

Nordstrom, Inc. (JWN)

\$33.46 (As of 01/06/21)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

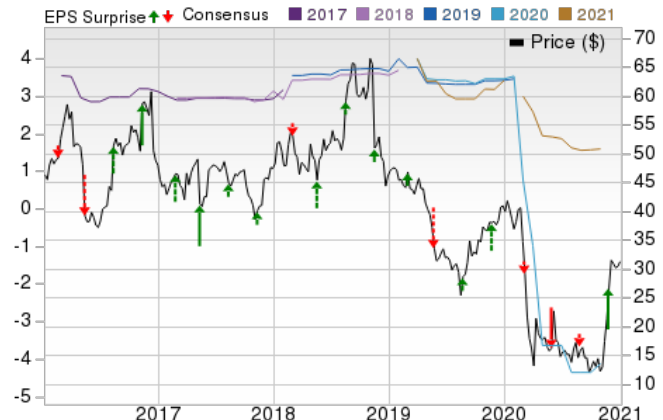
Growth: F

Momentum: B

Summary

Shares of Nordstrom have outpaced the industry in the past three months, courtesy of its earnings beat in third-quarter fiscal 2020. Healthy customer demand during its Anniversary Sale, improved merchandise margins and overhead cost reductions aided results. The company expects to sustain the strong momentum in fourth-quarter fiscal 2020 and beyond. It is also tracking ahead of the target of \$750 million in annual cash savings for 2020 driven by strong execution of its plans to create a leaner and more efficient organization. However, continued impacts of COVID-19 and soft store traffic stemming from the ongoing situation weighed on the top line. Also, the shift in the timing of the Anniversary Sale event and reduced sales volume hurt margins in the fiscal third quarter. Also, elevated SG&A costs remains a concern.

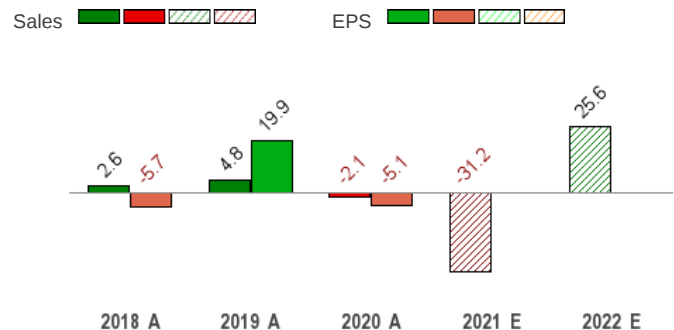
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$42.96 - \$11.72
20-Day Average Volume (Shares)	4,209,298
Market Cap	\$5.3 B
Year-To-Date Price Change	7.2%
Beta	2.44
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 39% (98 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2,100.0%
Last Sales Surprise	-0.7%
EPS F1 Estimate 4-Week Change	4.7%
Expected Report Date	03/02/2021
Earnings ESP	54.5%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,950 E	3,277 E	3,301 E	3,962 E	13,414 E
2021	2,119 A	1,862 A	3,089 A	3,606 E	10,676 E
2020	3,443 A	3,872 A	3,672 A	4,538 A	15,524 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.33 E	\$0.39 E	\$0.64 E	\$0.99 E	\$1.59 E
2021	-\$2.23 A	-\$1.62 A	\$0.22 A	\$0.49 E	-\$4.08 E
2020	\$0.23 A	\$0.90 A	\$0.81 A	\$1.42 A	\$3.37 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2021. The reports text is as of 01/07/2021.

Overview

Founded in 1901 as a retail shoe business, and headquartered in Seattle, Washington, Nordstrom Inc. is a leading fashion specialty retailer in the United States. The company offers an extensive selection of both branded and private-label merchandise, which are positioned in the upscale segment of the industry.

