

## Inter Parfums, Inc. (IPAR)

**\$41.57** (As of 09/09/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

## Summary

Inter Parfums has lagged the industry year to date. The stock got further hit when the company announced its 2020 view, wherein the projected sales and earnings numbers suggest a decline from the year-ago levels. The company has been reeling under COVID-19 hurdles like retail store closures and sluggish travel retail. These dented the company's first-half 2020 sales. Also, management does not expect its duty free business to revive anytime soon. Nonetheless, stores have reopened in various markets and sales trends began to improve after April. The company expects to deliver profits in 2020 – despite gross margin concerns and operating leverage losses from lower sales. Profits are likely to be backed by a flexible business model, and lower advertising and promotion costs. Also, Inter Parfums remains optimistic about its product launches.

## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$81.40 - \$34.20</b>           |
| 20-Day Average Volume (Shares) | <b>113,092</b>                     |
| Market Cap                     | <b>\$1.3 B</b>                     |
| Year-To-Date Price Change      | <b>-42.8%</b>                      |
| Beta                           | <b>0.77</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Cosmetics</b>                   |
| Zacks Industry Rank            | <b>Bottom 21% (199 out of 251)</b> |

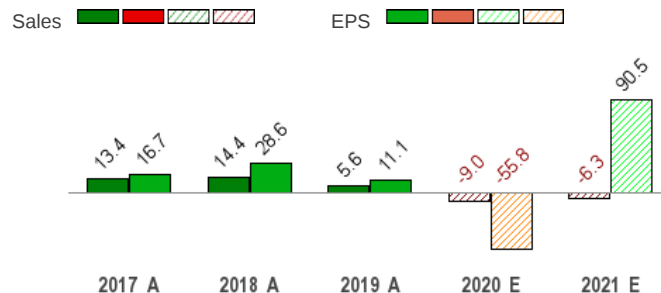
|                               |                   |
|-------------------------------|-------------------|
| Last EPS Surprise             | <b>37.5%</b>      |
| Last Sales Surprise           | <b>-0.1%</b>      |
| EPS F1 Estimate 4-Week Change | <b>-26.4%</b>     |
| Expected Report Date          | <b>11/03/2020</b> |
| Earnings ESP                  | <b>0.0%</b>       |

|         |             |
|---------|-------------|
| P/E TTM | <b>36.5</b> |
| P/E F1  | <b>49.5</b> |
| PEG F1  | <b>4.0</b>  |
| P/S TTM | <b>2.3</b>  |

## Price, Consensus & Surprise



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



## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 139 E | 132 E | 171 E | 167 E | 609 E   |
| 2020 | 145 A | 50 A  | 113 E | 129 E | 650 E   |
| 2019 | 178 A | 166 A | 191 A | 178 A | 714 A   |

## EPS Estimates

|      | Q1       | Q2        | Q3       | Q4       | Annual*  |
|------|----------|-----------|----------|----------|----------|
| 2021 | \$0.42 E | \$0.30 E  | \$0.54 E | \$0.30 E | \$1.60 E |
| 2020 | \$0.32 A | -\$0.10 A | \$0.32 E | \$0.25 E | \$0.84 E |
| 2019 | \$0.60 A | \$0.39 A  | \$0.66 A | \$0.26 A | \$1.90 A |

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 09/09/2020. The reports text and the analyst-provided sales and EPS estimates are as of 09/10/2020.

## Overview

Inter Parfums, Inc. is engaged in the manufacturing, distribution and marketing of a wide range of fragrances and related products. Organized as per the laws of the State of Delaware in May 1985, the company was formerly known as Jean Philippe Fragrances, Inc. In July 1999, the company changed its name to Inter Parfums, Inc.

