

Kohl's Corporation (KSS)

\$40.90 (As of 12/04/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

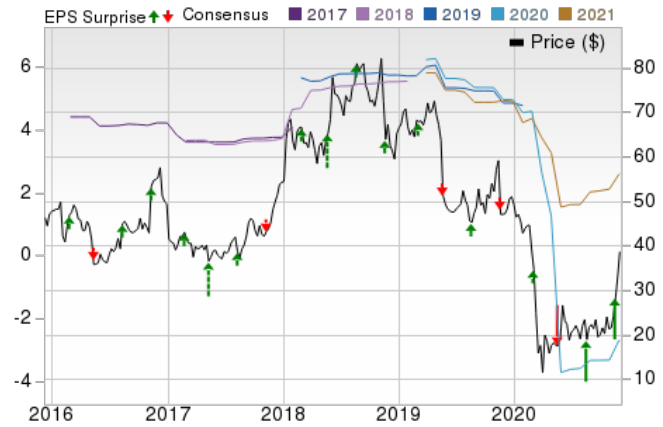
Growth: C

Momentum: B

Summary

Kohl's shares have outpaced the industry in the past three months. The company is gaining from its growing online business. Digital sales saw a 25% jump during third-quarter fiscal 2020, considering customers' shift to online shopping amid COVID-19. Also, the company's recently unveiled strategic framework looks impressive. Apart from these, Kohl's regularly introduces new brands to keep the inventory assortment fresh and drive customer traffic. However, the company continued to see higher costs and strained margins in the quarter, wherein net sales fell 13.3% partly due to challenging back-to-school sales in August. Going into the fiscal fourth quarter, management expects gross margin to be under pressure, owing to incremental Sprite surcharges and increased shipping costs as it expects digital penetration to remain high.

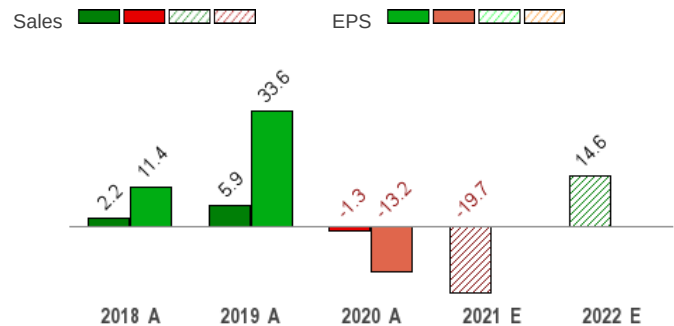
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$51.60 - \$10.89
20-Day Average Volume (Shares)	11,720,421
Market Cap	\$6.5 B
Year-To-Date Price Change	-19.7%
Beta	1.98
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 50% (126 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	102.3%
Last Sales Surprise	-1.9%
EPS F1 Estimate 4-Week Change	18.7%
Expected Report Date	NA
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,352 E	4,085 E	4,274 E	6,557 E	18,379 E
2021	2,428 A	3,407 A	3,979 A	6,228 E	16,042 E
2020	4,087 A	4,430 A	4,625 A	6,832 A	19,974 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.32 E	\$1.02 E	\$0.31 E	\$1.57 E	\$2.59 E
2021	-\$3.20 A	-\$0.25 A	\$0.01 A	\$0.73 E	-\$2.71 E
2020	\$0.61 A	\$1.55 A	\$0.74 A	\$1.99 A	\$4.86 A

*Quarterly figures may not add up to annual.

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

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/04/2020. The reports text is as of 12/07/2020.

