

Tractor Supply Company (TSCO)

\$170.25 (As of 02/17/21)

Price Target (6-12 Months): **\$181.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/22/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: D

Summary

Shares of Tractor Supply have outpaced the industry in the past year driven by robust surprise trend. The company's earnings and sales surpassed estimates in fourth-quarter 2020, marking the fourth straight earnings beat and third consecutive sales beat. Results gained from robust sales and comps growth, as well as favorable margins. Also, e-commerce sales grew triple-digits in the fourth quarter. Additionally, the company's 'Life Out Here' and 'ONETractor' strategies bode well. Despite COVID-related headwinds, it provided a decent view for 2021. However, elevated pandemic-related costs, higher incentive compensation and investments in strategic initiatives in the fourth quarter led to higher SG&A expense. For fiscal 2021, it expects SG&A expense to increase slightly as a percentage of sales compared to fiscal 2020.

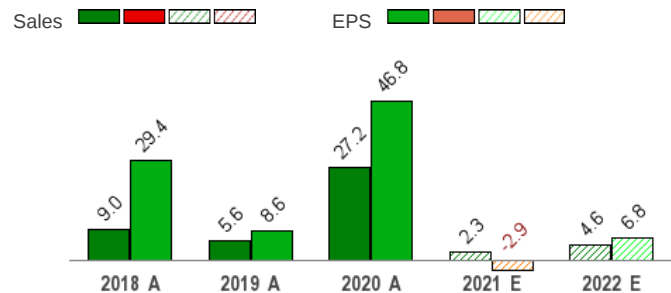
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$172.14 - \$63.89
20-Day Average Volume (Shares)	1,328,968
Market Cap	\$18.9 B
Year-To-Date Price Change	15.2%
Beta	1.01
Dividend / Dividend Yield	\$2.08 / 0.9%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 42% (107 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.9%
Last Sales Surprise	6.1%
EPS F1 Estimate 4-Week Change	3.5%
Expected Report Date	04/22/2021
Earnings ESP	1.6%
P/E TTM	23.6
P/E F1	25.5
PEG F1	2.3
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,432 E	3,266 E	2,755 E	3,114 E	11,360 E
2021	2,425 E	3,073 E	2,546 E	2,690 E	10,862 E
2020	1,959 A	3,176 A	2,607 A	2,878 A	10,620 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.97 E	\$2.86 E	\$1.70 E	\$1.92 E	\$7.12 E
2021	\$0.95 E	\$2.63 E	\$1.49 E	\$1.62 E	\$6.67 E
2020	\$0.71 A	\$2.90 A	\$1.62 A	\$1.64 A	\$6.87 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and sales estimates, is as of 02/17/2021. The report's text and the analyst-provided price target are as of 02/18/2021.

Overview

Headquartered in Brentwood, TN, Tractor Supply Company is the largest retail farm and ranch store chain in the United States. The company focuses on recreational farmers and ranchers as well as tradesmen and small businesses. It offers a wide array of merchandise such as livestock, pet and animal products, maintenance products for agricultural and rural use, hardware and tools, lawn and garden power equipment, truck and towing products, and work apparel.

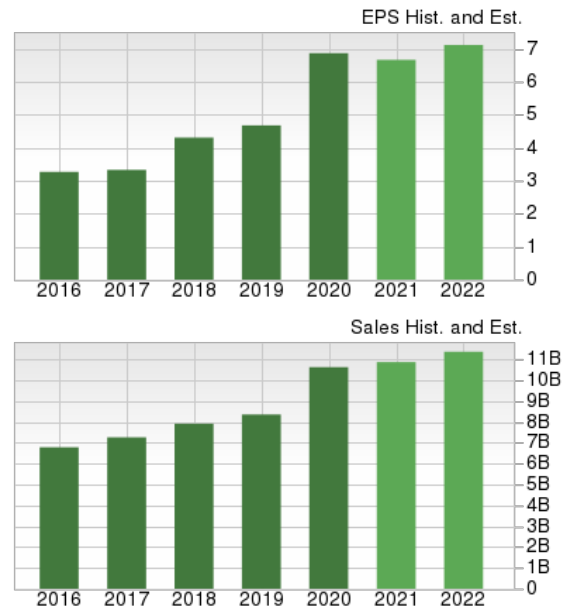
Stores of Tractor Supply are primarily located in rural areas and the suburbs of major cities, which have inside selling space of 15,000–20,000 square feet with a similar area of outside space, used to demonstrate agricultural fencing, livestock equipment and horse stalls. Petsense stores have roughly 5,500 square feet of inside selling space. For Tractor Supply retail locations, the company has a standard design for the new built-to-suit locations, including nearly 15,500 square feet of inside selling space.

