Ralph Lauren Corp. (RL)

$75.75 (As of 10/15/20)

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

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 09/24/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:F
	Value: C | Growth: F | Momentum: D	

Summary

Ralph Lauren's shares have increased in the past three months. The company has reopened majority of its stores across all regions, which are witnessing positive trends. It expects improved trends at reopened stores to provide some cushion to its top line in the near term. Additionally, its solid online performance, driven by strong online capabilities like BOPUS and curbside pickup, bodes well. The company is likely to continue investing in digital partnerships and capabilities in the near term. Moreover, the recently accelerated Next Great Chapter plan bodes well. However, the company's top and bottom lines declined year over year in first-quarter fiscal 2021 due to the impacts of the coronavirus outbreak, which is expected to continue in second quarter and fiscal 2021. Elevated operating expenses and adverse currency rates remain headwinds.

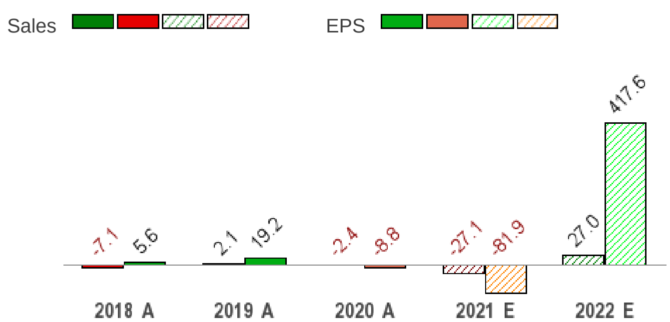
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	$128.29 - $59.82
20-Day Average Volume (Shares)	1,413,088
Market Cap	$5.5 B
Year-To-Date Price Change	-35.4%
Beta	1.20
Dividend / Dividend Yield	$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Top 24% (61 out of 254)
Last EPS Surprise	-19.0%
Last Sales Surprise	-26.2%
EPS F1 Estimate 4-Week Change	6.7%
Expected Report Date	10/29/2020
Earnings ESP	6.2%
P/E TTM	26.0
P/E F1	63.7
PEG F1	5.4
P/S TTM	1.1

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,200 E	1,574 E	1,690 E	1,356 E	5,702 E
2021	488 A	1,150 E	1,513 E	1,298 E	4,488 E
2020	1,429 A	1,706 A	1,751 A	1,274 A	6,160 A

EPS Estimates

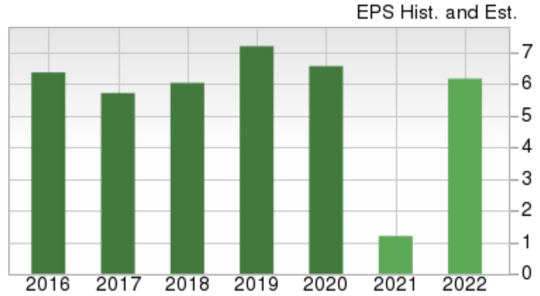
	Q1	Q2	Q3	Q4	Annual*
2022	$0.50 E	$2.19 E	$2.47 E	$0.64 E	$6.16 E
2021	-$1.82 A	$0.77 E	$1.90 E	$0.37 E	$1.19 E
2020	$1.77 A	$2.55 A	$2.86 A	-$0.68 A	$6.56 A

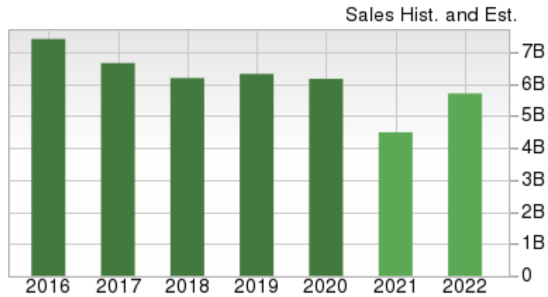
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 10/15/2020. The reports text is as of 10/16/2020.

Overview

Ralph Lauren Corp. is a major designer, marketer and distributor of premium lifestyle products in North America, Europe, Asia, and internationally. It offers products in the apparel, footwear, accessories, home furnishings, and other licensed product categories. The company possesses a strong portfolio of globally recognized brand names such as Polo Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Collection, Double RL, Lauren Ralph Lauren, Polo Golf Ralph Lauren, Ralph Lauren Golf, RLX Ralph Lauren, Polo Ralph Lauren Children, Chaps, Club Monaco and American Living.





