

Ulta Beauty Inc. (ULTA)

\$302.03 (As of 02/05/21)

Price Target (6-12 Months): **\$317.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/31/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Ulta Beauty has outperformed the industry in the past three months. The company's entire store fleet was operational in the third quarter of fiscal 2020, wherein earnings beat the Zacks Consensus Estimate. The company has been gaining on its core strategies, especially omnichannel focus and cost optimization. Management has made solid progress on these fronts, with its e-commerce sales up 90%, thanks to buy online pickup in store initiative. However, overall sales were soft due to the pandemic-led constraints that hurt the services business. Also, makeup sales remained troubled due to delayed innovation and changing consumer behavior, while skincare was strong. The operating landscape is likely to be dynamic, and management expects comparable store sales decline of 12-14% for the fourth quarter. Additionally, high COVID-19 costs are a concern.

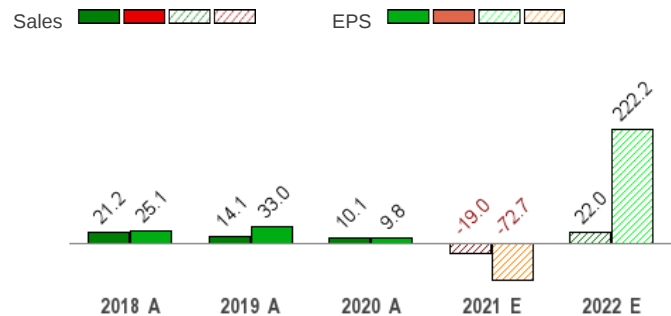
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$309.01 - \$124.05
20-Day Average Volume (Shares)	613,835
Market Cap	\$17.0 B
Year-To-Date Price Change	5.2%
Beta	1.77
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 21% (200 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.6%
Last Sales Surprise	0.3%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	03/11/2021
Earnings ESP	0.0%
P/E TTM	59.5
P/E F1	28.9
PEG F1	1.6
P/S TTM	2.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,603 E	1,589 E	1,726 E	2,350 E	7,309 E
2021	1,173 A	1,228 A	1,552 A	2,041 E	5,989 E
2020	1,743 A	1,667 A	1,683 A	2,306 A	7,398 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.26 E	\$2.37 E	\$2.22 E	\$3.47 E	\$10.47 E
2021	-\$1.12 A	\$0.73 A	\$1.64 A	\$2.18 E	\$3.25 E
2020	\$3.08 A	\$2.76 A	\$2.25 A	\$3.83 A	\$11.91 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 02/05/2021. The report's text and the analyst-provided price target are as of 02/08/2021.

Overview

Bolingbrook, IL-based, Ulta Beauty Inc., previously known as Ulta Salon, Cosmetics & Fragrance, Inc., is a leading beauty retailer in the United States. Founded in 1990, the company changed its name to Ulta Beauty in January 2017.

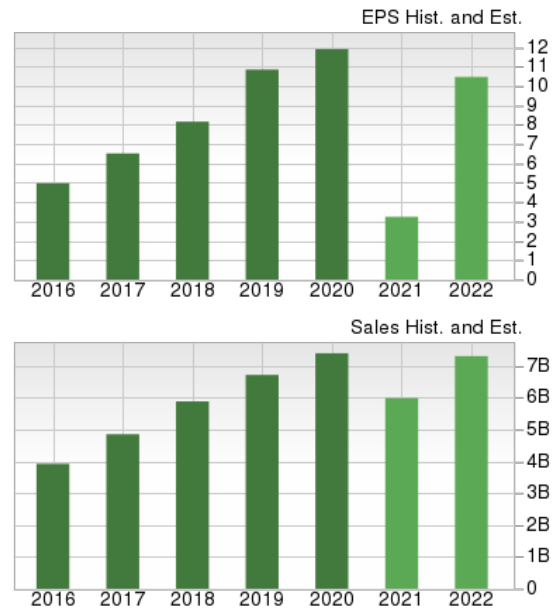
The company offers a wide range of products including cosmetics, fragrance, skincare, hair care, bath and body products, and salon styling tools in stores. It sells more than 25,000 products from about 500 well-established and emerging beauty brands across all categories and price points. We note that the company's skincare category has been standing out in particular for a while now, given consumers' rising consciousness.

