

ResMed Inc.(RMD)

\$155.29 (As of 01/03/20)

Price Target (6-12 Months): **\$163.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

Summary

ResMed registered growth at CER across both its key operating segments — Total Sleep and Respiratory Care and Software as a Service in the first quarter. Overall, the company achieved double-digit global revenue growth in the reported quarter, led by strong sales in Software-as-a-Service businesses as well as of new mask products and devices. Within Software-as-a-Service, the company recorded continued momentum across the Brightree service portfolio and additional contribution from the buyout of MatrixCare. ResMed exited the first quarter of fiscal 2020 on a solid note, with earnings and revenues beating the Zacks Consensus Estimate. In the past three months, the company has outperformed its industry. However, in the first quarter, device sales in France and Japan were impacted as customers completed their connected device upgrade programs.

Data Overview

52 Week High-Low	\$157.86 - \$90.64
20 Day Average Volume (sh)	431,909
Market Cap	\$22.3 B
YTD Price Change	0.2%
Beta	0.42
Dividend / Div Yld	\$1.56 / 1.0%
Industry	Medical - Products
Zacks Industry Rank	Bottom 41% (148 out of 252)

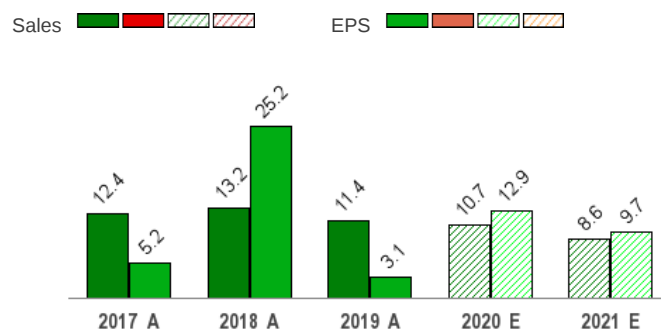
Last EPS Surprise	6.9%
Last Sales Surprise	3.6%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	01/23/2020
Earnings ESP	0.0%

P/E TTM	41.2
P/E F1	37.8
PEG F1	3.6
P/S TTM	8.3

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	728 E	785 E	776 E	832 E	3,135 E
2020	681 A	725 E	717 E	761 E	2,886 E
2019	588 A	651 A	662 A	705 A	2,607 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.02 E	\$1.10 E	\$1.10 E	\$1.17 E	\$4.51 E
2020	\$0.93 A	\$1.01 E	\$1.00 E	\$1.07 E	\$4.11 E
2019	\$0.81 A	\$1.00 A	\$0.89 A	\$0.95 A	\$3.64 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 01/03/2020. The reports text is as of 01/06/2020.

Overview

ResMed, Inc. holds a major position as designer, manufacturer, as well as a distributor in the worldwide market for generators, masks, and related accessories for the treatment of sleep-disordered breathing (SDB) and other respiratory disorders. SDB includes obstructive sleep apnea (OSA) and other respiratory disorders that occur during sleep.

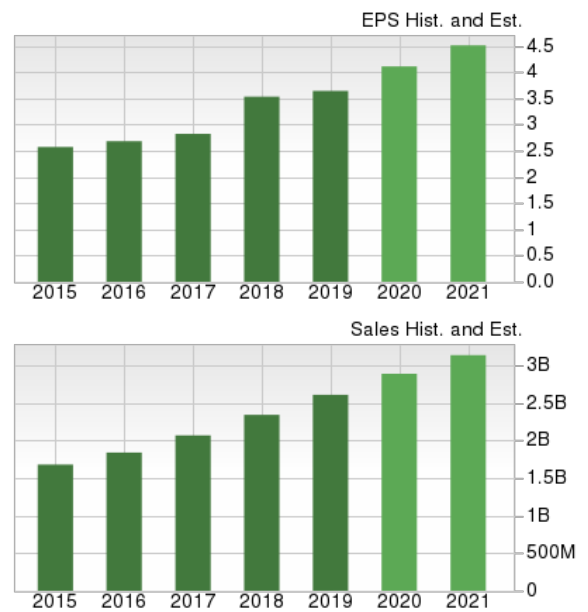
Following multiple acquisitions, including Brightree LLC in April 2016 , HEALTHCAREfirst in July 2018 and MatrixCare in November 2018, the company currently has two operating segments, which are the Sleep and Respiratory Care segment (89.4% in fiscal 2019) and the SaaS segment (10.6% in fiscal 2019). In fiscal 2019, the first segment registered 7% revenue growth, while the latter registered 76% revenue growth from fiscal 2018.

