

## D.R. Horton, Inc. (DHI)

**\$53.77** (As of 01/10/20)

Price Target (6-12 Months): **\$56.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

## Summary

D.R. Horton's shares have outperformed its industry in the past year. The outperformance is expected to continue in the near term as well, courtesy of its industry-leading market share, solid acquisition strategy and affordable product offerings across multiple brands. It ended fiscal 2019 with 56,975 home closings (up 10% y/y), marking its 18th consecutive year as the largest homebuilder in the United States. Given an impressive sales backlog, and a well-stocked supply of land, lots and homes, it is well positioned for fiscal 2020 and beyond. Earnings estimates for fiscal 2020 have moved north over the past 60 days, depicting stock's growth potential. It expects to deliver an improved performance, given improving housing market fundamentals, declining mortgage rates and a solid job market. Yet, higher land and labor costs are concerns.

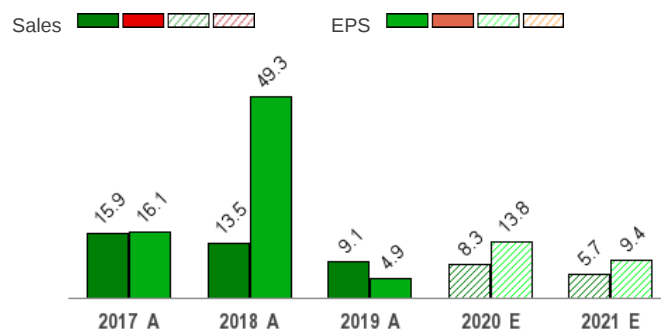
## Price, Consensus & Surprise



## Data Overview

|                            |                                                   |
|----------------------------|---------------------------------------------------|
| 52 Week High-Low           | \$56.12 - \$34.96                                 |
| 20 Day Average Volume (sh) | 3,232,996                                         |
| Market Cap                 | \$19.8 B                                          |
| YTD Price Change           | 1.9%                                              |
| Beta                       | 0.97                                              |
| Dividend / Div Yld         | \$0.70 / 1.3%                                     |
| Industry                   | <a href="#">Building Products - Home Builders</a> |
| Zacks Industry Rank        | Top 41% (104 out of 254)                          |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 8.0%       |
| Last Sales Surprise       | 2.7%       |
| EPS F1 Est- 4 week change | 0.2%       |
| Expected Report Date      | 01/27/2020 |
| Earnings ESP              | 0.0%       |
| P/E TTM                   | 12.5       |
| P/E F1                    | 11.0       |
| PEG F1                    | 1.0        |
| P/S TTM                   | 1.1        |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 4,038 E | 4,526 E | 5,691 E | 5,785 E | 19,986 E |
| 2020 | 3,797 E | 4,274 E | 5,412 E | 5,442 E | 18,916 E |
| 2019 | 3,503 A | 4,097 A | 4,882 A | 4,977 A | 17,459 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.99 E | \$1.16 E | \$1.61 E | \$1.63 E | \$5.34 E |
| 2020 | \$0.92 E | \$1.06 E | \$1.47 E | \$1.47 E | \$4.88 E |
| 2019 | \$0.76 A | \$0.93 A | \$1.26 A | \$1.35 A | \$4.29 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 01/10/2020. The reports text is as of 01/13/2020.

## Overview

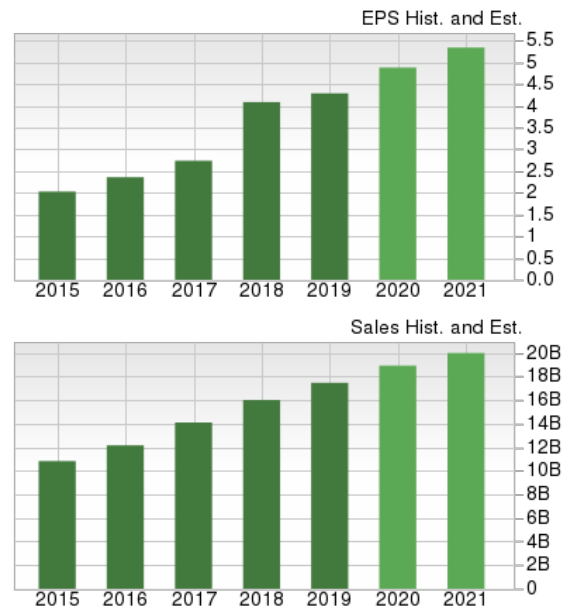
D.R. Horton, Inc., based in Texas, is one of the leading national homebuilders, primarily engaged in the construction and sale of single-family houses both in the entry-level and move-up markets. Homes vary in sizes from 1,000 to 4,000 square feet, with prices ranging from \$100,000 to more than \$1,000,000.

