# PVH Corporation (PVH)

**$105.24** (As of 06/17/21)

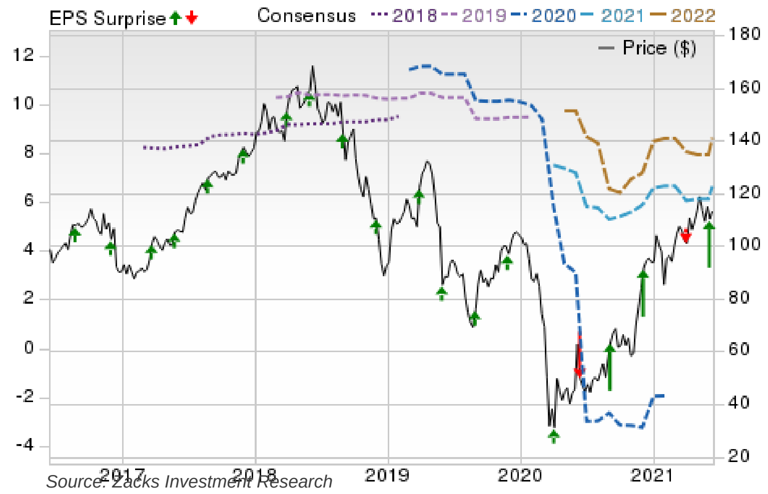
Price Target (6-12 Months): **$121.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 06/07/21) Prior Recommendation: Neutral | **Outperform** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **1-Strong Buy** |
| | Zacks Style Scores: | VGM:F |
| | Value: D \| Growth: F | Momentum: F |

## Summary

PVH Corp has outpaced the industry year to date. The stock further received a boost from its first-quarter fiscal 2021 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate and advanced year over year. Despite the pandemic-led supply-chain disruptions, results gained from brand strength, particularly in Calvin Klein and Tommy Hilfiger along with solid growth in international unit. Also, e-commerce sales momentum continued. Reduced promotions, positive sales mix and lower inventory boosted margins, which is likely to persist. Management raised its fiscal 2021 revenue and earnings view. However, the company is likely to incur operating losses of nearly $20 million related to the exit from the Heritage Brands Retail business in the first half of the fiscal year. Also, the North America unit is likely to remain drab due to a slow r

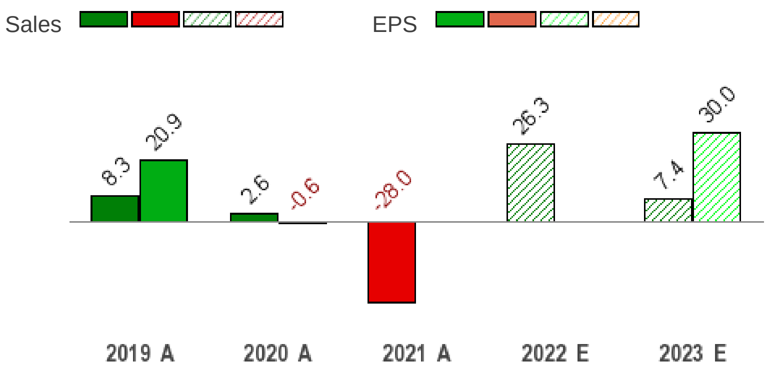
## Price, Consensus & Surprise




## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$121.18 - $41.77** |
| 20-Day Average Volume (Shares) | **812,374** |
| Market Cap | **$7.5 B** |
| Year-To-Date Price Change | **12.1%** |
| Beta | **2.37** |
| Dividend / Dividend Yield | **$0.00 / 0.0%** |
| Industry | **Textile - Apparel** |
| Zacks Industry Rank | **Top 12% (29 out of 252)** |
| Last EPS Surprise | **134.2%** |
| Last Sales Surprise | **8.1%** |
| EPS F1 Estimate 4-Week Change | **8.4%** |
| Expected Report Date | **09/01/2021** |
| Earnings ESP | **0.0%** |
| P/E TTM | **35.2** |
| P/E F1 | **15.9** |
| PEG F1 | **0.9** |
| P/S TTM | **1.0** |

