

Deckers Outdoor (DECK)

\$343.35 (As of 03/15/21)

Price Target (6-12 Months): **\$395.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 07/31/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

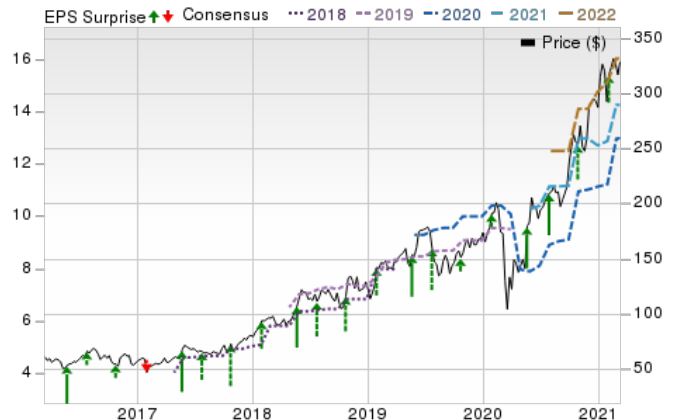
Growth: A

Momentum: D

Summary

Shares of Deckers have risen and outpaced the industry in the past three months. The company's focus on expanding brand assortments, introducing more innovative lines of products, targeting consumers digitally and optimizing omni-channel distribution have been contributing to its upbeat performance. This is evident from its sturdy third-quarter fiscal 2021 results. Both top and the bottom line outpaced the Zacks Consensus Estimate and improved from the year-ago period. Strength in the brands and direct-to-consumer platform along with positive impacts of the solid execution of its strategy further drove results. Although management did not issue any outlook given the volatile economic landscape with respect to COVID-19, contributions from the direct-to-consumer business and HOKA ONE ONE brand are likely to continue in the fiscal year.

Price, Consensus & Surprise

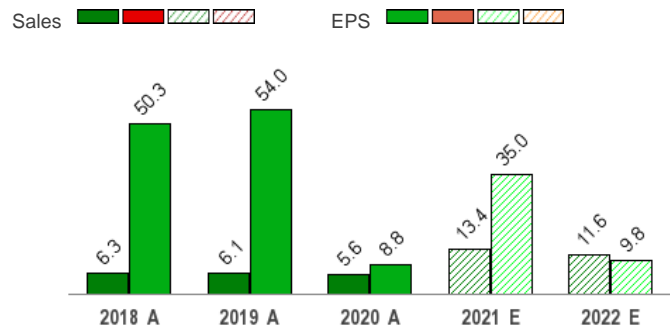


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$343.85 - \$78.70
20-Day Average Volume (Shares)	312,007
Market Cap	\$9.2 B
Year-To-Date Price Change	14.5%
Beta	0.80
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 39% (154 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.3%
Last Sales Surprise	11.7%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	05/20/2021
Earnings ESP	0.0%
P/E TTM	25.5
P/E F1	26.4
PEG F1	2.7
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	352 E	681 E	1,183 E	444 E	2,700 E
2021	283 A	624 A	1,078 A	435 E	2,419 E
2020	277 A	542 A	939 A	375 A	2,133 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.21 E	\$3.88 E	\$10.25 E	\$0.80 E	\$14.27 E
2021	-\$0.28 A	\$3.58 A	\$8.99 A	\$0.54 E	\$12.99 E
2020	-\$0.67 A	\$2.71 A	\$7.14 A	\$0.57 A	\$9.62 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 03/15/2021. The report's text and the analyst-provided price target are as of 03/16/2021.

Overview

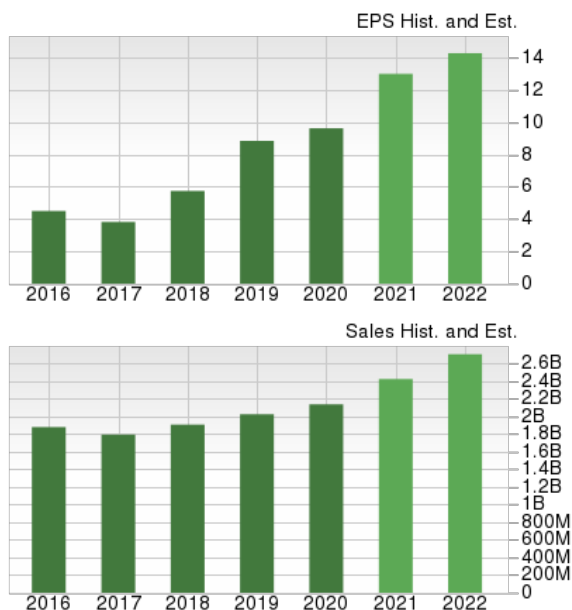
Founded in 1973 and headquartered in Goleta, California, Deckers Outdoor Corporation (DECK) is a leading designer, producer, and brand manager of innovative, niche footwear and accessories developed for outdoor sports, and other lifestyle-related activities.

