

BJs Wholesale Club(BJ)

\$43.81 (As of 02/17/21)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/01/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Shares of BJ's Wholesale Club have declined and underperformed the industry in the past three months. We note that the company has been grappling with rising selling, general and administrative (SG&A) expenses, mainly led by costs associated with the pandemic. Such costs include bonuses and investments in safety equipments. Management expects such incremental costs to remain a downside during fourth quarter fiscal 2020. Nevertheless, strong comparable club sales have been an upside for the company. During the third quarter, the metric gained from strength in the digital channel, courtesy of increased online shopping amid coronavirus-led social distancing. Moreover, the company's focus on simplifying assortments, expanding into high-demand categories, enhancing omni-channel capabilities and providing value to customers bodes well.

Data Overview

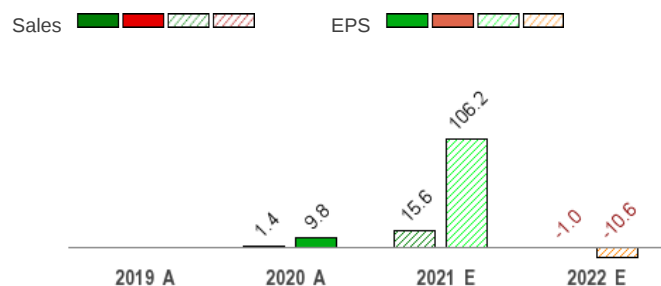
52-Week High-Low	\$50.18 - \$18.84
20-Day Average Volume (Shares)	2,328,889
Market Cap	\$6.0 B
Year-To-Date Price Change	16.6%
Beta	0.43
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Consumer Services - Miscellaneous
Zacks Industry Rank	Bottom 15% (215 out of 253)

Last EPS Surprise	43.8%
Last Sales Surprise	0.9%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	03/04/2021
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	16.3
PEG F1	1.2
P/S TTM	0.4

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,719 E	3,794 E	3,624 E	3,923 E	15,098 E
2021	3,798 A	3,954 A	3,732 A	3,920 E	15,251 E
2020	3,143 A	3,346 A	3,229 A	3,472 A	13,191 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.57 E	\$0.69 E	\$0.73 E	\$0.63 E	\$2.69 E
2021	\$0.69 A	\$0.77 A	\$0.92 A	\$0.64 E	\$3.01 E
2020	\$0.26 A	\$0.39 A	\$0.41 A	\$0.40 A	\$1.46 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 02/17/2021. The report's text and the analyst-provided price target are as of 02/18/2021.

Overview

BJ's Wholesale Club Holdings, Inc. has emerged as one of the preferred destinations for shoppers when it comes to essentials and other items. The company's focus on simplifying assortments, expanding own-brands portfolio, enhancing digital capabilities and providing value to customers has contributed to growth in membership signups and renewals. The company carries approximately 7,200 active stock keeping units. Notably, the company consistently offers 25% or more savings on a representative basket of manufacturer-branded groceries compared to traditional supermarket competitors.

Headquartered in Westborough, MA, the company operates warehouse clubs on the east coast of the United States. As of Jan 27, 2021, the company operated 220 warehouse clubs (ranging in size from 63,000-163,000 square feet) and 150 BJ's Gas stations in 17 states.

The company offers products under the following categories:

Perishables, which accounted for approximately 32% of fiscal 2019 merchandise sales, consist of meat, produce, dairy, bakery, deli and frozen products.

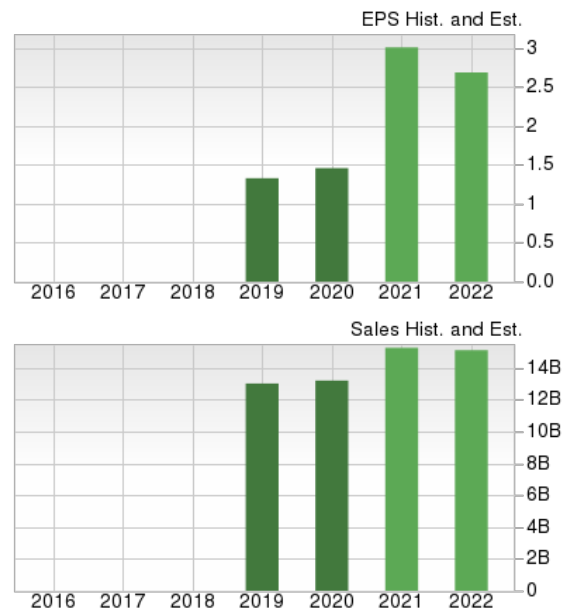
Edible grocery, which accounted for approximately 27% of fiscal 2019 merchandise sales, consists of packaged foods (including breakfast foods, salty snacks and candy) and beverages (including juices, water, beer, wine and liquor).

