

## Foot Locker(FL)

**\$57.75** (As of 06/17/21)

Price Target (6-12 Months): **\$67.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 06/01/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: B

## Summary

Shares of Foot Locker have outpaced the industry in the past three months. Sturdy growth in the digital realm, robust brand portfolio and prudent inventory management have been aiding the stock. These factors also supported the company's first-quarter fiscal 2021 results, wherein the top and the bottom line rose year on year. Markedly, the company's digital business surged 43%, on a comparable basis, and contributed 25% to total sales. Management highlighted that despite significant operating challenges owing to the pandemic, the company witnessed favorable customer response for its merchandise offerings. This led to higher inventory productivity and less promotional activity. Backed by assumptions of continued recovery from the pandemic, the company expects total sales to increase at a low double-digit to low teens rate in fiscal 2021.

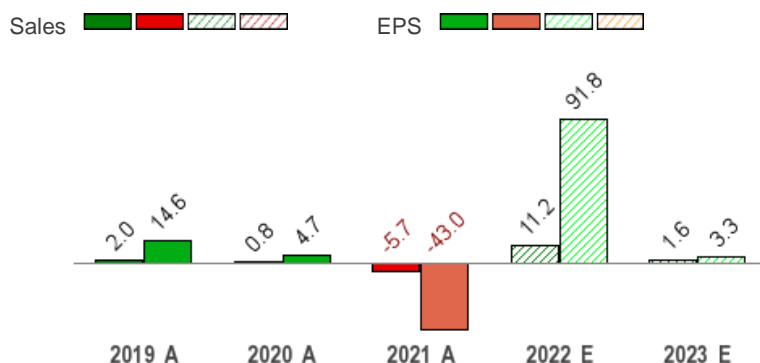
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	\$66.71 - \$26.58
20-Day Average Volume (Shares)	1,204,214
Market Cap	\$6.0 B
Year-To-Date Price Change	44.1%
Beta	1.38
Dividend / Dividend Yield	\$0.80 / 1.4%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 17% (42 out of 252)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	71.9%
Last Sales Surprise	12.3%
EPS F1 Estimate 4-Week Change	14.9%
Expected Report Date	08/20/2021
Earnings ESP	15.0%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023	1,967 E	1,853 E	2,048 E	2,313 E	8,527 E
2022	2,153 A	1,972 E	2,071 E	2,296 E	8,396 E
2021	1,176 A	2,077 A	2,106 A	2,189 A	7,548 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2023	\$1.31 E	\$0.77 E	\$1.32 E	\$1.60 E	\$5.57 E
2022	\$1.96 A	\$0.95 E	\$1.14 E	\$1.57 E	\$5.39 E
2021	-\$0.67 A	\$0.71 A	\$1.21 A	\$1.55 A	\$2.81 A

\*Quarterly figures may not add up to annual.

P/E TTM	10.7
P/E F1	10.7
PEG F1	3.5
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/17/2021. The report's text and the

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analyst-provided price target are as of 06/18/2021.

