

Viasat, Inc. (VSAT)

\$42.00 (As of 05/29/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/10/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM: C

Value: C

Growth: C

Momentum: F

Summary

Viasat reported solid fourth-quarter fiscal 2020 financial results, with the bottom and the top line surpassing the respective Zacks Consensus Estimate. The company is seeking opportunities to extend broadband satellite mobility to rotary-wing aircraft that can emerge as a key profit churner. It continues to ramp up investments for the development of its ViaSat-3 broadband communications platform, which is 10 times the bandwidth capacity of ViaSat-2. ARPU is growing on solid retail distribution network, backed by high bandwidth subscriber base. However, Viasat operates in a dynamic and competitive market. High R&D expenses related to the commercial launch of Viasat-3 satellites and high integration costs are headwinds. It depends on U.S. government contracts for a major portion of its revenues and faces risks of customer concentration.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$91.95 - \$25.10
20 Day Average Volume (sh)	546,647
Market Cap	\$2.6 B
YTD Price Change	-42.6%
Beta	1.18
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Wireless Equipment
Zacks Industry Rank	Top 30% (75 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	-27.8%
Expected Report Date	NA
Earnings ESP	-0.9%
P/E TTM	150.0
P/E F1	NA
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	618 E	647 E	693 E	755 E	2,761 E
2021	506 E	559 E	594 E	625 E	2,318 E
2020	537 A	592 A	588 A	592 A	2,309 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.08 E	\$0.18 E	\$0.37 E	\$0.12 E	\$0.47 E
2021	-\$0.38 E	-\$0.17 E	-\$0.04 E	\$0.05 E	-\$0.17 E
2020	\$0.10 A	\$0.05 A	\$0.10 A	\$0.03 A	\$0.00 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 05/29/2020. The reports text is as of 06/01/2020.

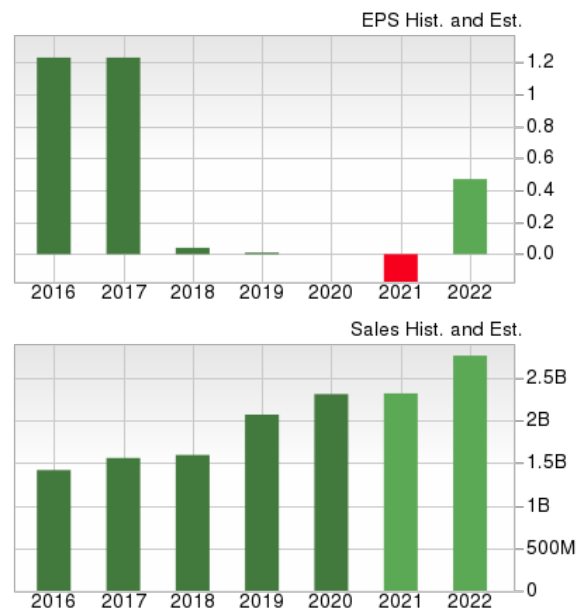
Overview

Headquartered in Carlsbad, CA, Viasat designs, develops and markets advanced digital satellite telecommunications and other wireless networking and signal processing equipment. The company serves its high-bandwidth, high-performance communications solutions to public as well as military, enterprises and governments enterprises.

Viasat provides broadband services named 'Exede' in North America. This features the world's highest capacity satellite – ViaSat-1; satellite broadband networking systems; global mobile satellite services comprising high-speed in-flight Internet as well as global tracking and messaging; and Wi-Fi and other hotspot support, operations and management systems. Apart from these, the company offers cybersecurity and network-centric military communication systems for the U.S. government and its alliances.