The company offers lifestyle product collections in 4 categories – Apparel, which includes men's, women's, and children's clothing; Home, which includes bedding and bath products, furniture, fabric and wallpaper, paint, tabletop and giftware; Accessories, comprising footwear, eyewear, watches, fashion and fine jewelry, and leather goods; and Fragrance and skin care products sold under the Glamorous, Romance, Polo, Lauren, Safari, and Polo Sport brands.

The company's reportable segments include North America, Europe and Asia. These segments contributed roughly 51%, 26.5% and 16.5% respectively to net revenue in fiscal 2020. The rest of the contribution came from other non-reportable segments.

The company operates through wholesale, retail and licensing channels of distribution. It sells products to department stores, specialty stores, and golf and pro shops through the wholesale channel. It also sells directly to consumers through an integrated retail channel, which includes retail stores, concession-based shop-within-shops, and its digital commerce sites. It also licenses to third parties for specified periods the right to access its trademarks in connection with the licensees' manufacture and sale of designated products.

As of Jun 27, 2020, Ralph Lauren had 533 directly-operated stores and 654 concession shops globally. The directly-operated stores included 140 Ralph Lauren, 72 Club Monaco and 321 Polo factory stores. Additionally, the company had 273 global licensed stores.

Source: Zacks Investment Research

Reasons To Buy:

Ralph Lauren re-opens stores on a market-by-market basis in coherence with guidelines. As of May 27, it re-opened about two-thirds of stores in Europe and nearly 50% stores in North America.

- **Store Re-opening Plan**: With restrictions easing off, Ralph Lauren has been re-opening stores on a market-by-market basis in coherence with the government guidelines. As of May 27, it re-opened about two-thirds of its stores in Europe and nearly half of its stores in North America. Notably, majority of its stores have reopened across North America, Europe and Asia with limited working hours and as per local health guidelines. We believe that improved trends in reopened stores will be able to provide some cushion to the company's top line in the near term. Shares of Ralph Lauren have gained 3.3% in the past three months compared with the industry's 20.5% growth.

- **Digital Strength**: Expansion of digital platforms is a key aspect of Ralph Lauren's growth strategy. The company has developed a winning digital ecosystem, including directly-operated flagship sites, wholesale digital, pure plays and social commerce. The company continued to invest in digital partnerships and capabilities during the fiscal first quarter. Driven by these efforts, Ralph Lauren's e-commerce websites across all three regions performed well in the reported quarter, reporting solid comps. Also, wholesale digital businesses remained positive year over year. Encouragingly, management introduced Buy Online Pick Up in Store and curbside pickup in North America. Apart from these, digital clienteling and Buy Online Ship from Store were launched on a global basis.

  Average unit retail (AUR) across Ralph Lauren's direct-to-consumer network increased 25% in the first quarter of fiscal 2021, driven by positive shifts in geographic and retail channel along with ongoing initiatives for brand elevation as well as improved quality of sales. Prior to this, the company delivered positive AUR growth across all three regions for the fourth quarter and fiscal 2020. Despite significant top-line headwinds stemming from the pandemic, AUR rose high-single digits. Notably, AUR grew in double digit in North America and Europe, each.

- **Strategic Growth Plan – Next Great Chapter:** Despite the impacts of COVID-19, Ralph Lauren is on track to exceed its top and bottom line targets under the "Next Great Chapter" plan that was announced in June 2018. Recently, it announced measures to accelerate its "Next Great Chapter plan", which includes creating a simplified global organizational structure and rolling out improved technological capabilities. It unveiled plans to curtail its global workforce by the end of fiscal 2021 under its "Fiscal 2021 Strategic Realignment Plan". By reducing workforce it expects to see gross annualized pre-tax expense savings between $180 million to $200 million. These savings are anticipated to be realized mainly from the start of fiscal 2022. However, management is likely to incur total pre-tax charges in the range of $120-$160 million in this process.