## Overview

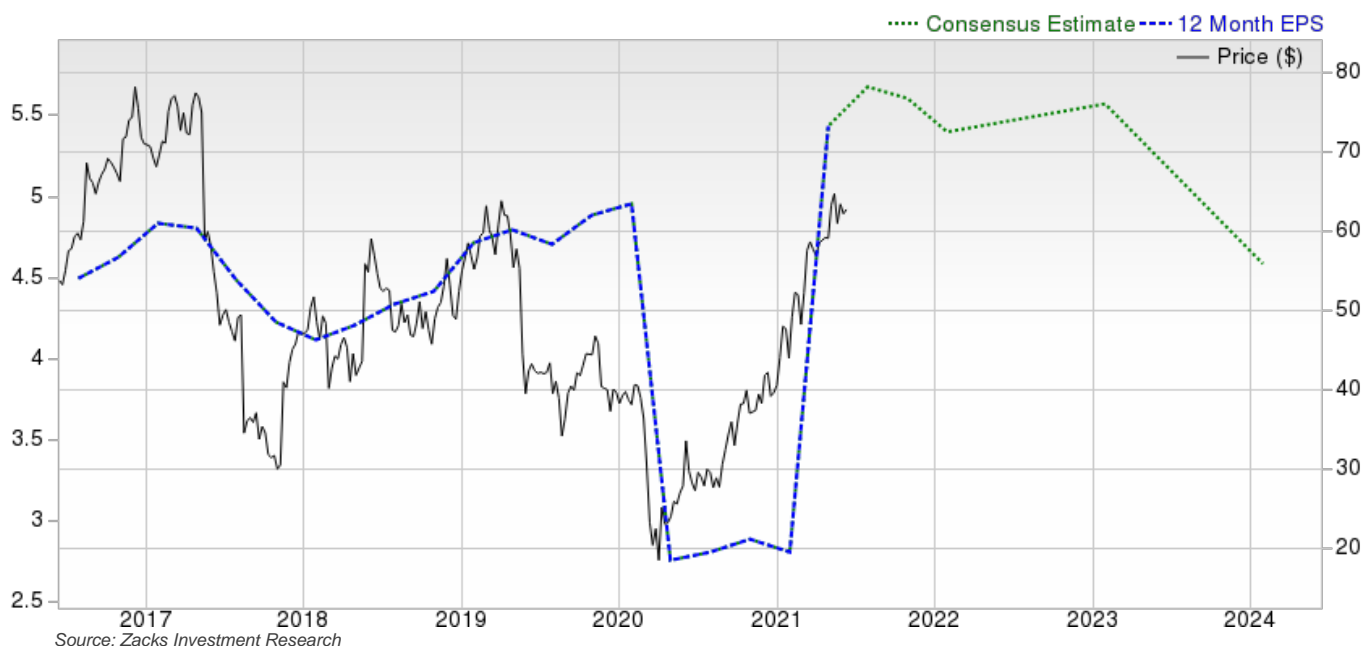
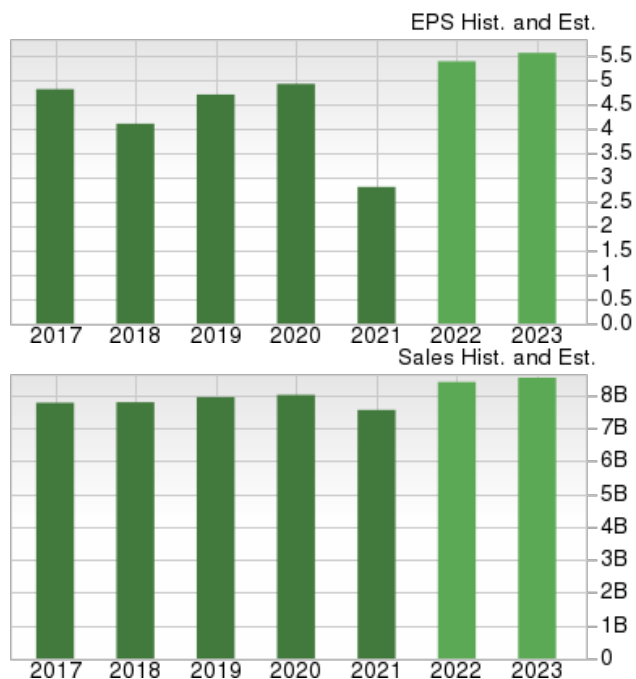
Founded in 1879 and headquartered in New York, Foot Locker, Inc. (FL) is a retailer of athletic shoes and apparel. The company operates websites and mobile apps, aligned with the brand names of store banners comprising footlocker.com, ladyfootlocker.com, six02.com, kidsfootlocker.com, champssports.com, footaction.com, footlocker.ca, footlocker.eu, footlocker.com.au, sidestep-shoes.com, footlocker.hk, footlocker.sg, and footlocker.my. In addition, Foot Locker has franchise operations in the Middle East.

As of May 1, 2021, the company operated 2,952 stores across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 131 franchised Foot Locker stores in the Middle East.

