

Signet Jewelers (SIG)

\$30.13 (As of 01/16/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 12/31/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

Summary

Signet's shares have outpaced the industry in the past three months. The stock recently got a boost following an impressive performance in holiday season. In fact, the company also raised its fourth-quarter and fiscal 2020 view. Management highlighted that significant investments to augment digital sales, along with strength in merchandising and marketing strategies aided e-commerce and brick and mortar growth in North America during the season. Also, Signet is benefitting from its 'Signet Path to Brilliance' plan, which is designed to augment savings, engage in customer-centric growth and bolster e-commerce. Focus on cost-containment efforts, omni-channel initiatives, product innovation and inventory management bodes well. On the flip side, sluggish performance in the International segment and currency woes are concerns.

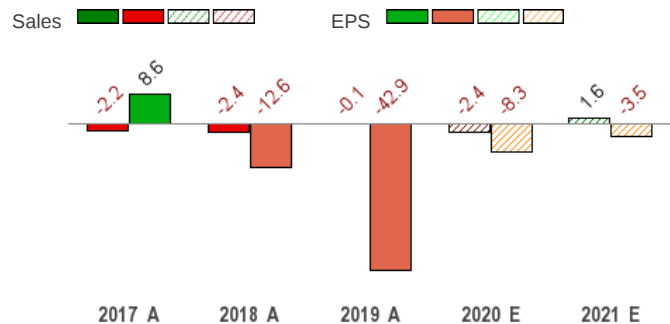
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.44 - \$10.40
20 Day Average Volume (sh)	3,175,887
Market Cap	\$1.6 B
YTD Price Change	38.6%
Beta	1.09
Dividend / Div Yld	\$1.48 / 4.9%
Industry	Retail - Jewelry
Zacks Industry Rank	Bottom 19% (205 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	29.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	13.2%
Expected Report Date	04/01/2020
Earnings ESP	-1.4%
P/E TTM	8.0
P/E F1	8.8
PEG F1	1.4
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,200 E
2020	1,432 A	1,364 A	1,188 A		6,100 E
2019	1,481 A	1,420 A	1,192 A	2,155 A	6,247 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.29 E
2020	\$0.08 A	\$0.51 A	-\$0.76 A	\$3.12 E	\$3.41 E
2019	\$0.10 A	\$0.52 A	-\$1.06 A	\$3.96 A	\$3.72 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 01/16/2020. The reports text is as of 01/17/2020.

Overview

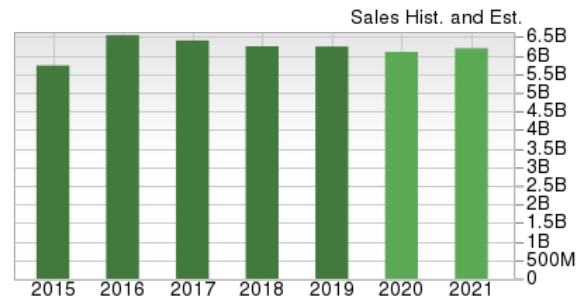
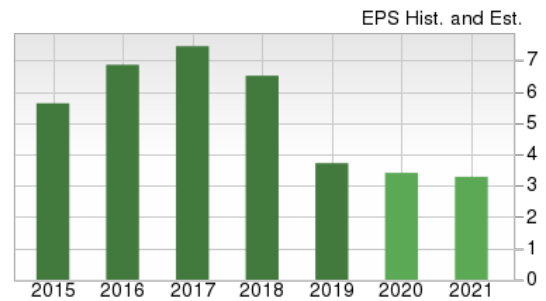
Founded in 1950, and headquartered in Hamilton, Bermuda, Signet Jewelers Limited (SIG) is a retailer of diamond jewelry, watches as well as other products. The company operates in the U.S., Canada, U.K., Puerto Rico, the Republic of Ireland, and the Channel Islands. The company is often considered as the leading retailer of diamond jewelry.

