

JPMorgan Chase & Co. (JPM)

\$125.07 (As of 12/23/20)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: A

Summary

JPMorgan's shares have outperformed the industry so far this year. The company has an impressive earnings surprise history. The company's earnings have outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Branch openings in new regions, acquisition of InstaMed, strong mortgage banking business and focus on credit card operations are likely to continue supporting the bank's financials. While the Fed's accommodative policy and near-zero rates are expected to hurt the bank's interest income and margins, and coronavirus-induced economic downturn has hampered business activities, thereby hurting loan demand, gradual economic recovery amid vaccine developments will aid. Additionally, despite restriction of capital deployments with an aim to conserve liquidity, the company's cash position remains robust.

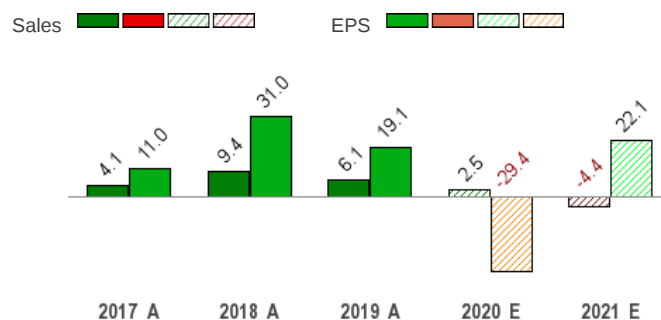
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$141.10 - \$76.91
20-Day Average Volume (Shares)	12,898,254
Market Cap	\$381.2 B
Year-To-Date Price Change	-10.3%
Beta	1.22
Dividend / Dividend Yield	\$3.60 / 2.9%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 40% (103 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.3%
Last Sales Surprise	1.8%
EPS F1 Estimate 4-Week Change	1.6%
Expected Report Date	01/15/2021
Earnings ESP	12.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	28,442 E	27,990 E	28,464 E	28,368 E	113,263 E
2020	28,251 A	32,980 A	29,147 A	28,180 E	118,529 E
2019	29,123 A	28,832 A	29,341 A	28,331 A	115,627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.37 E	\$2.37 E	\$2.29 E	\$2.36 E	\$9.24 E
2020	\$0.78 A	\$1.38 A	\$2.92 A	\$2.43 E	\$7.57 E
2019	\$2.65 A	\$2.59 A	\$2.68 A	\$2.57 A	\$10.72 A

*Quarterly figures may not add up to annual.

P/E TTM	16.4
P/E F1	16.5
PEG F1	3.3
P/S TTM	2.9

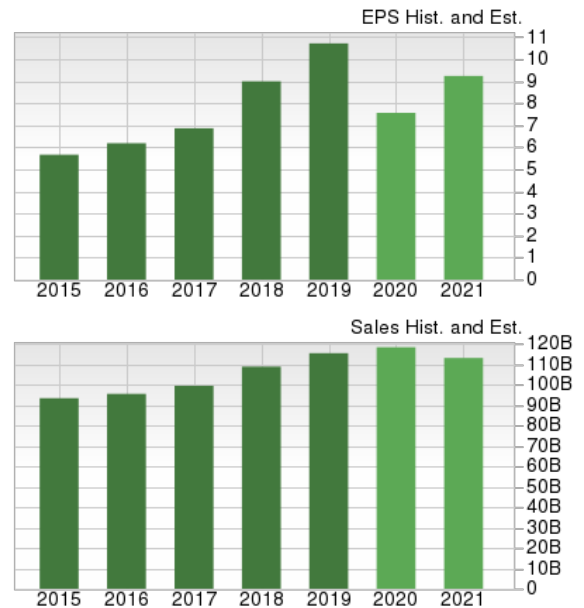
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 12/23/2020. The reports text is as of 12/24/2020.

Overview

Headquartered in New York, JPMorgan Chase & Co. is one of the biggest banks with assets valued at \$3.25 trillion and stockholders' equity worth \$271.1 billion as of Sep 30, 2020. With operations in more than 60 countries, the company (incorporated under Delaware law in 1968) is one of the largest financial service firms in the world.