  As part of the initial targets under the plan, the company plans to deliver low to mid-single digit revenue compounded annual growth rate (CAGR) and mid-teen operating margin by fiscal 2023, in constant currency. Additionally, it anticipates marketing spend to grow nearly 5% of revenue by fiscal 2023, while capital expenditure is expected to represent 4-5% of revenue. Furthermore, the company plans returning 100% free cash flow to shareholders in the next five years, amounting to about $2.5 billion on a cumulative basis through fiscal 2023 in the form of dividends and share repurchases.

- **Simplified Organizational Structure Initiative:** Ralph Lauren plans to consolidate its global Marketing and Branding functions as part of its efforts to simplify organizational structure. Also, Ralph Lauren will create a Consumer Intelligence and Experience (CIX) platform which will leverage consumer insights and predictive analytics to offer personalized consumer experiences. Management also expects to re-organize its Corporate Merchandising teams with an aim to enhance productivity and connectivity. It is on track with integrating Global Citizenship & Sustainability into its business.

- **Digital Transformation Initiative:** As part of digital initiatives, Ralph Lauren is floating cloud-based human resources and planning system worldwide. It also plans to augment its capabilities to better serve its consumers through the Digitizing the Value Chain project. These initiatives are expected to simplify operations, improve team connect, alongside digitalizing product journey. Moreover, Ralph Lauren is investing in its technological capabilities to support functions like omni-channel shopping, augmented reality, personalization and social commerce.

- **Financial Stability**: Ralph Lauren's cash and short-term investments at the end of first-quarter fiscal 2021 increased 51.3% sequentially to $2,451.3 million. Notably, the company's cash position remains sufficient to fund its short-term obligations of about $615 million as of Jun 27, 2020. Although, its long-term debt of $3,148 million (including non-current operating lease liabilities) surged 60.2% sequentially, its debt-to-capitalization ratio of 0.60 compares favorably with the industry's ratio of 0.65. Moreover, the company concluded issuing $500 million of 1.7% 2-year notes and $750 million of 2.95% 5-year notes, in a bid to compensate the $475 million it had withdrawn from its Global Credit Facility in the fiscal fourth quarter as part of precautionary measures to preserve cash and strengthen liquidity to navigate through the global pandemic. It has also taken several other measures to preserve cash and liquidity amid the coronavirus crisis, including stringent expense management, reduced capital expenditure and inventory commitments, halting share repurchases, and temporary suspension of quarterly dividends.

Reasons To Sell:

Ralph Lauren's Q1 results were marred by the impacts of the ongoing coronavirus outbreak. Management expects COVID-19 impacts and uncertainty to continue in the second quarter and fiscal 2021.

- **Dismal Q1 Results**: Ralph Lauren reported dismal first-quarter fiscal 2021 results, wherein both top and bottom lines declined year over year. Notably, first-quarter fiscal 2021 revenues declined 66% on a reported basis and 65% on a constant-currency basis. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19 and currency headwinds. The pandemic also led to revenue declines of 77%, 76% and 34% in North America, Europe and Asia segments, respectively. Going ahead, management expects COVID-19 impacts to continue in the second quarter and fiscal 2021 as there are uncertainties regarding the path of recovery.

- **Higher Operating Expense Rate**: Ralph Lauren's adjusted operating expenses declined 30% year over year. However, operating expense, as a percentage of sales, increased significantly to 107.5% compared to 52.3% in the prior year period. Driven by a soft sales and higher operating expense rate, the company reported an adjusted operating loss of $174 million in the quarter under review. Moreover, the company reported adjusted operating loss of $40 million in North America and $18 million in Europe, while it posted adjusted operating income of $13 million in Asia.

- **Currency Headwinds**: Ralph Lauren's earnings and sales for the fiscal first quarter continued to be impacted by foreign currency headwinds due to strong U.S. dollar. Notably, adverse foreign currency rates marred total revenue by 100 bps in the fiscal first quarter. Further, the adjusted operating margin for the Europe and Asia segments reflected negative currency impacts of 910 bps and 120 bps, respectively, in the reported quarter.

- **Competitive Pressure**: Ralph Lauren operates in a highly fragmented market and competes with a number of well-established players such as Estee Lauder, Coach, V.F. Corp., Phillips-Van Heusen, Jones Apparel, Liz Claiborne and Kenneth Cole Productions. The company primarily competes on the basis of fashion, quality and service. Failure to offer high-quality distinguished products at a competitive price may hamper Ralph Lauren's market share, resulting in lower earnings and sales .