Viasat has three operating segments that are as follows:

- **Satellite Services** (35.9% of total revenues in fourth-quarter fiscal 2020): Under this segment, Viasat offers retail and wholesale satellite-based broadband services to mobile broadband customers and enterprises mainly in the U.S. Apart from providing Exede broadband services, the company presents a platform for network management services provision to national and international satellite service providers.
- **Commercial Networks** (15.7%): The segment creates and produces a varied range of comprehensive and advanced satellite and other wireless communication systems as well as ground networking equipment and products. These offerings are aimed at addressing five key market segments: consumer, enterprise, maritime, in-flight and ground mobile applications.
- **Government Systems** (48.4%): Through this segment, Viasat creates and presents network-centric IP-based fixed and mobile secure government communications systems and solutions for its federal customers such as DoD, armed forces, public safety first-responders and remote government employees. The segment offering is strategized at aiding the collection and distribution of secure real-time digital information between communications nodes, command centers and air defense systems.



Reasons To Buy:

- ▲ Viasat enjoys a leading position in the satellite and wireless communications market. With the rapid proliferation of the smartphone market and usage of mobile broadband, the user demand for coverage speed and quality has increased, which in turn is fueling the demand for network tuning and optimization to maintain high data traffic. The company attracts millions of U.S. consumers and enterprises by its high-quality broadband service. Encouragingly, Viasat's blue-chip customer base, which comprises of the U.S. Department of Defense, civil agencies, allied foreign governments, satellite network integrators as well as large communications service providers and enterprises adds to its strength. Currently, the company's Government Systems is acting as a major profit churner. Despite supply chain disruptions stemming from the COVID-19 pandemic, revenues from Government Systems increased 4.1% year over year to \$286.6 million in the last reported quarter. The increase can be primarily attributed to new orders under IDIQ agreements. Going forward, Viasat is eyeing opportunities to extend broadband satellite mobility to rotary wing aircraft, as it is a large addressable market that can emerge as a key profit churner.
- ▲ Viasat's Satellite Services business is progressing well, with key metrics including steady growth of ARPU (average revenue per user) and revenues showing impressive growth. ARPU is growing on the back of solid retail distribution network, which accounts for a growing proportion of high value and high bandwidth subscriber base. In the last reported quarter, revenues from Satellite Services increased 11.8% year over year to \$212.4 million, setting a record high figure. Notably, the segment achieved its ninth sequential quarter of revenue growth. The upside was primarily driven by the addition of new subscribers to premium broadband service plans due to increased COVID-19 shelter-in-place orders. Further, growing adoption of in-flight Wi-Fi services in commercial aircrafts are proving conducive to the growth of the Satellite Services business. Additionally, Viasat's in-flight Internet services are on a roll with commercial flights like Virgin America and Boeing increasingly adopting them, and this has been driving significant revenue growth over the past few quarters. The commercial in-flight Wi-Fi business continues to make steady gains. With the surging popularity of high-engagement in-flight connectivity and high passenger engagement, leading airline companies are scouting for new ways to utilize Viasat's high capacity satellite solutions to maximize passenger satisfaction. Viasat signed a contract with JetBlue, for both aircraft connectivity and on-board Wi-Fi distribution. Under the contract, Viasat will upgrade JetBlue's fleet with its next-generation connectivity suite. Viasat's impressive bandwidth productivity sets it apart from conventional and lower-yield satellites providers who run on incumbent business models. Also, Viasat has a competitive advantage in bandwidth economics, global coverage, flexibility and bandwidth allocation, which makes it believe that mobile broadband will act as a profit churner.
- ▲ Viasat is ramping up investments in the development of its revolutionary ViaSat-3 broadband communications platform, which will boast nearly 10 times the bandwidth capacity of ViaSat-2. The ViaSat-3 payload program has begun its transition to the construction phase. These satellites will be capable of covering one-third of the world, including all Americas. The second ViaSat-3 will cover the Europe, the Middle East and Africa region, launching in 2020. The ViaSat-3 platform will help to form a global broadband network with sufficient network capacity to allow better consumer choices with an affordable, high-quality, high-speed Internet and video streaming service. In a nutshell, Viasat has garnered enough economics of scale and scope to serve vast emerging markets in South America, Africa, the Middle East and Western Asia. Hence, momentous market traction of ViaSat-1 and ViaSat-2 satellites, coupled with strategically planned ViaSat 3 satellites, are expected to provide Viasat with a solid competitive edge over its peers, thereby bolstering growth in long run.
- ▲ Furthermore, the company has augmented its footprint in the U.K. defense market with the acquisition of Horsebridge Defence & Security. The transaction has extended its long-term business relationship with the country's Armed Forces and has enabled it to provide superior support system for Ministry of Defense programs.
- ▲ As of Mar 31, 2020, Viasat had \$304.3 million in cash and equivalents with \$536.2 million of long-term debt compared with the respective tallies of \$261.7 million and \$110 million in the year-ago quarter. Impressively, with a favorable cash and cash equivalents position, Viasat's long-term debt has reduced sequentially. This signifies that the company is likely to fulfil its financial obligations in the near term. Further, Viasat withdrew \$280 million under a revolving credit facility to avail additional financial flexibility amid coronavirus disruptions. The company currently has a debt-to-capital ratio of 0.48 compared with 0.35 of the sub-industry. Notably, its times interest earned ratio is 1, higher than 0.9 recorded at the end of the previous quarter. This shows that the company is more likely to clear its debt obligations. Also, its cash ratio has improved sequentially from 0.09 to 0.5. This indicates that the company is likely to have sufficient cash reserves to meet its current liabilities in the near term, thereby reinforcing positive creditor sentiments. It is to be seen whether Viasat can maintain the momentum in the upcoming days amid disruptions caused by the COVID-19 pandemic.

