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May 21, 2021

# Guess?, Inc. (GES)

**$27.07** (As of 05/20/21)

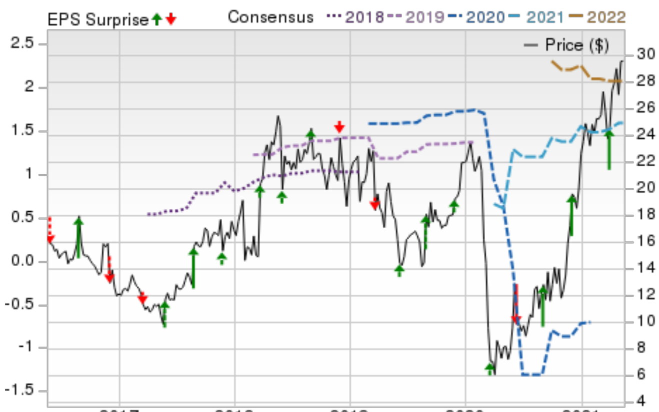
Price Target (6-12 Months): **$32.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 05/20/21) Prior Recommendation: Neutral | **Outperform** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **1-Strong Buy** |
| | Zacks Style Scores: | VGM:B |
| | Value: B \| Growth: C | Momentum: B |

## Summary

Guess? has outpaced the industry in the past six months. The company has been gaining on its solid digital efforts and expense control. Notably, its e-commerce business in North America and Europe rose 38% year over year in fourth-quarter fiscal 2021. Certainly, Guess?'s online business is poised for growth, though it is likely to entail high costs. Additionally, the company is on track with its six key strategies, including organization and culture, functional capacities, brand relevance, customer focus, product brilliance and international footprint. Moreover, the company's SG&A costs have been declining year over year for the past few quarters, thanks to solid expense control. However, its revenues remain troubled by pandemic-led low demand, temporary store closures and capacity constraints — mainly in Europe and Canada.

## Price, Consensus & Surprise




Source: Zacks Investment Research

## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$30.40 - $7.53** |
| 20-Day Average Volume (Shares) | **661,156** |
| Market Cap | **$1.7 B** |
| Year-To-Date Price Change | **19.7%** |
| Beta | **2.24** |
| Dividend / Dividend Yield | **$0.45 / 1.7%** |
| Industry | **Textile - Apparel** |
| Zacks Industry Rank | **Top 17% (42 out of 251)** |
| Last EPS Surprise | **107.0%** |
| Last Sales Surprise | **-1.3%** |
| EPS F1 Estimate 4-Week Change | **6.7%** |
| Expected Report Date | **06/09/2021** |
| Earnings ESP | **20.0%** |
| P/E TTM | **NA** |
| P/E F1 | **16.0** |
| PEG F1 | **0.9** |
| P/S TTM | **0.9** |

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


## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2023 | | | | | 2,690 E |
| 2022 | 495 E | 594 E | 637 E | 701 E | 2,469 E |
| 2021 | 260 A | 399 A | 569 A | 648 A | 1,877 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2023 | | | | | $2.45 E |
| 2022 | -$0.20 E | $0.42 E | $0.45 E | $1.02 E | $1.69 E |
| 2021 | -$1.81 A | -$0.01 A | $0.58 A | $1.18 A | -$0.07 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 05/20/2021. The report's text and the analyst-provided price target are as of 05/21/2021.

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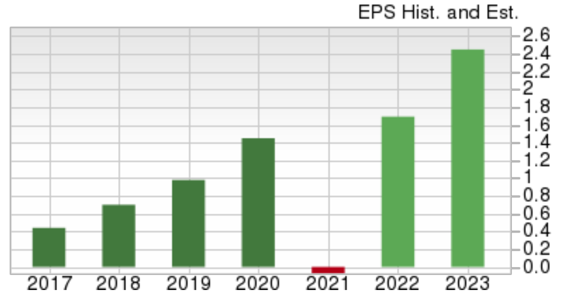
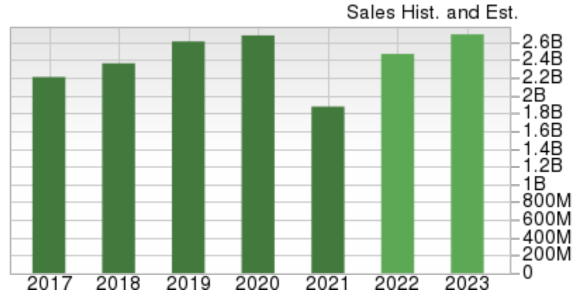
## Overview




Founded in 1981 and based in L.A. Guess?, Inc. designs, markets, distributes and licenses casual apparel and accessories for men, women and children as per the American lifestyle and European fashion sensibilities.