## Sales and EPS Growth Rates (Y/Y %)




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2023 | 2,442 E | 2,369 E | 2,505 E | 2,515 E | 9,668 E |
| 2022 | 2,079 A | 2,136 E | 2,365 E | 2,423 E | 9,006 E |
| 2021 | 1,344 A | 1,581 A | 2,118 A | 2,090 A | 7,133 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2023 | $2.63 E | $2.02 E | $2.33 E | $1.40 E | $8.62 E |
| 2022 | $1.92 A | $1.16 E | $1.58 E | $1.95 E | $6.63 E |
| 2021 | -$3.03 A | $0.13 A | $1.32 A | -$0.38 A | -$1.97 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 06/17/2021. The report's text and the analyst-provided price target are as of 06/18/2021.

## Overview

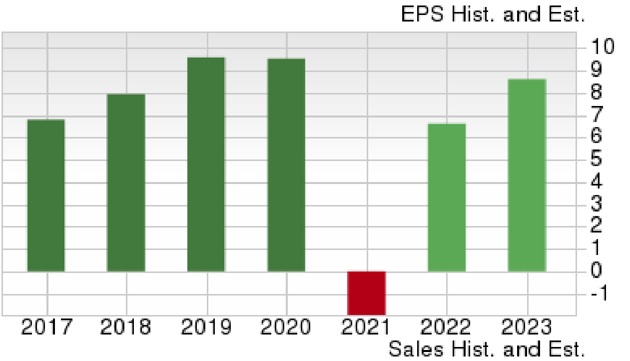
Headquartered in New York, PVH Corporation was incorporated in 1976 and formerly known as Phillips-Van Heusen Corp. PVH Corp specializes in designing and marketing branded dress shirts, neckwear, sportswear, jeanswear, intimate apparel, swim products, footwear, handbags and related products.

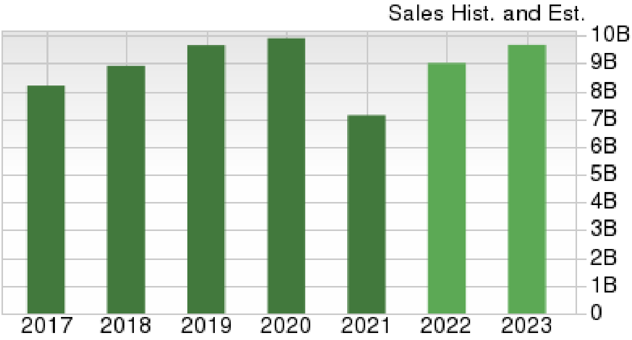
PVH Corp's brands are sold globally at various price points and in channels of distribution. Moreover, the company markets its products at a wholesale level through department store chains and directly to consumers through retail stores. In addition, it licenses the use of its trademarks to third parties and joint ventures for product assortments.

The company's portfolio includes its owned and licensed brands. PVH Corp's owned brands comprise Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD, ARROW, Warner's, Olga and Geoffrey Beene.

Its licensed brands include Speedo, Kenneth Cole New York, MICHAEL Michael Kors, Kenneth Cole Reaction, Unlisted, a Kenneth Cole Production, Michael Kors Collection, DKNY and Chaps. Furthermore, its brand portfolio comprises other owned, licensed and private label brands.

PVH Corp manages its business through operating divisions, which consist of three reportable segments:




The Calvin Klein brand — which contributed 37.8% to the company's total revenues in first-quarter fiscal 2021 — includes Calvin Klein Collection, Calvin Klein platinum label, Calvin Klein white label, Calvin Klein Jeans and Calvin Klein Underwear.

