

Target Corporation (TGT)

\$163.97 (As of 10/14/20)

Price Target (6-12 Months): **\$189.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 08/20/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Shares of Target have risen and outperformed the industry in the past three months. The company has been deploying resources to enhance omni-channel capabilities, come up with new brands, refurbish stores and expand same-day delivery options to provide seamless shopping experience. Markedly, the company has been making multiple changes to its business model to adapt and stay relevant in the ever-evolving retail landscape. Target's impressive second-quarter fiscal 2020 performance is the testimony of the same, wherein both the top and the bottom lines grew year over year. Notably, comparable sales rose for the 13th straight quarter, gaining from strength in the digital channel as consumers shift to online shopping amid coronavirus-led social distancing. Target witnessed sturdy market-share gains in all five core merchandise categories.

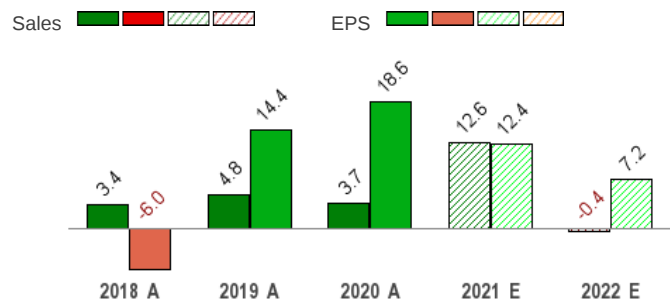
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$166.68 - \$90.17
20-Day Average Volume (Shares)	2,858,510
Market Cap	\$82.1 B
Year-To-Date Price Change	27.9%
Beta	0.85
Dividend / Dividend Yield	\$2.72 / 1.7%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 28% (178 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	106.1%
Last Sales Surprise	13.5%
EPS F1 Estimate 4-Week Change	0.4%
Expected Report Date	11/18/2020
Earnings ESP	25.0%
P/E TTM	23.4
P/E F1	22.8
PEG F1	3.2
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	19,669 E	20,802 E	21,005 E	25,654 E	87,559 E
2021	19,615 A	22,975 A	20,676 E	24,751 E	87,939 E
2020	17,627 A	18,422 A	18,665 A	23,398 A	78,112 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.60 E	\$2.38 E	\$1.72 E	\$1.95 E	\$7.70 E
2021	\$0.59 A	\$3.38 A	\$1.53 E	\$1.76 E	\$7.18 E
2020	\$1.53 A	\$1.82 A	\$1.36 A	\$1.69 A	\$6.39 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 10/14/2020. The reports text is as of 10/15/2020.

Overview

Target Corporation (TGT) has evolved from just being a pure brick-&-mortar retailer to an omni-channel entity. The company has been making investment in technologies, improving websites and mobile apps and modernizing supply chain to keep pace with the changing retail landscape and better compete with pure e-commerce players. Its acquisition of Shipt to provide same-day delivery of groceries, essentials, home, electronics as well as other products is worth noting.

Founded in 1902, Target provides an array of goods ranging from household essentials and electronics to toys and apparel for men, women and kids. It also houses food and pet supplies, home furnishings and décor, home improvement, automotive products, and seasonal merchandise.

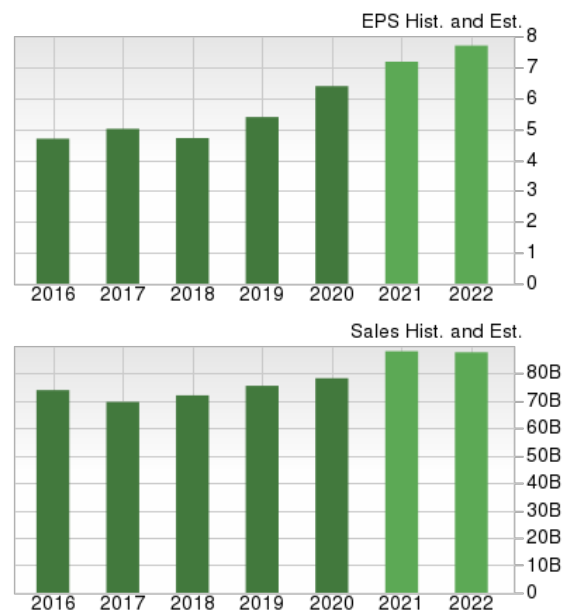
This Minneapolis, MN-based company also offers in-store amenities, consisting of Target Café, Target Photo, Target Optical, Portrait Studio, Starbucks, and other food service offerings. Target operates nearly 1,900 stores.