D.R. Horton operates through three segments: **Homebuilding** (contributing 96.7% of the total revenues in fiscal 2019), **Forestar** (2.4%) and **Financial Services** (2.5%). Notably, of the total revenues, 1.8% represents the elimination of intercompany transactions. The **Homebuilding** segment comprises six reporting regions and derives revenues primarily from the sale of completed homes built on lots it develops and on finished lots purchased ready for home construction. In addition to single-family detached homes (accounting for around 90% of home sale revenues), the segment builds attached homes, such as town homes, duplexes, triplexes and condominiums. The segment also derives revenues by selling lands and lots. The **Forestar** land development reporting segment has operations in 51 markets and 20 states as of Sep 30, 2019, where it owns, directly or through joint ventures, interests in residential and mixed-use projects.

The **Financial Services** segment, through the mortgage subsidiary, DHI Mortgage, provides mortgage financing and title agency services primarily to the company's homebuilding customers.

D.R. Horton's operations are spread over 90 markets across 29 states in the East, Midwest, Southeast, South Central, Southwest and West regions of the U.S. D.R. Horton's houses are sold under the brand names D.R. Horton - America's Builder, Emerald Homes, Express Homes and Freedom Homes.

During fiscal 2018, the company acquired 75% shares of Forestar Group, a residential and mixed-use real estate development company. Forestar Group Inc. (FOR), a publicly-traded residential and real estate development company, is a majority-owned subsidiary of D.R. Horton.



## Reasons To Buy:

▲ **Strong Results and Stock Outperformance:** Shares of D.R. Horton have outperformed its industry in the past year. The price performance was backed by the company's robust earnings surprise history, having surpassed the Zacks Consensus Estimate in six of the trailing eight quarters. The company's revenues also surpassed the consensus mark in seven of the trailing eight quarters. The trend is expected to continue in the near term as well post its solid fiscal 2019 results. It ended fiscal 2019 on a strong note. Earnings per share increased 10.6% and revenues grew 10.7% from a year ago. Notably, with 56,975 homes closed in fiscal 2019, D.R. Horton completed its 18th consecutive year as the largest homebuilder in the United States. In fiscal 2019, homes closed increased 10% year over year to 56,975 units and 9% in value to \$16.9 billion. Additionally, homebuilding cash flow from operations was \$1.4 billion.

With accretive acquisitions, robust backlog and a well-stocked inventory of land, lots and homes in place, D.R. Horton is expected to perform well in fiscal 2020.

Meanwhile, the U.S. housing market started building up strength since the beginning of 2019, after a torrid second-half 2018. Declining mortgage rates and moderate home prices have been adding strength to D.R. Horton and other homebuilders. The overall homebuilding industry remains positive owing to ongoing traffic trends that indicate higher inclination of buyers, thereby reflecting a slow but steady housing recovery. Notably, declining interest/mortgage rates, lower construction costs, low unemployment and increasing wages are somewhat offsetting the other ongoing headwinds. Moreover, as more and more millennials are leaving their parents' home, a sharp spike in household formation is likely to translate into higher demand for new homes.

▲ **Accretive Acquisitions & Increased Capital Investments in Land:** D.R. Horton is fast acquiring homebuilding companies in desirable markets. Over the past five years (through fiscal 2019), the company has invested approximately \$1 billion on acquisitions.

During first-quarter fiscal 2019, the company purchased homebuilding operations of three private builders for approximately \$325.9 million. In December 2018, the company entered Iowa by acquiring Classic Builders, the largest builder in Des Moines. It enhanced its market position in Raleigh, NC by acquiring Terramor Homes. In November 2018, it acquired Westport Homes, a top five builder by volume in Indianapolis and Columbus, which are both in the top 50 U.S. housing markets.

