

Childrens Place, Inc. (PLCE)

\$74.23 (As of 01/26/21)

Price Target (6-12 Months): **\$80.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: B

Summary

Shares of Children's Place have risen and outpaced the industry in the past three months. Management has been on track with growth efforts like digital transformation, augmenting supply chain and improving financial flexibility. As a result, the company swung back to profit in third-quarter fiscal 2020 with both top and bottom lines cruising past the Zacks Consensus Estimate. Speaking of digital efforts, the company's investments to boost omni-channel capabilities have been helping to meet rising online demand. Markedly, digital sales accounted for 44% of the top line during the third quarter. Moreover, to improve liquidity, the company is on track with actions such as curtailing non-essential expenses and managing inventory. The company also focuses on optimizing its store base, so as to lower dependency on brick-and-mortar platform.

Price, Consensus & Surprise

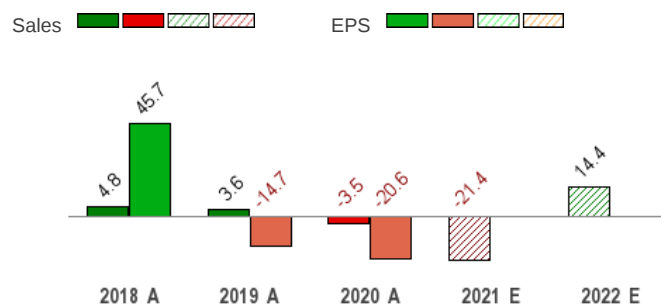


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$72.99 - \$9.25
20-Day Average Volume (Shares)	650,598
Market Cap	\$1.0 B
Year-To-Date Price Change	42.8%
Beta	2.27
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 36% (92 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	182.4%
Last Sales Surprise	5.7%
EPS F1 Estimate 4-Week Change	3.3%
Expected Report Date	03/16/2021
Earnings ESP	-29.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	325 E	397 E	495 E	460 E	1,682 E
2021	255 A	369 A	426 A	420 E	1,470 E
2020	412 A	420 A	525 A	513 A	1,871 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.59 E	-\$0.25 E	\$2.66 E	\$1.39 E	\$3.23 E
2021	-\$1.96 A	-\$1.48 A	\$1.44 A	-\$0.23 E	-\$2.41 E
2020	\$0.36 A	\$0.19 A	\$3.03 A	\$1.85 A	\$5.36 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/26/2021. The reports text is as of 01/27/2021.

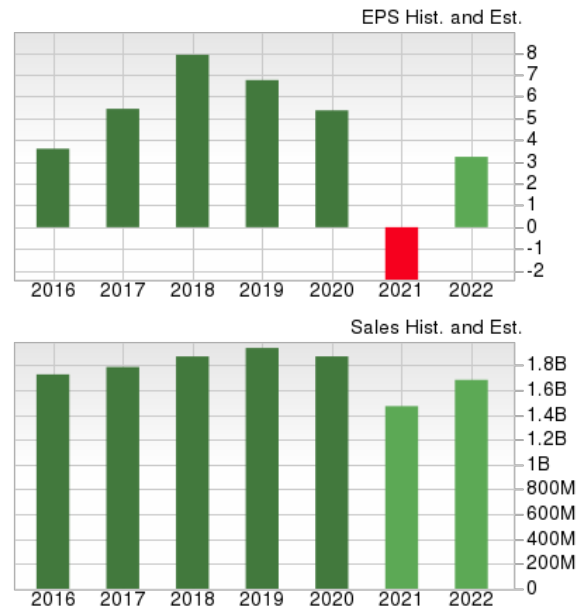
Overview

The Children's Place, Inc. is the largest pure-play children's specialty apparel retailer in North America. Based in Secaucus, NJ, the company sells apparel, footwear, accessories and other items for children; and designs, contracts to manufacture, and sells merchandise under the brand names "The Children's Place", "Place", "Baby Place", and "Gymboree."