Tractor Supply's broad assortment of products is tailored to meet the regional and geographic needs of its markets. Moreover, the retailer's full line of product offerings is supported by a strong in-stock inventory position with an average of 16,000–19,500 unique products per store.

Apart from selling nationally recognized branded merchandise, the company also markets an increasing list of products under its "private-label programs." The latter include Masterhand and Job Smart (tools and tool chests), Dumor and Producers Pride (livestock feed) and Retriever and Paws 'n Claws (pet foods). Further, the company recently acquired 100% stake in Petsense, to fortify its presence in the pet specialty space.

Tractor Supply operates retail stores under the names Tractor Supply Company, Del's Feed & Farm Supply, and Petsense as well as operate websites under the names TractorSupply.com and Petsense.com. Its online selling websites are expected to offer expanded assortment of products beyond in-store as well as boost store traffic through buy online, pickup in-store and ship to store programs.

As of Dec 26, 2020, the company operated 1,923 Tractor Supply stores across 49 states and 182 Petsense stores in 25 states.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Robust Surprise Trend, Stock Outperforms:** Shares of Tractor Supply have increased 72.6% in the past year outperforming the industry's 19.5% growth, backed by a robust surprise trend. In fourth-quarter 2020, the company's top and bottom lines surpassed the Zacks Consensus Estimate and improved year over year. This marks the fourth straight quarter of earnings beat and third consecutive sales beat. The improvement in top line was driven by comparable store sales (comps) increase of 27.3%, led by growth of 13% in comparable average ticket and 14.3% in comparable average transaction count. Comps growth was backed by strength in demand for seasonal categories as well as everyday merchandise, including consumable, usable and edible products. Additionally, the company witnessed triple-digit sales growth in the e-commerce business.

Tractor Supply's omni-channel investments like curbside pickup, same day, next-day delivery, a re-launched website and new mobile app, aided triple-digits digital sales growth in Q4.

Tractor Supply's bottom line in the fourth quarter benefited from robust gross and operating margin growth, offset by higher SG&A expenses. Gross profit rose 34.2% year over year, while gross margin expanded 75 basis points (bps) to 36.4%. Gross margin gained from lower depth and frequency of sales promotions, and lower clearance activity, offset by higher transportation costs as a percent of net sales. Driven by higher sales and gross margin, offset by higher SG&A expenses, operating income rose 35.8%, with 29 bps expansion in operating margin to 8.98%.

▲ **2021 Outlook:** Tractor Supply continues to remain uncertain regarding the magnitude of the pandemic's impact on the company's performance in 2021. Nevertheless, it has provided guidance for 2021. The company expects net sales of \$10.7-11 billion for 2021, with comps between a decline of 2% and growth of 1%. Operating margin is anticipated to be 9.3-9.6%, marking a significant increase when compared to the baseline 2019 performance. Moreover, net income is likely to be \$750-\$800 million, while earnings per share are expected to be \$6.50-\$6.90. The company's guidance assumes effective tax rate of 22.5-22.8% in 2020. Moreover, it expects share repurchases in 2021 to reduce earnings per share by 1-2%.

▲ **Long-term Initiatives:** Tractor Supply's is on track to build up on Tractor Supply's Out Here lifestyle assortment and convenient shopping format to gain new customers and market share. The strategy is essentially based on five key pillars which includes customers, digitization, execution, team members as well as total shareholder return. Some of the key initiatives undertaken to support the strategy include boosting space productivity, enhancing omni-channel initiatives, evolution of Neighbor's Club loyalty program as well as augmenting in-store merchandising execution. As part of the Life Out Here Strategy, the company also provided long term financial growth targets for three to five years after the normalizing of macro conditions from the impacts of the COVID-19 pandemic.

