

## Sally Beauty (SBH)

**\$9.24** (As of 11/03/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: F

### Summary

Shares of Sally Beauty have underperformed the industry year to date. The company bore the brunt of temporary store closures amid the coronavirus outbreak. During third-quarter fiscal 2020, earnings and sales fell year over year. Apart from this, Sally Beauty witnessed escalated costs and strained margins in the quarter. Nevertheless, the company saw solid online sales led by higher demand on digital platforms, which provided it a cushion amid coronavirus-led store closures. With restrictions to check COVID-19 being lifted, the company has reopened most of its stores. In fact, Sally Beauty is witnessing robust demand since its stores reopened. Apart from this, the company is on track with its Transformation Plan with an aim to improve customers' experience, strengthen e-commerce capacities, curtail costs and enhance retail fundamentals.

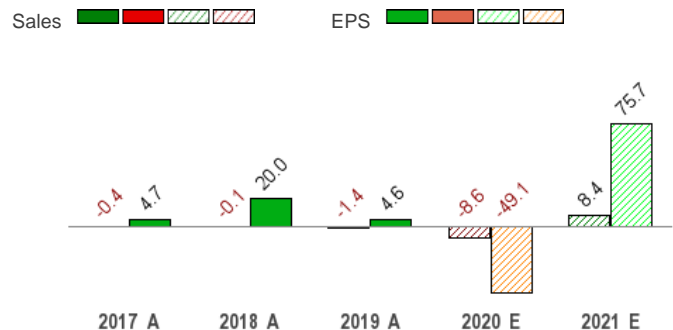
### Price, Consensus & Surprise



### Data Overview

52-Week High-Low	<b>\$21.98 - \$6.28</b>
20-Day Average Volume (Shares)	<b>1,538,586</b>
Market Cap	<b>\$1.0 B</b>
Year-To-Date Price Change	<b>-49.4%</b>
Beta	<b>1.25</b>
Dividend / Dividend Yield	<b>\$0.00 / 0.0%</b>
Industry	<b>Retail - Miscellaneous</b>
Zacks Industry Rank	<b>Top 41% (101 out of 249)</b>

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



Last EPS Surprise	<b>-175.0%</b>
Last Sales Surprise	<b>0.0%</b>
EPS F1 Estimate 4-Week Change	<b>-0.1%</b>
Expected Report Date	<b>11/05/2020</b>
Earnings ESP	<b>-5.8%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	979 E	935 E	952 E	986 E	3,840 E
2020	980 A	871 A	705 A	980 E	3,541 E
2019	989 A	946 A	975 A	966 A	3,876 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.44 E	\$0.49 E	\$0.58 E	\$2.02 E
2020	\$0.47 A	\$0.23 A	-\$0.11 A	\$0.56 E	\$1.15 E
2019	\$0.57 A	\$0.51 A	\$0.60 A	\$0.58 A	\$2.26 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>7.9</b>
P/E F1	<b>4.6</b>
PEG F1	<b>1.1</b>
P/S TTM	<b>0.3</b>

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/03/2020. The reports text is as of 11/04/2020.

## Overview

Headquartered in Denton, TX, Sally Beauty Holdings, Inc. is an international specialty retailer and distributor of professional beauty supplies. It is amongst one of the largest distributors of beauty products in the United States.

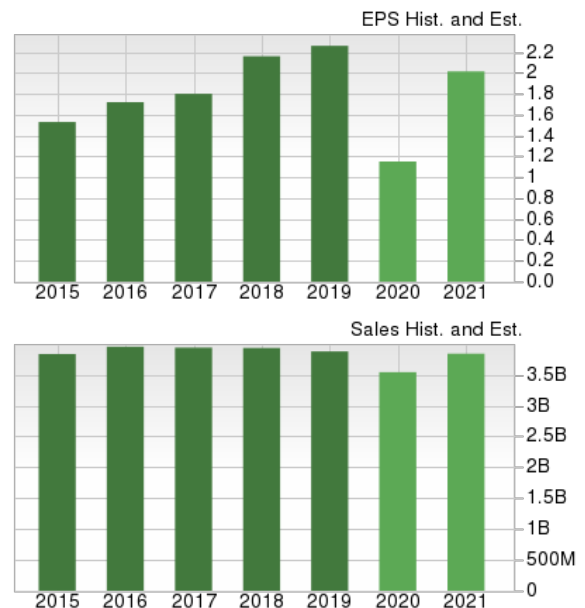
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate itself from competitors, Sally Beauty also offers a range of ethnic beauty products.

