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Aug 05, 2020

Kellogg Company (K)

$69.71 (As of 08/04/20)

Price Target (6-12 Months): **$74.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/01/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: A | Momentum: B	

Summary

Kellogg's shares have outperformed the industry in the past three months. The company has been gaining on increased demand amid the coronavirus-led higher at-home consumption. This also helped Kellogg retain its organic sales trend in second-quarter 2020, wherein both top and bottom lines beat the consensus mark. Notably, organic sales were solid in all regions, with developed regions seeing particularly strong demand for cereal and frozen food products. However, results were somewhat affected by divestiture of the cookies, fruit snacks, pie crusts and ice-cream cone businesses and currency woes. Also, high COVID-19-related costs along with shift of investments to the second half of 2020 are likely to weigh on margins. Moreover, the away-from-home business is likely to remain soft in the second half. Nonetheless, management raised full-year view.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$72.88 - $52.66**
20 Day Average Volume (sh)	**2,136,239**
Market Cap	**$23.9 B**
YTD Price Change	**0.8%**
Beta	**0.57**
Dividend / Div Yld	**$2.28 / 3.3%**
Industry	**Food - Miscellaneous**
Zacks Industry Rank	**Top 44% (111 out of 254)**
Last EPS Surprise	**33.3%**
Last Sales Surprise	**5.7%**
EPS F1 Est- 4 week change	**4.3%**
Expected Report Date	**11/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**16.7**
P/E F1	**17.7**
PEG F1	**3.9**
P/S TTM	**1.8**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,336 E	3,372 E	3,438 E	3,338 E	13,422 E
2020	3,412 A	3,465 A	3,385 E	3,397 E	13,655 E
2019	3,522 A	3,461 A	3,372 A	3,223 A	13,578 A

EPS Estimates

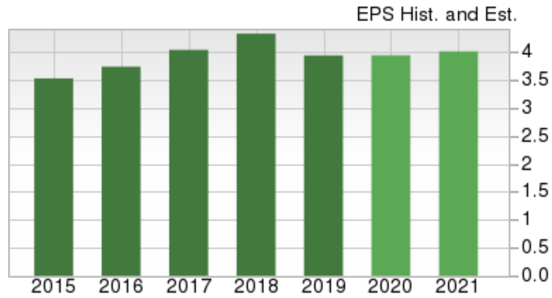
	Q1	Q2	Q3	Q4	Annual*
2021	$0.98 E	$1.09 E	$1.00 E	$0.93 E	$4.01 E
2020	$0.99 A	$1.24 A	$0.87 E	$0.87 E	$3.94 E
2019	$1.01 A	$0.99 A	$1.03 A	$0.91 A	$3.94 A

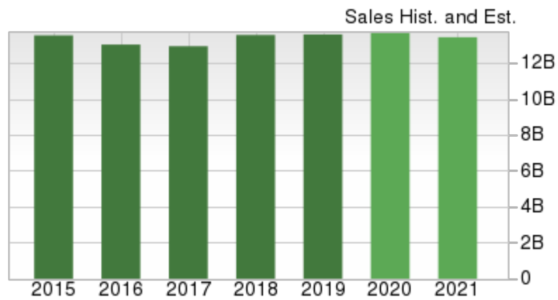
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

Headquartered in Battle Creek, MI, **Kellogg Company** (K) manufactures and markets ready-to-eat cereals and convenience foods (including cookies, crackers, toaster pastries, cereal bars, fruit-flavored snacks, frozen waffles and veggie foods), and savory snacks. The company has a balanced portfolio of cereal and snack products.





Kellogg's products are manufactured in 20 countries and marketed across 180 nations. Principal markets for the products offered include the United States and United Kingdom.

We note that earlier the company reported results under seven segments namely; U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels, North America Other, Europe, Latin America and Asia Pacific. The U.S. Snacks unit includes items such as crackers, cookies, cereal bars, savory snacks and fruit-flavored snacks. The U.S. Morning Foods unit consist of mainly cereals and toaster pastries. U.S. Specialty Channels consists of food away from home channels, including food service, convenience, vending and food manufacturing. Further, the North America Other unit includes U.S. Frozen, Kashi, Canada, and RX operating segments. The remining segments are based on geographical locations, namely; Europe, Latin America and the Middle East and Northern Africa.

