

Sally Beauty (SBH)

\$14.40 (As of 01/20/21)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Shares of Sally Beauty have outperformed the industry in the past three months. The company is undertaking a number of efforts to augment its online business amid the coronavirus outbreak. Incidentally, Sally Beauty's global e-commerce revenues surged 69% year over year during the fourth quarter of fiscal 2020. Also, 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. However, Sally Beauty bore the brunt of temporary salon closures in California amid the coronavirus outbreak in fiscal fourth-quarter. During the quarter, revenues decreased year over year and missed the Zacks Consensus Estimate. Apart from this, Sally Beauty witnessed escalated selling, general and administrative (SG&A) costs in the quarter.

Price, Consensus & Surprise

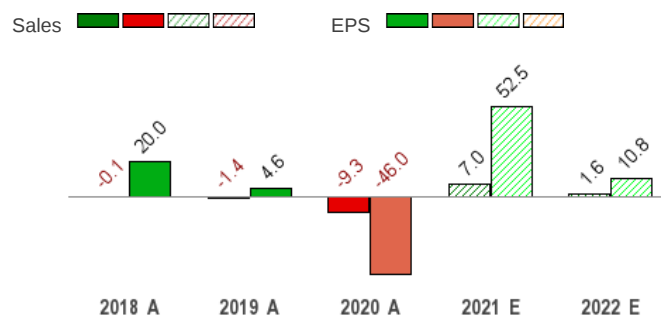


Source: Zacks Investment Research

Data Overview

52-Week High-Low	\$16.56 - \$6.28
20-Day Average Volume (Shares)	1,053,002
Market Cap	\$1.6 B
Year-To-Date Price Change	10.4%
Beta	1.54
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 15% (37 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.5%
Last Sales Surprise	-2.6%
EPS F1 Estimate 4-Week Change	0.3%
Expected Report Date	02/04/2021
Earnings ESP	0.0%
P/E TTM	11.8
P/E F1	7.7
PEG F1	1.9
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,004 E	939 E	923 E	987 E	3,821 E
2021	959 E	909 E	925 E	978 E	3,760 E
2020	980 A	871 A	705 A	958 A	3,514 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.62 E	\$0.39 E	\$0.46 E	\$0.65 E	\$2.07 E
2021	\$0.47 E	\$0.35 E	\$0.45 E	\$0.58 E	\$1.86 E
2020	\$0.47 A	\$0.23 A	-\$0.11 A	\$0.63 A	\$1.22 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 01/20/2021. The reports text is as of 01/21/2021.

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.

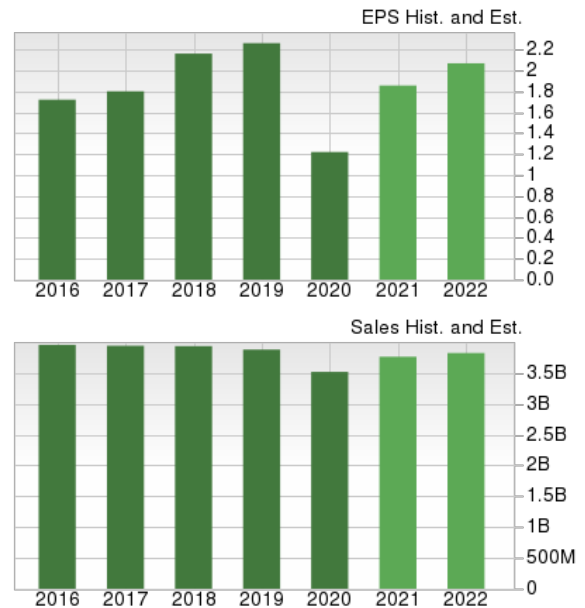
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate 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 2020, 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

Reasons To Buy:

- ▲ **E-commerce Growth Amid COVID-19:** Sally Beauty's global e-commerce sales surged 69% year over year to \$63 million during the fourth quarter of fiscal 2020. Significant growth in Sally U.S. and Canadian digital platform contributed to growth. Notably, the company witnessed repeat purchases from nearly 60% of its new customer group during the quarter. Moreover, management expects its digital business to keep growing while it continues to invest in the online space.