Viasat has witnessed solid growth in Government Systems segment and in-flight connectivity while enjoying favorable industry trends. It is ramping up investments for ViaSat-3 communication platform.

Reasons To Sell:

- ▼ Viasat operates in a dynamic and competitive market, which includes stalwarts from varied industries. In its Satellite Services segment, the company faces competition from companies like AT&T, CenturyLink, Comtech and DISH Network. On the other hand, its Government Systems segment faces threats from manufacturers of defense electronics products and systems such as General Dynamics. Hence, to combat such competitive pressure, Viasat has to continuously customize its network offering as per needs, enhance cost-effectiveness of its products and services, and boost the satellite data networks. Increased competition results in price reductions, reduced margins, and loss of market share, which has an adverse effect on the results of operations.
- ▼ Although Viasat's acquisition strategy has significant long-term impact, it has led to integration risks in the near term. Failure to successfully integrate the newly acquired companies into its own business model is likely to hurt the company's financials. Moreover, though the company's research and development activities promise long-term prospects, they weigh on net income in the near term. This apart, the company anticipates incurring huge rise in research and development activities related to the launch of ViaSat-3 satellites that can materially impact its margins and bottom line.
- ▼ Viasat's Satellite Services segment is highly affected by seasonality of demand due to traditional retail selling periods. Historically, March through May of any year proves to be expensive months for the company in terms of subscriber acquisition. Additionally, the sales activity is mostly high during the second half of every calendar year. Any failure in promotional and subscriber retention efforts, changes in third parties, changes in subscribers' approval processes will likely magnify the sales activity and churn rate. In addition, there may be a number of technical problems in relation with the performance of satellites, as they utilize highly complex technology and operate in the harsh environment, which may pose concerns for Viasat's future profitability. For instance, problems associated with the power sub-systems, control sub-systems and degradation or unforeseen anomalies in space can pose material threats to profitability.
- ▼ Viasat depends on U.S. Government contracts for a major part of its revenues. In future, any additional Federal budgetary pressure will likely lead to deeper-than-expected cuts in defense spending, significantly impacting the company's business prospects. A shift in the U.S. Government's foreign policy may result in the termination of some major international contracts. Moreover, as the company's international sales and operations are subject to laws related to trade, export controls and foreign corrupt practices and others, failures to comply with them are expected to hurt its financials.

Viasat expects to incur huge R&D costs relating to the commercial service launch of ViaSat-3 satellites, which can materially impact its margins and bottom line.

Last Earnings Report

Viasat Q4 Earnings Beat Estimates on Record Revenues

Viasat reported solid fourth-quarter fiscal 2020 financial results, with the bottom and the top line surpassing the respective Zacks Consensus Estimate. Accretive subscriber base and accelerated investments in ViaSat-3 constellation coupled with sustained momentum in the Government Systems and Satellite Services segment supported the quarterly results.

