

Booking Holdings Inc. (BKNG)

\$1,908.89 (As of 01/27/20)

Price Target (6-12 Months): **\$2,004.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/20/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Booking Holdings is riding on improving gross bookings. The company continues to witness solid growth in the booked room nights. The company's strengthening accommodation business is aiding growth in the total room nights bookings. Further, strong efforts toward ramping up of merchant business remain positive. Moreover, the company's strong international footprint, growth opportunities in the domestic market and good execution of marketing strategies are major positives. Estimates have been going up ahead of the company's Q4 earnings release. However, the company has mixed record of earnings surprises in recent quarters. Continued softness in agency business of the company is an overhang. Further, macro headwinds and increasing advertising spend are concerns. The stock has underperformed the industry it belongs to over a year.

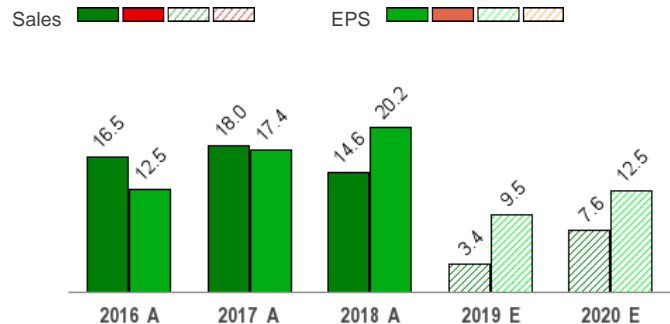
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-------------------------------------|
| 52 Week High-Low | \$2,094.00 - \$1,640.54 |
| 20 Day Average Volume (sh) | 350,053 |
| Market Cap | \$79.9 B |
| YTD Price Change | -7.1% |
| Beta | 1.10 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Internet - Commerce |
| Zacks Industry Rank | Bottom 29% (182 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 1.1% |
| Last Sales Surprise | -0.7% |
| EPS F1 Est- 4 week change | 0.4% |
| Expected Report Date | 02/26/2020 |
| Earnings ESP | 0.3% |
| P/E TTM | 18.6 |
| P/E F1 | 16.7 |
| PEG F1 | 1.4 |
| P/S TTM | 5.4 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2020 | 3,061 E | 4,080 E | 5,410 E | 3,540 E | 16,156 E |
| 2019 | 2,837 A | 3,850 A | 5,040 A | 3,281 E | 15,017 E |
| 2018 | 2,928 A | 3,537 A | 4,849 A | 3,213 A | 14,527 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|-----------|-----------|------------|
| 2020 | \$12.13 E | \$26.24 E | \$50.97 E | \$25.14 E | \$114.01 E |
| 2019 | \$11.17 A | \$23.59 A | \$45.36 A | \$22.05 E | \$101.37 E |
| 2018 | \$12.00 A | \$20.67 A | \$37.78 A | \$22.49 A | \$92.59 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 01/27/2020. The reports text is as of 01/28/2020.

Overview

Norwalk, Connecticut-based Booking Holdings Inc. is one of the largest online travel companies in the world. The company's travel-related offerings cover hotel rooms, airline tickets, rental cars, vacation packages, cruises, "things to do" at customer destinations and travel insurance.

The company has agreements with hotels, airlines companies, cruise ships, transport companies and vacation providers, which enable it to accept bookings on their behalf. Information on these offerings and customer reviews are available on the company's owned or operated websites, thus helping customers take informed decisions.

Services in the U.S. are provided through the Booking Holdings.com website. The company employs two marketing strategies in the U.S.—"price-disclosed" and "name your own price" or "opaque".

International revenues are generated through Booking.com and Agoda. Booking.com is older and therefore, has more patrons. Agoda is an Asian company acquired in 2007. Booking Holdings's investment in Chinese travel company Ctrip facilitates the use of each other's inventories in China and the U.S.

International results are comprised of revenues from rentalcars.com and Kayak. While rentalcars.com allows it to take rental car reservations, Kayak enables comparative shopping of Booking Holdings inventories.

