

Dr. Reddys(RDY)

\$61.42 (As of 08/04/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

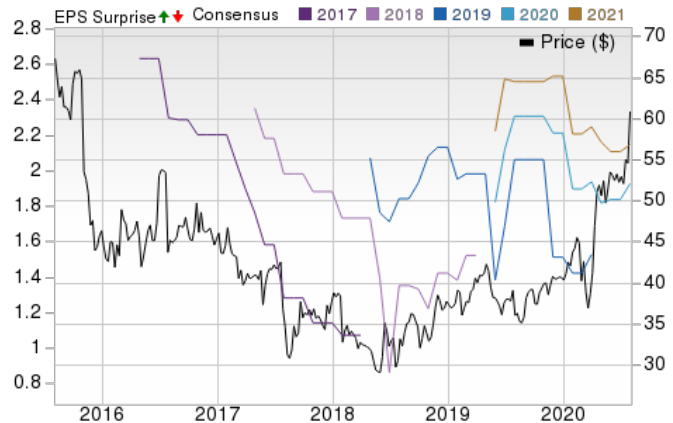
Growth: B

Momentum: C

Summary

In first-quarter fiscal 2021, Dr. Reddy's top line recorded year-over-year growth while the bottom line fell year over year. While sales volume was affected in some of the company's markets due to lower prescriptions generated and a fall in patient footfalls in pharmacies/clinics due to COVID-19, the pricing environment was relatively stable, new product launches continued and depreciation of rupee against the U.S. dollar and Euro supported the business. As of Jun 30, the company had 101 generic filings (99 abbreviated New Drug Applications and two new drug applications) pending FDA approval. Approval of new generics should further bolster the portfolio. The company is divesting non-core assets to channelize its sources to increase profitability. However, generic competition remains a concern for the company.

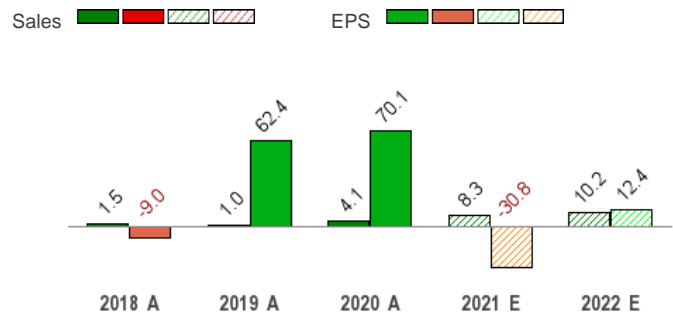
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$61.95 - \$33.33
20 Day Average Volume (sh)	180,095
Market Cap	\$10.2 B
YTD Price Change	51.4%
Beta	0.52
Dividend / Div Yld	\$0.27 / 0.4%
Industry	Medical - Generic Drugs
Zacks Industry Rank	Top 48% (122 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	NA
Last Sales Surprise	NA
EPS F1 Est- 4 week change	4.9%
Expected Report Date	11/06/2020
Earnings ESP	0.0%
P/E TTM	25.6
P/E F1	32.0
PEG F1	NA
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					2,765 E
2021	585 A				2,508 E
2020	558 A	680 A	614 A	588 A	2,316 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$2.17 E
2021	\$0.46 A				\$1.93 E
2020	\$0.58 A	\$0.93 A	\$0.40 A	\$0.61 A	\$2.79 A

*Quarterly figures may not add up to annual.

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

Overview

India-based Dr. Reddy's Laboratories Ltd. is an integrated global pharmaceutical company engaged in providing affordable and innovative medicines since 1984.

The company markets its products in countries like the U.S., the UK, Germany, India, Russia, Venezuela, Romania and South Africa. Dr. Reddy's operates through three segments:

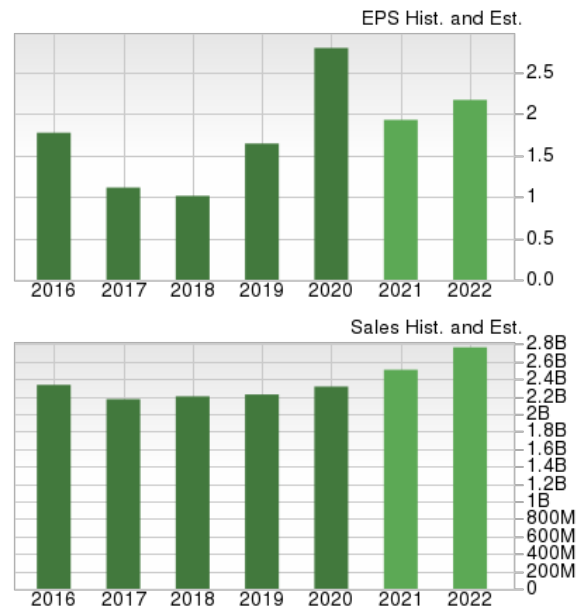
- **Global Generics** – This segment consists of branded and unbranded prescription drugs along with over-the-counter (OTC) drugs. It includes the operations of the company's biologics business.
- **Pharmaceutical Services & Active Ingredients (PSAI)** – This segment is composed of active pharmaceutical ingredients (API) and custom pharmaceutical services.
- **Proprietary Products and Others** – This segment involves the new chemical entities, the differentiated formulations business and a dermatology specialty business.

Global Generics contributed 79%, PSAI contributed 15% and Proprietary Products and Others contributed 5% and others contributed 1% to total revenues in fiscal 2020.

The company has a strategic partnership with Glaxo to market selected products across emerging markets outside India.

Dr. Reddy's reported fiscal 2020 (ending Mar 31, 2020) revenues of \$2.3 billion.

As of Mar 31, 2020, the company had 99 generic filings (97 abbreviated New Drug Applications [ANDAs] and two new drug applications) pending FDA approval. Of these 99 ANDAs, 54 were Para IV filings and 30 have first-to-file status. New product launches, especially complex generics, should help drive the generics business over regular intervals.



Reasons To Buy:

▲ **Strong Generic Pipeline:** Dr. Reddy's enjoys a strong position in the generics market. As of Jun 30, 2020, the company had 101 generic filings (99 abbreviated New Drug Applications [ANDAs] and two new drug applications) pending FDA approval. Of these 99 ANDAs, 54 were Para IV filings and 28 have first-to-file status. New product launches, especially complex generics, should help drive the generics business over regular intervals. In the first quarter of 2020, the company launched six products in North America, including fenofibrate tablets, nitroglycerin Patch, amphetamine sulfate tablets, desmopressin acetate ampules, colchicine tablets and abiraterone acetate tablets.

Dr. Reddy's enjoys a strong position in the generics market. Efforts on strengthening its presence in the biosimilars market have been commendable too.

In April 2019, Dr. Reddy's entered a definitive agreement to acquire the yet-to-be-marketed portfolio of 42 non-marketed ANDAs in the United States. The portfolio includes more than 30 generic injectable products. These products will be technology transferred and ready for launch within the next one to two years. The deal is in sync with the company's strategy to strengthen its portfolio in its chosen growth markets. This transaction will help the company expand its injectable products portfolio in the U.S. market and globally.

▲ **Biosimilars Market to Boost Revenues:** Dr. Reddy's is working with Merck Serono to develop and commercialize a portfolio of biosimilar compounds in oncology, primarily focused on MABs. Dr. Reddy's has already expanded its biosimilars facility in India to meet growing demand in emerging markets. Dr. Reddy's in July 2018 launched Hervycta (Trastuzumab), a biosimilar of Roche's Herceptin in India, indicated for the treatment of HER2-positive cancers (early breast cancer, metastatic breast cancer and metastatic gastric cancer).

▲ **Strategic Initiatives:** The company is undertaking some strategic measures to combat the ongoing challenges. It plans to modernize some of its infrastructure, systematically implement its new quality management system and automate some of the critical manufacturing and quality related processes.

In order to revitalize growth, Dr. Reddy's remains focused on accelerating the development of its complex generics portfolio and also making efforts to ensure that the approvals come in time through appropriate risk management and proactive measures to deal with possible deficiencies.

Reasons To Sell:

- ▼ **Pricing pressure on North America business:** The company's North America base business is witnessing pricing pressures since the last few quarters due to enhanced channel consolidation and increased competitive pressure on sales of some of its key generic products.

In-fact, the United States' generics industry is facing significant competitive and pricing pressure. The ongoing consolidation of customers in the industry has led to increasing price erosion and decreasing volume. The consolidation in the industry has increased the ability to negotiate lower prices for generic drugs. A sharp decline in generic drug prices is proving to be a major challenge for generic drugmakers as well as drug distributors. Moreover, the FDA is speeding up the approval of generic drugs, which means more competition, increasing price cuts and decreasing volume. The pricing and competitive pressures are expected to continue.

