

Becton, Dickinson (BDX)

\$277.53 (As of 01/21/20)

Price Target (6-12 Months): **\$291.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/17/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: B

Summary

BD has outperformed the industry in a year's time. Solid performance by the core BD Medical and Interventional segments instills optimism in the stock. Domestic revenues increased year over year in recent times, driven by segmental strength. Growth in Europe and APAC is an added positive. Expansion in gross margin is also encouraging. BD has issued a solid guidance for fiscal 2020, which is indicative of bright prospects. A series of product launches is expected to boost the stock further. On the flip side, a drop in operating margin raises concern. Management expects unfavorable foreign currency to partially mar BD's bottom line in fiscal 2020 and first-quarter fiscal results. Competition in the MedTech space is stiff. The stock is overvalued at the moment.

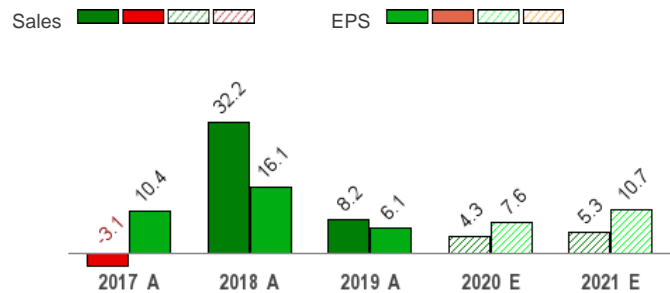
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$279.62 - \$221.47
20 Day Average Volume (sh)	945,731
Market Cap	\$75.1 B
YTD Price Change	2.0%
Beta	1.07
Dividend / Div Yld	\$3.16 / 1.1%
Industry	Medical - Dental Supplies
Zacks Industry Rank	Top 46% (117 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	23.8
P/E F1	22.1
PEG F1	1.9
P/S TTM	4.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,394 E	4,602 E	4,829 E	5,122 E	18,981 E
2020	4,170 E	4,399 E	4,593 E	4,851 E	18,028 E
2019	4,160 A	4,195 A	4,350 A	4,584 A	17,290 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.99 E	\$3.30 E	\$3.54 E	\$3.80 E	\$13.92 E
2020	\$2.64 E	\$3.05 E	\$3.27 E	\$3.62 E	\$12.57 E
2019	\$2.70 A	\$2.59 A	\$3.08 A	\$3.31 A	\$11.68 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 01/21/2020. The reports text is as of 01/22/2020.

Overview

Based in Franklin Lakes, NJ, Becton, Dickinson and Company (BDX) commonly known as BD, is a medical technology company engaged principally in the development, manufacture and sale of medical devices, instrument systems and reagents.

In fiscal 2019, BD's revenues increased 8.2% to \$17.29 billion.

Earlier, BD's operations consisted of three business segments: BD Medical, BD Diagnostics and BD Biosciences. However, the company's organizational structure was realigned to form two principal business segments: **BD Medical**, **BD Life Sciences** and **BD Interventional**.

BD Medical (52.4% of fiscal 2019 revenues)

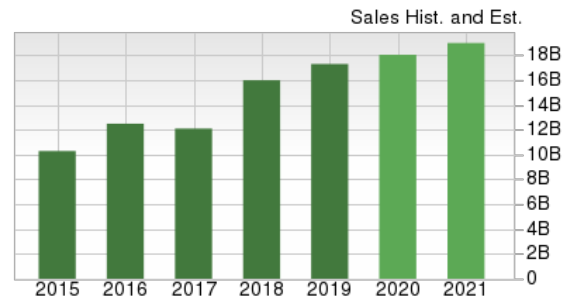
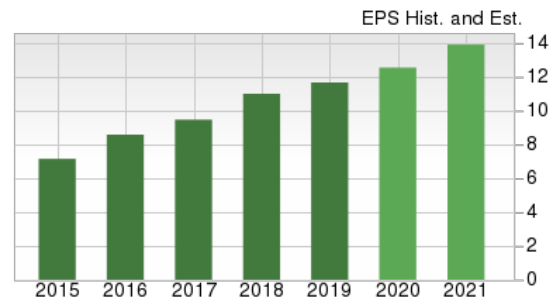
BD Medical's major product lines include needles, syringes and intravenous catheters for medication delivery; prefilled IV flush syringes; syringes and pen needles for diabetes care; refillable drug delivery systems; regional anesthesia needles and trays; sharps disposal containers; closed-system transfer devices; and generic prefilled injectables.

