

Keurig Dr Pepper Inc. (KDP)

\$29.06 (As of 06/18/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

Keurig Dr Pepper has outpaced the industry year to date, owing to strong top and bottom line performance in first-quarter 2020, despite the impacts of the coronavirus pandemic. Results reflected strong underlying sales growth across all segments, margin expansion and reduced costs, while slight impacts from the outbreak were felt in the final weeks of the quarter. Sales gained from strong volume/mix, particularly in packaged beverages segment, due to consumers' stocking up trends in mid-March. Despite anticipating impacts from the coronavirus outbreak, management reiterated its guidance for 2020. However, it issued a soft second-quarter view on expectations of unprecedented COVID-19 impacts. It expects sales for the Beverage Concentrates and Latin America segments to reflect significant impacts from the pandemic in the second quarter.

Data Overview

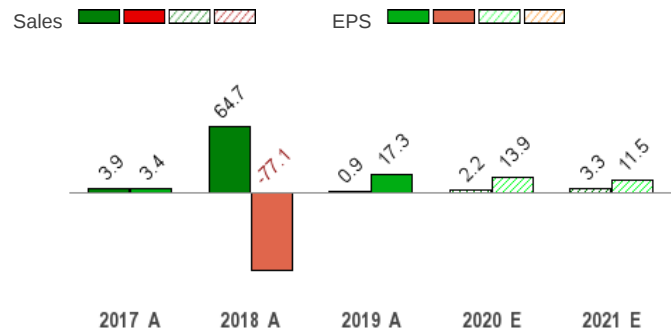
52 Week High-Low	\$32.00 - \$18.98
20 Day Average Volume (sh)	6,231,028
Market Cap	\$40.9 B
YTD Price Change	0.4%
Beta	0.62
Dividend / Div Yld	\$0.60 / 2.1%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Top 29% (74 out of 253)

Last EPS Surprise	7.4%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	08/13/2020
Earnings ESP	3.2%
P/E TTM	23.1
P/E F1	21.1
PEG F1	1.4
P/S TTM	3.6

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,645 E	2,943 E	3,059 E	3,124 E	11,747 E
2020	2,613 A	2,789 E	2,943 E	3,029 E	11,370 E
2019	2,504 A	2,812 A	2,870 A	2,934 A	11,120 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.32 E	\$0.37 E	\$0.41 E	\$0.45 E	\$1.55 E
2020	\$0.29 A	\$0.31 E	\$0.37 E	\$0.41 E	\$1.39 E
2019	\$0.25 A	\$0.30 A	\$0.32 A	\$0.35 A	\$1.22 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 06/18/2020. The reports text is as of 06/19/2020.

Overview

With dual headquarters in Burlington, MA, and Plano, TX, Keurig Dr Pepper Inc. was formed with the merger of Keurig Green Mountain and Dr Pepper Snapple Group Inc. on Jul 9, 2018.

Keurig Dr Pepper plans to upgrade to the Texas co-headquarters by relocating the Plano, TX office to a new facility at The Star in Frisco, TX. It will begin operating from the new Texas headquarters after its completion in 2021.

Keurig Dr Pepper is a beverage and coffee company in the United States and Canada, with annual revenues of more than \$11 billion. It sells its products through at-home and away-from-home channels to retailers, including supermarkets, department stores, mass merchandisers, club stores and convenience stores; and restaurants, hospitality accounts, office coffee distributors and partner brand owners, as well as to consumers through its websites.

The company is also a leader in soft drinks, specialty coffee and tea, water, juice and juice drinks and mixers, and markets the No.1 single-serve coffee brewing system in the United States. It offers a wide range of hot and cold beverages, including Keurig, Dr Pepper, Green Mountain Coffee Roasters, Canada Dry, Snapple, Bai, Mott's and The Original Donut Shop.

