

Urban Outfitters Inc. (URBN)

\$30.31 (As of 01/12/21)

Price Target (6-12 Months): **\$32.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Urban Outfitters have underperformed the industry in the past three months. Dismal holiday sales performance and the news of the departure of Urban Outfitters Group's CEO were not well perceived by investors. We note that net sales for the two months ended Dec 31, 2020 fell 8.4%. Further, comparable Retail segment net sales dipped 9% due to negative retail store net sales as robust conversion rates were unable to offset the lower store traffic due to the pandemic. Notably, lower store net sales were partly offset by solid double-digit digital channel sales. However, management highlighted that although Retail segment comparable net sales have rebounded in the month of January, it expects deleverage in overall gross margin for the final quarter on increased delivery and logistics expenses, and higher store occupancy costs.

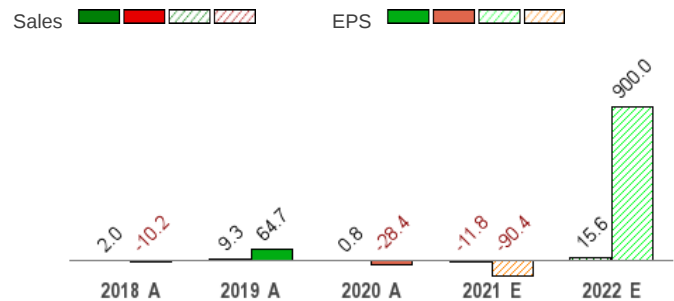
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$32.86 - \$12.28
20-Day Average Volume (Shares)	1,553,930
Market Cap	\$3.0 B
Year-To-Date Price Change	18.4%
Beta	1.61
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 32% (81 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	73.3%
Last Sales Surprise	4.3%
EPS F1 Estimate 4-Week Change	1.1%
Expected Report Date	03/02/2021
Earnings ESP	-6.7%
P/E TTM	94.7
P/E F1	159.5
PEG F1	13.9
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	810 E	969 E	1,071 E	1,268 E	4,062 E
2021	588 A	803 A	970 A	1,153 E	3,514 E
2020	864 A	962 A	987 A	1,170 A	3,984 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.15 E	\$0.57 E	\$0.66 E	\$0.54 E	\$1.90 E
2021	-\$1.31 A	\$0.35 A	\$0.78 A	\$0.47 E	\$0.19 E
2020	\$0.31 A	\$0.61 A	\$0.56 A	\$0.50 A	\$1.97 A

*Quarterly figures may not add up to annual.

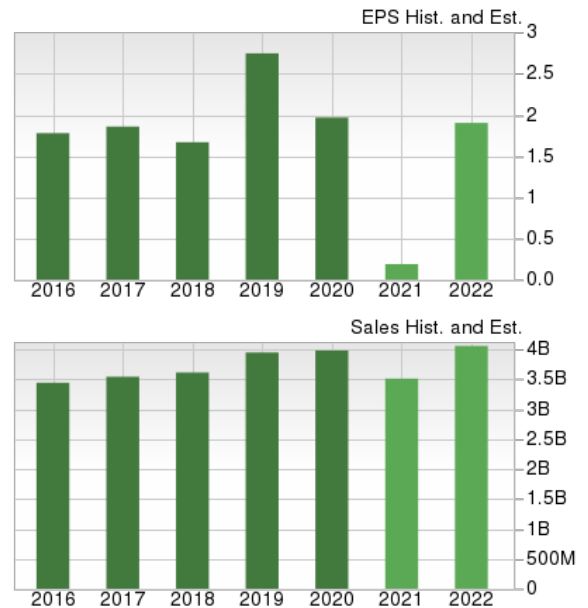
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/12/2021. The reports text is as of 01/13/2021.

Overview

Founded in 1970 and based in Philadelphia, Pennsylvania, Urban Outfitters Inc. (URBN) is a lifestyle specialty retailer that offers fashion apparel and accessories, footwear, home décor and gifts products. The company's merchandises are generally sold directly to consumers through stores, catalogs, call centers and e-commerce platforms. The company has operations in the United States, Canada and Europe.

