

Apple Inc. (NASDAQ: AAPL)
 \$126.01 USD (As of 05/13/15)

Zacks Rank 2-Buy ■ ■ ■ ■ **2**

Style Scores: Growth: B Value: A Momentum: A

Data Overview

Target Price	\$155.00
52 Week High-Low	\$133.00 - \$84.12
20 Day Average Volume	55,276,056
Beta	0.82
Market Cap	725.95 B
Dividend / Div Yld	\$2.08 / 1.65%
Industry	COMP-MINI
Industry Rank	195 / 265 (Bottom 26%)

Growth Score B

Hist. EPS Growth (3-5 yrs)	27.73%
Proj. EPS Growth (F1/F0)	38.51%
Curr. Cash Flow Growth	8.36%
Hist. Cash Flow Growth (3-5 yrs)	39.54%
Current Ratio	1.16
Debt/Capital	23.70%
Net Margin	22.53%
Return on Equity	39.44%
Sales/Assets	0.87
Proj. Sales Growth (F1/F0)	25.48%

Value Score A

Cash/Price	0.05
EV/EBITDA	11.92
PEG Ratio	1.01
Price/Book (P/B)	5.74
Price/Cash Flow (P/CF)	15.56
P/E (F1)	14.14
Price/Sales (P/S)	3.43
Earnings Yield	7.07%
Debt/Equity	0.31
Cash Flow (\$/share)	8.09

Momentum Score A

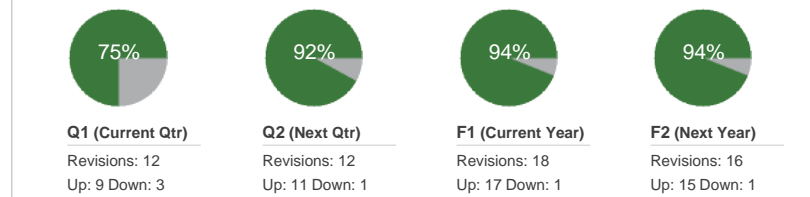
Daily Price Chg	-0.36%
1 Week Price Chg	0.05%
4 Week Price Chg	-0.34%
12 Week Price Chg	-1.54%
52 Week Price Chg	48.39%
20 Day Average Volume	53,858,092
(F1) EPS Est Wkly Chg	0.05%
(F1) EPS Est Mthly Chg	4.05%
(F1) EPS Est Qtrly Chg	5.79%
(Q1) EPS Est Mthly Chg	5.24%

Summary

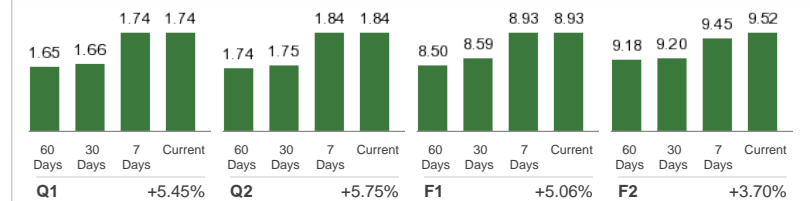
Apple reported better-than-expected second-quarter 2015 results, beating the Zacks Consensus Estimate for both earnings and revenues. Results were driven by a surge in iPhone and Macintosh sales. The company benefited from strong demand across key regions, like Greater China. We believe that a refreshed product portfolio, Apple Pay and the upcoming Apple Watch will drive the top line over the next several quarters. These should also improve Apple's competitive position in the near term. Moreover, the availability of Microsoft Office and the partnership with IBM will likely boost iPad adoption among enterprises over the long haul.

Elements of the Zacks Rank

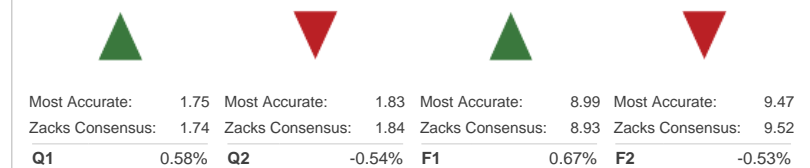
Agreement Estimate Revisions (60 days)