Gymboree is an iconic children's apparel brand offering colorful, playful, bow-toe children's clothing collections that celebrate childhood and help families look their best for any occasion. On April 4, 2019, the company completed the acquisition of certain intellectual property and related assets (the "Gymboree Assets") of Gymboree Group, Inc. and related entities. The company relaunched the iconic Gymboree brand in February 2020 with a meaningfully improved digital experience on www.gymboree.com, complimented by shop-in-shop locations in over 200 co-branded stores in the U.S. and Canada.

Notably, international and wholesale expansion continue to represent meaningful long-term revenue opportunities for the company. Also, the company has been making investments to upgrade its omni-channel capabilities as part of its digital transformation strategy. We note that the company has one of the highest digital penetrations in the industry — accounting for 31% of revenues for fiscal 2019.

As of Oct 31, 2020, the company had 809 stores across the United States, Canada and Puerto Rico as well as the e-commerce business at www.childrensplace.com and www.gymboree.com. The company also had 252 international points of distribution in 19 countries, open and operated by eight franchise partners.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Strategic Initiatives:** Children's Place is leaving no stone unturned to improve its top-line performance and expand customer base. Management remains committed to address the challenges related to the pandemic. In this respect, the company is accelerating fleet optimization initiative, directing resources toward digital platforms in order to better engage with customers, augmenting supply chain and concentrating on improving financial flexibility. It is also focusing on "Superior Product" strategy to resonate well with millennial customers and advancing omni-channel capabilities. The company believes that significant participation in loyalty program and private label credit card program increases customer engagement. The successful execution of aforementioned endeavors is likely to drive operating margin expansion and enhance shareholder value. Markedly, shares of Children's Place have increased 178.5% in the past three months compared with the industry's rally of 64.6%.

Children's Place is accelerating fleet optimization initiative, directing resources toward digital platforms to better engage with customers, augmenting supply chain and concentrating on improving financial flexibility.

▲ **Tapping Opportunities:** The company has been taking steps not only to gain traction in the U.S. market but also expand globally. This is evident from its license agreement with Zhejiang Semir Garment Co. Ltd ("Semir") for the Greater China market, which covers Mainland China, Taiwan, Hong Kong and Macau. Semir is the parent company of Balabala, one of the prominent names in China's specialty children's apparel retail industry. Additionally, in order to consolidate its position in the children's apparel market, the company took a wise decision to acquire Gymboree, following the latter's bankruptcy. It entered into an Asset Purchase Agreement with Gymboree Group, Inc. and related entities to buy intellectual property assets of Gymboree and Crazy 8 (the "Gymboree Assets") for \$76 million. The company relaunched Gymboree products at its stores and online in February 2020.

▲ **Efforts to Mitigate COVID-19 Impact:** Children's Place has been undertaken several measures to mitigate the impact of COVID-19 and preserve its financial liquidity. The company has been focusing on curtailing non-essential expenses, managing inventory, extending vendor payment terms, reduction in forward inventory receipts and analyzing capital expenditures. The company incurred capital expenditures of approximately \$9 million during third-quarter fiscal 2020, and plans to spend roughly \$25-\$30 million in the current fiscal year, down from \$58 million in fiscal 2019. Also, the company has no plans to liquidate back-to-school and basics products, and will carry the inventory to support back-to-school demand whenever schools can safely re-open for in-person learning. Further, the company amended its bank credit facility in April 2020, increasing borrowing capacity by \$35 million from \$325 million to \$360 million and closed a term loan financing in October 2020 to provide \$80 million of additional liquidity. The company has also temporarily suspended its capital return program that includes share repurchases and dividends.

▲ **Digital Endeavors:** Children's Place has been making investments to upgrade its omni-channel capabilities as a part of its Digital Transformation strategy. Management notified that the company has one of the highest digital penetrations in the industry — accounting for 31% of revenues for fiscal 2019 and approximately 55% of sales for year-to-date fiscal 2020. The company had earlier informed that to help fulfill its surging online demand amid the pandemic, it enabled ship-from-store capabilities in roughly 85% of its U.S. stores, which more than doubled its daily shipping capacity. Impressively, the company's digital sales accounted for 44% of third-quarter fiscal 2020 sales. Quite apparent, the company's \$50 million digital transformation investment to enhance omni-channel capabilities in order to meet online demand is reaping benefits. Management highlighted that since the temporary store closures in March, the company has increased new digital customers versus last year by about 100% and converted more than 800,000 store-only customers to omni-channel customers. Furthermore, the company's app downloads have risen over 60%.

