Jun 08, 2021

The Gap Inc. (GPS)

$31.35 (As of 06/07/21)

Price Target (6-12 Months): **$36.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Outperform**
(Since: 06/07/21)
Prior Recommendation: Neutral

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **1-Strong Buy**
Zacks Style Scores: VGM:F
Value: F | Growth: F | Momentum: B

Summary

Shares of Gap have outpaced the industry in the past three months, thanks to robust business trends in the apparel industry, which helped Gap to swing back to profits in first-quarter fiscal 2021. The company reported better-than-expected top and bottom-line results, with earnings and sales also increasing on a year over year and two-year basis. The top line benefited from strength in its Old Navy and Athleta brands, growth in the Gap business in North America, and market share gains. This along with improved margins aided the bottom line. The company continued to witness strong momentum in its digital business. Also, the reopening of the majority of stores aided sales. However, headwinds related to higher operating expense, soft performance at Gap and Banana Republic brands, higher inventory levels and increased interest expense, marred results.

Price, Consensus & Surprise

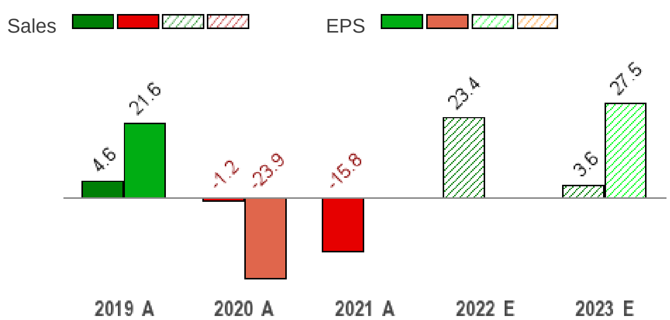
Data Overview

52-Week High-Low	**$37.63 - $9.63**
20-Day Average Volume (Shares)	**7,657,965**
Market Cap	**$11.8 B**
Year-To-Date Price Change	**55.3%**
Beta	**1.66**
Dividend / Dividend Yield	**$0.48 / 3.1%**
Industry	**Retail - Apparel and Shoes**
Zacks Industry Rank	**Top 11% (28 out of 251)**

Last EPS Surprise	**2,500.0%**
Last Sales Surprise	**12.8%**
EPS F1 Estimate 4-Week Change	**33.6%**
Expected Report Date	**08/26/2021**
Earnings ESP	**-3.6%**

P/E TTM	**32.7**
P/E F1	**18.8**
PEG F1	**2.1**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2023	4,143 E	4,429 E	4,408 E	5,041 E	17,630 E
2022	3,991 A	4,089 E	4,183 E	4,809 E	17,025 E
2021	2,107 A	3,275 A	3,994 A	4,424 A	13,800 A

EPS Estimates

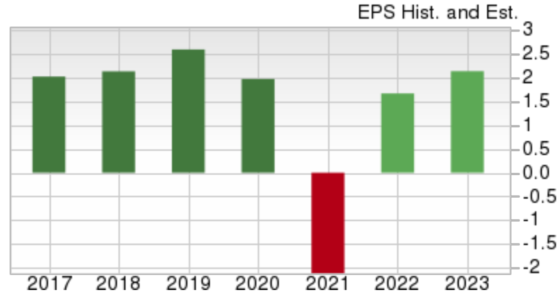
	Q1	Q2	Q3	Q4	Annual*
2023	$0.56 E	$0.54 E	$0.51 E	$0.51 E	$2.13 E
2022	$0.48 A	$0.42 E	$0.41 E	$0.48 E	$1.67 E
2021	-$2.51 A	-$0.05 A	$0.25 A	$0.28 A	-$2.11 A

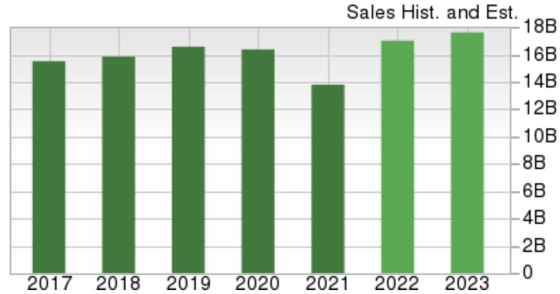
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/07/2021. The report's text and the analyst-provided price target are as of 06/08/2021.