Sally Beauty's efforts to augment its online business amid COVID-19 are yielding. Also, it is on track with its transformation plan.

The company has been undertaking a number of efforts to augment its online space to keep pace with the evolving shopping trends. Recently, Sally Beauty unveiled its partnership with salesforce.com for the implementation of cloud-based enhancements to augment shopping experience of salon professionals and beauty enthusiasts. Management highlighted that working with Salesforce enabled it to cater to spike in online demand for salon-quality do-it-yourself (DIY) beauty products and resources amid the coronavirus outbreak. Earlier, Sally Beauty 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 delivery option to 2,400 stores in the United States. The company also replatformed its French and German digital sites to aid business in the United Kingdom. Sally Beauty has also been ramping up its omni-channel capabilities to tap the boom in the digital realm. In November 2020, the company unveiled the countrywide launch of the Buy Online, Pick Up In-Store (BOPIS) service. Sally Beauty's BOPIS service is expected to establish a connection between in-store and online shopping experiences.

Going ahead, the company plans to re-platform the BSG's digital experience by adding more fulfillment options as well as providing more service for pro customers during the second half of fiscal 2021. It has also been augmenting online assortments, while also improving credit facilities on its e-commerce site. Shares of Sally Beauty have surged 52.4% in the past three months compared with the industry's growth of 24.2%.

- ▲ **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. In spite of the disruptions caused by the coronavirus outbreak, Sally Beauty completed key objectives of its Transformation Plan during fiscal 2020. These include the rollout of the Oracle-based point-of-sale system to both Sally Beauty and BSG stores. Also, management launched its new Sally Beauty brand campaign 'Unleash Your PROtential' nationwide. Apart from these, the company launched new service models such as ship-from-store at 2,400 Sally Beauty stores, same-day delivery in 1,000 BSG stores and curbside pickup in both segments. Moreover, Sally Beauty intends to be committed toward its transformation endeavors during fiscal 2021. In this regard, management is on track with leveraging its digital capabilities, growing customer engagement and improving brand partnerships among others. Also, the company is on track with optimizing efficiencies and driving savings via the ongoing rollout of JDA, new merchandising and supply chain platform as well as robust digital efforts.
- ▲ **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 both Sally Beauty and BSG stores. Moreover, the company completed the launch of new private label rewards credit card program at both Sally Beauty and BSG as a part of its transformation plan. Also, it is expanding the rollout of JDA to more distribution centers.

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 had earlier 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 September, Sally Beauty's subsidiary 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. In December 2017, Sally Beauty's BSG had acquired certain H. ChalutLée assets, enabling it to expand its business for the first time in Quebec province, giving BSG a footprint in Canada. Some other notably 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.

Reasons To Sell:

- ▼ **Covid-19 Hurts Q4 Sales:** Sally Beauty's top line missed the Zacks Consensus Estimate and declined year over year during fourth-quarter fiscal 2020. Notably, consolidated net sales of \$957.8 million inched down 0.8% caused by slower recovery from elements of BSG's full-service business, loss of professional sales stemming from second round of pandemic-induced salon closures across California in July and August. Also, reduced store count compared with year-ago quarter's levels was a reason.

Sluggish performance in the BSG segment is a drag for Sally Beauty. Also, increased SG&A cost is a concern.

In its fiscal fourth-quarter earnings call, the company stated that stores in some metropolitan areas like El Paso are only allowed to operate as curbside locations amid the COVID outbreak. Also, it is seeing occupancy restrictions in parts of New Mexico and Colorado. Moreover, nearly 180 stores are fully closed due to pandemic-induced restrictions. Clearly, such headwinds are a concern for the company's performance.

