

L Brands, Inc. (LB)

\$11.89 (As of 04/30/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

Summary

Shares of L Brands have outperformed the industry in the past six months. Its sustained focus on cost containment, inventory management, merchandise and speed-to-market initiatives has kept it afloat in a competitive environment. The company's decision to exit beleaguered Victoria's Secret brand will help simplify the organizational structure and allow focus on Bath & Body Works brand that sustained its impressive performance in fourth-quarter fiscal 2019. The company will utilize the proceeds from the sale to lower debt burden. However, management recently withdrew first-quarter fiscal 2020 outlook amid the increasing uncertainty tied to the coronavirus outbreak. Also, it has been taking measures including cutting down on expenses and furloughing store associates to cope up with challenges stemming from the pandemic.

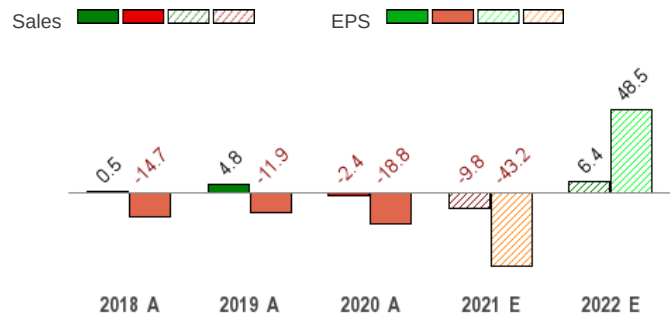
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.02 - \$8.00
20 Day Average Volume (sh)	11,102,134
Market Cap	\$3.3 B
YTD Price Change	-34.4%
Beta	1.09
Dividend / Div Yld	\$1.20 / 10.1%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 21% (200 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.1%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-27.4%
Expected Report Date	05/27/2020
Earnings ESP	-27.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					12,395 E
2021	1,908 E	2,410 E	2,644 E	4,790 E	11,646 E
2020	2,629 A	2,902 A	2,677 A	4,707 A	12,914 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$1.93 E
2021	-\$0.37 E	-\$0.04 E	-\$0.07 E	\$1.92 E	\$1.30 E
2020	\$0.14 A	\$0.24 A	\$0.02 A	\$1.88 A	\$2.29 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 04/30/2020. The reports text is as of 05/01/2020.

Overview

L Brands evolved from an apparel-based specialty retailer to a segment leader focused on women's intimate and other apparel, personal care, beauty and home fragrance products. But since past few years, the company has been struggling for a while due to sluggishness in the Victoria's Secret brand. As result, L Brands decided to take its lingerie business private.

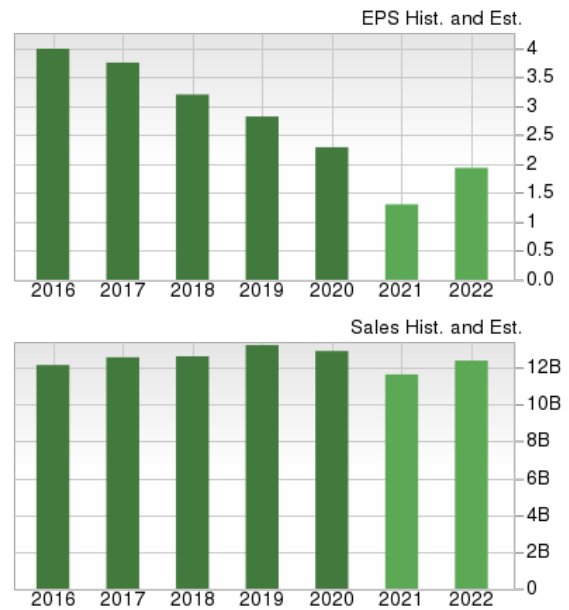
The company has entered into a deal to sell 55% stake in Victoria's Secret brand to private equity firm Sycamore Partners. The transaction is expected to close during the second quarter of fiscal 2020. This will help simplify the company's organizational structure and focus on Bath & Body Works, one of the leading specialty retailers of body care, home fragrance products, soaps and sanitizers.