The company primarily reports through two segments: 1) Retail segment (91% of fiscal 2019 total sales), which comprises brands such as Urban Outfitters, Anthropologie, Free People, Terrain and BHLDN, and 2) Wholesale segment (9% of fiscal 2019 total sales), which is better described through Free People wholesale division (established in 1984) that designs, develops and markets contemporary casual attire for women. Free People, Anthropologie Group and Urban Outfitters wholesale sell their products through approximately 2,300 department and specialty stores worldwide, digital businesses and the Company's Retail segment.

As of Dec 31, 2020, the company operated 250 Urban Outfitters stores in the United States, Canada and Europe, offering apparel, footwear and accessories to younger men and women in the age bracket of 18 to 28 years; 236 Anthropologie Group stores in the United States, Canada and Europe, offering casual clothes and accessories, shoes, home furnishings targeted at women in the age group of 28 to 45 years; 149 Free People stores in the United States, Canada and Europe, offering private-label branded merchandise that includes apparel, intimates, shoes, accessories and gifts for women aged between 25 and 30 years; 11 Menus & Venues restaurants, and one Urban Outfitters franchisee-owned store.



Source: Zacks Investment Research

Reasons To Buy:

▲ **Better-Than-Expected Q3:** Urban Outfitters reported better-than-expected results in third-quarter fiscal 2021. Also, the bottom line increased 39.3% from the year-ago quarter's tally, buoyed by robust product assortments coupled with disciplined cost and inventory control measures. Results mainly benefited from robust strength in its digital channel, which offset the weakness across its store channel. Its overall digital business recorded solid mid-double-digit comp sales in each month of the reported quarter. Sessions, orders and conversion increased across all the company's brands and overall new digital customers during the quarter grew by 45%. In fact, the company's digital business in the United Kingdom has been generating triple-digit comparable sales (comps). Notably, the momentum continued in the fourth quarter as well.

We expect Urban Outfitters to drive growth on the back of store-rationalization efforts, increase in direct penetration, technology advancements and merchandising improvements.

▲ **Lower SG&A:** The company has been witnessing lower SG&A expenses for a while. During third-quarter fiscal 2021, the metric plunged 8.7% to \$224.4 million on cost-saving efforts. Moreover, as a percentage of net sales, the metric leveraged 175 basis points (bps) to 23.1%. This upside is attributed to a disciplined store-payroll management and overall cost-control actions. This, coupled with higher gross margin, drove operating margin expansion of 260 bps to 10.2% in the reported quarter. For fiscal fourth quarter, SG&A is likely to decline depending on current sales performance and tight management of expenses.

▲ **FP Movement Initiative:** Urban Outfitters' strategic growth initiative, FP Movement, bodes well. Management has been making investments in the Movement with digital and creative brand prospects along with the FP Movement ambassador program. During fiscal third quarter, all the Free People product categories reported positive comps and robust regular price selling. Within categories, FP Movement was impressive in the quarter, delivering triple-digit comps growth. In mid-October, the company has opened its first stand-alone Movement store in Century City, CA and is receiving impressive consumer response. The second Movement outlet is scheduled to open in Boulder, CO, later this month. It expects opening more stores next year and believes Movement is likely to become a billion-dollar brand. Having a differentiated position in the fitness and wellness space, the FP Movement is a major growth opportunity and is expected to boost Free People's brand revenue. Notably, comparable Retail segment net sales at Free People grew 17% in the quarter.

▲ **Multi-brand and Multi-channel Retailer:** Being a multi-brand and multi-channel retailer, Urban Outfitters offers flexible merchandising strategy. The company also has a significant domestic and international presence with rapidly expanding e-commerce activities. The company remains committed to improve comparable-store sales performance, sustain investments in direct-to-consumer business, enhance productivity in existing channels, add new brands and optimize inventory level. The company made an unprecedented move by acquiring Philadelphia's The Vetri Family group of restaurants, including the Pizzeria Vetri chain. The attempt is seen as a part of the company's strategy to target and attract millennials to the stores. Further, the company's Anthropologie and Nordstrom had earlier entered into a partnership, whereby more than 200 items from Anthropologie Home are now available at selected Nordstrom full-line stores and on Nordstrom.com. During the holiday period, the company witnessed solid double-digit sales growth across its digital channel.

