

## V.F. Corporation (VFC)

**\$74.79** (As of 09/15/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/13/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: B

## Summary

Shares of V.F. Corp have outpaced the industry in the past three months. The stock is witnessing momentum since the announcement of its strategy to strengthen its Asia Pacific business and Emerging Brands platform in June. Further, it reported narrower-than-expected loss per share in the first-quarter fiscal 2021, while the top line beat the Zacks Consensus Estimate. Notably, its store-reopening plans, along with gains in international and digital business contributed to better-than-expected results. It is also on track with the 2024 strategy focused on transitioning to a consumer-minded and retail-centric business in a hyper-digital way. However, the company's sales declined year over year on lower demand and store closures due to the coronavirus outbreak. Nonetheless, it expects a revenue decline of less than 25% in the fiscal second quarter.

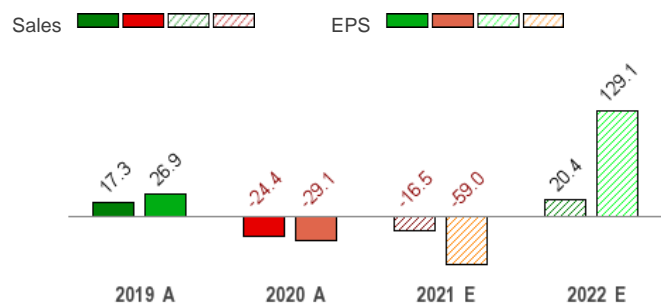
## Price, Consensus & Surprise



## Data Overview

52-Week High-Low	<b>\$100.25 - \$45.07</b>
20-Day Average Volume (Shares)	<b>2,154,043</b>
Market Cap	<b>\$29.1 B</b>
Year-To-Date Price Change	<b>-25.0%</b>
Beta	<b>1.20</b>
Dividend / Dividend Yield	<b>\$1.92 / 2.6%</b>
Industry	<b>Textile - Apparel</b>
Zacks Industry Rank	<b>Bottom 49% (127 out of 251)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>16.2%</b>
Last Sales Surprise	<b>12.1%</b>
EPS F1 Estimate 4-Week Change	<b>0.0%</b>
Expected Report Date	<b>10/23/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>37.0</b>
P/E F1	<b>68.0</b>
PEG F1	<b>6.0</b>
P/S TTM	<b>2.9</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,743 E	3,057 E	3,229 E	2,448 E	10,533 E
2021	1,076 A	2,472 E	2,927 E	2,275 E	8,750 E
2020	2,271 A	3,393 A	3,385 A	2,102 A	10,474 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.07 E	\$1.02 E	\$1.16 E	\$0.36 E	\$2.52 E
2021	-\$0.57 A	\$0.48 E	\$0.93 E	\$0.25 E	\$1.10 E
2020	\$0.30 A	\$1.26 A	\$1.23 A	\$0.10 A	\$2.68 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 09/15/2020. The reports text is as of 09/16/2020.

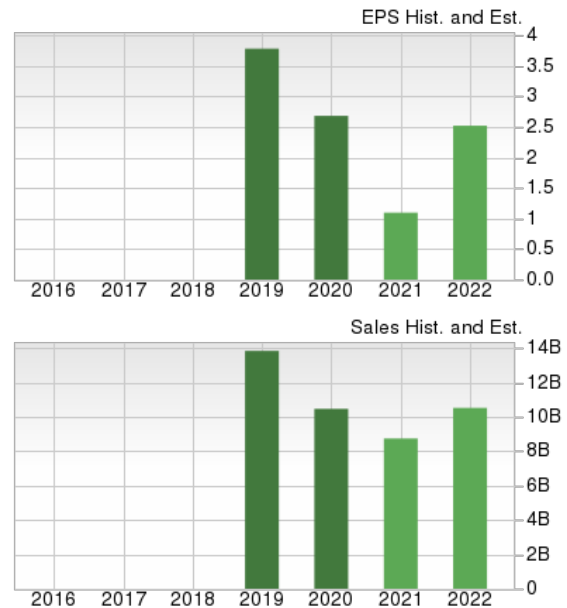
## Overview

Based in Greensboro, NC, V.F. Corporation designs, manufactures and markets branded apparel and related products in the United States and internationally. Its product line consists of denim and casual tops, bottoms, backpacks, book bags, luggage, outdoor gear, skateboard-inspired footwear and apparel, surf-inspired footwear and apparel, women's lingerie, occupational apparel, licensed sports apparel, athletic apparel and fashion sportswear. The company markets its products through specialty stores, department stores, national chains and mass merchants along with licensees and distributors.

