

Columbia Sportswear (COLM)

\$102.61 (As of 02/08/21)

Price Target (6-12 Months): **\$108.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/08/21)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

Columbia Sportswear has outpaced the industry in the past three months. The stock got a boost following fourth-quarter 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate. Management remains encouraged about broad-based growth in the company's solid brands, along with strength in the direct-to-consumer (DTC) e-commerce business. To this end, focus on the Experience First initiative is noteworthy. In the fourth quarter, DTC e-commerce sales rose 41% on high consumer demand. Management remains focused on boosting the e-commerce business, which is expected to aid sales growth in 2021. However, the company's store sales remain affected by low traffic amid the pandemic. Further, the company is battling supply-chain and capacity limitations. These factors hurt fourth-quarter sales and earnings, which fell year over year.

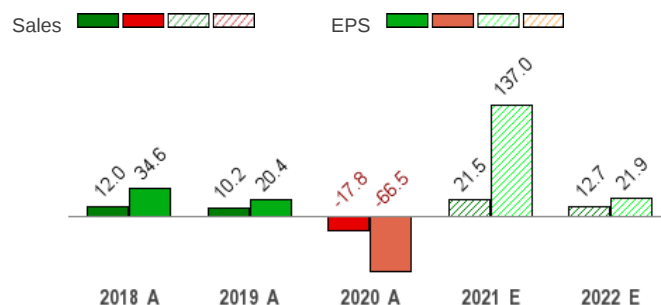
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$112.21 - \$51.82
20-Day Average Volume (Shares)	347,016
Market Cap	\$7.1 B
Year-To-Date Price Change	23.5%
Beta	0.81
Dividend / Dividend Yield	\$1.04 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Top 27% (68 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.0%
Last Sales Surprise	5.7%
EPS F1 Estimate 4-Week Change	2.9%
Expected Report Date	04/29/2021
Earnings ESP	-13.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,426 E
2021	591 E	453 E	891 E	998 E	3,040 E
2020	568 A	317 A	701 A	916 A	2,502 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$4.68 E
2021	\$0.45 E	-\$0.28 E	\$1.79 E	\$2.05 E	\$3.84 E
2020	\$0.00 A	-\$0.77 A	\$0.94 A	\$1.44 A	\$1.62 A

*Quarterly figures may not add up to annual.

P/E TTM	67.0
P/E F1	27.1
PEG F1	9.5
P/S TTM	2.9

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/08/2021. The report's text and the analyst-provided price target are as of 02/09/2021.

Overview

Headquartered in Portland, OR, **Columbia Sportswear Company** engages in the sourcing, marketing and distribution of outdoor and active lifestyle apparel, footwear, accessories and equipment in the U.S. and internationally.

The company offers products under four well-established brands – Columbia, Sorel, Mountain Hardwear and prAna. Amongst other brands, The OutDry and The Pacific Trail are worth mentioning.

The high quality products manufactured by the company under different banners makes them ideal for a range of sporting activities. The company also engages in innovation, in order to match consumers changing preferences, especially in relation with outdoor activities.

The company distributes its products through a mix of wholesale distribution channels, own direct-to-consumer ("DTC") channels (retail stores and e-commerce), independent international distributors, as well as licensees.

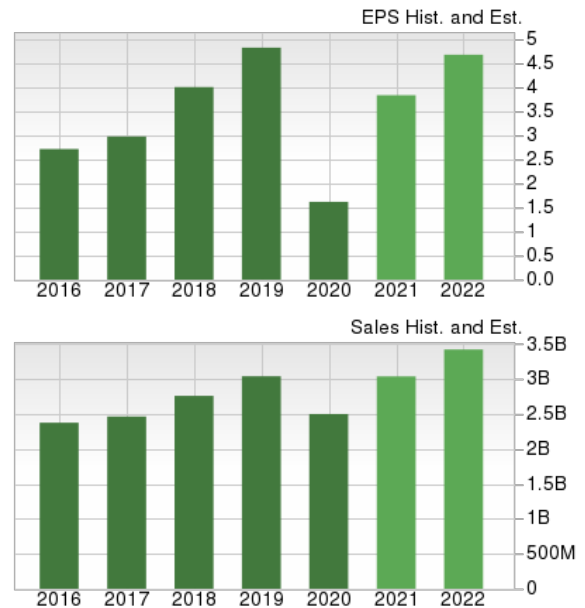
In 2019, the company's products were sold across 90 countries. Majority of the company's products are manufactured by contract manufacturers located outside the United States.