The implementation of general sales tax (GST) in India is also hurting its topline to an extent.

- ▼ **Warning Letter for Manufacturing Facilities:** In November 2015, Dr. Reddy's received a warning letter from the FDA regarding a couple of API manufacturing facilities in India as well as its Oncology Formulation manufacturing facility in India. In December 2015, the company submitted a comprehensive, corrective and preventive action plan, to address all the issues raised, which includes manufacturing network and quality/compliance issues. The company has completed its remedial measures and submitted the same as of Mar 2017. The FDA conducted reinspection of the aforementioned manufacturing facilities in March and April 2017. During the re-inspections, the FDA issued three observations with respect to the company's API facility at Miryalaguda, two observations with respect to its API facility at Srikakulam and thirteen observations with respect to its oncology formulation manufacturing facility. With respect to API manufacturing facility at Srikakulam, the company was asked to carry out certain detailed investigations and analyses. The company has completed a portion of this investigation.

In June 2018, the company requested the FDA to schedule a re-inspection of the oncology formulation manufacturing facility at Duvvada. In October 2018, the re-inspection for the injectable plant in Duvvada was completed and the FDA issued eight observations. The company comprehensively responded to this observation and received certain specific questions from the agency, seeking further clarification on some of the company's responses. With respect to the API manufacturing facility in Srikakulam, the company submitted the results of the investigation, and responded to all the queries asked by the FDA. The company is awaiting re-inspection of the facility.

Consequent to this warning letter, the company has been facing a number of challenges that includes price erosion and delay in product launches. These challenges are adversely affecting the company's top-line growth.

- ▼ **Competition in Generics Segment:** The generic market is highly crowded and Dr. Reddy's faces competition from players like Mylan, Teva, Endo and Sandoz among others. Competition is fierce as generic companies strive to be the first to launch a generic version once a brand product loses exclusivity so that they can capture significant market share. Once additional generic companies enter the market, market share, revenues and gross profit typically decline. Therefore, it is very important for generic companies to develop and introduce new products in a timely and cost-effective manner to maintain revenues and gross profit. In addition to competition from other generic players, brand name companies also provide competition by marketing their own generic version (authorized generics) of their brand products.

In December 2019, there was a generic launch and an authorized generic launch for the product, NuvaRing, which has led to a considerable reduction in the valuation of this product for the company.

Persisting macroeconomic issues in some territories in emerging markets and negative impact of a depreciating ruble remain a concern. The FDA warning letter for some manufacturing facilities is also a concern.

Last Earnings Report

Dr. Reddy's Q1 Earnings Decline Y/Y, Sales Increase

Dr. Reddy's reported first-quarter fiscal 2021 earnings of 46 cents per American Depositary Share ("ADS") compared with 53 cents in the year-ago quarter.

Moreover, revenues grew 15% year over year to \$585 million.

While the sales volume were impacted in some of the markets due to lower prescriptions generated and fall in patient footfalls in pharmacies/clinics due to COVID-19, the pricing environment was relatively stable, new product launches continued and depreciation of rupee against the U.S. dollar and Euro supported the business.

Quarter in Detail

Dr. Reddy's reported revenues under three segments — Global Generics, Pharmaceutical Services & Active Ingredients ("PSAI"), and Proprietary Products and Others.

Global Generics revenues were INR 35.1 billion (\$464.4 million), up 6% year over year in the fiscal first quarter. Growth was led by contributions from Europe and emerging markets, partially offset by declines in India.

The company launched six products in North America during the reported quarter, including Fenofibrate Tablets, Nitroglycerin Patch, Amphetamine Sulfate Tablets, Desmopressin Acetate Ampules, Colchicine Tablets and Abiraterone Acetate Tablets.

PSAI revenues were INR 8.6 billion (\$113.2 million), up 88% from the year-ago quarter.

Revenues at the Proprietary Products segment came in at INR 0.6 billion, declining 40% year over year due to the absence of the Neurology franchise products (the U.S. and select territory rights of which were sold in the previous year).

Research and development expenses were up 10% year over year to \$53 million. The company is also undertaking the development of a few projects pertaining to COVID-19-related drugs.

Selling, general and administrative expenses were \$169 million, up 6% year over year.