Signet Jewelers reports operating results under the following divisions:

North America segment (90.8% of FY19 Net Sales) consists of the legacy Sterling Jewelers and Zale division. The North America reportable segment operates across the United States and Canada. The U.S. stores operate nationally in malls and off-mall locations like Kay, Jared, Zales and Piercing Pagoda. The Canadian stores operate under the Peoples Jewellers store banner. This segment also operates a variety of mall-based regional brands, including Gordon's Jewelers in the United States and Mappins in Canada along with the JamesAllen.com website, acquired through R2Net.

International (7.8% of FY19 Net Sales), which consists of the legacy UK Jewelry division, operates stores in the United Kingdom, Republic of Ireland and Channel Islands. These stores operate as H.Samuel and Ernest Jones in shopping malls and off-mall locations (i.e. high street).

Other (1.4% of FY19 Net Sales) reportable segment comprises all non-reportable segments and is below the quantifiable threshold for separate disclosure as a reportable segment. These include subsidiaries involved in the purchasing and conversion of rough diamonds to polished stones and unallocated corporate administrative functions.



Reasons To Buy:

▲ **Better-Than-Expected Q3 Results** : Although Signet Jewelers reported adjusted loss in third-quarter fiscal 2020 results, it was narrower than the Zacks Consensus Estimate. Notably, the company reported a loss of 76 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of \$1.07. Moreover, the figure was narrower than the year-ago quarter's reported loss of \$1.06. Also, total revenues of \$1,187.7 million surpassed the Zacks Consensus Estimate of \$1,138 million. The quarter marked the eighth straight quarter of sales beat.

The 'Signet Path to Brilliance' Plan focuses on e-commerce growth, enhancing savings and undertaking innovations.

▲ **Stock Gains on Impressive Holiday Season**: Signet's shares have outpaced the industry in the past three months. The stock surged more than 100% during the period compared with the industry's growth of 49.2%. Moreover, the stock recently got a boost following an impressive performance in holiday season. Signet's total same store sales for the nine-week period ended Jan 4, 2020, or the holiday season inched up 1.6%. E-commerce sales increased 13.5% year over year to \$252.3 million. The company also raised its fourth-quarter and fiscal 2020 view.

For fiscal 2020, the company expects 0.1% year-over-year rise in same-store sales now, which was earlier projected to decline 1-1.7%. Sales for the fiscal year are now projected to be \$6.1 billion compared with \$6.01-\$6.05 billion mentioned earlier. The company now expects adjusted earnings in the range of \$3.61-\$3.69 per share, up from \$3.11-\$3.29 mentioned earlier. For fourth-quarter fiscal 2020, the company now projects sales of \$2.12 billion up from the previous guidance of \$2.03-\$2.07 billion. Further, Signet anticipates adjusted earnings per share in the range of \$3.44-\$3.52. Management had earlier anticipated the metric to be between \$3.01 and \$3.16.

▲ **'Signet Path to Brilliance' Plan**: In an effort to drive growth in the long run, Signet earlier announced strategic initiatives plan that is 'Signet Path to Brilliance' plan, which will continue for the next three years. Notably, this three-year strategic initiative comprises focusing on customer-centric growth actions, enhancing efficiency across omnichannel (discussed below), and most importantly driving cost effectiveness. The initiative includes the customer-first approach, per which the company strives to build brands that meet consumers' needs more effectively. Also, the company is on track with differentiating its banners and launching new collections.

Notably, Signet's Path to Brilliance transformation plan is progressing well. In this regard, the plan has been favorably impacting quarterly results and traffic trends. Further, we note that a vital aspect in its three-year strategic initiative is to enhance savings. A portion of this cost savings will be used to invest in growth initiatives, which include e-commerce development, omnichannel capabilities and product innovations. In March 2018, the company announced its three-year Path to Brilliance transformation plan. In this regard, Signet continues to anticipate cost savings of \$80-\$90 million for fiscal 2020. Additionally, it continues to project cost savings of \$200-\$225 million from this program by the end of fiscal 2021, including savings of \$85 million achieved in fiscal 2019. Going ahead, the plan is anticipated to be accretive to fiscal 2021 results.