The lingering impact of COVID-19 will continue to accelerate the shift to digital. The company has launched a completely redesigned responsive site and mobile app for The Children's Place and Gymboree brands. It continued to develop state-of-the-art loyalty, pricing and promotional systems to facilitate the delivery of real time customer personalization in whatever channel customer select. Notably, the company has rolled out "BOPIS" (Buy Online, Pick Up in Store), Save the Sales and Ship from Store, mobile POS in its stores. Further, it launched SMS texting capabilities and implemented everyday free shipping with no minimum purchase. It has also rolled out "BOSS" (Buy Online, Ship to Store), the response of which appears to be encouraging.

▲ **Fleet Optimization:** Children's Place Store Fleet Optimization strategy focuses on striking the right balance between digital and physical stores. With regards to the strategy, the company plans to close an additional 300 stores by the end of fiscal 2021. Of these, 200 closures are planned for this year and remaining for fiscal 2021. We note that the company has permanently closed 118 stores in the first nine months of the current fiscal year. Since the announcement of fleet optimization initiative in 2013, the company has closed 389 stores. These store closures are seen as part of the company's effort to lower dependency on brick-and-mortar platform and shift toward digitization due to the changing consumer shopping pattern. The company is aiming mall-based, brick-and-mortar portfolio to represent less than 25% of revenues entering fiscal 2022. During the third quarter of fiscal 2020, the company permanently closed 16 outlets. Notably, the company ended the quarter with 809 stores. The company's international franchise partners had 252 international points of distribution in 19 countries as of Oct 31. The company is targeting 625 store locations by the end of fiscal 2021.

Risks

- **Top & Bottom Lines Continue to Decline Y/Y:** Although Children's Place reported better-than-expected third-quarter fiscal 2020 results, the top and the bottom lines continued to decline year over year. Net sales of \$425.6 million tumbled 19% year over year due to the pandemic-led temporary and permanent store closures, along with lower back-to-school sales as a result of the adoption of remote and hybrid learning practices amid social distancing. We note that the company has permanently closed 151 stores over the past 12 months. The company's adjusted earnings of \$1.44 per share came below the adjusted earnings of \$3.03 reported in the year-ago period. Reduced net sales and elevated interest expenses can be accountable for the earnings decline.
 - **Near-Term Headwinds:** The company expects sales and profitability to remain under pressure in the fourth quarter of fiscal 2020 due to several challenges associated with coronavirus. These include lower demand for dress-up products, a major decline in store traffic, social distancing measures, reduced operating hours at malls and recent countrywide surges in coronavirus cases, which in turn have resulted in more temporary store closures. Apart from this, fourth-quarter sales and margins are likely to bear the brunt of capacity constraints in the domestic logistics network stemming from unprecedented level of expected online demand and the associated freight surcharges levied by the company's major carriers. The company highlighted that the fourth quarter is likely to represent historically low demand for dress-up product, thanks to the ongoing pandemic that resulted in the cancellation of almost all school related social events, including in-person holiday parties, parades and concerts, combined with the holiday season that provides for limited socializing through strict social distancing requirements, limited family gatherings and mandated cancellations of large in-person social events. Management expects sales in the fourth quarter to be at or a little lower than the third-quarter level.
 - **Gross Margin Contraction a Concern:** Gross margin is one of the important financial metrics that helps in determining the health of the company. For third-quarter fiscal 2020 adjusted gross profit came in at \$151.7 million, down 23.4% from \$198.1 million in the year-ago period. Again, gross margin contracted 210 basis points to 35.7% on account of elevated e-commerce penetration and increased fulfillment costs, together with fixed cost deleverage stemming from lower sales. This was somewhat compensated by increased merchandise margins in stores as well as e-commerce. Management expects gross margin in the fourth quarter to be hurt by the same hurdles as witnessed in the third quarter. Apart from this, increased freight surcharges and capacity constraints, along with store closures and associated inventory liquidation are likely to dent the gross margin by 150 basis points and 50 basis points, respectively. In the third and second quarter, gross margin had contracted 760 and 990 basis points, respectively.
 - **Deleverage in SG&A Expense:** Also, deleverage in SG&A expenses is a concern. Although adjusted SG&A expenses declined 11.2% to \$103.5 million in the third-quarter of fiscal 2020, as a percentage of net sales, the metric deleveraged 210 basis points to 24.3% mainly due to fixed cost deleverage stemming from reduced sales and increased incentive compensation accruals. In the third and second quarter, the metric had deleveraged 60 and 380 basis points, respectively. This is likely to have hurt the operating margin. We note that the company's adjusted operating income came in at \$33.3 million, down 47.5% from \$63.4 million in the year-ago period. Adjusted operating margin declined 430 basis points to 7.8%.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. 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 prefer purchasing essentials before splurging on discretionary items.
-

