

## Foot Locker(FL)

**\$47.10** (As of 01/19/21)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 01/19/21)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: B

## Summary

Shares of Foot Locker have increased in the past six months. Sturdy advancement in the digital realm coupled with a robust brand portfolio has been aiding the stock. Moreover, the company's investments in expansion of product lines have been yielding. We note that the company's basketball footwear category witnessed strong momentum during third-quarter fiscal 2020. Speaking of digital growth, the company's online platform registered growth of over 50% during the third quarter. During the quarter, the company witnessed robust digital traffic across most of its banners and regions. Management remains committed to bolstering digital capabilities including improvement of mobile and web platforms. The company is also focusing on revamping its store fleet as well as enhancing efficiency in supply chain and inventory management.

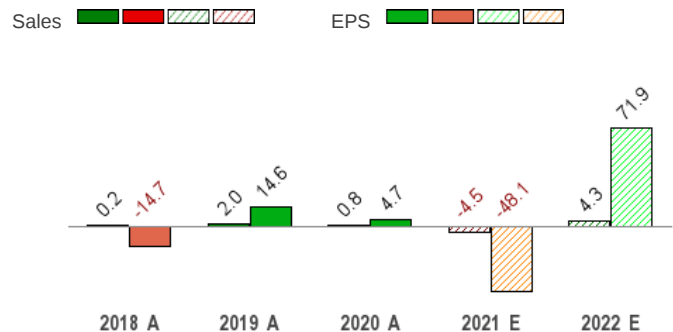
## Price, Consensus & Surprise



## Data Overview

|                                |                                   |
|--------------------------------|-----------------------------------|
| 52-Week High-Low               | <b>\$48.48 - \$17.46</b>          |
| 20-Day Average Volume (Shares) | <b>1,365,663</b>                  |
| Market Cap                     | <b>\$4.9 B</b>                    |
| Year-To-Date Price Change      | <b>16.5%</b>                      |
| Beta                           | <b>1.29</b>                       |
| Dividend / Dividend Yield      | <b>\$0.60 / 1.3%</b>              |
| Industry                       | <b>Retail - Apparel and Shoes</b> |
| Zacks Industry Rank            | <b>Top 27% (67 out of 252)</b>    |

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



|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>101.7%</b>     |
| Last Sales Surprise           | <b>8.7%</b>       |
| EPS F1 Estimate 4-Week Change | <b>0.6%</b>       |
| Expected Report Date          | <b>02/26/2021</b> |
| Earnings ESP                  | <b>5.9%</b>       |
| P/E TTM                       | <b>16.6</b>       |
| P/E F1                        | <b>18.4</b>       |
| PEG F1                        | <b>7.1</b>        |
| P/S TTM                       | <b>0.7</b>        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 | 1,712 E | 1,731 E | 2,098 E | 2,330 E | 7,974 E |
| 2021 | 1,176 A | 2,077 A | 2,106 A | 2,281 E | 7,642 E |
| 2020 | 2,078 A | 1,774 A | 1,932 A | 2,221 A | 8,005 A |

## EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*  |
|------|-----------|----------|----------|----------|----------|
| 2022 | \$0.81 E  | \$0.56 E | \$1.35 E | \$1.56 E | \$4.40 E |
| 2021 | -\$0.67 A | \$0.71 A | \$1.21 A | \$1.30 E | \$2.56 E |
| 2020 | \$1.53 A  | \$0.66 A | \$1.13 A | \$1.63 A | \$4.93 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/19/2021. The reports text is as of 01/20/2021.

## Overview

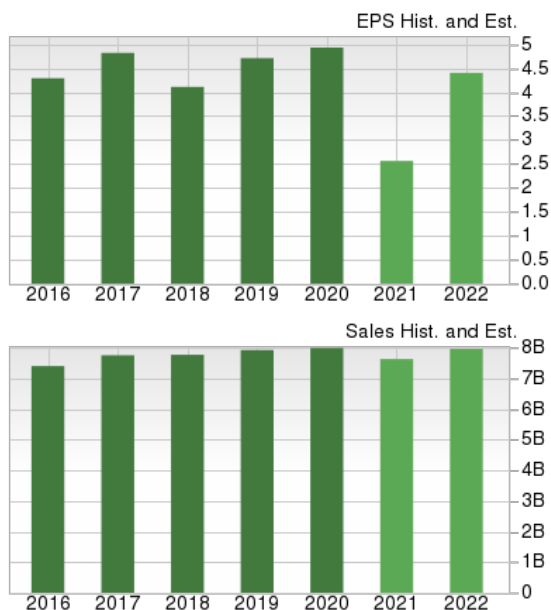
Founded in 1879 and headquartered in New York, Foot Locker, Inc. (FL) is a retailer of athletic shoes and apparel. The company operates websites and mobile apps, aligned with the brand names of store banners comprising footlocker.com, ladyfootlocker.com, six02.com, kidsfootlocker.com, champssports.com,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

