

Coty, Inc. (COTY)

\$6.89 (As of 11/27/20)

Price Target (6-12 Months): **\$8.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Coty's shares have improved and surpassed the industry in the past three months. The company's performance got a boost following first-quarter fiscal 2021 results, wherein both the top and bottom lines beat estimates. Results benefited from improving sales trends, courtesy of robust e-commerce momentum and gains from innovative product launches. Also, focus on cost reductions aided the quarters performance. Apart from this, Coty remains well placed to gain from the inclusion of Kylie's brands, as well as the planned sale of 60% of Wella to KKR. While revenues improved sequentially owing to store re-openings, they declined year over year across all channels and regions. This can be accountable to pandemic-led hurdles, especially a weak travel retail network, low consumer traffic and increased mask wearing due to social distancing.

Data Overview

52-Week High-Low	\$13.01 - \$2.65
20-Day Average Volume (Shares)	19,900,652
Market Cap	\$5.3 B
Year-To-Date Price Change	-38.8%
Beta	1.09
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Top 47% (119 out of 254)

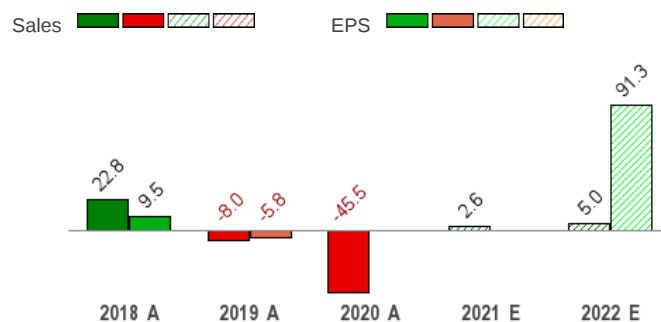
Last EPS Surprise	257.1%
Last Sales Surprise	1.9%
EPS F1 Estimate 4-Week Change	1,123.8%
Expected Report Date	NA
Earnings ESP	0.0%

P/E TTM	NA
P/E F1	30.0
PEG F1	3.7
P/S TTM	1.0

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,252 E	1,591 E	1,261 E	1,353 E	5,084 E
2021	1,124 A	1,405 E	1,198 E	1,124 E	4,840 E
2020	1,943 A	2,345 A	1,528 A	560 A	4,718 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.14 E	\$0.29 E	\$0.10 E	\$0.14 E	\$0.44 E
2021	\$0.11 A	\$0.11 E	\$0.04 E	\$0.03 E	\$0.23 E
2020	\$0.07 A	\$0.27 A	-\$0.08 A	-\$0.46 A	-\$0.48 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 11/27/2020. The reports text is as of 11/30/2020.

Overview

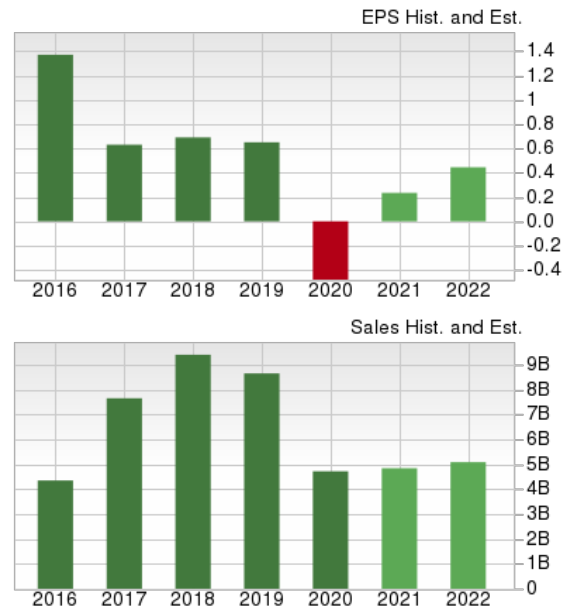
New York-based **Coty Inc.**, along with its subsidiaries, manufactures, markets, and distributes beauty products worldwide. The company sells its products through retailers, including hypermarkets, supermarkets, independent and chain drug stores and pharmacies, upscale perfumeries, upscale and mid-tier department stores, nail salons, specialty retailers, duty-free shops and traditional food, and drug and mass retailers. It also markets products under the Astor, Coty, Joop!, Jovan, Manhattan, and N.Y.C. New York Color brands.