▲ **Nuuly Prospects Look Bright:** Urban Outfitters introduced a subscription rental service for women's clothes called Nuuly. The subscribers have to shell out \$88 each month for one six-item box. Shoppers can choose from Anthropologie, Free People and Urban Outfitters brands, third-party brand and designer labels, and rare vintage items for rent via a custom-built, digital platform. They may either worn clothes temporarily and returned them or can even buy it. Nuuly contributed roughly \$6.7 million to net sales during the third quarter of fiscal 2021. Going forward, management remains optimistic about prospects of Nuuly.

▲ **Rational Store-Growth Efforts:** The company remains rational in opening new stores. During the eleven months ended Dec 31, 2020, it introduced 18 retail locations including six stores each for Urban Outfitters, Anthropologie Group and Free People Group. The Free People stores comprise two FP Movement outlets. In the same period, the company shuttered six retail locations which include four Urban Outfitters outlets and one store each for Anthropologie Group and Free People. Also, six franchisee-owned stores were shuttered including four Urban Outfitters stores, one Anthropologie Group store and one Free People store.

▲ **Financial Status:** Urban Outfitters' cash and cash equivalents at the end of third-quarter fiscal 2021 increased significantly to \$624.9 million from \$167.1 million reported at the end of the year-ago quarter. Notably, the company's cash position remains sufficient to meet the current portion of operating lease liabilities of about \$255.1 million as of Oct 31, 2020. During the reported quarter, management repaid the balance \$120 million outstanding on its amended credit facility. It borrowed \$220 million in the three months ended Apr 30 to maintain financial flexibility and liquidity with respect to the pandemic and already repaid \$100 million in the three months ended Jul 31. Further, the company generated net cash of \$214.7 million in operating activities during the first nine months of fiscal 2021.

Reasons To Sell:

▼ **Weak Holiday Performance:** Urban Outfitters reported dismal sales performance for the holiday period. Total net sales for the two months ended Dec 31, 2020 tumbled 8.4% from the year-ago period. Further, comparable Retail segment net sales dropped 9% on account of negative retail store net sales as robust conversion rates were unable to offset the lower store traffic owing to the pandemic and related restrictions. Notably, lower store net sales were partly offset by solid double-digit digital channel sales. By brand, comparable Retail segment net sales declined 8% at Urban Outfitters and 12% at the Anthropologie Group, while rising 1% at Free People. Again, wholesale segment net sales dipped 1%.

In the year-earlier holiday period, the company registered growth of 2.9% in total net sales and 3% in comparable Retail segment net sales.

Furthermore, total net sales fell 14.3% from the year-ago period during the eleven months ended Dec 31, 2020. Also, comparable Retail segment net sales decreased 12% on negative retail store net sales stemming from mandated store closures induced by coronavirus and lower productivity after stores reopened. Although shares of Urban Outfitters have gained 25% in the past three months, they have underperformed the industry's 64.5% rally.

▼ **Soft Gross Margin View:** We note that Urban Outfitters' Retail segment comparable net sales have rebounded in January. However, management projects overall gross margins to deleverage by several hundred basis points in the fourth quarter of fiscal 2021. Gross margin will be marred by deleveraged delivery and logistics expenses on higher penetration of digital sales, carrier surcharges and expedited shipments. Higher store occupancy costs on account of negative store net sales will further hurt the metric.

▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Urban Outfitters looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 83.42, which is above the median level of 49.22 but below the high level of 252.2, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 62.9 for the industry and 28.07 for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

▼ **Fashion Obsolescence:** Fashion obsolescence remains the key concern for Urban Outfitters' business model, which includes sustained focus on product and design innovation. The taste and preferences of people are ever changing, and thus one which is in fashion may become out of fashion, with the entrance of new trendier assortments in the market. So, there remains a challenge to constantly revamp its assortments for the fear of losing market share against other big players who may pour the market with more in trend collections. If the company is not successful in its approach, there is a fear that this may have an adverse impact on the company's sales and margins.

