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Dec 04, 2020

LPL Financial Holdings (LPLA)

$98.64 (As of 12/03/20)

Price Target (6-12 Months): **$104.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/31/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: B | Growth: C | Momentum: C	

Summary

Shares of LPL Financial have underperformed the industry over the past six months. Its earnings beat the Zacks Consensus Estimate in each of the trailing four quarters. Its strategic buyouts including planned acquisition of Waddell & Reed's wealth management busienss will likely continue to support financials and reflect strong balance sheet position. Solid advisor productivity and recruiting efforts are likely to continue aiding the company's advisory revenues amid economic slowdown. However, persistently rising expenses, mainly due to higher compensation and benefit costs, are likely to hurt the bottom line. Uncertainty regarding the performance of the capital markets can hurt commission revenues, which comprise a significant portion of net revenues. The presence of substantial amounts of goodwill on the balance sheet remains a woe.

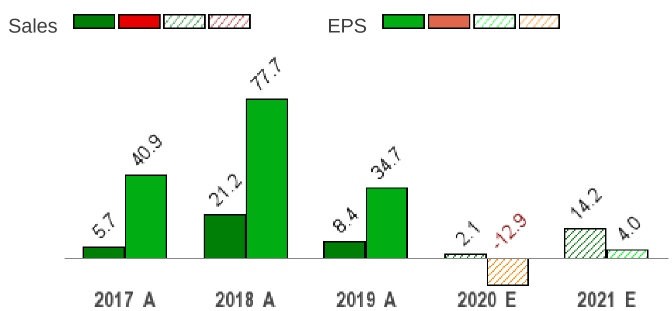
Price, Consensus & Surprise

Source: Zacks Investment Research

Data Overview

52-Week High-Low	**$101.96 - $32.01**
20-Day Average Volume (Shares)	**724,690**
Market Cap	**$7.8 B**
Year-To-Date Price Change	**6.9%**
Beta	**1.49**
Dividend / Dividend Yield	**$1.00 / 1.0%**
Industry	**Financial - Investment Bank**
Zacks Industry Rank	**Top 9% (23 out of 254)**
Last EPS Surprise	**15.2%**
Last Sales Surprise	**0.6%**
EPS F1 Estimate 4-Week Change	**0.3%**
Expected Report Date	**02/04/2021**
Earnings ESP	**5.5%**
P/E TTM	**14.9**
P/E F1	**15.8**
PEG F1	**NA**
P/S TTM	**1.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					6,557 E
2020	1,463 A	1,367 A	1,460 A	1,487 E	5,743 E
2019	1,372 A	1,390 A	1,416 A	1,448 A	5,625 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$1.63 E	$1.72 E	$1.63 E	$1.71 E	$6.50 E
2020	$2.06 A	$1.42 A	$1.44 A	$1.31 E	$6.25 E
2019	$1.93 A	$1.85 A	$1.71 A	$1.68 A	$7.18 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 12/03/2020. The reports text is as of 12/04/2020.

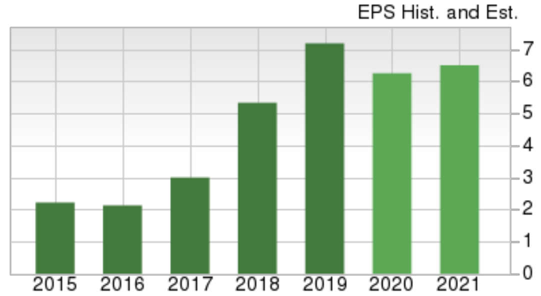
Overview

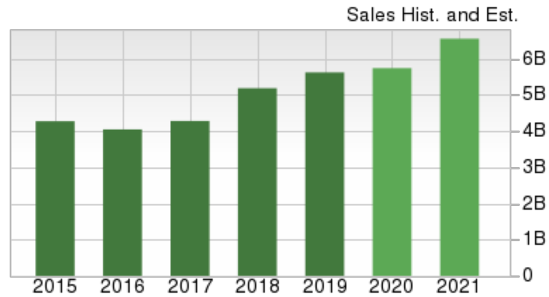
LPL Financial Holdings Inc. is based in Boston, MA. It was incorporated in Delaware in 2005. It is a clearing broker-dealer and an investment advisory firm that acts as an agent for its advisors, on behalf of their clients, by providing access to a broad array of financial products and services.

