

## Skechers U.S.A., Inc. (SKX)

**\$38.02** (As of 02/24/21)

Price Target (6-12 Months): **\$40.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: D

## Summary

Shares of Skechers have underperformed the industry in the past three months. The company is witnessing a year-over-year decline in its top and bottom line that continued in the fourth quarter of 2020. This might be attributed to the adverse impacts of the pandemic. Moreover, the company's earnings lagged the Zacks Consensus Estimate in the quarter after three consecutive beats. Sales decline along with higher costs marred operating margin and the bottom line. Additionally, soft direct-to-consumer sales dented the top line. Management further notified that the business will continue to be marred by the pandemic in the first half of 2021. Nevertheless, the company's e-commerce business has been flourishing as it continues to invest in enhancing capabilities. The company is on track to complete the update of its point-of-sales system.

## Data Overview

|                                |                                    |
|--------------------------------|------------------------------------|
| 52-Week High-Low               | <b>\$39.07 - \$17.06</b>           |
| 20-Day Average Volume (Shares) | <b>1,489,869</b>                   |
| Market Cap                     | <b>\$6.0 B</b>                     |
| Year-To-Date Price Change      | <b>5.8%</b>                        |
| Beta                           | <b>1.27</b>                        |
| Dividend / Dividend Yield      | <b>\$0.00 / 0.0%</b>               |
| Industry                       | <b>Shoes and Retail Apparel</b>    |
| Zacks Industry Rank            | <b>Bottom 19% (204 out of 253)</b> |

|                               |               |
|-------------------------------|---------------|
| Last EPS Surprise             | <b>-11.1%</b> |
| Last Sales Surprise           | <b>1.1%</b>   |
| EPS F1 Estimate 4-Week Change | <b>-7.9%</b>  |
| Expected Report Date          | <b>NA</b>     |
| Earnings ESP                  | <b>0.0%</b>   |

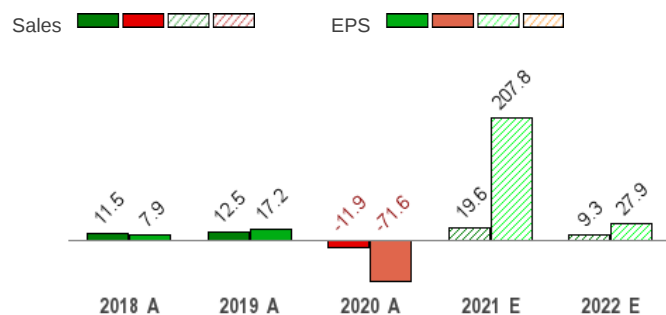
|         |             |
|---------|-------------|
| P/E TTM | <b>52.8</b> |
| P/E F1  | <b>19.3</b> |
| PEG F1  | <b>2.8</b>  |
| P/S TTM | <b>1.3</b>  |

## Price, Consensus & Surprise



Source: Zacks Investment Research

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



## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2022 |         |         |         |         | 6,008 E |
| 2021 | 1,289 E | 1,169 E | 1,455 E | 1,477 E | 5,498 E |
| 2020 | 1,242 A | 729 A   | 1,301 A | 1,325 A | 4,597 A |

## EPS Estimates

|      | Q1       | Q2        | Q3       | Q4       | Annual*  |
|------|----------|-----------|----------|----------|----------|
| 2022 |          |           |          |          | \$2.52 E |
| 2021 | \$0.55 E | \$0.35 E  | \$0.71 E | \$0.40 E | \$1.97 E |
| 2020 | \$0.39 A | -\$0.44 A | \$0.53 A | \$0.24 A | \$0.64 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 02/24/2021. The report's text and the analyst-provided price target are as of 02/25/2021.

## Overview

Founded in 1992 and headquartered in Manhattan Beach, California, Skechers U.S.A., Inc. (SKX) designs, develops, markets, and distributes footwear for men, women, and children in the United States and overseas under the SKECHERS name, as well as under several uniquely branded names.