The businesses distribute and sell professional beauty products through more than 5,061 stores. The outlets include 159 franchised units and have operations throughout the United States and Puerto Rico, the U.K., Chile, Belgium, Canada, Mexico, Spain, Germany, France, Ireland, the Netherlands, and Peru. Sally Beauty stores offer approximately 8,000 products for hair, skin and nails through professional lines.

The company reports under two operating segments, namely, Sally Beauty Supply ("SBS") and Beauty Systems Group ("BSG"). In fiscal 2019, SBS accounted for 59.2% of the company's revenues and BSG contributed 49.8% of revenue.

The BSG unit provides products mainly to salons and salon professionals. The unit comprises of networks of distributor sales consultants (DSC) providing professional beauty products in North America, with 820 sales consultants. These consultants sell products directly to salons and salon professionals. BSG stores offer an extensive range of third party branded beauty products.

The SBS unit mainly caters to retail consumer along with salons and salon professionals. Some of the well-known third-party brands offered by SBS stores and its website are OPI, China Glaze, Wella, Clairol, Conair and Hot Shot Tools. The unit also offers a range of owned and exclusive-label branded merchandise.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **E-commerce Growth Amid COVID-19:** Sally Beauty's e-commerce sales increased significantly from the year-ago quarter in the third quarter of fiscal 2020. The uptick can be attributed to the company's quick efforts to augment its online business and increased consumer demand on digital platforms. Also, addition of increased number of new consumers online was a reason. We believe that, increased online sale provided it a cushion amid coronavirus-led store closures.

Strength in Sally Beauty's online business provides it a cushion amid coronavirus-led store closures.

Moreover, the company has been undertaking a number of efforts to augment its online space to keep pace with the evolving shopping trends. Recently, it expanded its retail beauty offerings to 4,100 products on the new website sallybeauty.ca across Canada. Further, the company expanded its ship-from-store e-commerce distribution points to nine provinces to reduce delivery times in Canada. Sally Beauty also expanded its ship-from-store as well as same-day delivery options in the United States. The company also replatformed its French and German digital sites to aid business in the United Kingdom.

- ▲ **Efforts to Stay Afloat Amid Coronavirus:** Sally Beauty has undertaken a number of measures to improve its financial position amid the coronavirus outbreak. The company has moderated its near-term rent payments. Also, management has significantly reduced its marketing and promotional expenses. The company has also made certain adjustments to its working capital management plans. Moreover, Sally Beauty has reopened all its retail and wholesale stores across the United States, the U.K., Canada as well as the European Union as coronavirus-induced restrictions are being relaxed. In fact, it is witnessing robust consumer as well as professional demand since its stores reopened. The company has been selling gloves to salons, police departments, as well as medical clinics.

- ▲ **Transformation Plan:** Sally Beauty is on track with its efforts to get back on growth trajectory. In this regard, management is focused on its Transformation Plan, as part of which it is progressing well with its four key goals —improving customers' experience, strengthening e-commerce capacities, curtailing costs and enhancing retail fundamentals. Sally Beauty intends to be committed toward its transformation endeavors. In this regard, management is on track with enhancing key digital as well as supply chain initiatives amid the coronavirus outbreak. The company earlier said that it has delayed a number of plans, including re-launch of Sally Beauty brand and remodeling stores. However, we believe that the progress made under its transformational plans so far have been yielding results.

- ▲ **Enhancing Customer Shopping Experience:** Sally Beauty successfully implemented the first phase of a multi-year JDA supply-chain platform in first-quarter fiscal 2019. As part of this, the company has launched five elements. The modules launched until now include SKU setup, demand planning, space planning, EDI and perpetual inventory. Recently, the company rolled out point-of-sale systems to every Sally and BSG store in the United States and Canada. Also, management restarted its JDA and North Texas distribution center initiatives. Moreover, the company is on track to float a private label credit card plan at both BSG and Sally business.

Apart from these, the company has been focusing on enhancing areas such as merchandising, BSG store operations, marketing, e-commerce, digital product as well as planning and allocation by adding new management and talent. In relation to digital strategies, the company implemented Order Management System across its network. It is reducing 'order to customer' timing and improving flexibility of shopping option.

- ▲ **Acquisitions:** The company has completed more than 35 acquisitions over the last 11 fiscals. In December 2017, Sally Beauty's BSG had acquired certain H. ChalutLtee assets, enabling it to expand its business for the first time in Quebec province, giving BSG a footprint in Canada. This acquisition included 21 stores, 40 distributor sales consultants, one warehouse and distribution rights for certain professional brands in Quebec. Some other notable acquisitions of the past are wholesale distribution rights for Joico in the Boston area and Paul Mitchell in the Hawaiian market by the company's BSG.