Meanwhile, the beauty products retailer also provides private label products comprising Ulta Beauty Collection branded cosmetics, skincare, and bath products. Additionally, the company operates a full-service salon in every store offering hair, skin and brow services. Additionally, it offers products through its Website, [ulta.com](https://www.ulta.com), as well as mobile applications. The products offered by the company include the prestige and mass beauty brands.

As part of its value proposition, Ulta Beauty provides a range of loyalty programs through its Customer Relationship Management platform. It also offers frequent promotions, coupons, in-store events and gifts. The company also makes use of a range of media platforms to advertise products as well as generate awareness. The company strives to boost distribution center capabilities to better support store footfall and online demand.

The company has a strong vendor base and holds partnerships with companies such as Estee Lauder, L'Oréal and Shiseido. Ulta Beauty works closely with vendors to provide improved growth platforms for new and existing brands.

The company ended the third quarter of fiscal 2020 with 1,262 stores. In fiscal 2020, the company intends to open about 30 new stores and undertake five relocation projects. While fiscal 2021 plans are not finalized yet, management anticipates opening at least 30 new stores.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Focus on 5 Key Priorities:** Shares of Ulta Beauty have gained 22.2% in the past three months, compared with the industry's growth of 17.9%. The company remains focused on its five strategic priorities. The company's foremost priority is to strengthen its omnichannel business and explore the potential of both physical and digital facets. The pandemic has in fact speeded up this process for the company, given consumers' increased online engagement. Ulta Beauty has made significant progress on this front, evident from its solid e-commerce initiatives (discussed below). Next, the company is undertaking various tools to enhance experience of guests, like offering a virtual try-on tool and in-store education, and reimagining fixtures, among others. Further, the company concentrates on offering customers a curated and exclusive range of beauty products through innovation. Toward this end, the launch of Conscious Beauty at Ulta Beauty in October 2020 (across all stores and online) has been yielding well. Moving on, the company is focused on fueling innovation at its Ultimate Rewards program in several ways. Finally, management is committed to optimizing its cost structure. As part of this, the company decided to suspend its Canadian expansion, during the third quarter of fiscal 2020.

Ulta Beauty is gaining from robust omni-channel experience as well as unique loyalty programs. The company's skincare category has been performing strongly amid rising at-home grooming trends.

▲ **Omni-channel Growth:** Ulta Beauty is known for its strategy of striking the right balance between online and physical stores. This is probably one of the reasons behind garnering goodwill in a short span. Amid the rising online competition, Ulta Beauty has managed to grow both e-commerce and in-store sales. Management anticipates opening about 30 stores in fiscal 2020 alongside undertaking nearly five relocation projects. While fiscal 2021 plans are not finalized yet, management anticipates opening at least 30 stores, though the plans will continue to be assessed according to the economic conditions and costs, among other factors. Apart from this, management remains encouraged about its planned partnership with Target in 2021. The company said that it plans to introduce Ulta Beauty at Target next fall, which will be a shop-in-shop experience online as well as in certain Target locations.

The company is undertaking measures to strengthen its omni-channel presence. To this end, it concluded the rollout of the buy online, pickup in store initiative (BOPIS) across all stores, refreshed its mobile app and introduced "Afterpay" to ease online purchases. Also, in April, the company launched buy online and pickup curbside at 70 stores in nine states – which is generating solid results. Other than this, Ulta Beauty's store-to-door strategy has been yielding results. In the third quarter, the company opened the Jacksonville fast fulfillment facility, extending the ship-from-store capacity to 105 stores, and expanded e-commerce operations in its distribution centers at Chambersburg, Greenwood and Dallas. Such investments have elevated Ulta Beauty's e-commerce shipping capacity and are likely to enhance its delivery speed. Additionally, the company concluded rolling out the new booking tool for services in its app and on ulta.com during the quarter under review. Certainly, the company's e-commerce channel remained strong amid the pandemic. Markedly, sales from e-commerce operations soared 90% in the third quarter, with continued strength in the BOPIS initiative, which formed 16% of the company's e-commerce sales.

