# Wolverine World Wide (WWW)

**$28.15** (As of 10/16/20)

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

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** | **Neutral** |
| | (Since: 06/01/20) | |
| | Prior Recommendation: Underperform | |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **2-Buy** |
| | Zacks Style Scores: | VGM:B |
| | Value: B \| Growth: B \| Momentum: D | |

## Summary

Shares of Wolverine have increased in the past six months. The company's strategic efforts with a diversified business model and strength in e-commerce are encouraging. Notably, the e-commerce business excelled during second-quarter 2020 and grew 96% on accretive margins. This aided the company to deliver better-than-expected results in the quarter. Also, the increased mix of e-commerce business and gains from the wholesale business drove gross margin in the second quarter. However, operating margin was weak despite a decline in SG&A expense. Also, the top and bottom lines continued to fall year over year on adverse coronavirus impacts, as majority of its physical stores were shut for most of the quarter. Management expects a challenging second-half 2020 and projects third-quarter revenues to decline less than 25% based on current trends.

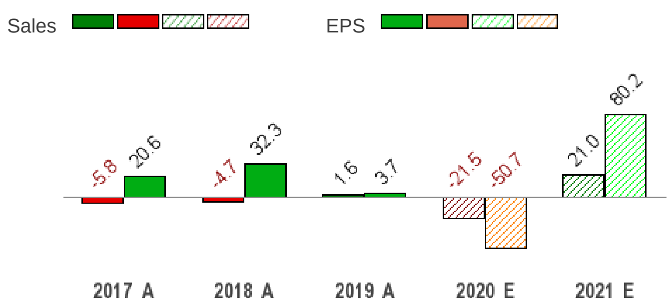
## Price, Consensus & Surprise


*Source: Zacks Investment Research*

## Data Overview

| | |
|---|---|
| 52-Week High-Low | **$34.70 - $12.19** |
| 20-Day Average Volume (Shares) | **596,810** |
| Market Cap | **$2.4 B** |
| Year-To-Date Price Change | **-14.4%** |
| Beta | **1.59** |
| Dividend / Dividend Yield | **$0.40 / 1.4%** |
| Industry | **Shoes and Retail Apparel** |
| Zacks Industry Rank | **Top 9% (23 out of 254)** |
| Last EPS Surprise | **161.5%** |
| Last Sales Surprise | **8.6%** |
| EPS F1 Estimate 4-Week Change | **0.7%** |
| Expected Report Date | **11/05/2020** |
| Earnings ESP | **17.9%** |
| P/E TTM | **17.7** |
| P/E F1 | **25.4** |
| PEG F1 | **2.5** |
| P/S TTM | **1.2** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 499 E | 531 E | 557 E | 583 E | 2,161 E |
| 2020 | 439 A | 349 A | 453 E | 545 E | 1,786 E |
| 2019 | 523 A | 569 A | 574 A | 607 A | 2,274 A |

## EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | $0.38 E | $0.43 E | $0.47 E | $0.55 E | $2.00 E |
| 2020 | $0.28 A | $0.08 A | $0.28 E | $0.47 E | $1.11 E |
| 2019 | $0.49 A | $0.52 A | $0.68 A | $0.59 A | $2.25 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 10/16/2020. The reports text is as of 10/17/2020.

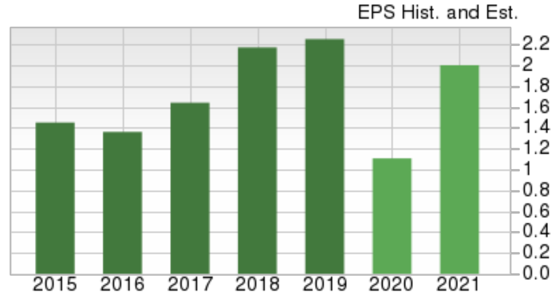
## Overview

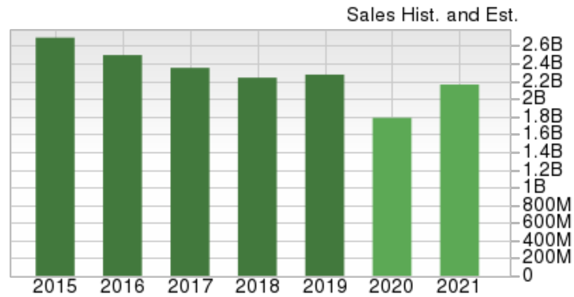
Headquartered in Michigan, Wolverine World Wide, Inc. is engaged in the designing, manufacturing and distribution of a wide variety of casual as well as active apparel and footwear. The company also manufactures children's footwear and specially designed boots and accessories for industrial purposes.

