

Anheuser-Busch InBev (BUD)

\$57.18 (As of 06/05/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

Despite the impacts of the coronavirus pandemic, AB InBev's premiumization and revenue-management initiatives aided revenue per hl in first-quarter 2020. The company is now witnessing positive trends in China and South Korea, in the post-lockdown phase. Driven by the early signs of recovery, the company expects to apply the experiences from these markets to other markets. The company also benefited from its investments in digital, B2B and e-commerce portals amid the coronavirus crisis. Further, the company demonstrated financial discipline through optimizing cost base, revising dividend proposal and maintaining strong liquidity position. However, the company's shares have declined year to date due to the pandemic, which also hurt first-quarter 2020 results. Notably, it reported loss per share while sales declined in the reported quarter.

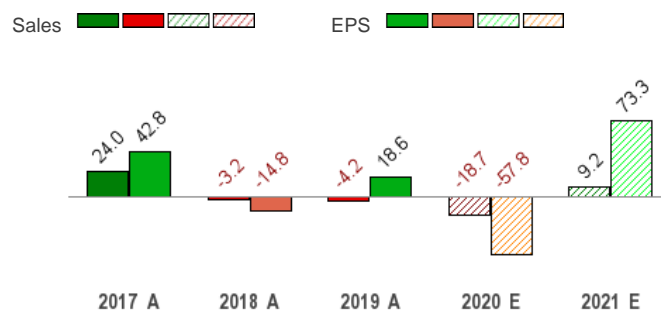
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$102.70 - \$32.58
20 Day Average Volume (sh)	3,499,577
Market Cap	\$115.3 B
YTD Price Change	-30.3%
Beta	1.30
Dividend / Div Yld	\$1.10 / 2.3%
Industry	Beverages - Alcohol
Zacks Industry Rank	Top 22% (55 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-133.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-11.8%
Expected Report Date	07/30/2020
Earnings ESP	0.0%
P/E TTM	22.6
P/E F1	33.2
PEG F1	3.8
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					46,440 E
2020	11,003 A	8,639 E	9,815 E	11,137 E	42,530 E
2019	12,589 A	13,963 A	13,172 A	13,334 A	52,329 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.98 E
2020	-\$0.42 A	\$0.29 E	\$0.45 E	\$0.84 E	\$1.72 E
2019	\$1.27 A	\$1.25 A	\$1.22 A	\$0.48 A	\$4.08 A

*Quarterly figures may not add up to annual.

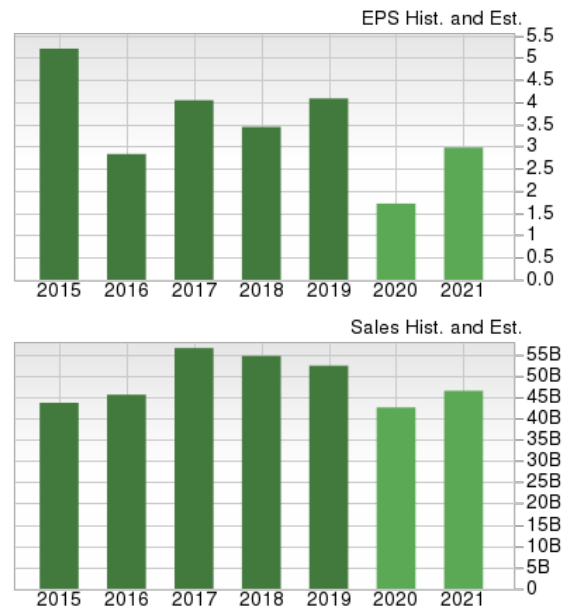
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/05/2020. The reports text is as of 06/08/2020.

Overview

Founded in 1366 and based in Leuven, Belgium, Anheuser-Busch InBev, alias AB InBev, is one of the biggest brewing companies (by volume), also ranking among the top five consumer product firms. Following the acquisition of SABMiller in October 2016, the company holds the top spot in the beer industry, controlling about one-third of the global beer market.