PVH Corp sells the Tommy Hilfiger product line under two brand portfolios: Tommy Hilfiger and Hilfiger Denim. This brand contributed 50.7% to fiscal first-quarter revenues.

Heritage Brands — which constituted roughly 11.5% of PVH Corp's fiscal first-quarter revenues — specializes in designing, sourcing and marketing a wide array of brand-label shirts, sportswear, neckwear, intimate apparel, swimwear and footwear. PVH Corp also provides the license to sell products from its owned brands except for Calvin Klein and Tommy Hilfiger.

Source: Zacks Investment Research

## Reasons To Buy:

PVH Corp’s Q1 results gained from brand strength and solid e-commerce sales. It raised its fiscal 2021 revenue and earnings guidance.

- **Robust Q1 Results & Raised View, Stock Up**: Shares of PVH Corp have rallied 12.1% year to date, outpacing the industry’s 9% growth. The stock further received a boost from its first-quarter fiscal 2021 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate and advanced year over year. Despite the pandemic-led supply-chain disruptions, results gained from brand strength, particularly for Calvin Klein and Tommy Hilfiger. Notably, revenues surged 55% year over year in the fiscal first quarter, driven by solid performance across all regions and channels. Moreover, direct-to-consumer revenues skyrocketed 66% year over year while wholesale revenues rose 53% in the fiscal first quarter. Further, adjusted earnings came in at $1.92 per share against the year-ago quarter’s loss of $3.03. Driven by impressive result, management raised its fiscal 2021 revenue and earnings guidance.

  For fiscal 2021, revenues are anticipated to be 24-26% year over year (up 21-23% on a cc basis), which suggests an improvement from the earlier view of 22-24% (indicating a 19-21% rise at cc). Adjusted earnings are expected to be nearly $6.50 per share compared with the prior view of earnings of nearly $6.00 and against an adjusted loss of $1.97 reported in fiscal 2020. For second-quarter fiscal 2021, management expects revenues to increase 34-36% year over year (up 29-31% on a cc basis). Adjusted earnings are likely to be $1.15-$1.18 per share, up from 13 cents reported in the prior-year quarter.

- **E-Commerce Sales Reflects Strength**: PVH Corp has been witnessing impressive performance in the digital platform as customers shifted to online purchases amid the COVID-19 pandemic. Notably, revenues in digital channels surged 95% year over year in the quarter under review, accounting for nearly 25% of total revenues. Revenues in its digital commerce business improved 66% year over year in first-quarter fiscal 2021 driven by robust growth across all regions and brands. Also, investments in omni-channel capabilities and improved inventory bode well. Encouragingly, the company is on track with the expansion of direct-to-consumer digital business and strengthening its network with third-party digital partners. Management earlier envisioned online sales to represent 20% of total sales over the next few years.

- **Efficient Brand Management Approach**: PVH Corp’s diversified brand portfolio allows it to stay ahead of its peers to generate above-average industry growth and sustain its position in the current challenging environment. The company’s approach to brand management facilitates each of its brands to develop further through effective marketing strategies, financial control and operating leverage. Based on the strength of many of its brands, particularly Tommy Hilfiger, coupled with opportunities with regard to distribution, we believe that the company is poised for long-term growth. Keeping in these lines, the company continues to gain market share in both Tommy Hilfiger and Calvin Klein brands on the back of strong demand. In the fiscal first quarter, Clavin Klein in collaboration with Heron Preston launched its first global product which aims at reinventing essentials. Also, Tommy Hilfiger joined hands with Stevie Gee to introduce the third installment of Tommy's DROP SHOP, which offers limited-edition hoodies and tees. Going forward, management remains confident about the underlying power of Calvin Klein and Tommy Hilfiger brands, which position the company’s business to succeed amid the ever-changing consumer landscape.