- ▼ **Sluggish Performance in BSG Continues:** Sales in Sally Beauty's BSG segment have been declining year over year since the past few quarters. During the fourth quarter of fiscal 2020, net sales in the segment declined 3.3% to \$381.2 million. Unfavorable foreign-currency translation had nearly 10 bps impact on the segmental sale. The downside was caused by slower recovery from the national account chain business. Also, adverse impact of loss in sales stemming from second round of pandemic-induced salon closures in California during July and August was a reason. Also, total distributor sales consultants at the end of the quarter were 715 compared with 748 in the year-ago quarter. Prior to this, sales in the BSG segment slumped 27.6% in the fiscal third quarter. We note that persistence of the trend may continue to put pressure on the company's top line.
- ▼ **High Costs a Concern:** During the fourth quarter of fiscal 2020, Sally Beauty's SG&A expenses increased 0.8% to nearly \$367 million in the quarter. SG&A, as a percentage of sales, increased to 38.3% from 37.7% reported in the year-ago quarter. The downside was caused by increased e-commerce delivery costs, investment in transformation plans as well as reduced sales volume. Persistence of this headwind is likely to continue exerting pressure on the company's performance.
- ▼ **Financial Status:** Although Sally Beauty's long-term debt of \$1,797 million at end of the fourth quarter of fiscal 2020 — Sep 30, 2020 — declined 2.6% sequentially, its debt-to-capitalization ratio is quite high when compared with the industry. Incidentally, the company's debt-to-capitalization ratio of 0.99 stands higher than the industry's ratio of 0.63. Moreover, the company's times interest earned ratio of 2.6 is below the preceding quarter's ratio of 2.8. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.
-

Last Earnings Report

Sally Beauty's Q4 Earnings Top Estimates, Sales Down

Sally Beauty reported fourth-quarter fiscal 2020 results, with the top line missing the Zacks Consensus Estimate and declining year over year. Nevertheless, the bottom line surpassed that consensus mark and increased. Management refrained from providing any formal guidance for fiscal 2021.

Q4 in Detail

Sally Beauty reported adjusted earnings of 63 cents per share, ahead of the Zacks Consensus Estimate of 56 cents. The metric grew 8.6% year over year. Increased gross margin, lower income tax expense and reduced average share contributed to the upside. However, these were somewhat offset by increased SG&A expenses and interest costs.

Consolidated net sales of \$957.8 million missed the Zacks Consensus Estimate of \$983 million. The metric inched down 0.8% year over year. The top line was affected by slower recovery from elements of BSG's full-service business, loss of professional sales stemming from second round of pandemic-induced salon closures across California in July and August. Also, reduced store count compared with the year-ago quarter was a reason. Nevertheless, improved same store sales and favorable foreign currency rates offered some respite. Consolidated same-store sales inched up 1.3% while global e-commerce sales surged 69%.

Gross profit increased \$9.9 million to \$489.1 million. Gross margin expanded 150 basis points (bps) to 51.1% on the back of reduced promotions and favorable mix shifts to higher margin categories. However, lower vendor allowances and less inventory purchases were a drag.

SG&A expenses increased 0.8% to nearly \$367 million in the quarter. SG&A, as a percentage of sales, increased to 38.3% from 37.7% reported in the year-ago quarter due to increased e-commerce delivery costs, investment in transformation plans as well as reduced sales volume.

Adjusted operating earnings increased to \$120.3 million from \$115.3 million reported in the year-ago quarter. Adjusted operating margin expanded from 11.9% to 12.6% in the quarter.

Segment Details

Sally Beauty Supply: Net sales in the segment inched up 0.8% to \$576.6 million in the quarter on the back of higher same store sales and favorable foreign exchange impact of nearly 40 bps. These were somewhat offset by reduced number of stores when compared to the year-ago quarter as well as temporary store closures in Latin America owing to the pandemic. Further, global same store sales improved 1.7%.

Net store count at the end of the quarter was 3,653, down 42 from the year-ago quarter's level.

Beauty Systems Group: Net sales in the segment fell 3.3% to \$381.2 million. Foreign-currency translation had nearly 10 bps impact on the results. Sales decline was caused by slower recovery from the national account chain business. Also, adverse impact of loss in sales stemming from second round of pandemic-induced salon closures in California salons during parts of July and August was a reason.

