

Capri Holdings (CPRI)

\$15.93 (As of 07/08/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Underperform**
(Since: 02/09/20)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **5-Strong Sell**
Zacks Style Scores: VGM:B
Value: A | Growth: B | Momentum: F

Summary

Shares of Capri Holdings have fallen in the past six months, thanks to the coronavirus outbreak that also hurt the company's fourth-quarter fiscal 2020 results. The company reported a negative earnings surprise in the quarter under review. Again, both the top and the bottom line fell year over year. While Versace contributed to the top-line performance, revenues from Jimmy Choo and Michael Kors hurt the same. Management pointed that fiscal 2021 is likely to be meaningfully impacted by the pandemic. It envisions first-quarter revenues to fall approximately 70% from the prior-year period on account of significant store closures and low wholesale shipments. The company expects loss per share in the first half but anticipates to report earnings in the second half with gradual improvement in revenues trend across Americas, EMEA and Asia regions.

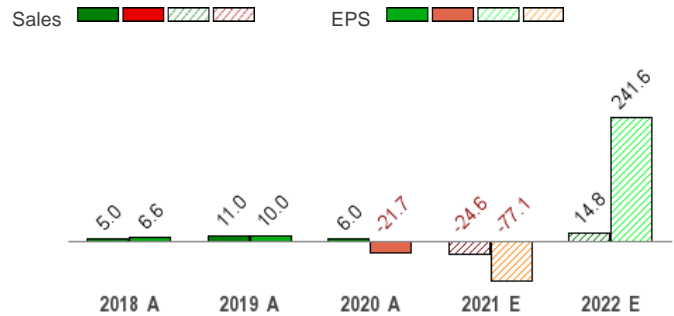
Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$39.90 - \$5.42**
20 Day Average Volume (sh) **3,648,873**
Market Cap **\$2.4 B**
YTD Price Change **-58.2%**
Beta **1.87**
Dividend / Div Yld **\$0.00 / 0.0%**
Industry **[Retail - Apparel and Shoes](#)**
Zacks Industry Rank **Bottom 17% (209 out of 251)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **-65.6%**
Last Sales Surprise **NA**
EPS F1 Est- 4 week change **-64.4%**
Expected Report Date **08/05/2020**
Earnings ESP **0.0%**

P/E TTM **4.1**
P/E F1 **17.9**
PEG F1 **2.7**
P/S TTM **0.4**

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	825 E	1,253 E	1,421 E	1,163 E	4,804 E
2021	436 E	1,046 E	1,424 E	1,213 E	4,185 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	\$0.32 E	\$0.44 E	\$1.18 E	\$0.51 E	\$3.04 E
2021	-\$1.00 E	\$0.30 E	\$1.23 E	\$0.68 E	\$0.89 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 07/08/2020. The reports text is as of 07/09/2020.

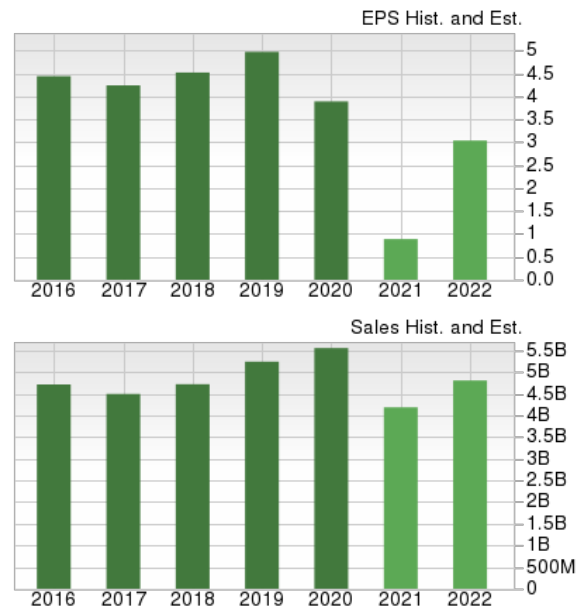
Overview

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. According to Bain-Altagamma, the personal luxury goods market is projected to contract between 20% and 35% in 2020 but is anticipated to improve at a rate of 10% from 2020 to 2025. Notably, Capri Holdings consists of the following iconic brands:

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 March 28, 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 March 28, 2020, the company operated 226 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 March 28, 2020, the company operated 839 Michael Kors stores.



