

**SAP SE (SAP)**

**\$138.43** (As of 06/29/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

**Summary**

SAP is benefiting from strong growth in cloud revenues and expanding customer base. Robust adoption of S/4HANA, Fieldglass, Concur and SuccessFactors Employee Central solutions is a key catalyst. Moreover, synergies from its acquisition of Qualtrics bode well for the top line. Additionally, strong demand for cloud solutions in the Europe, Middle East and Africa (EMEA) region holds promise. Although shares have underperformed the industry on a year-to-date basis, these factors are anticipated to help the company grow in the rest of 2020. However, increasing investments to enhance cloud-based offerings are anticipated to put pressure on the bottom line at least in the near term. Further, coronavirus outbreak is straining software licenses and support revenues. Markedly, SAP trimmed 2020 guidance on coronavirus crisis-induced business uncertainty.

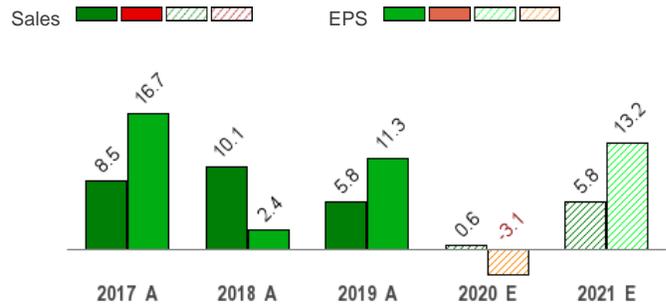
**Price, Consensus & Surprise**



**Data Overview**

52 Week High-Low	<b>\$143.05 - \$90.90</b>
20 Day Average Volume (sh)	<b>832,203</b>
Market Cap	<b>\$165.2 B</b>
YTD Price Change	<b>3.3%</b>
Beta	<b>0.97</b>
Dividend / Div Yld	<b>\$1.25 / 0.9%</b>
Industry	<b><a href="#">Computer - Software</a></b>
Zacks Industry Rank	<b>Bottom 24% (193 out of 253)</b>

**Sales and EPS Growth Rates (Y/Y %)**



Last EPS Surprise	<b>-6.9%</b>
Last Sales Surprise	<b>0.9%</b>
EPS F1 Est- 4 week change	<b>3.3%</b>
Expected Report Date	<b>07/27/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>24.6</b>
P/E F1	<b>25.0</b>
PEG F1	<b>2.5</b>
P/S TTM	<b>5.3</b>

**Sales Estimates (millions of \$)**

	Q1	Q2	Q3	Q4	Annual*
2021	7,558 E	7,717 E	8,116 E	9,286 E	32,843 E
2020	7,193 A	7,284 E	7,651 E	8,733 E	31,034 E
2019	6,917 A	7,452 A	7,570 A	8,905 A	30,863 A

**EPS Estimates**

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.99 E	\$1.25 E	\$1.33 E	\$1.53 E	\$6.27 E
2020	\$0.94 A	\$1.01 E	\$1.19 E	\$1.45 E	\$5.54 E
2019	\$1.02 A	\$1.22 A	\$1.45 A	\$2.02 A	\$5.72 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/29/2020. The reports text is as of 06/30/2020.

## Overview

Headquartered in Walldorf, Germany, SAP SE is one of the largest independent software vendors in the world and the leading provider of enterprise resource planning (ERP) software. Its solutions are designed to cater to the needs of organizations, ranging from small and medium businesses to large, global enterprises.

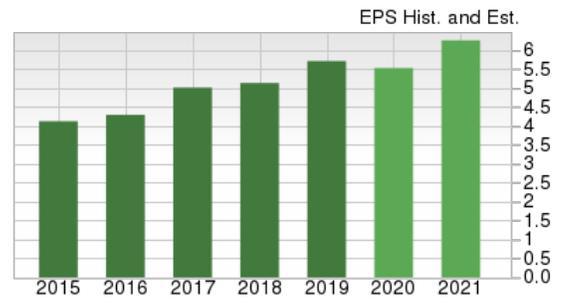
The company provides ML, IoT, and advanced analytics technologies which helps customers deriving meaningful insights and decision-making capabilities. The company also provides end-to-end suite of applications and services.

