

Lowes Companies(LOW)

\$157.98 (As of 09/24/20)

Price Target (6-12 Months): **\$182.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Shares of Lowe's outperformed the industry in the past six months, owing to the company's sturdy performance that continued in second-quarter fiscal 2020. In fiscal second quarter, earnings and sales outpaced the Zacks Consensus Estimate and grew year over year. Results benefited from the company's retail-fundamentals strategy with improved technology and operational channels. Notably, the consumer focus on the home, core-repair and maintenance activities fueled quarterly sales. Impressively, momentum in sales continued in August, with strength in both the DIY and pro customers. Management has also been making investments in omni-channel capabilities to drive growth. Notably, sales at lowes.com grew 135% in fiscal second quarter. Moving ahead, the company is well positioned to capitalize the demand in the home improvement market.

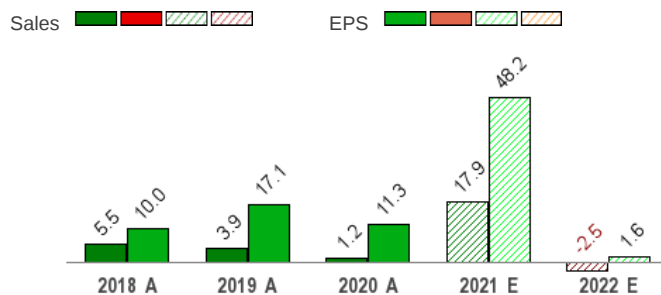
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$171.72 - \$60.00
20-Day Average Volume (Shares)	4,038,199
Market Cap	\$119.8 B
Year-To-Date Price Change	32.4%
Beta	1.50
Dividend / Dividend Yield	\$2.40 / 1.4%
Industry	Building Products - Retail
Zacks Industry Rank	Top 11% (28 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.8%
Last Sales Surprise	9.9%
EPS F1 Estimate 4-Week Change	1.0%
Expected Report Date	11/18/2020
Earnings ESP	-4.8%
P/E TTM	20.1
P/E F1	18.6
PEG F1	1.3
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	20,252 E	24,632 E	20,043 E	18,072 E	82,971 E
2021	19,675 A	27,302 A	20,509 E	17,593 E	85,067 E
2020	17,741 A	20,992 A	17,388 A	16,027 A	72,148 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.95 E	\$3.32 E	\$1.90 E	\$1.30 E	\$8.62 E
2021	\$1.77 A	\$3.75 A	\$1.88 E	\$1.13 E	\$8.48 E
2020	\$1.22 A	\$2.15 A	\$1.41 A	\$0.94 A	\$5.72 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 09/24/2020. The reports text is as of 09/25/2020.

Overview

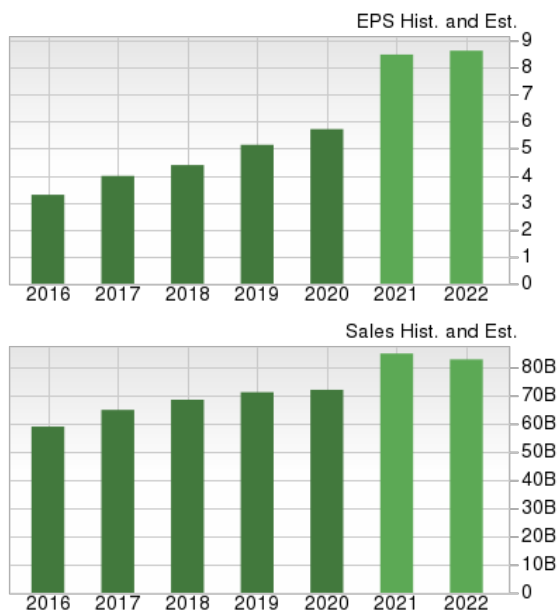
Lowe's Companies (LOW) has evolved as one of the world's leading home improvement retailer, offering services to homeowners, renters and commercial business customers. The company has been enhancing experience of its pro customers by upgrading pro-focused brands and revamping pro-service business website, LowesForPros.com.

Incorporated in 1952 and based in Mooresville, NC, Lowe's has its operations primarily in the U.S. and Canada. The company offers services to homeowners, renters and commercial business customers. Homeowners and renters principally include do-it-yourself (DIY) customers and do-it-for-me (DIFM) customers who utilize the company's installed sales programs. Commercial business customers consist of those who work in the construction, repair/remodel, commercial and residential property management, and business maintenance professions.

