

Citizens Financial Grp (CFG)

\$27.96 (As of 10/09/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 10/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: A

Summary

Shares of Citizens Financial have outperformed the industry in the past three months. Also, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate in three of the trailing four quarters and lagging in one. Earnings estimates have been going up lately ahead of its third-quarter results. The company's revenue and efficiency initiatives, the latest being TOP 6 Program, is anticipated to deliver pre-tax benefit of \$300-\$325 million by 2021. Rising loan and deposit balance is likely to bolster the bottom line in the coming quarters. Yet, rising costs due to investments in new technology, and pending probes and litigations remain key concerns. Also, margin remains under pressure due to low rates. Nevertheless, the company's strong capital position and steady capital deployment activities are tailwinds.

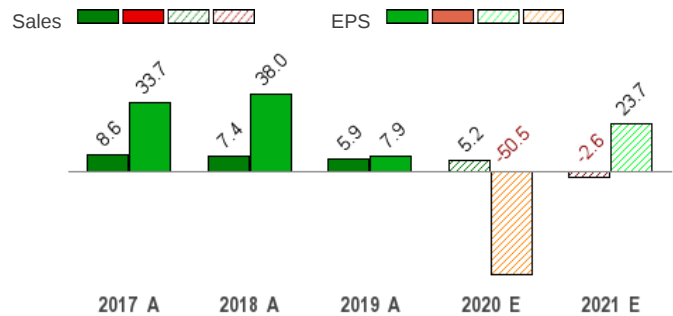
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$41.29 - \$14.12
20-Day Average Volume (Shares)	5,576,576
Market Cap	\$11.9 B
Year-To-Date Price Change	-31.2%
Beta	1.81
Dividend / Dividend Yield	\$1.56 / 5.6%
Industry	Financial - Savings and Loan
Zacks Industry Rank	Top 40% (100 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	488.9%
Last Sales Surprise	4.1%
EPS F1 Estimate 4-Week Change	8.5%
Expected Report Date	10/16/2020
Earnings ESP	0.0%
P/E TTM	10.8
P/E F1	14.7
PEG F1	1.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,657 E	1,697 E	1,706 E	1,705 E	6,648 E
2020	1,657 A	1,750 A	1,731 E	1,683 E	6,828 E
2019	1,588 A	1,628 A	1,638 A	1,637 A	6,491 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.66 E	\$0.62 E	\$0.60 E	\$2.35 E
2020	\$0.09 A	\$0.53 A	\$0.69 E	\$0.65 E	\$1.90 E
2019	\$0.93 A	\$0.96 A	\$0.98 A	\$0.99 A	\$3.84 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 10/09/2020. The reports text is as of 10/12/2020.

Overview

Headquartered in Providence, RI, Citizens Financial Group, Inc. was founded in 1828 and currently is one of the largest retail bank holding companies in the United States, with total assets of \$179.9 billion, as of Jun 30, 2020. Citizens Financial was acquired by the RBS Group in 1988 and was known as RBS Citizens Financial Group. However, Citizens Financial became a publicly-traded company through its September 2014 initial public offering (IPO).

Citizens Financial offers retail and commercial banking products and services to individuals, institutions and companies. It operates approximately 1,000 branches and around 2,700 ATMs in 11 states across the New England, Mid-Atlantic and Midwest regions and through its online, telephone as well as mobile banking platforms.

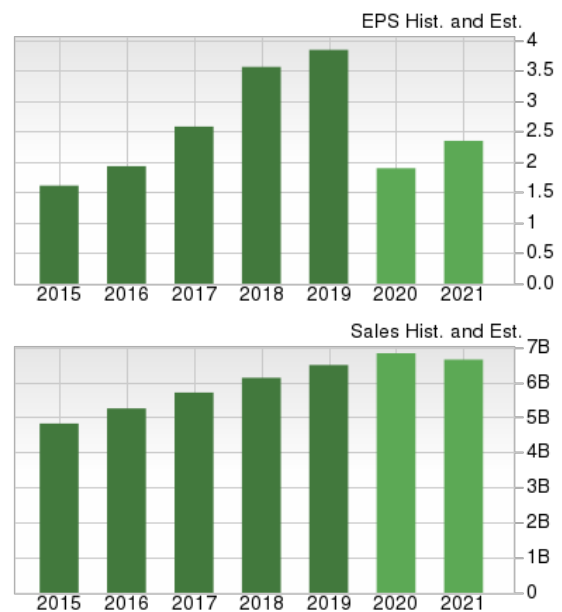
Reportable segments:

Consumer Banking (67% of total revenues in 2019) is focused on retail customers and small businesses with annual revenues of up to \$25 million. It provides traditional banking products and services, including deposit products, mortgage lending, credit cards, auto financing as well as wealth management and investment services.

Commercial Banking (32%) is mainly focused on companies with annual revenues from \$25 million to \$2.5 billion. The segment is engaged in offering financial products and solutions, including loans, leases, trade financing, deposits and capital markets advisory services. It covers middle-market companies, large corporations and institutions and has industry expertise in areas including government banking, healthcare, technology, oil & gas, commercial real estate and sponsor finance.

Other (1%) constitutes non-segment operations that include corporate functions, wholesale funding activities, non-core assets, and other unallocated assets, liabilities, revenues, provision for credit losses and expenses.

In March 2020, Citizens Financial closed the acquisition of Trinity Capital. In March 2019, it completed the buyout of Atlanta-based Bowstring Advisors in an all-cash deal. In January, the company acquired Clarfeld Financial Advisors, LLC. Further, in August 2018, the company strengthened its mortgage servicing portfolio by acquiring Franklin American Mortgage Company. In 2017, it acquired Western Reserve Partners LLC, a merger and acquisition advisory firm.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ Citizens Financial's organic growth is on track. The company's loans and deposits recorded a CAGR of 4.7% and 5.1%, respectively, over the last five years (2015–2019). Further, the company has been benefiting from its increasing non-interest-bearing deposits that provide a low-cost funding base. Both the metrics continued to improve in the first six months of 2020. We believe the company is well positioned to grow further backed by expected improvement in U.S. economy.
- ▲ Citizens Financial's focus on executing a series of revenue and efficiency initiatives led to the introduction of "Tapping Our Potential" (TOP) program in late 2014. The first three TOP programs helped to achieve \$200 million cost savings target and delivered \$215 million income benefit. Following this, the company launched a fresh set of initiatives in mid-2017 to ramp up its profitability — Top 4 program — which delivered pre-tax benefit of \$115 million in 2018. Also, the TOP 5 program was successful and delivered a pre-tax benefit of \$125 million by 2019-end. Notably, continuing its journey to drive efficiency improvement and fund additional growth and innovation investments, Citizens Financial introduced TOP 6 Program, which is expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021.
- ▲ Citizens Financial remains focused on maintaining a strong capital base. As of Jun 30, 2020, the company's Basel III capital ratios on a transitional basis exceeded regulatory requirements, with a CET1 capital ratio and a total capital ratio of 9.6% and 13.1%, respectively. Also, it remains committed to enhancing shareholders' value. This January, the company increased its common stock dividend by 8%. Further, it had a repurchase program of up to \$1.28 billion of common stock through second-quarter 2020 that was suspended mid-March, following the coronavirus crisis. Notably, following the results of 2020 stress test, the company maintained the dividend level as before till the third quarter of 2021 and keep share repurchases suspended through the end of 2020. Nevertheless, it targets medium-term dividend payout ratio of 35-40%. Also, its debt/equity ratio compares favorably with the broader industry and steadily improving performance indicates that these steady capital-deployment activities are sustainable.
- ▲ Shares of Citizens Financial have outperformed the industry over the past six months. Moreover, the company's current-year earnings estimates have shown a favorable trend. The estimates have been revised 13.1% upward over the past 30 days. Also, the stock seems undervalued compared with the broader industry. Its current price-to-book and price-to-cash flow ratios are below the respective industry averages. Also, it has a Value Score of B. Therefore, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential in the near term.

Citizens Financial benefits from growing loans and deposits. Also, its focus on revenue and efficiency initiatives is a tailwind. Further, a strong capital position enables growth through acquisitions.

