

Capri Holdings (CPRI)

\$38.79 (As of 12/03/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 11/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Shares of Capri Holdings have increased and outpaced the industry in the past three months. The stock has been gaining following the company's stellar second-quarter fiscal 2021 results. The company witnessed significant improvement in sales trends on a sequential basis. Management highlighted that strength in e-commerce and sales growth in Mainland China acted as tailwinds. Also, the company swung back to profit following a loss in the first quarter. Stronger-than-anticipated revenues, continued gross margin expansion and cost containment endeavors contributed to this upbeat performance. The company anticipates a modest sequential improvement in total revenues in the third quarter and a more pronounced improvement in trends in the final quarter. Notably, the company remains well positioned to capitalize the recovery in the luxury market.

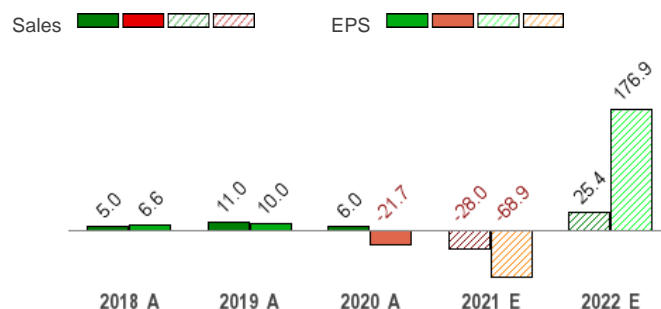
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$39.90 - \$54.42
20-Day Average Volume (Shares)	4,399,532
Market Cap	\$5.8 B
Year-To-Date Price Change	1.7%
Beta	2.29
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 39% (99 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1,185.7%
Last Sales Surprise	17.2%
EPS F1 Estimate 4-Week Change	99.3%
Expected Report Date	02/03/2021
Earnings ESP	0.0%
P/E TTM	23.8
P/E F1	32.1
PEG F1	4.9
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,079 E	1,438 E	1,442 E	1,200 E	5,009 E
2021	451 A	1,110 A	1,315 E	1,132 E	3,996 E
2020	1,346 A	1,442 A	1,571 A	1,192 A	5,551 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.47 E	\$1.04 E	\$1.20 E	\$0.46 E	\$3.35 E
2021	-\$1.04 A	\$0.90 A	\$0.97 E	\$0.32 E	\$1.21 E
2020	\$0.95 A	\$1.16 A	\$1.66 A	\$0.11 A	\$3.89 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 12/03/2020. The reports text is as of 12/04/2020.

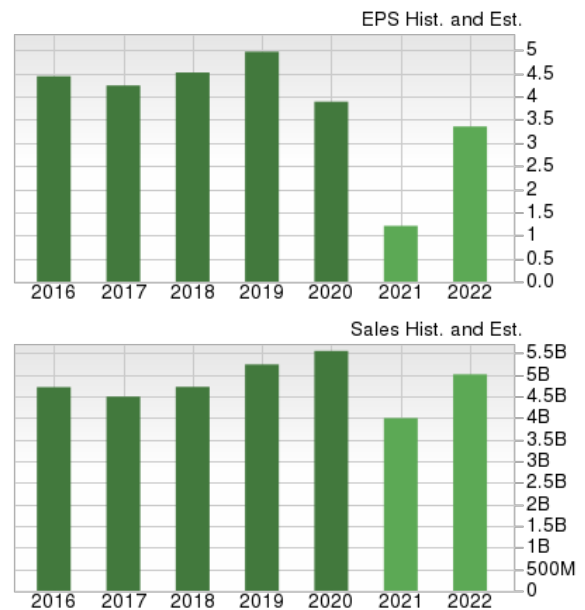
Overview

Capri Holdings Limited provides women's and men's accessories, footwear and ready-to-wear, as well as wearable technology, watches, jewelry, eyewear and a full line of fragrance products. The company operates in the global personal luxury goods industry, which has been severely impacted by the outbreak of the coronavirus.

Versace (15% of total revenue in Fiscal 2020) is one of the leading international fashion design houses and offers ready-to-wear, accessories, footwear and home furnishings. Product categories, such as Versace Jeans, eyewear, fragrances, jewelry and watches are produced under product licensing agreements. As of Sep 26, 2020, the company operated 206 Versace retail stores.