On Jun 1, 2020 Coty entered into a definitive deal with KKR for the Professional and Retail Hair business of the former, which includes Wella, OPI, Clairol and ghd brands (collectively known as Wella). Per the deal, KKR will have a 60% stake in the separately managed business, whereas Coty will hold the remaining 40%. The sale of 60% of Wella to KKR is expected to close by the end of the calendar year 2020.

As of the first quarter of fiscal 2021, Coty has three remaining segments for its continuing operations, which include Americas (42% of first-quarter fiscal 2021 revenues), EMEA (47%) as well as Asia Pacific (11%). Each of these segments exclude the discontinued retail hair operations.

Notably, the three segments are supported by central marketing teams and include businesses focused on prestige fragrances, prestige skin care, prestige cosmetics, mass fragrance, mass skin care, mass color cosmetics and body care.

Apart from this, Coty operates through the Prestige as well as Mass channels. These accounted for roughly 57% and 43% of the company's net revenues from continuing operations, respectively as of the first quarter of fiscal 2021.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Better-than-Expected Q1 Reflects Focus on Core Priorities:** Coty's shares have gained 92.4% in the past three months compared with the industry's growth of 10%. The company got a boost following its first-quarter fiscal 2021 results, wherein both top and bottom lines came ahead of the Zacks Consensus Estimate. Results benefited from improving sales trends in all channels and geographical regions, courtesy of robust e-commerce momentum and gains from innovative product launches. Also, focus on cost reductions aided the company's performance.

Coty's adjusted earnings per share came in at 11 cents, which grew 57.1% from 7 cents reported in the year-ago period. Adjusted loss from continuing operations was 2 cents per share compared with a loss of 1 cent recorded in the prior-year period. The Zacks Consensus Estimate for the quarter under review was pegged at a loss of 7 cents. Despite the pandemic-related challenges, the company made considerable progress on its core priorities, which include innovation and performance in its prestige and mass channels, solidified position in its key markets, robust e-commerce momentum and strengthened foothold in the skincare category (thanks to Kylie and Philosophy skin care) and the China region. Toward this end, the recent launches of Marc Jacobs Perfect, Gucci's Bloom Profumo di Fiori, Sally Hansen's good.kind.pure, and CoverGirl's Clean Fresh have been yielding results.

Coty has made solid progress on its core priorities, which include innovation and performance in its prestige and mass channels, solidified position in key markets and robust e-commerce momentum among others.

- ▲ **Cost-Saving Efforts:** Management is committed to optimizing the overall cost structure. Incidentally, Coty delivered fixed cost savings of nearly \$80 million in the first quarter and is on track to generate savings of more than \$200 million in fiscal 2021. Coty has been focused on reducing people and non-people costs, alongside undertaking solid marketing cost management. Thanks to these factors, adjusted operating income from continuing operations came in at \$81.1 million, up 24% year over year. Moreover, adjusted operating margin from continuing operations expanded 260 basis points to 7.2%.
- ▲ **Strategic Acquisitions & Divestitures Aid:** Coty has made several strategic acquisitions to enhance its brand portfolio. On Jun 29, the company announced partnership with one of the most influential celebrity—Kim Kardashian West. Per the deal, Coty will buy a 20% ownership stake in Kim Kardashian's beauty business for \$200 million. The partnership is aimed at introducing new beauty categories and expanding into new product lines for the beauty business. The agreement is expected to be closed in third-quarter fiscal 2021. Further, Coty and Kylie Jenner unveiled their long-term alliance in January 2020, aimed at further building upon Kylie's beauty business, which includes Kylie Skin and Kylie Cosmetics. Kylie Skin Care sales tripled year over year in the first quarter of fiscal 2021, largely due to her solid following. Incidentally, Kylie Jenner is an iconic personality with more than 300 million followers on social media.

