

The Boeing Company (BA)

\$317.79 (As of 01/23/20)

Price Target (6-12 Months): **\$337.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

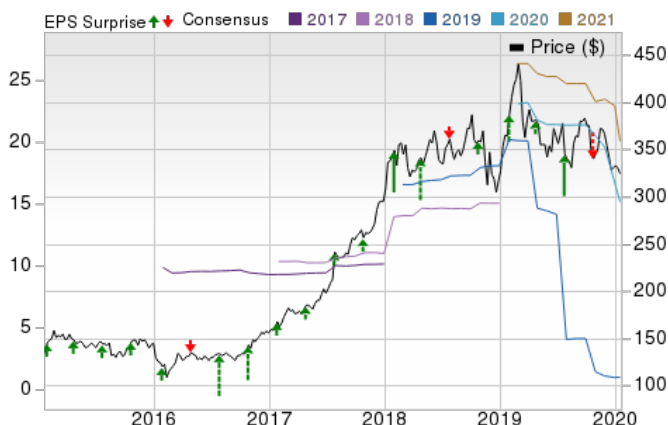
Growth: F

Momentum: F

Summary

Boeing's proposed joint venture with Embraer is expected to strengthen its commercial business significantly, which is expected to be accretive to its earnings at the start of 2020. Looking ahead, the current U.S. government's inclination toward strengthening the nation's defense system should act as a growth catalyst for defense players like Boeing. However, Boeing's commercial business has been suffering due to lower 737 deliveries, following 737 Max product line's grounding and subsequent costs associated with it. Its commercial deliveries plunged 67% year over year, resulting in a huge 41% decline in the unit's revenues during the third quarter. Consequently, its earnings and cash flow position were also affected significantly. This must have caused its share price to underperform its industry in the past year.

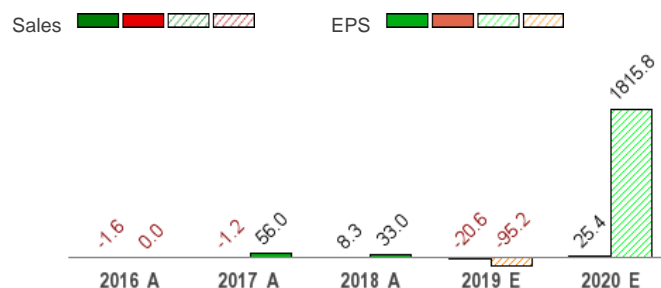
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$446.01 - \$302.72
20 Day Average Volume (sh)	7,050,929
Market Cap	\$178.8 B
YTD Price Change	-2.5%
Beta	1.19
Dividend / Div Yld	\$8.22 / 2.6%
Industry	Aerospace - Defense
Zacks Industry Rank	Top 34% (86 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-28.9%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-12.9%
Expected Report Date	01/29/2020
Earnings ESP	-7.8%
P/E TTM	24.4
P/E F1	21.8
PEG F1	2.0
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	20,289 E	25,095 E	28,304 E	31,169 E	100,737 E
2019	22,917 A	15,751 A	19,980 A	21,668 E	80,316 E
2018	23,382 A	24,258 A	25,146 A	28,341 A	101,127 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.00 E	\$4.01 E	\$4.93 E	\$4.84 E	\$14.56 E
2019	\$3.16 A	\$2.92 A	\$1.45 A	\$1.73 E	\$0.76 E
2018	\$3.64 A	\$3.33 A	\$3.58 A	\$5.48 A	\$16.01 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 01/23/2020. The reports text is as of 01/24/2020.

