

NIKE, Inc. (NKE)

\$144.94 (As of 03/15/21)

Price Target (6-12 Months): **\$154.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/23/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

Summary

Shares of NIKE have outpaced the industry in the past year. It received a boost following the solid second-quarter fiscal 2021 results, with both top and earnings improving year over year. Results gained from strength in the digital business across all regions. Digital sales for the NIKE brand improved double digits across EMEA, Greater China and APLA along with triple-digit growth in North America. Moreover, it started the holiday season on a strong note with record online sales during the Black Friday week. Management expects sequential growth during the fiscal third quarter. However, it is witnessing lower revenues at the wholesale business and NIKE-owned stores. Higher restructuring costs and continued investments in digital capabilities also acted as headwinds. SG&A expenses are envisioned to grow in low-single digit in fiscal 2021.

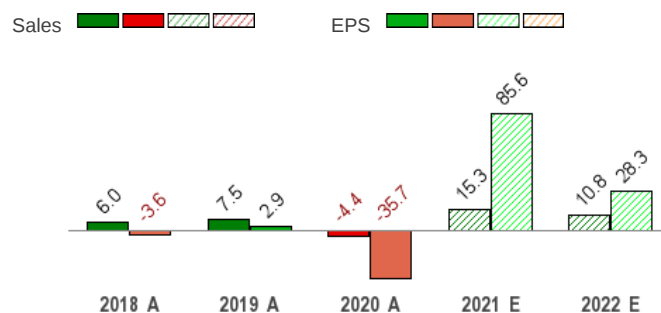
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$147.95 - \$60.00
20-Day Average Volume (Shares)	5,783,906
Market Cap	\$221.4 B
Year-To-Date Price Change	-0.7%
Beta	0.86
Dividend / Dividend Yield	\$1.10 / 0.8%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 39% (154 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.8%
Last Sales Surprise	6.5%
EPS F1 Estimate 4-Week Change	0.2%
Expected Report Date	03/18/2021
Earnings ESP	0.0%
P/E TTM	70.2
P/E F1	49.0
PEG F1	3.8
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	12,211 E	12,441 E	11,997 E	11,327 E	47,778 E
2021	10,594 A	11,243 A	10,951 E	10,256 E	43,121 E
2020	10,660 A	10,326 A	10,104 A	6,313 A	37,403 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.16 E	\$1.01 E	\$0.97 E	\$0.67 E	\$3.81 E
2021	\$0.95 A	\$0.78 A	\$0.75 E	\$0.50 E	\$2.97 E
2020	\$0.86 A	\$0.70 A	\$0.78 A	-\$0.51 A	\$1.60 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 03/15/2021. The report's text and the analyst-provided price target are as of 03/16/2021.

