Jul 29, 2020

Simon Property Group (SPG)

$64.14 (As of 07/28/20)

Price Target (6-12 Months): **$55.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/21/20) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: D	Momentum: D

Summary

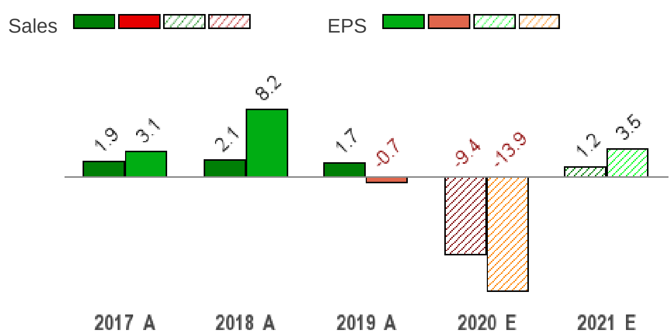
Simon Property recently announced tapping of the debt market to raise $2 billion on senior notes sale. Late this June, the company announced reopening of majority of its retail properties in the United States. However, it announced second-quarter dividend of $1.30 that marked a 38.1% decline from the prior payment. Earlier Simon Property called off its merger agreement with Taubman Centers. Notably, Simon Property enjoys market leadership with a stellar history of generating significant cash flows and a decent liquidity position. However, the choppy environment will likely prevail with dwindling footfall at retail properties amid social-distancing mandates and higher e-commerce adoption. Hence, rent collections, occupancy and pricing power are likely to bear the brunt. Also, its shares have underperformed the industry over the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$164.46 - $42.25**
20 Day Average Volume (sh)	**5,322,199**
Market Cap	**$20.6 B**
YTD Price Change	**-56.9%**
Beta	**1.34**
Dividend / Div Yld	**$5.20 / 8.1%**
Industry	**REIT and Equity Trust - Retail**
Zacks Industry Rank	**Bottom 7% (236 out of 253)**
Last EPS Surprise	**-4.1%**
Last Sales Surprise	**-2.7%**
EPS F1 Est- 4 week change	**-3.2%**
Expected Report Date	**07/29/2020**
Earnings ESP	**-5.1%**
P/E TTM	**5.4**
P/E F1	**6.2**
PEG F1	**1.4**
P/S TTM	**3.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,308 E	1,335 E	1,352 E	1,397 E	5,280 E
2020	1,353 A	1,213 E	1,294 E	1,368 E	5,215 E
2019	1,453 A	1,397 A	1,417 A	1,489 A	5,755 A

EPS Estimates

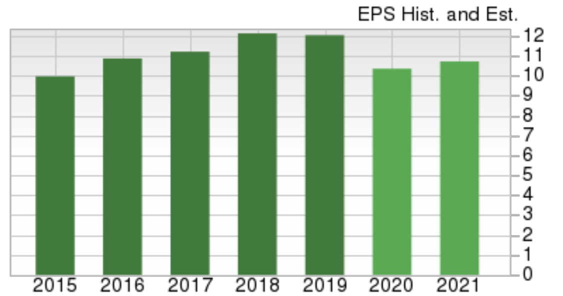
	Q1	Q2	Q3	Q4	Annual*
2021	$2.59 E	$2.73 E	$2.81 E	$2.96 E	$10.72 E
2020	$2.78 A	$2.24 E	$2.54 E	$2.81 E	$10.36 E
2019	$3.04 A	$2.99 A	$3.05 A	$2.96 A	$12.04 A

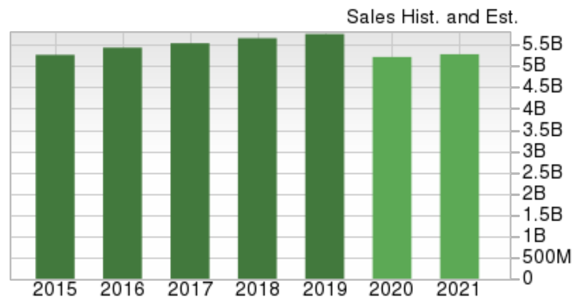
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/28/2020. The reports text is as of 07/29/2020.