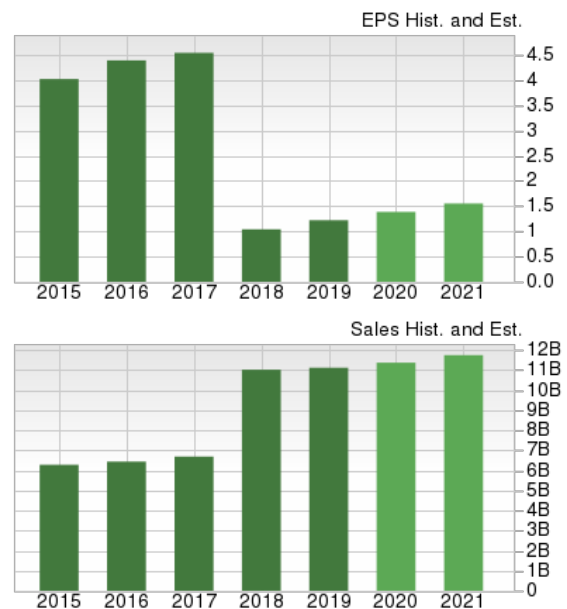
With over 25,000 employees, the company operates more than 120 offices, manufacturing plants, warehouses and distribution centers in North America. The company operates in four reportable segments:

Coffee Systems segment manufactures and distributes finished goods relating to its coffee system, pods and brewers, in the United States and Canada.

Packaged Beverages segment manufactures and distributes finished beverages and other products in the United States and Canada, through the Direct Store Delivery system and the Warehouse Direct system. Other products include the company's own brands and third-party brands.

Beverage Concentrates segment includes the sale of branded concentrates and syrup to third-party bottlers primarily in the United States and Canada. Most of the brands in this segment are carbonated soft drink brands.

Latin America Beverages segment manufactures and distributes concentrates, syrup and finished beverages in Mexico, the Caribbean, and other international markets.



Reasons To Buy:

- ▲ **Q1 Earnings Performance:** Keurig Dr Pepper reported better-than-expected first-quarter 2020 results, wherein both top and bottom lines improved year over year. Results reflected strong underlying sales growth across all segments, margin expansion and reduced costs, despite slight impact from the coronavirus outbreak in the final weeks of the quarter. Earnings improvement can be attributed to adjusted operating income growth, a reduced effective tax rate and a decline in interest expenses. Net sales growth reflected higher volume/mix of 5%, partially offset by an unfavorable net price realization of 0.5%. On a constant-currency basis, net sales increased 4.5% year over year. Volume/mix growth particularly reflected strength in packaged beverages, which benefited from gains related to the coronavirus outbreak in the latter part of the quarter. Adjusted operating income grew 10.1% year over year driven by strong net sales growth as well as solid productivity and merger synergies. Adjusted operating margin expanded 140 basis points (bps). Shares of Keurig Dr Pepper have gained 0.4% year to date outperforming the industry's 11.3% decline.
- ▲ **Coronavirus Aids Packaged Beverages Trend:** Keurig Dr Pepper witnessed robust top line growth in the first quarter, particularly due to solid volume/mix benefits from the Packaged Beverages segment. The segment reported sales growth of 9.1% in the first quarter driven by an 8.7% increase in volume/mix and 0.4% higher net price realizations. The segment's volume/mix growth is mainly attributed to strength in premium water, carbonated soft drinks (CSDs), juice and apple sauce, partially driven by increased demand as consumers stocked-up beverages late in the quarter due to the coronavirus pandemic. In the second quarter, sales in the Packaged Beverages segment is projected to remain flat with sturdy performance in CSDs and juices, partly offset by weakness in premium water as well as the convenience and gas channel.
- ▲ **Opportunity for the Coffee Business Amid the Pandemic:** The stay-at-home orders issued in March led to a change in consumers' behavior regarding what they are buying and where they are buying. The company believes these shifts may be lasting and may continue post crisis. One such shift is the shift to in-home consumption, which is likely to persist after the crisis. The company notes that there has been strong growth in in-home coffee consumption due to the work from home trend and the inability to visit coffee shops. Consequently, single-serve coffee witnessed 9% growth for the 13-weeks ended Apr 27, while it 21% in the last four weeks of the same period. Consequently, the company remains focused on expanding the categories with opportunities and driving growth to offset the decline in others. Notably, the company's single-serve coffee category is witnessing growth driven by a combination of the long-term trend of growing household penetration, combined with an increase in consumption per existing brewer. Moreover, the company expects sales for the coffee segment to be up mid-single digit in the second quarter, on the back of increased consumption in the at-home channels, as more and more people are now working from home. This is likely to offset the declines in the away-from-home channels, which hurt results in the first quarter.
- ▲ **Market Share Gains Reflect Strength:** Keurig Dr Pepper witnessed strong in-market performance across most of the business in the first quarter. The company witnessed dollar consumption growth, with market share gains across several major categories — CSD's3, shelf stable fruit drinks and shelf stable apple juice. The uptick was backed by strength in Dr Pepper and Canada Dry CSDs, CORE hydration and evian premium water, and Snapple juice drinks and Mott's apple juice. Further, in coffee, retail consumption for single-serve pods manufactured by KDP rose nearly 6% in channels tracked by IRI. The coffee business also witnessed robust growth in untracked channels. Further, the dollar market share in tracked channels in the United States was 81% in the first quarter.
- ▲ **View for 2020 Intact:** Given the uncertainty concerning the ongoing COVID-19 situation, Keurig Dr Pepper anticipates significant impacts on its 2020 results. Despite this, management reiterated its guidance for 2020, driven by a solid product portfolio and a robust distribution network. The company expects net sales growth to be at the lower end of 3-4% for 2020. However, it anticipates adjusted earnings per share of \$1.38-\$1.40, which suggest growth of 13-15%. Aggressive cost-containment actions, productivity improvement plans and gains from partnerships are expected to aid 2020 results.
- ▲ **Financial Stability:** Keurig Dr Pepper is displaying strength, with robust cash flow generation, which enables it to significantly pay down debt and offer shareholder value. In first quarter 2020, it generated free cash flows of \$464 million, resulting in an impressive adjusted free cash flow conversion rate of 115%. Driven by the strong cash flow, it paid down structured payables of \$107 million and reduced bank debt by \$42 million in the first quarter. Consequently, the company ended the quarter with \$197 million of cash and cash equivalents at the end of first-quarter 2020, reflecting a substantial growth sequentially. This resulted in total payments between debt and structural payables of \$1.8 billion in 2019. Lowered debt and adjusted EBITDA growth resulted in a debt-to-adjusted EBITDA ratio (management leverage ratio) of 4.2x at the end of first-quarter 2020, compared with 4.5x at the end of the prior-quarter. This indicates that the company is on track to rapidly deleverage to reach the long-term target leverage ratio of less than 3x. Moreover, the company expects leverage ratio of 3.5x to 3.8x at the end of 2020.
- As of Mar 31, 2020, the company's long term debt of \$12,431 million declined 3.1% sequentially. Moreover, its debt-to-capitalization ratio of 0.35 represents a sequential improvement from 0.36 as of Dec 31, 2019. Further, the debt-to-capitalization is favorable compared with the industry's ratio of 0.61 as on Mar 31, 2020. Moreover, the company is likely to stay afloat, amid the coronavirus pandemic, with a strategic refinancing completed in April 2020 that extends its debt maturities and enhances liquidity profile. This included a \$1.5 billion senior notes issuance and the refinancing and the doubling of its \$750 million, 364-day credit facility to \$1.5 billion of borrowing capacity.

