

The Gap Inc. (GPS)

\$14.15 (As of 07/29/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

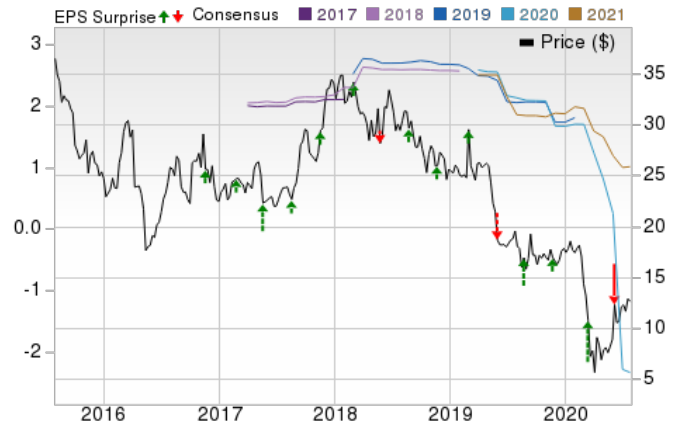
Growth: F

Momentum: D

Summary

Shares of Gap have outpaced the industry in the past three months owing to strong online sales amid the pandemic, which also cushioned top line in first-quarter fiscal 2020. While stores remained closed since mid-March, the company witnessed strong online demand and leveraged its omni-channel capabilities to fulfill online orders and serve customers. This resulted in 13% increase in online sales in the fiscal first quarter. Further, it is moving ahead of track with its store reopening plans, with strong online and in-store momentum witnessed in the second quarter. It is also optimistic about the growth of Old Navy and Athleta brands. However, temporary closure of 90% of store fleet hurt its top and bottom line in the fiscal first quarter. Notably, in-store sales declined 61%. Further, higher coronavirus-related costs marred margins.

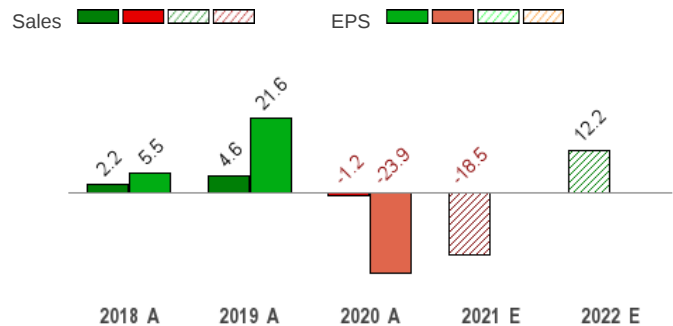
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.86 - \$5.26
20 Day Average Volume (sh)	12,000,164
Market Cap	\$5.3 B
YTD Price Change	-20.0%
Beta	1.51
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 9% (229 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-286.2%
Last Sales Surprise	-12.4%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	08/27/2020
Earnings ESP	-22.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					14,973 E
2021	2,107 A	3,047 E	3,784 E	4,485 E	13,347 E
2020	3,706 A	4,005 A	3,998 A	4,674 A	16,383 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.06 E	\$0.36 E	\$0.30 E	\$0.40 E	\$1.01 E
2021	-\$2.51 A	-\$0.37 E	\$0.28 E	\$0.34 E	-\$2.34 E
2020	\$0.24 A	\$0.63 A	\$0.53 A	\$0.58 A	\$1.97 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/29/2020. The reports text is as of 07/30/2020.

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.

