

The Gap Inc. (GPS)

\$32.66 (As of 05/25/21)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

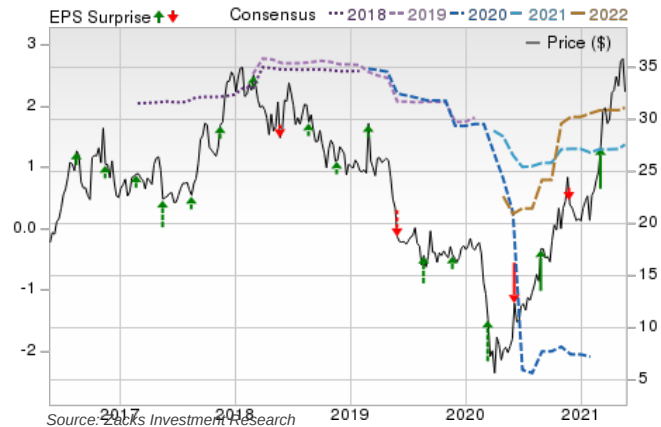
Growth: A

Momentum: A

Summary

Shares of Gap have outpaced the industry in the past three months, thanks to the earnings beat in fourth-quarter fiscal 2020. Although sales and earnings declined year over year, its overall results marked a sequential improvement. Also, the bottom line reflected gains stemming from improved margins as a result of lower rent and occupancy costs as well as store closures. Strength in Old Navy and Athleta brands and robust online momentum also remain upsides. However, soft in-store sales due to closure of underperforming stores and weak store traffic in a few regions hurt sales. Also, adverse COVID-19 impacts are likely to persist in the first half of 2021. Gap and Banana Republic brands continue to be affected by the shift in consumers' demand to casual fashion. Also, elevated operating costs due to higher investments in marketing remain a woe.

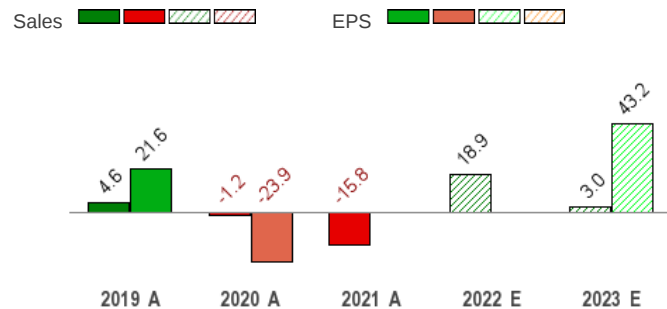
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$37.63 - \$8.81
20-Day Average Volume (Shares)	6,418,807
Market Cap	\$12.2 B
Year-To-Date Price Change	61.8%
Beta	1.66
Dividend / Dividend Yield	\$0.48 / 3.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 24% (61 out of 249)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	64.7%
Last Sales Surprise	-5.2%
EPS F1 Estimate 4-Week Change	5.6%
Expected Report Date	05/27/2021
Earnings ESP	63.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023					16,905 E
2022	3,475 E	3,976 E	4,186 E	4,757 E	16,411 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	\$0.08 E	\$0.56 E	\$0.64 E	\$0.67 E	\$1.99 E
2022	-\$0.03 E	\$0.47 E	\$0.45 E	\$0.53 E	\$1.39 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.

P/E TTM	NA
P/E F1	23.7
PEG F1	2.6
P/S TTM	0.9

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 05/25/2021. The report's text and the analyst-provided price target are as of 05/26/2021.

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.

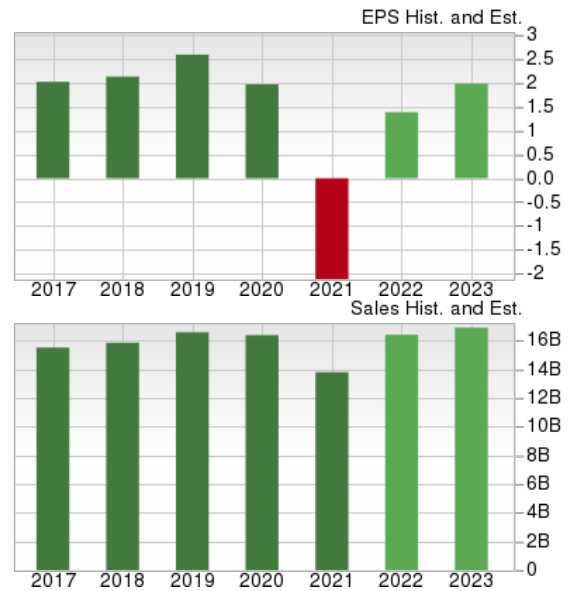
Gap Global: This segment reports the operating results of all stores, including company-owned, franchise and online stores for the Gap brand both domestic and international.