Reasons To Sell:

- ▼ **Dismal Q4 Performance:** The deadly coronavirus that led to the closure of vast majority of stores hurt Capri Holdings Limited fourth-quarter fiscal 2020 results. The global fashion luxury group reported a negative earnings surprise in the quarter under review, following a beat in the preceding quarter. Further, we note that both the top and the bottom line declined from the year-ago period. While Versace contributed to the top-line performance, revenues from Jimmy Choo and Michael Kors hurt the same. Total revenues of \$1,192 million decreased 11.3% from the prior-year period. The company delivered adjusted quarterly earnings of 11 cents a share that missed the Zacks Consensus Estimate of 32 cents. The figure also declined sharply from earnings of 63 cents reported in the year-ago period. The bottom line was adversely impacted by lower revenues, resulting expense deleverage and a higher-than-anticipated tax rate. The company's bottom line has been declining for quite some time now. In the third, second and first quarter of fiscal 2020, the company witnessed a decline of 5.7%, 8.7% and 28%, respectively, in the bottom line. Shares of Capri Holdings have fallen 55.5% in the past six months compared with the industry's decline of 31.8%.
- ▼ **Soft Michael Kors Revenues:** Michael Kors, which accounts for a major portion of the company's revenues, has been struggling for a while a now. During fourth-quarter fiscal 2020, revenue contribution from Michael Kors brand fell 18.4% on a reported and 17.7% on a constant currency basis. Operating income came in at \$139 million, down from operating income of \$166 million in the year-ago period. The brand's revenues had fallen 5.1% on a reported and 4.7% on a constant currency basis in the preceding quarter. Management expects revenues from Michael Kors to be below prior-year levels during the first quarter of fiscal 2021 in the Mainland China.
- ▼ **Sales to Plunge in Q1:** Management pointed that fiscal 2021 is likely to be meaningfully impacted by the coronavirus. The company informed that in first-quarter fiscal 2021, stores were closed for an average of about 55% of the period compared with 10% in the preceding quarter. Management envisions first-quarter revenues to fall approximately 70% from the prior-year period on account of significant store closures, the gradual recovery in revenues as stores reopen and low wholesale shipments. Management indicated that its department store partners have placed limited replenishment orders during the quarter, and as a result, it has not had a significant level of wholesale shipments. Further, travel retail, which is part of the wholesale channel, is bearing the brunt of decline in tourism. Management projected a significant loss per share in the first quarter on account of the lower revenues and resulting deleverage. 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. We note that the company expects loss per share in the first half of fiscal 2021.
- ▼ **Margins May Remain Under Pressure:** 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. Adjusted operating income declined 20.8% to \$99 million, while adjusted operating margin shrunk 100 basis points to 8.3% during the fourth quarter of fiscal 2020. Operating margin had contracted 520 basis points to 16.8% in the preceding period. Versace reported operating loss was \$2 million and operating margin was (0.9%) compared to an operating loss of \$11 million and operating margin of (8%) in the prior year. Jimmy Choo operating loss was \$23 million and operating margin was (21.5%), compared to operating loss of \$8 million and operating margin of (5.8%) in the prior year.
- ▼ **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.

Capri Holdings cut fiscal 2020 view due to coronavirus outbreak in China which the company believes will hurt its financial results. Quite a number of outlets are operating with reduced hours and witnessing lower footfall.