JPMorgan organizes its business through following five reportable segments:

- **Consumer & Community Banking (CCB)** segment (constituting 45% of net income in 2019) serves consumers and businesses through personal service at bank branches and through ATMs, online, mobile and telephone banking. CCB is organized into Consumer & Business Banking, Mortgage Banking, and Card & Auto.
- **Corporate & Investment Bank (CIB)** segment (33%) offers a wide range of investment banking (IB), market-making, prime brokerage, and wholesale payments services to a global client base of corporations, investors, financial institutions, government and municipal entities.
- **Commercial Banking (CB)** segment (11%) provides lending, wholesale payments, and investment banking services to corporations, municipalities, financial institutions and non-profit entities.
- **Asset & Wealth Management (AWM)** segment (8%) provides services to institutions, retail investors and high-net-worth individuals. It offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity including money market instruments and bank deposits. The segment also offers trust and estate, banking and brokerage services.
- **Corporate** segment (3%) consists of Treasury & Chief Investment Office (CIO) and Other Corporate, which includes corporate staff units and centrally managed expenses.



In 2019, JPMorgan acquired InstaMed Holdings Inc.



Source: Zacks Investment Research

Reasons To Buy:

- ▲ JPMorgan is expanding its footprint in new regions by opening branches. The bank aims to enter 15-20 new markets by the end of 2022, by opening roughly 400 new branches. The company has already made progress on this front, having added nearly 120 new branches so far and plans to take the number to more than 150 by the end of this year. In fact, recently, the bank received approval to open branches in 10 additional states, which will allow it to "operate branches in all of the lower 48 U.S. states." In addition to enhancing market share, the strategy will help the bank grab cross-selling opportunities by increasing its presence in the card and auto loan sectors. Also, the acquisition of InstaMed enabled the company to expand into the attractive U.S. healthcare payments market. These initiatives are, thus, expected to further support the CCB segment.
- ▲ JPMorgan remains focused on acquiring the industry's best deposit franchise and strengthening its loan portfolio. Despite a challenging operating environment, deposits and loan balances have remained strong over the past several years. As of Sep 30, 2020, loans to deposits totaled 49%. Though demand for loan has been faltering of late, the same is expected to improve once the economy revives and business activities resume full-fledged.
- ▲ Solid performance of JPMorgan's mortgage banking operation is a catalyst. Though mortgage fees and related income declined at a four-year (2016-2019) compound annual growth rate (CAGR) of 6.5%, the same jumped 49% in first nine months of 2020 and 62% in 2019. While the bank continues to face difficulties in expanding the mortgage business owing to increase in competition, historically low mortgage rates are expected to continue driving a substantial rise in refinancing activities and improvement in origination volumes. Thus, mortgage banking business is likely to offer support to the company's top-line growth to some extent.
- ▲ As of Sep 30, 2020, JPMorgan had total debt worth \$720.1 billion, down 6% sequentially. Of the total debt, nearly \$441 billion is short term in nature. The company's cash and cash equivalents & due from banks, and deposits with banks stood at \$487.5 billion on the same date. Moreover, its third-quarter 2020 total debt to total capital of 50.7% declined from the prior quarter and its times interest earned ratio of 4.0 improved sequentially. Thus, given the favorable factors and earnings strength, JPMorgan has lesser likelihood of default in interest payment and debt repayment in the near term even if the economic situation worsens.
- ▲ Amid the coronavirus-induced mayhem, the Fed restricted dividends and share repurchases by major banks in order to conserve liquidity. Thus, JPMorgan is paying a dividend of 90 cents per share in the fourth quarter and not repurchasing shares until December-end. Nonetheless, following the Fed's second round of stress test and subsequent approval, now the company will resume repurchases in first-quarter 2021. For 2021, the company has authorized to repurchase shares worth up to \$30 billion. Thus, given a solid liquidity position and earnings strength, JPMorgan is expected to continue to enhance shareholder value through efficient capital deployment activities.
- ▲ JPMorgan's shares have outperformed the industry over the past six months. Also, the company's earnings estimates for 2020 have moved 1.6% upward over the past seven days. So, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential.