Net Income

On a GAAP basis, net income for the March quarter was \$1.6 million or 3 cents per share compared with \$2.5 million or 4 cents per share in the year-ago quarter. The improvement was primarily driven by top-line growth. The bottom line surpassed the Zacks Consensus Estimate by 9 cents. For fiscal 2020, net loss was \$0.2 million or break even on a per share basis compared with net loss of \$67.6 million or loss of \$1.13 per share in fiscal 2019.

Non-GAAP net income came in at \$20 million or 32 cents per share compared with \$20.4 million or 33 cents per share in the prior-year quarter. For fiscal 2020, non-GAAP net income was \$72 million or \$1.14 per share compared with \$0.9 million or 1 cent per share in fiscal 2019.

Revenues

Quarterly total revenues increased 6.2% year over year to \$591.7 million. The upside was primarily driven by strong revenue growth in the Satellite Services and Government Systems segment backed by sustained sales backlog. This was partially offset by decline in new contract awards. While product revenues totaled \$299 million, up 2.3% year over year, service revenues rose 10.5% to \$292.7 million. The top line surpassed the consensus estimate of \$589 million. For fiscal 2020, revenues increased 11.7% year over year to \$2,309.2 million on the back of solid execution across diversified business lines.

Segment Results

Revenues from **Satellite Services** increased 11.8% year over year to \$212.4 million, setting a record high figure. Markedly, the segment achieved its ninth sequential quarter of revenue growth. The performance was led by all-time high average revenue per user, up 13.5% year over year to \$93.06 primarily driven by the addition of new subscribers to premium broadband service plans due to increased COVID-19 shelter-in-place orders. However, the IFC business which comprises less than 10% of annual revenues, suffered a major setback owing to reduced air travel.

Impressively, Viasat added 4,000 new subscribers in the reported quarter and provided fixed satellite Internet to more than 11,000 locations in Brazil during fiscal 2020. Despite the uncertainties related to COVID-19 pandemic, the segment witnessed robust revenues in in-flight services, up 13% year over year. In fiscal 2020, Viasat added 590,000 fixed broadband subscribers in the United States as part of FCC's "Keep Americans Connected" pledge. The company ended the quarter with 1,390 aircrafts in commercial IFC business.

The segment's operating profit was \$0.4 million compared with \$0.7 million in the year-ago quarter. Adjusted EBITDA was \$70.1 million, up 7.5% driven by a diversified service portfolio.

Commercial Networks revenues inched up 1.1% to \$92.8 million on growth in antenna systems. However, it was partially offset by the accelerated American Airlines install schedule in the prior-year period. Markedly, the segment continues to invest in R&D to reinforce high priority long-term strategic growth opportunities. The segment's operating loss was \$43.3 million compared with loss of \$49.2 million in the year-ago quarter. Adjusted EBITDA was negative \$26.9 million compared with negative \$34.3 million in the year-ago quarter. The year-over-year upside can be attributed to enhanced commercial air margins and robust antenna systems revenue.

Despite supply chain disruptions stemming from the COVID-19 pandemic, revenues from **Government Systems** increased 4.1% year over year to \$286.6 million. The increase was primarily driven by new orders under IDIQ agreements. Notably, the segment achieved a significant milestone as it surpassed \$1 billion mark for the first time. In the reported quarter, Government Systems received awards of \$216 million, which were mainly driven by government mobile broadband, tactical data links and satellite networking. However, the segment's operating profit was \$58.7 million, down 2.5% year over year. Adjusted EBITDA was \$77.1 million, down 0.3% year over year, mainly due to delay in shelter-in-place orders.

Other Details

Total operating income was \$14.1 million compared with \$9.4 million in the year-earlier quarter. Adjusted EBITDA came in at \$120.3 million compared with \$108.3 million a year ago.

Cash Flow & Liquidity

During fiscal 2020, Viasat generated a record high of \$437 million of cash from operations compared with \$328 million in the year-ago period. The increase was mainly driven by robust earnings performance. The company also withdrew \$280 million under a revolving credit facility to avail additional flexibility amid coronavirus disruptions.