As of Oct 31, 2020, the company operated 3,032 stores across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 126 franchised Foot Locker stores in the Middle East.

Beginning in 2018, the company has two operating segments, North America and International. Prior to 2018, the company had two reportable segments, Athletic Stores and Direct-to-Customers.

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.



Source: Zacks Investment Research

## Reasons To Buy:

▲ **Solid Q3:** Foot Locker reported stellar third-quarter fiscal 2020 results, wherein the top and bottom lines outpaced the Zacks Consensus Estimate and grew year over year. While the bottom line rose 7.1%, total sales grew 9%. Excluding the foreign-currency fluctuation impact, total sales rose 7.7%. Moreover, comparable-store sales (comps) jumped 7.7% during the reported quarter. Results benefited from strength in the company's in-store and online assortments, coupled with resiliency in its brands. Also, it saw momentum across basketball, which is leading the footwear category. Despite a late back-to-school selling season, the company saw momentum as the quarter progressed owing to consumers' robust engagement. Seasonal brands including Timberland, UGG and North Face contributed strongly in the back-to-school period. Most of the company's stores were open throughout the quarter and it utilized all its omni-channel tools like buy online ship from store and buy online pick up in store to woo customers.

We believe that continuous exploitation of opportunities such as kids' business, shop-in-shop expansion, store refurbishment and enhancement of assortments are likely to benefit the company.

Moving ahead, management believes that it is well positioned to maneuver through the ongoing pandemic. Moreover, it has been taking proactive actions to offer a seamless shopping experience this holiday season. We note that shares of Foot Locker have gained 55.8% in the past six months, compared with the industry's 112.8% rally.

▲ **Robust Digital Business:** Over the past few years, Foot Locker has been investing significantly to reinforce its digital presence. The company has been focusing on augmenting its e-commerce platform and growing direct-to-consumer ("DTC") operations. During fiscal third quarter, the company continued to witness strength across its digital business, registering growth of over 50% year over year. The digital channel was quite impressive in September and October, reporting double-digit store comps during these months. The company experienced robust digital traffic through fiscal third quarter with strong growth in all banners and geographies.

Additionally, the company's DTC channel continued to exhibit strength, registering 52% sales growth, which was more than offsetting an almost flat result across its stores. As a rate of total sales, DTC rose to 21.4% in fiscal third quarter, higher than 15% recorded in the year-ago period. Management remains optimistic about its omni-channel strategy, including digital strength.

▲ **Growth Catalyst:** Foot Locker is trying to improve its performance through its operational and financial initiatives. The company is effectively managing inventory, investing in digital platforms, improving supply chain efficiencies along with reorganizing corporate and division staff. Management believes that by continually exploiting opportunities like kids' and women's business, shop-in-shop expansion in collaboration with its vendors (such as House of Hoops, PUMA Labs, Jordan Flight 23 shops and The ARMOURY at Champs Sports), store banner.com business, store refurbishment and enhancement of assortments, Foot Locker is likely to benefit in the long run.

International expansion, especially in Europe, is another growth catalyst. Earlier, the company deployed new websites across nine European countries that built off the modernized platform. During the reported quarter, management concluded the earlier-announced closure of the Runners Point banner in Europe. The company has also rolled out new membership program FLX that inspires customers to remain within the Foot Locker portfolio of banners. In fiscal third quarter, FLX program exceeded 11 million members in the United States. Also, FLX has been receiving favorable responses in Europe as member enrollment and engagement have been running positively. Going ahead, management remains encouraged to continue refining FLX globally.

▲ **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.