Non-edible grocery, which accounted for approximately 24% of fiscal 2019 merchandise sales, consists of detergents, disinfectants, paper products, beauty care, adult and baby care and pet foods.

General merchandise, which accounted for approximately 17% of fiscal 2019 merchandise sales, consists of small appliances, televisions, electronics, seasonal goods, gift cards and apparel.

The company's private label products are sold under Wellsley Farms and Berkley Jensen brands, which accounted for about 20% of fiscal 2019 merchandise sales. The company also sells products through websites — Bjs.com, BerkleyJensen.com, Wellsleyfarms.com, delivery.bjs.com — and mobile app.

The company provides significant value to its 5.5 million members. The annual membership fee for Inner Circle membership is \$55, while the annual membership fee for BJ's Perks Rewards membership is \$110. The company also offers co-branded My BJ's Perks Mastercard credit cards.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Impressive Q3 Performance:** BJ's Wholesale Club continued with its upbeat performance in fiscal 2020. Evidently, the company registered stellar results in the third quarter, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also improved year over year. The quarter marked the third straight sales and earnings beat. Notably, the company continued to witness strong comparable club sales. The metric gained from strength in the digital channel, courtesy of customers' increased shift to online shopping amid coronavirus-triggered social distancing trend. The company reported adjusted earnings of 92 cents a share that surpassed the Zacks Consensus Estimate of 64 cents, and rose sharply from 41 cents in the year-ago period. The bottom line gained from solid top-line growth, disciplined expense management and reduced interest expense. BJ's Wholesale Club generated total revenues of \$3,731.7 million that increased 15.6% from the year-ago period and outpaced the Zacks Consensus Estimate of \$3,697.4 million. While net sales jumped 15.7% to \$3,646.7 million, membership fee income was up 11% to \$84.9 million.

BJ's focus on simplifying assortments, expanding into high-demand categories and building own-brands portfolio bodes well. It also remains committed toward enhancing omni-channel capabilities and providing value to customers.

▲ **Strategic Endeavors:** BJ's Wholesale Club's focus on simplifying assortments, expanding into high-demand categories and building own-brands portfolio bodes well. The company also remains committed toward enhancing omni-channel capabilities and providing value to customers. Cumulatively, these endeavors have been contributing to growth in membership signups and renewals, resulting in higher membership fee income, higher average members per club and decent comparable club sales growth. The company's other notable endeavors include the launch a cost reduction program called Project Momentum. Under this program, management intends to save at least \$100 million over the next two years, and reinvest in growth opportunities. The company is also steadily growing its assortments of healthy and organic products and plant-based foods. Additionally, the company's expansion into new service offerings, such as cellular phones, home improvement, and financial and business services remains on track. Further, we note that the company plans to open two new clubs in New York around the end of the current fiscal year, thereby taking the total openings to four. It also intends to open roughly six new clubs next fiscal.

▲ **Digitization Holds the Key to Growth:** BJ's Wholesale Club has been directing resources toward expanding digital capabilities in order to better engage with members and provide them a convenient way to shop, including same-day delivery, curbside pick-up and buy-online, pickup-in-club. The coronavirus pandemic and the resultant stay-at-home trends have led to an increase in online shopping. Clearly, the company has been sparing no effort to bolster omni-channel operations and ramp up delivery services. The company has built a strong digital portfolio with Bjs.com, BerkleyJensen.com, Wellsleyfarms.com, delivery.bjs.com as well as the BJ's mobile app. This facilitates members to buy, review products and digitally add coupons to their membership card. The company has launched curbside pickup and expanded BOPIC service for fresh and frozen grocery items at all its locations. We note that during the third quarter digitally-enabled sales surged 200%, and added 4 percentage points to comparable club sales, excluding gasoline sales. This followed an increase of 300% and 350% in the second and first quarter, respectively. Comparable club sales particularly gained from strength in the digital channel, given customers' increased shift to online shopping amid coronavirus-led social distancing. Additionally, the company entered into a three-year exclusive agreement with CommerceHub, a leading e-commerce platform that enables online order fulfillment and delivery solutions. Also, the company entered into a partnership with Citizens Pay for providing customers with improved online financing solutions for large purchases.