Overview

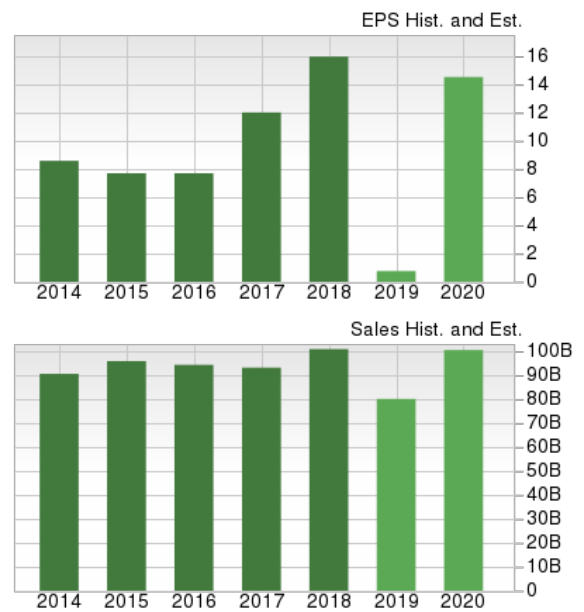
Headquartered in Chicago, **The Boeing Company** is a premier jet aircraft manufacturer and one of the largest defense contractors in the United States. Its customers include domestic and foreign airlines, the U.S. Department of Defense (DoD), the Department of Homeland Security, the National Aeronautics and Space Administration (NASA), other aerospace prime contractors, and certain U.S. government and commercial communications customers. Currently the company operates in four segments:

Boeing Commercial Airplanes (BCA) Segment – This segment develops, produces and markets commercial jets, along with providing related support services. The company is a leading producer of commercial aircraft and has a series (737 Next-Generation narrow-body model and the 747, 767, 777 and 787 wide-body models) of commercial jetliners. Segment revenues in 2018 were \$60,715 million, representing 60% of the company's top line.

The three units that comprise the **Boeing Defense, Space & Security (BDS)** segment are as follows: Boeing Military Aircraft (BMA), Network and Space Systems (N&SS) and Global Services and Support (GS&S). The segment recorded revenues of \$23,195 million in 2018, contributing 22.9% to the company's top line.

Boeing Global Services (BGS) Segment – This segment brings together certain Commercial Aviation Services businesses and BDS businesses. It provides parts, maintenance, modifications, logistics support, training, data analytics and information-based services to commercial and government customers worldwide. Revenues for this segment in 2018 amounted to \$17,108 million, comprising 16.9% of the company's top line.

Boeing Capital Corporation (BCC) Segment – In the commercial aircraft market, BCC provides selective financing solutions for the Commercial Airplanes segment customers. In the space and defense markets, BCC arranges and structures financing solutions for BDS segment government customers. Revenues for this segment in 2018 amounted to \$274 million, comprising 0.2% of the company's top line.



Reasons To Buy:

- ▲ Boeing is the largest aircraft manufacturer in the United States in terms of revenue, orders and deliveries, and is one of the largest aerospace and defense contractors. Furthermore, its revenue exposure is spread across more than 90 countries around the globe. Per Boeing's latest commercial market outlook (CMO), the company anticipates that the world will need 44,040 new planes, worth \$6.8 trillion between 2019 and 2038. This estimated figure reflects a 3.1% improvement over the company's prior 20-year forecast for jetliner demand.

Growing demand for commercial jets and strategic mergers are expected to boost Boeing's growth

Boeing expects the commercial fleet to be fueled by sustained annual growth in commercial passenger traffic along with a big wave of retiring, old planes. Of the total units, 44% of the demand will be for the replacement of old aircraft, while the rest will support future growth. Considering such solid projections for a steady improvement in passenger and freight traffic, demand for Boeing's diverse family of commercial airplanes should continue to witness a notable uptick in days to come.

- ▲ The massive demand for commercial jets generates a strong and growing demand for aviation services ranging from supply chain support (parts and parts logistics), to maintenance and engineering services, to aircraft modifications, to airline operations. In this line, Boeing expects commercial aviation services market to grow 4.1% annually to a value worth \$9.1 trillion, over the next 20 years. This should bode well for the company's growth trajectory.

To this end, the company's acquisition of KLX, Inc. for \$4.25 billion bears immense importance, with the acquiree being a major independent provider of aviation parts and services in the aerospace industry. Since KLX's addition in the fourth quarter of 2018, it has been driving Boeing's Global Services unit's revenue growth. In the third quarter of 2019, revenues increased 14% year over year with KLX Aerospace being the major growth contributor. Moreover, the BGS unit won new business worth \$6 billion in the third quarter, thereby bringing its backlog to \$21 billion and in turn bolstering revenue growth prospects.