Overview

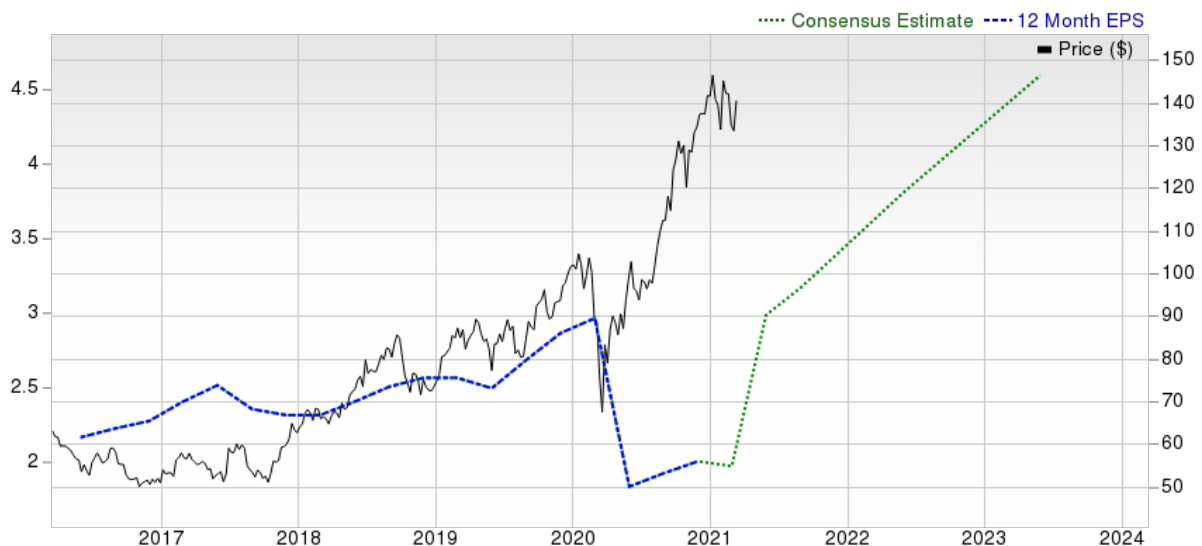
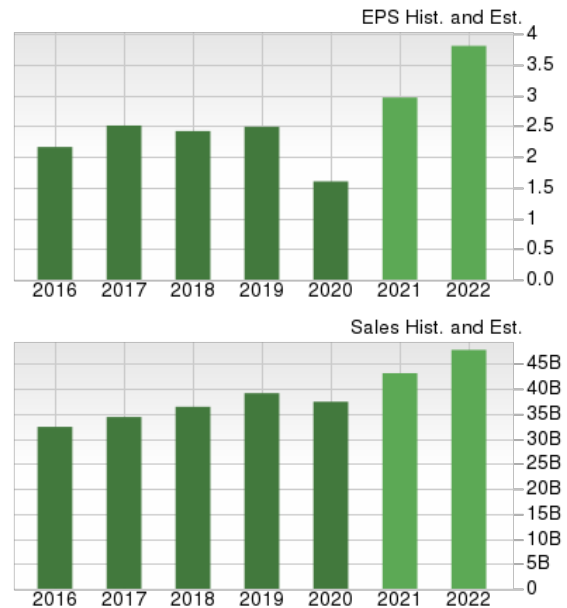
Headquartered in Beaverton, OR, NIKE Inc. was incorporated in 1967. The company is engaged in the business of designing, developing and marketing of athletic footwear, apparel, equipment and accessories, and services for men, women and children worldwide. With the help of a strong brand portfolio, including Nike Pro, Nike Golf, Nike+ and Air Jordan, it offers premium, well-designed and high-quality products, in line with the latest customer trends. NIKE is the global leader in athletic footwear, apparel, equipment and sports-related accessories, with operations in over 160 countries.

Nike's "swoosh" logo and "just do it" tagline are widely recognized across the world, while its association with celebrity sportspersons, such as Michael Jordan and Roger Federer as well as top professional and college teams ensures a strong brand recall in the key U.S., U.K., Japanese and Chinese markets.

The company's products include six key categories: running, NIKE basketball, the Jordan brand, football, training and sportswear (sports-inspired lifestyle products). It also offers products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, lacrosse, skateboarding, tennis, volleyball, wrestling, walking and outdoor activities.

The company sells its products to footwear stores; sporting goods stores; athletic specialty stores; department stores; skate, tennis, and golf shops; and other retail accounts through NIKE owned retail stores, digital platforms (known as "NIKE Direct"), independent distributors, licensees, and sales representatives. With the help of its retail stores in the U.S. and abroad, Nike sells its products to more than 23,000 retail accounts in the U.S. and over 24,000 retail accounts outside the U.S. to reach a wide array of customers.

Nike currently reports its operating results under 2 segments, namely NIKE Brand segment and Converse. NIKE Brand is now divided into four divisions, primarily on a geographical basis: North America, Europe, Middle East and Africa (EMEA), Greater China, and Asia Pacific and Latin America (APLA).