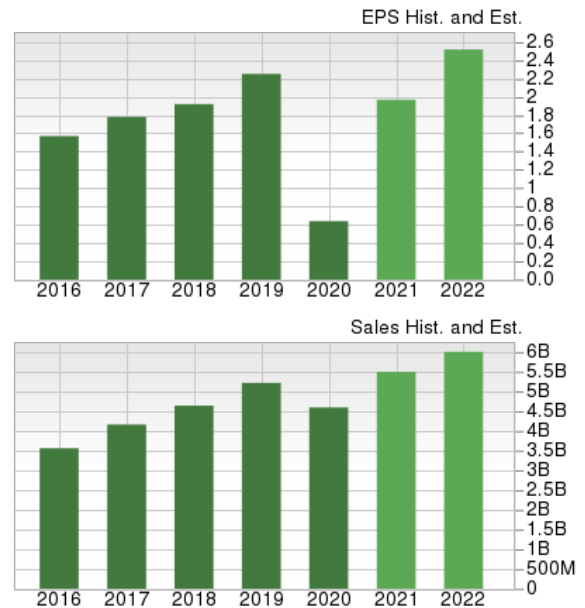
Through its distribution networks, joint venture partners in Asia and the Middle East, and wholly-owned subsidiaries in Canada, Japan, throughout Europe and Latin America, Skechers' products are available in more than 170 countries and territories. There are more than 3,800 SKECHERS Company-owned and third-party-owned retail stores.

Skechers offers casuals, dress casuals, comfort and lightweight, sandals, and casual fusion categories for men and women under the **Skechers USA brand**; sport footwear for men and women, including men's lifestyle athletic footwear, lightweight women's sneakers, and sport sandals and boots under the **Skechers Sport brand**; fusion and sport fusion sneakers for females of all ages under the **Skechers Active brand**; and vulcanized looks and at Home collection under the brand **BOBS from Skechers**.

The company also provides casuals, field boots, hikers, and athletic shoes for men and women under the **Skechers Work brand**; boots, shoes, sandals, dress sneakers, and lighted footwear for infants, toddlers, boys, and girls under the **Skechers Kids brand**; and a vivid range of on-trend casual, dress and active styles for men under **Mark Nason Collection**.

The company also offers specially designed footwear collection under **Skechers GORun**, **Skechers GOwalk**, **Skechers**, **Skechers GOrain**, **Skechers GOrail**, **Skechers GO Golf** and **YOU by Skechers**.

Skechers reports under four segments - **domestic wholesale sales**, **international wholesale sales**, **direct-to-consumer (which includes domestic and international retail sales)**, and **e-commerce**.



Source: Zacks Investment Research

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## Reasons To Buy:

- ▲ **E-commerce Gaining Traction:** Skechers has been directing resources to enhance its digital capabilities, which includes augmenting website features, mobile application and loyalty program. Management believes that investments made to integrate store and digital ecosystems for developing a seamless omnichannel experience is likely to drive greater sales. The company is focusing on improving in-store point-of-sale systems to better engage with customers, both offline and online. Initiatives such as “Buy Online, Pick-Up in Store” and “Buy Online, Pickup at Curbside” are with mentioning. Moreover, the company has been enhancing its distribution facilities and supply-chain production capabilities.

Skechers' e-commerce channel is performing well. During the fourth quarter of 2020, its domestic e-commerce business increased nearly 142.7% year over year.

We note that the company's domestic e-commerce increased significantly during the fourth quarter of 2020, with a year-over-year rise of nearly 142.7%. Markedly, online sales have been an important sales driver within the direct-to-consumer channel. The company is on track to complete the update of its point-of-sales system, which will enable customers to shop for products online and pick them in stores as per convenience. It has also been enhancing its loyalty program. Moreover, it plans to launch new sites across Europe and South America, which will offer an improved brand experience and in turn boost overall sales. Going forward, management believes that the e-commerce channel is a significant opportunity for growth.

