

Five Below, Inc. (FIVE)

\$198.78 (As of 06/24/21)

Price Target (6-12 Months): **\$211.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/21)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: F

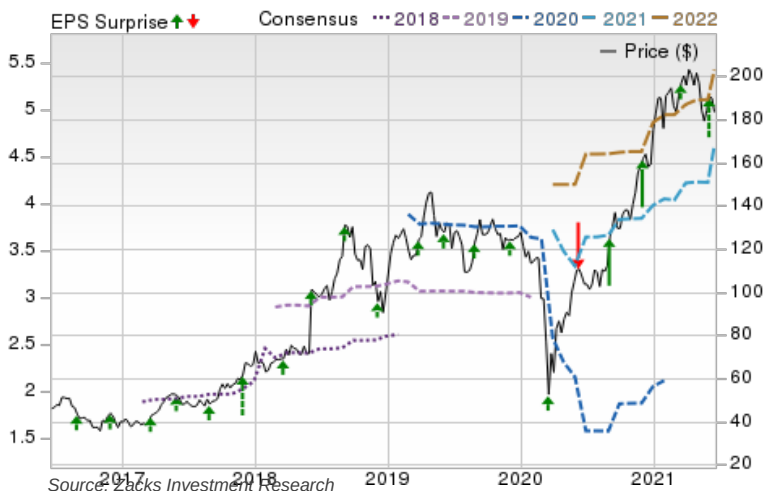
Growth: B

Momentum: C

Summary

Shares of Five Below have risen and outpaced the industry in the past six months. The company's focus on providing trend-right products, improving supply chain, strengthening digital capabilities and delivering better WOW products bode well. The company commenced fiscal 2021 on a strong note, posting better-than-expected first-quarter results, wherein both the top and bottom lines grew year over year and even surpassed pre-pandemic level. Comparable sales also increased significantly during the quarter under review. Markedly, management provided an upbeat view for the second quarter. Well, the company's business model, financial strength, store growth opportunities and upside potential offered by Five Beyond make us optimistic. However, the impact of any deleverage in SG&A expenses and supply chain constraints cannot be ruled out.

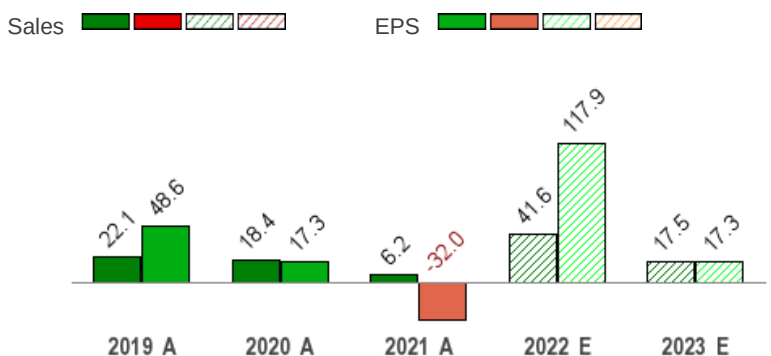
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$205.28 - \$96.61
20-Day Average Volume (Shares)	599,181
Market Cap	\$11.1 B
Year-To-Date Price Change	13.6%
Beta	1.28
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 13% (34 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	33.3%
Last Sales Surprise	7.4%
EPS F1 Estimate 4-Week Change	9.4%
Expected Report Date	09/01/2021
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023					3,264 E
2022	598 A	656 E	544 E	984 E	2,778 E
2021	201 A	426 A	477 A	859 A	1,962 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023	\$1.01 E	\$1.35 E	\$0.34 E	\$2.84 E	\$5.42 E
2022	\$0.88 A	\$1.11 E	\$0.23 E	\$2.41 E	\$4.62 E
2021	-\$0.91 A	\$0.50 A	\$0.36 A	\$2.20 A	\$2.12 A

*Quarterly figures may not add up to annual.

P/E TTM	50.5
P/E F1	43.0
PEG F1	1.7
P/S TTM	4.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/24/2021. The report's text and the

analyst-provided price target are as of 06/25/2021.

Overview

Based in Pennsylvania, in January 2002, Five Below, Inc. is a specialty value chain retailer that provides a wide range of premium quality and trendy merchandise for \$5 or below. The company mainly targets teenagers or pre-teen shoppers for its products which include certain brands and licensed merchandise. Notably, these products belong to categories such as Style, Room, Sports, Tech, Create, Party, Candy and Now.

