

Ross Stores, Inc. (ROST)

\$124.09 (As of 05/12/21)

Price Target (6-12 Months): **\$132.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

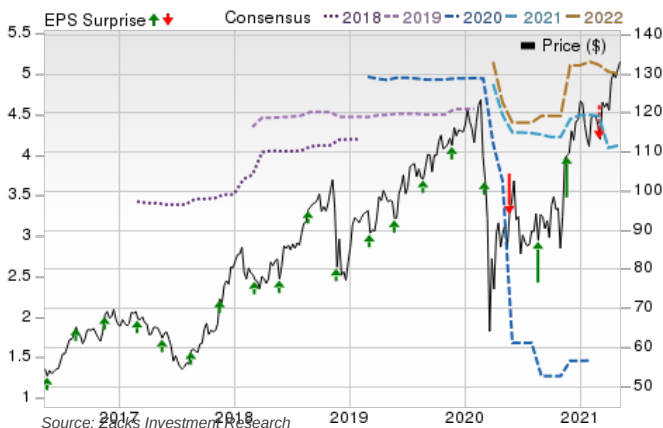
Growth: A

Momentum: D

Summary

Shares of Ross Stores have outpaced the industry in past six months. However, it posted drab fourth-quarter fiscal 2020 results, wherein both top and bottom lines fell year over year. Results were affected by soft traffic due to a rise in coronavirus cases and elevated costs. The rise in coronavirus cases during the holiday season hurt comps in the quarter. It expects sales and comps to decline in the first quarter of fiscal 2021 due to potential muted demand during Easter and ongoing supply-chain disruptions. Further, COVID-19-related costs are likely to be significantly higher in the fiscal first quarter, hurting the bottom line and margins. However, it witnessed continued strength in its Home category, with the Midwest and Southeast performing well during the holiday season sales. Also, it resumed dividend payments in the fiscal fourth quarter.

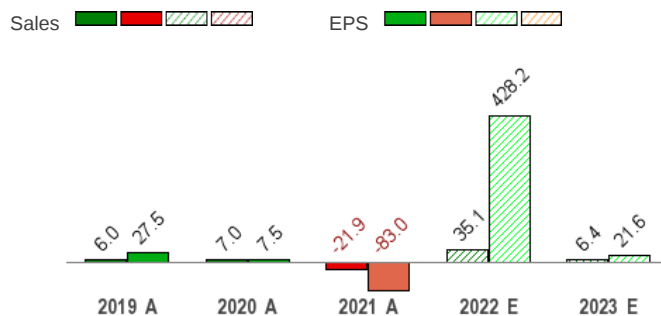
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$134.22 - \$79.65
20-Day Average Volume (Shares)	1,450,162
Market Cap	\$44.3 B
Year-To-Date Price Change	1.0%
Beta	1.03
Dividend / Dividend Yield	\$1.14 / 0.9%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 17% (208 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-35.0%
Last Sales Surprise	-1.0%
EPS F1 Estimate 4-Week Change	0.4%
Expected Report Date	05/20/2021
Earnings ESP	7.2%
P/E TTM	97.7
P/E F1	30.1
PEG F1	3.0
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2023					18,021 E
2022	3,837 E	4,178 E	4,108 E	4,703 E	16,935 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					\$5.01 E
2022	\$0.86 E	\$1.05 E	\$1.05 E	\$1.24 E	\$4.12 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 05/12/2021. The report's text and the analyst-provided price target are as of 05/13/2021.

Overview

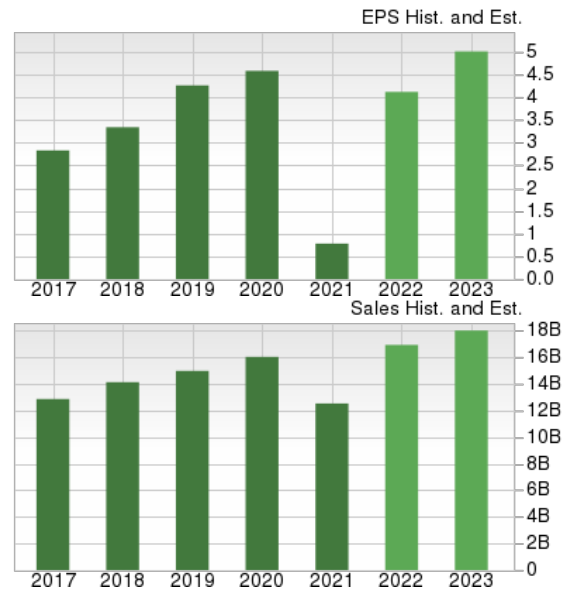
Based in Dublin, CA, Ross Stores Inc. operates as an off-price retailer of apparel and home accessories, primarily in the United States. The company operates its stores under the Ross Dress for Less (Ross) and dd's DISCOUNTS names. The company's stores are located mostly in community and neighborhood 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 Jan 30, 2021, Ross Stores operated 1,859 outlets, including 1,585 Ross stores across 40 states, the District of Columbia and Guam, as well as 274 dd's DISCOUNTS stores in 21 states.