▲ **Decent Comps Performance:** Comparable club sales during third-quarter fiscal 2020 rose 14.1%, following an increase of 17.2% and 19.9% in the second and first quarter, respectively. Excluding the impact of gasoline sales, comparable club sales surged 18.5% during the quarter, after increasing 24.2% in the preceding period. Impressive comparable sales growth of 19% in the grocery division contributed to this upbeat performance. Notably, the grocery division benefited from increased demand for fresh meat, frozen meals, fresh produce, beverages, salty snacks, paper products, cleaning supplies, and health and beauty items, owing to coronavirus outbreak. We believe the demand for essential products will remain high as more and more people prefer to stay and dine at home. No wonder, BJ's Wholesale Club looks well poised to capitalize on this growing trend. The company has added new vendors to strengthen supply chain in food, paper and cleaning supplies, and to participate in new personal protective equipment categories. Additionally, general merchandise and services division registered comparable sales growth of 13% driven by strong sales of TVs, computer equipment, and other home related categories such as indoor furniture and small appliances.

Comparable club sales, excluding the impact of gasoline sales, have continued to strengthen since the end of the third quarter. Management stated that comparable club sales are up more than 20% through the first three weeks of November. The company has been witnessing strength across almost all categories owing to early start to holiday shopping as well as increased food at home trends and consumer home investments.

▲ **Financial Flexibility:** BJ's Wholesale Club ended the third quarter with cash and cash equivalents of \$46.1 million, up from \$30 million at the end of the prior-year quarter. Long-term debt decreased to \$845.7 million as of Oct 31, 2020 from \$1,202.2 million as of Aug 1, 2020 and \$1,339.7 million as of Nov 2, 2019. Also, the company's times interest earned ratio of 6.1, improved from 5.1 in the preceding quarter. The company generated a record free cash flow of \$675.1 million during the first nine months of fiscal 2020. This aided the company to repay nearly \$575 million in debt. As a result, the company ended the quarter with a funded net debt to adjusted EBITDA ratio of 1.3 times. The company targets a funded net debt to adjusted EBITDA ratio of 1 time. During the third quarter, the company utilized \$100 million of excess cash and borrowed \$260 million from its revolver to reduce first lien debt by a total of \$360 million. In connection with this transaction and shortly after the conclusion of the quarter, the company terminated one of its interest rate swaps with \$360 million notional value. Management highlighted that these changes will result in interest expense savings of about \$10 million on an annualized basis.

Reasons To Sell:

▼ **High SG&A Expense a Concern:** We note that SG&A expenses 8.2% to \$552.3 million during third-quarter fiscal 2020, following an increase of 15.4% and 17.8% in the second and first quarter, respectively. The figure included approximately \$17 million of total cost associated with the pandemic. The year-over-year increase in SG&A expenses was due to costs associated with the ongoing pandemic, which include wage increases, bonuses, safety and protective equipment, and other operating expenses. Management anticipates to incur roughly \$30-\$35 million of incremental costs related to COVID-19 in the fourth quarter. Shares of the company have declined 1.7% in the past three months, against the industry's rise of 13.8%.

Commodity cost inflation and higher distribution costs associated with coronavirus pandemic may hurt merchandise gross margin rate.

▼ **Stock Looks Little Stretched:** Considering price-to-earnings (P/E) ratio, BJ's Wholesale Club looks pretty overvalued when compared with the industry. The stock has a forward 12-month P/E ratio of 16.25, which is above the median level of 16.14 but below the high level of 20.93 scaled in the past year. On the contrary, the forward 12-month P/E ratio for the industry is 11.35.

▼ **Stiff Competition:** BJ's Wholesale Club is not immune to the competitive retail landscape. The company faces stiff competition from other warehouse club operators and grocery and general merchandise retailers, including supermarkets and supercenters, and gasoline stations. The company competes with Costco and Sam's Club (a division of Walmart stores). These two rivals follow similar business models as they market high volumes of merchandise at low prices in a membership-only warehouse club. The company competes on attributes such as price, merchandise selection, distribution strategy and others.

▼ **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. This may adversely impact its growth and profitability. Due to the coronavirus outbreak, consumers have been curtailing their discretionary purchases.

Last Earnings Report

BJ's Wholesale Club Q3 Earnings Beat, Digital Sales Up

BJ's Wholesale Club Holdings, Inc. registered a stellar performance in third-quarter fiscal 2020, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also improved year over year. The quarter marked the third straight sales and earnings beat. Notably, the company continued to witness strong comparable club sales. The metric gained from strength in the digital channel, courtesy of customers' increased shift to online shopping amid coronavirus-triggered social distancing trend.