Management envisions achieving net sales growth in the bracket of 6-7%, while comps are expected to grow between 4-5%. Further, operating margin is expected in the range of 9-9.5% and earnings per share are expected to grow in the bracket of 8-10%. Additionally, the company launched the Field Activity Support Team ("FAST") and is implementing various technology and service enhancements across the enterprise. It is also in the initial phase of transforming its side lots and mature stores to improve space productivity, bringing the latest merchandising strategies to life and advancing efforts to remain nationally strong and locally relevant.

▲ **'ONETractor' Strategy To Boost E-Commerce:** Given the changing consumer trends, Tractor Supply is focused on integrating its physical and digital operations to offer consumers a seamless shopping experience. Incidentally, the company remains on track with the 'ONETractor' strategy that is aimed at connecting store and online shopping. Backed by this initiative, the company continues to drive growth, build customer-centric engagement, offer suitable products and services, and reinforce core infrastructure capabilities. Moreover, Tractor Supply is benefiting from the roll out of capabilities like stockyard in-store kiosk and mobile point-of-sale (PoS) in all its stores, as well as enhancing of the Tractor Supply credit card offering, and investments in its supply chain.

The company's omni-channel investments, including curbside pickup, same day, next-day delivery, a re-launched website and new mobile app contributed to the triple-digits digital sales growth in the fourth quarter. Also, higher conversions aided digital sales to a large extent. In 2020, about 75% of its omni-channel sales were picked up at a Tractor Supply store, reinforcing the importance of its stores to customers. Apart from these, its newly launched mobile app as well as the Neighbor's Club loyalty program bode well.

▲ **Store Growth Initiatives:** Tractor Supply is persistently focusing on its growth initiatives, which include expansion of store base and incorporation of technological advancements to induce traffic and drive the top line. The company's sales and comps have been considerably gaining from the addition of new stores every quarter. Moreover, the company expects to drive comps by improving marketing and merchandising initiatives as well as supply chain efficiencies. The company is well positioned to expand store base, remaining on track to increase its domestic store to 2,500 in the long term. In the fourth quarter, Tractor Supply opened 19 namesake and three Petsense stores. Management remains on track with its store opening initiatives. For 2021, the company expects to open 80 Tractor Supply stores and 10 Petsense stores.

▲ **Debt Analysis:** Tractor Supply's cash and cash equivalents at the end of fourth-quarter 2020 increased to \$1,341.8 million from \$1,112 million in the prior quarter. Notably, the company's cash position remains sufficient to fund its short-term obligations of about \$298.7 million as of Dec 26, 2020. Further, it has strong liquidity position with current cash and cash equivalents and no amounts drawn on its \$500 million revolving credit facility as of Dec 26, 2020. Its long-term debt of \$1,017.4 million (including finance lease liabilities) increased 81% sequentially. Although its debt-to-capitalization ratio of 0.35 has increased sequentially from 0.33, it compares favorably with the industry's ratio.

▲ **Sustained Shareholder Returns:** Tractor Supply follows a disciplined capital allocation strategy that focuses on making investments to develop business while using the excess cash to enhance shareholder returns through dividend payouts and share buybacks. In 2020, the company returned \$517.6 million in capital to shareholders through the combination of share repurchases and cash dividends. It currently has \$1.1 billion remaining on its authorization for share repurchases. Further, the company's commitment to returning cash to shareholders was highlighted by a 30% increase in quarterly dividend to 52 cents per share. Notably, Tractor Supply has a dividend payout ratio of 30.3%,

annualized dividend yield of 1.1% and free cash flow yield of 6.6%. With an annual free cash flow return on investment of 52.47%, ahead of the industry's nearly 26.89%; the dividend payment is likely to be sustainable.

Reasons To Sell:

▼ **Higher SG&A Expense & COVID Related Costs:** Adjusted selling, general and administrative (SG&A) expenses — including depreciation and amortization — as a percentage of sales rose 46 bps to 25.6%. The increase was driven by incremental costs related to the pandemic, higher incentive compensation due to robust sales and profit performance, and investments in strategic initiatives. In dollar terms, adjusted SG&A expenses, including depreciation and amortization, rose 33.7%. The incremental COVID-19 related costs were nearly \$33 million in the fourth quarter, compared with its earlier stated guidance of \$15-\$20 million, mainly due to the unexpected resurgence of COVID-19 cases late in 2020.

