

L Brands, Inc. (LB)

\$38.20 (As of 12/14/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 11/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Shares of L Brands have increased and outpaced the industry in the past six months. The stock gained following the company's stronger-than-anticipated third-quarter fiscal 2020 results. Strength at Bath & Body Works segment and improved performance at Victoria's Secret drove the quarterly results. Notably, both the top and the bottom lines grew year over year. Evidently, L Brands remains focused on containing costs, managing inventory and optimizing capital expenditures. The company is on track with its earlier announced profit improvement plan and intends to generate approximately \$400 million in annual savings. L Brands continues to revamp its business by staying customer-focused, enriching assortments, and enhancing store and online experiences. Markedly, comparable sales (stores and direct business) rose 28% during the quarter.

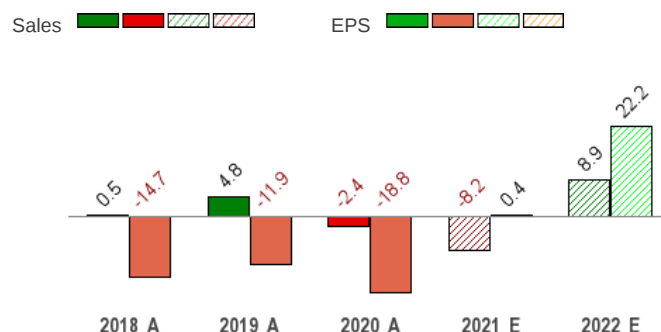
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$42.17 - \$8.00
20-Day Average Volume (Shares)	4,900,897
Market Cap	\$10.6 B
Year-To-Date Price Change	110.8%
Beta	1.67
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 40% (102 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1,783.3%
Last Sales Surprise	14.3%
EPS F1 Estimate 4-Week Change	94.6%
Expected Report Date	02/24/2021
Earnings ESP	0.0%
P/E TTM	16.8
P/E F1	16.6
PEG F1	1.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,095 E	2,637 E	2,941 E	4,706 E	12,908 E
2021	1,654 A	2,319 A	3,055 A	4,847 E	11,852 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	-\$0.08 E	\$0.33 E	\$0.46 E	\$2.05 E	\$2.81 E
2021	-\$0.99 A	\$0.25 A	\$1.13 A	\$1.90 E	\$2.30 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 12/14/2020. The reports text is as of 12/15/2020.

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.

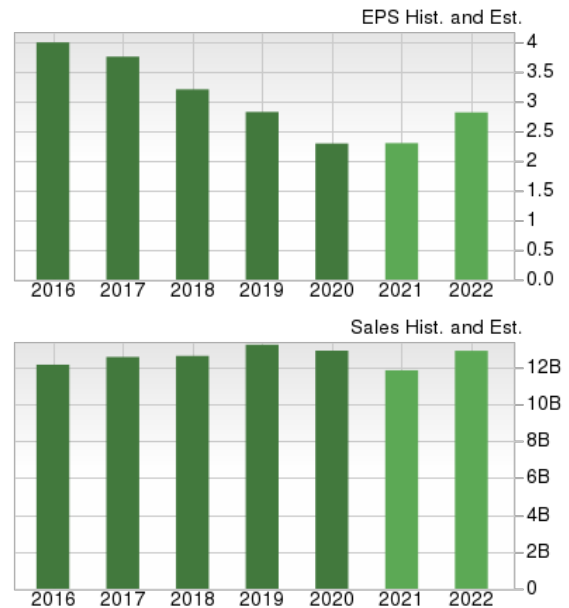
The company terminated the previously announced Victoria's Secret deal with Sycamore Partners. The company intends to make Bath & Body Works chain a "pure-play public company" and Victoria's Secret, "a separate, standalone company." This will simplify the company's organizational structure and help focus 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 Oct 31, 2020, company-operated stores were 2,681, comprising 1,746 Bath & Body Works and 935 total Victoria's Secret stores. Total Victoria's Secret stores include 704 Victoria's Secret, 143 PINK, 23 Victoria's Secret Canada, two PINK Canada, 38 Victoria's Secret Beauty and Accessories, and 25 Victoria's Secret China.