Quarter Ending 10/2020

Report Date	Nov 19, 2020
Sales Surprise	0.93%
EPS Surprise	43.75%
Quarterly EPS	0.92
Annual EPS (TTM)	2.78

The operator of membership warehouse clubs reported adjusted earnings of 92 cents a share that surpassed the Zacks Consensus Estimate of 64 cents, and rose sharply from 41 cents in the year-ago period. The bottom line gained from solid top-line growth, disciplined expense management and reduced interest expense.

BJ's Wholesale Club generated total revenues of \$3,731.7 million that increased 15.6% from the year-ago period and outpaced the Zacks Consensus Estimate of \$3,697.4 million. While net sales jumped 15.7% to \$3,646.7 million, membership fee income was up 11% to \$84.9 million.

Let's Delve Deeper

BJ's Wholesale Club's focus on simplifying assortments, expanding into high-demand categories and building own-brands portfolio is commendable. It also remains committed toward enhancing omni-channel capabilities and providing value to customers. Cumulatively, these endeavors have been contributing to growth in membership signups and renewals, resulting in higher membership fee income and decent comparable club sales growth.

Comparable club sales during the quarter under review rose 14.1%, following an increase of 17.2% in the preceding quarter. Excluding the impact of gasoline sales, comparable club sales surged 18.5% during the quarter, after increasing 24.2% in the preceding period. Impressive comparable sales growth of 19% in the grocery division contributed to this upbeat performance. Additionally, general merchandise and services division registered comparable sales growth of 13%.

Comparable club sales, excluding the impact of gasoline sales, have continued to strengthen since the end of the third quarter. Management stated that comps have been running north of 20% in the first three weeks of November. The company has been witnessing strength across almost all categories owing to early start to holiday shopping as well as increased food at home trends and consumer home investments.

We note that digitally-enabled sales soared 200%, and added 4 percentage points to comparable club sales, excluding gasoline sales. No wonder, the company has been directing resources toward expanding digital capabilities in order to engage better with members and provide them a convenient way to shop, including same-day delivery, curbside pick-up, and buy-online, pickup-in-club.

During the quarter, gross profit grew 20.3% to \$743.3 million. Merchandise gross margin rate, which excludes gasoline sales and membership fee income, rose 10 basis points from the year-ago quarter. Continued execution of category profitability improvement was offset by distribution expenses related with COVID-19.

Operating income surged 88.6% to \$190.4 million, while operating margin expanded 200 basis points to 5.1%. Adjusted EBITDA increased 57.1% to \$242.2 million, while adjusted EBITDA margin expanded 170 basis points to 6.5%.

SG&A expenses rose 8.2% to \$552.3 million from the year-ago period, however, as a percentage of total revenues, the same contracted 100 basis points to 14.8%. The year-over-year increase in SG&A expenses was due to costs associated with the ongoing pandemic, which include wage increases, bonuses, safety and protective equipment, and other operating expenses. Management anticipates to incur roughly \$30-\$35 million of incremental costs related to COVID-19 in the fourth quarter.

Other Financial Details

BJ's Wholesale Club ended the third quarter with cash and cash equivalents of \$46.1 million, up from \$30 million at the end of the prior-year quarter. Long-term debt decreased to \$845.7 million from \$1,339.7 million a year ago. Stockholders' equity was \$217.4 million. The company also lowered its first lien debt by a total of \$360 million.

Management incurred capital expenditures of \$69.8 million in the quarter under review. The company generated free cash flow of approximately \$20.3 million during the quarter under review. Additionally, the company bought back \$50 million worth of shares during the quarter.

Recent News

BJ's Wholesale to Boost Online Sales With New App Features – Feb 16, 2021

BJ's Wholesale launched new features on the BJ's app, which is likely to help club members shop seamlessly. The new features were launched on Feb 16. New app features include easier search and scan functionalities, personalized product recommendations as well as seamless navigation for discovering deals and products. The improved features enable club members to develop as well as manage their weekly grocery list within the BJ's app.

BJ's Wholesale partners with CommerceHub – Jan 27, 2021

BJ's Wholesale Club entered into a three-year exclusive agreement with CommerceHub, a leading e-commerce platform that enables online order fulfillment and delivery solutions. Markedly, CommerceHub's superior expertise in online order delivery fulfillment and execution will help bolster BJ's Wholesale's drop-ship network and expand its online business.