▲ **Strong Skincare Category:** Ulta Beauty has been seeing market share gains in major beauty categories for a while now, with skincare standing out. Skincare recorded the highest growth in fiscal 2019, among all other categories and remained Ulta Beauty's fastest-growing category. During the fiscal, the skincare portfolio was bolstered by 47 new brands like The Ordinary, Sunday Riley and Urban Skin RX. Moreover, management increased selling space and stores alongside improving its marketing efforts to support skincare growth. Skincare category remained well placed in the third quarter of fiscal 2020, and saw positive comp growth on the back of new brands like The Ordinary, TULA and Beekman 1802, as well as current brands like CeraVe, First Aid Beauty and La Roche-Posay. Consumers' increased focus on skincare and hair amid higher at-home grooming is likely to keep aiding this category. Management remains focused on boosting skincare growth by strengthening brand portfolio and undertaking digital innovation.

▲ **Financial Analysis:** Ulta Beauty had operating lease liabilities of \$1,661.8 million as of the end of the third quarter of fiscal 2020 or Oct 31, 2020. The company's long-term debt (including operating lease liabilities) stood at \$2,518.5 million as of the end of the second quarter. Notably, during the third quarter, the company repaid the \$800 million that was drawn under its revolving credit facility of \$1 billion in the first quarter as a measure to improve financial flexibility amid the pandemic. To top it, the company had cash and cash equivalents of \$560.9 million as of the third-quarter-end, while its current debt stood at \$252.2 million.

Apart from this, the company had \$1.58 billion available under its \$1.6-billion share-buyback plan that was announced in March 2020. Ulta Beauty had suspended its buyback plan on Apr 2 to preserve financial flexibility amid the pandemic. The company might resume its buyback plan in the fourth quarter of fiscal 2020.

▲ **Strength in Loyalty Program:** Ulta Beauty's loyalty program has been a key business driver. This can be accountable to the company's excellent marketing and merchandising endeavors. In its third-quarter conference call, management said that the new member acquisition trend remained impressive. Further, the proportion of omnichannel members increased to 22% of total members in the third quarter, compared with 12% in the year-ago period. Notably, increased shift toward online shopping amid the pandemic is also leading to this upside. Moreover, the credit card program has been yielding well, backed by robust store associate engagement, acquisition campaigns, effective integration into the loyalty calendar and solid support from partners. The company is focused on personalization efforts through relevant product recommendations and replenishment to boost the loyalty program.

Reasons To Sell:

▼ **Coronavirus Woes Hurt Q3 Results, Comps Soft:** The company posted third-quarter fiscal 2020, with the top and the bottom lines declining year over year. Net sales decreased 7.8% year over year to \$1,552 million, hurt by the impact of coronavirus. Comparable sales or comps (including stores temporarily closed due to the pandemic and e-commerce sales) fell 8.9% against 3.2% growth recorded in the prior-year quarter. During the quarter, the company registered a transaction decline of 15.4%, partly made up by a rise of 7.6% in average ticket. Further, the company posted adjusted earnings per share of \$1.64 compared with the \$2.23 reported in the year-ago quarter. The dismal performance resulted from lower sales and margins. During the quarter, the company also permanently shut down 19 stores.

Challenges in the makeup category are likely to persist in the near term due to increased social distancing, less makeup usage and delayed innovations. Also, comps are likely to remain soft.

The company began the fourth quarter with roughly all stores open for retail. However, management warned that due to the resurgence in coronavirus cases, market-specific government limitations may increase, leading to lower operating hours, restrictions on in-store capacity and mandatory store closures in a few cases. While the company remains well placed for the holiday season and is encouraged with the early holiday sales trends in November, the operating landscape remains dynamic. For the fourth quarter, management expects comparable store sales to decrease 12-14%.

▼ **COVID-19 Costs & Margin Concerns:** In the third quarter of fiscal 2020, Ulta Beauty's gross margin collapsed from 37.1% to 35.1% due to fixed store-cost deleverage on reduced sales and unfavorable channel mix shifts. Further, operating income fell from \$167.8 million to \$101.3 million, with the operating margin contracting from 10% to 6.5% during the quarter. Adjusted operating income came in at \$124.9 million and the respective margin was 8%.