LPL Financial conducts business through its subsidiaries. Its broker-dealer subsidiary, *LPL Financial LLC*, began operations in 1989. Through *Private Trust Company, N.A.*, it offers trust administration, investment management oversight and Individual Retirement Account (IRA) custodial services. Another subsidiary, *AdvisoryWorld*, offers technology products — including proposal generation, investment analytics and portfolio modeling — to advisors and external clients in the wealth management industry.

Through *Fortigent Holdings Company*, the company provides solutions and consulting services to registered investment advisors (RIA), banks and trust companies serving high-net-worth clients. Its subsidiary, *LPL Insurance Associates, Inc.*, operates as a brokerage general agency that offers life and disability insurance sales and services.

Over the past several years, LPL Financial has been expanding through opportunistic acquisitions. In 2011, the company acquired Concord Capital Partners, Inc. and certain assets of National Retirement Partners. In 2012, it purchased Fortigent. In 2017, the company acquired certain assets and rights of National Planning Holdings, Inc.





In 2018, LPL Financial acquired all of the outstanding shares of AdvisoryWorld. In 2019, it acquired Allen & Company of Florida. In August 2020, it acquired the assets of E.K. Riley Investments and Lucia Securities. In October, the company acquired Blaze Portfolio.

As of Sep 30, 2020, LPL Financial had total advisory assets of $405.9 billion and brokerage assets of $404.4 billion.

Source: Zacks Investment Research

Reasons To Buy:

> LPL Financial's recruiting efforts and solid advisor productivity will continue to aid advisory revenues. It continues to expand through strategic buyouts, given a solid balance sheet position.

- LPL Financial continues to benefit from efforts to increase client base. The company's advisory revenues (constituting 39.4% of net revenues in the first nine months of 2020) have been increasing over the past few years. While the same declined in 2016, it witnessed a six-year (2014-2019) compound annual growth rate (CAGR) of 8.2%. The uptrend continued in the first nine months of 2020. Given the company's recruiting efforts and continued solid advisor productivity, advisory revenues are expected to improve further despite the economic slowdown. Moreover, the acquisition of Allen & Company is expected to further support LPL Financial's advisory revenues. Also, the company's launch of a no-transaction-fee exchange-traded fund (ETF) network will likely increase the value of its advisory platform.

- Given a strong balance sheet position, LPL Financial has accomplished several strategic deals over the past few years. In December, it inked a deal to acquire Waddell & Reed's wealth management busienss for $300 million. Earlier, in October, the company acquired Blaze Portfolio, while in August, it acquired the assets of E.K. Riley Investments, LLC and Lucia Securities. In 2019, the company acquired Allen & Company of Florida, while in 2018, it acquired all of the outstanding shares of AdvisoryWorld. In 2017, the company acquired certain assets and rights of National Planning Holdings, Inc. These inorganic expansion efforts poise LPL Financial well for future growth.

- As of Sep 30, 2020, LPL Financial had total debt worth $2.63 billion, down 1.2% sequentially. However, total debt was higher than the cash and cash equivalents and due from banks, along with restricted cash balance of $1.54 billion as of the same date. Nonetheless, the earliest principal maturity date for the company's long-term borrowings is 2025, while that for its revolving credit facility is 2024. Further, its times interest earned of 6.8 has remained stable and total debt/total capital of 67% has improved at the end of third quarter 2020. Thus, these along with the company's current liquidity position suggests that it will continue to be able to meet debt obligations in the near term even if the economic situation worsens.

- We remain encouraged by LPL Financial's meaningful capital deployment activities. The company pays dividends on a quarterly basis. Also, it has a share buyback program in place, which has been currently paused in response to the concerns surrounding the coronavirus outbreak. As of Sep 30, 2020, the company had authorization to purchase up to $349.8 million worth of shares. Given a solid capital position, LPL Financial is expected to continue to be able to sustain efficient capital deployments in the future.

