

Wells Fargo & Company (WFC)

\$22.70 (As of 10/21/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 09/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Shares of Wells Fargo have underperformed the industry in the past three months. Also, its earnings surprise history is unimpressive, having lagged the Zacks Consensus Estimate in three of the trailing four quarters. The company's third-quarter 2020 results reflected robust mortgage banking and trading revenues, cost management, low net interest income (NII) and high provisions. Wells Fargo's revenues remain under pressure due to low interest rates and a volatile fee income. Also, rising costs in providing benefits to clients amid coronavirus concerns might curb bottom-line growth. Legal hassles also remain a concern. Yet, the company's efforts to enhance compliance and risk-management capability, along with streamlining activities seem encouraging. Nevertheless, unsustainable capital-deployment activities remain a headwind.

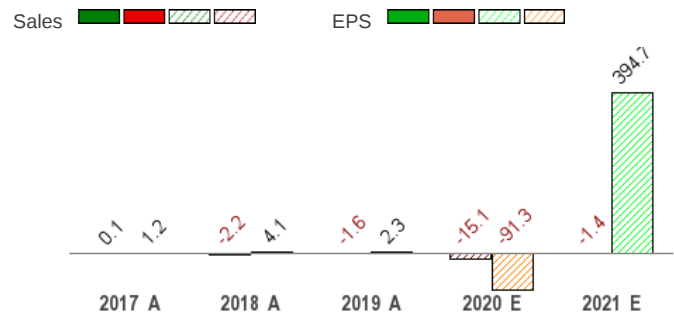
Price, Consensus & Surprise



Data Overview

52-Week High-Low	\$54.75 - \$22.00
20-Day Average Volume (Shares)	37,035,372
Market Cap	\$93.5 B
Year-To-Date Price Change	-57.8%
Beta	1.07
Dividend / Dividend Yield	\$0.40 / 1.8%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 48% (121 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	19.2%
Last Sales Surprise	5.0%
EPS F1 Estimate 4-Week Change	657.9%
Expected Report Date	01/12/2021
Earnings ESP	0.0%
P/E TTM	27.0
P/E F1	59.7
PEG F1	5.4
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	17,559 E	17,890 E	17,873 E	18,030 E	71,162 E
2020	17,717 A	17,836 A	18,862 A	17,946 E	72,208 E
2019	21,609 A	21,584 A	22,010 A	19,860 A	85,063 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.48 E	\$0.50 E	\$0.45 E	\$0.56 E	\$1.88 E
2020	\$0.01 A	-\$0.66 A	\$0.56 A	\$0.57 E	\$0.38 E
2019	\$1.20 A	\$1.30 A	\$0.92 A	\$0.93 A	\$4.38 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 10/21/2020. The reports text is as of 10/22/2020.

Overview

San Francisco-based – Wells Fargo & Company is one of the largest financial services company in the U.S. with \$1.95 trillion in assets and more than \$1.4 trillion in deposits. The company provides banking, insurance, trust and investments, mortgage banking, investment banking, retail banking, brokerage services and consumer and commercial finance through over 7,200 stores, 13,000 ATMs, the internet and other distribution channels across North America and globally.

The company provides its services through three broad segments:

Community Banking offers a complete line of diversified financial products and services to consumers and small businesses, including checking and savings accounts, credit and debit cards, and auto, student, and small business lending.

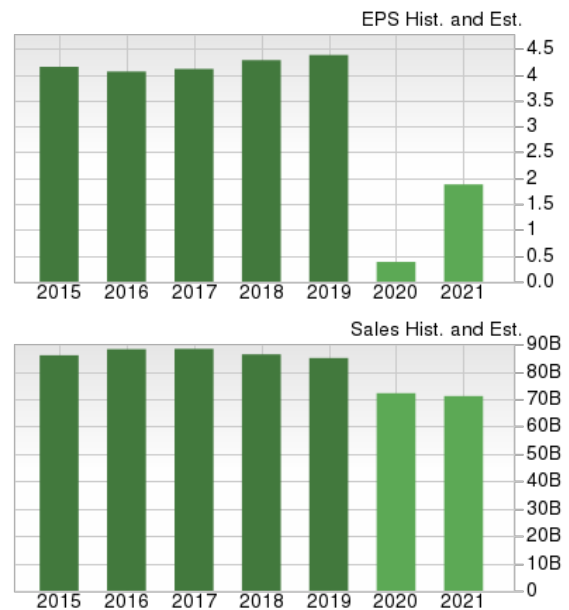
Wholesale Banking provides financial solutions to businesses across the United States and globally with annual sales generally in excess of \$5 million.

Wealth and Investment Management provides a full range of personalized wealth management, investment and retirement products and services to clients across U.S. based businesses.

In October 2019, Wells Fargo closes the sale of its commercial real estate brokerage business, Eastdil Secured and recorded a pre-tax gain of about \$362 million, reflected in fourth-quarter 2019 net income.

In July 2019, Wells Fargo divested its Institutional Retirement & Trust business to Principal Financial Group for \$1.2 billion. In February 2018, it completed the sale of its Shareowner Services business to U.K.-based Equiniti Group plc, for \$227 million. In 2017, Wells Fargo completed the divestiture of Wells Fargo Insurance Services USA, Inc to USI Insurance Services. The company offloaded the commercial insurance business, though retained personal insurance business.

In 2016, Wells Fargo sold its fund administration business, Wells Fargo Global Fund Services. Also, the company acquired GE Capital's Commercial Distribution Finance businesses in the Europe, Middle East and Africa, Australia & New Zealand and Asia. Along with these, the bank acquired GE Capital's commercial lending and leasing businesses in North America and GE Railcar Services.