Concurrent to its fourth-quarter 2018 results, Kellogg unveiled some changes related to its segments for 2019. As part of its efforts to reorganize its North America region, the sub divisions – U.S. Snacks, U.S. Morning Foods, U.S. Specialty Channels and North America Other – have been removed.

Further, the company has transferred its Middle East, Turkey and North African businesses from Kellogg Europe to Kellogg Asia-Pacific. Kellogg Asia-Pacific has been rechristened as Kellogg Asia, Middle East & Africa. As per these changes, the company now reports its quarterly outcomes under four segments, namely; North America, Europe, Latin America and the Asia, Middle East & Africa or AMEA region.

In 2019, the company generated sales of $13.6 billion (61.8% from North America, 15.4% from Europe, 6.9% from Asia-Pacific and 15.9% from Latin America).

Reasons To Buy:

▲ **Solid Q2 & Raised 2020 Guidance, Stock Outperforms:** Shares of Kellogg have gained 10.5% in the past three months compared with the industry's growth of 10%. The stock got a boost following its splendid second-quarter 2020 results, wherein both earnings and sales beat the Zacks Consensus Estimate and the bottom line surged year over year. Notably, adjusted earnings of $1.24 per share jumped 25.3% year over year, cruising ahead of the Zacks Consensus Estimate of 93 cents. On a constant-currency (cc) basis, adjusted earnings came in at $1.26 per share, which increased 27.3% from the year-ago quarter's figure. The company delivered net sales of $3,465 million, which surpassed the consensus mark of $3,277 million. Adverse impacts from divestiture of the company's cookies, fruit snacks, pie crusts and ice-cream cone businesses as well as currency headwinds were offset by robust organic sales growth in other businesses, resulting from pandemic-led increased buying.

Kellogg has been gaining on demand for packaged food products amid the coronavirus-led stockpiling. Such trends helped the company retain its robust organic sales trend in the second-quarter.

Further, Kellogg gained from its efforts to raise production in order to meet the rising demand, which helped it battle high costs. The company also shifted a considerable amount of investments related to brands, supply-chain and commercial plans to the second half of 2020, which aided its profit and earnings during the June-end quarter. The better-than-expected performance encouraged management to perk up its guidance for 2020. Adjusted operating profit is expected to decline nearly 1% at cc now compared with the 4% drop projected earlier. Adjusted earnings per share are expected to drop roughly 1% at cc compared with the 3-4% decline estimated before.

▲ **High Demand Aids Organic Sales in Q2:** Kellogg has been benefiting from increased demand for packaged food products amid the coronavirus-led stockpiling. Such trends also helped the company retain its organic sales trend in second-quarter 2020, which moved up 9.2% to $3,569 million (on excluding currency and divestitures). Management stated that demand increase for packaged food owing to the pandemic-led higher at-home consumption prevailed for a longer-than-expected period. This, in turn, fueled the company's sales in retail channels and helped it counter the declines in food sold in the away-from-home network.

Notably, organic sales grew across regions, mostly due to elevated cereal sales that compensated for declines in snacks sales. Organic sales in the ongoing year are now estimated to grow around 5%, up from the previous guidance of 1-2%. Prior to this, organic sales grew 8% in the first quarter and 2.7% each in the fourth and third quarters of 2019.

▲ **Lucrative Buyouts:** In line with the strategy to diversify its organic offerings, Kellogg acquired protein bar maker, Chicago Bar Company, in 2017. Chicago Bar Company makes RXBAR, which is considered the one of the fastest growing nutrition bar brand in the United States. RX now forms part of Kellogg's organic revenues. Additionally, the company's Pringles buyout has been lucrative. Markedly, with the 2012 Pringles deal, Kellogg transformed itself from what was essentially a large U.S. snacks business to a true global snacks player. Also, the consolidation of Multipro (completed in May 2018), a Nigerian food distributor has been yielding. Incidentally, gains in Multipro partly drove Kellogg's organic sales in the Asia, Middle East and Africa segment during the second quarter of 2020. Markedly, these acquired businesses are expected to continue supporting the company' business. Kellogg also continues to expand its acquired brands through new product introductions.