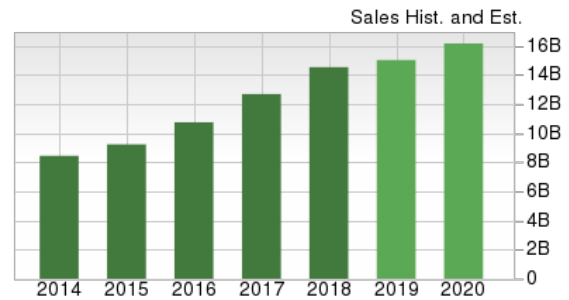
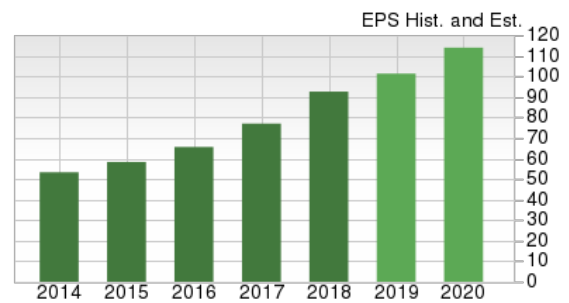
The acquisition of OpenTable that has allowed it to expand into restaurant reservations space, also contributes to the international revenues.

Booking Holdings distributes its services through merchant (20.3% of 2018 bookings, 20.6% of 2018 total revenues) and agency (79.7%, 72.1%) channels. It also generates around 7.3% of revenues through advertisements on its websites, classified as the Advertising & Other category.

The agency model is more lucrative for the company. It generates revenues from travel-related transactions which include travel reservation commissions, GDS reservation booking fees and certain travel insurance fees.

Merchant model revenues are also derived from travel-related transactions which include ancillary fees, credit card processing rebates, customer processing fees along with the ones included in agency model.

Advertising & Other revenues are generated from KAYAK and Open Table.



Reasons To Buy:

- ▲ The online travel booking segment has **secular growth drivers**. The biggest of these is the shift from offline to online booking challenges. The strong growth rates might lead one to believe that growth through this channel is reaching its zenith especially given the proliferation of mobile devices. But the travel market is actually extremely fragmented, so significant growth opportunity remains. Second, many international markets have significantly lower penetration rates than the U.S. Third, there is a growing middle class in many geographies that increasingly lives online. This is a segment companies like Booking Holdings are extremely well positioned to tap. And fourth, the company does have a world-class platform which helps it win this business.
- ▲ Booking Holdings generates the bulk of its business from international markets where growth prospects are greater than in the domestic market. According to PhoCusWright, online travel booking in Europe is growing at a faster rate than in the U.S. with penetration rates already higher. Since Booking Holdings is very strongly positioned here, it will be able to benefit from increasing penetration rates. Latin America and Asia Pacific are at a nascent stage, but are believed to have significant long-term growth potential. Booking Holdings has increased focus on these regions through Agoda, booking.com and its agreement with Ctrip which enables it to share inventory and thereby capture outbound traffic from China. It is also able to use Ctrip inventory for people looking to travel to China.
- ▲ Further, Booking's strong initiatives to bolster its presence in North American OTA market remains positive. Its brand has strong popularity in Europe. The company is in a position to leverage this popularity to capture a share of international travel into the U.S. Its agreement with and subsequent investments in Ctrip have also furthered this objective. It also acquired OpenTable to further beef up its domestic business. Booking Holdings has supplemented these initiatives with brand-building actions using both online and offline channels. Most notable of these was an agreement with TripAdvisor to join its Instant Booking platform. While still a very small part of its business, this could familiarize the brand with Americans. Management said in the last earnings call that the arrangement was working on track with expectations.
- ▲ Booking Holdings's **sales approach** enables it to serve both premium and cost-conscious customers, at the same time helping to mobilize its suppliers' excess room nights. Room nights not used are lost forever and the low occupancy rate lowers margins for the seller. Booking Holdings's opaque business takes care of this problem by selling suppliers' excess room nights to cost conscious customers at a discount. Customers' preferences regarding the kind of accommodation/car/etc are considered, but the supplier's name is not disclosed at the outset. This protects supplier pricing models, while helping them mobilize inventory. It also generates additional revenue for Booking Holdings. However, as more competitors adopt the opaque model, growth rates through its adoption are likely to slow. It also doesn't do as well when the travel market strengthens simply because there is less available inventory. The "name your own price" model is popular even among airline companies.

The secular growth trend in the online travel booking market, strong position in international markets and growth opportunities in the domestic market are positives.

