

Macys, Inc. (M)

\$11.00 (As of 11/25/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Macy's have improved and outpaced the industry in the past three months. Solid growth in the company's digital platform and prudent efforts to boost consumers' shopping experience has been serving as key upsides. Customers have been responding favorably toward the company's expanded omni-channel offerings such as curbside and store pickups. During the third quarter, the company witnessed growth across all three brands namely, Macy's, Bloomingdale's and Bluemercury. Also categories such as home furnishing, fragrances and jewelry depicted growth. However, the coronavirus pandemic disrupted the company's business activities. During the third quarter, store sales plunged 36% year on year, while the top line declined 22.7%. Going ahead, management is cautious regarding pockets of COVID-19 resurgence.

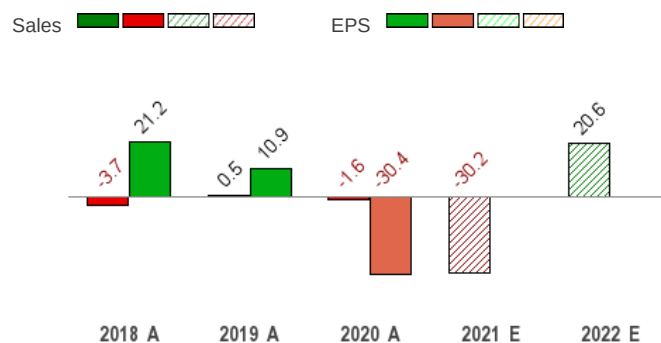
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$18.57 - \$4.38
20-Day Average Volume (Shares)	36,073,132
Market Cap	\$3.4 B
Year-To-Date Price Change	-35.3%
Beta	1.56
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 50% (126 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	76.5%
Last Sales Surprise	3.5%
EPS F1 Estimate 4-Week Change	24.1%
Expected Report Date	02/23/2021
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,085 E	4,602 E	4,636 E	7,620 E	20,674 E
2021	3,017 A	3,559 A	3,990 A	6,492 E	17,142 E
2020	5,504 A	5,546 A	5,173 A	8,337 A	24,560 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.55 E	\$0.19 E	\$0.06 E	\$1.31 E	\$0.85 E
2021	-\$2.03 A	-\$0.81 A	-\$0.19 A	\$0.11 E	-\$2.92 E
2020	\$0.44 A	\$0.28 A	\$0.07 A	\$2.12 A	\$2.91 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 11/25/2020. The reports text is as of 11/26/2020.

Overview

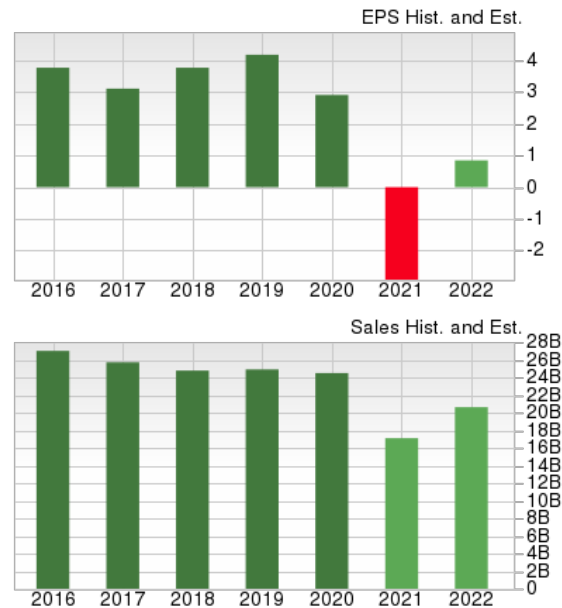
Macy's is in the process of a complete makeover and has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. Notably, the company is banking on Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores, 'mobile first' strategy and Destination Businesses. The department store chain is investing in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty.

Macy's is an omnichannel retail organization operating stores, websites and mobile applications under three brands Macy's, Bloomingdale's and bluemercury. Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

This New York-based company trades in a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods in 43 states, the District of Columbia, Guam and Puerto Rico. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States.