- ▲ **Strategic Endeavors:** The company is making strategic investments to improve infrastructure worldwide, primarily e-commerce platforms and distribution centers. The company is also focusing on designing and developing new products. We believe that greater emphasis on new line of products, store remodeling projects, cost-containment efforts, inventory management, and global distribution platform bodes well. Notably, earlier this year, Skechers collaborated with The Goodyear Rubber & Tire Company in order to use latter's rubber technology in its footwear.
- ▲ **Diversified Portfolio of Brands:** Skechers continues to offer a diversified portfolio of brands that includes a wide range of fashion, athletic, non-athletic, and work footwear at compelling prices. We believe that this multi-brand strategy enables the company to roll out new products without cannibalizing its existing brands and helps to expand the targeted demographic profile of customers. Skechers D'Lites is fast gaining traction with sturdy demand in North America and Europe, after gaining grounds in Asia. The brand is also set for growth in South America, India and the Middle East. Beating coronavirus blues, Skechers' brand is performing quite well with robust sell-through and gross margins.
- ▲ **International Business Still a Growth Driver:** Skechers' international business remains a considerable sales growth driver for the company with Europe and China being the significant market outside the United States. Skechers is poised to enhance its global reach in the footwear market through its distribution networks, subsidiaries and JVs. In the fourth quarter of 2020, international sales improved 1.1% year over year and 4.5% sequentially. Moreover, the international wholesale business rose 2.5%, buoyed by increases in the joint venture business registering a rise of 29.7% in China and increase of 12.7% in subsidiaries. The subsidiary growth was led by Europe and Latin America as well as outstanding improvements in the United Kingdom and Germany. Growth in Europe comprised of double-digit increases in Chile, the U.K., Germany and Spain, among others.
- ▲ **Financial Analysis:** At the end of fourth-quarter 2020, Skechers had cash and cash equivalents of 1,370.8 million, which shows an improvement from \$1,294.2 million at the end of the third quarter. Moreover, the company's long-term borrowings excluding current installments of \$679.4 million, down 0.6% from \$683.6 million on a sequential basis. Also, the cash position is sufficient to meet the company's short-term borrowings of \$3.3 million.

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## Reasons To Sell:

- ▼ **Top & Bottom Line Decline Y/Y:** Both the top and the bottom line continued to decline year over year during the fourth quarter of 2020 owing to the adverse impacts of the coronavirus pandemic. Moreover, the company's earnings lagged the Zacks Consensus Estimate in the quarter after three consecutive beats. The company continued to witness soft domestic sales. Sales decline along with higher costs marred operating margin and the bottom line. The company reported adjusted earnings of 24 cents a share that missed the Zacks Consensus Estimate of 27 cents and declined 38.5% from the year-ago period. Moreover, Skechers generated sales of \$1,324.7 million that dropped 0.5% from the year-ago period owing to a 2.8% drop in the domestic business. On a constant currency basis, sales declined 2.5% in the quarter. Additionally, soft direct-to-consumer sales dented the top line. Further, management notified that the company's business will continue to be marred by the pandemic during the first half of 2021. Although Skechers' stock has rallied 5.5% in the past three months, it has underperformed the industry's rally of 21%.
- ▼ **Direct-to-Consumer Sales Fall:** During the fourth quarter, the company's direct-to-consumer business declined 6.4% owing to temporary closures and reduced store operating hours. The decline in direct-to-consumer sales reflects a decrease of 7.6% and 4.4% in direct-to-consumer domestic and direct-to-consumer international businesses, respectively, during the quarter under review. While the domestic direct-to-consumer business was hurt by reduced traffic in stores and declines in foot traffic and tourism hurt domestic sales, international direct-to-consumer sales were hurt by lower traffic, reduced store hours and temporary closures in Europe, Canada and Latin America. Overall, comparable same-store sales for the direct-to-consumer business plunged 13.4%, hurt by a decline of 9.8% in the United States and 21.7% internationally. Prior to this, during third-quarter 2020, the company's direct-to-consumer business fell 16.9%.
- ▼ **Deleverage in SG&A Expenses a Concern:** Any deleverage in selling, general and administrative (SG&A) expense has a direct bearing on the company's margin. SG&A expenses were up 8.6% year over year during the fourth quarter. As a percentage of sales, SG&A expenses expanded 380 basis points (bps) to 45%. The spike in SG&A expenses can be attributed to a 10.4% increase in selling expenses and an 8.3% rise in general and administrative expenses. Elevated selling expenses stemmed from a rise in domestic marketing costs, while increase in warehouse and distribution costs globally drove general and administrative expenses. Moreover, rise in SG&A expenses is building pressure on the company's operating income, which declined 38.7% year on year. Operating margin also fell 270 bps to 4.4%.
- ▼ **Prone to Currency Fluctuations:** Skechers generates a significant amount of net sales outside the U.S. Due to high exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the United States. An increase in price may have an adverse impact on the demand for the products.
- ▼ **Fashion Obsolescence a Threat:** Fashion obsolescence remains the main concern for Skechers' business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be hurt by delays in its product launches. The company operates in the highly competitive athletic footwear and apparel segment. It faces stiff competition from athletic footwear specialty stores, sporting goods stores, department stores, discount stores and traditional shoe stores in terms of distinctiveness, innovativeness, quality and pricing, which may weigh on its results.