Reasons To Sell:

- ▼ Booking Holdings has been **increasing advertising spend**. Management is trying to take share in the U.S. for which it has embarked on an extensive offline brand advertising campaign in addition to continuing strong online advertising. As a result, performance and brand advertising expenses increased significantly in the recent years. Total performance advertising expenses were \$4.4 billion, \$4.1 billion and \$3.5 billion in 2018, 2017 and 2016, respectively. Total brand advertising expenses were \$457 million, \$392 million and \$296 million, respectively in 2018, 2017, 2016, respectively. The increased advertising spend is necessitated by the fact that the company has a very strong competitor in Expedia in the domestic market. Capturing mindshare involves sustained investments in brand building, so this expense is not necessarily a negative although it can negatively impact results in the near term.
- ▼ Despite significant investments as well as branding and promotional initiatives, the **domestic business remains small**. Booking Holdings tried to leverage its Booking.com brand and Ctrip investments to build the business, but these efforts have not yielded desired results as yet. There were also high hopes of the OpenTable acquisition adding to its growth, but this too doesn't appear to have materialized, since growth rates have in fact come down since then. Limited presence in the domestic market is particularly significant in the current environment because the stronger dollar is increasing the cost of travel for inbound tourists and thereby impacting these sales. On the other hand, cost of travel for Americans has fallen with the dollar strengthening, which although good for outbound travel, is not an opportunity the company can exploit because it doesn't have good brand position yet.
- ▼ Booking Holdings operates in the highly competitive online travel booking space with its participants such as Expedia, Ctrip.com and MakeMy Trip, to name a few. Booking faces competitive pressure from both online and physical travel agencies, tour operators, consolidators, wholesalers of travel products and providers of travel search engines.
- ▼ Similar to other online travel companies, Booking Holdings is also **facing a significant amount of litigation**. This is mainly because there seems to be a doubt about whether its revenue is taxable under the tax ordinances applicable to hotels. This is mainly due to the fact that there seems to be a doubt as to whether its revenue is taxable under the tax ordinances applicable to hotels. It has been argued that had the hotels charged customers directly, they would have charged higher rates than they charge the online travel companies, which acquire inventory at wholesale prices. Therefore, a higher amount would have come under the ambit of occupancy tax. Just because the revenue is now being split with a booking company, there is no reason for it to be exonerated. The arguments in favor of the online travel companies are first, they do not own or operate hotels. Second, they are already collecting and remitting to hotels the tax on wholesale prices which are being paid by the hotel. And third, offline selling agents are not required to pay occupancy tax, so there should not be an exception for online agents. However, certain facts have come to light regarding the taxes collected by online travel companies. It appears that they have been collecting cash from customers in the name of occupancy taxes on the retail value of rooms sold, but remitting taxes on wholesale prices to hotels, keeping the balance. Online travel companies have been winning some cases and losing some, but they have had to pay significant amount of taxes in some states.

Macro headwinds, rising advertising costs, intensifying competition and occupancy tax-related litigation remain overhangs for Booking Holdings.

Last Earnings Report

Booking Holdings Earnings Beat Estimates in Q3

Booking Holdings reported third-quarter 2019 non-GAAP earnings of \$45.36 per share beating the Zacks Consensus Estimate by 1.1%. Further, the figure improved 20.1% from the year-ago quarter and 92.3% on a sequential basis.

Revenues of \$5.04 billion improved 4% year over year and 30.9% from the previous quarter.

Solid momentum across merchant, and advertising and other businesses drove the top line year over year. Additionally, robust accommodation business drove the booked room nights number, which came in at 223 million during the reported quarter, up 11% from the prior-year quarter.

However, revenues missed the Zacks Consensus Estimate of \$5.07 billion.

Continued softness in agency business remained a headwind. Further, the company faced sluggishness in airline tickets unit, which was down 2.5% year over year during the reported quarter.

Nevertheless, Booking Holdings witnessed robust improvement in rental car days that rose 8.5% from the year-ago quarter.

Further, secular growth trend in the online travel booking market and growing usage of mobile by travelers for their travel planning remain tailwinds.

Moreover, the company's strong position in the international markets, growth opportunities in the domestic market, solid momentum across the global accommodation space and proper execution of its marketing strategies are major positives.

Top-Line in Detail

Booking Holdings generates bulk of revenues from the international markets, wherein the agency model is more popular. This is reflected in the merchant/agency split of revenues, which was 26.1/68.1% in the third quarter (previous quarter's split was 24.9/67.7%).

Merchant revenues came in \$1.3 billion, up 25% year over year. The company's continued efforts toward improving of merchant business remains a positive.

Further, Agency revenues were \$3.4 billion, down 2.9% on a year-over-year basis.

Advertising & Other revenues were \$292 million (5.8% of total revenues), improving 13.2% from the year-ago quarter. These are basically non-inter company revenues from Kayak and OpenTable.

Bookings

Booking Holdings' overall gross bookings came in \$25.28 billion were up 4.1% year over year. Further, the figure was up 7% at constant currency from the year-ago quarter, which exceeded management's guided range.

Additionally, gross bookings topped the Zacks Consensus Estimate of \$25.26 billion.