Overview

Headquartered in Indianapolis, IN, Simon Property Group Inc. is a leading publicly-traded real estate investment trust (REIT) in the United States, which is engaged in acquiring, owning and leasing of shopping, dining, entertainment and mixed-use destinations. The company's real estate portfolio consists of Malls, Premium Outlets and The Mills and International Properties.





As of Mar 31, 2020, Simon Property owned or held interests in 204 properties in the United States. This comprises 99 malls, 69 Premium Outlets, 14 Mills, four lifestyle centers, and 18 other retail properties in 37 states and Puerto Rico. As of the same date, the company had ownership in 30 Premium Outlets and Designer Outlet properties mainly located in Asia, Europe, and Canada. Additionally, the company had 22.4% equity stake in Klépierre, a publicly-traded French real estate company that owns interest in shopping centers across 15 countries in Europe.

On Jun 10, 2020, Simon Property called off its merger agreement with Taubman Centers by exercising its contractual rights to the termination. Notably, in February, Simon Property agreed to acquire Taubman in a deal valued at $3.6 billion. Simon Property was to buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Further, it would have acquired all of Taubman's common stock for $52.50 per share in cash. However, with the deal's termination, Simon Property also filed a lawsuit against Taubman, alleging that the latter has suffered a Material Adverse Event ("MAE") and breached covenants of the merger agreement.

Moreover, on Feb 19, Authentic Brands Group (ABG), Simon Property and Brookfield Property Partners announced the acquisition of fast fashion retailer, Forever 21, which had filed for bankruptcy earlier. The companies have struck a partnership, under which ABG and Simon Property will each own 37.5%, and Brookfield will own 25% of the intellectual property and operating businesses.

Note**: *All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*

Reasons To Sell:

- With the shift in consumers' preferences toward online channels for purchases, bankruptcies and store closures have emerged as pressing concerns over the recent years for retail REITs and Simon Property is not immune these. Though the company has been striving to counter this pressure through various initiatives, implementation of such measures requires a decent upfront cost and therefore, will limit any robust growth in profit margins in the near term.

Shrinking traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues have added to the company's woes.

- Furthermore, the escalating number of coronavirus cases has forced several retailers to close stores, in order to contain the spread of the virus. Some retailers have also reduced store hours, while many others are keeping their e-retail operations running as consumers are now increasingly opting for online purchases. As a result, retail REITs, including Simon Property, which have already been battling store closures and bankruptcy issues, are feeling the brunt. In an effort to reduce the spread of coronavirus in its communities, Simon Property also had to close its retail properties. In addition, given the financial stress on its tenants, rent collection is likely to suffer in the near term.

- In response to the pandemic and its impact on business, Simon Property has suspended or eliminated more than $1 billion of redevelopment and new development projects. However, for some redevelopment and new development projects in the United States and internationally that are nearing completion, construction continues. The company's share of remaining required cash funding is roughly $160 million for these projects that are presently slated to be finished in 2020 or 2021. The contributions from its redevelopment and development efforts are likely to remain subdued for an extended time period.

- Shares of Simon Property have depreciated 59.8% in the past year compared with the industry's decline of 22.7%. Moreover, the trend in 2020 FFO per share estimate revisions does not indicate a favorable outlook for the company as estimates have moved 3.2% south over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, there is a limited upside potential for the stock in the near term.

Risks

- Simon Property enjoys a wide exposure to retail assets across the United States. Moreover, the company's international presence fosters sustainable long-term growth as compared with its domestically focused peers. The company's ownership stake in Klépierre facilitates the expansion of its global footprint, which gives it access to premium retail assets in the high barrier-to-entry markets of Europe. We believe that diversification, with respect to both product and geography will help it grow over the long-term.

- Amid retail apocalypse narrative, adoption of an omni-channel strategy and successful tie-ups with premium retailers has been a saving grace for Simon Property. The company had been restructuring its portfolio, aiming at premium acquisitions and transformative redevelopments. In fact, for the past years, the company has been investing in billions to transform its properties focused on creating value and drive footfall at the properties. Moreover, the company's online retail platform, weaved with an omni-channel strategy, will likely be accretive to Simon Property's long-term growth. Additionally, Simon Property is exploring the mixed-use development option, which has gained immense popularity in recent years as it helps catch the attention of people who prefer to live, work and play in the same area.