Apart from this, the company's buyout of the iconic Burberry brand, in the second quarter of fiscal 2018, has been yielding favorably. This acquisition has been supporting growth in the Prestige segment. Additionally, the company's buyout of Procter & Gamble Company's global fine fragrances, salon professional, cosmetics and retail hair color businesses, along with select hair styling brands (the P&G Beauty Business) in 2016 bodes well. On the flip side, Coty is on track to sell 60% of its Wella business to KKR, which is expected to conclude by the end of 2020. This is likely to boost Coty's balance sheet. Earlier, in September 2019, Coty divested its controlling stake in Younique, LLC.

- ▲ **E-Commerce Strength:** While Coty saw soft sales in the fiscal first quarter due to coronavirus-led concerns, the company's e-commerce business was quite impressive. In fact, the company is seeing major market share gains, thanks to strength in its e-commerce business. In the first quarter of fiscal 2021, the company's solid digital efforts helped its e-commerce penetration, as a percentage of overall sales, double to 13%. We note that Coty's e-commerce penetration as a percentage of sales grew considerably in the Americas and the EMEA regions. Channel-wise, e-commerce sales were strong in the Prestige and Mass channels, with the latter seeing robust performance on retailer sites like Amazon.

Building further on its e-commerce momentum, Coty unveiled the launch of direct-to-consumer flagship websites for Kylie Skin across the United Kingdom, Australia, Germany and France on Oct 7. The initial response has been quite impressive, per the first-quarter conference call.

- ▲ **Debt Analysis:** Coty ended the first quarter with cash and cash equivalents of \$535.7 million. Financial net debt of \$7,864.5 million as of Sep 30, 2020, was almost in line with the balance on Jun 30. The divestiture of Wella (expected by the end of calendar year 2020), together with positive free cash flow (expected in the second quarter), is likely to help Coty lower its net debt to roughly \$5 billion. The company had immediate liquidity of \$1,721.7 million as of Sep 30 (including cash and cash equivalents as well as unused revolving credit facility).

Reasons To Sell:

- ▼ **Revenues Soft, Travel Retail Challenged due to COVID-19:** Coty's revenues have been bearing the brunt of store closures, soft traffic as well as a disrupted travel retail network amid the pandemic-lead social distancing trends. In first-quarter fiscal 2021, although revenues improved sequentially due to re-opened stores and better industry trends, they declined year over year on account of certain pandemic-related hurdles, especially continued softness in travel retail (in EMEA and Asia-Pacific regions and Prestige channel) still low consumer traffic (in the Prestige channel) and increased mask-wearing (in the Mass channel).

Coty's revenues have been bearing the brunt of store closures, soft traffic as well as a disrupted travel retail network amid the pandemic-lead social distancing trends.

Total revenues of the company declined 13% to \$1,690.5 million in the first quarter, while like-for-like (LFL) revenues dropped 11.8%. Coty's net revenues from continuing operations came in at \$1,124.1 million, which decreased 20.3% year over year. Nonetheless, the top line came ahead of the Zacks Consensus Estimate of \$1,103 million. On its first-quarter conference call, management notified that it concluded October 2020 with its net revenues down high single digits. The second quarter is likely to bear some impacts from the reimposed lockdowns in several nations across Europe – though the effect is expected to be much lesser than what was seen during the first wave.

- ▼ **Mass Unit Under Pressure:** Net revenues in Coty's Mass channel declined 20.6% year over year to \$479.8 million, while LFL sales fell 10.1%. Reported revenues were hurt by the absence of Younique's revenues, which were included in the prior-year quarter. While sales improved from the previous quarter, mask-wearing and social-distancing trends amid the pandemic continued to put pressure on demand for color cosmetics.
- ▼ **Currency Headwinds:** Coty is exposed to unfavorable foreign currency translations owing to the company's exposure to international markets. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or lower profit margins in locations outside the country. Volatility in exchange rates remains a threat for the company.
- ▼ **Stiff Competition:** Coty faces competition from various products and product lines, in both domestic and international markets. The beauty and beauty-related products industry is highly competitive with the number of competitors and degree of competition varying widely from country to country. Worldwide, Coty competes against products sold to consumers by other direct-selling and direct-sales companies and through the Internet, and against products sold through the mass market and prestige retail channels.
-