Tractor Supply recorded incremental COVID-19 related costs of nearly \$33 million in the fourth quarter, mainly due to the unexpected resurgence of COVID-19 cases late in 2020.

For the first quarter of 2021, the company anticipates costs related to the pandemic will continue to remain at elevated levels. For fiscal 2021, the company expects SG&A expense to increase slightly as a percentage of sales compared to fiscal 2020, on an adjusted basis. Notably, the leverage from reduced COVID-19 costs and more normalized incentive compensation is expected to be offset by ongoing wage pressures, investments in supply chain and digital space and higher depreciation and amortization expense. Also, the FAST program costs are reported in SG&A expense.

- ▼ **Increased Capex View:** In 2020, Tractor Supply incurred capital expenditure of \$294 million. It expects capital expenditure of \$450-\$550 million for 2021, with more than 80% of the spending going toward growth initiatives. The majority of the capital spending increase is attributable to new in-store initiatives and supporting technology for the Life Out Here Strategy.
- ▼ **Seasonality Risk:** Tractor Supply's business is highly seasonal, with sales and profits soaring in the spring and winter selling seasons on the back of seasonal demand for its merchandise offering. Unseasonable weather, heavy precipitation, drought conditions and early or late frosts may have a material impact on the company's financial condition and its operational results. In fact, fourth-quarter top line performance was affected by adverse seasonal weather trends. Unseasonably warm temperatures in December hurt sales for many seasonal categories.
- ▼ **Competitive Threat:** Tractor Supply's business is highly competitive, primarily based on customer services, price, store location and assortment of merchandise. It faces stiff competition from local, regional and international players. Being in such a highly competitive industry, Tractor Supply may find it difficult to execute and implement new business strategies, which could adversely impact its operations.
- ▼ **Volatility in Raw Material Prices:** Tractor Supply's business involves the purchase of commodities like grain, steel, petroleum, corn, and cotton, among various other raw materials, whose prices keep fluctuating. Prices of these products are also quite prone to inflationary and deflationary pressures, which in turn can hurt the company's sales, margins and overall financial results. Though the company is focused on minimizing such price volatility, the failure to implement its strategies efficiently may be a cause for concern.
-

Last Earnings Report

Tractor Supply Beats on Q4 Earnings & Sales, Gives View

Tractor Supply reported fourth-quarter 2020 results, wherein the top and the bottom lines improved year over year and surpassed the Zacks Consensus Estimate. The company also provided its view for 2021.

Tractor Supply's earnings were \$1.64 per share, which surpassed the Zacks Consensus Estimate of \$1.52. Moreover, the bottom line improved 35.5% from the prior-year quarter's figure.

Net sales increased 31.3% year over year to \$ 2,878.3 million and beat the Zacks Consensus Estimate of \$2,714 million. The improvement was driven by an increase in comparable store sales (comps) of 27.3%, led by growth of 13% in comparable average ticket and a 14.3% rise in comparable average transaction count.

Comps growth was backed by strength in demand for seasonal categories as well as everyday merchandise, including consumable, usable and edible products. Additionally, the company witnessed triple-digit sales growth in the e-commerce business.

Margins & Costs

Gross profit rose 34.2% year over year to \$995.5 million, while gross margin expanded 75 basis points (bps) to 36.4%. Gross margin gained from lower depth and frequency of sales promotions, and lower clearance activity, offset by higher transportation costs as a percent of net sales.

Adjusted selling, general and administrative (SG&A) expenses — including depreciation and amortization — as a percentage of sales rose 46 bps to 25.6%. The increase was driven by incremental costs related to the pandemic, higher incentive compensation due to robust sales and profit performance, and investments in strategic initiatives. In dollar terms, adjusted SG&A expenses, including depreciation and amortization, rose 33.7% to \$737 million.

Driven by higher sales and gross margin, offset by higher SG&A expenses, operating income rose 35.8% to \$ 258.5 million in the fourth quarter. Operating margin expanded 29 bps to 8.98%.

Financial Position

Tractor Supply ended 2020 with cash and cash equivalents of \$1,341.8 million, long-term debt of \$984.3 million and total stockholders' equity of \$1,923.8 million. Further, it has no amounts drawn on its \$500-million revolving credit facility as of Dec 26, 2020.