Columbia reports its operating results under two major segments:

Apparel, accessories and equipment segment: This segment designs, develops, markets and distributes apparel, accessories and equipment for men and women under its Columbia, Sorel, Mountain Hardwear and prAna brands, and for youth under the Columbia and Mountain Hardwear brand.

Footwear segment: The segment designs, develops, markets and distributes footwear products for men, women and youth under its Columbia and Sorel brands.

The company operates in four geographic regions: The United States, Canada, Latin America and Asia Pacific (LAAP), and Europe, Middle East and Africa (EMEA).



Source: Zacks Investment Research

Reasons To Buy:

▲ **Better-Than-Expected Q4 Results, Encouraging View Boost Stock:** Shares of Columbia Sportswear have rallied 25.9% in the past three months compared with the industry's growth of 15.1%. The stock got a boost following fourth-quarter 2020 results, wherein the top and bottom lines beat the Zacks Consensus Estimate despite encountering COVID-19 related challenges. Though results were down year over year, trends improved on a sequential basis and the company anticipates continued revival in 2021. Management remains encouraged about the better-than-expected fourth-quarter show as well as broad-based growth in the company's solid brands as it enters 2021. Management stated that results are all the more impressive, reflecting the company's ability to counter hurdles related to the pandemic, such as supply-chain hiccups, regional lockdowns and obstacles stemming from safety protocols.

Columbia Sportswear has been gaining from brand enhancement initiatives. The company is also benefiting from its direct-to-consumer e-commerce operations.

The company issued the 2021 guidance, which is based on anticipations of sequential revival in retail store traffic as well as sales all through the year. For 2021, the company expects net sales in the range of \$2.95-3 billion, indicating an 18-20% increase from the year-ago period. This is expected to be backed by spring and fall 2021 orders, continued growth in DTC e-commerce as well as growth revival in DTC brick-and-mortar sales. The company projects net sales growth in high teens percentage to low 20% range in the first half of the year. In 2021, operating income is expected to be \$320-\$346 million, suggesting an operating margin of 10.8-11.5%. In full-year 2020, the company's operating income and margin came in at \$137 million and 5.5%, respectively. Finally, management envisions earnings per share in the range of \$3.75-\$4.05 for the ongoing year compared with \$1.62 reported in 2020.

▲ **Direct-to-Consumer E-Commerce Business – A Major Driver:** The company remains committed to expanding and enhancing its global direct-to-consumer (DTC) business, through accelerated investments. In the fourth quarter of 2020, the company's DTC e-commerce sales surged 41% in the quarter and formed about one-fourth of the company's total sales mix on the back of better-than-anticipated consumer demand. In full-year 2020, DTC e-commerce sales increased 39% and formed 19% of the total sales mix, with growth across all brands. Certainly, DTC e-commerce is seeing robust momentum with more consumers opting to shop online. This channel is likely to continue performing well in the forthcoming periods.

On its fourth-quarter earnings call, management said that will continue strengthening its DTC business and improving support processes. In fact, its guidance for 2021 includes continued growth in DTC e-commerce as well as growth revival in DTC brick-and-mortar sales.

▲ **Experience First or X1 Initiative on Track:** Columbia Sportswear began investing in its Experience First initiative or the X1 initiative in 2018. The company remains on track with this initiative, which is aimed at enhancing e-commerce operations to keep pace with the evolving consumer environment. Notably, the company's e-commerce platform has been largely operational during the pandemic, except for some distribution center closures. The company on its fourth-quarter 2020 earnings call noted that its mobile-first e-commerce platform, X1, performed brilliantly in the peak season and led to better site performance as well as conversion. X1 went live in North America for the Columbia, SOREL, and Mountain Hardwear brands in the third quarter of 2020. Prior to this, the company had successfully deployed X1 across Europe and prAna in 2019.