Last Earnings Report

Children's Place Q3 Earnings Beat, Sales Decline Y/Y

After reporting a loss in the preceding two quarters, The Children's Place, Inc. swung back to profit in the third quarter of fiscal 2020. During the quarter, both top and bottom lines cruised past the Zacks Consensus Estimate.

However, both earnings and sales declined year over year. Incidentally, revenues during the peak back-to-school season were majorly hurt by the adoption of remote and hybrid learning practices amid the pandemic. Nonetheless, sales improved post back-to-school peak as the company's offerings converted to having more casual options and as the weather became cooler. Also, Children's Place has been benefiting from solid digital sales, which have accelerated amid the pandemic.

Quarter Ending	10/2020
Report Date	Nov 19, 2020
Sales Surprise	5.69%
EPS Surprise	182.35%
Quarterly EPS	1.44
Annual EPS (TTM)	-0.15

Delving Deeper

Notably, the company's digital penetration elevated to 44% in the third quarter and it was 55% of sales in the year-to-date period. Management highlighted that since the onset of the pandemic in March, the company has seen its new digital customer count double year over year. Further, it has converted more than 800,000 of its store-only customers to omni-channel ones. Moreover, the company's app downloads have risen more than 60%.

Certainly, the solid digital engagement gives management further confidence in its accelerated store closure plans. In fact, the company's focus on digital transformation and speeding up store closures is expected to place it well for accelerated operating margin expansion in the post-pandemic period.

However, the company expects sales and profitability to remain under pressure in the fourth quarter due to several challenges associated with coronavirus. These include lower demand for dress-up products, a major decline in store traffic, social distancing measures, reduced operating hours at malls and recent countrywide surges in coronavirus cases, which in turn have resulted in more temporary store closures.

Apart from this, fourth-quarter sales and margins are likely to bear the brunt of capacity constraints in the domestic logistics network stemming from unexpected online demand and the associated freight surcharges levied by the company's major carriers. Management expects sales in the fourth quarter to be at or a little lower than the third-quarter level.

Results in Detail

Children's Place posted adjusted earnings of \$1.44 per share, significantly better than the Zacks Consensus Estimate of 51 cents. However, the bottom line declined from adjusted earnings of \$3.03 reported in the year-ago period. Reduced net sales and elevated interest expenses can be accountable for the earnings decline.

Net sales of \$425.6 million tumbled 19% year over year due to the pandemic-led temporary and permanent store closures, along with lower back-to-school sales as a result of the adoption of remote and hybrid learning practices amid social distancing. We note that the company has permanently closed 151 stores over the past 12 months. Nonetheless, the top line surpassed the Zacks Consensus Estimate of \$403 million.

