

Lockheed Martin(LMT)

\$394.08 (As of 07/22/20)

Price Target (6-12 Months): **\$418.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: F

Summary

Lockheed Martin ended the second quarter of 2020 on a solid note, with both its top and bottom lines surpassing the respective Zacks Consensus Estimate. It enjoys strong demand for its high-end military equipment in domestic and international markets, being the world's largest defense contractor. Expansionary budgetary provisions made by the U.S. administration will immensely boost this defense prime's business. It continues to be a strong cash generator. In a year's time, Lockheed Martin has outperformed the industry. However, forced cost reduction initiatives for F-35 program might hamper its operating results. America and Turkey's tiff on the later accepting Russian products may hurt Lockheed's component supply from Turkey. It is facing performance issues in relation to some of its products, which in turn may hurt its results.

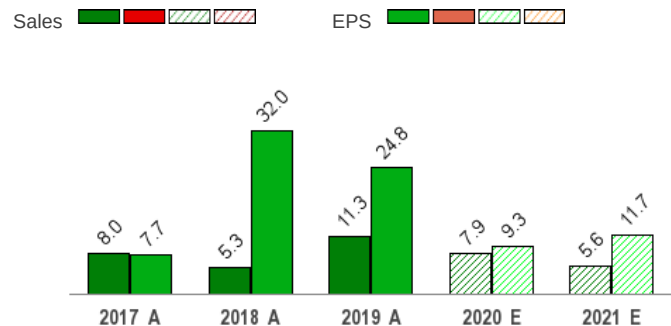
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$442.53 - \$266.11
20 Day Average Volume (sh)	1,490,016
Market Cap	\$110.5 B
YTD Price Change	1.2%
Beta	0.95
Dividend / Div Yld	\$9.60 / 2.4%
Industry	Aerospace - Defense
Zacks Industry Rank	Bottom 21% (200 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.4%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	10/27/2020
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	16,534 E	16,226 E	17,265 E	17,753 E	68,120 E
2020	15,651 A	16,220 A	16,069 E	16,559 E	64,526 E
2019	14,336 A	14,427 A	15,171 A	15,878 A	59,812 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$6.49 E	\$6.32 E	\$7.03 E	\$6.95 E	\$26.80 E
2020	\$6.08 A	\$6.13 A	\$6.09 E	\$6.24 E	\$23.99 E
2019	\$5.99 A	\$5.00 A	\$5.66 A	\$5.29 A	\$21.95 A

*Quarterly figures may not add up to annual.

P/E TTM	17.0
P/E F1	16.4
PEG F1	2.3
P/S TTM	1.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

Overview

Lockheed Martin Corporation is the largest defense contractor in the world. Its main areas of focus are in defense, space, intelligence, homeland security and information technology including cyber security. In 2019, 71% of the company's net sales were from the U.S. Government (including 61% from the Department of Defense (DoD)), 28% from international customers and 1% from U.S. commercial and other customers. Lockheed Martin currently operates through four businesses — Aeronautics, Missiles and Fire Control (MFC), Rotary and Missions Systems (RMS) and Space Systems.

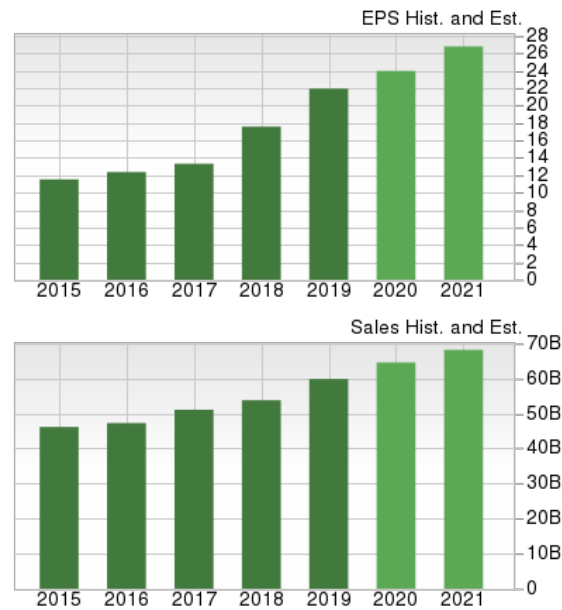
The company's **Aeronautics** is engaged in the design, research and development, systems integration, production and support of advanced military aircraft and related technologies. This segment includes programs like F-35 Lightning II Joint Strike Fighter; C-130 Hercules; F-16 Fighting Falcon; F-22 Raptor; and C-5M Super Galaxy. It generated sales of \$23.69 billion in 2019, accounting for 39.6% of the total sales.

