Ross Stores, Inc. (ROST)

$119.47 (As of 06/04/21)

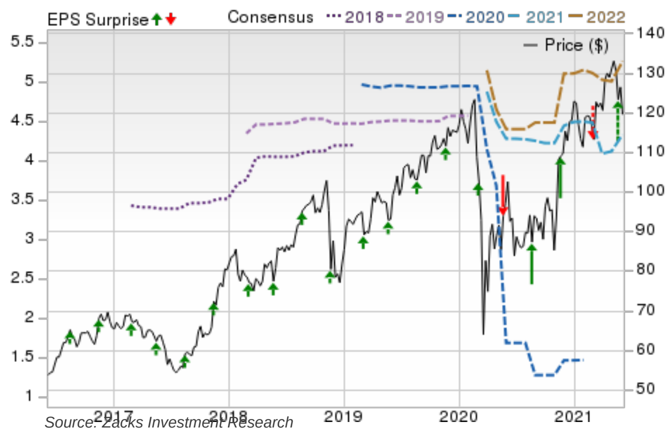
Price Target (6-12 Months): **$127.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/04/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: C | Growth: A | Momentum: A	

Summary

Ross Stores posted better-than-expected first-quarter fiscal 2021 results on strong pent-up customer demand, accelerated vaccination, government stimulus payments and easing of COVID restrictions. Accelerated demand trends after the easing of COVID-related restrictions resulted in earnings and sales growth both on a year over year and two-year basis. Also, earnings benefited from COGS leverage, rebound in operating margin, stringent inventory management and reduced Packaway. However, headwinds related to higher freight costs, distribution expenses, buying costs, supply chain constraints, and COVID-related expenses continued to weigh on margins. The higher costs have been hurting investor sentiment, resulting in the stock lagging the industry in the past year. Further, the company provided a cautious view for the second quarter and fiscal 2021.

Price, Consensus & Surprise



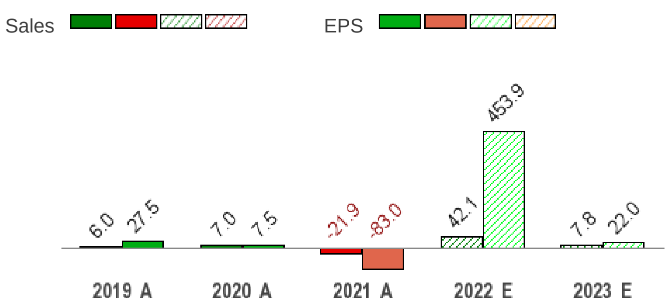
Data Overview

52-Week High-Low	$134.22 - $79.65
20-Day Average Volume (Shares)	2,353,571
Market Cap	$42.6 B
Year-To-Date Price Change	-2.7%
Beta	1.04
Dividend / Dividend Yield	$1.14 / 1.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 14% (36 out of 250)

Last EPS Surprise	48.9%
Last Sales Surprise	15.2%
EPS F1 Estimate 4-Week Change	5.1%
Expected Report Date	08/19/2021
Earnings ESP	-1.1%

P/E TTM	41.2
P/E F1	27.7
PEG F1	2.8
P/S TTM	2.8

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2023	5,152 E	4,891 E	4,576 E	5,220 E	19,193 E
2022	4,516 A	4,389 E	4,208 E	4,827 E	17,808 E
2021	1,843 A	2,685 A	3,755 A	4,250 A	12,532 A