Sleep and Respiratory Care includes Device; and Masks and other.

Devices include CPAP, VPAP and AutoSet systems for the titration and treatment of SDB. During fiscal year 2017, AirMini, the smallest portable CPAP on the market was launched. The company also acquired a line of Chinese-developed and manufactured sleep and ventilation devices with the acquisition of Curative Medical in fiscal year 2016.

Masks and others: This portfolio consists of different masks for SDB treatments like AirFit F20 in the full-face category and the AirFit N20, AirFit N30i etc.

SaaS :Following multiple acquisitions, including Brightree LLC in April 2016, HEALTHCAREfirst in July 2018 and MatrixCare in November 2018, this segment offers out-of-hospital software products.



Reasons To Buy:

▲ **Share Price Performance:** In the past three months, the company has outperformed its industry. The stock has gained 17.5%, compared with the 3.8% rise of the industry. We are upbeat about the company's strong growth at CER in both its key operating segments —Total Sleep and Respiratory Care and Software as a Service — during the first quarter of fiscal 2020. Overall, the company achieved double-digit global revenue growth in the reported quarter, led by strong sales in Software-as-a-Service businesses as well as of new mask products and devices. Within Software-as-a-Service, the company witnessed continued growth momentum in the Brightree service portfolio. Incremental contribution from the buyout of MatrixCare also instills optimism.

ResMed continues to rein in surging demand for its products for the treatment of SDB. Meanwhile, the company's latest Brightree buyout has been meaningfully boosting its sleep apnea devices sales in the U.S.

▲ **Progress in Three-Horizon Growth Strategy – a Long-term Goal:** ResMed had identified three horizons for future growth viz, focus on ResMed's core sleep apnea franchise, growth in adjacent product and geographic markets and discover a portfolio of opportunities in new markets.

In terms of progress in the first horizon, which focuses on ResMed's core sleep apnea franchise, ResMed is actively progressing in the field of utilizing digital health technology to convert big data into valuable information. ResMed consists of over 4.5 billion nights of sleep apnea and Chronic Obstructive Pulmonary Disease (COPD) treatment data in the cloud and that growth remains to be staggering.

In this line, in January, the company acquired Propeller Health which it considers a significant addition to its vision of longitudinal solutions in respiratory care. During the first quarter, the company achieved a key milestone as more than 100,000 people enrolled to the Propeller ecosystem.

Further, pharmaceutical retailer Walgreens has recently added Propeller to their pharmacy's health platform called, Find Care, expanding the ability to get Propeller into the hands of people struggling to manage their chronic disease through Walgreens.

This apart, ResMed has been making advanced technology combined with digital health and connected care solutions. The company now has more than 11 million patients being monitored with the AirView software, the company's cloud-based platform for managing sleep apnea and COPD patients. Also, over 10 million 100% cloud connectable ResMed devices have been installed in the market. ResMed has been seeing solid uptake of the AirSense 10 device platform and the Air Solutions cloud-based software ecosystem.

▲ **Growing Adjacent Product and Geographic Markets:** The second horizon in the three-pronged growth strategy is growth in adjacent product and geographic markets. This includes homecare ventilation for COPD, Amyotrophic Lateral Sclerosis (ALS) and other respiratory disorders, and emerging markets in China, India and Brazil. For progress in this horizon, management believes that the spectrum of cloud connected respiratory care products across ResMed's portfolio will play a big role in reducing costs and improving outcomes. Connected Care in ventilation can reduce costs and improve patient outcomes in COPD and beyond. With COPD being the number three cause of death in the Western world and the number two cause of re-hospitalization in the West, we expect this strategy of ResMed to play crucial role in its growth process.

In this regard, in January 2019, following a successful initial launch, ResMed announced a complete launch of its portable oxygen concentrator — Mobi — in the United States for COPD or other chronic diseases. The company plans to launch Mobi in other countries in calendar year 2019, after the necessary regulatory approvals. Further, the company has launched its automated ReSupply solution for all U.S. home medical equipment (HME) providers in the United States.