The company's collection includes contemporary apparel, denim, handbags, eyewear, watches, footwear, and other related consumer products. In the clothing category, the company's collections include jeans, pants, skirts, dresses, shorts, blouses, shirts, jackets, knitwear and intimate apparel. It also designs jewelry and other fashion accessories.

Products of the company are sold through retail, wholesale, e-Commerce and licensing distribution channels.

The company's apparel is marketed under several trademarks such as GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, MARCIANO, Question Mark and Triangle Design, a stylized G and a stylized M, GUESS Kids, Baby GUESS, YES, G by GUESS (GbG), GUESS by MARCIANO and Gc.

Guess' and its network of licensee partners sell their products primarily through six different store concepts, namely the flagship Guess-Full-price retail stores, Guess-factory outlet stores, Guess by Marciano stores, G by Guess stores, Guess Accessories Stores and Guess Kids Stores.

Further, the products are sold through wholesale, direct-to-consumer and licensing distribution networks. The company's business is classified into five reportable segments: Europe, Americas Retail, Asia, Americas Wholesale and Licensing.

The company sources products from numerous suppliers located both locally and globally. Further, the company promotes its products through advertising, public relations and marketing strategies. In fact, strong promotional skills have helped the company in creating a unique name for itself in the fashion space as well as keep driving consumer traffic.

As of Jan 30, 2021, Guess? directly operated 1,046 retail stores across the Americas, Europe and Asia. Further, the company and its partners and distributors operated in nearly 100 countries worldwide.


*Source: Zacks Investment Research*

## Reasons To Buy:

▲ **Digital Operations to Drive Performance:** Shares of Guess? have surged 56.6% in the past six months compared with the industry's growth of 10.5%. The company has been benefitting from its solid digital business, which performed well in the fourth quarter of fiscal 2021. Notably, the company's e-commerce business in North America and Europe increased 38% in the fourth quarter of fiscal 2021, following 19% and 9% improvements in the third and second quarters, respectively. Guess?'s e-commerce penetration increased to 20% in the past year, partly due to the pandemic-led store closures. The company expects most of its anticipated revenue growth by fiscal 2025 (mentioned below) to be backed by its e-commerce business. Management envisions e-commerce penetration of its direct-to-consumer sales to increase to 23% in fiscal 2025, from 13% in fiscal 2020.

The company has been benefitting from its solid digital business, which performed well in the fourth quarter of fiscal 2021. Also, Guess? is on track with its six core strategies.

Markedly, Guess? has been on track with its digital-first initiative and has been investing in brand building through social media platforms such as Facebook, Twitter, Instagram and YouTube. Further, the company has been focusing on linking brick-and-mortar stores, e-commerce and mobile sales to improve its online operations. Guess? is also improving e-commerce operations by undertaking efforts such as better data capturing, improved customer profiling, personalized marketing and relationship management. These efforts are expected to help the company enhance customer base and enrich their experience, which in turn is likely to aid sales.

▲ **Strategic Plan on Track:** Guess? has been focused on its five-year strategic plan that was unveiled in December 2019. To this end, the company is committed to its six key strategies and has made remarkable progress against each of them in fiscal 2021, amid the pandemic. The core strategies include organization and culture, functional capacities, brand relevance with three main consumer groups (heritage, Millennials and Generation Z customers), customer focus, product brilliance and international footprint. Management targets achieving an operating margin of 10% by fiscal 2025. Net revenues are expected to be $2.9 billion, indicating a CAGR of 2% from fiscal 2020. Further, management intends to double its earnings per share to $3 by fiscal 2025, from $1.33 recorded in fiscal 2020.

In connection with its strategic plan, the company completed the implementation of the salesforce platform in the United States, Canada and Europe in the past year, and is encouraged with the initial results. With respect to its salesforce and omnichannel capacity rollout, Guess? is implementing Customer 360, which is a solution developed by salesforce for personalized marketing, customer data optimization and customers' journey engagement among other objectives.