Lowe's offers a wide range of products and services for home decoration, maintenance, repair, remodeling and property maintenance. The company provides a line of home improvement products in diverse categories, such as appliances, lumber, paint, flooring, building materials, millwork, lawn and landscape products, fashion plumbing, hardware, lighting, tools, seasonal living, rough plumbing, outdoor power equipment, cabinets and countertops, nursery, rough electrical, home environment, home organization, and windows and walls.

The company's home improvement store stocks about 34,000 items, a number of which are available through the Special Order Sales system, and comprises a varied collection of branded merchandise such as Whirlpool, Stainmaster, Valspar, Pella and many more. The company also trades in brands that are exclusive to Lowe's, including Aquasource, Garden Treasures, Harbor Breeze, Kobalt, Reliablit, Top-Choice and Utilitech.

Lowe's offers products through retail stores as well as online (Lowe's.com). As of Jul 31, 2020, the company operated 1,968 home-improvement and hardware stores across the United States and Canada.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Q2 Performance:** Shares of Lowe's have increased 79.9% in the past six months and outperformed the industry's 46.2% gain. The stock's upside run on bourses is attributed to the company's sturdy performance that continued in second-quarter fiscal 2020, wherein both earnings and sales outpaced the Zacks Consensus Estimate and grew year over year. With this, the company delivered its fifth-straight earnings beat and the second-consecutive sales surprise in the quarter. Results benefited from the company's retail-fundamentals strategy with improved technology and operational channels, which aided it to meet consumer demand. Also, the company saw a shift from other forms of discretionary spending to home repair and maintenance work. Notably, the consumer focus on the home, core-repair and maintenance activities fueled sales. Moving ahead, momentum in sales continued in August, with strength in both the DIY and pro customers.

Lowe's is making progress on key sales initiatives such as inventory levels, job-lot quantities, Pro service levels, better product presentation and labor scheduling.

▲ **Strong Digital Presence:** We note that strong digital presence has been aiding the company's performance for a while. Management has been making investments in omni-channel capabilities to drive growth. Apparently, sales at lowes.com increased 135% in fiscal second quarter, following an 80% increase during the first quarter. Notably, online penetration rose to 8% of total sales in the reported quarter, benefiting from increased online shopping by pro and DIY customers. Management has also completed the replatforming of lowes.com to the cloud in the quarter, with improved site functionality. Moreover, the company is focused on building other extensions of its omni-channel capabilities. After completing the transition of lowes.com to the cloud, it has now been working to accelerate the front-end work and drive customer-facing capabilities in the back half of fiscal. These capabilities include online-delivery scheduling and order tracking, a customized homepage, simplified search and navigation, and an enhanced online product offering to boost customer experience. The company is also planning to install Buy Online Pickup in Store self-service lockers across all U.S. stores by the end of March 2021. These self-service pickup lockers will be installed at more than 1,700 stores and will enable customers to collect their same-day orders safely and at their own convenience. For providing the retail locker solution, Lowe's is working with Parcel Pending – a leading package solutions provider in the United States. Such well-chalked efforts will continue to fuel the company's top line going forward.

▲ **Growth in Home Improvements & Other Areas:** Lowe's believes that the home improvement market has robust growth potency, with consumers becoming increasingly motivated to invest in homes. Additionally, the company is keenly focused on home-improvement projects given the expectations that people are likely to stay closer to home this holiday season. It remains focused to cater to consumers' requirements for fall-preparation projects, remodel activity, space-conversion projects, holiday decorating as well as core repair and maintenance activity. During second-quarter fiscal 2020, comparable sales for the U.S. home-improvement business grew 35.1%, following an increase of 12.3% in the preceding quarter. Further, the company recorded an increase of 2.6%, 3%, 3.2% and 4.2% in the fourth, third, second and first quarter of fiscal 2019, respectively. In fact, 14 of 15 merchandising departments delivered positive comps.

In the reported quarter, comps gained from sturdy project demand from DIY and pro customers across channels, product categories and geographies. It saw comparable-sales growth of over 20% across all its merchandising divisions, while all the U.S. geographic regions posted comparable-sales increase of at least 30%. Moreover, an improving job scenario and housing market will act as tailwinds. Management is pleased with the progress of its retail-fundamentals and merchandising initiatives. Such factors have been driving the company to exit from less-profitable businesses and allocate more resources in the booming home improvements arena.