Overview

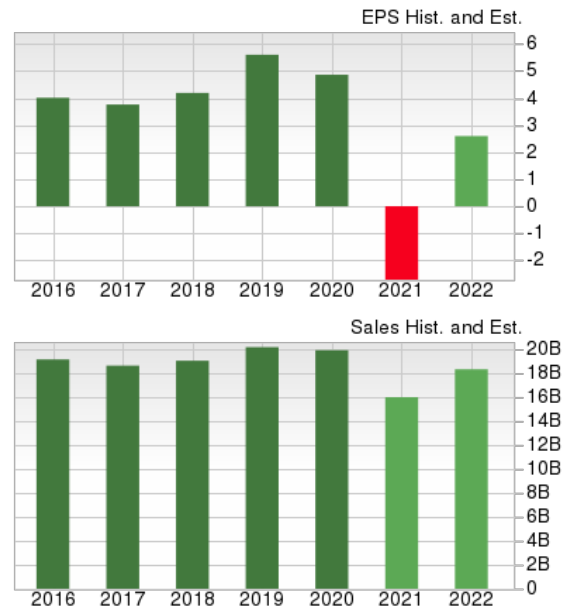
Headquartered in Menomonee Falls, WI, Kohl's Corp. is a U.S. based department store chain that operates specialty department stores and an e-commerce site in the U.S. As of Nov 19, 2019, Kohl's operated more than 1,100 stores across 49 states.

These offer moderately-priced apparel, footwear and accessories for women, men and children; beauty and home articles. The department store appeals to middle-class consumers as it sells discounted branded and private label clothing and home goods.

The company's merchandise includes both national brands and private and exclusive brands that are available only at Kohl's. National brands including Dockers, Levi's, Columbia Sportswear, Reebok, Champion, Oshkosh, Pfaltzgraff, and KitchenAid generally have higher selling prices, but lower gross margins, than private and exclusive brands. Kohl's private brands include Apt. 9, Croft & Barrow, Jumping Beans, SO and Sonoma Goods for Life.

Despite having lower selling prices, private brands generally have higher gross margins than exclusive and national brands. Exclusive brands including Food Network, Jennifer Lopez, Marc Anthony, Rock & Republic and Simply Vera Vera Wang are developed and marketed through agreements with nationally-recognized brands.

In addition, Kohl's also offers online shopping. Its website features a selection of items and categories beyond what is available in stores, with a primary focus on extended sizes, product line extensions and web-exclusive product lines.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strategic Efforts to Drive Growth:** In October, Kohl's introduced a new strategic framework that focuses on four key areas — driving top-line growth, expanding operating margin, implementing disciplined capital management and undertaking an agile accountable and inclusive culture. Under its driving top-line growth initiative, the company intends to become the most trusted retailer of choice for the active and casual lifestyle. Also, it expects to reignite growth in women's business and build a significant size beauty business. Apart from these, Kohl's is undertaking strategic efforts to create loyalty and value along with providing a differentiated omni-channel experience for its customers.

Kohl's strategic framework to drive growth is noteworthy. The company also has a strong brand portfolio and a solid e-commerce business.

Notably, the company intends to reach its operating margin goal of 7-8% with the help of modest level of growth, its ongoing transformational margin initiatives and continued focus on operational excellence. Further, Kohl's is committed to disciplined capital management by maintaining investment graderating, generating robust cash flows and retuning wealth to shareholders. Also, the company's innovative and adaptive learning approach and focus on diversity and inclusion bodes well. Notably, shares of Kohl's have surged 82.8% in the past three months compared with the industry's growth of 70.2%.

- ▲ **Digital Business:** Kohl's has been benefiting from its growing digital business for a while now. The company remains focused on making investments in this business, which has seen its sales more than double since 2014. Digital sales contributed 32% to total sales, while increasing 25% year over year during third-quarter fiscal 2020 thanks to customers' increased shift to online shopping amid the coronavirus outbreak. Given the need of the hour, management has been speeding up its digital marketing and enhancing its website to cater to customers' needs. Notably, almost 40% of the online sales were fulfilled by the company's stores in the fiscal third quarter. In fact, management is on track to more than double the number of stores carrying incremental inventory to fulfill online orders during peak. Certainly, the company's investments toward boosting online capabilities and improving consumer engagement are yielding well. Management expects to keep leveraging its strong online presence.

We note that the company's solid endeavors to boost mobile traffic have augmented the adoption of the Kohl app, making it a vital constituent of online sales. To improve online offerings, Kohl's has been expanding its e-commerce fulfillment centers alongside strengthening in-store pickups. In fact, the company has been witnessing increased adoption of Buy-Online-Ship-to-Store (or BOSS) and or BOPIS. Other efforts to bolster digital sales include Smart Cart, Your Price and personalized search.