Style: Consists of novelty socks, sunglasses, jewelry, scarves, gloves, hair accessories, athletic tops and bottoms and "attitude" t-shirts.

Room: Consists of items such as glitter lamps, posters, frames, fleece blankets, plush items, pillows, candles, incense, lighting, novelty décor and related items.

Sports: Consists of sport balls, team sports merchandise and fitness accessories, including hand weights, jump ropes and gym balls. It also comprises games, including name brand board games, puzzles, collectibles and toys including remote control.

Tech: Consists of a selection of accessories for cell phones, tablets, audio and computers. The offering includes cases, chargers, headphones and other related items.

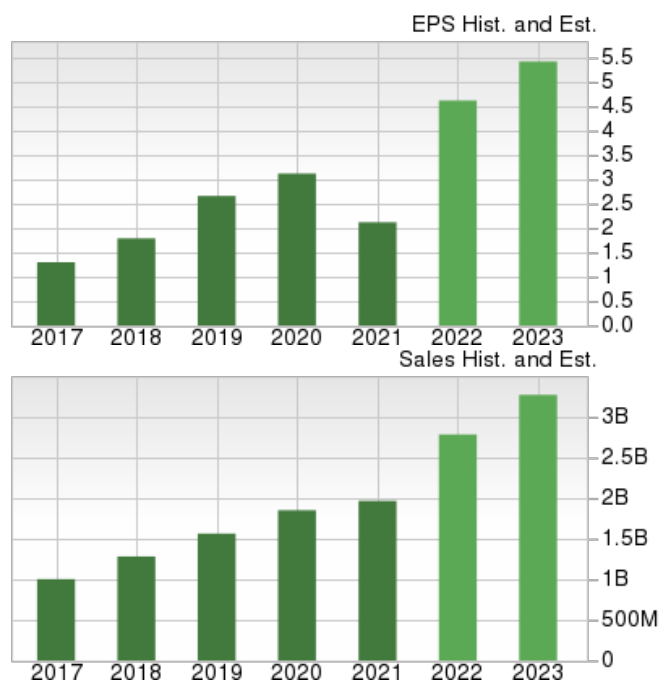
Create: Consists of craft activity kits, as well as arts and crafts supplies such as crayons, markers and stickers. It also includes items for school such as backpacks, fashion notebooks and journals, novelty pens and pencils and locker accessories.

Party: Consists of party goods, decorations, gag gifts and greeting cards, as well as every day and special occasion merchandise.

Candy: Consists of classic and novelty candy bars and movie-size box candy, seasonal-related candy as well as gum and snack food.

Now: Consists of seasonally-specific items used to celebrate and decorate for events such as Christmas, Easter, Halloween and St. Patrick's Day.

Ever since it opened its first store, Five Below has expanded its operations to Northeast, South and Midwest areas of the United States. Five Below launched its e-commerce site, fivebelow.com and began selling through same in August 2016. As of May 1, 2021, Five Below operated 1,087 stores in 39 states.



Reasons To Buy:

- ▲ **Impressive Stock Performance:** Shares of Five Below have risen 20.1% in the past six months compared with the industry's gain of 4.8%. The company commenced fiscal 2021 on a strong note, reporting solid first-quarter results, wherein both the top and bottom lines not only beat the Zacks Consensus Estimate but also grew year over year. Impressively, both the metrics even surpassed pre-pandemic level. Well, the quarter marked the fourth straight sales and earnings beat. Notably, comparable sales increased significantly during the quarter. Stronger-than-expected performance prompted management to provide an upbeat second-quarter view. Five Below envisions second-quarter net sales in the range of \$640-\$660 million, which suggests an increase from \$426.1 million reported in the year-ago period. Management forecast second-quarter earnings between \$1.01 and \$1.13 per share compared with earnings of 53 cents — including benefit from share-based accounting — in the year-ago period. The company envisions significant operating margin leverage versus the second quarter of fiscal 2019, driven primarily by SG&A expenses. Undeniably, the company's focus on providing trend-right products, improving supply chain, strengthening digital capabilities and delivering better WOW products bode well.
- Five Below is focused on merchandise assortment, enhancement of digital and e-commerce channels, pricing strategy, expanding store base, improving supply chain and delivering better WOW products.
- ▲ **Strategic Endeavors:** Five Below has been focusing on enhancing merchandise assortment, improving supply chain, strengthening digital capabilities, delivering better WOW products and reimagined front-end, which includes self-checkout capabilities and an expanded snack area. The company's commitment toward enhancing customer experience via refresh store format and remodel program is also commendable. The company has been working on digitizing vendor transactions, implementing core merchandizing platform and rolling out cloud-based data and analytics platform to analyze demand, and accordingly manage inventory. Five Below rolled out curbside pickup, launched the app and looks to accelerated buy online, pick up in-store (BOPUS) business model. E-commerce business registered double-digit growth year over year in first-quarter fiscal 2021. Markedly, the company is testing same-day delivery service in collaboration with Instacart. Recently, it extended its partnership with Instacart to bring expedited same-day delivery to more of its outlets. Management announced to expand the Instacart delivery to more than 700 new stores. Hence, this delivery service is now available at the company's 1,100 stores. Also, the company had earlier made an investment in a gaming company called Nerd Street Gamers in order to attract children and teenagers. The company has also teamed up with Kyle Giersdorf aka "Bugha," for new line of gaming products.
- ▲ **Impressive Comps Performance:** Five Below registered significant increase in comparable sales during the first quarter of fiscal 2021. We note that comparable sales for the quarter under review soared 162% against a decline of 51.8% in the year-ago quarter. For the comparable subset of stores that were open in both the first quarter of fiscal 2019 and the first quarter of fiscal 2021, sales jumped 23%, thanks to robust demand owing to the stimulus checks and merchandising initiatives. The increase in sales was driven by double-digit ticket growth, partly offset by lower transactions due to reduced store hours. The company witnessed strength in the Sports, Tech, Style, Candy and Room worlds. Notably, comparable sales had risen 13.8% in the preceding quarter.
- ▲ **Solid Product Range & Compelling Pricing:** Five Below's primary focus on teens and pre-teens, helps the company enhance customer base by attracting shoppers. Further, the company is known for its impressive range of merchandise, as the company remains committed toward making innovations and refreshing its product range per the evolving consumer trends. On marketing front, the company is focusing on digital advertising. These factors combined with the company's pricing strategy of selling products for \$5 or below enable it to cater to demographic shoppers, alongside resonating with value-seeking customers. Moreover, the company continues to build new prototype Five Beyond with vast majority of products priced between \$6 and \$10. In fiscal 2020, the Five Beyond permanent section was in roughly 140 stores. The company during the first quarter of fiscal 2021 remodeled about a dozen stores into Five Beyond prototype and now expects to conclude fiscal 2021 with approximately 30% of stores in the Five Beyond format. We believe that Five Below's wide assortment of trend right merchandise, solid in-store and online experience along with favorable pricing strategy are likely to remain major growth drivers. Further, the company remains focused on achieving efficient cost structure, solid average net sales per store, supply-chain initiatives and economies of scale.
- ▲ **Store Update:** Five Below remains committed toward expanding its store base, as well as enhancing the in-store experience to draw traffic and enhance customer base. The company believes that expanding scale helps it gain access to renowned shopping centers, capitalize on the emerging market trends and increase brand value. During the first quarter of fiscal 2021, Five Below opened 67 net new stores. This took the total count to 1,087 stores as of May 1, 2021, in 39 states, reflecting an increase of 18.2% from the year-ago count. Management plans to open 170-180 new stores and complete approximately 30 remodels in fiscal 2021. It plans to open about 30 new stores in the second quarter. Further, the company envisions of having a network of more than 2,500 stores in the United States in the long run. Five Below anticipates capital expenditures of approximately \$315 million in fiscal 2021. This includes opening a new ship center in Arizona and commencing construction on a new ship center outside Indianapolis, inaugurating new stores and executing remodels, and investing in systems and infrastructure.
- ▲ **Financial Stability:** Five Below exited first-quarter fiscal 2021 with a strong debt-free balance sheet. The company ended the quarter under review with cash and cash equivalents of \$84.2 million and short-term investment securities of \$299.3 million versus \$69.8 million and \$69.2 million, respectively, at the end of the year-ago quarter. Moreover, the company's times interest earned ratio stands at 107.1 far better than the industry's ratio of 3.3. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.

