

Tiffany & Co. (TIF)

\$130.81 (As of 10/29/20)

Price Target (6-12 Months): **\$137.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/09/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Shares of Tiffany have risen in the past three months. Recently, Tiffany and LVMH have concluded the merger agreement by modifying some terms to the initial agreement. The new terms reflect a purchase price of \$131.50 in cash and reduced closing conditionality. However, other major terms of the agreement remain same. Further, the company shared business updates for August and September period. Tiffany reported impressive preliminary sales and operating earnings for the said period. Also, its e-commerce business has been exhibiting strength amid the coronavirus pandemic. For the fourth quarter, management envisions mid-single-digit percentage dip in sales but a mid-single-digit percentage jump in operating earnings. Also, earnings per share are likely to increase in a mid-to-high single-digit rate on a reported basis from the year-ago period.

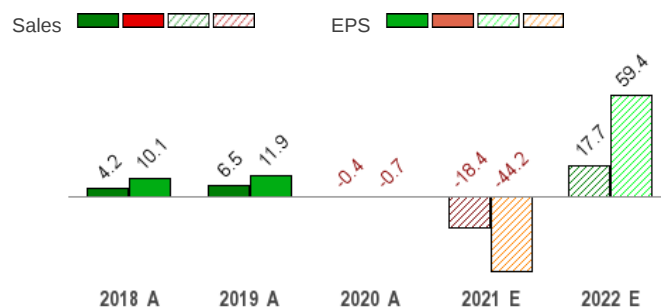
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$134.42 - \$103.89
20-Day Average Volume (Shares)	2,160,965
Market Cap	\$15.9 B
Year-To-Date Price Change	-2.1%
Beta	0.88
Dividend / Dividend Yield	\$2.32 / 1.8%
Industry	Retail - Jewelry
Zacks Industry Rank	Top 19% (47 out of 250)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.6%
Last Sales Surprise	-6.6%
EPS F1 Estimate 4-Week Change	4.1%
Expected Report Date	12/03/2020
Earnings ESP	0.0%
P/E TTM	58.4
P/E F1	51.1
PEG F1	4.7
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	965 E	1,043 E	1,059 E	1,431 E	4,249 E
2021	556 A	747 A	1,006 E	1,305 E	3,609 E
2020	1,003 A	1,049 A	1,015 A	1,358 A	4,424 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.13 E	\$1.15 E	\$0.36 E	\$0.84 E	\$4.08 E
2021	-\$0.53 A	\$0.32 A	\$0.75 E	\$1.82 E	\$2.56 E
2020	\$1.03 A	\$1.12 A	\$0.65 A	\$1.80 A	\$4.59 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 10/29/2020. The reports text is as of 10/30/2020.

Overview

Tiffany & Co., which accepted the buyout offer of LVMH Moët Hennessy Louis Vuitton SE or LVMH, is engaged in the designing, manufacturing and retailing activities of fine jewelry, which includes gemstone jewelry and gemstone band rings, diamond rings and wedding bands, gold or platinum jewelry, as well as sterling silver jewelry. Its merchandising offerings include timepieces and clocks; sterling silverware; crystal, glass, china, and other tableware; custom engraved stationery; writing instruments; and fashion accessories.

The company sells its products through catalog and wholesale operations, retail stores, direct marketing, Internet and business-to-business direct selling transactions. As of Jul 31, the company operated 322 stores (123 in the Americas, 88 in Asia-Pacific, 59 in Japan, 47 in Europe, and five in the UAE).