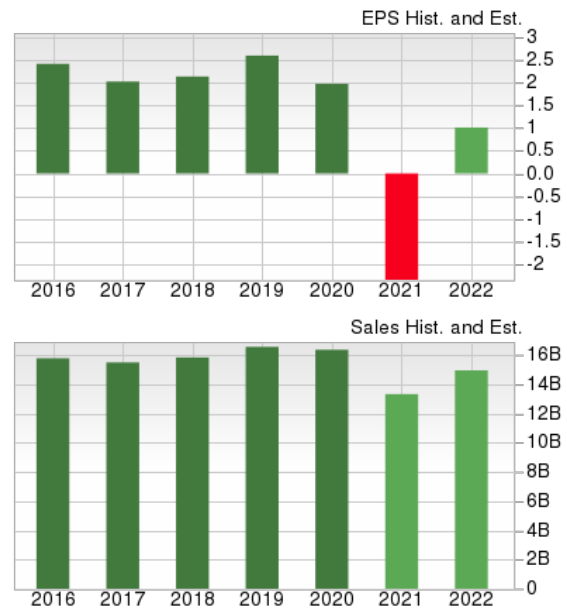
Gap Global: This segment reports the operating results of all stores, including company-owned, franchise and online stores for the Gap brand both domestic and international.

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:

- ▲ **Robust Online Sales Aid Q1:** Shares of Gap have gained 73.5% in the past three months compared with the industry's growth of 31.2%. The outperformance is mainly attributed to the company's strong online show amid the coronavirus pandemic, which cushioned the top line in first-quarter fiscal 2020. While stores remained closed since mid of March, the company witnessed strong online demand and leveraged its omni-channel capabilities to fulfill online orders and serve customers. This resulted in nearly a 13% year-over-year increase in online sales in the fiscal first quarter. Moreover, the company recorded online sales growth of 40% in April alone due to increased online demand. Brand-wise, there was a significant acceleration in the digital business for Old Navy and Athleta brands, recording increases of 20% and 49%, respectively. While online sales for the Gap and Banana Republic brands dipped 5% and 2%, respectively in the fiscal first quarter, initial hardships were overcome through efforts to migrate customers online and adjustments to merchandise mix. After a splendid show in the fiscal first quarter, Gap notes that the momentum in online sales continued in the fiscal second quarter recording nearly 100% online sales growth in May.
- ▲ **Store Reopenings Reflect Recovery in Q2:** With the easing of stay-at-home orders in many states, Gap recently initiated its store reopening plans. Notably, it re-opened nearly 1,500 stores in North America as of Jun 4, which is almost double of the initial target of reopening about 800 stores by the end of May. This represents nearly 55% of the company's 2,800 stores in North America. Moreover, it expects almost the entire of North America store fleet to be operational in June. Notably, the company has been witnessing robust store traffic and productivity at stores, particularly Old Navy and Athleta. Moreover, the company is operating over 2,100 stores as mini fulfillment hubs through ship-from-store and over 500 stores as curbside pickup locations, a capability launched during the COVID-19 crisis. However, it plans to move ahead conservatively due to several uncertainties in demand trends and consumer behavior. Consequently, it expects to lean its supply-chain and omni-channel capabilities in sync with customer demand levels.
- ▲ **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. Although net sales for the brand declined 42% in the fiscal first quarter due to impacts of the pandemic on in-store sales, online sales were up 20%. Notably, the Old Navy brand witnessed significant acceleration in digital business since the start of the pandemic. Moreover, the company sees a strong recovery at Old Navy in the initial phase of store reopening. This is attributed to Old Navy's advantaged value proposition for the entire family and strength in relevant categories such as active, fleet and denim. 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, Athleta witnessed 5% decline in net sales for the fiscal first quarter, with nearly 40% rise in online sales. The brand benefited from favorable customer response to the values-driven active and lifestyle space the brand participates in as well as its deep customer engagement through powerful omni-channel model.
- ▲ **Financial Flexibility:** Gap ended the fiscal first quarter with cash and cash equivalents of \$1,028 million and short-term investments of \$51 million. Notably, short-term debt increased to \$500 million, owing to a full drawdown on its revolving credit facility. Including current portion of operating lease liabilities of \$886 million, current debt was \$1,386 million, reflecting a sequential increase. However, the company's long-term (including operating lease liabilities) declined 2.6% sequentially to \$6,581 million. Following the end of the fiscal first quarter, the company issued \$2,250 million worth of senior secured notes. The proceeds from this issue will be used to pay down \$1,250 million of senior notes due April 2021. Further, the company used the proceeds to repay the \$500 million borrowed on its revolving credit facility.

