

Urban Outfitters Inc. (URBN)

\$28.13 (As of 11/18/20)

Price Target (6-12 Months): **\$30.00**

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: B

Summary

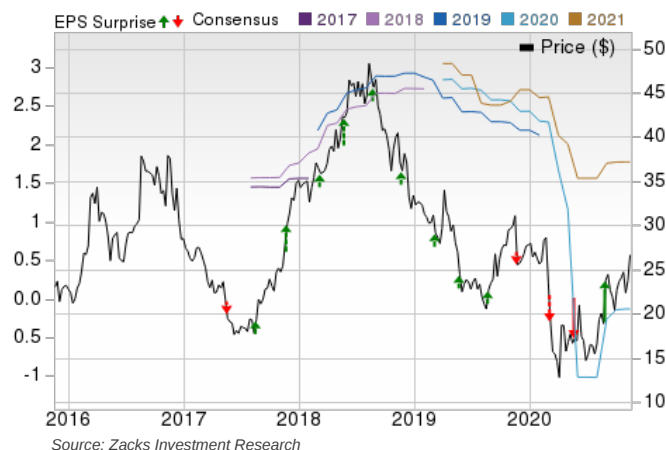
Shares of Urban Outfitters have underperformed the industry in the past year. The company continues to grapple with a dismal gross margin trend, which continued in second-quarter fiscal 2021. Lower sales coupled with higher delivery and logistics costs on account of penetration of the digital channel have been hurting the metric. Depending on the quarter-to-date performance, management projects the overall sales to fall mid-single-digit for the third quarter of fiscal 2021. Moreover, Wholesale revenues in the back half of the fiscal is likely to remain negative. However, it expects the segment to revert to growth in early fiscal 2022. Moreover, continued strength in the company's digital business is aiding performance. This momentum persisted in the first three weeks of August, and management expects this to continue in back half of fiscal.

Data Overview

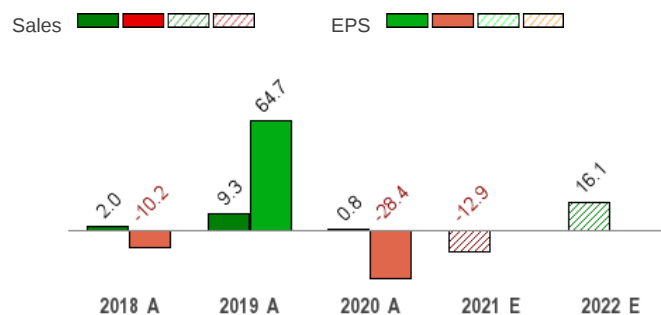
52-Week High-Low	\$32.86 - \$12.28
20-Day Average Volume (Shares)	1,896,226
Market Cap	\$2.8 B
Year-To-Date Price Change	1.3%
Beta	1.59
Dividend / Dividend Yield	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 38% (97 out of 254)

Last EPS Surprise	206.1%
Last Sales Surprise	18.2%
EPS F1 Estimate 4-Week Change	0.0%
Expected Report Date	11/23/2020
Earnings ESP	0.0%
P/E TTM	281.3
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	821 E	966 E	1,047 E	1,251 E	4,031 E
2021	588 A	803 A	930 E	1,145 E	3,471 E
2020	864 A	962 A	987 A	1,170 A	3,984 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.13 E	\$0.56 E	\$0.58 E	\$0.55 E	\$1.77 E
2021	-\$1.31 A	\$0.35 A	\$0.45 E	\$0.45 E	-\$0.14 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.