▲ **Capital Allocation Plan:** Foot Locker remains committed to sustain robust level of investment to achieve long-term goal. The company's investments are directed toward community-based power stores in markets worldwide. It will continue focusing on digital advancement and enhancement of its U.S. supply chain. The company's digital endeavors comprise improvement of mobile and web platforms, implementation of new point-of-sale software worldwide, and expansion of data analytics capabilities. 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 third-quarter fiscal 2020, the company incurred capital expenditures of \$33 million, funding the opening of 27 stores, remodeling or relocating of 8, while shuttering 95 including 70 Runners Point outlets. Management expects investing about \$155 million in fiscal 2020. Moreover, it bought back 308,000 shares worth \$10 million and paid dividends of \$16 million during fiscal third quarter.

▲ **Financial Flexibility:** Foot Locker's cash and cash equivalents at the end of third-quarter fiscal 2020 increased 1.5% sequentially to \$1,393 million. Notably, the company's cash position remains sufficient to meet its long-term debt and obligations under finance leases of \$129 million as of Oct 31, 2020. Also, the company's "times interest earned" ratio of 58.3 has improved from 46.4 at the end of the second quarter. 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. Notably, the company has a dividend payout of 24.3%, dividend yield of 1.8% and free cash flow yield of 19.5%. With an annual free cash flow return on investment of 31.2%, ahead of the industry's nearly 6.7%, we believe that the dividend payment is likely to be sustainable.

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## Risks

- **Gross Margin Under Pressure:** Foot Locker's gross margin continued to remain under pressure during the third quarter of fiscal 2020. The metric contracted 120 basis points (bps) to 30.9% in the reported quarter from 32.1% in the year-ago quarter. Moreover, merchandise margin rate decreased 390 bps, mainly owing to higher mix of direct-to-consumer, which carries greater shipping costs and increased markdowns to clear aging assortments. In relation to gross margin, management forecasts a less promotional pressure on merchandise margins in fiscal fourth quarter. However, similar to the third quarter, the company envisions fewer return to vendors, which could result in higher than normal markdown rates. In addition, the company expects higher freight cost to be a headwind.

We note that in fiscal second and first quarters, the metric remained under stress. Foot Locker's gross margin contracted 420 bps to 25.9% in the second quarter owing to lower merchandise margins while the same declined significantly to 23% from 33.2% during the first quarter on account of deleveraged occupancy and buyers' compensation expenses, along with decrease in merchandise margin.

- **COVID-19 Headwinds:** Although Foot Locker has been taking initiatives to maneuver through the pandemic-induced challenges, it did not provide outlook for fiscal 2020 due to the ongoing uncertainties. The company said that over 10% of its store fleet has been shut down temporarily owing to COVID-19-related limitations. Moreover, the company's business remained weaker in Europe, where pandemic restrictions were more widespread. While Foot Locker Europe recorded high-single-digit decline in comps, Sidestep fell mid-single-digits in the reported quarter. In addition, its accessories business remained under pressure owing to sluggishness in bags, shoe care and hard goods. The accessories business decreased double-digits in fiscal third quarter. Owing to the supply chain disruptions this year due to the pandemic, the company witnessed significant reductions in the amount of returns to vendor products, leading to a higher promotional activity to clear such goods.
  - **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's Q3 Earnings & Sales Top Estimates, Up Y/Y

Foot Locker came up with stellar third-quarter fiscal 2020 results, wherein the top and bottom lines outpaced the Zacks Consensus Estimate and grew year over year. Results benefited from strength in the company's in-store and online assortments, coupled with resiliency in its brands. Despite a late back-to-school selling season, the company saw momentum as the quarter progressed owing to consumers' robust engagement.

Further, it did not provide outlook for fiscal 2020 due to the ongoing uncertainties. Moving ahead, management believes that it is well positioned to maneuver through the ongoing pandemic. The company also said that over 10% of its store fleet has been shut down temporarily owing to COVID-19-related limitations. However, it has been making proactive actions to offer a seamless experience this holiday season.

| Quarter Ending   | 10/2020      |
|------------------|--------------|
| Report Date      | Nov 20, 2020 |
| Sales Surprise   | 8.71%        |
| EPS Surprise     | 101.67%      |
| Quarterly EPS    | 1.21         |
| Annual EPS (TTM) | 2.88         |

### Q3 Details

The athletic shoes and apparel retailer posted adjusted earnings of \$1.21 per share, which outshone the Zacks Consensus Estimate of 60 cents. The bottom line also rose 7.1% year over year.

On a GAAP basis, the company reported earnings of \$2.52 a share compared with \$1.16 recorded in the prior-year period.