▲ **Focus on Pro Customers:** Pro customers have been a significant driver in Lowe's business growth. Moreover, in a bid to continue augmenting sales from pro customers, the company has been augmenting pro-focused brands. Additionally, Lowe's has refurbished its pro-service business website, LowesForPros.com, in order to give special attention to the needs of its Pro-customers. Apparently, pro sales were solid with comps in the mid-20s during the second quarter of fiscal 2020. The performance benefited from demand acceleration in May that continued throughout the quarter. Also, the company's smooth progress with retail fundamentals such as job-lot quantities and improved service levels aided pro performance. The company has also teamed up with HomeAdvisor for its Pro loyalty consumers.

In addition, management is committed to help keep pro customers working amid these trying times. To this end, management has undertaken a major move toward the expansion of products and services offered to the pro. It has started a multi-year national rollout of Lowe's tool-rental program with the first location opening at a central Charlotte store on Aug 20. This is an opportunity for the company to strengthen its relationship with the customer segment. As of now, more than 70% of pros are using tool-rental programs. Management also remains excited with its Pro-loyalty CRM program. This allows the company to deploy more strategic marketing to the Pro and expand market share. Management is also encouraged by its partnership with Salesforce.com, thus enabling the company to develop the best platform to efficiently serve Pros.

▲ **Financial Status:** Lowe's ended second-quarter fiscal 2020 with total long-term debt (including operating lease liabilities) of \$24,056 million that fell slightly on a sequential basis. Also, its debt-to-capitalization ratio of 0.85 at the end of fiscal second quarter shows a decline from 0.94 at the end of the preceding quarter. Again, the company's times interest earned ratio of 10.8 has improved sequentially from 9.4. Moreover, the company's cash and cash equivalents of \$11,641 million as of Jul 31, 2020, shows a substantial increase from the preceding quarter.

In addition, Lowe's looks well placed on the dividend-payout front. During fiscal second quarter, management paid a quarterly dividend of 55 cents a share. Notably, the company has a dividend payout of 28%, dividend yield of 1.4% and free cash flow yield of 4.3%. With an annual free cash flow return on investment of 21.8%, the dividend payment is likely to be sustainable. In the first six months of fiscal 2020, Lowe's repurchased shares worth \$966 million and distributed \$836 million as dividends.

Risks

- **Outlook:** Management highlighted that the third and fourth quarters are generally smaller-revenue quarters, owing to natural demand patterns of the home-improvement space. For the rest of the fiscal, Lowe's anticipates modestly higher promotional activity, however, not similar to the prior-year levels. Moreover, management projects lower levels of gross-margin expansion in the back half of fiscal 2020, relative to fiscal second quarter. With regard to costs, it estimates incurring pandemic-related operating expenses of roughly \$70-\$80 million per quarter for safety and cleanliness across its stores. The spending also includes merchandising resets and expansion of the supply-chain infrastructure. Depending on these factors, operating margin is likely to moderate in the back half as compared to the first half.
 - **Currency Headwind:** Lowe's remains prone to unfavorable foreign currency translations, owing to its exposure in the international markets. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. Any fluctuation in foreign currency may act as a deterrent in the near term.
 - **Stiff Competition:** In the home improvement retailing business, Lowe's faces stiff competition from The Home Depot and other home supply retailers on attributes such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Such factors may weigh upon the company's margins from a mix and rate perspective.
 - **Macroeconomic Headwinds:** 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 discretionary spending, and in turn the company's growth and profitability. An unfavorable economy might delay home improvement projects, which in turn could hamper sales of product categories and services provided by the company.
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Last Earnings Report

Lowe's Q2 Earnings & Sales Beat Estimates, Rise Y/Y

Lowe's reported robust second-quarter fiscal 2020 results, wherein both earnings and sales outpaced the Zacks Consensus Estimate and grew year over year. Notably, the company delivered the fifth-straight earnings beat and the second-consecutive sales surprise in the quarter.

Results benefited from the company's retail-fundamentals strategy with improved technology and operational channels, which aided it to meet consumer demand. Notably, the consumer focus on the home, core-repair and maintenance activities fueled sales. The company saw comparable-sales growth of over 20% across all its merchandising divisions, while all the U.S. geographic regions posted comparable-sales increase of at least 30% in the fiscal second quarter. Moving ahead, momentum in sales continued in August.

Furthermore, management has been making investments in omni-channel capabilities to drive growth. Apparently, sales at lowes.com increased 135% in fiscal second quarter. On May 20, management withdrew the guidance for fiscal 2020 due to the lack of visibility about future trends, owing to the coronavirus outbreak.

Q2 in Detail

Adjusted earnings of \$3.75 per share surpassed the Zacks Consensus Estimate of \$3.03 and surged a whopping 74.4% year over year.