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Robust Q2 Results:** NIKE's shares have gained 107.5% in the past year compared with industry's growth of 102%. The stock received an up thrust as the company posted better-than-expected second-quarter fiscal 2021 results, wherein both top and bottom lines improved year over year. Results gained from robust growth in the digital business despite soft retail traffic and wholesale revenues. Moreover, revenues grew 9% and 7% on a reported basis and currency-neutral basis, respectively. The company also highlighted that the holiday season started on a strong note with record online sales during the Black Friday week. Moving on, it remains poised to gain from consumers' increasing preference for digital, athletic wear, and health and wellness. Notably, revenues in NIKE Brand grew 9% and 8% on a reported basis and constant-dollar basis, respectively, on the back of strength in Sportswear and the Jordan Brand. Driven by such impressive second-quarter results, management anticipates sequential growth during the fiscal third quarter. Also, gross margin is likely to remain flat during the fiscal third quarter. For fiscal 2021, it anticipates gross margin to expand up to 50 bps year over year, inclusive of currency headwinds to the tune of 35 bps.
- ▲ **Digital Business Plays Key Role:** Amid the coronavirus crisis, digital portals quickly gained prominence, becoming the primary channel to engage and serve customers. NIKE benefited from this shift as it was well-positioned to respond, thanks to its efficient digital ecosystem that comprises of its online site as well as commercial and activity apps. Consequently, loss of sales at NIKE-owned stores was partly compensated by robust digital sales across all regions. In the fiscal second quarter, NIKE Direct sales increased 32% on a reported basis and 30% on a currency-neutral basis, driven by double-digit growth in JD Sports and Zalando. Meanwhile, digital sales for the NIKE Brand were up 84% on a reported basis and 80% on a currency-neutral basis. Digital sales for the brand were mainly aided by double-digit growth across EMEA, Greater China and APLA along with triple-digit growth in North America. The company believes the digital acceleration reflects a strategic shift towards a new future marketplace, rather than being a temporary solution to the coronavirus-related challenges in physical markets. Even as stores reopen, the company continues to witness strong digital trends, which demonstrates the strength of its brands and investments made over the past several years to improve digital consumer experiences.
- ▲ **Financials Look Strong:** NIKE ended second-quarter fiscal 2021 with strong liquidity of \$15.8 billion, which included cash and short-term investments of \$11.8 billion, up \$8.3 billion from the last year. These included proceeds from the corporate bonds issued in March and strong free cash flow. Additionally, liquidity included committed credit facilities, which remain undrawn. The company's cash position remains sufficient to meet the current debt of \$41 billion as of Nov 30.
- ▲ **Sustained Shareholder Returns:** NIKE has time and again testified its commitment to enhancing its shareholder value, aided by its strong financial position. Over the past 14 years, the company has distributed regular dividends and made share repurchases to improve shareholder returns. NIKE temporarily suspended share-repurchase activity in March to preserve liquidity amid the pandemic. Prior to the suspension, it repurchased 45.2 million shares for nearly \$4 billion. Consequently, it had a share repurchasing capacity of \$11 billion remaining under the current program. However, the company paid out dividends worth \$385 million in the fiscal second quarter. Notably, NIKE has a dividend payout ratio of 67.3%, annualized dividend yield of 0.9% and free cash flow yield of 1.6%. The company's annual free cash flow return on investment of 21.13%, stands above the industry's ratio of 12.83%, which indicates that the dividend payment is sustainable.

Even as stores reopen, NIKE witnesses strong digital trends, which demonstrates the strength of its brands and investments made over the past several years to improve digital consumer experiences.

Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering the price-to-earnings (P/E) ratio, NIKE looks overvalued compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 67.77x, which is above the median level of 59.03x and below the high level of 73.53x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 64.82x for the industry and 28.55x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Soft Traffic Trends, A Worry:** Although the top line benefited from robust digital sales, lower revenues at the wholesale business and NIKE-owned stores acted as deterrents. Notably, the company reopened more than 90% of its stores with a few of them operating for limited hours. Despite the store reopening, the company is witnessing year-over-year declines in retail traffic in North America, EMEA and APLA due to the COVID-19 outbreak and related safety measures. This is, however, partly negated by increased conversion rates at stores.
- ▼ **Converse Disappoints:** Despite the solid top line in the fiscal second quarter, the Converse brand witnessed a revenue decline of 1% to \$476 million. On a currency-neutral basis, revenues of the segment fell 4% due to weakness in Europe and North America stemming from tighter supply and strategic distribution shifts, which more than offset strong demand in Asia and solid global digital growth.
- ▼ **Rising Costs Concerns:** Although NIKE's selling and administrative (SG&A) expenses declined 2% in the third quarter of fiscal 2021 driven by tight operating expense management as well as effective marketing spending on brand and sports events, operating overhead expenses were up 4% year over year due to higher restructuring costs and continued investments in digital capabilities. In fiscal 2021, SG&A expenses are envisioned to grow in low-single digit due to a rise in variable costs. The fiscal guidance also includes roughly \$315-million costs related to restructuring actions, out of which \$220 million has already been incurred in the first half of fiscal 2021.

NIKE's is reeling under soft retail traffic and wholesale revenues stemming from the pandemic. Also, it is likely to witness elevated expenses and unfavorable currency impact in fiscal 2021.