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.

Gap announced plans to spin off into two stand-alone public companies, new Gap Inc. and Old Navy. New Gap will house brands namely Gap, Banana Republic, Athleta, Hill City, Intermix, and Janie & Jack. Meanwhile, Old Navy, which is among the fast-growing apparel brands, is likely to operate under the existing name.



Reasons To Buy:

▲ **Q4 Earnings Beat, Stock Up:** Shares of Gap have gained 28.6% in the past three months against the industry's decline of 0.9%. The stock's bullish run on the bourses can be attributable to fourth-quarter fiscal 2020 results, wherein earnings surpassed the Zacks Consensus Estimate. Notably, the bottom line reflected the second consecutive quarter of earnings beat. While earnings and sales declined year over year, the company's overall results marked an improvement on a sequential basis. The better-than-expected bottom-line performance was mainly supported by improved margins. Notably, gross profit increased 3.9% in the fiscal fourth quarter while gross margin expanded 190 basis points (bps). The growth was backed by gains from lower rent and occupancy costs, as well as the closure of underperforming stores.

Gap is recording significant growth in its scaled digital business since the onset of the pandemic, driven by a shift in consumer preference toward online shopping. Online sales rose 49% in Q4.

Going ahead, management remains optimistic about fiscal 2021 results, driven by investments in digital capabilities, including the loyalty program, robust online momentum and opportunity for market share gains through increased marketing investments. As a result, Gap envisions adjusted earnings to be \$1.2-\$1.35 per share with sales growth of mid- to high-teens in fiscal 2021.

▲ **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. 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 sales surged 49% in the fiscal fourth quarter on the back of BOPIS and Ship from Store facilities. Also, online sales represent 46% of total sales in the quarter under review. Going ahead, management believes online sales to be a key growth driver. As a result, it remains focused on its mobile shopping facility, which accounts for 75% of online sales.

▲ **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. The company now expects fiscal 2021 capital expenditure to be \$800 million, up from prior year's reported figure of \$392 million. The increase in capital expenditure is mainly attributable to higher investments in digital, loyalty and supply-chain-related projects and stores, such as Old Navy and Athleta. Through the plan, the company expects to deliver consistent sales growth, margin expansion and strong operating cash flow.

▲ **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 since the start of the pandemic on the back of robust customer demand as well as relevant digital marketing investments. Net sales for the Old Navy brand improved 5% in the fiscal fourth quarter, with comps growth of 7%. In the Old Navy brand, sales gained from continued momentum in casual and cozy categories with sturdy performance in Active, Fleece and Sleep. Also, the significant acceleration of the online business, a higher markdown rate and units per transaction somewhat offset dismal store traffic. Further, the company remains confident about Old Navy's growth potential, driven by better execution of its unique value equation and positioning, with style, fit, quality and price, all working in balance.

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 fourth-quarter fiscal 2020, Athleta's net sales were up 29%, with comps growth of 26%. The brand benefited from new products, particularly sleepwear, rising customer engagement and long-term growth strategy. Notably, Athleta reached more than \$1 billion in sales during fiscal 2020 and is likely to reach \$2 billion by 2023.

▲ **Financial Flexibility:** Gap ended the fiscal fourth quarter with cash, cash equivalents and short-term investments of \$2,398 million, representing 45% growth from \$1,654 million in the year-ago period. Also, it reflects a sequential growth of 9.5% from \$2,649 million at the end of the fiscal third quarter. The company's cash position looks sufficient enough to fund its short-term lease obligations of \$831 million. The company's long-term debt remained almost flat sequentially at \$2,216 million. Its debt-to-capitalization ratio of 0.46 represents a sequential improvement from 0.48 as of Aug 1, 2020. The debt-to-capitalization ratio also compares favorably with the industry's ratio of 0.64. Apart from these, the company's board has initiated a quarterly dividend of 24.25 cents, which was earlier approved in first-quarter fiscal 2020. Also, it revealed plans for another quarterly dividend in the second quarter of fiscal 2021.