EPS Estimates

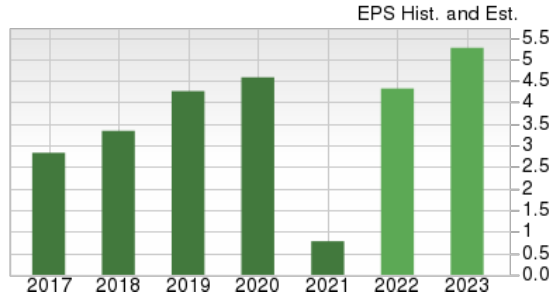
	Q1	Q2	Q3	Q4	Annual*
2023	$1.49 E	$1.25 E	$1.22 E	$1.39 E	$5.27 E
2022	$1.34 A	$0.95 E	$0.97 E	$1.14 E	$4.32 E
2021	-$0.29 A	-$0.13 A	$1.02 A	$0.67 A	$0.78 A

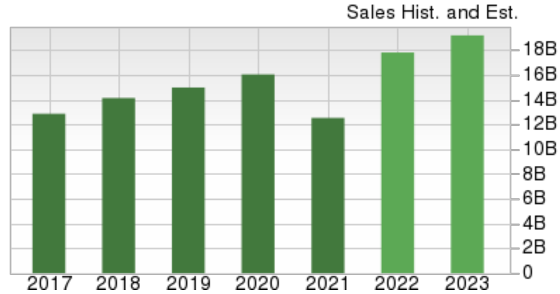
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 06/04/2021. The report's text and the analyst-provided price target are as of 06/07/2021.

Overview

Based in Dublin, CA, Ross Stores Inc. operates as an off-price retailer of apparel and home accessories, primarily in the United States. The company operates its stores under the Ross Dress for Less (Ross) and dd's DISCOUNTS names. The company's stores are located mostly in community and neighborhood shopping centers in heavily populated urban and suburban areas.





Ross Stores primarily offers in-season, branded, and designer apparel, footwear, accessories and other home-related merchandise for everyone in the family. This format primarily targets middle-income households. Prices offered at Ross are generally 20% to 60% below the regular prices of most department and specialty stores.

dd's DISCOUNTS features more moderately-priced first-quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family. These stores target moderate-income households. The dd's DISCOUNTS stores offer products at a 20% to 70% lesser price than the moderate department and discount stores.

Ross Stores remains focused with its store expansion initiatives over the years. Further, the company's efforts to expand base by making efforts to increase penetration in the existing as well as new markets. In this regard, it opened 26 stores across nine different states in February and March.

As of May 21, 2021, Ross Stores operated 1,866 outlets, including 1,589 Ross stores across 40 states, the District of Columbia and Guam, as well as 277 dd's DISCOUNTS stores in 21 states.

Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Q1 Results & Improved Trends:** Ross Stores reported better-than-expected top and bottom lines in first-quarter fiscal 2021. Also, earnings and sales improved 17% and 145% year over year, respectively. Results gained from pent-up customer demand, accelerated vaccination, government stimulus payments and easing of COVID restrictions. Notably, the year on year stemmed from the easing of COVID restrictions which has caused consumers to increasingly venture out to the stores as compared with the extended store closures in spring 2020 due to the pandemic that resulted in almost zero revenues in the later part of first-quarter fiscal 2020. Additionally, the company witnessed increased pent-up consumer demand trends resulting in robust earnings and sales growth compared with the first quarter of fiscal 2019, which denotes the pre-pandemic levels. Given the extended store closures and COVID-related disruptions throughout 2020, the company states that the first quarter of fiscal 2019 represents a more relevant basis for comparison.

Ross Stores reported better-than-expected Q1 results on strong pent-up customer demand, accelerated vaccination, government stimulus payments and easing of COVID restrictions.

Compared with first-quarter fiscal 2019, earnings improved 16.5%, with sales growth of 19%. Further, comparable store sales (comps) rose 13% versus first-quarter fiscal 2019 on higher average basket size. Also, the company noted that sales trends improved significantly sequentially from the fourth quarter of fiscal 2020, when comps declined 6% year over year. The sequential growth was attributed to significant acceleration in traffic trends compared with fourth-quarter fiscal 2020, although traffic declined slightly from first-quarter fiscal 2019 levels. Going forward, the company expects the tailwinds from pent-up consumer demand and the return of consumers to stores for shopping to aid sales trends through the rest of the year.