Keurig Dr Pepper's first-quarter 2020 results reflected strong underlying sales growth across all segments, margin expansion and reduced costs, despite impacts from the coronavirus outbreak.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Keurig Dr Pepper looks pretty overvalued when compared with the broader sector and the S&P 500 Index. The stock has a trailing 12-month P/E ratio of 23.06x, which is below the median level of 23.53x and the high level of 27.6x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 20.7x for the sector and 20.05x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Impacts of Coronavirus:** While Keurig Dr Pepper reported a strong quarter overall, the impacts of the coronavirus outbreak in the final weeks of the quarter were felt across some segments. Although all segments reported sales growth in the first quarter, the company significant impacts on its fountain and foodservice business and office coffee business. In the first-quarter, the away-from-home coffee channel were significantly impacted late in the quarter due to office closures and hospitality shutdowns caused by the pandemic. Further, volume/mix for the Beverage Concentrates segment reflected a significant channel shift away from on-premise business as demand dropped quickly in the later part of the quarter, due to the outbreak, which resulted in closure restaurants and dine-outs. While the initial stocking-up trend benefited some categories in late March as people prepared for an extended stay-at-home, the trend has not repeated in April for most categories and in fact declined in many cases.
- ▼ **Soft Q2 Projections:** Although Keurig Dr Pepper retained its view for 2020, management issued a soft second-quarter 2020 view as it envisions the quarter to be badly hit by the unprecedented COVID-19 impacts. The company expects total net sales to remain flat in the second quarter. Segment-wise, the company expects sales for the Beverage Concentrates unit to be hurt by a drab fountain foodservice business due to continued sluggishness in the restaurant and hospitality space until they open and consumers become confident to step out. Net sales for this segment are likely to decline mid-teens in the second quarter. Also, the Latin America Beverages unit is anticipated to decline mid-teens on a reported basis, and remain flat on a constant-currency basis, owing to uncertain COVID-19 impacts and currency headwinds.
- ▼ **Currency Headwinds:** Keurig Dr Pepper's cross-border presence exposes it to unfavorable currency movements due to a strong U.S. dollar. Sales for Latin America Beverages included negative currency impact of 4.3% in first-quarter 2020. Moreover, adverse foreign currency translation is likely to have a significant impact on Latin America Beverages segment's reported net sales in the second quarter.

Keurig Dr Pepper issued a soft second-quarter 2020 view as it envisions the quarter to be badly hit by the unprecedented COVID-19 impacts. It expects total net sales to remain flat in the quarter.

Last Earnings Report

Keurig Dr Pepper Q1 Earnings & Sales Beat Estimates

Keurig Dr Pepper reported better-than-expected first-quarter 2020 results, wherein both top and bottom lines improved year over year. Results reflected strong underlying sales growth across all segments, margin expansion and reduced costs.

Given the uncertainty concerning the ongoing COVID-19 situation, the company anticipates significant impacts on its 2020 results. Despite this, management reiterated its guidance for 2020, driven by a solid product portfolio and a robust distribution network.

Adjusted earnings of 29 cents per share improved 16% year over year, surpassing the Zacks Consensus Estimate of 27 cents. This improvement was driven by adjusted operating income growth, a reduced effective tax rate and a decline in interest expenses.

Net sales of \$2,613 million exceeded the Zacks Consensus Estimate of \$2,569 million and grew 4.4% from net sales of \$2,504 million in the year-ago quarter. The increase was driven by a higher volume/mix of 5%, partially offset by an unfavorable net price realization of 0.5%. On a constant-currency basis, net sales increased 4.5% year over year. Robust performance in all segments along with strength in packaged beverages contributed to top-line growth.

In the first quarter, the company benefited from a strong in-market performance. Keurig Dr Pepper witnessed dollar consumption growth, with market share gains across several major categories — CSD's3, shelf stable fruit drinks and shelf stable apple juice. The uptick was backed by strength in Dr Pepper and Canada Dry CSDs, CORE hydration and evian premium water, and Snapple juice drinks and Motts apple juice. Further, in coffee, retail consumption for single-serve pods manufactured by KDP rose nearly 6% in channels tracked by IRI. The coffee business also witnessed robust growth in untracked channels. Further, the dollar market share in tracked channels in the United States was 81% in the first quarter.

Adjusted operating income grew 10.1% year over year to \$684 million, driven by strong net sales growth as well as solid productivity and merger synergies. Meanwhile, adjusted operating margin expanded 140 basis points (bps) to 26.2%.

Segmental Details

Sales at the **Beverage Concentrates** segment rose 0.7% year over year to \$306 million compared with \$304 million in the year-ago period. Net revenues primarily benefited from 2.4% higher net price realizations, somewhat offset by 1.7% unfavorable volume/mix.

Sales at the **Packaged Beverages** segment totaled \$1.22 billion, up 9.1% from net sales of \$1.12 billion in the year-ago quarter. This can be primarily attributed to an 8.7% increase in volume/mix and 0.4% higher net price realizations.