Risks

- Cost escalation is the key downside for Citizens Financial. The company's non-interest expenses witnessed a CAGR of 4.2% over the last five years (2015-2019), with the increasing trend continuing in the first half of 2020. Costs are likely to remain elevated due to the company's investments in newer technologies and building fee income capabilities organically. These investments might leverage the company in the long term, but increasing current expense level is limiting bottom-line expansion.
 - While Citizens Financial had been witnessing an increase in net interest margin (NIM) for several years, the trend has reversed of late. The company's NIM declined in 2019 and first two quarters of 2020 mainly due to lower interest rates. Despite decent loan demand, NIM is expected to be hurt in the near term due to the Federal Reserve's accommodative policy stance.
 - As of Jun 30, 2020, the company held debt worth \$9.46 billion, which has declined in comparison to the past few quarters. However, cash and cash equivalents of \$1.09 as of the same date has been declining. Also, Citizens Financial's debt-to-capital ratio of 0.29 has remained volatile. Further, the company's time-interest-earned ratio has fallen in the past few quarters and is currently at 5.2X. Since the ratio indicates its ability to meet debt obligations based on current income, we believe that Citizens Financial carries higher likelihood of default of interest and debt repayments if the economic situation worsens.
 - The loan portfolio of Citizens Financial comprises majorly of residential mortgages, home equity and commercial real estate loans (nearly 52% as of Jun 30, 2020). Such high exposure can be risky for the company if the housing sector weakens.
 - Citizens Financial is burdened with numerous investigations and legal proceedings, including class actions. Significant matters include LIBOR litigation, foreclosure-related expenses and mortgage repurchase demands. The company addressed certain litigations in the last few years, but many are yet to be resolved. As Citizens Financial continues to work through its legal issues, we believe the company remains exposed to potential high legal expenses, which might dampen its bottom line.
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Last Earnings Report

Citizens Financial Q2 Earnings Beat Estimates on Higher Revenues

Citizens Financial has reported second-quarter 2020 earnings per share of 53 cents, which surpassed the Zacks Consensus Estimate of 9 cents. The bottom line, however, compares unfavorably with 96 cents in the year-ago quarter.

Increase in fee income on the back of a solid rise in mortgage banking and capital market fees supported revenue growth. Further, deposit balances showed improvement. Also, capital position remained strong.

However, credit quality deteriorated amid the coronavirus outbreak-led crisis. Also, elevated expenses and contraction of margin were other headwinds.

The company reported net income of \$253 million compared with \$453 million in the prior-year quarter.

Fee Income Growth Aids Revenues, Costs Increase

Total revenues for the second quarter were \$1.75 billion, surpassing the consensus estimate of \$1.68 billion. Additionally, the top line moved up 7% year over year.

Citizens' net interest income declined nearly 1% year over year to \$1.16 billion. Also, net interest margin contracted 33 basis points (bps) to 2.87%. This was, however, partly mitigated by higher interest-earning asset yields and lower funding costs.

Non-interest income climbed 28% year over year to \$590 million. The upside stemmed largely from a rise in mortgage banking and capital market fees.

Non-interest expenses jumped 3% year over year to \$979 million. The upswing highlights the rise in almost all categories of expenses. On an adjusted basis, expenses rose 2%.

Efficiency ratio increased to 56% in the first quarter from 58% in the prior-year quarter. Generally, a lower ratio is indicative of the bank's increased efficiency.

As of Jun 30, 2020, period-end total loan and lease balances declined 1% sequentially to \$125.7 billion. However, total deposits increased 8% to \$143.6 billion.

Credit Quality Worsens

Provision for credit losses was \$464 million compared with \$97 million in the year-ago quarter. Also, net charge-offs for the quarter jumped 39% to \$147 million.

Non-accrual loans and leases were up 36% to \$990 million. As of Jun 30, 2020, allowance for loan and lease losses increased 91% to \$2.53 billion.