A greater number of general merchandise stores provides an edited food assortment, including perishables, dry grocery, dairy, and frozen items. The company's stores, which are larger than 170,000 square feet, offer a full line of food items comparable to traditional supermarkets.

The company's small format stores, which are smaller than 50,000 square feet, offer curated general merchandise and food assortments. The company's digital channels include a wide merchandise assortment, including many items found in stores, along with a complementary assortment.

Some of the company's Owned Brands includes: A New Day, Cat & Jack, Cloud Island, Made By Design, Opalhouse, Prologue, Project 62, Ava & Viv, Smith & Hawken, Wild Fable and Wine Cube.

Some of the company's Exclusive Brands includes: C9 by Champion, Hand Made Modern, Kid Made Modern, DENIZEN from Levi's, Fieldcrest, Genuine Kids from OshKosh, Isabel Maternity by Ingrid & Isabel and Umbro.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Strategic Initiatives Bode Well:** Target has undertaken several strategic initiatives to boost performance. The company has been deploying resources to enhance omni-channel capacities, come up with new brands and remodel or refurbish stores. Notably, it plans to open nearly 30 new locations in fiscal 2020. It has also adopted cost reduction strategy, rationalization of supply chain with same-day delivery of in-store purchases and technology and process improvements. The company has been aggressively adopting strategies to enhance the shopping experience through miscellaneous channels. It is well equipped to serve shoppers be it curbside pickup or delivery at home. Management is focusing on key categories such as Apparel, Beauty, Electronics, Essentials and Food & Beverage. Some of the company's owned brand includes Good & Gather (reached \$1 billion in sales in less than a year), Everspring, Auden, Colsie and Cloud Island Essentials. Shares of Target have increased 34.5% compared with the industry's gain of 16.1% in the past three months.
- ▲ **Stellar Q2 Performance:** Target registered a stellar performance in second-quarter fiscal 2020, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also grew year over year. While the quarter marked the sixth successive earnings beat, revenues surpassed the estimate for the second straight time. Notably, comparable sales increased for the 13th consecutive quarter. The metric gained from strength in the digital channel, given customers' increased shift to online shopping amid coronavirus-led social distancing. The company reported adjusted earnings of \$3.38 per share that surpassed the Zacks Consensus Estimate of \$1.64, and rose sharply from \$1.82 per share reported in the year-ago period. The company generated total revenues of \$22,975 million that increased 24.7% from the year-ago period and outpaced the Zacks Consensus Estimate of \$20,235.1 million.
- ▲ **Core Merchandise Categories Display Strength:** Target witnessed sturdy market-share gains in all five core merchandise categories owing to strong demand during the second quarter. Consumers splurged on office items, video games, décor, domestics and kitchenware as they work, learn, dine and play at home. While electronics sales soared more than 70%, apparel sales rebounded from a 20% decline in the first quarter to double-digit growth in the second quarter. Home and beauty rose by more than 30% and 20%, respectively. Notably, both essentials and food & beverage were up by about 20%. We note that stores fulfilled more than 90% of the company's sales in the quarter. Same-day services (Order Pick Up, Drive Up and Shipt) surged 273% and accounted for roughly 6 percentage points of total comparable sales growth. Sales fulfilled by Shipt were up more than 350% year over year and sales through Drive-Up were up more than 700% during the quarter under review. In-store pick-up sales rose more than 60%. Meanwhile, comparable sales for the quarter increased 24.3%, backed by a 18.8% jump in average basket as consumers consolidated trips amid the pandemic. The number of transactions rose 4.6%. Digital comparable sales soared 195% and added 13.4 percentage points to comparable sales. Store originated comparable stores sales grew 10.9% during the quarter. Target is adding 750 fresh and frozen grocery items to its in-store order pickup and curbside drive up online services.
- ▲ **Flexible & Smaller Format Stores:** Target continues to lay emphasis on developing flexible format stores to penetrate deeper into urban areas. Earlier, the company used to concentrate on large format stores for a particular location, which lowered its accessibility to the country's densely populated urban regions and space-crunched cities. However, with the changing business scenario and rising competition, Target felt the need to have stores of various sizes and formats in order to better serve its target areas. This approach helps the company to augment sales without substantial capital investment. These types of stores generally have higher sales productivity. These small format stores contributed more than \$1 billion in total sales during fiscal 2019. In the wake of the pandemic, the company intends to open 15-20 small-format stores in fiscal 2020, down from its prior plans of 36 openings. Notably, the company's pipeline is expected to support 35-40 of these new locations annually in future years. Additionally, the company now plans to remodel roughly 130 stores in the fiscal year, instead of 300 outlets.
