

Columbia Sportswear (COLM)

\$88.57 (As of 12/21/20)

Price Target (6-12 Months): **\$93.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Columbia Sportswear has lagged the industry in the past three months. The company has been reeling under coronavirus concerns like soft store traffic, which affected the third-quarter 2020 results. Both top and bottom lines fell year over year, with sales declining across all brands, categories, channels and regions. Apart from this, the pandemic has resulted in several supply-chain hurdles in terms of production, distribution and logistics. Management expects traffic to remain soft and fourth-quarter sales to fall. Also, high COVID-19 costs are a concern, though management is focused on its saving efforts. Moreover, solid direct-to-consumer e-commerce sales are acting as cushion. To this end, focus on the Experience First initiative is noteworthy. Apart from this, Columbia Sportswear's commitment toward driving brand awareness bodes well.

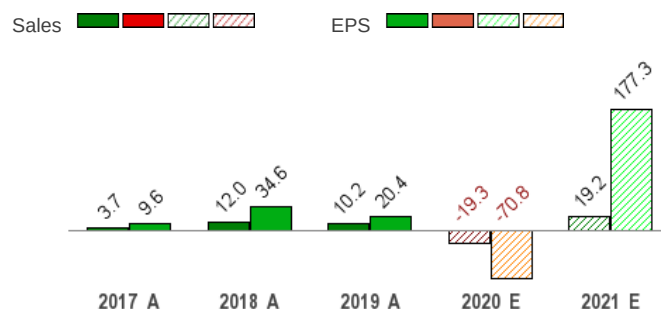
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$101.42 - \$51.82
20-Day Average Volume (Shares)	292,106
Market Cap	\$5.9 B
Year-To-Date Price Change	-11.6%
Beta	0.70
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Top 45% (114 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-23.0%
Last Sales Surprise	-7.3%
EPS F1 Estimate 4-Week Change	-2.0%
Expected Report Date	02/04/2021
Earnings ESP	-19.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	596 E	441 E	894 E	1,001 E	2,925 E
2020	568 A	317 A	701 A	868 E	2,454 E
2019	655 A	526 A	907 A	955 A	3,042 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	-\$0.33 E	\$1.88 E	\$1.88 E	\$3.91 E
2020	\$0.00 A	-\$0.77 A	\$0.94 A	\$1.23 E	\$1.41 E
2019	\$1.07 A	\$0.23 A	\$1.75 A	\$1.67 A	\$4.83 A

*Quarterly figures may not add up to annual.

P/E TTM	48.1
P/E F1	62.8
PEG F1	7.0
P/S TTM	2.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/21/2020. The reports text is as of 12/22/2020.

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.

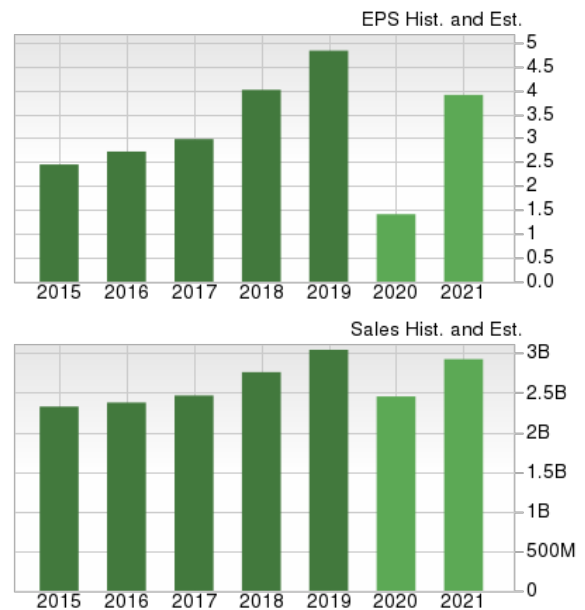
In 2019, the company's products were sold across 90 countries. Majority of the company's products are manufactured by contract manufacturers located outside the United States.