The company offers footwear that is distinctive and appeals broadly to men, women and children. These includes casual open and closed-toe outdoor footwear, as well as outdoor performance footwear, including multi-sport shoes, light hiking shoes, amphibious footwear, and rugged outdoor travel shoes; and sheepskin footwear, and sandals under various styles.

In February 2016, the company executed a multi-year restructuring plan with an aim to realign brands, optimize retail store fleet, and consolidate management and operations. As part of this restructuring plan, the company realigned brands into two groups: Fashion Lifestyle and Performance Lifestyle. The Fashion Lifestyle group includes the UGG and Koolaburra brands. The Performance Lifestyle group includes the Teva, Sanuk and Hoka brands.

Its products are sold through specialty domestic retailers, international distributors and directly to end-users through its websites and catalogs. The company's products are sold under different brands.

The UGG brand comprises authentic luxury sheepskin boots and a full line of luxury and comfort footwear and accessories; Teva includes high performance sport shoes and rugged outdoor footwear; Sanuk, an action sport footwear brand; and Other brands includes HOKA ONE ONE brand, a line of premium, running footwear and apparel. The company's product portfolio also includes KOOLABURRA, a footwear brand.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Impressive Performance Propels Stock:** Deckers' focus on bolstering e-commerce competencies and investments in digital marketing helped it to better engage with customers amid tough times. Notably, the company's strategic endeavors helped it post sturdy third-quarter fiscal 2021 results. Both the top and the bottom line outpaced the Zacks Consensus Estimate and compared favorably with the year-ago quarter figures. Impressively, its sales outpaced the Zacks Consensus Estimate for the 16th straight quarter. The company's efforts to deliver relevant and compelling products as well as its focus on execution to optimize demand via the direct-to-consumer channels aided the top line. We note that the bottom line benefited from higher revenue volume from the UGG and HOKA brands, increased proportion of full-priced UGG revenues and a higher mix of direct-to-consumer (DTC) revenues. Also, e-commerce growth was outstanding in the quarter. Favorable currency rates and SG&A leverage were added tailwinds. Results were also backed by demand across the UGG brand and strength in global expansion of the HOKA ONE ONE brand.

Deckers is focused on expanding brand assortments, bringing innovative line of products, targeting consumers digitally via marketing and sturdy e-commerce, and optimizing omni-channel distribution.

Strength in the company's brands, strong balance sheet and stable operating model poise Deckers well for success. Going ahead, the company is now shifting focus toward improving customer attention for the spring and summer seasons. The company's impressive performance and other strong fundamentals have helped lift the stock in the past three months. Shares of Deckers have increased 17.8% compared with the industry's rise of 4% in the aforementioned period.

▲ **Strategic Endeavors:** Deckers is targeting profitable and underpenetrated markets, and remains focused on product innovations, store expansion and enhancing e-commerce capabilities. Deckers' focus on expanding its brand assortments, bringing more innovative line of products, targeting consumers digitally and optimizing omni-channel distribution bode well. The company is making marketing investments to build brand awareness of HOKA ONE ONE and UGG Men's and UGG Women's non-core category. In fact, the company is on track to build the HOKA ONE ONE brand's online consumer acquisition and retention. Apparently, HOKA ONE ONE witnessed an increase of 117% in consumer acquisition online during fiscal year-to-date through third quarter, while consumer retention doubled on a year-over-year basis. Per the NPD Group's retail tracking service, the brand's sales in the U.S.-run specialty channel grew 19% year over year during the three months ended December 2020. Notably, HOKA is fueling the company's direct-to-consumer business across the globe. Management said that its HOKA brand is likely to reach \$500 million by this fiscal-end. Over the long term, the brand is expected to cross the \$1-billion mark, with footwear driving majority of the business.