Wolverine is predominantly renowned for a range of footwear styles and designs of shoes, boots, and sandals under recognized brand names such as Bates, Chaco, Cat, Hush Puppies, Harley-Davidson, HyTest, Keds, Merrell, Saucony, Sebago, Soft Style, Sperry, Stride Rite, and Wolverine brand. Non-footwear products of the company mainly include eyewear, watches, gloves, socks, handbags, and plush toys.

We note that the company operates under the Wolverine Michigan Group and Wolverine Boston Group. Wolverine Michigan Group, consists of Merrell footwear and apparel, Wolverine footwear and apparel, Harley-Davidson footwear, Chaco footwear, Cat footwear, Hush Puppies footwear and apparel, Bates uniform footwear and Hytest safety footwear.

Wolverine Boston Group comprises Sperry footwear and apparel, Saucony footwear and apparel, and Keds footwear and apparel. The segment also includes the Kids footwear business, with the Stride Rite licensed business and kids' footwear offerings from brands like Saucony, Keds, Sperry, Merrell, Cat and Hush Puppies.




Wolverine World Wide's owned operations are carried out in the United States, Canada, the United Kingdom and across certain nations in continental Europe and Asia Pacific. As of Jun 27, 2020, the company's brands are sold in roughly 170 countries and territories.

Further, the company relies on a network of third-party distributors, licensees and joint ventures in Latin America, as well as parts of Europe and Asia Pacific, the Middle East and Africa. As of Jun 27, 2020, it operated 92 retail stores in the United States and Canada, and 36 consumer-direct e-commerce sites.


*Source: Zacks Investment Research*

## Reasons To Buy:

> Wolverine is on track with its global-growth agenda initiative that focuses on brand empowerment, e-commerce enhancement and international expansion.

- **Q2 Highlights:** Shares of Wolverine have increased 45.9% in the past six months compared with the industry's 40% rally. The company reported better-than-expected earnings and sales in second-quarter 2020. Nevertheless, the company's e-commerce business excelled in the quarter surging 96% year over year on accretive margins. Also, gross margin expanded 170 basis points (bps) year over year to 42.2%, mainly driven by its full-priced wholesale business and the increased mix of e-commerce business. Majority of its brands delivered impressive gross-margin expansion in the quarter. Further, adjusted selling, general and administrative expenses plunged 22.5% to $129.6 million on reduced sales and immediate action undertaken to adjust to the downturn in the global economy. Furloughs and compensation changes for its management team made up for almost half of these savings. Lower traditional marketing and travel expenses also contributed to the decline. In addition, Wolverine has delivered nearly $116 million of cash flow from operations in the second quarter, which significantly exceeded management's expectations.

- **E-commerce Strength:** Amongst Wolverine's sales channels, e-commerce has been the fastest growing and the key growth driver. The company has been utilizing its digital capabilities to enhance speed of information and product flow. Additionally, it focuses on boosting social presence, digital content and flow of information as well as better management of consumer database. In order to support growth in the digital arena, the company is investing toward strengthening of distribution centers. During the second quarter of 2020, e-commerce was the major revenue and earnings driver across the company's portfolio. The e-commerce business increased 96% in the quarter. Notably, the digital and e-commerce platforms accounted for nearly two-thirds of the overall U.S. sales in the reported quarter. Compelling new products in the hiking, outdoor, trail running and home-casual categories coupled with robust customer engagement fueled online demand.

  Brandwise, merrell.com surged nearly 140% in the reported quarter while tripling new-customer acquisition on a year-over-year basis. Moreover, Wolverine and Cat Footwear brands registered more than 100% online growth. Furthermore, saucony.com revenues almost tripled, primarily buoyed by product innovation and new-customer acquisition. Meanwhile, sperry.com also grew above 30% on gains from new-customer acquisition.

