

# Frequently Asked Questions About Zacks Consensus Estimates & Ratings

## **For what universe of equities does Zacks provide consensus estimate and ratings data?**

Zacks provides consensus estimates and ratings for US and Canadian firms that have at least one sell-side analyst covering them. That number is usually in the ballpark of 4,500 companies.

## **How does Zacks define EPS used in the Zacks Consensus?**

Zacks defines the EPS used in the Consensus estimates as diluted Earnings Per Share before non-recurring items and **including employee stock options expenses**, denominated in US and/or Canadian dollars.

## **For what items does Zacks provide Consensus estimates?**

Zacks calculates consensus estimates for EPS, Revenue, Target Price, Long Term Growth Rates, and Ratings.

## **How far back does Zacks maintain history files for Consensus Estimates & Ratings?**

Zacks maintains a history of annual EPS estimates going back to 1979 and quarterly estimates going back to 1982. Zacks consensus ratings history goes back to 1985. Consensus Sales estimates and Price Targets are maintained back to 2000.

## **How is the Zacks Consensus calculated?**

For any given stock there may be from 1 to 40 brokerage analysts following the company and making EPS and Sales estimates. For more than 25 years, Zacks has been tracking these individual sell-side analyst estimates and creating consensus EPS estimates. The consensus estimate is the average of all the current estimates made available by brokerage analysts. Consensus estimates are more advantageous because they reduce the risk of any single analyst making an incorrect forecast. Zacks Consensus Estimate = the average of all current EPS estimates

## **How does Zacks handle inconsistencies in the way different brokers define EPS?**

If a broker uses a different EPS definition than Zacks, Zacks will adjust that broker's estimates to conform to Zacks' definition if possible without violating the mathematical integrity of the estimate. Otherwise, Zacks does not include estimates that do not conform Zacks' definition of EPS.

## **How many brokerage firms contribute to the Zacks Consensus?**

Today Zacks receives daily electronic data feeds and printed research reports from over 185 US and Canadian brokerage firms, produced by more than 2,600 analysts amounting to over 500,000 pages of brokerage research. A complete list of contributing brokers is available upon request.

## **How does Zacks make sure that estimate and ratings revisions are quickly and accurately incorporated into the Zacks Consensus?**

Most of the contributing brokers send revisions to Zacks through electronic data feeds which are programmatically parsed and instantly fed into the consensus database. Some small boutique firms send their revisions to Zacks by email and those revisions are entered into the consensus database within 24 hours of receipt, except data that has been flagged and corrected as described below. Corrected data is available within 48 hours of receipt.

## **How does Zacks maintain the accuracy of its data entry system?**

Zacks employs a dedicated staff of research analysts who examine each revision to determine if any adjustments are needed to facilitate comparability. At the end of each weekday, a quality control report is generated which lists estimates that are out-of-line with the current consensus based on at least six different criteria. The next day the QC report is checked manually by full-time researchers assigned exclusively to check and research the flagged data. Once the QC report data has been checked, verified, and corrected, the data is then available for production.

Zacks makes adjustments to approximately 5-10% of the earnings estimates. The estimates database is then adjusted for corporate actions such as splits, changes to the company name, ticker and CUSIP changes, and extraordinary items by flagging them using a central maintenance file.

## **How does Zacks determine which estimates and ratings will be used in creating the Zacks Consensus?**

The number of estimates and ratings used in the Zacks consensus will depend on several factors:

1. the Timeliness of the information,
2. the Range of Company Guidance,
3. Comparability of the estimates, and
4. whether or not Employee Stock Option expenses are included in the estimate figures.

These factors may result in a different number of estimates and ratings included in the Zacks consensus when compared to other data providers. However, this methodology provides the ability to make consistent comparisons between stocks.

## **How does Zacks manage the timeliness of the information provided by contributing brokers?**

Zacks consensus figures are updated daily. It is Zacks policy to make sure that the Zacks Consensus reflects only those forecasts that are relatively fresh. For each type of forecast, Zacks maintains a refreshment window of time. If any individual forecast cannot be re-affirmed within this time period, it will be removed from the Consensus until it can be re-affirmed or updated.