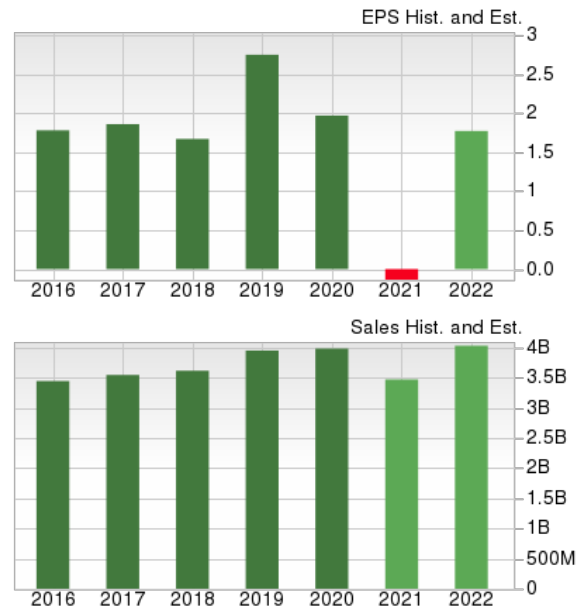
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 11/18/2020. The reports text is as of 11/19/2020.

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 Jul 31, 2020, the company operated 248 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; 233 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; 143 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, two Urban Outfitters franchisee-owned stores and one Anthropologie Group franchisee-owned store.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ **Better-Than-Expected Q2:** Urban Outfitters delivered better-than-expected second-quarter fiscal 2021 results. Performance mainly benefited from robust strength in its digital channel, which largely offset the weakness across its store channel. Its overall digital business recorded solid double-digit comp sales in each month of the reported quarter.

Notably, all the categories including apparel, intimates, movement shoes and accessories delivered positive regular-price comparable sales (comps) within digital. Also, the company witnessed improved conversions, and the total new digital customers across all its brands increased 76% year over year. This momentum persisted in the first three weeks of August, and management expects this to continue in the back half of fiscal. Management further cited that all of the company's brands enter the fall selling season with lean inventories. Urban Outfitters' Retail segment is also performing slightly ahead of its second-quarter performance for fiscal third-quarter-to-date.

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 second-quarter fiscal 2021, the metric plunged 29.1% to \$168.6 million on cost-saving efforts. Moreover, as a percentage of net sales, the metric leveraged 372 bps to 21%. This upside is attributed to a disciplined store-payroll management and gains from the pandemic-related government relief packages. This drove operating margin expansion of 50 basis points (bps) to 8.6% in the reported quarter. For the fiscal third quarter, management anticipates SG&A to decline by nearly 10%.
 - ▲ **FP Movement Initiative:** Urban Outfitters' strategic growth initiative, FP Movement, bodes well. During fiscal second quarter, the FP Movement customer base increased 175%, with the Movement Free People's activewear line surpassing the overall brand growth and remained positive across all channels. Also, the digital platform rose triple digits, and both the performance and non-performance classes grew in the quarter. Management has been making investments in the Movement with digital and creative brand prospects along with the FP Movement ambassador program. The company is excited to open its first FP Movement standalone store in Los Angeles this fall, followed by a location in Boulder, CO, in fiscal fourth quarter. 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 11% 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.
 - ▲ **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 wear clothes temporarily and returned them or can even buy it. Nuuly contributed roughly \$4.7 million to net sales during the second 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 fiscal 2019, the company opened 18 retail locations while shuttered 11 locations. During the said period, it also opened five franchisee-owned stores. Encouragingly, during fiscal 2020, the company opened 26 retail outlets comprising 10 Free People stores, nine Anthropologie Group stores and seven Urban Outfitters stores. Simultaneously, it shuttered 12 retail locations — five Anthropologie Group stores, four Urban Outfitters stores, one Free People store, and two Food and Beverage restaurants. In the aforementioned period, two franchisee-owned stores were also inaugurated — one Anthropologie Group and Urban Outfitters store each.
- During the first six months of fiscal 2021, the company opened five retail outlets — two Anthropologie Group and three Urban Outfitters. Simultaneously, it shuttered four retail stores, three Urban Outfitters and one Free People. In the aforementioned period, three Urban Outfitters franchisee-owned stores and one Free People franchisee-owned outlet were shuttered. For the second half, management expects opening two stores in the United Kingdom.
- ▲ **Debt Analysis:** Urban Outfitters' debt of 1,222.3 million (including long-term debt of \$120 million and non-current portion of operating lease liabilities of \$1,102.3 million) as of Jul 31, 2020, declined 6.6% sequentially. Moreover, its debt-to-capitalization ratio of 0.48 at the end of second-quarter fiscal 2021 shows a decline from 0.55 at the end of the preceding quarter. Also, its debt-to-capitalization ratio compares favorably with that of the industry's 0.74. Again, Urban Outfitters' cash and equivalents (including marketable securities) at the end of second-quarter fiscal 2021 increased nearly 78% sequentially to \$1,163.9 million. Notably, the company's cash position remains sufficient to meet the current portion of operating lease liabilities of about \$270.3 million as of Jul 31, 2020.