Total partner-operated stores were 743, including 269 Bath & Body Works, 101 Victoria's Secret, 17 PINK, 195 Victoria's Secret Beauty & Accessories. Further, partner-operated stores comprised 144 and 17 Travel Retail stores of Victoria's Secret Beauty & Accessories and Bath & Body Works, respectively.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Stellar Q3 Performance Drives the Stock:** Shares of L Brands have surged 136.7% in the past six months compared with the industry's gain of 89.6%. The stock gained following the company's stronger-than-anticipated third-quarter fiscal 2020 results. Strength at Bath & Body Works segment and improved performance at Victoria's Secret drove the quarterly results. Notably, both the top and the bottom lines grew year over year. L Brands delivered adjusted earnings of \$1.13 per share that beat the Zacks Consensus Estimate of 6 cents, marking the second straight beat. Remarkably, the quarterly earnings improved significantly from 2 cents reported in the year-ago period. This year-over-year increase can be attributed to higher net sales and lower general, administrative and store operating expenses. Net sales of \$3,055.3 million outpaced the Zacks Consensus Estimate of \$2,673 million, and increased 14% on a year-over-year basis. Comparable sales (stores and direct business) rose 28% during the quarter against 2% decline in the year-ago period. Again, comparable sales (stores only) jumped 13% against 3% fall in the prior-year quarter.
- ▲ **Go-Forward Strategy:** 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 provides long-term growth opportunities. Notably, management remains committed to make Bath & Body Works chain a "pure-play public company" and Victoria's Secret, "a separate, standalone company." This will help simplify the company's organizational structure. Notably, management concluded the comprehensive review of its home office organizations in order to lower overhead expenses, and decentralize significant shared corporate and other functions to create standalone companies. This resulted in a reduction of about 15% of its corporate staff or roughly 850 employees. This action along with steps to improve Victoria's Secret performance, contain costs and enhance liquidity will result in approximately \$400 million of annualized cost reductions. Of the targeted cost reduction plan, the company anticipates to accomplish roughly \$200 million in the second half of fiscal 2020.
- ▲ **Strength in Bath & Body Works Brand:** L Brands has been benefitting from strength of its Bath & Body Works. Total sales increased 55% year over year to \$1,702.2 million during the third quarter of fiscal 2020. While comparable sales (stores and direct business) surged 56%, comparable store sales increased 38%. Management informed that sales were robust across all regions, store types and merchandise categories. In both the company-operated stores and direct channels, the company attained double-digit growth in all categories. The company witnessed growth across categories, namely Home Fragrance, Body Care, Soaps and Sanitizers. In the stores channel, sales were up 38% to \$1,201.8 million, while direct channel sales soared 132% to \$446.5 million. Sales at Bath & Body Works International advanced 55% to \$53.9 million.
- ▲ **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. The company witnessed robust online demand during third-quarter fiscal 2020. Notably, sales in the Victoria's Secret direct business surged 42%, reflecting remarkable growth in the Lingerie, PINK and Beauty businesses. Direct channel sales at Bath & Body Works soared 132%.
- ▲ **Focus on Revamping the Brand:** L Brands has been taking every step to improve the performance of Victoria's Secret business, which involves inventory management, lowering of store selling costs, and negotiation on rent relief. It comes as no surprise that store optimization plan is also on the cards. Year to date, the company has shuttered 239 Victoria's Secret stores in the United States and Canada. Markedly, the company in co-operation with suppliers has been identifying opportunities to lower merchandise costs in order to increase merchandise margin rates at Victoria's Secret. During the third quarter, the company concluded the Victoria's Secret U.K. and NEXT joint venture. Per the deal, Victoria's Secret will own 49% of the joint venture, and NEXT will own 51% and assume responsibility for operations. Management expects this arrangement to meaningfully improve results in the U.K. and provide with additional growth opportunities through NEXT's stores and online platform. In China, in addition to the second quarter closure of the Hong Kong flagship, the company restructured lease terms on the two mainland flagship stores and have implemented a significant overhead expense reduction plan.

L Brands will remain focused on disciplined expense and inventory management, and providing compelling products. Additionally, management expects direct business to remain strong.