▲ **COGS Leverage & Operating Margin Growth:** Ross Stores' benefited from cost of goods sold (COGS) leverage in the fiscal first quarter, despite increased freight costs, supply chain headwinds, higher distribution expenses and elevated buying costs. As a percentage of sales, COGS was 70%, reflecting a significant decline from 103% in the year-ago quarter. Moreover, it leveraged 35 basis points (bps) from the first-quarter fiscal 2019 levels mainly driven by an 85-bps increase in merchandise margins and 60 bps leverage in occupancy expense. Moreover, the company witnessed rebound in operating margin, which improved to 14.2% in first-quarter fiscal 2021 from 14.1% in first-quarter fiscal 2019. The increase can be attributed to lower COGS and strong comps, which more than offset the headwinds from higher freight and wages, as well as ongoing COVID-related operating costs.

▲ **Improved Inventory and Packaway:** Ross Stores first-quarter results also benefited from its inventory management efforts, which led to lower inventory levels at the end of first-quarter fiscal 2021. Notably, consolidated inventories declined 6% at the end of the fiscal first quarter compared with the comparable fiscal 2019 levels. Packaway levels were at 34% compared with 44% first-quarter fiscal 2019. Further, average selling store inventories were down 1% relative to first-quarter fiscal 2019.

▲ **Store Expansion Plan:** Ross Stores has been consistent with the execution of its store expansion plans over the years. The company's store expansion efforts are focused on continually increasing penetration in the existing as well as new markets. The company opened four Ross Dress for Less and three dd's DISCOUNTS stores in the first quarter of fiscal 2021. The conservative store openings in the fiscal first quarter and a cautious view for fiscal 2021 demonstrate the fact that the targets were set in 2020, amidst the pandemic, when it was impossible to predict as to when the health crisis will subside. The company expects to open 30 stores in the fiscal second quarter comprising 22 Ross and eight dd's DISCOUNTS. The company reiterated its store opening plan for fiscal 2021, anticipating 60 new locations including 40 Ross Dress for Less and 20 dd's DISCOUNTS stores. Also, it plans to shut down or relocate nearly 10 older stores. However, for fiscal 2022, the company expects to return to its usual store expansion program, with plans to open about 100 new stores. As of May 21, 2021, the company operated 1,589 Ross stores across 40 states, the District of Columbia and Guam, as well as 277 dd's DISCOUNTS stores in 21 states. Earlier, it projected to expand the Ross chain of stores to 2,400 locations alongside operating about 600 dd's DISCOUNTS stores over the long term.

▲ **Financial Flexibility:** Ross Stores' cash and cash equivalents at the end of first-quarter fiscal 2021 increased 11.4% sequentially to $5,367 million. Its long-term debt of $2,449.2 million was almost flat with $2,448.2 million at the end of fourth-quarter fiscal 2020. Its debt-to-capitalization ratio of 0.41, represents a sequential improvement from 0.43 at the end of the prior quarter and compares favorably with the industry's ratio of 0.42. Moreover, its times interest earned ratio of 12.7 compared with the industry's 8.6 indicates it is better-positioned to meet its debt obligations, compared to peers.

▲ **Sustained Shareholder Returns:** Ross Stores' remains committed to rewarding shareholders with share buybacks and dividend payouts. After suspending share repurchases and dividends for a prolonged period of time due to the ongoing COVID-19 crisis, management has resumed dividend payouts. This reflects the company's solid cash position and confidence in future prospects. On May 20, the board approved a quarterly dividend of 28.5 cents per share payable on Jun 30, 2021 to shareholders with record as of Jun 8. Notably, the company has an annualized dividend yield of 0.95%, dividend payout of 39.3% and free cash flow yield of 8.61%. With an annual free cash flow return on investment of 34.2%, ahead of the industry's nearly 30.38%; the dividend payment is likely to be sustainable. Moreover, the company resumed share buy backs by approving a new share repurchase program of up to $1.5 billion through fiscal 2022. Under the plan, it expects to repurchase shares worth of $650 million in fiscal 2021 and the remaining $850 million in fiscal 2022.