The company's diverse portfolio includes more than 500 brands. Its kitty includes global brands like Budweiser, Corona and Stella Artois; multi-country brands like Beck's, Hoegaarden, Leffe and Michelob Ultra; and local names like Aguila, Antarctica, Bud Light, Brahma, Cass, Castle, Castle Lite, Cristal, Harbin, Jupiler, Modelo Especial, Quilmes, Victoria, Sedrin, and Skol. AB InBev sells its beers in more than 150 countries. It generated revenues of \$52.3 billion in 2019.

The company operates in six management zones including North America (19.3% of 2019 revenues), Middle Americas (23.8%), South America (15.3%), APAC (24.9%), EMEA (16.6%) and Global Export and Holding Companies (0.2%).



Reasons To Buy:

▲ **Premiumization and Revenue-Management Initiatives Aid:** Although AB InBev's revenues declined in first-quarter 2020 due to the effects of COVID-19 pandemic, revenue per hectoliter (hl) improved 3.9% driven by gains from ongoing premiumization and revenue-management initiatives. This also reflected revenue per hl growth in regions where coronavirus related restrictions were implemented late in the quarter. Amid these regions, revenues improved 1.9% in the United States in first-quarter 2020, with revenue per hl up 3%. Implementation of the commercial strategy as well as premiumization and revenue-management initiatives resulted in the growth. In Mexico, revenues grew by low double-digits with a balanced contribution from volume and revenue per hl growth. Volume grew mid-single digits, ahead of the industry. Revenue per hl rose low single digits and ahead of inflation, driven by revenue management initiatives combined with a favorable brand mix. In South Africa, revenues and revenue per hl grew low-single digits, benefiting from positive brand mix.

AB InBev's revenue per hl improved 3.9% in first-quarter 2020 driven by gains from ongoing premiumization and revenue-management initiatives, despite the effects of COVID-19 pandemic.

▲ **China Recovery on Track:** As the China markets were re-opened by mid-March, AB InBev has started witnessing positive trends in the region. With bans lifted, the company is seeing steady recovery in the in-home and restaurant channels, while the nightlife channel recovery remains slow-paced due to ongoing social distancing norms. By March-end, almost all wholesalers resumed operations, though operating at lower demand levels owing to the current situation. However, there has been a consistent improvement in the recovery rate with every passing week since the beginning of March. All of the company's breweries have re-opened in China. With operations resuming, volume trends in China reflect marked improvement sequentially. Notably, volume in China has declined 17% in April compared with a 46.5% decline in the first quarter.

▲ **Plans to Apply China Experience to Other Markets:** China and South Korea are the main markets that showed early signs of recovery, with all bans being lifted by mid-March. The company plans to apply best practices from its experiences in China and South Korea to the rest of the markets as they move through different stages of the crisis and into eventual recovery. Some of the actions to tap sales in China during the outbreak were the re-allocation of resources to take advantage of the growth trends in the in-home and e-commerce channels. Notably, volume increased double-digits in the e-commerce channel in China in the first quarter, significantly increasing market share.

▲ **Digital Investments Aid Amid COVID-19:** AB InBev has been investing in new capabilities for several years to better connect with customers and consumers by leveraging technology, such as B2B sales and e-commerce platforms. These platforms remained more relevant amid the coronavirus pandemic as consumers were confined to their homes. Notably, all markets witnessed dramatically accelerated growth trends for digital sales, e-commerce and online marketing in recent months. Notably, the company is witnessing accelerated growth in its e-commerce channel in the first quarter, which partly negated the volume declines in on-premise and other channels.

In many markets, the company's customers opted to place orders online through its B2B and marketplace platforms, which were established and enhanced in recent years. Its Direct-to-Consumer e-commerce platforms, including Zé Delivery in Brazil, Beer Hawk in the UK and Saveur Bière in France, also gained significant traction. Further, the company's partnerships with third party home-delivery platforms are witnessing growth. Apart from this, the company is increasing the power of its brands to connect with consumers, while they stay home. For this, it has developed unique activities like Michelob Ultra's at-home fitness programs in the United States, Budweiser's e-clubbing partnerships in China and Brahma's virtual country music concert series in Brazil.