- **Strength in International Business**: During the fiscal first quarter, PVH Corp. witnessed better-than-expected performance in its international business with growth returning to 2019 pre-pandemic levels. Notably, Asia and China regions are accelerating its recovery process with China in the lead. Store traffic in China has been on the rise with robust digital growth. Also, revenues in China remains above the pre-pandemic levels. Apart from these, positive customer feedback for new season product launches both in store and online bodes well. Going ahead, international unit is anticipated to further exceed the pre-pandemic sales level in the rest of 2021.

- **Improved Margins**: In first-quarter fiscal 2021, PVH Corp‘s gross margin expanded 960 bps year over year to 59.1% owing to reduced promotional selling, positive shift to regional sales mix and lower inventory reserves. Additionally, the company notes that it witnessed gross margin expansion across all regions and brand businesses. Moreover, overall gross margin for the quarter exceeded 2019 pre-pandemic levels. Adjusted SG&A expense, as a percentage of sales, contracted significantly to 47.5% from 68.3% in the prior year quarter. Adjusted EBIT of $249 million improved from the prior-year quarter’s loss of $247 million, driven by higher sales and improved gross margin. EBIT margin was strong at 12% in the quarter. Expense leverage across all regions and brand businesses aided EBIT margin. Going ahead, the company envisions gross margin and EBIT margin to improve through the rest of fiscal 2021.

- **Financial Flexibility**: PVH Corp. ended first-quarter fiscal 2021 with total debt of $3,018.2 million, which reflects decline of 14.1% on a sequential basis. As of Jan 31, 2021, its debt-to-capitalization ratio of 0.39 compares favorably with the prior quarter’s figure of 0.43. Moreover, the company had a cash balance of approximately $913.2 million at quarter-end. This provides the company with the financial flexibility to drive growth. Also, PVH Corp. expects to repay $700 million debt in fiscal 2021, of which $600 million has already been repaid. The repayments included $500 million made in the fiscal first quarter and additional $100 million made after the quarter. Additionally, management suspended share repurchases and cash dividends to preserve cash amid the pandemic.

## Risks

- **Valuation Looks Stretched**: Considering forward 12-month price-to-earnings (P/E) ratio, PVH Corp looks overvalued compared with the S&P 500 index. The stock has a trailing 12-month P/E ratio of 35.2x, which is higher than the median level of 29.64x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is higher than 27.89x for S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

- **Streamline North America Business, Exit Heritage Brands**: PVH Corp has increased its focus on streamlining the North American business owing to the tough retail environment. The company has decided to exit its Heritage Brands Retail unit by closing 162 stores by mid-2021. Notably, Heritage Brands Retail business, with a product portfolio of Van Heusen, Izod, Arrow, Warner's, Olga and Geoffrey Beene, has failed to generate profits for a while now. The unit accounted for 12.4% of its total revenues in fiscal 2020. This will lower the company's headcount by 12% across all three brands — Calvin Klein, Tommy Hilfiger and Heritage Brands.

  Although, the Heritage Brands segment's first-quarter fiscal 2021 revenues rose 9% year over year, it included 14% decline due to the sale of the company's Speedo North America business. In the first half of fiscal 2021, the company expects to incur operating losses on both reported and adjusted basis of roughly $20 million related to the exit from the Heritage Brands Retail business. Also, management anticipates the North America unit to remain drab in fiscal 2021 due to a slow recovery of international tourism**.**

- **Macroeconomic Headwinds May Dampen Performance**: Consumer confidence and spending behavior may dampen due to macroeconomic factors including an increase in fuel and energy costs, credit availability, high unemployment levels, and high household debt levels, which can negatively affect the disposable income of consumers. Additionally, management assumes a competitive and promotional macro landscape.

- **Competitive Pressure**: PVH Corp faces intense competition from other well-established players in the apparel industry, on the basis of brand recognition, fashion, price, service, store location and quality. Failure to offer high-quality products at a competitive price may hamper PVH Corp.'s market share and consequently, dent both top-line and bottom-line growth.

