Cerner Corporation (CERN)

$72.75 (As of 04/24/20)

Price Target (6-12 Months): **$76.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 06/25/19)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C	Growth: B	Momentum: C	

Summary

Cerner continues to witness significant contributions from key areas like Population Health, Revenue Cycle and IT Works. Further, gains in the Licensed software, Professional and Managed Services units instill optimism. International revenues have also improved of late. Cerner is likely to benefit from electronic health record (EHR), electronic patient record (EPR) or electronic medical record (EMR) platforms that provide patient care in acute inpatient and outpatient settings. The stock outperformed the industry in a year's time. Cerner exited the fourth quarter on a strong note. Notably, bookings witnessed a noticeable decline in the quarter under review. Contraction in operating margins remains a concern. Further, competition in the global MedTech space is a woe.
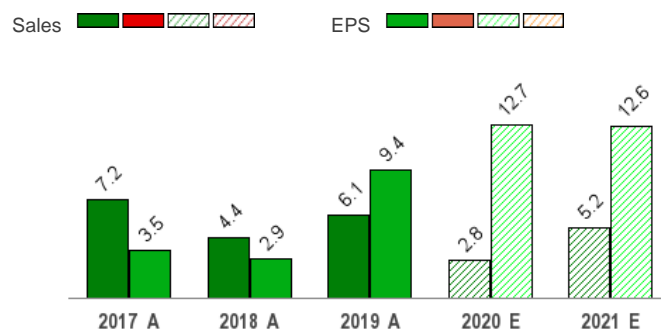
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$80.90 - $53.08**
20 Day Average Volume (sh)	**2,195,710**
Market Cap	**$22.1 B**
YTD Price Change	**-0.9%**
Beta	**0.86**
Dividend / Div Yld	**$0.72 / 1.0%**
Industry	**Medical Info Systems**
Zacks Industry Rank	**Top 21% (52 out of 252)**
Last EPS Surprise	**1.4%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**-5.0%**
Expected Report Date	**04/28/2020**
Earnings ESP	**-4.2%**
P/E TTM	**27.2**
P/E F1	**24.1**
PEG F1	**1.8**
P/S TTM	**3.9**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,502 E	1,546 E	1,560 E	1,600 E	6,152 E
2020	1,432 E	1,449 E	1,472 E	1,505 E	5,850 E
2019	1,390 A	1,431 A	1,429 A	1,442 A	5,693 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.80 E	$0.85 E	$0.89 E	$0.96 E	$3.40 E
2020	$0.68 E	$0.72 E	$0.76 E	$0.85 E	$3.02 E
2019	$0.61 A	$0.66 A	$0.66 A	$0.75 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 04/24/2020. The reports text is as of 04/27/2020.

Overview

Based in North Kansas City, MO, Cerner Corporation (CERN) provides healthcare information technology (HCIT) solutions worldwide. The company offers software and hardware solutions that give healthcare providers secure access to clinical, administrative and financial data in a short time.

As of February 2018, its products were in use at more than 27,000 facilities around the world. The company had more than 28,000 employees globally, with over 13,000 in Kansas City, Missouri. More than 28,000 Cerner associates are currently employed in 26 countries worldwide

Cerner operates in seven major segments:

- Licensed software

- Technology resale

- Subscriptions

- Professional services

- Managed services

- Support and maintenance

- Reimbursed travel

2019 at a Glance

In 2019, adjusted earnings came in at $2.68 per share, up 9.4% year over year. Revenues amounted to $5.69 billion, which increased 6.1% year over year.

The Licensed software segment contributed 11.9% to full-year revenues. Meanwhile, the Technology resale segment had 4.3% contribution in the top line. Contribution from Subscriptions was 6.3%. Professional services contributed 35% to revenues in 2019. Managed services had a contribution of 21.3%. Support and maintenance, and Reimbursed travel contributed 19.4% and 1.7%, respectively, to 2019 revenues.

EPS Hist. and Est.

