

G-III Apparel, Ltd. (GIII)

\$24.48 (As of 12/04/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Shares of G-III Apparel have outperformed the industry in the past three months. The company has reported narrower-than-expected loss per share during second-quarter fiscal 2021. Moreover, it is on track with the restructuring of retail unit, which is believed to cut losses from the underperforming locations. Management is also optimistic about the global power brands, and expects the athleisure wear and jeans category to be a growth opportunity. However, the company's dismal sales trend persisted in second quarter on soft top-line performance in both the segments. Also, both the metrics declined year over year due to the ongoing effects of the pandemic. Management anticipates pandemic-related impacts to continue hurting results in the second half of fiscal 2021 and consequently projects net sales to fall in the 28-33% range year over year.

Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$34.42 - \$2.96
20-Day Average Volume (Shares)	911,139
Market Cap	\$1.2 B
Year-To-Date Price Change	-26.9%
Beta	2.73
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Top 23% (58 out of 254)

Sales and EPS Growth Rates (Y/Y %)

Sales		EPS	
-------	--	-----	--

Last EPS Surprise	59.2%
Last Sales Surprise	-12.7%
EPS F1 Estimate 4-Week Change	-17.6%
Expected Report Date	12/08/2020
Earnings ESP	17.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	516 E	480 E	920 E	601 E	2,472 E
2021	405 A	297 A	773 E	547 E	2,022 E
2020	634 A	644 A	1,128 A	755 A	3,160 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.03 E	\$0.01 E	\$1.54 E	\$0.59 E	\$2.17 E
2021	-\$0.75 A	-\$0.31 A	\$0.88 E	\$0.41 E	\$0.34 E
2020	\$0.25 A	\$0.23 A	\$1.99 A	\$0.75 A	\$3.19 A

*Quarterly figures may not add up to annual.

P/E TTM	14.6
P/E F1	72.0
PEG F1	6.7
P/S TTM	0.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/04/2020. The reports text is as of 12/07/2020.

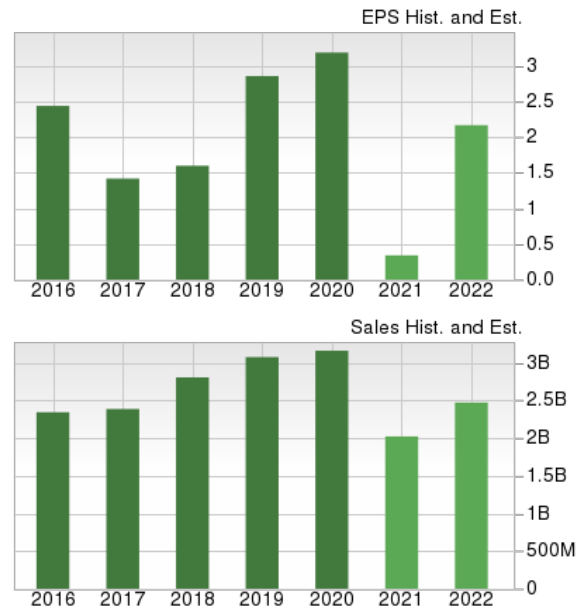
Overview

Based in New York, G-III Apparel Group, Ltd. is a manufacturer, designer and distributor of apparel and accessories under licensed brands, owned brands and private label brands. The company's portfolio includes outerwear, dresses, sportswear, swimwear, women's suits and women's performance wear as well as women's handbags, footwear, small leather goods, cold weather accessories and luggage. G-III has a portfolio of more than 40 licensed and proprietary brands, including five global major brands — DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. G-III's owned brands include Donna Karan, DKNY, Vilebrequin, G. H. Bass, Andrew Marc, Marc New York, Eliza J and Jessica Howard.

The company operates under two segments — wholesale operations and retail operations.

Wholesale operations segment consists of wholesale sales, revenues from license agreements and internet sales related to the Donna Karan International ("DKI"), G.H. Bass, Andrew Marc and Vilebrequin businesses.

Retail operations segment comprises Wilsons Leather, G.H. Bass and DKNY retail stores along with a limited number of Calvin Klein Performance and Karl Lagerfeld Paris stores. This segment also consists of product sales through Wilsons and G.H. Bass websites.