Source: Zacks Investment Research

Reasons To Sell:

- ▼ Revenue growth has become challenging at Wells Fargo. Revenues witnessed a negative CAGR of nearly 0.3%, over the last five years (2015-2019), due to a lower rate environment and volatile non-interest income, with the trend continuing in the first nine months of 2020. Therefore, amid coronavirus pandemic, loan and deposit growth rates, pricing spreads, the level of interest rates and the shape of the yield curve remain decisive factors for the top-line performance in the coming quarters. Also, revenues are being impacted by the pandemic-related fee and interest waivers for certain products.
- ▼ Though mortgage banking income recorded growth in the first nine months of 2020 on reversal in the mortgage market, it witnessed a negative three-year (2016-2019) CAGR of 23.6%, affecting overall top-line growth due to considerable write-downs of its mortgage-servicing rights asset on higher projected defaults and faster prepayment assumptions. Wells Fargo, which was the largest mortgage originator in the United States as of 2017, has also been witnessing lower mortgage servicing income, which is a concern.
- ▼ Federal Reserve reduced interest rates three times in 2019 and finally slashed it to near zero in March, to support the U.S. economy from the coronavirus outbreak-induced mayhem. This impacted Wells Fargo's net interest income (NII) growth and resulted in contraction of net interest margin over the last several quarters. A similar trend is expected to continue in the near term as the central bank has signalled no rate hike. Furthermore, constraints of operating under the asset cap limited the company's ability to offset the impact of lower rates with loan growth. Notably, management anticipates full-year 2020 NII to be \$40 billion.
- ▼ Wells Fargo has been facing challenges to control costs for the past few years. Non-interest expenses recorded a five-year (2015-2019) CAGR of 3.9% due to hike in personnel and other expenses, with the trend continuing in the first nine months of 2020. Notably, the enhanced benefits and payments provided by the company to employees due to the COVID-19 crisis is expected to keep expenses elevated through the remainder of this year. Also, the company mulls its expense base to be \$10 billion higher than the required level and thus seeks to undertake cost-control measures such as increasing digital adoption for retail and commercial clients, reducing third-party spend, consolidation of branches and streamlining management. Though gross run-rate expenses are expected to reduce by more than \$1 billion annually, an elevated expense base is likely to act as a hindrance to bottom-line expansion in the quarters ahead.
- ▼ Troubles mounted at Wells Fargo, in September 2016, following the revelation of opening of millions of unauthorized accounts. Since then, the bank has settled numerous litigations and penalties. Further, the bank has been slapped with new sanctions, including a cap on the assets position by the Federal Reserve. Disclosure of issues in its auto-insurance business, online bill pay services, and in the Wealth and Investment Management segments are also on the downside. In a major setback, U.S. CFPB director expressed her dissatisfaction with Wells Fargo's progress fixing its risk management issues. In February 2020, the bank announced to have entered into a \$3 billion settlement with the authorities investigating its Community Bank sales practices. Therefore, legal and regulatory issues remain a concern.
- ▼ Following the 2020 stress test results, Federal Reserve announced to limit dividend distribution decision to an amount equal to the average of the bank's net income for the four preceding calendar quarters. Thus, Wells Fargo reduced its third-quarter dividend to 10 cents from the current 51 cents level to meet the criteria this July. Also, it had a share-repurchase program in place that was suspended mid-March due to the coronavirus crisis. Further, with unfavorable debt/equity ratio when compared with the broader industry and volatile performance in the past few quarters, Wells Fargo's capital-deployment activities might not be sustainable.
- ▼ Wells Fargo's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 3.18% has gradually improved over the years, it compares unfavorably with the 8% industry average, highlighting that it is less efficient in using shareholders' funds.
- ▼ The stock seems overvalued when compared with the broader industry. Its current price-to-earnings (F1) and PEG ratios are above the respective industry averages.

Wells Fargo's involvement in a horde of legal issues is a concern. Also, escalating expenses and lower NII remain headwinds. Furthermore, low mortgage income remains a major drag.

Risks

- Wells Fargo's expansion plans have historically included a large number of acquisitions including the Wachovia merger in 2008. Moreover, since 2011, the company has completed a number of opportunistic transactions. Further, the expansion moves has been supported by the purchase of a number of businesses from GE Capital. The company plans to expand its operations in international markets and augment its asset management business. It has demonstrated its ability to assimilate local franchises, offering a wider range of products than the acquired company could have, thus increasing the number of options for customers. This has been the driving force behind its growth in the recent years.
 - Wells Fargo registered strong growth in loans over the past few years, despite the planned run-off from non-strategic/liquidating portfolios. The company's total loans witnessed five-year CAGR (2015-2019) of 1.2%, with some annual volatility. Furthermore, deposits recorded five-year CAGR (2015-2019) of 2%. Although loans declined in the first nine months of 2020 due to the restrictions on balance sheet growth of the company, deposits continued to increase. Nonetheless, both loan and deposit balances are poised to grow, catering customer needs amid coronavirus scare.
 - As of Sep 30, 2020, the company holds a debt level of \$270.9 billion and has witnessed decline over the past few quarters. Further, cash and cash equivalents were \$389.3 billion as of the same date. Though its time-interest-earned ratio has been reducing over the past few quarters and is currently at 1.1X, strong cash position remains a positive. Thus, we believe Wells Fargo has a lesser likelihood of default of interest and debt repayments, if the economic situation worsens.
 - Despite the macro pressure, Wells Fargo's credit quality continues to normalize. This trend is expected to continue, thereby providing room to drive future earnings. Notably, net charge-offs remained near a low level of 29 basis points (bps) as a percentage of average loans (annualized) as of Sep 30, 2020, exhibiting the benefit of a diversified loan portfolio. Though allowance for credit losses remained flat compared with the prior quarter, it reflected continued uncertainty due to the COVID-19 pandemic.
 - Shares of Wells Fargo have underperformed the industry in the past six months. Nevertheless, its earnings estimates for the current year have been revised significantly upward over the past seven days. Therefore, given the robust fundamentals and positive estimate revisions, the stock has upside potential.
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Last Earnings Report

Wells Fargo Q3 Earnings Beat on Strong Mortgage Banking

Aided by robust mortgage banking revenues, Wells Fargo reported third-quarter 2020 adjusted earnings of 56 cents per share, beating the Zacks Consensus Estimate of 47 cents. Results, however, compare unfavorably with the prior-year quarter figure of 92 cents. Including certain adjustments, net income came in at \$2.04 billion or 42 cents per share.