The Columbus, OH-based company sells its merchandise through specialty retail stores in the e United States, Canada, the United Kingdom, Ireland and Greater China (China and Hong Kong), which are primarily mall-based, and through its websites, catalogue and other channels. The company conducts its business primarily through three reportable segments –

The Victoria's Secret segment (53% of FY19 Net Sales), Bath & Body Works segment (40% of Net Sales), Victoria's Secret and Bath & Body Works International segment (5% of Net Sales) includes company-owned and partner-operated outlets located outside of the U.S. and Canada. Other segment is 2% of Net Sales.

As of Feb 1, 2020, company-owned stores were 2,920 including 1,091 Victoria's Secret stores, 1,739 Bath & Body Works, 21 Victoria's Secret U.K./Ireland, five PINK U.K., 41 Victoria's Secret Beauty and Accessories and 23 Victoria's Secret China.

Total non-company-owned stores were 722, including 207 Victoria's Secret Beauty & Accessories, 72 Victoria's Secret, 12 Pink and 262 Bath & Body Works stores. Further, non-company-owned stores comprised 153 and 16 Travel Retail stores of Victoria's Secret Beauty & Accessories and Bath & Body Works, respectively.



Reasons To Buy:

▲ **Growth Catalyst:** We believe that L Brands' sustained focus on cost containment, inventory management, merchandise and speed-to-market initiatives has kept it afloat in a competitive environment. Additionally, L Brands' operational efficiencies together with its new and innovative collections, bode well. Furthermore, the company's focus on tapping international markets is likely to provide long-term growth opportunities and generate increased sales volumes. Notably, the company has entered into a deal to sell 55% stake in Victoria's Secret brand to private equity firm Sycamore Partners for roughly \$525 million. This will help simplify the company's organizational structure and focus on Bath & Body Works brand that sustained its impressive performance during the fourth quarter of fiscal 2019. The company will utilize the proceeds from the sale to lower debt burden. Although shares of L Brands have lost 30%, it has fared better than the industry's decline of 40% in the past six months.

We believe that L Brands' sustained focus on cost containment, inventory management, merchandise, and speed-to-market initiatives has kept it afloat in a competitive environment.

▲ **Strength in Bath & Body Works Brand:** L Brands has been benefitting from strength of its Bath & Body Works, which formed more than 46% of the company's net sales in the fourth quarter of fiscal 2019. During the quarter, Bath & Body Works delivered a solid show. Total sales grew 11% to \$2,174.8 million, with 10% rise in comparable sales and 5% improvement in comparable store sales. Management stated that the segment benefited from growth across main categories body care, home fragrance and soaps. Bath & Body Works direct channel remained sturdy, with sales up 33%. Operating income came in at \$660.6 million, up 9% from the year-ago period. Further, industry experts believe that Bath & Body Works brand is likely to experience another solid year. We expect the trend to continue and aid the top line in the forthcoming periods. Even analysts pointed that due to the outbreak of coronavirus there could a surge in demand for soaps and hand sanitizers, and Bath & Body Works being one of the prominent retailers of the product is likely to benefit from the same.

▲ **Revamping and Repositioning Business:** L Brands continues to revamp its business by improving store experience, localizing assortments and enhancing its direct business. We believe these measures will facilitate it to generate incremental sales and increase store transactions through higher conversion rate. Looking ahead, the company remains committed to improve performance by staying customer-focused, enriching assortments, and enhancing store and online experiences. Moreover, to drive growth the company seeks to expand in the adjacent categories. We believe that the company's innovation in merchandise and exclusive assortments remain popular among consumers and sets it apart from peers. The company with its operational efficiencies, new and innovative assortments remains well positioned to capitalize on the same. L Brands expects new product launches in Lingerie, PINK and Beauty throughout the Spring.