In Lockheed Martin's **MFC** business, headquartered in Dallas, some of its high-profile programs include the Terminal High Altitude Area Defense System, Joint Light Tactical Vehicle, PAC-3 Missiles, as well as logistics and other technical services from GTL. It generated sales of \$10.13 billion in 2019, constituting 16.9% of total sales.

In its **RMS** business, headquartered in Washington, DC, some of its high-profile programs include the Aegis Combat System, Littoral Combat Ship, MH-60 helicopter avionics, as well as military and commercial orders. It generated sales of \$15.12 billion in 2019, comprising 25.3% of the total sales.

The company's **Space Systems** is engaged in the design, development, engineering, and production of commercial and military space systems. It generated sales of \$10.86 billion in 2019 or 18.2% of the total sales.

Lockheed Martin ended the second quarter (on June 28, 2020) with \$150.3 billion in backlog.



Reasons To Buy:

- ▲ **Solid Order Growth:** Keeping up with its trend of securing big contracts from the Pentagon, Lockheed Martin was successful in clinching several notable deals during the second quarter. These include a modification contract, worth \$1.04 billion for supporting the Phased Array Tracking to Intercept Of Target (PATRIOT) Advanced Capability-3 (PAC-3) missile program. The company also won a \$1-billion deal for delivering five C-130J-30 Super Hercules transport aircraft to the military of New Zealand. Moreover, the company clinched a \$904.8 million modification contract for the production and delivery of three MH-60R aircraft to the U.S. Navy and 21 of these maritime aircraft to the government of India. Also, during the second quarter, its Aeronautics business division secured a \$393.8-million modification deal to produce Ancillary Mission Equipment (AME)/Pilot Flight Equipment (PFE) and associated AME/PFE initial spares for supporting the 14th lot of the F-35 aircraft. Such significant contract wins bolster revenue growth prospects for Lockheed Martin over the long run, thereby enabling it to outperform the industry. Consequently, the company's total backlog of \$150.3 billion during the second quarter reached a record level for the eighth consecutive quarter, registering sequential growth of 4.3%. Such developments may have boosted investors' confidence in the stock. In a year's time, shares of Lockheed Martin have gained 4.8% against the industry's decline of 31.5%.
- ▲ **F-35 - A Prime Program:** Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT programs. Notably, the F-35 program continues to be a key growth driver for the company, having added 411 production aircraft in backlog as of Jun 28, 2020. The company's Aeronautics unit witnessed 17% annual top-line growth in the second quarter, with the F-35 program being a prime contributor and 25 F-35 jets being delivered during the quarter. Looking ahead, Lockheed expects Aeronautics' 2020 net sales to increase in the high-single digit percentage range from 2019 levels, driven by increased volume on the F-35 program.
- With the company consistently increasing production of F-35 jets, delivery figures and contract acquisitions are expected to rise in the coming days, enabling Lockheed Martin to meet its target of achieving full-rate production for F-35 over the next few years. Moreover, production of the F-35 jets is expected to continue for many years ahead, given the U.S. government's current inventory target of 2,456 aircraft for the Air Force, Marine Corps and Navy. Consequently, we may expect Lockheed Martin to witness more order inflows for F-35, in coming days, which in turn should significantly bolster this defense contractor's top line.
- ▲ **Impressive Budgetary Attributes:** As part of the fiscal 2021 proposed defense budget, \$740.5 billion is being kept as funding for the Pentagon, reflecting 3% growth from the fiscal 2020 budget. This increased spending provision highlights the U.S. government's decision to spend more on defense primes like Lockheed Martin. Notably, the budget has allotted \$11.4 billion for the procurement of 79 F-35 Joint Strike Fighters. The financial plan also includes an investment of \$1.1 billion for the procurement of AEGIS Ballistic Missile Defense system and \$0.92 billion for THAAD missiles. All these expansionary budgetary provisions will immensely boost this defense prime's business.
- ▲ **International Foray:** Apart from enjoying a strong forte in the domestic front, Lockheed Martin's products are also well acclaimed in the international market. In recent times, the company is witnessing increased demand for its THAAD missiles from the Kingdom of Saudi Arabia (KSA). Moreover, PAC-3 programs are undergoing production and sustainment activities in the KSA, UAE, Qatar, the Republic of Korea, Japan and Taiwan. Moreover, for its F-35 program, Poland has committed to receive 32 such jets, while the company is witnessing increased growth opportunities for this fighter jet in Finland, Switzerland and Spain. During the second quarter, the company's RMS unit secured orders worth more than \$1 billion to support and supply 24 MH-60 Romeo helicopters to the government of India. Such developments should boost the company's international sales in the days ahead and aid long-term growth, with more and more nations strengthening their defense arsenals across the world.
- ▲ **Stable Liquidity Position:** Lockheed Martin's cash and cash equivalent at the end of second-quarter 2020 was \$2.86 billion compared with \$1.99 billion at March 2020 end. On the other hand, the company's long-term debt as of Jun 28, 2020 was \$12.17 billion, up sequentially. Although the long-term debt level lies much above the company's cash reserve, its current debt worth \$0.5 billion as of Jun 28, 2020 is tad lower than the cash reserve. This reflects the company's capability to duly meet its obligations over the short run.