- Further, LPL Financial's trailing 12-month return on equity (ROE) reflects its superiority in terms of utilizing shareholders' fund. The company's ROE of 49.27% compares favorably with the industry's ROE of 12.29%.

- Shares of LPL Financial have underperformed the industry so far this year. However, the company's earnings estimates for 2020 have been revised marginally upward over the past 30 days. Therefore, given the strong fundamentals and positive estimate revisions, the stock has decent upside potential.

Reasons To Sell:

- A large part of LPL Financial's revenues come from commissions, which constituted 32.7% of total net revenues in the first nine months of 2020. Commission income is dependent on the overall performance of the capital markets. While commission revenues increased in 2018, it declined at a CAGR of 2.2% over the last six years (2014-2019). The trend persisted in the first nine months of 2020. Thus, given the cyclical nature of the capital markets, commission revenues will likely continue to be hurt if there is a further slowdown in market activities.

- LPL Financial's expenses have been increasing rapidly over the past few years. Operating expenses witnessed a CAGR of 9.1% over the last four years (2016-2019). The rise can be attributed to an increase in almost all cost components. The uptrend continued in the first nine months of 2020 as well. As the company continues to increase headcount, compensation and benefits costs are expected to keep on rising, thus hurting the bottom line to an extent.

Higher expenses due to a rise in compensation costs will likely hurt LPL Financial's profits. Uncertainty related to the performance of capital markets is a woe and might hurt commission revenues.

- The goodwill and intangible assets on LPL Financial's balance sheet are subject to annual impairment reviews. As of Sep 30, 2020, goodwill and net intangible assets were $1.91 billion (accounting for 31.4% of total assets). Several factors may initiate the impairment of the book value of such assets due to which their value may have to be written down. This might adversely affect the company's financials.

- Also, LPL Financial seems overvalued compared with the broader industry. Its current price/earnings (F1) and price/book ratios are higher than the respective industry averages.

Last Earnings Report

LPL Financial Q3 Earnings Beat, Revenues Improve Y/Y

Quarter Ending	09/2020
Report Date	**Oct 29, 2020**
Sales Surprise	**0.64%**
EPS Surprise	**15.20%**
Quarterly EPS	**1.44**
Annual EPS (TTM)	**6.60**

LPL Financial's third-quarter 2020 adjusted earnings of $1.44 per share surpassed the Zacks Consensus Estimate of $1.25. However, the figure reflected a decline of 16% from the prior-year quarter.

Results reflect a rise in revenues driven by improvement in assets and cash balances. Further, the company's balance sheet position remained strong. However, a rise in expenses and lower new assets balance were headwinds.

After taking into consideration amortization of intangible assets, net income was $103.8 million or $1.29 per share, down from $131.7 million or $1.57 per share in the year-ago quarter.

Revenues & Expenses Rise

Total net revenues were $1.46 billion, up 3% year over year. The rise was driven by higher advisory fees and other revenues. Also, the figure beat the Zacks Consensus Estimate of $1.45 billion.

Total operating expenses increased 8% year over year to $1.3 billion. All expense components increased, except for professional services costs, promotional expenses and other costs.

At the end of the third quarter, LPL Financial's total brokerage and advisory assets were $810.4 billion, up 13% year over year.

Total net new assets were $11.1 billion at the end of the quarter, down slightly from $11.9 billion recorded at the end of the prior-year quarter. Total client cash balances jumped 49% to $46.6 billion.

Balance Sheet Position Strong

As of Sep 30, 2020, the company had total assets of $6.09 billion, up 3% from the Jun 30, 2020 level. As of the same date, cash and cash equivalents totaled $800.8 million, down 5% sequentially.

Also, total stockholders' equity was $1.21 billion as of Sep 30, 2020, up from $1.11 billion recorded at the end of the prior quarter.

Outlook

For 2020, management continues to expect core general & administrative (G&A) expenses in the lower end of $915-$940 million.