The company has three operating segments, North America, Europe, Middle East, and Africa ("EMEA"), and Asia Pacific. On the basis of geography, the company identifies sales under two broad categories, namely; United States (73.9% of fiscal 2020 sales) and International (26.1% of fiscal 2020 sales) segments.

North America operating segment includes the results of the following banners operating in the U.S. and Canada: Foot Locker, Kids Foot Locker, Lady Foot Locker, Champs Sports, Footaction, and SIX:02, including each of their related e-commerce businesses, as well as Eastbay business that includes internet, catalog, and team sales.

International operating segment includes the results of the following banners operating in Europe, Asia, Australia, and New Zealand: Foot Locker, Sidestep, and Kids Foot Locker, including each of their related e-commerce businesses.



## Reasons To Buy:

▲ **Sturdy Q1 Performance:** Foot Locker posted better-than-expected first-quarter fiscal 2021 results, with the top and the bottom line increasing year on year. The company gained from strength across both stores and digital channels. Management highlighted that despite significant operating challenges stemming from the pandemic, the company witnessed favorable response from customers for its merchandise offerings. Moreover, sales growth during the quarter was mainly driven by strength in the company's stores, which surged 99%. Going ahead, the company is optimistic regarding its product categories as well as its ability to drive long-term growth. Given the strong start to fiscal 2021 and backed by assumptions of continued recovery from the pandemic, the company expects total sales to increase at a low double-digit to low teens rate in fiscal 2021, year on year. Further, it expects gross margin to expand, largely reflecting a more rational promotional environment. For the second quarter, the company expects total sales to be relatively in line with last year. We note that shares of Foot Locker have gained 28.7% in the past three months compared with the industry's 9.9% rally.

Foot Locker's efforts to boost digital capabilities and strengthen assortments are likely to keep yielding favorably.

▲ **Robust Digital & DTC Business:** Foot Locker's digital business has been performing well. Over the past few years, Foot Locker has been investing significantly to reinforce its digital presence and augmenting its direct-to-consumer ("DTC") operations. During first-quarter fiscal 2021, the company's digital business increased 43%, on a comparable basis and contributed 25% to total sales. The company is on track to bolster omni-channel capabilities by adding new functionalities. In this context, the company activated a Shop My Store feature on its website. Moreover, the company added Apple Pay and Google Pay to digital payment options for providing greater flexibility, as well as convenience to customers. In fact, the company continued to strengthen its payment platform by adding Adyen, Giropay and Clearpay to its selection of payment options in Europe. Additionally, the company deployed new websites in four additional European countries: the U.K., Netherlands, Germany and France. The new sites are easier to personalize, better leverage data analytics and are cost less to maintain. Apart from these, the company is enhancing buy online and pickup in-store capabilities as well as elevating its mobile app experience. The DTC channel continued to exhibit strength during first-quarter fiscal 2021, registering 47% sales growth buoyed by strong omni-channel offerings. Moreover, DTC channel contributed nearly 25% of total sales for the quarter.

▲ **Growth Catalyst:** Foot Locker is trying to improve its performance through its operational and financial initiatives. The company is effectively managing inventory, improving supply chain efficiencies and reorganizing the corporate structure. Markedly, its first-quarter fiscal 2021 performance was supported by a solid product pipeline and healthy demand from customers. In fact, management highlighted that the company continued to witness strong demand for athleisure and fitness products. Consumer's favorable response toward the company's merchandise offerings led to higher inventory productivity and significantly less promotional activity during the first quarter. Management believes that by continually exploiting opportunities like kids' and women's business, shop-in-shop expansion in collaboration with its vendors, store banner.com business, store refurbishment and enhancement of assortments, Foot Locker is likely to benefit in the long run. We note that the company will be converting nearly one-third of its Footaction stores to other existing banner concepts. Such moves will help the company focus on its iconic banners.