Overview

With more than 3,800 stores worldwide, The Gap, Inc. is a premier international specialty retailer offering a diverse range of clothing, accessories, and personal care products. It offers products for men, women, and children under the Old Navy, Gap, Banana Republic, Athleta, Intermix, and Hill City brands.





Moreover, the company's products include denim, tees, button-downs, khakis, and other trendy assortments as well as fitness and lifestyle products for training, sports, travel, yoga and other activities. Notably, the company offers its products through company-operated stores, franchise stores, websites, third-party arrangements, as well as catalogs.

The company reports its operating results under four segments: Gap Global, Old Navy Global, Banana Republic Global and Other.

Gap Global: This segment reports the operating results of all stores, including company-owned, franchise and online stores for the Gap brand both domestic and international.

Old Navy Global: This segment reports the operating results of all stores, including company-owned, franchise and online stores for the Old Navy brand both domestic and international.

Banana Republic Global: This segment reports the operating results of all stores, including company-owned, franchise and online stores for the Banana Republic brand both domestic and international.

Other: The relatively newer brands, like Intermix and Athleta are included in this segment. These brands are managed by the president of the Growth, Innovation, and Digital (GID) division, who oversees the store and online operations of these brands.

Source: Zacks Investment Research

Reasons To Buy:

Gap's digital sales increased 61% year over year and 82% from the first quarter of fiscal 2019. Athleta reported exorbitant digital growth, which increased 113% from first-quarter fiscal 2019.

- **Robust Q1 Results, Stock Outperforms:** Shares of Gap have gained 8.2% in the past three months outpacing the industry's growth of 2.3%. The stock's bullish run on the bourses can be attributable to robust business trends in the apparel industry, which aided the company's first-quarter fiscal 2021 results. The company reported better-than-expected top and bottom-line numbers for first-quarter fiscal 2021. Also, its earnings and sales improved year over year. Moreover, it reported strong growth in key metrics on a two-year basis (compared with first-quarter fiscal 2019), reflecting robust growth from the pre-pandemic levels. Notably, earnings per share of 48 cents improved substantially from a loss of $2.51 in the year-ago quarter and adjusted earnings of 24 cents reported in first-quarter fiscal 2019. Net sales improved 89% year over year and 8% from the 2019 pre-COVID levels to $3,991 million. The top line benefited from strength in its Old Navy and Athleta brands, growth in the Gap business in North America, and market share gains. Further, the reopening of the majority of stores aided sales. Also, the company continued to witness strength in the online business despite the opening of stores.

  Moreover, comparable sales (comps) rose 28% year over year and 13% from first-quarter fiscal 2019. Comps included online sales as well as the comparable sales days for stores that were open on the same days in both the 2020 and 2019 comparable periods.

- **Brand Strength:** Gap's powerhouse brand, Old Navy, which is focused on creating affordable high-quality fashion for the whole family, remains a significant long-term growth opportunity for the company. Notably, the Old Navy brand has been witnessing significant acceleration in digital business on the back of robust customer demand as well as relevant digital marketing investments. Additionally, Gap has been experiencing significant progress in its smaller brands. Notably, the Athleta brand's values-driven active and lifestyle categories, increased digital marketing investments, and focus on product strategy have been aiding sales. In first-quarter fiscal 2021, net sales improved 27% and 56% for the Old Navy and Athleta brands, respectively, from the pre-pandemic levels. Comps at Old Navy Global and Athleta increased 25% and 46%, respectively, from the 2019 comparable period. On a year-over-year basis, comps improved 29%, 35% and 27%, respectively, at Gap, Old Navy and Athleta brands, while it was down 4% for Banana Republic.