▲ **Omni-Channel Expansion:** In keeping with the changing trends, Deckers has been constantly developing its e-commerce portal to capture incremental sales. The company has made substantial investments to strengthen its online presence and improve shopping experience for its customers. The company is focused on opening smaller concept omni-channel outlets and expanding programs such as Retail Inventory Online; Infinite UGG; Buy Online, Return In Store; and Click and Collect to enhance customers' shopping experience. The company's DTC net sales jumped 25.7% to \$519.9 million during the third quarter of fiscal 2021. Wholesale sales in the reported quarter edged up 6.2% to \$557.9 million. Further, DTC comparable sales were up 33.8% year over year. Moreover, consumer acquisition online increased 87% year to date across the company's portfolio of brands. We note that about 75% of the company's own retail stores were open throughout the fiscal third quarter. However, in most cases, the stores operated with limited capacity on improved health and safety protocols.

▲ **Adopting Customer Centric Product and Marketing Strategies:** Deckers is focusing on product and marketing strategies that are more skewed toward customers, and in this respect the company is implementing customer relationship management (CRM) software and concentrating on loyalty program. Moreover, the company is focusing on expanding its product categories according to the customer purchasing trends that differs with weather. The company is paying more emphasis on casual boots, winter and weather boots, and casual shoes. With people largely staying at home and working from home owing to the coronavirus pandemic demand for casual and comfortable shoes to wear in homes has increased. In this regard, the company's Fluff and Oh Yeah styles resonate well with customers. Moreover, in order to capture incremental sales and margins the company is selling directly to wholesale customers.

▲ **Restructuring Plan Bodes Well:** The company executed a multi-year restructuring plan with an aim to realign brands, optimize retail store fleet, consolidate management and operations, and speed up growth through its long-term strategies. The company realigned its brands into two groups, namely Fashion Lifestyle and Performance Lifestyle. The Fashion Lifestyle group comprises of the UGG and Koolaburra brands, whereas the Performance Lifestyle group includes the Teva, Sanuk and Hoka brands. With regard to the consolidation of brands, the company shifted the operations of Sanuk brand to the corporate headquarters in Goleta from Irvine, CA. Again, the company's store fleet optimization plan focuses on striking the right balance between digital and physical stores. These actions are likely to boost profitability and shareholder returns as well as enhance brand and store performance.

▲ **Financial Flexibility:** Deckers looks quite comfortable from a liquidity point of view. The company's cash & cash equivalents were \$1,156.6 million at the end of third-quarter fiscal 2021, which shows an increase of 84.6% on a sequential basis. Notably, the company's cash position is sufficient to fund its short-term obligations (comprising short-term borrowings and operating lease liabilities) of about \$48.5 million. Also, its long-term obligations of roughly \$295.9 as of Dec 31, 2020, reflect a decrease of 2.5% on a quarter-on-quarter basis.

Risks

- **Softness in Sanuk Brand:** We note that the company has been grappling with declining sales from the Sanuk Brand. During the third quarter of fiscal 2021, net sales from the brand came in at \$7 million, down 17.3% year over year. A soft department store channel has been hurting the brand's performance. This follows a decline of 11.4%, 29.2% in the second and first quarter of fiscal 2021, and 57.8%, 34.5%, 22.4% and 23.5% in the fourth, third, second and first quarter of fiscal 2020, respectively.
- **Near-Term Headwinds:** With respect to the pandemic, the company has been evolving its operations. Management informed that nearly 75% of the company's global stores were open throughout the fiscal third quarter. These stores were operating with limited capacity on enhanced health and safety measures. Deckers anticipates temporary retail store closures across certain geographies for at least some point in the fiscal fourth quarter owing to the volatile pandemic-induced conditions. Moreover, it plans to increase marketing efforts, which will most likely increase marketing spend for the fiscal fourth quarter. Also, it estimated higher costs with respect to logistics and warehouse fulfillment owing to the pandemic.

The company's distribution center in Moreno Valley, California, and other third-party distribution facilities that the company uses are presently operating and supporting logistics. However, these facilities may continue operating at limited capacity owing to safety protocols. Further, management expects operational headwinds like capacity constraints, including higher levels of e-commerce shipments in peak wholesale-volume periods, and elevated costs with respect to warehouse employee safety and payroll cost. Also, the company's third-party logistics providers are witnessing capacity constraints, affecting the company's operations.

- **Competitive Pressure:** Deckers faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. The competitors with significant financial, technological, engineering, manufacturing, marketing, and distribution advantages may dent the company's sales and margins. Moreover, rapid shift in customer shopping patterns to buy athletic footwear, athletic apparel, and sporting goods from e-retailers could significantly hurt the company's business results.
 - **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. Consumer Discretionary 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.
-

Last Earnings Report

Deckers' Earnings & Sales Beat Q3 Estimates, Rise Y/Y

Deckers posted sturdy third-quarter fiscal 2021 results. Both the top and the bottom line outpaced the Zacks Consensus Estimate and compared favorably with the year-ago quarter's respective tallies.