Moving on, adjusted gross profit came in at \$151.7 million, down 23.4% from \$198.1 million in the year-ago period. Again, gross margin contracted 210 basis points to 35.7% on account of elevated e-commerce penetration and increased fulfillment costs, together with fixed cost deleverage stemming from lower sales. This was somewhat compensated by increased merchandise margins in stores as well as e-commerce. Management expects gross margin in the fourth quarter to be hurt by the same hurdles as witnessed in the third quarter. Apart from this, increased freight surcharges and capacity constraints, along with store closures and associated inventory liquidation are likely to dent the gross margin.

Adjusted SG&A expenses declined 11.2% to \$103.5 million in the reported quarter. However, as a percentage of net sales, the metric deleveraged 210 basis points to 24.3% mainly due to fixed cost deleverage stemming from reduced sales and increased incentive compensation accruals. This was somewhat countered by lower operating expenses resulting from actions undertaken due to the pandemic, as well as lower store costs stemming from permanent store closures. SG&A expenses are expected to be moderately lower from the year-ago level in the fourth quarter.

The company's adjusted operating income came in at \$33.3 million, down 47.5% from \$63.4 million in the year-ago period. Adjusted operating margin declined 430 basis points to 7.8%.

Store Update

As of Oct 31, the company had 99% of its stores open to the public in the United States, Canada and Puerto Rico.

With respect to its store fleet optimization strategy, Children's Place permanently shuttered 16 stores during the third quarter. Notably, the company ended the quarter with 809 stores. Since the announcement of the fleet optimization initiative in 2013, the company has closed 389 stores. Additionally, it plans to close 300 stores by the end of fiscal 2021. Of these, 200 closures are planned for fiscal 2020. We note that the company has permanently closed 118 stores in the first nine months of the current fiscal year.

These store closures are seen as part of the company's effort to lower dependency on brick-and-mortar platform and shift toward digitization due to the changing consumer shopping pattern. Entering fiscal 2022, the company targets a store fleet of roughly 625 locations and aims to have 75% of its total revenues coming from sources outside the traditional malls.

Other Financial Aspects

Children's Place ended the quarter with cash and cash equivalents of \$64.5 million, which reflects a sequential increase of 78.5%. Notably, the company had no long-term debt on its balance sheet as of Oct 31. However, the company had \$179.4 million outstanding on revolving credit facility at the end of the third quarter compared with \$250.8 million at the end of the preceding quarter.

Additionally, Children's Place concluded a term loan financing deal of \$80 million and used it to repay its existing revolving credit facility. Stockholders' equity at the end of the quarter was \$77.4 million.

The company generated roughly \$32.5 million in operating cash flow during the third quarter. It incurred capital expenditures of approximately \$9 million during the quarter.

Valuation

Children's Place shares are up 159% in the past six months and nearly 9.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 126% and 15.3%, respectively, in the past six months. Over the past year, the sub-industry and the sector are up 62.9% and 41.5%, respectively.

The S&P 500 index is up 21.9% in the past six months and 22% in the past year.

The stock is currently trading at 22.03X forward 12-month earnings, which compares to 24.76X for the Zacks sub-industry, 31.65X for the Zacks sector and 23.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.08X and as low as 2.22X, with a 5-year median of 15.32X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$80 price target reflects 25.33X forward 12-month earnings.

The table below shows summary valuation data for PLCE

Valuation Multiples - PLCE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.03	24.76	31.65	23.19
	5-Year High	45.08	89.35	34.1	23.8
	5-Year Low	2.22	8.38	19.1	15.3
	5-Year Median	15.32	14.47	23.7	17.82
P/S F12M	Current	0.61	1.18	1.38	4.58
	5-Year High	1.48	1.18	1.38	4.58
	5-Year Low	0.11	0.35	0.84	3.2
	5-Year Median	0.85	0.85	1.02	3.67
EV/EBITDA TTM	Current	7.74	28.29	19.27	17.54
	5-Year High	11.24	28.29	20.79	17.54
	5-Year Low	0.95	2.96	11.17	9.53
	5-Year Median	7.39	6.72	13.13	13.23