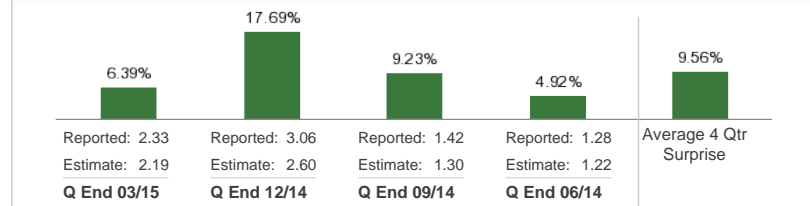
Magnitude Consensus Estimate Trend (60 days)



Upside Zacks Consensus Estimate vs. Most Accurate Estimate



Surprise Reported Earnings History



Overview

Founded in 1977, Apple Inc. (AAPL) is headquartered in Cupertino, CA. Formerly known as Apple Computer, Inc., the company changed its name in Jan 2007. Apple designs, manufactures and sells mobile communication devices (iPhone and iPad), media devices (iPod, Apple TV) personal computers (Mac), and related software, services, peripherals and networking solutions, worldwide. iPhone continues to be Apple's flagship product and accounted for 55.8% of net fiscal 2014 sales. There was still no respite for the tablet computer iPad in fiscal 2014, with 5% decline in net sales in 2014. The iPod line (iPod Touch, Shuffle and Nano) also continued to report weak results.

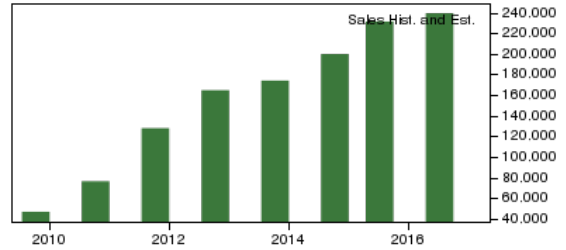
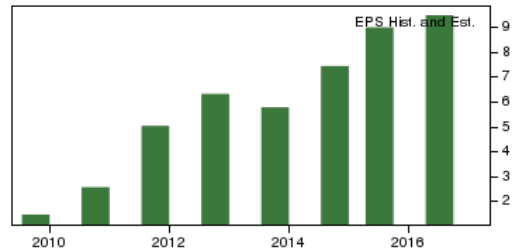
Apple's mobile devices run on iOS operating system. In Sep 2014, Apple released iOS 8 with new features for Messages and Photos, predictive typing for Apple's QuickType keyboard and a new Health app. In September, the company unveiled Apple Watch, which is set to hit the stores in early 2015. Apple's mobile payment system, Apple Pay (available on iPhone 6, iPhone 6 Plus, iPad Air 2, iPad mini 3 and the upcoming Apple Watch) was launched in Oct 2014.

Apple's Macintosh product line (iMac, Mac mini, Mac Pro, MacBook Air, MacBook Pro and MacBook pro with Retina Display) is supported by OS X, its latest version being Yosemite (October 2014).

As part of its overall product ecosystem, Apple launched iCloud service in Oct 2011. iCloud – storing and updating music, photos, applications and much more – is available on multiple iOS devices, Mac and Windows personal computers, and Apple TV. The company also sells digital content and applications through its iTunes Store, App Store, iBooks Store and Mac App Store.

Apple mainly reports revenues on a geographic basis, namely the Americas (North & South America), Europe, Middle East and Africa (includes India), Greater China (China, Hong Kong & Taiwan), Rest of Asia Pacific (Australia & other Asian Countries) and Retail.

International markets contributed 62% to revenues in 2014. Greater China was the fastest growing segment. Apple opened 21 retail stores during 2014, of which 5 were in the United States. No single customer accounted for more than 10% of revenues in 2014.