Sales Hist. and Est.
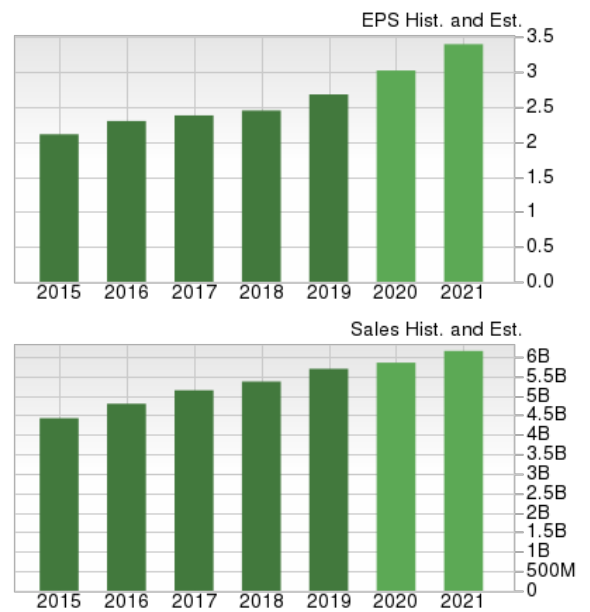
Reasons To Buy:

▲ **Shares Up**: Shares of Cerner gained 10.4% against the industry's fall of 1.5% over the past year. The outperformance reflects a strong outlook for 2020, strength in revenues across all geographies and robust inorganic portfolio. Moreover, Cerner is benefiting from the latest trend of EHR services in the U.S. MedTech space.

▲ **Guidance Strong**: For first-quarter 2020, Cerner expects revenues between $1.42 billion and $1.47 billion. The mid-point of this range indicates growth of 4% from the prior-year quarter.

Adjusted earnings per share are anticipated to range between 69 cents and 71 cents. The mid-point of this range is 15% higher than that of fourth-quarter 2018. For the full year, adjusted earnings per share are expected between $3.09 and $3.19, with the mid-point of this range reflecting 70% growth over 2019.

Bookings revenues for first-quarter 2020 are estimated between $1.10 billion and $1.30 billion. The mid-point of this range indicates a decline of 3% from the prior-year quarter due to an expected decrease in long-term bookings.

▲ **Revenues Strong in all Geographies**: Per management, U.S. revenues grossed $1.28 billion, up 6% from the prior-year quarter.

Non-U.S. revenues increased 3% to $166 million from the year-ago quarter.

▲ **Chart Assist – an AI-enabled Workflow**: Cerner announced it has introduced Chart Assist, a new AI-enabled workflow. The platform is designed to join a suite of solutions designed to reduce physician burnout, enhance the clinician's experience and increase productivity. For investors' notice, doctor burnout has been defined as long-term, unresolvable job stress that leads to exhaustion and feeling overwhelmed, cynical, detached from the job, and lacking a sense of personal accomplishment.

Per management, these advancements will help providers address patient care and validate diagnoses, ultimately helping to reduce the physician workload, while supporting the financial strength of the health system.

▲ **Cerner Focuses on Behavioral Health Technology**: Cerner announced that Remi Vista selected Cerner Integrated — a behavioral-specific electronic health record technology — to improve the mental well-being of the people acrossits facilities in Northern California. Per management, Remi Vista will leverage on Cerner's exclusive solutions of health IT applications and services, optimized for behavioral health. These solutions are formulated for optimal health and wellness through data-driven, preventative, and supportive solutions and services. Apart from Cerner Integrated, Cerner's revenue cycle solutions will help reinforce Remi Vista's financial operations.

Cerner's behavioral health solution continues to display strength. It delivered around 40 new footprints, with 80% of total bookings revenue coming from outside the company's Millennium base. Cerner's unified behavioral health solution is strongly differentiated in the market and was recently declared as the 2019 best-in-class category leader.

Notably, behavioral health is the scientific study of emotions, behaviors and biology related to a person's mental well-being. Per Future Market Insights, the global behavioral health market is projected to reach $156.3 billion worth by 2028, growing at a CAGR of 3.4% from 2018. However, America is one of the most affected countries, in terms of mental illness and behavioral health issues.

▲ **Strategic Deals**: Cerner has strengthened its foothold in the HCIT space through both organic and inorganic means and plans to collaborate with leading companies and academic institutions to provide a wider portfolio of EHR solutions.