▼ **Competitive Threat:** Urban Outfitters faces stiff competition in the retail segment from other department stores, discounters, home furnishing stores, specialty retailers, and direct-to-consumer businesses on attributes, such as merchandise assortment, price, quality, location, and credit facility. Aggressive pricing by competitors, may dent the company's top and bottom-line results as well as strain margins.

For fourth-quarter fiscal 2021, management anticipates gross margin to deleverage mainly owing to higher delivery and logistics expenses. Stiff competition is an added headwind.

Last Earnings Report

Urban Outfitters' Q3 Earnings & Sales Beat Estimates

Urban Outfitters reported better-than-expected results in third-quarter fiscal 2021. Results mainly benefited from robust strength in its digital channel, which offset the weakness across its store channel. Its overall digital business recorded solid mid-double-digit comp sales in each month of the reported quarter. Sessions, orders and conversion increased across all the company's brands while overall new digital customers during the quarter grew by 45%. In fact, the company's digital business in the United Kingdom has been generating triple-digit comparable sales (comps). Notably, the momentum continued in the fourth quarter as well.

Quarter Ending **10/2020**

Report Date	Nov 23, 2020
Sales Surprise	4.31%
EPS Surprise	73.33%
Quarterly EPS	0.78
Annual EPS (TTM)	0.32

Deeper Insight

This lifestyle-specialty retail company delivered earnings of 78 cents per share that outshone the Zacks Consensus Estimate of 45 cents. Also, the bottom line increased 39.3% from the year-ago quarter's tally, buoyed by robust product assortments coupled with disciplined cost and inventory control measures.

In the reported quarter, net sales of \$969.6 million decreased 1.8% year over year but came above the Zacks Consensus Estimate of \$930 million. Brand-wise, net sales were down 10.1% year over year to \$358.5 million at Anthropologie Group, whereas the metric increased 0.6% to \$206.7 million at Free People and 5.2% to \$394.1 million at Urban Outfitters. Moreover, Menus & Venues net sales came in at \$3.7 million, down 45.6% from the prior-year quarter. Again, Nuuly, the subscription-based rental service for women's clothes, contributed roughly \$6.7 million to net sales.

Segment-wise, Urban Outfitters' net sales at the Retail Segment dipped 0.2% to \$895.6 million and at the Wholesale Segment plunged 23.8% to \$67.3 million. Further, comparable Retail segment net sales were flat, owing to negative retail store sales on lower store traffic. This was mitigated by robust double-digit increase in the digital channel. Brand-wise, comparable Retail segment net sales declined 9% at the Anthropologie Group while the same grew 4% at Urban Outfitters and 17% at Free People.

Costs & Margins

In the quarter under review, gross profit came in at \$322.9 million, up 0.6% from the year-ago quarter. Further, gross margin expanded 79 basis points (bps) to 33.3%, primarily due to lower merchandise markdowns in the Retail unit. Also, the Wholesale unit saw improved merchandise margins on lower discounts and allowances. Moreover, gains from negotiated rent concessions with landlords and European government-assistance programs aided margin. Margin growth was somewhat offset by higher delivery and logistics expenses owing to the penetration of the digital channel.

Meanwhile, SG&A expenses dropped 8.7% to \$224.4 million on cost-saving efforts. Moreover, as a percentage of net sales, the metric leveraged 175 bps to 23.1%. This upside is attributed to a disciplined store-payroll management and overall cost-control actions. Notably, digital marketing expenses increased in fiscal third quarter to support robust digital channel sales and customer growth.

Further, the company recorded operating income of \$98.5 million, up 30.8% from the year-ago quarter. Also, operating margin expanded 260 bps to 10.2% on leveraged SG&A as a rate of sales and higher gross margin.

Store Update

During the nine months of fiscal 2021, the company opened 12 retail outlets — three Anthropologie Group, six Urban Outfitters and three Free People including one FP Movement store. Simultaneously, it shuttered five retail stores— four Urban Outfitters and one Free People. In the aforementioned period, four Urban Outfitters franchisee-owned stores and one Free People franchisee-owned outlet were shuttered.