The principal private label brands offered by Macy's include include Alfani, American Rag, Aqua, Bar III, Belgique, Charter Club, Club Room, Epic Threads, first impressions, Giani Bernini, Greg Norman for Tasso Elba, Holiday Lane, Home Design, Hotel Collection, Hudson Park, Ideology, I-N-C, jenni, JM Collection, Karen Scott, lune+aster, M-61, Maison Jules, Martha Stewart Collection, Material Girl, Oake, Sky, Style & Co., Sun + Stone, Sutton Studio, Tasso Elba, Thalia Sodi, The Cellar, Tools of the Trade and Wild Pair.

Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances accounted for 39.5%, Women's Apparel accounted for 18.3%, Men's and Kids' accounted for 19.8% and Home/Other contributed 22.4% to the first half of fiscal 2020 net sales.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strategic Endeavors:** Macy's sustained focus on price optimization, inventory management, merchandise planning and private label offering are the primary catalysts facilitating in meeting customer-oriented demand and improving in-store shopping experience. In an attempt to increase sales, profitability and cash flows, the company has been taking steps such as integration of operations as well as developing omnichannel capabilities and online order fulfillment centers. During third-quarter fiscal 2020, the company witnessed growth across all three brands namely, Macy's, Bloomingdale's and Bluemercury. Management highlighted that customers shopped across all channels during the quarter. Also, the company's digital business remained robust, as stores continued to recover. The company observed that customers have shifted their spending more toward casual apparel categories to suit their stay-at-home needs amid the ongoing coronavirus pandemic. In fact, categories such as home furnishing, fragrances and jewelry depicted double-digit sales growth. Going ahead, management is on track with boosting assortments as well as customers shopping experience in stores and online. Additionally, the company has undertaken restructuring actions to contain costs. Such prudent efforts coupled with prudent business fundamentals are driving the company's growth. Markedly, shares of the company have surged 66.1% in the past three months compared with the industry's rally of 60%.
- Notably, Macy's digital platform has continued to remain a healthy business component. During the third quarter, company's digital sales have surged 27% from the year-ago quarter's figure and contributed 38% to total-owned comparable sales. Digital penetration stood at 38%, up approximately 14 percentage points year on year. Management was pleased with growth witnessed across all metrics including search, traffic and conversion. Also, customers responded well toward the company's expanded omni-channel offerings such as curbside, store pickup and same-day delivery. Additionally, the company has been constantly improving to its mobile and website features to deliver enhanced shopping experience.
- ▲ **Three-Year Polaris Strategy:** Macy's has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. This includes strengthening customer relationships, expansion of assortments, accelerate digital growth, optimizing store portfolio and reducing costs. Notably during third-quarter fiscal 2020 SG&A expense declined 21.6% year over year, thanks to better expense management initiatives. It is also on track with expanding brand offerings to support customer self-expression at all price points. Based on the current market trends, the company is focusing on product areas like fine jewelry, beauty, furniture and mattresses and Backstage off-price. Moreover, the company's expanded Star Rewards Loyalty program, which was initiated in 2018, has been aiding better customer engagement. Apart from these, Macy's is evaluating store portfolio. The company plans to shutter roughly 125 stores in lower tier malls within three years that are least productive, and upgrade the remaining by applying Growth treatment. The treatment comprises of merchandising strategies, technology improvements, talent and local marketing. Clearly, Macy's has undertaken a strategic review of business operating model to bring itself back on growth trajectory. The company had earlier highlighted that Polaris strategy will help attain gross savings of nearly \$2.1 billion by 2022.
- ▲ **Undertakes Efforts to Make Shopping Convenient:** Macy's has come up with a host of initiatives to deliver customers a seamless shopping experience. Macy's recent actions include its collaboration with Swedish buy now, pay later group Klarna, enabling the company to offer shoppers financial ease and payment flexibility with their online purchases. Here, shoppers can choose to pay in four equal and interest-free installments at the online checkout. The company also informed about its tie-up with DoorDash for expediting delivery service. This collaboration will enable the retailer offer on-demand and same-day delivery service at roughly 500 Macy's stores throughout the nation. This is powered through the Drive – DoorDash's white-label fulfillment platform, which is committed to direct business delivery. Shoppers can avail the same-day delivery via macys.com and its mobile app. These apart, Macy's got a lot more for its guests in the form of Macy's Star Rewards, Macy's Gift Cards, experts' help and other gifting options.
- ▲ **Customer Friendly Endeavors:** Macy's Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores (G150), 'mobile first' strategy and Destination Businesses are important growth drivers. The company is investing in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty. Additionally, the company is striving to optimize inventory across all channels. It has also been taking actions across stores for reducing bottleneck and control occupancy levels. Macy's is also expanding its virtual reality furniture gallery. The company has taken a minority stake in b8ta, a technology retailer that allow customers to try, buy and learn about new tech products. The investment is seen as a part to enhance customer shopping experience at its The Market @ Macy's, a store-within-a-store retail concept. The company has partnered with thredUP, a fashion resale website for consumers to buy and sell secondhand clothing online.
- ▲ **Financial Flexibility:** Macy's had earlier stated that it concluded raising nearly \$4.5 billion of new financing, which includes senior secured notes as well as asset-based credit agreement worth \$1.3 billion and \$3.15 billion, respectively. This provides company with enough liquidity to meet business needs, comprising funding operations and the purchase of new inventory for upcoming merchandising seasons, resolving its accrued payables obligations, and repaying upcoming debt maturities in fiscal 2020 and fiscal 2021. At the end of third-quarter fiscal 2020, the company had about \$3 billion of untapped capacity in the new asset-based credit facility. Macy's ended the third quarter with cash and cash equivalents of \$1,551 million, reflecting a sequential rise of 11.2%.