- ▲ **Strong Brand Portfolio and Regular Innovation:** Kohl's offers moderately priced exclusive and national brands, which include apparel, shoes, accessories, beauty and home products. The company has established a strong brand portfolio with national brands such as Dockers, Levi's, Columbia Sportswear, Reebok, Champion, Oshkosh, Pftzgraff, and KitchenAid. In October Kohl's announced the launch of a new private label, specialty athleisure brand — FLX. The FLX collection will be available in select Kohl's stores as well as online on Kohls.com starting March 2021. Moreover, the company partnered with Cole Haan brand, which will be hitting select Kohl's stores and its online site (Kohl's.com) from spring 2021. Also, Kohl's added Land's End products to its national brand portfolio in March 2020. Apart from this, exclusive brands such as Simply Vera by fashion designer Vera Wang and Chaps by Polo Ralph Lauren have helped draw customers to Kohl's stores in the past as the products can only be found at Kohl's. Private and exclusive brands like Jennifer Lopez, Marc Anthony and Rock & Republic brands have been doing well in sportswear, dresses and other apparel categories. Also, in the active category, the company boasts brands like Adidas, Under Armour and Nike. Notably, Kohl's regularly introduces new brands in order to keep the inventory assortment fresh and drive customer traffic to its stores and website.
- ▲ **Partnerships Boost performance:** Kohl's has been strengthening its ties with retail giant Amazon to drive traffic. Incidentally, the company has been benefiting from the rollout of its Amazon returns program nationwide. According to this program, Kohl's stores accept free, unpackaged and easy returns for customers of Amazon. The company is impressed with performance of the Amazon returns program. One of the prime objectives of this program is to convert more customers as loyal Kohl's shoppers. In an earlier development, Kohl's decided to sell Amazon devices, accessories and smart home devices in selected stores in Los Angeles and Chicago. Kohl's believes that this store-within-store concept will boost traffic, thanks to the availability of Amazon's varied electronics options. In the long run, the company is expected to receive significant boost to its business through this partnership. Further Kohl's partnership with Fanatics, Property Brothers and Home Decor is expected to strengthen performance.
- ▲ **Financial Status:** Kohl's long-term debt of \$2,450 million as of the end of third-quarter fiscal 2020 (Oct 31, 2020) declined from \$3,450 million as of the end of second-quarter. The company highlighted that it repaid its full revolver credit. Moreover, Kohl's ended the fiscal third quarter with cash and cash equivalents of \$1,939 million. The company's current finance leases and financing obligations and operating leases stand at \$127 million and \$160 million, respectively as of Oct 31, 2020.

Reasons To Sell:

▼ **Lower Sales and Earnings:** Kohl's posted third-quarter fiscal 2020 results, with the top line declining year over year and missing the Zacks Consensus Estimate. Moreover, the company's bottom line was significantly lower than the year-ago quarter's level. Notably, adjusted earnings of 1 cent per share were significantly lower than 74 cents per share reported in the year-ago quarter. Total revenues came in at \$3,979 million, down 14% from the prior-year quarter's level. Net sales declined 13.3% partly due to challenging back-to-school sales in August.

The company is grappling with soft margins. Also, impact of rising cost is concerning.

▼ **Rising Costs, Gross Margin Concerns:** Kohl's has been seeing rising selling, general and administrative (SG&A) expenses, as a percentage of total revenues, for a while now. In the third quarter of fiscal 2020, the metric increased to 32.7% from 30.7% reported in the prior-year quarter. Prior to this, as a percentage of total revenues, SG&A expenses increased to 30.8% from 28.6% in the fiscal second quarter.

During the fiscal third quarter, Kohl's gross margin contracted 48 basis points (bps) to 35.8% from 36.3% in the year-ago quarter. Gross margin contraction can be accountable to escalated shipping costs, owing to higher digital sales penetration. Going into the fiscal fourth quarter, management expects gross margin to remain pressurized owing to increased shipping costs, as it anticipates digital penetration to remain high along with incremental Sprite surcharges. During the holiday period, the company estimates the freight surcharge impact of 100-150 bps on margin.

▼ **Industry-Wide Headwinds:** Kohl's is exposed to the threat of constantly changing consumer spending habits that may impact the performance of the company's business assortments and categories. Amongst such concerns, the risk of losing foot-traffic in brick-and-mortar stores, thanks to consumer shift toward online shopping poses significant risks.