Other Financial Details

Urban Outfitters ended the quarter with cash and cash equivalents of \$624.9 million and total shareholders' equity of \$1,431.3 million. As of Oct 31, 2020, total inventory declined 8% year over year to \$489.2 million, driven by an 11% drop in comparable Retail segment inventory at cost.

During the reported quarter, management repaid the balance \$120 million outstanding on its amended credit facility. It borrowed \$220 million in the three months ended Apr 30 to maintain financial flexibility and liquidity with respect to the pandemic and already repaid \$100 million in the three months ended Jul 31.

Further, the company generated net cash of \$214.7 million in operating activities during the first nine months of fiscal 2021. For fiscal, management now projects capital expenditures of roughly \$195 million, mainly related to enhanced distribution facilities. This includes the completion of its new omni-channel distribution facility in the United Kingdom and the start of construction of the latest facility in the United States.

In August 2017, the company's board authorized a buyback of 20 million shares under a share-repurchase program. Urban Outfitters did not buy back shares in fiscal third quarter. However during the first nine months of fiscal, it bought back and subsequently retired 0.5 million shares for roughly \$7 million. In June 2019, the company's board authorized the buying back of 20 million shares under a new repurchase program. As of Oct 31, 2020, the company had 25.9 million shares remaining under these programs.

Recent News

Urban Outfitters Reports Weak Holiday Performance - Jan 12, 2021

Urban Outfitters posted disappointing holiday sales numbers. Total net sales for the two months ended Dec 31, 2020 tumbled 8.4% from the year-ago period. Further, comparable Retail segment net sales dropped 9% on account of negative retail store net sales as robust conversion rates were unable to offset the lower store traffic owing to the pandemic and related restrictions. Notably, lower store net sales were partly offset by solid double-digit digital channel sales. By brand, comparable Retail segment net sales declined 8% at Urban Outfitters and 12% at the Anthropologie Group, while rising 1% at Free People. Again, wholesale segment net sales dipped 1%.

Furthermore, total net sales fell 14.3% from the year-ago period during the eleven months ended Dec 31, 2020. Also, comparable Retail segment net sales decreased 12% on negative retail store net sales stemming from mandated store closures induced by coronavirus and lower productivity after stores reopened. These were offset by solid double-digit growth across the digital platform. Similarly, wholesale segment net sales plunged 42% in the eleven-month period.

Further, overall gross margins are projected to deleverage by several hundred basis points in the fourth quarter of fiscal 2021. Management also added that the Urban Outfitters Group's CEO Trish Donnelly will leave as of Jan 31, 2021. Sheila Harrington will be the CEO for both the Urban Outfitters Group and Free People Group. Also, the Urban Outfitters brand's present chief merchandising officer Gabrielle Conforti is promoted to the position of president of Urban Outfitters North America. Meanwhile, Emma Wisden will continue to be the managing director of Urban Outfitters Europe, and will also manage the Urban Outfitters brand's Wholesale business. Both Conforti and Wisden will be reporting to Harrington.

Valuation

Urban Outfitters shares are up 87.9% in the past six months and 14.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 132.8% and 12.1% in the past six months, respectively. Over the past year, the Zacks sub-industry and the sector is up 55.7% and 35.2%, respectively.

The S&P 500 index is up 19.6% in the past six months and 20.5% in the past year.

The stock is currently trading at 0.73X forward 12-month sales, which compares to 1.16X for the Zacks sub-industry, 1.32X for the Zacks sector and 4.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.32X and as low as 0.31X, with a 5-year median of 0.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$32 price target reflects 0.78X forward 12-month sales.

