Aug 21, 2020

Citizens Financial Grp (CFG)

$24.30 (As of 08/20/20)

Price Target (6-12 Months): **$26.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/07/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: A | Growth: F | Momentum: B	

Summary

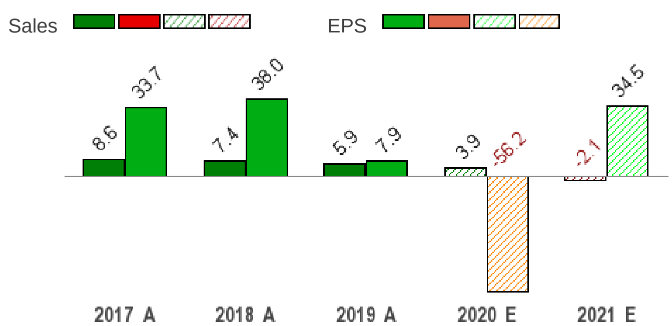
Shares of Citizens Financial have outperformed the industry in the past three months. Also, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate in three of the trailing four quarters and lagging in one. Second-quarter 2020 results reflect fee income strength, partly muted by higher provisions and costs. 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. Further, the lack of diversification in loans is a major headwind. Also, margin remains under pressure due to the Fed's accommodative policy.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$41.29 - $14.12**
20 Day Average Volume (sh)	**3,919,661**
Market Cap	**$10.4 B**
YTD Price Change	**-40.2%**
Beta	**1.82**
Dividend / Div Yld	**$1.56 / 6.4%**
Industry	**Financial - Savings and Loan**
Zacks Industry Rank	**Bottom 32% (171 out of 252)**
Last EPS Surprise	**488.9%**
Last Sales Surprise	**4.1%**
EPS F1 Est- 4 week change	**3.2%**
Expected Report Date	**10/16/2020**
Earnings ESP	**0.3%**
P/E TTM	**9.4**
P/E F1	**14.5**
PEG F1	**1.8**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,661 E	1,701 E	1,713 E	1,722 E	6,601 E
2020	1,657 A	1,750 A	1,704 E	1,671 E	6,742 E
2019	1,588 A	1,628 A	1,638 A	1,637 A	6,491 A

EPS Estimates

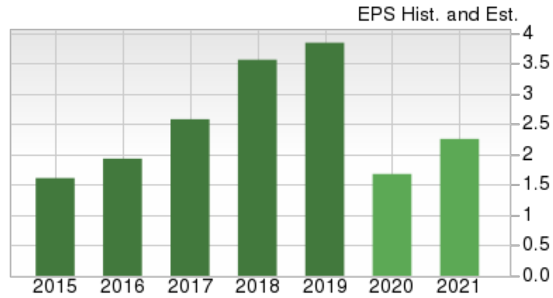
	Q1	Q2	Q3	Q4	Annual*
2021	$0.62 E	$0.61 E	$0.61 E	$0.61 E	$2.26 E
2020	$0.09 A	$0.53 A	$0.59 E	$0.51 E	$1.68 E
2019	$0.93 A	$0.96 A	$0.98 A	$0.99 A	$3.84 A

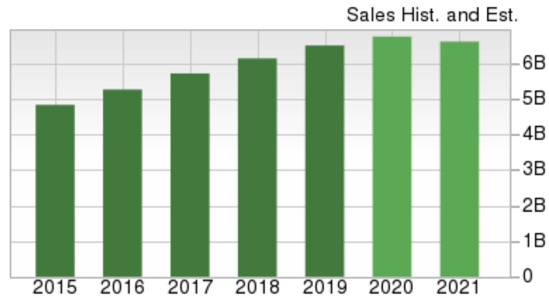
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/20/2020. The reports text is as of 08/21/2020.

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.

Reasons To Buy:

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.

- 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 three months. Moreover, the company's current-year earnings estimates have shown a favorable trend. The estimates have been revised significantly upward over the past 60 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 A. Therefore, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential in the near term.

Reasons To Sell:

Rise in costs due to investment in technology, pressure on margins and exposure to credit risk are key concerns. Also, lack of diversification in loan portfolio is a major headwind for the company.

- 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. 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.

Last Earnings Report

Citizens Financial Q2 Earnings Beat Estimates on Higher Revenues

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

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 offset by recovery in other fee categories.

Non-interest expensesare 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 40.2% in the year-to-date period and 25.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 34.7% and 16.9% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 26.7% and 8%, respectively.

The S&P 500 Index is up 5.1% in the year-to-date period and 16.1% in the past year.

