

## Square, Inc. (SQ)

**\$154.00** (As of 08/06/20)

Price Target (6-12 Months): **\$162.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM: C

Value: D

Growth: B

Momentum: C

### Summary

Square reported second quarter results wherein both earnings and revenues surpassed the estimates. The company banked on strong Cash App engagement and its growing active customer base. Further, growing bitcoin revenues owing to robust Cash App contributed well. Additionally, strong adoption of Cash Card benefited the results. Square's strengthening momentum in online channels and growing card-not-present GPV are expected to remain tailwinds. Moreover, robust online products, such as Square Online Store, Invoices, Virtual Terminal and eCommerce API are expected to accelerate the GPV in the near term. The stock has outperformed its industry on a year-to-date basis. However, weak momentum across seller ecosystem owing to COVID-19 led shelter-in-place restrictions is a major concern. Further, declining unit sales of hardware devices is a risk.

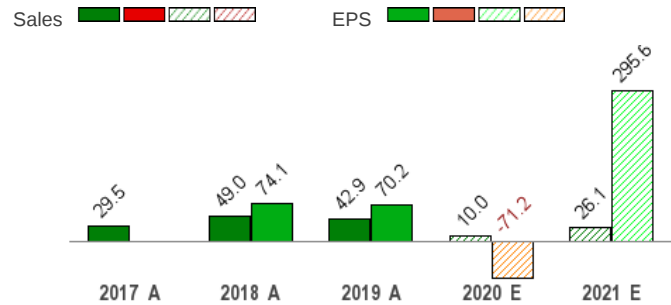
### Price, Consensus & Surprise



### Data Overview

|                            |                                     |
|----------------------------|-------------------------------------|
| 52 Week High-Low           | <b>\$158.43 - \$32.33</b>           |
| 20 Day Average Volume (sh) | <b>12,581,984</b>                   |
| Market Cap                 | <b>\$67.7 B</b>                     |
| YTD Price Change           | <b>146.2%</b>                       |
| Beta                       | <b>2.72</b>                         |
| Dividend / Div Yld         | <b>\$0.00 / 0.0%</b>                |
| Industry                   | <a href="#">Internet - Software</a> |
| Zacks Industry Rank        | <b>Top 42% (106 out of 252)</b>     |

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



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>357.1%</b>     |
| Last Sales Surprise       | <b>68.7%</b>      |
| EPS F1 Est- 4 week change | <b>3.8%</b>       |
| Expected Report Date      | <b>11/04/2020</b> |
| Earnings ESP              | <b>-167.3%</b>    |

### Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,505 E | 1,564 E | 1,666 E | 1,779 E | 6,536 E |
| 2020 | 1,381 A | 1,924 A | 1,276 E | 1,413 E | 5,185 E |
| 2019 | 959 A   | 1,174 A | 1,266 A | 1,313 A | 4,714 A |

### EPS Estimates

|      | Q1        | Q2       | Q3       | Q4       | Annual*  |
|------|-----------|----------|----------|----------|----------|
| 2021 | \$0.16 E  | \$0.22 E | \$0.26 E | \$0.28 E | \$0.91 E |
| 2020 | -\$0.02 A | \$0.18 A | \$0.05 E | \$0.16 E | \$0.23 E |
| 2019 | \$0.11 A  | \$0.21 A | \$0.25 A | \$0.23 A | \$0.80 A |

\*Quarterly figures may not add up to annual.

|         |              |
|---------|--------------|
| P/E TTM | <b>240.6</b> |
| P/E F1  | <b>669.6</b> |
| PEG F1  | <b>16.9</b>  |
| P/S TTM | <b>11.5</b>  |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/06/2020. The reports text is as of 08/07/2020.

## Overview

Headquartered in San Francisco, CA, Square, Inc. was incorporated in 2015. The company offers financial and marketing services through its comprehensive commerce ecosystem that helps sellers to start, run and grow their businesses.

We combine sophisticated software with affordable hardware to provide sellers powerful payment and point-of-sale solutions. The company provides payment and point-of-sale (POS) services, which include hardware and software to accept payments, streamline operations and analyze business information.