Increased gains on trading activities also supported the bank. Moreover, the company reflects prudent expense management. Further, high loans and deposits balance display a strong capital position. However, reduced net interest income on lower rates negatively impacted the company's results. Provisions also soared during the reported quarter.

The quarter's total revenues came in at \$18.9 billion, beating the Zacks Consensus Estimate of \$17.96 billion. The revenue figure, however, comes in lower than the year-ago quarter's \$22 billion.

Furthermore, quarterly revenue generation at the business segments disappointed, on a year-over-year basis. The Community Banking segment's total quarterly revenues slipped 4.5% and Wholesale Banking revenues were down 18.8%. Further, revenues in the Wealth and Investment Management unit fell 25.5%.

Net Interest and Fee Income Fall, Costs Stable

Wells Fargo's net interest income in the third quarter came in at \$9.4 billion, down 19% year on year. Lower interest income mainly resulted in this downside, partly offset by decreased interest expenses. Furthermore, net interest margin shrunk 53 basis points (bps) year over year to 2.13%.

Non-interest income at Wells Fargo came in at \$9.5 billion, sliding 9% year over year, primarily on fall in card fees, lending-related fees, deposit-related fees, trust and investment fees, net gains on debt and equity securities along with other income. These declines were partly offset by higher revenues from net gains from trading activities and mortgage banking.

As of Sep 30, 2020, total loans were \$920.1 billion, down 2% sequentially. Lower commercial loans were partly negated by higher consumer loans. Total deposits came in at \$1.38 trillion, down 2% from the prior quarter.

Non-interest expense at Wells Fargo was \$15.2 billion during the July-September quarter, almost flat year on year. Higher personnel, occupancy, leases, restructuring charges and other expenses were muted by lower operating losses, along with reduced advertising and promotion costs.

The company's efficiency ratio of 80.7% came in above the 69.1% recorded in the year-ago quarter. A rise in efficiency ratio indicates a fall in profitability.

Credit Quality: A Concern?

Wells Fargo's credit quality metrics were a mixed bag during the September-end quarter. Allowance for credit losses, including the allowance for unfunded commitments, totaled \$20.5 billion as of Sep 30, 2020, significantly up 93.4% year over year.

Net charge-offs were \$683 million or 0.29% of average loans in the reported quarter, up 5.9% from the year-ago quarter's net charge-offs of \$645 million (0.27%). Non-performing assets increased 36.7% to \$8.2 billion in the third quarter from the \$6 billion reported in the year-earlier period. Notably, provision for credit losses was \$751 million compared with the prior-year quarter's \$695 million.

Healthy Capital Position

Wells Fargo has maintained a sturdy capital position. Wells Fargo's Tier 1 common equity under Basel III (fully phased-in) decreased to \$134.9 billion from the \$144.7 billion witnessed in the prior-year quarter. The Tier 1 common equity to total risk-weighted assets ratio was estimated at 11.4% under Basel III (fully phased-in) as of Sep 30, 2020, down from the year-earlier quarter's 11.6%.

Book value per share declined to \$38.99 from the \$40.48 recorded in the comparable period last year.

Return on assets was 0.42%, down from the prior-year quarter's 0.95%. Return on equity was 4.22%, down from the year-ago quarter's 9%.

As of Sep 30, 2020, eligible external total loss absorbing capacity (TLAC) as a percentage of total risk-weighted assets was 25.8% compared with the minimum requirement of 22.0%

Outlook

Net interest income is anticipated to be \$40 billion for 2020, lower than the previous guidance due to lower commercial loan balances and higher MBS premium amortization.

Management expects fourth-quarter origination volume to be similar to third-quarter levels despite typical seasonal declines and fourth-quarter production margins should remain strong.

The company expects internal loan portfolio credit ratings, which were also contemplated in the development of allowance, will result in higher risk-weighted assets under the advanced approach and under the standardized approach in the coming quarters, which would reduce CET1 ratio

Quarter Ending	09/2020
Report Date	Oct 14, 2020
Sales Surprise	5.00%
EPS Surprise	19.15%
Quarterly EPS	0.56
Annual EPS (TTM)	0.84

and other RWA-based capital ratios.

Recent News

Wells Fargo Inks Data Exchange Agreement With Envestnet - Sep 24, 2020

Wells Fargo recently signed a data exchange agreement with Envestnet's data aggregation subsidiary Yodlee. This will allow customers to share their account information with fintech apps connected to Envestnet Yodlee. With the move, Wells Fargo aims to better compete with the growing fintech companies.

Clients will get a more secure passage to share their financial data with the more than 1,400 third-party financial applications on the Envestnet | Yodlee Financial Data Aggregation Platform.

The application programming interface used in the agreement will be a more secure, tokenized "handshake" between the companies' servers through which customers' financial data will be shared. Notably, clients will be able to keep their Wells Fargo user credentials hidden while sharing data.

Wells Fargo plans to launch the platform to select customers this year. Also, the enrollment process is designed to be easy and work seamlessly within the user experiences of Yodlee-supported apps.

Yodlee will access Wells Fargo's data aggregation API on Wells Fargo's Gateway Channel. It is the bank's open API channel that allows commercial and corporate customers and third parties to integrate customer-permissioned financial information into their own digital environments.

"We are thrilled to come to this agreement with Envestnet | Yodlee and take this big step toward achieving complete API-based financial data sharing for our consumer and small business customers who want to manage their finances on the platform of their choice," said Ben Soccorry, senior vice president in Wells Fargo's strategy, digital and innovation group.

Chad A. Wiechers, senior vice president of data access & management at Envestnet | Yodlee said, "API-based connectivity in the United States is leading to an increasingly connected financial ecosystem, spearheaded by the partnerships like the one we now have with Wells Fargo."

Moody's Affirms Wells Fargo Ratings, Outlook Down to Negative - Sep 2, 2020

Moody's Investors Service, affirmed all the ratings of Wells Fargo and its subsidiaries. The Wall Street biggie's senior unsecured debt rating is affirmed at A2.