Moving on, the company rationalized its store portfolio during the year, by shutting more than 125 underperforming stores and renegotiating 290 leases with favorable terms. As part of store rationalization, Guess? also repositioned its business in China – through alliances with four new franchisees in different regions of the country. Also, the company integrated G by Guess? brand into its GUESS Factory business in the United States. Finally, management undertook steps to transform its business model, which includes the global reorganization of its team; omnichannel focus for the company's direct-to-consumer business; development of Guess?'s first global product line as well as the introduction of product categories like essentials and athleisure. We note that demand for these categories is likely to be high amid the pandemic-induced stay-at-home trends.

▲ **Reduced Costs, Solid Gross Margin:** The company's SG&A costs have been declining year over year for the past few quarters, thanks to solid expense control. Markedly, Guess lowered its SG&A costs by more than 20% in fiscal 2021. During the fourth quarter of fiscal 2021, SG&A decreased $35 million year over year to $202 million. This can be attributed to benefits from changes to the company's expense structure, reduced advertising expenditure and lower costs associated with permanent store closures compared with the year-ago period. Additionally, few one-time benefits from government subsidies were an upside in Europe, partly negated by high variable costs related to e-commerce business advancements.

Apart from this, the gross margin has been expanding year over year. In the fourth quarter, the metric expanded 240 basis points (bps) to 42.6%. Product margin increased 140 bps driven by higher initial markups (IMU) and reduced promotions. Management on its fourth-quarter fiscal 2021 earnings call stated that it expects adjusted operating margin growth of 440 basis points in the next few years mainly on the back of operational efficiency, which in turn is likely to be driven by efficiency across supply chain (thanks to better IMUs) and logistics. However, these are likely to be somewhat affected by costs related to e-commerce growth.

▲ **Financial Analysis:** Guess?'s long-term debt (including finance lease obligations and operating lease liability) of $731.2 million as of the end of the fourth quarter of fiscal 2021 (Jan 30, 2021) decreased 3.7% on a quarter-on-quarter basis from $759.3 million. Further, the company's cash of $469.1 million is sufficient to meet its current operating lease liabilities of $222.8 million at the end of the fourth quarter.

Apart from this, the company looks well placed on the dividend front. Recently, Guess? announced a quarterly dividend of 11.25 cents per share which was payable on Apr 30, 2021. Notably, Guess? has a dividend yield of 1.7% and free cash flow yield of almost 11%. With an annual free cash flow return on investment of 33.8%, much ahead of the industry's almost 14%, the dividend payment is likely to be sustainable. Additionally, Guess? made share repurchases of $39 million in fiscal 2021.

## Risks

- **COVID-19 Hurts Sales, Outlook:** Guess?'s net revenues amounted to $648.5 million in the fourth quarter of fiscal 2021, which missed the consensus mark of $657 million. Also, the metric tumbled 23% year over year. On a constant-currency (cc) basis, net revenues declined 25.9%. Revenues continued to bear adverse impacts from the pandemic-induced reduced demand, temporary store closures as well as capacity constraints – mainly in Europe and Canada. These factors weighed on Guess?'s retail revenues. Also, an expected shift in wholesale shipments (in Europe) to the first quarter of fiscal 2022 was a drag. The company offered revenue growth guidance for the first quarter and fiscal 2022 from the pre-pandemic level (fiscal 2020) to offer a relatively normalized comparison.

  Guess? envisions first-quarter 2022 net revenues to decline in high single digits from the fiscal 2020 level, owing to the pandemic-induced store closures and reduced traffic. For fiscal 2022, management expects revenues to decline in high-single digits from fiscal 2020, considering that there will not be any pandemic-related closures after the first quarter. Also, the guidance includes expectations of a return to the normal pace of product development and shipments in the European wholesale business.

- **Temporary Store Closures Amid COVID-19:** Toward the end of the third quarter of fiscal 2021, Guess? had begun a new round of government-mandated temporary store closures, mainly in Europe. While the number of temporary closures varied throughout the quarter, on an overall basis, these stores were closed for more than 15% of the total days in the fourth quarter of fiscal 2021. As of Jan 30, 2021, more than 70% of the company's stores were open, with most of the closed stores being located in Europe and Canada. As of Mar 27, nearly 77% of the company's stores were open. We believe that temporary store closures pose threats to the company's top-line performance.

- **High E-Commerce Costs:** Though Guess?'s focus on strengthening the e-commerce business has been working well for its revenues, these efforts entail high costs. On its fourth-quarter earnings call, management said that it expects costs associated with e-commerce growth to partly weigh on adjusted operating margin in the next few years. Incidentally, adjusted operating margin in the fourth quarter of fiscal 2021 contracted 70 bps to 11.4% on account of overall expense deleverage stemming from adverse COVID-19 impacts on the company's revenues and global operations.