In March ResMed acquired home medical equipment provider HB Healthcare in South Korea. ResMed intends to reach millions of patients through HB Healthcare's wide network of distributor partners. This apart, the company closed the Propeller Health buyout.

▲ **Increasing Opportunities in New Markets:** The third growth horizon of the three-pronged growth strategy incorporates a portfolio of opportunities in new markets, including clinical adjacencies such as atrial fibrillation, heart failure with preserved ejection fraction, asthma, chronic disease management as well as sleeps health and wellness. Another key area of this horizon is ResMed's work on chronic disease management algorithms, including population health models, health care analytics, care co-ordination and Software-as-a-Service (SaaS) models for home health, home nursing and hospice. Lately, the company has been registering steady growth across its Brightree service portfolio and additional contribution from the buyouts of MatrixCare and HEALTHCAREfirst.

▲ **Strategic Pacts to Boost SaaS Business:** ResMed has been continuously opting for strategic buyouts to boost the revenues from SaaS business. According to the company, this niche is booming with prospects and has a total addressable market over \$1.5 billion in the United States alone. Leveraging on the company's leading positions in multiple SaaS verticals, ResMed expects its SaaS portfolio to move from high single-digit pro forma growth to low double-digit pro forma growth over the medium term and this rate should continue to be sustainable over the long-term.

In the last-reported quarter, the company witnessed a massive 83% surge in revenues from the SaaS business driven by continued expansion of Brightree offerings and MatrixCare.

Within its SaaS portfolio, the company inked a collaboration deal with Cerner as a new preferred provider for home health and hospice software. This partnership strengthens ResMed's position as an industry-leading provider of digital health solutions for out-of-hospital healthcare. The company's offerings for home health and hospice customers comprises of the most superior technology from MatrixCare and Brightree. This agreement ensures that the entire portfolio of ResMed's home health and hospice solutions is available to Cerner's entire consumer base. In fact, ResMed's MatrixCare team is steadily progressing toward signing a contract with a major healthcare system with a very large home health business.

▲ **Huge Potential in SDB Market:** The market for SDB is huge and is, as yet, to a great extent, underpenetrated across the globe. Globally, the scenario is grave with over 100 million suffering from sleep apnea (per an article published on The Sleep Zone). Per a report by

MarketsAndMarkets, the global sleep apnea devices market is expected to see a CAGR of 7.8% to reach \$6.49 billion between 2018 and 2023. Moreover, a strong correlation between OSA and a number of cardiovascular diseases has been discovered recently.

However, despite the high prevalence of OSA, there is lack of awareness regarding it among both physicians and patients. It is estimated that less than 20% of patients suffering from OSA have been diagnosed or given proper treatment. With the global SDB market currently growing in mid-single-digits, ResMed is leaving no stone unturned to expand its foothold in this market. With this in view, ResMed has begun working on the joint venture with Verily to develop software solutions that allow healthcare providers to discover, diagnose, treat and manage individuals with sleep apnea and other breathing-related sleep conditions more efficiently.

Management is also looking forward to the proposed rule by Centers for Medicare and Medicaid Services to make changes to the bidding and pricing methodologies under the competitive bidding program. Moreover, the company continues to focus on its target to change 250 million lives by 2025. We expect ResMed with its broad range of products to create a solid foothold in the global SDB market.

▲ **Increased Focus on International Markets:** ResMed continues to invest and expand its presence in high growth markets like China, South Korea, India, Brazil and many countries in Eastern Europe. Interestingly, in each of these regions, ResMed is implementing long-term strategies to improve quality of patient life for the purpose of delivering better patient outcomes and reduce overall system healthcare costs within each individual country. ResMed is also currently focusing on consolidating its strong presence in Europe with respect to its life support ventilation solutions and non-invasive ventilation solutions for chronic obstructive pulmonary disease and neuromuscular disease.

In the first quarter of fiscal 2020, revenues from the combined Europe, Middle East and Africa (EMEA) and Asia-Pacific (APAC) region registered 8% growth at constant exchange rate (CER) from a year ago. In the United States, Canada and Latin America, the company registered year-over-year growth of 22%, on a reported basis.