- **Global Growth Agenda on Track:** Wolverine has been progressing well with the Global Growth Agenda, which is aimed at three major elements — continuous introduction of products worldwide with creative designs, expansion of digital engagement to enhance the owned e-commerce business, and stronger investments in regional resources and systems to drive international growth. Additionally, the company has been expanding its store base to pace up growth in its global markets. This includes the joint venture in China. Furthermore, the company expects to leverage the commercial platforms and optimize demand-creation investments in all channels of distribution, particularly DTC channels. For now management is preserving capital, controlling expenses and focus on improving cash flows via reducing inventory receipts, delaying capital projects and undertaking other necessary measures. Management expects operating cash flow in the band of $200-$250 million for 2020.

- **Efforts to Boost Brands & Sourcing:** Wolverine focuses on developing brands that suit consumer needs aptly, on the back of advanced technologies and accurate market insights. Evidently, management aligned the company's brand group structure to accelerate growth. It integrated the Outdoor & Lifestyle Group and the Heritage Group into a newly formed unit — Wolverine Michigan Group. The company focuses on new launches across different brand banners and brings forward a robust pipeline of new products. Products launched under the Saucony and Merrell banners are likely to drive growth. As part of long-term business growth strategies, the company is also striving to develop efficient sourcing structure and diversify global business.

- **Strong International Presence:** Wolverine's international business comprises of widespread network of global partners, who possess strong insights regarding consumers' interests in their respective market regions. The company's global network is spread across various nations and territories, with approximately 15,000 controlled points of distribution. Going ahead, the company plans to add greater strategic resources to strengthen its regional teams, especially in the emerging regions of Asia-Pacific. Additionally, Wolverine has been expanding direct control of its European business by acquiring Saucony's Italian distributor to reinforce its market presence and opportunities for the brand. Notably, the company intends to utilize the Italian business as a global design hub for Saucony's lifestyle product. Across the world, Wolverine's third-party partners are managing inventory, thus coping with different market dynamics. Management projects EMEA to outperform the other regions, partly due to the relative strength in the company's own businesses, followed by Asia Pacific.

## Reasons To Sell:

Wolverine's top and bottom lines continued to fall year over year during the second quarter of 2020 on adverse impacts of COVID-19. Also, operating margin has been soft.

- **Top & Bottom Lines Continue to Fall Y/Y:** Despite better-than-expected results, both earnings and sales continued to decline year over year in the second quarter of 2020. Majority of the company's physical stores were shut for most of the quarter, which weighed on its performance. Wolverine's second-quarter adjusted earnings of 8 cents per share decreased from 52 cents earned in the year-ago quarter. Moreover, revenues of $349.1 million fell 38.6% year over year, while declining 38.3% on a constant-currency basis. Revenue downside can be attributed to soft performance at both segments of the company. Revenues at Wolverine Michigan Group decreased 31.7% on adverse impacts of COVID-19 and related retail-store closures. Further, the metric at Wolverine Boston Group's tumbled 46.9% due to soft performance of Sperry and Keds brands, and sluggish trends in casual-footwear sales.

  Going forward, management expects a challenging second-half 2020 and projects third-quarter revenues to decline less than 25% based on current trends. Although the company has been managing costs, it expects SG&A expenses in the third and fourth quarters to increase from the second quarter on higher business demands and growth investments.

- **Soft Operating Margin:** The company continued to report weak operating margin in the second quarter of 2020. Despite adjusted selling, general and administrative expenses declining year over year, adjusted operating profit tumbled nearly 72% to $17.7 million in the reported quarter. In addition, the adjusted operating margin contracting 600 bps to 5.1%. Adjusted operating margin shriveled 400 bps in the first quarter and 60 bps in the fourth quarter of 2019.

- **Debt Analysis:** During the second quarter of 2020, Wolverine raised $471 million of new debt, and net interest expenses grew $3.8 million owing to the proactive liquidity actions. As of Jun 27, 2020, the company had a long-term debt of $855 million, which indicates growth of 50.4% on a sequential basis. Also, its debt-to-capitalization ratio of 0.59 at the end of the second quarter stands higher than 0.46 at the end of the preceding quarter. Interest expenses have also been increasing year over year for a while. Certainly, any deleverage in the same has a direct bearing on the bottom line. Following an increase of 13% in the first quarter of 2020, net interest expenses came in at $10.5 million in the second quarter, increasing from $6.7 million reported in the year-ago period. Again, the company's times interest earned ratio of 2.7 is quite below when compared with that of the industry's 31.5. Moreover, the company's cash and cash equivalents of $422.6 million as of Jun 27 indicates a decline of 10.6% from the previous quarter.