Gap witnessed strong online demand and leveraged its omni-channel capabilities to fulfill online orders and serve customers amid the pandemic. Consequently, online sales rose 13% growth in Q1.

The company also secured a \$1,868 million of asset-based revolving credit facility, which replaced the existing unsecured revolving credit facility. Consequently, as of Jun 4, the company had \$1,868 million available for use. This new capital provides sufficient liquidity to steer the coronavirus environment. Additionally, the company expects to cut its capital expenditure for fiscal 2020 by 50% to curtail costs in the wake of the COVID-19 pandemic. It now expects capital spending of \$300 million for fiscal 2020, including \$30 million of expansion costs related to its Ohio distribution center. Moreover, it earlier suspended paying out dividends and share repurchases through the rest of fiscal 2020.

Reasons To Sell:

▼ **Dismal Q1 Results:** Gap reported dismal top and bottom-line results in first-quarter fiscal 2020. Results were mainly impacted by the temporary closure of nearly 90% of the company's stores worldwide due to the coronavirus outbreak, which led to a loss of sales and resulting merchandise margin decline. Sales were hurt by the significant decline in demand after the temporary store closures in mid of March, which more than offset the strong momentum in the first 35 days of the quarter when stores were operational. Further, results included non-cash impairment charges of \$484 million on store and operating lease assets, and \$235 million on excess inventory. Moreover, driven by the prevailing uncertainty, the company did not currently provide guidance for fiscal 2020.

Gap's first-quarter results were impacted by temporary closure of 90% of global store fleet for coronavirus outbreak, leading to a loss of sales and resulting merchandise margin decline.

▼ **Adverse In-Store Performance Dent Top Line:** As already noted, Gap's top line for the fiscal first quarter reflected significant impacts from the loss of in-store sales, as store remained closed due to the pandemic. Notably, its in-store sales declined 61% in the fiscal first quarter due to the extended store closures. Brand-wise, net sales were down 42%, 50%, 47% and 8% at Old Navy Global, Gap Global, Banana Republic Global and Athleta brands, respectively. The company witnessed significant declines in in-store sales for all formats, with Old Navy down 60%, Gap down 64%, Banana Republic down 61% and Athleta down 50%. For the Gap brand, the performance was affected by inconsistent execution of product and marketing messages, prior to the onset of the pandemic. However, the company saw gradual improvements in the brand's online sales throughout the quarter, given its strategy to migrate customers online due to the rationalization of its store fleet. At Banana Republic, the company's product mix was unfavorable due to the sudden shift of consumers' demand to more casual fashion to meet stay-at-home requirements. This led the brand to undertake aggressive actions to adjust the inventory mix to suit consumer preferences.

▼ **Soft Margins:** Gap reported soft gross margin along with operating loss for the fiscal first quarter, owing to increased costs related to COVID-19. Gross profit in the quarter under review was \$268 million, reflecting a significant decline from \$1,344 million in the prior-year quarter. Gross margin of 12.7% declined 23.6 percentage points from the prior-year quarter. More than half of the decline was due to a fall of 13.7 percentage points in merchandise margin, owing to a \$235-million inventory impairment charge recorded in the quarter. This accounted for nearly 11 percentage points of deleverage in merchandise margin. The remaining merchandise margin deleverage was primarily related to increased promotional activity across all brands.

Further, rent and occupancy increased 9.9 percentage points due to the decline in net sales on the extended COVID-19 outbreak-related store closures. The company notes that it suspended rent payments starting April. However, for accounting purposes, accrued rent payments got reflected in gross margin for the reported quarter. Operating loss of \$1,244 million in the reported quarter was attributed to gross margin decline as well as \$484 million of impairment charge related to store and operating lease assets.

▼ **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. Further, any incremental costs in relation to the List 4 tariffs may impact the company's top and bottom lines going forward.