▲ **Financial Analysis:** As of the end of fourth-quarter 2020 (Dec 31, 2020), Columbia Sportswear had cash, cash equivalents and short-term investments of \$791.9 million. The company had no short-term borrowings on its balance sheet as of Dec 31. During the fourth quarter, Columbia Sportswear refinanced its domestic credit agreement, with a new one offering a five-year unsecured revolving credit facility of \$500 million. During full-year 2020, the company generated cash from operating activities of \$276.1 million.

In its fourth-quarter earnings release, the company unveiled intentions to resume buyback activity in 2021. In fact, on Jan 29, 2021, management authorized additional buybacks worth \$400 million. Apart from this, the company has \$82.2 million available under its prior share-buyback authorization. Additionally, along with the earnings release, management announced quarterly cash dividend of 26 cents per share. Management highlighted its priority to return at least 40% of its annual free cash flow to stockholders via dividends and share buybacks — with intentions to raise dividend over time. Incidentally, the company has a dividend payout ratio of 64.6%, a dividend yield of 1% and a free cash flow yield of 3.6%. With an annual free cash flow return on investment of almost 14%, ahead of the industry's 10.8%, the dividend payment is likely to be sustainable.

▲ **Strategic Priorities & Store Optimization:** Management remains focused on its strategic priorities. To this end, it intends to continue with its demand creation investments, which are aimed at driving brand awareness and aiding sales. Further, the company remains committed toward enhancing consumers' experience and its digital capacity in all networks and regions. It will also continue exploring growth opportunities in the DTC business and improving support processes. Finally, the company is keen on investing in its people and optimizing its organization across its brand portfolio. Notably, management remains encouraged about its e-commerce growth, which along with its wholesale orders for Spring and Fall 2021 season is expected to aid continued business revival in 2021. Given the solid fall 2020 sell-through, Columbia Sportswear's wholesale partners are in good shape to exit the season with clean inventories.

Columbia Sportswear is on track with recalibrating its DTC store strategy, given the current retail landscape. The company shut 13 underperforming stores in the United States and one in Europe in 2020, which were mainly full-priced branded stores. The company intends to selectively restart store openings in 2021, depending on market conditions. At present, it expects to open about 8 stores in the United States, mainly outlet stores. Apart from these factors, the company has been focused on cost containment and generated SG&A savings of \$30 million from reduced variable costs and other saving efforts during the fourth quarter of 2020.

Reasons To Sell:

▼ **Impact of COVID-19:** Although Columbia Sportswear's results exceeded the Zacks Consensus Estimate in fourth-quarter 2020, both earnings and sales declined year over year. Results were affected by concerns related to COVID-19. Net sales dropped 4% to \$915.7 million, including declines across all categories and channels, and most regions. Sales were marred by continued impacts of the ongoing pandemic. In the reported quarter, the DTC channel displayed a sales decline of 3% and wholesale net sales fell 5%. DTC channel sales were hurt by reduced brick-and-mortar sales, though it was somewhat made up by solid e-commerce improvement. The company's earnings of \$1.44 per share slid 16% year over year.

Columbia Sportswear has been grappling with pandemic-led hurdles like sluggish traffic as well as supply-chain and capacity restrictions. The company entered 2021 with uncertainty related to coronavirus.

Most of the company-owned stores were open throughout the fourth quarter, apart from some isolated temporary closures due to local regulations or safety factors. However, management highlighted that brick-and-mortar traffic was significantly below the year-ago period's level. Traffic has been most affected in stores and destination locations, as well as stores operating in markets dependent on tourists. The company expects traffic in these regions to remain soft till the resumption of international tourism activities. Further, the company is battling industry-wide supply-chain and capacity restrictions, which in turn is leading to delayed receipts and customer deliveries. All said, the company entered 2021, with uncertainty and business risks related to coronavirus.