SG&A expenses (as a percentage of sales) escalated 10 basis points to 26.8% due to reduced sales as a result of the pandemic. SG&A expenses were adversely impacted by elevated corporate overhead costs, and personal protective equipment (PPE) and COVID-related costs. Markedly, Ulta Beauty incurred additional COVID-related operating costs of about \$160 million in the first nine months of fiscal 2020. The company expects to incur costs in the range of \$180-\$190 million toward PPE and operating costs related to COVID-19 in fiscal 2020.

▼ **Soft Makeup Trends:** The U.S. beauty market has been struggling with soft makeup sales trend, which remains a concern for Ulta Beauty. Makeup has witnessed a number of up and down cycles in the United States. The most recent downside started in 2017 and accelerated in the late 2018 as a result of absence of innovations and newer products in the makeup category. This trend continued through fiscal 2019. In its third-quarter earnings call, management stated that the makeup category remained challenged due to shifts in consumer behavior as well as innovation and newness delays. In the quarter, the share of makeup sales (as a percentage of sales) contracted 600 bps to 45% on a year-over-year basis. Delayed innovation, along with reduced makeup usage due to masks as well as the pandemic-led social distancing and fewer outings, remains a worry for the makeup category. However, categories focused on areas above the mask, such as lashes, eye and brow have been performing well.

▼ **Pandemic Hurts Services Business:** Ulta Beauty's Services business has been majorly hurt by COVID-related capacity limitations as well as local constraints. As of Oct 31, salon and brow services had resumed in nearly all stores, though they continued to be troubled by the pandemic-led local limitations and capacity constraints. Also, the company did not resume skin or makeup services due to safety reasons. While trends were better compared with the second quarter, sales from the Services business declined more than 30% during the third quarter of fiscal 2020, mainly on account of lower transactions. We believe these factors remain concerns for the company, given the continued rise in cases.

▼ **Stiff Competition in the Beauty Realm:** Ulta Beauty competes with a diverse group of retailers like department stores, mass merchandisers, specialty retailers, drug stores, high-end and discount salon chains, locally-owned beauty retailers and salons, online retailers as well as pure-play e-commerce companies amongst others. Many competitors have greater financial resources and business strength to capture opportunities in the beauty space. This is likely to pose threats to Ulta Beauty's footing in the industry. Also, the availability of a number of cheaper beauty alternatives is a limiting factor.

Last Earnings Report

Ulta Beauty Q3 Earnings Top Estimates, Sales Down Y/Y

Ulta Beauty Ulta Beauty posted third-quarter fiscal 2020 adjusted earnings per share of \$1.64 compared with \$2.23 reported in the year-ago quarter. Nevertheless, the bottom line surpassed the Zacks Consensus Estimate of \$1.51 per share.

Net sales decreased 7.8% year over year to \$1,552 million. The Zacks Consensus Estimate stood at \$1,547 million. Sales were hurt by the impact of coronavirus. Comparable sales or comps (including stores temporarily closed due to the pandemic and e-commerce sales) fell 8.9% against 3.2% growth recorded in the prior-year quarter. During the quarter under review, the company registered a transaction decline of 15.4%, partly made up by a rise of 7.6% in average ticket.

During the quarter, e-commerce sales soared 90%, with continued strength in the buy online pickup in store or BOPIS initiative. Incidentally, BOPIS formed 16% of the company's e-commerce sales. While e-commerce is likely to weigh on overall EBIT margins, management is on track to enhance e-commerce profitability through increased use of BOPIS, size and scale leverage, and expansion of its supply-chain network.

Gross profit dropped 12.5% to \$545.5 million and the gross margin collapsed from 37.1% to 35.1% due to fixed store cost deleverage on reduced sales and unfavorable channel mix shifts. This was somewhat offset by improved merchandise margins stemming from reduced promotions.

SG&A expenses fell 7.3% to \$416.4 million, courtesy of reduced store payroll and benefits, store expenses, and marketing costs, somewhat negated by elevated corporate overhead costs, and personal protective equipment (PPE) and COVID-related costs. SG&A expenses (as a percentage of sales) escalated 10 basis points to 26.8% due to reduced sales as a result of the pandemic. Operating income fell from \$167.8 million to \$101.3 million, with the operating margin contracting from 10% to 6.5% in the quarter. Adjusted operating income came in at \$124.9 million and the respective margin was 8%.

