

Costco Wholesale (COST)

\$350.52 (As of 02/01/21)

Price Target (6-12 Months): **\$372.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Shares of Costco have increased in the past year. The company's growth strategies, better price management, decent membership trend and increasing penetration of e-commerce business reinforce its position. Thanks to its status of essential retailer, Costco has been benefiting from the coronavirus-induced spike in demand. Cumulatively, these factors have been aiding in registering impressive sales and earnings numbers. Costco put up a stellar performance in first-quarter fiscal 2021, wherein both the top and the bottom line surpassed the Zacks Consensus Estimate and grew year over year. It has been also maintaining impressive comparable sales performance. However, margins still remain an area to watch. Any deleverage in SG&A rate as well incremental wages and sanitation costs owing to the ongoing pandemic cannot be ignored.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$393.15 - \$271.28
20-Day Average Volume (Shares)	2,485,209
Market Cap	\$156.1 B
Year-To-Date Price Change	-6.5%
Beta	0.66
Dividend / Dividend Yield	\$2.80 / 0.8%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 27% (69 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.3%
Last Sales Surprise	0.1%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	03/04/2021
Earnings ESP	4.0%
P/E TTM	37.5
P/E F1	35.2
PEG F1	4.2
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	44,517 E	46,634 E	44,776 E	61,375 E	195,075 E
2021	43,208 A	43,531 E	41,429 E	56,206 E	184,121 E
2020	37,040 A	39,072 A	37,266 A	53,383 A	166,761 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.43 E	\$2.63 E	\$2.47 E	\$3.63 E	\$10.94 E
2021	\$2.29 A	\$2.37 E	\$2.24 E	\$3.18 E	\$9.95 E
2020	\$1.73 A	\$2.10 A	\$1.89 A	\$3.13 A	\$8.85 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/01/2021. The report's text and the analyst-provided price target are as of 02/02/2021.

Overview

Based in Issaquah, Washington, Costco Wholesale Corporation sells high volumes of foods and general merchandise (including household products and appliances) at discounted prices through membership warehouses. It is one of the largest warehouse club operators in the United States. The company also operates e-commerce websites in the United States, Canada, the United Kingdom, Mexico, Korea, Taiwan, Japan and Australia.

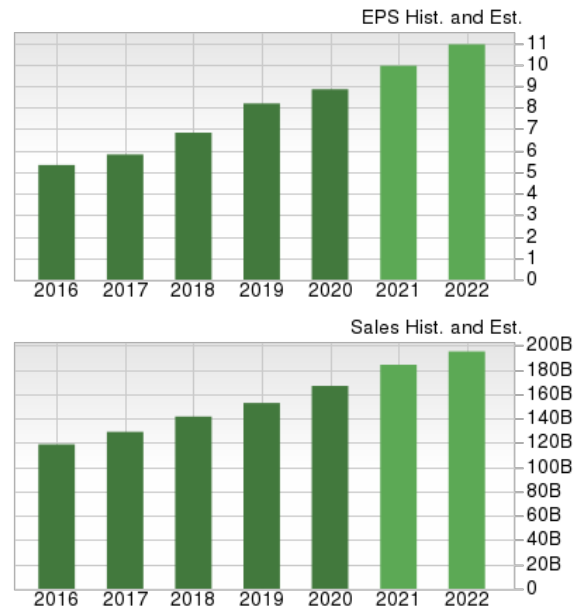
The company's warehouses offer an array of low-priced nationally branded and select private labeled products in a wide range of merchandise categories. Costco offers three types of memberships to its customers: Business, Gold Star (individual), and Executive.

As of Jan 6, 2021, Costco operates 803 warehouses, including 558 in the United States and Puerto Rico, 102 in Canada, 39 in Mexico, 29 in the United Kingdom, 27 in Japan, 16 in Korea, 14 in Taiwan, 12 in Australia, three in Spain, and one each in Iceland, France, and China.

Costco generates revenue from two sources: 1) Store sales (Net sales; 97.9% of fiscal 2020 total revenue) and 2) Membership fees (MFI; 2.1% of fiscal 2020 total revenue).