▲ **Growth Efforts on Track:** Kellogg's productivity saving initiatives, have been on track. In this respect, the company is striving toward building a better cost structure. We note that the company successfully completed the Project K program. Savings from this program are being invested in brand-building initiatives, improve logistics, sales capabilities and innovation. Further, the company is on track with the Deploy for Growth strategy, and is accordingly undertaking efforts to restructure portfolio. As part of portfolio restructuring efforts, the company completed the sale of certain snacks, cookies, crusts and ice cream businesses in July, 2019. Though this divestiture is likely to weigh on the company's results in the near term, such efforts are likely to aid focusing on other lucrative business platforms and achieve greater efficiency. Moreover, the divestitures have helped the company to reduce debt and improve its financial position.

▲ **Strong Brand Portfolio:** Kellogg boasts a legacy of over 100 years built on solid product portfolio and brand identity in both cereals and snacks. Its portfolio consists of strong brands such as Pringles, RXBAR, Bear Naked, Cheez-It, Rice Krispies Treats among many others. The company's frozen foods brands like Morningstar Farms and Eggo have also been depicting strong growth. Kellogg is also dedicated toward augmenting its portfolio through adding more products under existing brands, innovation and marketing initiatives. The company has been focused on investing in brand-building efforts. In this respect, it invests in digital media, consumer promotions and traditional advertising. Kellogg has also been enhancing its in-store capabilities like increasing sales force of its struggling businesses.

▲ **Financial Analysis:** As of the end of second-quarter 2020 (Jun 27, 2020), Kellogg's long-term debt (including operating lease liabilities) dropped 1.3% sequentially to nearly $7.5 billion. Moreover, the company's times interest earned ratio improved sequentially from 6.1 as of the end of the first quarter to 6.6 as of the second-quarter-end. We note that Kellogg' second-quarter cash flow jumped considerably from the year-ago level. The company generated cash flow of more than $750 million on a year-to-date basis, depicting its strongest first-half performance in a long time. This, along with proceeds from last year's divestiture, has also helped Kellogg lower its debt load and boast a solid cash balance. At the end of the second quarter, the company had cash balance of more than $1 billion. Apart from a solid cash balance, Kellogg has good access to commercial paper. Also, it has backup funding worth $2.5 billion. The company remains focused on maintaining its financial flexibility amid a tough operating environment, and remains well placed in terms of liquidity and balance sheet position – for the second half of 2020.

Reasons To Sell:

- **Second Half View:** Although Kellogg raised its guidance for full-year 2020, the company expects net sales growth to slow down in the second half of the year. The company expects at-home demand in developed markets to decelerate throughout the third quarter. Kellogg expects the away-from-home business to remain soft and the emerging markets to continue reeling under pandemic-led disruptions and economic recession in the second half of 2020. Further, the company expects gross margin to be under pressure in the second half due to absence of divestiture-related benefits, slowdown in volumes, COVID-19-related costs, lower productivity savings and plant-related changes as the company restarts production in some paused SKUs. Further, increased investments in the second half are likely to weigh on profits.

Softness in the away-from-home food business and disruptions in some emerging markets amid the pandemic are concerning. Also, high COVID-19-related costs are likely to hurt profits.

- **Divestitures Hurt Q2 Performance:** Kellogg's second-quarter 2020 net sales of $3,465 million continued to bear adverse impacts from the divestiture of cookies, fruit snacks, pie crusts and ice-cream cone businesses (concluded in July 2019). Absence of the divested businesses dragged down sales by about 6% in the second quarter and exerted pressure on the company's North American unit. For full-year 2020, management expects divestiture impacts on Kellogg's adjusted operating profit and earnings per share, which are expected to decline year over year but at a lower rate compared to before.