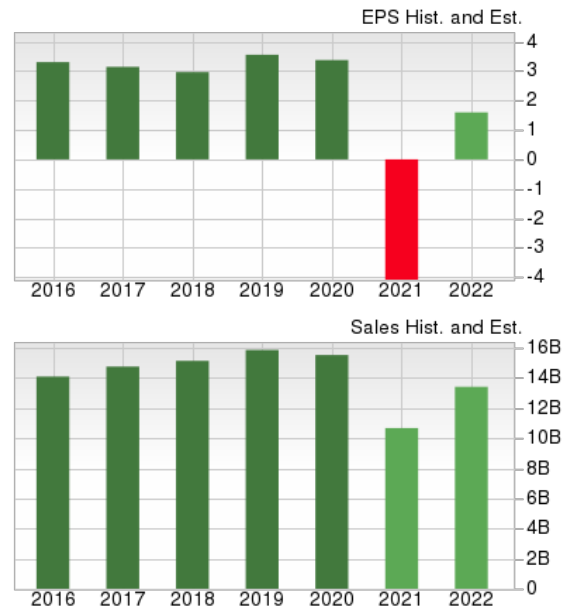
Meanwhile, the company offers high-quality apparel, shoes, cosmetics and related accessories for men, women, young adults and children through a variety of channels. These channels are namely, Nordstrom branded full-line stores; Nordstrom Rack stores; Jeffrey boutiques; clearance stores under the Last Chance name; Trunk Club clubhouses and Nordstrom Local. Also, the company serves customers online through Nordstrom.com; Nordstromrack.com; HauteLook; and TrunkClub.com.

The company aspires to become the best fashion retailer in the digital space by primarily focusing on its customers. Impressively, Nordstrom's digital sales represented approximately 31% of total sales in the first quarter of fiscal 2019.

Furthermore, Nordstrom's customer-based strategy focuses on three strategic factors — leveraging its brand strength, providing excellent services and offering compelling products. Furthermore, the company delivers service, product and experience, which include alterations, dining and styling in order to make shopping personalized and convenient.

The company operates through two segments: Retail and Credit Card. The Retail segment offers a selection of brand names and private-label merchandise. The segment includes Nordstrom branded full-line stores and website, off-price Nordstrom Rack stores and other retail channels including HauteLook and Jeffrey boutiques. The Credit Card segment operates Nordstrom private-label and co-branded VISA credit cards.

As of Oct 31, 2020, Nordstrom operated 357 stores across 40 states. These include 100 full-line stores in the United States, Canada and Puerto Rico; 249 Nordstrom Rack outlets; two clearance stores and six Nordstrom Local service concepts.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Q3 Earnings Beat & Upbeat View Boost Stock:** Shares of Nordstrom have soared 136.1% in the past three months, outperforming the industry's growth of 46.2%. The stock's bullish run on the bourses can be attributable to its third-quarter fiscal 2020 results, wherein the bottom line beat the Zacks Consensus Estimate. The bottom line gained from positive customer demand during its Anniversary Sale, which led to higher sell-through rates. Also, improved merchandise margins and overhead cost reductions of nearly 20% aided the bottom line. The company expects to sustain the strong momentum in fourth-quarter fiscal 2020 and beyond. Moreover, it is optimistic about its inventory levels, which are current and on-trend. With stores back in operation and potential healthy demand for the holiday season, management foresees positive EBIT and solid cash flow for the fourth quarter.
- ▲ **Cost Cutting:** As part of its efforts to curb costs, Nordstrom has permanently closed 16 full-line stores. Alongside this, the company has been making efforts to restructure regions and adjust supply chains will help it stay afloat amid the coronavirus pandemic. The company is tracking ahead of the target of \$750 million in annual cash savings for 2020, net of COVID-19-related charges, driven by strong execution of its plans to create a leaner and more efficient organization. Notably, it has generated \$550 million of cash savings year to date, including \$330 million of cost savings. This led to a nearly 20% reduction in overhead costs in the fiscal third quarter. Moreover, these actions led to an improved merchandise margin trend on a sequential basis in the fiscal third quarter.
- ▲ **Financial Stability:** Nordstrom's long-term debt (including operating lease liabilities) of \$2,767 million as of Oct 31, 2020, shows a sequential decline of 15.3%. The company generated an operating cash flow of more than \$155 million in third-quarter fiscal 2020. This enabled the company to pay down \$300 million on its revolving line of credit. Consequently, the company ended the quarter with a strong balance sheet, having total liquidity of \$1.5 billion, including \$900 billion in cash. This remains sufficient to fund its short-term obligations of about \$200 million as of Oct 31, 2020. Further, it realigned inventory levels and reduced overhead expenses by nearly 20%. Going ahead, it targets a reduction in operating expenses, capital expenditures and working capital to the tune of roughly \$750 million for fiscal 2020. With these plans in place, Nordstrom is likely to stay afloat amid this ongoing pandemic.
- ▲ **Long-Term Growth Strategy – Strong Digital Growth:** Nordstrom remains on track with its customer-based strategy which focuses on three strategic factors — leveraging its brand strength, providing excellent services and offering compelling products to its customers. Nordstrom remains focused on advancing in the technology space, by boosting e-commerce and digital networks, and improving its supply-chain channels and marketing efforts. Digital sales advanced 37% in the reported quarter, driven by the Anniversary Sale event shift. Nonetheless, digital sales represented 54% of the company's business, up from 37% in the year-ago quarter. During the event, digital sales accounted for 60% of sales. Additionally, the company's stores fulfilled one-third of online orders of Nordstrom.com. Excluding the Anniversary Sale event shift impact, digital sales increased in mid-teens in the fiscal third quarter. Management introduced pick up options for Nordstrom.com, Nordstromrack.com and HauteLook.com orders from all Nordstrom and Nordstrom Rack stores across the United States. Also, the company launched its market strategy to five additional markets, wherein customers can avail increased merchandise selection with two-day delivery or next-day pickup facilities.