▲ **Enhancement of Omnichannel & Digital Capabilities**: Signet has been focusing on augmenting its digital presence. Through the acquisition of R2Net (in September 2017), which owns popular online jewelry retailer — JamesAllen.com and Segoma Imaging Technologies — Signet has been able to combine its retail jewelry business with R2Net's solid digital operations. Management is utilizing the digital innovation capabilities of R2Net to come up with innovative offerings. The move is in sync with Signet's omni-channel transformation. Per management, omnichannel and e-commerce capabilities are key aspects of the 'Signet Path to Brilliance' plan.

Speaking of e-commerce, the company is not only focusing on double-digit growth in e-commerce but is also striving to achieve 15% of total sales in fiscal 2021. In the third quarter of fiscal 2020, e-commerce sales were \$139.3 million, up 11.4% on a year-over-year basis. E-commerce sales accounted for almost 11.7% of total sales, reflecting growth from 10.5% reported in the prior-year quarter. Going ahead, the company plans to continue strengthening its footprint in the e-commerce arena with improved features and experiences. Moreover, encouraged by sturdy mobile traffic witnessed lately, management intends to make more investments in this area.

▲ **Rationalization of Store Base**: Signet is focused on opening smaller format stores that enhance customer experience, which in turn boosts store productivity. The company is also working toward improving and developing stores, carrying out store relocations and closures, restricting mall-based exposure and exiting regional brands. In fiscal 2019, Signet closed 262 stores. For fiscal 2020, the company plans to close 165 stores. Also, it intends to open 38 stores.

▲ **Catalysts Driving Growth**: Signet remains committed to improve top-line and bottom-line performance in the long run by leveraging capital investments made over the years in distribution, manufacturing and diamond sourcing processes. The company remains focused on evolving its brand, enhancing omnichannel experience, solidifying position in core markets, increasing operating model efficiency and enriching overall organization. It remains committed to elevating in-store experience and replenishing product portfolio.

Also, the company is on track with its innovation and increasing customer value. It emphasizes on inspiring flagship brands, right value and on-trend product. To this end, it is focused on improving marketing and promotional strategies, enhancing in-store environment and advancing technology.

Risks

- **Sluggish Y/Y Top-Line Trend:** Although Signet's top line surpassed the Zacks Consensus Estimate, the metric dipped 0.3% year over year in third-quarter fiscal 2020. Adverse foreign currency movements and store closures may have hurt the top line to some extent. Moreover, Signet's total sales for the nine-week period ended Jan 4, 2020 or Holiday season, decreased 1% to \$1,817.4 million. Moving ahead, it projects sales of \$2.12 billion for the fourth quarter of fiscal 2020, which suggests a decrease from \$2.2 billion reported in the prior year quarter. This view includes a negative impact of \$55 million, owing to store closures. Although management raised its top line view to \$6.1 billion for the fiscal 2020, the guidance stands below revenues of \$6.25 reported in fiscal 2019. Prior to this, the top line fell 3.9% and 3.3% in the second and first quarters of fiscal 2020.
 - **Weak International Unit:** We note that Signet's International segment has been weak for the past few quarters owing to sluggishness in comps. Sales at the International segment declined 12.4% on a reported basis and 8.4% at constant currency (cc) to \$106.4 million in the fiscal third quarter. Same-store sales at the segment dipped 5.2% from a year ago, with ATV and transaction declining 1.4% and 4.3%, respectively. Dismal same-store sales performance mainly stemmed from softness across all categories and a tough operating environment in the U.K. Prior to this, sales at the International segment declined 13.3% and 13.4% on a reported basis, while same store sales at the segment fell 7% and 5.2% in the second and first quarters of fiscal 2020, respectively. Notably, same store sales for the nine-week period ended Jan 4, 2020, or the holiday season fell 3.1% in the International segment.
 - **Prone to Currency Fluctuations:** Signet generates a significant amount of net sales outside the U.S. Due to exposure to international markets, it remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the U.S. An increase in price may have an adverse impact on the demand for the products. Net sales fall victim of the adverse foreign currency fluctuations that lower value of the sales generated in the overseas market and also result in reduced spending by tourists. In second-quarter fiscal 2020, the company's total revenue was hurt by unfavorable foreign currency.
 - **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.
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Last Earnings Report

Signet Q3 Loss Narrower Than Expected, Sales Beat

Signet reported third-quarter fiscal 2020 results, wherein adjusted loss was narrower than the Zacks Consensus Estimate. Moreover, the quarter marked the eighth straight quarter of sales beat. Notably, the company raised its top and bottom-line guidance for fiscal 2020.

