

Ralph Lauren Corp. (RL)

\$89.03 (As of 11/24/20)

Price Target (6-12 Months): **\$94.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: F

Summary

Ralph Lauren's shares have lagged the industry year to date. While it delivered an earnings beat in second-quarter fiscal 2021, Ralph Lauren's top line not only missed the Zacks Consensus Estimate but also fell year over year. Lower sales in all regions, stemming from supply-chain disruptions related to COVID-19, hurt the top line. Management expects COVID-19 impacts and uncertainties to continue in the third quarter and fiscal 2021. However, its solid online performance, driven by digital clienteling, BOPUS and curbside pickup, bode well. Moreover, its plans to curtail global workforce by the end of fiscal 2021 via its Strategic Realignment Plan is expected to generate gross annualized pre-tax expense savings of \$180-\$200 million from the start of fiscal 2022. Moreover, improved margins and reduced costs remain upsides.

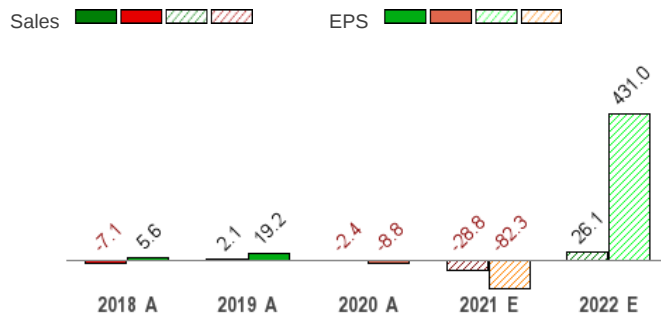
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$128.29 - \$59.82
20-Day Average Volume (Shares)	1,882,420
Market Cap	\$6.5 B
Year-To-Date Price Change	-24.1%
Beta	1.29
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Textile - Apparel
Zacks Industry Rank	Top 19% (48 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	53.2%
Last Sales Surprise	-2.2%
EPS F1 Estimate 4-Week Change	0.1%
Expected Report Date	02/02/2021
Earnings ESP	0.0%
P/E TTM	49.5
P/E F1	77.4
PEG F1	6.5
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,134 E	1,509 E	1,639 E	1,313 E	5,527 E
2021	488 A	1,194 A	1,434 E	1,268 E	4,383 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	\$0.80 E	\$2.51 E	\$2.35 E	\$0.56 E	\$6.16 E
2021	-\$1.82 A	\$1.44 A	\$1.44 E	\$0.03 E	\$1.16 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 11/24/2020. The reports text is as of 11/25/2020.

Overview

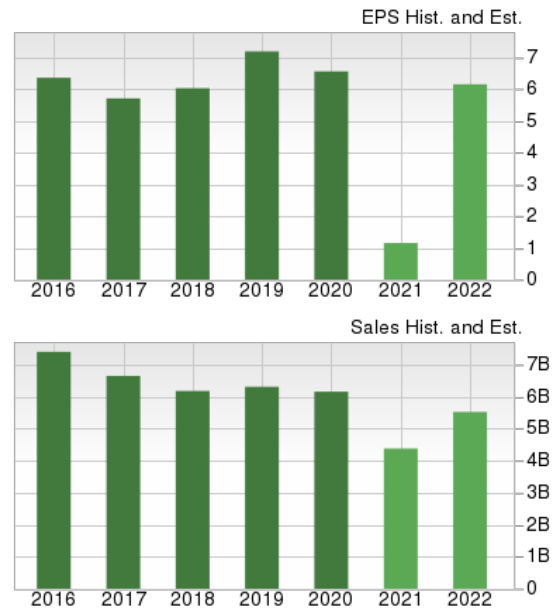
Ralph Lauren Corp. is a major designer, marketer and distributor of premium lifestyle products in North America, Europe, Asia, and internationally. It offers products in the apparel, footwear, accessories, home furnishings, and other licensed product categories. The company possesses a strong portfolio 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 Sep 26, 2020, Ralph Lauren had 542 directly-operated stores and 654 concession shops globally. The directly-operated stores included 145 Ralph Lauren, 72 Club Monaco and 325 Polo factory stores. Additionally, the company operated 273 licensed stores globally.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Digital Strength:** Ralph Lauren is making significant progress in expanding digital and omni-channel capabilities through investments in mobile, omni-channel and fulfillment. The company witnessed a strong online show amid the coronavirus pandemic, which cushioned the top line in second-quarter fiscal 2021. This resulted in robust performance across all three regions in the reported quarter, with sturdy comps to the tune of 12%. Notably, increased focus on home and loungewear in sync with consumers changing preferences along with expansion in connected retail offerings contributed to digital sales. Further, its omni-channel services, including digital clienteling, Buy Online Ship from Store, curbside pickup, contactless delivery and mobile checkout options, bode well. Encouragingly, management intends to launch more virtual flagship shopping experiences starting this holiday season.