Deckers posted quarterly earnings of \$8.99 per share, which beat the Zacks Consensus Estimate of \$7.01 and increased 25.9% from the year-ago quarter's earnings of \$7.14. The bottom line benefited from higher revenue volume from the UGG and HOKA brands, increased proportion of full-priced UGG revenues and a higher mix of direct-to-consumer (DTC) revenues. Also, favorable currency rates and SG&A leverage were tailwinds. These were partly offset by higher expenditure on marketing, warehouse and performance-based compensation along with the mixed impacts of a higher tax rate and share count.

Net sales rose 14.8% to \$1,077.8 million during the reported quarter and also surpassed the Zacks Consensus Estimate of \$965 million. Notably, sales outpaced the Zacks Consensus Estimate for the 16th straight quarter. On a constant-currency basis, net sales grew 13.8%. The top-line performance was boosted by delivering relevant and compelling product as well as focusing execution to optimize demand via the direct-to-consumer channels. Also, e-commerce growth was outstanding in the quarter.

We note that gross margin expanded 290 basis points (bps) to 57% during the quarter, driven by a favorable channel mix, strong full-price selling environment of UGG brand and gains from favorable exchange rates.

SG&A expenses rose 13.2% year over year to \$285.2 million owing to the variable marketing, warehouse and logistic expenses, and performance-based compensation. These were somewhat offset by savings from lower travel and retail costs. Furthermore, the company reported operating income of \$328.7 million, up 28.5% from the year-ago quarter. Also, operating margin expanded 270 bps to 20.6% in the reported quarter.

Sales by Geography & Channel

The company's domestic net sales increased 19.3% to \$770.5 million in the reported quarter. Meanwhile, international net sales rose 4.8% to \$307.2 million. DTC net sales jumped 25.7% to \$519.9 million. Wholesale net sales in the reported quarter edged up 6.2% to \$557.9 million. Further, DTC comparable sales were up 33.8% year over year.

Brand-wise Discussion

UGG brand net sales jumped 12.2% to \$876.8 million in the reported quarter. HOKA ONE ONE brand net sales surged 52.1% to \$141.6 million, while Teva brand net sales declined 8.7% to \$15.7 million. Net sales for the Sanuk brand, known for its exclusive sandals and shoes, came in at \$7 million, down 17.3% year over year. For the other brands, mainly composed of Koolaburra, net sales fell 5.5% to \$36.7 million.

Other Financial Aspects

At the end of the reported quarter, the company had cash and cash equivalents of \$1,156.6 million, outstanding borrowings of \$30.4 million and shareholders' equity of \$1,243 million. Further, inventories as of Dec 31, 2020, were \$305.3 million, down 16.6% year over year.

During the fiscal third quarter, management did not buy back shares. As of Dec 31, 2020, it had \$160 million available under its stock-repurchase program.

Quarter Ending	12/2020
Report Date	Feb 04, 2021
Sales Surprise	11.66%
EPS Surprise	28.25%
Quarterly EPS	8.99
Annual EPS (TTM)	12.86

Valuation

Deckers shares are up 19.7% in the year-to-date period and nearly 210.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 3.8% and 10.4%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 108.7% and 86.1%, respectively.

The S&P 500 index is up 6.2% in the year-to-date period and 72.2% in the past year.

The stock is currently trading at 24.15X forward 12-month earnings, which compares to 35.87X for the Zacks sub-industry, 34.51X for the Zacks sector and 22.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.75X and as low as 8.87X, with a 5-year median of 16.66X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$395 price target reflects 27.78X forward 12-month earnings.

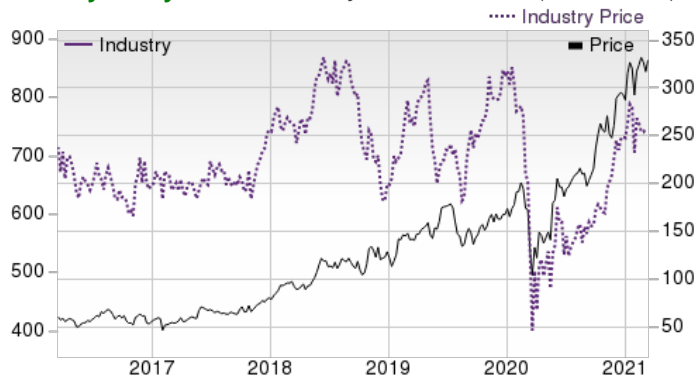
The table below shows summary valuation data for DECK