Fiscal Q3 in Detail

The company reported adjusted loss of 76 cents per share, which was narrower than the Zacks Consensus Estimate of a loss of \$1.07. Moreover, the figure was narrower than the year-ago quarter's reported loss of \$1.06.

The jewelry retailer generated total revenues of \$1,187.7 million, which surpassed the Zacks Consensus Estimate of \$1,138 million. However, the top line dipped 0.3% year over year. On a cc basis, revenues inched up 0.2%. Although robust same-store sales contributed to the top line to some extent, adverse foreign currency movements and store closures acted as deterrents.

The company's same-store sales increased 2.1% year over year. E-commerce sales grew 11.4% from the prior-year quarter to \$139.3 million. Markedly, e-commerce constituted 11.7% of total sales. Meanwhile, brick-and-mortar same-store sales inched up 0.9% from the year-ago quarter.

Adjusted gross profit fell 0.6% to \$369.1 million, while adjusted gross margin remained flat with the prior-year figure of 31.1%. Cost savings related to the company's transformation plan and increase in credit revenues offset lower merchandise margin.

Selling, general & administrative expenses were down 2.9% from the prior-year period to \$398.4 million in the quarter, courtesy of reduced store staff expenses (owing to the closure of a few stores) and transformation cost savings. However, these were partly offset by higher advertising costs.

It reported adjusted operating loss of \$29.3 million, narrower than a loss of \$38.9 million reported in the year-ago quarter. The year-over-year improvement was driven by transformation cost savings.

Segment Discussion

Sales at the North America segment grew 0.6% on a reported basis (or 0.7% at cc) to \$1,070.7 million. Same-store sales increased 2.9% from the year-ago period, owing to solid performance of Kay and Piercing Pagoda. Also, James Allen returned to growth track, recording double-digit sales improvement.

Further, same-store sales rose 2.8% in Zales, 3.8% in Kay, 12.4% in Piercing Pagoda and 15.8% in James Allen. Meanwhile, the metric declined 4.2% and 2.9% in Peoples and Jared, respectively.

Sales at the International segment declined 12.4% on a reported basis and 8.4% at cc to \$106.4 million. Same-store sales at the segment dipped 5.2% from a year ago, with ATV and transaction declining 1.4% and 4.3%, respectively. Dismal same-store sales performance mainly stemmed from softness across all categories and a tough operating environment in the U.K.

Financial Details

Signet ended the quarter with cash and cash equivalents of \$188.6 million, accounts receivables of \$20.8 million as well as inventories worth \$2,519.4 million. Long-term debt and total shareholders' equity were \$788.8 million and \$1,050.7 million, respectively.

On a year-to-date basis, free cash flow amounted to \$18.2 million.

For fiscal 2020, the company plans to close 150 stores, with 86 store closures already completed on a year-to-date basis. Also, it intends to open 35 stores.

Signet currently operates 3,300 stores. Further, the company anticipates capital expenditure of \$135-\$150 million for the fiscal year.

Markedly, it entered a new senior asset-based credit facility worth \$1.6 billion. The five-year facility will be used to refinance all of Signet's outstanding amounts under current senior credit facilities. The new facility is likely to enhance the company's financial flexibility and entail slightly reduced interest costs.

Outlook

Management is encouraged about Signet's holiday season opportunities. The company made significant investments across stores and websites. Moreover, it remains optimistic about strength in merchandising and marketing strategies for the holiday season. However, adverse impacts of a shorter holiday season and ongoing challenges in the U.K. retail space remain concerns. Encouragingly, Signet is on track with its Path to Brilliance plan to improve sales and profitability in the long term.