The company's strong cash position and low debt/capital ratio allowed it to make strategic land purchases even during the downturn, in turn giving it a significant competitive advantage. The company has selectively invested in attractively-priced land and lots in the past few years allowing it to bring new attractive communities in desirable markets. D.R. Horton's well-stocked supply of land, plots and homes provide it with a strong competitive position to meet the demand in future quarters, thereby growing sales and home closings.

The company invested \$3.7 billion in lots, land and development in fiscal 2019, almost on par with the year-ago level of \$3.8 billion. It has plans to boost investments to replenish its land and lot supply in 2020 for supporting revenue growth.

▲ **Affordable Homes Drive D.R. Horton's Profits:** Higher building material costs, as well as land and labor shortages are prompting homebuilders to increase home prices. That said, D.R. Horton's strategic shift toward more entry-level affordable homes have been paying off, with the segment experiencing strong demand and limited supply. Notably, first-time homebuyers represented 50% of its closings in fourth-quarter fiscal 2019, up from 49% in the corresponding quarter of last year.

▲ **Cost Reduction and Margin Improvement:** Management has consistently made an effort to reduce both construction and selling, general and administrative (SG&A) expenses. It controls construction costs by designing homes efficiently and also by obtaining construction materials and labor at competitive prices.

Further, its SG&A expenses are continuously going down due to cost control and better fixed cost leverage. In fiscal 2018, SG&A expenses improved 30 basis points (bps) year over year to 8.6%. The metric decreased 40 bps and 20 bps in fiscal 2017 and fiscal 2016, respectively. Notably, the company did not achieve SG&A leverage in fiscal 2019 after it reduced revenue growth expectation for the fiscal first quarter, and worked on aligning its inventory levels and operations with revised expectations throughout the fiscal year. Nonetheless, it remains focused on controlling SG&A and expects to improve the same in 2020.

The company strategically manages the pricing, incentives and sales pace across its markets in a manner that will optimize the returns on inventory investments. It believes a consistent sales pace through inventory turnover is the best way to maximize profits and returns.

The company's homebuilding return on inventory (ROI) improved over the past three years from 15.4% in fiscal 2016 to 16.6% and 20.2% in fiscal 2017 and fiscal 2018, respectively. In fiscal 2019, ROI was 18.1%. With 307,300 lots (40% were owned and 60% controlled through option contracts) in inventory at the end of fiscal 2019, D.R. Horton is well poised for fiscal 2020.

▲ **Active Management of Cash Flows:** D.R. Horton has been actively managing cash flows, returning much of its free cash to investors through share repurchases and dividends. During fiscal 2019, the company returned more than \$1.4 billion to its shareholders through share repurchases and dividends, after reducing homebuilding debt by \$1.3 billion. In fiscal 2019, the company paid cash dividends of \$223.4 million and repurchased 11.9 million shares of common stock for \$479.8 million. Its remaining stock repurchase authorization (as of Sep 30, 2019) was \$895.7 million, with no expiration date. Management boosted its quarterly cash dividend by 17% to 17.50 cents per share in November 2019. It expects to pay dividends of approximately \$250 million in fiscal 2020.

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## Reasons To Sell:

▼ **Margin Pressure:** Rising land and labor costs are threatening margins as they limit homebuilders' pricing power. Labor shortages are leading to higher wages while land prices are inflating due to limited availability. Meanwhile, key cost pressures coming from finished lots, skilled labor, and rising materials costs may affect margins in all key regions. This is denting homebuilders' margins. Although the company's gross margin improved 70 bps sequentially in the fiscal fourth quarter owing to lower sales incentives, the metric was down 60 bps on a year-over-year basis. In the first, second and third quarters of fiscal 2019 as well, the metric declined 80 bps, 150 bps and 160 bps year over year, respectively.

Rising land/labor and material costs, competitive pricing pressure, and stretched valuation are major causes of concern

▼ **Rising Material Costs:** Rising prices of construction materials have been putting up hurdles for homebuilders. Builders are increasingly concerned that tariffs placed on Canadian lumber and other imported products are already hurting housing affordability. On top of it, the U.S. Government's recent move of imposing tariff has added to the woes.

▼ **Federal Government Actions:** The housing industry is cyclical and affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and housing market.