Last Earnings Report

Coty Q1 Earnings & Sales Beat Estimates

Coty posted first-quarter fiscal 2021 results, wherein adjusted earnings per share came in at 11 cents, which grew 57.1% from 7 cents reported in the year-ago period. Adjusted loss from continuing operations was 2 cents per share compared with a loss of 1 cent recorded in the prior-year period. The Zacks Consensus Estimate for the quarter under review was pegged at a loss of 7 cents.

Total revenues declined 13% to \$1,690.5 million, while like-for-like (LFL) revenues dropped 11.8%. Coty's net revenues from continuing operations came in at \$1,124.1 million, which decreased 20.3% year over year. Nonetheless, the top line came ahead of the Zacks Consensus Estimate of \$1,103 million. Currency translations had a negligible impact on the top line.

LFL net revenues from continuing operations tanked 18.9%. LFL revenues were down in all regions and channels. Notably, LFL mass business revenues saw a 10.1% decline and the prestige business was down 25%, indicating sharp improvements from respective decreases of 48% and 73% in the preceding quarter. The solid sequential improvement can be attributable to re-opened stores and better industry trends.

Adjusted gross margin from continuing operations declined from 60.2% to 58.6%, thanks to reduced volumes and adverse mix impact. Adjusted operating income from continuing operations came in at \$81.1 million, up 24% year over year on the back of robust fixed cost curtailments (including people and non-people expenses) along with solid marketing expense management. Adjusted operating margin for continuing operations expanded 260 basis points to 7.2%.

Channel-Wise Details (From Continuing Operations)

Prestige: Net revenues in the segment fell 20.2% to \$644.1 million, while LFL revenues declined 25%. Reported sales benefited from the addition of Kylie Beauty sales in the quarter under review. Though sales improved quarter-over-quarter across all regions, it continued to decrease year over year due to major weakness in core travel retail and consumer traffic still being below pre-pandemic levels. Nevertheless, e-commerce sales continued to be strong.

Mass: Net revenues declined 20.6% year over year to \$479.8 million, while LFL sales fell 10.1%. Reported revenues were hurt by the absence of Younique's revenues, which were included in the prior-year quarter. While sales improved from the previous quarter, mask-wearing and social-distancing trends continued to put pressure on demand for color cosmetics. On the brighter side, e-commerce sales remained strong and continued seeing a solid performance on Amazon.

Segment Results (From Continuing Operations)

Net revenues in the **Americas** slipped 3.7% to \$470.6 million. LFL revenues were down 4.5%, much better than the 51.5% slump witnessed in the preceding quarter. Improved trends in the quarter were backed by gainful innovation, sustained e-commerce strength and better consumption (driven by pent up demand as lockdowns were relaxed). Notably, e-commerce penetration, as a percentage of sales, doubled year over year.

Sales in **EMEA** dropped 21.6% (down 24.4% at LFL) year over year to \$530.4 million. Although trends improved sequentially, it was still weak because of overall trends across prestige fragrances and mass cosmetics. Moreover, persistence of considerable weakness in travel retail was a deterrent. E-commerce penetration, as a percentage of sales, saw robust growth in the quarter.

Sales in the **Asia-Pacific** region declined 35.3% (down 36.6% at LFL) year on year to \$123.1 million, with most of the decline being accountable to the travel retail softness and continued active sales reduction to channels with low value (especially in prestige business).