Wells Fargo Bank, N.A., the main bank operating entity's long-term deposit rating has been affirmed at Aa2 and long-term senior unsecured debt rating at Aa2. The bank's counterparty risk assessment is Aa1(cr)/Prime-1(cr). Further, the deposit ratings of Aa1/Prime-1 and a stand-alone baseline credit assessment (BCA) of a2 have been affirmed.

However, the rating firm's outlook for the bank has been downgraded to "negative" from "stable". "The outlook change reflects Wells Fargo's slower than anticipated pace in resolving its legacy governance, oversight, compliance and operational risk management deficiencies", said Allen Tischler, senior vice president.

"Although Wells Fargo's years-long remediation efforts are progressing, the slow pace weighs on its expense base, further undermining its earnings potential against the backdrop of challenging operating conditions resulting from the coronavirus pandemic outbreak", he added.

Ratings Affirmation & Rationale Behind the Downgrade

Moody's affirmed Wells Fargo's ratings on the bank's strong underlying credit strengths, including conservative risk profile, diversified loan portfolio and strong liquidity. Further, despite Wells Fargo's compliance and operational issues tarnished reputation and significantly weakened the profitability, the rating firm maintained the ratings on strong balance sheet fundamentals.

Nevertheless, the continued impact of the coronavirus pandemic on the US economy is likely to deteriorate the credit quality, keeping the bank's capitalization under pressure, per Moody's. Specifically, tangible common equity to risk-weighted assets (TCE/RWA) capital metric will be affected on weakening asset quality. Moreover, Wells Fargo's capitalization is anticipated to be weakened in the second half of 2020 despite improved profitability.

Therefore, Wells Fargo's actions on capital management, which include an 80% reduction in common stock dividend and suspension of share buybacks, are considered to be in the bank's favor by the rating agency. Moreover, despite regulatory issues and tarnished image, the company has been able to appoint experienced staff, increasing its credit strength.

Moody's expects the bank to gradually revive from its existing challenges, applying stronger operational risk and compliance management along with improved governance. However, the coronavirus pandemic has pushed the same until at least 2021, including the Federal Reserve's consent order restrictions with the asset cap as well. Moreover, lingering uncertainty over the resolution of Wells Fargo's challenges, including regulatory issues, heightened expenses and decrease in capital, might weaken the credit profile, per Moody's, supporting its negative outlook.

On the profitability front, along with an uncertain economic environment, expected lower net interest income and elevated loan loss provisions, Wells Fargo's expense profile remains weak. Notably, work pressure of remedial measures taken for legacy compliance and governance failures led this to happen. For the first half of 2020, the bank recorded 78% cost/income ratio, being one of the highest amongst US banks. Yet, pre-sales scandal, the bank targeted and achieved a cost/income ratio in the mid- to high-50s.

Therefore, Moody's believes Wells Fargo's new management team's outlined plan of reducing costs in the years ahead, working at the historic level of operating efficiency, is consummated, the agency's additional negative rating pressure can be limited. However, downward rating

pressure on Wells Fargo will be increased if Moody's view on Wells Fargo's operating efficiency and profitability metrics are not likely to be significantly rebound in 2021 and beyond.

Wells Fargo Taps Young Adults With No-Overdraft Fees Account - Sep 1, 2020

Wells Fargo has introduced a low-cost and convenient bank account, Clear Access Banking that will not charge overdraft fees. The checkless account will be available for a monthly fee of \$5.

The company is targeting younger adults with this account as they are new to banking ways. The account will help them better manage their spending, without incurring overdraft or non-sufficient funds fees. In fact, the monthly fee has been waived for primary account owners aged between 13 and 24 years.

The account has been made available on online platforms and at branches. Notably, it forms part of the Wells Fargo's efforts to "simplify products and services".

Ed Kadletz, head of Wells Fargo's deposit products group for consumer and small business banking said, "It gives customers the comfort of having one account with a low monthly fee for money management, payments and access to all digital banking experiences and services. This simplicity is as important as ever to customers in the wake of the pandemic and recent economic challenges."

In 2021, the lender expects to launch a streamlined version of its Portfolio by Wells Fargo relationship banking account, which aims at deposit product improvements.

Wells Fargo Partners With iCapital To Sell Feeder Fund Platform - Jun 18, 2020

Wells Fargo Investment Institute, Inc., (WFII), the registered investment advisor and wholly owned subsidiary of Wells Fargo announced that it will divest its Global Alternative Investments (GAI) Feeder Fund Platform to a financial-technology firm, iCapital Network, in an effort to simplify operations and provide innovative products to the bank's clients. Financial terms of the deal, which is expected to close in second-half 2020, remain undisclosed.

Additionally, Wells Fargo will become the latest strategic investor by joining the group of wealth and asset managers that has made strategic investments in iCapital.

The Wells Fargo GAI Feeder Fund Platform collects client money to invest in varied alternative solutions, including private equity, private debt, hedge funds, private real estate, and direct private investments.

"We are pleased to partner with iCapital to deliver alternative investments to enhance the experience for our advisors and clients," said Darrell Cronk, president of WFII. "This transaction will allow us to continue to provide innovative alternative investment solutions to our clients as well as upgrade the overall platform and launch new offerings," Cronk added further.

As part of the deal terms, the fund portfolio will be supported by the transitioning team for the continuation of services to clients. Additionally, iCapital will offer positions to team of Wells Fargo staff members, who, at present, support feeder fund operations businesses.

Wells Fargo's partnership with iCapital is aimed at offering the best-in-class solution to its clients with innovative alternative investments. With the enhanced technology and efficiency of iCapital, the clients will continue to receive Wells Fargo's current existing investment services including upfront and ongoing investment due diligence, product selection, investment monitoring, platform management, product support, and education.

Dividend Update

On Jul 28, Wells Fargo announced quarterly common stock dividend of 10 cents per share, down 80% from the previous payout. The dividend was paid on Sep 1 to its shareholders of record as on Aug 7.