- ▲ **Customer Friendly Initiatives:** Target made a significant headway in the same-day delivery race with the acquisition of Internet-based delivery service Shipt to provide same-day delivery of groceries, essentials, home, electronics and other products. Shipt is now operating in more than 1,500 outlets in over 200 markets. The company also rolled out Target Restock program that allows customers to restock their shipping box with essential items online and get them delivered at door steps by the next business day for a nominal charge. Further, in order to improve supply chain and expand delivery capabilities, Target acquired Grand Junction. This transportation technology company provides a platform that allows retailers, distributors and third-party logistics providers to manage local deliveries. Drive Up, an app-based service, is another initiative to expedite the shopping process. The service allows customers to place orders using the Target app and have them delivered to their cars. The company offers the service across more than 1,750 stores. Notably, the company's loyalty program, Target Circle, has been gaining traction. The program comes with a zero-membership fee. Another strategic acquisition is that of local route optimization technology from Deliv.
- ▲ **Financial Flexibility & Dividend:** Target ended second-quarter fiscal 2020 with a cash and cash equivalents of \$7,284 million, which reflects a sequential increase of about 60%. Notably, the company's cash position remains sufficient to meet current portion of long-term debt and other borrowings of about \$109 million as of Aug 1, 2020. Although, the company's long-term debt and other borrowings of \$14,188 million increased roughly 1% on a sequential basis, its "times interest earned" ratio stands at a decent 10.5 up from 8.5 at the end of the preceding quarter. In June 2020, Target announced a 3%-dividend hike, marking the 49th successive year of increase. Notably, the company has a dividend payout of 38.2%, dividend yield of 1.6% and free cash flow yield of 7.8%. With an annual free cash flow return on investment of 26.5%, ahead of the industry's nearly 23.1%, the dividend payment is likely to be sustainable.

Target's initiatives, including the development of omni-channel capacities, diversification and localization of assortments along with emphasis on flexible format stores, bode well.

Risks

- **COVID-19 Impact:** Due to the outbreak of novel coronavirus, there has been a shift in consumer shopping pattern and behavior. There is shift in category sales mix to lower-margin non-discretionary merchandise. Industry experts are apprehensive about costs associated with digital fulfillment and supply chain as well as COVID-19 related expenses. We note that costs related to additional employee payments and benefits, along with investments undertaken to preserve safety and health of customers and team members amid the coronavirus crisis may weigh on margins.
 - **High SG&A Expenses:** SG&A expenses have been increasing for quite some time now. Certainly, any deleverage in the same has a direct bearing on margins. After increasing 10.9% during the first quarter of fiscal 2020, SG&A expenses rose 14% in the second quarter. SG&A expenses included \$400 million of investments related to team members' pay benefits and measures to protect the health and safety of guests as well as team. Analysts pointed that any increase in depreciation and amortization on account of remodel program, rise in costs due to new fulfillment options, higher wages and incremental investments may also weigh on margins. Target raised the minimum hourly wage to \$15, effective Jul 5, 2020.
 - **Stiff Competition May Hurt Results:** The retail landscape has been witnessing a sea change with the focus gradually shifting to online shopping. In the retail segment, Target faces stiff competition from discount stores, department stores, drug stores, specialty stores, supermarkets, wholesale clubs, and other forms of retail commerce such as online retailers, contingent on location, price and quality of merchandise, in-stock consistency, merchandise assortments, and customer service. Some of the company's competitors are also far more geographically diversified. We believe that unhealthy price competition to gain market share and attract footfall might weigh on the company's profit margins.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have a serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. Also, uncertainty surrounding government stimulus and a contentious November election may impact consumer spending activity. Cumulatively, these may adversely impact the company's growth and profitability.
-