- **International Exposure Poses Currency Risks:** Owing to Guess?' solid international presence, the company remains exposed to the unfavorable currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. Thus, the volatility in exchange rates remains a concern for the company.

## Last Earnings Report

### Guess? Q4 Earnings Beat Estimates, Strategic Plan on Track

| Quarter Ending | 01/2021 |
| --- | --- |
| Report Date | Mar 31, 2021 |
| Sales Surprise | -1.29% |
| EPS Surprise | 107.02% |
| Quarterly EPS | 1.18 |
| Annual EPS (TTM) | -0.06 |

Guess? reported fourth-quarter fiscal 2021 results. The company is committed toward its six key strategies and has made remarkable progress against each of them in fiscal 2021, amid the pandemic. Management targets achieving operating margin of 10% by fiscal 2025. Net revenues are expected to be $2.9 billion, indicating a CAGR of 2% from fiscal 2020. Further, management intends to double its earnings per share to $3 by fiscal 2025, from $1.33 recorded in fiscal 2020.

Guess? posted adjusted earnings of $1.18 per share, which came significantly ahead of the Zacks Consensus Estimate of 57 cents. However, the bottom line declined 3.3% from earnings of $1.22 recorded in the year-ago quarter. Notably, share repurchases had a positive impact of 7 cents on adjusted earnings per share.

Net revenues amounted to $648.5 million, which missed the consensus mark of $657 million. Also, the metric tumbled 23% year over year. On a constant-currency (cc) basis, net revenues declined 25.9%. The company's gross margin expanded 240 basis points (bps) to 42.6%. As a percentage of sales, SG&A expenses increased from 28.1% to 31.1%.

During the quarter, adjusted earnings from operations slumped 27% to $74.2 million. Adjusted operating margin contracted 70 bps to 11.4% on account of overall expense deleverage stemming from adverse COVID-19 impacts on the company's revenues and global operations. This was somewhat compensated by reduced expenses.

### Segment Performance

Revenues in the **Americas Retail** segment declined 24.2% (or 24% at cc) year over year. Retail comp sales including e-commerce fell 15% (also at cc). Operating margin expanded 640 bps to 12.8% thanks to reduced store occupancy costs and store selling expenses along with lower markdowns. This was somewhat negated by deleveraging impact of negative comp sales stemming from reduced traffic amid COVID-19. Net revenues in the **Americas Wholesale** segment dropped 15.3% (or 14.1% at cc) year over year. Further, operating margin expanded 390 bps to 23.5% mainly driven by increased selling prices as well as lower sales discounts and allowances.

The **Europe** segment's revenues tumbled 26.8% (31.8% at cc) year over year. Retail comp sales including e-commerce climbed 2% (fell 5% at cc). Operating margin contracted 620 bps to 12.7% owing to expense deleverage stemming from the pandemic-led soft revenues, together with unfavorable timing shift of wholesale shipments to the first quarter of fiscal 2022. These were partially made up by elevated initial markups, rent concessions and government subsidies.

**Asia** revenues plunged 16.2% on a year-over-year basis. The metric dropped 20.7% at cc. Retail comp sales, including e-commerce, declined 18% (or 22% in cc). Operating margin expanded 340 bps to 5% on the back of reduced expenses — partly offset by adverse deleverage effect. **Licensing** revenues advanced 12% year over year. Operating margin soared 820 bps to 95.3% on reduced expenses.

### Other Updates & Outlook

The company exited the quarter with cash and cash equivalents of $469.1 million as well as long-term debt and finance lease obligations of $68.5 million. Further, stockholders' equity was $543.7 million. Net cash provided by operating activities in fiscal 2021 amounted to $209.1 million. The company announced a quarterly dividend of 11.25 cents per share, which is payable on Apr 30, 2021 to shareholders as of Apr 14.

Toward the end of the fiscal third quarter, Guess? had begun a new round of government-mandated temporary store closures, mainly in Europe. While the number of temporary closures varied throughout the quarter, on an overall basis, these stores were closed for more than 15% of the total days in the fourth quarter of fiscal 2021. As of Jan 30, 2021, more than 70% of the company's stores were open, with most of the closed stores being located in Europe and Canada. As of Mar 27, nearly 77% of the company's stores were open.

For the first quarter and fiscal 2022, the company is not offering any detailed view owing to the uncertainty surrounding coronavirus. However, the company offered revenue growth guidance for the first quarter and fiscal 2022 from the pre-pandemic level (fiscal 2020) to offer a relatively normalized comparison.