On May 22, 2019, the company completed the spin-off of its Jeans business into an independent, publicly-traded company named as Kontoor Brands. The spin-off included Wrangler, Lee, and Rock & Republic brands, as well as the VF Outlet business. These businesses are now presented as discontinued operations.

The company reports operating results under three segments — Active, Outdoor and Work.

- **Outdoor** segment mainly comprises of outdoor apparel, footwear and equipment. The key brands sold under this segment are The North Face, Timberland (excluding Timberland PRO), Smartwool, Icebreaker and Altra.
- **Active** segment offers active apparel, footwear and accessories under brands like Vans, Kipling, Napapijri, JanSport, Reef, Eastpak and Eagle Creek.
- **Work** segment sells work and work-inspired lifestyle apparel and footwear and occupational apparel. The primary brands in this segment include Dickies, Bulwark, Red Kap, Timberland PRO, Wrangler RIGGS, Walls, Terra, Kodiak and Horace Small.



Source: Zacks Investment Research

## Reasons To Buy:

- ▲ **Asia Pacific & Emerging Brands Growth Plan:** V.F. Corp recently announced plans to strengthen foothold in the Asia-Pacific region, particularly China, by undertaking certain business strategies. This move is in sync with its global business strategy, which was announced in 2017. The company is appointing a new president who will look into operations in Mainland China, Hong Kong SAR and Taiwan. Notably, Greater China, which accounts for almost 65% of the company's total business in the Asia Pacific, is likely to grow roughly 80% by fiscal 2024. Additionally, V.F. Corp has recruited new positions for its Emerging Brands platform to provide enhanced leadership. The Emerging Brands platform boasts a strong product portfolio comprising Altra, Eagle Creek, JanSport and Smartwool brands as well as the Kipling and Icebreaker brands. Kevin Bailey will retain his position as the lead of the Asia Pacific region. In addition, he will join as the lead of the Emerging Brands platform in the Americas. This announcement has boosted the stock, which gained 17.5% in the past three months compared with the industry's growth of 16.6%.
- ▲ **Better-Than-Expected Q1 Results:** V.F. Corp reported narrower-than-expected loss per share in the first-quarter fiscal 2021, while the top line beat the Zacks Consensus Estimate. The better-than-expected results were attributed to improvements in international and digital businesses. Further, execution of planned store-reopening during the fiscal first quarter also contributed to the better-than-expected results. The company had reopened majority of its stores through the end of June and witnessed encouraging trends in the core outdoor, active and athletic categories. Its business fundamentals continued to improve throughout the quarter, with nearly 81% constant-currency growth in digital business and earlier than expected recovery in the China business. It had all its stores in the APAC region, including Mainland China, operational in the reported quarter. Moreover, it reopened about 90% of its stores in Europe during the quarter. Stores that remained closed in Europe primarily included those in the U.K. Further, it reopened nearly 75% of its stores in the United States by the end of the fiscal first quarter. Moreover, the company's wholesale customers in APAC, North America and EMEA have re-opened most of their retail stores. Additionally, its supply chain and distribution centers remained operational during the quarter. The company noted that these improving trends continued into July, despite the re-closure of stores in some parts of the United States due to resurgence of COVID-19. Although the company withheld its fiscal 2021 view on the uncertainty surrounding the global markets due to the pandemic, it predicts revenues to decline less than 25% in the fiscal second quarter.