▼ **Competitive Pressure:** Kohl's operates in the highly competitive retail sector. The company faces competition in terms of style, quality, price and convenience among others in the industry. Kohl's primary competitors are traditional department stores, mass merchandisers, off-price retailers, specialty stores, internet and catalog businesses, and other forms of retail commerce.

Last Earnings Report

Kohl's Q3 Earnings Beat Estimates, Sales Fall Y/Y

Kohl's posted third-quarter fiscal 2020 results, with the top line missing the Zacks Consensus Estimate and declining year over year. Moreover, the company's bottom line was significantly lower than the year-ago quarter's levels. However, the metric came ahead of the consensus mark.

The company highlighted that it saw significant improvement in sales and profit on a sequential basis in the third quarter. Moreover, online sales remained strong during the quarter. Also, management repaid its full revolver credit.

Kohl's is optimistic about its performance and strength in its omichannelcapabilities during the holiday season. Also, management plans to reinstate a dividend during the first half of 2021.

Q3 in Details

Kohl's posted adjusted earnings of 1 cent per share. The Zacks Consensus Estimate was pegged at a loss of 43 cents. However, the figure was significantly lower than adjusted earnings of 74 cents per share reported in the year-ago quarter.

Total revenues came in at \$3,979 million, down 14% from the prior-year quarter's levels. Also, the metric lagged the Zacks Consensus Estimate of \$4,056.6 million. Net sales have declined 13.3% in the quarter.

Gross margin contracted 48 basis points to 35.8% in the quarter under review from 36.3% in the year-ago quarter. Notably, SG&A expenses declined 8.2% year over year to \$1,302 million. However, as a percentage of total revenues, SG&A expenses increased to 32.7% in the quarter from 30.7% in the prior-year quarter. The company reported operating income of \$22 million compared with \$204 million posted in the prior-year quarter.

Other Financial Details

Kohl's ended the quarter with cash and cash equivalents of \$1,939 million, long-term debt of \$2,450 million and shareholders' equity of \$4,838 million. The company generated net cash from operating activities of \$910 million during nine months ended Oct 31.

Quarter Ending 10/2020

Report Date	Nov 17, 2020
Sales Surprise	-1.91%
EPS Surprise	102.33%
Quarterly EPS	0.01
Annual EPS (TTM)	-1.45

Recent News

Kohl's Plans to Open In-Store Sephora Shops – Dec 1, 2020

Kohl's announced a long-term strategic partnership with Sephora to create a new era of elevated Beauty at Kohl's. Management reached a deal to open Sephora shops inside Kohl's stores. These shops, which will be designed within a 2,500 square foot space, will be prominently situated at the front of the Kohl's store. It plans to open 200 Sephora locations during fall 2021. Also, the company's online beauty selection on Kohls.com will change to exclusively feature an extensive collection of Sephora's prestige product offerings during the same time. By 2023, Kohl's expects to expand Sephora shops to at least 850.

Also, customers who shop at Kohl's and Kohls.com for the products will be entitled to Sephora's Beauty Insider rewards benefits. Additionally, Kohl's will offer convenient services like in-store returns, store pick-up and curbside pick-up for such purchases. Further, Sephora.com and Kohls.com will integrate their e-commerce experiences to enhance services.

Kohl's Unveils Black Friday Deals For Customers – Nov 6, 2020

Kohl's offered some impressive holiday deals with — Black Friday Ad — a Black Friday Week event with exciting savings events all month long. The company aims to provide customers more ways to save during November. Notably, Black Friday Preview event features higher number of deals than prior year. Kohl's Black Friday Week deals will be available online as well as in stores

Kohl's Introduces FLX's Products to Brand Assortment – Oct 21, 2020

Kohl's announced the launch of a new private label, specialty athleisure brand — FLX. Notably, FLX offers stylish active separates for both men and women that are made of high-quality performance fabrics and functional details. The collection will be available in select Kohl's stores as well as online on Kohls.com starting March next year. Kohl's will offer apparel including shorts, bottoms and tees from the FLX brand all through the next year from its launch. Along with this, the assortment will be updated seasonally to include key transitional products like jackets, fleece and layering pieces. The FLX collection, which is made using sustainable materials and methods, is available in plus and big & tall sizes.