Nordstrom's gained from positive customer demand during its Anniversary Sale and improved merchandise margins. Also, it expects to sustain the strong momentum in Q4.

Reasons To Sell:

▼ **Dismal Q3 Sales:** In the fiscal third quarter, sales missed the Zacks Consensus Estimate and also declined year over year. Total revenues and net sales declined nearly 16% each. Also, credit card net revenues declined 18%. Continued impacts of COVID-19 and soft store traffic due to the pandemic weighed on the top line. Moreover, Nordstrom's full-price net sales (including the U.S. full-line stores, Nordstrom.com, the Canadian operation, Trunk Club, Jeffrey and Nordstrom Local) fell 7% in the fiscal third quarter. Excluding the Anniversary Sale event shift impact, full-price sales declined in the mid-twenties. Nordstrom's off-price net sales (including Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores) slumped 32%. Moreover, management foresees sales to decline in the low twenties for fiscal fourth quarter.

Soft store traffic stemming from the COVID-19 situation weighed on Nordstrom's top line. Also, weak margins remain a concern.

▼ **Higher Costs and Markdowns Hurt Margins:** Nordstrom has been witnessing soft margins for the past few quarters owing to higher COVID-19 related costs and higher promotions to reduce inventory. Notably, gross profit margin contracted 150 basis points (bps) to 32.8% in the reported quarter. This downside was due to the shift in the timing of the Anniversary Sale event and reduced sales volume. Moreover, selling, general and administrative (SG&A) expenses, as a percentage of sales, grew 30 bps to 32.1% in the fiscal third quarter. Further, EBIT for the reported quarter declined 45.1% due to a decline in sales volume as a result of temporary store closures, which more than offset gains from realized expense savings. Management expects EBIT margin to decline on a sequential basis due to higher promotions and elevated shipping costs.

▼ **Competitive Pressure:** Nordstrom operates in a highly fragmented specialty retail sector and faces intense competition from other well-established players such as The Gap Inc., Limited Brands Inc., Abercrombie & Fitch Co. and Saks Inc. The company primarily competes on the basis of fashion, quality and service. To retain its existing market share, the company may have to reduce its sales prices, which in turn can affect its margins.