BD Life Sciences (24.9% of fiscal 2019 revenues)

BD Diagnostics provides products for the safe collection and transport of diagnostics specimens, as well as instruments and reagent systems to detect a broad range of infectious diseases, healthcare-associated infections and cancer.

BD Biosciences produces research and clinical tools that facilitate the study of cells to gain a better understanding of normal and disease processes.

With the acquisition of C.R. Bard, BD added a new segment — **BD Interventional** (21.9% of fiscal 2019 revenues) — in which C.R. Bard has been integrated.



Reasons To Buy:

▲ **Stock Up:** Over the past year, shares of BD have gained 16.1% compared with the industry's 2.9% rally. Meanwhile the S&P 500 index rose 25.4% in the same timeframe. A solid product portfolio, plethora of new product launches and a strong international presence aid the stock at the moment.

▲ **Guidance Solid:** BD expects fiscal 2020 revenue growth of 4-4.5% year over year and 5-5.5% at constant currency (cc).

Adjusted earnings per share (EPS) are expected between \$12.50 and \$12.65, indicating growth of 7-8.5% from fiscal 2019. At cc, growth is expected projected in the range of 9.5-11%.

Per management, BD expects fiscal 2020 revenue growth to be driven by recent product launches across all three segments and strength in both developed and emerging markets. Additionally, management at BD expects to achieve \$100 million in cost synergies in fiscal 2020 from Gore royalty.

▲ **Positive Developments:** In recent times, BD announced the launch of two cloud-based applications, BD HealthSight Data Manager and BD HealthSight Diversion Analytics, which enable an enterprise-wide connected medication management system. Notably, both form part of the BD HealthSight platform.

Moreover, in the BD Interventional segment, WavelinQ was made available for sale in the United States in the quarter. This product provides a minimally-invasive nonsurgical option for creating critical AV fistulas for hemodialysis procedures.

Recently, BD announced the FDA approval of its second-generation BD Nano pen needle, designed for more reliable subcutaneous injection depth. Additionally, last December, BD received regulatory approval for the BD MAX enteric viral panel, a molecular diagnostic test for the direct qualitative detection and differentiation of enteric viral pathogens that cause viral gastroenteritis.

▲ **Leading Player in Safety-Needle Space:** BD is a global leader in safety-needle products as well as several diagnostic laboratory instruments. The company has recently launched BD Ultra-Fine micro pen needle 6mm x 32G for use with pen injection devices. The needles offer comfortable injection experience, enhancing customer satisfaction. BD has widened the needle length options for diabetic people. Interestingly, most insurance plans, including Medicare part D, cover BD Ultra-Fine micro 6mm pen needles.

According to a report by bccResearch, the global diabetes market should reach a worth of \$155 billion by 2021, at a CAGR of 4.4% from 2016 to 2021. Considering the huge potential of the market, we believe the latest developments are strategic fits.

In the fiscal fourth quarter, revenue growth in urology and critical care was 9.9% year over year, driven by product innovation in acute urology and targeted temperature management businesses. BD Medical recorded revenues of \$2.44 billion, up 3.9% from the year-ago quarter and 5.3% at cc. Per management, the segment's results were driven by performance in the Medication Management Solutions, Medication Delivery Solutions and Pharmaceutical Systems units.

▲ **Acquisitions:** In recent past, BD completed the acquisition of Texas-based TVA Medical, which is likely to boost the company's core Medical unit. The acquisition will allow BD to serve physicians and patients by providing minimally invasive procedures for patients with chronic kidney disease.

Additionally, BD acquired C.R. Bard, which is a strategic one and is likely to generate benefits from complementary businesses and geographical expansion. Management expects high single-digit accretion in fiscal 2019. Moreover, management stated that by fiscal 2022, BD expects to achieve \$250 million in Bard revenue synergies. Additionally, BD achieved its targeted \$350 million in annualized CareFusion cost synergies.

▲ **Formation of BD Interventional – A New Segment:** BD had established a third business segment — BD Interventional. Notably, C.R. Bard is integrated in this vertical. BD is already a leading player in interventional specialties solutions. The company promotes positive clinical outcomes using minimally invasive and percutaneous techniques for obtaining samples of liver, breast, lung and kidney biopsy. Further, the company provides facilities for peritoneal drainage at home. Per management, the company is on track to become one of the biggest medical technology devices company in the world with this buyout. The strategic acquisition is expected to generate benefits from complementary businesses and geographical expansion.