JPMorgan's robust loan and deposit balances, acquisition of InstaMed, strong liquidity position and initiatives to expand the branch network in new markets will continue supporting profitability.

Risks

- After slashing rates thrice last year, the Federal Reserve cut the rates to near zero in March, with an aim of supporting the U.S. economy from coronavirus-induced mayhem. This has hurt JPMorgan's net interest income (NII) growth and resulted in contraction of net yield on interest-earning assets over the past several quarters. A similar trend is expected to continue in the near term as the central bank has signaled no rate hike till at least 2023. Management anticipates NII to be approximately \$55 billion in 2020, indicating more than 2% decline from the 2019 level.
 - Further, JPMorgan's significant dependence on capital markets performance to generate fee income is a matter of concern. Global economic slowdown amid coronavirus-related mayhem will likely result in extreme volatility in the company's markets and IB performances. Thus, this is expected to make fee income growth challenging, going forward.
 - JPMorgan's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 10.85% compares unfavorably with 14.99% for the S&P 500, reflecting the fact that it is less efficient in using shareholder funds.
 - Further, JPMorgan seems overvalued than the industry. Its current price-to-book and price-to-earnings (F1) ratios are above the respective industry averages.
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Last Earnings Report

JPMorgan Q3 Earnings Top on Lower Credit Cost, Trading

Unexpected lower provisions along with improvement in trading and mortgage banking businesses drove JPMorgan's third-quarter 2020 earnings of \$2.92 per share. The bottom line handily outpaced the Zacks Consensus Estimate of \$2.35.

Results included legal expenses of \$524 million or 17 cents per share. Excluding these, earnings amounted to \$3.09 per share.

During the quarter, the company reported net reserve releases, which led to lower credit costs. In a statement, the CEO Jamie Dimon said, "we maintained our credit reserves at \$34 billion given significant economic uncertainty and a broad range of potential outcomes."

As expected, fixed income markets revenues increased 29%, driven by strong performance across products. Equity markets revenues jumped 32% on the back of solid client activities. Also, historically lower rates drove mortgage fees and related income to \$1.1 billion, up 21%.

Further, equity and debt underwriting fees rose 42% and 5%, respectively. Conversely, despite a significant rebound in deal making activities during the quarter, JPMorgan recorded a 15% decline in advisory fees. Nonetheless, IB fees jumped 22% from the prior-year quarter.

Among other positives, Commercial Banking average loan balances were up 5%, and Asset & Wealth Management average loan balances grew 13% from the year-ago quarter.

However, near-zero interest rates and dismal loan demand hurt interest income. Moreover, operating expenses increased. Credit card sales volume declined 8% from the prior-year quarter.

Overall quarterly performance of JPMorgan's business segments, in terms of net income generation, was decent. All segments, except Consumer & Community Banking, reported an increase in net income on a year-over-year basis. However, Corporate segment recorded a loss.

Net income increased 4% from the prior-year quarter to \$9.4 billion.

Fee Income Aids Revenues, Costs Rise

Net revenues as reported were \$29.1 billion, relatively on par with the year-ago quarter level. The improvement reflects higher trading, mortgage and IB fees, while lower interest rates was an offsetting factor. The top line beat the Zacks Consensus Estimate of \$28.6 billion.

Net interest income declined 9% year over year to \$13 billion. Conversely, non-interest income grew 7% from the year-ago quarter to \$16.1 billion, mainly driven by mortgage banking, investment banking and principal transactions performance.

Non-interest expenses (on managed basis) were \$16.9 billion, up 3% from the year-ago quarter. The rise was primarily due to increase in legal costs.

Credit Quality: Mixed Bag

Provision for credit losses was \$611 million, down 60% from the prior-year quarter. The decline was largely due to net reserve release. Further, net charge-offs (NCOs) decreased 14% to \$1.2 billion. As of Sep 30, 2020, non-performing assets were \$11.4 billion, which jumped 91% from Sep 30, 2019.

Strong Capital Position

Tier 1 capital ratio (estimated) was 15% at third quarter-end compared with 14.1% on Sep 30, 2019. Tier 1 common equity capital ratio (estimated) was 13%, up from 12.3%. Total capital ratio was 17.3% (estimated) compared with 15.9% as of Sep 30, 2019. Book value per share was \$79.08 as of Sep 30, 2020 compared with \$75.24 in the corresponding period of 2019. Tangible book value per common share was \$63.93 at the end of September, up from \$60.48.