Risks

- **Victoria's Secret Stores Sales Decline:** 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. After declining 39% in the second quarter of fiscal 2020, total sales at Victoria's Secret segment declined 14% on a year-over-year basis during the third quarter. We note that sales in stores fell 30% to \$755.2 million during the quarter. Sales at Victoria's Secret International declined 23% to \$127.9 million. Again, comparable store sales declined 10% during the quarter under review.
 - **Cautious Q4 View:** L Brands holds a cautious outlook for the final quarter of fiscal 2020 due to the ongoing coronavirus pandemic and the potential for further restrictions. Although management remains optimistic about its product assortment for Christmas and continued solid execution in stores and online, it expects considerable challenges in generating store channel sales growth. The company informed that historically typical holiday volumes are about three times larger per week than the average week in the third quarter. Management further added that the company may not be able to register the same number of traffic on peak days when compared with previous years due to the current capacity limitations at 25-50% of normal. Moreover, the hours that stores are permitted to be open are fewer than last year. Again, additional constraints in direct channel fulfillment and shipping capacity cannot be ruled out. Further, L Brands envisions significant cost pressure in the fourth quarter on account of higher store selling expenses, safety equipment and supply costs, increased fulfillment expense and greater parcel carrier surcharges in the direct channel.
 - **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.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence — a key determinant of the economy's health — may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability. Due to the coronavirus outbreak, consumers have been curtailing their discretionary purchases. Also, uncertainty surrounding government stimulus may impact consumer spending activity.
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Last Earnings Report

L Brands Q3 Earnings Beat, Comps Surge, Stock Gains

L Brands, Inc. reported stronger-than-anticipated third-quarter fiscal 2020 results. Strength at Bath & Body Works segment and improved performance at Victoria's Secret drove the quarterly results. Notably, both the top and the bottom lines grew year over year. Evidently, L Brands remains focused on containing costs, managing inventory and optimizing capital expenditures. The company is on track with its earlier announced profit improvement plan and intends to generate approximately \$400 million in annual savings.

Quarter Ending **10/2020**

Report Date	Nov 18, 2020
Sales Surprise	14.29%
EPS Surprise	1,783.33%
Quarterly EPS	1.13
Annual EPS (TTM)	2.27

Quarterly Discussion

L Brands delivered adjusted earnings of \$1.13 per share that surpassed the Zacks Consensus Estimate of 6 cents, marking the second straight beat. Remarkably, the quarterly earnings improved significantly from 2 cents reported in the year-ago period. This year-over-year increase can be attributed to higher net sales and lower general, administrative and store operating expenses.

Net sales of \$3,055.3 million outpaced the Zacks Consensus Estimate of \$2,673 million, and increased 14% on a year-over-year basis. Comparable sales (stores and direct business) rose 28% during the quarter against 2% decline in the year-ago period. Again, comparable sales (stores only) jumped 13% against 3% fall in the prior-year quarter.

Adjusted gross profit increased 42% year over year to \$1,359.5 million during the quarter, while adjusted gross margin expanded 870 basis points to 44.5%. This expansion was driven by a significant improvement in the merchandise margin rate and buying and occupancy expense leverage. Adjusted operating income came in at \$550.7 million, up considerably from \$96.3 million in the year-ago quarter. Notably, adjusted operating margin increased to 18% from 3.6% in the prior-year period.

Adjusted SG&A expenses fell 6% to \$808.8 million during the quarter. As a percentage of net sales, SG&A expenses contracted 570 basis points to 26.5%.

Segment Discussion

Bath & Body Works' total sales increased 55% year over year to \$1,702.2 million. While comparable sales (stores and direct business) surged 56%, comparable store sales increased 38%. Management informed that sales were robust across all regions, store types and merchandise categories. In both the company-operated stores and direct channels, the company attained double-digit growth in all categories. The company witnessed growth across categories, namely Home Fragrance, Body Care, Soaps and Sanitizers. In the stores channel, sales were up 38% to \$1,201.8 million, while direct channel sales soared 132% to \$446.5 million. Sales at Bath & Body Works International advanced 55% to \$53.9 million.

Adjusted operating income for the segment was \$494.1 million, up sharply from \$208.8 million reported in the year-ago period. Notably, adjusted operating margin expanded to 29% from 19% in the prior-year quarter due to the merchandise margin rate increase coupled with buying and occupancy and SG&A expense leverage. The merchandise margin rate rose significantly during the quarter, thanks to favorable customer response to merchandise assortment that enabled management to pull back promotional activity. For the fourth quarter, the company envisions merchandise margin rate to be more in line with last year due to holiday promotions and increased online shipping costs.