Reasons To Sell:

Ross Stores expects COVID-led costs to mar Q2 operating margin by 100 bps as it returns to pre-pandemic store operating standards, while maintaining many of the additional cleaning routines.

- **Stock Underperforms, Appears Overvalued:** Shares of Ross Stores have gained 16.2% in the past year compared with the industry's growth of 31%. Although the robust first-quarter fiscal 2021 performance raises optimism, continued impacts from COVID-related expenses has been hurting investor sentiments. Considering price-to-earnings (P/E) ratio, Ross Stores looks pretty overvalued compared with the broader industry and the market at large. The stock has a trailing 12-month P/E ratio of 41.2x compared with 36.71x for the industry and 27.9x for the S&P 500. Its trailing 12-month P/E ratio is below the median level of 51.38x and the high level of 103.29x.

- **Higher COVID-Related Costs:** Ross Stores has been witnessing costs related to COVID-19 for some time now. During the fiscal first-quarter, net COVID-19-related expenses incurred by the company were about 35 bps of sales. The majority of these expenses impacted SG&A expense, which deleveraged 25 bps, as a percentage of sales, compared with first-quarter fiscal 2019. Impacts on SG&A expense mainly included higher operating expenses associated with the pandemic related cleaning protocols and higher incentive costs. Additionally, the COVID-related costs impacted COGS, as a percentage of sales. Notably, COGS were impacted by a 75-bps increase in freight costs driven by industry-wide supply chain congestions, 25 bps increase in distribution expenses on higher wages, and 10 bps rise in buying costs.

  Looking ahead, the company anticipates higher freight costs, increased wages and elevated COVID-related costs to continue hurting operating margin through the rest of fiscal 2021, relative to fiscal 2019. Consequently, the company's operating margin view for the second quarter and fiscal 2021 are softer when compared with the respective fiscal 2019 periods. Notably, it predicts COVID-related expenses to mar operating margin by nearly 100 bps in the fiscal second quarter as it returns to pre-pandemic store operating standards, while continuing to maintain many of the additional cleaning routines.

- **High Interest Expense:** In first-quarter fiscal 2021, Ross Stores' interest expense of $19 million rose significantly from $6.7 million in first-quarter fiscal 2020 and against interest income of $5.6 million recorded in first-quarter fiscal 2019. The rise in interest expense mainly stemmed from higher debt levels. As of May 1, 2021, the company's long-term debt of $2,449.2 million increased 7.2% year over year. Moreover, long-term debt at quarter-end reflected a substantial growth from $312.6 million as of May 4, 2019. Moreover, the company anticipates interest expense to be about $19 million for second-quarter fiscal 2021 and nearly $75 million for fiscal 2021.

- **Cautious Outlook:** Despite reporting strong first-quarter fiscal 2021 results, Ross Stores provided a cautious view for the second quarter and fiscal 2021 as it expects that the sales growth may slow down as the federal stimulus programs wind down. Additionally, it expects to ongoing cost headwinds from coronavirus-related expenses, wage increases, and rising freight costs to persist through the rest of fiscal 2021. For the fiscal second quarter, the company anticipates comps to increase 5-7% versus second-quarter fiscal 2019. Sales are projected to increase 9-12% in the fiscal second quarter. Operating margin is anticipated to be 9.2-9.9% compared with 13.7% in second-quarter fiscal 2019. Moreover, earnings per share is expected to be 80-89 cents, representing a decline from $1.14 reported in second-quarter fiscal 2019.