Although strong economy along with labor market strength provide the basis for strong demand, its influence on the homebuilding industry is undeniable and uncertain. Indeed, any rise in interest and mortgage rates as well as land and labor shortages raise concerns, as do rising material prices. High mortgage rates dilute the demand for new homes as mortgage loans become expensive. This lower purchasing power of the buyers hurts volumes, revenues and profits of homebuilders.

▼ **Overvalued Compared to Peers:** The company's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 12.51, which is higher than the industry's 11.13. This implies that the stock is overvalued compared with its peers.

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## Last Earnings Report

### D.R. Horton's Q4 Earnings & Revenues Beat Estimates

D.R. Horton, Inc. reported better-than-expected results in fourth-quarter fiscal 2019, thanks to its industry-leading market share, broad geographic footprint and affordable product offerings across multiple brands. Earnings came in at \$1.35 per share in the quarter, surpassing the Zacks Consensus Estimate of \$1.25 by 8%. The reported figure also increased 11% from the year-ago profit of \$1.22 per share.

Quarter Ending **09/2019**

| Report Date      | Nov 12, 2019 |
|------------------|--------------|
| Sales Surprise   | 2.73%        |
| EPS Surprise     | 8.00%        |
| Quarterly EPS    | 1.35         |
| Annual EPS (TTM) | 4.30         |

### Revenue Discussion

Total revenues (Homebuilding, Forestar and Financial Services) came in at \$5.04 billion, up 11.7% year over year. The reported figure also topped the consensus mark of \$4.84 billion.

### Home Closings and Orders

**Homebuilding** revenues of \$4.84 billion increased 10.2% from the prior-year quarter. Home sales also increased 9.6% year over year to \$4.79 billion, aided by higher home deliveries. Also, land/lot sales and other revenues were \$42.8 million, increasing from \$12.7 million a year ago.

Home closings increased 9% from the prior-year quarter to 16,024 and 10% in value to \$4.8 billion. It recorded growth across regions comprising East, Midwest, Southeast, West and South Central, except Southwest. The company's average closing price for the quarter was \$299,500, remaining flat with the year-ago level.

Net sales orders increased 14% year over year to 13,130 homes, with improvement in East, Midwest, Southeast, South Central and West (barring Southwest). Value of net orders also improved 16% year over year to \$4 billion. The cancellation rate was 23%, lower than 26% in the prior-year quarter.

Revenues from the **Financial Services** segment increased 32.3% from the year-ago level to \$135.2 million. **Forestar** contributed \$236.3 million to its quarterly revenues, reflecting an improvement from \$32.2 million a year ago.

### Margins

Gross margin on home sales revenue in the quarter was 21%, up 70 basis points (bps) sequentially, primarily attributable to lower sales incentives. However, the metric was down 60 bps from 21.6% a year ago.

In the quarter, SG&A expense (as a percentage of homebuilding revenues) was 8.5%, up 10 bps from the prior year quarter. The increase was primarily due to compensation accruals related to increases in its stock price. The company's consolidated pre-tax margin contracted 40 bps to 13.1% in the quarter from 13.5% a year ago.

### Fiscal 2019 Highlights

Earnings came in at \$4.29 per share for the fiscal year, increasing 13% year over year. Total revenues also grew 9.4% from a year ago to \$17.59 billion. Notably, with 56,975 homes closed in fiscal 2019, D.R. Horton completed its 18th consecutive year as the largest homebuilder in the United States. In fiscal 2019, homes closed increased 10% year over year to 56,975 units and 9% in value to \$16.9 billion.

### Balance Sheet

D.R. Horton's cash, cash equivalents and restricted cash totaled \$1,494.3 million as of Sep 30, 2019 compared with \$1,473.1 million in the corresponding period of 2018.

### Fiscal Q1 Guidance

Based on current market conditions, the company expects home sales gross margin in the quarter to be consistent with the fiscal fourth quarter. The company expects revenues between \$3.7 billion and \$3.8 billion, homes closing within 12,100-12,400 units, and home sales gross margin to be approximately 21% (compared with 20% in the year-ago period). Homebuilding SG&A expenses are expected to be around 9.5% of homebuilding revenues (almost flat year over year). Its effective tax rate is expected to be approximately 25%.