Merchant bookings were \$7.2 billion, up 36.5% from the prior-year quarter. However, agency bookings declined 4.8% year over year to \$18.1 billion.

Operating Results

Adjusted EBITDA in the third quarter was \$2.5 billion, up 5.2% from the year-ago quarter. As a percentage of revenues, the figure expanded 60 bps to 49.3%.

Per management, operating expenses were \$2.7 billion, up 2.6% year over year. However, as a percentage of revenues, the figure contracted 80 bps from the year-ago quarter to 52.9%.

Operating income was \$2.4 billion, increasing 5.5% year over year. Moreover, operating margin of 47% expanded 70 bps from the year-ago quarter.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and short-term investments balance was \$7.4 billion, up from \$6.8 billion as of Jun 30, 2019.

At the end of the third quarter, Booking Holdings had \$7.5 billion of long-term debt, down from \$7.7 billion in the previous quarter.

During the reported quarter, the company generated \$1.9 billion of cash from operations, increasing from \$1.8 billion in the previous quarter.

Further, free cash flow was \$1.8 billion in the third quarter. The company repurchased shares worth \$1.3 billion during the reported quarter.

Guidance

For fourth-quarter 2019, Booking Holdings expects room nights booked to improve 6-8%.

Quarter Ending **09/2019**

| Report Date | Nov 07, 2019 |
|------------------|--------------|
| Sales Surprise | -0.68% |
| EPS Surprise | 1.09% |
| Quarterly EPS | 45.36 |
| Annual EPS (TTM) | 102.61 |

Further, total gross bookings are anticipated to reflect year-over-year growth in the range of 0.5-2.5%. On a constant-currency basis, gross bookings are expected in the range of 2-4%.

The company anticipates adjusted EBITDA in the range of \$1.21-\$1.23 billion.

Non-GAAP earnings are expected in the range of \$21.50-\$22.00 per share.

Recent News

On **Jan 21, 2020**, Booking Holding's KAYAK unveiled a new tool called Trip Builder which helps in seamless planning of multi-city trip.

On **Nov 19, 2019**, Booking Holdings' OpenTable teamed up with Capital One Financial in a bid to enhance its offering to the Capital One credit cardholders who will now be able to enjoy its hard-to-get reservations at prime dining times in more than 15 different US cities.

On **Nov 11, 2019**, Booking Holdings rolled out enhanced products and technology on its Agoda platform. This is in sync with its growing initiatives toward delivering better traveler experience.

Valuation

Booking Holdings shares are down 0.6% in the six-month period while the same are up 5.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 5.2% and 5% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 18.5% and 17.7%, respectively.

The S&P 500 index is up 9.5% in the six-month period and 24.1% in the past year.

The stock is currently trading at 16.61X forward 12-month earnings, which compares to 40.25X for the Zacks sub-industry, 25.06X for the Zacks sector and 18.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.9X and as low as 14.86X, with a 5-year median of 20.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$2,004 price target reflects 17.44X forward 12-month earnings.

The table below shows summary valuation data for BKNG

| Valuation Multiples - BKNG | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 16.61 | 40.25 | 25.06 | 18.93 |
| | 5-Year High | 24.9 | 53.04 | 26.23 | 19.34 |
| | 5-Year Low | 14.86 | 24.74 | 19.07 | 15.18 |
| | 5-Year Median | 20.1 | 42.17 | 22.95 | 17.45 |
| P/S F12M | Current | 4.92 | 4.02 | 1.07 | 3.52 |
| | 5-Year High | 7.38 | 5.77 | 1.11 | 3.52 |
| | 5-Year Low | 4.49 | 3.1 | 0.8 | 2.54 |
| | 5-Year Median | 6 | 4.58 | 0.91 | 3 |
| EV/Sales TTM | Current | 5.45 | 5.07 | 1.27 | 3.3 |
| | 5-Year High | 8.87 | 8.12 | 1.28 | 3.3 |
| | 5-Year Low | 5.34 | 4.13 | 0.88 | 2.16 |
| | 5-Year Median | 7.23 | 6.21 | 1.06 | 2.8 |

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (182 out of 255)