In January, Cerner entered into collaboration with CoverMyMeds. Per the deal, Cerner will integrate patient-specific information into the electronic health record ("EHR"). Notably, CoverMyMeds is a wholly-owned subsidiary of McKesson Corporation's prescription technology solutions. Apart from providing detailed price information to the consumers, this latest development will allow healthcare providers to review prescription pricing information at the point of care. Cerner's ePrescribe workflow solution will now partner with CoverMyMeds' RxBenefit Clarity solution to deliver patient pay and benefit information at the point of prescribing. For investors' notice, RxBenefit Clarity solution provides patient-specific benefit information to help inform providers' clinical decisions and communicate with patients.

During the third quarter, the company announced an investment and partnership with i2i Systems. i2i holds 25% market share within the federally qualified health centers segment, which covers nearly a third of all Medicaid patient data and has a strong payer business with 13 managed care clients.

Maintaining its streak of collaborations, Cerner also teamed up for a 10-year agreement with Nebraska-based Lexington Regional Health Center ("LRHC"). Notably, through the alliance, Cerner's coveted Millennium platform will be transforming LRHC's electronic health record. Moreover, the Virginia Department of Behavioral Health and Developmental Services recently picked Cerner Millennium to implement a new EHR at its 13 facilities across Virginia.

During third quarter, Geisinger, one of Cerner's strongest provider brands in healthcare, designated the company's EMR-agnostic HealtheIntent as its preferred health network platform for a 10-year term. Geisinger will also continue to leverage Cerner's Wellbeing application for member engagement within their health plan.

▲ **Big-Data Based Electronic Health Records (EHR) System**: The latest trend of EHR services in the U.S. MedTech space has been gaining prominence. Cerner has been dominating the headlines in this respect, courtesy of its efforts to digitize its EHR systems. Notably, Cerner's HealtheIntent is a big data platform, which provides the company with significant exposure to AI trends in the medical world. HealthIntent can fetch data from any EHR system, pharmacy benefits managers and insurance claims.

According to Transparency Market Research, the global EHR market is expected to see a CAGR of 5.7% from 2017 to 2025, to reach an estimated value of $38.29 billion.

> Cerner has opportunities in the RCM, Population Health and ambulatory markets, thanks to its product strength and enviable track record of adding new clients. Solid growth in the HealtheIntent platform also holds promise.

Lately, Cerner witnessed a glut of developments in its EHR platform. Recently the company announced a 10-year partnership with Lumeris, an award-winning health plan and value-based care managed services operator. Notably, Cerner will be launching an EHR-agnostic offering with Lumeris called Maestro Advantage to help health systems set up and manage Medicare Advantage plans and provide sponsored health plans. Additionally, management confirmed that Lumeris is adopting HealtheIntent as the platform for its clinical methodology and advanced analytics.

Per management, the company will have opportunities to continue expanding presence of EHR-agnostic CareAware and HealtheIntent solutions beyond EHR base.

▲ **Cerner Millennium in Focus**: Cerner Millennium is an HCIT platform designed to support an individual's care across the continuum — from the doctor's office to the hospital and other venues of care. Interestingly, the platform has seen some notable developments in the recent past. Last year, Cerner Millennium was integrated with B. Braun Medical's Infusomat Space Large Volume Pumps at the McLaren Greater Lansing Hospital, Michigan. Other platforms of the company which deserve a mention here are HealtheIntent, Population Health, Revenue Cycle and ITWorks.

It is important to note here that a modernized Millennium platform that utilizes SaaS approach is expected accelerate adoption of advanced features and innovations for clients, and significantly increase user satisfaction. This platform is capable of more digital disruption and enhances the ability to drive collaboration with third parties.

▲ **Leading Player in the HCIT Space**: Cerner is one of the largest pure-play HCIT companies and its wide footprint, large reference-able client base and composite array of solutions make it an ideal candidate for investors seeking an exposure to the HCIT industry. The Health Information Technology for Economic and Clinical Health (HITECH) Act, which has authorized the EHR Incentive program or the Meaningful Use program, presents significant opportunities for EHR vendors like Cerner. In order to qualify for the HITECH incentives and other payment reform opportunities, the EHR buying activity of individual hospitals, health systems and integrated delivery networks has increased.

Furthermore, the company is one of only two vendors (the other being Epic) that are reportedly gaining market share in the medium- to large-hospital space. Cerner's proven execution skills and ability to deliver results to its clients at a predictable cost distinguish it in the marketplace. The company benefits from a large number of opportunities to win over projects from legacy vendors who have been unable to keep their promises. Such rebound customers, who are dissatisfied with their previous vendor, generally tend to gravitate toward larger vendors such as Cerner, as they tend to provide more composite services.