  For fiscal 2021, the company expects comps of 7-9% compared with fiscal 2019 levels, with sales expected to increase 11-13%. Operating margin is anticipated to be 10.7-11.2% compared with 13.4% in fiscal 2019. Earnings per share for fiscal 2021 is expected to be$3.93-$4.20, reflecting a decline from $4.60 in fiscal 2019.

- **Competitive Pressure:** Ross operates in a highly fragmented retail apparel market and faces intense competition from other well-established department stores, specialty stores, discount stores, warehouse stores, other off-price retailers, and manufacturer-owned outlet stores. Many of the company's competitors have larger number of stores, greater market presence, more brand recognition and financial resources that may make it difficult for the company to compete.

Last Earnings Report

Ross Stores Q1 Earnings & Sales Surpass Estimates

Quarter Ending	04/2021
Report Date	May 20, 2021
Sales Surprise	15.24%
EPS Surprise	48.89%
Quarterly EPS	1.34
Annual EPS (TTM)	2.90

Ross Stores reported solid results for first-quarter fiscal 2021, wherein both top and bottom lines beat the Zacks Consensus Estimate and also advanced year over year. Results gained from pent-up customer demand, accelerated vaccination, government stimulus payments and easing of COVID restrictions.

Ross Stores reported earnings of $1.34 per share, up 17% from $1.15 per share reported in the prior-year quarter. Moreover, the figure surpassed Zacks Consensus Estimate of 90 cents.

Total sales surged more than two-folds to $4,516.1 million and beat the Zacks Consensus Estimate of $3,941 million. Solid performance across the home category and Midwest region contributed to the top line. Also, the dd's DISCOUNTS business performed well.

Notably, fiscal first quarter comparable store sales (comps) improved 13% compared with first-quarter fiscal 2019 owing to higher average basket size. Although traffic declined compared to fiscal 2019 levels, it improved sequentially.

Cost of goods sold (COGS) surged 69.2% year over year to nearly $3,198.4 million As a percentage of sales, COGS contracted significantly to 71% compared to 103% in the last-year quarter. The decline was driven by an increase in merchandise margin and lower occupancy cost (due to lower sales), offset by higher freight costs (stemming from supply-chain bottlenecks in the industry), elevated buying costs and increased distribution expenses (led by escalated wages somewhat offset by favorable timing of packaway costs).

Selling, general and administrative (SG&A) expenses increased 63% to $675.1 million while the metric, as a percentage of sales, contracted 750 bps to 15%. This reflected operating expenses associated with the pandemic and higher incentive costs. Incidentally, the company recorded net COVID-19 expenses of roughly 35 bps in the first quarter, which had a greater impact on SG&A than COGS.

Apart from these, operating margin of 14.2% inched up from 14.1% in the first quarter of fiscal 2019.

Store Update

In fiscal 2021, the company continues to expect opening of nearly 60 new locations, including 40 Ross Dress for Less and 20 dd's DISCOUNTS. Also, it plans to shut down or relocate nearly 10 older stores. Moreover, it intends to open roughly 100 stores in fiscal 2022. Management anticipates opening 22 Ross Dress for Less and eight dd's DISCOUNTS stores in the second quarter of fiscal 2021.

As of the end of the quarter, consolidated inventories declined 6% versus first-quarter fiscal 2019. Packaway levels were at 34% compared with 44% first-quarter fiscal 2019. Further, average store inventories were down 1% relative to first-quarter fiscal 2019.

Financials

Ross Stores ended the quarter with cash and cash equivalents of $5,367 million, long-term debt of $2,449.2 million and total shareholders' equity of $3,652.8 million.

Moreover, the company's board resumed share repurchases by approving a new share repurchase program of up to $1.5 billion, wherein it can buy back $650 million in fiscal 2021 and the rest in the next fiscal.

Outlook

Management stated that the company will post results for fiscal 2021 in comparison with fiscal 2019. Major impacts from the extended closure of the company's operations in spring 2020, together with the ongoing pandemic-led hurdles, make fiscal 2019 a more appropriate basis for comparison. Consequently, the below guidance reflects comparisons from respective fiscal 2019 periods.