International expansion is another growth catalyst. We note that the company has been witnessing sturdy advancement in Asia Pacific, fueled by continued expansion across the region as well as strong brand presence. Moving on, the company is progressing well with the membership program FLX that inspires customers to remain within the Foot Locker portfolio of banners. At the end of the first quarter, FLX program members exceeded 20 million, globally. Apart from these, the company is on track with technology upgrades. In this regard, it is bolstering the point-of-sale system. It also launched a drop-ship pilot program with Nike to activate additional inventory on its website.

▲ **Capital Allocation Plan:** Foot Locker remains committed to sustain robust level of investment to achieve long-term goal. It will continue focusing on digital advancement and enhancement of its U.S. supply chain. Apart from these, the company plans to spend a major portion of the capital on its fleet of stores, including revamping and remodeling of the same. Further, it is exploring off-mall retail formats opportunities and executing shop-in-shop spaces in collaboration with vendors. During first-quarter fiscal 2021, the company spent \$51 million in relation to store fleet, digital platforms, infrastructure as well as supply chain and logistics capabilities. We note that management has authorized a \$275-million capital expenditures program for fiscal 2021.

▲ **Financial Flexibility:** Foot Locker's cash and cash equivalents at the end of first-quarter fiscal 2021 increased 16.8% sequentially to \$1,963 million. The company's cash position was sufficient to meet the current portion of long-term debt and obligations under finance leases of \$101 million as of May 1, 2021. Additionally, the company actively pursues share buybacks. It bought back 620,544 shares worth \$34 million during the first quarter. In the quarter, Foot Locker returned a total of \$55 million via share repurchases and dividends. It has a dividend payout of 14.7%, dividend yield of 1.3% and free cash flow yield of 13.5%. With an annual free cash flow return on investment of 34.3%, which exceeds the industry's figure of nearly 10.3%, we believe that the dividend payment is likely to be sustainable.

▲ **Strategic Partnership:** The company entered into a partnership with Nike for a pop-up store called Sneakeasy NYC and made a strategic investment of \$15 million in Carbon38, which owns and operates an e-commerce destination for active and performance wear for women. The company also took minority interest in Goat, a managed marketplace for authentic sneakers, making an investment of \$100 million. It invested \$3 million in Super Heroic, a kid's footwear brand and \$12.5 million in "Rockets of Awesome" a children's apparel company. The company also made a strategic investment of \$3 million in NTWRK, a leading youth culture e-commerce and content platform. These investments widen the company's scope to expand products and brands, access new business segments and take advantage of innovative technologies.

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## Risks

- **COVID-19 Headwinds:** Foot Locker continues to feel the pressure from ongoing challenges of store closures, especially in Europe and Canada where nearly 230 stores were temporarily closed. COVID-related restrictions pressured the business in Europe throughout the first quarter, as the EMEA fleet was opened only 39% of possible operating days. Additionally, congestion at the U.S. ports, leading to abnormally lean inventory levels, were a headwind in the quarter. Although Foot Locker has been undertaking initiatives to maneuver through pandemic-induced challenges, it continues to remain cautious regarding the ongoing uncertainties. Additionally, management is cautious regarding higher freight costs as well as incremental expenses associated with the pandemic.
  - **Prone to Currency Fluctuations:** Foot Locker generates a significant amount of net sales outside the U.S. Due to high exposure to international markets, the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or reduce profit margins in locations outside of the U.S. An increase in prices may have an adverse impact on the demand for Foot Locker's products.
  - **Fashion Obsolescence a Threat:** Fashion obsolescence remains the main concern for Foot Locker's business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be hurt by delays in its product launches. The company operates in the highly competitive athletic footwear and apparel segment. It faces stiff competition from athletic footwear specialty stores, sporting goods stores, department stores, discount stores and traditional shoe stores in terms of distinctiveness, innovativeness, quality and pricing, which may weigh on its 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. This may adversely impact its growth and profitability.
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## Last Earnings Report

### Foot Locker Q1 Earnings Beat Estimates, Sales Up Y/Y

Foot Locker posted robust first-quarter fiscal 2021 results, with the top and the bottom line increasing year on year as well as surpassing the Zacks Consensus Estimate. The company gained from strength across both stores and digital channels.

