

Shopify Inc. (SHOP)

\$1,019.52 (As of 11/25/20)

Price Target (6-12 Months): **\$1,071.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/28/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

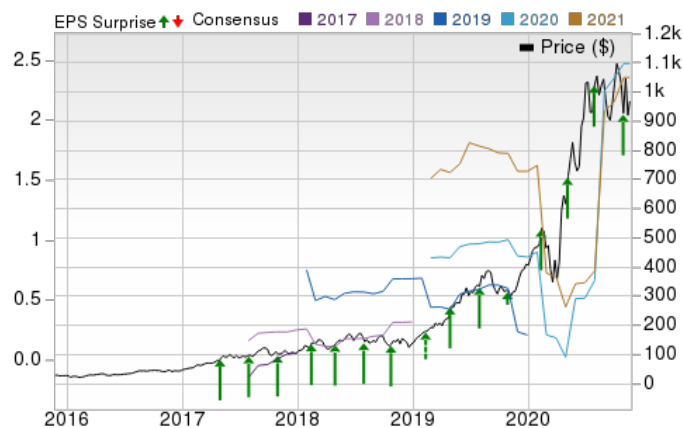
Growth: B

Momentum: F

Summary

Shopify is well poised to gain from e-commerce boom along with growth in the merchant base as well as increases in buying of essential items due to COVID-19 led lockdowns and shelter-in-place guidelines. Robust uptick in Shopify Shipping, Shopify Payments and Shopify Capital will drive the top line. Further, solid adoption of new merchant-friendly applications amid evolving retail environment, holds promise. Additionally, partnerships with TikTok, Walmart and Facebook are expected to expand merchant base, going ahead. Also, initiatives aimed at international expansion are noteworthy. Notably, shares of Shopify have outperformed the industry on a year-to-date basis. However, higher investments on product development and fulfillment platform amid stiff competition in the e-commerce space are likely to limit margin expansion in the near term.

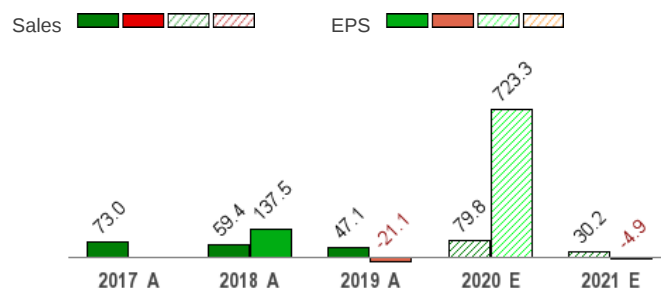
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$1,146.91 - \$305.30
20-Day Average Volume (Shares)	1,699,235
Market Cap	\$124.3 B
Year-To-Date Price Change	156.4%
Beta	1.69
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Bottom 33% (171 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	126.0%
Last Sales Surprise	17.0%
EPS F1 Estimate 4-Week Change	-8.3%
Expected Report Date	02/10/2021
Earnings ESP	44.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	769 E	883 E	933 E	1,118 E	3,695 E
2020	470 A	714 A	767 A	894 E	2,837 E
2019	320 A	362 A	391 A	505 A	1,578 A

P/E TTM	364.1
P/E F1	412.8
PEG F1	11.3
P/S TTM	50.6

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.34 E	\$0.56 E	\$0.56 E	\$0.91 E	\$2.35 E
2020	\$0.19 A	\$1.05 A	\$1.13 A	\$0.67 E	\$2.47 E
2019	\$0.09 A	\$0.14 A	\$0.13 A	\$0.43 A	\$0.30 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/25/2020. The reports text is as of 11/26/2020.

Overview

Ottawa, Canada-based Shopify Inc. provides a multi-tenant, cloud-based, multi-channel commerce platform for small and medium-sized businesses (SMBs). The company completed Initial Public Offering (IPO) in May 2015.

Merchants use the company's software to run business across various sales channels, including web and mobile storefronts, physical retail locations, social media storefronts, and marketplaces.

Shopify's platform enables merchants to manage products and inventory, process orders and payments, ship orders, build customer relationships and leverage analytics along with reporting from one integrated back office.

Moreover, Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth.