Signet noted that tariffs will not have any impact on fiscal 2020 results, as it anticipates reduced exposure to China goods by the end of the fiscal year. Further, the company still anticipates inventory to be lower than that in fiscal 2019. Meanwhile, adjusted free cash flow is estimated to be higher than the prior year.

In March 2018, the company announced its three-year Path to Brilliance transformation plan. In this regard, Signet continues to anticipate cost savings of \$70-\$80 million for fiscal 2020. Additionally, it anticipates witnessing cost savings of \$200-\$225 million from the program by the end of fiscal 2021, including savings of \$85 million in fiscal 2019.

Quarter Ending **10/2019**

Report Date	Dec 05, 2019
Sales Surprise	NA
EPS Surprise	28.97%
Quarterly EPS	-0.76
Annual EPS (TTM)	3.79

Fiscal 2020 View

For fiscal 2020, the company expects a 1-1.7% year-over-year decline in same-store sales. Sales for the fiscal year are now projected to be \$6.01-\$6.05 billion compared with \$6-\$6.03 billion mentioned earlier.

Adjusted operating income is anticipated to be \$270-\$280 million. The company now anticipates adjusted earnings of \$3.11-\$3.29 per share, up from \$2.91-\$3.23 mentioned earlier.

Fiscal Q4 View

Signet also provided fourth-quarter fiscal 2020 guidance. It projects sales of \$2.03-\$2.07 billion. This view includes a negative impact of \$55 million from store closures. Also, same-store sales are projected to decline 2-4% year over year. Moreover, the company envisions adjusted operating income of \$222-\$232 million. Finally, Signet anticipates adjusted earnings per share of \$3.01-\$3.16, indicating a decline from \$3.96 reported in the year-ago period.

The guidance for the fourth quarter and fiscal 2020 includes adverse revenue impact of store closures and pre-tax charges related to the company's transformation plan.

Recent News

Signet Reports Holiday Sales Number – Jan 16, 2020

Signet's total same store sales for the nine-week period ended Jan 4, 2020, or the holiday season inched up 1.6%. E-commerce sales increased 13.5% year over year to \$252.3 million while brick and mortar same store sales declined 0.2%. Management highlighted that the company's significant investments to augment digital sales along with strength in merchandising and marketing strategies aided e-commerce as well as brick and mortar sales growth in North America. In fact, the company is also benefitting from its 'Signet Path to Brilliance' plan, which is designed to augment savings, engage in customer-centric growth and bolster e-commerce.

The impressive performance prompted management to raise its fourth quarter and fiscal 2020 view. For fiscal 2020, the company expects 0.1% year-over-year rise in same-store sales now, which was earlier projected to decline 1-1.7%. Sales for the fiscal year are now projected to be \$6.1 billion compared with \$6.01-\$6.05 billion mentioned earlier. The company now expects adjusted earnings in the range of \$3.61-\$3.69 per share, up from \$3.11-\$3.29 mentioned earlier.

For fourth-quarter fiscal 2020, the company now projects sales of \$2.12 billion up from the previous guidance of \$2.03-\$2.07 billion. Further, Signet anticipates adjusted earnings per share in the range of \$3.44-\$3.52. Management had earlier anticipated the metric to be between \$3.01 and \$3.16.

Valuation

Signet shares are up 27.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 37.5% and 18.7%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 9.18X forward 12-month earnings, which compares to 20.83X for the Zacks sub-industry, 25.46X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.03X and as low as 3.67X, with a 5-year median of 9.76X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$35 price target reflects 10.56X forward 12-month earnings.

The table below shows summary valuation data for SIG

Valuation Multiples - SIG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.18	20.83	25.46	18.96
	5-Year High	22.03	21.77	26.23	19.34
	5-Year Low	3.67	11.8	19.07	15.17
	5-Year Median	9.76	15.74	22.95	17.44
P/S F12M	Current	0.26	1.38	1.08	3.53
	5-Year High	1.76	1.92	1.11	3.53
	5-Year Low	0.1	0.92	0.8	2.54
	5-Year Median	0.65	1.51	0.91	3
EV/EBITDA TTM	Current	3.28	10.3	15.47	12.12
	5-Year High	18.73	13.6	15.47	12.86
	5-Year Low	1.69	5.61	10.37	8.48
	5-Year Median	6.26	8.73	12.38	10.67