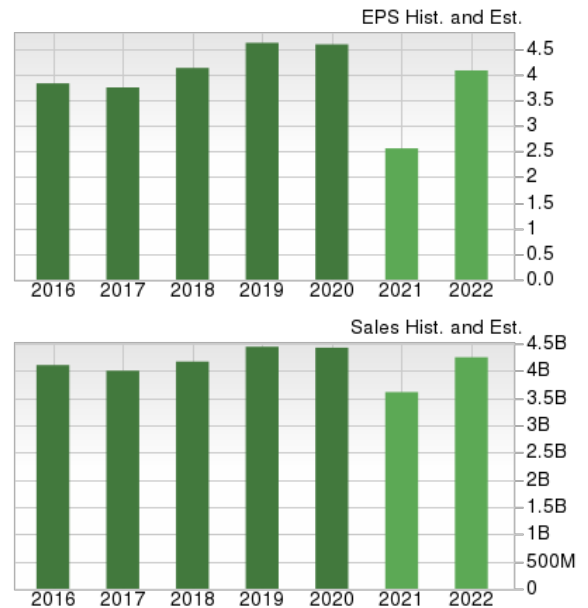
Americas: Includes sales in stores in the United States, Mexico, Canada, Brazil and Chile. Tiffany also distributes a selection of its products through its websites and catalogs of selected merchandise to its list of customers and to mailing lists rented from third parties.

Asia-Pacific: Consists of sales in China, Korea, Hong Kong, Taiwan, Australia, Singapore, Macau, Malaysia and New Zealand and Thailand.

Japan: Consists of sales in Japan.

Europe: Includes sales in stores in the the U.K., Italy, Germany, France, Spain, Switzerland, the Netherlands, Russia, Austria, Belgium, the Czech Republic and Ireland.

Other: The Other segment primarily consists of retail sales transacted in five company-operated stores in the United Arab Emirates and wholesale distribution in the Emerging Markets region; wholesale sales of diamonds; and licensing agreements.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Tiffany-LVMH Deal:** Tiffany and LVMH recently concluded the merger agreement by modifying some terms to the initial agreement. The new terms reflect a purchase price of \$131.50 in cash and reduced closing conditionality. However, other major terms of the agreement remain same. Both the companies are also looking to settle the pending litigation in the Delaware Chancery Court. The deal is anticipated to conclude in early 2021 and is subjected to Tiffany's shareholder approval and customary closing conditions. Both the companies' board has approved the terms of the deal and all the necessary regulatory approvals have been obtained. Further, the modified agreement allows Tiffany to pay its scheduled quarterly dividend of 58 cents a share. Notably, shares of Tiffany have gained 7.8% in the past three months compared to the industry's 10% rally.

Tiffany, which accepted the buyout offer from LVMH, remains focused on evolving its brand, enhancing omni-channel experience and firming position in core markets.

▲ **Green Shoots in Mainland China, E-Commerce Gains:** While sales were down significantly in the Americas, Japan and Europe during second-quarter fiscal 2020, the metric improved in Mainland China. Retail sales in Mainland China recovered in the month of April with sales improving approximately 30%. The momentum continued in the month of May with retail sales up approximately 90% in the region. Notably, the recovery continued throughout the remaining period of the quarter. Impressively, retail sales in Mainland China soared about 80% year over year during the quarter. We also note that Tiffany's e-commerce business displayed strength. E-commerce sales surged 123% worldwide during the second quarter, following an increase of 23% in the preceding quarter. Key markets such as the United States and the United Kingdom registered growth of approximately 122% and 93%, respectively. Excluding Mainland China, global e-commerce business soared 114% during the quarter. Encouragingly, global e-commerce sales almost doubled in the two-month period — August and September — on a year-over-year basis, accounting for 13% of the overall net sales year to date, through Sep 30.

▲ **Business Updates & Q4 Projection:** Tiffany shared business updates for August and September (the two-month period). Management cited that the company's business has been rebounding, particularly in Mainland China. Also, its e-commerce business has been exhibiting strength amid the coronavirus pandemic. In addition, Tiffany T1 line, its newest gold and gold with diamonds jewelry collection, continued to glitter during the two-month period. The company reported impressive preliminary sales and operating earnings for the two-month period. Worldwide net sales for said period fell slightly from the year-ago period. Encouragingly, management informed that positive sales trends are being continued. We note that operating earnings, which is inclusive of transaction-related expenses, jumped roughly 25% year over year during the two-month period. Tiffany stated that sales in the United States reflects a major sequential improvement since May. Looking ahead, management remains optimistic about sales trends to improve further in the final quarter of fiscal 2020. For fourth quarter, it envisions mid-single-digit percentage jump in operating earnings. Also, earnings per share are likely to rise from the year-ago quarter's tally by a mid-to-high single-digit rate on a reported basis.