### Fiscal 2020 Guidance

The company continues to expect growth in the mid to high single-digit range for both revenues and homes closed. The company expects revenues between \$18.5 billion and \$19 billion, and homes closing within 60,000-61,000. Homebuilding cash flow from operations is projected to be in excess of \$1 billion. Its effective tax rate is expected to be approximately 25%. The company intends to reduce share count by 2% in fiscal 2020.

## Valuation

D.R. Horton shares are up 39.9% in the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 36.3% and 30.8%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 10.72X forward 12-month price to earnings, which compares to 10.55X for the Zacks sub-industry, 15.73X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.83X and as low as 7.36X, with a 5-year median of 11.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$56 price target reflects 11.17X forward 12-month earnings.

The table below shows summary valuation data for DHI.

| Valuation Multiples - DHI |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                 | Current       | 10.72 | 10.55        | 15.73  | 18.88   |
|                           | 5-Year High   | 15.83 | 15.08        | 18.83  | 19.34   |
|                           | 5-Year Low    | 7.36  | 7.3          | 10.63  | 15.17   |
|                           | 5-Year Median | 11.4  | 10.74        | 15.97  | 17.44   |
| P/B TTM                   | Current       | 1.93  | 1.41         | 3.83   | 4.46    |
|                           | 5-Year High   | 2.49  | 2.27         | 7.22   | 4.47    |
|                           | 5-Year Low    | 1.36  | 1.01         | 2.19   | 2.85    |
|                           | 5-Year Median | 1.82  | 1.57         | 3.4    | 3.61    |
| P/S F12M                  | Current       | 1.03  | 0.98         | 1.9    | 3.5     |
|                           | 5-Year High   | 1.19  | 1.23         | 2.23   | 3.5     |
|                           | 5-Year Low    | 0.68  | 0.65         | 1.25   | 2.54    |
|                           | 5-Year Median | 0.89  | 0.92         | 1.63   | 3       |

As of 01/10/2020

## Industry Analysis Zacks Industry Rank: Top 41% (104 out of 254)



## Top Peers

|                                  |              |
|----------------------------------|--------------|
| KB Home (KBH)                    | Neutral      |
| Lennar Corporation (LEN)         | Neutral      |
| M/I Homes, Inc. (MHO)            | Neutral      |
| Meritage Homes Corporation (MTH) | Neutral      |
| NVR, Inc. (NVR)                  | Neutral      |
| PulteGroup, Inc. (PHM)           | Neutral      |
| Toll Brothers Inc. (TOL)         | Neutral      |
| Beazer Homes USA, Inc. (BZH)     | Underperform |