Total sales of \$2,106 million grew 9% year over year and came above the consensus estimate of \$1,937 million. Excluding the foreign-currency fluctuation impact, total sales rose 7.7%. Moreover, comparable-store sales jumped 7.7% during the reported quarter.

Foot Locker's gross-margin rate contracted 120 basis points (bps) to 30.9% during the quarter. However, SG&A expense rate fell 120 bps to 20.1%.

### Store Update

During the reported quarter, Foot Locker opened 27 outlets, remodeled or relocated 8 stores, and shuttered 95 including 70 Runners Point outlets. As of Oct 31, 2020, the company operated 3,032 stores across 27 countries in North America, Europe, Asia, Australia and New Zealand. Apart from these, there are 126 franchised Foot Locker stores in the Middle East.

### Other Financial Details

The company ended fiscal third quarter with cash and cash equivalents of \$1,393 million, debt of \$131 million, and shareholders' equity of \$2,652 million. As of Oct 31, 2020, merchandise inventories were \$1,193 million, down 8.5% from the prior-year period. On a constant-currency basis, inventory declined 9.3%.

Moreover, it bought back 308 thousand shares worth \$10 million and paid dividends of \$16 million during fiscal third quarter.

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## Recent News

### Foot Locker Expands Power Store in Canada – Nov 20, 2020

Foot Locker has opened the first Canadian community-based power store in Vancouver, British Columbia. It also announced that its second community power store is slated to open in Toronto, Ontario early the next month.

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## Valuation

Foot Locker shares are up 55.8% in the past six months and 18.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 112.8% and 9.4%, respectively, in the past six months. Over the past year, the Zacks sub-industry and the sector are up 48.3% and 32.9%, respectively.

The S&P 500 index is up 16.3% in the past six months and 15.2% in the past year.

The stock is currently trading at 10.95X forward 12-month earnings, which compares to 24.48X for the Zacks sub-industry, 31.07X for the Zacks sector and 22.84X 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 11.05X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$54 price target reflects 12.55X 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       | 10.95 | 24.48        | 31.07  | 22.84   |
|                          | 5-Year High   | 22.86 | 89.35        | 34.1   | 23.79   |
|                          | 5-Year Low    | 3.63  | 8.38         | 19.1   | 15.3    |
|                          | 5-Year Median | 11.05 | 14.47        | 23.7   | 17.83   |
| P/S F12M                 | Current       | 0.62  | 1.14         | 1.35   | 4.48    |
|                          | 5-Year High   | 1.3   | 1.16         | 1.35   | 4.48    |
|                          | 5-Year Low    | 0.24  | 0.35         | 0.84   | 3.2     |
|                          | 5-Year Median | 0.72  | 0.85         | 1.02   | 3.68    |
| EV/EBITDA TTM            | Current       | 7.86  | 27.31        | 18.35  | 17.07   |
|                          | 5-Year High   | 8.75  | 27.87        | 20.79  | 17.37   |
|                          | 5-Year Low    | 1.28  | 2.96         | 11.17  | 9.53    |
|                          | 5-Year Median | 5.35  | 6.72         | 13.13  | 13.23   |

As of 01/19/2021

Source: Zacks Investment Research

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## Industry Analysis Zacks Industry Rank: Top 27% (67 out of 252)