Costco offers myriad varieties of food products as well as a vast range of household and lifestyle products, stationeries and appliances. The company also sells gasoline to customers at cheap prices and offers merchandise in the following categories:

- 1) Food and Sundries (including dry foods, packaged foods, groceries, snack foods, candy, alcoholic and nonalcoholic beverages, and cleaning supplies)
- 2) Hardlines (including major appliances, electronics, health and beauty aids, hardware, and garden and patio)
- 3) Fresh Foods (including meat, produce, deli, and bakery)
- 4) Softlines (including apparel and small appliances)
- 5) Ancillary (including gasoline and pharmacy businesses).



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Decent Comparable Sales Performance:** Costco's growth strategies, better price management, decent membership trends and increasing penetration of e-commerce business have been contributing to its upbeat performance. Thanks to its status of "essential retailer," the company has been benefiting from coronavirus-induced spike in demand. Cumulatively, these helped the company to continue with its decent comparable sales run. For the 12-week first quarter ended Nov 22, 2020, comparable sales rose 15.4%, reflecting an improvement of 14.6%, 16.2% and 18.7% in the United States, Canada and Other International locations, respectively. Additionally, we note that Costco's comparable sales for the month of December rose 10.7%. This followed an increase of 13.4%, 14.4% and 15.5% in the months of November, October and September, respectively. People are spending less on travel, air and hotel and have been redirecting at least some of those dollars to categories like electronics, furniture and mattresses, exercise equipment, housewares, cookware, domestics among others. Markedly, shares of the company have increased 20.1% in the past year compared with the industry's gain of 22.7%.
- ▲ **A Dominant Warehouse Retailer:** We believe that Costco continues to be one of the dominant retail wholesalers based on the breadth and quality of merchandise offered. The company's strategy to sell products at heavily discounted prices has helped it to remain on a growth track as cash-strapped customers continue to reckon Costco as a viable option for low-cost necessities. In the wake of the fast-spreading coronavirus, the company has been witnessing increasing demand for toilet paper, disinfectants, packaged water and related food staples. A differentiated product range enables Costco to provide an upscale shopping experience for its members, resulting in market share gains and higher sales per square foot. Notably, Costco registered an increase of 16.9% in net sales to \$42,347 million during 12-week first quarter ended Nov 22, 2020. Additionally, we note that net sales for the month of December rose 12.3%. This followed an improvement of 15.1%, 15.9% and 16.9% in the months of November, October and September, respectively.
- ▲ **Increasing E-Commerce Penetration:** The company is also gradually expanding its e-commerce capabilities in the United States, Canada, the United Kingdom, Mexico, Korea, Taiwan, Japan, and Australia. To drive its online sales, the company launched CostcoGrocery to deliver non-perishable items to buyer's home, and expanded same day grocery delivery service in collaboration with Instacart. These delivery systems have been yielding favorably and driving more traffic. The company has also launched same day prescription Rx delivery and same-day alcohol delivery through Instacart. Also, Costco acquired Innovent Solutions, a leading provider of third-party end-to-end logistics solutions, for a purchase price of \$1 billion from Transform Holdco. The buyout boosts Costco's e-commerce capabilities and facilitates it to sell "big and bulky" items such as appliances, furniture, mattresses, televisions, grills, patio, fitness equipment and wine cellars. Markedly, e-commerce comparable sales advanced 86.4% year over year during the 12-week first quarter ended Nov 22, 2020. The company's e-commerce sales have been showcasing a sharp increase owing to growing stay-at-home trends to maintain social distance amid the pandemic. Management highlighted that total online grocery surged at a strong rate of nearly 300% in the first quarter. We note that e-commerce comparable sales soared 62.5% during the month of December. This followed an increase of 71.3%, 91.1% and 90.3% in the months of November, October and September, respectively.
- ▲ **Concentrating on Enhancing Global Footprint:** We remain encouraged by Costco's expansion strategy. The company has one of the highest square footage growth in the industry, and remains committed to opening new clubs in the domestic and international markets. In our view, the company's diversification strategy is a natural hedge against risks that may arise in specific markets. The company opened 29, 26, 21, 25 and 13 locations in fiscal 2016, 2017, 2018, 2019 and 2020, respectively. Management plans to open 20-22 units in fiscal 2021. The company opened eight net new units during the first quarter of fiscal 2021.
- ▲ **Enough Liquidity:** Even with a long-term debt of \$7,529 million, as of Nov 22, 2020, Costco looks quite comfortable from liquidity point of view. The company's cash & equivalents (including short term investments) were \$14,423 million at the end of the first quarter of fiscal 2021, which showcased an increase of 8.4% on a sequential basis. Also, the company's "times interest earned" ratio of 36.6 has improved on a sequential basis — 34.5 at the end of the fourth quarter of fiscal 2020 — and stands better than the industry's ratio of 15.7. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. Moreover, Costco looks well placed on the dividend-payout front. The company raised its quarterly dividend by 7.7% to 70 cents a share in the month of April 2020. The company also paid a special dividend of \$10 per share.