▲ **Strong Acquisitions**: Cerner follows a strategy of acquiring complementary businesses that enable the company to expand its solutions, device offerings and services, and grow its market and client base. Recently, Adventist Health announced the extension of its partnership with Cerner. The companies have a longstanding strategic alignment and shared goal to improve quality of care and patient experience through technology and more coordinated services.

Over the last few years, the acquisitions of Resource Systems, Clairvia, Anasazi Software, PureWellness, Labotix and InterMedHx have not only expanded Cerner's product portfolio but have also helped improve its market share. We believe that Cerner's acquisition of Siemens Health Services has boosted the company's business scale massively. In our opinion, the acquisition has significantly enhanced Cerner's capabilities by expanding its range of solutions and services and non-U.S. footprint and growth opportunities. In fourth-quarter 2019, the company completed the acquisition of AbleVets for about $75 million (in cash consideration). Cerner has started to integrate AbleVets' service offerings into its portfolio to accelerate growth in the federal space. Per management, the buyout is expected to contribute about $90 million to revenues in 2020. On the basis of expertise and the importance of Cerner's federal business, AbleVets seems like a suitable fit.

Per management, on the basis of adjustment for exit from the Adventist Health contract by taking that revenue out of 2019, Cerner's 2020 growth would be over 5%. Adjusting the company's AbleVets revenue would bring pure organic growth back to 4%.

Strategic acquisitions have helped the company rapidly penetrate the HCIT market and we believe Cerner will continue to pursue strategic acquisitions.

▲ **Stable Liquidity Position**: Effective capital deployment has been one of the key contributors to EPS growth. Cerner exited 2019 with cash and cash equivalents of $441.8 million compared with $374.1 million at the end of 2018. Full-year, net cash provided by operating activities was $1.31 billion compared with $1.45 billion a year ago. With respect to debt, the company's total debt came up to $1.04 billion in 2019, which increased from that of the year-end 2018. Nonetheless, in 2019, the total debt-to-capital ratio came in at 19.4%, lower than its industry average of 27.2%.

Cerner has been rewarding its shareholders through share repurchases. The company repurchased $1.3 billion shares in 2019 and is on track to meet its target level of $1.5 billion by the end of first quarter of 2020. In December, the company was authorized to buyback an additional $1.5 billion of shares, which brought the total amount for buyback up to $1.7 billion.

Reasons To Sell:

▼ **Q4 Softness**: The fourth quarter witnessed softness in one of its segments —Support and Maintenance. Dull performance by this segment has impeded Cerner's growth to a certain extent.

Support and maintenance revenues were $273.9 million, which declined 1% year over year.

> Intense competition in the HCIT market puts considerable pressure on the company's pricing and margins.

▼ **Margins Fail to Impress**: Cerner has been witnessing sluggishness in gross and operating margins in the last couple of quarters. For the coming quarters, the company anticipates a few headwinds that might drive down the operating margins in 2019. These headwinds include increases in non-cash software amortization and depreciation, traditional software revenue growth challenges due to the maturing EHR market and a shift to more SaaS models and a tough comparable created by strong software growth in 2018.

In the fourth quarter, gross margin was 80.8%, down 180 bps on a year-over-year basis thanks to higher third-party services largely related to its federal business and a lower margin mix within technology resale.

Nonetheless, the company delivered adjusted operating margin of 20.3% in the fourth quarter, which was above the company's previously discussed 20% adjusted operating margin target in the same time period. Further, per management, ongoing business optimization efforts will continue to support the targeted fourth-quarter 2020 adjusted operating margin of 22.5%. For the full-year 2020 adjusted operating margin is expected to be around 21%, which is approximately 250 basis points higher than 2019 and represents the cumulative impact of all the optimization work that the company has done and expect to do this year.

▼ **Regulatory Headwinds**: Cerner's industry is highly regulated by the government. With rapid evolution of product standards and requirements, any change in government regulation may have an adverse impact on Cerner's products. Moreover, as the government EHR program winds down, it is expected to create a significant headwind for Cerner.