Valuation

Wells Fargo's shares are down 57.8% in the year-to-date period and 55.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.2% and 15.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is down 29.1% and 11.2%, respectively.

The S&P 500 Index is up 7% and 15.2% in the year-to-date period and trailing 12-month period, respectively.

The stock is currently trading at 15.01X forward 12 months earnings, which compares to 11.74X for the Zacks sub-industry, 15.83X for the Zacks sector and 22.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.19X and as low as 6.53X, with a 5-year median of 11.74X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$20 price target reflects 13.25X forward earnings.

The table below shows summary valuation data for WFC

Valuation Multiples - WFC					
		Stock	Sub-Industry	Sector	S&P 500
	Current	15.01	11.74	15.83	22.2
D/F F19M	5-Year High	23.19	14.2	16.74	22.47

P/E F12M	5-Year High	23.19	14.2	16.14	23.41
	5-Year Low	6.53	8.01	11.6	15.27
	5-Year Median	11.74	11.55	14.41	17.68
P/B TTM	Current	0.74	1.49	3.36	15.63
	5-Year High	2.32	2.68	4	16.3
	5-Year Low	0.73	1.21	2.01	7.47
	5-Year Median	1.86	2.11	3.48	10.77
P/S F12M	Current	1.31	2.76	6.14	4.11
	5-Year High	3.61	4.59	6.66	4.31
	5-Year Low	1.25	2.39	4.96	3.18
	5-Year Median	2.79	3.59	6.06	3.67

As of 10/21/2020

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Top 48% (121 out of 254)



Source: Zacks Investment Research

Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation (BAC)	Neutral	3
Citigroup Inc. (C)	Neutral	4
Fifth Third Bancorp (FITB)	Neutral	3
JPMorgan ChaseCo. (JPM)	Neutral	3
KeyCorp (KEY)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
The PNC Financial Services Group, Inc (PNC)	Neutral	3
U.S. Bancorp (USB)	Neutral	3

The positions listed should not be deemed a recommendation to buy, hold or sell.

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	WFC	X Industry	S&P 500	BAC	C	JPM
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	D	D	C
Market Cap	93.53 B	32.70 B	23.50 B	208.37 B	89.54 B	302.84 B
# of Analysts	11	9	14	10	11	10
Dividend Yield	1.76%	4.16%	1.61%	2.99%	4.74%	3.62%
Value Score	D	-	-	C	D	C
Cash/Price	4.13	2.32	0.07	4.23	10.69	4.24
EV/EBITDA	-1.42	-1.05	13.40	-7.75	-13.09	-9.91
PEG F1	5.38	2.03	2.75	1.95	0.97	2.67
P/B	0.58	0.85	3.45	0.85	0.51	1.26
P/CF	3.43	6.46	13.17	6.56	4.22	7.08
P/E F1	59.92	12.90	22.05	13.64	10.15	13.34
P/S TTM	1.09	1.82	2.68	2.09	0.95	2.27
Earnings Yield	1.67%	7.75%	4.40%	7.32%	9.86%	7.50%
Debt/Equity	1.34	0.79	0.70	1.04	1.55	1.16
Cash Flow (\$/share)	6.63	6.63	6.93	3.67	10.20	14.04
Growth Score	F	-	-	F	F	C
Historical EPS Growth (3-5 Years)	-13.90%	10.96%	10.39%	19.27%	7.27%	12.00%
Projected EPS Growth (F1/F0)	-91.30%	-38.72%	-2.30%	-35.89%	-44.11%	-30.50%
Current Cash Flow Growth	-1.58%	2.66%	5.49%	3.02%	2.56%	9.35%
Historical Cash Flow Growth (3-5 Years)	1.85%	9.49%	8.50%	27.50%	7.31%	10.67%
Current Ratio	0.87	0.89	1.37	0.87	0.97	0.88
Debt/Capital	54.23%	42.23%	42.41%	48.75%	58.41%	52.39%
Net Margin	3.72%	18.68%	10.35%	19.50%	12.72%	19.16%
Return on Equity	3.18%	7.87%	14.78%	8.00%	6.57%	10.85%
Sales/Assets	0.04	0.04	0.51	0.04	0.04	0.04
Projected Sales Growth (F1/F0)	-15.11%	-1.12%	-0.53%	-6.07%	-0.05%	2.06%
Momentum Score	A	-	-	A	A	A
Daily Price Change	-0.48%	-0.90%	-0.36%	-0.37%	-1.17%	-1.00%
1-Week Price Change	-9.64%	-1.24%	0.02%	-4.42%	-3.87%	0.31%
4-Week Price Change	-0.57%	10.78%	6.76%	3.40%	2.77%	7.15%
12-Week Price Change	-11.95%	1.54%	4.10%	-4.83%	-18.11%	-0.31%
52-Week Price Change	-55.43%	-24.41%	1.99%	-23.46%	-40.64%	-20.58%
20-Day Average Volume (Shares)	37,035,372	5,510,965	1,882,561	55,799,304	25,950,198	15,433,363
EPS F1 Estimate 1-Week Change	43.28%	0.69%	0.00%	0.69%	3.53%	2.69%
EPS F1 Estimate 4-Week Change	657.90%	14.50%	0.14%	9.64%	36.54%	24.96%
EPS F1 Estimate 12-Week Change	676.47%	18.74%	3.22%	12.42%	32.80%	26.23%
EPS Q1 Estimate Monthly Change	81.70%	28.31%	0.00%	32.37%	109.96%	33.15%

Source: Zacks Investment Research

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 maintain a 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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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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Returns quoted represent past performance which is no guarantee of future results. Investment returns and principal value will fluctuate so that when shares are redeemed, they may be worth more or less than their original cost. Current performance may be higher or lower than the performance shown.

Investing involves risk; principal loss is possible. There is no guarantee that companies that can issue dividends will declare, continue to pay or increase dividends.

Glossary of Terms and Definitions

52-Week High-Low: The range of the highest and lowest prices at which a stock has traded during the past year. This range is determined based on the stock's daily closing price which may differ from the intra-day high or low. Many investors use it as a technical indicator to determine a stock's current value and future price movement. The idea here is that if price breaks out from the 52-week range, in either direction, the momentum may continue in the same direction.