Moreover, the company's current ratio as of Jun 28, 2020, is 1.31, which being more than 1, indicates that this defense major has sufficient capital on hand to meet its short-term obligations. It has also improved sequentially. Further, Lockheed's times interest earned ratio improved sequentially from 12.6 to 13.3 at the end of the second quarter. All these favorable ratio levels make us optimistic about the company's ability to meet debt obligations in the near future. Such stable liquidity position enables Lockheed Martin to take important cash deployment decisions. During the second quarter, the company bought back 0.7 million shares for \$259 million and paid out dividends worth \$671 million to its shareholders, an increase of 7.9% year over year.

Lockheed Martin is the largest U.S. defense contractor with a platform-centric focus that guarantees a steady inflow of follow-on orders from a leveraged presence in the Army, Air Force, Navy and IT program

Reasons To Sell:

▼ **Tiff with Turkey:** On July 17, 2019, the U.S. Government suspended Turkey's participation in the F-35 program and initiated the process to formally remove Turkey from the program, since Turkey accepted delivery of the Russian S-400 air and missile defense system. As of Mar 31, 2020, although the U.S. administration has not imposed sanctions on Turkish entities involved in the S-400 procurement, there remains a chance of new sanction provisions targeted at Turkey, if the "Promoting American National Security and Preventing the Resurgence of ISIS Act of 2019" gets approved by Congress in 2020. To this end, if this bill gets enacted and a step is taken against Turkey, Lockheed Martin's programs involving Turkey will get affected.

F-35 program's cost issues, issues with Turkey and intense competition might hurt the company's growth trajectory.

Notably, Turkish suppliers also produce component parts for the F-35 program, many of which are single-sourced. Therefore, in case of any sanction imposed on Turkey, Lockheed Martin's operating results, financial position or cash flows might get adversely impacted.

▼ **Cost Issues of F-35:** The F-35 program or the Joint Strike Fighter Program was conceived and developed by the U.S. and its allies to replace the ageing F-16s and other older fighter jets in their fleet. It is the largest as well as the costliest U.S. weapons system. As this program represents around 27% of the company's total sales, which are expected to go up in days ahead, any decision to cut spending or reduce planned orders could have an adverse impact on its financial results.

In fact, President Trump had earlier expressed his concerns for this program, claiming it to be an 'overtly expensive' one. To this end, the company has already reduced the cost structure for this jet and now plans to reduce to \$80 million or less per plane by 2020. However, the F-35A, the most common version of the aircraft, is expected to cost \$82.4 million per unit in 2020, per a report by Reuters. Moreover, according to the Defense Department's latest annual program overview, the company must find ways to reduce the Pentagon's current \$1.1 trillion estimate to own and operate the F-35 jets. Such forced cost reduction initiatives might hamper the operating results of the company.