▼ **Cutthroat Competition**: The market for HCIT solutions, devices and services is intensely competitive, rapidly evolving and subject to rapid technological change. Competition is fierce with well reputed names such as Allscripts Healthcare Solutions, Epic Systems, GE Healthcare Technologies, McKesson Corp, Quality Systems and others. The intensity of competition may pressure both pricing and margins. Stringent hospital budgets place further pressure on pricing.

Last Earnings Report

Cerner Earnings and Revenues Beat Estimates in Q4

Cerner Corporation reported fourth-quarter 2019 adjusted earnings of 75 cents per share, which beat the Zacks Consensus Estimate of 74 cents by 1.4%. The bottom line also improved from the prior-year quarter figure by 19%.

The company reported revenues of $1.44 billion, which improved 5.6% year over year and outpaced the Zacks Consensus Estimate by 0.6%.

Quarter Ending	12/2019
Report Date	Feb 04, 2020
Sales Surprise	0.56%
EPS Surprise	1.35%
Quarterly EPS	0.75
Annual EPS (TTM)	2.68

Revenues by Geography

Per management, U.S. revenues grossed $1.28 billion, up 6% from the prior-year quarter.

Non-U.S. revenues increased 3% to $166 million from the year-ago quarter.

Bookings

In the reported quarter, the company's bookings totaled $1.67 billion, down 15.1% from the year-ago quarter.

Segmental Performance

Licensed software revenues improved 4.8% to $174.5 million, driven by strong growth in SaaS offerings.

Technology resale revenues were $60.4 million, up 31.2% on a year-over-year basis.

Revenues from Subscriptions grossed $92.8 million, up 6.6% year over year.

Professional services' revenues totaled $509.3 million, up 9.3% from the prior-year quarter number, on the back of solid growth in implementation services.

Revenues at the Managed services unit amounted to $309.4 million, up 3.5% from the prior-year quarter.

Support and maintenance revenues were $273.9 million, down 1% year over year.

Reimbursed travel revenues amounted to $21.9 million, reflecting a year-over-year decrease of 8.9%.

Margins

In the quarter under review, gross profit summed $1.16 billion, up 3.2% year over year. Gross margin was 80.8%, down 180 bps on a year-over-year basis.

General and administrative expenses increased 23.6% to $122.3 million. Further, software development expenses rose 3.7% to $188.2 million.

Adjusted operating margin expanded 160 bps to 20.3% during the reported quarter.

2020 Guidance

For the first quarter of 2020, Cerner expects revenues between $1.42 billion and $1.47 billion. The Zacks Consensus Estimate for revenues stands at $1.43 billion, within management's guided range.

For the first-quarter 2020 adjusted earnings per share is projected between 69 cents and 71 cents.

New business bookings for first-quarter 2020 are estimated between $1.10 billion and $1.30 billion.

For the full-year 2020, the company anticipates revenues in the range of $5.72-$5.98 billion.

For the full year, adjusted earnings per share are expected between $3.09 and $3.19. The Zacks Consensus Estimate stands at $3.14, lies within the company's guided range.

Cerner Earnings and Revenues Beat Estimates in Q4

Valuation

Cerner's shares are down 0.9% in the year-to-date period and up 10.4% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.2% while the Zacks Medical Market is down 3.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 1.5% while sector is up 1.4%.

The S&P 500 index is down 12% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 23.2X Forward 12-months earnings, which compares to 61.2X for the Zacks sub-industry, 21.8X for the Zacks sector and 19.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.3X and as low as 19.8X, with a 5-year median of 25.6X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our $76 price target reflects 24.2X forward 12-months earnings.

The table below shows summary valuation data for CERN.

Valuation Multiples - CERN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.15	61.18	21.77	19.83
	5-Year High	35.26	61.18	21.77	19.83
	5-Year Low	19.81	24.52	15.81	15.19
	5-Year Median	25.56	32.18	18.81	17.45
P/S F12M	Current	3.8	3.09	2.78	4.79
	5-Year High	4.96	3.14	3.84	4.79
	5-Year Low	2.78	1.61	2.25	2.54
	5-Year Median	3.79	2.31	2.96	3.01
P/B TTM	Current	5.13	2.84	3.74	3.75
	5-Year High	6.78	4.27	5.05	4.55
	5-Year Low	3.18	2.13	2.91	2.84
	5-Year Median	4.8	3.05	4.29	3.64