▲ **Real Estate Initiative:** L Brands sustained its real estate strategy during the fourth quarter of fiscal 2019 by opening or remodeling 20 additional Bath & Body Works stores in the fleet, bringing the net number of new concept stores to 835 at the end of the fiscal year. In fiscal 2020, the company intends to open around 50-60 net new stores outside of North America, reflecting an increase of approximately 7%. The most significant growth will be in the Bath & Body Works franchise business, where the company plans to add roughly 40 net new stores, an increase of about 15%. The company continues to test new store formats, including smaller Victoria's Secret full assortment stores in China and adding lingerie to Victoria's Secret Beauty & Accessories (VSBA) stores.

As of Feb 1, 2020, company-owned stores were 2,920 including 1,091 Victoria's Secret stores, 1,739 Bath & Body Works, 21 Victoria's Secret U.K./Ireland, five PINK U.K., 41 Victoria's Secret Beauty and Accessories and 23 Victoria's Secret China. Total non-company-owned stores were 722, including 207 Victoria's Secret Beauty & Accessories, 72 Victoria's Secret, 12 Pink and 262 Bath & Body Works stores. Further, non-company-owned stores comprised 153 and 16 Travel Retail stores of Victoria's Secret Beauty & Accessories and Bath & Body Works, respectively.

Reasons To Sell:

▼ **Soft Victoria's Secret Performance:** L Brands has been witnessing softness in its Victoria's Secret brand for quite some time now, owing to stiff competition and consumers' changing preferences. Investors have pointed out that wrong merchandising actions and the company's inability to keep up with its strong brand image have led to Victoria's Secret's failure. During the fourth quarter of fiscal 2019, total Victoria's Secret sales 10% to \$2,275.8 million. Comparable sales fell 10% while comparable store sales declined by an equivalent rate owing to lower traffic and average unit retails. Further, total digital sales registered a decline of 8%. Comps were down mid-teens in both the lingerie business and at PINK. Segment gross margin rate fell sharply due to significant decline in the merchandise margin rate and buying and occupancy expense deleverage. Merchandise margin dollars decreased in the high-teens.

L Brands has been witnessing softness in its Victoria's Secret brand for quite some time now, owing to stiff competition and consumers' changing preferences.

▼ **Margins a Concern:** Gross margin, an important financial metric that gives an indication about the company's health, has been contracting year over year for the past few quarters. In the fourth quarter of fiscal 2019, L Brands' adjusted gross profit declined 7% to \$1,829.1 million during the quarter. We note that gross margin contracted 170 bps to 38.9% on account of decline in the merchandise margin rate. This follows a contraction of 110, 160 and 40 basis points during the third, second and first quarters. During the fourth quarter, adjusted operating income fell 10% from the year-ago period to \$806.7 million, while operating margin shriveled 140 bps to 17.1%. This follows a contraction of 200 bps in the preceding quarter.

Again, management has hinted that at Bath & Body Works brand occupancy costs are likely to be under pressure in fiscal 2020 due to real estate initiative and expansion of direct channel capacity and capability. Further, the company expects margin to remain strained due to ongoing supply chain impacts related to global trade tariffs and sourcing costs.

▼ **Fashion Obsolescence A Threat:** Fashion obsolescence remains the main concern for L Brands' business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be compromised by delays in its product launches. The company operates in the highly competitive apparel segment, and faces stiff competition from chain specialty stores, department stores and discount retailers on attributes such as, marketing, design, price, service, quality, and brand image, which may weigh upon its results.

▼ **Debt Analysis:** While L Brands' long-term debt of \$8,538.4 million (including operating lease liabilities) declined 0.5% sequentially at the end of the fourth quarter of 2019 — Feb 1, 2020 —, its debt-to-capitalization ratio is quite high when compared with the sub-industry. Incidentally, the company's debt-to-capitalization ratio of 1.20 stands higher than the industry's ratio of 0.68. Also, the company's debt-to-capitalization ratio reflects a sequential increase from 1.16 at the end of the preceding quarter. Moreover, the company's times interest earned ratio of 0.5 has deteriorated sharply on a sequential basis — 2.4 at the end of the third quarter — and is far below the industry's ratio of 4.3. Per the company's filing subsequent to Feb 1, 2020, S&P downgraded the company's Corporate and Senior Unsecured Debt with Subsidiary Guarantee ratings to B+, Senior Unsecured Debt rating to B- and updated outlook to Negative.