Last Earnings Report

NIKE Beats Q2 Earnings & Revenue Estimates, Upbeat FY21 View

Nike posted better-than-expected second-quarter fiscal 2021 results, wherein both top and bottom lines improved year over year. Results gained from robust growth in the digital business despite soft retail traffic and wholesale revenues. The company also noted that its holiday season went well with record online sales during the Black Friday week. Moving on, it remains poised to gain from consumers' increasing preference for digital, athletic wear, and health and wellness.

Further, management launched SNKRS live during the reported quarter, which led to a 100% sell-through of the Air Jordan 4 PSG in less than two minutes. The live streaming service, which is now available in North America and EMEA, is expected to be introduced in Japan soon. Apart from these, NIKE opened two Nike Live and six Nike Unite stores and intends to open 30 more in the second half of fiscal 2021.

Despite the uncertainty regarding the impacts of the coronavirus outbreak, the company updated its guidance for fiscal 2021 based on the impressive second-quarter results. NIKE is likely to witness growth on a sequential basis with gross margin remaining flat during the fiscal third quarter. For fiscal 2021, it anticipates gross margin to expand up to 50 basis points (bps) year over year, inclusive of currency headwinds to the tune of 35 bps. SG&A expenses are envisioned to grow in low-single digit due to a rise in variable costs. The fiscal guidance also includes roughly \$315-million costs related to restructuring actions, out of which \$220 million has already been incurred in the first half of fiscal 2021.

Q2 Highlights

In the reported quarter, the company's earnings per share of 78 cents rose 11% from 70 cents reported the year-ago quarter and beat the Zacks Consensus Estimate of 63 cents.

Revenues of the Swoosh brand owner grew 9% to \$11,243 million and surpassed the Zacks Consensus Estimate of \$10,552 million. On a currency-neutral basis, revenues were up 7% year over year. Although the top line benefited from robust digital sales, lower revenues at the wholesale business and NIKE-owned stores acted as deterrents. Notably, the company reopened more than 90% of its stores with a few of them operating for limited hours. Despite the store reopening, the company is witnessing year-over-year declines in retail traffic in North America, EMEA and APLA due to the COVID-19 outbreak and related safety measures. This is, however, partly negated by increased conversion rates at stores.

Moreover, the top line benefited from robust digital sales across all regions. In the fiscal second quarter, NIKE Direct sales increased 32% on a reported basis and 30% on a currency-neutral basis. Meanwhile, digital sales for the NIKE Brand were up 84% on a reported basis and 80% on a currency-neutral basis. Digital sales for the brand were mainly aided by double-digit growth across EMEA, Greater China and APLA along with triple-digit growth in North America.

Operating Segments

Revenues for the **NIKE Brand** came in at \$10,741 million, up 9% and 8% on a reported basis and constant-dollar basis, respectively. Results were primarily aided by double-digit growth in NIKE Direct and growth in Sportswear and the Jordan Brand. However, declines in the wholesale business to the tune of mid-single digits somewhat offset the aforementioned gains.

Within the NIKE Brand, revenues in **North America** rose 1% each on a reported basis and currency-neutral basis. Although wholesale revenues and traffic remained drab, strength in NIKE digital contributed to quarterly growth. Notably, NIKE digital accounted for roughly 25% of sales in North America in the quarter under review.

In **EMEA**, the company's revenues improved 17% on a reported basis and 12% on a currency-neutral basis. Despite the resurgence of COVID-19 cases that led to restrictions in November, the region witnessed robust weekly sales growth and a rise in full-price realization. Moreover, NIKE Direct grew 25% at constant-dollar basis and wholesale rose 6% on a reported basis on the back of double-digit growth in JD Sports and Zalando. Also, NIKE digital surged almost 100% as Cyber Week recorded sales growth and customer engagement. Apart from these, strong progress on Express Lane offense drove revenues to the tune of more than 30% year over year.

In **Greater China**, revenues increased 24% year over year (up 19% on a currency-neutral basis) in the fiscal second quarter. Sales in this region gained from solid performance in Singles' Day with more than 0.5 billion in online demand. Keeping in these lines, the company introduced robot delivery and green packaging to attract more customers. Also, all orders were shipped within 48 hours and delivered the next day or the same day.

In **APLA**, NIKE revenues remained flat year over year (up 5% on a currency-neutral basis) due to varied COVID-19 impacts across countries in the region. Digital sales in the region improved more than 90%, led by an expanded base stemming from strategic partnerships in Mexico, Japan and Southeast Asia as well as the launch of Nike.com in Mexico. Moreover, management in collaboration with Grupo SBF successfully concluded the transition of its business in Brazil. Also, both companies have announced the termination of the sale of NIKE's Argentina, Chile and Uruguay businesses.