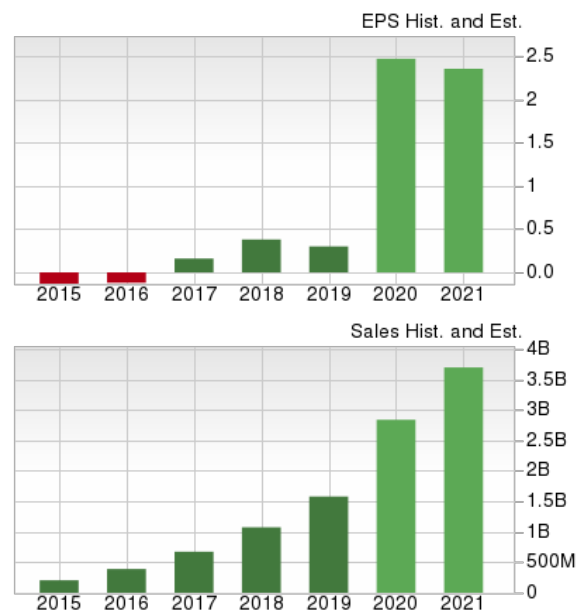
Apart from the company's own payment solution, payment wallets like Apple Pay, Google Pay is also available to the merchants, which they offer to customers for completing transaction done on the Shopify platform.

In 2019, revenues came in at \$1.578 billion. The company generates revenues from two sources: Subscriptions Solutions (40.7% of 2019 revenues) and Merchant Solutions (59.3%).

Subscription revenue is recognized on a ratable basis over the contractual term. The terms range from monthly, annual or multi-year subscription terms. The company earns revenue based on the services it delivers either directly to merchants or indirectly through resellers.

Shopify generates the majority of merchant solutions revenue from fees that it charges merchants on their customer orders processed through Shopify Payments.