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:

- ▲ **Direct-to-Consumer E-Commerce Business – A Major Driver:** Columbia Sportswear remains committed to expanding and enhancing its global direct-to-consumer (DTC) business, through accelerated investments. In the third quarter of 2020, the company's DTC e-commerce sales soared 55% and formed 12% of the company's top line. To this end, the company's increased digital marketing expenditure has been a driver. DTC e-commerce sales surged 50% in the United States. Management said that 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.
- ▲ **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. Notably, management concluded the deployment of X1 (its new e-commerce platform) in the third quarter of 2020, implementing it in North America for Columbia, SOREL and Mountain Hardware brands. Prior to this, the company had successfully deployed X1 across Europe and prAna in 2019. The renewed websites are offering improved consumer experience just in time for the main holiday season.
- ▲ **Debt Analysis:** As of the end of third-quarter 2020 (Sep 30, 2020), Columbia Sportswear's long-term operating lease liabilities of \$337 million declined 3.1% quarter over quarter. Further, the company had cash, cash equivalents and short-term investments of \$314.5 million, while its short-term operating lease liabilities stood at \$73.4 million. The company had no short-term borrowings on its balance sheet as of Sep 30. Markedly, Columbia Sportswear had total liquidity (including committed and uncommitted credit lines) of about \$1 billion at the third quarter-end.
- ▲ **Brand Enhancing Initiatives:** Columbia Sportswear undertakes brand-enhancing and unique marketing initiatives that further strengthen its presence in the apparel industry. Even amid the pandemic, Columbia Sportswear remains committed to undertaking innovation. It has a solid pipeline for apparel innovation. To this end, the company launched Omni-Heat Black Dot in the third quarter of 2020. The company on its third-quarter conference call said that it has several marketing and social media events planned for its best-selling winter technology (Omni-Heat) in the fourth quarter. Further, it plans to build on this momentum for fall 2021, with its latest innovation — Omni-Heat Infinity. Apart from this, the company has several innovation lined up for its Columbia footwear products and the SOREL brand. The company's innovative products keep it well placed to cater to the growing demand related to higher outdoor recreational activities amid the pandemic.
- ▲ **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. Given its spring order book for 2021 and anticipations of returning to growth in its DTC business, management expects net sales growth at high-teens rate in the first half of 2021.

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

Columbia Sportswear is on track to optimize its store fleet and has decided to permanently shut a small number of locations. So far this year (as of Oct 29), the company has permanently shuttered eight U.S. stores and one European store. Management remains on track with assessing the company's portfolio and shutting down underperforming stores. Also, the company is focused on enhancing store labor efficacy, among other things, to improve store profitability. Apart from these factors, the company has been focused on cost containment and generated SG&A savings of \$45 million from reduced variable costs and other saving efforts during the third quarter of 2020.

Reasons To Sell:

▼ **Coronavirus Hurts Q3 Results & Outlook:** Shares of Columbia Sportswear have dipped 1.6% in the past three months against the industry's growth of 25.6%. The company recently reported third-quarter 2020 results, wherein the top and bottom lines plummeted year over year and fell short of the Zacks Consensus Estimate. Results were affected by concerns related to COVID-19. Net sales tumbled 23% to \$701.1 million and missed the consensus mark of \$757 million. Sales declined across all brands, categories, channels and regions. Excluding roughly \$45 million worth of Fall 2020 shipments (shifting into the fourth quarter), net sales dropped 18%. In the reported quarter, DTC channels displayed a sales decline of 10%, while wholesale net sales tumbled 28%. The company's earnings of 94 cents per share slumped 46% year over year and came below the Zacks Consensus Estimate of \$1.22.

Columbia Sportswear has been grappling with pandemic-led hurdles like sluggish brick-and-mortar traffic as well as several supply-chain hurdles. Sales are likely to decline in the fourth quarter.

Most of the company-owned stores were open throughout the third quarter, apart from some isolated temporary closures due to local regulations or safety factors. However, management highlighted that brick-and-mortar traffic was much 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 tourism activities. Apart from this, the pandemic has resulted in several supply-chain hurdles in terms of production, distribution and logistics. Management expects 2020 results to bear the brunt of soft consumer demand due to the pandemic. Sales volumes are likely to be softer year over year in the fourth quarter. All in all, management expects 2020 results to bear pandemic-led impacts like reduced global net sales, delay of inventory production and fulfillment and high costs. For the fourth quarter of 2020, the company expects net sales in the range of \$850-\$880 million, indicating an 8-11% decline from the year-ago period. Further, it envisions earnings per share in the range of \$1.07-\$1.32, compared with \$1.67 reported in the prior-year period.

▼ **Cost & Margin Concerns:** The company's gross margin has been declining year over year for a while now. During the third quarter of 2020, gross margin declined 40 basis points to 48.9% due to reduced DTC product margins stemming from elevated promotional activities and higher freight expenses. Though SG&A expenses declined year over year, the same escalated as a percentage of sales from 33% to 37.3%. SG&A expenses were partly impacted by costs associated with the pandemic. Finally, the company's operating income of \$85.6 million declined 44% year over year in the third quarter. 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. Further, the company expects 2020 results to be impacted by COVID-19 costs. In the fourth quarter of 2020, operating income is expected to be \$91-\$112 million, reflecting an operating margin of 10.7-12.7%. This suggests a decline from the operating income and margin of \$138.6 million and 14.5%, respectively reported in the fourth quarter of 2019.