Risks

- **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.
- **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 by approximately \$500 million, lowering capital expenditures by about \$150 million and suspended the remaining \$400 million share buyback plan. The company through efficient inventory management, expects to realize a cash flow benefit of approximately \$400 million. 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. It also implemented compensation reductions for Board and employees. 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.
- **Hopes Hinge on 2H Recovery:** Management notified that initial revenue generation from stores reopened globally is exceeding expectations. Capri Holdings highlighted that about 70% of the 455 retail stores in the Americas region, roughly 98% of the 316 retail stores in the EMEA region and 98% of the company's 500 stores in the Asia region are currently operating. The company announced that since the stores have reopened, revenue performance has ranged between 50% and 75% of the previous year's levels. Moreover, sales trends were robust in Mainland China. We note that the company anticipates to report earnings per share in the second half with gradual improvement in revenues trend across Americas, EMEA and Asia regions. The company expects all of its stores to be operational by the end of the second quarter of 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. The strategy to increase the penetration of accessories remains on track with the successful launch of new Madeline and VARENNE handbag collection in fiscal 2020.

- **E-commerce Doing Well:** E-commerce business continues to witness sturdy performance. The company unveiled its domestic online portal in September 2014. With this full-fledged functional site, management has seen a rise in net sales. In April 2015, the company launched its site in Canada. Prior to this, the company's online business was managed by third party. With increasing number of shoppers shifting to online, it was high time that the company lay emphasis on its own e-commerce platform. Capri Holdings is investing heavily in upgrading the company's e-commerce platform. In the first, second and third quarters of fiscal 2020, e-commerce benefited Michael Kors comparable store sales by 130, 220 and 180 basis points, respectively. The company has also rolled out Kors Connect tool in the U.S. and Europe, which allows its associates to better engage with customers. In the fourth quarter, when most of the company's stores were closed, thanks to the pandemic, e-commerce played a vital role to reach out to customers. Capri Holdings stated that e-commerce revenues rose during the final quarter of fiscal 2020, and registered double-digit growth in first-quarter fiscal 2021 compared with the prior year.
 - **Financial Flexibility:** Capri Holdings amended its Revolving Credit and Term Loan Facility and entered into a new \$230 million 364-day Revolving Credit Facility to enhance financial flexibility. With the additional 364-day Revolving Credit Facility, the company expects to end first-quarter fiscal 2021 with roughly \$1.1 billion of liquidity and total borrowings outstanding of \$1.8 billion. The company ended fourth-quarter fiscal 2020 with cash and cash equivalents of \$592 million, net receivables of \$308 million and total debt of \$2,179 million.
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Last Earnings Report

Capri Holdings Q4 Earnings Miss Estimates, Sales Fall

The deadly coronavirus that led to the closure of vast majority of stores hurt Capri Holdings Limited fourth-quarter fiscal 2020 results. The global fashion luxury group reported a negative earnings surprise in the quarter under review, following a beat in the preceding quarter. Further, we note that both the top and the bottom line declined from the year-ago period. While Versace contributed to the top-line performance, revenues from Jimmy Choo and Michael Kors hurt the same.

Quarter Ending **03/2020**

Report Date	Jul 01, 2020
Sales Surprise	NA
EPS Surprise	-65.63%
Quarterly EPS	0.11
Annual EPS (TTM)	3.88

Let's Delve Deep

This designer, marketer, distributor and retailer of branded apparel and accessories delivered adjusted quarterly earnings of 11 cents a share that missed the Zacks Consensus Estimate of 32 cents. The figure also declined sharply from earnings of 63 cents reported in the year-ago period. The bottom line was adversely impacted by lower revenues, resulting expense deleverage and a higher-than-anticipated tax rate.

Total revenues of \$1,192 million decreased 11.3% from the prior-year period. On a constant currency basis, total revenues were down 11%. Top line includes revenue contribution of \$872 million from Michael Kors, down 18.4% and \$107 million from Jimmy Choo, down 23% year over year. Revenues from Versace were \$213 million, up 55.5% from the prior year period.

Adjusted gross profit fell 9.4% to \$723 million, however, adjusted gross margin expanded 130 basis points to 60.7%. This primarily reflects gross margin expansion across Versace and Michael Kors brands. Adjusted operating income declined 20.8% to \$99 million, while adjusted operating margin shrunk 100 basis points to 8.3%.