Kohl's Strengthens Assortment With Cole Haan Alliance - Oct 19, 2020

Kohl's unveiled that Cole Haan brand will be hitting select Kohl's stores as well as online (Kohls.com) — starting spring 2021. Kohl's will include all categories of Cole Haan footwear — casual, dressy, sporty and seasonal, with greater emphasis on casual lifestyle options. The brand will include stylish options for men and women, with products ranging from lightweight ZeroGrand oxfords to flexible knit sneakers as well as casual loafers.

With its unique style and modern innovation, the iconic Cole Haan brand will be a valuable addition to Kohl's assortment and will hit 200 stores beginning spring 2021. Moreover, the Kohl's.com online portal will have an expanded assortment of Cole Haan footwear. This partnership with Cole Haan is likely to strengthen Kohl's premium brand offerings, alongside enriching its active and casual lifestyle range of products. The brand will be an addition to the company's robust portfolio of leading national brands like NIKE, Under Armour, adidas, Carter's, Levi's and Columbia. Also, the recent launch of Lands' End and Toms shoes (this fall) fortified Kohl's product portfolio.

Kohl's Unveils Slew of Plans to Enrich Holiday Shopping – Oct 12, 2020

Kohl's Corporation unveiled several plans to enrich customer's shopping experience by offering valuable holiday gifts on its online platform as well as in stores. Notably, Kohl's started offering holiday deals with WOW Deals since last week. Further, the company plans to keep floating various deals and savings through December that includes a new Black Friday Week shopping experience to entice consumers. Markedly, Kohl's boasts an assortment of holiday gifts with leading national brands like Nike, Under Armour, Levi's and adidas among others. Also, it offers an impressive collection from proprietary brands that include Apt. 9, Sonoma Goods for Life and LC Lauren Conrad. Apart from these, the company has a number of new products under brands like Lands' End, TOMS and Lauren Conrad Beauty. We note that it offers a wide range of items under the active wear, toys and home ware categories among others.

Further, Kohl's is offering greater value to its shoppers through Kohl's Rewards, Kohl's Card and Kohl's Cash this holiday season. Notably, with the company's Kohl's Cards shoppers can avail 35% savings on their first purchase during the entire holiday shopping season by opening an account at Kohl's store nationwide.

Given the health concerns surrounding the coronavirus pandemic Kohl's has put in place a number of safety measures in its stores. These include proper face covering for customers and associates, practicing social distancing protocols and implementing contactless payment options. However, many customers prefer to shop online as the virus continues to spread. In this regard, the company's recently redesigned Kohls.com with easier access and greater engaging content bodes well. Also, Kohl's application with scan and store Kohl's gift cards as well as Kohl's Cash and savings offers are noteworthy.

Apart from these, the company is offering various contactless delivery options like Drive Up as well as In-Store Pick Up services during the holiday season. Consumers can opt for Buy Online, Pick Up in Store or Ship to Store options for safe and seamless deliveries amid the pandemic. Apart from these, Kohl's stores accept free, unpackaged and easy returns for customers of Amazon under its Amazon returns program.

Valuation

Kohl's shares are down 19.7% in the year-to-date period and 16.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 24.9%, whereas stocks in the Zacks Retail – Wholesale sector gained 37.2% in the year-to-date period. Over the past year, the Zacks sub-industry declined 20.2% while and the sector gained 41.3%.

The S&P 500 index is up 15.1% in the year-to-date period and 18.2% in the past year.

The stock is currently trading at 0.36X forward 12-month sales, which compares to 0.3X for the Zacks sub-industry, 1.31X for the Zacks sector and 4.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.68X and as low as 0.09X, with a 5-year median of 0.41X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 0.38X forward 12-month sales.