Jimmy Choo (10% of total revenue in Fiscal 2020) is a leading global luxury accessories brand, whose core product offerings are women's luxury shoes, complemented by accessories, including handbags, smaller leather goods, scarves and belts, as well as a growing men's luxury shoes and accessories business. Product categories, such as Jimmy Choo fragrances and eyewear are produced under product licensing agreements. As of Sep 26, 2020, the company operated 227 Jimmy Choo stores.

Michael Kors (75% of total revenue in Fiscal 2020) has three main collections that offer accessories, footwear and apparel: Michael Kors Collection, MICHAEL Michael Kors and Michael Kors Mens. The three primary collections and licensed products are offered through Michael Kors retail stores and e-commerce businesses, in department stores around the world and by exclusive licensees to wholesale customers in addition to select retailers. Product categories, including watches, jewelry, eyewear, and fragrance and beauty are produced under product licensing agreements. As of Sep 26, 2020, the company operated 828 Michael Kors stores.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Impressive Stock Performance:** Shares of Capri Holdings have more than doubled in the past three months compared with the industry's rally of 52.9%. The stock gained momentum following the company's better-than-expected results in second-quarter fiscal 2021. Markedly, the company swung back to profit following a loss in the first quarter. Stronger-than-anticipated revenues, continued gross margin expansion and cost containment endeavors contributed to this upbeat performance. Although, total revenues fell year over year, the rate of decline sharply decelerated from the preceding quarter. Markedly, total revenues have more than doubled on a sequential basis. We note that the company registered sturdy e-commerce growth, which accelerated on a sequential basis. Additionally, sales increased in Mainland China across Versace, Jimmy Choo and Michael Kors. Notably, sales are recovering at a great pace in the Americas with sales in retail channel increasing double digits at Versace and low single digits at Jimmy Choo. Markedly, adjusted gross margin expanded due to higher full-price sell-throughs and selective price increase resulting in higher AURs. Additionally, gross margins benefited from a higher mix of retail versus wholesale revenues.
- ▲ **Revenues to Improve Sequentially:** Management notified that luxury market will resume a steady growth trajectory and that Capri Holdings is well positioned to expand its revenue and earnings. The company anticipates a modest sequential improvement in total revenues in the third quarter and a more pronounced improvement in trends in the final quarter. It anticipates sales trends in retail channel to be better with soft recovery in wholesale channel. Further, the company expects to drive gross margin expansion through higher full price sell-throughs, strategic increase in prices and lower manufacturing expenses. The company continues to envision gross margin expansion of about 150 basis points for the fiscal year with improvements across all quarters.
- ▲ **Strategic Endeavors:** Capri Holdings has been constantly deploying resources to expand product offerings and upgrade distribution infrastructure. This along with cost containment efforts, focus on e-commerce platform and accretive buyouts bode well. Certainly, the company has been firming its position in the luxury fashion space, as evident from the acquisitions of Jimmy Choo and Versace brands. These brands along with Michael Kors will help augment revenues. Notably, the company is expanding its product mix beyond handbags, into men's, footwear and women's ready to wear categories. As far as Michael Kors brand is concerned, the company is focusing on product innovation, delivering fashion and newness across all categories. It intends to expand men's business, which remains one of the high growth categories. Management sees tremendous growth opportunity for Michael Kors in Asia, primarily in China, where it believes can double revenues over time. Management believes that Capri Holdings is well-positioned to drive strong revenue and earnings growth in fiscal 2022, as the company gradually emerges from the pandemic.
- ▲ **Steps to Mitigate COVID-19 Impact:** To address the challenges tied to the pandemic, Capri Holdings has been focusing on maintaining strong liquidity position in fiscal 2021. Notably, the company is cutting operating expenses, lowering capital expenditures and suspended the share buyback plan. The company is focusing on reducing all non-essential discretionary spending, including lowering of marketing spending, delaying or canceling select new store openings and reducing external third-party services. The company has also trimmed headcount to better align expense base with anticipated revenues. Moreover, as a part of fleet optimization strategy, the company intends to close up to 170 stores over the next two years, of which majority would be of Michael Kors. During the second quarter of fiscal 2021, adjusted operating expenses fell 23.3% to \$519 million. This followed a decline of 30.8% in the preceding quarter. The company now anticipates a decline of approximately \$350 million in operating expenses in fiscal 2021.
- ▲ **Accretive Buyouts:** Acquisitions have played a vital role in the expansion of Capri Holdings' business. Some of the notable buyouts include that of Alberto Gozzi S.r.L., an Italian atelier and shoe manufacturer in Pistoia, Tuscany; Versace, known for its innovative designs having symbolic flashy prints and bright colors; and Jimmy Choo that provided additional avenues for international growth and a strong base in the luxury footwear category. Capri Holdings acquired the iconic Italian fashion brand, Versace, for an enterprise value of \$2.12 billion. Management intends to raise Versace's revenues to \$2 billion with mid-teens operating margin over time. Additionally, it plans to increase the store count to 300 and enhance e-commerce and omni-channel capabilities. It also aims to increase the contribution from men's and women's accessories and footwear to 60% of Versace's revenues. With respect to Jimmy Choo, which the company acquired for \$1.2 billion, management sees opportunity to boost sales to \$1 billion and attain a mid-teens operating margin over time in the long term. The company targets to expand retail footprint to 300 stores globally, with more emphasis in Asia. Jimmy Choo has a strong presence in Europe, the Middle East, the Americas and Asia. The company's goal is to increase the contribution from accessories to approximately 50% of Jimmy Choo's revenue overtime.
- ▲ **E-commerce Doing Well:** E-commerce business continues to witness sturdy performance, thanks to increasing number of shoppers shifting to online channel owing to the pandemic. Capri Holdings is investing heavily in upgrading the company's e-commerce platform. The company has also rolled out Kors Connect tool in the U.S. and Europe, which allows its associates to better engage with customers. Capri Holdings stated that e-commerce operations were strong in the second quarter of fiscal 2021, and surged 60% year over year. This shows a sharp acceleration from an increase of 30% witnessed in the preceding quarter. At Versace and Jimmy Choo e-commerce sales were up triple digits, while at Michael Kors the metric increased in double-digits.
- ▲ **Debt Analysis:** Capri Holdings ended second-quarter fiscal 2021 with cash and cash equivalents of \$238 million, which reflects a sequential increase of 15%. The amount looks sufficient to meet the short-term debt obligation that stood at \$200 million as Sep 26, 2020. Although, the company's long-term debt has risen 0.3% quarter-on-quarter to \$1,581 million, the debt-to-capitalization ratio of 0.45 portrays an improvement from 0.48 at the end of the preceding quarter.