Reasons To Buy:

- ▲ We believe that strong sales of the new **iPhones (6 and 6 plus)** remains Apple's key growth catalyst in fiscal 2015 and beyond. Since their release in September, the latest iPhones have gained from the pent-up demand. These iPhones not only brought the company on par with major phablet makers like Samsung, HTC and LG, but also set a record sales of 61 million units in fiscal second-quarter 2015. In addition, the new iPhones are now available in 130 countries, representing the fastest rollout in the history of iPhones. Further, with iPhone 6 and 6 Plus, the company forayed into the phablet market, predominately served by Android-based phones.
- ▲ Launch of the new iPhones broadened Apple's base in the **Far East** as well. The company currently boasts more than 50% share of the smartphone market in Japan. It has also successfully expanded its market share in South Korea, a market where local player Samsung has thus far reigned supreme. Apple also did extremely well in China, which has a number of strong local players. This helped the company boost its market share to 12% in the region. Apple believes that China, which is already the second largest iPhone market, is set to become a major contributor to its total revenue, going forward. Hence, the iPhone-maker intends to increase the number of its stores in China to 40 by mid-2016. We believe that iPhone sales will continue to benefit from the partnership between Apple and China Mobile in the Greater China region despite reduction in subsidies. Moreover, expanding the carrier base in other countries will significantly boost iPhone sales, going forward.
- ▲ Apple's new mobile payment system, **Apple Pay** can also be a driver of future growth. Per Forrester Research, the mobile payment market is expected to jump to \$142 billion in 2019 from approximately \$50 billion in 2014. Companies like Google, PayPal, AT&T and Vodafone have been in the business for long but have not achieved much traction. However, according to Forrester, the next five years will be a tipping point for players in the business. As a result, for Apple to remain competitive it has to increase Apple Pay's reach by making it accessible through all its product platforms. In this context, the company is reportedly working on incorporating the fingerprint sensor to its upcoming MacBook Air, which is a key requirement for accessing Apple Pay. Reportedly, the company is planning to add the fingerprint scanner technology to its desktop computers as well — iMac, Mac Pro and Mac Mini — using Magic Mouse or Magic Trackpad. The increased availability of Apple Pay will help it to grow primarily in the category of in-person mobile payments (such as retail checkouts), per Forrester. The market for this segment of mobile payment is expected to reach \$34 billion, or 24% of the total mobile payment market, according to the research agency.
- ▲ Another major event for Apple is the launch of **Apple Watch**. The company hired executives from Tag Heuer, Burberry and Yves Saint Laurent to develop the sleek and fashionable look of the device. Features such as Apple Pay and Siri should also make it helpful for day to day use. According to research reports, Apple is set to ship 20 million units of Apple Watch in the first year, making it the most successful smartwatch ever. Reportedly, the company is targeting initial order of 5 to 6 million units of its three Apple Watch models and expects to ramp up production to over one million units per month in the fiscal second quarter. According to reports, half of the orders in the first quarter after release are expected to be for the entry-level Apple Watch Sport, one-third will be for the mid-tier Apple Watch and the remaining for the expensive Apple Watch Edition. Starting at \$349 for the entry-level Sport model, Apple Watch is expected to significantly add to the company's top line. Going by reports, early sales predictions for the Apple Watch range within 8-26 million units for 2015. According to CCS Insight, Apple Watch will play an instrumental role in shaping the wearable device market. The research firm expects that global sales for wearable devices will accelerate in 2015, soaring 158% year over year to 75 million units. However, smart watches will primarily drive the growth, contributing 44% to total sales by 2018.
- ▲ Apple continuously updates its **software platforms** to drive replacement and first-time sales. In 2014, the company unveiled updates like iOS 8, OS X Yosemite, HealthKit and a new programming language called Swift. Unlike before, Apple has allowed external developers to create tools for customizing basic functions such as keyboard and cloud storage systems of the iPhone OS. Going forward, the company is reportedly working on three major updates to iOS 8, of which iOS 8.1 is likely to be released in 2015. In addition, the company targets the launch of a new platform that will transform devices running on iOS into remote control for lights, security systems and other household appliances. The new platform will help Apple to expand its footprint in the emerging Internet of Things market. We believe that frequent updates and new services will not only help Apple to maintain its customer base but also expand its market share.
- ▲ While Apple's **retail business** remains solid, it plans to expand into the enterprise market. In this context, Apple achieved a milestone with its collaboration with IBM in Jul 2014. The deal was primarily aimed at integrating IBM's Big Data and analytics capabilities with iPhone and iPad for business customers to enable Apple to tap the Bring Your Own Device (BYOD) trend. On the other hand, the partnership is expected to boost IBM's position in the mobile applications market and offset revenues lost due to its slow-growing hardware business. Under this collaboration, Apple launched the first 10 iOS apps for banking, retail, insurance, financial services, telecommunications, governments and airlines sector in 2014. The company plans to launch another 12 apps in fiscal second quarter and over 100 by the end of 2015. Apple devices are currently used by approximately 98% of Fortune 500 companies. The addition of IBM's software expertise will boost Apple's competitive prowess in the long run.
- ▲ The **iTunes Store** continues to deliver strong sales, highlighting its strength in distributing digital work, such as music, video, iOS apps and books. The company continues to expand iTunes content and applications to boost sales. Digital content sales should pick up given the current market trends and Apple will no doubt be a beneficiary backed by its already popular online store and growing customer base. Further, Apple has gained popularity from its network of 447 retail stores, of which 182 are located overseas. The company expects to open approximately 25 stores (12 internationally) and remodel 5 stores by the end of fiscal 2015. We expect store openings to boost the top line.