- With the relaxation of the shelter-in-place orders in the upcoming period and resumption of the economy, this retail REIT is poised to benefit from its superior assets in premium locations. As of May 11, the company has reopened 77 of its U.S. retail properties in markets where local and state orders have been lifted and retail restrictions have been eased. Moreover, as of the same date, 12 of Simon's Designer and international Premium Outlets properties have reopened. Also, the federal stimulus is lessening the income impact of unemployment. Furthermore, in response to the pandemic and its impact on business, Simon Property has substantially reduced all non-essential corporate spending as well as property operating expenses. Such efforts are likely to help the company sail through the current crisis.

- Further, ABG, Simon Property and Brookfield Property Partners in February announced the acquisition of fast fashion retailer, Forever 21, which had filed for bankruptcy. The companies have struck a partnership, under which ABG and Simon Property will each own 37.5%, while Brookfield will own 25% of the intellectual property and operating businesses. Similar to that of the Aéropostale's move earlier, the latest efforts are expected to aid Forever 21 stores continue operating across the United States and international territories. This LA-born brand is a global fashion retailer of women's, men's, and kid's clothing, accessories, and footwear, as well as beauty.

- During the first quarter, the company made efforts to bolster its financial flexibility. In March, it amended and extended its $4-billion senior unsecured multi-currency revolving credit facility with a $6-billion senior unsecured credit facility. The new facility consisted of a $4-billion multi-currency revolving credit facility and a $2-billion delayed draw term loan facility. As of Mar 31, 2020, Simon Property had $8.7 billion of liquidity. This comprised $4.1 billion of cash on hand, including its share of joint-venture cash, as well as $4.6 billion of available capacity under its revolving credit facilities and term loan, net of outstanding U.S. and Euro commercial paper.The company's net-debt to NOI was 5.4X, while fixed-charge coverage ratio was 5.1X as of Mar 31, 2020. Moreover, Simon Property currently enjoys investment grade credit ratings with A from S&P and A2 from Moody's. With solid balance strength and available capital resources, the company remains well poised to navigate through current blues and capitalize on opportunities generating from market dislocations.

Last Earnings Report

Simon Property Misses on Q1 FFO & Revenues, Suspends View

Quarter Ending	03/2020
Report Date	May 11, 2020
Sales Surprise	-2.68%
EPS Surprise	-4.14%
Quarterly EPS	2.78
Annual EPS (TTM)	11.78

Simon Property's first-quarter 2020 FFO per share of $2.78 missed the Zacks Consensus Estimate of $2.90. The reported figure also comes in 8.6% lower than the year-ago quarter's FFO of $3.04 per share.

Further, the company generated revenues of $1.35 billion in the quarter, lagging the Zacks Consensus Estimate of $1.39 billion. The revenue figure also comes in 6.8% lower than the prior-year quarter reported tally.

Per management, "Business was off to a good start in January and February". However, things got jittery in March, with the coronavirus pandemic and the resultant store closures to contain its spread.

Nevertheless, as of May 11, the company has reopened 77 of its U.S. retail properties in markets, where local and state orders have been lifted and retail restrictions have been eased. Moreover, as of this date, 12 of Simon's Designer and international Premium Outlets properties have reopened.

However, in light of the coronavirus pandemic and related setbacks, Simon Property has withdrawn its guidance for the full year issued on Feb 4. Regarding dividends, the company said its board of directors will announce a common stock dividend for the second quarter before the end of June. The company intends to maintain a common stock dividend paid in cash and expects to distribute at least 100% of its REIT taxable income.

Inside the Headline Numbers

For the U.S. Malls and Premium Outlets portfolio, occupancy was 94% as of Mar 31, 2020, shrinking 110 basis points year on year. Retailer sales per square foot of $703 for the trailing 12-month period ended Feb 29, 2020, reflects an increase of 6.5%. However, the company's temporary closure of its U.S. retail properties effective Mar 18, 2020 affected its performance and therefore, retailer sales per square foot came in at $673 for the trailing 12-month period, marking just 2.1% growth.

Base minimum rent per square feet was $55.76 as of Mar 31, 2020, up 2.6% year on year. Furthermore, leasing spread per square foot for the trailing 12-month period ended Mar 31, 2020 increased 4.6% to $2.80.

While comparable property net operating income (NOI) for the reported quarter was flat, portfolio NOI declined 0.2%.