Capri Holdings has been constantly deploying resources to expand product offerings and upgrade distribution infrastructure. This along with cost containment efforts, focus on e-commerce platform and accretive buyouts bode well.

Risks

- **Top & Bottom-Line Decline in Q2:** Although Capri Holdings reported better-than-expected second-quarter fiscal 2021 results, the top and the bottom lines continued to decline from the year-ago quarter's levels. We note that revenues fell across the company's three brands. The company reported adjusted earnings of 90 cents a share that fell nearly 22.4% from \$1.16 reported in the prior-year period. Revenues of \$1,110 million decreased 23% on a year-over-year basis. On a constant-currency basis, total revenues were down 24.6%. By brands — Michael Kors, which accounts for a major portion of the company's revenues, has been struggling for a while now. During the quarter, revenue contribution from Michael Kors brand fell 27.2% on a reported and 27.9% on a constant currency basis. Revenues from Jimmy Choo decreased 2.4% compared to the prior year on a reported and 6.4% on a constant currency basis. Again, revenues from Versace fell 14.5% on a reported and 18.9% on a constant currency basis.
 - **Coronavirus a Concern:** Although Capri Holdings anticipates sequential improvement in revenue trends during the third and the fourth quarter, it still projects a year-over-year decline in the both the periods. Quite apparent, the ongoing coronavirus pandemic will continue to impact the company's performance. Management envisions double-digit sales decline in the third quarter. Further, travel retail, which is part of the wholesale channel, is bearing the brunt of decline in tourism. Industry experts believe that demand for high-end fashion clothing and accessories is likely to remain soft, as consumers will be cautious on making any discretionary purchases. The company's projections for the second half includes the impact of the recently announced short-term store closures and restrictions in Europe. The company do a significant wholesale business in Europe. Also, costs associated with investments in e-commerce expansion, technological advancements and global infrastructure (including new store openings, refurbishment and international expansions) remain a threat to margins.
 - **Prone to Currency Fluctuations:** Capri Holdings generates a portion of net sales outside the U.S. Due to exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence — a key determinant of the economy's health — may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focusing on necessities for the time being.
 - **Fashion Obsolescence:** Fashion obsolescence remains the main concern for Capri Holdings' business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be compromised by delays in its product launches. The company operates in the highly competitive apparel and shoe segment. The company faces stiff competition from European luxury brands as well as private label retailers on distinctiveness, innovativeness, quality and pricing, which may weigh on its results.
-