BJ's Wholesale Club Partners With Citizens – Jan 27, 2021

BJ's Wholesale Club in collaboration with Citizens Financial Group will launch Citizens Pay, whereby members can buy big-ticket and everyday items on low monthly payments. Citizens Pay financing options will be available to customers in the first quarter of this year for orders placed on BJ's.com for delivery and with buy online, pick up in-club, and curbside pickup. The facility will also be made available to customers making in-club purchases with the BJ's Mobile App from the second quarter of this year.

Valuation

BJ's Wholesale Club Holdings shares are up 17.5% in the year-to-date period and 101.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 13.2% and 5.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 7% and 20.1%, respectively.

The S&P 500 index is up 5.4% in the year-to-date period and 20.2% in the past year.

The stock is currently trading at 16.25X forward 12-month earnings, which compares to 11.35X for the Zacks sub-industry, 34.48X for the Zacks sector and 22.91X for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$46 price target reflects 17.23X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Target Corporation (TGT)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	3
Best Buy Co., Inc. (BBY)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	2
The Kroger Co. (KR)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

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

Industry Comparison Industry: Consumer Services - Miscellaneous				Industry Peers		
	BJ	X Industry	S&P 500	COST	TGT	WMT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	A	-	-	A	B	C
Market Cap	5.97 B	1.17 B	27.78 B	156.81 B	95.44 B	412.11 B
# of Analysts	10	3.5	13	11	13	14
Dividend Yield	0.00%	0.00%	1.41%	0.79%	1.43%	1.48%
Value Score	A	-	-	C	B	B
Cash/Price	0.01	0.08	0.06	0.09	0.06	0.04
EV/EBITDA	13.25	12.82	14.78	21.15	14.23	13.29
PEG F1	1.20	2.37	2.37	4.04	2.58	4.59
P/B	27.45	4.03	3.81	10.24	7.17	4.72
P/CF	16.45	8.41	15.45	28.36	16.63	16.62
P/E F1	16.29	14.57	20.87	35.27	21.90	25.26
P/S TTM	0.40	1.10	3.07	0.91	1.08	0.75
Earnings Yield	6.19%	6.88%	4.71%	2.84%	4.56%	3.96%
Debt/Equity	3.89	0.35	0.68	0.49	0.94	0.52
Cash Flow (\$/share)	2.66	2.28	6.70	12.62	11.64	8.85
Growth Score	A	-	-	A	A	C
Historical EPS Growth (3-5 Years)	NA%	8.70%	9.32%	14.35%	8.77%	3.78%
Projected EPS Growth (F1/F0)	-10.72%	3.48%	13.98%	13.40%	-4.82%	3.69%
Current Cash Flow Growth	10.14%	-0.72%	2.56%	8.77%	10.26%	-0.12%
Historical Cash Flow Growth (3-5 Years)	NA%	3.53%	7.55%	10.07%	3.95%	-0.31%
Current Ratio	0.72	1.07	1.38	0.98	1.05	0.84
Debt/Capital	79.55%	53.60%	41.31%	32.97%	48.39%	34.26%
Net Margin	2.45%	2.07%	10.60%	2.50%	4.31%	3.60%
Return on Equity	491.83%	7.82%	14.86%	24.50%	34.94%	19.22%
Sales/Assets	2.80	1.01	0.51	3.20	1.90	2.29
Projected Sales Growth (F1/F0)	-1.00%	4.30%	6.46%	11.35%	-2.86%	0.48%
Momentum Score	F	-	-	B	F	F
Daily Price Change	0.81%	-0.60%	-0.05%	1.14%	1.58%	1.06%
1-Week Price Change	2.65%	2.65%	1.44%	-0.68%	1.36%	0.08%
4-Week Price Change	5.16%	5.37%	1.42%	-0.90%	2.81%	1.16%
12-Week Price Change	4.71%	9.02%	6.38%	-7.66%	7.66%	-3.05%
52-Week Price Change	101.15%	24.86%	8.82%	10.84%	64.92%	25.08%
20-Day Average Volume (Shares)	2,328,889	175,648	2,013,641	2,191,394	2,990,132	6,437,607
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.60%	0.00%	-0.47%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.68%	0.90%	-0.00%	-0.43%
EPS F1 Estimate 12-Week Change	5.91%	-1.39%	1.97%	3.57%	4.56%	-0.10%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.27%	1.62%	0.01%	0.45%

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	F
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.

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

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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 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.