SuccessFactors Employee Central forms the backbone of the company's Human Experience Management (HXM) offerings. Robust market traction of these solutions remains a key growth driver for SAP. SAP SuccessFactors HXM solutions ended the first-quarter 2020 with more than 550 customers.

SAP reported revenues of €27.553 billion in fiscal 2019. Total revenues, on non-IFRS basis, came in at €27.634 billion.

**Cloud and Software** (83.6% of total 2019 revenues): Software revenue represents fees earned from the sale or license of software to customers. Cloud revenues relate to contracts, which permit the customer to use specific SAP-hosted software functions during the contract period, and which impose significant contractual penalty if the customer cancels the contract or permanently uses the software on their own systems.

**Services** (16.4%): Services revenues comprise primarily of consulting and other service revenues. The company generates most of its consulting revenues from the implementation of its software products. Other service revenues consists mainly of revenues from the messaging services acquired from Sybase as well as training revenues from educational services to customers and partners on the use of the company's software products and related topics.



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## Reasons To Buy:

- ▲ SAP has established dominance over three of the most critical client demand areas, namely, efficient customer engagement, human experience management (HXM) and interconnected commerce network, which in turn, support growth. The company follows an open ecosystem strategy, which enables it to better leverage its innovation capacity by extending it to partners as well. This drives better customer value, based on respective domain expertise. The SAP partner ecosystem is a collaborative, innovative and interactive network of partners, customers and individuals. Backed by the company's extensive global relationships, customers have a wide range of providers and resources to choose from for software-related services and support.
- ▲ SAP provides collaborative commerce capabilities (Ariba), flexible workforce management (Fieldglass) and expense processing (Concur) under its Intelligent Spend Platform. Approximately \$3.7 trillion in global commerce is transacted annually through this platform across more than 180 countries. The company remains focused on leveraging this huge network to enhance collaboration both within and among the companies. Currently, Concur — used to process travel and expenses — continues to be a catalyst for SAP. Notably, Concur revenues rose 14% (11% at cc) to €428 million in the first quarter. Similarly, momentum witnessed by Ariba and Fieldglass remains noteworthy. Strategic actions to reinforce its thriving business network are likely to accelerate the company's growth momentum.
- ▲ SAP's new class of solutions that power the next generation of business applications – SAP HANA (High-Performance Analytic Appliance) – has been driving growth since its introduction. Moreover, the company's latest offering from the SAP HANA family, S/4HANA, has established itself as a “mission critical control center” for businesses pursuing digital transformation. SAP expects demand for S/4 HANA to surge, as SAP Cloud powered by HANA is the only ‘real-time digital data offering’ that helps in modernizing client operations. In the first quarter, S/4HANA adoption improved 23% year over year to around 14,100 customers. This apart, the company constantly upgrades its existing products and launches new ones to gain customers. The company introduces regular advances to SAP S/4HANA Cloud to attract more clients. In fact, Gartner predicts software-as-a-service (SaaS) revenues to hit \$151.1 billion in 2022 from \$85.7 billion in 2018 at a CAGR of 15.2%. SAP is making concerted efforts to make the most of it.
- ▲ Moreover, SAP has been primarily concentrating on expanding its cloud business to become one of the leading players in the category. Further, it has a competitive edge over its cloud competitors as its processes are designed to be industry-specific and can be customized to meet corresponding business requirements. The company's HXM applications are gradually gaining extreme popularity among international organizations. SuccessFactors Employee Central, which forms the backbone of the company's Human Capital Management offerings, have been increasingly helping clients manage both permanent and temporary workforce. Notably, SAP SuccessFactors HXM (or human experience management) solutions ended the first quarter with more than 550 customers.
- ▲ Additionally, the company is well poised against its key HCM peers, even in markets outside the United States. In this regard, SAP concluded the buyout of Callidus Software in April 2018, to add intelligent automation capabilities, consequently strengthening its SAP Front Office Suite. Management is also optimistic regarding the acquisition of Qualtrics, concluded on Jan 23, 2019, for \$8 billion in cash. Driven by solid market traction of its cloud business, the company anticipates upbeat pipeline and momentum in cloud to continue through 2020, signaling brighter days ahead. Opportunities for growth in support revenues are lucrative, which, in turn, drives the company's enthusiasm regarding the 2020 projections. Non-IFRS cloud revenues are expected in the range of €8.3-€8.7 billion, up 18-24% at cc. Non-IFRS cloud and software revenues are anticipated between €23.4 billion and €24 billion, up 1-4% at cc. On the heels of sustained rapid growth in the cloud, robust software momentum and operating profit expansion, SAP anticipates non-IFRS cloud subscription and support revenues to more than triple over 2018-2023. Moreover, the company projects non-IFRS cloud gross margin to hit 75%.
- ▲ SAP generates solid cash flow, which allows management the opportunity to invest in product innovations, acquisitions and business development. At the same time, the company has historically returned significant cash through dividends. Operating cash flow and free cash flow in first-quarter 2020 came in at \$3.29 billion and \$1.55 billion, respectively. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout (0.27) level at least in the near term.