Moreover, management highlighted that despite significant operating challenges stemming from the pandemic, including store closures across key markets, the company witnessed favorable response from customers for its merchandise offerings. This, in turn, aided growth across the company's stores as well as the digital channel. The company is optimistic regarding its product categories as well as its ability to drive long-term growth. Further, management unveiled plans to strengthen its store base and position them well for the future. In this context, the company will be closing Footaction stores. Management did not issue any guidance of the fiscal, given the uncertainty surrounding the pandemic.

#### Quarter Ending

04/2021

Report Date	May 21, 2021
Sales Surprise	12.27%
EPS Surprise	71.93%
Quarterly EPS	1.96
Annual EPS (TTM)	5.43

### Q1 Metrics

The athletic shoes and apparel retailer posted adjusted earnings of \$1.96 per share, which surpassed the Zacks Consensus Estimate of \$1.14. The bottom line improved from adjusted loss of 67 cents per share in the prior-year quarter and increased 28.1% from adjusted earnings of \$1.53 in the first-quarter fiscal 2019.

Total sales of \$2,153 million increased 83.1% year over year and came ahead of the consensus estimate of \$1,918 million. Excluding the foreign-currency fluctuation impact, total sales rose 79.4%. The top line increased 3.6% (up 2.4% excluding foreign exchange impacts) compared with first-quarter fiscal 2019 sales. Sales growth during the quarter was mainly driven by strength in the company's stores, which surged 99%.

Comparable store sales (comps) during the quarter increased 80.3%. Comps were largely driven by strength in the company's stores as well as the digital channel. On a comparable basis, the company's digital business increased 43% and contributed 25% to total sales.

Foot Locker's gross-margin rate for the reported quarter was 34.8% compared to 23% in the prior-year quarter. The metric improved 160 basis points (bps) from first-quarter fiscal 2019. We note that merchandise margin increased 250 bps year over year, and was up 80 bps from first-quarter fiscal 2019 levels. Merchandise margin gained from significant reduction in markdowns, offset by increased freight expense due to higher digital sales.

However, SG&A expense were 19.4% of sales and provided a leverage of 750 bps year on year and a leverage of 60 bps compared with first-quarter fiscal 2019 levels.

### Store Update

In the reported quarter, Foot Locker opened 12 outlets, remodeled or relocated 15 stores, and shuttered 58 outlets. As of May 1, 2021, the company operated 2,952 stores across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 131 franchised Foot Locker stores in the Middle East.

Management stated that the company, in association with its partners, is undertaking prudent measures to strengthen its store fleet. Progressing along such lines, during the second-quarter the company will be converting nearly one-third of its Footaction stores to other existing banner concepts. Such moves will help the company focus on its iconic banners. The company will close the majority of the remaining Footaction stores as leases expire over the next two years. Management believes this strategic decision will enable improved consumer services in a post-COVID environment.

## Valuation

Foot Locker shares are up 65.2% in the year-to-date period and 168.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 15.1% and 2.2%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 28.3% and 27.8%, respectively.

The S&P 500 index is up 18.3% in the year-to-date period and 38.9% in the past year.

The stock is currently trading at 12.78X forward 12-month earnings, which compares to 26.25X for the Zacks sub-industry, 27.94X for the Zacks sector and 21.86X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.86X and as low as 3.63X, with a 5-year median of 10.87X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$67 price target reflects 14.69X forward 12-month earnings.

The table below shows summary valuation data for FL

Valuation Multiples - FL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.78	26.25	27.94	21.86
	5-Year High	22.86	89.35	34.06	23.83
	5-Year Low	3.63	8.38	19.13	15.31
	5-Year Median	10.87	14.48	23.96	18.05
P/S F12M	Current	0.82	1.36	1.32	4.72
	5-Year High	1.3	1.36	1.41	4.74
	5-Year Low	0.24	0.34	0.84	3.21
	5-Year Median	0.78	0.81	1.02	3.72
EV/EBITDA TTM	Current	5.28	9.82	13.83	15.8
	5-Year High	7.92	11.39	14	16.53
	5-Year Low	1.28	3.85	8.78	10.78
	5-Year Median	5.21	6.61	11.51	13.58