Further, management is on track with the restructuring of the retail segment, which is expected to cut losses from underperforming locations and make the division profitable. This restructuring includes shutting down of 110 Wilsons Leather and 89 G.H. Bass outlets.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Q2 Highlights:** Shares of G-III Apparel have gained 101.2% compared with the industry's 22% rally over the past three months. We note that the company has posted narrower-than-expected loss per share during second-quarter fiscal 2021. It reported loss per share of 31 cents, narrower than the Zacks Consensus Estimate of a loss of 76 cents. Moreover, it saw comparable-sales growth of over 60% in the DKNY and Karl Lagerfeld Paris sites. Further, gross margin increased significantly to 45.3% from the prior-year tally of 36%, mainly driven by higher gross margin in the Wholesale segment, partly offset by contraction in the metric at the Retail unit. Also, SG&A expenses contracted 37.8% year over year to \$122.1 million during the quarter under review. Meanwhile, it permanently minimized its global wholesale headcount, which led to roughly \$23 million of annualized savings.

G-III Apparel is optimistic about its global power brands such as DKNY, Calvin Klein and Tommy Hilfiger. Further, the company is on track with the restructuring of the retail unit.

Going forward, management is encouraged about the ongoing DKNY and Karl Lagerfeld Paris stores and digital sites. Moreover, it has been seeing accelerating demand for the Performance or athleisure wear category. Management pointed out that the athleisure-wear and jeans category appear to be a major growth opportunity.

▲ **Restructuring of Retail Division:** G-III Apparel remains on track with the restructuring of its retail operations. This restructuring is believed to help cut losses from underperforming locations and make the division profitable. The restructuring includes shutting down of its entire 110 Wilsons Leather and 89 G.H. Bass outlets. Notably, the store liquidations are underway and the company estimates incurring a total charge of about \$100 million in relation to the restructuring. Management estimates the cash portion of this charge to be roughly \$65 million. On a year-to-date basis, the company has spent roughly \$56 million in charges. Post restructuring, the retail unit will initially comprise 41 DKNY and 13 Karl Lagerfeld Paris outlets. Also, it will have e-commerce sites for Donna Karan, Andrew Marc, Karl Lagerfeld Paris, DKNY, Wilsons Leather and G.H. Bass.

▲ **Growth Potential for DKNY and Donna Karan Brands:** DKNY and Donna Karan brands have been performing well and emerged as an important factor for driving overall organizational growth. Evidently, the company's DKNY and Donna Karan brands registered sales growth of about 25% in fiscal 2020. These brands generated more than \$450 million in wholesale sales and licensing revenues annually, thus adding to profits significantly.

We note that the company has been opening and reshaping stores under the DKNY and Donna Karan banners while also continuing to launch new products. Further, the company is also augmenting licensing agreements for these brands across the globe to spread brand awareness and reach out to a broader consumer base. Notably, it entered into a licensing agreement with Komar, pertaining to DKNY intimate apparel. Moreover, continued success of DKNY home business led management to enter into a licensing agreement with Living Style Group. Additionally, the company is emphasizing on brand marketing to ensure stronger visibility. Going forward, management is optimistic about the wholesale segment, buoyed by global power brands such as DKNY, Donna Karan, Calvin Klein, Tommy Hilfiger and Karl Lagerfeld. Management has recently added jeans lines and have become the dominant resource in athleisure wear with its widely recognized power brands such as DKNY, Calvin Klein and Tommy Hilfiger.

▲ **Strategic Endeavors:** G-III Apparel undertakes several strategies, including acquisitions and licensing of well-known brands, to expand product portfolio and make itself a diversified apparel and accessories company. Acquisitions and licensing agreements over the years have led to the emergence of the company's five global power brands – DKNY, Donna Karen, Calvin Klein, Tommy Hilfiger, and Karl Lagerfeld – which are poised to deliver solid long-term growth. Further, G-III Apparel has renewed its license deals for the Levi's and Dockers brands. The company has extended the licenses for these labels with Levi Strauss through Nov 30, 2024. Notably, the Levi's brand covers men's and women's outerwear while Dockers includes men's outerwear. Levi's outerwear collections will be available at select department outlets, specialty stores, premium-outerwear retailers and Levi's retail outlets, whereas Dockers outerwear will be sold at select department stores throughout the nation.