- ▲ In July 2018, Boeing and Embraer entered into a joint venture (JV) by signing a Memorandum of Understanding, which would offer the former a controlling stake at Embraer's commercial jet business. Per the terms of the transaction, Boeing will hold an 80% ownership stake in the JV. The non-binding agreement, signed by both the companies, values Embraer's commercial aircraft operations at \$4.75 billion, with Boeing's stake in the JV worth \$3.8 billion. The commercial aviation JV represents the biggest realignment in the global aerospace market in decades, further strengthening Boeing's commercial business' against its arch rival Airbus and the emerging aerospace companies from China, Russia and Japan. The proposed partnership is expected to be accretive to Boeing's earnings at the start of 2020 and generate estimated annual pre-tax cost synergies of approximately \$150 million by the third year.

- ▲ While Boeing's commercial business has not been performing well for the past couple of quarters, on account of lower 737 deliveries, the aerospace giant's defense business remains buoyant. In the third quarter, the BDS segment registered 2% year-over-year revenue growth driven by higher volume from satellites, weapons and T-7A Red Hawk programs. Looking ahead, the current U.S. government's inclination toward strengthening the nation's defense system should act as a growth catalyst for defense players like Boeing. Notably, as part of the fiscal 2020 defense budget, \$718.3 billion is allocated as funding for the Pentagon, reflecting 5% growth over the fiscal 2019 budget. In particular, the budget has allotted \$2.3 billion for procurement of 12 KC-46, \$2 billion for 24 F/A-18 E/F Super Hornets, \$1 billion for 48 AH-64E Attack Helicopters, \$1.5 billion for 6 P-8A jets and \$1.1 billion for F-15 EX jets. The financial plan also includes an investment plan of \$0.4 billion for the procurement of 1,925 Small Diameter Bomb II. All these expansionary budgetary provisions will immensely boost Boeing's defense business.

Reasons To Sell:

- ▼ Boeing's commercial business continued to suffer due to lower 737 deliveries as a result of the worldwide grounding of 737 Max jets in March, following two fatal crashes involving these jets. Consequently, its commercial deliveries plunged 67% year over year, resulting in a huge 41% decline in the unit's revenues during the third quarter. Such dismal performance recorded by Boeing's largest revenue-generating business segment also hit the company's bottom line and cash position. Consequently, Boeing's adjusted earnings declined 59% year over year in the third quarter, while its operating cash outflow was \$0.26 billion.

Although Boeing is striving to fix the software glitch associated with the 737 Max models, the Federal Aviation Administration (FAA) discovered another potential safety issue with the jets this June. Moreover, constant conflict between Boeing and international air-safety authorities has been threatening the return of the jet behemoth's 737 Max fleet to service. These have once again pushed back Boeing's best-selling jet's return to service by another few months, which means the sufferings of its BCA unit are not over yet. This must have discouraged investors interested in this stock. Evidently, Boeing's shares have declined 10.7% in past year against the industry's 15.4% rise.

- ▼ Canadian, Russian and Chinese manufacturers will begin delivering airplanes, comparable to Boeing 737 over the next few years. In this context, it is imperative to mention that the Commercial Aircraft Corp of China is aiming to make the first delivery of its C919 single-aisle jet in 2021, with several prototypes of C919 taking off in the recent past. The successful launch and delivery of this jet may hamper Boeing's business in the Asia Pacific in the long run. Airbus is also constructing its first U.S. manufacturing plant to target customers in Boeing's territory. Although Boeing has responded positively by offering a re-modeled 737, new competitors may impact the top and bottom line of the company.
- ▼ Meanwhile, its arch rival, Airbus outpaced Boeing in commercial plane deliveries at the end of first half of 2019 for the first time in eight years. Moreover, the Paris Air Show, held this June, also did not turn out to be impressive for Boeing compared to the previous international air shows. Airbus dominated the Air Show with twice as many new plane orders than Boeing. Additionally, Airbus is leading the emerging market for long-range, midsize jets. Further in July, Boeing lost a deal to Airbus, after Saudi Arabian carrier Flyadeal made a commitment to buy 30 A320 Neo jets, with options to acquire another 20 jets. This deal replaced Flyadeal's \$5.9 billion-agreement with Boeing for 50 737 Max 8 jets last December. These reflects the tough terrain that Boeing's commercial business is going through and the losses it is expected to incur until 737 returns to service.
- ▼ As per Boeing's 2018 Pilot & Technician Outlook, despite strong global air traffic growth, the aviation industry continues to face a pilot labor supply challenge. This raises concern about the existence of a global pilot shortage in the near-term. As demand for commercial jets increases, such a pilot shortage may hurt the aviation industry's growth and in turn hamper Boeing's profit margin.