20-Day Average Volume (Shares): The average number of shares of a company traded in a day over the last 20 days. It is a direct indication of a security's overall liquidity. The higher the average daily trading volume, the easier it is to enter or exit the stock at a desired price with more buyers and sellers being available.

Daily Price Change: This is the percentage difference between a trading day's closing price and the prior trading day's closing price. This item is updated at 9 p.m. EST each day.

1-Week Price Change: This is the percentage change in a stock's closing price over the last 5 trading days. This change reflects the collective buying and selling sentiment over the 1-week period.

A strong weekly price increase for the stock, especially when accompanied by increased volume, is an indication of it gaining momentum.

4-Week Price Change: This is the percentage change in a stock's closing price over the last 20 trading days or past 4 weeks. This is a medium-term price change metric and an indication of the stock gaining momentum.

12-Week Price Change: This is the percentage change of a stock's closing price over the last 60 trading days or past 12 weeks. Similar to 4-week price change, this is a medium-term price change metric. It shows whether a stock has been enjoying strong investor demand, or if it has been in consolidation, or distress over this period.

52-Week Price Change: This is the percentage change in a stock's closing price over the last 260 trading days or past 52 weeks. This long-term price change metric is a good reference point for investors. Some investors seek stocks with the best percentage price change over the last 52 weeks, expecting the momentum to continue.

Market Cap: The number of outstanding common shares of a company times its latest price per share. This figure represents a company's size, which indicates various characteristics, including price stability and risk, in which investors could be interested.

Year-To-Date Price Change: Change in a stock's daily closing price in the period of time beginning the first day of the current calendar year through to the previous trading day.

of Analysts: Number of EPS estimates used in calculating the current-quarter consensus. These estimates come from the brokerage analysts tracking this stock. However, the number of such analysts tracking this stock may not match the number of estimates, as all brokerage analysts may not come up with an estimate or provide it to us.

Beta: A measure of risk commonly used to compare the volatility of a stock to the overall market. The S&P 500 Index is the base for calculating beta and carries a value of 1. A stock with beta below 1 is less risky than the market as a whole. And a stock with beta above 1 is riskier.

Dividend: The portion of earnings a company is expected to distribute to its common shareholders in the next 12 months for each share they own. Dividends are usually paid quarterly. Dividend payments reflect positively on a company and help maintain investors' trust. Investors typically find dividend-paying stocks appealing because the dividend adds to any market price appreciation to result in higher return on investment (ROI). Moreover, a steady or increasing dividend payment provides investors a cushion in a down market.

Dividend Yield: The ratio of a company's annual dividend to its share price. The annual dividend used in the ratio is calculated based on the most recent dividend paid by the company. Dividend yield is an estimate of the dividend-only return from a stock in the next 12 months. Since dividend itself doesn't change frequently, dividend yield usually changes with a stock's price movement. As a result, often an unusually high dividend yield is a result of weak stock price.

S&P 500 Index: The Standard & Poor's 500 (S&P 500) Index is an unmanaged group of securities considered to be representative of the stock market in general. It is a market-capitalization-weighted index of stocks of the 500 largest U.S. companies. Each stock's weight in the index is proportionate to its market value.

Industry: One of the 250+ groups that Zacks classifies all stocks into based on the nature of business. These groups are termed as expanded (aka "X") industries and map to their respective (economic) sectors; Zacks has 16 sectors.

Zacks Industry Rank: The Zacks Industry Rank is determined by calculating the average Zacks Rank for all stocks in the industry and then assigning an ordinal rank to it. For example, an industry with an average Zacks Rank of 1.6 is better than an industry with an average Zacks Rank of 2.3. So, the industry with the better average Zacks Rank would get a better Zacks Industry Rank. If an industry has the best average Zacks Rank, it would be considered the top industry (1 out of 250+), which would place it at the top 1% of Zacks-ranked industries. Studies have shown that roughly half of a stock's price movement can be attributed to the industry group it belongs to. In fact, the top 50% of Zacks-ranked industries outperforms the bottom 50% by a factor of more than 2 to 1.

Last EPS Surprise: The percentage deviation of a company's last reported earnings per share from the Zacks Consensus Estimate. Companies with a positive earnings surprise are more likely to surprise again in the future (or miss again if they recently missed).

Last Sales Surprise: The percentage deviation of a company's last reported sales from the Zacks Consensus Estimate.

Expected Report Date: This is an estimated date of a company's next earnings release. The information originated or gathered by Zacks Investment Research from its information providers or publicly available sources is the basis of this estimate.

Earnings ESP: The Zacks Earnings ESP compares the Most Accurate Estimate to the Zacks Consensus Estimate for the yet-to-be reported quarter. The Most Accurate Estimate is the most recent version of the Zacks Consensus EPS Estimate. The idea here is that analysts revising their estimates closer to an earnings release have the latest information, which could potentially be more accurate than what they and others contributing to the consensus had predicted earlier. Thus, a positive or negative Earnings ESP reading theoretically indicates the likely deviation of the actual earnings from the consensus estimate. However, the model's predictive power is significant for positive ESP readings only. A positive Earnings ESP is a strong predictor of an earnings beat, particularly when combined with a Zacks Rank #1 (Strong Buy), #2 (Buy) or #3 (Hold). Our research shows that stocks with this combination produce a positive surprise nearly 70% of the time.

Periods:

TTM: Trailing 12 months. Using TTM figures is an effective way of analyzing the most-recent financial data in an annualized format that helps neutralize the effects of seasonality and other quarter-to-quarter variation.

F1: Current fiscal year. This period is used to analyze the estimates for the ongoing full fiscal year.

F2: Next fiscal year. This period is used to analyze the estimates for the next full fiscal year.

F12M: Forward 12 months. Using F12M figures is an effective way of analyzing the near-term (the following four unreported quarters) estimates in an annualized manner. Instead of typically representing estimates for the full fiscal year, which may not represent the nitty-gritty of each quarter, F12M figures suggest an all-inclusive annualized estimate for the following four quarters. The annualization helps neutralize the potential effects of seasonality and other quarter-to-quarter variations.