In terms of recent reimbursement developments, the company is upbeat about approvals in France, South Korea and Japan. During the reported quarter, mask sales grew 19% in combined Europe, Asia and other markets at CER, reflecting strong adoption of AirFit F20 and AirFit N20.

▲ **Strong Emphasis on Product Development:** In order to maintain its leadership position in the SDB market and to expand its sales base, ResMed is focusing on product development and innovation. In this regard, ResMed recently expanded its AirFit mask portfolio with the introduction of its first top-of-head-connected nasal CPAP mask, AirFit N30i, in the United States. The product is available in Canada, Australia, New Zealand and most of Europe with more launches planned in other geographies for late 2019. The company's flagship masks, AirFit F20 in the full-face category and AirFit N20 in the nasal category, witnessed solid momentum across global markets in the first quarter. The company's three most recent mask launches, namely, the F30, the N30i and the P30i, have started contributing to the top line significantly. In October 2019, the company launched its latest innovation, N30 — the world's first ever tube-down nasal cradle CPAP mask in a new product subcategory (which is being called the minimalist category). N30 is the company's smallest and lightest mask.

The company has also announced a complete launch of its portable oxygen concentrator — Mobi — in the United States for COPD or other chronic diseases. The company plans to launch Mobi in other countries in 2019, after the necessary regulatory approvals.

Loaded with innovation to improve mask fit, comfort and ease of use, the new-generation ResMed masks are the result of more than three years of research and development. Studies have established a clinical association between OSA and both stroke and congestive heart failure, and have recognized SDB as a cause of hypertension or high blood pressure. According to the company, it is well positioned for fiscal 2019 and will work on a pipeline of new products and connected care solutions for sleep apnea, COPD, neuromuscular disease and other clinical adjacencies.

▲ **Strong Return to Shareholders:** ResMed exited first-quarter fiscal 2020 with cash and cash equivalents of \$172.2 million compared with \$147.1 million at the end of fiscal 2019.

Reasons To Sell:

- ▼ **Reimbursement Headwind:** ResMed's ability to sell its products largely depends on the extent to which coverage and reimbursement for its products will be available from government health administration authorities, private health insurers and other organizations. These third-party payers are increasingly challenging the prices charged for medical products and services and can, deny coverage for treatments that may include the use of its products. In some markets, such as Spain, France and Germany, government coverage and reimbursement are currently available for the purchase or rental of its products but are subject to constraints such as price controls or unit sales limitations. In other markets, such as Australia, there is currently limited or no reimbursement for devices that treat sleep-disordered breathing (SDB) conditions.
- ▼ **Dull Device Sales:** In the first-quarter fiscal 2020, device sales in France and Japan were impacted as customers completed their connected device upgrade programs. The company expects this impact to persist over the next few quarters.
- ▼ **Competitive Bidding – A Major Threat:** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 instructed the Centers for Medicare & Medicaid Services (CMS) to establish and implement programs under which customers that provide home healthcare services must compete to offer products in designated competitive bidding areas. CMS recently rolled out the competitive bidding program and included home medical equipment such as oxygen and oxygen equipment, CPAP and respiratory assist devices, and related supplies and accessories. In 2011, CMS implemented Round 1 of competitive bidding in 9 competitive bidding areas (CBAs). In 2013, CMS announced the single payment amounts for Round 2, which covered a total of 91 CBAs. Effective Jul 1, 2013, the average reduction from the then-current Medicare payment rates in Round 2 was approximately 47% on a weighted average basis for CPAP and respiratory devices. In 2016, CMS implemented the Round 2 Recompete, covering a total of 117 CBAs, and announced the single payment amounts. In addition, the ACA required CMS to roll out the competitive bidding process nationally or adjust prices in non-competitive bidding areas, also known as the Round 3 areas, to match competitive bidding prices by 2016. CMS phased in the new rates beginning Jan 1, 2016, and were fully effective since Jul 1, 2016.
- ▼ **Competitive Landscape:** The market for SDB products is highly competitive with respect to product price, features and reliability. ResMed's primary competitors include Philips BV; DeVilbiss Healthcare; Fisher & Paykel Healthcare Corporation Limited; Apex Medical Corporation; BMC Medical Co. Ltd.; and regional manufacturers. The disparity between the company's resources and those of its competitors may increase owing to the trend of consolidation in the healthcare industry. Moreover, some of ResMed's competitors, such as Löwenstein Medical GmbH + Co. KG, are affiliates of its customers, which may make it difficult for the company to compete with them.
- ▼ **Challenging Macroeconomic Scenario:** Pricing pressure in the United States and Europe has been a staggering issue over the past few quarters. Healthcare reform in the United States has created a degree of uncertainty for the medical devices companies and has created a less flexible pricing environment. Currency headwinds continue to affect ResMed's overseas sales. Moreover, the overall macro-economic uncertainty across the globe affects physician office visits, thereby impacting ResMed's progress. Thus, the company is treading cautiously in the markets it serves, especially Europe and the Americas, as the results from these territories might hurt margins. With growing concerns over healthcare spending taking its toll on players in the medical device space, the stock might suffer due to a sluggish market.