Business Update

In response to the pandemic and its impact on business, Simon Property has substantially reduced all non-essential corporate spending as well as property operating expenses. In addition, the company has suspended or eliminated more than $1 billion of redevelopment and new development projects.

Nonetheless, for some redevelopment and new development projects in the United States and internationally that are nearing completion, construction continues. The company's share of remaining required cash funding is roughly $160 million for these projects that are presently slated to be finished in 2020 or 2021. The company also drew $3.75 billion under its revolving credit facilities.

Furthermore, the company has implemented a temporary reduction to the base salary of some of its salaried employees as well as a temporary furlough of certain corporate and field employees due to U.S. retail properties' closure.

Balance Sheet Position

During the first quarter, the company made efforts to bolster its financial flexibility. The company amended and extended its $4-billion senior unsecured multi-currency revolving credit facility with a $6-billion senior unsecured credit facility. The new facility consisted of a $4-billion multi-currency revolving credit facility and a $2-billion delayed draw term loan facility. The revolving credit facilities can further be increased by $1 billion, subject to additional commitments. The maturity dates for the revolving facility initially is on Jun 30, 2024, and the term facility initially is on Jun 30, 2022.

Notably, Simon Property had $8.7 billion of liquidity as of Mar 31, 2020. This comprised $4.1 billion of cash on hand, including its share of joint-venture cash, as well as $4.6 billion of available capacity under the revolving credit facilities and term loan, net of outstanding U.S. and Euro commercial paper.

Recent News

Simon Taps Debt Market to Raise $2B on Senior Notes Sale – Jul 6, 2020

Simon Property announced that its operating partnership subsidiary — Simon Property Group, L.P. — agreed to sell three series of senior unsecured notes for aggregate principal amount of $2 billion.

Specifically, the company will sell 3.500% notes with aggregate principal amount of $500 million maturing in September 2025. These will be issued as additional notes under the 3.500% notes series of which aggregate principal amounting $600 million was previously issued on Aug 17, 2015.

The company will also sell two new series of notes — 2.650% senior notes maturing in Jun 2030 and 3.800% senior notes due June 2050 — each with a principal amount of $750 million.

The two new issues of senior notes carry a weighted average coupon rate of 3.225% and a weighted average term of 20 years.

Subject to the satisfaction of customary closing norms, the offering is likely to close on Jul 9.

Simon Property plans to use to proceeds to address its near-term maturities and boost liquidity position. Specifically, the company is likely to redeem at par its 2.500% notes due September 2020, with aggregate principal amount of $500 million, and 2.375% notes set to mature in October 2020, with principal amount of €375 million.

Further, it will used the proceeds from the senior obligations for general corporate purposes, including the repayment of unsecured debt outstanding under its global commercial paper note program and/or senior revolving credit facilities.

Simon Announces Dividend and Property Reopenings – Jun 29, 2020

Simon Property announced the second-quarter dividend of $1.30 as well as the reopening of majority of its retail properties in the United States.

At a time when a number of REITs have suspended dividend payments in light of the coronavirus pandemic that has disrupted the macro economy and affected rent collections, this dividend of $1.30, although denoting a 38.1% decline from the prior payment of $2.10, comes as a relief for investors. The dividend was paid on Jul 24, to shareholders of record at the close of business on Jul 10, 2020. Simon has also noted that it expects to pay at least $6 per share in common stock dividend in cash for the current year, subject to approval from the board of directors.

Moreover, with respect to reopening of properties, the company noted that it has already reopened 199 of its 204 U.S. retail properties across 37 states. These properties denote more than 95% of the company's property net operating income. The remaining five properties are also likely to reopen within the next week.

With more than 18,000 stores across the company's U.S. portfolio being reopened and many tenants witnessing higher-than-expected conversion rates and sales, the rent collection and deferral concerns will likely lessen.

Apart from these, 30 of Simon's Designer and international Premium Outlets properties are open. These include all of its international Premium Outlets located in Asia as well as Designer Outlets in Continental Europe, with almost all retail stores open. The company also recently announced the inauguration of Siam Premium Outlets Bangkok.

Simon Property Inaugurates Premium Outlets in Bangkok – Jun 23, 2020

Simon Property unveiled Siam Premium Outlets Bangkok. The move comes as part of the company's strategy of enhancing the company's portfolio of premium outlets in thriving regions across the world.