Reasons To Sell:

- ▼ **Weak Gross Margin:** Urban Outfitters' soft gross-margin performance persisted in second-quarter fiscal 2021 as well. In the quarter under review, gross profit came in at \$238 million, down 24.6% from the year-ago quarter. Further, gross margin contracted 320 bps to 29.6%, primarily due to higher delivery and logistics costs on account of penetration of the digital channel. Also, deleveraged store-occupancy expense rate hurt the metric. Moreover, merchandise markdowns were lower while the initial merchandise mark-up rate remained flat year over year in the reported quarter. For fiscal third quarter, management expects gross margin rate to deleverage by nearly 200 bps on higher penetration of the digital channel, leading to deleveraged delivery and logistics costs.

Urban Outfitters' weak gross margin trend persisted in second-quarter fiscal 2021. Higher delivery and logistics costs coupled with deleveraged store-occupancy expense hurt the metric.

During the fiscal first quarter, gross profit was down 95.6%, while gross margin contracted significantly from 31.1% to 2% on deleveraged store-occupancy costs. In the fourth and third quarters of fiscal 2020, gross margin contracted 351 bps and 217 bps, respectively, while operating margin fell 470 bps and 230 bps. Although shares of Urban Outfitters have gained 14% in a year, they have underperformed the industry's 31.8% rally.

- ▼ **Y/Y Decline in Sales Continue:** Although Urban Outfitters' top line outpaced the Zacks Consensus Estimate during second-quarter fiscal 2021, the metric continued to fall on a year-over-year basis. In the reported quarter, net sales of \$803.3 million decreased 16.5% year over year on lower comparable Retail-segment sales as well as sales declines across all its brands and segments. Brand-wise, net sales were down 25.2% year over year at Anthropologie Group, 13.6% at Free People and 8.8% at Urban Outfitters. Moreover, Menus & Venues net sales plunged 77.5% from the prior-year quarter. Segment-wise, Urban Outfitters' net sales at the Retail Segment fell 13.8% and at the Wholesale Segment plunged 50.8%. Further, comparable Retail-segment net sales fell roughly 13% on negative retail-store sales due to store closures for part of the quarter and fall in store productivity after reopening. Brand-wise, comparable Retail-segment net sales declined 25% at the Anthropologie Group and 8% at Urban Outfitters.
- ▼ **Outlook:** Depending on the quarter-to-date performance, management projects the overall sales to fall mid-single-digit for the third quarter of fiscal 2021. Moreover, Wholesale revenues in the back half of the fiscal is likely to remain negative. However the company expects the segment to revert to growth in early fiscal 2022. Although the company saw a slight improvement in store traffic for August to-date over the July rate, it is unclear if store traffic could rebound to pre-COVID-19 levels. Hence, the overall third-quarter comps might remain negative, but are expected to improve on a sequential basis.
- ▼ **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.
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Last Earnings Report

Urban Outfitters Beats Q2 Earnings and Sales Estimates

Urban Outfitters reported better-than-expected results in second-quarter fiscal 2021. Results mainly benefited from robust strength in its digital channel, which largely offset the weakness across its store channel. Its overall digital business recorded solid double-digit comp sales in each month of the reported quarter.

Deeper Insight

This lifestyle-specialty retail company delivered earnings of 35 cents per share against the Zacks Consensus Estimate of a loss of 33 cents. However, the bottom line declined 42.6% from the year-ago quarter.