## Last Earnings Report

**PVH Corp Q1 Earnings & Revenues Beat Estimates, View Up**

| Quarter Ending | 04/2021 |
|---|---|
| Report Date | Jun 02, 2021 |
| Sales Surprise | 8.14% |
| EPS Surprise | 134.15% |
| Quarterly EPS | 1.92 |
| Annual EPS (TTM) | 2.99 |

PVH Corporation reported first-quarter 2021 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate and advanced year over year. Despite supply-chain disruptions related to the pandemic, results gained from brand strength, particularly in Calvin Klein and Tommy Hilfiger.

Also, solid e-commerce performance aided growth. Notably, revenues in digital channels surged 95% year over year in the quarter under review. Management raised its 2021 revenue and earnings guidance.

**Q1 Highlights**

PVH Corp reported adjusted earnings of $1.92 per share against the year-ago quarter's loss of $3.03. However, the figure beat the Zacks Consensus Estimate of 82 cents. On a GAAP basis, the company reported earnings of $1.38 per share against a loss of $15.37 reported in the prior-year quarter.

In the first quarter, revenues surged 55% year over year to $2,079 million. On a constant-currency (cc) basis, the metric improved 46%. Moreover, the top line exceeded the Zacks Consensus Estimate of $1,928 million. We note that solid performance across all regions and channels aided the top line.

Direct-to-consumer revenues skyrocketed 66% year over year in the first quarter. This uptick can be attributable to robust growth across all regions and brands, partly offset by continued pressures in retail stores and store closures in Europe. Meanwhile, wholesale revenues rose 53% in the fiscal first quarter, driven by solid sales in Europe and sturdy digital demand from its traditional and pure-play wholesale customers.

The company's gross profit came in at $1,130.3 million, reflecting a sharp improvement from $579.1 million reported in the year-ago quarter. Moreover, gross margin expanded 960 bps to 59.1% owing to reduced promotions, positive sales mix and lower inventory reserves. Meanwhile, adjusted selling, general and administrative expenses rose 7.7% year over year to $988.1 million.

Adjusted earnings before interest and taxes came in at $249 million against last-year quarter's loss of $247 million, driven by higher sales and improved margins.

**Segment Analysis**

PVH Corp. reports financial results under three segments — Calvin Klein, Tommy Hilfiger and Heritage Brands.

Revenues for the **Calvin Klein** segment improved 65% year over year (up 56% at cc), with sales for Calvin Klein North America increasing 27% while Calvin Klein International surging 91%.

Revenues for the **Tommy Hilfiger** segment rose 63% year over year (up 52% at cc) in the reported quarter. Notably, revenues were up 25% at Tommy Hilfiger North America and 78% at Tommy Hilfiger International.

The **Heritage Brands** segment's revenues improved 9% year over year in the quarter under review. This includes 14% of lost sales from the divestiture of its Speedo North America business.

**Financial Details**

PVH Corp ended the quarter with cash and cash equivalents of $913.2 million, long-term debt of $3,018.2 million and stockholders' equity of $4,839.4 million.

**Outlook**

Despite continued uncertainty related to COVID-19, management raised its 2021 view. It also noted that this guidance doesn't expect any significant supply-chain disruptions, except a short delay of almost four to six weeks in certain inventory orders. Further, the company doesn't foresee any new store closure, lockdowns or extensions of existing lockdowns.

However, the company's earnings and revenues are likely to be affected by the health crisis. It is likely to incur operating losses on both reported and adjusted basis of roughly $20 million related to the exit from the Heritage Brands Retail business by the first half of the year. Notably, the North American unit is likely to remain drab due to a slow recovery of international tourism.

Gross margin is envisioned to improve for the remaining part of the year. That said, it remains on track to restructure costs, including operating expenses and reallocating resources, in a bid to support business growth.

For 2021, revenues are anticipated to be 24-26% year over year (up 21-23% on a cc basis), which suggests an improvement from the earlier view of 22-24% (indicating a 19-21% rise at cc). Adjusted earnings are expected to be nearly $6.50 per share compared with the prior view of earnings of nearly $6.00 and against an adjusted loss of $1.97 reported in 2020.