The key growth drivers for Apple include its robust financial position and a strong demand for its products especially for iPhone 6 and iPhone 6 Plus. Increasing traction in Apple Pay is also a positive.

▲ Apple has grown into a cult technology company in the recent times and gained over 40% in 2014, superseding market returns generated by any of the indices in the year. As a result, the iPhone maker's market capitalization reached a record \$700 billion mark in Nov 2014, representing a major milestone in its history. Currently, the company boasts a **solid financial position** with \$14.5 billion in cash and investments. It generated \$52.5 billion in cash flow from operations at the end of the second quarter fiscal 2015. We believe that the robust cash flow generation will help the company to maintain its aggressive share buyback policy and strong dividend yield. Apple's capital returns were 112% of its free cash flow in 2014.

Risks

- Apple faces significant competition in most of its operating markets. In the desktop and portable computer segment, Apple faces intense competition from the market leader Hewlett-Packard and the likes of Lenovo, Dell, Acer and Asus. The smartphone segment is chockablock with attractive devices from Samsung, Xiaomi, Google, Blackberry and Nokia that are intensifying competition for Apple. On the software side, Apple's iOS still face tough competition from Google's Android-based mobile operating system. Competition has also heated up for iPad with Amazon, HTC, Microsoft, Hewlett Packard and others flooding the tablet market. The company is heavily dependent on iPhone and iPad sales and heightened competition will continue to hurt its top line and profitability.
- iPad growth has slowed down considerably due to growing competition from other makers. We believe that the larger iPhone is also cannibalizing some iPad sales, thereby raising doubts on its utility in the ecosystem. This is because an iPad user does not get much product differentiation except the screen size compared with the iPhone. A larger iPhone further reduces that difference. Moreover, contrary to what was believed earlier, tablets aren't a very good replacement for personal computers, although they could be useful in the BYOD space. Apple's rumored launch of a 12.9-inch or 13.3 inch iPad Pro (expected to release in 2015) is expected to address these issues, we would remain cautious on iPad sales for the time being.
- Apple is entangled in various legal battles over its mobile and tablet products. However, the results to-date have not been entirely in its favor. It lost the e-book price-fixing case against the Department of Justice and finally had to settle. The company lost a lawsuit in China against Shanghai-based Zhizhen Network Technology. Apple's continuing fight with Samsung over patents is yet to result in any material benefit. Although Apple won a \$120 million jury verdict against Samsung in 2014, the penalty was minuscule compared to what it originally sought. Moreover, the company lost its bid to stall the sales of Samsung devices. We believe that the impact of the patent war is diminishing by the day and Apple's persuasion with patent infringement lawsuits may not benefit it over the long run.

Last Earnings Report

Apple Tops Q2 Earnings on Solid iPhone & Mac Sales

Apple Inc. reported strong second-quarter fiscal 2015 results. Earnings of \$2.33 per share jumped 40.4% year over year on higher revenues from iPhone and Mac sales, beating the Zacks Consensus Estimate by \$2.19.

Quarter Details – Revenues

Revenues increased 27% year over year to \$58 billion, higher than the forecasted range of \$52 to \$55 billion. Revenues also breezed past the Zacks Consensus Estimate of \$56.3 billion. However, revenues declined 22% sequentially from \$74.6 billion.

Demand for Apple's products remained strong across all geographical regions. The company generated \$16.8 billion in revenues from Greater China, soaring 71% year over year and 4% sequentially. In rest of Asia, the company reported revenues of \$5.2 billion, up 48% year over year.