Source: Zacks Investment Research

## Top Peers

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

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

| Industry Comparison Industry: Retail - Apparel And Shoes |            |            |           | Industry Peers |           |         |
|----------------------------------------------------------|------------|------------|-----------|----------------|-----------|---------|
|                                                          | FL         | X Industry | S&P 500   | CPRI           | LEVI      | NXGPPY  |
| Zacks Recommendation (Long Term)                         | Outperform | -          | -         | Neutral        | Neutral   | Neutral |
| Zacks Rank (Short Term)                                  | 1          | -          | -         | 2              | 3         | 3       |
| VGM Score                                                | B          | -          | -         | D              | C         | F       |
| Market Cap                                               | 4.91 B     | 900.75 M   | 27.37 B   | 6.41 B         | 8.39 B    | 14.62 B |
| # of Analysts                                            | 11         | 4          | 13        | 9              | 4         | 2       |
| Dividend Yield                                           | 1.27%      | 0.00%      | 1.42%     | 0.00%          | 0.00%     | 0.00%   |
| Value Score                                              | A          | -          | -         | D              | B         | C       |
| Cash/Price                                               | 0.28       | 0.18       | 0.06      | 0.04           | 0.17      | NA      |
| EV/EBITDA                                                | 4.28       | 4.48       | 15.02     | 129.29         | 12.55     | NA      |
| PEG F1                                                   | 7.13       | 4.54       | 2.57      | 6.29           | 4.54      | NA      |
| P/B                                                      | 1.85       | 2.69       | 3.76      | 2.92           | 7.04      | NA      |
| P/CF                                                     | 6.87       | 6.94       | 14.62     | 7.50           | 15.73     | NA      |
| P/E F1                                                   | 18.40      | 32.27      | 20.57     | 35.35          | 21.89     | 36.49   |
| P/S TTM                                                  | 0.65       | 0.61       | 2.99      | 1.48           | 1.81      | NA      |
| Earnings Yield                                           | 5.44%      | 2.26%      | 4.68%     | 2.84%          | 4.64%     | 2.76%   |
| Debt/Equity                                              | 0.05       | 0.16       | 0.70      | 0.72           | 1.30      | NA      |
| Cash Flow (\$/share)                                     | 6.86       | 1.68       | 6.92      | 5.68           | 1.34      | NA      |
| Growth Score                                             | C          | -          | -         | F              | D         | F       |
| Historical EPS Growth (3-5 Years)                        | -5.98%     | -3.92%     | 9.72%     | -9.25%         | NA        | NA      |
| Projected EPS Growth (F1/F0)                             | -48.02%    | -45.71%    | 12.51%    | -68.84%        | 572.41%   | -49.08% |
| Current Cash Flow Growth                                 | -1.10%     | -0.52%     | 5.20%     | -13.65%        | 29.04%    | NA      |
| Historical Cash Flow Growth (3-5 Years)                  | 1.64%      | 1.72%      | 8.36%     | -3.72%         | NA        | NA      |
| Current Ratio                                            | 1.83       | 1.48       | 1.38      | 1.03           | 1.96      | NA      |
| Debt/Capital                                             | 4.64%      | 24.90%     | 41.72%    | 41.83%         | 56.44%    | NA      |
| Net Margin                                               | 4.66%      | -5.50%     | 10.44%    | -9.23%         | -1.90%    | NA      |
| Return on Equity                                         | 12.35%     | -2.15%     | 15.37%    | 11.13%         | 7.10%     | NA      |
| Sales/Assets                                             | 1.11       | 1.03       | 0.50      | 0.55           | 0.91      | NA      |
| Projected Sales Growth (F1/F0)                           | -4.53%     | -3.86%     | 6.04%     | -27.91%        | 20.98%    | -14.57% |
| Momentum Score                                           | B          | -          | -         | A              | B         | F       |
| Daily Price Change                                       | -1.57%     | 0.00%      | 0.32%     | -0.63%         | -0.98%    | -1.19%  |
| 1-Week Price Change                                      | 9.02%      | 2.43%      | -0.33%    | -4.97%         | 4.10%     | 4.43%   |
| 4-Week Price Change                                      | 20.03%     | 11.21%     | 4.08%     | 0.45%          | 0.05%     | 23.83%  |
| 12-Week Price Change                                     | 23.01%     | 34.06%     | 15.82%    | 88.24%         | 27.91%    | 33.03%  |
| 52-Week Price Change                                     | 18.91%     | 2.58%      | 6.40%     | 16.12%         | 5.65%     | 20.82%  |
| 20-Day Average Volume (Shares)                           | 1,365,663  | 223,347    | 1,494,171 | 4,091,204      | 1,048,217 | 6,678   |
| EPS F1 Estimate 1-Week Change                            | 0.53%      | 0.00%      | 0.00%     | 0.00%          | 0.00%     | 0.00%   |
| EPS F1 Estimate 4-Week Change                            | 0.62%      | 0.00%      | 0.10%     | 0.46%          | 0.00%     | -0.65%  |
| EPS F1 Estimate 12-Week Change                           | 46.16%     | 14.33%     | 2.34%     | 152.55%        | 0.78%     | 0.33%   |
| EPS Q1 Estimate Monthly Change                           | 1.36%      | 0.00%      | 0.00%     | 0.44%          | 0.00%     | NA      |

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.

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### Zacks Style Scores

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

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

|                |   |
|----------------|---|
| Value Score    | A |
| Growth Score   | C |
| Momentum Score | B |
| VGM Score      | B |

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

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## Disclosures

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## 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.

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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-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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.