Revenues at the **Converse** brand edged down 1% to \$476 million. On a currency-neutral basis, revenues of the segment fell 4% due to weakness in Europe and North America stemming from tighter supply and strategic distribution shifts, which more than offset strong demand in Asia and solid global digital growth.

Costs & Margins

Gross profit advanced 7% year over year to \$4,847 million, while gross margin contracted 90 basis points (bps) to 43.1%. The decline was mainly

Quarter Ending	11/2020
Report Date	Dec 18, 2020
Sales Surprise	6.54%
EPS Surprise	23.81%
Quarterly EPS	0.78
Annual EPS (TTM)	2.00

attributed to higher promotions to reduce excess inventory across the marketplace and increased restructuring costs, all mostly related to the impacts of the pandemic. This was partly offset by favorable product margins.

Selling and administrative expenses declined 2% to \$3,267 million, driven by tight operating expense management as well as effective marketing spending on brand and sports events. Further, the company continues to invest in digital business and transformation. As a percentage of sales, SG&A expenses contracted 310 bps to 29.1%.

Notably, demand-creation expenses declined 17% year over year to \$729 million due to lower marketing spend, offset by continued investments in the digital business to support increased demand. Operating overhead expenses were up 4% to \$2,538 million, reflecting higher restructuring costs and continued investments in digital capabilities, partially offset by restrained capital spending.

Balance Sheet & Shareholder-Friendly Moves

NIKE ended second-quarter fiscal 2021 with strong liquidity of \$15.8 billion, which included cash and short-term investments of \$11.8 billion, up \$8.3 billion from the last year. These included proceeds from the corporate bonds issued in March and strong free cash flow. Additionally, liquidity included committed credit facilities, which remain undrawn.

Moreover, it had a long-term debt (excluding current maturities) of \$9,410 million and shareholders' equity of \$10,640 million as of the end of the fiscal second quarter. As of Nov 30, 2020, inventories fell 2% year over year to \$6,090 million.

NIKE temporarily suspended share-repurchase activities in March to preserve liquidity amid the pandemic. Prior to the suspension, it repurchased 45.2 million shares for nearly \$4 billion. Consequently, it had a share repurchasing capacity of \$11 billion remaining under the current program. However, the company paid out dividends worth \$385 million in the fiscal second quarter.

Recent News

NIKE Declares Quarterly Dividend – Feb 12, 2021

NIKE declared quarterly cash dividend of 27.5 cents per share on Class A and Class B shares. The dividend is payable on Apr 1 to shareholders with record as on Mar 1.

Valuation

NIKE shares are up 2.4% in the year to date period and nearly 107.5% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 0.5% and 8.9%, respectively, in the year to date period. Over the past year, the Zacks sub-industry and the sector are up 102% and 83.6%, respectively.

The S&P 500 index is up 5.4% in the year to date period and 58.2% in the past year.

The stock is currently trading at 39.96X forward 12-month earnings, which compares to 34.98X for the Zacks sub-industry, 35.31X for the Zacks sector and 22.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.27X and as low as 19.92X, with a 5-year median of 27.04X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$154 price target reflects 42.46X forward 12-month earnings.

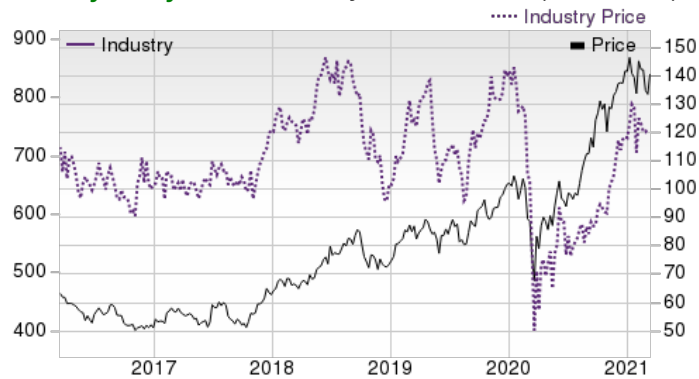
The table below shows summary valuation data for NKE