▼ **Rising Competition:** Lockheed Martin faces intense competition for its broad portfolio of products and services, both in the domestic front as well as the global market. Particularly, it faces competitive threat from various smaller competitors, particularly in some of its services businesses. Moreover, information technology procurements are increasingly focusing on price over other competitive factors.

▼ **COVID-19 Impacts:** Although the pandemic did not have a material impact on Lockheed Martin's operating results or business in the second quarter of 2020, its ongoing and prolonged impacts may be a cause of concern and might dent the company's performance in the coming days. Notably, the company experienced impacts in each of its business areas related to COVID-19, primarily increased coronavirus-related costs, delays in supplier deliveries, impacts of travel restrictions and the impacts of remote work and adjusted work schedules. Moreover, its operations have been adjusted in response to the pandemic, including, most significantly, a reduction in the F-35 production rate primarily owing to supplier delays and a temporary schedule adjustment for the F-35 production workforce in Fort Worth, TX. Given the ongoing coronavirus impact, additional production delays, facility closures, work slowdowns, or temporary stoppages could occur, thereby affecting Lockheed.

In many cases, the facilities are understaffed as a result of COVID-19, which could have an indeterminate longer-term impact on Lockheed's results. Flight test operations and training have also been impacted by travel restrictions as a result of COVID-19, which has delayed some deliveries to customers. Further, other milestones of affected programs could face the impact of the extended period of global supply-chain disruption. Since the pandemic is unlikely to die out anytime soon, the growth of the stock could be hampered.

▼ **Program Issues:** Lockheed's EADGE-T program, used to design, integrate, and install an air missile defense command, control, communications, computers-intelligence (C4I) system, has been experiencing performance issues. As of second quarter end, cumulative losses related to this remained at approximately \$260 million. The company has also been experiencing performance issues related to the development and integration of a modernized LM 2100 satellite platform. Cumulative losses remained at approximately \$410 million for this program, at June 2020 end. If no positive developments are made on these loss-incurring programs, it might weigh on the company's operating results.

Last Earnings Report

Lockheed Martin Beats on Q2 Earnings, Hikes 2020 View

Lockheed Martin reported second-quarter 2020 adjusted earnings of \$6.13 per share, which surpassed the Zacks Consensus Estimate of \$5.71 by 7.4%.

Including an impairment charge of 34 cents, the company reported earnings of \$5.79 per share. The bottom line also improved 15.8% from the year-ago quarter's \$5. This year-over-year upside can be attributed to higher sales.

Quarter Ending 06/2020

Report Date	Jul 21, 2020
Sales Surprise	6.46%
EPS Surprise	7.36%
Quarterly EPS	6.13
Annual EPS (TTM)	23.16

Operational Highlights

In the reported quarter, net sales amounted to \$16,220 million, which outshined the Zacks Consensus Estimate of \$15,235 million by 6.4%. The reported figure also increased 12.4% from \$14,427 million a year ago, driven by sales growth in all its segments.

Backlog

Lockheed Martin ended the second quarter (on Jun 28, 2020) with \$150.3 billion in backlog, up 4.4% from \$144 billion at the end of 2019. Of this, the Aeronautics segment accounted for \$56.2 billion, while Rotary and Mission Systems contributed \$37.2 billion. Space Systems contributed \$25.9 billion and \$31 billion came from the Missiles and Fire Control segment.

Segmental Performance

Aeronautics: Sales increased 17% year over year to \$6.53 billion, primarily driven by higher net sales from the F-35 programs. Also, higher volume of classified development contracts contributed to sales growth at this unit.

The segment's operating profit improved 25% year over year to \$739 million. Operating margin expanded 70 basis points (bps) to 11.4%.

Missiles and Fire Control: Quarterly sales improved 16% year over year to \$2.80 billion owing to higher sales from tactical and strike missile programs as well as integrated air and missile defense programs.

The segment's operating profit increased 13% year over year to \$370 million, whereas operating margin contracted 40 bps to 13.2%.

Rotary and Mission Systems: Quarterly sales of \$4.04 billion improved 7% from the prior-year quarter on account of higher sales for Sikorsky helicopter programs driven by Seahawk production programs and VH-92A production contracts.

The segment's operating profit improved 24% year over year to \$429 million, while operating margin contracted 140 bps to 10.6%.