We are worried about the recently released unfavorable trial result of ResMed. Beside, reimbursement issues and competitive bidding continue to affect the stock.

Last Earnings Report

ResMed's Q1 Earnings Beat Estimates

ResMed Inc. announced first-quarter fiscal 2020 adjusted earnings per share (EPS) of 93 cents, up 14.8% year over year. The metric also beat the Zacks Consensus Estimate by 6.9%.

Reported EPS was 83 cents for the quarter under review, reflecting an increase of 13.7% from the year-ago period.

Revenues in the reported quarter increased 15.8% year over year (up 17% at constant exchange rate or CER) to \$681.1 million. The figure surpassed the Zacks Consensus Estimate by 3.6%.

Quarter Ending 09/2019

Report Date	Oct 24, 2019
Sales Surprise	3.63%
EPS Surprise	6.90%
Quarterly EPS	0.93
Annual EPS (TTM)	3.77

A Closer View of the Top Line

Geographically, excluding Software-as-a-Service, revenues in the United States, Canada and Latin America improved 13% over the prior-year period to \$370.3 million, led by robust performance by its mask and device product portfolios.

Global revenues from Software-as-a-Service in the quarter under consideration summed \$86.9 million, representing an 83% jump year over year.

Revenues in the combined EMEA and APAC region were \$223.9 million, highlighting a 8% rise at CER from the year-earlier tally.

Margins

Gross margin for the fiscal first quarter was 59.5%, translating to a 115-basis point (bps) expansion from the year-ago number.

Selling, general and administrative expenses were up 13.7% year over year to \$167.4 million, while research and development expenses increased 23.8% to \$48 million. This, in turn, induced a 15.8% rise in adjusted operating expenses, which amounted to \$215.5 million. However, adjusted operating margin in the reported quarter expanded 115 bps to 27.8%.

Financial Updates

ResMed exited the first quarter of fiscal 2020 with cash and cash equivalents of \$172.2 million compared with \$147.1 million at the end of fiscal 2019.

Along with the earnings release, ResMed announced a regular quarterly dividend payout of 39 cents per share.

Recent News

On **Oct 21, 2019**, ResMed introduced AirFit N30, which is the first tube-down nasal cradle continuous positive airway pressure ("CPAP") mask, with a front-facing tube.

On **Oct 7, 2019**, ResMed and Cerner announced a new partnership to help providers make more informed treatment decisions, control costs and deliver seamless care across health systems to the home.

Valuation

ResMed shares are up 25.5% in the past six-month period and up 39.6% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are up 1.6% and 4.2% in the past six-monthperiod, respectively. Over the past year, the Zacks sub-industry and sector are up 18.8% and up 5.8%, respectively.

The S&P 500 index is up 9.3% in the past six-month periodand up 25.7% in the past year.

The stock is currently trading at 35.9X Forward 12-months earnings, which compares to 24.8Xfor the Zacks sub-industry, 21.3X for the Zacks sector and 18.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.4X and as low as 18.4X, with a 5-year median 24.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$163 price target reflects 37.8x forward 12-months earnings.