The Americas remained the biggest market for Apple, in terms of sales, generating revenues of \$21.3 billion, up 19% year over year. Europe generated \$12.2 billion revenues, up 12% year over year.

The growth was driven by increased sale of iPhone, which hit 61.2 million units, up 40% year over year. iPhone revenues surged 55% from the year-ago quarter to \$40.3 billion.

Unit sales for Mac grew 10% year over year to 4.6 million, representing revenues of \$5.6 billion, up 2% from the last year.

iPad recorded sales of 12.6 million units, which declined 23% year over year. Revenues were around \$5.4 billion, down 29% year over year.

Services, which include revenues from the iTunes Store, App Store, Mac App Store, iBooks Store, AppleCare, Apple Pay, licensing and other services, increased 9% year over year to \$5 billion.

Other products, which include revenues from iPod, Apple TV, Beats Electronics and Apple-branded and third-party accessories, declined 10% year over year to \$1.7 billion. In addition, App Store revenues shot up 29% driven by solid demand globally.

In the reported quarter, Apple opened six stores in Greater China, bringing the total to 21 across 11 cities. The company remains on track to open 40 stores in Greater China by the middle of next year.

Quarter Ending 03/2015

Report Date	Apr 27, 2015
Sales Surprise	2.50%
EPS Surprise	6.39%
Quarterly EPS	2.33
Annual EPS (TTM)	8.09

Margins

Gross margin was 40.8%, above the company's guidance range of 38.5% to 39.5%, and expanded 150 basis points (bps) from the year-ago quarter.

Operating expenses, increased 22.7% year over year to \$5.4 billion due to higher research & development as well as selling, general & administrative expenses.

Operating margin expanded 170 bps from the year-ago quarter. Net income increased 32.7% year over year to \$13.6 billion.

Balance Sheet and Cash Flow

Apple's balance sheet remains strong with cash and cash equivalents of \$14.5 billion at the end of the second quarter of fiscal 2015 compared with \$13.8 billion at the end of fiscal 2014. At the end of second quarter, long-term debt was \$40.1 billion compared with \$29 billion at the end of fiscal 2014. Over the last six months, cash generated from operating activities was \$52.8 billion, which compared favorably with \$36.2 billion generated a year ago. In the reported quarter, the company generated cash flow of \$19.1 billion from operating activities.

Guidance

For the third quarter of fiscal 2015, Apple forecasts revenues in the range of \$46 to \$48 billion. Gross margin is expected within 38.5% to 39.5%, while operating expenses are projected within \$5.65 to \$5.75 billion. Other income/ (expense) are likely to be \$350 million, while tax rate is expected to be 26.3%.

Capital Program

Apple recently announced its decision to increase investors' return by 50% and return nearly \$200 billion of cash by the end of Mar 2017. Per the new program, the company increased its share repurchase authorization to \$140 billion from \$90 billion announced last year. In addition, Apple hiked its dividend return by 11% to 52 cents. The increased dividend will be paid on May 14 to shareholders of record as of May 11. As of Mar 2015, the company returned a total of \$112 billion, including \$80 billion through share repurchases since its inception.

Recent News

Apple in Talks with Alibaba to Take Apple Pay to China – May 12

Apple is in talks with Alibaba Group Holding Limited for introducing Apple Pay in China, as per a report from Chinese news agency, Xinhua. In Sep 2014, Apple unveiled its mobile payment solution, Apple Pay that uses NFC (near-field communication), a contactless payment technology, to offer a hassle-free experience. Apple Pay can be used through iPhone, iPad and also Apple Watch.