As of 06/17/2021

Source: Zacks Investment Research



## Industry Analysis Zacks Industry Rank: Top 17% (42 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Boot Barn Holdings, Inc. (BOOT)	Outperform	1
Capri Holdings Limited (CPRI)	Outperform	3
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Abercrombie & Fitch Company (ANF)	Neutral	1
Nordstrom, Inc. (JWN)	Neutral	3
Levi Strauss & Co. (LEVI)	Neutral	3
Next PLC (NXGPY)	Neutral	2
Tapestry, Inc. (TPR)	Neutral	2

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

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	FL	X Industry	S&P 500	CPRI	NXGPY	TPR
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	2
VGM Score	B	-	-	B	D	C
Market Cap	6.03 B	1.34 B	29.66 B	8.11 B	15.55 B	11.78 B
# of Analysts	10	4	12	9	2	10
Dividend Yield	1.37%	0.00%	1.35%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	D	C
Cash/Price	0.30	0.14	0.05	0.03	NA	0.13
EV/EBITDA	6.09	5.83	16.95	15.68	NA	-37.08
PEG F1	3.45	1.55	2.09	2.17	NA	1.49
P/B	2.05	4.13	4.06	3.75	NA	3.91
P/CF	12.86	17.52	17.27	9.82	NA	22.45
P/E F1	10.71	17.00	20.99	14.12	17.46	14.92
P/S TTM	0.71	0.79	3.39	2.00	NA	2.43
Earnings Yield	9.25%	4.80%	4.65%	7.09%	5.73%	6.70%
Debt/Equity	0.00	0.03	0.66	0.57	NA	0.53
Cash Flow (\$/share)	4.53	0.85	6.83	5.46	NA	1.88
Growth Score	C	-	-	C	C	C
Historical EPS Growth (3-5 Years)	-6.25%	-6.25%	9.44%	-16.45%	NA	-7.93%
Projected EPS Growth (F1/F0)	91.96%	105.33%	21.49%	99.77%	119.67%	191.86%
Current Cash Flow Growth	-34.17%	-45.04%	0.99%	-47.04%	NA	-48.91%
Historical Cash Flow Growth (3-5 Years)	-8.94%	-4.43%	7.28%	-4.29%	NA	-6.40%
Current Ratio	1.71	1.65	1.39	0.95	NA	2.24
Debt/Capital	0.27%	15.62%	41.51%	36.11%	NA	34.53%
Net Margin	7.45%	1.96%	11.95%	-1.53%	NA	7.03%
Return on Equity	21.23%	9.75%	16.48%	13.31%	NA	20.85%
Sales/Assets	1.20	1.14	0.51	0.53	NA	0.60
Projected Sales Growth (F1/F0)	11.24%	23.31%	9.41%	24.86%	28.06%	13.56%
Momentum Score	B	-	-	C	D	B
Daily Price Change	-3.72%	-1.43%	-0.04%	-3.13%	0.00%	-2.36%
1-Week Price Change	0.90%	3.72%	-0.41%	3.81%	0.86%	3.63%
4-Week Price Change	-2.40%	3.56%	1.51%	-0.04%	-2.15%	-3.14%
12-Week Price Change	3.78%	8.92%	7.99%	8.70%	10.59%	1.00%
52-Week Price Change	99.21%	120.71%	35.52%	224.20%	83.78%	202.15%
20-Day Average Volume (Shares)	1,204,214	344,116	1,771,802	1,953,114	1,915	2,933,771
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	14.94%	6.03%	0.03%	5.40%	0.00%	0.75%
EPS F1 Estimate 12-Week Change	17.08%	17.00%	3.37%	5.66%	12.80%	10.88%

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



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EPS Q1 Estimate Monthly Change	49.92%	:	28.19%	0.00%	:	44.49%	NA	1.22%
Source: Zacks Investment Research								

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## 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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>B</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.

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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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**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

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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.

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**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-

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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



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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.

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**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.