Trent 1000 turbines incorporated in Rolls-Royce's engines, used in majority of Boeing's 787 fleet of jets, has been facing performance issues for quite some time in recent past. In September, per a report by Bloomberg, faulty Rolls-Royce engine blades are deteriorating faster than expected, prompting additional grounding of Boeing's 787 jetliners for early repairs. This, in turn, has affected about 120 Trent 1000 turbines, representing about 8% of the global fleet. Per the report, fewer than 40 Dreamliners are currently grounded for immediate attention. In April, Singapore Airlines grounded a pair of Boeing 787-10s owing to premature deterioration of the high pressure turbine (HPT) blades in their Rolls-Royce Trent 1000 engines. If more such discoveries are made due to this faulty engine, it might lead to disruption in service of Boeing's 787 fleet and in turn hurt demand for one of the flagship products of this aircraft giant.

Risks related to 787-engine issues and lower 737 deliveries raise concerns.

Last Earnings Report

Boeing Q3 Earnings Miss, Down Y/Y on Lower 737 Deliveries

Boeing reported adjusted earnings of \$1.45 per share for third-quarter 2019, which missed the Zacks Consensus Estimate of \$2.04 by 28.9%. The bottom line declined 59% from the year-ago quarter's earnings of \$3.58. This year-over-year downside was primarily due to lower 737 deliveries.

Excluding one-time items, the company's GAAP earnings came in at \$2.05 per share compared with \$4.07 in the third quarter of 2018.

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	3.30%
EPS Surprise	-28.92%
Quarterly EPS	1.45
Annual EPS (TTM)	13.01

Revenues

In the quarter under review, Boeing's revenues amounted to \$19.98 billion, which surpassed the Zacks Consensus Estimate of \$19.34 billion by 3.3%. The top line however plunged 21% from the year-ago quarter's figure of \$25.15 billion. This decline was primarily due to lower 737 deliveries and higher defense and services volume.

Total Backlog

Backlog at the end of third-quarter 2019 slipped to \$470 billion from \$474 billion at the end of second-quarter 2019.

Segmental Performances

Commercial Airplane: Revenues at this segment slumped 41% to \$8.25 billion on account of lower 737 deliveries. The segment incurred operating expenses of \$0.04 billion against operating income of \$2 billion in the year-ago quarter.

Boeing delivered 62 commercial planes during the quarter under review, down 67%.

Backlog for this segment remains healthy with over 5,500 airplanes valued at \$387 billion.

Boeing Defense, Space & Security (BDS): This segment witnessed a 2% year-over-year rise in revenues to \$7.04 billion in the third quarter. The uptick was driven by higher volume from satellites, weapons and T-7A Red Hawk programs. Meanwhile, the segment recorded operating earnings worth \$755 million against operating loss of \$247 million in the year-ago quarter.

Backlog at BDS was \$62 billion, 30% of which comprised orders from international clients.

Global Services: Revenues at this segment improved 14% to \$4.66 billion backed by higher volume for government services and the acquisition of KLX Aerospace. Moreover, operating margin expanded 10 bps year over year to 14.4%.

Boeing Capital Corporation (BCC): This segment reported quarterly revenues of \$66 million compared with \$77 million registered in the year-ago quarter. Operating earnings totaled \$29 million, up from \$27 million registered in the year-ago quarter.