Square's payments and POS services include In-Person Payments, Online Payments, Square Cash, Square Register, Square Analytics, Square Appointments and Square App Marketplace. The company's financial services include Square Capital and Square Payroll.

Square reported total revenues of \$4.7 billion in 2019. The company earns revenues from transactions, subscription and services, hardware and bitcoin.

Transaction-based revenues (65.4% of total revenues in 2019) include transaction fees that sellers pay for managed payment solutions and services.

Subscription and services-based revenues (21.9%) include fees that sellers pay for a range of paid services-based products including Square Appointments, Gift Cards, Customer Engagement, Employee Management, Payroll, Instant Deposit, and other subscription and services-based products offered through Square Marketplace. A significant portion of the revenues comes from Square Capital that provides loans to pre-qualified sellers and Caviar, Square's food ordering service.

Hardware revenues (1.8%) are generated from sales of contactless readers, chip card readers and third-party peripherals which include cash drawers, receipt printers and barcode scanners. Square's hardware portfolio is comprised of Square Stand, Magstripe reader, Square Register and Square Terminal, and chip readers.

Bitcoin revenues (10.9%) are derived from total sales of bitcoin to customers. Cash App users can buy and sell bitcoins.

Geographically, the United States contributed almost 94.9% of revenues, while the rest came from International markets.

The company had approximately 3,835 employees worldwide as of Dec 31, 2019.



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## Reasons To Buy:

- ▲ Square differentiates itself by offering a **comprehensive commerce ecosystem** enabling sellers to combine software, hardware and payments services from several vendors. The company's managed payment solutions allow sellers to accept payment through a range of media such as magnetic stripe (a swipe), Near Field Communication (NFC), EMV (Europay, MasterCard, and Visa), online through Square Invoices, Square Virtual Terminal, or the seller's website. Square's powerful point-of-sale software and services help sellers manage locations, orders, inventory, employees, and payroll. It helps sellers grow their sales with customers; and gain access to business loans. The Square Capital service offers loans to sellers on the basis of their payment processing history. Caviar, the company's food ordering service, helps restaurants gain access to new customers and enhance sales without additional overhead. A technology focused approach has enabled the company to develop products and services that are unified, fast, self-serve, and reliable and we expect this to continue in the coming years. We believe the company's strong efforts toward expansion of its payment solutions portfolio will continue to drive its top-line growth and aid momentum in the growing market for online payment solutions.
- ▲ Square's rate of **growth has been impressive** since it started operations eight years back. The company serves millions of sellers across various industries such as food, retail and services, and geographies including the U.S., Japan, Australia and Canada. It processed \$106.2 billion of Gross Payment Volume (GPV) in 2019. The company has been doing well with larger and midmarket sellers. In second-quarter 2020, larger sellers contributed 52% to total GPV. The company's robust product portfolio is the key catalyst behind its improving GPV. The newly launched Square Reader SDK is a major positive. Additionally, API Platforms, Build with Square, Virtual Terminal, Instant Deposit and especially Square for Restaurants will continue to drive the GPV growth further.
- ▲ The company is deeply focused on integration and automation. On the integration front, Square aims to make its services more cohesive. It focuses on integration with the customer directory to give sellers an advanced client base. It also helps to build customer profiles and provides purchasing history directly from the point of sale. On the automation front, Square is trying to make its services more self-serve. It focuses on machine learning to automate internal as well as customer-facing experiences.
- ▲ Square's **entry into bitcoin market** with CashApp product, is contributing well to the company's quarterly results. Further, Square's expanding global presence will continue to benefit its top-line growth. The introduction of CashApp and Instant Deposit in U.K. bodes well for the company's market position and it will continue to generate revenues.
- ▲ Square has a strong balance sheet. As of Jun 30, 2020, the company's net cash amounted to \$194.3 million compared with \$201.5 million as of Mar 31, 2019. Further, debt-to-total capital was 53.2% as of Jun 30, 2020 which increased from 49.3% as of Dec 31, 2019. However, given the strong liquidity position this is not a concern. Further, the company has no short-term debt currently. Additionally, Square entered into a new revolving credit agreement with certain lenders in May 2020, which now provides a \$500 million senior unsecured revolving credit facility maturing in May 2023.