The table below shows summary valuation data for KSS

Valuation Multiples - KSS					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.36	0.3	1.31	4.31
	5-Year High	0.68	0.58	1.32	4.31
	5-Year Low	0.09	0.11	0.83	3.17
	5-Year Median	0.41	0.41	1.01	3.68
P/B TTM	Current	1.33	1.85	5.67	6.28
	5-Year High	2.51	2.91	6.46	6.28
	5-Year Low	0.33	0.34	3.68	3.74
	5-Year Median	1.49	1.91	5.07	4.92
EV/EBITDA TTM	Current	9.59	17.33	19.18	16.52
	5-Year High	9.59	17.33	20.7	16.52
	5-Year Low	1.4	2.22	11.14	9.54
	5-Year Median	4.28	5.32	13.02	13.14

As of 12/04/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 50% (126 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Best Buy Co., Inc. (BBY)	Neutral	3
Big Lots, Inc. (BIG)	Neutral	3
Caseys General Stores, Inc. (CASY)	Neutral	3
Dillards, Inc. (DDS)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
J. C. Penney Company, Inc. (JCPNQ)	Neutral	NA
Macys, Inc. (M)	Neutral	3

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

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	KSS	X Industry	S&P 500	DDS	JCPNQ	M
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3		3
VGM Score	A	-	-	A	-	B
Market Cap	6.45 B	3.64 B	26.46 B	1.22 B	38.24 M	3.64 B
# of Analysts	9	5.5	13	2	0	7
Dividend Yield	0.00%	0.00%	1.48%	1.10%	0.00%	0.00%
Value Score	A	-	-	A	-	B
Cash/Price	0.38	0.44	0.07	0.06	36.92	0.49
EV/EBITDA	4.13	3.87	14.74	4.27	-2.53	3.62
PEG F1	NA	NA	2.78	NA	NA	NA
P/B	1.33	1.33	3.64	0.88	NA	1.62
P/CF	3.80	3.80	13.99	4.08	0.13	1.91
P/E F1	NA	NA	22.22	NA	NA	NA
P/S TTM	0.39	0.23	2.85	0.26	0.00	0.19
Earnings Yield	-6.63%	-7.35%	4.36%	-7.35%	NA%	-24.91%
Debt/Equity	0.80	0.60	0.70	0.41	0.00	2.16
Cash Flow (\$/share)	10.77	6.12	6.94	13.37	0.90	6.12
Growth Score	C	-	-	A	NA	B
Historical EPS Growth (3-5 Years)	-0.99%	-4.51%	9.72%	-4.51%	NA	-12.28%
Projected EPS Growth (F1/F0)	-155.83%	-205.37%	0.83%	-196.04%	NA	-200.30%
Current Cash Flow Growth	-10.84%	-10.84%	5.23%	-16.01%	10.38%	-15.88%
Historical Cash Flow Growth (3-5 Years)	-0.78%	-3.55%	8.33%	-10.66%	28.85%	-6.32%
Current Ratio	1.60	1.41	1.38	1.72	1.22	1.11
Debt/Capital	44.33%	36.70%	42.00%	29.07%	0.00%	68.39%
Net Margin	-1.45%	-6.60%	10.40%	-1.51%	-11.68%	-19.91%
Return on Equity	-4.50%	-6.52%	14.99%	-4.82%	-108.59%	-8.21%
Sales/Assets	1.09	1.06	0.50	1.43	1.04	0.99
Projected Sales Growth (F1/F0)	-19.68%	-19.68%	0.35%	-29.24%	0.00%	-30.20%
Momentum Score	B	-	-	C	-	D
Daily Price Change	5.88%	2.40%	1.31%	6.09%	-1.66%	4.36%
1-Week Price Change	17.92%	3.55%	2.18%	7.09%	-1.26%	19.89%
4-Week Price Change	88.83%	19.15%	8.28%	19.30%	-6.69%	81.99%
12-Week Price Change	86.84%	38.69%	15.74%	65.85%	-58.45%	58.38%
52-Week Price Change	-13.13%	-23.11%	7.50%	-20.58%	-89.23%	-22.44%
20-Day Average Volume (Shares)	11,720,421	6,023,711	2,053,456	327,000	21,754,842	38,615,560
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	NA	0.00%
EPS F1 Estimate 4-Week Change	18.71%	24.05%	0.00%	39.04%	NA	24.05%
EPS F1 Estimate 12-Week Change	18.92%	26.96%	3.77%	35.25%	NA	26.96%
EPS Q1 Estimate Monthly Change	56.03%	62.09%	0.00%	62.09%	NA	155.39%

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	A
Growth Score	C
Momentum Score	B
VGM Score	A

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

Disclosures

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

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.