Last Earnings Report

Target's Q2 Earnings Surpass Estimates, Comps Rise

Target Corporation registered a stellar performance in second-quarter fiscal 2020, wherein both the top and the bottom lines not only beat the Zacks Consensus Estimate but also grew year over year. While the quarter marked the sixth successive earnings beat, revenues surpassed the estimate for the second straight time. Notably, comparable sales increased for the 13th consecutive quarter. The metric gained from strength in the digital channel, given customers' increased shift to online shopping amid coronavirus-led social distancing.

Quarter Ending **07/2020**

Report Date	Aug 19, 2020
Sales Surprise	13.54%
EPS Surprise	106.10%
Quarterly EPS	3.38
Annual EPS (TTM)	7.02

This operator of general merchandise stores reported adjusted earnings of \$3.38 per share that surpassed the Zacks Consensus Estimate of \$1.64, and rose sharply from \$1.82 per share reported in the year-ago period. Impressively, solid operating performance helped offset unprecedented investments in team member pay & benefits amid the coronavirus crisis.

The company generated total revenues of \$22,975 million that increased 24.7% from the year-ago period and outpaced the Zacks Consensus Estimate of \$20,235.1 million. We note that sales jumped 24.8% to \$22,696 million, while other revenues were up 16.6% to \$279 million.

Let's Delve Deeper

Markedly, Target witnessed sturdy market-share gains in all five core merchandise categories owing to strong demand. Consumers splurged on office items, video games, décor, domestics and kitchenware as they work, learn, dine and play at home. While electronics sales soared more than 70%, apparel sales rebounded from a 20% decline in the first quarter to double-digit growth in the second quarter. Home and beauty rose by more than 30% and 20%, respectively. Notably, both essentials and food & beverage were up by about 20%.

We note that stores fulfilled more than 90% of the company's sales in the quarter. Same-day services (Order Pick Up, Drive Up and Shipt) surged 273% and accounted for roughly 6 percentage points of total comparable sales growth. Sales fulfilled by Shipt were up more than 350% year over year and sales through Drive-Up were up more than 700% during the quarter under review. In-store pick-up sales rose more than 60%.

Meanwhile, comparable sales for the quarter increased 24.3%, backed by a 18.8% jump in average basket as consumers consolidated trips amid the pandemic. The number of transactions rose 4.6%. Digital comparable sales soared 195% and added 13.4 percentage points to comparable sales. Store originated comparable stores sales grew 10.9% during the quarter.

Gross margin expanded 30 basis points to 30.9% during the quarter on account of higher sales and lower discounts driven by high sell through rates. Operating margin grew 280 basis points to 10% primarily due to strong expense leverage on solid sales performance.

Target's debit card penetration shrunk 70 basis points to 11.8%, while credit card penetration fell 200 basis points to 8.7%. Total REDcard penetration declined to 20.5% from the year-ago quarter's 23.2%.

Other Financial Details

During the reported quarter, Target paid dividends of \$330 million. On Mar 25, the company informed that it has suspended its share-buyback plan as part of the company's efforts to preserve financial flexibility amid the crisis. The company had \$4.5 billion remaining under its \$5-billion share-buyback program approved last September.