  At the Old Navy brand, sales gains were attributed to the continued momentum in casual and cozy categories, with sturdy performance in active and fleece. Also, it witnessed a rebound in seasonal categories as consumers move to the pandemic recovery phase, planning vacations and summer activities. Athleta reported exorbitant digital growth, which increased 113% from the first-quarter fiscal 2019 levels. Growth was driven by robust regular-priced sales, led by gains in relevant categories and purpose-led marketing. It also benefited from the launch of inclusive sizing and partnership with Simone Biles in the reported quarter.

- **Strength in Digital Business:** Gap has been recording significant growth in its scaled digital business since the onset of the pandemic, driven by a shift in consumer preference toward online shopping. Despite the opening of stores, the company continued to witness strength in the online business, with digital sales increasing 61% year over year and 82% from the first quarter of fiscal 2019. Notably, digital business contributed 40% of total sales in the reported quarter. Continued growth in e-commerce business contributed significantly to the company's consolidated sales as well as gains in its Gap, Old Navy and Athleta brands. Notably, online business is benefiting from the company's dominant omni-channel strength and scaled operations. As stated earlier, management remains keen on optimizing its mobile experience as a key priority in 2021. It launched its native Android app in March, which is gaining traction. Moreover, alternate payment options, including PayPal and AfterPay represented 20% of online spend in the fiscal first quarter.

- **Improved Margins:** Gap returned to bottom line growth in the first quarter of fiscal 2021 backed by strong sales trends as well as improved margins. In the fiscal first quarter, gross profit of $1,630 million reflected a substantial increase from $268 million in the prior-year quarter and improved 21% on a two-year basis. Gross margin of 40.8% expanded 450 basis points (bps) from first-quarter fiscal 2019, backed by 430-bps leverage from lower rent and occupancy costs stemming from online growth, store closures and negotiated rent. Also, gross margin benefited from a 20-bps expansion in merchandise margins, driven by strong product acceptance, which led to lower discounts. Favorable merchandise margins offset 200 bps of headwinds related to higher shipping costs linked to growth in online sales.

  Moreover, adjusted operating income of $296 million increased substantially from a loss of $1,244 million in first-quarter fiscal 2020 and adjusted operating income of $130 million in first-quarter fiscal 2019. Adjusted operating margin of 7.4% expanded 390 bps from 3.5% in first-quarter fiscal 2019.

- **Upbeat View:** Backed a strong start to fiscal 2021, led by robust sales growth and operating margin expansion relative to first-quarter fiscal 2019, Gap raised its view for fiscal 2021. It now envisions adjusted earnings of $1.60-$1.75 per share compared with $1.2-$1.35 mentioned earlier. GAAP earnings per share are now expected to be $1.55-$1.70. The company expects year-over-year sales growth in the low-to-mid twenty percent range compared with mid- to high-teens stated earlier. The company's sales guidance includes revenues lost due to the divestitures of Janie and Jack, and Intermix, which are expected to be 2% of annual company sales. Moreover, the company expects reported and adjusted operating margin of 6%, up from 5% mentioned earlier. The updated view is driven by strong fiscal first-quarter performance and the company's progress on achieving its targeted 10% operating margin rate by 2023, in sync with its Power Plan 2023. It anticipates adjusted effective tax rate of 25% for fiscal 2021.

- **Power Plan 2023 Strategy:** Gap is on track with the execution of its Power Plan 2023, which focuses on opening highly-profitable Old Navy and Athleta stores while closing the underperforming Gap and Banana Republic stores. As part of the plan, the company expects the Old Navy and Athleta brands to contribute about 70% of sales by 2023. In sync with its fleet optimization efforts under the plan, the company plans to close about 100 Gap and Banana Republic stores globally, net of openings, in fiscal 2021, in line with its Power Plan 2023 strategy. With the closing of underperforming Gap and Banana Republic stores, the company expects to realize $100 million in EBITDA savings on an annualized basis by the end of 2023. Further, it expects to leverage its powerful platform to deliver competitive omni capabilities to meet customers' needs, all fueled by its scaled operations. It targets the e-commerce business to contribute 50% of sales by the end of 2023.

Through the plan, the company expects to deliver consistent sales growth, margin expansion and strong operating cash flow.