Net store count at the end of the quarter was 1,385, up 19 from the year-ago quarter's level. Same-store sales inched up 0.6%. Total distributor sales consultants at the end of the quarter were 715 compared with 748 in the year-ago quarter.

Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$514.2 million, long-term debt of \$1,796.9 million, and total stockholders' equity of \$15.4 million.

In the quarter, cash flow from operations was \$152.5 million, while capital expenditure amounted to \$21.1 million.

Quarter Ending 09/2020

Report Date	Nov 12, 2020
Sales Surprise	-2.58%
EPS Surprise	12.50%
Quarterly EPS	0.63
Annual EPS (TTM)	1.22

Recent News

Sally Beauty Bolsters Digital Offerings With Salesforce – Jan 15, 2021

Sally Beauty unveiled its partnership with salesforce.com for the implementation of cloud-based enhancements to augment shopping experience of salon professionals and beauty enthusiasts. Management highlighted that working with Salesforce enabled it to cater to spike in online demand for salon-quality do-it-yourself (DIY) beauty products and resources amid the coronavirus outbreak. Moreover, the company is optimistic about launching added online innovations for its salon professionals and customers going forward.

The partnership with Salesforce is supporting Sally Beauty in powering connected shopping experiences with Commerce Cloud, Marketing Cloud and Service Cloud. This partnership enabled the company to rapidly scale its digital store on Commerce Cloud. This helped Sally Beauty in fulfilling the surge in demand from its professional stylist community and consumers by introducing new shopping options as well as supporting distributor sales consultants to transition to online consultations. Apart from this, the Order Management program enables Sally Beauty to have real-time visibility over store inventory. This prevents the customers from buying out-of-stock products. Moreover, the program also helps the retailer in sending notifications to consumers and partners when their items are available for pickup.

Further, Marketing Cloud enabled the Sally beauty team to stay in touch with its consumers via social media as well as emails to provide information about store statuses and curbside pick-up among others. Moreover, the integration of Commerce Cloud and Marketing Cloud enabled consumers to receive targeted emails on the basis of their interests and purchase behavior. Additionally, the company launched service bots on its website to respond to the surge in customer service requests.

Sally Beauty Adds BOPIS to Boost Omni-Channel Capacity – Nov 19, 2020

Sally Beauty unveiled the countrywide launch of the Buy Online, Pick Up In-Store (BOPIS) service. The company's BOPIS service is expected to establish a connection between in-store and online shopping experiences. The BOPIS facility will help customers reserve products online and pick them up from stores. Apart from this, the company's omni-channel services include curbside pick-up, e-commerce ship-from-store capabilities and mobile app ordering.

Speaking of mobile app capabilities, Sally Beauty continues to meet consumers evolving digital shopping needs through its revolutionary ColorView Technology. Apart from this, the company recently launched the DIY University by Sally Beauty, an educational initiative to meet the needs of do-it-yourself customers.

Valuation

Sally Beauty shares are up 5.3% in the past six months and down 9.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 28.8% and 10.3%, respectively in the past six months. Over the past year, the Zacks sub-industry is up 25.9%, while the sector gained 33.7%.

The S&P 500 index is up 16.7% in the past six months and 16.2% in the past year.

The stock is currently trading at 7.51X forward 12-month earnings, which compares to 19.83X for the Zacks sub-industry, 31.05X for the Zacks sector and 23X 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 8.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$15 price target reflects 7.82X 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	7.51	19.83	31.05	23
	5-Year High	17.94	24.2	34.1	23.79
	5-Year Low	3.1	11.54	19.1	15.3
	5-Year Median	8.11	15.97	23.7	17.83
P/S F12M	Current	0.43	1.1	1.36	4.52
	5-Year High	1.19	1.11	1.36	4.52
	5-Year Low	0.21	0.51	0.84	3.2
	5-Year Median	0.55	0.87	1.02	3.68
EV/EBITDA F12M	Current	5.54	10.11	13.1	17.21
	5-Year High	10.59	11.15	13.17	18.81
	5-Year Low	4.21	4.06	8.85	12.93
	5-Year Median	6.72	6.52	11.04	15.7
As of 01/20/2021		Source: Zacks Investment Research			