| Industry Comparison Industry: Building Products - Home Builders |             |            |           | Industry Peers |             |             |
|-----------------------------------------------------------------|-------------|------------|-----------|----------------|-------------|-------------|
|                                                                 | DHI Neutral | X Industry | S&P 500   | LEN Neutral    | PHM Neutral | TOL Neutral |
| <b>VGM Score</b>                                                | <b>B</b>    | -          | -         | <b>A</b>       | <b>A</b>    | <b>B</b>    |
| Market Cap                                                      | 19.83 B     | 2.47 B     | 24.03 B   | 18.97 B        | 10.84 B     | 5.73 B      |
| # of Analysts                                                   | 18          | 3          | 13        | 8              | 7           | 6           |
| Dividend Yield                                                  | 1.30%       | 0.00%      | 1.78%     | 0.27%          | 1.20%       | 1.06%       |
| <b>Value Score</b>                                              | <b>B</b>    | -          | -         | <b>A</b>       | <b>A</b>    | <b>A</b>    |
| Cash/Price                                                      | 0.13        | 0.10       | 0.04      | 0.05           | 0.07        | 0.23        |
| EV/EBITDA                                                       | 9.35        | 9.74       | 14.04     | 11.68          | 9.17        | 9.74        |
| PEG Ratio                                                       | 1.00        | 1.06       | 2.02      | 1.07           | 1.24        | 1.17        |
| Price/Book (P/B)                                                | 1.93        | 1.23       | 3.32      | 1.23           | 2.09        | 1.13        |
| Price/Cash Flow (P/CF)                                          | 11.69       | 9.09       | 13.52     | 9.48           | 10.24       | 8.77        |
| P/E (F1)                                                        | 11.02       | 10.21      | 18.82     | 9.77           | 10.31       | 10.54       |
| Price/Sales (P/S)                                               | 1.13        | 0.70       | 2.63      | 0.85           | 1.06        | 0.79        |
| Earnings Yield                                                  | 9.08%       | 9.81%      | 5.31%     | 10.23%         | 9.70%       | 9.48%       |
| Debt/Equity                                                     | 0.33        | 0.62       | 0.72      | 0.59           | 0.53        | 0.77        |
| Cash Flow (\$/share)                                            | 4.60        | 3.60       | 6.94      | 6.30           | 3.90        | 4.72        |
| <b>Growth Score</b>                                             | <b>A</b>    | -          | -         | <b>B</b>       | <b>B</b>    | <b>D</b>    |
| Hist. EPS Growth (3-5 yrs)                                      | 24.76%      | 16.48%     | 10.56%    | 15.88%         | 32.47%      | 25.00%      |
| Proj. EPS Growth (F1/F0)                                        | 13.84%      | 12.95%     | 7.49%     | 6.49%          | 9.39%       | -2.73%      |
| Curr. Cash Flow Growth                                          | 3.66%       | 18.07%     | 14.83%    | 106.81%        | 48.12%      | -11.99%     |
| Hist. Cash Flow Growth (3-5 yrs)                                | 23.21%      | 23.21%     | 9.00%     | 32.93%         | 12.16%      | 13.21%      |
| Current Ratio                                                   | 7.25        | 4.78       | 1.23      | 14.19          | 0.57        | 7.06        |
| Debt/Capital                                                    | 24.82%      | 36.98%     | 42.99%    | 36.98%         | 34.62%      | 43.38%      |
| Net Margin                                                      | 9.20%       | 6.29%      | 11.08%    | 8.31%          | 9.01%       | 8.17%       |
| Return on Equity                                                | 16.63%      | 12.16%     | 17.16%    | 12.16%         | 20.02%      | 11.83%      |
| Sales/Assets                                                    | 1.17        | 0.97       | 0.55      | 0.76           | 1.00        | 0.69        |
| Proj. Sales Growth (F1/F0)                                      | 8.05%       | 4.83%      | 4.20%     | 2.86%          | 7.75%       | 0.45%       |
| <b>Momentum Score</b>                                           | <b>F</b>    | -          | -         | <b>B</b>       | <b>C</b>    | <b>C</b>    |
| Daily Price Chg                                                 | 0.94%       | 0.38%      | -0.33%    | 3.52%          | 0.45%       | 0.66%       |
| 1 Week Price Chg                                                | 0.09%       | 0.50%      | -0.30%    | 0.84%          | 0.59%       | 2.26%       |
| 4 Week Price Chg                                                | -1.09%      | 1.50%      | 1.71%     | 2.86%          | 0.91%       | 5.33%       |
| 12 Week Price Chg                                               | 0.52%       | 0.05%      | 6.05%     | -2.18%         | 4.58%       | 1.80%       |
| 52 Week Price Chg                                               | 37.48%      | 30.81%     | 22.39%    | 32.21%         | 39.78%      | 14.36%      |
| 20 Day Average Volume                                           | 3,232,996   | 258,911    | 1,580,816 | 3,699,059      | 2,952,588   | 1,873,995   |
| (F1) EPS Est 1 week change                                      | 0.00%       | 0.00%      | 0.00%     | 0.44%          | 0.00%       | 0.00%       |
| (F1) EPS Est 4 week change                                      | 0.20%       | 0.00%      | 0.00%     | 1.14%          | -0.52%      | -2.40%      |
| (F1) EPS Est 12 week change                                     | 6.39%       | 1.10%      | -0.50%    | 1.14%          | 4.26%       | -3.36%      |
| (Q1) EPS Est Mthly Chg                                          | 0.09%       | 0.00%      | 0.00%     | 2.07%          | 0.00%       | -23.54%     |

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we 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.

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### Zacks Style Scores

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

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

|                |          |
|----------------|----------|
| Value Score    | <b>B</b> |
| Growth Score   | <b>A</b> |
| Momentum Score | <b>F</b> |
| VGM Score      | <b>B</b> |

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

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### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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