SAP's dominance in providing efficient customer engagement, human capital management and interconnected commerce network supports its growth.

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## Reasons To Sell:

- ▼ SAP faces stiff competition as it operates in the IT services industry. The company competes with large IT service providers with greater resources, such as IBM and Oracle. The software market being highly dynamic, SAP faces competition from both large and small firms in the market. Hence, the company has to invest in new technological developments from time to time to maintain its position in the software market. This increases research and development and related expenses, which sometimes weigh on its financials. Moreover, this makes the company vulnerable to risks of pricing pressure and loss of market share, which in turn, can adversely impact its financial position, profit, and cash flow. This apart, the ongoing trend to invest more in cloud solutions exposes SAP to risks of losing existing “on-premise customers”, which can adversely impact its top-line performance, especially in the short run. Continued investment in a standardized converged HANA-based cloud platform and expenses incurred for new technologies resulted in a revenue mix-shift effect between its cloud and on-premise business.
- ▼ SAP’s business, being spread across the globe, is more prone to be impacted by the political, economic and regulatory risks. Of late, fluctuations in national currencies in many of its key markets are affecting SAP’s financial performance. Moreover, unfavorable shifts in general regulatory and budgetary conditions by governments can pose significant challenges to the company’s growth. Over the past few quarters, many of the company’s emerging markets have faced fiscal imbalances and general economic slowdowns, which adversely impacted their purchasing power. In addition, being a multinational company, SAP is also vulnerable to several regulatory risks including overlap among tax regimes, expenditure associated with localization of its products, protectionist trade policies and other difficulties related to intellectual property rights.
- ▼ Long sale cycles for the products, complexity of individual license transactions, changes in customer budgets and a strong correlation between software and service revenues compound the problem of revenue fluctuation for SAP. Trade war between the United States and China and imposition of tariffs, as well as the postponement of business owing to the coronavirus outbreak remain an overhang on SAP’s software licenses revenues. These apart, certain business models of SAP are highly dependent on a working cyberspace, which means that any breach in cybersecurity can lead to severe repercussions for the company’s reputation as well as result in a considerable amount of expenditure for settling legal claims.
- ▼ SAP has a leveraged balance sheet. As of Mar 31, 2020, the company’s net debt was \$10.45 billion. Moreover, debt to capital of 36.5% is higher than prior-quarter figure of 34.4%. Further, times interest earned is 9.9X, compared with the industry’s figure of 17.6X. Although the company generates significant cash flow, the high-debt level can not only jeopardize its ability to sustain dividend payout but also pursue accretive acquisitions.

Integration risks from acquisitions and increasing investments to enhance cloud-based offerings remain headwinds.

## Last Earnings Report

### SAP Q1 Revenues Up Y/Y on Strong Cloud Business

SAP SE reported first-quarter 2020 non-IFRS earnings of €0.85 per share, which declined 5% from the year-ago quarter's figure.

On IFRS basis, the company reported earnings of €0.68 per share, up 3% year over year.

Total revenues, on a non-IFRS basis, came in at €6.522 billion (\$7.19 billion), up 7% year over year and 5% at constant currency (cc).