- **Macroeconomic Headwinds May Dampen Operating Performance**: Consumer confidence and spending behavior may be affected by macroeconomic factors, including increase in fuel and energy costs, credit availability, high unemployment levels, and high household debt levels. These may affect disposable income of consumers. This, in turn, could affect the company's growth and profitability. Although the company remains committed toward its Next Great Chapter growth initiative, it expects to witness a more volatile global retail backdrop.

Last Earnings Report

Ralph Lauren's Q1 Earnings and Sales Miss Estimates

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-26.22%
EPS Surprise	-18.95%
Quarterly EPS	-1.82
Annual EPS (TTM)	2.91

Ralph Lauren reported dismal first-quarter fiscal 2021 results, wherein both top and bottom lines declined year over year. The results have been primarily marred by the impacts of the coronavirus outbreak. Management expects COVID-19 impacts and uncertainty to continue in the second quarter and fiscal 2021. As a result, it did not provide any fiscal view.

Ralph Lauren reported an adjusted loss per share of $1.82 in the fiscal first quarter, wider than the Zacks Consensus Estimate of a loss of $1.53. The bottom line also compares unfavorably with adjusted earnings of $1.77 reported in the prior-year quarter. On a reported basis, the company posted a loss of $1.75 per share against earnings of $1.47 in the year-ago quarter.

Net revenues declined 66% year over year to $487.5 million and missed the Zacks Consensus Estimate of $661 million. On a constant-currency basis, revenues were down 65% from the prior-year quarter. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19 and currency headwinds of nearly 100 basis points (bps).

Segment Details

North America: During the fiscal first quarter, the segment's revenues declined 77% from the year-ago quarter to $165 million. The retail channel in the region witnessed a significant decline, with a 64% slump in comparable store sales (comps) and a 3% rise in digital commerce. Revenues from the North America wholesale business plunged 93% from the prior-year period.

Europe: The segment's revenues fell 67% year over year to $121 million, with a 64% decline in currency-neutral revenues. Comps at retail stores in Europe declined 62% due to a 75% decrease in brick-and-mortar stores, somewhat offset by 44% growth in digital platform. Revenues for the segment's wholesale business fell 71% on a reported basis and 68% in constant currency.

Asia: The segment's revenues decreased 34% year over year to $172 million on a reported basis and 32% on a currency-neutral basis. Comps in Asia dropped 33% as a 68% rise in digital operations in the quarter was more than offset by a 35% loss in brick-and-mortar comps due to store closures in the wake of the coronavirus outbreak.

Margins

Ralph Lauren's adjusted gross profit margin expanded 730 basis points (bps) to 71.8%, driven by positive regional and channel mix shifts stemming from COVID-19 along with enhanced AUR in all regions.

Adjusted operating expenses declined 30% from the year-ago period to $524 million in the fiscal first quarter. The decline can be attributable to savings related to employee furloughs, reduced rent, and lesser corporate and selling expenses. However, adjusted operating expenses, as a percentage of sales, increased significantly to 107.5%. Driven by soft sales and a higher operating expense rate, the company reported an adjusted operating loss of $174 million in the quarter under review.

Financials

Ralph Lauren ended the quarter with cash and short-term investments of $2,451.3 million, total debt of $1.6 billion and total shareholders' equity of $2,555.5 million. Inventory dropped nearly 22% from a year ago to $773 million at the end of the quarter, with a double-digit decline in all regions.

Moreover, the company concluded issuing $500 million of 1.7% 2-year notes and $750 million of 2.95% 5-year notes. The net proceeds from this will be utilized to compensate the $475 million that the company withdrew from its Global Credit Facility in the fiscal fourth quarter as part of precautionary measures to preserve cash and strengthen liquidity to navigate through the global pandemic.

Store Update

As of Jun 30, 2020, Ralph Lauren had 533 directly-operated stores and 654 concession shops globally. The directly-operated stores included 140 Ralph Lauren, 72 Club Monaco and 321 Polo factory stores. Additionally, the company operated 273 licensed stores globally.

COVID-19 Updates

The company witnessed strong conversion rates, driven by initiatives like its signature Pride campaign and capsule, RL @ Home program; exclusive capsules with Zalando and Asos; and the "Polo Shirt: Design For Good" competition on the Polo app. During the temporary store closures, it invested in value-based and digital activities. Such well-chalked efforts led to lesser marketing expenses to the tune of 34%.