Sales from the **Latin America** Beverages segment improved 0.9% to \$117 million compared with \$116 million in the prior-year quarter. This was on account of a 5.9% rise in price realization, partly offset by unfavorable volume/mix of 0.7% and foreign currency translation of 4.3%.

The Coffee Systems segment's sales increased 0.5% to \$973 million from \$968 million in the year-ago quarter. The increase was backed by improved volume/mix of 3.7% and favorable foreign currency translation of 0.1%, somewhat offset by net price realization of 3.3%. Volume/mix grew 3.7%, benefiting from a 5.6% increase in pod volumes, while brewer volumes declined 2.4%.

Financials

Keurig Dr Pepper ended first-quarter 2020 with cash and cash equivalents of \$197 million as of Mar 31, 2020. Long-term obligations totaled \$12,431 million and total stockholders' equity was \$22,640 million. Net cash provided by operating activities totaled \$414 million as of Mar 31.

Outlook

Keurig Dr Pepper retained guidance for 2020. The company anticipates adjusted earnings per share of \$1.38-\$1.40, which suggest growth of 13-15%. Aggressive cost-containment actions, productivity improvement plans and gains from partnerships are expected to aid 2020 results. The company expects net sales growth to be at the lower end of 3-4% for 2020. Additionally, the company still expects a leverage ratio of 3.5 to 3.8 at the end of 2020. Further, it reiterated its leverage ratio target of less than 3.0 in two to three years, since the closing of the merger in July 2018.

Further, management issued a soft second-quarter 2020 view as it envisions the quarter to be badly hit by the unprecedented COVID-19 impacts. Segment-wise, the company expects sales for the Beverage Concentrates unit to be hurt by a drab fountain foodservice business due to sluggishness in the restaurant and hospitality space. Net sales for this segment are likely to decline mid-teens in the second quarter. Also, the Latin America Beverages unit is anticipated to remain flat, on a constant-currency basis, owing to uncertain COVID-19 impacts and currency headwinds. Meanwhile, sales for the coffee unit are anticipated to be up mid-single digit on the back of increased consumption, as more and more people are now working from home. Moreover, sales in the Packaged Beverages segment is projected to remain flat with sturdy performance in CSDs and juices, partly offset by weakness in premium water as well as the convenience and gas channel. Consequently, the company expects total net sales to remain flat in the second quarter.

Quarter Ending **03/2020**

Report Date	Apr 27, 2020
Sales Surprise	1.71%
EPS Surprise	7.41%
Quarterly EPS	0.29
Annual EPS (TTM)	1.26

Recent News

Keurig Dr Pepper Approves Quarterly Dividend - Apr 29, 2020

Keurig Dr Pepper's board has approved dividend of 15 cents per share to be payable on Jul 17 as of shareholders record on Jul 3.

Keurig Dr Pepper Unveils Strategic Refinancing Program – Apr 7, 2020

To enhance its financial position, Keurig Dr Pepper recently announced a strategic refinancing program. The program is aimed at extending the company's debt maturities and enhancing its liquidity position. Also, it has initiated a public offering of senior notes, subject to market and other customary conditions. The company expects to utilize net proceeds from the sale of the notes to repay short-term commercial paper notes and current borrowings under its existing revolving credit facilities.

Further, this renowned beverage company is refinancing and expanding its already existing revolving credit facility. Nevertheless, the company's strategic refinancing plans are expected to keep its debt balance and deleveraging commitments unchanged.

Valuation

Keurig Dr Pepper shares are up 0.4% in the year-to-date period but down 6% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 11.3% and 11.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 11% and 8.5%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period but up 5.4% in the past year.

The stock is currently trading at 19.86X forward 12-month earnings, which compares to 22.73X for the Zacks sub-industry, 19.83X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.56X and as low as 4.18X, with a 5-year median of 20.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 21.19X forward 12-month earnings.