The coronavirus pandemic has been weighing upon Skechers top line, as witnessed during the fourth quarter. Moreover rising SG&A expenses is a worry.

## Last Earnings Report

### Skechers' Q4 Earnings Miss Estimates, Revenues Beat

Skechers reported lower-than-expected earnings in fourth-quarter 2020. Moreover, earnings and sales declined year over year. The company's domestic and international retail business continued to be impacted by soft traffic due to the stay-at-home restrictions across several regions as well as store closures due to the resurgence of COVID-19 in certain markets. However, the e-commerce and wholesale businesses continued to witness momentum, which partly cushioned the results.

Quarter Ending 12/2020

| Report Date      | Feb 04, 2021 |
|------------------|--------------|
| Sales Surprise   | 1.09%        |
| EPS Surprise     | -11.11%      |
| Quarterly EPS    | 0.24         |
| Annual EPS (TTM) | 0.72         |

### Let's Analyze the Results

The designer, developer, marketer and distributor of footwear reported adjusted earnings of 24 cents a share, missing the Zacks Consensus Estimate of 27 cents. However, the bottom line declined 38.5% from earnings of 39 cents in the year-ago period.

Skechers generated sales of \$1,324.7 million that surpassed the Zacks Consensus Estimate of \$1,310.4 million. Notably, this marks the seventh straight quarter of a revenue beat. However, the company's top line decreased 0.5% from the year-ago period on a 2.8% decline in the domestic business, offset by 1.1% growth internationally. Additionally, a 6.4% decline in direct-to-consumer sales, owing to temporary closures and reduced store operating hours, dented the top line. On a constant currency basis, sales declined 2.5% in the quarter.

Soft domestic business sales mainly resulted from lower retail sales as well as a 7.6% decline in domestic direct-to-consumer due to reduced traffic in stores and declines in foot traffic and tourism hurt domestic sales. This was considerably offset by a 142.7% rise in e-commerce sales and growth in the domestic wholesale business. Notably, sales for the company's domestic wholesale business improved 1.2% in the quarter under review, owing to the demand for its athletic lifestyle, walking and work footwear products for men and women as well as high-single-digit growth in the men's category.

Meanwhile, sales growth in the international business was led by strong wholesale business, offset by soft retail sales. This was partly negated by higher joint venture and subsidiary sales, including 23.9% and 18.1% in China and Europe, respectively. International wholesale sales were aided by gains at its international wholesale subsidiaries and joint ventures, including 29.7% growth in China and 22.9% in Europe, offset by a 57.9% decline in distributor sales. Growth in Europe comprised of double-digit increases in Chile, the U.K., Germany and Spain, among others. However, international direct-to-consumer sales fell 4.4% on reduced traffic, reduced store hours and temporary closures in Europe, Canada and Latin America.