Last Earnings Report

L Brands Beats on Q4 Earnings, Victoria's Secret a Drag

L Brands, Inc.'s fourth-quarter fiscal 2019 earnings beat the Zacks Consensus Estimate but net sales fell short of the same for the third straight quarter. Again, both the top and bottom lines continued to decline year over year.

Management highlighted that better-than-expected results at Bath & Body Works were more than offset by dismal performance at Victoria's Secret business. Further, the company provided a disappointing bottom-line view for first-quarter fiscal 2020.

Weakness in the Victoria's Secret brand, which once dominated the U.S. lingerie market, has been marring the company's overall performance. L Brands is struggling to make a comeback in the wake of rising competition from intimate apparel brands like ThirdLove and Aerie.

Notably, the company has entered into a deal to sell 55% stake in the business to private equity firm Sycamore Partners for roughly \$525 million. This will help simplify the company's organizational structure and focus on Bath & Body Works brand that sustained its impressive performance in the quarter under review. The company will utilize the proceeds from the sale to lower debt burden.

Quarter Ending **01/2020**

Report Date	Feb 26, 2020
Sales Surprise	-0.05%
EPS Surprise	1.08%
Quarterly EPS	1.88
Annual EPS (TTM)	2.28

Detailed Quarterly Discussion

L Brands reported adjusted earnings of \$1.88 per share that beat the Zacks Consensus Estimate by a couple of cents. However, the bottom line declined 12% from \$2.14 reported in the prior-year period. We note that lower net sales and contraction in margins hurt the bottom line.

Net sales came in at \$4,707.1 million, down 3% from \$4,852.3 million reported in the prior-year period. The top line also missed the Zacks Consensus Estimate \$4,709.5 million. Comparable sales declined 2% against the prior-year quarter's growth of 3%.

Total **Victoria's Secret** sales declined 10% to \$2,275.8 million. Comparable sales fell 10% while comparable store sales declined by an equivalent rate owing to lower traffic and average unit retails. Further, total digital sales registered a decline of 8%. Comps were down mid-teens in both the lingerie business and at PINK. Victoria's Secret Beauty comps improved in the low-single digit range. We note that the segment's merchandise margin rate declined significantly.

Meanwhile, **Bath & Body Works** put up a stellar show. Total sales grew 11% to \$2,174.8 million, with 10% rise in comparable sales and 5% improvement in comparable store sales. Management stated that the segment benefited from growth across main categories body care, home fragrance and soaps. Bath & Body Works direct channel remained sturdy, with sales up 33%. Further, merchandise margin rate declined on account of impact of tariffs and other production and sourcing pressures.

We note that L Brands' **International** sales came in at \$177.1 million, down 7% year over year. The Bath & Body Works franchise business sustained the impressive run. However, performance at the Victoria's Secret company-owned outlets in the U.K. and China remains challenging.

L Brands' adjusted gross profit declined 7% to \$1,829.1 million during the quarter. We note that gross margin contracted 170 bps to 38.9% on account of decline in the merchandise margin rate. Adjusted operating income fell 10% from the year-ago period to \$806.7 million, while operating margin shrank 140 bps to 17.1%.

SG&A expenses declined 4% to \$1,022.4 million due to fall in store selling and marketing expense at Victoria's Secret and the absence of the Henri Bendel and La Senza businesses. As a percentage of net sales, SG&A expenses decreased 30 bps to 21.7%.

Store Update

As of Feb 1, 2020, company-owned stores were 2,920 including 1,091 Victoria's Secret stores, 1,739 Bath & Body Works, 21 Victoria's Secret U.K./Ireland, five PINK U.K., 41 Victoria's Secret Beauty and Accessories and 23 Victoria's Secret China.

Total non-company-owned stores were 722, including 207 Victoria's Secret Beauty & Accessories, 72 Victoria's Secret, 12 Pink and 262 Bath & Body Works stores. Further, non company-owned stores comprised 153 and 16 Travel Retail stores of Victoria's Secret Beauty & Accessories and Bath & Body Works, respectively.