- **Elevated Costs:** Kellogg has been incurring elevated costs related to operations amid the pandemic, such as costs around safety, logistics, temporary labor and employee benefits. In the second quarter, incremental costs associated with coronavirus were more than $20 million. In its second-quarter earnings release, Kellogg said that it expects to sustain direct costs associated with sanitization, safety and labor. Also, the company pushed certain investments related to brands, supply-chain and commercial plans to the second half of 2020. Though these aided performance in the second quarter, they are likely to put pressure on operating profits in the second half, especially the third quarter.

- **Away-from-Home Business Under Pressure, Emerging Markets Soft:** While higher at-home consumption is driving Kellogg's retail demand, the company's foodservice business has been under pressure due to declines in food sold in the away-from-home network. This was witnessed in the second quarter of 2020, wherein away-from-home business fell sharply, with major declines across vending, travel and lodging and restaurants. Away-from-home sales related to travel are likely to remain soft for a while. During the second quarter, the company saw soft snacks sales in most regions due to factors like lower demand for on-the-go foods and pack-formats, high-frequency store closures in some regions and slowing economies in some markets in Asia, Middle East and Africa.

  The company predicts away-from-home demand to take some time to recover, and emerging markets to be affected by the slowing economies. Management also commented that its emerging market performance has been sluggish amid the lockdown and economic softness. For Latin America, the company remains cautious about second-half performance due to the rising number of coronavirus cases and a soft economy.

- **Currency Headwinds:** Kellogg's solid international presence keeps the company exposed to risks associated with overseas operations. Volatile currency movement is one such risk. Notably, adverse currency rate hurt the company's top line by 3% in the second quarter and also impacted the adjusted operating profit. Persistence of such trends remain a threat.

- **Food Industry Headwinds:** The food industry grapples with stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Kellogg may have to lower prices or indulge in marketing activities to maintain market share. Additionally, since the company operates in a highly regulated nutritional food space, its products are frequently inspected by government agencies. Moreover, nutritional products usually have a lower shelf life which requires products to move off the shelves rapidly, to prevent expiry.

Last Earnings Report

Kellogg Perks Up Guidance on Q2 Earnings & Sales Beat

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	5.73%
EPS Surprise	33.33%
Quarterly EPS	1.24
Annual EPS (TTM)	4.17

Kellogg reported splendid second-quarter 2020 results. Adjusted earnings of $1.24 per share jumped 25.3% year over year, cruising ahead of the Zacks Consensus Estimate of 93 cents. On a constant-currency (cc) basis, adjusted earnings came in at $1.26 per share, which increased 27.3% from the year-ago quarter's figure.

The company delivered net sales of $3,465 million, which climbed 0.1%, year on year, as well as surpassed the consensus mark of $3,277 million. Adverse impacts from divestiture of the company's cookies, fruit snacks, pie crusts and ice-cream cone businesses, as well as currency headwinds were offset by robust organic sales growth in other businesses, resulting from pandemic-led increased buying. Absence of the divested businesses affected sales by about 6%, whereas currency headwinds had a roughly 3% impact on the top line.

Organic sales (excluding currency and divestitures) moved up 9.2% to $3,569 million. Management stated that demand increase for packaged foods owing to the pandemic-led higher at-home consumption prevailed for a longer-than-expected period. This, in turn, fueled the company's sales in retail channels and helped it counter the declines in food sold in the away-from-home network. Adjusted operating profit jumped 24.2% to $562 million, whereas the metric rose 26.7% to $573 million at cc.

Segment Discussion

Sales in the **North America** segment amounted to $2,167 million, up 0.9% as divestiture impacts were countered by impressive growth in other businesses amid the pandemic. Sales grew 11.1% on an organic basis. Moreover, adjusted operating profit jumped about 23% at cc — due to the same factors fueling sales in the segment.