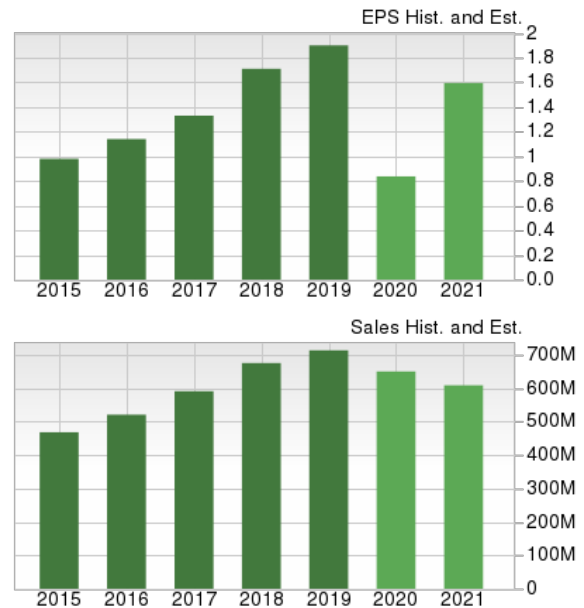
The company manages its business through two operational units — European-based operations and United States-based operations. In context with the European unit, the company produces and distributes products through license agreements with other brands. Certain prestige fragrance products of the company are marketed by its owned subsidiary in Paris, Interparfums SA.

Some of the well-known brands of the company in the European unit are Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, Repetto, Rochas, S.T. Dupont and Van Cleef & Arpels. Markedly, sales through European operations contributed nearly 80% to net sales in 2018.

Additionally, products sold and marketed under the United States operations unit are either owned by the company or through licensing agreements. The unit contributed nearly 20% to the company's sales in 2018. Some of the established brands in this category are Abercrombie & Fitch, Agent Provocateur, Anna Sui, bebe, Dunhill, Hollister, French Connection, Graff, GUESS, Lily Aldridge and Oscar de la Renta.

It is important to note that the company does not own any manufacturing facilities. Inter Parfums acts as a general contractor by sourcing the required components from suppliers. The components are assembled at distribution centers, which are then sent to third-party fillers. The third-party fillers manufacture the finished products for Inter Parfums and deliver the same to distribution centers.

The company sells its products mainly through department stores, specialty stores, perfumeries, domestic and international wholesalers, and distributors.



Source: Zacks Investment Research

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## Reasons To Buy:

▲ **Effective Product Launches:** Inter Parfums strong brand portfolio is one of its primary growth drivers. The company has been focused on making product launches under different brand banners. Inter Parfums' is optimistic about its robust product pipeline for 2021. In this regard, its scents for the MCM and Kate Spade New York brands are scheduled to be launched in 2021. The company also plans to launch several programs under Jimmy Choo and GUESS brands in 2021. Further, management expects to launch its first collection under Moncler during the first quarter of 2022.

Inter Parfums is optimistic about its recent strategic partnerships with Origines-parfums and Moncler SpA.

▲ **Strategic Partnership Holds Key to Growth:** Inter Parfums is optimistic about its recent strategic partnerships with Origines-parfums as well as Moncler SpA. Interparfums SA, a subsidiary of Inter Parfums, recently signed an agreement with renowned luxury brand, Moncler SpA. The deal gives Inter Parfums rights to fragrance-related items in Moncler monobrand stores along with few other specialty shops, department stores and duty-free shops. In fact, the products are expected to debut in these stores by the first quarter of 2022.

Apart from this, Inter Parfums' subsidiary recently inked a deal to acquire 25% of Divabox's capital. Notably, Divabox is the owner of Origines-parfums, which is a renowned French company in the online beauty market. The deal is likely to enhance Inter Parfums' fragrance line and product range alongside pushing its digital development, courtesy of Origines-parfums' solid customer expertise.

▲ **Store Reopening on Track:** Stores in various markets have been reopening since May as restrictions imposed to check the spread of coronavirus are being lifted. Along with its 2020 guidance, management stated that trends had begun to improve after April, and continued to remain favorable in the third quarter of 2020. In fact, the company expects its fourth quarter (which is inclusive of the vital holiday period) to be the strongest this year. While Europe and Asia had already started seeing business revivals (per the second-quarter earnings call), sales in North America have also started to pick up now.