Reasons To Buy:

- ▲ **Off-Price Model:** Shares of Ross Stores gained 12.2% in the past six months compared with the industry's growth of 9.9%. Ross operates a chain of off-price retail apparel and home accessories stores, which target value-conscious men and women, aged 25 to 54 in middle-to-upper middle-class households. The company has a proven business model as the competitive bargains it offers continue to make its stores attractive destinations for customers in all economic scenarios. Moreover, the off-price model offers strong value proposition and micro-merchandising that drive better product allocation and margins.

During the holiday season sales, the company witnessed the largest merchandise gains at the Home category. Meanwhile, the Midwest and Southeast were the best performing geographic regions. Overall, gains at the core business demonstrated consumers' continued focus on value and the company's ability to deliver the value bargains to customers.

Ross Stores' witnessed continued strength in its Home category with the Midwest and Southeast performing well during the holiday season. Also, it resumed dividend payments in Q4.

- ▲ **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. During third-quarter fiscal 2020, the company opened 30 Ross and 9 dd's DISCOUNTS stores, thereby marking the completion of its expansion program, targeting the opening of 66 store in fiscal 2020As of the end of fiscal 2020, the company operated 1,585 Ross stores across 40 states, the District of Columbia and Guam, as well as 274 dd's DISCOUNTS stores in 21 states. In fiscal 2021, the company expects nearly 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. Management anticipates opening four Ross Dress for Less and three dd's DISCOUNTS stores in the first quarter of fiscal 2021. Moreover, it revealed plans to open 40 Ross Dress for Less and 20 dd's DISCOUNTS stores in fiscal 2021. 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 fourth-quarter fiscal 2020 increased 9.1% sequentially to \$4,819.3 million. Further, its long-term debt of \$2,448.2 million fell 2.5% sequentially, with a debt-to-capitalization ratio of 0.43, which represents a sequential improvement from 0.45. Moreover, the company had liquidity of more than \$5.6 billion at the end of the fiscal fourth quarter, which includes cash on hand and \$800 million available under its revolving credit facility.
- ▲ **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. During the fiscal fourth quarter, the board approved a quarterly dividend of 85 cents per share payable on Mar 31 as of shareholders' record on Mar 16, 2021. Notably, the company has an annualized dividend yield of 0.5%, dividend payout of 44.9% and free cash flow yield of 9.9%.

Reasons To Sell:

- ▼ **Soft Q4 Results & Outlook:** Ross Stores reported soft fourth-quarter fiscal 2020 results, wherein both top and bottom lines declined year over year and fell short of the respective Zacks Consensus Estimate. Results were affected by soft traffic due to a rise in coronavirus cases as well as elevated costs. Notably, total sales declined 3.7% year over year due to reduced traffic, mainly in California (which is the company's biggest state) stemming from a resurge in COVID-19 cases. Due to these factors, Ross Stores encountered strict occupancy as well as operating hour limitations. Moreover, comparable store sales (comps) declined 6% in the fourth quarter owing to the rise in coronavirus cases during the holiday season peak.

Management expects total sales to decline 1-4%, with comps decline of 1-5% for the first quarter of fiscal 2021 due to potential muted demand during Easter and ongoing supply chain disruptions.

Ross Stores expects significantly higher COVID-led expenses in Q1 on managing impacts of industry-wide capacity constraints and congestion, and wage and incentive actions in supply chain and stores.