Guess? envisions first-quarter 2022 net revenues to decline in high single digits from the fiscal 2020 level, owing to the pandemic-induced store closures and reduced traffic. This is likely to be somewhat made up by strength in the company's global e-commerce business and favorable timing shift of European shipments from the fourth quarter to the first quarter of fiscal 2022. For fiscal 2022, management expects revenues to decline in high single digits from fiscal 2020, considering that there will not be any pandemic-related closures after the first quarter. Also, the guidance includes expectations of a back to normal pace of product development and shipments in the European wholesale business.

## Valuation

Shares of Guess? are up 19.7% in the year-to-date period and 245.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.7% and the Zacks Consumer Discretionary sector declined 2.7% in the year-to-date period. Over the past year, the Zacks sub-industry is up 68.1% while the sector gained 34.7%.

The S&P 500 index is up 10.1% in the year-to-date period and 41.1% in the past year.

The stock is currently trading at 0.69X forward 12-month sales, which compares to 2.82X for the Zacks sub-industry, 2.67X for the Zacks sector and 4.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.83X and as low as 0.1X, with a 5-year median of 0.53X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $32 price target reflects 0.82X forward 12-month sales.

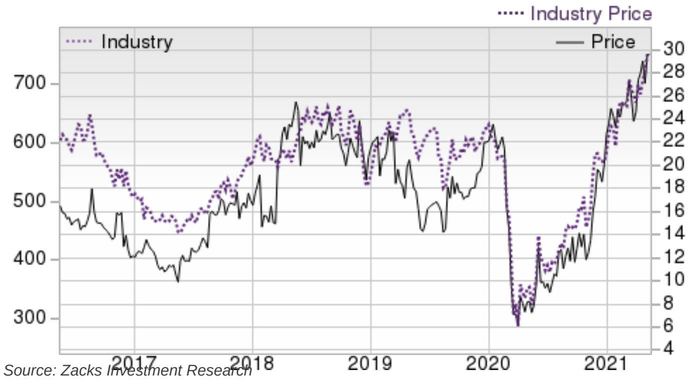
The table below shows summary valuation data for GES

**Valuation Multiples - GES**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/S F12M | Current | 0.69 | 2.82 | 2.67 | 4.62 |
| | 5-Year High | 0.83 | 3 | 2.94 | 4.74 |
| | 5-Year Low | 0.1 | 1.45 | 1.73 | 3.21 |
| | 5-Year Median | 0.53 | 2.1 | 2.52 | 3.71 |
| P/B TTM | Current | 3.08 | 11.67 | 3.33 | 6.81 |
| | 5-Year High | 3.43 | 12.55 | 4.88 | 7.01 |
| | 5-Year Low | 0.39 | 3.57 | 2.25 | 3.83 |
| | 5-Year Median | 1.8 | 6.41 | 4.07 | 5.01 |
| EV/EBITDA F12M | Current | 5.51 | 19.84 | 13.56 | 15.81 |
| | 5-Year High | 18.21 | 28.16 | 14.34 | 16.53 |
| | 5-Year Low | 0.03 | 9.89 | 8.12 | 10.79 |
| | 5-Year Median | 5.2 | 15.05 | 11.09 | 13.54 |

*As of 05/20/2021* *Source: Zacks Investment Research*

## Industry Analysis **Zacks Industry Rank:** Top 17% (42 out of 251)




*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| American Eagle Outfitters, Inc. **(AEO)** | Outperform | 2 |
| Columbia Sportswear Company **(COLM)** | Outperform | 1 |
| Gildan Activewear, Inc. **(GIL)** | Outperform | 1 |
| Ralph Lauren Corporation **(RL)** | Outperform | 2 |
| GIII Apparel Group, LTD. **(GIII)** | Neutral | 2 |
| Hanesbrands Inc. **(HBI)** | Neutral | 3 |
| lululemon athletica inc. **(LULU)** | Neutral | 4 |
| Under Armour, Inc. **(UAA)** | Neutral | 2 |