The company also derives merchant solutions revenue relating to Shopify Shipping, Shopify Capital, other transaction services and referral fees, as well as from the sale of Point-of-Sale (POS) hardware.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ According to market research firm eMarketer, global retail e-commerce sales (excluding travel, restaurant and event ticket sales) are expected to increase to \$893.4 trillion by 2022, which will make up 14.8% of total retail spending. We believe that the massive growth in e-commerce spending bodes well for Shopify. The company's cloud-based platform is well-positioned to address the growing needs of merchants at a time when social media, mobile devices and data analytics are transforming the e-commerce market place. Moreover, COVID-19 pandemic has altered consumer spending behavior considerably and induced online store creation. Shopify is well poised to benefit from growth in the number of merchants as more of them join the platform due to COVID-19 induced shelter-in-place guidelines. Moreover, growth driven by e-commerce boom and increased buying of essentials on account of the pandemic, favors prospects.
- ▲ Shopify's biggest USP lies in the fact that it is a brand oriented platform as compared with an online marketplace. Here, the brand hogs the limelight, which helps the merchant win customer much faster through focused interaction. The platform helps in improving customer's brand loyalty, which drives merchant revenues. Further, we note that Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth. Management noted that merchants on average became more successful on Shopify, as number of merchants with GMV exceeding \$1 million grew 44% in 2019. In third-quarter 2020, GMV of \$30.9 billion surged 109% on a year-over-year basis. The company's plan to invest on leveraging this transactional data will further enhance merchant's ability to attract customers going ahead. We believe that the company's merchant focus strategy will aid it to dominate the SMB eCommerce market in the long run.
- ▲ Moreover, the company continues to add functionality to its platform, which is responsible for driving merchant base. The launch of Shopify Payments, Shipping and Capital have made it easier for merchants to process payments, ship products and secure financing for their working capital needs, respectively. Notably, the percentage of merchants using Shopify Payments grew every quarter throughout 2019. The company has introduced Shopify Payments across 17 countries to date. Moreover, merchant adoption of Shopify Shipping continues to expand in both the U.S. and Canada. Management anticipates this trend to continue as the company expands shipping partners and add new features. Further, the company recently rolled out Shopify Fulfillment Network in the United States, for the first time, to facilitate commerce. Moreover, the acquisition of 6 River Systems is anticipated to boost growth of the company's fulfillment network. Also, partnerships with Walmart and Facebook are expected to expand merchant base. We believe that its merchant focus business model will help it to achieve its growth target in the long haul.
- ▲ Notably, net new merchants on Shopify are expected to improve as newly added sales channels like Google Pay, Facebook Messenger, Instagram, Pinterest, eBay and Amazon continues to attract new merchants. Shopify noted that the addition of Houzz, Wanelo, eBates and others has driven the number of channels over which a merchant can sell to more than a dozen. The company also noted that merchants are buying more apps through app store, which is positive. Shopify app store currently offers around 5,300 apps. Moreover, availability of Apple Pay and addition of Canada Post are some other notable developments that will boost merchant base.
- ▲ Shopify has a rich partner ecosystem, which is a growth driver. The company noted that the Monthly Recurring Revenue (MRR) per merchant surged 47% year over year to \$74.4 million as of Sep 30, 2020, primarily on strong growth in Shopify Plus subscription base. Shopify Plus accounted for \$18.7 million, representing 25% of MRR compared with 27% in the quarter ended Sep 30, 2019. The company's plan to offer variable pricing structure under Shopify Plus is also prudent move, in our view. We also believe that the company's strong partner referral system will boost merchant base that will eventually drive top-line growth in 2020. More than 37,400 partners referred merchants to Shopify in the past 12 months.
- ▲ Mobile focus provides significant leverage to Shopify. The company launched its iPhone-based Shopify Mobile application way back in 2010. Also, the company released Shopify Ping for Apple's iOS devices, which is compatible with Facebook and Instagram ads and is enabled for Apple Business Chat. We note that Shopify is benefiting from retail's rapid transition to mobile and social sales channels. We believe that this rapid growth presents significant opportunities for Shopify in the long term. In fact, Shopify platform garnered GMV of approximately \$2.9 billion in the Black Friday-Cyber Monday period in 2019. Notably, year-ago GMV figure in the same period stood at \$1.8 billion. Management noted that around two thirds of online orders from the U.S.-based Shopify merchants were registered via mobile devices.
- ▲ Shopify has a strong balance sheet with ample liquidity position and no debt obligations. As of Sep 30, 2020, Shopify ended the reported quarter with cash, cash equivalents and marketable securities balance of \$6.12 billion compared with \$4 billion as of Jun 30, 2020. The increase can be attributed to net proceeds worth \$2.03 billion from offering of Class A subordinate voting shares in the reported quarter and \$1.46 billion of net proceeds from the company's offering of Class A subordinate voting shares in the second quarter. Shopify generated net cash flow in operations of \$179.6 million for nine months ended Sep 30, 2020 compared with \$17.7 million for nine months ended Sep 30, 2019. Increasing liquidity trend and strength in cash flow reflects that the company is making investments in the right direction. Since it carries no long-term debt, the cash is available for pursuing strategic acquisitions and investment in other growth initiatives. Moreover, on Sep 16, Shopify announced the pricing of its public offering of 1,100,000 Class A subordinate voting shares at a price to the public of US\$900 per share and its public offering of \$0.8 billion aggregate principal amount of convertible senior notes slated to mature in 2025. Shopify anticipates to utilize the net proceeds to strengthen its balance sheet, and to finance its growth strategies.

Shopify's focus on developing merchant base, international expansion, addition of new functionalities, rich partner ecosystem and mobile focus are key catalysts.

Reasons To Sell:

- ▼ Shopify is relatively a new player in the e-commerce marketplace. Although it is not a direct competitor to behemoths like Alibaba and Amazon, many of its customers are. This presents significant risk for its growth prospects.
- ▼ Moreover, the company focuses on the SMB segment which is more susceptible to macro-economic headwinds and makes the business more challenging amid coronavirus induced crisis.
- ▼ Furthermore, lack of big-shot international customers is a headwind for Shopify. The company doesn't have significant presence in the Asia-Pacific market, which is fastest growing retail e-commerce market according to eMarketer. This is a major deterrent in our view.
- ▼ We believe that increasing investments on product development, Shopify Plus and cloud infrastructure will make it difficult for the company to sustain profitability. Moreover, it expects to further increase research & development (R&D) expense. Markedly, management intends to invest \$1 billion over the subsequent five years to develop the new fulfillment network, which is likely to impact margin expansion. We also note that Shopify has been incurring losses in the last three years and has an accumulated deficit of \$108.6 million as of Sep 30, 2020. Despite the improving top line, mounting losses might dent investors' optimism.
- ▼ The company is trading at premium in terms of Price/Book (P/B). Shopify currently has a trailing 12-month P/B ratio of 20.12X, which compares unfavorably with what the industry witnessed over the last year. Hence, valuation looks slightly stretched from P/B perspective.