▲ **Leveraging Capital Investments:** Tiffany is well positioned to augment its top and bottom lines performance in the long run by leveraging capital investments made over the past several years in distribution, manufacturing and diamond sourcing processes. The company remains focused on evolving its brand, enhancing omnichannel experience and solidifying position in core markets. The company remains committed to elevating in-store experience and replenishing product portfolio. Focus on renewing product portfolio is evident from the launch of PAPER FLOWERS, which comprises solid collection in diamonds and platinum and the introduction of TIFFANY TRUE, an innovative engagement ring design. The company remains enthusiastic about its Tiffany T1 collection. The company is also looking at other revenue generating avenues, and this includes expansion of its watch business. The company also intends to expand its distribution network by adding stores in both new and existing markets. With about half of the total sales generated internationally, we believe that the company is well diversified from a regional perspective as well.

▲ **Strategic Endeavors:** Tiffany holds a significant position in the world jewelry market due to its distinctive brand appeal. The company is steadily introducing new jewelry designs, new watch collection and fragrance, and additional jewelry SKUs. It also introduced "build-your-own program" on its website under which customers are allowed to personalize their own charm bracelets. Further, Tiffany is allowing customers to personalize their ring. The company also renewed its licensing agreement with Luxottica Group — slated to expire on December 31, 2027 — for the development, production and global distribution of sunglasses and prescription frames under its brand. Tiffany introduced company-operated e-commerce website in China. The company in a joint venture with Reliance Brands Limited entered the Indian market with its first store in New Delhi. Tiffany's efforts to enhance store operations are yielding results. To this end, the company has undertaken several initiatives. The company renovated its flagship stores in Shanghai, Hong Kong, London and Sydney. The company opened a concept store in Tokyo, several pop-up stores worldwide and Tiffany Blue Box Café in Shanghai and Hong Kong.

▲ **Store Update:** Tiffany is focused on opening smaller stores that offer selected collections of lower priced higher-margin product, which in turn boosts store productivity. The company concentrates on improving sales per square foot through an increase in customer traffic and converting them into potential buyers by targeted advertising, ongoing sales training and customer-oriented initiatives. During the first half of fiscal 2020, Tiffany opened one company-operated store and closed five. As of Jul 31, the company operated 322 stores (123 in the Americas, 88 in Asia-Pacific, 59 in Japan, 47 in Europe, and five in the UAE).

Reasons To Sell:

▼ **Q2 Sales & Earnings Miss Estimates:** Tiffany has witnessed negative sales and earnings surprises in the last two reported quarter. Also, both the top and the bottom line continued to decline year over year during second-quarter fiscal 2020 owing to the adverse impact of the ongoing coronavirus pandemic. The company posted second-quarter adjusted earnings of 32 cents a share that missed the Zacks Consensus Estimate of 35 cents. The reported figure also fell sharply from earnings of \$1.12 reported in the year-ago period. Lower net sales hurt the company's bottom line. We believe that demand for luxury jewelry is likely to remain soft, thanks to shift in consumer spending pattern and fall in international tourism.

We believe that demand for luxury jewelry is likely to remain soft, thanks to the shift in consumer spending pattern and fall in international tourism owing to the coronavirus pandemic.

Worldwide net sales decreased 29% year over year to \$747.1 million during second-quarter fiscal 2020, and also came below the Zacks Consensus Estimate of \$800 million. Again, comparable sales fell 24% during the quarter under review. Geography-wise, net sales in the Americas plunged 46% to \$247 million, while comps declined 44%. In Japan, net sales decreased 28% to \$111 million, while comps slid 27%. In Europe, net sales declined 28% to \$84 million, while comps decreased 27%. Sales declined 25% and 27% for Jewelry Collections and Engagement Jewelry, respectively, while Designer Jewelry sales fell 26% year over year. Markedly, management expects mid-single-digit decline in sales during the fourth quarter.