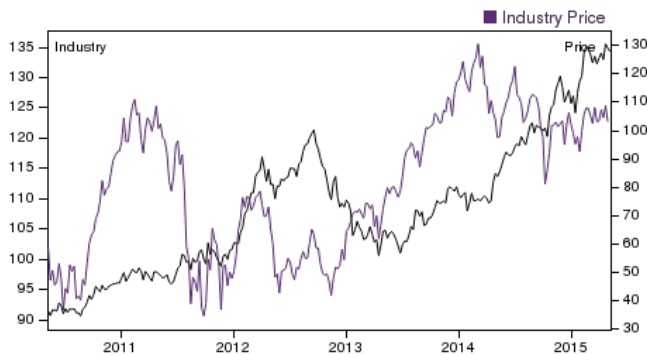
Apple Opens 3rd-Parties Manufacturer Program for Watch – May 08

Apple Inc. has recently launched the Official Program for third-parties to develop Apple Watch Bands. Reportedly, Apple's new program — Made for Apple Watch — would offer specifications for Apple Watch band-makers including compliance with certain environmental regulations and details regarding heart-rate monitor function, which need to be taken care of while manufacturing bands for Apple Watch.

Valuation

The 'Value' section of the Industry Comparisons table below provides all the key valuation metrics for Apple contrasted with its nearest peers as well as the industry and the S&P 500 index. Please note that the Zacks Value Style Score condenses all of these valuation metrics into one score that provides a true measure of the stock's intrinsic value. A Value Style Score of 'A' (or 'B') is highly desirable, particularly when accompanied with Zacks Rank #1 (Strong Buy) or Zacks Rank #2 (Buy).

The target price of \$155.00 is based on 17.4x the Zacks Consensus Estimate for F1 earnings.



ALLOT COMM LTD (ALLT)	3
ANALOGIC CORP (ALOG)	2
ALPS ELECTRIC (APELY)	1
BROCADE COMM SY (BRCD)	3
CANON INC ADR (CAJ)	2
CRAY INC (CRAY)	4
3D SYSTEMS CORP (DDD)	4
HEWLETT PACKARD (HPQ)	4
LENOVO GRP LTD (LNVGY)	3

Industry Comparison Comp-mini Position in Industry: 1 of 4				Industry Peers		
	AAPL 2	M Industry	S&P 500	DDD 4	HPQ 4	LNVGY 3
Market Cap	725.11 B	92.34 M	18.58 B	2.49 B	59.83 B	19.32 B
# of Analysts	34	4	14	18	18	
Dividend Yield	1.65%	0.00%	1.79%	0.00%	1.94%	1.67%
Growth Score	B	-	-	F	C	B
Hist. EPS Growth (3-5 yrs)	27.73%	5.91%	10.29%	21.12%	-6.20%	NA
Proj. EPS Growth (F1/F0)	38.51%	3.64%	5.89%	-39.13%	-2.29%	NA
Curr. Cash Flow Growth	8.36%	0.88%	7.06%	0.37%	-0.50%	28.66%
Hist. Cash Flow Growth (3-5 yrs)	39.54%	14.08%	10.00%	72.14%	-4.13%	24.59%
Current Ratio	1.16	2.30	1.40	3.18	1.13	NA
Debt/Capital	23.70%	0.38%	38.83%	1.35%	36.63%	NA
Net Margin	22.53%	1.59%	10.02%	-0.96%	4.50%	NA
Return on Equity	39.44%	5.76%	17.16%	2.98%	25.50%	NA
Sales/Assets	0.87	0.93	0.59	0.44	1.07	NA
Proj. Sales Growth (F1/F0)	25.48%	%	1.86%	14.52%	-5.13%	NA
Value Score	A	-	-	F	A	A
Cash/Price	0.05	0.22	0.06	0.08	0.22	0.21
EV/EBITDA	11.92	8.09	10.94	28.25	5.42	16.88
PEG Ratio	1.01	1.75	1.90	3.72	2.84	NA
Price/Book (P/B)	5.74	2.07	3.25	1.96	2.29	NA
Price/Cash Flow (P/CF)	15.56	13.05	12.80	23.62	5.35	22.15
P/E (F1)	14.14	18.65	18.82	79.68	9.22	NA
Price/Sales (P/S)	3.43	1.31	2.15	3.74	0.56	NA
Earnings Yield	7.07%	3.15%	5.29%	1.26%	10.83%	NA%
Debt/Equity	0.31	0.00	0.60	0.01	0.58	0.45
Cash Flow (\$/share)	8.09	0.29	5.31	0.94	6.15	1.57
Momentum Score	A	-	-	F	C	D
Daily Price Chg	-0.36%	0.00%	-0.36%	-0.04%	-2.31%	-1.89%
1 Week Price Chg	0.05%	0.00%	0.62%	-7.89%	-0.72%	0.49%
4 Week Price Chg	-0.34%	0.00%	-0.87%	-26.11%	1.23%	3.27%
12 Week Price Chg	-1.54%	-0.77%	-0.48%	-27.93%	-14.56%	13.96%
52 Week Price Chg	48.39%	-1.08%	10.44%	-55.36%	-1.08%	56.46%
20 Day Average Volume	53,858,092	186,494	2,221,294	3,478,395	9,088,738	0
(F1) EPS Est Wkly Chg	0.05%	0.00%	0.00%	-25.13%	0.00%	0.00%
(F1) EPS Est Mthly Chg	4.05%	-0.23%	-0.03%	-61.54%	0.00%	0.00%
(F1) EPS Est Qtrly Chg	5.79%	-6.58%	-0.79%	-68.18%	-7.40%	0.00%
(Q1) EPS Est Mthly Chg	5.24%	-0.22%	-1.13%	-74.64%	0.00%	0.00%