- ▲ **China Business Remains Strong:** In the fiscal first-quarter, V.F. Corp's Greater China revenues remaining flat (up 3% in constant dollars). Revenues for Greater China reflected 5% growth (up 9% in constant dollars) in Mainland China. The company's business in Mainland China is strong and recovering sharply since February. In China, the company had more than 160 partner stores open during the fiscal first quarter, led by Vans and Dickies. Further, it witnessed more than 35% of digital growth in China during the quarter, with low single-digit growth for all apparel and footwear categories. Further, the company added eight million new customers during the quarter in China, through its Tmall channel. Moreover, it is piloting a new growth platform where VF brands will be accessed by millions of new consumers through Alibaba and Tencent. The company expects the Mainland China business to grow mid-teens in the fiscal second quarter and more than 20% for fiscal 2021.
- ▲ **Digital Growth:** V.F. Corp is on track with the digital and hyper-digital business model transformation. Driven by its investments and the increased consumer shift to digital platforms amid the coronavirus pandemic, the company's global digital revenues rose 78% and 81% in constant dollars in first-quarter fiscal 2021. This included about 115% growth in the Americas region and nearly 90% growth across its big four brands. Digital performance in the quarter was aided by the company's buy online, pickup in store (BOPUS) and ship from store capabilities, which have been launched in majority of its stores in the United States. Moreover, the North Face has launched the BOPUS and ship-from-store in EMEA in August. Moreover, BOPUS and ship-from-store for Timberland in the United States and the EMEA is under way. Backed by the strong performance, the company estimates digital revenue growth of more than 40% for fiscal 2021. Including its pure-play digital wholesale partners, digital penetration is anticipated to increase more than 25% of revenues in fiscal 2021.
- ▲ **Financial Flexibility:** V.F. Corp's long-term debt of \$6,714 million (including non-current operating lease liabilities) increased substantially on a sequential basis. Moreover, its debt-to-capitalization ratio of 0.70 stands higher than the industry's ratio of 0.65. However, its cash and cash equivalents at the end of first-quarter fiscal 2021 increased significantly to \$2,145.1 million on a sequential basis. Notably, the company's cash position remains sufficient to fund its short term obligations as of Jun 30, 2020. Moreover, it had \$2.2 billion available under its revolving credit facility. As part of its liquidity preservation actions amid the coronavirus outbreak, the company previously suspended its share repurchase program on a temporary basis. As of Jun 30, 2020, it had \$2.8 billion remaining under its current share repurchase authorization. Additionally, it anticipates generating free cash flow of more than \$600 million in fiscal 2021. Further, it is on track with the divestiture of its Occupational Workwear business, which can be additional source of cash.
- ▲ **2024 Growth Plan & Outlook:** V.F. Corp. is on track with its growth plan for the 2020-2024 period. The 2024 growth strategy primarily focuses on transitioning to a consumer-minded and retail-centric business in a hyper-digital way. The company's efforts will also focus on creating a dynamic and optimum portfolio, directing investments to Asia and uplifting direct channels by prioritizing digital. The strategy targets generating revenue growth of 7-8% at a five-year CAGR, through 2024. This growth will be primarily driven by its largest brands — The Vans, The North Face, Timberland and Dickies. Further, the company expects revenue growth through the period to be driven by strong contributions from the International and Direct-to-Consumer business platforms. It expects earnings per share growth of 12-14% at a five-year CAGR, from fiscal 2019 levels. In fiscal 2024, the company anticipates gross margin to exceed 55.5%, with an operating margin of more than 15%. Further, the company expects to generate cumulative free cash flows of nearly \$8 billion during the five years. Of this, the company plans to return about \$10 billion to shareholders in the form of dividend payouts and share repurchases. It anticipates delivering top quartile total shareholder return (TSR) performance with annual TSR of 14-16%.

V.F. Corp's better-than-expected Q1 results were attributed to improvements in international and digital businesses as well as contributions for its store re-opening plans.