Other Details

Capri Holdings ended fourth-quarter fiscal 2020 with cash and cash equivalents of \$592 million, net receivables of \$308 million, total debt of \$2,179 million and shareholders' equity of \$2,167 million, excluding non-controlling interest of \$1 million. Total inventory at the end of the quarter under review was \$827 million, reflecting a decline of 13.2% year over year.

Further, the company amended its Revolving Credit and Term Loan Facility and entered into a new \$230 million 364-day Revolving Credit Facility to enhance financial flexibility. With the additional 364-day Revolving Credit Facility, the company expects to end first-quarter fiscal 2021 with roughly \$1.1 billion of liquidity and total borrowings outstanding of \$1.8 billion. Management anticipates incurring capital expenditures of approximately \$130 million in fiscal 2021.

As of Mar 28, 2020, there were 1,271 stores — 839 Michael Kors stores, 226 Jimmy Choo stores and 206 Versace stores. As 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.

Key Notes

Management pointed that fiscal 2021 is likely to be meaningfully impacted by the coronavirus. However, it also notified that initial revenue generation from stores reopened globally is exceeding expectations. Capri Holdings highlighted that about 70% of the 455 retail stores in the Americas region, roughly 98% of the 316 retail stores in the EMEA region and 98% of the company's 500 stores in the Asia region are currently operating. The company announced that since the stores have reopened, revenue performance has ranged between 50% and 75% of the previous year's levels. Moreover, sales trends were robust in Mainland China. Capri Holdings stated that e-commerce revenues rose during the final quarter of fiscal 2020, and registered double-digit growth in first-quarter fiscal 2021 compared with the prior year.

However, the company informed that in first-quarter fiscal 2021, stores were closed for an average of about 55% of the period compared with 10% in the preceding quarter. Management envisions first-quarter revenues to fall approximately 70% from the prior-year period on account of significant store closures, the gradual recovery in revenues as stores reopen and low wholesale shipments. Capri Holdings indicated that its department store partners have placed limited replenishment orders during the quarter, and as a result, it has not had a significant level of wholesale shipments. Further, travel retail, which is part of the wholesale channel, is bearing the brunt of decline in tourism.

Management projected a significant loss per share in the first quarter on account of the lower revenues and resulting deleverage. 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. We note that the company expects loss per share in the first half of fiscal 2021, but anticipates to report earnings per share in the second half with gradual improvement in revenues trend across Americas, EMEA and Asia regions.

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 by approximately \$500 million, lowering capital expenditures by about \$150 million and suspended the remaining \$400 million share buyback plan. The company through efficient inventory management, expects to realize a cash flow benefit of approximately \$400 million.

Valuation

Capri Holdings shares are down 58.3% in the year-to-date period and 54% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 32.4% but the Zacks Retail-Wholesale sector is up 18.8%, in the year-to-date period. Over the past year, the sub-industry is down 36.7% but the sector is up 24.1%.

The S&P 500 index is down 2.1% in the year-to-date period but up 5.6% in the past year.

The stock is currently trading at 6.13X forward 12-month earnings, which compares to 72.15X for the Zacks sub-industry, 34.29X for the Zacks sector and 22.46X 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 9.64X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$14 price target reflects 5.21X 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	6.13	72.15	34.29	22.46
	5-Year High	16.83	83.58	34.29	22.46
	5-Year Low	1.58	8.12	19.14	15.27
	5-Year Median	9.64	14.16	23.28	17.59
P/S F12M	Current	0.49	0.5	1.19	3.5
	5-Year High	2.18	1.12	1.19	3.5
	5-Year Low	0.19	0.33	0.82	2.52
	5-Year Median	1.54	0.8	0.96	3.04
EV/EBITDA TTM	Current	6.61	12.03	19.32	12
	5-Year High	10.83	13.27	19.45	12.45
	5-Year Low	4.19	5.03	10.72	8.04
	5-Year Median	6.55	6.96	12.79	10.76