Reasons To Sell:

- ▼ **Higher Operating Expense:** Although Gap's overall fiscal fourth-quarter results reflected a marked improvement on a sequential basis, higher operating expenses driven by a significant rise in marketing expenses across all brands dented bottom line growth and margins. While adjusted operating expense rate contracted 310 bps, adjusted operating expenses rose 8.2% to \$1,534 million in the reported quarter. Driven by the higher operating expense rate, the company's adjusted operating margin contracted 160 bps to 4.3%, while adjusted operating income declined 31.7% year over year. Moreover, higher shipping expenses to fulfill the increased online orders partly offset gross margin gains. Going ahead, operating margin is expected to be roughly 5% in fiscal 2021, down from the earlier year's reported figure of 6.2%.

Higher operating expenses driven by a significant rise in marketing expenses across all brands dented bottom line growth and margins in fourth-quarter fiscal 2020.
 - ▼ **Adverse In-Store Performance Dent Top Line:** Gap has been witnessing loss of in-store sales for the past few quarters, which also weighed on its top-line growth in the fiscal fourth quarter. Notably, the company reported a 28% decline in in-store sales due to ongoing strategy to close underperforming stores and weak store traffic in a few regions across the United States on the increasing stay-at-home trend. Net sales fell 5% year over year with flat comps during the quarter under review. Also, management noted that adverse impacts of COVID-19 are likely to persist in the first half of 2021 and return to pre-pandemic levels in the second half.
 - ▼ **Decline in Gap & Banana Republic Brands:** In fourth-quarter fiscal 2020, net sales declined 19% and 27% at Gap Global and Banana Republic Global brands, respectively. Further, comps for Gap Global and Banana Republic Global were down 6% and 22%, respectively. During the reported quarter, the Banana Republic brand's product mix was unfavorable due to the sudden shift of consumers' demand to more casual fashion to meet stay-at-home requirements, which served as a disadvantage to the brand's work wear assortments. However, the company is focused on adjusting to consumer preferences and improving inventory mix. Moving on, Gap Brand's global footprint was meaningfully affected by COVID-mandated store closures and restrictions in Canada, China, Europe and Japan.
 - ▼ **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's Q4 Earnings Surpass Estimates, Revenues Miss

Gap reported fourth-quarter fiscal 2020 results, wherein earnings surpassed the Zacks Consensus Estimate while sales lagged the same. Further, both metrics declined year over year.

Despite a tough retail environment, results gained from strength in Active and Fleece along with solid online business, driven by enhanced digital capabilities. Also, it remains on track with its Power Plan 2023 plan.

Quarter Ending 01/2021

Report Date	Mar 04, 2021
Sales Surprise	-5.19%
EPS Surprise	64.71%
Quarterly EPS	0.28
Annual EPS (TTM)	-2.03

Q4 Details

In the fiscal fourth quarter, the company's earnings of 28 cents per share beat the Zacks Consensus Estimate of 17 cents but declined 51.7% from 58 cents in the year-ago quarter. Nonetheless, its bottom-line results reflect gains from improved margins.

Net sales fell 5% year over year to \$4,424 million but reflected significant improvement on a sequential basis. Moreover, the top line missed the Zacks Consensus Estimate of \$4,666 million. Comps remained flat year over year while online sales surged 49% on the back of BOPIS and Ship from Store facilities.

Meanwhile, in-store sales declined 28%. The company's ongoing strategy to close underperforming stores and weak store traffic in a few regions across the United States stemming from the increasing stay-at-home trend hurt sales.

Notably, its e-commerce business acquired 183 million new customers in fiscal 2020, with the online business contributing about 46% of net sales in the fiscal fourth quarter.

Brand-wise Sales & Comps

In fourth-quarter fiscal 2020, net sales declined 19% and 27% at Gap Global and Banana Republic Global brands, respectively. Further, comps for Gap Global and Banana Republic Global were down 6% and 22%, respectively. Meanwhile, sales improved 5% and 29% for the Old Navy and Athleta brands, respectively. Comps at Old Navy Global and Athleta increased 7% and 26%, respectively.

During the reported quarter, the Banana Republic brand's product mix was unfavorable due to the sudden shift of consumers' demand to more casual fashion to meet stay-at-home requirements, which served as a disadvantage to the brand's work wear assortments. However, the company is focused on adjusting to consumer preferences and improving inventory mix. Moving on, Gap Brand's global footprint was meaningfully affected by COVID-mandated store closures and restrictions in Canada, China, Europe and Japan.