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## Reasons To Sell:

▼ **COVID-19 Hurts Top-Line, 2020 View Sluggish:** Shares of Inter Parfums have lost 42.5% year to date compared with the industry's decline of 25.6%. The company, whose first-half results were largely hit by coronavirus-related concerns, offered 2020 guidance. In 2020, Inter Parfums expects net sales of roughly \$442 million, suggesting a decline from \$713.5 million reported in 2019. Further, management envisions 2020 earnings per share to be 46 cents, compared with the year-ago period figure of \$1.90. The company expects travel retail to remain under pressure, and doesn't expect its duty-free business to revive anytime soon.

Coronavirus-led store closures hurt the company's performance in second-quarter 2020. Travel retail is likely to remain under pressure in the near term.

During second-quarter 2020, net sales declined 70.2% on a year-over-year basis to \$49.5 million. At comparable-currency exchange rates, the metric slumped 69.8%. Net sales declined across both U.S. and Europe-based operations. In U.S.-based operations, net sales fell 75.2% to \$10.1 million. The metric slumped 68.6% to \$39.4 million in the Europe-based operations. The downside was caused by coronavirus-induced retail outlet closures in many parts of the world. Also, Inter Parfums witnessed sluggishness in its travel retail segment.

In the first half of 2020, the company's net sales slumped 43.6% compared with year-ago period's levels to \$194.3 million. Notably, its two largest brands Montblanc and Jimmy Choo saw sales decline of 50.8% and 43.6%, respectively. The downside was caused by adverse impacts of the coronavirus outbreak. Also, Coach and GUESS brands' sales fell of 21.3% and 21%, respectively in the year-to-date period.

▼ **Strained Gross Margin:** Inter Parfums has been witnessing strained gross margin for a while now. In the second quarter of 2020, gross profit amounted to \$26.8 million, down 75% year on year. Further, gross margin was 54.2%, significantly down from 64.4% posted in the year ago quarter. Prior to this, gross margin was 61.5%, down 10 basis points in the first quarter. Gross margin is likely to remain under pressure in 2020.

▼ **Debt Analysis:** Inter Parfums' long-term debt (including lease liabilities) of \$42 million as Jun 30, 2020 increased 24.6% on a sequential basis. Further, at the end of the second quarter of 2020 the company's debt-to-capitalization ratio of 0.08 stood higher than the previous quarter's ratio of 0.07. Moreover, the company's times-interest-earned ratio (as of the second-quarter end) stands at 24.2, which is lower than the preceding quarter's figure of 36.5. Incidentally, the times-interest-earned ratio is very important for companies, as it measures a company's ability to meet its debt obligations based on its current income.

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## Last Earnings Report

### Inter Parfums Posts Narrower-Than-Expected Q2 Loss

Inter Parfums delivered second-quarter 2020 results, with the top and the bottom line declining year over year. Results were hampered as operations were hurt by the pandemic-led hurdles.

During the first half of 2020, the company's net sales slumped 43.6% compared with year-ago period's levels to \$194.3 million. Notably, the company's two largest brands Montblanc and Jimmy Choo saw sales decline of 50.8% and 43.6%, respectively. The downside can be attributed to adverse impacts of the coronavirus outbreak. Also, Coach and GUESS brands witnessed sales decline of 21.3% and 21%, respectively in the year-to-date period.

Region wise, net sales in North America, Western Europe, Asia, Middle East and Eastern Europe declined 38.9%, 34.0%, 53.8%, 57.4% and 56.2%, respectively, during the first half of 2020. Notably, coronavirus-induced travel restrictions acted as a major deterrent in the Asia region.

Although the overall business momentum has improved since April, management believes that it has still not reached normal levels. Nevertheless, the company is optimistic about its recent strategic partnerships with Origines-parfums as well as Moncler SpA. In fact, management expects to launch its first collection for Moncler during the first quarter of 2022. Also, the company is optimistic about its robust product pipeline for 2021. In this regard, its scents for the MCM and Kate Spade New York brands are scheduled to be launched in 2021. The company also plans to launch several programs under Jimmy Choo and GUESS brands in 2021.