In the fourth quarter of fiscal 2019, the segment's worldwide revenues grew 6.9% year over year to \$1.01 billion. At cc, revenues rose 7.7% on strong performance by the Urology and Critical Care and Surgery sub-units.

Notably, the company recently launched products in the segment like 4 French WavelinQ, Covera and Venovo, which have received positive feedback from the market so far. Management anticipates several more launches across the segment in the remaining fiscal 2019.

▲ **Product Portfolio Solid:** A diversified product portfolio has been the key catalyst for BD. Notably, BD looks forward to launch BD Intevia, the company's first device to combine syringe and auto injector technology. In the Life Science segment, the company plans to launch BD COR high throughput molecular system for which management continues to seek regulatory authorizations as well.

At the Interventional segment, the launch of Arctic Sun Stat will boost BD's informatics capabilities.

In recent times, WavelinQ, Covera and Venovo products performed impressively. Progel saw double-digit growth, thereby driving the surgery and infection prevention businesses in Europe. In fact, management at BD has announced a \$1-billion investment in R&D in fiscal 2020.

▲ **Other Launches:** BD has launched several products in recent times. In BD Life Sciences, BD introduced BD FACSDuet, a new automated

BD's focus on expanding into overseas markets, in particular, the emerging markets, new product launches as well as its acquisition-driven strategy are significant growth catalysts.

flow cytometry sample preparation instrument.

At BD Medical, the company launched BD Pyxis ES System version 1.6. Additionally, in BD Life Sciences, the BD COR has been launched, which is a molecular diagnostics platform aimed at providing automation of molecular testing in core and other large centralized labs.

Within the Interventional unit, BD launched OptiFix AT, an articulating fixation device for laparoscopic and robotic use. Another launch was of Phasix ST OVHR, a mesh designed specifically for open hernia repairs.

▲ **Geographical Expansion:** BD remains focused on geographical expansion into overseas markets, in particular, emerging markets.

The company has already announced the commercial availability of the CE-IVD marked PAXgene Blood ccfDNA tube within the European Economic Area and Switzerland. Growth was driven by Kiestra installations and strength in core microbiology within Diagnostic Systems and strong sales of clinical instruments within the Biosciences unit.

In the fiscal fourth quarter, BD's international revenues grossed \$2.02 billion, up 3.5% from the year-ago quarter. At cc, the segment grew 7.9%. Per management, international revenue growth in the fourth quarter was strong in APAC and EMEA.

China and APAC revenues saw high single-digit growth in the quarter, while EMEA revenues grew double digits. For fiscal 2020, the company expects high single-digit growth in China, driven by double-digit growth in the BD Life Sciences and BD Interventional segments and single-digit growth in the Medical segment.

Reasons To Sell:

▼ **Valuation Looks Dull:** BD's P/E (TTM basis) ratio currently stands at 23.76 over the past year, which compares with 18.01 and 20.83 for the industry and S&P 500 index, respectively.

▼ **Headwinds Expected in Fiscal 2020:** Management at BD expects a few headwinds to mar the company's prospects in fiscal 2020.

In fiscal 2020, tariffs are expected to impact BD's growth by 100 basis points (bps) while foreign exchange can impact growth by 250 bps.

Resultantly, BD expects lower-than-expected fiscal first-quarter EPS between \$2.55 and \$2.65.

▼ **Product Recalls/ Shipment Issues:** Within the Diabetes Care business, BD temporarily has paused shipments of its insulin infusion sets. This was due to a moderately-higher-than-anticipated rate of complaints associated with insertion that occurred during the pilot launch of the product. However, management at BD conducted a clinical trial to gather further insights and to ensure that patients ultimately realize the full benefits of BD FlowSmart technology. In recent times, management declared that BD has decided to discontinue the infusion sets.

▼ **Foreign Exchange:** BD generates more than half of its revenues from international operations, which is adversely affected by fluctuations in foreign currency exchange rates. We note that U.S. manufacturers such as BD are being hurt by a strengthening U.S. dollar, which has benefited from more upbeat U.S. economic prospects compared to the rest of the world.

In recent times, BD's drug coated balloon business saw foreign currency pressure due to strengthening of the U.S. dollar. Also, management expects incremental foreign exchange pressure in the remaining of fiscal 2019. Also, in the fiscal third quarter, the company faced significant foreign exchange headwinds, which weighed on its overseas revenues.