Capital Position

Citizens remained well-capitalized in the second quarter. As of Jun 30, 2020, common equity tier-1 capital ratio was 9.6% compared with 10.5% at the end of the prior-year quarter. Further, Tier-1 leverage ratio was 9.3%, down 80 bps year over year. Total Capital ratio was 13.1%, down from 13.4%.

Citizens recorded an improvement in book value per share, which increased to \$32.13 as of Jun 30, 2020, from \$30.88 at the end of the year-earlier quarter.

Capital Deployment Update

The company made no share repurchases during the quarter. Notably, including common stock dividends, it returned \$168 million to shareholders.

Outlook

Third-Quarter 2020 Outlook (excluding notable items and including the impacts of acquisitions)

Net interest income is expected to rise modestly sequentially due to expectations of loan growth, partially offset by a decline in margins. Excluding PPP loans, loan growth is projected to be down modestly due to the full quarter impact of a decline in commercial loan in line with utilization in the second quarter.

Average loans are anticipated to be down in the low-single digits, given the pay down in commercial line draws during the second quarter. Excluding the impact of line draws, PPP and loan sales, management expects loan growth to be broadly stable.

NIM is expected to be broadly stable with the benefit of lower deposit costs being offset by ongoing rate headwinds, after excluding the impact of PPP loans.

Fee income is expected to be down in the mid- to high-single-digit range, reflecting lower mortgage banking fees from record levels, partially

Quarter Ending	06/2020
Report Date	Jul 17, 2020
Sales Surprise	4.05%
EPS Surprise	488.89%
Quarterly EPS	0.53
Annual EPS (TTM)	2.59

offset by recovery in other fee categories.

Non-interest expenses are expected to be up in the low-single-digit range, reflecting higher origination-related cost levels in the mortgage business.

Management expects a smaller reserve build, though provision expenses are expected to depend on the depth of recession and pace of recovery.

2020 Outlook

Management expects NII to remain stable, as loan growth is offset by a meaningful decrease in NIM due to lower rates.

The company expects to see strong loan growth, driven by higher commercial loans demand, the impact of government programs like PPP, and with increased demand in education and merchant financing. Also, it anticipates strong increase in commercial and retail deposits, reflecting heightened liquidity, given the Fed's actions and the low rate environment.

Non-interest income is expected to be meaningfully driven by the exceptionally strong results in mortgage, which more than offset the weakness in other fee categories related to COVID-19. Further, the company anticipates several key fee categories to benefit from a return to more normal activity levels in the second half, which will likely help cushion a moderation in mortgage revenues.

Non-interest expenses are expected to be up modestly, particularly given higher compensation tied to stronger mortgage production and impacts of COVID-19, which includes government lending programs and customer relief efforts.

Provision expenses have the greatest potential for variability in 2020, and will depend on the depth of the recession and the pace of recovery.

Regulatory capital ratios are expected to strengthen from current levels, as net income coupled with the suspension of buybacks through year-end more than offset the impacts of higher risk-weighted assets. Even in more severe economic scenarios, the company expects capital ratios to remain strong and above required minimums.

Medium-Term Targets

Having achieved the medium-term targets set in 2018, the company raised them to following:

- Return on common tangible equity of 14-16%
- Efficiency ratio of 54%
- Common equity tier 1 ratio of 9.75-10%
- Dividend payout ratio of 35-40%

Efficiency Initiatives

In late 2014, Citizens Financial had announced its first efficiency program — TOP 1 — which resulted in \$200 million costs savings. During the second quarter of 2015, the company announced Top 2 revenue and expense initiatives, which resulted in a pre-tax benefit of roughly \$105 million in 2016. Following its success, Citizens Financial launched Top 3 program, which delivered a pre-tax benefit in excess of \$115 million. Further, the company launched the Top 4 program, which delivered pre-tax benefit of \$115 million by the end of 2018.

Finally, continuing with the trend, Citizens Financial announced TOP 5 program with fresh objectives targeting strong positive operating leverage with goal to self-finance growth initiatives and delivered pre-tax benefit of \$125 million in 2019.

Further, it announced TOP 6 Program also, which is expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021. Along with the traditional TOP objectives, the new program will also take into account ways to transform company's operating manner and customers' satisfaction in a better way. The cost of Top program implementation is expected to be between \$50 million and \$75 million in 2020-2021.