### Quarter in Detail

Inter Parfums posted net loss per share of 10 cents, which was narrower than the Zacks Consensus Estimate of a loss of 16 cents. However, the company had posted net income of 39 cents per share in the year-ago quarter.

Net sales amounted to \$49.5 million, down 70.2% on a year-over-year basis. At comparable-currency exchange rates, net sales slumped 69.8%. Net sales declined across both U.S. and Europe-based operations. In U.S.-based operations, net sales fell 75.2% to \$10.1 million. Net sales in the Europe-based operations amounted to \$39.4 million, down 68.6% year on year.

In a recent press release, the company stated that second-quarter sales were hampered by coronavirus-induced retail outlet closures in many parts of the world, which declined across all brands and geographic locations. Also, Inter Parfums witnessed sluggishness in its travel retail segment.

Gross profit amounted to \$26.8 million, down 75% year on year. Further, gross margin was 54.2%, significantly down from 64.4% posted in the year ago quarter.

SG&A expenses amounted to \$32.4 million, down 61.7% year on year. As a percentage of net sales, SG&A expenses were 65.4%. The metric increased from 50.8% in the prior-year quarter.

The company's operating loss came in at \$5.5 million, down from operating income of \$22.5 million reported in the year-ago quarter. Further, operating margin was 11.2%, down 230 basis points.

### Other Financial Aspects

The company ended the quarter with cash and cash equivalents of \$127.5 million, long-term debt (excluding current portion) of \$18.9 million and shareholder's equity (excluding non-controlling interest) of \$466 million. Further, the company had \$48 million available under its unused credit facility.

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| Quarter Ending   | 06/2020      |
|------------------|--------------|
| Report Date      | Aug 10, 2020 |
| Sales Surprise   | -0.08%       |
| EPS Surprise     | 37.50%       |
| Quarterly EPS    | -0.10        |
| Annual EPS (TTM) | 1.14         |

## Recent News

### Inter Parfums Offers Drab 2020 View, Travel Retail Issues to Stay - Sep 9, 2020

Inter Parfums expects net sales of roughly \$442 million, suggesting a decline from \$713.5 million reported in 2019. Further, management envisions 2020 earnings per share to be 46 cents. In the year-ago period, the company posted earnings of \$1.90 per share.

Incidentally, coronavirus-induced retail outlet closures in many parts of the world took a toll on Inter Parfums' sales in the first half of 2020. Restrictions on travel have also been playing a spoilsport for the company's travel retail network. Nonetheless, management stated that trends had begun to improve after April, and continued to remain favorable in the third quarter of 2020. In fact, the company expects its fourth quarter (which is inclusive of the vital holiday period) to be the strongest this year. While Europe and Asia had already started seeing business revivals (per the second-quarter earnings call), sales in North America have also started to pick up now. However, travel retail is likely to remain under pressure, and the company doesn't expect its duty-free business to revive anytime soon.

Markedly, the company expects to deliver profits in 2020 – despite witnessing gross margin concerns and operating leverage losses stemming from reduced sales. Profits are likely to be backed by the company's flexible business model, together with a major decline in advertising and promotion expenses. Apart from this, Inter Parfums remains optimistic about its planned product launches for 2021.

### Inter Parfums' IPSA Buys Stake in Owner of Origines-parfums – Jul 1, 2020

Inter Parfums' majorly owned subsidiary — Interparfums SA or IPSA — recently inked a deal to acquire 25% of Divabox's capital. Notably, Divabox is the owner of Origines-parfums, which is a renowned French company in the online beauty market.

### Inter Parfums Partners With Moncler SpA – Jun 11, 2020

Interparfums SA, a subsidiary of Inter Parfums has signed an agreement with renowned luxury brand, Moncler SpA. Per the deal, Interparfums SA will be entitled to sell fragrance-related items in Moncler monobrand stores along with few other specialty shops, department stores and duty-free shops. The products are expected to debut in these stores by the first quarter of 2022.