Promotional expenses are expected to decline $5 million in the fourth quarter of 2020 on a sequential basis.

In fourth-quarter 2020, the company expects insured cash account (ICA) yield to decline 10 basis points sequentially. Notably, the company also expects the full quarter impact of the decline in LIBOR that occurred in third-quarter 2020, as well as another $0.5 billion of fixed rate contracts maturing.

Recent News

LPL Financial to Buy Waddell & Reed's Wealth Management Business - Dec 2, 2020

Waddell & Reed Financial has inked an agreement to be acquired by Macquarie Asset Management, the asset management division of Sydney, Australia-based Macquarie Group. The all-cash deal, valued at $1.7 billion, is expected to close in mid-2021.

Upon closure, Macquarie will divest Waddell & Reed's wealth management business to LPL Financial for $300 million. As of Sep 30, 2020, the business had $62.7 billion of assets under administration. Further, LPL Financial has entered into a long-term partnership with Macquarie. Thus, Macquarie will become one of its "top tier strategic asset management partners."

Following the acquisition of wealth management business, LPL Financial expects run-rate EBITDA accretion of more than $50 million, and onboarding and integration costs of approximately $85 million in the 12 months following closure. Further, the deal will be accretive to the company's run-rate earnings "prior to intangibles following asset transfer."

The deal, already approved by board of directors of all three companies, is still subject to approval of Waddell & Reed's shareholders. Also, it is subject to regulatory approvals.

LPL Financial's October Assets Down From Prior Month - Nov 10, 2020

LPL Financial's total brokerage and advisory assets of $807.6 billion at the end of October 2020 fell marginally from the prior month but increased 10.4% year over year. Of the total assets, brokerage assets were $401.6 billion and advisory assets totaled $406 billion.

The sequential decline was mainly due to not so impressive performance of the equity markets in the month of October. Notably, compared to September 2020, the S&P 500 Index fell 2.8%.

Total net new assets were $6.5 billion for the reported month. This compared favorably with the September 2020 level of $5.1 billion as well as $3.4 billion in October 2019.

Besides, LPL Financial completed the acquisition of San Diego, CA-based Lucia Securities, LLC in August 2020 and onboarded assets in October. Thus, prior to the addition of assets of Lucia Securities, LPL Financial's total net new assets were $5 billion for October 2020.

LPL Financial reported $48.3 billion of total client cash balance, up 3.6% from September 2020 and 52.8% from October 2019. Of the total, $36 billion was insured cash and $8.6 billion was deposit cash, while the remaining was money market balance.

LPL Financial Buys Fintech Firm Blaze Portfolio – Oct 26, 2020

LPL Financial has announced acquisition of Chicago-based fintech firm Blaze Portfolio. The company paid an initial purchase price of nearly $12 million and agreed to a potential contingent payment of up to $5 million, which is subject to milestones and customary purchase price adjustments.

Blaze Portfolio serves 135 investment firms and provides an advisor-facing trading system that LPL Financial plans to integrate within core technology platform. Thus, this will expand the company's wealth management capabilities and support further growth.

Additionally, LPL Financial will continue to offer Blaze Portfolio's services as a stand-alone solution to the wealth management industry. The company plans to retain the Blaze Portfolio's employees.

Burt White, LPL Financial managing director and Chief Investment Officer said, "For many advisors, our trading platform is their lifeblood, and the way they express and execute their investment strategies for their clients in a sophisticated way. It's important, therefore, that we continue to invest in our offering to help them differentiate, grow and win in the marketplace. Acquiring Blaze Portfolio will enable us to provide our advisors with a dynamic trading and rebalancing system that can be utilized by practices of all sizes, affiliations and sophistications to meet their clients' needs."

LPL Financial on Buyout Spree, Acquires Lucia Securities – Aug 20, 2020

LPL Financial has completed the acquisition of San Diego, CA-based Lucia Securities' assets. The asset purchase agreement was announced in April.

Lucia Securities, a broker dealer and RIA firm, has more than $15 billion of client assets. These assets are expected to onboard to LPL Financial's platform by year-end.