In the reported quarter, net sales of \$803.3 million decreased 16.5% year over year but outshone the Zacks Consensus Estimate of \$680 million. This downside is attributed to lower comparable Retail-segment sales as well as sales decline across all its brands and segments.

Brand-wise, net sales were down 25.2% year over year to \$295.1 million at Anthropologie Group, 13.6% to \$178 million at Free People and 8.8% to \$323.9 million at Urban Outfitters. Moreover, Menus & Venues net sales came in at \$1.6 million, down 77.5% from the prior-year quarter. Again, Nuuly, the subscription-based rental service for women's clothes, contributed roughly \$4.7 million to net sales.

Segment-wise, Urban Outfitters' net sales at the Retail Segment fell 13.8% to \$757.5 million and at the Wholesale Segment plunged 50.8% to \$41.1 million. Further, comparable Retail segment net sales fell roughly 13% on negative retail-store sales due to store closures for part of the quarter and fall in store productivity after reopening. This was partly offset by robust double-digit growth across its digital channel. Brand-wise, comparable Retail segment net sales declined 25% at the Anthropologie Group and 8% at Urban Outfitters. However, the same saw 11% growth at Free People.

Costs & Margins

In the quarter under review, gross profit came in at \$238 million, down 24.6% from the year-ago quarter. Further, gross margin contracted 320 basis points (bps) to 29.6%, primarily due to higher delivery and logistics costs on account of penetration of the digital channel. Also, deleveraged store-occupancy expense rate hurt the metric. Moreover, merchandise markdowns were lower while the initial merchandise mark-up rate remained flat year over year in the reported quarter.

Meanwhile, SG&A expenses plunged 29.1% to \$168.6 million on cost-saving efforts. Moreover, as a percentage of net sales, the metric leveraged 372 bps to 21%. This upside is attributed to a disciplined store-payroll management and gains from the pandemic-related government relief packages. Notably, digital-marketing expenses increased in fiscal second quarter due to solid digital channel sales and customer growth.

Further, the company recorded operating income of \$69.4 million, down 11.1% from the year-ago quarter. However, operating margin expanded 50 bps to 8.6% on leveraged SG&A as a rate of sales.

Store Update

During the first six months of fiscal 2021, the company opened five retail outlets — two Anthropologie Group and three Urban Outfitters. Simultaneously, it shuttered four retail stores, three Urban Outfitters and one Free People. In the aforementioned period, three 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 \$662.9 million, marketable securities of \$501 million and total shareholders' equity of \$1,350.6 million.

As of Jul 31, 2020, total inventory declined 20.1% year over year to \$351.8 million, driven by lower inventory across its Retail and Wholesale segments. Further, the company generated net cash of \$115.2 million in operating activities during the first half of fiscal 2021. For fiscal, management projects capital expenditures of roughly \$215 million, mainly related to enhanced distribution facilities. This includes the completion of its new omni-channel distribution facility in the United Kingdom and the expected 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 second quarter, however during the first six 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 Jul 31, 2020, the company had 25.9 million shares remaining under these programs.

Quarter Ending	07/2020
Report Date	Aug 25, 2020
Sales Surprise	18.15%
EPS Surprise	206.06%
Quarterly EPS	0.35
Annual EPS (TTM)	0.10

Valuation

Urban Outfitters shares are up 1.3% in the year-to-date period and 14% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 19.5% and 34.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 31.8% and 41.6%, respectively.

The S&P 500 index is up 13% in the year-to-date period and 17.4% in the past year.