▼ **Significant Consolidation:** The medical technology industry has experienced a significant amount of consolidation. As a result, competition to provide goods and services to customers has increased significantly. BD faces a wide range of competitors in each of its three business segments. Moreover, the entry of manufacturers located in China and other low-cost manufacturing locations are intensifying pricing pressure, particularly in developing markets. In addition, group purchasing organizations and integrated health delivery networks have served to concentrate purchasing decisions for some customers, which has also exerted pricing pressure on medical device suppliers like BD. Further consolidation in the industry could exert additional pressure.

Lower demand for healthcare products, increasing competition, significant exposure to foreign exchange volatility pose major headwinds.

Last Earnings Report

Becton, Dickinson Beats on Q4 Earnings, FY20 Guidance Solid

BD reported fourth-quarter fiscal 2019 earnings per share (EPS) of \$3.31, which beat the Zacks Consensus Estimate by a penny. The bottom line also improved 13% on a year-over-year basis and rose 12.3% at cc.

The company raked in revenues of \$4.58 billion, surpassing the Zacks Consensus Estimate of \$4.57 billion. The reported figure increased 4.1% from the year-ago quarter. At cc, revenues rose 6.2%.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.34%
EPS Surprise	0.30%
Quarterly EPS	3.31
Annual EPS (TTM)	11.68

Segment Details

BD Medical

In the quarter under review, the company reported worldwide revenues of \$2.44 billion, up 3.9% from the year-ago quarter and 5.3% at cc. Per management, the segment's results were driven by performance in the Medication Management Solutions, Medication Delivery Solutions and Pharmaceutical Systems units.

BD Life Sciences

Worldwide revenues in the segment totaled \$1.13 billion, up 2.3% year over year and 6.9% at cc. Per management, the upside was driven by solid performance in the Diagnostic Systems and Biosciences units.

BD Interventional

This segment generated worldwide revenues of \$1.01 billion, up 6.9% from the year-ago quarter. At cc, revenues grew 7.7% on strong performance by the Urology and Critical Care and Surgery sub-units.

Geographic Results

US

In the fiscal fourth quarter, revenues in the United States improved 4.6% to \$2.56 billion. Revenues grew 4.9% at cc. Per management, growth in the United States was driven by good performance by the BD Medical, BD Life Sciences and the Surgery and Urology and Critical Care units within the BD Interventional segment.

International

Revenues outside the United States grossed \$2.02 billion, up 3.5% from the year-ago quarter. At cc, the segment grew 7.9%. Per management, international revenue growth in the fourth quarter was strong in APAC and EMEA.

Margin Analysis

In the quarter, gross profit amounted to \$2.27 billion, up 8.3% from the prior-year quarter tally. Gross margin was 49.4%, up 190 bps from the prior-year quarter.

Operating income in the quarter grossed \$111 million, down significantly from the year-ago quarter's figure of \$576 million. As a percentage of revenues, operating margin in the quarter was 2.4%, significantly down from year-ago quarter's 13.1%.

Adjusted operating income amounted to \$902 million, up 26.2% from the year-ago figure.

Guidance

The company expects fiscal 2020 revenues to increase 4-4.5% year over year and 5-5.5% at cc.

Adjusted EPS is expected between \$12.50 and \$12.65, indicating growth of 7-8.5% from fiscal 2019. At cc, growth is expected between 9.5% and 11%.

Recent News

On **Nov 21**, BD announced its latest advancement in combating antimicrobial resistance with new analytics integrated into the company's connected medication management platform that identifies when an inappropriate and potentially ineffective antibiotic has been prescribed, based on a patient's specific infection diagnosis.

On **Nov 12**, BD announced the submission of a pre-market approval supplement to the FDA for an expanded version of its BD Onclarity HPV Assay.

Valuation

Becton, Dickinson's shares are up 8.5% and 16.1% in the past six months period and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry are down 6.5% while that in the Zacks Medical sector are up 8.3% in the past six months period. Over the past year, the Zacks sub-industry and sector are up 2.9% and 5.8%, respectively.

The S&P 500 index is up 11.5% in the past six months and up 25.4% in the past year.

The stock is currently trading at 21.37X Forward 12-months earnings, which compares to 18.35X for the Zacks sub-industry, 21.77X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24X and as low as 15.18X, with a 5-year median of 18.76X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$291 price target reflects 22.40X forward 12-months earnings.

The table below shows summary valuation data for BDX.