## Valuation

Inter Parfums shares are down 42.5% in the year-to-date period and 34.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 25.6% and the Zacks Consumer Staples sector is down 3.7% in the year-to-date period. Over the past year, the Zacks sub-industry declined 20.7%, whereas the Zacks Consumer Staples sector dipped 1.7%.

The S&P 500 index is up 4.9% in the year-to-date period and 13.8% in the past year.

The stock is currently trading at 30.51X forward 12-month earnings, which compares to 44.02X for the Zacks sub-industry, 20.29X for the Zacks sector and 22.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 46X and as low as 18.3X, with a 5-year median of 30.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 32.29X forward 12-month earnings.

The table below shows summary valuation data for IPAR

| Valuation Multiples - IPAR |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                   | Current       | 30.51 | 44.02        | 20.29  | 22.17   |
|                            | 5-Year High   | 46    | 44.02        | 22.37  | 23.44   |
|                            | 5-Year Low    | 18.3  | 19.65        | 16.63  | 15.26   |
|                            | 5-Year Median | 30.39 | 24.92        | 19.66  | 17.63   |
| P/S F12M                   | Current       | 2.36  | 5.27         | 9.65   | 4.08    |
|                            | 5-Year High   | 3.45  | 5.27         | 11.15  | 4.29    |
|                            | 5-Year Low    | 1.29  | 1.53         | 8.12   | 3.11    |
|                            | 5-Year Median | 2.23  | 2.88         | 9.89   | 3.66    |
| EV/EBITDA F12M             | Current       | 14.87 | 26.67        | 35.49  | 17.1    |
|                            | 5-Year High   | 20.62 | 32.48        | 37.49  | 18.75   |
|                            | 5-Year Low    | 6.01  | 8.72         | 25.79  | 12.92   |
|                            | 5-Year Median | 12.74 | 17.96        | 33.84  | 15.65   |

As of 09/09/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 21% (199 out of 251)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                     | Rec          | Rank |
|--------------------------------------|--------------|------|
| Nu Skin Enterprises, Inc. (NUS)      | Outperform   | 2    |
| Coty Inc. (COTY)                     | Neutral      | 4    |
| The Estee Lauder Companies Inc. (EL) | Neutral      | 4    |
| e.l.f. Beauty Inc. (ELF)             | Neutral      | 3    |
| Helen of Troy Limited (HELE)         | Neutral      | 3    |
| L'Oreal SA (LRLCY)                   | Neutral      | 2    |
| MANDOM CORP (MDOMF)                  | Neutral      | 3    |
| Revlon, Inc. (REV)                   | Underperform | 5    |