The stock is currently trading at 0.7X forward 12-month sales, which compares to 0.88X for the Zacks sub-industry, 1.27X for the Zacks sector and 4.18X 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 0.78X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$30 price target reflects 0.75X 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	0.7	0.88	1.27	4.18
	5-Year High	1.32	1.1	1.33	4.3
	5-Year Low	0.31	0.33	0.84	3.17
	5-Year Median	0.78	0.82	1.01	3.67
P/B TTM	Current	2.04	4.87	6.34	6.06
	5-Year High	3.86	6.24	6.47	6.17
	5-Year Low	0.86	1.42	3.87	3.74
	5-Year Median	2.34	4.42	5.05	4.9
EV/EBITDA TTM	Current	34.06	17.08	18.56	15.91
	5-Year High	34.41	17.08	20.77	16.17
	5-Year Low	2.05	2.94	11.17	9.54
	5-Year Median	5.93	7	1306	13.11

As of 11/18/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 38% (97 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Capri Holdings Limited (CPRI)	Outperform	1
American Eagle Outfitters, Inc. (AEO)	Neutral	3
Abercrombie & Fitch Company (ANF)	Neutral	3
Burberry Group PLC (BURBY)	Neutral	3
DICKS Sporting Goods, Inc. (DKS)	Neutral	3
The Gap, Inc. (GPS)	Neutral	3
L Brands, Inc. (LB)	Neutral	3
Designer Brands Inc. (DBI)	Underperform	4

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	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	A	A	B
Market Cap	2.75 B	733.80 M	25.46 B	2.79 B	1.24 B	547.49 M
# of Analysts	9	4	14	9	9	4
Dividend Yield	0.00%	0.00%	1.51%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.25	0.29	0.06	0.36	0.68	0.45
EV/EBITDA	6.03	3.43	14.42	5.63	3.36	3.41
PEG F1	NA	3.23	2.76	NA	NA	NA
P/B	2.04	2.14	3.55	2.78	1.51	1.35
P/CF	8.51	5.74	13.64	6.45	5.64	2.70
P/E F1	NA	29.99	21.83	NA	NA	NA
P/S TTM	0.78	0.55	2.79	0.73	0.38	0.20
Earnings Yield	-0.50%	0.69%	4.41%	-1.13%	-9.68%	-52.31%
Debt/Equity	0.09	0.25	0.70	0.52	0.42	0.97
Cash Flow (\$/share)	3.30	1.88	6.92	2.60	3.53	2.80
Growth Score	B	-	-	B	A	C
Historical EPS Growth (3-5 Years)	-17.81%	-3.31%	9.79%	-0.08%	5.80%	2.22%
Projected EPS Growth (F1/F0)	-106.88%	-66.00%	0.36%	-112.61%	-364.38%	-358.82%
Current Cash Flow Growth	-22.87%	-0.52%	5.39%	0.06%	-6.25%	-6.06%
Historical Cash Flow Growth (3-5 Years)	-2.66%	1.68%	8.31%	10.42%	-5.89%	-2.77%
Current Ratio	1.65	1.56	1.38	1.88	1.50	1.15
Debt/Capital	8.16%	26.83%	41.97%	34.13%	29.67%	49.15%
Net Margin	-0.81%	-4.86%	10.41%	-4.86%	-4.61%	-10.16%
Return on Equity	0.78%	0.21%	15.05%	-0.22%	-10.04%	-30.20%
Sales/Assets	1.06	1.06	0.50	1.09	0.95	1.13
Projected Sales Growth (F1/F0)	-12.88%	-9.68%	0.16%	-12.21%	-16.74%	-34.46%
Momentum Score	B	-	-	B	D	B
Daily Price Change	-0.81%	0.00%	-1.09%	1.33%	3.21%	9.39%
1-Week Price Change	12.22%	7.60%	4.23%	4.06%	16.29%	21.14%
4-Week Price Change	21.88%	14.17%	5.95%	21.52%	34.21%	47.56%
12-Week Price Change	11.41%	28.64%	8.63%	47.10%	79.07%	9.71%
52-Week Price Change	15.26%	-4.90%	5.46%	16.06%	25.11%	-53.73%
20-Day Average Volume (Shares)	1,896,226	291,552	2,211,978	5,103,090	1,949,143	2,069,175
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	1.67%	5.08%	0.00%	0.00%
EPS F1 Estimate 12-Week Change	92.75%	11.67%	3.56%	42.92%	33.56%	-41.77%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.63%	0.75%	0.00%	2.16%

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	B
Growth Score	B
Momentum Score	B
VGM Score	A

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

Disclosures

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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.