Valuation Multiples - DECK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.15	35.87	34.51	22.59
	5-Year High	26.75	36.44	35.24	23.8
	5-Year Low	8.87	18.63	16.19	15.3
	5-Year Median	16.66	23.7	20.22	17.9
P/S F12M	Current	3.6	4.45	2.99	4.59
	5-Year High	3.7	4.45	2.99	4.59
	5-Year Low	0.77	2.03	1.7	3.21
	5-Year Median	1.77	2.69	2.48	3.69
EV/EBITDA TTM	Current	16.8	39.6	13.56	17.53
	5-Year High	18.34	39.83	17.91	17.53
	5-Year Low	3.99	12.77	8.3	9.62
	5-Year Median	8.72	16.51	12.3	13.32

As of 03/15/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Rocky Brands, Inc. (RCKY)	Outperform	1
Adidas AG (ADDYY)	Neutral	4
Anta Sports Products Ltd. (ANPDF)	Neutral	3
Steven Madden, Ltd. (SHOO)	Neutral	3
Skechers U.S.A., Inc. (SKX)	Neutral	4
Wolverine World Wide, Inc. (WWW)	Neutral	3
Caleres, Inc. (CAL)	Underperform	4
Carters, Inc. (CRI)	Underperform	5

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

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	DECK	X Industry	S&P 500	CAL	SHOO	WWW
Zacks Recommendation (Long Term)	Outperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	B	-	-	A	B	B
Market Cap	9.25 B	2.21 B	28.65 B	706.58 M	3.26 B	3.33 B
# of Analysts	6	4	13	1	6	7
Dividend Yield	0.00%	0.00%	1.38%	1.50%	0.00%	0.99%
Value Score	C	-	-	A	B	B
Cash/Price	0.13	0.13	0.06	0.18	0.09	0.10
EV/EBITDA	22.21	12.25	16.24	4.17	14.40	-35.11
PEG F1	2.68	1.81	2.38	NA	1.63	1.99
P/B	6.08	2.47	3.92	2.70	4.12	5.79
P/CF	30.50	23.04	16.36	4.66	74.43	31.21
P/E F1	26.43	21.75	21.26	14.34	24.46	19.89
P/S TTM	3.92	1.28	3.30	0.31	2.71	1.86
Earnings Yield	3.96%	4.63%	4.59%	6.97%	4.08%	5.02%
Debt/Equity	0.02	0.31	0.67	0.76	0.00	1.24
Cash Flow (\$/share)	11.26	2.46	6.78	4.07	0.53	1.33
Growth Score	A	-	-	B	A	A
Historical EPS Growth (3-5 Years)	30.67%	-5.58%	9.32%	-7.87%	-3.46%	3.73%
Projected EPS Growth (F1/F0)	35.06%	87.46%	14.55%	182.80%	150.27%	118.43%
Current Cash Flow Growth	1.85%	-15.03%	0.72%	5.00%	-76.74%	-52.77%
Historical Cash Flow Growth (3-5 Years)	8.34%	0.80%	7.32%	4.97%	-19.85%	-11.13%
Current Ratio	3.25	2.34	1.39	0.91	2.09	2.23
Debt/Capital	1.92%	27.29%	41.42%	44.11%	0.00%	55.43%
Net Margin	15.48%	-1.23%	10.59%	-16.11%	-1.53%	-7.67%
Return on Equity	28.98%	6.69%	14.65%	-10.93%	6.69%	10.64%
Sales/Assets	1.17	0.97	0.51	1.02	1.06	0.72
Projected Sales Growth (F1/F0)	13.42%	13.50%	6.95%	25.13%	32.29%	23.63%
Momentum Score	D	-	-	A	C	F
Daily Price Change	4.60%	2.22%	0.92%	1.82%	0.94%	2.52%
1-Week Price Change	3.75%	7.13%	2.96%	7.13%	9.96%	13.55%
4-Week Price Change	6.20%	6.20%	4.69%	21.98%	8.15%	23.79%
12-Week Price Change	14.44%	15.81%	10.09%	43.35%	15.81%	31.78%
52-Week Price Change	208.38%	97.41%	74.12%	282.66%	81.01%	131.79%
20-Day Average Volume (Shares)	312,007	58,632	2,323,115	333,849	626,001	495,199
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.17%	0.00%	0.00%	0.00%	-2.54%	-1.59%
EPS F1 Estimate 12-Week Change	17.22%	0.10%	2.09%	-19.26%	0.10%	-2.92%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	0.00%	-27.82%	-3.26%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	D
VGM Score	B

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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