As of Mar 31, the satellite and wireless networking technology provider had \$304.3 million in cash and equivalents with \$536.2 million of long-term debt compared with the respective tallies of \$261.7 million and \$110 million in the year-ago period.

Moving Forward

Despite uncertainties pertaining to COVID-19 pandemic, Viasat delivered impressive results in fiscal 2020 and continues to hold a leading position in the satellite and wireless communications market. With the rapid proliferation of the smartphone market and usage of mobile

Quarter Ending 03/2020

Report Date	May 26, 2020
Sales Surprise	0.40%
EPS Surprise	150.00%
Quarterly EPS	0.03
Annual EPS (TTM)	-0.01

broadband, the user demand for coverage speed and quality has increased, which in turn is fueling demand for network tuning and optimization to maintain high data traffic. Backed by a robust vertically-integrated business model, the company remains focused on the launch of ViaSat-3 class satellite in mid-2021.

Markedly, the company has also undertaken cost-reduction initiatives to tackle softness in IFC business and increase its market-share post COVID-19 crisis. With major shifts in satellite and broadband connectivity, Viasat expects to witness increasing demand for broadband services globally. Equipped with a resilient business portfolio, the company expects to maintain financial prudence in capital investments and witness potential strategic growth opportunities with augmented geographic presence. It is to be seen whether Viasat can sustain the momentum in the coming days amid disruptions caused by the COVID-19 pandemic.

Recent News

On Mar 16, 2020, Viasat announced that it has participated in the Federal Communications Commission's ("FCC") 'Keep Americans Connected' initiative. The company intends to work with its residential and small business customers to keep them connected, while minimizing potential health and economic impacts associated with the coronavirus (COVID-19) outbreak.

On Mar 5, Viasat announced the expansion of its global leadership team with the addition of Jim Dodd, as president, Global Mobile Solutions; Peter Langkilde, as vice president and head of Broadband Services for Europe, Middle East and Africa; and Dr. Krishna Nathan, as chief information officer.

On Mar 5, Viasat announced that it has inked a Strategic Alliance Agreement with Blacktree Technology, an Australia-based communications systems design and integration company. The parties will provide in-country manufacturing and support services for Ultra High Frequency satellite communications systems of the Australia defence force.

On Mar 2, Viasat announced that it has inked an agreement with Japan Airlines to deploy its Aerodocs document management system to support its safety and compliance objectives. The comprehensive product offering is likely to transform the information management strategy of the airline firm and enable it to take more informed, data-driven decisions.

On Feb 6, Viasat announced that it has appointed Dr. Theresa Wise to its board of directors. Dr. Wise will serve as a class I director, with an initial term expiring at the company's 2021 annual meeting of stockholders. With this, the board currently comprises eight members, six of whom are independent directors.

Valuation

Viasat shares are down 52.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Computer and Technology sector are up 1.1% and 27.4% over the past year, respectively.

The S&P 500 Index is up 11.1% in the past year.

The stock is currently trading at 12.19X trailing 12-month EV/EBITDA, which compares to 19.33X for the Zacks sub-industry, 11.96X for the Zacks sector and 11.27X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 32.3X and as low as 9.8X, with a 5-year median of 16.3X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 34.65X trailing 12-month book value.

The table below shows summary valuation data for VSAT

Valuation Multiples - VSAT					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.19	19.33	11.96	11.27
	5-Year High	32.3	25.88	12.72	12.86
	5-Year Low	9.77	9.84	7.57	8.26
	5-Year Median	16.3	16.36	10.72	10.81
P/B TTM	Current	1.27	5.91	5.25	4.16
	5-Year High	3.36	7.16	5.38	4.56
	5-Year Low	0.84	2.62	3.16	2.83
	5-Year Median	2.28	3.78	4.32	3.65
P/S F12M	Current	1.09	3.12	3.69	3.43
	5-Year High	2.6	3.52	3.69	3.44
	5-Year Low	0.67	2.07	2.32	2.53
	5-Year Median	2.06	2.77	3.11	3.02