Last Earnings Report

Gap Q1 Loss Wider Than Expected, Sales Miss Estimates

Gap reported dismal top and bottom-line results in first-quarter fiscal 2020. Results were mainly impacted by the temporary closure of nearly 90% of the company's stores worldwide due to the coronavirus outbreak, which led to a loss of sales and resulting merchandise margin decline. Further, results included non-cash impairment charges of \$484 million on store and operating lease assets, and \$235 million on excess inventory.

Nevertheless, the company witnessed strong online demand and leveraged its omni-channel capabilities to fulfill online orders and serve customers. This resulted in online sales growth of 40% in April. However, driven by the prevailing uncertainty, the company did not currently provide guidance for fiscal 2020.

Subsequent to the end of the fiscal first quarter, the company witnessed material declines in net sales and in-store sales in May due to store closures, while it witnessed nearly 100% growth in online sales during the month. Furthermore, it re-opened nearly 1,500 stores in North America as of Jun 4. This represents nearly 55% of the company's 2,800 stores in North America. With the easing of stay-at-home orders in many states, it expects almost the entire of North America store fleet to be operational in June.

Notably, the company has been witnessing robust store traffic and productivity at stores, particularly Old Navy and Athleta. However, it plans to move ahead conservatively due to several uncertainties in demand trends and consumer behavior. Consequently, it expects to lean its supply-chain and omni-channel capabilities in sync with customer demand levels.

Q1 Highlights

In the fiscal first quarter, the company's loss of \$2.51 per share lagged the Zacks Consensus Estimate of a loss of 65 cents, whereas it recorded earnings per share of 60 cents in the year-ago quarter.

Net sales declined 43% year over year to \$2,107 million and missed the Zacks Consensus Estimate of \$2,405 million. Sales were hurt by the significant decline in demand after the temporary store closures in mid of March, which more than offset the strong momentum in the first 35 days of the quarter when stores were operational.

Nonetheless, the company continued to operate through its e-commerce channel, which led to nearly a 13% year-over-year increase in online sales in the fiscal first quarter. Further, the company notes that the momentum in online sales continued in the fiscal second quarter. Meanwhile, its in-store sales declined 61% in the fiscal first quarter due to the extended store closures.

Additionally, the company did not provide comparable sales (comps) results for the quarter as the metric is not meaningful in light of the temporary store closures. However, it provided net sales, which include store sales and online sales, by brand.

Brand-wise, net sales were down 42%, 50%, 47% and 8% at Old Navy Global, Gap Global, Banana Republic Global and Athleta brands, respectively. The company witnessed significant declines in in-store sales for all formats, with Old Navy down 60%, Gap down 64%, Banana Republic down 61% and Athleta down 50%. Meanwhile, there was a significant acceleration in the digital business for Old Navy and Athleta brands, recording increases of 20% and 49%, respectively.

For the Gap brand, the performance was affected by inconsistent execution of product and marketing messages, prior to the onset of the pandemic. However, the company saw gradual improvements in the brand's online sales throughout the quarter, given its strategy to migrate customers online due to the rationalization of its store fleet. Consequently, online sales declined 5% at the Gap brand.

At Banana Republic, the company's product mix was unfavorable due to the sudden shift of consumers' demand to more casual fashion to meet stay-at-home requirements. This led the brand to undertake aggressive actions to adjust the inventory mix to suit consumer preferences. Online sales for the brand dipped 2% in the fiscal first quarter.

Margins

Gross profit in the quarter under review was \$268 million, reflecting a significant decline from \$1,344 million in the prior-year quarter. Gross margin of 12.7% declined 23.6 percentage points from the prior-year quarter. More than half of the decline was due to a fall of 13.7 percentage points in merchandise margin, owing to a \$235-million inventory impairment charge recorded in the quarter. This accounted for nearly 11 percentage points of deleverage in merchandise margin. The remaining merchandise margin deleverage was primarily related to increased promotional activity across all brands.

