 2020

Best Buy offered dozens of deals from its not-yet-released Black Friday ad, in a two-day event, beginning Oct 13 and ending on Oct 14.

Valuation

Best Buy shares are up 35.9% in the year-to-date period and 67% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector is up 12.8% and 37.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 28.3% and 43.7%, respectively.

The S&P 500 index is up 8.2% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 16.42X forward 12-month earnings, which compares to 21.1X for the Zacks sub-industry, 32.89X for the Zacks sector and 22.51X 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 12.96X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$125 price target reflects 17.20X 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	16.42	21.1	32.89	22.51
	5-Year High	18.83	23.02	33.97	23.47
	5-Year Low	7.95	8.32	19.08	15.27
	5-Year Median	12.96	11.6	23.58	17.68
P/S F12M	Current	0.67	0.54	1.34	4.16
	5-Year High	0.68	0.54	1.34	4.31
	5-Year Low	0.22	0.21	0.84	3.18
	5-Year Median	0.42	0.32	1.01	3.67
EV/EBITDA TTM	Current	8.85	6.86	20.73	15.27
	5-Year High	8.96	6.93	21.12	15.68
	5-Year Low	3.26	2.73	11.14	9.55
	5-Year Median	6.21	4.11	12.98	13.1

As of 10/16/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 254)



Source: Zacks Investment Research

Top Peers

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

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	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	A	-	-	A	F	B
Market Cap	30.89 B	887.97 M	23.53 B	3.98 B	867.31 M	908.64 M
# of Analysts	11	4	14	6	5	1
Dividend Yield	1.84%	0.00%	1.6%	0.27%	0.00%	2.31%
Value Score	A	-	-	A	D	B
Cash/Price	0.18	0.18	0.07	0.08	0.94	0.06
EV/EBITDA	9.14	8.46	13.70	1.81	-1.19	12.12
PEG F1	1.91	1.44	2.86	0.70	NA	NA
P/B	8.18	2.45	3.52	2.61	2.45	6.11
P/CF	12.66	10.57	13.27	1.69	7.61	16.82
P/E F1	16.76	16.76	22.31	12.68	NA	18.09
P/S TTM	0.71	0.84	2.65	0.97	0.15	0.97
Earnings Yield	5.97%	-0.27%	4.35%	7.88%	-15.93%	5.53%
Debt/Equity	0.17	0.18	0.70	0.19	0.61	0.00
Cash Flow (\$/share)	9.43	1.44	6.93	35.14	1.75	1.44
Growth Score	A	-	-	B	B	B
Historical EPS Growth (3-5 Years)	21.25%	21.25%	10.41%	16.56%	-28.42%	40.36%
Projected EPS Growth (F1/F0)	17.34%	18.33%	-2.95%	20.10%	-1,064.55%	-3.60%
Current Cash Flow Growth	7.58%	-20.22%	5.54%	13.84%	-66.61%	5.05%
Historical Cash Flow Growth (3-5 Years)	9.16%	10.50%	8.51%	15.48%	-26.81%	49.91%
Current Ratio	1.06	1.36	1.35	3.04	1.05	1.65
Debt/Capital	14.33%	15.82%	42.91%	15.82%	38.00%	0.00%
Net Margin	3.75%	1.35%	10.28%	-6.80%	-6.07%	5.22%
Return on Equity	48.82%	4.18%	14.79%	16.23%	-29.98%	31.03%
Sales/Assets	2.65	1.70	0.51	1.32	2.07	2.41
Projected Sales Growth (F1/F0)	3.82%	1.27%	-0.53%	5.56%	-12.22%	2.55%
Momentum Score	D	-	-	C	F	C
Daily Price Change	-1.00%	-0.29%	0.08%	-0.44%	-3.76%	-0.29%
1-Week Price Change	3.71%	2.75%	4.06%	2.75%	28.01%	4.05%
4-Week Price Change	12.99%	3.42%	2.93%	4.37%	44.67%	10.33%
12-Week Price Change	24.22%	15.91%	5.43%	31.80%	223.84%	26.65%
52-Week Price Change	70.79%	-14.75%	4.36%	-17.50%	120.73%	4.89%
20-Day Average Volume (Shares)	2,010,330	44,413	2,066,999	543,841	18,082,482	66,083
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.04%	2.22%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	41.73%	31.77%	3.55%	44.46%	-41.09%	21.82%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	D
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.