▼ **Margins Remained Under Pressure:** Gross margin, an important financial metric, remained under pressure during second-quarter fiscal 2020 as well. After shrinking 610 basis points in the first quarter, gross margin contracted 90 basis points to 61.8% during the quarter under review. Management pointed that the contraction in margin was due to sales deleverage on fixed costs resulting from the effects of coronavirus on net sales as well as some overhead expenses resulting from certain manufacturing locations being closed or operating at lower capacity due to the pandemic. Higher inventory reserves also impacted the margin.

▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Tiffany looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a forward 12-month P/E ratio of 58.4, which is above the median level of 37.58 and in line with the high level scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 50.22 and 23.53, respectively.

▼ **Prone to Currency Fluctuations:** Tiffany 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 U.S. An increase in price may have an adverse impact on the demand for the products. Net sales fall victim of the adverse foreign currency fluctuations that lowers the value of the sales generated in the overseas market and also result in reduced spending by tourists.

Last Earnings Report

Tiffany's Q2 Earnings Miss Estimates, Decline Y/Y

Tiffany came out with its second-quarter fiscal 2020 results, wherein both the top and the bottom lines not only fell short of the Zacks Consensus Estimate but also declined year over year, thanks to the adverse impact of the ongoing coronavirus pandemic. However, the jewelry retailer swung back to profit, following a loss in the preceding quarter, owing to the sequential improvements in monthly worldwide net sales from May to July. Also, the rate of sales decline decelerated sharply on a sequential basis.

Quarter Ending	07/2020
Report Date	Aug 27, 2020
Sales Surprise	-6.62%
EPS Surprise	-8.57%
Quarterly EPS	0.32
Annual EPS (TTM)	2.24

Management notified that encouraging sales trends witnessed in Mainland China and global e-commerce business during the first quarter, accelerated in the second quarter, thus aiding the company to return to profitability. Tiffany also informed that worldwide net sales trends have strengthened in the month of August. Sales during the period from Aug 1 through Aug 25 were slightly positive compared with the same month-to-date period in the prior year. Looking ahead, Tiffany remains focused on Mainland China, global e-commerce and new product innovation. Markedly, management expects mid-single-digit decline in sales during the fourth quarter. However, it anticipates fourth-quarter earnings per share to improve in low single-digit on a non-GAAP basis and in high single-digit on a reported basis.

Key Notes

Retail sales in Mainland China recovered in the month of April with sales improving approximately 30%. The momentum continued in the month of May with retail sales up approximately 90% in the region. Notably, the recovery continued throughout the remaining period of the quarter. Impressively, retail sales in Mainland China soared about 80% year over year during the quarter. Undoubtedly, Tiffany's e-commerce business displayed strength. E-commerce sales surged 123% worldwide during the quarter under review. We note that important markets such as the United States and the United Kingdom registered growth of approximately 122% and 93%, respectively. Excluding Mainland China, global e-commerce business soared 114% during the quarter. Meanwhile, the LVMH Moët Hennessy Louis Vuitton SE or LVMH and Tiffany deal, which was originally set to close on Aug 24, has been extended by three months, until Nov 24. Last year, the owner of Louis Vuitton and Givenchy reached an agreement to acquire Tiffany for \$16.2 billion.

Q2 Highlights

Tiffany posted second-quarter adjusted earnings of 32 cents a share that missed the Zacks Consensus Estimate of 35 cents. The reported figure also fell sharply from earnings of \$1.12 reported in the year-ago period. Lower net sales hurt the company's bottom line.

Worldwide net sales decreased 29% year over year to \$747.1 million, and also came below the Zacks Consensus Estimate of \$800 million. However, we note that the rate of decline has decelerated from 45% witnessed in the preceding quarter. Again, comparable sales (comps) fell 24% during the quarter under review. This followed a decline of 44% in the preceding quarter. At constant currency, net sales and comps declined 28% and 23%, respectively, during the reported quarter. Sales declined 25% and 27% for Jewelry Collections and Engagement Jewelry, respectively, while Designer Jewelry sales fell 26% year over year.

Geography-wise, net sales in the Americas plunged 46% to \$247 million, while comps declined 44%. This decline can be attributed to closure of stores that began in mid-March and continued into June owing to the coronavirus outbreak. In the Asia-Pacific region, net sales were flat at \$299 million, while comps increased 17%. We note that robust retail sales increase in Mainland China and Korea was largely offset by softness across other markets and a decline in wholesale travel retail sales.