Developed by Siam Piwat Simon, a joint venture (JV) between Simon Property Group and Siam Piwat, owner and operator of retail developments in Thailand, this center will offer international and local brands at "everyday savings". Also, it marks the first Premium Outlet center in Thailand by the JV.

This premium outlet is positioned within a 15-minute drive from Bangkok's Suvarnabhumi Airport and a 45-minute drive from central Bangkok. The property is anticipated to draw a high footfall, given the airport served more than 65 million travelers last year and the metro area has a population of more than 14 million.

The retail property offers a collection of luxury designer brands, rolling out their outlet retail concept in Thailand, including Burberry, Balenciaga, Montblanc, Bally and Breitling. Also, international fashion brands like Furla, Hugo Boss, American Eagle, CK Calvin Klein among others are debuting at the center. kate spade NEW YORK, and Sketchers outlet stores also joins the tenant roster. Apart from these, there is a stand-alone, 13,000-square-foot store opened by adidas and a 14,000-square-foot premium retail store by Nike.

Siam Premium Outlets Bangkok also offers Asian and Western food and beverage options, apart from Starbucks, BreadTalk and other concepts for shoppers. The property also features several amenities aimed at offering retreat for urban dwellers and tourists.

Simon Property Backs Out of Taubman's Buyout Deal - Jun 10, 2020

Simon Property called off its merger agreement with Taubman Centers by exercising its contractual rights to the termination.

Notably, in February, Simon Property agreed to acquire Taubman in a deal valued at $3.6 billion. Simon Property was to buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Further, it would have acquired all of Taubman's common stock for $52.50 per share in cash.

However, with the termination of the deal, Simon also filed a lawsuit against Taubman, alleging that the latter has suffered a Material Adverse Event ("MAE") and has breached covenants of the merger agreement.

Specifically, the merger termination is based on two separate and independent grounds. First, the coronavirus pandemic has significantly impacted Taubman's operations, relative to other retail real estate industry peers.

Notably, Taubman has been adversely impacted by the pandemic-induced dwindling footfall at its properties. In the current environment, the company's notable exposure to enclosed retail properties situated in densely-populated major metropolitan areas, high dependence on domestic and international tourism at numerous properties, and focus on high-end shopping have exacerbated the impact.

Further, amid the coronavirus mayhem, Taubman breached its obligations to operate its business in the ordinary course. Particularly, unlike others in the industry, the company was unable to take necessary steps to mitigate the impacts of the pandemic, including failing to make essential reductions in operating expenses and capital expenditure.

Simon believes the merger agreement specifically gave the company the right to terminate the deal if a pandemic disproportionately impacted Taubman.

Nonetheless, Taubman is of the opinion that the acquirer's merger termination is invalid and without merit, and that Simon is bound to the transaction in all respects. In fact, the company plans to hold Simon to its obligations as per the agreement, and will pursue to challenge Simon's termination and legal claims.

Taubman intends to resort to remedies to implement its contractual rights under the agreement, including the right to monetary damages and specific performance.

Valuation

Simon Property's shares have plunged 59.8% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 22.7% and 13.7%, over the past year, respectively.

The S&P 500 Index is up 7.3% in the past year.

The stock is currently trading at 6.08X forward 12-month FFO, which compares with the 12.84X for the Zacks sub-industry, 16.34X for the Zacks sector and 22.61X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.04X and as low as 3.61X, with a 5-year median of 13.94X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $55 price target reflects 5.21X FFO.

The table below shows summary valuation data for SPG.

Valuation Multiples - SPG

		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	6.08	12.84	16.34	22.61
	5-Year High	20.04	19.44	16.34	22.61
	5-Year Low	3.61	9.72	11.59	15.25
	5-Year Median	13.94	14.76	14.16	17.52
P/S F12M	Current	3.92	6.83	6.04	3.57
	5-Year High	12.55	13.91	6.66	3.57
	5-Year Low	2.51	5.43	4.96	2.53
	5-Year Median	9.39	8.17	6.06	3.02
P/B TTM	Current	8.33	2.52	2.38	4.43
	5-Year High	16.67	5.57	2.91	4.56
	5-Year Low	5.02	1.77	1.72	2.83
	5-Year Median	12.15	3.35	2.53	3.71