Valuation Multiples - NKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	39.96	34.98	35.31	22.48
	5-Year High	48.27	36.55	35.41	23.8
	5-Year Low	19.92	18.66	16.26	15.3
	5-Year Median	27.04	23.89	20.27	17.9
P/S F12M	Current	4.89	4.31	3.09	4.56
	5-Year High	5.06	4.31	3.09	4.56
	5-Year Low	2.21	2.03	1.72	3.21
	5-Year Median	2.97	2.69	2.51	3.69
EV/EBITDA TTM	Current	42.52	38.33	14.91	17.53
	5-Year High	43.44	39.83	17.96	17.53
	5-Year Low	14.1	12.77	8.31	9.62
	5-Year Median	18.15	16.51	12.29	13.33

As of 03/15/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Deckers Outdoor Corporation (DECK)	Outperform	2
Adidas AG (ADDYY)	Neutral	4
Columbia Sportswear Company (COLM)	Neutral	3
lululemon athletica inc. (LULU)	Neutral	3
Steven Madden, Ltd. (SHOO)	Neutral	3
Skechers U.S.A., Inc. (SKX)	Neutral	4
Under Armour, Inc. (UAA)	Neutral	3
V.F. Corporation (VFC)	Neutral	3

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

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	NKE	X Industry	S&P 500	ADDYY	SKX	UAA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	4	3
VGM Score	D	-	-	F	A	B
Market Cap	221.42 B	2.21 B	28.65 B	70.59 B	6.19 B	10.64 B
# of Analysts	13	4	13	7	5	14
Dividend Yield	0.78%	0.00%	1.38%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	A	C
Cash/Price	0.05	0.13	0.06	0.05	0.24	0.14
EV/EBITDA	55.21	12.25	16.24	15.36	18.52	-39.14
PEG F1	3.76	1.81	2.38	6.28	NA	5.13
P/B	20.81	2.47	3.92	8.89	2.23	6.35
P/CF	55.68	23.04	16.36	19.53	26.55	193.58
P/E F1	48.97	21.75	21.26	37.93	19.94	128.36
P/S TTM	5.79	1.28	3.30	3.10	1.35	2.38
Earnings Yield	2.11%	4.63%	4.59%	2.64%	5.02%	0.77%
Debt/Equity	0.88	0.31	0.67	0.38	0.25	0.60
Cash Flow (\$/share)	2.60	2.46	6.78	8.95	1.58	0.13
Growth Score	C	-	-	F	B	A
Historical EPS Growth (3-5 Years)	0.26%	-5.58%	9.32%	-11.97%	-7.76%	-20.02%
Projected EPS Growth (F1/F0)	85.00%	87.46%	14.55%	286.07%	207.50%	170.05%
Current Cash Flow Growth	-14.59%	-15.03%	0.72%	36.19%	-46.76%	-83.39%
Historical Cash Flow Growth (3-5 Years)	0.67%	0.80%	7.32%	23.10%	-3.21%	-29.79%
Current Ratio	2.66	2.34	1.39	1.39	2.76	2.28
Debt/Capital	46.93%	27.29%	41.42%	27.61%	19.95%	37.45%
Net Margin	7.39%	-1.23%	10.59%	2.29%	2.14%	-12.27%
Return on Equity	34.89%	6.69%	14.65%	6.69%	4.30%	-7.85%
Sales/Assets	1.22	0.97	0.51	0.97	0.82	0.91
Projected Sales Growth (F1/F0)	14.86%	13.50%	6.95%	13.57%	19.59%	9.82%
Momentum Score	C	-	-	F	C	D
Daily Price Change	3.20%	2.22%	0.92%	-2.96%	6.68%	3.51%
1-Week Price Change	5.32%	7.13%	2.96%	10.17%	6.14%	3.18%
4-Week Price Change	1.98%	6.20%	4.69%	-1.30%	13.38%	8.18%
12-Week Price Change	0.64%	15.81%	10.09%	-1.60%	14.31%	39.48%
52-Week Price Change	117.01%	97.41%	74.12%	85.10%	97.41%	163.04%
20-Day Average Volume (Shares)	5,783,906	58,632	2,323,115	115,096	1,136,927	5,517,546
EPS F1 Estimate 1-Week Change	0.21%	0.00%	0.00%	-5.72%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.21%	0.00%	0.00%	-7.42%	0.00%	-2.70%
EPS F1 Estimate 12-Week Change	4.20%	0.10%	2.09%	-7.93%	-9.03%	13.39%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	-18.92%	0.00%	-5.29%

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	F
Growth Score	C
Momentum Score	C
VGM Score	D

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

Disclosures

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

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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