TOP 6 Program

The Program will consist of two elements:

- *The transformational program*, which is designed to improve how it delivers for customers and how the bank is operated. The company also seeks to redefine cross-organizational operating model to deliver a more customer-centric, efficient and agile environment by modernizing IT practices. Through this, the company targets pre-tax run-rate benefits of \$100-\$125 million and \$200-\$225 million by 2020 and 2021, respectively.
- *The traditional program* will be similar in nature and scope to TOP 2-5 programs and is anticipated to deliver \$75-\$100 million and \$175-\$225 million in benefits by 2020 and the rest in 2021.

The company mulls that the program will help offset interest-rate headwinds, maintain commitment to delivering positive operating leverage, improve efficiency ratio and ROTCE. Also, it plans to fund new strategic revenue initiatives such as significant expansion of digital strategies to increase customer reach and developing new digital offerings for commercial customers.

Recent News

Citizens to Maintain Current Dividend Level Through 3Q21 - Jun 29, 2020

As part of its 2020 capital plan, Citizens Financial Group, Inc. (CFG) expects to maintain its current dividend level through the third quarter of 2021. Also, the company has suspended all share repurchases for 2020.

The decision follows the Federal Reserve's move to restrict payouts of large banks post stress test results. Fed has asked banks to maintain sufficient liquidity by suspending share repurchases for the third quarter. Also, it capped dividend payments in a way that the firms can either pay a dividend equal to the amount paid out in the second quarter or an amount equal to the average of the bank's net income for the four preceding quarters.

Further, the Fed has determined Citizens' stress capital buffer ("SCB") to be 3.4%, beginning October 2020. The stress capital buffer is the excess capital that the company must hold above its minimum capital requirements.

"We are pleased that the Federal Reserve's 2020 CCAR results illustrate Citizens' strong capital position and the continued improvements we've made to our balance sheet and business model," said Bruce Van Saun, chairman and chief executive officer. "We continue to demonstrate our resiliency, with a strong capital base that we are putting to use in support of our clients and communities."

Notably, Citizens is mulling to follow a reconsideration process set to take place in July and August for SCB percentage calculated by the Fed. Per the company, the regulator's pre-provision net revenue ("PPNR") model uses data from earlier periods when Citizens was under foreign ownership. The company's ratio of PPNR to average assets in the first quarter of 2020 was 3.5, and it expects the ratio to remain strong in the second quarter as well.

Also, the company's modeled credit loss rate of 4.2% under the 2020 Supervisory Severely Adverse scenario is significantly lower than the Federal Reserve's estimate of 5.6%. In Citizens' opinion, the Federal Reserve's credit loss modeling methodology results in higher credit loss rate estimates as it does not take into account certain loan characteristics and counterparty loss-sharing obligations.

Dividend Update

On Jul 17, Citizens Financial announced a quarterly cash dividend of 39 cents per share. The dividend was paid on Aug 12 to shareholders of record as of Jul 29.

Valuation

Citizens Financial's shares are down 31.2% in the year-to-date period and 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 30.8% and 14.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 25.6% and 7.6%, respectively.

The S&P 500 Index is up 8% and 17.4% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 12.44X forward 12 months earnings, which compares to 10.55X for the Zacks sub-industry, 16.38X for the Zacks sector and 22.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.94X and as low as 4X, with a 5-year median of 11.6X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$32 price target reflects 14.31X forward earnings.

The table below shows summary valuation data for CFG

Valuation Multiples - CFG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.44	10.55	16.38	22.61
	5-Year High	18.94	18.28	16.74	23.47
	5-Year Low	4	9.2	11.6	15.27
	5-Year Median	11.6	13.6	14.41	17.68
P/B TTM	Current	0.58	0.71	2.58	6.04
	5-Year High	1.18	2.53	2.9	6.2
	5-Year Low	0.32	0.56	1.72	3.75
	5-Year Median	0.8	0.98	2.54	4.89
P/S F12M	Current	1.79	2.02	6.14	4.16
	5-Year High	3.91	3.46	6.66	4.31
	5-Year Low	1	2.02	4.96	3.18
	5-Year Median	2.56	2.88	6.06	3.67