▲ **Financial Flexibility:** Gap ended first-quarter fiscal 2021 with cash, cash equivalents and short-term investments of $2,541 million, representing substantial growth from $1,079 million in the year-ago period. Also, it reflects a sequential growth of nearly 6% from $2,398 million at the end fourth-quarter fiscal 2020. The company's long-term debt remained almost flat sequentially at $2,218 million. Its debt-to-capitalization ratio of 0.44 represents a sequential improvement from 0.46 as of Jan 30, 2021. The debt-to-capitalization ratio also compares favorably with the industry's ratio of 0.61. The company continues to expect fiscal 2021 capital expenditure to be $800 million.

▲ **Shareholder Returns:** Gap's strong financial position helps it to make capital investments alongside returning excess cash to shareholders via dividends and share buybacks. In first-quarter fiscal 2021, the company generated free cash flow of $216 million compared with a negative free cash flow of $1,062 million in the year-ago period due to COVID-related impacts. Moreover, in first-quarter fiscal 2021, the company paid out its previously deferred first-quarter fiscal 2020 cash dividend of 24.25 cents. Additionally, it declared a second-quarter fiscal 2021 dividend of 12 cents on May 11. Notably, Gap has a dividend payout ratio of 50%, annualized dividend yield of 3.09% and free cash flow yield of 9.3%. With an annual free cash flow return on investment of 23.76%, ahead of the industry's nearly 10.31%; the dividend payment is likely to be sustainable. The company also plans to resume its share repurchase program to reward shareholders. Currently, it has $800 million remaining under its $1-billion share repurchase authorization. It expects to repurchase shares worth up to $200 million under its current program through the rest of fiscal 2021.

Risks

- **Higher Operating Expense:** Despite strong first-quarter fiscal 2021 results, higher operating expenses driven by a significant rise in marketing expenses across all brands slightly dented bottom line growth and margins. In the fiscal first quarter, adjusted operating expenses declined 11.7% year over year but increased 9.9% on a two-year basis to $1,334 million. The increase in operating expenses can be attributed to higher marketing investments, which led to 0.9 points market share expansion. Adjusted operating expense rate of 33.4% increased 60 bps from 32.8% in first-quarter fiscal 2019. Moreover, higher shipping expenses to fulfill the increased online orders partly offset gross margin gains.

  Looking ahead, the company anticipates a modestly higher SG&A spend, as a percentage of sales, in the second quarter of fiscal 2021 versus the first quarter. The increase in SG&A expense will be driven by more heavy investments in marketing and digital assets to drive market share during the important back-to-school season. The company has a disproportionate advantage in the back-to-school sale, particularly for the Gap and Old Navy brands. Additionally, elevated investments in customer-facing technology to support the integrated launch of its loyalty program in fall, is likely to result in the SG&A expense increase.

- **Adverse In-Store Performance Dent Top Line:** Gap has been witnessing loss of in-store sales for the past few quarters, led by COVID-related store closures as well as the permanent closures of the Gap and Banana Republic brand stores, as part of the Power Plan 2023 strategy. Despite improved traffic trends due to reduced restrictions and the reopening of most stores worldwide, in-store sales continued to decline in first-quarter fiscal 2021. Notably, consolidated in-store sales declined 16% from first-quarter fiscal 2019, driven by permanent store closures as part of the Power Plan 2023 strategy and COVID-related closures outside the United States. Notably, international markets like Canada, Europe, China, and Japan continued to be under the radar of rising cases. Gap notes that the COVID-related impacts hurt sales by 2% compared with the 2019 period. Also, the company's top line witnessed impacts of nearly 5% versus the 2019 period, driven by permanent closures in the Gap and Banana Republic brands as part of the Power Plan 2023 strategy.

- **Decline in Gap & Banana Republic Brands: I**n first-quarter fiscal 2020, net sales declined 16% and 29% at Gap Global and Banana Republic Global brands, respectively, from first-quarter fiscal 2019. Further, comps for Gap Global and Banana Republic Global were down 1% and 22%, respectively, on a two-year basis. Comps for Gap Global improved 29% on a year over year basis, while comps for Banana Republic Global were down 4%.