Shopify's focus on SMB segment, lack of international exposure, increasing operation expenses and stretched valuation are primary negatives.

Last Earnings Report

Shopify Q3 Earnings Surpass Estimates, Revenues Up Y/Y

Shopify reported third-quarter 2020 adjusted earnings of \$1.13 per share significantly outpacing the Zacks Consensus Estimate of 50 cents. The company had reported adjusted net loss of 29 cents per share in the prior-year quarter.

Total revenues improved 96% from the year-ago quarter's figure to \$767.4 million, which beat the Zacks Consensus Estimate by 16.97%.

Quarter Ending	09/2020
Report Date	Oct 29, 2020
Sales Surprise	16.97%
EPS Surprise	126.00%
Quarterly EPS	1.13
Annual EPS (TTM)	2.80

COVID-19 pandemic has altered consumer spending behavior considerably and triggered online store creation. The top line benefited from growth in the number of merchants as more of them joined the Shopify platform due to COVID-19 induced shelter-in-place guidelines. Moreover, growth was driven by e-commerce boom and increased buying of essentials in the third quarter on account of the pandemic.

Quarter in Detail

Subscription Solutions revenues surged 48% to \$254.3 million driven by persistent growth in Monthly Recurring Revenue (MRR) due to the addition of new merchants. Moreover, strong app growth and conversion from free trial to paid members were positives.

As of Sep 30, 2020, MRR was \$74.4 million, up 47% from the year-ago quarter. Shopify Plus accounted for \$18.7 million, representing 25% of MRR compared with 27% in the quarter ended Sep 30, 2019.

Management noted that although demand remains higher for subscriptions compared to pre-COVID-19 levels, the company does not anticipate MRR growth rate in fourth quarter to match that of the third quarter. This is likely to have hurt investor sentiments.

Merchant Solutions revenues advanced 132% to \$522.1 million, primarily on growth in Gross Merchandise Volume (GMV) that improved 109% from the year-ago quarter's figure to \$30.9 billion.

Gross Payments Volume (GPV) was \$14 billion, accounting for 45% of GMV processed in the third quarter and up from \$6.2 billion (42%) in the prior-year quarter.

Shopify Capital advanced \$252.1 million cash (and loans) to merchants in the reported quarter, surging 79% compared with \$141 million in the year-ago quarter. Since the launch of Shopify Capital, cumulative merchant cash advances have increased to \$1.4 billion, out of which \$248 million was outstanding as of Sep 30, 2020.

Shopify Shipping witnessed robust adoption in the third quarter. The offering is being leveraged by 51% of total eligible merchants across the United States and Canada, compared with 45% in year-ago quarter.

Notable Points

More new merchants signed to Shopify Fulfillment Network in third-quarter 2020 compared with previous quarters since its launch in June 2019. Increasing investments on expanding robotics and fulfillment technology capabilities hold promise.

Further, the company's strong partner referral system is anticipated to boost merchant base that will drive the top line in 2020. More than 37,400 partners referred merchants to Shopify in the past 12 months.

Shopify is banking on its new mobile shopping app — Shop, and applications like Shopify Email, Shopify Plus Admin, Shopify Flow and Shopify Balance to bolster customer engagement in the days ahead. Notably, Shop app integrates features from both Shop Pay and Arrive and enables customers to easily discover local businesses, receive relevant product recommendations, check out effortlessly, and track all of their online orders.

Notably, the company introduced Shopify Payments in Belgium, facilitating iDEAL as a local payment method, and supporting Bancontact debit payments, marking the availability of Shopify Payments to 17 countries.

Besides, the company is well poised to capitalize on e-commerce boom via rapid uptake of its new point of sale software — Shopify POS. The software's enhanced features are likely to drive its adoption among brick-and-mortar retailers.