▼ **Cost & Margin Concerns:** SG&A expenses, as a percentage of sales, have been rising year over year for the past few quarters. The metric went up from 36.1% to 37.5% in the fourth quarter of 2020, following a rise of 4.3 percentage points in the third quarter. Also, the gross margin continued being somewhat affected by elevated freight costs in the fourth quarter. The company's operating income of \$123.7 million declined 11% year over year in the fourth quarter, with the operating margin contracting from 14.5% to 13.5%. In the third quarter, operating income of \$85.6 million declined 44% year over year and the operating margin contracted from 16.8% to 12.2%. The company intends to continue its investments to create demand, drive brand awareness and enhance digital capabilities. Though these investments are likely to fuel growth, they may weigh on margins.

▼ **Currency Headwinds:** Due to exposure in international markets, Columbia Sportswear is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the United States. Increase in prices may have adverse impact on demands for the products. Therefore, unfavorable currency movements remain a threat to the company's profitability.

▼ **Volatile Product Costs:** Columbia Sportswear remains prone to volatility in the prices of several raw materials in the commodity market, such as oil, leather and cotton among others. The company's product costs depend largely on these prices, along with quality and availability of raw materials; labor market fluctuations that impact wage rates; transportation costs and general economic conditions like inflation. Thus, any major changes in these factors can impact the company's production cost, which can hurt profitability.

▼ **Risk Related to Contract Manufacturers:** Columbia Sportswear mainly procures its products through contract manufacturers. The order commitments of the company with such contract manufacturers are not long term in nature, thus posing the risk of meeting production needs timely and adequately on the event of any lags from the manufacturers end.

Last Earnings Report

Columbia Sportswear Q4 Earnings Top Estimates, Fall Y/Y

Columbia Sportswear reported fourth-quarter 2020 results, which exceeded the company's financial guidance even amid obstacles, such as port congestion, logistics and parcel shipping capacity restrictions as well as strained fulfillment levels stemming from increased distribution center health and safety protocols.

The company posted earnings of \$1.44 per share, which slid 16% year over year. Nonetheless, the bottom line came in ahead of the Zacks Consensus Estimate of \$1.21. Net sales dropped 4% to \$915.7 million, while it surpassed the consensus mark of \$866 million. Sales declined across all categories and channels, and across most regions. However, sales improved for all brands, except Columbia. Sales were marred by continued impacts of the ongoing pandemic, partly compensated by gains from delayed timing of the Fall shipments.

In the reported quarter, the direct-to-consumer (DTC) channel displayed a sales decline of 3% and wholesale net sales fell 5%. DTC channel sales were hurt by reduced brick-and-mortar sales, somewhat made up by solid e-commerce improvement. Notably, e-commerce sales surged 41% in the quarter and formed about one-fourth of the company's total sales mix. In full-year 2020, DTC e-commerce sales increased 39%, and formed 19% of the total sales mix.

Gross margin expanded 50 basis points (bps) to 50.6%, which can be attributed to lower-than-anticipated promotional pricing activity. SG&A expenses remained almost flat at \$343.3 million. As a percentage of sales, the same escalated from 36.1% to 37.5%. During the quarter, Columbia Sportswear generated SG&A savings of \$30 million from reduced variable costs and cost-curtailement efforts. The company's operating income of \$123.7 million declined 11% year over year. The operating margin contracted from 14.5% to 13.5%.

In the United States, net sales fell 6% to \$599.1 million. Latin America/Asia Pacific (LAAP) net sales decreased 5% to \$163.6 million. Further, net sales tumbled 14% to \$85.6 million in Europe/the Middle East/Africa (EMEA). In Canada, net sales surged 36% to \$67.4 million. Net sales in the Apparel, Accessories and Equipment category declined 5% to \$661.4 million, while the same for Footwear slipped 1% to \$254.3 million. Further, the Columbia brand registered a sales decline of 7%, whereas Mountain Hardwear, prAna and Sorel brand sales grew 7%, 11% and 5%, respectively.