Square's comprehensive commerce ecosystem, accelerated business growth and entry into bitcoin space remain major positives.

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## Reasons To Sell:

- ▼ Growth will continue to depend on the company's ability to differentiate. Square is **vulnerable to intense competition and changing technology, industry standards and seller and buyer needs**. Competition is tough as the likes of PayPal are encroaching on its turf. Also, increasing competition from Shopify remains a headwind. These call for frequent changes in product and service offerings, which in turn require heavy investments, putting pressure on its earning capacity.
  - ▼ The nature of its business makes Square vulnerable to **foreign exchange risk**. Apart from the U.S., the company operates in Canada, Australia and Japan and derives a significant part of its sales and earnings from there. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies could impact the company's results.
  - ▼ Moreover, the company is trading at premium in terms of Price/Book (P/B). Square currently has a trailing 12-month P/B ratio of 22.99. This level compares unfavorably with what the industry witnessed in the last year. Additionally, the ratio is nearing the high end of the valuation range in this period. Consequently, the valuation looks slightly stretched from P/B perspective.
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## Last Earnings Report

### Square Reports Q2 Earnings

Square reported second-quarter 2020 adjusted earnings of 18 cents per share, against the Zacks Consensus Estimate of a loss of 8 cents per share. Notably, the company had reported earnings of 21 cents in the year-ago quarter and a loss of 2 cents in the prior quarter.

Net revenues of \$1.92 billion surpassed the Zacks Consensus Estimate of \$1.14 billion. Further, the figure improved 63.8% from the year-ago quarter and 39.3% sequentially.

The top line was driven by strong momentum across Cash App ecosystem that contributed \$1.2 billion to net revenues during the reported quarter, up 361% year over year. Cash App was used by above 30 million monthly transacting active customers in June 2020. Further, disbursements of the CARES Act stimulus programs and unemployment benefits aided growth in the Cash App engagement.

Moreover, strengthening momentum across Bitcoin and strong adoption of Cash Card benefited the results. Notably, Cash Card was used by 7 million customers in June 2020, which doubled compared to June 2019.

Additionally, accelerating subscription revenues remained a major positive.

However, weak momentum across seller ecosystem owing to coronavirus-led shelter-in-place restrictions remained a major negative, which impacted the company's gross payments volume (GPV) negatively in the second quarter. Revenues from seller ecosystem were \$723 million, down 17% year over year.

Square has refrained from providing guidance for the ongoing quarter and the full year 2020. This can be attributed to the uncertainties related to the COVID-19 pandemic.

Nevertheless, the company's strengthening momentum in online channels and growing card-not-present GPV are expected to act as tailwinds in the upcoming quarters.

Further, strong acquisition of net-new transacting active Cash App customers is likely to continue driving the company's top line.

### Gross Payment Volume

GPV in the second quarter amounted to \$22.8 billion beating the Zacks Consensus Estimate of \$19.2 billion. However, the figure declined 15% year over year, which can primarily be attributed to sluggishness in the seller ecosystem during the reported quarter owing to coronavirus pandemic.

Slowdown in GPV across the company's largest U.S. metropolitan areas was a concern. Further, decreasing GPV for the sellers across beauty, personal care, and food and drink verticals among others acted as a headwind during the reported quarter.

Nevertheless, gradual reopening of the economies and relaxation of COVID-19 restrictions remained positives as it led to quarter-over-quarter improvement in GPV.

Growing proliferation of online sales was also a positive backed by which GPV from online channels were up 50% year over year. Further, it contributed more than 25% of the company's seller GPV.

Additionally, the company's robust product portfolio and comprehensive ecosystem, which aids in attracting new sellers to its platform while retaining the existing ones, sustained momentum across larger sellers who contributed 52% to the total GPV.

Notably, Square defines larger sellers as those that make more than \$125,000 of annualized GPV and mid-market sellers as those with annualized revenues of more than \$500,000.