P/E Ratio: The price-to-earnings ratio measures a company's current market price per share relative to its earnings per share (EPS). Usually, the trailing-12-month (TTM) EPS, current-fiscal-year (F1) EPS estimate, or forward-12-month (F12M) EPS estimate is used as the denominator. In essence, this ratio shows what the market is willing to pay today for each dollar of EPS. In other words, this ratio gives a sense of what the relative value of the company is at the already reported level of earnings or at a future level of earnings.

It is one of the most widely-used multiples for determining the value of a company and helps comparing its valuation with that of a competitor, the industry group or a benchmark.

PEG Ratio: The price/earnings to growth ratio is a stock's P/E ratio using current fiscal year (F1) EPS estimate divided by its expected EPS growth rate over the coming 3 to 5 years. This ratio essentially determines a stock's value by factoring in the company's expected earnings growth and is thus believed to provide a more complete picture than just the P/E ratio, particularly for faster-growing companies.

P/S Ratio: The price-to-sales ratio is calculated as a company's current price per share divided by trailing 12 months (TTM) sales or revenues per share. This ratio shows what the market is willing to pay today for each dollar of TTM sales per share. The P/S ratio is at times the only valuation metric when the company has yet to become profitable.

Cash/Price Ratio: The cash-to-price ratio or Cash Yield is calculated as cash and marketable securities per share divided by the company's current share price. Like the earnings yield, which shows the anticipated yield (or return) on a stock from earnings for each dollar invested, the cash yield does the same, with cash being the source of return instead of earnings. For example, a cash/price ratio of 0.08 suggests a return of 8% or 8 cents for every \$1 investment.

EV/EBITDA Ratio: The EV/EBITDA ratio, also known as Enterprise Multiple, is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Usually, trailing-12-month (TTM) or forward-12-month (F12M) EBITDA is used as the denominator.

EV/Sales Ratio: The enterprise value-to-sales ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by annual sales. It is an expansion of the P/S valuation, which uses market value instead of enterprise value. The EV/Sales ratio is perceived as more accurate than P/S, in part, because the market capitalization does not take a company's debt into account when valuing it.

EV/CF Ratio: The enterprise value-to-cash flow ratio is calculated as a company's enterprise value (market capitalization + value of total long-term debt + book value of preferred shares - cash and marketable securities) divided by the trailing-12-month (TTM) operating cash flow. It's a measure of how long it would take to buy the entire business if you were able to use all the company's operating cash flow.

The EV/CF ratio is perceived as more accurate than the P/CF ratio, in part, because the market price does not take a company's debt into account when valuing it.

EV/FCF Ratio: The enterprise value-to-free cash flow metric compares a company's enterprise value to its trailing-12-month (TTM) free cash flow (FCF). This metric is very similar to the EV/CF ratio, but is considered a more exact measure owing to the fact that it uses free cash flow, which subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding growth activities and payments to shareholders.

P/EBITDA Ratio: The P/EBITDA ratio is calculated as a company's per share market value divided by EBITDA (earnings before interest, taxes, depreciation, and amortization). This metric is very similar to the EV/EBITDA ratio, but is considered a little less exact measure as it uses market price, which does not take a company's debt into account. However, since EBITDA is often considered a proxy for cash income, the metric is used as a measure of what the market is willing to pay today for each dollar of the company's cash profitability in the trailing 12 months (TTM) or forward 12 months (F12M).

P/B Ratio: The price-to-book ratio is calculated as a company's current price per share divided by its book value (total assets – liabilities – preferred stocks) per share. In short, the book value is how much a company is worth. In other words, it reflects the total value of a company's assets that its common shareholders would receive if it were to be liquidated. So, the P/B ratio indicates whether you're paying higher or lower than what would remain if the company went bankrupt immediately. Investors typically use this metric to determine how a company's stock price stacks up to its intrinsic value.

P/TB Ratio: The price-to-tangible-book value ratio is calculated as a the per share market value of a company divided by the value of its tangible assets (total assets – liabilities – preferred stocks – intangible assets) per share. Tangible book value is the same thing as book value except it excludes the value of intangible assets to get a step closer to the baseline value of the company.

P/CF Ratio: The price-to-cash flow ratio measures a company's per share market price relative to its trailing-12-month (TTM) operating cash flow per share. This metric is used to determine whether a company is undervalued or overvalued relative to another stock, industry or sector. And like the P/E ratio, a lower number is typically considered better from the value perspective.

One of the reasons why P/CF ratio is often preferred over P/E ratio is the fact that operating cash flow adds back non-cash expenses such as depreciation and amortization to net income. This feature helps valuing stocks that have positive cash flow but are not profitable because of large noncash charges.

P/FCF Ratio: The price-to-free cash flow ratio is an extension of P/CF ratio, which uses trailing-12-month (TTM) free cash flow per share instead of operating cash flow per share. This metric is considered a more exact measure than P/CF ratio, as free cash flow subtracts capital expenditures (CAPEX) from a company's total operating cash flow, thereby reflecting the actual cash flow available for funding activities that generate additional revenues.

Earnings Yield: The earnings yield is calculated as current fiscal year (F1) EPS estimate divided by the company's current share price. The ratio, which is the inverse of the P/E ratio, measures the anticipated yield (or return) from earnings for each dollar invested in a stock today.

For example, earnings yield for a stock, which is trading at \$35 and expected to earn \$3 per share in the current fiscal year (F1), would be 0.0857 ($3/35 = 0.0857$) or 8.57%. In other words, for \$1 invested in the stock today, the yield from earnings is anticipated to be 8.57 cents.

Investors most commonly compare the earnings yield of a stock to that of a broad market index (such as the S&P 500) and prevailing interest rates, such as the current 10-year Treasury yield. Since bonds and stocks compete for investors' dollars, stock investors typically demand a higher yield for the extra risk they assume compared to investors of U.S. Treasury-backed securities that offer virtually risk-free returns. This additional return is referred to as the risk premium.