Total sales for **Victoria's Secret** declined 14% to \$1,353.1 million. Comparable sales (stores and direct business) increased 4%, while comparable store sales declined 10%. Notably, sales in the direct business surged 42% to \$470 million. The company witnessed strength across its Lingerie, PINK and Beauty businesses. Moreover, merchandise margin rate rose meaningfully in the quarter owing to efficient inventory management, strong selling execution in stores and online, and positive response to merchandise assortments that allowed management to lower promotional activity. However, we note that sales in stores fell 30% to \$755.2 million during the quarter. Sales at Victoria's Secret International declined 23% to \$127.9 million. Adjusted operating income for the segment came in at \$114.6 million, up sharply from adjusted operating loss of \$70 million reported in the year-ago period, owing to SG&A expense leverage.

Store Update

As of Oct 31, 2020, company-operated stores were 2,681, comprising 1,746 Bath & Body Works and 935 total Victoria's Secret stores. Total Victoria's Secret stores include 704 Victoria's Secret, 143 PINK, 23 Victoria's Secret Canada, two PINK Canada, 38 Victoria's Secret Beauty and Accessories, and 25 Victoria's Secret China. Total partner-operated stores were 743, including 269 Bath & Body Works, 101 Victoria's Secret, 17 PINK, 195 Victoria's Secret Beauty & Accessories. Further, partner-operated stores comprised 144 and 17 Travel Retail stores of Victoria's Secret Beauty & Accessories and Bath & Body Works, respectively.

With respect to Bath & Body Works segment, L Brands expects roughly 56 real estate projects for fiscal 2020. Of these, 26 are new non-mall stores and about 29 are remodels, of which 12 are in non-mall locations and the remainder in better-tier malls. Year to date, the company has opened 25 of those new stores. So far in the year, the company has permanently closed 18 outlets, and anticipates approximately 30 total closures for the fiscal year. Year to date, the company has shuttered 239 Victoria's Secret stores in the United States and Canada.

Other Financial Details

L Brands ended third quarter with cash and cash equivalents of \$2,622.5 million, up from \$340 million at the end of the prior-year quarter. Long-term debt increased to \$6,451.3 million from \$5,477.2 million a year ago. Total inventories declined 8% to \$1,864.9 million. Shareholders' deficit was \$1,564 million. Management incurred capital expenditures of \$76.2 million in the quarter under review.

Outlook

Andrew Meslow, CEO, stated, "We are cautious about our ability to exceed last year's fourth quarter sales and earnings results, given anticipated constraints on store traffic, online fulfillment and shipping capacity, as well as other uncertainties related to the COVID pandemic." Meslow further added, "We are confident in the strength of our brands and remain focused on execution and delivering the best possible outcome for the fourth quarter."

L Brands holds a cautious outlook for the final quarter of fiscal 2020, due to the ongoing coronavirus pandemic and the potential for further restrictions. Although management remains optimistic about its product assortment for Christmas and continued solid execution in stores and online, it expects considerable challenges in generating store channel sales growth.

The company informed that historically typical holiday volumes are about three times larger per week than the average week in the third quarter. Management further added that the company may not be able to register the same number of traffic on peak days when compared with previous years due to the current capacity limitations at 25-50% of normal. Moreover, the hours that stores are permitted to be open are fewer than last year. Again, additional constraints in direct channel fulfillment and shipping capacity cannot be ruled out. Thereby, the company will be spreading big promotions over a longer time period.

Further, L Brands envisions significant cost pressure in the fourth quarter on account of higher store selling expenses, safety equipment and supply costs, increased fulfillment expense and greater parcel carrier surcharges in the direct channel.

Valuation

L Brands shares are up 110.8% in the year-to-date period and 113.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 33.6% and 35.5%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are up 36.7% and 37.6%, respectively.

The S&P 500 index is up 13.4% in the year-to-date period and 14.5% in the past year.