Valuation Multiples - BDX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.37	18.35	21.77	19.18
	5-Year High	24	19.99	21.77	19.34
	5-Year Low	15.18	13.7	15.85	15.17
	5-Year Median	18.76	16.67	18.91	17.44
P/S F12M	Current	4.1	0.37	2.88	3.57
	5-Year High	4.43	0.37	3.82	3.57
	5-Year Low	2.15	0.23	2.43	2.54
	5-Year Median	3.44	0.28	2.94	3
P/B TTM	Current	3.56	4.68	4.61	4.55
	5-Year High	5.71	4.93	5.03	4.55
	5-Year Low	2.64	2.53	3.43	2.85
	5-Year Median	3.88	3.45	4.29	3.61

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 255)



Top Peers

ABIOMED, Inc. (ABMD)	Neutral
AngioDynamics, Inc. (ANGO)	Neutral
Accuray Incorporated (ARAY)	Neutral
Baxter International Inc. (BAX)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Cardiovascular Systems, Inc. (CSII)	Neutral
3M Company (MMM)	Neutral
Novartis AG (NVS)	Neutral

Industry Comparison Industry: Medical - Dental Supplies				Industry Peers		
	BDX Neutral	X Industry	S&P 500	BAX Neutral	MMM Neutral	NVS Neutral
VGM Score	B	-	-	B	B	B
Market Cap	75.06 B	1.62 B	24.43 B	46.50 B	103.16 B	218.16 B
# of Analysts	12	5	13	10	6	5
Dividend Yield	1.14%	0.00%	1.75%	0.97%	3.21%	1.94%
Value Score	C	-	-	C	C	B
Cash/Price	0.01	0.06	0.04	0.06	0.07	0.04
EV/EBITDA	22.74	11.53	14.00	19.51	13.37	10.67
PEG Ratio	1.92	2.05	2.06	2.12	1.97	1.97
Price/Book (P/B)	3.55	4.07	3.39	5.93	9.58	4.15
Price/Cash Flow (P/CF)	13.36	12.59	13.69	19.77	13.42	11.68
P/E (F1)	22.21	23.33	19.00	24.34	18.68	16.79
Price/Sales (P/S)	4.34	1.56	2.68	4.16	3.23	4.52
Earnings Yield	4.53%	3.57%	5.26%	4.11%	5.35%	5.96%
Debt/Equity	0.86	0.32	0.72	0.72	1.68	0.42
Cash Flow (\$/share)	20.77	1.80	6.94	4.61	13.37	8.15
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	13.51%	8.77%	10.60%	NA	6.54%	0.15%
Proj. EPS Growth (F1/F0)	7.58%	10.76%	7.57%	10.80%	6.22%	8.41%
Curr. Cash Flow Growth	14.64%	9.29%	14.00%	14.69%	8.64%	6.18%
Hist. Cash Flow Growth (3-5 yrs)	24.86%	12.65%	9.00%	-5.21%	5.24%	2.20%
Current Ratio	1.18	1.72	1.23	2.78	2.30	0.95
Debt/Capital	46.17%	26.85%	42.99%	41.88%	62.66%	29.33%
Net Margin	6.84%	3.65%	11.15%	13.80%	15.48%	24.43%
Return on Equity	15.52%	15.73%	17.16%	22.99%	54.02%	20.86%
Sales/Assets	0.33	1.02	0.55	0.68	0.81	0.37
Proj. Sales Growth (F1/F0)	4.27%	5.42%	4.05%	4.52%	5.02%	2.86%
Momentum Score	B	-	-	A	B	B
Daily Price Chg	0.16%	0.00%	-0.27%	1.49%	-1.08%	-0.77%
1 Week Price Chg	0.95%	0.95%	2.29%	4.46%	0.49%	2.21%
4 Week Price Chg	1.66%	5.30%	2.13%	7.53%	1.53%	0.39%
12 Week Price Chg	9.14%	9.67%	6.99%	16.97%	6.27%	7.69%
52 Week Price Chg	16.03%	14.48%	21.25%	30.74%	-6.69%	7.78%
20 Day Average Volume	945,731	240,089	1,415,064	2,406,660	2,029,460	1,110,964
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.04%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.40%	0.10%	-0.04%
(F1) EPS Est 12 week change	-2.74%	0.00%	-0.34%	-0.94%	-2.89%	-1.43%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	NA

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	A
Momentum Score	B
VGM Score	B

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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