Outlook

At an investors conference in December 2020, Jamie Dimon stated that trading and investment-banking businesses are expected to witness a year-over-year revenue increase of 20% in fourth-quarter 2020. Further, the company's operating expenses might top \$67 billion in 2021 as it looks to strategic acquisitions to accelerate growth.

The company reiterated the previous guidance provided for full year NII and operating expenses. NII is projected to be approximately \$55 billion for 2020, mainly on the back very little appetite for new loans among corporate clients. On the cost front, the company expects expenses to be \$66 billion for 2020, largely on "revenue and volume-related expenses."

Further, management expects to see a slight uptick in NCOs over the next few quarters, given payment relief and government stimulus already provided. Any meaningful increase in NCOs is anticipated in the second half of 2021.

Quarter Ending	09/2020
Report Date	Oct 13, 2020
Sales Surprise	1.80%
EPS Surprise	24.26%
Quarterly EPS	2.92
Annual EPS (TTM)	7.65

Recent News

JPMorgan to Pay \$250M Fine for Internal Control Failings - Nov 24, 2020

JPMorgan has agreed to pay a fine of \$250 million for poor risk management and internal controls over the fiduciary business. In a press release, the Office of the Comptroller of the Currency ("OCC") stated, "the bank's risk management practices were deficient and it lacked a sufficient framework to avoid conflicts of interest." The fine has to be paid to the U.S. Treasury.

In a statement, JPMorgan's spokesperson said, "We are committed to delivering best-in-class controls across our business, and we have invested significantly in and enhanced our controls platform over the last several years to address the issues identified."

In the consent order, the OCC noted that JPMorgan manages "one of the world's largest and most complex fiduciary businesses with total fiduciary and related assets of \$29.1 trillion, including \$1.3 trillion in fiduciary assets and \$27.8 trillion of non-fiduciary custody assets." Additionally, the company offers a wide range of "investment strategies to its fiduciary clients through a variety of investment vehicles."

However, over the past several years, JPMorgan maintained "a weak management and control framework" for such business activities. Also, the company's audit process had been deficient and it lacked "internal controls over those activities."

The company neither accepted nor denied the OCC's accusations. Further, the regulator noted that JPMorgan has since addressed its shortcomings and doesn't require making any changes in the way it manages client assets.

JPMorgan's Ratings and Outlook Affirmed by Moody's - Nov 18, 2020

All the long-term and short-term ratings of JPMorgan as well as long-term ratings and assessments of its primary banking subsidiary, JPMorgan Chase Bank, N.A., have been affirmed by Moody's Investors Service. Also, the rating outlook remained unchanged at stable.

JPMorgan's senior debt rating stands at A2. Further, the company's short-term deposit rating is unchanged at Prime-1.

Here's Why the Ratings Have Been Affirmed

Moody's believes that JPMorgan has been consistently enhancing profitability of each of its business divisions – Consumer and Community Banking, Commercial Banking, Asset and Wealth Management, and Corporate and Investment Banking – through improving "the customer value proposition."

This has provided sufficient strength and scale to each division, and aided the company to earn \$42 billion of pre-provision profits in the first three quarters of 2020. Also, this provided sufficient cushion to absorb \$15.2 billion rise in JPMorgan's credit provisions amid coronavirus-induced economic slowdown and adoption of the Current Expected Credit Losses accounting standard.

Moreover, JPMorgan's business mix offers notable diversification benefits, "providing a sturdy buffer against the greater volatility of the bank's capital markets activity through the cycle." This capital markets risks are further alleviated by the stability from "wholesale payments and securities service businesses within the investment bank."

Moody's is of the opinion that JPMorgan's client driven business model and footprint expansion have allowed it to capture significant market share in several operations like retail deposits, wealth management, investment banking and secondary trading. Thus, this has not only bolstered the company's competitiveness but is expected to help sustain earnings stability.