This outlook excludes roughly $70 million of costs related to restructuring actions, including lowering headcount in a few international markets, certain store closures and a decline in real estate footprint, with approximately $21 million of costs associated with the exit from the Heritage Brands Retail business.

During second-quarter fiscal 2021, management expects revenues to increase 34-36% year over year (up 29-31% on a cc basis). Adjusted earnings are likely to be $1.15-$1.18 per share, up from 13 cents reported in the prior-year quarter. This doesn’t include $15 million of costs related to streamlining the organization and lowering real estate footprint as well as $13 million of costs related to the exit from the Heritage Brands Retail business.

## Valuation

PVH Corp. shares are up 12.1% in the year-to-date period and nearly 124.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 9% but the Zacks Consumer Discretionary sector is down 1.3%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 54.4% and 29.5%, respectively.

The S&P 500 index is up 14% in the year-to-date period and 40.6% in the past year.

The stock is currently trading at 14.26X forward 12-month earnings, which compares to 21.35X for the Zacks sub-industry, 29.02X for the Zacks sector and 21.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 124.5X and a 5-year median of 14.28X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $121 price target reflects 16.4X forward 12-month earnings.

The table below shows summary valuation data for PVH

**Valuation Multiples - PVH**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 14.26 | 21.35 | 29.02 | 21.69 |
| | 5-Year High | 124.5 | 29.19 | 35.4 | 23.83 |
| | 5-Year Low | NA | 13.28 | 16.24 | 15.31 |
| | 5-Year Median | 14.28 | 18.14 | 20.33 | 18.05 |
| P/S F12M | Current | 0.81 | 2.78 | 2.66 | 4.7 |
| | 5-Year High | 1.36 | 3 | 2.94 | 4.74 |
| | 5-Year Low | 0.22 | 1.45 | 1.73 | 3.21 |
| | 5-Year Median | 0.87 | 2.09 | 2.52 | 3.72 |
| EV/EBITDA F12M | Current | 9.41 | 19.93 | 12.82 | 15.86 |
| | 5-Year High | 32.73 | 28.08 | 14.55 | 16.53 |
| | 5-Year Low | 3.94 | 9.87 | 8.13 | 10.79 |
| | 5-Year Median | 9.49 | 15.07 | 11.11 | 13.59 |

As of 06/17/2021 *Source: Zacks Investment Research*

## Industry Analysis Zacks Industry Rank: Top 12% (29 out of 252)


Source: Zacks Investment Research

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Guess, Inc. **(GES)** | Outperform | 1 |
| GIII Apparel Group, LTD. **(GIII)** | Outperform | 2 |
| Kontoor Brands, Inc. **(KTB)** | Outperform | 2 |
| Hanesbrands Inc. **(HBI)** | Neutral | 3 |
| lululemon athletica inc. **(LULU)** | Neutral | 3 |
| Ralph Lauren Corporation **(RL)** | Neutral | 4 |
| Under Armour, Inc. **(UAA)** | Neutral | 2 |
| V.F. Corporation **(VFC)** | Neutral | 3 |