Revenues amounted to €6.521 billion on IFRS basis, up 7% year over year.

Current cloud backlog increased 25% (24% at cc) year over year to €6.65 billion.

### Impressive Cloud Results

On a non-IFRS basis, Cloud and software business (82.8% of total revenues) reported revenues of €5.398 billion, up 6% year over year (up 5% at cc).

Cloud revenues came in at €2.012 billion, up 27% year over year on a non-IFRS basis (25% at cc).

However, software licenses & support revenues of €451 million plunged 31% year on year. The downside was caused by the impact of the coronavirus outbreak that intensified in March and led to postponement of new business.

Cloud revenues — related to Software as a Service (SaaS)/Platform as a Service (PaaS) — surged 25% at cc to €1.777 billion. Cloud revenues — related to Infrastructure as a Service (IaaS)— rallied 27% year over year at cc to €201 million.

Services business (17.2% of total revenues) reported revenues of €1.124 billion, up 7% from the year-ago quarter's figure (up 6% at cc).

SAP provides collaborative commerce capabilities (Ariba), flexible workforce management (Fieldglass) and effortless travel and expense processing (Concur) under its Intelligent Spend Platform. Approximately \$3.7 trillion in global commerce is transacted annually through this platform across more than 180 countries.

The company updated its structure to have four reportable segments — Applications, Technology & Support (AT&S), Concur, Qualtrics and Services.

Notably, AT&S revenues increased 5% (3% at cc) to €4.986 billion. Concur revenues rose 14% (11% at cc) to €428 million. Qualtrics segment revenues surged 82% (76% at cc) to €161 million. Revenues in the Services segment rose 5% (4% at cc) to €851 million on a year-over-year basis.

### Expanding Clientele Favors Business Prospects

S/4HANA adoption rallied 23% year over year to around 14,100 customers. In the reported quarter, net new customers comprised approximately 45% of additional S/4HANA customers.

S/4HANA clientele continues to expand with the addition of Danone, Dehner Holding, AO Tander, Indorama Ventures and Cogna Educação, among others. Notably, an increasing number of companies including Sun Life Financial and Hitachi High Tech have begun deploying S/4HANA solution in part or entirely in the cloud. Moreover, MTU Rolls Royce is now live on SAP S/4HANA Cloud.

SAP SuccessFactors HXM solutions ended the reported quarter with more than 550 customers. Notable deal wins in the quarter comprised Chobani, Volaris, and Hyundai Motor Europe, while Nexa went live on the platform.

SAP's business technology platform comprises SAP HANA, SAP Data Warehouse Cloud, SAP Cloud Platform, SAP Analytics Cloud, SAP Intelligent Robotic Process Automation and SAP Data Intelligence solutions. In the reported quarter, the platform was adopted by Trident Group while Mercedes-Benz Brazil went live with the same.

Additionally, Mabe, Helaba and Vestas Wind Systems opted for the company's ARIBA solutions in the reported quarter, while Furukawa Electric LatAm S.A. went live. SAP's Fieldglass solutions were adopted by Hitachi Systems in the first quarter.

Further, Concur was adopted by Marzam and General Motors while Qualtrics solutions were selected by Sainsbury's Supermarkets, Mars Incorporated, Energia and Impossible Foods, among others, in the reported quarter.

### EMEA Witnesses Robust Cloud Growth

Europe, Middle East & Africa (EMEA) Cloud revenues surged 34% at cc to €612 million. Cloud & software revenues increased 6% at cc. The top line was driven by strong cloud revenues in the Germany and Netherlands. Moreover, SAP witnessed robust software license revenue growth in France, Italy and Switzerland.

Asia Pacific & Japan (APJ) Cloud revenues jumped 24% at cc to €248 million. However, cloud & software were flat at cc. The top line benefited from strong cloud and software license revenue growth in Japan, Australia and South Korea.

Americas' Cloud revenues increased 21% at cc to €1.118 billion. Cloud & software revenues increased 7% at cc. Brazil and Canada delivered

### Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	0.87%
EPS Surprise	-6.93%
Quarterly EPS	0.94
Annual EPS (TTM)	5.63

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strong performance in cloud revenues in the first quarter. Further, solid adoption of software license solutions across Brazil and Mexico aided growth.