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

| Industry Comparison Industry: Cosmetics |         |            |           | Industry Peers |         |            |
|-----------------------------------------|---------|------------|-----------|----------------|---------|------------|
|                                         | IPAR    | X Industry | S&P 500   | EL             | HELE    | NUS        |
| Zacks Recommendation (Long Term)        | Neutral | -          | -         | Neutral        | Neutral | Outperform |
| Zacks Rank (Short Term)                 | 3       | -          | -         | 4              | 3       | 2          |
| VGM Score                               | C       | -          | -         | D              | B       | A          |
| Market Cap                              | 1.31 B  | 1.93 B     | 23.35 B   | 78.84 B        | 5.03 B  | 2.56 B     |
| # of Analysts                           | 4       | 3          | 14        | 12             | 3       | 5          |
| Dividend Yield                          | 0.00%   | 0.00%      | 1.63%     | 0.88%          | 0.00%   | 3.01%      |
| Value Score                             | C       | -          | -         | D              | D       | B          |
| Cash/Price                              | 0.14    | 0.06       | 0.07      | 0.06           | 0.02    | 0.16       |
| EV/EBITDA                               | 9.98    | 14.61      | 13.13     | 43.31          | 24.20   | 7.51       |
| PEG F1                                  | 3.86    | 3.37       | 2.97      | 3.60           | 3.13    | 2.96       |
| P/B                                     | 2.15    | 3.01       | 3.22      | 19.88          | 4.12    | 3.24       |
| P/CF                                    | 18.96   | 18.96      | 12.52     | 37.14          | 19.74   | 11.06      |
| P/E F1                                  | 48.25   | 43.33      | 21.45     | 45.74          | 20.42   | 16.55      |
| P/S TTM                                 | 2.33    | 2.33       | 2.48      | 5.52           | 2.87    | 1.11       |
| Earnings Yield                          | 2.02%   | 2.19%      | 4.45%     | 2.19%          | 4.90%   | 6.05%      |
| Debt/Equity                             | 0.07    | 0.36       | 0.70      | 1.24           | 0.26    | 0.40       |
| Cash Flow (\$/share)                    | 2.19    | 1.36       | 6.93      | 5.88           | 10.07   | 4.50       |
| Growth Score                            | C       | -          | -         | C              | A       | A          |
| Historical EPS Growth (3-5 Years)       | 13.94%  | 5.98%      | 10.41%    | 14.73%         | 8.72%   | 3.24%      |
| Projected EPS Growth (F1/F0)            | -55.92% | -11.34%    | -4.73%    | 15.96%         | 4.66%   | -3.03%     |
| Current Cash Flow Growth                | 6.41%   | 5.51%      | 5.22%     | -16.30%        | 13.99%  | -11.19%    |
| Historical Cash Flow Growth (3-5 Years) | 11.74%  | 6.03%      | 8.49%     | 6.03%          | 4.22%   | -3.17%     |
| Current Ratio                           | 4.78    | 1.67       | 1.35      | 1.72           | 2.07    | 1.62       |
| Debt/Capital                            | 6.43%   | 31.90%     | 42.95%    | 55.36%         | 20.91%  | 28.77%     |
| Net Margin                              | 6.39%   | 2.38%      | 10.25%    | 4.79%          | 9.81%   | 6.33%      |
| Return on Equity                        | 5.96%   | 8.63%      | 14.59%    | 34.57%         | 20.17%  | 17.60%     |
| Sales/Assets                            | 0.71    | 0.82       | 0.50      | 0.82           | 0.94    | 1.31       |
| Projected Sales Growth (F1/F0)          | -38.80% | -1.74%     | -1.42%    | 6.14%          | 7.44%   | -0.10%     |
| Momentum Score                          | D       | -          | -         | D              | C       | F          |
| Daily Price Change                      | -7.50%  | 0.00%      | 1.39%     | 1.15%          | 2.74%   | 4.04%      |
| 1-Week Price Change                     | -0.40%  | 0.00%      | -1.28%    | -3.01%         | -4.79%  | -0.52%     |
| 4-Week Price Change                     | -12.24% | 0.00%      | -1.22%    | 3.31%          | -4.58%  | 3.60%      |
| 12-Week Price Change                    | -12.37% | 7.90%      | 5.76%     | 11.95%         | 8.56%   | 30.71%     |
| 52-Week Price Change                    | -35.89% | 0.00%      | -0.03%    | 10.77%         | 30.41%  | 12.96%     |
| 20-Day Average Volume (Shares)          | 113,092 | 66,212     | 1,805,652 | 1,523,996      | 121,266 | 361,787    |
| EPS F1 Estimate 1-Week Change           | -45.08% | 0.00%      | 0.00%     | 0.00%          | 0.00%   | 0.00%      |
| EPS F1 Estimate 4-Week Change           | -26.40% | 0.00%      | 0.00%     | -7.44%         | 0.00%   | 0.00%      |
| EPS F1 Estimate 12-Week Change          | -54.79% | -8.91%     | 3.99%     | -8.91%         | 12.47%  | 34.92%     |
| EPS Q1 Estimate Monthly Change          | 186.36% | 0.00%      | 0.00%     | -21.87%        | 0.00%   | 0.00%      |

Source: Zacks Investment Research

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## 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.

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### 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    | C |
| Growth Score   | C |
| Momentum Score | D |
| VGM Score      | C |

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.

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## Disclosures

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

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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.

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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 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.

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**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.

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**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.