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## Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, V.F. Corp looks pretty overvalued when compared with the S&P 500. The stock has a trailing 12-month P/E ratio of 37.03x, which is above the median level of 24.8x and at par with the high level, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 24.14x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Sluggish Sales Trend:** V.F. Corp has been witnessing declining sales owing to lower demand and store closures due to the coronavirus outbreak and the resulting government restrictions. Notably, first-quarter fiscal 2021 revenues declined 47.5% year over year on a reported and 47% in constant-dollar basis. Notably, the company witnessed revenue declines across all its segments and key brands, during the quarter. Revenues for the Active segment declined 54% (down 53% in constant-currency basis), including a 52% decline (51% decline in constant dollars) for the Vans brand. The Outdoor segment's revenue declined 44% (a 43% decline in constant currency), with a decline of 45% (down 44% in constant currency) for the North Face brand. At the Work segment, revenues fell 19% (18% decline in constant-currency), including a 16% decline (down 15% in constant currency) for the Dickies brand.
- ▼ **Dismal Margins:** V.F. Corp reported adjusted loss of 57 cents per share against adjusted earnings of 22 cents in the year-ago quarter. Results were primarily hurt by soft sales and decline in margins. Adjusted gross margin contracted 220 basis points (bps) year over year to 54.1%, owing to increased promotional activity to clear excess inventory, offset by a positive mix shift toward higher-margin businesses. The company reported adjusted operating loss of \$230 million against adjusted operating income of \$125.8 million in the year-ago quarter.
- ▼ **Competitive Pressure:** V.F. Corp faces intense competition from other well-established players in the apparel industry, on the basis of brand recognition, fashion, price, service, store location and quality. Failure to offer high-quality products at a competitive price may hamper V.F. Corp.'s market share and consequently, dent both top-line and bottom-line growth.
- ▼ **International Exposure Poses Currency Risks:** Owing to V.F. Corp's solid international presence (roughly 47% of revenues in fiscal 2020), the company remains exposed to the unfavorable currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. We note that, currency headwinds can weigh on the company's revenues in the future.

Higher promotional activity to clear excess inventory marred V.F. Corp's gross margin in first-quarter fiscal 2021. This was partly offset by a positive mix shift toward higher-margin businesses.

## Last Earnings Report

### V.F. Corp Posts Narrower-Than-Expected Loss in Q1

V.F. Corporation has reported narrower-than-expected loss per share in the first-quarter fiscal 2021 results, while the top line beat the Zacks Consensus Estimate. However, the company's fiscal first-quarter results reflected significant impacts of the coronavirus pandemic. Consequently, revenues declined on a year-over-year basis.

Notably, the company executed its store-reopening plans during the fiscal first quarter, which slightly aided results. It had all its stores in the APAC region, including Mainland China, operational in the reported quarter. Moreover, it reopened about 90% of its stores in Europe during the quarter. Stores that remained closed in Europe primarily included those in the U.K. Further, it reopened nearly 75% of its stores in the United States by the end of the fiscal first quarter. Moreover, the company's wholesale customers in APAC, North America and EMEA have reopened most of their retail stores. Additionally, its supply chain and distribution centers remained operational during the quarter.

Backed by the uncertainty surrounding the global markets due to the pandemic, it withheld its guidance for fiscal 2021. However, it expects a revenue decline of less than 25% in the fiscal second quarter. Moreover, it anticipates free cash flow of more than \$600 million in fiscal 2021.

### Q1 Highlights

V.F. Corp's reported adjusted loss of 57 cents per share against adjusted earnings of 22 cents in the year-ago quarter. However, the bottom line was narrower than the Zacks Consensus Estimate of a loss of 68 cents.

Net revenues of \$1,076.3 million declined 47.5% year over year but surpassed the Zacks Consensus Estimate of \$960.3 million. Constant-dollar revenues declined 47%. The decline can primarily be attributed to lower demand and store closures due to the coronavirus outbreak and resulting government restrictions.

Moreover, the company reported a 39% decline (down 37% in constant dollars) in International revenues. Revenues in Europe fell 48% (down 47% in constant dollars), with Greater China revenues remaining flat (up 3% in constant dollars). Revenues for Greater China reflected 5% growth (up 9% in constant dollars) in Mainland China.

Revenues at the company's direct-to-consumer business dropped 37% in the fiscal first quarter, while digital revenues rose 78% (up 81% in constant dollars).

Adjusted gross margin contracted 220 basis points (bps) year over year to 54.1%, owing to increased promotional activity to clear excess inventory, offset by a positive mix shift toward higher-margin businesses. The company reported adjusted operating loss of \$230 million against adjusted operating income of \$125.8 million in the year-ago quarter.