Despite significant top-line headwinds stemming from the pandemic, AUR rose high-single digits. Notably, AUR grew in double digit in North America and Europe, each. E-commerce performed well in the reported quarter with solid comps in Ralph Lauren websites across all three regions. Also, wholesale digital businesses remained positive year over year. Encouragingly, management introduced Buy Online Pick Up in Store and curbside pickup in North America. Apart from these, digital clienteling and expansion of Buy Online Ship from Store were launched on a global basis.

Recent News

Ralph Lauren Reveals Business Re-organization Plans – Sep 22, 2020

Ralph Lauren announced measures to accelerate its “Next Great Chapter plan”, which includes creating a simplified global organizational structure and rolling out improved technological capabilities. It unveiled plans to curtail its global workforce by the end of fiscal 2021 under its “Fiscal 2021 Strategic Realignment Plan”. By reducing workforce it expects to see gross annualized pre-tax expense savings between $180 million to $200 million. These savings are anticipated to be realized mainly from the start of fiscal 2022. However, management is likely to incur total pre-tax charges in the range of $120-$160 million in this process.

Under the company’s Simplified Organizational Structure initiative, it plans to consolidate its global Marketing and Branding functions. Also, Ralph Lauren will create a Consumer Intelligence and Experience (CIX) platform which will leverage consumer insights and predictive analytics to offer personalized consumer experiences. Management also expects to re-organize its Corporate Merchandising teams with an aim to enhance productivity and connectivity. It is on track with integrating Global Citizenship & Sustainability into its business.

Coming to Digital Transformation initiative, Ralph Lauren is floating cloud-based human resources and planning system worldwide. It also plans to augment its capabilities to better serve its consumers through the Digitizing the Value Chain project. Such initiatives are expected to simplify operations, improve team connect, alongside digitalizing product journey. Moreover, Ralph Lauren is investing in its technological capabilities to support functions like omni-channel shopping, augmented reality, personalization and social commerce.

Ralph Lauren Partners With Snap to Tap Into Digital Fashion Space - Aug 12

Ralph Luaren has inked a long-term deal with Snap, Inc. in a bid to launch virtual branded apparel inspired by real Ralph Lauren looks along with customized looks as per customer's Bitmoji avatar. This move is in sync with the company's plans to attract the younger generation and enhance their digital capabilities.

Valuation

Ralph Lauren shares are down 35.3% in the year-to-date period and 20.3% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 5% and 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 2.9% and 7.5%, respectively.

The S&P 500 index is up 8.2% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 19.41X forward 12-month earnings, which compares to 27.94X for the Zacks sub-industry, 32.66X for the Zacks sector and 22.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.15X and as low as 8.16X, with a 5-year median of 16.09X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $80 price target reflects 20.5X forward 12-month earnings.

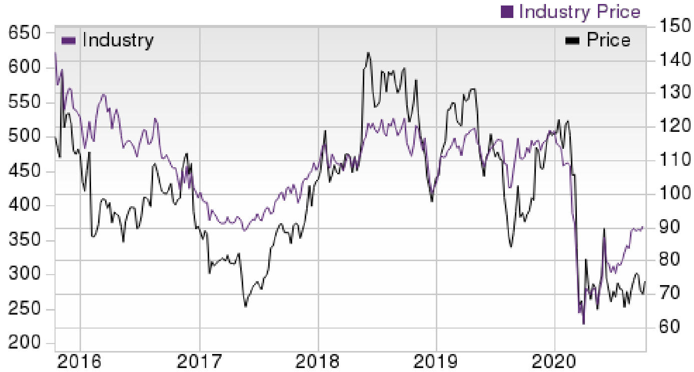
The table below shows summary valuation data for RL

Valuation Multiples - RL

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.41	27.94	32.66	22.57
	5-Year High	26.15	29.17	36.24	23.47
	5-Year Low	8.16	13.26	16.13	15.27
	5-Year Median	16.09	18.13	19.85	17.68
P/S F12M	Current	1.07	2.65	2.38	4.17
	5-Year High	1.9	2.65	2.95	4.31
	5-Year Low	0.71	1.45	1.68	3.18
	5-Year Median	1.23	2.09	2.47	3.67
EV/EBITDA TTM	Current	13.03	25.97	11.32	15.28
	5-Year High	14.15	25.97	17.81	15.68
	5-Year Low	4.12	10.67	8.25	9.55
	5-Year Median	7.41	17.95	12.25	13.1