As of 10/09/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 40% (100 out of 253)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation (BOKF)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
East West Bancorp, Inc. (EWBC)	Neutral	3
Fifth Third Bancorp (FITB)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
Peoples United Financial, Inc. (PBCT)	Neutral	3
Webster Financial Corporation (WBS)	Neutral	3

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

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	CFG	X Industry	S&P 500	CMA	FITB	MTB
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	F	B	F
Market Cap	11.93 B	105.20 M	23.82 B	5.89 B	16.65 B	13.00 B
# of Analysts	7	2	14	12	9	7
Dividend Yield	5.58%	2.82%	1.59%	6.42%	4.62%	4.34%
Value Score	B	-	-	D	B	D
Cash/Price	0.71	0.66	0.07	2.46	2.05	1.96
EV/EBITDA	4.59	6.41	13.54	-0.36	0.65	-0.95
PEG F1	1.83	1.22	2.94	12.08	1.71	4.00
P/B	0.58	0.81	3.51	0.79	0.81	0.88
P/CF	4.98	8.64	13.47	4.68	6.43	6.00
P/E F1	14.72	11.78	22.09	20.77	14.13	11.24
P/S TTM	1.50	1.97	2.67	1.68	1.81	1.96
Earnings Yield	6.80%	8.49%	4.31%	4.82%	7.06%	8.90%
Debt/Equity	0.45	0.57	0.70	0.88	0.79	0.43
Cash Flow (\$/share)	5.62	1.99	6.92	9.04	3.64	16.90
Growth Score	F	-	-	F	D	F
Historical EPS Growth (3-5 Years)	21.20%	12.52%	10.45%	25.58%	10.96%	16.43%
Projected EPS Growth (F1/F0)	-50.63%	-18.67%	-3.01%	-74.10%	-40.27%	-34.43%
Current Cash Flow Growth	11.11%	4.35%	5.47%	-4.61%	17.50%	5.45%
Historical Cash Flow Growth (3-5 Years)	14.84%	14.84%	8.50%	12.59%	6.10%	11.65%
Current Ratio	0.95	1.00	1.35	1.02	0.90	1.07
Debt/Capital	29.10%	36.08%	42.90%	45.53%	42.23%	28.39%
Net Margin	14.58%	18.66%	10.28%	17.42%	16.55%	22.36%
Return on Equity	5.85%	7.31%	14.79%	8.22%	7.37%	10.22%
Sales/Assets	0.05	0.04	0.51	0.05	0.05	0.05
Projected Sales Growth (F1/F0)	5.20%	0.00%	-0.62%	-14.27%	-9.30%	-5.10%
Momentum Score	A	-	-	A	A	D
Daily Price Change	-2.10%	0.00%	0.24%	-1.76%	-1.39%	-0.40%
1-Week Price Change	7.29%	3.16%	2.13%	5.44%	6.94%	2.44%
4-Week Price Change	4.64%	3.29%	4.78%	8.01%	13.33%	2.34%
12-Week Price Change	9.86%	1.22%	7.34%	15.18%	22.02%	-1.12%
52-Week Price Change	-17.20%	-18.81%	6.73%	-33.70%	-10.70%	-34.58%
20-Day Average Volume (Shares)	5,576,576	3,796	2,121,744	1,521,834	6,489,796	1,075,176
EPS F1 Estimate 1-Week Change	0.17%	0.00%	0.00%	3.94%	5.64%	2.62%
EPS F1 Estimate 4-Week Change	8.49%	0.00%	0.00%	10.09%	14.47%	1.74%
EPS F1 Estimate 12-Week Change	42.88%	6.00%	3.47%	74.59%	18.08%	6.74%
EPS Q1 Estimate Monthly Change	14.50%	0.00%	0.00%	14.08%	7.69%	-2.78%

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	F
Momentum Score	A
VGM Score	D

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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Additional Disclosure

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

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

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

Glossary of Terms and Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Periods:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

P/TB Ratio: The price-to-tangible-book value ratio is calculated as 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.