As of June 30, 2020, Dr. Reddy's had 101 generic filings (99 abbreviated New Drug Applications [ANDAs] and two new drug applications) pending FDA approval. Of these 99 ANDAs, 54 were Para IV filings and 28 have first-to-file status.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	NA
EPS Surprise	NA
Quarterly EPS	0.46
Annual EPS (TTM)	2.40

Recent News

Received Approval of Xeglyze Lotion, 0.74%, in the United States-July 27

Dr. Reddy's announced the approval of Xeglyze (abametapir) lotion, 0.74%, NDA by the FDA. The approval triggers the contractual precommercialization milestone of \$20 million payable to Hatchtech Pty Ltd. Xeglyze is indicated for the topical treatment of head lice infestation in patients 6 months of age and older. The company is working to commercialize this product through partners. Xeglyze is indicated for the topical treatment of head lice infestation in patients 6 months of age and older.

Launch of Over-The-Counter Nicotine Polacrilex Lozenges in the U.S. Market-July 14

Dr. Reddy's announced the launch of Over-the-Counter Nicotine Polacrilex Lozenges, 2 mg and 4 mg, the store brand version of Nicorette Lozenges in the U.S. market.

Nicorette is a trademark of GlaxoSmithKline Consumer Healthcare L.P.

Inks Deal With Two Companies for Coronavirus Drug-July 1

Dr. Reddy's partnered with a Japanese pharma giant, FUJIFILM Toyama Chemical (FUJIFILM), and Global Response Aid (GRA) for the development, manufacture and sale of antiviral drug Avigan (favipiravir) tablets for the potential treatment of COVID-19.

The agreement grants Dr. Reddy's exclusive rights for India and both Dr Reddy's and GRA the rights to develop, sell and distribute Avigan in all countries other than Japan, China and Russia. Dr. Reddy's would have exclusive rights for the development, sale and distribution of Avigan in India. Further, FUJIFILM would receive an upfront license fee and royalties on sales from Dr. Reddy's and GRA.

FUJIFILM will provide the data that it has accumulated from Avigan's preclinical and clinical studies to Dr. Reddy's and GRA. The data will then be used by the two companies for studies on COVID-19 where infection has been spreading significantly. Dr. Reddy's will also obtain rights from FUJIFILM to use Avigan's patents of formulation and manufacturing method. Dr. Reddy's will establish a setup for manufacturing drugs of the same quality as Avigan. Further, the company will utilize GRA's global sales network to supply manufactured drugs swiftly and in a stable manner.

Currently, FUJIFILM Group is conducting a study on Avigan targeting COVID-19 patients in Japan and the United States and working to increase the drug's production by partnering with domestic and overseas companies.

Avigan Tablet was developed by FUJIFILM Toyama Chemical and is marketed as an influenza antiviral drug.

Announces the launch of Abiraterone Acetate Tablets USP, 250 mg in US Market-June 19

Dr. Reddy's announced the launch of Abiraterone Acetate Tablets USP, 250 mg, a therapeutic equivalent generic version of Zytiga (abiraterone acetate) approved by FDA.

Zytiga is a trademark of Johnson & Johnson corporation.

Inks Deal With Gilead Sciences for Remdesivir-June 13

Dr. Reddy's entered into a non-exclusive Licensing Agreement with Gilead Sciences, Inc. to register, manufacture and sell the latter's experimental candidate, remdesivir, a potential treatment for COVID-19, in 127 countries including India.

Dr. Reddy's will receive technology transfer from Gilead for manufacturing of this drug. Dr. Reddy's will be responsible for the manufacturing scale-up of the drug and need to obtain regulatory approval for marketing of the same in respective countries.

Remdesivir, an investigational antiviral therapy developed by Gilead, received Emergency Use Authorization by the FDA to treat hospitalised patients with severe COVID-19 illness.

Announces the launch of Colchicine Tablets USP 0.6 mg in US Market-June 12

Dr. Reddy's announced the launch of Colchicine Tablets USP, a therapeutic equivalent generic version of Colcrys (colchicine) Tablets, 0.6 mg, approved by the FDA.

Colcrys is a trademark of Takeda.