Last Earnings Report

Capri Holdings Q2 Earnings Beat Estimates, Down Y/Y

Capri Holdings Limited reported better-than-expected second-quarter fiscal 2021 results. Moreover, the company swung back to profits following a loss in the last reported quarter. However, the top and the bottom line declined from the year-ago quarter's levels. We note that revenues fell across the company's three brands.

This designer, marketer, distributor and retailer of branded apparel and accessories reported adjusted quarterly earnings of 90 cents per share that surpassed the Zacks Consensus Estimate of 7 cents owing to better-than-anticipated revenues, continued gross margin expansion and expense reduction initiatives. However, the bottom line declined nearly 22.4% from \$1.16 reported in the year-ago quarter.

Revenues came in at \$1,110 million, which beat the Zacks Consensus Estimate of \$947.4 million. However, the top line declined 23% from the prior-year quarter's levels. On a constant-currency basis, total revenues were down 24.6%. Nonetheless, the rate of revenue decline decelerated on a sequential basis.

The top line includes revenue contribution of \$793 million from **Michael Kors**, down 27.2% year on year. Revenues from **Jimmy Choo** amounted to \$122 million, down 2.4% year over year. Revenues from **Versace** were \$195 million, down 14.5% from the prior-year quarter's levels. Sales in retail channel decreased approximately 17%.

Nevertheless, management indicated that e-commerce operations were strong in the reported quarter, and surged 60% year over year. Further, it witnessed positive sales in Mainland China across all brand houses.

Adjusted gross profit fell 20.2% year over year to \$701 million. Nevertheless, adjusted gross margin expanded 220 basis points (bps) to 63.2% due to higher full-price sell-throughs and selective price increase resulting in higher AURs. Additionally, gross margins benefited from a higher mix of retail versus wholesale revenues.

The company reported adjusted operating income of \$182 million, which reflected a decline of 9.9%, while adjusted operating margin expanded 240 bps to 16.4%. We note that adjusted operating expenses fell 23.3% to \$519 million.

Markedly, the company remains pleased with its second-quarter results as the top- and bottom-line metrics surpassed expectations. Additionally, the company is on track with innovations to attract new customers across brands. However, management refrained from providing any guidance for fiscal 2021 owing to lack of visibility regarding economic fundamentals and tourism flows amid the pandemic situation.

Other Details

Capri Holdings ended second-quarter fiscal 2021 with cash and cash equivalents of \$238 million, net receivables of \$344 million, total debt of \$1,781 million and shareholders' equity of \$2,199 million. Total inventory at the end of the quarter under review was \$930 million, down 13% year over year. This reflects the aggressive inventory reduction the company implemented at the beginning of the pandemic including inventory repurposed for upcoming seasons.

As of Sep 26, 2020, the company had 1,261 retail stores, which included 828 Michael Kors stores, 227 Jimmy Choo stores and 206 Versace stores.

Quarter Ending **09/2020**

Report Date	Nov 05, 2020
Sales Surprise	17.16%
EPS Surprise	1,185.71%
Quarterly EPS	0.90
Annual EPS (TTM)	1.63

Valuation

Capri Holdings shares are up 1.7% in the year-to-date period and 5.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 29% and 37.3%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are up 34.2% and 42.4%, respectively.

The S&P 500 index is up 14.1% in the year-to-date period and 18% in the past year.

The stock is currently trading at 14.55X forward 12-month earnings, which compares to 22.84X for the Zacks sub-industry, 31.13X for the Zacks sector and 22.68X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.83X and as low as 1.58X, with a 5-year median of 9.96X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$45 price target reflects 16.88X forward 12-month earnings.