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Bottom 17% (209 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Columbia Sportswear Company (COLM)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
Canada Goose Holdings Inc. (GOOS)	Neutral	3
Hanesbrands Inc. (HBI)	Neutral	2
Tapestry, Inc. (TPR)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3
Carters, Inc. (CRI)	Underperform	4
Ralph Lauren Corporation (RL)	Underperform	5

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	CPRI	X Industry	S&P 500	COLM	GIII	LEVI
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	3	3
VGM Score	B	-	-	D	D	B
Market Cap	2.38 B	550.06 M	21.57 B	5.11 B	575.67 M	5.02 B
# of Analysts	9	3.5	14	6	7	4
Dividend Yield	0.00%	0.00%	1.94%	1.35%	0.00%	2.52%
Value Score	A	-	-	D	C	B
Cash/Price	0.26	0.26	0.07	0.13	0.99	0.18
EV/EBITDA	6.11	6.42	12.68	9.04	4.12	8.21
PEG Ratio	2.59	3.16	2.88	12.27	14.38	37.37
Price/Book (P/B)	1.10	1.38	3.03	3.01	0.46	4.31
Price/Cash Flow (P/CF)	2.39	3.84	11.62	11.73	2.93	9.44
P/E (F1)	16.93	29.98	21.12	38.15	129.01	97.54
Price/Sales (P/S)	0.43	0.31	2.27	1.73	0.20	1.00
Earnings Yield	5.59%	1.95%	4.44%	2.63%	0.75%	1.03%
Debt/Equity	1.74	1.06	0.76	0.21	0.91	1.29
Cash Flow (\$/share)	6.66	1.75	6.94	6.59	4.08	1.34
Growth Score	B	-	-	F	F	A
Hist. EPS Growth (3-5 yrs)	1.24%	-0.83%	10.90%	18.04%	7.78%	NA
Proj. EPS Growth (F1/F0)	-77.18%	-86.60%	-9.99%	-58.07%	-97.09%	-86.60%
Curr. Cash Flow Growth	6.03%	-0.13%	5.51%	30.70%	6.85%	29.04%
Hist. Cash Flow Growth (3-5 yrs)	6.04%	1.72%	8.55%	17.53%	9.97%	NA
Current Ratio	1.35	1.58	1.30	2.80	3.97	1.92
Debt/Capital	63.49%	55.77%	44.46%	17.68%	47.60%	56.26%
Net Margin	-4.02%	-3.16%	10.62%	8.68%	3.15%	0.19%
Return on Equity	24.85%	2.61%	15.75%	14.34%	8.68%	13.47%
Sales/Assets	0.67	1.08	0.55	1.07	1.07	1.06
Proj. Sales Growth (F1/F0)	-24.60%	-7.76%	-2.57%	-15.54%	-29.29%	-20.09%
Momentum Score	F	-	-	A	C	D
Daily Price Chg	2.58%	0.38%	0.23%	0.39%	-0.42%	-8.32%
1 Week Price Chg	5.98%	3.30%	3.66%	2.97%	10.88%	8.98%
4 Week Price Chg	-18.22%	-11.04%	-4.65%	-7.16%	-26.32%	-13.33%
12 Week Price Chg	19.24%	13.18%	11.62%	8.99%	22.87%	-2.46%
52 Week Price Chg	-54.00%	-39.22%	-7.46%	-22.48%	-56.37%	-39.10%
20 Day Average Volume	3,648,873	379,618	2,368,260	335,848	1,380,095	2,053,167
(F1) EPS Est 1 week change	-49.44%	0.00%	0.00%	0.00%	0.00%	-65.79%
(F1) EPS Est 4 week change	-64.45%	-1.32%	0.00%	1.54%	4.84%	-71.43%
(F1) EPS Est 12 week change	-75.02%	-81.37%	-7.67%	-44.52%	-90.65%	-75.70%
(Q1) EPS Est Mthly Chg	-62.44%	0.00%	0.00%	0.00%	0.68%	-65.12%

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 have an excellent 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	A
Growth Score	B
Momentum Score	F
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

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