Reasons To Sell:

- ▼ **High SG&A Expenses a Concern:** SG&A expenses climbed 48.1% to \$137.2 million during quarter the first quarter of fiscal 2021. This increase in SG&A expenses might have been due to higher corporate related expenses and rise in store-related expenses to support new store growth. We note that SG&A expenses climbed 18.1% to \$171.3 million during fourth quarter of fiscal 2020. Increase in SG&A expenses is a concern as this may weigh on margins.
- ▼ **Headwinds to Encounter:** Management stated that transactions during the first quarter of fiscal 2021 remained slightly negative due to reduced store hours, thanks to the ongoing pandemic. Moreover, Five Below is navigating through a tight supply chain environment across the retail landscape, resulting in higher inbound freight costs. Industry experts believe that second-half of fiscal 2021 might witness a difficult comparison, as Five Below lapped a very strong second-half in fiscal 2020, when sales grew 25% and comparable sales were at a record high of 13.5%.
- ▼ **Stock Appears Overvalued:** Considering Price-to-Earnings (P/E) ratio, Five Below looks significantly overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E of 47.07X, compared with 26.36X for the industry and 27.91X for the S&P 500. The company's trailing 12-month P/E ratio is below the median level of 77.59X and the high level of 101.85X scaled over a year.
- ▼ **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.
- ▼ **Seasonal Nature of Business Could Hamper Performance:** Five Below has stores in Northeast and Midwest areas of the United States, which are usually vulnerable to unpleasant weather conditions — including major storms. Also, the company generates a substantial part of revenues and gross margins in the final quarter of every fiscal, as it includes the holiday season. Thus, any unfavorable weather conditions or unusual holiday season are likely to impact the company's financial as well operating performance.
- ▼ **Competitive Pressure:** Five Below competes with many other industry players including mass merchandise, discount, grocery and convenience store retailers among others. The company competes with these retailers on grounds of advertising and marketing efforts, alongside financial and distribution resources. Moreover, responsiveness to the evolving trends remains a point of competition. Pressure from online retailers also remains a threat for Five Below.

Stiff competition, a highly promotional environment and consumers' changing spending pattern and behavior owing to the coronavirus outbreak may impact the company's performance.

Last Earnings Report

Five Below Q1 Earnings Top Estimates, Comps Up Y/Y

In spite of a challenging backdrop, Five Below, Inc. commenced fiscal 2021 on a strong note. The company reported solid first-quarter results, wherein both the top and bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year. Impressively, both the metrics even surpassed pre-pandemic level. Well, the quarter marked the fourth straight sales and earnings beat. Notably, comparable sales increased significantly during the quarter under review.

Stronger-than-expected performance prompted management to provide an upbeat view for the second quarter. Undeniably, the company's focus on providing trend-right products, improving supply chain, strengthening digital capabilities and delivering better WOW products bode well. Moreover, it is expanding self-checkout capabilities to make shopping convenient. Markedly, the company is now offering same-day delivery service in collaboration with Instacart across some of its stores. Again, the two-pronged approach of massive coronavirus stimulus package and mass vaccination has acted as tailwind.

Let's Introspect

Five Below delivered first-quarter fiscal 2021 earnings of 88 cents a share that comfortably surpassed the Zacks Consensus Estimate of 66 cents. Impressively, the bottom line improved sharply from a loss of 91 cents reported in the first quarter of fiscal 2020 and earnings of 46 cents posted in the first quarter of fiscal 2019.

Net sales of \$597.8 million topped the Zacks Consensus Estimate of \$556.9 million. The metric surged 197.6% from \$200.9 million in the first quarter of fiscal 2020 and 63.9% from \$364.8 million in the first quarter of fiscal 2019. The increase in sales was driven by double-digit ticket growth, partly offset by lower transactions due to reduced store hours. The company witnessed strength in the Sports, Tech, Style, Candy and Room worlds.

We note that comparable sales for the quarter under review soared 162% against a decline of 51.8% in the year-ago quarter. For the comparable subset of stores that were open in both the first quarter of fiscal 2019 and the first quarter of fiscal 2021, sales jumped 23%, thanks to robust demand owing to the stimulus checks and merchandising initiatives. Management informed that e-commerce business registered double-digit growth year over year.