Meanwhile, rent and occupancy increased 9.9 percentage points due to the decline in net sales on the extended COVID-19 outbreak-related store closures. The company notes that it suspended rent payments starting April. However, for accounting purposes, accrued rent payments got reflected in gross margin for the reported quarter.

Operating loss of \$1,244 million in the reported quarter was attributed to gross margin decline as well as \$484 million of impairment charge related to store and operating lease assets.

Financials

Gap ended the fiscal first quarter with cash and cash equivalents of \$1,028 million, and total stockholders' equity of \$2,317 million. Notably, short-term debt increased to \$500 million, owing to a full drawdown on its revolving credit facility. The company's long-term remained unchanged at \$1,250 million.

Following the end of the fiscal first quarter, the company issued \$2,250 million worth of senior secured notes. The proceeds from this issue will be used to pay down \$1,250 million of senior notes due April 2021. Further, the company used the proceeds to repay the \$500 million borrowed on

Quarter Ending **04/2020**

Report Date	Jun 04, 2020
Sales Surprise	-12.40%
EPS Surprise	-286.15%
Quarterly EPS	-2.51
Annual EPS (TTM)	-0.77

its revolving credit facility. It also secured a \$1,868 million of asset-based revolving credit facility, which replaced the existing unsecured revolving credit facility.

Consequently, as of Jun 4, the company had \$1,868 million available for use. This new capital provides sufficient liquidity to steer the coronavirus environment.

In the wake of the COVID-19 pandemic, the company expects to cut its capital expenditure for fiscal 2020 by 50%. It now expects capital spending of \$300 million for fiscal 2020, including \$30 million of expansion costs related to its Ohio distribution center.

Store Update

As on May 2, Gap had 3,911 stores in 42 countries, out of which 3,313 were company-operated and 598 were franchise outlets.

Recent News

Gap Ropes in Kayne West to Boost Brand Image – Jun 26, 2020

Gap joins hands with Kayne West to bring the YEEZY fashion label to stores and its website for customers across the world from 2021. Post the deal, Kayne West will retain the sole ownership of the YEEZY brand. Other terms and conditions of this deal remain undisclosed.

The YEEZY brand, which was worth \$2.9 billion as of April 2020, will offer affordable clothing for men, women and kids. Going forward, Gap is targeting \$1 billion in sales in the first five years after the YEEZY deal.

Gap Partners with IMG to Leverage Iconic Brands – May 1, 2020

Gap has chosen IMG, a global licensing leader, as its first ever multi-brand, exclusive licensing representative. With the expertise of IMG, Gap expects to deliver cross-category product extensions to increase existing consumer touch points as well as engage and introduce new audiences worldwide for its portfolio of brands. IMG will initially focus on Gap, Banana Republic and Janie and Jack brands, to extend their reach and bring to market the contemporary products with distinct brand labeling. The companies are exploring categories including baby equipment and baby care, home décor and textiles, and furniture.

Valuation

Gap shares are down 23.1% in the year-to-date period and nearly 30.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 25.2% but the Zacks Retail-Wholesale sector is up 23.1% in the year-to-date period. Over the past year, the Zacks sub-industry is down 31.6% but the sector is up 30.8%.

The S&P 500 index is up 1.3% in the year-to-date period and 9.8% in the past year.

The stock is currently trading at 0.37X forward 12-month sales, which compares to 0.55X for the Zacks sub-industry, 1.23X for the Zacks sector and 3.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.91X and as low as 0.13X, with a 5-year median of 0.61X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 0.39X 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	0.37	0.55	1.23	3.59
	5-Year High	0.91	1.12	1.23	3.59
	5-Year Low	0.13	0.33	0.82	2.53
	5-Year Median	0.61	0.8	0.97	3.02
P/B TTM	Current	2.27	3.19	5.73	4.46
	5-Year High	5.7	6.22	6.02	4.56
	5-Year Low	0.62	1.4	3.69	2.83
	5-Year Median	3.32	4.45	5	3.71
EV/EBITDA TTM	Current	125.2	12.1	18.31	12.11
	5-Year High	125.2	12.6	18.46	12.85
	5-Year Low	3.69	4.74	11.12	8.25
	5-Year Median	5.49	6.9	12.91	10.89