Moreover, integrating Shopify platform with sales channels from TikTok, Facebook's Facebook shops, Walmart's Walmart.com and Pinterest, to enable merchants expand sales and broaden business avenues, is expected to drive new buyer traffic to their stores. This favors Shopify's prospects over the longer haul.

Operating Details

Non-GAAP gross profit (adjusted for amortization of acquired intangibles) surged 88.1% year over year to \$412.6 million. This can be attributed to higher mix of Merchant Solutions revenues.

Nevertheless, non-GAAP gross margin contracted 200 basis points (bps) from the year-ago quarter's level to 54%.

Non-GAAP operating expenses surged 34.9% year over year to \$281.7 million.

Non-GAAP operating expenses, as a percentage of revenues, contracted to 37% from 53% in the year-ago period.

Shopify reported adjusted operating income of \$130.9 million compared with operating income of \$10.5 million in the year-ago quarter. The increase was driven by robust revenue growth.

Balance Sheet & Cash Flow

As of Sep 30, 2020, Shopify ended the reported quarter with cash, cash equivalents and marketable securities balance of \$6.12 billion compared with \$4 billion as of Jun 30, 2020. The increase can be attributed to net proceeds worth \$2.03 billion from offering of Class A subordinate voting shares in the reported quarter and \$1.46 billion of net proceeds from the company's offering of Class A subordinate voting shares in the second quarter.

Shopify generated net cash flow in operations of \$179.6 million for nine months ended Sep 30, 2020 compared with \$17.7 million for nine months ended Sep 30, 2019.

Refrains From Providing Guidance

Management believes that coronavirus crisis led e-commerce boom, and momentum in online retail spending will continue. However, Shopify refrained from providing any guidance for fourth quarter or 2020 due to COVID-19 induced uncertainties prevailing in the market pertaining to unemployment, fiscal stimulus, and the magnitude and duration of adverse business impacts, which may affect new shop creation on Shopify platform.

Recent News

On Sep 16, Shopify announced the pricing of its public offering of 1,100,000 Class A subordinate voting shares at a price to the public of US\$900 per share and its public offering of \$0.8 billion aggregate principal amount of convertible senior notes slated to mature in 2025. Shopify anticipates to utilize the net proceeds to strengthen its balance sheet, and to finance its growth strategies.

On Jun 30, Shopify partnered with Chipotle to launch the Chipotle Virtual Farmers' Market. Shopify's platform will be utilized by farmers in the Chipotle supply chain to deliver enhanced versions of their e-commerce portals.

On Jun 16, Shopify launched a fresh way for shoppers to support Black-owned businesses, by highlighting the businesses enabling them reach new customers, on mobile shopping assistant app, Shop.

On Jun 15, Shopify announced partnership with Walmart, in a bid to enable merchants sell products on Walmart.com. The move is a testament to the company's increasing efforts to bolster merchant base, pertaining to small and medium-sized businesses, with multiple channel options.

Valuation

Shopify's shares are up 156.5% in the year-to-date period and 199% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 32.8% and 31.9% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and sector are up 33.8% and 35.5%, respectively.

The S&P 500 index is up 13.1% in the year-to-date period and 15.6% in the past year.

The stock is currently trading at 34.46X forward 12-month sales compared with 6.85X for the Zacks sub-industry, 4.32X for the Zacks sector and 4.25X for the S&P 500 index.

In the past five years, the stock has traded as high as 49.13X and as low as 3.79X, with a 5-year median of 11.9X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$1,071 price target reflects 36.2X forward 12-month sales.