The table below shows summary valuation data for URBN

Valuation Multiples - URBN					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.73	1.16	1.32	4.53
	5-Year High	1.32	1.16	1.33	4.53
	5-Year Low	0.31	0.35	0.84	3.2
	5-Year Median	0.77	0.85	1.02	3.68
P/B TTM	Current	2.07	8.97	5.66	6.53
	5-Year High	3.86	8.97	6.49	6.58
	5-Year Low	0.86	1.45	3.7	3.73
	5-Year Median	2.18	4.52	5.1	4.94
EV/EBITDA TTM	Current	63.71	27.87	18.73	17.37
	5-Year High	67.31	27.87	20.79	17.37
	5-Year Low	2.05	2.96	11.17	9.55
	5-Year Median	6.17	6.72	13.11	13.22

As of 01/12/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
DICKS Sporting Goods, Inc. (DKS)	Outperform	1
L Brands, Inc. (LB)	Outperform	1
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Abercrombie & Fitch Company (ANF)	Neutral	3
Burberry Group PLC (BURBY)	Neutral	3
Capri Holdings Limited (CPRI)	Neutral	1
Designer Brands Inc. (DBI)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3

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

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	URBN	X Industry	S&P 500	AEO	ANF	DBI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	D	A	D
Market Cap	2.96 B	779.53 M	26.90 B	3.87 B	1.45 B	666.74 M
# of Analysts	10	4	13	9	9	3
Dividend Yield	0.00%	0.00%	1.41%	2.36%	0.00%	0.00%
Value Score	B	-	-	B	B	C
Cash/Price	0.24	0.20	0.06	0.19	0.61	0.19
EV/EBITDA	6.39	4.53	15.05	8.21	4.03	3.84
PEG F1	12.96	4.79	2.62	NA	NA	NA
P/B	2.07	2.83	3.76	3.62	1.69	1.80
P/CF	9.17	6.94	14.67	8.97	6.58	3.29
P/E F1	149.05	30.82	20.85	NA	NA	NA
P/S TTM	0.84	0.63	3.00	1.02	0.46	0.27
Earnings Yield	0.63%	2.28%	4.69%	-0.73%	-5.85%	-41.69%
Debt/Equity	0.00	0.13	0.70	0.30	0.40	0.74
Cash Flow (\$/share)	3.30	1.68	6.93	2.60	3.53	2.80
Growth Score	B	-	-	F	B	D
Historical EPS Growth (3-5 Years)	-24.38%	-3.92%	9.72%	-1.32%	11.89%	3.90%
Projected EPS Growth (F1/F0)	-90.41%	-46.54%	12.36%	-111.26%	-286.90%	-350.76%
Current Cash Flow Growth	-22.87%	-0.52%	5.22%	0.06%	-6.25%	-6.06%
Historical Cash Flow Growth (3-5 Years)	-2.66%	1.72%	8.37%	10.42%	-5.89%	-2.77%
Current Ratio	1.45	1.48	1.38	1.69	1.60	0.93
Debt/Capital	0.00%	26.73%	41.97%	23.11%	28.57%	42.57%
Net Margin	-0.22%	-5.50%	10.44%	-5.50%	-3.55%	-14.76%
Return on Equity	2.30%	-2.15%	15.37%	-1.82%	-6.61%	-49.38%
Sales/Assets	1.04	1.03	0.50	1.07	0.95	1.04
Projected Sales Growth (F1/F0)	-11.79%	-3.86%	6.00%	-12.59%	-13.75%	-35.30%
Momentum Score	A	-	-	C	A	F
Daily Price Change	5.79%	1.79%	0.57%	1.79%	0.95%	0.33%
1-Week Price Change	4.28%	4.28%	2.23%	10.86%	5.75%	7.84%
4-Week Price Change	11.64%	10.42%	3.70%	20.65%	13.19%	23.46%
12-Week Price Change	33.70%	35.59%	14.39%	65.79%	54.45%	74.10%
52-Week Price Change	14.55%	1.76%	7.96%	58.25%	26.97%	-42.29%
20-Day Average Volume (Shares)	1,553,930	259,864	1,754,762	3,441,154	1,418,426	1,499,824
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	1.37%	0.00%
EPS F1 Estimate 4-Week Change	1.07%	0.00%	0.06%	0.20%	0.97%	0.48%
EPS F1 Estimate 12-Week Change	485.68%	13.83%	2.55%	15.25%	29.30%	2.31%
EPS Q1 Estimate Monthly Change	0.53%	0.00%	0.00%	-0.90%	1.26%	-3.52%

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	B
Momentum Score	A
VGM Score	A

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

Disclosures

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

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

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

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

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

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

Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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