The stock is currently trading at 11.61X forward 12 months earnings, which compares to 11.66X for the Zacks sub-industry, 16.5X for the Zacks sector and 22.77X 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 11.77X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $26 price target reflects 12.19X 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	11.61	11.66	16.5	22.77
	5-Year High	18.94	18.28	16.5	22.77
	5-Year Low	4	9.2	11.6	15.25
	5-Year Median	11.77	14.12	14.26	17.58
P/B TTM	Current	0.51	0.65	2.46	4.53
	5-Year High	1.18	2.53	2.91	4.56
	5-Year Low	0.32	0.56	1.72	2.83
	5-Year Median	0.8	0.98	2.53	3.75
P/S F12M	Current	1.56	2.13	6.22	3.7
	5-Year High	3.91	3.46	6.67	3.7
	5-Year Low	1	2.11	4.97	2.53
	5-Year Median	2.56	2.88	6.06	3.05

As of 08/20/2020

Industry Analysis **Zacks Industry Rank:** Bottom 32% (171 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
BOK Financial Corporation **(BOKF)**	Neutral	3
Comerica Incorporated **(CMA)**	Neutral	3
East West Bancorp, Inc. **(EWBC)**	Neutral	3
Huntington Bancshares Incorporated **(HBAN)**	Neutral	3
MT Bank Corporation **(MTB)**	Neutral	3
Webster Financial Corporation **(WBS)**	Neutral	3
Fifth Third Bancorp **(FITB)**	Underperform	4
Peoples United Financial, Inc. **(PBCT)**	Underperform	5

Industry Comparison Industry: Financial - Savings And Loan

Industry Peers

	CFG	X Industry	S&P 500	CMA	FITB	MTB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	F	B	D
Market Cap	10.37 B	90.94 M	23.46 B	5.40 B	14.09 B	13.04 B
# of Analysts	5	2	14	11	10	7
Dividend Yield	6.42%	2.98%	1.65%	7.00%	5.46%	4.33%
Value Score	A	-	-	D	B	C
Cash/Price	0.72	0.57	0.07	2.32	2.14	1.68
EV/EBITDA	4.12	6.38	13.34	-0.62	0.05	-0.94
PEG Ratio	1.80	1.21	3.00	12.34	1.79	4.04
Price/Book (P/B)	0.51	0.79	3.12	0.73	0.68	0.89
Price/Cash Flow (P/CF)	4.33	8.14	12.60	4.30	5.44	6.02
P/E (F1)	14.45	11.79	21.61	21.23	14.77	11.35
Price/Sales (P/S)	1.31	1.95	2.44	1.54	1.53	1.97
Earnings Yield	6.91%	8.49%	4.43%	4.71%	6.77%	8.81%
Debt/Equity	0.45	0.57	0.76	0.88	0.79	0.43
Cash Flow ($/share)	5.62	1.99	6.93	9.04	3.64	16.90
Growth Score	F	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	21.20%	12.52%	10.44%	25.58%	10.96%	16.43%
Proj. EPS Growth (F1/F0)	-56.30%	-18.67%	-5.53%	-76.76%	-51.66%	-34.83%
Curr. Cash Flow Growth	11.11%	6.02%	5.20%	-4.61%	17.50%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	14.84%	14.12%	8.52%	12.59%	6.10%	11.65%
Current Ratio	0.95	1.00	1.33	1.02	0.90	1.07
Debt/Capital	29.10%	36.08%	44.50%	45.53%	42.23%	28.39%
Net Margin	14.58%	18.56%	10.13%	17.42%	16.55%	22.36%
Return on Equity	5.85%	7.43%	14.67%	8.22%	7.37%	10.22%
Sales/Assets	0.05	0.04	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	3.86%	0.00%	-1.54%	-14.41%	-9.37%	-4.89%
Momentum Score	B	-	-	A	C	A
Daily Price Chg	-2.02%	0.00%	-0.59%	-2.14%	-1.88%	-2.64%
1 Week Price Chg	1.85%	0.35%	1.09%	4.50%	2.49%	1.49%
4 Week Price Chg	-6.72%	0.00%	1.91%	3.91%	1.93%	-3.17%
12 Week Price Chg	-1.46%	-1.46%	6.82%	3.33%	-1.74%	-6.78%
52 Week Price Chg	-25.85%	-22.68%	1.47%	-36.92%	-23.27%	-31.45%
20 Day Average Volume	3,919,661	2,677	1,873,576	1,692,525	5,096,913	713,481
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-3.95%	0.00%
(F1) EPS Est 4 week change	3.17%	5.94%	1.79%	10.14%	-0.07%	5.01%
(F1) EPS Est 12 week change	104.31%	2.68%	3.35%	59.10%	1.66%	14.02%
(Q1) EPS Est Mthly Chg	2.94%	2.65%	0.42%	-4.56%	6.24%	1.42%

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.

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	A
Growth Score	F
Momentum Score	B
VGM Score	C

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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