At the end of third-quarter 2019, BCC's portfolio balance was \$2.2 billion.

Financial Condition

Boeing exited the third quarter with cash and cash equivalents of \$9.76 billion and short-term and other investments of \$1.15 billion. At the end of 2018, the company had \$7.64 billion of cash and cash equivalents and \$0.93 billion of short-term and other investments. Long-term debt amounted to \$20.30 billion at the end of the reported quarter, up from \$10.66 billion at 2018 end.

Boeing generated \$0.26 billion of operating cash outflow at the end of the third quarter, compared to cash inflow of \$12.38 billion at the end of third quarter of 2018. Free cash outflow totaled \$2.89 billion at third-quarter 2019 end against cash inflow with \$4.10 billion at the end of third-quarter 2018.

During the quarter, the company paid out \$1.2 billion of dividends, reflecting a 20% increase from the third quarter of 2018.

Guidance

Due to the uncertainty regarding the timing and conditions related to 737 MAX fleet's return to service, Boeing has once again refrained from issuing its guidance for now.

Recent News

On **Jan 14, 2020**, Boeing announced program deliveries for its commercial products for the fourth quarter and 2019. The fourth quarter and full-year figures show a 66.8% and 52.9% slump, respectively, in commercial shipments. On the contrary, Airbus SE delivered a record 863 commercial aircraft to 99 customers in 2019, 8% up from 2018 deliveries.

On **Dec 16, 2019**, Boeing announced its decision to temporarily suspend production of its 737 Max jetliner beginning January 2020. Boeing temporarily suspended production of the grounded 737 Max aircraft on Monday after the Federal Aviation Administration (FAA) said it would not approve the aircraft's return to service, before 2020.

On **Dec 1, 2019**, Boeing secured a \$564.5-million contract under the Foreign Military Sales program to remanufacture Apache AH-64E aircraft. Boeing will remanufacture the combat helicopter for the militaries of the Netherlands, the UAE and the U.K. The contract was awarded by the U.S. Army Contracting Command, Redstone Arsenal, AL. Work related to the deal will be performed in Mesa, AZ, and is expected to get completed by Mar 1, 2025.

On **Oct 10, 2019**, Boeing's commercial business line took a hit, following the order cancellations made by Russian carrier, Aeroflot, for the former's 787 fleet. Per major media reports, Aeroflot has canceled orders for 22 787 jets worth around \$5.5 billion at list prices.

This added to Boeing's ongoing struggle for the past few months, with the grounding of its 737 fleet and the subsequent delay in its return to service, on account of certain technical inefficiencies. The recent order cancellation has led to an additional uncertainty for Boeing's future production of 787 Dreamliner.

Valuation

Boeing's shares are up 7.6% in the past six months period, but down 10.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Aerospace sector are up 3.1% and 6.5% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up by 15.4% and the Zacks Aerospace sector witnessed a 22.9% rise.

The S&P 500 index is up 12.5% in the past six months period and 26.7% in the past year.

The stock is currently trading at 20.52X forward 12-months earnings, which compares to 18.2X for the Zacks sub-industry, 18.37 for the Zacks sector and 19.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 345.9X and as low as 12.36X, with a 5-year median of 18.98X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$337 price target reflects 21.76X forward 12-months earnings.

The table below shows summary valuation data for BA

Valuation Multiples - BA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.52	18.2	18.37	19.15
	5-Year High	345.9	22.54	21.54	19.34
	5-Year Low	12.36	14.52	14.26	15.17
	5-Year Median	18.98	17.09	16.82	17.44
P/S F12M	Current	1.75	1.52	1.33	3.56
	5-Year High	2.33	1.64	1.39	3.56
	5-Year Low	0.76	0.95	0.8	2.54
	5-Year Median	1.43	1.25	1.06	3
EV/EBITDA TTM	Current	18.95	14.2	12.94	12.38
	5-Year High	21.75	15.01	13.24	12.86
	5-Year Low	7.42	8.3	7.28	8.48
	5-Year Median	13.67	11.53	9.95	10.69