▲ **Financial Flexibility:** AB InBev has demonstrated financial discipline amid the coronavirus outbreak with several proactive measures, including optimizing cost base, revising final 2019 dividend proposal and maintaining a strong liquidity position. The company has implemented several cost-saving initiatives like suspension and cancellation of non-discretionary capital spending, reducing variable administrative expenses through travel freeze and cancellation of company events. It also froze packaging renovations, re-evaluated sales and marketing investments, and re-negotiated commercial contracts, like sponsorships, to reduce costs in the current situation. Further, its leadership team agreed to reduce their salary base by 20% for the rest of 2020. On Apr 14, the company revised its proposed final 2019 dividend to EUR 0.50 per share, from the prior rate of EUR 1.00.

Additionally, the company drew down its \$9 billion revolving credit facility in full to maintain strong financial liquidity. It also completed a bond issuance worth EUR 4.5 billion and \$6 billion in Apr 2020. Currently, none of the bonds or the revolving credit facility has any financial covenants. On Jun 1, the company further enhanced its financial position through the completion of the sale of its Australian subsidiary Carlton & United Breweries to Asahi Group Holdings Ltd. for A\$16 billion (or about US\$11 billion). The company plans to use nearly all of the proceeds from the divestiture of the Australian business to pay down debt.

Reasons To Sell:

- ▼ **Dismal Q1 Performance & Surprise Trend:** Shares of AB InBev declined 29.9% year to date, wider than the industry's decline of 21%. The stock remains under pressure due to the impacts of the coronavirus outbreak, which also hurt first-quarter 2020 results. The company's bottom line missed estimates and compared unfavorably with the year-ago figure in the first quarter. This marked its third consecutive quarter of earnings miss. The company reported a normalized loss per share of 42 cents against earnings per share of \$1.21 reported in the year-ago quarter. The bottom line was marred by the soft top line, margin contraction, operational deleverage on volume resulting from the impacts of the COVID-19 outbreak and transactional currency headwinds. Moreover, revenues were down 10% year over year due to a decline in volume on the coronavirus outbreak. It registered an organic revenue decline of 5.8%. Total organic volume declined 9.3%, with a 10.5% decrease in own-beer volume and a 0.2% fall in non-beer volume. Excluding China, organic volume declined 3.6% in the first quarter. Given the uncertainty, volatility and ongoing developments of the pandemic across markets, the company's outlook for 2020 stands withdrawn.
- ▼ **Soft On-Premise Volume Due to Coronavirus:** AB InBev started 2020 on a strong note, recording volume growth of 1.9% in the first two months of the quarter (January and February), excluding the China business that was affected by the coronavirus outbreak, beginning late January 2020. However, greater impacts of the outbreak began showing on its results toward the end of the quarter as lockdowns were enforced in most of its markets from mid-March. Most of the declines in volume mainly related to the closure of restaurants and bars, which affected the company's on-premise channel sales. Notably, the on-premise channel represented nearly one-third of its global volume in the year-ago quarter. However, the company is witnessing accelerated growth in its e-commerce channel, though this represents a smaller portion of total volume.
- ▼ **China Business – The Weak Spot in Q1:** While AB InBev managed decent revenue growth in the United States and markets that reflected COVID-19 impacts from mid-March, China remained a weak spot due to closures initiated by January-end. Revenues in China declined 45.4% in the first quarter, with volume declines of 46.5% due to the pandemic. Further, EBITDA declined 67.6% as a result of lower volumes, while EBITDA margin contracted significantly to 23.3% owing to soft volume. Notably, the impacts of COVID-19 struck China in late January, soon after the Chinese New Year celebrations. The country imposed lockdowns across most regions from late January to end of February, which led to virtually no activity in the nightlife channel, limited restaurant channel activity and strong decline in home channel. These were, however, only partly offset by growth in e-commerce channel, which reported strong double-digit volume growth.
- ▼ **China Declines Hurt Global Brands Volume:** Consolidated revenues for AB InBev's three global brands — Budweiser, Corona and Stella Artois — declined 11% globally and 17.5% outside their respective home markets in the first quarter. The slump was mainly attributed to significant declines in China, which more than offset growth across the majority of its markets. Notably, China is the largest market for both Budweiser and Corona, outside of their home markets.
- ▼ **Disappointing Q2 Trends:** AB InBev expects the impacts of the pandemic on its second quarter to be more severe than the first quarter due to extended lockdowns and social distancing measures adopted by the governments. The company notes that global volumes declined nearly 32% in April, driven by the continued closure of the on-premise channels in most markets as well as restrictions on some operations due to the pandemic.