In Japan, net sales decreased 28% to \$111 million, while comps slid 27%. This year-over-year decline can be attributed to store closures that began in early April 2020 and continued through early June coupled with a drop in tourist traffic. In Europe, net sales declined 28% to \$84 million, while comps decreased 27%. This can be attributed to store closures that began in mid-March and continued into June with the vast majority of stores being reopened by mid-June.

Gross margin decreased 90 basis points to 61.8% during the quarter under review. Management pointed that the contraction in margin was due to sales deleverage on fixed costs resulting from the effects of coronavirus on net sales as well as some overhead expenses resulting from certain manufacturing locations being closed or operating at lower capacity due to the pandemic. Higher inventory reserves also impacted the margin. These were partly offset by change in sales mix to higher margin products and a decrease in wholesale diamond sales. We note that operating margin came in at 8% during the reported quarter, significantly down from 17.6% in the prior-year quarter.

Store Update & Other Financial Details

During the first half of fiscal 2020, Tiffany opened one company-operated store and closed five. As of Jul 31, the company operated 322 stores (123 in the Americas, 88 in Asia-Pacific, 59 in Japan, 47 in Europe, and five in the UAE).

Tiffany ended the quarter with cash and cash equivalents and short-term investments of \$1,043.7 million and total debt (short-term borrowings and long-term debt) of \$1,479 million, reflecting 46% of stockholders' equity compared with 32% in the year-ago period. This increase was due to \$500 million drawdown on the revolving credit facility during the first quarter, which remained outstanding at Jul 31, 2020.

Recent News

Tiffany & LVMH Modify Merger Terms – Oct 29, 2020

Tiffany and LVMH recently concluded the merger agreement by modifying some terms to the initial agreement. The new terms reflect a purchase price of \$131.50 in cash and reduced closing conditionality. However, other major terms of the agreement remain same. The deal is anticipated to conclude in early 2021 and is subjected to Tiffany's shareholder approval and customary closing conditions.

Tiffany Sees Improved Sales Trend – Oct 16, 2020

Tiffany reported impressive preliminary sales and operating earnings for the two-month period. Worldwide net sales for said period fell slightly from the year-ago period. Encouragingly, management informed that positive sales trends are being continued in October. Markedly, sales in Mainland China remained sturdy. We note that operating earnings, which is inclusive of transaction-related expenses, jumped roughly 25% year over year during the two-month period.

Sales in the United States decreased in low double-digit percentage in the two-month period, in spite of a significant fall in tourism in the United States this year. This reflects a major sequential improvement since May. Looking ahead, management remains optimistic about sales trends to improve further in the final quarter of fiscal 2020. Encouragingly, global e-commerce sales almost doubled in the two-month period on a year-over-year basis, accounting for 13% of the overall net sales year to date, through Sep 30.

For fiscal fourth quarter, it envisions mid-single-digit percentage dip in sales but a mid-single-digit percentage jump in operating earnings. Also, earnings per share are likely to rise from the year-ago quarter's tally by a mid-to-high single-digit rate on a reported basis.

Valuation

Tiffany shares are down 0.7% in the year-to-date period but up 7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.4% but the Zacks Retail-Wholesale sector is up 34.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 11.7% and 41.4%, respectively.

The S&P 500 index is up 4.3% in the year-to-date period and 11.1% in the past year.

The stock is currently trading at 35.37X forward 12-month earnings, which compares to 36.18X for the Zacks sub-industry, 31.39X for the Zacks sector and 21.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.34X and as low as 14.29X, with a 5-year median of 21.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$137 price target reflects 37.04X forward 12-month earnings.