Gross profit surged to \$200.9 million in the first quarter of fiscal 2021 from \$20.5 million in the first quarter of fiscal 2020, while gross margin expanded to 33.6% from 10.2% in the year-ago period. Gross margin rose 70 basis points compared with the first quarter of fiscal 2019, benefiting from occupancy leverage that more than offset higher inbound freight costs resulting from supply chain constraints.

We note that SG&A expenses climbed 48.1% to \$137.2 million during quarter under review. Operating income amounted to \$63.7 million during quarter under discussion against an operating loss of \$72.2 million in the first quarter of fiscal 2020. Markedly, operating income increased over 2.5 times from \$24.5 million in the first quarter of fiscal 2019.

Financials

Five Below ended the quarter with cash and cash equivalents of \$84.2 million and short-term investment securities of \$299.3 million. Total shareholders' equity was \$930.6 million as of May 1, 2021.

Management incurred capital expenditures of approximately \$76.4 million during the quarter. Five Below anticipates capital expenditures of approximately \$315 million in fiscal 2021, excluding the impact of tenant allowances. This includes opening a new ship center in Arizona and commencing construction on a new ship center outside Indianapolis, inaugurating new stores and executing remodels, and investing in systems and infrastructure.

Store Updates

During the quarter, Five Below opened 67 net new stores. This took the total count to 1,087 stores as of May 1, 2021, in 39 states, reflecting an increase of 18.2% from the year-ago count. The company during the quarter remodeled about a dozen stores into Five Beyond prototype and now expects to conclude fiscal 2021 with approximately 30% of stores in the Five Beyond format. It plans to open about 30 new stores in the second quarter. Management plans to open 170-180 new stores in fiscal 2021. The company expects to complete about 30 remodels during the fiscal year.

Guidance

Five Below envisions second-quarter fiscal 2021 net sales in the range of \$640-\$660 million. The midpoint of this range represents an increase of 56% versus sales for the second quarter of fiscal 2019 on an average store count growth rate of 36%. The company envisions significant operating margin leverage versus the second quarter of fiscal 2019, driven primarily by SG&A expenses, including a shift in marketing spend into the second half of the fiscal year. The company stated that if net sales grew at a low-20s CAGR relative to fiscal 2019, operating margin is likely to be roughly 30 basis points above fiscal 2019 levels. Management forecast second-quarter earnings between \$1.01 and \$1.13 per share. The

Quarter Ending	04/2021
Report Date	Jun 03, 2021
Sales Surprise	7.35%
EPS Surprise	33.33%
Quarterly EPS	0.88
Annual EPS (TTM)	3.94

company had generated sales of \$426.1 million and delivered earnings of 53 cents a share, including benefit from share-based accounting, in the year-ago period.

Recent News

Five Below Expands Collaboration With Instacart - Jun 24, 2020

Five Below extended its partnership with Instacart in order to bring expedited same-day delivery to more of its outlets. Management announced to expand the Instacart delivery to more than 700 new stores. Hence, this delivery service is now available at the company's 1,100 stores.

Well, this strategic expansion is built on the company's successful initial partnership with Instacart, the major online grocery platform in North America. Markedly, Five Below unveiled its new partnership with Instacart last December.

Valuation

Five Below shares are up 13.6% in the year-to-date period and nearly 92% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.6%, while the Zacks Retail-Wholesale sector is down 0.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 31% and 21.4%, respectively.

The S&P 500 index is up 14.4% in the year-to-date period and 41.2% in the past year.

The stock is currently trading at 40.15X forward 12-month earnings, which compares to 19.8X for the Zacks sub-industry, 28.62X for the Zacks sector and 21.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 87.67X and as low as 14.12X, with a 5-year median of 34.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$211 price target reflects 42.62X forward 12-month earnings.