- **Stiff Competition & Changing Consumer Preferences:** Wolverine faces intense competition in the footwear and apparel industry from other big guns on several attributes such as style, price, quality, comfort and brand name. Some of these peers have significant financial, technological, manufacturing and marketing advantages that may dent its sales. Moreover, the footwear and apparel industry is highly prone to consumers changing preferences of style and designs. Failure of the company to adapt with such changes may lead to loss of market share for its brands.

- **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearings on spending. The company's customers remain sensitive to macroeconomic factors including interest-rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household-debt levels, which may negatively impact their sentiments. This may adversely impact its growth and profitability.

## Last Earnings Report

### Wolverine's Q2 Earnings & Sales Beat, Decline Y/Y

| Quarter Ending | 06/2020 |
|---|---|
| Report Date | Aug 05, 2020 |
| Sales Surprise | 8.62% |
| EPS Surprise | 161.54% |
| Quarterly EPS | 0.08 |
| Annual EPS (TTM) | 1.63 |

Wolverine delivered better-than-expected results in second-quarter 2020. However, both earnings and sales declined on a year-over-year basis. Majority of the company's physical stores were shut for most of the quarter.

Going forward, management expects a challenging second half and projects third-quarter revenues to decline less than 25% based on current trends. Although the company has been managing costs, it expects SG&A expenses in the third and fourth quarters to increase from the second quarter on higher business demands and growth investments.

### Q2 Highlights

Wolverine's second-quarter adjusted earnings of 8 cents per share outpaced the Zacks Consensus Estimate of a loss of 13 cents. However, the metric significantly plunged from 52 cents earned in the year-ago quarter. On a constant-currency (cc) basis, adjusted earnings were 9 cents per share.

Moreover, revenues of $349.1 million came above the Zacks Consensus Estimate of $321 million but fell 38.6% year over year. On a cc basis, revenues declined 38.3%. The year-over-year downside can mainly be attributed to the ill impacts of the pandemic. However, the company's e-commerce business excelled in the quarter, surging 96% year over year on accretive margins. Notably, the digital and e-commerce platforms accounted for nearly two-thirds of the overall U.S. sales in the second quarter.

Gross profit amounted to $147.2 million, down 36.1% year over year. However, gross margin expanded 170 basis points (bps) year over year to 42.2%, mainly driven by its full-priced wholesale business and the increased mix of e-commerce business. Majority of its brands delivered impressive gross-margin expansion in the quarter.

Further, adjusted selling, general and administrative expenses plunged 22.5% to $129.6 million owing to reduced sales and immediate action undertaken to adjust to the downturn in the global economy. Furloughs and compensation changes for its management team made up for almost half of these savings. Lower traditional marketing and travel expenses also contributed to the decline. However, adjusted operating profit tumbled nearly 72% to $17.7 million, with adjusted operating margin contracting 600 bps to 5.1%.

### Segmental Performance

Revenues at **Wolverine Michigan Group** decreased 31.7% (or 31.2% at cc) year over year to $217.4 million, owing to adverse impacts of COVID-19 and related retail-store closures. While Merrell and Cat Footwear were down over 30%, Wolverine, which gained from many essential retail consumers remaining open, declined less than 30%. Also, Chaco declined mid-teens, reflecting a tied digital penetration and its latest Chillos product's success. The smaller brands declined in double digits. However, e-commerce remained sturdy with merrell.com growing roughly 140% in the quarter while almost tripling new-customer acquisition on a year-over-year basis.

**Wolverine Boston Group**'s revenues tumbled 46.9% (or 46.7% at cc) to $122.5 million from the year-ago quarter. The segment's Sperry and Keds brands were hurt by the stay-at-home realities owing to the pandemic and sluggish trends in casual-footwear sales. However, Saucony.com revenues almost tripled, primarily buoyed by product innovation and new-customer acquisition.

### Other Financials

The company ended the quarter with cash and cash equivalents of $422.6 million, long-term debt of $715.9 million and stockholders' equity of $735.9 million. Net inventories in the reported quarter decreased 4.9% to $386.5 million.

Notably, Wolverine has delivered nearly $116 million of cash flow from operations in the second quarter, which significantly exceeded management's expectations. Net cash generated from operating activities was $39 million during the first half of 2020.