Overall, comparable same-store sales for the direct-to-consumer business plunged 13.4%, hurt by a decline of 9.8% in the United States and 21.7% internationally.

Gross profit improved 1.7% year over year to \$648.4 million. Also, gross margin expanded 102 basis points (bps) to 48.9% driven by favorable mix of online and international sales and higher average selling price in the domestic wholesale business. Moreover, the company witnessed gross margin growth in all segments.

SG&A expenses were \$595.7 million, up 8.6% year over year. As a percentage of sales, SG&A expenses expanded 380 basis points (bps) to 45%. The higher SG&A expenses can be attributed to a 10.4% increase in selling expenses and an 8.3% rise in general and administrative expenses. Elevated selling expenses stemmed from a rise in domestic marketing costs, while increase in warehouse and distribution costs globally caused general and administrative expenses to increase.

The company reported operating income of \$57.7 million, down 38.7% from the prior-year period. Operating margin declined 270 bps to 4.4% on higher SG&A expenses despite a rise in gross margin.

### Store Update

Skechers opened 19 company-owned Skechers stores in the fourth quarter, including international locations. The international stores included a flagship store in Munich. Additionally, it closed six stores in the quarter. The company also added 108 third-party Skechers stores in the fourth quarter. This resulted in 3,891 stores, including 523 company-owned domestic stores, 331 company-owned international locations, 467 joint-venture stores and 2,570 distributor, licensee and franchise stores as of Dec 31.

Additionally, the company closed 18 stores so far in the first quarter of 2021. Through the rest of the first quarter, the company expects to close another 5-7 company-owned stores.

### Other Financial Aspects

As of Dec 31, 2020, cash, cash equivalents and investments totaled \$1.47 billion. This reflects an increase of \$534.7 million from Dec 31, 2019. The rise primarily reflects the outstanding borrowings of \$452.5 million in its senior unsecured credit facility.

The company ended the quarter with long-term borrowings (excluding current installments) of \$679.4 million, and shareholders' equity of \$2,481.4 million, excluding non-controlling interests of \$244.2 million. Further, total inventory was \$1,016.7 million, down 5% from the year-ago period. The year-over-year decline reflects strong inventory management, which resulted in lower inventory levels in domestic wholesale and direct-to-consumer businesses, offset by higher inventory in international wholesale to drive growth in China.

Management incurred capital expenditure of \$96.7 million in the fourth quarter. Given the prevailing retail backdrop, the company prioritized the enhancement of direct-to-consumer capabilities and augmenting global distribution infrastructure. It now expects capital expenditure of \$275-\$325 million for 2021.



## Valuation

Skechers shares are up 5.8% in the year-to-date period and nearly 13.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.7% but those in the Zacks Consumer Discretionary sector is up 6.8% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 45.7% and 33.6%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 18.53X forward 12-month earnings, which compares to 33.87X for the Zacks sub-industry, 33.82X for the Zacks sector and 22.48X for the S&P 500 index.

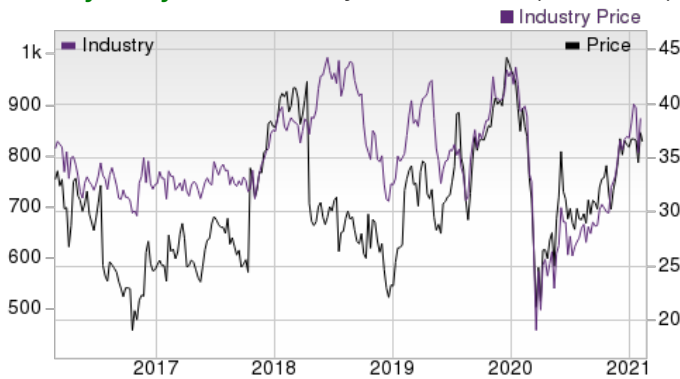
Over the past five years, the stock has traded as high as 33.33X and as low as 8.14X, with a 5-year median of 14.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$40 price target reflects 19.64X forward 12-month earnings. The table below shows summary valuation data for SKX