Ralph Lauren is benefiting from solid digital sales, driven by changing consumer habits and several omni-channel services. Also, its Fiscal 2021 Strategic Realignment Plan seems encouraging.

Average unit retail (AUR) increased 26% in the second quarter of fiscal 2021, driven by double-digit growth in North America and Europe. Excluding the COVID-19-related impacts, the metric rose more than 20% year over year that reflects a sequential improvement.

▲ **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 of up to 160 million in this process.

As part of the initial targets under the plan, the company earlier revealed 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. The company is on track with the transition of the Chaps brand, which is in sync with the aforementioned long-term brand elevation strategy. In this context, it has entered into a multi-year licensing deal with an affiliate of 5 Star Apparel LLC, a division of the OVED Group, to be effective from Aug 1, 2021. Per the deal, 5 Star Apparel will manufacture, market and distribute men's and women's products of the Chaps brand. Also, this deal will help Ralph Lauren focus better on its core brands and reduce dependence on North American stores.

▲ **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. In the fiscal second quarter, the company launched digital showrooms, expanded buying options, implemented 3D digital product creation and virtual fittings as part of this initiative. Moreover, Ralph Lauren is investing in its technological capabilities to support functions like omni-channel shopping, augmented reality, personalization and social commerce.

▲ **Robust Gross Margins:** During second-quarter fiscal 2021, Ralph Lauren's adjusted gross profit margin expanded 500 basis points (bps) to 66.5%, driven by positive regional and channel mix shifts stemming from COVID-19 along with enhanced AUR in all regions. Management expects gross margin expansion to continue in the second half of fiscal 2021 along with a marginal decline in expenses.

▲ **Financial Stability:** Ralph Lauren's cash and short-term investments at the end of second-quarter fiscal 2021 was \$2,012 million. Moreover, at the end of the quarter, long-term debt of \$1,631 million inched up roughly 0.1% on a sequential basis. However, its debt-to-capitalization ratio of 0.39 compares favorably with 0.43 in the prior quarter. Apart from these, management has earlier undertaken 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. Such well-chalked out plans are likely to help it stay afloat during the crisis.

Reasons To Sell:

▼ **Dismal Q2 Sales:** Despite reporting an earnings beat in second-quarter fiscal 2021, Ralph Lauren's top line not only missed the Zacks Consensus Estimate but also declined 30% year over year to \$1,193.5 million. On a constant-currency basis, revenues were down 31% from the prior-year quarter. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19. The pandemic also led to revenue declines of 38%, 25% and 7% in North America, Europe and Asia segments, respectively. Going ahead, management expects COVID-19 impacts and uncertainties to continue in the third quarter and fiscal 2021. Also, management highlighted that it is still witnessing soft store traffic due to the pandemic-related headwinds. Shares of Ralph Lauren have declined 24% year to date against the industry's 4.4% growth.

Ralph Lauren's Q2 sales were marred by supply-chain disruptions related to COVID-19. Management expects COVID-19 impacts and uncertainties to continue in the third quarter and fiscal 2021.

▼ **Higher Operating Expense Rate:** Ralph Lauren's adjusted operating expenses declined 19% year over year. However, operating expenses, as a percentage of sales, increased 730 basis points (bps) to 53.9% in the fiscal second quarter. Driven by soft sales and higher operating expense rate, the company's adjusted operating margin contracted 230 bps to 12.6% in the quarter under review. Moreover, reported adjusted operating margin for North America and Europe contracted 10 bps and 150 bps, respectively.

▼ **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 Q2 Earnings Beat Estimates, Sales Miss

Ralph Lauren reported second-quarter fiscal 2021 results, wherein the bottom line surpassed the Zacks Consensus Estimate while sales lagged the same. Despite COVID-19-related disruptions and sudden changes in consumer behavior, the company witnessed improved performance on a sequential basis across all regions, driven by solid digital revenues.

That said, management expects COVID-19 impacts and uncertainties to continue in the third quarter and fiscal 2021. However, it foresees gross margin expansion to continue in the second half of fiscal 2021 along with a marginal decline in expenses.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	-2.21%
EPS Surprise	53.19%
Quarterly EPS	1.44
Annual EPS (TTM)	1.80

Q2 in Detail

Ralph Lauren reported adjusted earnings per share of \$1.44 in the fiscal second quarter, exceeding the Zacks Consensus Estimate of 94 cents. However, the bottom line compares unfavorably with adjusted earnings of \$2.55 reported in the prior-year quarter.