### **Margin Details**

Non-IFRS gross margin of 69.8% expanded 30 basis points (bps) from the year-ago quarter's figure.

SAP reported a non-IFRS operating expense of €5.040 billion, up 8% from the year-ago quarter's level (7% at cc).

Non-IFRS operating profit of €1.482 billion inched up 1% on a year-over-year basis (flat at cc).

Non-IFRS operating margin of 22.7% contracted 130 bps each on a year-over-year basis and at cc.

Segment wise, AT&S profit increased 4% (3% at cc) to approximately €1.843 billion on a non-IFRS basis. Concur advanced 18% (14% at cc) to €161 million. Qualtrics segment reported a loss of €12 million, while Services delivered profit of €84 million.

### **Guidance**

Thanks to the impact of the coronavirus outbreak, SAP had trimmed its 2020 guidance in its earning pre-announcement, which has been maintained in the earnings release.

For 2020, SAP projects non-IFRS cloud revenues in the range of €8.3-€8.7 billion, up 18-24% at cc.

Non-IFRS cloud and software revenues are anticipated between €23.4 billion and €24 billion, up 1-4% at cc.

Non-IFRS total revenues are projected in the range of €27.8-€28.5 billion, up 1-3% year over year and at cc.

Notably, the company anticipates non-IFRS operating profit in the band of €8.1-€8.7 billion.

Moreover, operating cash flow is expected to be €5 billion and free cash flow is anticipated to be €3.5 billion.

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## Recent News

On Jun 23, SAP and International Business Machines Corporation expanded their partnership with the unveiling of new intelligent industry-specific solutions to aid customers accelerate digital transformation. The aim of the move is to aid businesses in becoming data-driven intelligent enterprises. Both the companies are particularly focused on enhancing customer's business value by considering critical areas such as automated cognitive intelligence, customer and user experiences and industry-specific functionality.

On Jun 11, SAP and Honeywell announced collaboration in a bid to create a joint cloud-based solution. The offering will leverage Honeywell Forge enterprise performance management offering, and SAP Cloud Platform to enable corporate real estate owners develop smart energy efficient buildings on the back of operational intelligence and boost business outcomes.

On Jun 3, SAP announced enhancements to its App Center and unveiled the new SAP Endorsed Apps initiative. This will aid enterprises address crucial business challenges and accelerate intelligent processes at the SAP Global Partner Summit Online.

On May 27, SAP rolled out SAP for Me, a new customer portal, with enhanced capabilities to aid customers drive productivity with personalized digital experience.

On May 5, SAP and Sinch AB has entered into a definitive agreement, by which Sinch AB will acquire the SAP Digital Interconnect group, for €225 million on cash and debt-free basis.

On Apr 20, SAP announced that Co-CEO Jennifer Morgan will depart the company, leaving Christian Klein as the sole CEO effective from April 30. The decision was made in a bid to simplify leadership amid the global coronavirus pandemic.

## Valuation

Shares of SAP are up 3.3% in the year-to-date period and 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 19.4% and 8.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 28.7% and 21.5%, respectively.

The S&P 500 index is down 5.2% in the year-to-date period but up 3.7% in the past year.

The stock is currently trading at 23.47X forward 12-month earnings, which compares to 31.61X for the Zacks sub-industry, 25.09X for the Zacks sector and 21.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.67X and as low as 17.38X, with a 5-year median of 23.71X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$146 price target reflects 24.75X forward 12-month earnings.