In addition, all 20 advisors have committed to join LPL Financial and will be doing business as Lucia Capital Group.

LPL Financial continues to expect a transaction multiple of 6 times post-synergy EBITDA.

Rich Steinmeier, LPL Financial managing director and divisional president, Business Development, said "By investing on an ongoing basis in technology and digital capabilities, we strive to help them differentiate their practices in their markets, operate efficient and productive practices, and build businesses with value. We look forward to a long-term partnership with Lucia Capital Group."

LPL Financial Closes Deal to Buy Assets of E.K. Riley - Aug 18, 2020

LPL Financial along with its subsidiary has completed the acquisition of the assets of E.K. Riley Investments, LLC. The asset-purchase agreement was announced in May 2020.

Headquartered in Seattle, E.K. Riley is a broker-dealer and registered investment advisor. It provides independent financial advice to individuals, affluent families and business owners. It serves more than $2 billion of client assets, which are expected to onboard to LPL Financial's platform by the end of this year.

Moreover, 90% of E.K. Riley's 35 independent advisors will likely join LPL Financial.

LPL Financial continues to expect a transaction multiple of 6 times post-synergy EBITDA.

Rich Steinmeier, managing director and divisional president, Business Development at LPL Financial, stated "It is a privilege and honor to welcome the E.K. Riley team to LPL. An established and successful firm, E.K. Riley recognized the value that a partnership with LPL could bring to their firm today as well as into the future. One way we demonstrate our commitment to our advisors is through the delivery of relevant resources and technology that help them thrive in today's competitive environment. And with our scale and unwavering advisor focus, our clients can be assured they have a partner who will invest in their success over the long run."

E.K. Riley's president, Brian Bertsch, said, "Our partnership with LPL is the result of overall cultural similarities between our organizations. We continue to be consistently impressed with their people-centric culture. We are excited to see our advisors thrive as part of the LPL family."

Dividend Update

On Oct 28, LPL Financial declared a regular dividend of 25 cents per share. The dividend was paid out on Nov 30 to shareholders of record as of Nov 12.

Valuation

LPL Financial's shares are up 3.1% in the year-to-date period and 7.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 13.1%, while Zacks Finance sector is down 5.6% in the year-to-date period. Over the past year, the Zacks sub-industry is up 18.3% and the sector is down 2.7%.

The S&P 500 index is up 14.2% in the year-to-date period and 18% in the past year.

The stock is currently trading at 15.22X forward 12 months earnings, which compares to 12.89X for the Zacks sub-industry, 17.04X for the Zacks sector and 22.70X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.39X and as low as 5.93X, with a 5-year median of 13.30X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $104 price target reflects 16.05X forward earnings.

The table below shows summary valuation data for LPLA

Valuation Multiples - LPLA

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.22	12.89	17.04	22.7
	5-Year High	25.39	14.82	17.04	23.47
	5-Year Low	5.93	5.57	11.6	15.27
	5-Year Median	13.3	11.09	14.46	17.75
P/B	Current	6.48	2.15	2.75	6.23
	5-Year High	7.81	2.94	2.93	6.23
	5-Year Low	2.19	1.26	1.74	3.74
	5-Year Median	5.36	2.11	2.57	4.91
P/S F12M	Current	1.2	4.16	6.13	4.28
	5-Year High	1.36	4.51	6.73	4.3
	5-Year Low	0.36	2.66	5.01	3.17
	5-Year Median	1	3.42	6.1	3.67

As of 12/03/2020 *Source: Zacks Investment Research*

Industry Analysis **Zacks Industry Rank:** Top 9% (23 out of 254)

Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Evercore Inc **(EVR)**	Outperform	1
Interactive Brokers Group, Inc. **(IBKR)**	Outperform	2
Piper Sandler Companies **(PIPR)**	Outperform	1
The Charles Schwab Corporation **(SCHW)**	Outperform	1
Morgan Stanley **(MS)**	Neutral	3
Raymond James Financial, Inc. **(RJF)**	Neutral	2
Tradeweb Markets Inc. **(TW)**	Neutral	3
Virtu Financial, Inc. **(VIRT)**	Neutral	3