Other Financial Updates & Outlook

Columbia Sportswear ended the fourth quarter with cash, cash equivalents and short-term investments of \$791.9 million and shareholders' equity of \$1,832.7 million. The company had no borrowings on its balance sheet as of Dec 31. During the fourth quarter of 2020, Columbia Sportswear refinanced its domestic credit agreement — with a new one offering a five-year unsecured revolving credit facility of \$500 million. During full-year 2020, the company generated cash from operating activities of \$276.1 million.

Management had earlier suspended share-buyback activities as part of its efforts to preserve capital amid the COVID-19 crisis. In its fourth-quarter earnings release, the company unveiled intentions to resume buyback activity in 2021. In fact, on Jan 29, 2021, management authorized additional buybacks worth \$400 million. Apart from this, the company has \$82.2 million available under its prior share-buyback authorization. Additionally, along with the earnings release, management announced quarterly cash dividend of 26 cents per share, which is payable on Mar 22, 2021, to shareholders of record as on Mar 9. Management highlighted its priority to return at least 40% of its annual free cash flow to stockholders via dividends and share buybacks — with intentions to raise dividend over time.

Most of the company-owned stores were open throughout the fourth quarter, apart from some isolated temporary closures due to local regulations or safety factors. Nevertheless, management highlighted that brick-and-mortar traffic was significantly below the year-ago period's level. Traffic has been most affected in stores and destination locations, as well as stores operating in markets dependent on tourists. The company expects traffic in these regions to remain soft till the resumption of international tourism activities. Columbia Sportswear is on track with recalibrating its DTC store strategy, given the current retail landscape. The company shut 13 underperforming stores in the United States and one in Europe in 2020, which were mainly full-priced branded stores. The company intends to selectively restart store openings in 2021, depending on market conditions. At present, it expects to open about 8 stores in the United States — mainly outlet stores.

The company entered 2021, with uncertainty and business risks related to coronavirus remaining. That being said, management remains encouraged about its e-commerce growth, which along with its wholesale orders for Spring and Fall 2021 season, is expected to aid continued business revival in 2021. Incidentally, given the solid Fall 2020 sell-through, Columbia Sportswear's wholesale partners are in good shape to exit the season with clean inventories.

The company issued the 2021 guidance, which is based on anticipations of sequential revival in retail store traffic as well as sales all through the year. For 2021, the company expects net sales in the range of \$2.95-\$3 billion, indicating an 18-20% increase from the year-ago period. This is expected to be backed by spring and fall 2021 orders, continued growth in DTC e-commerce as well as growth revival in DTC brick-and-mortar sales. The company projects net sales growth in high teens percentage to low 20% range in the first half of the year. In 2021, operating income is expected to be \$320-\$346 million, suggesting an operating margin of 10.8-11.5%. In full-year 2020, the company's operating income and margin came in at \$137 million and 5.5%, respectively. Finally, management envisions earnings per share in the range of \$3.75-\$4.05 for the ongoing year.

Quarter Ending 12/2020

Report Date	Feb 04, 2021
Sales Surprise	5.68%
EPS Surprise	19.01%
Quarterly EPS	1.44
Annual EPS (TTM)	1.61

Valuation

Columbia Sportswear's shares are up 17.4% in the year-to-date period and 14.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 2.5% and 2.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 15.3% while the sector gained 18.5%.

The S&P 500 index is up 4% in the year-to-date period and 18.1% in the past year.

The stock is currently trading at 26.17X forward 12-month earnings, which compares to 24.2X for the Zacks sub-industry, 34.34X for the Zacks sector and 22.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.33X and as low as 11.61X, with a 5-year median of 21.17X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$108 price target reflects 27.48X forward 12-month earnings.