Recently, Sally Beauty's subsidiary Beauty Systems Group (BSG) acquired La Maison Ami-Co Inc. — a professional beauty products distributor in the Canadian province of Quebec. Per the deal, Sally Beauty will acquire 10 La Maison Ami-Co stores. Also, this transaction will add 17 direct sales consultants and exclusive distribution rights to leading professional hair color and hair care brands like Wella Professional, Oribé and Goldwell across Quebec. Sally Beauty expects the deal to augment its business in Quebec along with increasing the reach of BSG's professional beauty products in its Chalut store network as well as full-service business.

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## Reasons To Sell:

- ▼ **Covid-19 Hurts Q3 Results:** Sally Beauty reported dismal third-quarter fiscal 2020 results, with the top and the bottom line deteriorating year over year. Also, the bottom line missed the Zacks Consensus Estimate. The company's adjusted loss came in at 11 cents per share, as opposed to adjusted earnings of 60 cents reported in the year-ago quarter. The downside was caused by adverse impacts of the coronavirus outbreak and strategic inventory clearance efforts. Consolidated net sales declined 27.7%. The top line was primarily affected by temporary store closures amid the pandemic coupled with lower store count compared with the year-ago quarter's numbers. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points (bps). Also, consolidated same-store sales declined 26.6%. Shares of Sally Beauty have lost 49.4% in the year-to-date period compared with the industry's decline of 6%.
- ▼ **Sluggish Performance in SBS Continues:** Sales in the SBS segment have been declining year over year in the past few quarters. During the third quarter of fiscal 2020, sales in the segment declined 27.7% due to lesser stores than the prior-year quarter's levels along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 40 bps. Further, segmental same-store sales declined 25.9%. Sales in the SBS segment had decreased 2% and 8.1% in the first and second quarter, respectively. We note that, persistence of the trend may continue to exert pressure on the company's top line.
- ▼ **Reduced Gross Margin:** In the third quarter of fiscal 2020, gross profit fell 33.3% to \$321.8 million due to lower sales volume amid the pandemic. Gross margin contracted 390 bps to 45.6%. The downside can be attributed to aggressive on-shelf inventory clearance efforts as well as non-cash write downs of inventory. Also, lower allowances from vendors were a drag. We note that, persistence of the trend is a threat to the company's performance in the near term.
- ▼ **High Costs a Concern:** Although, SG&A expenses fell \$45.6 million in the third quarter of fiscal 2020, as a percentage of sales the metric expanded 770 bps to 44.6%. The downside can be attributed to major deleveraging effect of lower sales stemming from the coronavirus outbreak. Moreover, adjusted operating earnings decreased 86.9%. Also, adjusted operating margin contracted significantly in the quarter. This headwind is likely to continue exerting pressure on the company's margins.
- ▼ **Change in Customer Preference:** One major concern with consumer-driven industries like cosmetics and apparel is rapidly changing trends. Hence, failure to stay up to date on product mix by continually searching for new products and anchoring new supplier agreements may result in becoming obsolete. Further, new trends like "all-natural" among women (who are the primary customers for the cosmetics industry) may reduce demand for makeup products, resulting in lower sales for these companies.

Sluggish performance in the SBS segment remains a drag for Sally Beauty. Also, increased SG&A costs is a concern.

## Last Earnings Report

### Sally Beauty Q3 Loss Wider Than Estimates, Sales Down

Sally Beauty reported dismal third-quarter fiscal 2020 results, with the top and the bottom line deteriorating year over year. Also, the bottom line missed the Zacks Consensus Estimate. Given uncertainties related to the coronavirus outbreak, management refrained from providing any update on guidance for fiscal 2020.

#### Q3 in Detail

Sally Beauty reported adjusted loss of 11 cents per share, wider than the Zacks Consensus Estimate of a loss of 4 cents. The company had posted an adjusted earnings of 60 cents per share in the year-ago quarter. The downside was caused by adverse impacts of the coronavirus outbreak and strategic inventory clearance efforts.

Consolidated net sales of \$705.3 million were almost in line with the Zacks Consensus Estimate of \$705.1million. The metric declined 27.7% year over year. The top line was majorly affected by temporary store closures amid the pandemic coupled with lower store count compared with the year-ago quarter's numbers. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points (bps).

Consolidated same-store sales declined 26.6%. E-commerce sales increased significantly from the year-ago quarter. The uptick can be attributed to increased consumer demand on digital platforms which provides it a cushion amid coronavirus-led store closures.