| Valuation Multiples - SKX |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M                  | Current       | 18.53 | 33.87        | 33.82  | 22.48   |
|                           | 5-Year High   | 33.33 | 36.55        | 35.25  | 23.8    |
|                           | 5-Year Low    | 8.14  | 18.66        | 16.19  | 15.3    |
|                           | 5-Year Median | 14.94 | 23.7         | 20.17  | 17.84   |
| P/S F12M                  | Current       | 1.07  | 4.26         | 3.01   | 4.53    |
|                           | 5-Year High   | 1.49  | 4.26         | 3.01   | 4.53    |
|                           | 5-Year Low    | 0.54  | 2.03         | 1.7    | 3.21    |
|                           | 5-Year Median | 0.99  | 2.69         | 2.49   | 3.68    |
| EV/EBITDA TTM             | Current       | 22.21 | 38.14        | 13.29  | 16.66   |
|                           | 5-Year High   | 22.65 | 40.91        | 17.89  | 16.99   |
|                           | 5-Year Low    | 4.25  | 12.77        | 8.3    | 9.62    |
|                           | 5-Year Median | 8.84  | 16.51        | 12.29  | 13.28   |

As of 02/24/2021

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 253)



Source: Zacks Investment Research

## Top Peers

| Company (Ticker)                   | Rec        | Rank |
|------------------------------------|------------|------|
| Deckers Outdoor Corporation (DECK) | Outperform | 2    |
| Steven Madden, Ltd. (SHOO)         | Outperform | 2    |
| Adidas AG (ADDYY)                  | Neutral    | 3    |
| Anta Sports Products Ltd. (ANPDF)  | Neutral    | 3    |
| Columbia Sportswear Company (COLM) | Neutral    | 3    |
| NIKE, Inc. (NKE)                   | Neutral    | 3    |
| V.F. Corporation (VFC)             | Neutral    | 3    |
| Wolverine World Wide, Inc. (WWW)   | Neutral    | 4    |