Other Financial Updates

Coty ended the quarter with cash and cash equivalents of \$535.7 million. Financial net debt of \$7,864.5 million as of Sep 30, 2020, was almost in line with the balance on Jun 30. The divestiture of Wella, together with positive free cash flow (expected in the second quarter), is likely to help Coty lower its net debt to roughly \$5 billion. The company had immediate liquidity of \$1,721.7 million as of Sep 30 (including cash and cash equivalents as well as unused revolving credit facility). During the quarter, Coty generated net cash from operating activities of \$42.6 million. Free

Despite the pandemic-related challenges, the company made considerable progress on its core priorities, which include innovation and performance in its prestige and mass channels, solidified position in its key markets, robust e-commerce momentum and strengthened foothold in the skincare category and the China region. Toward this end, the recent launches of Marc Jacobs Perfect, Gucci's Bloom Profumo di Fiori, Sally Hansen's good.kind.pure, and CoverGirl's Clean Fresh have been yielding results. Further, the company's solid digital efforts helped its e-commerce penetration, as a percentage of overall sales, double to 13%.

Quarter Ending	09/2020
Report Date	Nov 06, 2020
Sales Surprise	1.92%
EPS Surprise	257.14%
Quarterly EPS	0.11
Annual EPS (TTM)	-0.16

Recent News

Coty to Complete the Sale of Wella This Month – Nov 12, 2020

Coty announced that it will conclude the sale of its Professional and Retail Hair business to KKR by Nov 30, 2020. The company's Professional and Retail Hair business includes the Wella, Clairol, OPI and ghd brands (collectively known as Wella).

Coty to Gain From Kylie Skin International DTC Website Launch – Oct 7, 2020

Coty unveiled Kylie Skin's direct-to-consumer (DTC) flagship website launch in France, Germany, the United Kingdom and Australia. These global direct-to-consumer websites will help customers easily shop for their favorite products in their native currency and language, alongside exempting several additional customs and duties. Also, this new direct-to-consumer channel will facilitate faster product deliveries to consumers. Notably, the DTC websites will provide a mix of Kylie Skin products at the launch, while the range of offerings will expand in due course of time.

The DTC websites in Europe and Australia will offer products such as Coconut Body Scrub, Vanilla Milk Toner, Walnut Face Scrub, Hydrating Face Mask, Eye Cream, Vitamin C Serum and Foaming Face Wash, to name a few, initially. All products offered are gluten-free, cruelty-free, paraben and sulfate-free, vegan and complementary with all kinds of skin.

Expanding on the existing retailer contracts, this worldwide accessibility is likely to boost Kylie Skin, which is one of the most popular and fast-growing brands on social media. Incidentally, Kylie Jenner is an iconic personality with more than 300 million followers on social media. Introduced in May 2019, Kylie Skin became a top-selling brand in the U.S. skincare space very fast.

Valuation

Coty shares are down 38.7% in the year-to-date period and 40.5% for the trailing 12-month period. Stocks in the Zacks sub-industry are down 16.7% and the Zacks Consumer Staples sector is down 1.7% in the year-to-date period. Over the past year, the Zacks sub-industry is down 13.2% while the sector is up 0.6%.

The S&P 500 index is up 13.3% in the year-to-date period and 17.3% in the past year.

The stock is currently trading at 21.39X forward 12-month earnings, which compares to 42.94X for the Zacks sub-industry, 20.19X for the Zacks sector and 22.65X for the S&P 500 index.

Over the past five years, the stock has traded as high as 63.27X and as low as 5.34X, with a 5-year median of 18.94X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$8.50 price target reflects 25.67X forward 12-month earnings.

The table below shows summary valuation data for COTY

Valuation Multiples - COTY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.39	42.94	20.19	22.65
	5-Year High	63.27	44.15	22.37	23.47
	5-Year Low	5.34	19.65	16.61	15.27
	5-Year Median	18.94	25.13	19.56	17.72
P/S F12M	Current	1.07	6.23	9.93	4.25
	5-Year High	2.31	6.23	11.16	4.3
	5-Year Low	0.35	1.53	8.14	3.17
	5-Year Median	1.1	2.93	9.9	3.67
EV/EBITDA F12M	Current	14.47	26.67	39.09	16.22
	5-Year High	16.26	32.48	45.72	16.22
	5-Year Low	6.7	8.72	27.71	9.54
	5-Year Median	11.21	18.03	39.04	13.13