At the Old Navy brand, sales gained from continued momentum in casual and cozy categories with sturdy performance in Active, Fleece and Sleep. Also, the significant acceleration of the online business, and a higher markdown rate and units per transaction somewhat offset dismal store traffic.

Apart from these, the Athleta brand's new products, particularly sleepwear, rising customer engagement and long-term growth strategy aided sales growth. Notably, Athleta reached more than \$1 billion in sales during fiscal 2020.

Margins & Costs

Gross profit of \$1,620 million reflected a 3.9% increase from \$1,559 million in the prior-year quarter. Gross margin of 37.7% expanded 190 basis points (bps) from the prior-year quarter, backed by gains from lower rent and occupancy costs as well as the closure of underperforming stores.

Adjusted operating expenses rose 8.2% to \$1,534 million with adjusted operating expense rate contracting 310 bps to 33.4%. Moreover, adjusted operating income declined 31.7% year over year to \$190 million in the reported quarter. Also, the company's adjusted operating margin contracted 160 bps to 4.3%.

Other Financials

Gap ended the fiscal fourth quarter with cash, cash equivalents, and short-term investments of \$2,398 million, representing 45% growth from \$1,654 million in the year-ago period. As of Jan 30, it had total stockholders' equity of \$2,614 million and long-term debt of \$2,216 million. Hence, the company has sufficient liquidity to steer clear of the coronavirus environment.

In fiscal 2020, it generated a negative free cash flow of \$155 million compared with a positive cash flow of \$709 million in the year-ago period, due to COVID-19 impacts. The company's capital spending came in at \$392 million for fiscal 2020 due to controlled spending in response to the COVID-19 situation.

Going ahead, management projected fiscal 2021 capital expenditure to be \$800 million, which is likely to be utilized for digital, loyalty and supply-chain-related projects and investments in stores such as Old Navy and Athleta.

Apart from these, the company's board has initiated a quarterly dividend of 24.25 cents, which was earlier approved in first-quarter fiscal 2020. Also, it revealed plans for another quarterly dividend in the second quarter of fiscal 2021.

Store Update

As of Jan 30, Gap had 3,715 stores in 45 countries, out of which 3,345 were company-operated and 574 were franchise outlets.

In sync with its ongoing fleet optimization efforts, 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. It also expects to open 30-40 Old Navy stores along with 20-30 Athleta stores.

Fiscal Guidance

Despite continued uncertainty associated with the COVID-19 crisis, Gap envisions adjusted earnings to be \$1.2-\$1.35 with sales growth of mid- to high-teens in fiscal 2021. Also, management noted that adverse impacts of COVID-19 are likely to persist in the first half of 2021 and return to pre-pandemic levels in the second half. Moreover, operating margin is expected to be roughly 5%, in sync with its Power Plan 2023 objective, which aims at least a 10% operating margin by 2023.

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 63% in the year-to-date period and nearly 211.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 23.7% 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 152.7% and 25.3%, respectively.

The S&P 500 index is up 13% in the year-to-date period and 42.6% in the past year.

The stock is currently trading at 0.74X forward 12-month sales, which compares to 1.23X for the Zacks sub-industry, 1.33X for the Zacks sector and 4.7X 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 Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 0.79X forward 12-month sales.

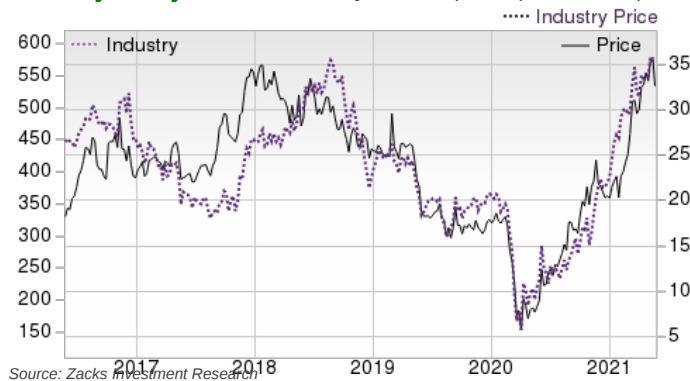
The table below shows summary valuation data for GPS