Apart from these, GIII-Apparel remains on track with the process of bolstering brands across channels, with new launches, improved marketing strategies and broader consumer reach. It also plans to make efficient utilization of digital and social media platforms.

▲ **Debt Analysis:** G-III Apparel ended second-quarter fiscal 2021 with a long-term debt of \$405 million as of Jul 31, 2020, which shows a sequential decrease of about 55%. Moreover, at the end of the quarter, the company's debt-to-capitalization ratio was a respectable 0.25, lower than that of the industry's 0.58. Also, the company's debt-to-capitalization ratio compared favorably with 0.42 at the end of the preceding quarter. We note that the company's net debt position at Jul 31, 2020, was \$156 million versus \$514 million in the year-ago period. It has extended the term of revolver, now expiring in December 2025 subject to some availability requirements. In August, management issued \$400 million of 7.875% senior secured notes for paying off the previously outstanding \$300 million term loan and raised cash by approximately \$90 million. The company also amended and extended the \$650 million revolving credit line.

Reasons To Sell:

- ▼ **Dismal Sales:** G-III Apparel's sales lagged the Zacks Consensus Estimate for the eighth consecutive time, when it reported second-quarter fiscal 2021. Also, both sales and earnings compared unfavorably with the year-ago quarter's respective figures. The top line plunged 53.8% year over year on sales decline at the wholesale and retail divisions. Results were significantly hurt by the ongoing effects of the pandemic.

Although the quarter started with the majority of its partners and own-retail outlets closed, most of the stores have now reopened. Nevertheless, the company anticipates pandemic-related impacts to continue hurting results in the second half of fiscal 2021. It projects net sales to fall in the 28-33% range year over year during the aforementioned period. Owing to pandemic-induced uncertainties, the company did not issue any other guidance.

Dismal performance of G-III Apparel's Retail business, stemming from weak brands and store closures, poses concern. This is hurting the company's overall top-line performance.

- ▼ **Sluggish Retail Business:** G-III Apparel's retail business has been dismal for a while and continue to hurt the company's overall top-line performance. The soft trend persisted during fiscal second quarter, wherein net sales at the segment were down nearly 59% from the prior-year quarter's reported figure. The metric included \$20 million of sales for the Wilsons Leather and G.H Bass stores, compared to \$54 million in the prior-year period. The segment's gross margin also contracted to 32.5% from 46.5% in the year-ago quarter, thanks to the store liquidations for Wilsons Leather and G.H Bass outlets. However, management is on track with the restructuring of the retail segment, which includes closing down of underperforming outlets.
 - ▼ **Competitive Pressure:** G-III Apparel faces intense competition from other well-established players in the apparel industry on the basis of brand recognition, fashion, price, service, style and quality. The company competes with a diverse group of retailers including outlet stores, department stores, specialty stores, warehouse clubs and e-commerce retailers. Failure to offer high-quality products at a competitive price may hamper the company's market share and dent top- and bottom-line growth.
 - ▼ **Adverse Currency Fluctuations:** G-III Apparel generates a significant amount of sales outside the United States. Due to high exposure to international markets, the company is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or contract profit margins in locations outside the United States. An increase in price may have an adverse impact on demand. Per management, some of the foreign operations buy products from suppliers denominated in U.S. dollars and euros. This may expose such operations to rise in cost of goods sold that will result in low profit margins due to foreign exchange fluctuations.
-

Last Earnings Report

G-III Apparel Posts Narrower-Than-Expected Q2 Loss

G-III Apparel posted narrower-than-expected loss per share in second-quarter fiscal 2021. However, the top line missed the Zacks Consensus Estimate, and both sales and earnings compared unfavorably with the year-ago quarter's respective figures. Results were significantly hurt by the ongoing effects of the pandemic. Although the quarter started with the majority of its partners and own-retail outlets closed, most of the stores have now reopened.

Management anticipates pandemic-related impacts to continue hurting results in the second half of fiscal 2021. It projects net sales to fall in the 28-33% range year over year during the aforementioned period. Owing to pandemic-induced uncertainties, the company did not issue any other guidance.

Q2 in Detail

G-III Apparel reported loss per share of 31 cents, narrower than the Zacks Consensus Estimate of a loss of 76 cents. The company reported earnings of 23 cents per share in the same quarter a year ago. The reported figure includes net losses from the Wilsons Leather and G.H. Bass operations of 53 cents per share versus loss per share of 13 cents in the year-ago period.