As of 07/28/2020

Industry Analysis **Zacks Industry Rank:** Bottom 7% (236 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Kimco Realty Corporation **(KIM)**	Neutral	4
Macerich Company The **(MAC)**	Neutral	4
Washington Prime Group Inc. **(WPG)**	Neutral	2
CBLAssociates Properties, Inc. **(CBL)**	Underperform	5
Federal Realty Investment Trust **(FRT)**	Underperform	5
Pennsylvania Real Estate Investment Trust **(PEI)**	Underperform	4
Tanger Factory Outlet Centers, Inc. **(SKT)**	Underperform	5
Taubman Centers, Inc. **(TCO)**	Underperform	5

Industry Comparison Industry: Reit And Equity Trust - Retail

Industry Peers

	SPG	X Industry	S&P 500	FRT	KIM	MAC
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	5	4	4
VGM Score	C	-	-	D	D	C
Market Cap	20.55 B	1.41 B	22.47 B	5.76 B	4.81 B	1.17 B
# of Analysts	8	7	14	9	11	7
Dividend Yield	8.11%	5.95%	1.84%	5.52%	10.07%	4.83%
Value Score	B	-	-	D	C	A
Cash/Price	0.19	0.15	0.07	0.18	0.10	0.59
EV/EBITDA	10.63	11.45	13.04	13.27	13.24	10.97
PEG Ratio	1.38	5.71	2.97	6.20	7.85	NA
Price/Book (P/B)	8.33	1.09	3.11	2.36	0.99	0.43
Price/Cash Flow (P/CF)	5.88	6.34	12.07	9.69	6.82	2.63
P/E (F1)	6.15	9.76	21.52	14.21	9.42	3.38
Price/Sales (P/S)	3.63	3.57	2.35	6.16	4.17	1.26
Earnings Yield	16.14%	10.27%	4.34%	7.04%	10.61%	29.59%
Debt/Equity	11.16	1.18	0.76	1.84	1.19	2.19
Cash Flow ($/share)	10.91	2.19	7.01	7.86	1.63	3.15
Growth Score	D	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	5.18%	1.39%	10.85%	4.59%	-1.00%	-1.90%
Proj. EPS Growth (F1/F0)	-14.00%	-14.95%	-7.56%	-15.36%	-19.67%	-30.87%
Curr. Cash Flow Growth	-7.76%	0.37%	5.47%	22.11%	-14.81%	5.81%
Hist. Cash Flow Growth (3-5 yrs)	5.60%	5.61%	8.55%	12.40%	1.91%	-2.91%
Current Ratio	3.60	2.49	1.31	4.79	2.01	3.05
Debt/Capital	91.71%	54.42%	44.41%	64.19%	54.42%	68.70%
Net Margin	35.20%	22.53%	10.44%	37.27%	33.33%	10.40%
Return on Equity	68.08%	5.52%	15.10%	14.40%	7.64%	3.38%
Sales/Assets	0.17	0.13	0.54	0.14	0.10	0.10
Proj. Sales Growth (F1/F0)	-9.38%	-6.47%	-1.97%	-4.68%	-9.35%	-2.66%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	3.52%	3.40%	-0.80%	3.40%	3.83%	5.08%
1 Week Price Chg	-2.93%	-3.04%	0.37%	-6.94%	-7.49%	-2.81%
4 Week Price Chg	-6.20%	-7.69%	3.64%	-10.66%	-13.40%	-7.69%
12 Week Price Chg	5.93%	6.46%	11.56%	-1.44%	7.13%	20.17%
52 Week Price Chg	-59.97%	-42.59%	-3.92%	-42.10%	-42.59%	-75.26%
20 Day Average Volume	5,322,199	969,848	1,867,919	569,094	4,960,676	3,747,834
(F1) EPS Est 1 week change	0.52%	0.00%	0.00%	-3.23%	-0.54%	-4.94%
(F1) EPS Est 4 week change	-3.21%	-2.53%	0.21%	-6.26%	-9.51%	-15.49%
(F1) EPS Est 12 week change	-10.40%	-8.35%	-1.29%	-10.70%	-15.31%	-19.34%
(Q1) EPS Est Mthly Chg	-1.57%	-2.82%	0.09%	-7.70%	-6.06%	-19.82%

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	D
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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