The company's strategy to sell products at heavily discounted prices has helped it to remain on a growth track as cash-strapped customers continue to reckon Costco as a viable option for low-cost necessities.

Reasons To Sell:

- ▼ **Higher Expenses Related to COVID-19:** Due to the outbreak of novel coronavirus, there has been a shift in consumer shopping pattern and behavior. Industry experts are apprehensive about costs associated with digital fulfillment and supply chain as well as COVID-19 related expenses. We note that costs related to additional employee payments and benefits, along with investments undertaken to preserve safety and health of customers and team members amid the coronavirus crisis may weigh on margins. Costco has been witnessing incremental expenses related to COVID-19. The company's first-quarter fiscal 2021 results reflected an expense for COVID-19 premium wages of \$212 million pre-tax or 35 cents a share. In the preceding two quarters incremental expenses associated with the ongoing pandemic were \$281 million and \$283 million.
- ▼ **Stock Looks Little Stretched:** Considering price-to-earnings (P/E) ratio, Costco looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 37.25, which is below the median level of 38.62 and the high level of 43.89 scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 36.98 and 27.3, respectively.
- ▼ **Stiff Competition:** Costco faces stiff competition from BJ's Wholesale Club and Sam's Club, a division of Wal-Mart Stores. These two rivals follow similar business models as they market high volumes of merchandise at low prices in a membership-only warehouse clubs. Sam's Club, in particular, poses the biggest threat to Costco as both primarily target professionals and small-business owners who typically make bulk purchases. Analysts pointed that any incremental investments or aggressive pricing strategy may hurt margins.
- ▼ **Rising SG&A Expenses May Strain Margins:** We note that SG&A expenses and merchandise costs increased 15.2% and 16.2%, respectively, during the first quarter of fiscal 2021. This followed an increase of 7.3% and 12.3%, 13.6% and 6.7%, 8.1% and 10.9%, and 7.4% and 5.3% in the fourth, third, second and first quarters of fiscal 2020, respectively.
- ▼ **Macroeconomic Headwinds:** The company's customers are very sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, sluggishness in the housing market, unemployment levels, and high household debt levels, which may affect their spending levels. Moreover, due to exposure to international markets, Costco remains prone to currency fluctuations. Gasoline price deflation negatively impacted first-quarter fiscal 2021 sales by approximately 200 basis points.

Stiff competition from both brick-and-mortar stores and online retailers and cautious consumer spending may hurt Costco's performance. Moreover, it remains prone to currency fluctuations.

Last Earnings Report

Costco's Q1 Earnings Beat, E-commerce Sales Surge

Costco Wholesale Corporation put up a stellar performance in first-quarter fiscal 2021, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also improved year over year. Notably, this operator of membership warehouses maintained its decent comparable sales run. The company's e-commerce sales have also been showcasing strength owing to stay-at-home trend amid the ongoing pandemic.

The results reflected an expense for COVID-19 premium wages of \$212 million pre-tax or 35 cents a share.

Quarter Ending 11/2020

Report Date	Dec 10, 2020
Sales Surprise	0.12%
EPS Surprise	12.25%
Quarterly EPS	2.29
Annual EPS (TTM)	9.41

Q1 Earnings & Sales Picture

Costco reported adjusted earnings of \$2.29 per share — excluding tax benefits of 33 cents — that comfortably surpassed the Zacks Consensus Estimate of \$2.04. This marked the second straight quarter of positive earnings surprise. Markedly, the bottom line improved sharply from adjusted earnings of \$1.73 per share in the year-ago period. The prior-year adjusted figure excludes tax benefit of 17 cents related to stock-based compensation.