As of 04/24/2020

Industry Analysis Zacks Industry Rank: Top 21% (52 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Agilysys, Inc. (AGYS)	Neutral	3
Computer Programs and Systems, Inc. (CPSI)	Neutral	3
Castlight Health, inc. (CSLT)	Neutral	3
Cognizant Technology Solutions Corporation (CTSH)	Neutral	3
McKesson Corporation (MCK)	Neutral	3
Allscripts Healthcare Solutions, Inc. (MDRX)	Neutral	3
NEXTGEN HEALTHCARE, INC (NXGN)	Neutral	3
Vocera Communications, Inc. (VCRA)	Neutral	2

Industry Comparison Industry: Medical Info Systems / Industry Peers

	CERN	X Industry	S&P 500	CPSI	MCK	MDRX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	B	B
Market Cap	22.13 B	245.51 M	19.57 B	331.48 M	24.76 B	1.01 B
# of Analysts	15	5	14	8	8	14
Dividend Yield	0.99%	0.00%	2.2%	1.73%	1.17%	0.00%
Value Score	C	-	-	B	A	B
Cash/Price	0.03	0.07	0.05	0.02	0.08	0.13
EV/EBITDA	16.86	-0.38	11.66	9.96	8.00	16.47
PEG Ratio	1.79	1.95	2.27	1.74	1.51	1.19
Price/Book (P/B)	5.26	2.77	2.60	1.80	3.88	0.79
Price/Cash Flow (P/CF)	15.50	16.25	10.50	9.98	4.71	3.03
P/E (F1)	24.09	20.16	18.25	9.58	9.11	9.00
Price/Sales (P/S)	3.89	3.29	2.02	1.21	0.11	0.57
Earnings Yield	4.15%	-1.47%	5.35%	10.44%	10.98%	11.09%
Debt/Equity	0.24	0.09	0.72	0.57	1.33	0.50
Cash Flow ($/share)	4.69	-0.03	7.01	2.31	29.73	2.06
Growth Score	B	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	5.82%	14.79%	10.92%	-5.90%	4.15%	17.51%
Proj. EPS Growth (F1/F0)	12.76%	-5.26%	-5.06%	-4.74%	4.09%	3.20%
Curr. Cash Flow Growth	6.07%	9.95%	5.92%	-14.81%	-1.89%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	11.81%	10.83%	8.55%	-1.64%	16.28%	10.24%
Current Ratio	2.04	1.50	1.23	1.59	0.98	0.69
Debt/Capital	19.39%	15.47%	43.90%	36.44%	60.82%	33.46%
Net Margin	9.30%	-25.69%	11.32%	7.45%	-0.41%	-10.28%
Return on Equity	16.66%	-17.63%	16.60%	11.90%	36.40%	5.71%
Sales/Assets	0.81	0.57	0.55	0.81	3.73	0.55
Proj. Sales Growth (F1/F0)	2.76%	3.33%	-0.78%	-0.77%	3.07%	-0.10%
Momentum Score	C	-	-	D	B	C
Daily Price Chg	2.25%	0.00%	1.38%	0.39%	2.47%	0.00%
1 Week Price Chg	2.38%	1.51%	0.42%	0.09%	6.22%	-10.19%
4 Week Price Chg	19.18%	10.82%	5.63%	5.53%	6.29%	-7.72%
12 Week Price Chg	-0.04%	-14.52%	-20.44%	-11.46%	-4.93%	-30.43%
52 Week Price Chg	12.62%	-23.31%	-13.44%	-23.31%	21.47%	-35.28%
20 Day Average Volume	2,195,710	360,225	2,802,273	108,797	2,298,613	2,043,594
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	0.00%	-0.11%	-0.56%
(F1) EPS Est 4 week change	-4.96%	-1.63%	-6.64%	-26.48%	-2.88%	-3.98%
(F1) EPS Est 12 week change	-4.83%	-15.33%	-11.78%	-13.10%	-1.33%	-9.43%
(Q1) EPS Est Mthly Chg	-8.71%	-10.12%	-10.38%	-71.77%	-13.54%	-12.50%

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 have an excellent 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.

Value Score	C
Growth Score	B
Momentum Score	C
VGM Score	B

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.

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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