Net revenues declined 30% year over year to \$1,193.5 million and missed the Zacks Consensus Estimate of \$1,220 million. On a constant-currency basis, revenues were down 31% from the prior-year quarter. Soft revenues mainly resulted from lower sales across all regions, stemming from supply-chain disruptions related to COVID-19. Meanwhile, currency movements favorably impacted the top line to the tune of nearly 100 basis points (bps).

Apart from these, digital revenues grew in mid-teens year over year and saw double-digit growth in all regions.

Segment Details

North America: During the fiscal second quarter, the segment's revenues declined 38% from the year-ago quarter to \$543 million. The retail channel in the region witnessed a 32% slump in comparable store sales (comps) and a 40% decrease in brick-and-mortar stores, partly offset by a 10% rise in digital commerce. Revenues from the North America wholesale business plunged 46% from the prior-year period.

Europe: The segment's revenues fell 25% year over year to \$359 million, with a 28% decline in currency-neutral revenues. Comps at retail stores in Europe declined 29% due to a 35% decrease in brick-and-mortar stores, somewhat offset by 26% growth in the digital platform. Revenues for the segment's wholesale business fell 23% on a reported basis and 27% at constant currency.

Asia: The segment's revenues decreased 7% year over year to \$237 million on a reported basis and 8% on a currency-neutral basis. Comps in Asia dropped 11% due to a 12% decrease in brick-and-mortar stores, which is more than offset by a 32% rise in digital operations in the quarter.

Margins

Ralph Lauren's adjusted gross profit margin expanded 500 basis points (bps) to 66.5%, driven by positive regional and channel mix shifts stemming from COVID-19 along with enhanced AUR in all regions.

Adjusted operating expenses declined 19% from the year-ago period to \$643 million in the fiscal first quarter. The uptick 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 730 bps to 53.9%. Further, the company reported an adjusted operating income of \$151 million and adjusted operating margin that contracted 230 bps to 12.6% in the quarter under review.

Financials

Ralph Lauren ended the quarter with cash and short-term investments of \$2,012 million, total debt of \$1,631 million and total shareholders' equity of \$2,544.1 million. Inventory dropped nearly 12.4% from a year ago to \$887 million at the end of the quarter.

Store Update

As of Sep 26, 2020, Ralph Lauren had 542 directly-operated stores and 654 concession shops globally. The directly-operated stores included 145 Ralph Lauren, 72 Club Monaco and 325 Polo factory stores. Additionally, the company operated 273 licensed stores globally.

Looking Ahead

As part of the Fiscal 2021 Strategic Realignment Plan, management announced plans to lower headcount by the end of fiscal 2021, which is likely to generate pre-tax cost savings of roughly \$180-\$200 million from fiscal 2022. However, this move will result in pre-tax charges of up to \$160 million, which is likely to be incurred in second-quarter fiscal 2021.

Moving on, the company is on track with the transition of the Chaps brand, which is in sync with its long-term brand elevation strategy. In this context, it has entered into a multi-year licensing deal with an affiliate of 5 Star Apparel LLC, a division of the OVED Group, to be effective from Aug 1, 2021. Per the deal, 5 Star Apparel will manufacture, market and distribute men's and women's products of the Chaps brand. Also, this deal will help Ralph Lauren focus better on its core brands and reduce dependence on North American stores.

Recent News

Ralph Lauren Becomes Australian Open's Official Outfitter - Nov 16, 2020

Ralph Lauren is named the official outfitter of Australian Open 2021, to be held from Jan 18-31. This long-term partnership will allow the company to outfit all on-court officials, including the ball kids and chair umpires. The tennis event is anticipated to be viewed by 900 million households across 215 territories in Australia. This marks Ralph Lauren's third Grand Slam event following Wimbledon and the U.S. Open. Prior to this, it has been associated with many other renowned sports events, including U.S. Olympic and Paralympic teams, the PGA of America and the PGA Championship, the U.S. Ryder Cup Team, the U.S. Open Golf Championship and the American Junior Golf Association.

The company will specially design a collection of apparel and accessories, which are likely to showcase the spirit of the tournament — energetic and playful. The uniforms including Polo shirts, shorts, skorts and caps, will feature sustainable fabric made of yarns from recycled plastic bottles. Also, the outfits will be stretchable and offer moisture-wicking properties and UV protection for the convenience of players, particularly for the summer season.

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.

Valuation

Ralph Lauren shares are down 24% in the year-to-date period and 18% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 4.4% and 8.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 14% and 12.4%, respectively.