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

| Industry Comparison Industry: Shoes And Retail Apparel |           |            |           | Industry Peers |            |           |
|--------------------------------------------------------|-----------|------------|-----------|----------------|------------|-----------|
|                                                        | SKX       | X Industry | S&P 500   | ADDYY          | DECK       | NKE       |
| Zacks Recommendation (Long Term)                       | Neutral   | -          | -         | Neutral        | Outperform | Neutral   |
| Zacks Rank (Short Term)                                | 4         | -          | -         | 3              | 2          | 3         |
| VGM Score                                              | D         | -          | -         | F              | B          | B         |
| Market Cap                                             | 5.98 B    | 2.07 B     | 27.72 B   | 69.07 B        | 9.34 B     | 213.85 B  |
| # of Analysts                                          | 5         | 5          | 13        | 7              | 6          | 13        |
| Dividend Yield                                         | 0.00%     | 0.00%      | 1.45%     | 0.00%          | 0.00%      | 0.81%     |
| Value Score                                            | B         | -          | -         | D              | C          | D         |
| Cash/Price                                             | 0.26      | 0.12       | 0.06      | 0.05           | 0.12       | 0.05      |
| EV/EBITDA                                              | 8.16      | 9.53       | 15.30     | 15.49          | 21.34      | 51.64     |
| PEG F1                                                 | 2.73      | 2.01       | 2.37      | 5.85           | 1.19       | 2.38      |
| P/B                                                    | 2.19      | 2.37       | 3.89      | 8.70           | 6.14       | 20.10     |
| P/CF                                                   | 12.74     | 12.42      | 15.89     | 19.69          | 29.45      | 52.11     |
| P/E F1                                                 | 19.10     | 20.25      | 21.11     | 35.31          | 25.55      | 45.83     |
| P/S TTM                                                | 1.30      | 1.12       | 3.19      | 3.05           | 3.96       | 5.59      |
| Earnings Yield                                         | 5.18%     | 4.95%      | 4.65%     | 2.83%          | 3.91%      | 2.18%     |
| Debt/Equity                                            | 0.25      | 0.31       | 0.66      | 0.38           | 0.02       | 0.88      |
| Cash Flow (\$/share)                                   | 2.98      | 2.85       | 6.64      | 8.95           | 11.26      | 2.60      |
| Growth Score                                           | F         | -          | -         | F              | A          | B         |
| Historical EPS Growth (3-5 Years)                      | -7.76%    | -2.57%     | 9.34%     | -5.40%         | 30.67%     | 0.26%     |
| Projected EPS Growth (F1/F0)                           | 207.50%   | 90.22%     | 13.95%    | 309.02%        | 34.84%     | 85.00%    |
| Current Cash Flow Growth                               | 11.53%    | 3.30%      | 1.21%     | 36.19%         | 1.85%      | -14.59%   |
| Historical Cash Flow Growth (3-5 Years)                | 18.98%    | 6.40%      | 7.62%     | 23.10%         | 8.34%      | 0.67%     |
| Current Ratio                                          | 2.76      | 2.40       | 1.38      | 1.39           | 3.25       | 2.66      |
| Debt/Capital                                           | 19.95%    | 27.29%     | 41.22%    | 27.61%         | 1.92%      | 46.93%    |
| Net Margin                                             | 2.14%     | 0.41%      | 10.59%    | 2.33%          | 15.48%     | 7.39%     |
| Return on Equity                                       | 4.30%     | 7.55%      | 14.82%    | 7.19%          | 28.98%     | 34.89%    |
| Sales/Assets                                           | 0.82      | 1.00       | 0.51      | 0.97           | 1.17       | 1.22      |
| Projected Sales Growth (F1/F0)                         | 19.59%    | 14.86%     | 6.82%     | 15.79%         | 13.42%     | 14.86%    |
| Momentum Score                                         | D         | -          | -         | F              | F          | A         |
| Daily Price Change                                     | 1.63%     | 0.00%      | 1.31%     | -0.48%         | 2.20%      | -0.35%    |
| 1-Week Price Change                                    | -0.87%    | -0.27%     | -0.16%    | 0.53%          | 2.42%      | -0.07%    |
| 4-Week Price Change                                    | 8.94%     | 6.74%      | 6.83%     | 8.09%          | 18.98%     | 3.53%     |
| 12-Week Price Change                                   | 14.93%    | 14.93%     | 9.51%     | 8.25%          | 23.14%     | 0.05%     |
| 52-Week Price Change                                   | 13.73%    | 24.49%     | 18.76%    | 24.49%         | 82.67%     | 47.45%    |
| 20-Day Average Volume (Shares)                         | 1,489,869 | 37,976     | 2,013,595 | 44,639         | 327,081    | 5,530,097 |
| EPS F1 Estimate 1-Week Change                          | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%      | 0.00%     |
| EPS F1 Estimate 4-Week Change                          | -7.87%    | 0.00%      | 0.62%     | 0.00%          | 16.51%     | 0.00%     |
| EPS F1 Estimate 12-Week Change                         | -9.03%    | 1.11%      | 1.91%     | -0.15%         | 17.73%     | 4.83%     |
| EPS Q1 Estimate Monthly Change                         | -9.84%    | 0.00%      | 0.15%     | -0.27%         | -37.78%    | 0.00%     |

Source: Zacks Investment Research

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we maintain a balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>F</b> |
| Momentum Score | <b>D</b> |
| VGM Score      | <b>D</b> |

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

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

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

## Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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