As of 10/15/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 24% (61 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Guess, Inc. **(GES)**	Outperform	1
HUGO BOSS **(BOSSY)**	Neutral	4
Carters, Inc. **(CRI)**	Neutral	3
GIII Apparel Group, LTD. **(GIII)**	Neutral	3
Hanesbrands Inc. **(HBI)**	Neutral	4
lululemon athletica inc. **(LULU)**	Neutral	3
PVH Corp. **(PVH)**	Neutral	3
V.F. Corporation **(VFC)**	Neutral	3

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

Industry Comparison Industry: Textile - Apparel

Industry Peers

	RL	X Industry	S&P 500	HBI	LULU	VFC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	F	-	-	A	D	F
Market Cap	5.53 B	853.65 M	23.94 B	6.04 B	46.08 B	30.29 B
# of Analysts	6	4	14	7	16	10
Dividend Yield	0.00%	0.00%	1.59%	3.46%	0.00%	2.47%
Value Score	C	-	-	B	F	D
Cash/Price	0.50	0.20	0.07	0.11	0.01	0.09
EV/EBITDA	7.26	4.87	13.69	9.34	43.01	22.34
PEG F1	5.35	6.82	2.85	3.66	4.16	6.82
P/B	2.17	2.02	3.52	5.59	23.03	10.40
P/CF	7.18	6.65	13.34	8.01	57.08	17.98
P/E F1	63.66	45.98	22.31	12.09	83.25	68.92
P/S TTM	1.06	0.72	2.66	0.90	11.91	3.04
Earnings Yield	1.57%	1.51%	4.34%	8.25%	1.20%	1.45%
Debt/Equity	0.64	0.20	0.70	3.69	0.00	1.93
Cash Flow ($/share)	10.55	2.44	6.93	2.17	6.20	4.32
Growth Score	F	-	-	A	B	F
Historical EPS Growth (3-5 Years)	-1.38%	-3.51%	10.41%	-0.24%	26.46%	0.26%
Projected EPS Growth (F1/F0)	-81.81%	-72.45%	-2.95%	-18.51%	-13.84%	-57.91%
Current Cash Flow Growth	-10.72%	2.71%	5.54%	2.71%	26.75%	-3.63%
Historical Cash Flow Growth (3-5 Years)	-4.88%	3.96%	8.51%	2.82%	19.56%	-3.37%
Current Ratio	2.59	1.74	1.35	2.01	1.95	3.65
Debt/Capital	38.94%	24.65%	42.91%	78.69%	0.00%	65.82%
Net Margin	2.67%	-1.68%	10.28%	7.88%	13.94%	3.46%
Return on Equity	8.21%	-0.02%	14.79%	55.54%	29.52%	21.07%
Sales/Assets	0.70	0.91	0.51	0.86	1.21	0.87
Projected Sales Growth (F1/F0)	-27.14%	0.00%	-0.53%	-9.35%	5.06%	-21.26%
Momentum Score	D	-	-	B	D	A
Daily Price Change	3.81%	0.93%	0.41%	1.88%	0.44%	2.64%
1-Week Price Change	5.66%	4.11%	4.06%	6.56%	4.15%	7.00%
4-Week Price Change	-3.82%	3.54%	2.68%	9.75%	16.66%	4.22%
12-Week Price Change	5.72%	12.79%	5.78%	23.15%	10.50%	29.26%
52-Week Price Change	-20.33%	-26.23%	3.83%	9.47%	72.53%	-15.08%
20-Day Average Volume (Shares)	1,413,088	152,178	2,066,999	4,803,209	1,905,350	2,065,420
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.19%	2.33%
EPS F1 Estimate 4-Week Change	6.71%	0.00%	0.04%	0.00%	-3.78%	2.68%
EPS F1 Estimate 12-Week Change	-57.58%	-0.37%	3.55%	64.54%	3.60%	-0.49%
EPS Q1 Estimate Monthly Change	-1.56%	0.00%	0.00%	0.00%	0.02%	1.62%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	F
Momentum Score	D
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

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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 forwardlooking 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 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.