▼ **Macroeconomic Challenges & Seasonality of Business:** The apparel retail industry is consumer driven and hence, very sensitive to the health of the economy. Spending on apparel and accessories is heavily dependent on the personal disposable income of consumers. The current macroeconomic challenges such as high household debt and unemployment levels may restrain consumers from spending on these items. Further, the seasonal and cyclical nature of the company's business puts it at risk as failure to perform well during the peak season might hurt its annual performance.

Last Earnings Report

Nordstrom Beats Q3 Earnings Estimate While Sales Lag

Nordstrom posted third-quarter fiscal 2020 results wherein the bottom line beat the Zacks Consensus Estimate while sales lagged the same. However, both top and bottom lines declined year over year. Results were affected by the continued impacts of COVID-19 and soft store traffic stemming from the ongoing situation. Despite the decline, the company's results reflected an improvement on a sequential basis.

Moreover, the company tracks ahead of the target of \$750 million in annual cash savings, net of COVID-19-related charges, driven by strong execution of its plans to create a leaner and more efficient organization. Notably, it has generated \$550 million of cash savings year to date, including \$330 million of cost savings. This led to a nearly 20% reduction in overhead costs in the fiscal third quarter.

The company expects to sustain the strong momentum in fourth-quarter fiscal 2020 and beyond. Moreover, it is optimistic about its inventory levels, which are current and on-trend. With stores back in operation and potential healthy demand for the holiday season, management foresees positive EBIT and solid cash flow for the fourth quarter. However, EBIT margin is likely to decline on a sequential basis due to higher promotions and elevated shipping costs.

Q3 Highlights

Nordstrom posted adjusted earnings of 22 cents per share, beating the Zacks Consensus Estimate of 1 cent. The bottom line gained from positive customer demand during its Anniversary Sale, which led to higher sell-through rates. Also, improved merchandise margins and overhead cost reductions of nearly 20% aided the bottom line. However, the figure reflected a decline of more than three-fold from 81 cents reported in the last-year quarter.

Total revenues declined nearly 16% to \$3,089 million and lagged the Zacks Consensus Estimate of \$3,109 million. Net sales fell 16% to \$3,002 million, while Credit Card net revenues declined 18% to \$87 million. During the quarter, strength in merchandise categories, including active, home, beauty and designer, along with a favorable impact related to the shift in the Anniversary Sale event from second to third quarter aided quarterly sales.

Nordstrom's full-price net sales (including the U.S. full-line stores, Nordstrom.com, the Canadian operation, Trunk Club, Jeffrey and Nordstrom Local) fell 7% to \$2,120 million in the fiscal third quarter. Excluding the Anniversary Sale event shift impact, full-price sales declined in the mid-twenties. Nordstrom's off-price net sales (including Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores) slumped 32% to \$882 million.

Digital sales advanced 37% to \$1.6 billion in the reported quarter, driven by the Anniversary Sale event shift. Nonetheless, digital sales represented 54% of the company's business, up from 37% in the year-ago quarter. During the event, digital sales accounted for 60% of sales. Additionally, the company's stores fulfilled one-third of online orders of Nordstrom.com. Excluding the Anniversary Sale event shift impact, digital sales increased in mid-teens in the fiscal third quarter.

Nordstrom's gross profit margin contracted 150 basis points (bps) to 32.8% in the reported quarter. This downside was due to the shift in the timing of the Anniversary Sale event and reduced sales volume. However, gross margin reflected some gains from sequential improvement in merchandise margin trends. Ending inventory declined 27% from the last year. Excluding the Anniversary Sale event shift impact, the decline in inventory was in line with the fall in sales.

Selling, general and administrative (SG&A) expenses, as a percentage of sales, grew 30 bps to 32.1% in the fiscal third quarter. Further, EBIT for the reported quarter declined 45.1% to \$106 million due to a decline in sales volume as a result of temporary store closures, which more than offset gains from realized expense savings.

Nordstrom ended the quarter with cash and cash equivalents of \$889 million, long-term debt (net of current liabilities) of \$2,767 million, and total shareholders' equity of \$252 million. The company used \$436 million of net cash from operating activities and spent \$311 million as capital expenditure in the nine months ended Oct 31, 2020. However, it generated an operating cash flow of more than \$155 million in third-quarter fiscal 2020. This enabled the company to pay down \$300 million on its revolving line of credit. Consequently, the company ended the quarter with a strong balance sheet, having total liquidity of \$1.5 billion, including \$900 billion in cash. Further, it realigned inventory levels and reduced overhead expenses by nearly 20%.