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

## Industry Comparison Industry: Textile - Apparel

| | GES | X Industry | S&P 500 | COLM | GIII | RL |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Outperform | - | - | Outperform | Neutral | Outperform |
| **Zacks Rank (Short Term)** | 1 | - | - | 1 | 2 | 2 |
| **VGM Score** | B | - | - | C | A | A |
| Market Cap | 1.74 B | 1.55 B | 30.13 B | 6.86 B | 1.56 B | 8.91 B |
| # of Analysts | 3 | 4 | 12 | 5 | 6 | 6 |
| Dividend Yield | 1.66% | 0.00% | 1.29% | 1.01% | 0.00% | 0.00% |
| **Value Score** | B | - | - | D | A | B |
| Cash/Price | 0.25 | 0.11 | 0.05 | 0.12 | 0.22 | 0.28 |
| EV/EBITDA | 145.21 | 13.19 | 17.33 | 20.91 | 13.75 | 12.64 |
| PEG F1 | 0.92 | 1.43 | 2.18 | 0.75 | 1.19 | 2.26 |
| P/B | 3.05 | 3.55 | 4.14 | 3.67 | 1.17 | 3.42 |
| P/CF | 24.35 | 19.06 | 17.39 | 26.84 | 20.73 | 23.79 |
| P/E F1 | 16.02 | 18.47 | 21.81 | 24.07 | 13.77 | 18.47 |
| P/S TTM | 0.93 | 0.98 | 3.53 | 2.68 | 0.76 | 2.02 |
| Earnings Yield | 6.24% | 5.34% | 4.50% | 4.16% | 7.26% | 5.42% |
| Debt/Equity | 0.58 | 0.57 | 0.66 | 0.00 | 0.38 | 0.63 |
| Cash Flow ($/share) | 1.11 | 1.55 | 6.82 | 3.85 | 1.55 | 5.12 |
| **Growth Score** | C | - | - | A | B | A |
| Historical EPS Growth (3-5 Years) | -12.24% | -9.37% | 9.39% | 0.39% | 0.55% | -17.92% |
| Projected EPS Growth (F1/F0) | 2,519.00% | 109.77% | 20.15% | 164.69% | 224.76% | 288.14% |
| Current Cash Flow Growth | -61.91% | -31.92% | 0.74% | -42.75% | -61.45% | -51.71% |
| Historical Cash Flow Growth (3-5 Years) | -14.25% | -4.88% | 7.37% | 1.98% | -11.55% | -4.88% |
| Current Ratio | 1.62 | 2.02 | 1.39 | 3.80 | 3.34 | 2.66 |
| Debt/Capital | 36.92% | 36.33% | 41.58% | 0.00% | 27.58% | 38.54% |
| Net Margin | -4.33% | 0.64% | 11.70% | 6.40% | 1.15% | -2.75% |
| Return on Equity | -0.91% | 4.89% | 16.06% | 9.25% | 2.85% | 4.89% |
| Sales/Assets | 0.79 | 0.93 | 0.50 | 0.94 | 0.82 | 0.56 |
| Projected Sales Growth (F1/F0) | 31.60% | 17.92% | 9.14% | 21.99% | 23.24% | 27.24% |
| **Momentum Score** | B | - | - | F | C | A |
| Daily Price Change | -3.60% | 0.00% | 0.69% | 0.12% | -3.36% | -7.01% |
| 1-Week Price Change | 0.10% | 0.00% | -0.87% | -2.26% | -4.87% | -2.26% |
| 4-Week Price Change | -2.73% | 0.00% | 1.58% | -7.76% | -0.09% | -1.26% |
| 12-Week Price Change | 2.07% | 7.52% | 10.52% | -1.97% | 10.40% | 3.65% |
| 52-Week Price Change | 230.52% | 100.72% | 46.94% | 47.44% | 217.03% | 63.43% |
| 20-Day Average Volume (Shares) | 661,156 | 50,876 | 1,929,084 | 426,580 | 365,873 | 1,115,477 |
| EPS F1 Estimate 1-Week Change | 6.72% | 0.00% | 0.00% | 0.00% | 0.43% | 0.66% |
| EPS F1 Estimate 4-Week Change | 6.72% | 1.01% | 1.84% | 5.05% | 0.43% | 2.25% |
| EPS F1 Estimate 12-Week Change | 14.41% | 4.43% | 2.57% | 7.20% | 4.86% | 5.01% |
| EPS Q1 Estimate Monthly Change | 10.62% | 0.64% | 0.94% | 50.19% | 9.68% | -1.12% |

Industry Peers: COLM, GIII, RL

*Source: Zacks Investment Research*

## Zacks Stock Rating System

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

## Zacks Recommendation

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

## Zacks Rank

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

## Zacks Style Scores

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

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.

## 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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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 mediumterm 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 mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**P/TB Ratio:** The price-to-tangible-book value ratio is calculated as 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.

**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.