Revenues in the **Europe** segment totaled $546 million, up 0.8% year on year, including currency headwinds of more than 3%. Further, sales rose 4.1% on an organic basis, on increased cereal demand amid the pandemic. Robust cereal sales countered the anticipated declines in snacks — due to lower demand for on-the-go foods and pack-formats; sluggish Russian sales due to a soft economy and delay in marketing plans for Pringles. Adjusted operating profit improved 35% at cc.

Revenues in **Latin America** totaled $223 million, down 6.9% year on year due to currency headwinds of 20%. Sales grew 14.3% on an organic basis on solid cereal sales. Strong cereal sales compensated for weak snacks sales stemming from the pandemic-led closure of high-frequency stores and lower on-the-go snacking occasions. Adjusted operating profit surged 89% at cc.

Revenues in the **Asia, Middle East & Africa** segment totaled $529 million, down 0.7% year over year, including currency headwinds of about 6%. Sales improved 5.1% on an organic basis as continued growth in Multipro and cereal sales and gains in Nigeria compensated for soft snacks sales. Snacks sales were hurt by the pandemic-induced hurdles, and slowing economies in some markets in Asia, Middle East and Africa. Adjusted operating profit was up 4% at cc.

Other Financials

Kellogg ended the April-June quarter with cash and cash equivalents of $1,047 million, long-term debt of $6,929 million and total equity of $3,406 million. In the year-to-date period, the company has generated cash from operating activities of $971 million. Cash flow from operating activities is now likely to be $1.6 billion in 2020 compared with the previously-guided range of $1.5-$1.6 billion. Capital expenditures are still expected to be $0.6 billion and cash flow is now estimated to be roughly $1 billion. Cash flows were projected in the band of $0.9-$1 billion earlier.

2020 Guidance

Kellogg expects at-home consumption increases to moderate to normal levels by fourth-quarter 2020. The company predicts away-from-home demand to take some time to recover, and it also anticipates emerging markets to be affected by the slowing economies. Additionally, Kellogg expects to sustain direct costs associated with sanitization, safety and labor, and has also pushed certain brand investments to the second half of 2020. Nevertheless, the company raised the 2020 guidance on the back of robust sales and profits in the first half.

Organic sales in the ongoing year are now estimated to grow around 5%, up from the previous guidance of 1-2%. Adjusted operating profit is expected to decline nearly 1% at cc now compared with the 4% drop projected earlier. Adjusted earnings per share are expected to dip roughly 1% at cc compared with the 3-4% decline estimated before. Adjusted operating profit and earnings will likely bear divestiture impacts.

Recent News

Kellogg Declares Dividend – Jul 24, 2020

Kellogg's board approved a dividend of 57 cents per share, payable on Sep 15, 2020, to shareholders in record as on Sep 1.

Valuation

Kellogg's shares are up 0.8% in the year-to-date period and 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 3.9% and 7.7%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 4.9%, while the sector declined 4.1%.

The S&P 500 index is up 2.7% in the year-to-date period and 15% in the past year.

The stock is currently trading at 17.61X forward 12-month earnings, which compares to 19.01X for the Zacks sub-industry, 20.02X for the Zacks sector and 22.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.71X and as low as 12.45X, with a 5-year median of 16.46X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $74 price target reflects 18.58X forward 12-month earnings.

The table below shows summary valuation data for K

Valuation Multiples - K

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.61	19.01	20.02	22.6
	5-Year High	22.71	22.9	22.37	22.6
	5-Year Low	12.45	14.82	16.63	15.25
	5-Year Median	16.46	18.54	19.57	17.55
P/S F12M	Current	1.79	1.7	9.47	3.61
	5-Year High	2.28	2.05	11.15	3.61
	5-Year Low	1.32	1.41	8.1	2.53
	5-Year Median	1.77	1.76	9.89	3.04
EV/EBITDA F12M	Current	13.6	13.15	32.76	13.21
	5-Year High	13.98	14.67	37.49	14.23
	5-Year Low	10.23	10.97	25.81	9.05
	5-Year Median	11.94	13.21	33.83	11.01