Moreover, year-over-year growth of 16% in the card-not-present GPV in the second quarter was a tailwind. Robust online products, such as Square Online Store, Invoices, Virtual Terminal and eCommerce API contributed to the performance.

Notably, card-present GPV declined 38% from the year-ago quarter.

### Top-Line Details

Transaction (35.5% of net revenues): The company generated transaction revenues of \$682.6 million, down 12% year over year. This was primarily attributed to sluggish GPV from in the second quarter.

Nevertheless, growing proliferation of contactless transactions was a tailwind. Also, strong momentum across business accounts using Cash App, which generated \$54 million of transaction revenues, up 216% year over, remained a positive.

Subscription and services (18% of revenues): The company generated \$346.3million revenues from this category, surging 38% from the year-ago quarter. This improvement can be attributed to strong performance by Cash App, which contributed \$271 million to the category's top line. The figure was up 129% from the year-ago quarter. This was driven by robust Cash Card spending and growing Instant Deposit volume in the reported quarter. Additionally, strong performance by Square Capital on the back of PPP loans remained positive. Notably, it facilitated more than 80,000 PPP loans worth \$873 million.

However, weak seller ecosystem, which generated \$75 million of subscription and services revenues, down 16% year over year, remained a concern.

Quarter Ending **06/2020**

| Report Date      | Aug 04, 2020 |
|------------------|--------------|
| Sales Surprise   | 68.69%       |
| EPS Surprise     | 357.14%      |
| Quarterly EPS    | 0.18         |
| Annual EPS (TTM) | 0.64         |

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Hardware (1% of revenues): Square generated revenues of \$19.3 million from this business, down 13% year over year. This was due to declining unit sales of hardware devices.

Nevertheless, the company witnessed improved sales of contactless devices like Square Register and Square Terminal in the reported quarter.

Bitcoin (45.5% of revenues): The company generated revenues of \$875.5 million from this category, up a whopping 600% on a year-over-year basis. Square continued to benefit in the bitcoin space driven by growing adoption of Cash App. Further, the company witnessed strong customer demand and growth in bitcoin activities in the second quarter.

### **Operating Details**

Per management, gross profit grew 28.1% from the year-ago quarter to \$596.8 million. As a percentage of net revenues, the figure came in 31%, contracting 870 basis points (bps) year over year. While Transaction, Subscription and services and Bitcoin generated profit, Hardware category reported loss during the reported quarter.

Further, the coronavirus pandemic remained a woe

Adjusted EBITDA as a percentage of net revenues was 5.1%, contracting 380 bps from the year-ago quarter due to slowdown in seller revenues.

Operating expenses came in \$619.8 million, surging 32.8% from prior-year quarter.

Product development expenses were \$206.8 million, up 19% year over year, primarily owing to growing engineering, data science and design personnel costs.

General and administrative expenses were \$136.4 million, up 36% from prior-year quarter. This was primarily due to finance, legal and support personnel costs.

Further, sales and marketing costs were \$238.1 million, up 52% year over year, due to increase in Cash App peer-to-peer payment transfer and Cash Card issuances.

### **Balance Sheet**

As of Jun 30, 2020, cash and cash equivalents balance was \$1.97 billion, up from \$1.96 billion as of Mar 31, 2020.

Short-term investments were \$714.3 million in the reported quarter, up from \$521.8 million in the previous quarter.

Long-term debt was \$1.77 billion, increasing from \$1.76 billion in previous quarter.

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## Recent News

On **Jun 24, 2020**, Square rolled out On-Demand Delivery which will allow sellers in Square Online Store to dispatch the courier for orders placed directly on their websites with the help of delivery partners.

On **Jun 15, 2020**, Square revealed Square Capital is gaining strong traction among the small businesses on the back of Paycheck Protection Program (PPP). Notably, Square Capital has facilitated PPP loans worth more than \$820 million as of Jun 10 since Apr 29.

On **Mar 18, 2020**, Square received conditional approval to operate a bank from the Federal Deposit Insurance Corporation (FDIC) Board. Following this approval, the company is aiming to launch Square Financial Services as a bank by 2021. Square Financial Services will be headquartered in Salt Lake City, UT and operate as a direct subsidiary of Square.