Target incurred capital expenditures of about \$660 million during the quarter under review. Management now expects to incur capital expenditures between \$2.5 billion and \$3 billion in fiscal 2020, in contrast to prior expectation of about \$3.5 billion.

The company ended the quarter with cash and cash equivalents of \$7,284 million, long-term debt and other borrowings of \$14,188 million and shareholders' investment of \$12,578 million.

Recent News

Target Introduces Exclusive FAO Schwarz Collection – Oct 8, 2020

Target announced an exclusive collection with FAO Schwarz, alongside the largest Bullseye's Top Toys list ever. Target and FAO Schwarz's exclusive 70-piece toy collection will be available at Target stores nationwide, on Target.com and at the FAO Schwarz store in New York City, with many items under \$20. Bullseye's Top Toys list features Target's largest list ever, with 50 of the most anticipated toys, including 19 exclusive toys from top brands like Disney, L.O.L. Surprise! and LEGO.

Target Gears Up to Offer Great Deals This Holiday – Sep 29, 2020

Target is offering approximately 1 million more deals to shoppers compared with the last year, spanning October through December. The company's Black Friday deals on Home, Apparel & Accessories, Electronics and more, will be available for customers for the entire month of November. Beginning Nov 1, the company will also offer weeklong discounts and digital deals each day. These deals are on top of Target's already low everyday prices. Customers can also avail 5% discount using Target RedCard. Additionally, the company has extended its Price Match Guarantee beyond 14 days for the first time. Beginning Nov 1 through Dec 24, shoppers can request a price adjustment for any item advertised as a "Black Friday deal" if it is offered for a lower price at Target or Target.com. The company's "Deal Days" shopping event features steep discounts on categories such as Electronics, Home, Essentials, Toys, Beauty and more. Interested customers can access all the best deals that will span from Oct 13 to Oct 14 through Target Circle loyalty program. Shoppers can avail Target's contactless Drive Up and Order Pickup, and same-day delivery with Shipt to get their products. Markedly, no membership fee is required for the same.

Target to Add 600 Items to Its Good & Gather Brand This Fall – Sep 2, 2020

Target's flourishing Good & Gather brand, which was debuted almost a year earlier, generated above \$1-billion sales in less than a year. The guests' favorite brand initially got 650 items in its assortment and is coming up with over 600 items in nearly every food category this fall. Including the latest additions, the brand is expected to become Target's largest owned-brand with around 2,000 items on the list. The expansion of the Good & Gather brand includes Signature line featuring 60 premium products with specialty ingredients and flavors. Here, guests can avail pizzas, pastas and coffee similar to the taste of an Italian cafe. The Good & Gather label offers quality food excluding artificial flavors and sweeteners, synthetic colors, and high fructose corn syrup. Impressively, Target's Good and Gather brand is gaining momentum and driving its food and beverage unit.

Valuation

Target shares are up 27.8% in the year-to-date period and 46.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Retail-Wholesale sector are up 15.3% and 38%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 16.9% and 44.1%, respectively.

The S&P 500 index is up 8.4% in the year-to-date period and 16.9% in the past year.

The stock is currently trading at 21.77X forward 12-month earnings, which compares to 27.75X for the Zacks sub-industry, 33.05X for the Zacks sector and 22.64X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.41X and as low as 10.88X, with a 5-year median of 14.15X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$189 price target reflects 25.04X forward 12-month earnings.

The table below shows summary valuation data for TGT

Valuation Multiples - TGT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.77	27.75	33.05	22.64
	5-Year High	25.41	29.98	33.99	23.47
	5-Year Low	10.88	17.93	19.09	15.27
	5-Year Median	14.15	20.18	23.59	17.68
P/S F12M	Current	0.94	1.57	1.35	4.17
	5-Year High	0.95	1.57	1.35	4.31
	5-Year Low	0.4	0.95	0.84	3.18
	5-Year Median	0.57	1.16	1.01	3.67
EV/EBITDA TTM	Current	11.72	28.07	20.78	15.31
	5-Year High	11.83	28.29	21.13	15.68
	5-Year Low	5.29	10.96	10.7	9.55
	5-Year Median	7.68	14.29	12.99	13.1