- ▼ **Stock Appears Overvalued:** 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 97.91x compared with 36.64x for the industry and 26.74x for the S&P 500. Its trailing 12-month P/E ratio is above the median level of 57.27x but below the high level of 104.69x.
- ▼ **Higher COVID-Related Costs:** Ross Stores has been witnessing costs related to COVID-19 and lower packaway levels for some time now. During the quarter, the company incurred about \$40 million of net COVID-19-related expenses. It notes that the impacts of these expenses were slightly higher on cost of goods sold (COGS) than SG&A expenses. Meanwhile, packaway levels of 38% at the end of fiscal 2020 were significantly below the prior year's figure of 46%. Nonetheless, the company expects the COVID-19-related expense to be significantly higher in the fiscal first quarter which is likely to hurt EBIT margins by nearly 50 basis points(bps) in the fiscal first quarter. Moreover, earnings are likely to continue bearing impacts from the abovementioned cost-related pressures throughout fiscal 2021. The rise in costs is mainly attributed to expenses for managing the impacts of industry-wide capacity constraints and congestion as well as wage and incentive actions in supply chain and stores.
- ▼ **Elevated COGS & SG&A Expense Hurt Margins:** The increase in COVID-related costs and other expenses partly impacted the bottom-line growth and margins in the fiscal third quarter. Although COGS declined 2.1% year over year, as a percentage of sales, it increased 125 bps. The higher COGS rate was attributed to higher freight costs of 100 bps, elevated buying costs of 50 bps, increased distribution expenses of 15 bps and distribution expenses of 15 bps. Higher costs more than offset the 70-bps increase in merchandise margin, owing to a favorable buying environment. SG&A expense rose 14.7% year over year, while SG&A expense rate increased 260 bps. This reflected deleveraging effects of lower comps and higher pandemic-related operating costs as well as the timing of incentive costs. Backed by the higher costs, operating margin of 9.5% declined significantly from 13.3% in the year-ago quarter. The decline was mainly due to elevated supply-chain and pandemic-related operating costs, along with the deleverage impact on expenses from reduced sales.

Going ahead, management envisions fiscal first-quarter operating margin to be 9.9-10.8% as compared to prior-year quarter's reported figure of 14.1%. This includes the estimated decline in comps and COVID-19 costs related to higher supply chain costs and elevated wages.

Last Earnings Report

Ross Stores Misses Q4 Earnings & Sales Estimates

Ross Stores reported soft results for fourth-quarter fiscal 2020 results, as both top and bottom lines declined year over year and fell short of the respective Zacks Consensus Estimate. Results were affected by soft traffic due to a rise in coronavirus cases as well as elevated costs.

Nonetheless, management remains optimistic about being able to sail through the tough times on the back of its solid management team and strong financial base. The company operates in a sector that is likely to encounter lesser brick and mortar competition due to retail closures and bankruptcies. Thus, the company remains well placed to witness market share gains over time and encouraged about its longer-term prospects.

Q4 Highlights

Ross Stores reported earnings of 67 cents per share, down 47.7% from \$1.28 per share reported in the prior-year quarter. Moreover, earnings fell quite short of the Zacks Consensus Estimate of \$1.03 per share.

Total sales declined 3.7% to \$4,249.7 million and missed the Zacks Consensus Estimate of \$4,305 million. Though sales surpassed management's expectations, the surge in COVID-19 cases led to reduced traffic, mainly in California (which is the company's biggest state). Due to these factors, Ross Stores encountered strict occupancy as well as operating hour limitations.

The company witnessed the largest merchandise gains in the Home category during the holiday season. Meanwhile, the Midwest and Southeast were the best performing geographic regions. However, the company's largest states, including California, Florida and Texas, significantly underperformed the chain average in the holiday season.

Moreover, the dd's DISCOUNTS business bore the brunt of pandemic-induced hurdles, though at a lesser extent compared with Ross Stores, due to its smaller count of border and tourist locations.

Notably, comparable store sales (comps) declined 6% in the fourth quarter, following a 3% drop in the preceding quarter. Fourth-quarter comps were affected by the rise in coronavirus cases during the holiday season peak. This, in turn, led to lower traffic, which was somewhat made up by higher average basket size.

Cost of goods sold (COGS) declined 2.1% to nearly \$3,157 million. As a percentage of sales, COGS expanded 125 basis points (bps) year over year, driven by higher freight costs of 100 bps (stemming from supply-chain bottlenecks in the industry), elevated buying costs of 50 bps, increased distribution expenses of 15 bps (led by escalated wages somewhat offset by favorable timing of packaway costs) and occupancy deleverages of 30 bps (due to lower sales). These aspects more than offset the 70-bp increase in merchandise margin.