▼ **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, unfavourable 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 3 Earnings Lag Estimates, Fall Y/Y

Columbia Sportswear reported dismal third-quarter 2020 results, which were affected by the pandemic-led woes. However, sales and profits improved sequentially and management expects continued enhancements in the fourth quarter and 2021. During the third quarter, e-commerce remained a driver, with sales up 55%. Notably, management concluded the deployment of X1 (its new e-commerce platform) in the quarter.

The company posted earnings of 94 cents per share, which slumped 46% year over year. Further, the bottom line came below the Zacks Consensus Estimate of \$1.22.

Net sales tumbled 23% to \$701.1 million and missed the consensus mark of \$757 million. Sales declined across all brands, categories, channels and regions. Excluding roughly \$45 million worth of Fall 2020 shipments (shifting into the fourth quarter), net sales dropped 18%.

In the reported quarter, the direct-to-consumer (DTC) channel displayed a sales decline of 10%, while wholesale net sales tumbled 28%. Within the DTC channel, e-commerce sales surged 55%, though brick-and-mortar traffic and sales were below year-ago levels. DTC e-commerce sales formed 12% of the company's total sales, reflecting a major improvement from the prior-year period.

Gross margin declined 40 basis points (bps) to 48.9%. SG&A expenses dropped 13% to \$261.2 million. As a percentage of sales, the same escalated from 33% to 37.3%. During the quarter, Columbia Sportswear generated SG&A savings of \$45 million from reduced variable costs and other saving efforts. The company's operating income of \$85.6 million declined 44% year over year. The operating margin contracted from 16.8% to 12.2%.

Sales by Region, Product Category & Brand

In the United States, net sales fell 23% to \$445.6 million. Latin America/Asia Pacific (LAAP) net sales fell 26% to \$90.9 million. Further, net sales dropped 5% to \$99.2 million in Europe/the Middle East/Africa (EMEA). In Canada, net sales were down 33% to \$65.4 million.

Net sales in the Apparel, Accessories and Equipment category declined 25% to \$510.2 million, while the same for Footwear fell 14% to \$190.9 million. Further, the Columbia and Mountain Hardwear brands registered sales declines of 23% and 15%, respectively. prAna and Sorel brand sales plunged 21% each.

Other Financial Updates

Columbia Sportswear ended the quarter with cash, cash equivalents and short-term investments of \$314.5 million and shareholders' equity of \$1,722.8 million. The company had no short-term borrowings on its balance sheet as of Sep 30. In fact, it had total liquidity (including committed and uncommitted credit lines) of about \$1 billion at the quarter-end. During the nine months ended Sep 30, the company used cash from operating activities of approximately \$198 million, while it incurred capital expenditures of \$25.2 million.

Management had earlier suspended share buyback activities and quarterly dividend payments as part of its efforts to preserve capital amid the COVID-19 crisis. As of the quarter-end, the company had \$82.2 million available under its current share buyback authorization.

COVID-19 Update & Outlook

Most of the company-owned stores were open throughout the third quarter, apart from some isolated temporary closures due to local regulations or safety factors. However, management highlighted that brick-and-mortar traffic was much 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 tourism activities. Apart from this, the pandemic has resulted in several supply-chain hurdles in terms of production, distribution and logistics. Nonetheless, the company is on track to expand sales volumes.

The company is impressed with Fall 2020's early sell-through as well as reorder patterns in the U.S. wholesale channel. Given its spring order book for 2021 and anticipations of returning to growth in its DTC business, management expects net sales growth at high-teens rate in the first half of 2021.

For the fourth quarter of 2020, the company expects net sales in the range of \$850-\$880 million, indicating an 8-11% decline from the year-ago period. Operating income is expected to be \$91-\$112 million, reflecting operating margin of 10.7-12.7%. Finally, management envisions earnings per share in the range of \$1.07-\$1.32. The consensus mark is currently pegged at \$1.56 per share.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	-7.33%
EPS Surprise	-22.95%
Quarterly EPS	0.94
Annual EPS (TTM)	1.84

Valuation

Columbia Sportswear's shares are down 11.6% in the year-to-date period and 11.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 13.6% and 7.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 7.9% and 13%, respectively.

The S&P 500 index is up 16.7% in the year-to-date period and in the past year.