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

## Industry Comparison Industry: Textile - Apparel

Industry Peers

| | PVH | X Industry | S&P 500 | GES | HBI | RL |
|---|---|---|---|---|---|---|
| **Zacks Recommendation (Long Term)** | Outperform | - | - | Outperform | Neutral | Neutral |
| **Zacks Rank (Short Term)** | 1 | - | - | 1 | 3 | 4 |
| **VGM Score** | F | - | - | D | B | B |
| Market Cap | 7.51 B | 1.62 B | 29.66 B | 1.71 B | 6.49 B | 8.56 B |
| # of Analysts | 8 | 4 | 12 | 3 | 5 | 6 |
| Dividend Yield | 0.00% | 0.00% | 1.35% | 1.71% | 3.23% | 0.00% |
| **Value Score** | D | - | - | D | B | A |
| Cash/Price | 0.11 | 0.08 | 0.05 | 0.22 | 0.08 | 0.31 |
| EV/EBITDA | 50.13 | 10.06 | 16.95 | 150.77 | 75.44 | 33.51 |
| PEG F1 | 0.88 | 1.32 | 2.09 | NA | 1.39 | 1.32 |
| P/B | 1.55 | 3.42 | 4.06 | 2.96 | 13.39 | 3.29 |
| P/CF | 6.68 | 19.40 | 17.27 | 23.70 | 9.90 | 22.87 |
| P/E F1 | 15.87 | 19.06 | 20.99 | 11.06 | 11.77 | 19.82 |
| P/S TTM | 0.95 | 0.95 | 3.39 | 0.80 | 0.95 | 1.95 |
| Earnings Yield | 6.30% | 5.16% | 4.65% | 9.03% | 8.50% | 5.05% |
| Debt/Equity | 0.62 | 0.42 | 0.66 | 0.60 | 7.53 | 0.63 |
| Cash Flow ($/share) | 15.74 | 1.55 | 6.83 | 1.11 | 1.88 | 5.12 |
| **Growth Score** | F | - | - | D | A | B |
| Historical EPS Growth (3-5 Years) | -24.91% | -9.26% | 9.44% | 1.93% | -3.22% | -22.09% |
| Projected EPS Growth (F1/F0) | 436.42% | 116.94% | 21.49% | 3,504.71% | 8.97% | 247.45% |
| Current Cash Flow Growth | 8.14% | -34.25% | 0.99% | -61.91% | -16.36% | -51.71% |
| Historical Cash Flow Growth (3-5 Years) | 5.83% | -5.38% | 7.28% | -14.25% | -3.44% | -15.22% |
| Current Ratio | 1.46 | 2.02 | 1.39 | 1.74 | 1.64 | 2.66 |
| Debt/Capital | 38.38% | 32.03% | 41.51% | 37.90% | 88.28% | 38.54% |
| Net Margin | 0.77% | 2.09% | 11.95% | 4.14% | -4.83% | -2.75% |
| Return on Equity | 4.57% | 6.70% | 16.48% | 24.71% | 71.51% | 4.89% |
| Sales/Assets | 0.60 | 0.94 | 0.51 | 0.90 | 0.89 | 0.56 |
| Projected Sales Growth (F1/F0) | 26.23% | 17.92% | 9.41% | 35.17% | -5.56% | 25.41% |
| **Momentum Score** | F | - | - | B | D | F |
| Daily Price Change | -3.08% | 0.00% | -0.04% | -1.68% | -2.67% | -3.64% |
| 1-Week Price Change | 2.73% | 0.20% | -0.41% | -2.27% | 0.88% | 1.62% |
| 4-Week Price Change | -4.35% | -0.29% | 1.51% | -2.66% | -3.98% | -3.96% |
| 12-Week Price Change | 7.11% | 4.06% | 7.99% | 13.58% | -7.28% | -1.06% |
| 52-Week Price Change | 111.67% | 92.45% | 35.52% | 161.67% | 57.41% | 58.30% |
| 20-Day Average Volume (Shares) | 812,374 | 52,150 | 1,771,802 | 840,025 | 2,767,332 | 820,782 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 8.45% | 0.00% | 0.03% | 50.21% | 0.00% | -10.48% |
| EPS F1 Estimate 12-Week Change | -0.26% | 5.84% | 3.37% | 61.04% | -2.77% | -5.99% |

| | | | | | | |
|---|---|---|---|---|---|---|
| EPS Q1 Estimate Monthly Change | 0.84% | 0.00% | 0.00% | 95.57% | 0.00% | 46.59% |

*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 | F |
| Momentum Score | F |
| VGM Score | F |

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.

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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 mediumterm 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 mostrecent 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.