Completes the acquisition of select business divisions of Wockhardt-June 10

Dr. Reddy's announced that it has completed the acquisition of select divisions of Wockhardt Limited's ("Wockhardt") branded generics business in India and a few other international territories of Nepal, Sri Lanka, Bhutan and Maldives. The business comprises of a portfolio of 62 brands in multiple therapy areas such as Respiratory, Neurology, VMS, Dermatology, Gastroenterology, Pain and Vaccines, which would transfer to Dr. Reddy's along with related sales and marketing teams; and the manufacturing plant located in Baddi, Himachal Pradesh with all plant employees (together the 'Business Undertaking').

On February 12, 2020, Dr. Reddy's signed a Business Transfer Agreement ('BTA') with Wockhardt, to acquire the above-referred business undertaking for an upfront consideration of Rs.1,850 crores. In view of the COVID-19 pandemic and the consequent government restrictions, there has been a reduction in the revenue from the sales of the products forming part of the Business Undertaking during March & April, 2020. Subsequently, through an amendment to the BTA, Dr. Reddy's and Wockhardt have agreed that the deal consideration shall now be upto Rs. 1,850 crores.

Launch of FXR in Indian Market – May 18

Dr. Reddy's announced the launch of FXR, the therapeutic generic equivalent of Ocaliva (obeticholic acid) in India as a treatment for primary biliary cholangitis, in combination with ursodeoxycholic acid (UDCA) or as monotherapy in adults. FXR is a trademark of Intercept Pharmaceuticals.

Launch of Desmopressin Acetate Injection in the U.S. Market – May 6

Dr. Reddy's announced the launch of Desmopressin Acetate Injection, the therapeutic generic equivalent of DDAVP, approved by the FDA. DDAVP is a trademark of Ferring Pharmaceuticals.

Receives FDA Approval for Elyxyb – May 6

Dr. Reddy's announced that the FDA has approved the new drug application seeking approval for Elyxyb as acute treatment of migraine with or without aura in adults

Launch of NitroDur in the U.S. Market – May 6

Dr. Reddy's announced the launch of Desmopressin Acetate Injection, the therapeutic generic equivalent of DDAVP, approved by the FDA. DDAVP is a trademark of Ferring Pharmaceuticals.

Launch of NitroDur in the U.S. Market – Apr 27

Dr. Reddy's announced the launch of Fenofibrate tablets, the therapeutic generic equivalent of Tricor tablets, approved by the FDA. Tricor is a trademark of AbbVie.

Launch of Amphetamine Sulfate Tablets in the U.S. Market – Apr 14

Dr. Reddy's announced the launch of Amphetamine Sulfate tablets, the therapeutic generic equivalent of Evekeo tablets, approved by the FDA. Evekeo is a trademark of Arbor Pharmaceuticals, LLC.

Launch of NitroDur in the U.S. Market – Apr 14

Dr. Reddy's announced the launch of authorized generic version of NitroDur transdermal infusion system, for four dosage strengths — 0.1mg/hr, 0.2 mg/hr, 0.4 mg/hr, and 0.6 mg/hr, each in a box of 30 count. NitroDur is a trademark of USpharma Ltd.

Launch of Invista in India – Apr 13

Dr. Reddy's announced the launch of Invista, a formulation of dasatinib that is bioequivalent version of Sprycel. Invista is approved for treating chronic accelerated or myeloid or lymphoid blast phase and newly diagnosed in chronic phase adult patients with Chronic Myeloid Leukemia in India. Sprycel is a trademark of Bristol Myers.

Valuation

Dr. Reddy's shares are up 51.6% in the year-to-date period and up 72.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.9% and in the Zacks Medical sector are up 1%, in the year-to-date period. Over the past year, the Zacks sub-industry is up 13% and the sector is up 9.5%.

The S&P 500 index is up 2.6% in the year-to-date period and up 15.1% in the past year.

The stock is currently trading at 30.69X forward 12-month earnings per share, which compares to 7.65X for the Zacks sub-industry, 22.62X for the Zacks sector and 22.60X for the S&P 500 index.

Over the past five years, the stock has traded as high as 34.23X and as low as 16.19X, with a 5-year median of 21.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$64.00 price target reflects 32.3X forward 12-month earnings per share.