The table below shows summary valuation data for FIVE

Valuation Multiples - FIVE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	40.15	19.8	28.62	21.87
	5-Year High	87.67	26.91	34.06	23.83
	5-Year Low	14.12	12.57	19.12	15.31
	5-Year Median	34.05	17.08	23.92	18.07
P/S F12M	Current	3.71	1.28	1.3	4.72
	5-Year High	5.35	1.34	1.41	4.74
	5-Year Low	1.27	0.54	0.84	3.21
	5-Year Median	2.5	0.88	1.02	3.72
EV/EBITDA F12M	Current	23.1	10.79	13.14	17.24
	5-Year High	28.15	11.62	13.21	18.83
	5-Year Low	9.69	4.06	8.68	13.04
	5-Year Median	18.52	6.15	11.35	14.89

As of 06/24/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 13% (34 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Burlington Stores, Inc. (BURL)	Outperform	1
DICKS Sporting Goods, Inc. (DKS)	Outperform	1
Foot Locker, Inc. (FL)	Outperform	2
Hibbett Sports, Inc. (HIBB)	Outperform	1
Sportsmans Warehouse Holdings, Inc. (SPWH)	Outperform	1
Zumiez Inc. (ZUMZ)	Outperform	1
Bed Bath & Beyond Inc. (BBBY)	Neutral	2
Tractor Supply Company (TSCO)	Neutral	2

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	FIVE	X Industry	S&P 500	HBI	HIBB	ZUMZ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	3	1	1
VGM Score	C	-	-	A	B	C
Market Cap	11.13 B	2.25 B	29.99 B	6.52 B	1.24 B	1.22 B
# of Analysts	8	4.5	12	5	1	4
Dividend Yield	0.00%	0.00%	1.35%	3.21%	0.00%	0.00%
Value Score	F	-	-	B	A	B
Cash/Price	0.04	0.14	0.06	0.08	0.23	0.36
EV/EBITDA	47.95	7.24	17.12	75.68	7.56	6.50
PEG F1	1.70	1.32	2.06	1.40	1.07	NA
P/B	11.96	3.60	4.11	13.46	2.85	2.10
P/CF	59.01	9.57	17.50	9.94	9.58	11.87
P/E F1	43.33	14.76	21.14	11.82	9.09	11.79
P/S TTM	4.72	0.86	3.40	0.95	0.75	1.08
Earnings Yield	2.32%	5.07%	4.66%	8.46%	11.00%	8.48%
Debt/Equity	0.00	0.18	0.66	7.53	0.01	0.00
Cash Flow (\$/share)	3.37	3.16	6.86	1.88	8.07	4.00
Growth Score	B	-	-	A	C	D
Historical EPS Growth (3-5 Years)	18.19%	12.87%	9.59%	-3.22%	17.10%	38.53%
Projected EPS Growth (F1/F0)	117.92%	39.34%	21.79%	8.97%	38.89%	31.89%
Current Cash Flow Growth	-15.28%	-2.97%	1.02%	-16.36%	85.54%	10.26%
Historical Cash Flow Growth (3-5 Years)	18.69%	8.86%	7.28%	-3.44%	8.86%	10.68%
Current Ratio	1.65	1.47	1.39	1.64	2.26	2.93
Debt/Capital	0.00%	19.80%	41.51%	88.28%	0.54%	0.00%
Net Margin	9.48%	5.38%	12.06%	-4.83%	10.52%	10.93%
Return on Equity	27.01%	26.41%	16.59%	71.51%	47.46%	23.52%
Sales/Assets	1.06	1.30	0.51	0.89	2.06	1.15
Projected Sales Growth (F1/F0)	41.57%	3.14%	9.56%	-5.56%	0.00%	20.44%
Momentum Score	C	-	-	C	C	D
Daily Price Change	1.63%	0.24%	0.58%	0.92%	-1.05%	2.33%
1-Week Price Change	-3.42%	-5.15%	1.06%	-6.50%	-13.53%	-7.86%
4-Week Price Change	6.60%	0.61%	1.56%	-5.47%	-11.52%	6.49%
12-Week Price Change	1.62%	10.98%	6.14%	-3.56%	11.25%	9.03%
52-Week Price Change	88.31%	94.05%	38.35%	73.61%	270.91%	82.42%
20-Day Average Volume (Shares)	599,181	498,546	1,811,241	2,959,188	439,164	247,533
EPS F1 Estimate 1-Week Change	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	9.39%	3.76%	0.01%	0.00%	68.32%	26.00%
EPS F1 Estimate 12-Week Change	9.58%	15.90%	3.54%	-2.77%	68.32%	26.00%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

EPS Q1 Estimate Monthly Change	59.37%	0.00%	0.00%	0.00%	96.08%	30.43%
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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.

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.

Value Score	F
Growth Score	B
Momentum Score	C
VGM Score	C

Disclosures

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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.

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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.