The stock is currently trading at 23.04X forward 12-month earnings, which compares to 25.84X for the Zacks sub-industry, 33.75X for the Zacks sector and 23.05X 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 20.91X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$93 price target reflects 24.19X 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	23.04	25.84	33.75	23.05
	5-Year High	30.33	29.17	35.28	15.3
	5-Year Low	11.61	13.28	16.19	15.3
	5-Year Median	20.91	18.13	19.96	17.81
P/S F12M	Current	2.01	2.82	2.71	4.35
	5-Year High	2.46	2.82	2.9	4.35
	5-Year Low	1.18	1.45	1.7	3.17
	5-Year Median	1.89	2.09	2.5	3.67
EV/EBITDA F12M	Current	11.84	21.15	11.66	17.21
	5-Year High	14.91	24.08	12.55	18.81
	5-Year Low	6.33	10.08	8.21	12.96
	5-Year Median	11.56	14.65	10.99	15.68

As of 12/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 255)



Top Peers

Company (Ticker)	Rec	Rank
Guess, Inc. (GES)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Hanesbrands Inc. (HBI)	Neutral	4
lululemon athletica inc. (LULU)	Neutral	3
PVH Corp. (PVH)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3
V.F. Corporation (VFC)	Neutral	3

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	GIII	LULU
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	A	F	F
Market Cap	5.86 B	1.18 B	26.07 B	1.18 B	1.08 B	48.67 B
# of Analysts	6	5	13	3	8	16
Dividend Yield	0.00%	0.00%	1.49%	2.42%	0.00%	0.00%
Value Score	D	-	-	B	C	F
Cash/Price	0.05	0.13	0.06	0.31	0.14	0.01
EV/EBITDA	10.53	7.78	14.52	5.18	5.40	45.49
PEG F1	6.95	4.43	2.81	NA	3.45	4.43
P/B	3.40	2.51	3.62	2.47	0.82	22.50
P/CF	13.45	8.24	13.87	6.56	5.46	60.27
P/E F1	62.13	27.83	22.02	NA	39.82	81.16
P/S TTM	2.31	0.83	2.83	0.57	0.47	11.96
Earnings Yield	1.59%	1.59%	4.36%	-3.88%	2.51%	1.23%
Debt/Equity	0.00	0.40	0.70	0.68	0.38	0.00
Cash Flow (\$/share)	6.59	2.28	6.93	2.83	4.08	6.20
Growth Score	F	-	-	A	F	F
Historical EPS Growth (3-5 Years)	8.47%	-6.99%	9.71%	-13.77%	5.01%	26.03%
Projected EPS Growth (F1/F0)	-70.81%	-47.80%	1.22%	-149.66%	-82.45%	-6.68%
Current Cash Flow Growth	30.70%	2.71%	5.23%	24.83%	6.85%	26.75%
Historical Cash Flow Growth (3-5 Years)	17.53%	3.39%	8.33%	0.67%	9.97%	19.56%
Current Ratio	3.30	1.70	1.39	1.54	2.85	2.19
Debt/Capital	0.00%	36.56%	41.97%	40.78%	27.79%	0.00%
Net Margin	4.97%	-1.74%	10.40%	-3.48%	1.50%	13.69%
Return on Equity	7.30%	-0.30%	14.99%	0.03%	3.91%	28.89%
Sales/Assets	0.93	0.89	0.50	0.87	0.90	1.20
Projected Sales Growth (F1/F0)	-19.35%	0.00%	0.39%	-29.60%	-34.72%	8.39%
Momentum Score	F	-	-	B	F	A
Daily Price Change	0.33%	0.00%	-0.77%	0.32%	-0.98%	-1.23%
1-Week Price Change	6.16%	0.19%	0.87%	-4.34%	-0.97%	9.80%
4-Week Price Change	3.88%	3.81%	1.83%	7.40%	-2.45%	7.14%
12-Week Price Change	-0.70%	34.82%	14.52%	55.66%	57.60%	17.15%
52-Week Price Change	-11.32%	-10.38%	5.55%	-15.32%	-32.11%	63.68%
20-Day Average Volume (Shares)	292,106	173,890	2,035,313	1,143,624	829,389	1,964,581
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.52%
EPS F1 Estimate 4-Week Change	-1.97%	0.29%	0.00%	17.24%	19.15%	10.64%
EPS F1 Estimate 12-Week Change	-30.20%	17.10%	3.79%	10.00%	25.49%	4.22%
EPS Q1 Estimate Monthly Change	-2.38%	0.00%	0.00%	-37.69%	-52.47%	6.69%

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	D
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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