For fiscal 2021, comps are likely to be up 7-9% with sales envisioned to rise 11-13%. Adjusted earnings are expected to be $3.93-$4.20 per share, with operating margin of 10.7-11.2%.

For the second quarter of fiscal 2021, earnings per share are projected in the range of 80-89 cents. Comps for the 13 weeks ended Jul 31, 2021, are likely to rise 5-7%. Moreover, sales are anticipated to grow 9-12%. Further, it expects operating margin to be 9.2-9.9%. Also, this guidance includes a potential rise in freight, wages and other COVID-related expenses. In fact, COVID-related costs are forecasted to affect EBIT margins by nearly 100 basis points in the said period.

Recent News

Ross Stores Declares Dividend – May 20, 2021

Ross Stores declared a quarterly cash dividend of 28.5 per share, payable on Jun 30, 2021 to shareholders with record as of Jun 8.

Ross Stores' Expansion Plans on Track, Adds 60 New Stores - Mar 8, 2021

Ross Stores remain on track with its store expansion plans. In this regard, the company revealed plans to open 40 Ross Dress for Less stores and 20dd's DISCOUNTS stores across 17 states during fiscal 2021.

Valuation

Ross Stores shares are down 2.7% in the year-to-date period but up nearly 16.2% for the trailing 12-month period. Stocks in the Zacks sub-industry are up 6% but the Zacks Retail-Wholesale sector is down 2.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 31% and 17.5%, respectively.

The S&P 500 index is up 13.3% in the year-to-date period and 33.1% in the past year.

The stock is currently trading at 25.67X forward 12-month earnings, which compares to 24.64X for the Zacks sub-industry, 27.95X for the Zacks sector and 21.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 79.52X and as low as 12.15X, with a 5-year median of 21.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $127 price target reflects 27.29X forward 12-month earnings.

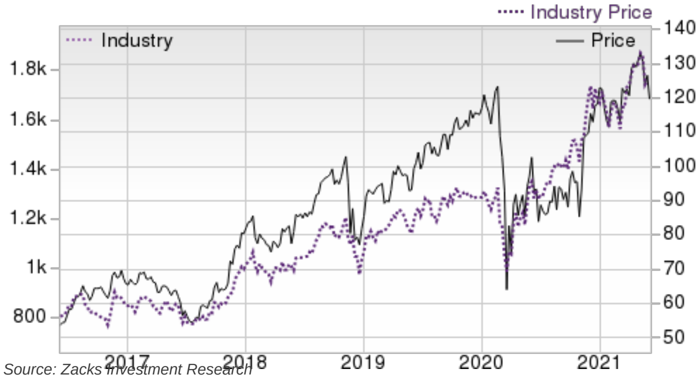
The table below shows summary valuation data for ROST

Valuation Multiples - ROST

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.67	24.64	27.95	21.84
	5-Year High	79.52	29.98	34.06	23.83
	5-Year Low	12.15	17.93	19.13	15.3
	5-Year Median	21.66	20.62	23.93	18.03
P/S F12M	Current	2.33	1.6	1.32	4.72
	5-Year High	3.37	1.68	1.41	4.74
	5-Year Low	1.26	0.96	0.84	3.21
	5-Year Median	2.13	1.22	1.02	3.72
EV/EBITDA TTM	Current	21.66	28.32	19.02	17.34
	5-Year High	47.75	30.76	20.81	17.73
	5-Year Low	8.23	11.02	11.18	9.62
	5-Year Median	13.92	15.59	13.44	13.45