The table below shows summary valuation data for COLM

Valuation Multiples - COLM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	26.17	24.2	34.34	22.8
	5-Year High	30.33	29.17	35.27	23.8
	5-Year Low	11.61	13.28	16.19	15.3
	5-Year Median	21.17	18.13	20.17	17.85
P/S F12M	Current	2.29	3.01	2.93	4.54
	5-Year High	2.46	3.01	2.93	4.54
	5-Year Low	1.18	1.45	1.7	3.2
	5-Year Median	1.92	2.09	2.49	3.68
EV/EBITDA F12M	Current	11.46	21.15	11.67	17.2
	5-Year High	14.91	24.08	12.59	18.8
	5-Year Low	6.33	10.09	8.24	12.95
	5-Year Median	11.46	14.75	11	15.72

As of 02/08/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 27% (68 out of 251)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Crocs, Inc. (CROX)	Outperform	1
Ralph Lauren Corporation (RL)	Outperform	3
Guess, Inc. (GES)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Gildan Activewear, Inc. (GIL)	Neutral	3
Kontoor Brands, Inc. (KTB)	Neutral	3
lululemon athletica inc. (LULU)	Neutral	3
Hanesbrands Inc. (HBI)	Underperform	4

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	COLM	X Industry	S&P 500	GES	GIL	LULU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	C	F
Market Cap	7.14 B	1.51 B	27.64 B	1.58 B	5.37 B	43.54 B
# of Analysts	5	4	13	3	4	15
Dividend Yield	0.00%	0.00%	1.41%	1.81%	0.57%	0.00%
Value Score	B	-	-	A	B	D
Cash/Price	0.11	0.11	0.06	0.23	0.04	0.01
EV/EBITDA	11.39	8.89	15.06	6.97	13.77	41.34
PEG F1	9.49	2.46	2.41	NA	2.18	2.74
P/B	3.90	2.89	3.71	3.30	3.64	20.13
P/CF	26.68	8.76	15.62	8.76	10.72	54.83
P/E F1	27.14	19.89	20.33	16.76	19.64	50.23
P/S TTM	2.86	0.94	3.02	0.76	2.75	10.70
Earnings Yield	3.51%	4.97%	4.83%	5.97%	5.10%	1.99%
Debt/Equity	0.00	0.48	0.68	0.68	0.72	0.00
Cash Flow (\$/share)	3.85	2.28	6.76	2.83	2.49	6.20
Growth Score	A	-	-	A	D	F
Historical EPS Growth (3-5 Years)	2.95%	-11.07%	9.27%	-13.77%	-25.40%	26.03%
Projected EPS Growth (F1/F0)	133.83%	74.42%	13.66%	309.43%	416.78%	45.10%
Current Cash Flow Growth	-42.75%	-1.69%	4.21%	24.83%	-9.96%	26.75%
Historical Cash Flow Growth (3-5 Years)	1.98%	2.53%	7.74%	0.67%	5.30%	19.56%
Current Ratio	3.36	1.88	1.38	1.54	3.91	2.19
Debt/Capital	0.00%	36.03%	41.31%	40.78%	41.99%	0.00%
Net Margin	4.32%	-2.27%	10.59%	-3.48%	-13.34%	13.69%
Return on Equity	6.26%	0.28%	14.81%	0.03%	-2.69%	28.89%
Sales/Assets	0.92	0.88	0.51	0.87	0.59	1.20
Projected Sales Growth (F1/F0)	16.19%	15.00%	6.23%	16.85%	31.22%	24.84%
Momentum Score	B	-	-	F	B	B
Daily Price Change	-4.89%	0.04%	0.91%	-0.04%	-1.18%	1.69%
1-Week Price Change	23.36%	6.80%	4.58%	6.80%	8.59%	1.64%
4-Week Price Change	14.11%	0.53%	1.10%	6.44%	-3.74%	-6.07%
12-Week Price Change	27.48%	23.04%	7.16%	79.25%	10.18%	2.39%
52-Week Price Change	14.23%	9.35%	9.44%	14.19%	-4.94%	36.68%
20-Day Average Volume (Shares)	347,016	91,735	2,082,825	812,258	473,575	1,301,548
EPS F1 Estimate 1-Week Change	2.87%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	2.87%	0.00%	0.49%	-4.31%	0.00%	0.62%
EPS F1 Estimate 12-Week Change	1.26%	2.00%	1.50%	7.77%	1.32%	2.96%
EPS Q1 Estimate Monthly Change	-21.98%	0.00%	0.00%	-1.39%	0.00%	0.25%

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	B
Growth Score	A
Momentum Score	B
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

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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.