Another factor that has supported JPMorgan's ratings affirmations is its strong capital and liquidity position. The company benefits from diversified and growing deposit balance, and "the healthy weighted average maturity of its long-term debt."

Also, as of Sep 30, 2020, the bank's Basel III fully phased-in CET1 ratio was 13.1% (standardized approach) compared with a requirement of 11.3% (including the Stress Capital Buffer). While the Federal Reserve has prohibited share repurchases till December-end, the rating agency doesn't expect JPMorgan to substantially lower "capital buffers until pandemic uncertainty is reduced."

Additionally, Moody's expects that JPMorgan's size, earnings capacity and business diversification will allow it to continue innovating client offerings and maintain competitive edge, "even as digital disruption of banking accelerates."

What Can Trigger Change in Ratings?

JPMorgan's ratings might get upgraded if it is able to continue maintaining strong and sustainable earnings growth along with solid capital levels compared with its peers. Also, "a superior track record of risk controls and exemplary regulatory relations" will be among the positives.

However, ratings could be downgraded if the company witnesses substantial worsening of capital or liquidity levels. Further, a marked rise in risk appetite, a major litigation and significant operational risk charge or control failure will impact the company's ratings negatively.

JPMorgan Admits Metal, Treasuries Spoofing, to Pay \$920M Fine - Sep 29, 2020

JPMorgan has agreed to pay a penalty of \$920 million to fully settle the probes related to "historical trading practices by former employees in the precious metals and U.S. treasuries markets, and related conduct between 2008 and 2016." The company also admitted to wrongdoing.

Spoofing is a method wherein the traders place orders that they intend to cancel in order to move the prices in a particular direction. While submitting and cancelling orders isn't illegal, it is against the law to trick other traders with such strategy.

The investigations were being conducted by the Department of Justice ("DOJ"), Commodity Futures Trading Commission, and the Securities

and Exchange Commission. The total fine to be paid by JPMorgan includes a penalty of \$437 million, restitution of \$311 million and disgorgement of \$172 million.

Further, JPMorgan has entered into a deferred prosecution agreement (DPA) with the DOJ. The DPA will expire after three years, provided the company and its subsidiaries — JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC — fully conform to their respective obligations.

JPMorgan does not expect any disruption of service to clients as a result of these resolutions. Also, the company is required to co-operate with ongoing other investigations and prosecutions.

Daniel Pinto, co-President of JPMorgan and CEO of the Corporate & Investment Bank said, "The conduct of the individuals referenced in today's resolutions is unacceptable and they are no longer with the firm. We appreciate that the considerable resources we've dedicated to internal controls was recognized by the DOJ, including enhancements to compliance policies, surveillance systems and training programs."

The fine being paid by JPMorgan is by far the largest ever imposed by the regulators on banks for spoofing, which was banned after the 2008 financial crisis under the Dodd Frank regulation.

Dividend Update

On Dec 8, 2020, JPMorgan announced a quarterly cash dividend of 90 cents per share. The dividend will be paid out on Jan 31, 2021 to stockholders of record at the close of business on Jan 6, 2021.

Valuation

JPMorgan's shares are down 10.3% in the year-to-date period and 9.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 19.1% and 4.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 18.8% and 3.7%, respectively.

The S&P 500 index is up 16.5% in the year-to-date period and 16.6% in the past year.

The stock is currently trading at 13.83X forward 12 months earnings, which compares to 13.72X for the Zacks sub-industry, 16.81X for the Zacks sector and 22.87X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.87X and as low as 7.35X, with a 5-year median of 11.97X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$145 price target reflects 16.04X forward earnings.

The table below shows summary valuation data for JPM

Valuation Multiples - JPM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.83	13.72	16.81	22.87
	5-Year High	16.87	14.2	16.81	23.79
	5-Year Low	7.35	8.01	11.59	15.3
	5-Year Median	11.97	11.55	14.45	17.81
P/TB TTM	Current	1.98	1.8	3.52	16.31
	5-Year High	2.45	2.68	4.05	16.46
	5-Year Low	1.18	1.21	2.05	7.42
	5-Year Median	1.9	2.11	3.53	10.82
P/S F12M	Current	3.29	3.42	7.07	4.33
	5-Year High	3.86	4.59	7.07	4.34
	5-Year Low	1.97	2.39	5.02	3.17
	5-Year Median	3.09	3.59	6.11	3.68