## Valuation

Square shares are up 146.2% in the year-to-date period and 132.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 64.9% and 22.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is up 48.5% and 36%, respectively.

The S&P 500 index is up 4% in the year-to-date period and 14.4% in the past year.

The stock is currently trading at 11.23X forward 12-month sales, which compares to 8.83X for the Zacks sub-industry, 4.13X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past three years, the stock has traded as high as 11.23X and as low as 2.66X, with a 3-year median of 6.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$162 price target reflects 11.81X forward 12-month sales.

The table below shows summary valuation data for SQ

| Valuation Multiples - SQ |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                 | Current       | 11.23 | 8.83         | 4.13   | 3.66    |
|                          | 3-Year High   | 11.23 | 8.83         | 4.13   | 3.66    |
|                          | 3-Year Low    | 2.66  | 4.86         | 2.62   | 2.76    |
|                          | 3-Year Median | 6.1   | 5.82         | 3.23   | 3.18    |
| P/B TTM                  | Current       | 37.42 | 11.05        | 6.37   | 4.58    |
|                          | 3-Year High   | 37.42 | 11.12        | 6.37   | 4.58    |
|                          | 3-Year Low    | 9.61  | 4.25         | 3.59   | 3.03    |
|                          | 3-Year Median | 23.29 | 6.45         | 4.63   | 3.96    |
| EV/Sales TTM             | Current       | 13.1  | 10.92        | 4.86   | 3.32    |
|                          | 3-Year High   | 14.79 | 10.92        | 4.86   | 3.43    |
|                          | 3-Year Low    | 3.39  | 4.52         | 3.05   | 2.22    |
|                          | 3-Year Median | 7.7   | 6.36         | 3.82   | 2.98    |

As of 08/06/2020

## Industry Analysis Zacks Industry Rank: Top 42% (106 out of 252)



## Top Peers

| Company (Ticker)                      | Rec          | Rank |
|---------------------------------------|--------------|------|
| PayPal Holdings, Inc. (PYPL)          | Outperform   | 2    |
| Shopify Inc. (SHOP)                   | Outperform   | 2    |
| Alphabet Inc. (GOOGL)                 | Neutral      | 3    |
| Intuit Inc. (INTU)                    | Neutral      | 3    |
| MoneyGram International Inc. (MGI)    | Neutral      | 2    |
| Wix.com Ltd. (WIX)                    | Neutral      | 3    |
| The Western Union Company (WU)        | Neutral      | 2    |
| Automatic Data Processing, Inc. (ADP) | Underperform | 4    |