Business Developments

Management remains on track to gain market share, optimize the inventory and expand the customer base. In this context, the company launched its market strategy to five additional markets, wherein customers can avail increased merchandise selection with two-day delivery or next-day pickup facilities. It also introduced pick up options for Nordstrom.com, Nordstromrack.com and HauteLook.com orders from all Nordstrom and Nordstrom Rack stores across the United States. Further, Nordstrom is making efforts to boost Nordstrom Rack via improved digital services, as Rack rakes in the largest number of new customers. It has expanded the buy online pickup in store facility to almost 350 locations across both Nordstrom and Nordstrom Racks. On the store-front, it opened its fourth local Nordstrom service hub in Los Angeles and intends to open the fifth one later this year.

Quarter Ending	10/2020
Report Date	Nov 24, 2020
Sales Surprise	-0.65%
EPS Surprise	2,100.00%
Quarterly EPS	0.22
Annual EPS (TTM)	-2.21

Recent News

Nordstrom Opens Two Local Service Hubs in Los Angeles – Oct 27, 2020

Nordstrom plans to open two additional Nordstrom Local service hubs in Newport Beach and Manhattan Beach. The Nordstrom Local Newport Beach location with 1,193 square feet is scheduled to open on Nov 6. Further, the Nordstrom Local Manhattan Beach location, encompassing 1,886 square feet space will open in the following months. These service hubs in Los Angeles, one of the company's largest markets, will provide customers greater access to merchandise selection and enable quicker delivery. Nordstrom Local customers can avail services like curbside pick-up, returns, alterations and styling spend more than two-and-a-half times compared to other customers.

Nordstrom Extends Pick-Up Options to Rack, Ups Delivery Game - Oct 15, 2020

In a bid to better serve customers amid this ongoing pandemic situation and the upcoming holiday season, Nordstrom is expanding pick-up services for stores and online orders. This move will help the company offer increased and improved products along with faster and convenient delivery options.

It is all set to launch the pick-up facility at its Rack stores for customers shopping from Nordstrom.com, NordstromRack.com and HauteLook.com. From now on, these Rack stores will also fulfill online orders of NordstromRack.com. Apart from these, customers will be able to pick-up their orders placed at U.S. NordstromRack.com and HauteLook.com from the nearest Nordstrom and Nordstrom Local stores by late 2020. These endeavors are likely to improve customers' shopping experiences in these trying times and also aid the top line during the upcoming holiday season and beyond.

Valuation

Nordstrom shares are up 108.1% in the past six months but down nearly 20.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 102.9% and 11.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 38.5% and 34.1%, respectively.

The S&P 500 index is up 18.4% in the past six months and 16.5% in the past year.

The stock is currently trading at 0.4X forward 12-month sales, which compares to 1.01X for the Zacks sub-industry, 1.32X for the Zacks sector and 4.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.7X and as low as 0.14X, with a 5-year median of 0.48X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$36 price target reflects 0.43X forward 12-month sales.

The table below shows summary valuation data for JWN

Valuation Multiples - JWN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.4	1.01	1.32	4.46
	5-Year High	0.7	1.12	1.33	4.46
	5-Year Low	0.14	0.34	0.83	3.21
	5-Year Median	0.48	0.83	1.01	3.67
P/B TTM	Current	20.94	7.17	5.59	6.41
	5-Year High	20.94	7.33	6.47	6.46
	5-Year Low	2.07	1.45	3.69	3.74
	5-Year Median	8.58	4.52	5.09	4.94
EV/EBITDA TTM	Current	18.48	25.89	18.79	16.88
	5-Year High	18.48	26.43	20.75	17.02
	5-Year Low	2.31	2.96	11.15	9.56
	5-Year Median	6.06	6.72	13.08	13.21