Debt/Equity Ratio: The debt-to-equity ratio is calculated as a company's total liabilities divided by its shareholder equity. This metric is used to gauge a company's financial leverage. In other words, it is a measure of the degree to which a company is financing its operations through debt versus its own funds. The higher the ratio, the higher the risk for shareholders.

However, this ratio is difficult to compare across industry groups where ideal amounts of debt vary. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-equity ratio should be compared with other companies in the same industry.

Cash Flow (\$/share): Cash flow per share is calculated as operating cash flow (after-tax earnings + depreciation + other non-cash charges) divided by common shares outstanding. It is used by many investors as a measure of a company's financial strength. Since cash flow per share takes into consideration a company's ability to generate cash by adding back non-cash expenses, it is regarded by some as a more accurate measure of a company's financial situation than earnings per share, which could be artificially deflated.

Current Ratio: The current ratio or liquidity ratio is a company's current assets divided by its current liabilities. It measures a company's ability to pay short-term obligations. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average would indicate a higher risk of distress or default. A higher number is usually better. However, a very high current ratio compared to the industry average could be an indication of inefficient use of assets by management.

Debt/Capital Ratio: Debt-to-capital ratio is a company's total debt (interest-bearing debt + both short- and long-term liabilities) divided its total capital (interest-bearing debt + shareholders' equity). It is a measure of a company's financial leverage. All else being equal, the higher the debt-to-capital ratio, the riskier the stock.

However, this ratio can vary widely from industry to industry, the ideal amount of required debt being different. Some businesses are more capital intensive than others and typically require higher debt to finance their operations. So, a company's debt-to-capital ratio should be compared with the same for its industry.

Net Margin: Net margin is calculated as net income divided by sales. It shows how much of each dollar in sales generated by a company translates into profit. For example, if a company's net margin is 15%, its net income is 15 cents for every \$1 of sales it makes.

A change in margin can reflect either a change in business conditions, or a company's cost controls, or both. If a company's expenses are growing faster than sales, its net margin will decline. However, different net margin rates are considered good for different industries, so it's better to compare net margin rates of companies in the same industry group.

Return on Equity: Return on equity (ROE) is calculated as trailing-12-month net income divided by trailing-12-month average shareholder equity (including reinvested earnings). This metric is considered a measure of how effectively management is using a company's assets to generate profits. For example, if a company's ROE is 10%, it creates 10 cents profits for every \$1 shareholder equity, which is basically the company's assets minus debt. A company's ROE deemed good or bad depends on what's normal for its peers or industry group.

Sales/Assets Ratio: The sales-to-assets ratio or asset utilization ratio or asset turnover ratio is calculated as a company's annual sales divided by average assets (average of assets at the beginning of the year and at the year's end). This metric helps investors understand how effectively a company is using its assets to generate sales. For example, a sales-to-assets ratio of 2.5 indicates that the company generated \$2.50 in sales for every \$1 of assets on its books.

The higher the sales-to-assets ratio, the better the company is performing. However, similar to many other ratios, the asset turnover ratio tends to be higher for companies in certain industries/sectors than in others. So, a company's sales-to-assets ratio should be compared with the same for its industry/sector.

Historical EPS Growth (3-5 Years): This is the average annual (trailing-12-month) EPS growth rate over the last 3-5 years. This metric helps investors see how a company's EPS has grown from a long-term perspective.

Note: There are many factors that can influence short-term numbers — a recession will reduce this number, while a recovery will inflate it. The longterm perspective helps smooth out short-term events.

Projected EPS Growth (F1/F0): This is the estimated EPS growth rate for the current financial year. It is calculated as the consensus estimate for the current fiscal year (F1) divided by the reported EPS for the last completed fiscal year (F0).

Current Cash Flow Growth: It measures the latest year-over-year change in operating cash flow. Cash flow growth tells an investor how quickly a company is generating inflows of cash from operations. A positive change in the cash flow is desired and shows that more 'cash' is coming in than going out.

Historical Cash Flow Growth (3-5 Years): This is the annualized change in cash flow over the last 3-5 years. The change in a longer period helps put the current reading into proper perspective. By looking at the rate, rather than the actual dollar value, the comparison across the industry and peers becomes easier.

Projected Sales Growth (F1/F0): This metric looks at the estimated sales growth for the current year. It is calculated as sales estimate for the current fiscal year (F1) divided by the reported sales for the last completed fiscal year (F0).

Like EPS growth, a higher rate is better for sales growth. A look at a company's projected sales growth instantly tells you what the outlook is for their products and services. However, different sales growth rates are considered good for different industries, so it's better to compare sales growth rates of companies in the same industry group.

EPS F1 Estimate 1-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past week. The change in a company's consensus EPS estimate (or earnings estimate revision) has proven to be strongly correlated with the near-term price movement of its shares. It is an integral part of the Zacks Rank.

If a stock's consensus EPS estimate is \$1.10 now versus \$1.00 a week ago, that will be reflected as a 10% upward revision. If, on the other hand, it went from \$1.00 to 90 cents, that would be a 10% downward revision.

EPS F1 Estimate 4-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past four weeks.

A stock's earnings estimate revision in a 1-week period is important. But it's more meaningful to look at the longer-term revision. And, of course, the 4-week change helps put the 1-week change into proper perspective.

EPS F1 Estimate 12-Week Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal year over the past 12 weeks.

This metric essentially shows how the consensus EPS estimate has changed over a period longer than 1 week or 4 weeks.

EPS Q1 Estimate Monthly Change: The percentage change in the Zacks Consensus EPS estimate for the current fiscal quarter over the past four weeks.

While the revision in consensus EPS estimate for the current fiscal year is strongly correlated with the near-term price movement of its shares, the estimate revision for the current fiscal quarter is an important metric as well, especially over the short term, and particularly as a stock approaches its earnings date. If a stock's Q1 EPS estimate decreases ahead of its earnings release, it's usually a negative sign, whereas an increase is a positive sign.