Space Systems: Sales rose 7% year over year to about \$2.87 billion in the first quarter. The uptick was driven by government satellite programs as well as strategic and missile defense programs.

The segment's operating profit declined 13% to \$252 million. Operating margin contracted 190 bps to 8.8% in the reported quarter.

Financial Condition

Lockheed Martin's cash and cash equivalents totaled \$2.86 billion as of Jun 28, 2020, compared with \$1.51 billion at the end of 2019. Long-term debt was \$12.17 billion, higher than the prior-year-end level of \$11.40 billion.

Cash from operations at the end of second-quarter 2020 amounted to \$4.50 billion compared with \$3.33 billion a year ago.

During the reported quarter, the company repurchased 0.7 million shares for \$259 million compared with the buyback of 0.6 million shares for \$219 million in the year-ago quarter.

Lockheed Martin paid out dividends worth \$671 million to its shareholders in the second quarter compared with the year-ago quarter's figure of \$622 million.

Guidance

For 2020, Lockheed Martin has raised its financial guidance. The company currently expects to generate revenues of \$63.50-\$65 billion, higher than the range of \$62.25-\$64 billion projected earlier. The Zacks Consensus Estimate for full-year revenues, pegged at \$63.51 billion, lies below the midpoint of the updated guidance.

Earnings per share are currently anticipated to be in the band of \$23.75-\$24.05 for 2020, compared with the earlier range of \$23.65-\$23.95. The Zacks Consensus Estimate for the company's full-year earnings, pegged at \$24.05, is in line with the higher end of the guidance range.

Recent News

On **Jun 30, 2020**, Lockheed Martin's business unit, Aeronautics won a modification contract to procure four F-35C Carrier Variant aircraft for the Navy. Work related to this deal is expected to be completed by May 2023.

The majority of the task will be executed in Fort Worth, TX. Valued at \$360.8 million, the contract was awarded by the Naval Air Systems Command, Patuxent River, MD.

On **Jun 22, 2020**, Lockheed announced that the U.S. Space Force's fifth Space Based Infrared System Geosynchronous Earth Orbit satellite successfully completed Thermal Vacuum (TVAC) testing at Lockheed Martin's Sunnyvale satellite manufacturing facility. Completing TVAC was a significant milestone for the first military space satellite to be built on one of Lockheed Martin's modernized LM 2100 satellite buses.

On **June 10, 2020**, Lockheed Martin Corp. secured a modification contract for supporting the Phased Array Tracking to Intercept Of Target (PATRIOT) Advanced Capability-3 (PAC-3) missile program. Work related to the deal is scheduled to be over by Oct 31, 2024.

Valued at \$1.04 billion, the contract was awarded by the U.S. Army Contracting Command, Red Stone Arsenal, AL. Per the terms of the deal, Lockheed will provide incidental services, hardware, facilities, equipment, and all technical, planning, management, manufacturing, and testing to produce PAC-3 missiles.

On **June 4, 2020**, Per major media sources, Lockheed Martin Corp. secured a \$1-billion deal for delivering five C-130J-30 Super Hercules transport aircraft to the military of New Zealand. Further, Lockheed Martin's Aeronautics division will deliver a full mission flight simulator and other supporting infrastructure as New Zealand's military seeks to replace its existing aircraft fleet.

The company will deliver the first of the new Super Hercules aircraft in 2024, with the full fleet operating from 2025.

Valuation

Lockheed Martin's shares are up 1.2% in the year-to-date period and 6.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are down 21.9% and 28.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 28.2% while the sector is down 30.3%.

The S&P 500 index is up 1.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 15.5X of forward 12-month earnings, which compares to 22.5X for the Zacks sub-industry, 21X for the Zacks sector and 23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.4X and as low as 11.2X, with a 5-year median of 18.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$418 price target reflects 16.4X forward 12-month earnings.