We believe Macy's sustained focus on price optimization, inventory management, merchandise planning, and private label offering are the primary catalysts facilitating in meeting customer-oriented demand.

Reasons To Sell:

- ▼ **Coronavirus Dims Prospects:** The coronavirus outbreak has significantly disrupted the Macy's business activities. During third-quarter fiscal 2020, store sales declined 36% year on year. Although the company has reopened its stores, they are yet to depict considerable growth. We note that Macy's had previously withdrawn its guidance for 2020, owing to the economic uncertainties associated with the ongoing coronavirus pandemic. Moreover, management is apprehensive regarding the potential resurgence of the pandemic and its impact on its business, especially in urban areas. Additionally, the company expects international tourism sales to remain soft.
- ▼ **Dismal Q3 Numbers:** Macy's third-quarter fiscal 2020 performance lacked sheen, as both its top and bottom line figures reflected sharp year-on-year declines. Net sales came in at \$3,990 million, declining 22.7% on a year-over-year basis. Additionally, comparable sales were down 21% on an owned basis and down 20.2% on an owned plus licensed basis. Moving on, Macy's reported adjusted loss of 19 cents per share for the quarter under review. Notably, the company had posted adjusted earnings of 7 cents a share in the year-ago period. Management expects total comparable sales for the second-half of the year to decline in the low to mid-20s range.
- ▼ **Dip in Consumer Sentiment:** 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. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focus on necessities for the time being.
- ▼ **Competitive Pressure:** Macy's operates in the highly competitive retail merchandise sector. The company faces stiff competition from a diverse group of competitors, such as Wal-Mart, Target, Bed Bath & Beyond, general merchandise stores, specialty stores, discount stores and online retailers, which are likely continue to weigh on its results. We also remain concerned about Macy's low pricing power as against other discount chains, which may in turn hurt the company's market share.

Sluggish store sales are a concern for Macy's. Moreover management remains cautious about COVID-19 resurgence and soft international tourism sales.

Last Earnings Report

Macy's Q3 Loss Narrower Than Expected, Sales Down Y/Y

Macy's, reported better-than-expected third-quarter fiscal 2020 results. This omni-channel fashion retailer posted narrower-than-expected loss. Further, the company's net sales surpassed the Zacks Consensus Estimate. However, the top and the bottom line declined sharply from the year-ago quarter's levels.

Markedly, management highlighted that all three brands namely, Macy's, Bloomingdale's and Bluemercury, delivered strong performance. Management highlighted that customers shopped across all channels during the quarter. Also, the digital business remained robust, as stores continued to recover. Customers responded well towards the company's expanded omni-channel offerings such as curbside, store pickup and same-day delivery. The company observed that customers have shifted their spending more toward casual apparel categories, to suit their stay-at-home needs amid the ongoing coronavirus pandemic. In fact, categories such as home furnishing, fragrances and jewelry depicted double-digit sales growth. Going ahead, management remains on track with boosting assortments as well as customers shopping experience in stores and online.