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. (AEO)	Neutral	4
AbercrombieFitch Company (ANF)	Neutral	3
Buckle, Inc. The (BKE)	Neutral	NA
L Brands, Inc. (LB)	Neutral	3
Tillys, Inc. (TLYS)	Neutral	3
Vera Bradley, Inc. (VRA)	Neutral	3
Boot Barn Holdings, Inc. (BOOT)	Underperform	5
The Childrens Place, Inc. (PLCE)	Underperform	4

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	GPS	X Industry	S&P 500	AEO	ANF	LB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	F	-	-	D	F	F
Market Cap	5.28 B	525.31 M	22.69 B	1.76 B	636.30 M	7.16 B
# of Analysts	8	4	14	9	10	12
Dividend Yield	0.00%	0.00%	1.8%	0.00%	7.74%	3.48%
Value Score	F	-	-	C	D	C
Cash/Price	0.23	0.31	0.07	0.55	1.16	0.18
EV/EBITDA	9.29	6.47	13.11	6.62	5.54	9.42
PEG Ratio	NA	2.83	3.05	NA	NA	NA
Price/Book (P/B)	2.27	1.35	3.15	1.77	0.80	NA
Price/Cash Flow (P/CF)	4.06	4.10	12.28	4.10	2.92	3.68
P/E (F1)	NA	33.71	22.27	NA	NA	NA
Price/Sales (P/S)	0.36	0.35	2.46	0.44	0.19	0.60
Earnings Yield	-16.54%	1.13%	4.25%	-2.54%	-27.01%	-0.23%
Debt/Equity	2.84	1.06	0.75	1.95	1.78	-4.29
Cash Flow (\$/share)	3.49	1.75	6.94	2.60	3.53	7.04
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	-1.21%	-0.83%	10.85%	1.62%	2.25%	-14.42%
Proj. EPS Growth (F1/F0)	-218.53%	-88.49%	-7.70%	-118.24%	-482.74%	-102.58%
Curr. Cash Flow Growth	-14.41%	-0.71%	5.31%	0.06%	-6.25%	45.86%
Hist. Cash Flow Growth (3-5 yrs)	-5.36%	1.64%	8.55%	10.42%	-5.89%	6.20%
Current Ratio	1.23	1.58	1.31	2.35	1.32	1.06
Debt/Capital	73.96%	55.77%	44.23%	66.13%	63.97%	NA
Net Margin	-5.47%	-3.16%	10.45%	-2.68%	-5.50%	-5.89%
Return on Equity	-8.63%	2.54%	14.99%	5.92%	-14.29%	-23.32%
Sales/Assets	1.08	1.08	0.53	1.15	0.98	1.17
Proj. Sales Growth (F1/F0)	-18.53%	-6.95%	-1.97%	-11.89%	-13.99%	-14.78%
Momentum Score	D	-	-	C	D	D
Daily Price Chg	8.35%	1.43%	1.52%	8.67%	2.89%	35.36%
1 Week Price Chg	-2.09%	-1.30%	0.37%	-11.21%	-1.30%	3.73%
4 Week Price Chg	13.47%	-2.44%	5.44%	-1.57%	-2.46%	71.39%
12 Week Price Chg	97.35%	18.87%	15.38%	43.34%	7.72%	135.49%
52 Week Price Chg	-27.44%	-39.80%	-1.61%	-39.80%	-45.43%	-0.27%
20 Day Average Volume	12,000,164	289,346	1,846,377	6,174,965	2,323,410	6,196,383
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.21%	0.00%	0.27%	0.00%	0.60%	0.00%
(F1) EPS Est 12 week change	-391.44%	-67.86%	-0.85%	-152.20%	-420.92%	-105.20%
(Q1) EPS Est Mthly Chg	-7.63%	0.00%	0.13%	0.00%	1.33%	0.00%

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 have an excellent 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	D
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

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.