The table below shows summary valuation data for SHOP

Valuation Multiples - SHOP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	34.46	6.85	4.32	4.25
	5-Year High	49.13	14.87	4.48	4.3
	5-Year Low	3.79	5.12	2.77	3.17
	5-Year Median	11.9	7.76	3.44	3.67
P/B TTM	Current	20.12	6.58	8.21	6.17
	5-Year High	35.56	7.96	8.32	6.17
	5-Year Low	5.56	3.99	4.09	3.74
	5-Year Median	11	6.32	5.61	4.91
EV/Sales TTM	Current	48.1	7.99	5.07	4.23
	5-Year High	63.57	13.67	5.23	4.23
	5-Year Low	4.36	4.36	2.85	2.62
	5-Year Median	15.67	7.87	3.86	3.58

As of 11/25/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
ANGI Homeservices Inc. (ANGI)	Neutral	4
Autohome Inc. (ATHM)	Neutral	3
Etsy, Inc. (ETSY)	Neutral	3
Groupon, Inc. (GRPN)	Neutral	3
Square, Inc. (SQ)	Neutral	3
Wix.com Ltd. (WIX)	Neutral	3
Zillow Group, Inc. (ZG)	Neutral	3
eBay Inc. (EBAY)	Underperform	4

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

Industry Comparison Industry: Internet - Services				Industry Peers		
	SHOP	X Industry	S&P 500	EBAY	GRPN	WIX
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	D	-	-	C	C	C
Market Cap	124.29 B	767.93 M	26.28 B	34.78 B	902.70 M	13.95 B
# of Analysts	21	3	14	11	3	8
Dividend Yield	0.00%	0.00%	1.48%	1.27%	0.00%	0.00%
Value Score	F	-	-	C	C	F
Cash/Price	0.05	0.16	0.07	0.11	0.97	0.07
EV/EBITDA	-1,978.97	2.90	14.65	13.45	3.31	-323.87
PEG F1	11.31	2.05	2.76	1.11	NA	NA
P/B	20.12	3.45	3.57	11.91	9.14	52.16
P/CF	NA	20.06	13.72	15.11	6.59	NA
P/E F1	412.76	34.76	21.80	14.80	NA	NA
P/S TTM	50.59	3.10	2.83	3.26	0.54	15.32
Earnings Yield	0.24%	0.24%	4.40%	6.76%	-8.17%	-0.18%
Debt/Equity	0.14	0.12	0.70	2.65	2.29	3.08
Cash Flow (\$/share)	-0.60	0.03	6.93	3.34	4.75	-0.25
Growth Score	B	-	-	C	B	B
Historical EPS Growth (3-5 Years)	NA%	16.39%	9.72%	10.29%	NA	NA
Projected EPS Growth (F1/F0)	722.70%	11.32%	0.45%	20.43%	-198.59%	-139.42%
Current Cash Flow Growth	85.89%	-2.71%	5.23%	8.64%	-29.11%	-2,949.32%
Historical Cash Flow Growth (3-5 Years)	NA%	19.91%	8.33%	-6.76%	11.55%	11.92%
Current Ratio	17.87	1.90	1.38	1.75	0.99	1.82
Debt/Capital	12.62%	12.62%	41.99%	72.60%	69.61%	75.50%
Net Margin	7.99%	-6.71%	10.44%	50.42%	-13.34%	-19.25%
Return on Equity	2.35%	-0.67%	14.99%	82.73%	-31.31%	-60.95%
Sales/Assets	0.50	0.57	0.50	0.56	1.21	0.69
Projected Sales Growth (F1/F0)	79.76%	1.73%	0.23%	-6.31%	-38.49%	28.23%
Momentum Score	F	-	-	C	F	A
Daily Price Change	4.97%	0.00%	-0.56%	-0.16%	-0.51%	1.35%
1-Week Price Change	7.65%	0.56%	0.21%	0.66%	12.99%	5.08%
4-Week Price Change	-0.70%	7.81%	14.04%	-5.26%	62.67%	-4.60%
12-Week Price Change	-5.12%	5.29%	8.89%	-8.41%	-9.00%	-15.55%
52-Week Price Change	198.98%	29.00%	5.87%	40.72%	-46.17%	105.56%
20-Day Average Volume (Shares)	1,699,235	108,880	2,256,422	12,174,000	1,531,550	789,567
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	-8.31%	1.90%	1.00%	-1.63%	6.65%	9.86%
EPS F1 Estimate 12-Week Change	495.39%	3.17%	3.64%	-4.69%	10.38%	9.86%
EPS Q1 Estimate Monthly Change	-31.12%	0.00%	0.00%	5.67%	-46.81%	4.82%

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	F
Growth Score	B
Momentum Score	F
VGM Score	D

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.