Other Financial Details

L Brands ended the quarter with cash and cash equivalents of \$1,498.7 million, up from the prior-year quarter's figure of \$1,413.5 million. Long-term debt decreased to \$5,486.9 million from \$5,739.4 million a year ago. Shareholders' deficit was \$1,495 million. Management incurred capital expenditures of \$66.7 million in the quarter under review.

Outlook

L Brands envisions adjusted loss of 5 cents a share for first-quarter fiscal 2020. The company had reported earnings of 14 cents in the year-ago period. Management expects continued challenges at Victoria's Secret with flat to modest improvement in operating income at Bath & Body Works due to occupancy and supply chain pressures. The company's projection also takes into account an adverse impact of approximately 3 cents on account store closures in China due to the coronavirus outbreak.

Management forecasts low-single digit decline in first-quarter comps. Further, gross margin is expected to be almost flat year over year with deleverage in buying and occupancy to be offset by an improvement in the merchandise margin rate. SG&A expense rate is anticipated to increase considerably.

L Brands expects new product launches in Lingerie, PINK and Beauty throughout the Spring. Further, industry experts believe that Bath & Body

Works brand is likely to experience another solid year. However, management has hinted that occupancy costs are likely to be under pressure in fiscal 2020 due to real estate initiative and expansion of direct channel capacity and capability. Further, the company expects margin to remain strained due to ongoing supply chain impacts related to global trade tariffs and sourcing costs.

Recent News

L Brands Provides Business Update – April 30, 2020

L Brands completed an amendment converting its cash-flow revolving credit facility to an asset-backed loan revolving credit facility. The aggregate commitments under the asset-backed loan remain at \$1 billion. The facility expires in August of 2024. Management now expects to incur capital expenditures of approximately \$250 million during the fiscal year 2020, down \$550 million from originally planned. Also, the company has reduced Spring (first and second quarter 2020) inventory receipts by approximately 45% at Victoria's Secret and 20% at Bath & Body Works versus last year.

L Brands Receives Notice of Deal termination – April 22, 2020

L Brands announced that Sycamore Partners delivered a notice on April 22 to terminate the February 20 deal relating to the sale of a 55% stake in Victoria's Secret.

L Brands Issues Updates on Tackling Coronavirus Crisis – Mar 27, 2020

L Brands has also taken further action apart from store closure and withdrawal of first-quarter fiscal 2020 announcements. Management suspended its quarterly dividend beginning the second quarter. However, it is focused on paying out dividends in the long term. Moreover, the company has been largely curbing expenses and capital expenditures, including decrease in forward inventory receipts. It has also temporarily cut down base compensation by 20% for senior vice presidents and above. Notably, the cash compensation of CEO and other board members is suspended. It has also deferred annual merit increases and furloughed majority of its store associates effective Apr 5, till further notice.

Earlier, management had drawn down \$950 million from its revolving credit facility to reinforce financial flexibility. It had access to a \$1-billion secured revolving credit facility, expiring in May 2024. L Brands currently has cash of more than \$2 billion. Its direct channels and e-commerce sites will continue to operate in the interim

Valuation

L Brands shares are down 34.4% in the year-to-date period and 53.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 41.2% but the Zacks Retail-Wholesale sector is up 1.9%. Over the past year, the Zacks sub-industry is down 55% but the sector is up 7.4%.

The S&P 500 index is down 9.6% in the year-to-date period and 0.4% in the past year.

The stock is currently trading at 7.65X forward 12-month earnings, which compares to 14.64X for the Zacks sub-industry, 28.78X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.19X and as low as 4.57X, with a 5-year median of 14.15X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$13 price target reflects 8.11X forward 12-month earnings.