The table below shows summary valuation data for RMD

Valuation Multiples -RMD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	35.99	24.78	21.31	18.71
	5Year High	36.44	25.31	21.31	19.34
	5-Year Low	18.44	17.01	15.91	15.17
	5-Year Median	24.92	19.53	18.98	17.44
P/S F12M	Current	7.41	3.92	2.79	3.47
	5-Year High	7.50	3.94	3.80	3.47
	5-Year Low	3.83	2.88	2.42	2.54
	5-Year Median	4.93	3.22	2.94	3.00
P/B TTM	Current	10.55	3.09	4.46	4.41
	5-Year High	10.64	4.30	5.01	4.45
	5-Year Low	4.39	2.21	3.42	2.85
	5-Year Median	5.85	2.77	4.27	3.60

As of 1/03/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (148 out of 252)



Top Peers

Haemonetics Corporation (HAE)	Outperform
Baxter International Inc. (BAX)	Neutral
BioLife Solutions, Inc. (BLFS)	Neutral
Collectar Biosciences, Inc. (CLRB)	Neutral
Hill-Rom Holdings, Inc. (HRC)	Neutral
Medtronic PLC (MDT)	Neutral
Quidel Corporation (QDEL)	Neutral
Cardiovascular Systems, Inc. (CSII)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	RMD Neutral	X Industry	S&P 500	CSII Underperform	HAE Outperform	QDEL Neutral
VGM Score	B	-	-	F	B	C
Market Cap	22.33 B	299.00 M	23.66 B	1.70 B	5.82 B	3.10 B
# of Analysts	6	2	13	5	3	4
Dividend Yield	1.00%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	D	-	-	F	C	D
Cash/Price	0.01	0.08	0.04	0.06	0.02	0.01
EV/EBITDA	33.20	0.42	13.88	323.32	31.21	21.34
PEG Ratio	3.54	2.56	1.99	NA	2.69	NA
Price/Book (P/B)	10.55	4.25	3.36	11.99	9.97	5.81
Price/Cash Flow (P/CF)	32.95	20.53	13.62	537.55	24.80	16.27
P/E (F1)	37.50	24.32	18.74	NA	36.35	23.65
Price/Sales (P/S)	8.27	5.13	2.67	6.65	5.89	6.02
Earnings Yield	2.65%	0.86%	5.32%	-0.12%	2.75%	4.23%
Debt/Equity	0.60	0.11	0.72	0.15	0.54	0.15
Cash Flow (\$/share)	4.71	-0.00	6.94	0.09	4.63	4.58
Growth Score	A	-	-	F	B	B
Hist. EPS Growth (3-5 yrs)	10.51%	10.04%	10.56%	NA	9.02%	118.22%
Proj. EPS Growth (F1/F0)	12.82%	13.97%	7.41%	-500.00%	32.22%	14.96%
Curr. Cash Flow Growth	7.87%	5.10%	14.83%	-44.46%	24.78%	386.71%
Hist. Cash Flow Growth (3-5 yrs)	9.87%	9.87%	9.00%	15.92%	3.78%	34.60%
Current Ratio	2.11	2.78	1.23	3.45	2.37	1.46
Debt/Capital	37.57%	13.00%	42.92%	12.84%	34.97%	13.16%
Net Margin	15.52%	-10.65%	11.08%	-1.23%	6.90%	14.51%
Return on Equity	26.72%	-7.21%	17.10%	-2.21%	24.59%	22.48%
Sales/Assets	0.67	0.64	0.55	1.20	0.80	0.60
Proj. Sales Growth (F1/F0)	10.72%	11.84%	4.20%	13.21%	3.76%	5.71%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	-0.53%	0.00%	-0.61%	-0.32%	-0.36%	-0.39%
1 Week Price Chg	0.17%	0.00%	0.13%	1.19%	-0.95%	1.09%
4 Week Price Chg	3.40%	1.18%	2.60%	10.34%	-4.13%	7.91%
12 Week Price Chg	19.02%	6.01%	8.87%	7.47%	-8.42%	31.09%
52 Week Price Chg	45.84%	5.00%	29.34%	72.51%	20.60%	56.47%
20 Day Average Volume	431,909	142,996	1,603,615	215,436	330,318	165,413
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.12%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	4.81%	-1.76%	-0.57%	-2,500.00%	3.61%	-2.98%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-0.87%	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	D
Growth Score	A
Momentum Score	A
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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