As of 08/04/2020

Industry Analysis **Zacks Industry Rank:** Top 44% (111 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
The Kraft Heinz Company **(KHC)**	Outperform	1
Aramark **(ARMK)**	Neutral	3
BG Foods, Inc. **(BGS)**	Neutral	2
BRF S.A. **(BRFS)**	Neutral	3
Conagra Brands Inc. **(CAG)**	Neutral	3
Campbell Soup Company **(CPB)**	Neutral	2
General Mills, Inc. **(GIS)**	Neutral	3
Tingyi Cayman Islands Holdings Corp. **(TCYMF)**	Neutral	2

Industry Comparison Industry: Food - Miscellaneous

	K	X Industry	S&P 500	ARMK	CAG	GIS
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	A	B
Market Cap	23.90 B	4.08 B	22.75 B	5.53 B	18.54 B	40.09 B
# of Analysts	7	3	14	8	8	8
Dividend Yield	3.27%	0.00%	1.76%	2.01%	2.23%	2.98%
Value Score	B	-	-	A	B	B
Cash/Price	0.05	0.07	0.07	0.23	0.03	0.04
EV/EBITDA	14.53	12.90	13.09	8.22	14.57	13.48
PEG Ratio	3.94	3.08	2.95	11.69	2.27	2.49
Price/Book (P/B)	7.02	2.33	3.16	1.74	2.33	4.80
Price/Cash Flow (P/CF)	12.99	11.63	12.32	4.67	12.32	14.32
P/E (F1)	17.72	18.31	21.81	65.34	15.90	18.66
Price/Sales (P/S)	1.77	1.26	2.46	0.39	1.68	2.27
Earnings Yield	5.65%	4.84%	4.40%	1.55%	6.28%	5.35%
Debt/Equity	2.19	0.63	0.76	2.48	1.12	1.31
Cash Flow ($/share)	5.36	2.81	6.94	4.68	3.09	4.59
Growth Score	A	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	3.36%	5.45%	10.46%	11.58%	-2.26%	3.19%
Proj. EPS Growth (F1/F0)	0.07%	5.10%	-7.16%	-85.04%	4.99%	-2.39%
Curr. Cash Flow Growth	-9.43%	4.39%	5.47%	5.25%	22.57%	9.11%
Hist. Cash Flow Growth (3-5 yrs)	-0.49%	6.08%	8.55%	6.35%	4.34%	3.48%
Current Ratio	0.77	1.59	1.32	1.59	0.88	0.68
Debt/Capital	68.66%	39.16%	44.36%	71.30%	52.82%	56.69%
Net Margin	8.09%	2.44%	10.25%	-1.61%	7.60%	12.37%
Return on Equity	43.36%	9.71%	14.67%	6.54%	14.38%	27.66%
Sales/Assets	0.75	1.02	0.51	0.99	0.49	0.58
Proj. Sales Growth (F1/F0)	0.57%	0.00%	-1.71%	-17.31%	-2.92%	-2.85%
Momentum Score	B	-	-	D	B	F
Daily Price Chg	0.52%	0.67%	0.42%	4.39%	1.33%	1.76%
1 Week Price Chg	0.45%	0.32%	0.14%	-6.80%	2.29%	-1.49%
4 Week Price Chg	4.65%	3.47%	4.97%	3.65%	6.08%	4.38%
12 Week Price Chg	9.73%	9.76%	15.30%	-5.03%	11.58%	5.17%
52 Week Price Chg	13.06%	-1.20%	2.34%	-40.06%	37.70%	25.19%
20 Day Average Volume	2,136,239	169,604	2,082,836	2,124,703	2,599,831	3,571,140
(F1) EPS Est 1 week change	3.84%	0.00%	0.00%	1.90%	0.00%	0.00%
(F1) EPS Est 4 week change	4.34%	0.00%	0.93%	-27.96%	0.63%	-0.04%
(F1) EPS Est 12 week change	4.34%	1.88%	0.78%	-48.46%	3.68%	1.99%
(Q1) EPS Est Mthly Chg	-7.05%	0.00%	0.17%	-22.64%	0.00%	-0.49%

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	B
Growth Score	A
Momentum Score	B
VGM Score	A

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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