Total revenues, which include net sales and membership fee, were \$43,208 million, up 16.7% from the prior-year quarter. The figure also outpaced the Zacks Consensus Estimate of \$43,155 million.

Undoubtedly, Costco's growth strategies, better price management, decent membership trends and increasing penetration of e-commerce business have been contributing to its performance. Thanks to its status of "essential retailer," the company has been benefiting from coronavirus-induced spike in demand.

In the reported quarter, the company's e-commerce comparable sales rose 86.4% year over year. Excluding the effect of gasoline prices and foreign exchange, the same exhibited an improvement of 86.2% year over year.

With the prevailing trend of digital transformation in the sector, retailers are rapidly adopting the omni-channel mantra to provide a seamless shopping experience, be it offline or online. Costco, which shares space with Dollar Tree (DLTR), Dollar General (DG) and Target (TGT), has been following the trend. Costco operates e-commerce sites in the United States, Canada, the U.K., Mexico, Korea, Taiwan, Japan and Australia.

Delving Deeper

Costco's net sales grew 16.9% to \$42,347 million, while membership fee increased 7.1% to \$861 million in the reported quarter. Comparable sales climbed 15.4%, reflecting an improvement of 14.6%, 16.2% and 18.7% in the United States, Canada and Other International locations, respectively. We note that shopping frequency rose 5.5% globally and 7.6% in the United States.

Excluding the impact of foreign currency fluctuations and gasoline prices, the company witnessed comparable sales growth of 17.1% during the quarter. Notably, the United States, Canada and Other International locations registered comparable sales increase of 17%, 16.8% and 17.7%, respectively.

Notably, operating income in the quarter increased 34.8% year over year to \$1,430 million, while operating margin (as a percentage of total revenues) expanded 40 basis points to 3.3%.

Store Update

Costco currently operates 803 warehouses, comprising 558 in the United States and Puerto Rico, 102 in Canada, 39 in Mexico, 29 in the United Kingdom, 27 in Japan, 16 in Korea, 14 in Taiwan, 12 in Australia, three in Spain, and one each in Iceland, France, and China. The company opened eight net new units during the quarter under review. Management plans to open 20-22 units in fiscal 2021.

Financial Aspects

Costco ended the reported quarter with cash and cash equivalents of \$13,590 million and long-term debt (excluding current portion) of \$7,529 million. The company's shareholders' equity was \$14,860 million, excluding non-controlling interests of \$449 million. Management incurred capital expenditures of \$893 million during the first quarter. The company intends to spend approximately \$3-\$3.2 billion in fiscal 2021.

Recent News

Costco Announces Cash Dividend – Jan 22, 2021

Costco's Board of Directors has declared a quarterly cash dividend on common stock of 70 cents per share. The quarterly dividend is payable Feb 19, 2021, to shareholders of record at the close of business on Feb 5, 2021.

Costco December Sales Rise – Jan 6, 2021

Costco registered an increase of 12.3% in net sales to \$19.14 billion during the five-week period ended Jan 3, 2021. Impressively, comparable sales for the month of December rose 10.7%. The monthly comparable sales reflect an increase of 9.6%, 8% and 19.4% in the United States, Canada and Other International locations, respectively. We note that e-commerce comparable sales soared 62.5% during the month of December.

Valuation

Costco shares are down 7% in the year-to-date period but up nearly 20.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.8% but the Zacks Retail-Wholesale sector is up 0.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 22.7% and 35.4%, respectively.

The S&P 500 index is down 0.9% in the year-to-date period but up 18.1% in the past year.

The stock is currently trading at 33.81X forward 12-month earnings, which compares to 32.14X for the Zacks sub-industry, 30.68X for the Zacks sector and 21.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42X and as low as 23.59X, with a 5-year median of 28.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$372 price target reflects 35.84X forward 12-month earnings.