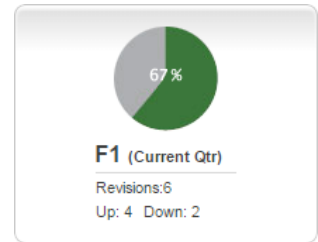
Zacks Rank Education

The Zacks Rank is calculated from four primary inputs: Agreement, Magnitude, Upside and Surprise.

Agreement

This is the extent which brokerage analysts are revising their earnings estimates in the same direction. The greater the percentage of estimates being revised higher, the better the score for this component.

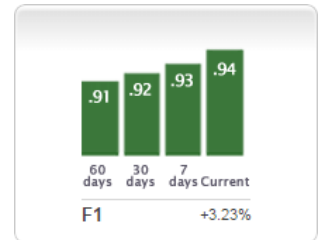
For example, if there were 10 estimate revisions over the last 60 days, with 8 of those revisions up, and the other 2 down, then the agreement factor would be 80% positive. If, however, 8 were to the downside with only 2 of them up, then the agreement factor would be 20% positive. The higher the percentage of agreement the better.



Magnitude

This is a measure based on the size of the recent change in the current consensus estimates. The Zacks Rank looks at the magnitude of these changes over the last 60 days.

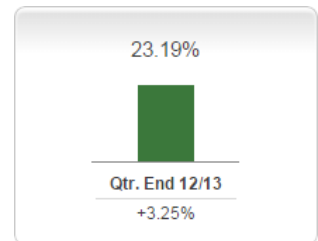
In the chart to the right, the display shows the consensus estimate from 60-days ago, 30-days ago, 7-days ago, and the most current estimate. The difference between the current estimate and the estimate from 60-days ago is displayed as a percentage. A larger positive percentage increase will score better on this component.



Upside

This is the difference between the most accurate estimate, as calculated by Zacks, and the consensus estimate. For example, a stock with a consensus estimate of \$1.00, and a most accurate estimate of \$1.05 will have an upside factor of 5%.

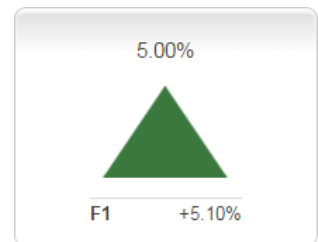
This is not an indication of how much a stock will go up or down. Instead, it's a measure of the difference between these two estimates. This is particularly useful near earnings season as a positive upside percentage can be used to help predict a future surprise.



Surprise

The Zacks Rank also factors in the last few quarters of earnings surprises. Companies that have positively surprised in the recent past have a tendency of positively surprising again in the future (or missing if they recently missed).

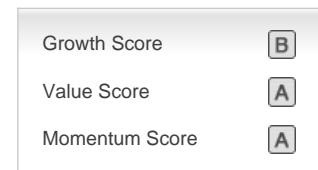
A stock with a recent track record of positive surprises will score better on this factor than a stock with a history of negative surprises. These stocks will have a greater likelihood of positively surprising again.



Zacks Style Score Education

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

Academic research has proven that stocks with the best Growth, Value, 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. An A, is better than a B; a B is better than a C; and so on.



As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Rank #1 or #2, Strong Buy or Buy, which also has a Style Score of an A or a B.

Disclosures

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