The table below shows summary valuation data for RDY

Valuation Multiples - RDY					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.69	7.65	22.62	22.6
	5-Year High	34.23	13.82	23.16	22.6
	5-Year Low	16.19	5.77	15.89	15.25
	5-Year Median	21.48	7.76	18.9	17.55
P/S F12M	Current	3.92	0.91	2.82	3.61
	5-Year High	4.28	3.33	3.41	3.61
	5-Year Low	1.79	0.72	2.22	2.53
	5-Year Median	2.67	1.22	2.9	3.04
P/B TTM	Current	4.75	1.19	4.4	4.52
	5-Year High	6.23	3.88	5.07	4.56
	5-Year Low	2.43	0.73	2.94	2.83
	5-Year Median	3.39	1.28	4.3	3.72

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 48% (122 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Bausch Health Cos Inc. (BHC)	Neutral	3
Endo International plc (ENDP)	Neutral	3
GlaxoSmithKline plc (GSK)	Neutral	2
Mallinckrodt public limited company (MNK)	Neutral	3
Mylan N.V. (MYL)	Neutral	3
Novartis AG (NVS)	Neutral	3
Sanofi (SNY)	Neutral	3
Teva Pharmaceutical Industries Ltd. (TEVA)	Neutral	3

Industry Comparison Industry: Medical - Generic Drugs				Industry Peers		
	RDY	X Industry	S&P 500	MYL	NVS	TEVA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	B	A	A
Market Cap	10.18 B	361.63 M	22.75 B	8.44 B	192.59 B	12.89 B
# of Analysts	2	4	14	8	5	10
Dividend Yield	0.45%	0.00%	1.76%	0.00%	2.38%	0.00%
Value Score	C	-	-	A	A	A
Cash/Price	0.04	0.31	0.07	0.07	0.03	0.14
EV/EBITDA	23.74	-2.21	13.09	7.43	13.61	77.80
PEG Ratio	NA	0.64	2.95	1.74	1.82	0.81
Price/Book (P/B)	4.75	2.67	3.16	0.75	3.57	0.88
Price/Cash Flow (P/CF)	16.19	3.03	12.32	1.96	10.66	3.03
P/E (F1)	31.72	6.47	21.81	3.77	14.83	4.76
Price/Sales (P/S)	4.13	2.17	2.46	0.73	4.00	0.74
Earnings Yield	3.13%	-9.23%	4.40%	26.47%	6.74%	21.02%
Debt/Equity	0.04	0.02	0.76	1.08	0.48	1.68
Cash Flow (\$/share)	3.79	-0.31	6.94	8.33	7.90	3.89
Growth Score	B	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	9.95%	1.99%	10.46%	1.11%	2.64%	-19.38%
Proj. EPS Growth (F1/F0)	-31.00%	0.42%	-7.16%	-2.18%	8.28%	3.37%
Curr. Cash Flow Growth	40.31%	0.54%	5.47%	-3.91%	4.27%	-9.67%
Hist. Cash Flow Growth (3-5 yrs)	5.28%	6.59%	8.55%	16.74%	7.11%	-6.21%
Current Ratio	1.66	2.86	1.32	1.26	0.81	1.05
Debt/Capital	4.03%	5.04%	44.36%	51.83%	32.25%	62.65%
Net Margin	10.26%	-48.12%	10.25%	0.54%	14.96%	-4.73%
Return on Equity	18.88%	-43.33%	14.67%	20.00%	24.14%	18.10%
Sales/Assets	0.77	0.33	0.51	0.37	0.40	0.30
Proj. Sales Growth (F1/F0)	2.80%	0.00%	-1.71%	5.25%	5.03%	-3.82%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	2.16%	0.00%	0.42%	-0.24%	0.60%	-3.20%
1 Week Price Chg	11.54%	0.00%	0.14%	0.94%	-2.47%	0.44%
4 Week Price Chg	19.38%	0.59%	4.97%	1.30%	-4.16%	5.26%
12 Week Price Chg	20.79%	3.33%	15.30%	0.55%	-1.17%	3.33%
52 Week Price Chg	72.33%	-3.90%	2.34%	-10.33%	-4.61%	67.14%
20 Day Average Volume	180,095	245,025	2,082,836	4,395,127	1,718,157	7,741,573
(F1) EPS Est 1 week change	4.90%	0.00%	0.00%	-0.09%	0.00%	-0.18%
(F1) EPS Est 4 week change	4.90%	0.00%	0.93%	-0.40%	0.50%	0.34%
(F1) EPS Est 12 week change	6.06%	-2.52%	0.78%	0.14%	0.67%	3.87%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.17%	1.06%	-2.84%	-1.42%

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	B
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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