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 34% (86 out of 255)



Top Peers

Leidos Holdings, Inc. (LDOS)	Outperform
General Dynamics Corporation (GD)	Neutral
L3Harris Technologies Inc (LHX)	Neutral
Lockheed Martin Corporation (LMT)	Neutral
Northrop Grumman Corporation (NOC)	Neutral
Transdigm Group Incorporated (TDG)	Neutral
Textron Inc. (TXT)	Neutral
Embraer-Empresa Brasileira de Aeronautica (ERJ)	Underperform

Industry Comparison Industry: Aerospace - Defense				Industry Peers		
	BA Neutral	X Industry	S&P 500	GD Neutral	LMT Neutral	NOC Neutral
VGM Score	F	-	-	C	B	A
Market Cap	178.85 B	12.89 B	24.65 B	53.41 B	120.95 B	64.30 B
# of Analysts	4	5.5	13	9	9	8
Dividend Yield	2.59%	0.88%	1.77%	2.21%	2.24%	1.38%
Value Score	C	-	-	B	C	C
Cash/Price	0.06	0.02	0.04	0.02	0.02	0.02
EV/EBITDA	13.20	13.83	13.98	11.80	17.09	15.34
PEG Ratio	1.95	2.29	2.05	1.66	2.49	1.27
Price/Book (P/B)	NA	4.56	3.38	3.95	30.72	6.61
Price/Cash Flow (P/CF)	15.70	15.90	13.60	12.73	19.28	14.31
P/E (F1)	21.83	18.52	19.07	14.32	17.67	16.59
Price/Sales (P/S)	2.06	1.35	2.69	1.37	2.07	1.93
Earnings Yield	4.58%	5.32%	5.24%	6.98%	5.66%	6.03%
Debt/Equity	-5.33	0.67	0.72	0.67	3.21	1.55
Cash Flow (\$/share)	20.24	5.28	6.94	14.51	22.24	26.65
Growth Score	F	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	19.64%	12.53%	10.60%	7.41%	14.78%	22.40%
Proj. EPS Growth (F1/F0)	2,421.73%	14.18%	7.53%	8.22%	12.11%	12.77%
Curr. Cash Flow Growth	22.32%	20.42%	13.90%	20.42%	24.70%	61.17%
Hist. Cash Flow Growth (3-5 yrs)	9.55%	7.81%	9.00%	6.79%	6.70%	14.12%
Current Ratio	1.11	1.16	1.22	1.11	1.28	1.29
Debt/Capital	NA%	43.20%	42.99%	39.95%	76.27%	60.86%
Net Margin	NA%	6.46%	11.21%	8.66%	10.26%	NA
Return on Equity	-367.68%	19.00%	17.16%	26.79%	221.59%	39.12%
Sales/Assets	0.70	0.91	0.55	0.82	1.23	0.84
Proj. Sales Growth (F1/F0)	%	4.85%	4.08%	4.41%	5.30%	NA
Momentum Score	F	-	-	F	C	A
Daily Price Chg	2.84%	-0.51%	-0.04%	0.83%	1.03%	1.65%
1 Week Price Chg	-1.75%	2.15%	2.29%	1.33%	2.86%	1.49%
4 Week Price Chg	-3.68%	4.10%	2.05%	3.61%	9.30%	9.64%
12 Week Price Chg	-6.51%	5.91%	6.92%	4.42%	13.83%	8.23%
52 Week Price Chg	-11.30%	39.57%	21.50%	8.08%	50.32%	41.39%
20 Day Average Volume	0	568,540	1,518,423	1,144,031	1,089,082	0
(F1) EPS Est 1 week change	-4.05%	0.00%	0.00%	-0.02%	0.00%	0.25%
(F1) EPS Est 4 week change	-12.93%	0.00%	0.00%	-0.15%	0.00%	-0.08%
(F1) EPS Est 12 week change	-30.18%	-0.59%	-0.23%	-0.94%	-0.63%	0.98%
(Q1) EPS Est Mthly Chg	-31.64%	0.17%	0.00%	0.33%	4.48%	0.92%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	F
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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