As of 06/04/2021 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 14% (36 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Burlington Stores, Inc. **(BURL)**	Outperform	1
Target Corporation **(TGT)**	Outperform	1
Big Lots, Inc. **(BIG)**	Neutral	3
Costco Wholesale Corporation **(COST)**	Neutral	3
Dollar General Corporation **(DG)**	Neutral	2
Dollar Tree, Inc. **(DLTR)**	Neutral	3
The TJX Companies, Inc. **(TJX)**	Neutral	3
Walmart Inc. **(WMT)**	Neutral	2

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

Industry Comparison Industry: Retail - Discount Stores

	ROST	X Industry	S&P 500	BIG	BURL	DG
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	2
VGM Score	A	-	-	A	C	B
Market Cap	42.60 B	33.11 B	30.49 B	2.27 B	20.26 B	48.84 B
# of Analysts	12	11	12	6	10	26
Dividend Yield	0.95%	0.81%	1.29%	1.85%	0.00%	0.81%
Value Score	C	-	-	A	F	B
Cash/Price	0.13	0.08	0.06	0.27	0.08	0.01
EV/EBITDA	71.64	13.12	17.32	1.70	-180.92	12.66
PEG F1	2.75	1.72	2.16	0.86	NA	1.72
P/B	11.66	7.81	4.24	1.79	37.53	7.81
P/CF	54.66	19.92	17.90	5.64	365.25	15.69
P/E F1	27.53	23.32	21.66	9.67	35.65	21.12
P/S TTM	2.80	1.17	3.52	0.36	2.83	1.45
Earnings Yield	3.62%	4.33%	4.47%	10.34%	2.81%	4.73%
Debt/Equity	0.67	0.66	0.66	0.03	3.85	0.66
Cash Flow ($/share)	2.19	6.59	6.83	11.49	0.83	13.18
Growth Score	A	-	-	B	A	A
Historical EPS Growth (3-5 Years)	-4.58%	11.79%	9.44%	14.43%	11.79%	22.73%
Projected EPS Growth (F1/F0)	453.95%	24.16%	21.30%	-8.84%	432.18%	-7.81%
Current Cash Flow Growth	-61.13%	-0.42%	0.98%	52.18%	-92.22%	44.07%
Historical Cash Flow Growth (3-5 Years)	-9.67%	6.93%	7.34%	10.45%	-30.80%	16.24%
Current Ratio	1.72	1.36	1.39	1.55	1.58	1.14
Debt/Capital	40.14%	39.79%	41.53%	2.47%	79.40%	39.79%
Net Margin	5.71%	5.71%	11.95%	10.56%	4.03%	7.96%
Return on Equity	32.44%	32.30%	16.36%	25.92%	82.78%	39.37%
Sales/Assets	1.22	1.31	0.51	1.55	1.06	1.31
Projected Sales Growth (F1/F0)	42.11%	9.13%	9.30%	-1.46%	52.60%	0.51%
Momentum Score	A	-	-	A	A	D
Daily Price Change	-0.01%	0.63%	0.34%	-0.23%	0.32%	0.37%
1-Week Price Change	-5.48%	1.91%	0.58%	6.33%	-5.88%	1.87%
4-Week Price Change	-10.15%	-6.20%	0.29%	-6.30%	-8.05%	-6.10%
12-Week Price Change	-2.57%	-2.43%	8.01%	-5.64%	-2.30%	7.71%
52-Week Price Change	16.58%	28.06%	33.62%	77.88%	40.88%	11.36%
20-Day Average Volume (Shares)	2,353,571	2,035,888	1,797,059	776,018	541,151	2,079,001
EPS F1 Estimate 1-Week Change	0.42%	0.40%	0.00%	1.44%	2.66%	0.39%
EPS F1 Estimate 4-Week Change	5.09%	7.57%	0.07%	17.27%	21.28%	5.14%
EPS F1 Estimate 12-Week Change	5.33%	6.95%	3.32%	21.16%	24.02%	-0.43%
EPS Q1 Estimate Monthly Change	-10.34%	7.20%	0.00%	22.46%	18.94%	0.69%

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

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

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.

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.