- **High Inventory Levels:** In first-quarter fiscal 2020, Gap's total inventory increased 6% from first-quarter fiscal 2019 and 7% from the year-ago period. The higher inventory levels were mainly the result of COVID-related U.S. port congestion and the impact on shipping lanes. Moreover, management expects the port congestion related headwinds to persist in the fiscal second quarter, thus, affecting the inventory levels. At the end of second-quarter fiscal 2021, the company anticipates inventory growth of high-single digits to mid-teens compared with the year-ago quarter. Higher inventory levels are mainly attributable to the increase in in-transit inventory, owing to continued supply-chain challenges, which are resulting in port congestion and longer lead times.

- **Rise in Interest Expense:** In first-quarter fiscal 2021, Gap's interest expense of $53 million rose significantly from $15 million in first-quarter fiscal 2020 and $14 million in first-quarter fiscal 2019. The rise in interest expense mainly stemmed from higher debt levels. As of May 1, 2021, the company's long-term debt of $2,218 million increased more than 77% on both year over year and two-year basis. Moreover, the company anticipates interest expense to be about $210 million for fiscal 2021.

- **Macroeconomic Headwinds:** Consumer confidence and spending behavior may dampen due to macroeconomic factors, including an increase in fuel and energy costs, credit availability, high unemployment levels, and high household debt levels, which may negatively affect consumer's disposable income. This, in turn, could affect the company's growth and profitability.

Last Earnings Report

Gap Beats Q1 Earnings & Sales Estimates, Raises View

Quarter Ending	04/2021
Report Date	May 27, 2021
Sales Surprise	12.81%
EPS Surprise	2,500.00%
Quarterly EPS	0.48
Annual EPS (TTM)	0.96

Gap reported better-than-expected top and bottom-line numbers for first-quarter fiscal 2021. Also, its earnings and sales improved year over year. Moreover, it reported strong growth in key metrics on a two-year basis (compared with first-quarter fiscal 2019), reflecting robust growth from the pre-pandemic levels.

In the fiscal first quarter, the company's earnings of 48 cents per share beat the Zacks Consensus Estimate of a loss of 2 cents. Moreover, earnings per share improved substantially from a loss of $2.51 in the year-ago quarter and adjusted earnings of 24 cents reported in first-quarter fiscal 2019.

Net sales improved 89% year over year and 8% from the 2019 pre-COVID levels to $3,991 million and surpassed the Zacks Consensus Estimate of $3,538 million. The top line has been benefiting from strength in its Old Navy and Athleta brands, growth in the Gap business in North America, and market share gains.

Further, the reopening of the majority of stores is aiding sales. Despite the opening of stores, the company continued to witness strength in the online business, with digital sales increasing 61% year over year and 82% from the first quarter of fiscal 2019. Notably, digital business contributed 40% of total sales in the reported quarter. The company continued to witness strong growth in active and fleece categories along with a resurgence in summer fashion, with a rebound in dresses, as consumers continued to blend comfort with style ahead of the spring season.

However, the company is not yet free of COVID-related impacts as international markets like Canada, Europe, China, and Japan continue to be under the radar of rising cases. Gap notes that the COVID-related impacts hurt sales by 2% from the 2019 period. Also, the company's top line witnessed impacts of nearly 5% versus the 2019 period, driven by permanent closures in the Gap and Banana Republic brands as part of the Power Plan 2023 strategy.

Consolidated in-store sales declined 16% from first-quarter fiscal 2019, driven by permanent store closures as part of the Power Plan 2023 strategy and COVID-related closures outside the United States.

Comparable sales (comps) rose 28% year over year and 13% from first-quarter fiscal 2019. Comps included online sales as well as the comparable sales days for stores that were open on the same days in both the 2020 and 2019 comparable periods.

Brand-wise Sales & Comps

In first-quarter fiscal 2021, net sales declined 16% and 29% at Gap Global and Banana Republic Global brands, respectively, from first-quarter fiscal 2019. Further, comps for Gap Global and Banana Republic Global were down 1% and 22%, respectively, on a two-year basis.