The table below shows summary valuation data for LMT

Valuation Multiples - LMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.46	22.54	20.96	23
	5-Year High	25.36	14.52	20.96	23
	5-Year Low	11.22	17.73	14.17	15.25
	5-Year Median	18.05	20.73	17.19	17.52
P/S F12M	Current	1.69	1.3	1.18	3.61
	5-Year High	2.01	1.64	1.49	3.61
	5-Year Low	1.21	0.95	0.92	2.53
	5-Year Median	1.59	1.28	1.18	3.02
EV/EBITDA TTM	Current	12.71	19.6	11.65	12.12
	5-Year High	15.29	22.03	14.98	12.86
	5-Year Low	7.79	8.12	7.39	8.25
	5-Year Median	12.17	11.79	10.56	10.88

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Boeing Company (BA)	Neutral	4
Airbus Group (EADSY)	Neutral	3
General Dynamics Corporation (GD)	Neutral	4
Huntington Ingalls Industries, Inc. (HII)	Neutral	4
Leidos Holdings, Inc. (LDOS)	Neutral	3
Northrop Grumman Corporation (NOC)	Neutral	3
Safran SA (SAFAY)	Neutral	3
Textron Inc. (TXT)	Neutral	3

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	LMT	X Industry	S&P 500	EADSY	GD	NOC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	A	-	-	A	D	D
Market Cap	110.51 B	9.45 B	22.74 B	60.69 B	43.47 B	52.68 B
# of Analysts	5	6	14	1	8	7
Dividend Yield	2.44%	0.82%	1.81%	0.00%	2.90%	1.84%
Value Score	B	-	-	A	C	C
Cash/Price	0.02	0.09	0.06	0.27	0.12	0.06
EV/EBITDA	13.29	10.68	13.19	12.87	9.30	15.87
PEG Ratio	2.32	2.45	3.05	NA	2.53	NA
Price/Book (P/B)	29.19	3.27	3.14	8.98	3.29	5.81
Price/Cash Flow (P/CF)	14.98	10.18	12.31	8.31	10.18	11.46
P/E (F1)	16.43	16.42	22.34	52.30	13.61	14.29
Price/Sales (P/S)	1.76	1.12	2.40	0.80	1.12	1.54
Earnings Yield	6.09%	4.05%	4.27%	1.91%	7.35%	7.00%
Debt/Equity	3.22	0.93	0.75	2.62	0.98	1.72
Cash Flow (\$/share)	26.30	2.73	6.94	2.33	14.89	27.58
Growth Score	A	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	17.30%	14.53%	10.82%	10.94%	6.71%	23.40%
Proj. EPS Growth (F1/F0)	9.31%	1.87%	-9.08%	-71.09%	-7.05%	4.28%
Curr. Cash Flow Growth	18.08%	11.64%	5.51%	11.92%	3.16%	2.21%
Hist. Cash Flow Growth (3-5 yrs)	9.70%	7.38%	8.55%	5.74%	6.36%	14.43%
Current Ratio	1.31	1.30	1.30	0.91	1.34	1.29
Debt/Capital	76.28%	49.52%	44.41%	72.37%	49.52%	63.22%
Net Margin	10.25%	5.82%	10.46%	-2.70%	8.87%	6.57%
Return on Equity	182.05%	14.12%	15.29%	60.46%	25.92%	39.22%
Sales/Assets	1.29	0.81	0.54	0.60	0.78	0.83
Proj. Sales Growth (F1/F0)	7.88%	0.00%	-2.27%	-31.83%	-1.48%	3.99%
Momentum Score	F	-	-	A	C	D
Daily Price Chg	5.05%	0.95%	0.60%	0.31%	2.52%	2.53%
1 Week Price Chg	5.51%	3.62%	3.82%	2.66%	4.89%	5.08%
4 Week Price Chg	9.52%	5.18%	7.55%	9.32%	3.47%	4.67%
12 Week Price Chg	1.59%	5.56%	7.51%	22.70%	10.89%	-4.77%
52 Week Price Chg	6.83%	-21.19%	-3.37%	-47.56%	-19.24%	-7.86%
20 Day Average Volume	1,490,016	653,380	2,037,153	303,282	1,170,274	1,003,478
(F1) EPS Est 1 week change	-0.03%	0.00%	0.00%	254.17%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.03%	0.00%	0.14%	254.17%	-0.28%	0.00%
(F1) EPS Est 12 week change	0.36%	-5.14%	-3.51%	143.53%	-5.14%	-3.69%
(Q1) EPS Est Mthly Chg	-1.16%	0.00%	0.00%	NA	0.14%	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	B
Growth Score	A
Momentum Score	F
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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