Net sales of \$27,302 million jumped 30.1% year over year and surpassed the Zacks Consensus Estimate of \$24,708 million. Notably, comparable sales increased 34.2% during the quarter under review. Comparable sales for the U.S. home-improvement business reflected a robust rise of 35.1% in the quarter, following an increase of 12.3% in the preceding quarter.

Gross profit improved nearly 38% year over year to \$9,304 million, while gross margin expanded 197 basis points (bps) to 34.1%, driven by strong top-line growth. Further, adjusted operating income margin grew 311 bps to 14.5% on improved operating efficiencies.

Other Financial Aspects

In the reported quarter, Lowe's invested \$460 million to support the frontline hourly associates, communities and store safety. During the first half of fiscal 2020, Lowe's spent \$560 million to financially support its associates amid the pandemic, and \$100 million as community pandemic relief. Moreover, its second-quarter performance led to a record quarterly Winning Together profit-sharing bonus for the company's hourly associates at 100% of its outlets, worth \$107 million.

Moreover, the company ended the quarter with cash and cash equivalents of \$11,641 million, long-term debt (excluding current maturities) of \$20,197 million and shareholders' equity of \$4,356 million. It generated cash flow from operations of \$11,752 million as of Jul 31, 2020. For fiscal 2020, management still expects capital expenditures of about \$1.6 billion.

During the first six months of fiscal 2020, Lowe's repurchased shares worth \$966 million and distributed \$836 million as dividends. It had earlier suspended the share-repurchase program for the rest of fiscal 2020.

As of Jul 31, 2020, the company operated 1,968 home-improvement and hardware stores across the United States and Canada.

Quarter Ending 07/2020

Report Date	Aug 19, 2020
Sales Surprise	9.85%
EPS Surprise	23.76%
Quarterly EPS	3.75
Annual EPS (TTM)	7.87

Recent News

Lowe's to Add Pickup Lockers, Boost Contactless Deliveries – Sep 22, 2020

Lowe's announced plans to add Buy Online Pickup in Store self-service lockers across all U.S. stores by the end of March 2021. These self-service pickup lockers will be installed at more than 1,700 stores and will enable customers to collect their same-day orders safely and at their own convenience. It expects to install these innovative lockers in most metro cities by Thanksgiving. For providing the retail locker solution, Lowe's is working with Parcel Pending by Quadient. Notably, Parcel Pending is a leading package solutions provider in the United States.

Lowe's Hikes Quarterly Dividend – Aug 22, 2020

Lowe's recently announced a dividend hike of about 9% from its prior payout of 55 cents a share. The hiked dividend rate of 60 cents a share, which is payable Nov 4, 2020 to shareholders of record as on Oct 21, brings the third-quarter payout to roughly \$455 million. The new dividend comes to an annualized dividend of \$2.40 per share versus the prior rate of \$2.20 per share.

Lowe's Rolls Out Tool Rental Program – Aug 19, 2020

Lowe's has started rolling out tool rental departments nationwide, with a one-stop shop for the entire tools and equipment Pros and DIY consumers requiring to complete home-improvement projects. The company's first location opened in Charlotte, N.C. on Aug 20.

Lowe's to Launch Exclusive Partnership with EGO – Jul 22, 2020

In lieu to expand its portfolio of outdoor power brands, Lowe's has entered into partnership with Chervon-owned EGO, the number one brand in battery-powered outdoor power equipment. Beginning this December, the company will be the exclusive nationwide home center to offer the EGO's world class battery-powered products such as mowers, blowers, string trimmers, hedge trimmers, edgers, chainsaws and snowblowers. EGO products will also be available online at Lowes.com and in select stores in fall 2020. The company will launch the products to all U.S. stores nationwide by February 2021. Additionally, Lowe's will offer another Chervon-owned product, SKIL battery-powered outdoor power equipment, in late 2020. The company will offer push and self-propelled mowers, leaf blowers, string and hedge trimmers, among other products and accessories. Lowe's continues to offer leading brands across all outdoor power equipment categories with John Deere, Craftsman, Husqvarna, Honda and Ariens.

Valuation

Lowe's shares are up 32.4% in the year-to-date period and 43.1% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 23.5% and 26.1%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are up 22.6% and 34%, respectively.

The S&P 500 index is up 0.8% in the year-to-date period and 9.4% in the past year.

The stock is currently trading at 18.6X forward 12-month earnings, which compares to 21.14X for the Zacks sub-industry, 30.64X for the Zacks sector and 21.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.95X and as low as 9.7X, with a 5-year median of 17.28X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$182 price target reflects 21.36X forward 12-month earnings.