Net sales plunged 53.8% year over year to \$297.2 million. Moreover, the top line missed the Zacks Consensus Estimate of \$340 million, marking the eighth-straight quarter of a sales miss. Soft top-line performance can be attributed to a decline in sales at both the wholesale and retail divisions.

Moreover, gross profit declined 41.9% year over year to \$134.7 million. However, gross margin of 45.3% increased significantly from the prior-year tally of 36%, mainly driven by higher gross margin in the Wholesale segment, partly offset by contraction in the metric at the Retail unit.

However, SG&A expenses contracted 37.8% year over year to \$122.1 million. We note that the company has brought back part of its furloughed staff in conjunction with store reopenings. Meanwhile, it permanently minimized its global wholesale headcount, which led to roughly \$23 million of annualized savings.

Further, the company reported operating loss of \$11.4 million against operating income of \$26.9 million in the year-ago quarter.

Segmental Performance

Net sales at the **Wholesale** segment were \$267 million, down roughly 55% year over year. However, the segment's gross margin rose substantially to 46.3% from 32.8% in the year-ago quarter, benefiting from the reversal of the earlier-anticipated markdown accruals.

Net sales at the **Retail** segment totaled \$35 million, down nearly 59% from the prior-year quarter's reported figure. The metric included \$20 million of sales for the Wilsons Leather and G.H. Bass stores, compared to \$54 million in the prior-year period. The segment's gross margin also contracted to 32.5% from 46.5% in the year-ago quarter, thanks to the store liquidations for Wilsons Leather and G.H. Bass outlets.

Other Financial Details

G-III Apparel ended second-quarter fiscal 2021 with cash and cash equivalents of \$252.8 million and long-term debt of \$405 million. Total stockholders' equity was \$1,237.7 million. Further, inventory declined nearly 32% to \$574.8 million during fiscal second quarter.

The company's net debt position at Jul 31, 2020, was \$156 million versus \$514 million in the year-ago period. It has extended the term of revolver, now expiring in December 2025 subject to some availability requirements. In August, management issued \$400 million of 7.875% senior secured notes for paying off the previously outstanding \$300 million term loan and raised cash by approximately \$90 million. The company also amended and extended the \$650 million revolving credit line.

Quarter Ending	07/2020
Report Date	Sep 09, 2020
Sales Surprise	-12.69%
EPS Surprise	59.21%
Quarterly EPS	-0.31
Annual EPS (TTM)	1.68

Recent News

G-III Apparel Renews Licenses for Levi's & Dockers Brands – Aug 11, 2020

G-III Apparel has renewed its license deals for the Levi's and Dockers brands. The company has extended the licenses for these labels with Levi Strauss through Nov 30, 2024. Impressively, G-III Apparel and Levi Strauss entered into a partnership 22 years ago. Notably, the Levi's brand covers men's and women's outerwear while Dockers includes men's outerwear. Levi's outerwear collections will be available at select department outlets, specialty stores, premium-outerwear retailers and Levi's retail outlets, whereas Dockers outerwear will be sold at select department stores throughout the nation.

Valuation

G-III Apparel shares are down 27% in the year-to-date period and 15.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary are up 9.2% and 12%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 15.2% and 16%, respectively.

The S&P 500 index is up 17.1% in the year-to-date period and 20.5% in the past year.

The stock is currently trading at 12.86X forward 12-month earnings, which compares to 27.23X for the Zacks sub-industry, 34.51X for the Zacks sector and 22.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.3X and as low as 1.45X, with a 5-year median of 14.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 13.66X forward 12-month earnings.