### Segmental Details

Revenues at the **Active** segment declined 54% to \$571.3 million (down 53% in constant-currency basis). This included a 52% decline (51% decline in constant dollars) for the Vans brand.

The **Outdoor** segment reported revenues of \$341.2 million, down 44% year over year (a 43% decline in constant currency). This included a decline of 45% (down 44% in constant currency) for the North Face brand.

Revenues at the **Work** segment fell 19% year over year to \$162.4 million (18% decline in constant-currency). This included a 16% decline (down 15% in constant currency) for the Dickies brand.

**Other** revenues were \$1.3 million compared with \$6.3 million reported in the year-ago quarter.

### Financial Details

V.F. Corp ended first-quarter fiscal 2021 with cash and cash equivalents of \$2,145.1 million, long-term debt of \$5,609.8 million, and shareholders' equity of \$2,912.6 million. Additionally, it had \$2.23 billion remaining under its revolving credit facility. Inventories were up 2% at the end of the fiscal first quarter.

In the fiscal first quarter, the company returned \$187 million to shareholders, through dividend payouts. As part of its liquidity preservation actions amid the coronavirus outbreak, the company previously suspended its share repurchase program on a temporary basis. As of Jun 30, 2020, it had \$2.8 billion remaining under its current share repurchase authorization.

Concurrent to the earnings release, the company declared a quarterly dividend of 48 cents per share, payable Sep 21 to shareholders of record as of Sep 10.

Quarter Ending	06/2020
Report Date	Jul 31, 2020
Sales Surprise	12.08%
EPS Surprise	16.18%
Quarterly EPS	-0.57
Annual EPS (TTM)	2.02

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## Recent News

### V.F Corp Outlines Asia Pacific Strategy to Tap Growth – Jun 29, 2020

V.F. Corporation focuses on strengthening foothold in the Asia-Pacific region, particularly China, by undertaking certain business strategies. This move is in sync with its global business strategy, which was announced in 2017. The company is appointing a new president who will look into operations in Mainland China, Hong Kong SAR and Taiwan. Notably, Greater China, which accounts for almost 65% of the company's total business in the Asia Pacific, is likely to grow roughly 80% by fiscal 2024.

Additionally, V.F. Corp has recruited new positions for its Emerging Brands platform to provide enhanced leadership. In this context, Kevin Bailey will retain his position as the lead of the Asia Pacific region. In addition, he will join as the lead of the Emerging Brands platform in the Americas. This platform boasts a strong product portfolio comprising Altra, Eagle Creek, JanSport and Smartwool brands as well as the Kipling and Icebreaker brands.

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## Valuation

V.F. Corp shares are down 25% in the year-to-date period and 14.9% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 11.3% and 1.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are down 1.7% but the sector is up 4.3%.

The S&P 500 index is up 5.6% in the year-to-date period and 13.7% in the past year.

The stock is currently trading at 42.73X forward 12-month earnings, which compares to 28.01X for the Zacks sub-industry, 33.64X for the Zacks sector and 22.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 50.32X and as low as 12.64X, with a 5-year median of 20.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79 price target reflects 45.14X forward 12-month earnings.

The table below shows summary valuation data for VFC

Valuation Multiples - VFC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	42.73	28.01	33.64	22.51
	5-Year High	50.32	28.77	34.64	23.44
	5-Year Low	12.64	13.28	16.13	15.26
	5-Year Median	20.4	18.13	19.86	17.63
P/S F12M	Current	3.04	2.5	2.44	4.16
	5-Year High	3.21	2.51	2.95	4.29
	5-Year Low	1.48	1.45	1.68	3.11
	5-Year Median	2.21	2.09	2.47	3.66
EV/EBITDA TTM	Current	17.93	24.23	11.3	14.73
	5-Year High	38.65	25.94	17.8	15.61
	5-Year Low	9.63	10.68	8.28	9.51
	5-Year Median	16.56	17.95	12.22	13