Meanwhile, sales improved 27% and 56% for the Old Navy and Athleta brands, respectively, from the pre-pandemic levels. Comps at Old Navy Global and Athleta increased 25% and 46%, respectively, from the 2019 comparable period. On a year-over-year basis, comps improved 29%, 35% and 27%, respectively, at Gap, Old Navy and Athleta brands, while it was down 4% for Banana Republic.

At the Old Navy brand, sales gained from the continued momentum in casual and cozy categories, with sturdy performance in active and fleece. Also, it witnessed a rebound in seasonal categories as consumers move to the pandemic recovery phase, planning vacations and summer activities.

Athleta reported exorbitant digital growth, which increased 113% from the first-quarter fiscal 2019 levels. Growth was driven by robust regular-priced sales, led by gains in relevant categories and purpose-led marketing. It also benefited from the launch of inclusive sizing and partnership with Simone Biles in the reported quarter.

Furthermore, The Gap brand witnessed robust trends in its North America business, which delivered comps growth of 9% on a two-year basis. The company is likely to further expand The Gap brand's reach through the latest and exclusive Gap Home distribution agreement with Walmart.com.

Meanwhile, transformation at the Banana Republic brand is underway, as redefining casual luxury and enhancing creativity remain priorities. The company benefited from showcasing floral windows at its stores to welcome spring. Further, it looks to gain from uplifting emerging designers through its newly launched capsule collection with Prep Curry, which received positive customer responses.

Margins & Costs

Gross profit of $1,630 million reflected a substantial increase from $268 million in the prior-year quarter and improved 21% on a two-year basis. Gross margin of 40.8% expanded 450 basis points (bps) from first-quarter fiscal 2019, backed by 430-bps leverage from lower rent and occupancy costs stemming from online growth, store closures and negotiated rent.

Also, gross margin benefited from a 20-bps expansion in merchandise margins, driven by strong product acceptance, which led to lower discounts. Favorable merchandise margins offset 200 bps of headwinds related to higher shipping costs linked to growth in online sales.

Adjusted operating expenses declined 11.7% year over year but increased 9.9% on a two-year basis to $1,334 million. The increase in operating expenses can be attributed to higher marketing investments, which led to 0.9 points market share expansion. Adjusted operating expense rate of 33.4% increased 60 bps from 32.8% in first-quarter fiscal 2019.

Moreover, adjusted operating income of $296 million increased substantially from a loss of $1,244 million in first-quarter fiscal 2020 and adjusted operating income of $130 million in first-quarter fiscal 2019. Adjusted operating margin of 7.4% expanded 390 bps from 3.5% in first-quarter fiscal 2019.

Other Financials

Gap ended the fiscal first quarter with cash, cash equivalents and short-term investments of $2,541 million, representing substantial growth from $1,079 million in the year-ago period. As of May 1, 2021, it had total stockholders' equity of $2,806 million and long-term debt of $2,218 million.

In first-quarter fiscal 2021, the company generated free cash flow of $216 million compared with a negative free cash flow of $1,062 million in the year-ago period due to COVID-related impacts.

In first-quarter fiscal 2021, the company paid out its previously deferred first-quarter fiscal 2020 cash dividend of 24.25 cents. Additionally, it declared a second-quarter fiscal 2021 dividend of 12 cents on May 11.

The company also plans to resume its share repurchase program to reward shareholders. Currently, it has $800 million remaining under its $1-billion share repurchase authorization. It expects to repurchase shares worth up to $200 million under its current program through the rest of fiscal 2021.

For fiscal 2021, the company anticipates capital expenditure of $800 million.

Store Update

As of May 1, 2021, The Gap had 3,571 stores in more than 40 countries, out of which 2,997 were company-operated and 574 were franchise outlets.

In fiscal 2021, the company plans to close about 75 Gap and Banana Republic stores in North America. It also expects to open 30-40 Old Navy and 20-30 Athleta stores.