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

Industry Comparison Industry: Financial - Investment Bank

Industry Peers

	LPLA	X Industry	S&P 500	IBKR	SCHW	TW
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Outperform	Neutral
Zacks Rank (Short Term)	2	-	-	2	1	3
VGM Score	B	-	-	F	F	C
Market Cap	7.82 B	763.99 M	26.33 B	22.80 B	95.83 B	13.71 B
# of Analysts	4	2	13	1	6	6
Dividend Yield	1.01%	0.00%	1.49%	0.73%	1.41%	0.53%
Value Score	B	-	-	D	D	F
Cash/Price	0.21	0.62	0.07	2.31	0.62	0.05
EV/EBITDA	8.42	3.78	14.58	-23.15	9.20	35.74
PEG F1	NA	2.10	2.76	NA	NA	3.09
P/B	6.48	2.14	3.53	2.67	2.53	2.81
P/CF	10.31	11.60	13.76	100.58	14.35	38.10
P/E F1	16.29	14.49	21.83	23.39	21.78	47.49
P/S TTM	1.36	1.72	2.81	9.36	9.47	16.00
Earnings Yield	6.34%	6.74%	4.41%	4.28%	4.60%	2.11%
Debt/Equity	2.03	0.21	0.70	0.00	0.30	0.00
Cash Flow ($/share)	9.56	1.86	6.94	0.54	3.56	1.58
Growth Score	C	-	-	F	F	B
Historical EPS Growth (3-5 Years)	40.71%	16.95%	9.72%	20.08%	25.53%	NA
Projected EPS Growth (F1/F0)	-12.95%	11.79%	0.83%	3.08%	-13.79%	64.71%
Current Cash Flow Growth	21.74%	-0.49%	5.23%	15.90%	9.66%	45.79%
Historical Cash Flow Growth (3-5 Years)	18.26%	10.26%	8.33%	28.50%	22.65%	NA
Current Ratio	1.30	1.22	1.38	1.11	0.28	3.65
Debt/Capital	67.04%	17.64%	42.00%	0.00%	20.01%	0.00%
Net Margin	8.50%	8.50%	10.40%	6.90%	29.80%	17.80%
Return on Equity	49.27%	12.29%	14.99%	2.24%	13.52%	5.82%
Sales/Assets	0.96	0.26	0.50	0.03	0.03	0.16
Projected Sales Growth (F1/F0)	2.09%	0.00%	0.35%	10.16%	4.10%	12.78%
Momentum Score	C	-	-	A	B	B
Daily Price Change	3.69%	0.29%	0.20%	-0.16%	0.41%	2.21%
1-Week Price Change	2.96%	3.50%	2.18%	2.13%	6.63%	0.89%
4-Week Price Change	25.43%	13.73%	6.65%	11.11%	23.21%	-0.92%
12-Week Price Change	24.86%	21.96%	14.39%	16.18%	47.35%	13.43%
52-Week Price Change	7.83%	7.83%	6.09%	15.03%	4.78%	33.73%
20-Day Average Volume (Shares)	724,690	85,637	2,053,456	624,839	10,238,431	593,213
EPS F1 Estimate 1-Week Change	0.00%	0.00%	0.00%	1.30%	0.00%	0.00%
EPS F1 Estimate 4-Week Change	0.28%	0.00%	0.00%	1.30%	1.66%	0.27%
EPS F1 Estimate 12-Week Change	3.78%	15.74%	3.77%	3.08%	9.95%	5.70%
EPS Q1 Estimate Monthly Change	1.55%	0.03%	0.00%	3.70%	4.94%	1.14%

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	B
Growth Score	C
Momentum Score	C
VGM Score	B

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

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

Additional Disclosure

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Any statements that refer to expectations, projections or characterizations of future events or circumstances, including any underlying assumptions, are forwardlooking statements. Actual results, performance, or achievements may differ materially from those expressed or implied.

Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

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 mediumterm 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 mostrecent 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.