As of 01/16/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (205 out of 254)



Top Peers

Abercrombie & Fitch Company (ANF)	Neutral
Carters, Inc. (CRI)	Neutral
Fossil Group, Inc. (FOSL)	Neutral
Guess?, Inc. (GES)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Tiffany & Co. (TIF)	Neutral
L Brands, Inc. (LB)	Underperform
Movado Group Inc. (MOV)	Underperform

Industry Comparison Industry: Retail - Jewelry				Industry Peers		
	SIG Outperform	X Industry	S&P 500	FOSL Neutral	MOV Underperform	TIF Neutral
VGM Score	C	-	-	D	D	F
Market Cap	1.58 B	460.34 M	24.61 B	409.18 M	460.34 M	16.09 B
# of Analysts	2	1.5	13	1	1	10
Dividend Yield	4.91%	0.00%	1.74%	0.00%	4.00%	1.73%
Value Score	B	-	-	B	B	D
Cash/Price	0.18	0.06	0.04	0.40	0.25	0.03
EV/EBITDA	24.14	6.20	14.24	5.92	6.20	17.34
PEG Ratio	1.36	1.99	2.07	NA	NA	2.62
Price/Book (P/B)	1.50	1.50	3.38	0.80	1.32	5.12
Price/Cash Flow (P/CF)	1.36	11.92	13.75	3.65	8.87	20.67
P/E (F1)	8.84	16.93	19.09	54.00	12.27	28.83
Price/Sales (P/S)	0.26	0.60	2.68	0.18	0.65	3.67
Earnings Yield	11.32%	6.39%	5.24%	1.85%	8.15%	3.47%
Debt/Equity	2.13	0.59	0.72	1.04	0.25	0.59
Cash Flow (\$/share)	22.15	0.71	6.94	2.22	2.25	6.49
Growth Score	D	-	-	F	F	D
Hist. EPS Growth (3-5 yrs)	-12.21%	0.78%	10.56%	-56.82%	5.50%	4.46%
Proj. EPS Growth (F1/F0)	-8.33%	-5.64%	7.57%	25.00%	-38.95%	0.69%
Curr. Cash Flow Growth	77.26%	10.79%	14.73%	25.00%	28.95%	10.63%
Hist. Cash Flow Growth (3-5 yrs)	19.15%	10.16%	9.00%	-24.59%	3.26%	3.95%
Current Ratio	2.12	1.98	1.24	2.06	3.52	4.10
Debt/Capital	73.09%	42.43%	42.99%	51.00%	20.54%	37.06%
Net Margin	-3.09%	1.82%	11.14%	0.10%	7.99%	12.41%
Return on Equity	20.27%	16.98%	17.16%	3.84%	9.73%	16.98%
Sales/Assets	1.08	0.79	0.55	1.43	0.86	0.73
Proj. Sales Growth (F1/F0)	0.00%	0.00%	4.16%	-2.60%	0.00%	-0.05%
Momentum Score	A	-	-	F	A	C
Daily Price Chg	40.21%	0.00%	0.89%	3.85%	-0.50%	0.03%
1 Week Price Chg	2.42%	2.42%	0.39%	-6.92%	-4.34%	0.04%
4 Week Price Chg	44.51%	5.17%	2.65%	3.58%	-8.09%	0.50%
12 Week Price Chg	88.43%	3.84%	7.55%	-27.09%	-20.13%	37.32%
52 Week Price Chg	19.90%	2.69%	22.12%	-55.00%	-41.47%	57.31%
20 Day Average Volume	3,175,887	53,524	1,536,375	964,543	193,109	1,313,919
(F1) EPS Est 1 week change	12.17%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	13.22%	0.00%	0.00%	0.00%	0.00%	-0.79%
(F1) EPS Est 12 week change	17.99%	-3.16%	-0.40%	-91.07%	-28.19%	-3.16%
(Q1) EPS Est Mthly Chg	2.27%	0.00%	0.00%	0.00%	0.00%	-0.79%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	A
VGM Score	C

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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