Furthermore, net interest expenses grew $3.8 million owing to the proactive liquidity actions, and raised $471 million of new debt in the reported quarter.

## Recent News

**Wolverine Teams Up With First Insight – Aug 17, 2020**

Wolverine has announced a partnership with First Insight, through which the company is expected to leverage data in product decision making process.

**Wolverine World Wide Declares Quarterly Dividend – Jul 29, 2020**

Wolverine World Wide declared a quarterly cash dividend of 10 cents a share. The dividend is payable on Nov 2, 2020, to stockholders of record on Oct 1, 2020.

## Valuation

Wolverine World Wide shares are down 14.4% in the year-to-date period and 0.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 22.1% but the Zacks Consumer Discretionary sector is down 0.5% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 30.5% and 7.8%, respectively.

The S&P 500 index is up 8.7% in the year-to-date period and 20% in the past year.

The stock is currently trading at 15.92X forward 12-month earnings, which compares to 36.59X for the Zacks sub-industry, 32.66X for the Zacks sector and 22.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.84X and as low as 5.37X, with a 5-year median of 14.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $30 price target reflects 16.57X forward 12-month earnings.

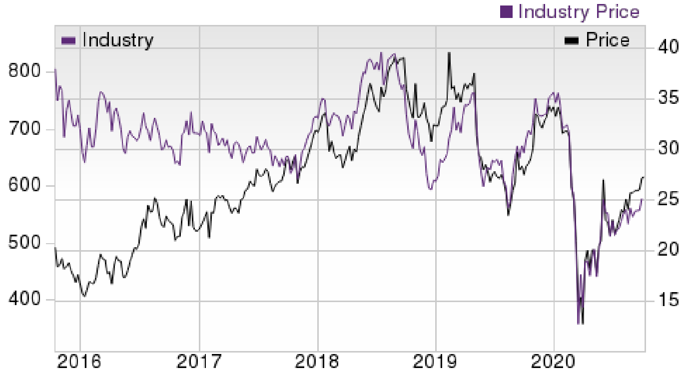
The table below shows summary valuation data for WWW

**Valuation Multiples - WWW**

| | | Stock | Sub-Industry | Sector | S&P 500 |
|---|---|---|---|---|---|
| P/E F12M | Current | 15.92 | 36.59 | 32.66 | 22.81 |
| | 5-Year High | 19.84 | 36.59 | 35.24 | 23.47 |
| | 5-Year Low | 5.37 | 18.63 | 16.13 | 15.27 |
| | 5-Year Median | 14.66 | 23.51 | 19.85 | 17.68 |
| P/S F12M | Current | 1.14 | 3.71 | 2.38 | 4.21 |
| | 5-Year High | 1.61 | 3.71 | 2.95 | 4.31 |
| | 5-Year Low | 0.45 | 2.04 | 1.68 | 3.18 |
| | 5-Year Median | 1.06 | 2.68 | 2.47 | 3.67 |
| EV/EBITDA TTM | Current | 14.45 | 32.93 | 11.32 | 14.63 |
| | 5-Year High | 16.39 | 32.93 | 17.82 | 15.66 |
| | 5-Year Low | 4.11 | 12.75 | 8.27 | 9.53 |
| | 5-Year Median | 11.37 | 16.48 | 12.25 | 13.08 |

As of 10/15/2020 *Source: Zacks Investment Research*

## Industry Analysis **Zacks Industry Rank:** Top 9% (23 out of 254)




*Source: Zacks Investment Research*

## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Caleres, Inc. **(CAL)** | Outperform | 2 |
| Crocs, Inc. **(CROX)** | Outperform | 1 |
| Deckers Outdoor Corporation **(DECK)** | Outperform | 2 |
| NIKE, Inc. **(NKE)** | Outperform | 1 |
| Anta Sports Products Ltd. **(ANPDF)** | Neutral | 2 |
| Carters, Inc. **(CRI)** | Neutral | 3 |
| Rocky Brands, Inc. **(RCKY)** | Neutral | 3 |
| Steven Madden, Ltd. **(SHOO)** | Neutral | 3 |