However, we note that Macy's had previously withdrawn its guidance for 2020, owing to the economic uncertainties associated with the ongoing coronavirus pandemic. Management is apprehensive regarding the potential resurgence of the pandemic and its likely impact on its business.

Let's Delve Deep

Macy's reported adjusted loss of 19 cents a share, narrower than the Zacks Consensus Estimate of a loss of 81 cents. Notably, the company had posted adjusted earnings of 7 cents a share in the year-ago quarter.

Net sales of \$3,990 million came ahead of the Zacks Consensus Estimate of \$3,854 million. However, the top line declined 22.7% on a year-over-year basis. Additionally, we note that comparable sales were down 21% on an owned basis and down 20.2% on an owned plus licensed basis.

Impressively, the company's digital sales surged 27% from the year-ago quarter's figure and represented 38% of total owned comparable sales.

Furthermore, gross margin expanded 12 percentage points to 35.6% on a sequential basis owing to improved inventory management, better sell through of full price and clearance merchandise as well as reduced clearance markdowns.

Macy's reported adjusted EBITDA of \$159 million. The company had reported adjusted EBITDA of \$325 million in the year-ago quarter. Management stated that the company was able to achieve positive EBITDA earlier than expected.

Notably, SG&A expense declined 21.6% year over year to \$1,726 million, thanks to improved expense management and better colleague productivity in stores. As a percentage of net sales, SG&A expense expanded 70 basis points to 43.3% compared with the prior-year quarter.

Other Financial Aspects

Macy's had cash and cash equivalents of \$1,551 million as of Oct 31, 2020. Inventory declined 29% from a year ago, allowing the company to exit the quarter in a clean inventory position. The company concluded the quarter with about \$3 billion of untapped capacity in the new asset-based credit facility. Long-term debt and shareholders' equity were \$4,852 million and \$2,243 million, respectively, as of Oct 31, 2020.

Quarter Ending	10/2020
Report Date	Nov 19, 2020
Sales Surprise	3.54%
EPS Surprise	76.54%
Quarterly EPS	-0.19
Annual EPS (TTM)	-0.91

Recent News

Macy's Collaborating With Culpo Sisters – Oct 27, 2020

Macy's is collaborating with the Culpo sisters on an exclusive ready-to-wear collection, Culpos X INC International Concepts.

Macy's Undertakes Efforts to Make Shopping Convenient – Oct 6, 2020

Macy's has come up with a host of initiatives to deliver customers a seamless shopping experience this holiday season. Macy's recent actions include its collaboration with Swedish buy now, pay later group Klarna, enabling the company to offer shoppers financial ease and payment flexibility with their online purchases. Here, shoppers can choose to pay in four equal and interest-free installments at the online checkout. The company also informed about its tie-up with DoorDash for expediting delivery service. This collaboration will enable the retailer offer on-demand and same-day delivery service at roughly 500 Macy's stores throughout the nation. This is powered through the Drive – DoorDash's white-label fulfillment platform, which is committed to direct business delivery. Shoppers can avail the same-day delivery via macys.com and its mobile app.

Valuation

Macy's shares are down 32% in the year-to-date period and 23.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 32.7% but the Zacks Retail-Wholesale sector is up 35.1%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 27.3% but the sector is up 39.7%.

The S&P 500 index is up 15.5% in the year-to-date period and 19% in the past year.

The stock is currently trading at 0.17X forward 12-month sales, which compares to 0.26X for the Zacks sub-industry, 1.29X for the Zacks sector and 4.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.54X and as low as 0.06X, with a 5-year median of 0.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 0.19X forward 12-month sales.