Selling, general and administrative (SG&A) expenses increased 14.7% to \$690.6 million and, as a percentage of sales, it expanded 260 bps. This reflected deleveraging effects of lower comps and higher pandemic-related operating costs as well as the timing of incentive costs. Incidentally, the company recorded net COVID-19 expenses of roughly \$40 million in the fourth quarter, which had a greater impact on SG&A than COGS.

Operating margin of 9.5% declined from 13.3% in the year-ago quarter due to elevated supply-chain and pandemic-related operating costs, along with the deleverage impact on expenses from reduced sales. These were somewhat made up by a rise in the merchandise margin.

Store Update

Though management remains on track with the store expansion, its pace of openings is likely to moderate this year, particularly in spring. In fiscal 2021, the company expects 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. Management anticipates opening four Ross Dress for Less and three dd's DISCOUNTS stores in the first quarter of fiscal 2021.

As of the end of 2020, consolidated inventories declined 18% from the prior year. Packaway levels were at 38% compared to 46% last year. Further, average store inventories were down 16%.

Financials

Ross Stores ended the quarter with cash and cash equivalents of \$4,819.3 million, long-term debt of \$2,448.2 million and total shareholders' equity of \$3,290.6 million. The company had liquidity of more than \$5.6 billion at the end of the fiscal fourth quarter, which includes an available cash balance and \$800-million available under its revolving credit facility.

Further, management recently approved the reinstatement of its quarterly dividend at 28.5 cents per share, which is payable on Mar 31, 2021, to shareholders of record as of Mar 16. Resumption of dividend payouts reflects the company's solid cash position and confidence in future prospects.

Outlook

Management's guidance and results for fiscal 2021 will be posted 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. Given less visibility related to the pandemic and the speed of economic recovery, the company has only offered a specific view for the first quarter, though it provided a general outlook for the entire year.

Quarter Ending	01/2021
Report Date	Mar 02, 2021
Sales Surprise	-0.98%
EPS Surprise	-34.95%
Quarterly EPS	0.67
Annual EPS (TTM)	1.27

Comps for the 13 weeks ended May 1, 2021, are likely to decline 1-5%. In the first quarter of fiscal 2021, earnings per share are projected in the range of 74-86 cents. This guidance reflects deleverage impacts from the expected decline in comps, elevated supply-chain costs, ongoing costs related to the pandemic and escalated wages.

Management expects comps to improve through the year, on the back of continued rollout of the COVID-19 vaccine, likely pent-up consumer demand and prospective increased government stimulus. That being said, earnings are likely to continue bearing impacts from the abovementioned cost-related pressures throughout fiscal 2021. Consequently, profitability in the year is likely to be considerably lower than recent historic highs.

Recent News

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 up 1.3% in the year to date period and nearly 47.2% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 3.8% but the Zacks Retail-Wholesale sector is down 4% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 43.2% and 28.3%, respectively.

The S&P 500 index is up 9.2% in the year-to-date period and 46.6% in the past year.

The stock is currently trading at 28.42X forward 12-month earnings, which compares to 27.02X for the Zacks sub-industry, 29.55X for the Zacks sector and 21.33X 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 21.59X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$132 price target reflects 30.23X forward 12-month earnings.

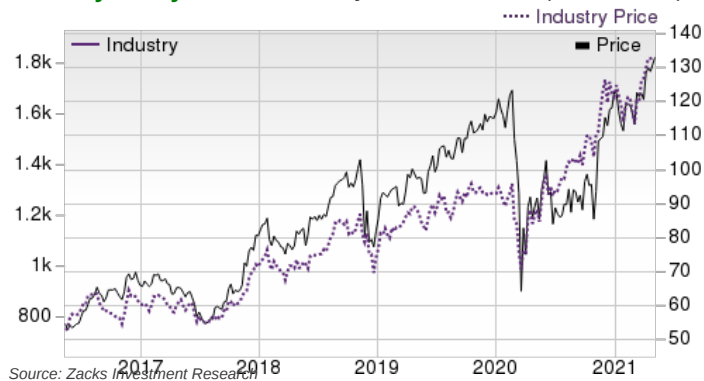
The table below shows summary valuation data for ROST