The S&P 500 index is up 13.2% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 20.1X forward 12-month earnings, which compares to 27.03X for the Zacks sub-industry, 33.06X for the Zacks sector and 22.34X 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 16.13X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$94 price target reflects 21.22X 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	20.1	27.03	33.06	22.34
	5-Year High	26.15	29.17	35.4	23.47
	5-Year Low	8.16	13.28	16.21	15.27
	5-Year Median	16.13	18.13	19.91	17.72
P/S F12M	Current	1.27	2.78	2.57	4.18
	5-Year High	1.9	2.78	2.9	4.3
	5-Year Low	0.71	1.45	1.7	3.17
	5-Year Median	1.22	2.09	2.48	3.67
EV/EBITDA TTM	Current	24.11	29.89	12.1	15.92
	5-Year High	24.11	29.89	17.93	16.17
	5-Year Low	4.12	10.69	8.32	9.54
	5-Year Median	7.41	17.99	12.28	13.12

As of 11/24/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Hanesbrands Inc. (HBI)	Outperform	3
Carters, Inc. (CRI)	Neutral	3
Guess, Inc. (GES)	Neutral	4
GIII Apparel Group, LTD. (GIII)	Neutral	2
lululemon athletica inc. (LULU)	Neutral	3
PVH Corp. (PVH)	Neutral	3
V.F. Corporation (VFC)	Neutral	2
HUGO BOSS (BOSSY)	Underperform	4

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	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	C	-	-	B	C	F
Market Cap	6.51 B	1.16 B	26.32 B	5.16 B	45.55 B	34.61 B
# of Analysts	6	4.5	14	7	16	11
Dividend Yield	0.00%	0.00%	1.46%	4.05%	0.00%	2.16%
Value Score	B	-	-	A	F	F
Cash/Price	0.43	0.14	0.07	0.15	0.01	0.08
EV/EBITDA	9.28	7.68	14.86	8.40	42.51	25.42
PEG F1	6.36	6.10	2.79	3.23	4.20	6.10
P/B	2.56	2.56	3.68	4.49	22.76	11.75
P/CF	8.44	8.65	13.94	6.84	56.42	20.52
P/E F1	75.66	27.65	21.92	10.67	84.06	66.41
P/S TTM	1.38	0.81	2.87	0.78	11.77	3.77
Earnings Yield	1.29%	1.51%	4.33%	9.38%	1.19%	1.51%
Debt/Equity	0.64	0.40	0.70	3.46	0.00	1.93
Cash Flow (\$/share)	10.55	2.28	6.93	2.17	6.20	4.32
Growth Score	C	-	-	B	B	D
Historical EPS Growth (3-5 Years)	-7.53%	-5.79%	9.72%	-1.59%	26.46%	-4.23%
Projected EPS Growth (F1/F0)	-82.39%	-47.80%	0.45%	-21.10%	-15.66%	-50.13%
Current Cash Flow Growth	-10.72%	2.71%	5.29%	2.71%	26.75%	-3.63%
Historical Cash Flow Growth (3-5 Years)	-4.88%	3.96%	8.33%	2.82%	19.56%	-3.37%
Current Ratio	2.51	1.72	1.38	2.03	1.95	3.20
Debt/Capital	39.06%	36.56%	41.99%	77.56%	0.00%	65.85%
Net Margin	-1.74%	-1.34%	10.44%	6.68%	13.94%	-0.52%
Return on Equity	5.14%	-0.77%	14.99%	52.04%	29.52%	16.44%
Sales/Assets	0.62	0.89	0.50	0.84	1.21	0.77
Projected Sales Growth (F1/F0)	-28.84%	0.00%	0.23%	-6.82%	4.05%	-18.24%
Momentum Score	F	-	-	F	B	C
Daily Price Change	6.83%	0.84%	1.91%	5.78%	0.29%	2.54%
1-Week Price Change	0.79%	7.64%	0.21%	5.25%	6.23%	6.74%
4-Week Price Change	19.55%	19.32%	11.71%	-15.31%	4.72%	22.62%
12-Week Price Change	28.71%	22.93%	11.69%	-4.63%	-10.64%	33.34%
52-Week Price Change	-17.95%	-8.51%	6.61%	-1.53%	56.86%	1.25%
20-Day Average Volume (Shares)	1,882,420	149,301	2,311,168	7,433,803	1,065,580	2,433,189
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.21%	0.00%
EPS F1 Estimate 4-Week Change	0.14%	0.00%	0.98%	-3.95%	-2.10%	0.96%
EPS F1 Estimate 12-Week Change	3.28%	26.61%	3.48%	-3.19%	0.90%	22.91%
EPS Q1 Estimate Monthly Change	-22.99%	0.00%	0.00%	-29.95%	0.72%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	B
Growth Score	C
Momentum Score	F
VGM Score	C

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

Disclosures

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

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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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