In 2020, the company incurred capital expenditure of \$294 million and generated cash flow from operating activities of \$1,394.5 million.

Moreover, the company returned \$517.6 million to shareholders, including \$343 million to repurchase 3.4 million shares and for quarterly cash dividends of \$ 174.6 million.

Additionally, the company hiked its quarterly cash dividend by 30% to 52 cents per share. The raised dividend will be paid out on Mar 9, 2021, to shareholders of record as of Feb 22. The raised dividend as well as resumed share repurchases demonstrates the company's strong earnings performance and robust cash flows in 2020.

For 2021, it expects to incur capital expenditure of \$450-\$550 million.

Store Update

In the quarter under review, Tractor Supply opened 19 Tractor Supply stores and three Petsense stores. It also closed four Petsense stores in the fourth quarter of 2020. As of Dec 26, 2020, the company operated 1,923 Tractor Supply stores across 49 states and 182 Petsense stores in 25 states.

Going ahead, management remains on track with its store-opening initiatives. It plans to open 80 Tractor Supply stores and 10 Petsense stores in 2021.

2021 Outlook

Tractor Supply continues to remain uncertain regarding the magnitude of the pandemic's impact on the company's performance in 2021. Nevertheless, it has provided guidance for 2021.

The company expects net sales of \$10.7-11 billion for 2021, with comps between a decline of 2% and growth of 1%. Operating margin is anticipated to be 9.3-9.6%. Moreover, net income is likely to be \$750-\$800 million, while earnings per share are expected to be \$6.50-\$6.90.

The company's guidance assumes effective tax rate of 22.5-22.8% in 2020. Moreover, it expects share repurchases in 2021 to reduce earnings per share by 1-2%.

Quarter Ending	12/2020
Report Date	Jan 28, 2021
Sales Surprise	6.05%
EPS Surprise	7.89%
Quarterly EPS	1.64
Annual EPS (TTM)	6.87

Recent News

Tractor Supply to Expand in Midwest With Orscheln Buyout - Feb 17, 2021

Tractor Supply has agreed to acquire Orscheln Farm and Home in a deal worth \$297 million. Orscheln Farm and Home comprises 167 stores across 11 states, including Missouri, Kansas, Nebraska, Iowa, Indiana, Oklahoma, Arkansas, Texas, Kentucky, Illinois and Ohio. With this acquisition, Tractor Supply will be able to expand its base in the Midwest and better serve the rural communities there.

Further, the deal is subjected to customary closing conditions. Management noted that this transaction will be funded by cash on hand. Post the completion of the deal, it is likely to be immediately accretive to earnings per share.

Tractor Supply's Upcoming Distribution Center to Aid Sales - Dec 7, 2020

Tractor Supply announced plans to open a distribution center in Navarre, OH, in a bid to better serve customers at stores and online. With an initial investment of \$70 million, the facility will bring new jobs. The distribution center, which is likely to be completed by fall 2022, will create more than 375 new full-time jobs by the end of 2023. Post the construction of this state-of-the-art facility, the company will operate nine distribution centers nationwide.

This move is in sync with its Life Out Here Strategy and is expected to serve 250 Tractor Supply stores at full capacity. Moreover, the latest development is estimated to contribute to online sales as well.

Valuation

Tractor Supply shares are up 21.1% in the year-to-date period and nearly 72.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 6.2% and 5.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 19.5% and 33.8%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period but up 18.1% in the past year.

The stock is currently trading at 25.3X forward 12-month earnings, which compares to 21.63X for the Zacks sub-industry, 31.9X for the Zacks sector and 22.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.28X and as low as 13.05X, with a 5-year median of 19.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$181 price target reflects 26.9X forward 12-month earnings.