The table below shows summary valuation data for COST

Valuation Multiples - COST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.81	32.14	30.68	21.99
	5-Year High	42	32.14	34.1	23.8
	5-Year Low	23.59	17.93	19.1	15.3
	5-Year Median	28.4	20.39	23.71	17.83
P/S F12M	Current	0.82	1.66	1.32	4.33
	5-Year High	0.96	1.66	1.33	4.34
	5-Year Low	0.48	0.95	0.84	3.2
	5-Year Median	0.6	1.19	1.02	3.68
EV/EBITDA TTM	Current	20.4	25.91	18.59	16.7
	5-Year High	23.85	28.29	20.79	17.38
	5-Year Low	12.73	10.96	11.16	9.55
	5-Year Median	15.87	14.7	13.15	13.24

As of 02/01/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 27% (69 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Dollar Tree, Inc. (DLTR)	Outperform	3
Target Corporation (TGT)	Outperform	2
The TJX Companies, Inc. (TJX)	Outperform	3
Big Lots, Inc. (BIG)	Neutral	4
Burlington Stores, Inc. (BURL)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Ross Stores, Inc. (ROST)	Neutral	2
Walmart Inc. (WMT)	Neutral	3

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

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	COST	X Industry	S&P 500	DG	TGT	WMT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	B	-	-	A	A	B
Market Cap	156.11 B	23.72 B	26.43 B	47.68 B	90.73 B	397.49 B
# of Analysts	11	11	13	26	13	14
Dividend Yield	0.79%	0.00%	1.47%	0.74%	1.50%	1.54%
Value Score	C	-	-	B	B	B
Cash/Price	0.09	0.10	0.06	0.05	0.07	0.04
EV/EBITDA	20.69	14.12	14.74	17.51	13.54	12.62
PEG F1	4.20	2.34	2.38	1.34	2.34	4.60
P/B	10.20	6.82	3.59	6.83	6.81	4.55
P/CF	27.77	20.13	14.94	21.67	15.77	15.73
P/E F1	35.23	19.89	19.57	18.26	19.89	25.32
P/S TTM	0.90	0.99	2.86	1.47	1.02	0.72
Earnings Yield	2.82%	2.82%	4.98%	5.47%	5.03%	3.95%
Debt/Equity	0.49	0.54	0.68	0.59	0.94	0.52
Cash Flow (\$/share)	12.62	7.18	6.83	8.90	11.64	8.85
Growth Score	A	-	-	A	A	C
Historical EPS Growth (3-5 Years)	14.35%	10.07%	9.46%	18.80%	8.77%	3.78%
Projected EPS Growth (F1/F0)	12.39%	12.37%	12.64%	0.00%	0.00%	0.00%
Current Cash Flow Growth	8.77%	5.94%	4.97%	9.68%	10.26%	-0.12%
Historical Cash Flow Growth (3-5 Years)	10.07%	9.69%	8.19%	9.69%	3.95%	-0.31%
Current Ratio	0.98	1.35	1.38	1.28	1.05	0.84
Debt/Capital	32.97%	35.07%	41.49%	37.16%	48.39%	34.26%
Net Margin	2.50%	2.52%	10.61%	7.84%	4.31%	3.60%
Return on Equity	24.50%	20.81%	15.23%	36.07%	34.94%	19.22%
Sales/Assets	3.20	1.34	0.50	1.30	1.90	2.29
Projected Sales Growth (F1/F0)	10.41%	0.00%	5.74%	0.00%	0.00%	0.00%
Momentum Score	D	-	-	B	D	C
Daily Price Change	-0.54%	-0.04%	1.27%	-0.96%	1.32%	-0.87%
1-Week Price Change	-2.72%	-2.72%	-4.02%	-5.63%	-5.60%	-3.99%
4-Week Price Change	-7.79%	-1.99%	1.41%	-8.09%	3.34%	-4.95%
12-Week Price Change	-3.97%	5.21%	5.46%	-8.43%	18.50%	-2.97%
52-Week Price Change	16.07%	24.54%	8.48%	24.54%	63.16%	21.88%
20-Day Average Volume (Shares)	2,485,209	1,780,480	2,080,548	2,225,328	4,117,415	7,509,920
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.15%	0.03%	0.30%	0.00%	3.52%	0.20%
EPS F1 Estimate 12-Week Change	3.52%	4.07%	1.44%	2.34%	12.91%	1.89%
EPS Q1 Estimate Monthly Change	-0.06%	0.00%	0.12%	0.00%	3.22%	0.11%

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	C
Growth Score	A
Momentum Score	D
VGM Score	B

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 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.