As of 12/23/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 40% (103 out of 255)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
U.S. Bancorp (USB)	Outperform	3
Bank of America Corporation (BAC)	Neutral	3
The Bank of New York Mellon Corporation (BK)	Neutral	3
Citigroup Inc. (C)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	3
State Street Corporation (STT)	Neutral	3
Truist Financial Corporation (TFC)	Neutral	3
Wells Fargo & Company (WFC)	Neutral	3

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

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	JPM	X Industry	S&P 500	BAC	C	WFC
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	F	-	-	F	F	F
Market Cap	381.24 B	36.31 B	25.78 B	259.96 B	126.54 B	125.48 B
# of Analysts	9	9	13	10	11	11
Dividend Yield	2.88%	3.14%	1.49%	2.40%	3.36%	1.32%
Value Score	F	-	-	F	D	D
Cash/Price	3.62	1.84	0.06	3.58	7.82	3.25
EV/EBITDA	-8.80	-0.03	14.51	-6.75	-12.26	-0.65
PEG F1	3.30	2.03	2.80	2.42	1.78	7.54
P/B	1.58	1.06	3.62	1.06	0.72	0.78
P/CF	8.91	7.62	13.84	8.19	5.96	4.58
P/E F1	16.52	14.61	22.03	16.94	14.23	73.21
P/S TTM	2.86	2.52	2.85	2.61	1.34	1.47
Earnings Yield	6.05%	6.85%	4.39%	5.89%	7.03%	1.35%
Debt/Equity	1.16	0.79	0.70	1.04	1.55	1.34
Cash Flow (\$/share)	14.04	6.63	6.93	3.67	10.20	6.63
Growth Score	F	-	-	F	F	F
Historical EPS Growth (3-5 Years)	12.00%	9.00%	9.71%	19.27%	7.27%	-13.90%
Projected EPS Growth (F1/F0)	-29.40%	-32.25%	1.26%	-35.49%	-43.67%	-90.54%
Current Cash Flow Growth	9.35%	2.66%	5.23%	3.02%	2.56%	-1.58%
Historical Cash Flow Growth (3-5 Years)	10.67%	9.49%	8.33%	27.50%	7.31%	1.85%
Current Ratio	0.88	0.88	1.38	0.87	0.97	0.87
Debt/Capital	52.39%	42.22%	41.97%	48.75%	58.41%	54.23%
Net Margin	19.16%	18.68%	10.40%	19.50%	12.72%	3.72%
Return on Equity	10.85%	7.87%	14.99%	8.00%	6.57%	3.18%
Sales/Assets	0.04	0.04	0.50	0.04	0.04	0.04
Projected Sales Growth (F1/F0)	2.51%	-1.77%	0.39%	-6.11%	0.02%	-14.94%
Momentum Score	A	-	-	C	A	A
Daily Price Change	2.79%	2.79%	0.40%	2.88%	2.57%	4.80%
1-Week Price Change	-0.40%	-0.24%	0.87%	0.35%	0.22%	-0.24%
4-Week Price Change	2.49%	3.51%	0.78%	3.51%	6.52%	6.16%
12-Week Price Change	29.92%	30.07%	14.63%	24.74%	40.99%	29.09%
52-Week Price Change	-9.09%	-15.79%	5.58%	-14.68%	-22.66%	-43.61%
20-Day Average Volume (Shares)	12,898,254	5,119,884	2,005,107	48,659,008	20,322,692	35,551,124
EPS F1 Estimate 1-Week Change	1.55%	0.05%	0.00%	0.06%	1.02%	1.30%
EPS F1 Estimate 4-Week Change	1.63%	0.10%	0.00%	0.06%	1.30%	3.08%
EPS F1 Estimate 12-Week Change	28.55%	20.35%	3.68%	11.01%	37.62%	722.81%
EPS Q1 Estimate Monthly Change	3.46%	0.40%	0.00%	0.40%	2.84%	1.82%

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	F
Growth Score	F
Momentum Score	A
VGM Score	F

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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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.