The table below shows summary valuation data for LOW

Valuation Multiples - LOW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.6	21.14	30.64	21.31
	5-Year High	22.95	23.64	34	23.44
	5-Year Low	9.7	16.02	19.09	15.26
	5-Year Median	17.28	19	23.55	17.63
P/S F12M	Current	1.43	1.6	1.23	3.95
	5-Year High	1.55	1.71	1.32	4.29
	5-Year Low	0.67	1.06	0.82	3.11
	5-Year Median	1.08	1.29	1.01	3.66
EV/EBITDA TTM	Current	12.63	14	18.73	14
	5-Year High	14.91	15.61	20.71	15.61
	5-Year Low	8.63	9.51	11.15	9.51
	5-Year Median	11.34	13.03	12.96	13.03

As of 09/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 11% (28 out of 250)



Top Peers

Company (Ticker)	Rec	Rank
Lumber Liquidators Holdings, Inc. (LL)	Outperform	2
RH (RH)	Outperform	1
Target Corporation (TGT)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
Beacon Roofing Supply, Inc. (BECN)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
The Home Depot, Inc. (HD)	Neutral	3
Walmart Inc. (WMT)	Neutral	2

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

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	LOW	X Industry	S&P 500	BECN	HD	LL
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	A	-	-	A	A	B
Market Cap	119.80 B	1.98 B	22.77 B	1.98 B	286.01 B	609.38 M
# of Analysts	14	5	14	7	14	3
Dividend Yield	1.39%	0.00%	1.72%	0.00%	2.26%	0.00%
Value Score	C	-	-	A	C	C
Cash/Price	0.11	0.10	0.07	0.50	0.05	0.21
EV/EBITDA	16.48	11.01	12.78	11.01	16.71	19.19
PEG F1	1.32	1.13	2.82	NA	2.21	0.65
P/B	27.50	1.55	3.12	1.18	NA	3.44
P/CF	20.70	11.78	12.37	4.33	21.41	17.81
P/E F1	18.63	17.60	20.56	14.01	23.41	19.62
P/S TTM	1.49	0.62	2.34	0.29	2.40	0.59
Earnings Yield	5.35%	5.69%	4.60%	7.15%	4.27%	5.11%
Debt/Equity	4.64	0.71	0.70	1.98	-78.19	0.57
Cash Flow (\$/share)	7.66	2.88	6.93	6.66	12.41	1.19
Growth Score	A	-	-	A	A	A
Historical EPS Growth (3-5 Years)	16.24%	16.24%	10.41%	5.47%	17.96%	89.96%
Projected EPS Growth (F1/F0)	48.25%	4.35%	-4.56%	-8.98%	10.71%	85.64%
Current Cash Flow Growth	-12.64%	0.60%	5.26%	11.78%	0.60%	-2.19%
Historical Cash Flow Growth (3-5 Years)	6.65%	10.93%	8.49%	40.23%	11.22%	-15.29%
Current Ratio	1.30	2.25	1.35	2.25	1.30	1.60
Debt/Capital	82.26%	50.43%	42.92%	61.58%	NA	36.34%
Net Margin	7.12%	2.95%	10.25%	-1.80%	9.91%	3.12%
Return on Equity	228.17%	15.41%	14.59%	9.45%	-583.91%	20.94%
Sales/Assets	1.82	1.76	0.50	1.02	2.12	1.71
Projected Sales Growth (F1/F0)	17.91%	0.00%	-1.44%	-2.87%	13.82%	-3.45%
Momentum Score	A	-	-	A	A	F
Daily Price Change	-0.06%	0.44%	0.21%	0.44%	-0.32%	1.49%
1-Week Price Change	-1.11%	-0.41%	0.79%	-0.80%	-0.41%	-6.86%
4-Week Price Change	-4.68%	-6.22%	-5.64%	-10.31%	-7.94%	-15.22%
12-Week Price Change	16.81%	15.04%	1.89%	12.85%	6.92%	54.50%
52-Week Price Change	43.17%	-1.01%	-2.71%	-14.46%	15.63%	123.73%
20-Day Average Volume (Shares)	4,038,199	613,693	2,095,310	613,693	3,767,841	739,138
EPS F1 Estimate 1-Week Change	1.03%	0.00%	0.00%	0.91%	0.41%	0.00%
EPS F1 Estimate 4-Week Change	1.03%	0.72%	0.00%	7.87%	0.41%	0.00%
EPS F1 Estimate 12-Week Change	27.42%	20.91%	4.08%	27.32%	14.50%	274.49%
EPS Q1 Estimate Monthly Change	1.03%	0.00%	0.00%	1.53%	0.52%	0.00%

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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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.