As of 01/26/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 36% (92 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Abercrombie & Fitch Company (ANF)	Outperform	1
Boot Barn Holdings, Inc. (BOOT)	Outperform	1
Guess, Inc. (GES)	Outperform	3
American Eagle Outfitters, Inc. (AEO)	Neutral	3
The Gap, Inc. (GPS)	Neutral	4
L Brands, Inc. (LB)	Neutral	3
Urban Outfitters, Inc. (URBN)	Neutral	4
Chicos FAS, Inc. (CHS)	Underperform	5

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

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	PLCE	X Industry	S&P 500	ANF	BOOT	CHS
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Underperform
Zacks Rank (Short Term)	1	-	-	1	1	5
VGM Score	C	-	-	B	F	D
Market Cap	1.04 B	1.02 B	27.04 B	1.52 B	1.73 B	321.38 M
# of Analysts	3	4	13	8	6	1
Dividend Yield	0.00%	0.00%	1.42%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	F	D
Cash/Price	0.07	0.18	0.06	0.54	0.02	0.56
EV/EBITDA	3.21	4.50	14.85	4.32	13.63	3.91
PEG F1	NA	4.32	2.52	NA	1.98	NA
P/B	13.49	3.24	3.88	1.77	5.23	1.32
P/CF	3.42	6.90	14.57	6.90	16.68	3.40
P/E F1	NA	30.21	20.63	NA	39.62	NA
P/S TTM	0.67	0.64	2.95	0.48	2.10	0.22
Earnings Yield	-3.37%	2.30%	4.74%	-4.55%	2.52%	-107.84%
Debt/Equity	0.99	0.16	0.70	0.40	0.30	0.61
Cash Flow (\$/share)	20.42	1.68	6.88	3.53	3.44	0.72
Growth Score	B	-	-	B	F	D
Historical EPS Growth (3-5 Years)	-7.11%	-3.92%	9.69%	11.89%	25.71%	-41.18%
Projected EPS Growth (F1/F0)	-144.90%	-45.71%	12.61%	-252.58%	-3.21%	-14,350.00%
Current Cash Flow Growth	68.79%	-0.52%	4.97%	-6.25%	76.87%	-34.05%
Historical Cash Flow Growth (3-5 Years)	19.29%	1.72%	8.07%	-5.89%	24.73%	-19.65%
Current Ratio	0.69	1.48	1.38	1.60	1.36	1.03
Debt/Capital	49.65%	24.90%	41.88%	28.57%	24.90%	38.03%
Net Margin	-7.93%	-5.50%	10.44%	-3.55%	4.93%	-19.48%
Return on Equity	-1.01%	-2.15%	15.37%	-6.61%	12.31%	-38.38%
Sales/Assets	1.32	1.03	0.50	0.95	0.92	1.02
Projected Sales Growth (F1/F0)	-21.42%	-3.86%	6.13%	-13.83%	0.59%	-32.03%
Momentum Score	B	-	-	C	A	C
Daily Price Change	-2.54%	0.00%	-0.63%	-0.12%	-4.00%	-8.21%
1-Week Price Change	12.47%	0.82%	-0.02%	0.25%	2.40%	12.37%
4-Week Price Change	42.41%	15.15%	3.06%	20.15%	36.41%	44.71%
12-Week Price Change	157.15%	35.88%	13.23%	61.20%	58.78%	100.00%
52-Week Price Change	9.24%	8.38%	8.52%	42.72%	34.03%	-38.35%
20-Day Average Volume (Shares)	650,598	234,692	1,805,457	1,592,040	670,993	2,032,646
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	5.08%	0.00%
EPS F1 Estimate 4-Week Change	3.35%	0.00%	0.15%	19.16%	19.30%	0.00%
EPS F1 Estimate 12-Week Change	18.28%	16.78%	2.10%	42.29%	32.38%	-149.74%
EPS Q1 Estimate Monthly Change	21.19%	0.00%	0.00%	26.09%	41.79%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	D
Growth Score	B
Momentum Score	B
VGM Score	C

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.