The table below shows summary valuation data for CPRI

Valuation Multiples - CPRI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.55	22.84	31.13	22.68
	5-Year High	16.83	88.06	34.06	23.47
	5-Year Low	1.58	8.26	19.09	15.27
	5-Year Median	9.96	14.36	23.61	17.75
P/S F12M	Current	1.25	0.93	1.31	4.28
	5-Year High	2.18	1.1	1.32	4.3
	5-Year Low	0.19	0.33	0.83	3.17
	5-Year Median	1.38	0.81	1.01	3.67
EV/EBITDA TTM	Current	13.04	22.78	19.16	16.39
	5-Year High	13.04	22.94	20.7	16.4
	5-Year Low	2.01	3.27	11.14	9.55
	5-Year Median	6.41	6.36	13.02	13.15

As of 12/03/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Tapestry, Inc. (TPR)	Outperform	1
Columbia Sportswear Company (COLM)	Neutral	4
Carters, Inc. (CRI)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Canada Goose Holdings Inc. (GOOS)	Neutral	4
Hanesbrands Inc. (HBI)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3

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

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	CPRI	X Industry	S&P 500	COLM	GIII	LEVI
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	4	3	1
VGM Score	D	-	-	F	A	C
Market Cap	5.84 B	674.07 M	26.33 B	5.61 B	1.10 B	7.71 B
# of Analysts	9	4	13	6	7	4
Dividend Yield	0.00%	0.00%	1.49%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	A	C
Cash/Price	0.04	0.25	0.07	0.06	0.26	0.20
EV/EBITDA	119.78	3.82	14.58	10.05	4.71	11.54
PEG F1	4.99	4.93	2.76	20.89	8.29	4.13
P/B	2.66	2.31	3.53	3.26	0.88	6.47
P/CF	6.83	6.22	13.76	12.87	5.56	14.44
P/E F1	32.69	29.04	21.83	58.92	66.46	19.90
P/S TTM	1.35	0.55	2.81	2.21	0.42	1.66
Earnings Yield	3.12%	1.75%	4.41%	1.70%	1.50%	5.05%
Debt/Equity	0.72	0.28	0.70	0.00	0.33	1.30
Cash Flow (\$/share)	5.68	1.88	6.94	6.59	4.08	1.34
Growth Score	D	-	-	F	A	C
Historical EPS Growth (3-5 Years)	-9.25%	-4.40%	9.72%	8.47%	7.45%	NA
Projected EPS Growth (F1/F0)	-68.98%	-47.75%	0.83%	-70.22%	-89.30%	650.00%
Current Cash Flow Growth	-13.65%	-0.52%	5.23%	30.70%	6.85%	29.04%
Historical Cash Flow Growth (3-5 Years)	-3.72%	1.68%	8.33%	17.53%	9.97%	NA
Current Ratio	1.03	1.55	1.38	3.30	2.48	1.96
Debt/Capital	41.83%	28.57%	42.00%	0.00%	24.65%	56.44%
Net Margin	-9.23%	-5.27%	10.40%	4.97%	2.57%	-1.90%
Return on Equity	11.13%	-1.42%	14.99%	7.30%	6.50%	7.10%
Sales/Assets	0.55	1.03	0.50	0.93	0.98	0.91
Projected Sales Growth (F1/F0)	-28.02%	-4.38%	0.35%	-19.35%	-36.01%	21.31%
Momentum Score	C	-	-	C	F	A
Daily Price Change	4.56%	1.05%	0.20%	1.30%	4.13%	2.81%
1-Week Price Change	3.72%	4.59%	2.18%	0.46%	1.91%	2.08%
4-Week Price Change	53.50%	21.28%	6.65%	5.94%	50.17%	20.20%
12-Week Price Change	94.24%	30.52%	14.39%	-4.89%	60.92%	46.75%
52-Week Price Change	5.21%	0.44%	6.09%	-7.47%	-20.47%	12.86%
20-Day Average Volume (Shares)	4,399,532	273,421	2,053,456	338,048	911,139	1,685,675
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	-21.81%	0.00%
EPS F1 Estimate 4-Week Change	99.27%	0.88%	0.00%	0.00%	-17.65%	0.78%
EPS F1 Estimate 12-Week Change	174.24%	16.75%	3.77%	-26.40%	425.00%	32.65%
EPS Q1 Estimate Monthly Change	1.69%	0.00%	0.00%	0.00%	-10.87%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	C
VGM Score	D

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.