Gross profit fell 33.3% to \$321.8 million due to lower sales volume amid the pandemic as well as reduced gross margin. Notably, gross margin contracted 390 bps to 45.6%. The downside can be attributed to aggressive on-shelf inventory clearance efforts as well as non-cash write downs of inventory. Also, lower allowances from vendors were a drag.

SG&A expenses fell \$45.6 million in the quarter on the back of cost-saving efforts and store closures amid COVID-19. SG&A, as a percentage of sales, expanded 770 bps to 44.6%.

Adjusted operating earnings decreased 86.9% to \$16 million and adjusted operating margin contracted significantly to 2.3%.

#### Segment Details

**Sally Beauty Supply:** Net sales in the segment declined 27.7% to \$415.5 million in the quarter due to lesser stores than the prior-year quarter's levels along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 40 bps. Further, segmental same-store sales declined 25.9%.

Net store count at the end of the quarter was 3,691, down 14 from the year-ago quarter's level.

**Beauty Systems Group:** Net sales in the segment fell 27.6% to \$289.8 million. Foreign-currency translation had nearly 20 bps impact on the results. Moreover, net store count at the end of the quarter was 1,371, down 13 from the year-ago quarter's level. Same-store sales fell 27.9%. Total distributor sales consultants at the end of the quarter were 651 compared with 791 in the year-ago quarter.

#### Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$838.8 million, long-term debt, including capital leases of \$1,845.6 million, and total stockholders' deficit of \$0.7 million.

In the quarter, cash flow from operations was \$198.3 million, while capital expenditure amounted to \$17.7 million.

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	0.03%
EPS Surprise	-175.00%
Quarterly EPS	-0.11
Annual EPS (TTM)	1.17

## Recent News

### Sally Beauty's La Maison Ami-Co Buyout to Boost Growth – Sep 29, 2020

Sally Beauty's subsidiary Beauty Systems Group (BSG) acquired La Maison Ami-Co Inc. — a professional beauty products distributor in the Canadian province of Quebec. Per the deal, Sally Beauty will acquire 10 La Maison Ami-Co stores. Also, this transaction will add 17 direct sales consultants and exclusive distribution rights to leading professional hair color and hair care brands like Wella Professional, Oribé and Goldwell across Quebec.

Sally Beauty expects the deal to augment its business in Quebec along with increasing the reach of BSG's professional beauty products in its Chalut store network as well as full-service business. Notably, Sally Beauty's BSG had acquired certain H. ChalutLtée assets in December 2017, enabling it to expand its business for the first time in Quebec province, giving BSG a footprint in Canada.

Well, Sally Beauty is committed to the Canada-based stylist community as well as hair color, nail, hair care and beauty customers. Notably, its BSG already has 122 professional wholesale stores under the CosmoProf and Chalut brands in Canada. Also, the company's retail division — Sally Beauty Supply—operates 140 retail stores that sell various salon and beauty products across Canada.

Also, Sally Beauty informed that it had expanded its retail beauty offerings to 4,100 products on the new website sallybeauty.ca across Canada. Further, the company expanded its ship-from-store e-commerce distribution points to nine provinces to reduce delivery times in Canada.

### Sally Beauty Teams Up With Intalytics - Aug 5, 2020

Sally Beauty teamed up with Intalytics, which will serve as its customer analytics partner - and support the company's network optimization endeavors across the United States and Canada. Intalytics will come up with customized sales forecasting models Sally Beauty and CosmoProf brands. Apart from this, Intalytics will undertake analysis, to get an insight into the connection between physical and digital channels.

## Valuation

Sally Beauty shares are down 49.4% in the year-to-date period and 44.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 6% and the Zacks Retail-Wholesale sector gained 30% in the year-to-date period. Over the past year, the Zacks sub-industry is down 3.6%, whereas the sector gained 34.5%.

The S&P 500 index is up 3.2% in the year-to-date period and 8.3% in the past year.

The stock is currently trading at 4.57X forward 12-month earnings, which compares to 15.25X for the Zacks sub-industry, 30.53X for the Zacks sector and 21.05X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.94X and as low as 3.1X, with a 5-year median of 8.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 5.44X forward 12-month earnings.