The table below shows summary valuation data for TSCO

Valuation Multiples - TSCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.3	21.63	31.9	22.94
	5-Year High	26.28	22.47	34.11	23.8
	5-Year Low	13.05	11.31	19.1	15.3
	5-Year Median	19.76	15.96	23.72	17.84
P/S F12M	Current	1.82	1.25	1.39	4.59
	5-Year High	1.82	1.25	1.39	4.59
	5-Year Low	0.86	0.51	0.84	3.21
	5-Year Median	1.31	0.88	1.02	3.68
EV/EBITDA TTM	Current	15.62	17.51	19.63	16.67
	5-Year High	16.5	18.09	20.81	16.99
	5-Year Low	8.04	4.74	11.17	9.56
	5-Year Median	12.65	9.57	13.17	13.27

As of 02/17/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 42% (107 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Archer Daniels Midland Company (ADM)	Neutral	3
Adecoagro S.A. (AGRO)	Neutral	3
BuildABear Workshop, Inc. (BBW)	Neutral	4
Calyxt, Inc. (CLXT)	Neutral	2
MarineMax, Inc. (HZO)	Neutral	2
KAR Auction Services, Inc. (KAR)	Neutral	4
Calavo Growers, Inc. (CVGW)	Underperform	5
Limoneira Co (LMNR)	Underperform	5

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	TSCO	X Industry	S&P 500	CLXT	CVGW	HZO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	5	2
VGM Score	A	-	-	F	B	A
Market Cap	18.87 B	2.24 B	27.78 B	435.14 M	1.35 B	984.16 M
# of Analysts	15	4.5	13	2	2	6
Dividend Yield	0.99%	0.00%	1.41%	0.00%	1.50%	0.00%
Value Score	B	-	-	F	C	A
Cash/Price	0.07	0.17	0.06	0.07	0.00	0.13
EV/EBITDA	16.07	8.32	14.78	-10.47	272.85	8.08
PEG F1	2.26	1.98	2.37	NA	NA	NA
P/B	9.81	2.61	3.81	11.16	5.28	2.04
P/CF	19.38	8.77	15.45	NA	30.82	11.41
P/E F1	25.66	14.66	20.87	NA	29.48	10.29
P/S TTM	1.78	0.69	3.07	31.79	1.28	0.61
Earnings Yield	4.12%	5.67%	4.71%	-8.60%	3.40%	9.72%
Debt/Equity	0.53	0.20	0.68	0.56	0.02	0.10
Cash Flow (\$/share)	8.78	3.53	6.70	-1.15	2.47	4.10
Growth Score	A	-	-	F	B	A
Historical EPS Growth (3-5 Years)	17.22%	4.84%	9.32%	NA	1.90%	32.78%
Projected EPS Growth (F1/F0)	-2.93%	4.39%	13.98%	14.04%	65.29%	26.32%
Current Cash Flow Growth	34.53%	7.95%	2.56%	41.73%	-34.61%	81.22%
Historical Cash Flow Growth (3-5 Years)	13.90%	2.23%	7.55%	NA	3.98%	26.76%
Current Ratio	1.87	1.45	1.38	4.83	1.28	1.74
Debt/Capital	34.59%	19.01%	41.31%	35.90%	2.18%	9.41%
Net Margin	7.05%	3.63%	10.60%	-318.57%	-1.29%	5.51%
Return on Equity	47.09%	10.71%	14.86%	-89.86%	9.86%	20.72%
Sales/Assets	1.60	1.24	0.51	0.19	2.34	1.93
Projected Sales Growth (F1/F0)	2.27%	2.80%	6.46%	37.02%	1.95%	25.53%
Momentum Score	D	-	-	D	B	D
Daily Price Change	5.13%	-0.64%	-0.05%	-6.30%	-0.37%	5.26%
1-Week Price Change	5.56%	1.25%	1.44%	-0.47%	1.66%	0.60%
4-Week Price Change	9.59%	5.77%	1.42%	45.89%	2.99%	9.14%
12-Week Price Change	27.15%	25.68%	6.38%	182.78%	6.35%	39.12%
52-Week Price Change	72.60%	50.95%	8.82%	63.69%	-0.66%	119.10%
20-Day Average Volume (Shares)	1,328,968	669,667	2,013,641	436,121	83,652	551,326
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	-27.85%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	3.54%	0.00%	0.68%	4.42%	0.00%	11.72%
EPS F1 Estimate 12-Week Change	3.97%	2.20%	1.97%	5.61%	-13.36%	12.70%
EPS Q1 Estimate Monthly Change	11.59%	0.00%	0.27%	0.00%	0.00%	24.10%

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	B
Growth Score	A
Momentum Score	D
VGM Score	A

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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