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

## Industry Comparison Industry: Shoes And Retail Apparel

| | WWW | X Industry | S&P 500 | ANPDF | DECK | SHOO |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **Zacks Recommendation (Long Term)** | Neutral | - | - | Neutral | Outperform | Neutral |
| **Zacks Rank (Short Term)** | 2 | - | - | 2 | 2 | 3 |
| **VGM Score** | B | - | - | D | C | A |
| Market Cap | 2.36 B | 1.58 B | 23.94 B | 30.01 B | 7.34 B | 1.90 B |
| # of Analysts | 8 | 6 | 14 | 2 | 7 | 7 |
| Dividend Yield | 1.39% | 0.00% | 1.59% | 0.00% | 0.00% | 0.00% |
| **Value Score** | B | - | - | D | D | B |
| Cash/Price | 0.19 | 0.20 | 0.07 | 0.10 | 0.09 | 0.20 |
| EV/EBITDA | 12.74 | 7.38 | 13.69 | NA | 17.44 | 7.38 |
| PEG F1 | 2.54 | 2.78 | 2.85 | NA | 1.66 | NA |
| P/B | 3.21 | 1.81 | 3.52 | 9.51 | 6.46 | 2.47 |
| P/CF | 10.12 | 9.48 | 13.34 | 30.43 | 23.28 | 10.09 |
| P/E F1 | 25.36 | 34.20 | 22.31 | 40.38 | 28.01 | 58.87 |
| P/S TTM | 1.20 | 0.94 | 2.66 | NA | 3.43 | 1.34 |
| Earnings Yield | 3.84% | 2.52% | 4.34% | 2.52% | 3.57% | 1.71% |
| Debt/Equity | 0.97 | 0.26 | 0.70 | 0.65 | 0.03 | 0.00 |
| Cash Flow ($/share) | 2.85 | 2.85 | 6.93 | 0.36 | 11.26 | 2.26 |
| **Growth Score** | B | - | - | A | B | A |
| Historical EPS Growth (3-5 Years) | 11.68% | 1.88% | 10.41% | NA | 26.35% | 8.28% |
| Projected EPS Growth (F1/F0) | -50.83% | -42.14% | -2.95% | -5.17% | -2.72% | -80.15% |
| Current Cash Flow Growth | -5.09% | 1.85% | 5.54% | 46.49% | 1.85% | 5.46% |
| Historical Cash Flow Growth (3-5 Years) | 1.05% | 5.48% | 8.51% | 26.65% | 8.34% | 8.40% |
| Current Ratio | 1.65 | 2.59 | 1.35 | 2.63 | 3.27 | 2.67 |
| Debt/Capital | 49.31% | 21.82% | 42.91% | 39.25% | 2.58% | 0.00% |
| Net Margin | 3.00% | 2.84% | 10.28% | NA | 13.44% | 2.56% |
| Return on Equity | 17.74% | 8.77% | 14.79% | NA | 26.64% | 10.70% |
| Sales/Assets | 0.77 | 1.00 | 0.51 | NA | 1.19 | 1.17 |
| Projected Sales Growth (F1/F0) | -21.44% | 0.00% | -0.53% | 9.68% | 1.08% | -35.16% |
| **Momentum Score** | D | - | - | F | C | B |
| Daily Price Change | 3.44% | 1.27% | 0.41% | 0.00% | 2.34% | 8.27% |
| 1-Week Price Change | 0.33% | 2.26% | 4.06% | 7.72% | 5.83% | 3.30% |
| 4-Week Price Change | 11.17% | 1.46% | 2.68% | 11.05% | 22.86% | 10.63% |
| 12-Week Price Change | 23.01% | 5.31% | 5.78% | 18.77% | 26.96% | -0.91% |
| 52-Week Price Change | 0.59% | -14.38% | 3.83% | 17.14% | 65.79% | -36.87% |
| 20-Day Average Volume (Shares) | 596,810 | 135,768 | 2,066,999 | 13,573 | 349,363 | 870,167 |
| EPS F1 Estimate 1-Week Change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| EPS F1 Estimate 4-Week Change | 0.68% | 0.00% | 0.04% | 0.00% | 3.49% | 2.65% |
| EPS F1 Estimate 12-Week Change | -12.20% | 3.75% | 3.55% | 0.00% | 13.85% | -38.27% |
| EPS Q1 Estimate Monthly Change | -2.86% | 0.00% | 0.00% | NA | 5.81% | 2.54% |

*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 | D |
| VGM Score | B |

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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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 mediumterm 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 mostrecent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn’t change frequently, dividend yield usually changes with a stock’s price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

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

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

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

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

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

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

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

**Periods:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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