The table below shows summary valuation data for KDP

Valuation Multiples - KDP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.86	22.73	19.83	22.4
	5-Year High	24.56	23.2	22.37	22.4
	5-Year Low	4.18	18.37	16.65	15.23
	5-Year Median	20.37	21.52	19.66	17.49
P/S F12M	Current	3.54	4.4	9.57	3.49
	5-Year High	24.43	5.31	11.16	3.49
	5-Year Low	2.2	3.64	8.1	2.53
	5-Year Median	2.75	4.48	9.89	3.02
EV/EBITDA TTM	Current	14.62	18.36	33.84	11.53
	5-Year High	30.27	20.73	45.11	12.85
	5-Year Low	6.08	12.21	27.19	8.25
	5-Year Median	13.39	17.66	38.38	10.82

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Top 29% (74 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
CocaCola Company The (KO)	Neutral	4
Monster Beverage Corporation (MNST)	Neutral	3
Nestle SA (NSRGY)	Neutral	3
PepsiCo, Inc. (PEP)	Neutral	3
Starbucks Corporation (SBUX)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	KDP	X Industry	S&P 500	KO	MNST	PEP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	A	-	-	D	B	D
Market Cap	40.89 B	162.93 M	21.93 B	201.82 B	36.71 B	184.23 B
# of Analysts	8	1.5	14	8	8	8
Dividend Yield	2.06%	0.00%	1.93%	3.49%	0.00%	3.08%
Value Score	C	-	-	D	D	D
Cash/Price	0.01	0.09	0.06	0.09	0.03	0.06
EV/EBITDA	17.43	5.48	12.69	16.43	24.16	16.18
PEG Ratio	1.39	5.08	2.97	5.35	4.27	5.08
Price/Book (P/B)	1.81	2.48	3.02	10.17	9.48	13.59
Price/Cash Flow (P/CF)	16.86	10.65	11.62	19.23	31.96	18.14
P/E (F1)	21.26	23.85	21.45	25.71	33.70	24.95
Price/Sales (P/S)	3.64	1.89	2.33	5.43	8.50	2.70
Earnings Yield	4.75%	3.91%	4.37%	3.89%	2.97%	4.01%
Debt/Equity	0.55	0.22	0.77	1.57	0.00	2.61
Cash Flow (\$/share)	1.72	0.31	7.01	2.44	2.18	7.32
Growth Score	A	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	-26.61%	8.19%	10.87%	1.54%	19.54%	5.38%
Proj. EPS Growth (F1/F0)	13.52%	-5.97%	-10.65%	-13.39%	1.91%	-3.75%
Curr. Cash Flow Growth	26.76%	9.45%	5.46%	4.40%	9.91%	-2.46%
Hist. Cash Flow Growth (3-5 yrs)	22.17%	8.15%	8.55%	-1.10%	18.17%	1.04%
Current Ratio	0.33	1.32	1.29	0.87	2.92	1.10
Debt/Capital	35.44%	35.12%	45.14%	61.06%	0.00%	72.28%
Net Margin	10.51%	-0.33%	10.53%	26.95%	26.07%	10.62%
Return on Equity	7.71%	7.71%	16.06%	45.26%	27.77%	55.74%
Sales/Assets	0.23	0.85	0.55	0.42	0.85	0.86
Proj. Sales Growth (F1/F0)	2.25%	0.00%	-2.61%	-8.37%	2.09%	0.64%
Momentum Score	A	-	-	C	C	D
Daily Price Chg	1.11%	0.00%	-0.07%	0.88%	0.24%	0.77%
1 Week Price Chg	-1.99%	-3.48%	-7.25%	-7.11%	-5.44%	-2.60%
4 Week Price Chg	8.11%	13.73%	6.92%	4.03%	1.97%	1.97%
12 Week Price Chg	17.23%	20.33%	16.91%	6.10%	20.52%	10.41%
52 Week Price Chg	-5.99%	-19.20%	-5.63%	-9.04%	9.74%	-1.03%
20 Day Average Volume	6,231,028	204,512	2,574,456	17,978,354	2,053,495	5,611,654
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.36%	0.00%	0.00%	0.00%	0.42%	0.00%
(F1) EPS Est 12 week change	-0.63%	-12.28%	-14.21%	-15.35%	-9.21%	-8.82%
(Q1) EPS Est Mthly Chg	0.46%	0.00%	0.00%	0.00%	0.79%	0.00%

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	C
Growth Score	A
Momentum Score	A
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.

Disclosures

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