Valuation Multiples - ROST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.42	27.02	29.55	21.33
	5-Year High	79.52	29.98	34.1	23.83
	5-Year Low	12.15	17.93	19.13	15.3
	5-Year Median	21.59	20.58	23.92	18.02
P/S F12M	Current	2.57	1.64	1.32	4.56
	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	2.12	1.22	1.03	3.71
EV/EBITDA TTM	Current	45.06	27.62	18.21	16.31
	5-Year High	48.46	30.76	20.84	17.71
	5-Year Low	8.23	11.02	11.19	9.61
	5-Year Median	13.8	15.49	13.46	13.39

As of 05/12/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 17% (208 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Neutral	3
Burlington Stores, Inc. (BURL)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Target Corporation (TGT)	Neutral	3
The TJX Companies, Inc. (TJX)	Neutral	3
Walmart Inc. (WMT)	Neutral	3
Dollar General Corporation (DG)	Underperform	5

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

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	ROST	X Industry	S&P 500	BIG	BURL	DG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	B	-	-	A	C	C
Market Cap	44.25 B	34.98 B	29.66 B	2.23 B	20.90 B	49.26 B
# of Analysts	12	10.5	12	6	9	26
Dividend Yield	0.92%	0.82%	1.32%	1.89%	0.00%	0.82%
Value Score	C	-	-	A	D	C
Cash/Price	0.10	0.08	0.06	0.23	0.06	0.03
EV/EBITDA	75.60	12.60	17.16	1.72	-186.44	12.60
PEG F1	3.01	2.29	2.17	0.99	NA	2.02
P/B	13.44	7.57	4.09	1.85	44.87	7.57
P/CF	56.77	18.69	17.15	5.54	376.96	15.62
P/E F1	30.12	26.57	21.36	11.13	44.63	21.72
P/S TTM	3.53	1.08	3.48	0.36	3.63	1.46
Earnings Yield	3.32%	3.82%	4.61%	8.98%	2.24%	4.60%
Debt/Equity	0.74	0.62	0.66	0.03	4.15	0.62
Cash Flow (\$/share)	2.19	6.59	6.78	11.49	0.83	13.18
Growth Score	A	-	-	B	B	D
Historical EPS Growth (3-5 Years)	-3.06%	11.74%	9.39%	11.74%	17.45%	20.85%
Projected EPS Growth (F1/F0)	427.88%	12.26%	19.45%	-22.27%	373.89%	-10.76%
Current Cash Flow Growth	-61.13%	-0.42%	0.61%	52.18%	-92.22%	44.07%
Historical Cash Flow Growth (3-5 Years)	-9.67%	6.93%	7.37%	10.45%	-30.80%	16.24%
Current Ratio	1.69	1.35	1.39	1.58	1.49	1.21
Debt/Capital	42.66%	38.28%	41.55%	2.72%	80.57%	38.28%
Net Margin	0.68%	2.59%	11.70%	10.15%	-3.76%	7.87%
Return on Equity	15.42%	19.46%	15.91%	24.21%	-51.65%	37.64%
Sales/Assets	1.06	1.31	0.50	1.58	0.86	1.31
Projected Sales Growth (F1/F0)	35.14%	2.55%	8.92%	-5.24%	39.20%	0.12%
Momentum Score	D	-	-	B	D	A
Daily Price Change	-3.90%	-3.60%	-2.23%	-4.82%	-4.58%	-3.75%
1-Week Price Change	1.54%	2.04%	2.47%	0.32%	1.43%	2.54%
4-Week Price Change	-2.19%	-2.88%	0.88%	-6.55%	-3.58%	-3.60%
12-Week Price Change	3.87%	3.02%	8.87%	-0.69%	18.63%	2.17%
52-Week Price Change	48.22%	53.07%	55.44%	139.37%	93.25%	13.38%
20-Day Average Volume (Shares)	1,450,162	1,406,919	1,926,523	608,812	405,957	1,611,242
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.37%	0.49%	1.77%	2.08%	2.13%	0.07%
EPS F1 Estimate 12-Week Change	-8.40%	-0.42%	2.62%	5.93%	0.06%	-5.29%
EPS Q1 Estimate Monthly Change	0.00%	0.63%	1.11%	-7.81%	1.91%	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	C
Growth Score	A
Momentum Score	D
VGM Score	B

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

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

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

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.