Fiscal 2021 Guidance

Backed a strong start to fiscal 2021, led by robust sales growth and operating margin expansion from first-quarter fiscal 2019, Gap raised its view for fiscal 2021. It now envisions adjusted earnings of $1.60-$1.75 per share compared with $1.2-$1.35 mentioned earlier. GAAP earnings per share are now expected to be $1.55-$1.70. The company expects year-over-year sales growth in the low-to-mid twenty percent range compared with mid- to high-teens stated earlier. The company's sales guidance includes revenues lost due to the divestitures of Janie and Jack, and Intermix, which are expected to be 2% of annual company sales.

Moreover, the company expects reported and adjusted operating margin of 6%, up from 5% mentioned earlier. The updated view is driven by strong fiscal first-quarter performance and the company's progress on achieving its targeted 10% operating margin rate by 2023, in sync with its Power Plan 2023. It anticipates adjusted effective tax rate of 25% for fiscal 2021. Interest expenses are likely to be $210 million.

At the end of second-quarter fiscal 2021, the company anticipates inventory growth of high-single digits to mid-teens compared with the year-ago quarter. Higher inventory levels are mainly attributable to increased in-transit inventory, owing to continued supply-chain challenges, which are resulting in port congestion and longer lead times.

Recent News

Gap Declares Dividend & Plans to Resume Share Repurchases – May 11, 2021

Gap's board has approved a quarterly dividend 12 cents per share to be payable on or after Jul 28, 2021 as of shareholders record on Jul 7. Moreover, the company announced the resumption of its share repurchase program, which currently has $800 million remaining of its $1 billion authorization. The company expects to repurchases shares worth of $200 million through the rest of fiscal 2021.

Gap’s Athleta to Enter Canada – Apr 20, 2021

Gap’s Athleta brand is all set to lure customers in Canada later this year, with the launch of its e-commerce site in summer. This will be followed by the opening of company-owned retail stores at Yorkdale Shopping Center in North York, Ontario and Park Royal Shopping Centre in West Vancouver, British Columbia in fall 2021. The brand’s entry in Canada will mark the its first expansion outside the United States.

Overall, the company plans to open 20-30 Athleta stores every year, adding to its existing fleet of more than 200 stores in the United States.

Athleta is a one of the key brands outlining Gap’s growth story. Notably, Athleta reached more than $1 billion in sales during fiscal 2020 and is likely to reach $2 billion by 2023. Entering new markets, including wholesale partnerships and international expansion through franchise and company operated stores, are strategic steps towards growing the brand toward the aforementioned net sales target for 2023.

Concurrent to launching its e-commerce site in Canada, the company will also open a distribution center in Brampton, Ontario, to eliminate international taxes and avoid extensive shipping times for its Canada-based consumers. E-commerce in Canada is fast-growing, and the pandemic further accelerated the channel’s growth. Notably, Athleta experienced double-digit online growth in the United States last year, with nearly 60% of the business generated from e-commerce.

Valuation

Gap shares are up 55.3% in the year-to-date period and nearly 151.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 24.2% but the Zacks Retail-Wholesale sector is down 2.2% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 128.6% and 17%, respectively.

The S&P 500 index is up 13.3% in the year-to-date period and 34.1% in the past year.

The stock is currently trading at 0.69X forward 12-month sales, which compares to 1.21X for the Zacks sub-industry, 1.32X for the Zacks sector and 4.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.87X and as low as 0.13X, with a 5-year median of 0.59X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $36 price target reflects 0.79X forward 12-month sales.

The table below shows summary valuation data for GPS

Valuation Multiples - GPS

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.69	1.21	1.32	4.72
	5-Year High	0.87	1.3	1.41	4.74
	5-Year Low	0.13	0.34	0.84	3.21
	5-Year Median	0.59	0.83	1.02	3.72
P/B TTM	Current	4.22	9.64	5.43	7.03
	5-Year High	4.92	10.49	6.5	7.03
	5-Year Low	0.62	1.39	3.8	3.84
	5-Year Median	3.22	4.44	5.16	5.02
EV/EBITDA F12M	Current	6.79	9.44	13.11	17.23
	5-Year High	14.32	10.24	13.21	18.83
	5-Year Low	1.31	3.89	8.86	13.04
	5-Year Median	5.25	6.31	11.32	15.88