As of 10/14/2020 Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 28% (178 out of 248)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	2
Walmart Inc. (WMT)	Outperform	1
Burlington Stores, Inc. (BURL)	Neutral	4
Costco Wholesale Corporation (COST)	Neutral	3
Dollar General Corporation (DG)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Ross Stores, Inc. (ROST)	Neutral	4
The TJX Companies, Inc. (TJX)	Underperform	5

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

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	TGT	X Industry	S&P 500	DG	DLTR	TJX
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	1	-	-	3	3	5
VGM Score	A	-	-	A	B	A
Market Cap	82.09 B	18.26 B	23.88 B	54.81 B	22.58 B	68.84 B
# of Analysts	13	11	14	17	10	12
Dividend Yield	1.66%	0.00%	1.61%	0.65%	0.00%	0.00%
Value Score	C	-	-	C	B	D
Cash/Price	0.09	0.09	0.07	0.05	0.08	0.09
EV/EBITDA	12.24	12.52	13.59	19.93	10.81	12.81
PEG F1	3.23	3.16	2.87	1.97	1.68	30.95
P/B	6.53	7.45	3.53	7.45	3.31	14.77
P/CF	14.09	16.69	13.42	24.74	10.73	16.69
P/E F1	22.84	22.84	22.16	21.86	18.08	324.96
P/S TTM	0.97	0.99	2.64	1.75	0.92	2.04
Earnings Yield	4.38%	3.45%	4.34%	4.58%	5.53%	0.31%
Debt/Equity	1.13	0.51	0.70	0.56	0.47	1.17
Cash Flow (\$/share)	11.64	6.38	6.93	8.90	8.87	3.44
Growth Score	A	-	-	A	B	A
Historical EPS Growth (3-5 Years)	6.65%	8.97%	10.41%	16.70%	16.74%	-0.49%
Projected EPS Growth (F1/F0)	12.36%	9.65%	-2.95%	49.60%	10.57%	-93.38%
Current Cash Flow Growth	10.26%	7.36%	5.49%	9.68%	-55.39%	19.07%
Historical Cash Flow Growth (3-5 Years)	3.95%	9.69%	8.51%	9.69%	19.78%	7.38%
Current Ratio	1.11	1.46	1.35	1.40	1.22	1.51
Debt/Capital	53.01%	33.92%	42.91%	35.73%	32.12%	53.88%
Net Margin	4.16%	3.01%	10.28%	7.48%	3.61%	2.11%
Return on Equity	30.25%	20.30%	14.80%	33.51%	18.52%	13.62%
Sales/Assets	1.89	1.33	0.51	1.30	1.22	1.34
Projected Sales Growth (F1/F0)	12.58%	7.30%	-0.53%	18.45%	7.30%	-22.95%
Momentum Score	B	-	-	A	D	B
Daily Price Change	-1.01%	-0.56%	-0.25%	-1.30%	-1.52%	0.03%
1-Week Price Change	2.90%	3.04%	4.06%	4.47%	3.17%	0.97%
4-Week Price Change	10.80%	4.48%	1.91%	8.56%	6.61%	0.16%
12-Week Price Change	33.16%	12.23%	5.03%	12.78%	-2.02%	7.43%
52-Week Price Change	46.15%	4.94%	4.66%	35.66%	-18.60%	-3.17%
20-Day Average Volume (Shares)	2,858,510	1,725,158	2,074,743	1,661,342	1,896,895	5,482,219
EPS F1 Estimate 1-Week Change	0.38%	0.00%	0.00%	0.66%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.38%	0.19%	0.00%	2.94%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	44.88%	3.76%	3.54%	13.89%	4.26%	-70.78%
EPS Q1 Estimate Monthly Change	1.55%	0.51%	0.00%	4.48%	0.00%	0.00%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	A
Momentum Score	B
VGM Score	A

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.