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
InterDigital, Inc. (IDCC)	Outperform	2
Aviat Networks, Inc. (AVNW)	Neutral	3
The Boeing Company (BA)	Neutral	3
Comtech Telecommunications Corp. (CMTL)	Neutral	2
Northrop Grumman Corporation (NOC)	Neutral	3
PCTEL, Inc. (PCTI)	Neutral	2
Sonim Technologies, Inc. (SONM)	Neutral	3
Sierra Wireless, Inc. (SWIR)	Neutral	4

Industry Comparison Industry: Wireless Equipment				Industry Peers		
	VSAT	X Industry	S&P 500	BA	NOC	SWIR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	C	-	-	F	D	F
Market Cap	2.61 B	379.28 M	21.48 B	82.31 B	55.88 B	318.31 M
# of Analysts	4	3	14	6	7	4
Dividend Yield	0.00%	0.00%	1.96%	0.00%	1.58%	0.00%
Value Score	C	-	-	D	D	F
Cash/Price	0.02	0.17	0.06	0.20	0.06	0.24
EV/EBITDA	18.09	9.25	12.56	126.30	16.65	-11.80
PEG Ratio	NA	2.03	2.87	NA	NA	NA
Price/Book (P/B)	1.27	1.62	2.92	NA	6.17	0.90
Price/Cash Flow (P/CF)	352.67	13.63	11.74	269.38	12.15	NA
P/E (F1)	NA	19.00	21.35	NA	15.16	NA
Price/Sales (P/S)	1.13	1.21	2.27	1.17	1.63	0.46
Earnings Yield	-0.40%	4.50%	4.52%	-3.46%	6.60%	-9.02%
Debt/Equity	1.03	0.16	0.76	-3.61	1.72	0.19
Cash Flow (\$/share)	0.12	0.46	6.96	0.54	27.58	-0.10
Growth Score	C	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	-97.01%	-4.77%	10.87%	-6.39%	23.40%	-25.11%
Proj. EPS Growth (F1/F0)	NA%	-13.11%	-10.48%	-45.44%	4.28%	-7,750.00%
Curr. Cash Flow Growth	-97.05%	-23.46%	5.39%	-97.35%	2.21%	-108.17%
Hist. Cash Flow Growth (3-5 yrs)	6.34%	4.04%	8.55%	-48.30%	14.43%	NA
Current Ratio	1.73	1.65	1.29	1.17	1.29	1.30
Debt/Capital	50.70%	19.55%	44.54%	NA	63.22%	15.73%
Net Margin	-0.01%	2.46%	10.59%	-4.84%	6.57%	-11.76%
Return on Equity	-0.01%	3.67%	16.26%	-3.08%	39.22%	-7.40%
Sales/Assets	0.51	0.78	0.55	0.53	0.83	1.07
Proj. Sales Growth (F1/F0)	0.38%	-2.61%	-2.53%	-10.91%	3.99%	-12.17%
Momentum Score	F	-	-	D	A	F
Daily Price Chg	-2.23%	0.00%	-0.11%	-2.65%	-2.20%	1.15%
1 Week Price Chg	20.09%	4.27%	4.99%	14.61%	1.33%	6.69%
4 Week Price Chg	-0.94%	2.81%	4.40%	3.43%	1.37%	-6.61%
12 Week Price Chg	-22.18%	6.00%	-2.75%	-43.98%	2.26%	16.64%
52 Week Price Chg	-53.00%	-16.56%	0.07%	-58.31%	8.20%	-29.07%
20 Day Average Volume	546,647	133,029	2,425,602	28,908,938	804,617	274,752
(F1) EPS Est 1 week change	-27.78%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-27.78%	0.00%	-1.70%	-48.00%	-3.69%	-51.74%
(F1) EPS Est 12 week change	-128.51%	-17.96%	-16.00%	-223.61%	-4.14%	-131.18%
(Q1) EPS Est Mthly Chg	-17.54%	0.00%	-3.25%	-9.38%	-6.43%	-129.41%

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	C
Growth Score	C
Momentum Score	F
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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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