Industry Analysis Zacks Industry Rank: Top 15% (37 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DICKS Sporting Goods, Inc. (DKS)	Outperform	1
Five Below, Inc. (FIVE)	Outperform	2
Hibbett Sports, Inc. (HIBB)	Outperform	1
KAR Auction Services, Inc. (KAR)	Outperform	3
The Michaels Companies, Inc. (MIK)	Outperform	1
MarineMax, Inc. (HZO)	Neutral	2
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	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	2	-	-	2	3	1
VGM Score	A	-	-	D	A	A
Market Cap	1.62 B	2.33 B	27.30 B	10.34 B	2.37 B	2.30 B
# of Analysts	8	5	13	9	7	4
Dividend Yield	0.00%	0.00%	1.43%	0.00%	0.00%	0.00%
Value Score	A	-	-	F	A	A
Cash/Price	0.34	0.23	0.06	0.02	0.56	0.35
EV/EBITDA	7.86	6.70	14.98	36.60	5.55	6.16
PEG F1	1.88	1.60	2.59	4.20	0.88	NA
P/B	105.23	2.16	3.79	13.78	1.47	NA
P/CF	6.47	6.95	14.64	46.35	6.95	5.08
P/E F1	7.74	11.33	20.84	87.99	12.24	7.00
P/S TTM	0.46	0.62	3.02	5.77	1.02	0.45
Earnings Yield	12.92%	6.54%	4.68%	1.14%	8.19%	14.28%
Debt/Equity	116.36	0.20	0.70	0.00	1.15	-1.79
Cash Flow (\$/share)	2.22	3.99	6.92	3.99	2.63	3.06
Growth Score	A	-	-	C	C	A
Historical EPS Growth (3-5 Years)	0.54%	4.84%	9.72%	19.16%	-11.46%	1.91%
Projected EPS Growth (F1/F0)	52.05%	5.13%	12.43%	-32.62%	60.89%	5.33%
Current Cash Flow Growth	-34.45%	6.18%	5.20%	19.42%	-41.97%	-14.92%
Historical Cash Flow Growth (3-5 Years)	-5.62%	2.23%	8.36%	27.57%	-4.24%	1.68%
Current Ratio	2.54	1.45	1.38	1.43	1.56	1.22
Debt/Capital	99.15%	20.56%	41.72%	0.00%	53.58%	NA
Net Margin	3.22%	3.63%	10.44%	6.13%	1.61%	4.36%
Return on Equity	-535.37%	10.78%	15.37%	14.72%	6.50%	-20.17%
Sales/Assets	1.20	1.24	0.50	0.89	0.36	1.24
Projected Sales Growth (F1/F0)	7.00%	1.59%	6.13%	5.07%	15.31%	2.10%
Momentum Score	F	-	-	A	A	C
Daily Price Change	4.12%	1.30%	0.55%	0.17%	1.27%	-5.01%
1-Week Price Change	0.90%	1.93%	-0.33%	3.83%	-9.06%	18.83%
4-Week Price Change	12.68%	10.03%	4.35%	18.38%	0.27%	33.36%
12-Week Price Change	70.41%	40.24%	20.58%	40.24%	33.63%	75.81%
52-Week Price Change	-9.66%	48.73%	7.10%	59.95%	-16.92%	148.60%
20-Day Average Volume (Shares)	1,053,002	593,483	1,542,398	777,388	1,277,104	3,679,635
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-0.39%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.34%	0.00%	0.12%	3.05%	0.34%	0.00%
EPS F1 Estimate 12-Week Change	-7.94%	12.61%	2.31%	13.28%	12.61%	27.73%
EPS Q1 Estimate Monthly Change	1.16%	0.00%	0.00%	3.34%	-1.73%	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	A
Growth Score	A
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.

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.