| Industry Comparison Industry: Internet - Software |            |            |           | Industry Peers |            |            |
|---------------------------------------------------|------------|------------|-----------|----------------|------------|------------|
|                                                   | SQ         | X Industry | S&P 500   | INTU           | PYPL       | SHOP       |
| Zacks Recommendation (Long Term)                  | Neutral    | -          | -         | Neutral        | Outperform | Outperform |
| Zacks Rank (Short Term)                           | 3          | -          | -         | 3              | 2          | 2          |
| VGM Score                                         | C          | -          | -         | C              | C          | D          |
| Market Cap                                        | 67.66 B    | 904.76 M   | 23.20 B   | 81.42 B        | 239.46 B   | 127.60 B   |
| # of Analysts                                     | 13         | 5          | 14        | 8              | 16         | 25         |
| Dividend Yield                                    | 0.00%      | 0.00%      | 1.78%     | 0.68%          | 0.00%      | 0.00%      |
| Value Score                                       | D          | -          | -         | C              | D          | F          |
| Cash/Price                                        | 0.04       | 0.09       | 0.07      | 0.05           | 0.06       | 0.03       |
| EV/EBITDA                                         | 141.56     | -0.90      | 13.21     | 36.54          | 60.19      | -2,054.36  |
| PEG Ratio                                         | 16.58      | 6.24       | 2.94      | 2.93           | 2.58       | 50.79      |
| Price/Book (P/B)                                  | 37.37      | 7.92       | 3.12      | 17.18          | 13.54      | 27.57      |
| Price/Cash Flow (P/CF)                            | 414.23     | 28.54      | 12.27     | 47.82          | 62.68      | NA         |
| P/E (F1)                                          | 658.22     | 83.43      | 21.69     | 38.55          | 55.44      | 1,650.68   |
| Price/Sales (P/S)                                 | 11.50      | 4.70       | 2.48      | 11.87          | 12.46      | 61.34      |
| Earnings Yield                                    | 0.15%      | 0.25%      | 4.39%     | 2.59%          | 1.80%      | 0.06%      |
| Debt/Equity                                       | 1.17       | 0.14       | 0.77      | 0.01           | 0.51       | 0.00       |
| Cash Flow (\$/share)                              | 0.37       | -0.00      | 6.94      | 6.53           | 3.26       | -0.60      |
| Growth Score                                      | B          | -          | -         | A              | B          | A          |
| Hist. EPS Growth (3-5 yrs)                        | NA%        | 16.26%     | 10.46%    | 23.70%         | 19.67%     | NA         |
| Proj. EPS Growth (F1/F0)                          | -70.67%    | -2.98%     | -6.80%    | 11.63%         | 18.75%     | 119.73%    |
| Curr. Cash Flow Growth                            | 130.71%    | 6.87%      | 5.39%     | 18.22%         | 30.28%     | 85.89%     |
| Hist. Cash Flow Growth (3-5 yrs)                  | 26.09%     | 21.83%     | 8.55%     | 9.68%          | 18.18%     | NA         |
| Current Ratio                                     | 2.19       | 1.49       | 1.33      | 1.79           | 1.38       | 13.69      |
| Debt/Capital                                      | 53.86%     | 19.91%     | 44.50%    | 1.00%          | 33.56%     | 0.00%      |
| Net Margin                                        | 5.15%      | -17.55%    | 10.13%    | 19.50%         | 13.44%     | -3.25%     |
| Return on Equity                                  | -1.26%     | -14.70%    | 14.39%    | 32.03%         | 16.17%     | 0.32%      |
| Sales/Assets                                      | 1.21       | 0.60       | 0.51      | 1.02           | 0.35       | 0.55       |
| Proj. Sales Growth (F1/F0)                        | 10.01%     | 5.47%      | -1.51%    | 5.97%          | 20.18%     | 49.31%     |
| Momentum Score                                    | C          | -          | -         | F              | C          | F          |
| Daily Price Chg                                   | 5.08%      | -0.25%     | -0.04%    | 0.41%          | 0.58%      | -0.60%     |
| 1 Week Price Chg                                  | 6.95%      | 1.98%      | 0.14%     | 6.13%          | 13.62%     | 10.13%     |
| 4 Week Price Chg                                  | 19.02%     | 0.01%      | 7.78%     | 1.40%          | 11.39%     | 4.63%      |
| 12 Week Price Chg                                 | 96.93%     | 27.58%     | 17.48%    | 11.40%         | 41.33%     | 44.26%     |
| 52 Week Price Chg                                 | 132.38%    | 7.14%      | 0.68%     | 12.84%         | 91.11%     | 204.11%    |
| 20 Day Average Volume                             | 12,581,984 | 576,584    | 2,057,775 | 1,188,764      | 8,098,036  | 2,737,115  |
| (F1) EPS Est 1 week change                        | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 2.12%      | 0.00%      |
| (F1) EPS Est 4 week change                        | 3.82%      | 0.00%      | 1.36%     | 0.00%          | 13.06%     | 3.94%      |
| (F1) EPS Est 12 week change                       | -20.91%    | 0.88%      | 1.57%     | -5.34%         | 12.62%     | 10.23%     |
| (Q1) EPS Est Mthly Chg                            | 0.00%      | 0.00%      | 0.54%     | 0.00%          | 8.75%      | 1.88%      |

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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    | <b>D</b> |
| Growth Score   | <b>B</b> |
| Momentum Score | <b>C</b> |
| VGM Score      | <b>C</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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