As of 11/27/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 47% (119 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Inter Parfums, Inc. (IPAR)	Outperform	1
Nu Skin Enterprises, Inc. (NUS)	Outperform	2
The Estee Lauder Companies Inc. (EL)	Neutral	3
Helen of Troy Limited (HELE)	Neutral	3
MANDOM CORP (MDOMF)	Neutral	3
POLA ORBIS (PORBF)	Neutral	3
Revlon, Inc. (REV)	Neutral	3
Symrise AG Unsponsored ADR (SYIEY)	Neutral	3

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

Industry Comparison Industry: Cosmetics				Industry Peers		
	COTY	X Industry	S&P 500	EL	NUS	SYIEY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	B	-	-	C	A	C
Market Cap	5.28 B	2.21 B	26.04 B	88.93 B	2.68 B	17.02 B
# of Analysts	5	4	14	12	5	2
Dividend Yield	0.00%	0.00%	1.48%	0.78%	2.86%	0.55%
Value Score	C	-	-	D	A	D
Cash/Price	0.12	0.05	0.07	0.05	0.15	0.02
EV/EBITDA	-25.25	14.09	14.61	49.27	7.88	NA
PEG F1	3.86	3.01	2.76	3.89	2.12	NA
P/B	1.54	3.96	3.58	19.85	3.24	6.37
P/CF	14.96	23.37	13.64	41.80	11.67	27.75
P/E F1	31.04	39.56	21.85	47.12	15.47	39.52
P/S TTM	0.95	2.77	2.84	6.37	1.11	NA
Earnings Yield	3.34%	2.31%	4.38%	2.12%	6.46%	2.55%
Debt/Equity	2.37	0.24	0.70	1.10	0.38	0.60
Cash Flow (\$/share)	0.46	1.15	6.93	5.88	4.50	1.13
Growth Score	B	-	-	B	A	B
Historical EPS Growth (3-5 Years)	-15.49%	0.02%	9.72%	12.27%	2.50%	NA
Projected EPS Growth (F1/F0)	148.75%	-11.34%	0.45%	26.70%	9.48%	30.33%
Current Cash Flow Growth	-71.21%	0.23%	5.23%	-16.30%	-11.19%	5.51%
Historical Cash Flow Growth (3-5 Years)	-9.44%	6.03%	8.33%	6.03%	-3.17%	NA
Current Ratio	1.90	1.85	1.38	1.85	1.66	1.93
Debt/Capital	70.58%	27.42%	41.99%	52.30%	27.42%	37.66%
Net Margin	-15.56%	3.29%	10.44%	4.38%	6.54%	NA
Return on Equity	-3.35%	7.98%	14.99%	32.72%	19.18%	NA
Sales/Assets	0.32	0.78	0.50	0.78	1.36	NA
Projected Sales Growth (F1/F0)	-24.10%	-1.70%	0.23%	7.06%	6.51%	9.89%
Momentum Score	D	-	-	C	C	F
Daily Price Change	-5.10%	0.00%	-0.06%	-0.37%	0.83%	2.95%
1-Week Price Change	26.30%	0.00%	0.21%	-5.70%	-1.35%	1.41%
4-Week Price Change	131.21%	4.84%	12.93%	10.22%	1.06%	0.22%
12-Week Price Change	89.29%	2.04%	11.06%	12.79%	10.62%	-6.77%
52-Week Price Change	-40.35%	25.37%	5.57%	25.51%	34.55%	29.73%
20-Day Average Volume (Shares)	19,900,652	40,032	2,159,544	1,341,075	370,053	43,012
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	1,123.75%	0.00%	0.85%	8.43%	7.27%	-9.66%
EPS F1 Estimate 12-Week Change	84.04%	0.22%	3.64%	9.26%	12.91%	-7.56%
EPS Q1 Estimate Monthly Change	428.57%	0.00%	0.00%	-6.59%	13.77%	NA

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	B
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 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.