Other Financials & Store Update

Net cash from operating activities was \$259,045 million for the 39 weeks ended Oct 31, 2020. Apart from this, the company had \$1.58 billion available under its \$1.6 billion share buyback plan that was announced in March 2020. Ulta Beauty had suspended its buyback plan on Apr 2 to preserve financial flexibility amid the pandemic. The company might resume its buyback plan in the fourth quarter of fiscal 2020. The company now anticipates spending \$150-\$160 million as capital expenditure in fiscal 2020 compared with the previous guidance of \$180-\$200 million.

During the quarter, the company opened 17 new stores and relocated two. Ulta Beauty ended the third quarter with 1,262 stores. During the quarter, the company also shut down 19 stores. For fiscal 2020, the company still anticipates opening about 30 stores and relocating five. While fiscal 2021 plans are not finalized yet, management anticipates opening at least 30 stores, though the plans will continue to be assessed according to the economic conditions and costs, among other factors.

Update on COVID-19

Ulta Beauty had temporarily closed all stores on Mar 19, though it kept its important online operations active. Further, the company introduced curbside pickup in certain stores on Apr 19 and started a phased store reopening process on May 11. By Jul 20, the company's entire store fleet was operational. As of Oct 31, salon and brow services had resumed in nearly all stores, though they continued to be troubled by the pandemic-led local limitations and capacity constraints. Notably, the company has reactivated more than half of its furloughed workers, given the partial services resumption and operational restrictions associated with the coronavirus.

The company began the fourth quarter with roughly all stores open for retail. However, management warned that owing to the resurgence in coronavirus cases, market-specific government limitations may increase, leading to lower operating hours, restrictions on in-store capacity and mandatory store closures in a few cases. While the company remains well placed for the holiday season and is encouraged with the early holiday sales trends in November, the operating landscape remains dynamic. For the fourth quarter, management expects comparable store sales to decrease 12-14%.

Quarter Ending	10/2020
Report Date	Dec 03, 2020
Sales Surprise	0.31%
EPS Surprise	8.61%
Quarterly EPS	1.64
Annual EPS (TTM)	5.08

Recent News

Target to Set up Mini Ulta Beauty Shops Inside Stores – Nov 10, 2020

Ulta Beauty and Target have entered into a strategic long-term partnership. According to the agreement, Ulta Beauty will open mini cosmetics shops inside Target. This "shop-in-shop" concept will be put in place across select Target stores and online. As a result of the tie-up, Ulta Beauty's emerging and prestige beauty brands will be available at more than 100 Target stores in 2021.

The partnership will help bring Ulta Beauty's best-in-class offering to millions of customers who prefer the ease and comfort of Target's one-stop shopping experience. Moreover, the collaboration will help beauty brands to expand on the back of Target's leading omnichannel services.

Markedly, Ulta Beauty's products will be featured at more than a 100 Target stores from the second-half of 2021, alongside plans to scale higher in time. Target will dedicate nearly 1000 square feet of its retail space for Ulta Beauty mini shops, making it prominently placed next to existing beauty sections. Moreover, the current planned locations are likely to compliment Ulta Beauty's existing store footprint.

Valuation

Ulta Beauty shares are up 5.2% in the year-to-date period and 3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 3.2% and 5.1%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 17.7%, while the sector gained 18.2%.

The S&P 500 index is up 4.1% in the year-to-date period and 18.2% in the past year.

The stock is currently trading at 28.73X forward 12-month earnings, which compares to 18.06X for the Zacks sub-industry, 31.6X for the Zacks sector and 22.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.75X and as low as 9.93X, with a 5-year median of 25.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$317 price target reflects 30.17X forward 12-month earnings.