Top Peers

| | |
|--------------------------------------|--------------|
| Amazon.com, Inc. (AMZN) | Neutral |
| Alibaba Group Holding Limited (BABA) | Neutral |
| Carnival Corporation (CCL) | Neutral |
| Alphabet Inc. (GOOGL) | Neutral |
| MakeMyTrip Limited (MMYT) | Neutral |
| TripAdvisor, Inc. (TRIP) | Neutral |
| Uber Technologies, Inc. (UBER) | Neutral |
| Expedia Group, Inc. (EXPE) | Underperform |

| Industry Comparison Industry: Internet - Commerce | | | | Industry Peers | | |
|---|--------------|------------|-----------|-------------------|--------------|--------------|
| | BKNG Neutral | X Industry | S&P 500 | EXPE Underperform | MMYT Neutral | TRIP Neutral |
| VGM Score | A | - | - | D | D | C |
| Market Cap | 79.90 B | 2.48 B | 23.86 B | 15.80 B | 2.36 B | 4.03 B |
| # of Analysts | 14 | 3 | 13 | 11 | 3 | 7 |
| Dividend Yield | 0.00% | 0.00% | 1.81% | 1.25% | 0.00% | 0.00% |
| Value Score | C | - | - | C | F | B |
| Cash/Price | 0.09 | 0.13 | 0.04 | 0.30 | 0.11 | 0.23 |
| EV/EBITDA | 14.58 | 7.92 | 13.94 | 7.90 | -16.37 | 10.30 |
| PEG Ratio | 1.39 | 1.29 | 2.00 | 1.31 | NA | 1.09 |
| Price/Book (P/B) | 13.64 | 5.15 | 3.25 | 2.77 | 1.87 | 2.45 |
| Price/Cash Flow (P/CF) | 17.93 | 18.56 | 13.46 | 7.92 | NA | 15.19 |
| P/E (F1) | 16.78 | 25.23 | 18.67 | 15.77 | NA | 15.06 |
| Price/Sales (P/S) | 5.35 | 1.82 | 2.62 | 1.33 | 4.68 | 2.57 |
| Earnings Yield | 5.97% | 1.85% | 5.35% | 6.34% | -5.01% | 6.63% |
| Debt/Equity | 1.51 | 0.23 | 0.72 | 0.80 | 0.02 | 0.00 |
| Cash Flow (\$/share) | 106.43 | 0.42 | 6.92 | 13.77 | -1.37 | 1.91 |
| Growth Score | B | - | - | F | C | C |
| Hist. EPS Growth (3-5 yrs) | 17.28% | 16.19% | 10.68% | 13.45% | NA | -16.74% |
| Proj. EPS Growth (F1/F0) | 12.47% | 13.27% | 7.51% | 13.41% | -15.33% | 11.04% |
| Curr. Cash Flow Growth | 14.95% | 4.60% | 13.40% | 24.92% | -25.26% | 46.67% |
| Hist. Cash Flow Growth (3-5 yrs) | 17.08% | 14.92% | 8.78% | 21.60% | NA | 1.37% |
| Current Ratio | 1.82 | 1.53 | 1.22 | 0.75 | 1.69 | 2.52 |
| Debt/Capital | 60.21% | 24.51% | 42.92% | 44.74% | 1.75% | 0.00% |
| Net Margin | 29.05% | -0.94% | 11.39% | 4.26% | -29.59% | 7.44% |
| Return on Equity | 67.17% | 9.20% | 17.19% | 13.45% | -11.21% | 9.18% |
| Sales/Assets | 0.68 | 0.90 | 0.54 | 0.58 | 0.32 | 0.66 |
| Proj. Sales Growth (F1/F0) | 7.59% | 16.51% | 4.09% | 8.77% | 15.97% | 4.23% |
| Momentum Score | A | - | - | C | C | C |
| Daily Price Chg | -2.75% | -1.13% | -1.40% | -2.73% | -0.48% | -2.69% |
| 1 Week Price Chg | -4.46% | -0.77% | -1.09% | 0.29% | -9.17% | -3.85% |
| 4 Week Price Chg | -7.06% | 1.68% | -0.25% | 1.22% | -0.52% | -3.60% |
| 12 Week Price Chg | -4.92% | 0.35% | 3.64% | -19.32% | -14.26% | -29.76% |
| 52 Week Price Chg | 5.25% | -2.90% | 18.08% | -6.80% | -10.28% | -49.04% |
| 20 Day Average Volume | 350,053 | 112,414 | 1,615,215 | 1,843,427 | 271,379 | 1,942,267 |
| (F1) EPS Est 1 week change | 0.10% | 0.00% | 0.00% | 0.00% | 0.00% | -1.02% |
| (F1) EPS Est 4 week change | 0.41% | 0.00% | 0.00% | 0.00% | 0.00% | 0.41% |
| (F1) EPS Est 12 week change | -2.15% | -3.64% | -0.17% | -19.35% | -11.80% | -17.73% |
| (Q1) EPS Est Mthly Chg | -3.99% | 0.00% | 0.00% | 0.00% | NA | -0.22% |

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 | B |
| Momentum Score | A |
| VGM Score | A |

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.

Disclosures

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