The table below shows summary valuation data for M

Valuation Multiples - M					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.17	0.26	1.29	4.18
	5-Year High	0.54	0.58	1.33	4.3
	5-Year Low	0.06	0.11	0.84	3.17
	5-Year Median	0.32	0.42	1.01	3.67
P/B TTM	Current	1.52	1.6	5.28	6.07
	5-Year High	3.62	2.91	6.48	6.17
	5-Year Low	0.21	0.34	3.87	3.74
	5-Year Median	1.59	1.92	5.09	4.91
EV/EBITDA TTM	Current	45.88	15.75	19.14	16.2
	5-Year High	45.88	15.75	20.77	16.2
	5-Year Low	2.11	2.22	11.17	9.54
	5-Year Median	5.44	5.31	13.08	13.12

As of 11/25/2020

Source: Zacks Investment Research

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



Top Peers

Company (Ticker)	Rec	Rank
Target Corporation (TGT)	Outperform	2
Big Lots, Inc. (BIG)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dillards, Inc. (DDS)	Neutral	3
Dollar General Corporation (DG)	Neutral	2
J. C. Penney Company, Inc. (JCPNQ)	Neutral	NA
Kohls Corporation (KSS)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

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

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	M	X Industry	S&P 500	DDS	JCPNQ	KSS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3		3
VGM Score	A	-	-	A	-	A
Market Cap	3.41 B	3.41 B	26.28 B	1.07 B	42.40 M	5.28 B
# of Analysts	7	5.5	14	2	0	9
Dividend Yield	0.00%	0.00%	1.48%	1.26%	0.00%	0.00%
Value Score	B	-	-	A	-	A
Cash/Price	0.55	0.49	0.07	0.06	36.16	0.43
EV/EBITDA	3.50	3.53	14.65	3.89	-2.52	3.55
PEG F1	NA	NA	2.76	NA	NA	NA
P/B	1.52	1.31	3.57	0.77	NA	1.09
P/CF	1.80	3.11	13.72	3.57	0.15	3.11
P/E F1	NA	NA	21.80	NA	NA	NA
P/S TTM	0.18	0.21	2.83	0.23	0.00	0.32
Earnings Yield	-26.55%	-17.47%	4.40%	-8.40%	-1,076.92%	-8.10%
Debt/Equity	2.16	0.60	0.70	0.41	0.00	0.80
Cash Flow (\$/share)	6.12	6.12	6.93	13.37	0.90	10.77
Growth Score	B	-	-	A	NA	C
Historical EPS Growth (3-5 Years)	-12.28%	-4.51%	9.72%	-4.51%	NA	-0.99%
Projected EPS Growth (F1/F0)	-200.30%	-181.18%	0.45%	-196.04%	-75.00%	-155.83%
Current Cash Flow Growth	-15.88%	-10.84%	5.23%	-16.01%	10.38%	-10.84%
Historical Cash Flow Growth (3-5 Years)	-6.32%	-3.55%	8.33%	-10.66%	28.85%	-0.78%
Current Ratio	1.11	1.41	1.38	1.72	1.22	1.60
Debt/Capital	68.39%	36.70%	41.99%	29.07%	0.00%	44.33%
Net Margin	-19.91%	-6.60%	10.44%	-1.51%	-11.68%	-1.45%
Return on Equity	-8.21%	-6.52%	14.99%	-4.82%	-108.59%	-4.50%
Sales/Assets	0.99	1.06	0.50	1.43	1.04	1.09
Projected Sales Growth (F1/F0)	-30.20%	-19.68%	0.23%	-29.24%	0.00%	-19.68%
Momentum Score	A	-	-	A	-	B
Daily Price Change	1.29%	-0.06%	-0.56%	0.70%	-8.94%	-0.12%
1-Week Price Change	22.96%	-2.15%	0.21%	-2.58%	-29.43%	17.11%
4-Week Price Change	80.03%	3.86%	14.04%	5.22%	-10.61%	58.08%
12-Week Price Change	56.03%	30.58%	8.89%	55.44%	-30.81%	57.78%
52-Week Price Change	-28.94%	-32.57%	5.87%	-34.36%	-88.16%	-30.77%
20-Day Average Volume (Shares)	36,073,132	5,901,294	2,256,422	295,639	21,670,950	11,506,949
EPS F1 Estimate 1-Week Change	23.25%	0.41%	0.00%	0.00%	0.00%	0.81%
EPS F1 Estimate 4-Week Change	24.05%	21.38%	1.00%	39.04%	0.00%	18.71%
EPS F1 Estimate 12-Week Change	35.92%	35.58%	3.64%	35.25%	38.05%	18.57%
EPS Q1 Estimate Monthly Change	155.39%	62.09%	0.00%	62.09%	NA	55.79%

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	B
Growth Score	B
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

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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