As of 06/07/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 11% (28 out of 251)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. **(AEO)**	Outperform	1
Boot Barn Holdings, Inc. **(BOOT)**	Outperform	1
L Brands, Inc. **(LB)**	Outperform	2
The Childrens Place, Inc. **(PLCE)**	Outperform	1
Abercrombie & Fitch Company **(ANF)**	Neutral	1
Skechers U.S.A., Inc. **(SKX)**	Neutral	3
Tillys, Inc. **(TLYS)**	Neutral	1
Vera Bradley, Inc. **(VRA)**	Underperform	3

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

Industry Comparison Industry: Retail - Apparel And Shoes

	GPS	X Industry	S&P 500	AEO	ANF	LB
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	1	-	-	1	1	2
VGM Score	F	-	-	D	C	A
Market Cap	11.84 B	1.67 B	30.32 B	5.56 B	2.49 B	18.31 B
# of Analysts	10	4	12	9	9	9
Dividend Yield	3.09%	0.00%	1.29%	1.66%	0.00%	0.91%
Value Score	F	-	-	D	C	A
Cash/Price	0.21	0.15	0.06	0.14	0.37	0.15
EV/EBITDA	-31.99	6.52	17.33	-49.94	13.23	10.16
PEG F1	2.09	1.58	2.13	NA	0.89	0.88
P/B	4.22	4.17	4.17	4.73	2.63	NA
P/CF	NA	17.65	17.93	27.64	20.73	12.30
P/E F1	18.77	17.19	21.52	16.08	15.99	11.42
P/S TTM	0.75	0.81	3.52	1.31	0.73	1.39
Earnings Yield	5.33%	4.87%	4.55%	6.21%	6.25%	8.75%
Debt/Equity	0.79	0.03	0.66	0.28	0.36	-10.03
Cash Flow ($/share)	-0.52	0.85	6.83	1.20	1.94	5.38
Growth Score	F	-	-	D	D	B
Historical EPS Growth (3-5 Years)	-6.77%	-6.25%	9.44%	-2.88%	47.58%	-9.72%
Projected EPS Growth (F1/F0)	178.96%	102.09%	21.30%	930.55%	444.14%	67.34%
Current Cash Flow Growth	-114.85%	-45.04%	0.98%	-54.06%	-45.47%	-23.13%
Historical Cash Flow Growth (3-5 Years)	NA%	-4.43%	7.28%	-11.26%	-14.40%	-1.33%
Current Ratio	1.65	1.64	1.39	2.01	1.82	1.72
Debt/Capital	44.15%	15.62%	41.53%	21.90%	26.60%	NA
Net Margin	2.76%	1.50%	11.95%	3.38%	5.02%	10.73%
Return on Equity	14.85%	9.72%	16.36%	21.66%	22.88%	-137.83%
Sales/Assets	1.13	1.14	0.51	1.22	1.06	1.20
Projected Sales Growth (F1/F0)	23.37%	22.49%	9.30%	31.30%	17.24%	21.61%
Momentum Score	B	-	-	A	A	A
Daily Price Change	-0.79%	0.90%	-0.33%	-1.28%	1.62%	0.65%
1-Week Price Change	-5.53%	0.00%	0.58%	-5.22%	-7.45%	-5.95%
4-Week Price Change	-12.09%	2.05%	0.12%	-9.70%	-1.52%	-3.85%
12-Week Price Change	-2.79%	5.47%	6.91%	8.26%	10.97%	8.89%
52-Week Price Change	129.67%	82.28%	29.97%	153.83%	183.42%	242.52%
20-Day Average Volume (Shares)	7,657,965	237,636	1,799,698	4,307,079	2,003,161	4,956,515
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.49%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	33.60%	5.59%	0.01%	5.52%	76.78%	18.38%
EPS F1 Estimate 12-Week Change	37.34%	11.84%	3.36%	31.49%	84.27%	41.88%
EPS Q1 Estimate Monthly Change	-11.82%	23.04%	0.00%	25.14%	915.79%	45.13%

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	F
Growth Score	F
Momentum Score	B
VGM Score	F

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

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Additional Disclosure

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