The stock is currently trading at 13.9X forward 12-month earnings, which compares to 23.54X for the Zacks sub-industry, 30.46X for the Zacks sector and 22.42X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.86X and as low as 4.57X, with a 5-year median of 13.91X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$44 price target reflects 15.99X 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	13.9	23.54	30.46	22.42
	5-Year High	36.86	88.06	34.05	23.47
	5-Year Low	4.57	8.26	19.08	15.27
	5-Year Median	13.91	14.36	23.62	17.77
P/S F12M	Current	0.83	0.96	1.29	4.22
	5-Year High	2.3	1.1	1.32	4.29
	5-Year Low	0.2	0.33	0.83	3.17
	5-Year Median	0.78	0.82	1.01	3.68
EV/EBITDA TTM	Current	5.81	23.53	18.94	16.26
	5-Year High	13.69	24.14	20.69	16.53
	5-Year Low	2.56	3.25	11.13	9.54
	5-Year Median	6.79	6.36	13.02	13.17

As of 12/14/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 254)



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
The Childrens Place, Inc. (PLCE)	Neutral	2
Urban Outfitters, Inc. (URBN)	Neutral	3
Vera Bradley, Inc. (VRA)	Neutral	3
Zumiez Inc. (ZUMZ)	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		
	LB	X Industry	S&P 500	ANF	GPS	URBN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	A	-	-	B	C	A
Market Cap	10.62 B	627.24 M	25.68 B	1.25 B	7.61 B	2.55 B
# of Analysts	10	4	14	9	8	10
Dividend Yield	0.00%	0.00%	1.51%	0.00%	0.00%	0.00%
Value Score	C	-	-	C	C	B
Cash/Price	0.24	0.24	0.06	0.63	0.34	0.24
EV/EBITDA	9.60	4.01	14.50	3.22	6.18	5.26
PEG F1	1.51	5.00	2.76	NA	NA	12.19
P/B	NA	2.55	3.60	1.46	3.21	1.78
P/CF	5.43	5.91	13.75	5.69	5.84	7.89
P/E F1	16.61	29.50	21.75	NA	NA	140.21
P/S TTM	0.91	0.52	2.82	0.39	0.54	0.72
Earnings Yield	6.02%	1.99%	4.40%	-6.87%	-10.62%	0.73%
Debt/Equity	-4.12	0.20	0.70	0.40	0.93	0.00
Cash Flow (\$/share)	7.04	1.68	6.94	3.53	3.49	3.30
Growth Score	A	-	-	A	B	A
Historical EPS Growth (3-5 Years)	-17.95%	-3.92%	9.69%	11.89%	1.34%	-24.38%
Projected EPS Growth (F1/F0)	0.26%	-47.36%	1.03%	-288.74%	-209.64%	-90.56%
Current Cash Flow Growth	45.86%	-0.52%	5.22%	-6.25%	-14.41%	-22.87%
Historical Cash Flow Growth (3-5 Years)	6.20%	1.68%	8.33%	-5.89%	-5.36%	-2.66%
Current Ratio	1.48	1.46	1.38	1.60	1.44	1.45
Debt/Capital	NA%	24.90%	42.00%	28.57%	48.29%	0.00%
Net Margin	-1.77%	-5.50%	10.40%	-3.55%	-7.71%	-0.22%
Return on Equity	-37.41%	-2.15%	14.99%	-6.61%	-24.81%	2.30%
Sales/Assets	1.13	1.03	0.50	0.95	1.03	1.04
Projected Sales Growth (F1/F0)	-8.22%	-4.37%	0.35%	-13.80%	-14.24%	-11.76%
Momentum Score	A	-	-	A	F	A
Daily Price Change	-3.39%	-0.93%	-0.29%	-2.90%	-2.45%	-2.10%
1-Week Price Change	3.37%	-1.97%	1.73%	-2.73%	-2.89%	-6.59%
4-Week Price Change	9.90%	6.91%	4.56%	5.74%	-15.81%	-6.92%
12-Week Price Change	29.71%	24.94%	11.59%	36.76%	24.02%	24.07%
52-Week Price Change	113.65%	-4.61%	5.88%	19.51%	19.30%	-2.61%
20-Day Average Volume (Shares)	4,900,897	351,703	1,937,653	2,216,057	11,174,842	2,007,950
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	94.58%	2.39%	0.00%	28.61%	-8.59%	481.61%
EPS F1 Estimate 12-Week Change	96.70%	16.03%	3.80%	28.07%	-2.43%	486.38%
EPS Q1 Estimate Monthly Change	-0.95%	-1.93%	0.00%	-19.02%	-31.49%	3.22%

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	C
Growth Score	A
Momentum Score	A
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

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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 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.