As of 01/06/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 39% (98 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
L Brands, Inc. (LB)	Outperform	1
Tapestry, Inc. (TPR)	Outperform	1
Boot Barn Holdings, Inc. (BOOT)	Neutral	3
Capri Holdings Limited (CPRI)	Neutral	3
Foot Locker, Inc. (FL)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3
Levi Strauss & Co. (LEVI)	Neutral	3
Kering SA (PPRUY)	Neutral	2

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

Industry Comparison Industry: Retail - Apparel And Shoes			Industry Peers		
	JWN	X Industry	S&P 500	GPS	LB PPRUY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform Neutral
Zacks Rank (Short Term)	3	-	-	3	1 2
VGM Score	D	-	-	C	B -
Market Cap	5.28 B	828.98 M	26.57 B	8.01 B	12.11 B 89.40 B
# of Analysts	5	4	13	8	10 1
Dividend Yield	0.00%	0.00%	1.44%	0.00%	0.00% 1.05%
Value Score	D	-	-	C	C D
Cash/Price	0.18	0.24	0.06	0.35	0.25 0.03
EV/EBITDA	4.37	4.29	14.91	6.52	10.59 NA
PEG F1	NA	4.37	2.65	NA	1.46 NA
P/B	20.94	2.70	3.70	3.38	NA 7.95
P/CF	3.77	6.36	14.31	6.14	6.19 17.55
P/E F1	NA	29.73	20.47	NA	18.93 25.10
P/S TTM	0.45	0.61	2.96	0.57	1.03 NA
Earnings Yield	-12.19%	2.11%	4.77%	-10.09%	5.28% 3.98%
Debt/Equity	10.98	0.16	0.70	0.93	-4.12 0.41
Cash Flow (\$/share)	8.88	1.68	6.93	3.49	7.04 4.03
Growth Score	F	-	-	D	B A
Historical EPS Growth (3-5 Years)	-5.75%	-3.92%	9.71%	1.34%	-17.95% NA
Projected EPS Growth (F1/F0)	-221.13%	-46.54%	12.15%	-209.58%	0.48% 50.80%
Current Cash Flow Growth	15.20%	-0.52%	5.22%	-14.41%	45.86% 30.38%
Historical Cash Flow Growth (3-5 Years)	3.66%	1.72%	8.33%	-5.36%	6.20% 20.57%
Current Ratio	0.89	1.48	1.38	1.44	1.48 1.06
Debt/Capital	91.65%	26.73%	41.97%	48.29%	NA 29.07%
Net Margin	-4.57%	-5.50%	10.40%	-7.71%	-1.77% NA
Return on Equity	-77.24%	-2.15%	15.07%	-24.81%	-37.41% NA
Sales/Assets	1.19	1.03	0.50	1.03	1.13 NA
Projected Sales Growth (F1/F0)	-31.23%	-1.80%	5.91%	-14.27%	-8.22% 16.13%
Momentum Score	B	-	-	A	B -
Daily Price Change	6.29%	3.41%	2.11%	8.41%	7.72% 0.46%
1-Week Price Change	2.87%	0.25%	1.16%	-1.17%	-4.54% 6.17%
4-Week Price Change	4.99%	4.99%	2.33%	-1.83%	4.74% 2.11%
12-Week Price Change	153.29%	29.06%	12.27%	9.18%	36.18% 4.25%
52-Week Price Change	-20.60%	-8.93%	7.29%	18.48%	139.95% 6.25%
20-Day Average Volume (Shares)	4,209,298	384,061	1,691,401	6,253,611	3,113,433 87,674
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.06%	0.22% NA
EPS F1 Estimate 4-Week Change	4.70%	0.00%	0.05%	0.06%	0.22% 8.46%
EPS F1 Estimate 12-Week Change	13.38%	15.21%	2.53%	-2.37%	102.65% 6.42%
EPS Q1 Estimate Monthly Change	14.15%	0.00%	0.00%	0.97%	0.29% NA

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	D
Growth Score	F
Momentum Score	B
VGM Score	D

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

Disclosures

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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.

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.