## **If a company issues guidance prior to its actual earnings report, how does Zacks use that information in its consensus?**

In this situation, Zacks will drop any individual estimates made prior to the guidance that fall outside the range of company guidance. Zacks will keep all estimates made or affirmed after the guidance has been issued. This policy removes outliers that are based on old information. To the extent that the Zacks Consensus changes as a result of receiving company guidance, Zacks maintains a pre-announcement surprise database that allows investors to gauge the effect such surprises may have on the stock price.

## **How does Zacks manage earning estimates to facilitate comparisons between analysts and time periods?**

Zacks consensus earnings estimates are calculated to reflect true operating earnings. That means non-recurring items are filtered out of earnings estimates to allow for apples-to-apples comparisons between analysts and time periods.

## **How does Zacks treat employee stock option expenses in its consensus earnings estimates?**

On employee stock options expenses, Zacks will limit its earnings consensus to only those estimates that include options expense. If possible within a reasonable degree of accuracy, Zacks will manually calculate options expenses and make adjustments to estimates where necessary.

## **How does Zacks handle Canadian companies who report in both US and Canadian dollars?**

Zacks uses the US dollar denominated figures for US listed issues and the Canadian dollar figures for CAN listed issues.

## **Are custom consensus calculations available?**

Yes. Upon request, Zacks can calculate a custom consensus using filters and specifications provided by the client. Costs for this service are quoted on a case-by-case basis.

## **What are the Zacks Most Accurate Estimates?**

Zacks began calculating the most accurate estimates in 1994 by weighting historical analyst accuracy in making EPS forecasts with timeliness of the forecasts.

## **What is the Zacks Most Recent Consensus?**

This is the average of the most recent 25% of analyst estimates and recommendations. The idea is that more recent estimates tend to be more accurate because they reflect more recent information about the company.

## **Does Zacks provide a "Whisper" consensus?**

With the issuance of SEC regulation FD, it is illegal for analysts to provide one client with a "whisper" estimate. Therefore, Zacks does not provide any "whisper" estimate consensus.

## **How close are the Zacks Consensus Estimates and those issued by Thomson First Call?**

In 85% of cases, Zacks and First Call consensus estimates are identical or within one cent per share. When they differ, it is usually due to differences in the analysts included or the definitions used. On definitions of EPS, the First Call policy of "majority rules" excludes some estimates while Zacks' policy of "adjust for consistency" includes other estimates.

## **Are detailed estimates and ratings which identify specific brokers and individual analysts available?**

Yes, but only for buy-side institutional clients who are properly entitled to receive detailed information. Please contact your Zacks Institutional Services representative for information on our entitlement process.

## **How can Zacks prove that the Zacks consensus estimates and ratings can be relied upon to guide investors toward stocks that will provide superior returns over time?**

At Zacks Investment Research, we eat our own cooking. We actually maintain a very successful quantitative investing model known as the Zacks Rank, which is calculated from recent revisions in estimates and ratings. Since inception, the Zacks Rank has proven to be a very reliable indicator to predict future movements in stock prices over a 1-3 month time horizon. How reliable has it been? Since 1988, the portfolio of Zacks #1 Rank stocks have generated an average annual return of 31.9% vs. the S&P return of 11.9% during the same period as of the date of this FAQ. A detailed description of the Zacks Rank model is available upon request. If our estimates weren't reliable, the Zacks Rank model would not have performed as well.

## **How does the Zacks Rank differ from the Reuters/Starmine Model?**

The Zacks Rank was first created in 1982 and was the first estimate revision model used in the investment industry. The Reuters/Starmine Model is an estimate revision model created in 1995 that parallels the Zacks Rank in many ways.

### **What is the primary difference between Zacks and other financial data providers?**

Zacks entire business is providing market data services covering the US and Canadian equities, while other vendors provide market data for US and non-US, and for fixed income and equities. If your focus is only North American Equities, we are committed to providing more value for the dollar than our competition.

### **Within US market data services, how does Zacks differ from other financial data providers?**

First, Zacks is often willing to take a more entrepreneurial approach to pricing and partnerships. Second, by excluding ESO expenses in all estimates, Zacks makes it easier to compare estimates between companies on an apples-to-apples basis.

**For an overview of Zacks data and research products, go to <http://www.zacksdata.com>.**

**For an overview of Zacks Research Systems products, go to <http://www.zackspro.com>**

# **Zacks**

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