The table below shows summary valuation data for SAP

Valuation Multiples - SAP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.47	31.61	25.09	21.88
	5-Year High	30.67	31.61	25.09	22.14
	5-Year Low	17.38	18.62	16.72	15.25
	5-Year Median	23.71	25.05	19.31	17.52
P/S F12M	Current	5.16	7.81	3.83	3.42
	5-Year High	5.4	7.81	3.83	3.44
	5-Year Low	3.33	3.88	2.32	2.53
	5-Year Median	4.43	5.57	3.12	3.02
EV/Sales TTM	Current	5.46	8.09	4.35	2.99
	5-Year High	5.91	8.25	4.46	3.47
	5-Year Low	3.59	3.19	2.58	2.14
	5-Year Median	4.79	5.79	3.61	2.84

As of 06/29/2020

**Industry Analysis** Zacks Industry Rank: Bottom 24% (193 out of 253)

**Top Peers**



Company (Ticker)	Rec	Rank
Adobe Systems Incorporated (ADBE)	Neutral	3
salesforce.com, inc. (CRM)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
SVMK Inc. (SVMK)	Neutral	3
VMware, Inc. (VMW)	Neutral	3
Workday, Inc. (WDAY)	Neutral	3

Industry Comparison Industry: Computer - Software				Industry Peers		
	SAP	X Industry	S&P 500	CRM	MSFT	ORCL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	C	C	C
Market Cap	165.23 B	1.76 B	21.46 B	165.18 B	1,504.86 B	168.04 B
# of Analysts	5	3	14	14		12
Dividend Yield	0.90%	0.00%	1.95%	0.00%	1.03%	1.75%
Value Score	C	-	-	D	C	B
Cash/Price	0.06	0.09	0.07	0.06	0.09	0.26
EV/EBITDA	21.51	18.56	12.54	43.17	24.76	11.41
PEG Ratio	2.47	2.82	2.81	3.43	2.50	1.23
Price/Book (P/B)	4.87	5.32	2.93	4.78	13.14	13.21
Price/Cash Flow (P/CF)	23.95	23.33	11.53	41.91	31.23	11.71
P/E (F1)	24.99	31.55	20.96	61.80	34.79	13.54
Price/Sales (P/S)	5.31	4.37	2.25	9.06	10.85	4.30
Earnings Yield	4.00%	2.83%	4.53%	1.62%	2.87%	7.40%
Debt/Equity	0.41	0.15	0.76	0.15	0.61	5.44
Cash Flow (\$/share)	5.78	1.18	7.01	4.37	6.35	4.68
Growth Score	B	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	7.48%	9.72%	10.93%	110.92%	18.74%	9.05%
Proj. EPS Growth (F1/F0)	-3.22%	-3.27%	-10.50%	-0.79%	20.07%	5.06%
Curr. Cash Flow Growth	-1.75%	8.40%	5.51%	36.39%	19.70%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	3.01%	8.71%	8.62%	40.05%	11.99%	-0.39%
Current Ratio	0.99	1.54	1.30	1.15	2.90	3.03
Debt/Capital	28.90%	21.07%	44.51%	12.85%	37.98%	84.48%
Net Margin	15.27%	6.84%	10.62%	-0.92%	33.36%	25.94%
Return on Equity	16.19%	11.82%	15.82%	2.45%	40.37%	72.76%
Sales/Assets	0.46	0.63	0.55	0.38	0.49	0.37
Proj. Sales Growth (F1/F0)	1.24%	0.73%	-2.61%	17.27%	12.48%	0.22%
Momentum Score	D	-	-	B	D	C
Daily Price Chg	1.21%	0.00%	1.71%	0.09%	1.07%	1.07%
1 Week Price Chg	-0.18%	-0.03%	-3.90%	-2.02%	0.60%	-0.40%
4 Week Price Chg	7.72%	0.00%	-2.17%	3.95%	8.54%	3.20%
12 Week Price Chg	23.59%	22.82%	14.42%	24.25%	20.07%	6.35%
52 Week Price Chg	0.09%	14.29%	-8.82%	19.00%	46.26%	-5.60%
20 Day Average Volume	832,203	185,534	2,732,041	6,494,630	35,396,120	15,521,214
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.22%	-0.05%	0.00%
(F1) EPS Est 4 week change	3.31%	0.00%	0.00%	0.19%	0.22%	-1.55%
(F1) EPS Est 12 week change	-6.55%	-9.17%	-10.60%	-10.80%	2.03%	-2.91%
(Q1) EPS Est Mthly Chg	4.76%	0.00%	0.00%	-0.12%	-0.41%	-1.59%

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## 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.

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### 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	D
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.

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### Disclosures

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