As of 09/15/2020

Source: Zacks Investment Research

## Industry Analysis Zacks Industry Rank: Bottom 49% (127 out of 251)



Source: Zacks Investment Research

## Top Peers

Company (Ticker)	Rec	Rank
Crocs, Inc. (CROX)	Outperform	1
Guess, Inc. (GES)	Outperform	2
Hanesbrands Inc. (HBI)	Outperform	1
Columbia Sportswear Company (COLM)	Neutral	3
GIII Apparel Group, LTD. (GIII)	Neutral	3
lululemon athletica inc. (LULU)	Neutral	3
PVH Corp. (PVH)	Neutral	3
Ralph Lauren Corporation (RL)	Underperform	4

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

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	VFC	X Industry	S&P 500	GES	PVH	RL
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	F	-	-	A	C	D
Market Cap	29.14 B	837.36 M	23.70 B	880.37 M	5.04 B	5.89 B
# of Analysts	10	4	13.5	4	7	6
Dividend Yield	2.57%	0.00%	1.61%	3.25%	0.00%	0.00%
Value Score	D	-	-	A	B	C
Cash/Price	0.10	0.22	0.07	0.44	0.29	0.49
EV/EBITDA	21.56	6.30	13.22	3.95	8.05	7.84
PEG F1	6.03	4.85	2.98	NA	NA	7.28
P/B	10.01	2.06	3.26	2.06	1.10	2.31
P/CF	17.30	7.00	12.81	4.89	5.00	7.64
P/E F1	68.55	42.53	21.70	NA	NA	72.09
P/S TTM	2.93	0.68	2.45	0.42	0.62	1.13
Earnings Yield	1.47%	1.43%	4.39%	-5.78%	-4.48%	1.39%
Debt/Equity	1.93	0.53	0.70	0.70	0.76	0.64
Cash Flow (\$/share)	4.32	2.44	6.93	2.83	14.19	10.55
Growth Score	F	-	-	B	B	F
Historical EPS Growth (3-5 Years)	0.26%	-3.51%	10.41%	-14.98%	-4.20%	-1.38%
Projected EPS Growth (F1/F0)	-59.10%	-73.21%	-4.75%	-155.17%	-133.32%	-82.95%
Current Cash Flow Growth	-3.63%	6.85%	5.26%	24.83%	-3.91%	-10.72%
Historical Cash Flow Growth (3-5 Years)	-3.37%	3.96%	8.49%	0.67%	3.96%	-4.88%
Current Ratio	3.65	1.84	1.35	1.47	1.52	2.59
Debt/Capital	65.82%	39.96%	42.95%	41.53%	43.27%	38.94%
Net Margin	3.46%	-2.02%	10.25%	-4.06%	-12.40%	2.67%
Return on Equity	21.07%	0.37%	14.66%	-4.08%	3.07%	8.21%
Sales/Assets	0.87	0.89	0.50	0.89	0.61	0.70
Projected Sales Growth (F1/F0)	-21.54%	-6.50%	-1.40%	-28.61%	-30.04%	-27.45%
Momentum Score	B	-	-	A	F	C
Daily Price Change	2.16%	-0.08%	0.14%	7.54%	-0.66%	0.04%
1-Week Price Change	2.65%	0.09%	-1.87%	-8.84%	5.76%	2.85%
4-Week Price Change	20.55%	3.53%	0.12%	15.05%	37.73%	17.69%
12-Week Price Change	19.30%	9.63%	7.05%	34.89%	44.17%	9.75%
52-Week Price Change	-14.93%	-29.57%	1.26%	-23.07%	-19.81%	-18.61%
20-Day Average Volume (Shares)	2,154,043	128,772	1,845,558	1,743,968	1,326,024	1,098,316
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	3.03%	-2.66%	0.00%
EPS F1 Estimate 4-Week Change	0.00%	0.00%	0.00%	38.93%	-9.28%	0.00%
EPS F1 Estimate 12-Week Change	-3.08%	-1.95%	4.10%	38.93%	-5.95%	-60.32%
EPS Q1 Estimate Monthly Change	0.00%	0.00%	0.00%	265.00%	-87.81%	0.00%

Source: Zacks Investment Research



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## 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.

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### Zacks Style Scores

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

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

Value Score	D
Growth Score	F
Momentum Score	B
VGM Score	F

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

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## 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.

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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.

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**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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**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.