The table below shows summary valuation data for TIF

Valuation Multiples - TIF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.37	36.18	31.39	21.18
	5-Year High	42.34	36.18	34.01	23.47
	5-Year Low	14.29	11.8	19.08	15.27
	5-Year Median	21.87	15.74	23.58	17.68
P/S F12M	Current	3.87	1.83	1.29	3.93
	5-Year High	3.95	2.07	1.32	4.31
	5-Year Low	1.78	1.01	0.84	3.18
	5-Year Median	2.76	1.62	1.01	3.67
EV/EBITDA TTM	Current	25.77	15.15	19.95	14.43
	5-Year High	25.77	15.74	21	15.68
	5-Year Low	7.82	5.5	11.14	9.55
	5-Year Median	11.72	8.72	12.99	13.13

As of 10/29/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 250)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Guess, Inc. (GES)	Outperform	2
Movado Group Inc. (MOV)	Outperform	1
Tapestry, Inc. (TPR)	Outperform	1
AbercrombieFitch Company (ANF)	Neutral	3
Capri Holdings Limited (CPRI)	Neutral	3
L Brands, Inc. (LB)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	3
Signet Jewelers Limited (SIG)	Neutral	3

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

Industry Comparison Industry: Retail - Jewelry				Industry Peers		
	TIF	X Industry	S&P 500	CPRI	MOV	SIG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	1	3
VGM Score	C	-	-	C	B	B
Market Cap	15.88 B	762.56 M	22.80 B	3.34 B	258.93 M	1.27 B
# of Analysts	6	3	14	9	1	3
Dividend Yield	1.77%	0.00%	1.69%	0.00%	0.00%	3.06%
Value Score	D	-	-	C	B	A
Cash/Price	0.07	0.07	0.07	0.06	0.58	0.87
EV/EBITDA	15.90	9.77	12.93	78.44	1.83	3.63
PEG F1	4.64	6.38	2.61	11.92	NA	NA
P/B	4.95	3.29	3.27	1.66	0.69	1.38
P/CF	19.37	19.37	12.49	3.91	7.28	2.79
P/E F1	51.08	51.99	20.40	38.26	223.40	NA
P/S TTM	4.32	0.46	2.51	0.72	0.47	0.25
Earnings Yield	1.96%	1.89%	4.65%	2.61%	0.45%	-1.98%
Debt/Equity	0.28	0.25	0.70	0.79	0.13	1.46
Cash Flow (\$/share)	6.75	0.50	6.92	5.68	1.53	8.68
Growth Score	C	-	-	C	C	C
Historical EPS Growth (3-5 Years)	-0.34%	-10.52%	10.10%	-3.98%	-10.52%	-32.42%
Projected EPS Growth (F1/F0)	-44.19%	-47.83%	-1.80%	-85.09%	-96.82%	-112.37%
Current Cash Flow Growth	3.40%	-22.19%	5.54%	-13.65%	-31.56%	-60.42%
Historical Cash Flow Growth (3-5 Years)	2.30%	2.30%	8.50%	-3.72%	-3.81%	-4.93%
Current Ratio	3.18	2.72	1.37	0.94	3.96	2.58
Debt/Capital	21.68%	21.68%	41.80%	44.00%	12.06%	68.16%
Net Margin	6.72%	-2.37%	10.46%	-9.62%	-24.39%	-2.37%
Return on Equity	8.43%	7.15%	14.93%	12.62%	1.76%	5.87%
Sales/Assets	0.55	0.72	0.50	0.58	0.72	0.79
Projected Sales Growth (F1/F0)	-18.39%	0.00%	-0.40%	-32.12%	0.00%	-22.23%
Momentum Score	A	-	-	A	D	C
Daily Price Change	0.66%	0.00%	0.93%	4.42%	-0.71%	1.43%
1-Week Price Change	0.67%	0.88%	0.01%	5.58%	16.21%	16.45%
4-Week Price Change	12.74%	12.74%	-1.35%	22.53%	8.45%	26.58%
12-Week Price Change	4.62%	1.44%	-0.80%	47.44%	9.62%	102.09%
52-Week Price Change	5.06%	-8.75%	-2.34%	-28.58%	-57.12%	50.81%
20-Day Average Volume (Shares)	2,160,965	159,090	1,805,578	3,333,723	159,090	1,249,659
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	20.83%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	4.13%	0.00%	0.44%	23.11%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	14.14%	14.14%	2.86%	0.38%	150.00%	77.36%
EPS Q1 Estimate Monthly Change	53.61%	0.00%	0.26%	3.40%	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	D
Growth Score	C
Momentum Score	A
VGM Score	C

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.