The table below shows summary valuation data for SBH

Valuation Multiples - SBH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	4.57	15.25	30.53	21.05
	5-Year High	17.94	22.47	34.05	23.47
	5-Year Low	3.1	11.31	19.09	15.27
	5-Year Median	8.4	15.89	23.6	17.7
P/S F12M	Current	0.27	0.75	1.25	3.89
	5-Year High	1.19	1.1	1.32	4.3
	5-Year Low	0.21	0.51	0.84	3.17
	5-Year Median	0.56	0.88	1.01	3.67
EV/EBITDA F12M	Current	4.62	9.51	13.11	14.2
	5-Year High	10.4	11.15	14.19	15.48
	5-Year Low	4.27	5.91	8.77	10.69
	5-Year Median	6.78	8.94	10.94	13.2

As of 11/03/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Top 41% (101 out of 249)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
MarineMax, Inc. (HZO)	Outperform	1
The Michaels Companies, Inc. (MIK)	Outperform	3
DICKS Sporting Goods, Inc. (DKS)	Neutral	3
Five Below, Inc. (FIVE)	Neutral	3
Hibbett Sports, Inc. (HIBB)	Neutral	3
KAR Auction Services, Inc (KAR)	Neutral	3
Ulta Beauty Inc. (ULTA)	Neutral	3
Regis Corporation (RGS)	Underperform	4

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	SBH	X Industry	S&P 500	FIVE	KAR	MIK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	A
Market Cap	1.04 B	1.19 B	23.25 B	7.63 B	2.11 B	1.26 B
# of Analysts	8	6	13	9	8	4
Dividend Yield	0.00%	0.00%	1.6%	0.00%	0.00%	0.00%
Value Score	A	-	-	D	A	A
Cash/Price	0.89	0.36	0.07	0.03	0.54	0.54
EV/EBITDA	3.60	6.04	13.59	26.85	5.66	5.09
PEG F1	1.09	2.34	2.66	3.71	1.83	3.90
P/B	NA	1.53	3.41	10.52	1.36	NA
P/CF	2.91	6.19	13.02	34.23	6.19	2.80
P/E F1	4.49	11.95	20.92	73.27	22.34	4.92
P/S TTM	0.30	0.48	2.57	4.51	0.90	0.26
Earnings Yield	21.86%	6.58%	4.62%	1.36%	4.48%	20.33%
Debt/Equity	-26.70	0.23	0.70	0.00	1.19	-1.74
Cash Flow (\$/share)	3.18	3.18	6.92	3.99	2.63	3.06
Growth Score	B	-	-	A	B	A
Historical EPS Growth (3-5 Years)	4.11%	4.11%	10.07%	23.15%	-5.84%	3.17%
Projected EPS Growth (F1/F0)	75.02%	-9.87%	-0.08%	-40.24%	-29.81%	-17.54%
Current Cash Flow Growth	0.84%	5.84%	5.34%	19.42%	-41.97%	-14.92%
Historical Cash Flow Growth (3-5 Years)	2.83%	2.61%	8.38%	27.57%	-4.24%	1.68%
Current Ratio	1.88	1.50	1.39	1.56	1.62	1.28
Debt/Capital	NA%	23.06%	41.80%	0.00%	54.43%	NA
Net Margin	3.18%	3.11%	10.44%	5.89%	1.61%	2.84%
Return on Equity	-305.73%	10.40%	14.94%	13.81%	6.51%	-14.84%
Sales/Assets	1.29	1.23	0.50	0.88	0.37	1.23
Projected Sales Growth (F1/F0)	8.44%	0.00%	-0.11%	1.18%	-25.01%	2.54%
Momentum Score	F	-	-	A	F	A
Daily Price Change	4.52%	2.33%	2.01%	3.61%	5.36%	5.42%
1-Week Price Change	-10.67%	-10.60%	-5.63%	-3.23%	-4.15%	-14.09%
4-Week Price Change	-0.43%	-3.29%	1.30%	8.98%	2.26%	-12.47%
12-Week Price Change	-29.20%	5.65%	1.19%	26.56%	-4.23%	5.94%
52-Week Price Change	-44.51%	5.62%	1.05%	5.96%	-36.01%	-10.55%
20-Day Average Volume (Shares)	1,538,586	459,904	1,887,552	501,584	1,904,032	4,075,835
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.18%	-0.51%	0.00%
EPS F1 Estimate 4-Week Change	-0.12%	0.30%	0.96%	0.30%	-2.50%	0.72%
EPS F1 Estimate 12-Week Change	1.07%	30.25%	2.84%	18.75%	32.73%	73.57%
EPS Q1 Estimate Monthly Change	0.00%	0.53%	0.39%	0.18%	-1.74%	0.53%

Source: Zacks Investment Research



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## 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.

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### 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	A
Growth Score	B
Momentum Score	F
VGM Score	A

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.

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## Disclosures

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

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## 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.

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**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.

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**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.

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**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.