The table below shows summary valuation data for LB

Valuation Multiples - LB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.65	14.64	28.78	20.8
	5-Year High	25.19	16.18	28.75	20.8
	5-Year Low	4.57	7.87	19.06	15.19
	5-Year Median	14.15	14.18	23.17	17.44
P/S F12M	Current	0.28	0.41	1.03	3.3
	5-Year High	2.32	1.14	1.11	3.44
	5-Year Low	0.2	0.32	0.8	2.54
	5-Year Median	1.04	0.8	0.93	3.01
EV/EBITDA TTM	Current	4.23	6.11	15.64	10.76
	5-Year High	13.92	9.3	16.35	12.87
	5-Year Low	3.94	4.71	10.9	8.27
	5-Year Median	7.83	6.85	12.55	10.78

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Abercrombie & Fitch Company (ANF)	Neutral	3
Guess?, Inc. (GES)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3
Zumiez Inc. (ZUMZ)	Neutral	3
The Childrens Place, Inc. (PLCE)	Underperform	5
Urban Outfitters, Inc. (URBN)	Underperform	5
Vera Bradley, Inc. (VRA)	Underperform	3

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	LB	X Industry	S&P 500	ANF	GPS	URBN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	A	-	-	A	A	B
Market Cap	3.29 B	428.89 M	20.61 B	651.70 M	3.01 B	1.70 B
# of Analysts	8	3.5	14	11	11	13
Dividend Yield	10.09%	0.00%	2.11%	7.56%	0.00%	0.00%
Value Score	A	-	-	A	A	A
Cash/Price	0.53	0.35	0.06	1.20	0.65	0.28
EV/EBITDA	6.86	5.98	11.87	6.01	6.99	6.56
PEG Ratio	0.83	1.09	2.47	NA	0.83	1.30
Price/Book (P/B)	NA	0.91	2.67	0.62	0.91	1.17
Price/Cash Flow (P/CF)	1.69	3.74	10.66	2.99	2.33	5.25
P/E (F1)	9.08	14.34	19.01	NA	10.01	14.97
Price/Sales (P/S)	0.25	0.31	2.10	0.18	0.18	0.43
Earnings Yield	10.93%	4.56%	5.05%	-5.10%	9.98%	6.69%
Debt/Equity	-5.71	0.97	0.72	1.39	2.04	0.78
Cash Flow (\$/share)	7.04	1.44	7.01	3.53	3.49	3.30
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	-9.77%	0.13%	10.88%	-0.50%	-2.19%	8.33%
Proj. EPS Growth (F1/F0)	-43.12%	-39.00%	-7.32%	-173.47%	-58.84%	-41.19%
Curr. Cash Flow Growth	45.86%	-0.32%	5.92%	-6.25%	-14.41%	-22.87%
Hist. Cash Flow Growth (3-5 yrs)	6.20%	0.42%	8.55%	-5.89%	-5.36%	-2.66%
Current Ratio	1.37	1.44	1.23	1.55	1.41	1.65
Debt/Capital	NA%	51.06%	43.84%	58.09%	67.08%	43.87%
Net Margin	-2.84%	2.28%	11.08%	1.09%	2.14%	4.22%
Return on Equity	-55.91%	12.69%	16.44%	4.61%	21.04%	13.88%
Sales/Assets	1.22	1.22	0.54	1.05	1.18	1.22
Proj. Sales Growth (F1/F0)	-9.82%	-5.50%	-1.42%	-9.85%	-11.29%	-5.31%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	-6.96%	-3.38%	-2.39%	-7.03%	-10.28%	-8.06%
1 Week Price Chg	-25.18%	-7.22%	-1.74%	-17.80%	-17.37%	-15.61%
4 Week Price Chg	17.14%	28.57%	17.07%	32.75%	47.64%	32.57%
12 Week Price Chg	-50.42%	-41.94%	-18.53%	-37.73%	-56.08%	-34.71%
52 Week Price Chg	-53.32%	-47.65%	-9.82%	-64.52%	-68.62%	-42.39%
20 Day Average Volume	11,102,134	410,486	2,641,413	2,258,609	11,975,966	2,154,583
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-29.10%	-8.23%	-8.06%
(F1) EPS Est 4 week change	-27.38%	-33.73%	-6.62%	-292.81%	-34.60%	-30.70%
(F1) EPS Est 12 week change	-39.54%	-48.51%	-13.28%	-143.89%	-52.30%	-49.72%
(Q1) EPS Est Mthly Chg	-188.72%	-100.00%	-11.97%	-35.51%	-133.11%	-299.27%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	F
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.