Valuation Multiples - GPS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.74	1.23	1.33	4.7
	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	3.71
P/B TTM	Current	4.68	9.49	5.21	6.97
	5-Year High	5.21	10.5	6.5	7.02
	5-Year Low	0.62	1.39	3.8	3.83
	5-Year Median	3.21	4.44	5.16	5.01
EV/EBITDA F12M	Current	7.65	8.85	13.7	15.72
	5-Year High	14.62	11.39	14.57	16.53
	5-Year Low	NA	3.85	8.78	10.79
	5-Year Median	5.21	6.62	11.5	13.55

As of 05/25/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 24% (61 out of 249)



Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. (AEO)	Outperform	2
Boot Barn Holdings, Inc. (BOOT)	Outperform	1
L Brands, Inc. (LB)	Outperform	1
The Childrens Place, Inc. (PLCE)	Outperform	1
Abercrombie & Fitch Company (ANF)	Neutral	3
Skechers U.S.A., Inc. (SKX)	Neutral	3
Tillys, Inc. (TLYS)	Neutral	3
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				Industry Peers		
	GPS	X Industry	S&P 500	AEO	ANF	LB
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	3	1
VGM Score	A	-	-	A	A	A
Market Cap	12.24 B	1.35 B	30.19 B	5.56 B	2.36 B	18.57 B
# of Analysts	10	4	12	9	9	9
Dividend Yield	2.97%	0.00%	1.3%	1.65%	0.00%	0.00%
Value Score	B	-	-	B	A	A
Cash/Price	0.20	0.15	0.06	0.16	0.48	0.22
EV/EBITDA	-33.38	4.91	17.47	-48.50	10.61	10.01
PEG F1	2.75	1.81	2.18	NA	1.39	0.88
P/B	4.67	4.13	4.15	5.09	2.50	NA
P/CF	NA	18.67	17.45	27.30	19.18	12.05
P/E F1	24.73	21.27	21.65	17.36	25.03	11.50
P/S TTM	0.89	0.80	3.48	1.48	0.76	1.40
Earnings Yield	4.23%	4.05%	4.51%	5.77%	3.99%	8.70%
Debt/Equity	0.85	0.05	0.66	0.30	0.36	-9.63
Cash Flow (\$/share)	-0.52	0.85	6.82	1.20	1.94	5.38
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	2.51%	-5.16%	9.39%	-2.51%	21.17%	-9.72%
Projected EPS Growth (F1/F0)	165.64%	101.96%	20.29%	857.80%	308.22%	67.34%
Current Cash Flow Growth	-114.85%	-34.23%	0.74%	-54.06%	-45.47%	-23.13%
Historical Cash Flow Growth (3-5 Years)	NA%	-4.14%	7.37%	-11.26%	-14.40%	-1.33%
Current Ratio	1.55	1.64	1.39	1.77	1.73	1.97
Debt/Capital	45.88%	18.85%	41.55%	23.04%	26.59%	NA
Net Margin	-4.82%	-2.54%	11.70%	-5.57%	-3.65%	10.73%
Return on Equity	-31.20%	1.16%	16.07%	-0.55%	-5.28%	-116.72%
Sales/Assets	1.01	1.04	0.51	1.06	0.95	1.18
Projected Sales Growth (F1/F0)	18.92%	19.09%	9.20%	28.78%	12.81%	21.61%
Momentum Score	A	-	-	D	A	A
Daily Price Change	-0.12%	0.00%	0.09%	-0.09%	-0.67%	0.17%
1-Week Price Change	-8.88%	0.00%	-0.49%	-10.42%	-10.00%	-6.41%
4-Week Price Change	-4.32%	0.68%	0.85%	-13.52%	-5.88%	-3.84%
12-Week Price Change	30.42%	12.15%	12.34%	27.43%	35.77%	18.53%
52-Week Price Change	296.35%	126.87%	46.29%	265.11%	214.65%	329.64%
20-Day Average Volume (Shares)	6,418,807	197,084	1,936,476	3,165,084	1,565,777	4,253,865
EPS F1 Estimate 1-Week Change	3.25%	0.00%	0.00%	-1.93%	0.37%	3.84%
EPS F1 Estimate 4-Week Change	5.63%	0.00%	1.65%	-1.20%	4.77%	15.02%
EPS F1 Estimate 12-Week Change	10.89%	2.65%	2.64%	40.85%	32.41%	66.97%
EPS Q1 Estimate Monthly Change	2.16%	0.00%	0.83%	2.77%	47.37%	41.32%

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	B
Growth Score	A
Momentum Score	A
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 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.