The table below shows summary valuation data for ULTA

Valuation Multiples - ULTA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.73	18.06	31.6	22.82
	5-Year High	73.75	24.2	34.1	23.8
	5-Year Low	9.93	11.54	19.1	15.3
	5-Year Median	25.27	15.98	23.71	17.83
P/S F12M	Current	2.32	1.2	1.37	4.54
	5-Year High	3.5	1.2	1.37	4.54
	5-Year Low	0.91	0.51	0.84	3.2
	5-Year Median	2.23	0.87	1.02	3.68
EV/EBITDA TTM	Current	24.7	15.03	19.47	17.59
	5-Year High	24.7	16.01	20.79	17.59
	5-Year Low	5.79	4.74	11.16	9.55
	5-Year Median	15.93	9.56	13.16	13.25

As of 02/05/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Helen of Troy Limited (HELE)	Outperform	2
Inter Parfums, Inc. (IPAR)	Outperform	1
Coty Inc. (COTY)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	3
The Michaels Companies, Inc. (MIK)	Neutral	4
Nu Skin Enterprises, Inc. (NUS)	Neutral	2
Sally Beauty Holdings, Inc. (SBH)	Neutral	4
Regis Corporation (RGS)	Underperform	5

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	ULTA	X Industry	S&P 500	MIK	RGS	SBH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	5	4
VGM Score	F	-	-	A	F	A
Market Cap	17.02 B	2.46 B	27.69 B	2.38 B	363.60 M	1.66 B
# of Analysts	8	6	13	4	1	8
Dividend Yield	0.00%	0.00%	1.43%	0.00%	0.00%	0.00%
Value Score	C	-	-	A	F	A
Cash/Price	0.04	0.19	0.06	0.37	0.25	0.30
EV/EBITDA	13.69	8.08	14.96	6.29	-10.72	7.97
PEG F1	1.61	1.99	2.44	NA	NA	0.27
P/B	9.17	2.66	3.71	NA	6.22	16.80
P/CF	17.49	9.03	15.54	5.26	6.97	6.62
P/E F1	29.58	14.09	20.33	6.94	NA	8.19
P/S TTM	2.72	0.68	3.01	0.47	0.85	0.48
Earnings Yield	3.47%	5.97%	4.83%	14.41%	-8.37%	12.23%
Debt/Equity	0.00	0.20	0.68	-1.79	12.76	18.19
Cash Flow (\$/share)	17.27	3.53	6.78	3.06	1.46	2.22
Growth Score	F	-	-	A	F	A
Historical EPS Growth (3-5 Years)	9.86%	4.84%	9.46%	1.91%	141.04%	0.54%
Projected EPS Growth (F1/F0)	222.40%	4.39%	13.31%	4.39%	-41.67%	47.23%
Current Cash Flow Growth	5.84%	7.95%	4.43%	-14.92%	-44.09%	-34.45%
Historical Cash Flow Growth (3-5 Years)	20.48%	2.23%	8.19%	1.68%	1.25%	-5.62%
Current Ratio	1.82	1.45	1.37	1.22	0.70	2.62
Debt/Capital	0.00%	19.01%	41.33%	NA	92.74%	94.79%
Net Margin	3.63%	3.63%	10.59%	4.36%	-50.45%	3.38%
Return on Equity	15.94%	10.71%	14.84%	-20.17%	-80.24%	-7,098.34%
Sales/Assets	1.21	1.24	0.51	1.24	0.33	1.16
Projected Sales Growth (F1/F0)	22.04%	2.54%	6.14%	2.80%	-27.99%	7.26%
Momentum Score	F	-	-	A	C	C
Daily Price Change	2.18%	0.27%	0.38%	4.41%	-0.39%	-6.06%
1-Week Price Change	-6.72%	-0.08%	-4.02%	0.98%	2.82%	7.93%
4-Week Price Change	3.29%	10.01%	0.24%	15.99%	13.65%	10.01%
12-Week Price Change	21.75%	34.52%	10.12%	116.69%	66.83%	50.51%
52-Week Price Change	3.06%	60.59%	7.73%	206.67%	-31.63%	9.04%
20-Day Average Volume (Shares)	613,835	845,301	2,075,178	5,621,197	834,807	2,199,415
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.01%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.46%	0.00%	-11.84%	-0.88%
EPS F1 Estimate 12-Week Change	-1.83%	6.84%	1.32%	17.32%	-11.84%	-4.50%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.08%	0.00%	-44.44%	1.16%

Source: Zacks Investment Research

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

Value Score	C
Growth Score	F
Momentum Score	F
VGM Score	F

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.