The table below shows summary valuation data for GIII

Valuation Multiples - GIII					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.86	27.23	34.51	22.91
	5-Year High	24.3	28.17	35.28	23.47
	5-Year Low	1.45	13.28	16.19	15.27
	5-Year Median	14.1	18.13	19.96	17.77
P/S F12M	Current	0.49	2.87	2.67	4.31
	5-Year High	0.97	2.87	2.9	4.31
	5-Year Low	0.06	1.45	1.7	3.17
	5-Year Median	0.47	2.09	2.5	3.68
EV/EBITDA TTM	Current	7.64	29.33	12.1	16.52
	5-Year High	15.89	29.33	17.93	16.52
	5-Year Low	1.49	10.69	8.32	9.54
	5-Year Median	8.72	17.98	12.28	13.14

As of 12/04/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 23% (58 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Gildan Activewear, Inc. (GIL)	Outperform	2
Columbia Sportswear Company (COLM)	Neutral	4
Guess, Inc. (GES)	Neutral	3
Hanesbrands Inc. (HBI)	Neutral	3
lululemon athletica inc. (LULU)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	3
Under Armour, Inc. (UAA)	Neutral	3
Wolverine World Wide, Inc. (WWW)	Neutral	3

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	GIII	X Industry	S&P 500	GIL	LULU	RL
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	A	-	-	D	D	C
Market Cap	1.18 B	1.24 B	26.46 B	5.45 B	49.14 B	7.03 B
# of Analysts	7	4.5	13	4	16	6
Dividend Yield	0.00%	0.00%	1.48%	0.56%	0.00%	0.00%
Value Score	A	-	-	F	F	B
Cash/Price	0.26	0.14	0.07	0.04	0.01	0.39
EV/EBITDA	5.04	7.87	14.74	14.10	45.89	10.14
PEG F1	6.58	5.19	2.78	NA	4.93	9.81
P/B	0.95	2.71	3.64	3.70	24.55	2.76
P/CF	6.00	8.74	13.99	11.02	60.86	9.12
P/E F1	70.62	25.53	22.22	NA	90.33	83.30
P/S TTM	0.46	0.85	2.85	2.80	12.70	1.49
Earnings Yield	1.39%	1.50%	4.36%	-1.67%	1.11%	1.20%
Debt/Equity	0.33	0.40	0.70	0.72	0.00	0.64
Cash Flow (\$/share)	4.08	2.28	6.94	2.49	6.20	10.55
Growth Score	A	-	-	D	B	C
Historical EPS Growth (3-5 Years)	7.45%	-5.79%	9.72%	-25.40%	26.46%	-7.53%
Projected EPS Growth (F1/F0)	-89.30%	-47.80%	0.83%	-127.41%	-15.33%	-82.39%
Current Cash Flow Growth	6.85%	2.71%	5.23%	-9.96%	26.75%	-10.72%
Historical Cash Flow Growth (3-5 Years)	9.97%	2.82%	8.33%	5.30%	19.56%	-4.88%
Current Ratio	2.48	1.72	1.38	3.91	1.95	2.51
Debt/Capital	24.65%	36.56%	42.00%	41.99%	0.00%	39.06%
Net Margin	2.57%	-1.34%	10.40%	-13.34%	13.94%	-1.74%
Return on Equity	6.50%	-0.30%	14.99%	-2.69%	29.52%	5.14%
Sales/Assets	0.98	0.89	0.50	0.59	1.21	0.62
Projected Sales Growth (F1/F0)	-36.01%	0.00%	0.35%	-32.95%	4.10%	-28.84%
Momentum Score	F	-	-	C	D	F
Daily Price Change	7.89%	0.00%	1.31%	-2.28%	0.44%	-0.47%
1-Week Price Change	1.91%	0.82%	2.18%	2.03%	5.68%	12.48%
4-Week Price Change	62.01%	24.59%	8.28%	24.39%	8.61%	37.58%
12-Week Price Change	73.62%	25.95%	15.74%	38.14%	17.83%	27.41%
52-Week Price Change	-14.20%	-6.05%	7.50%	-6.05%	63.38%	-14.14%
20-Day Average Volume (Shares)	911,139	152,728	2,053,456	604,385	1,031,031	1,926,299
EPS F1 Estimate 1-Week Change	-21.81%	0.00%	0.00%	0.00%	0.39%	0.00%
EPS F1 Estimate 4-Week Change	-17.65%	0.00%	0.00%	0.00%	-2.01%	-16.51%
EPS F1 Estimate 12-Week Change	425.00%	7.21%	3.77%	39.13%	-1.64%	3.28%
EPS Q1 Estimate Monthly Change	-10.87%	0.00%	0.00%	0.00%	0.46%	-8.31%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	A
Growth Score	A
Momentum Score	F
VGM Score	A

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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