AB InBev's loss per share in first-quarter 2020 was driven by soft top line, margin decline, operational deleverage on volume due to the impacts of the COVID-19 outbreak and currency headwinds.

Last Earnings Report

AB InBev Posts Q1 Loss on Declines in On-Premise Volume

Anheuser-Busch InBev, alias AB InBev, reported first-quarter 2020 results, wherein the bottom line missed estimates and compared unfavorably with the year-ago figure. This marked its third consecutive quarter of earnings miss. Moreover, revenues were down year over year due to a decline in volume on the coronavirus outbreak, offset by a rise in revenues per hectoliter (hl).

The company started 2020 on a strong note, recording volume growth of 1.9% in the first two months of the quarter, excluding the China business, which was affected by the coronavirus outbreak, beginning late January 2020. However, greater impacts of the outbreak began showing on its results toward the end of the quarter as lockdowns were enforced in most of its markets from mid-March.

Most of the declines in volume mainly related to the closure of restaurants and bars, which affected the company's on-premise channel sales. Notably, the on-premise channel represented nearly one-third of its global volume in the year-ago quarter. However, the company is witnessing accelerated growth in its e-commerce channel though representing a smaller portion of total volume.

Going forward, it expects the impacts of the pandemic on its second quarter to be more severe than the first quarter due to extended lockdowns and social distancing measures adopted by the governments. Evidently, the company notes that global volumes declined nearly 32% in April, driven by the continued closure of the on-premise channels in most markets as well as restrictions on some operations due to the pandemic.

Q1 Highlights

The company reported a normalized loss per share of 42 cents against earnings per share of \$1.21 reported in the year-ago quarter. Moreover, the bottom line missed the Zacks Consensus Estimate of a loss of 18 cents. Earnings were marred by the soft top line, margin contraction, operational deleverage on volume resulting from the impacts of the COVID-19 outbreak and transactional currency headwinds.

Underlying earnings per share (normalized EPS, excluding mark-to-market gains and losses related to the hedging of share-based payment programs, and the impact of hyperinflation) were 51 cents in first-quarter 2020, down 30.1% from 73 cents earned in the year-ago quarter.

Revenues of \$11,003 million declined 10% from the year-ago quarter. The company registered an organic revenue decline of 5.8% primarily due to a decrease in volume sold on the coronavirus pandemic. Meanwhile, revenues per hectoliter (hl) improved 3.9%, driven by gains from ongoing premiumization and revenue-management initiatives.

Total organic volume declined 9.3%, with a 10.5% decrease in own-beer volume and a 0.2% fall in non-beer volume. Excluding China, organic volume declined 3.6% in the first quarter despite recording growth of 1.9% in January and February.

Consolidated revenues at the company's three global brands — Budweiser, Corona and Stella Artois — declined 11% globally and 17.5% outside their respective home markets in the first quarter. The slump was mainly attributed to significant declines in China, which more than offset growth across the majority of its markets. Notably, China is the largest market for both Budweiser and Corona, outside of their home markets.

The cost of sales declined 4.3% to \$4,573 million and was flat on an organic basis. Further, organic cost of sales per hl increased 10.3% due to operational deleverage on volumes due to the COVID-19 outbreak and transactional currency headwinds.

The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) were \$3,949 million, which declined 17.7% year over year and 13.7% on an organic basis. Normalized EBITDA margin contracted 340 basis points (bps) to 35.9% and declined 331 bps organically.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	NA
EPS Surprise	-133.33%
Quarterly EPS	-0.42
Annual EPS (TTM)	2.53

Recent News

AB InBev Approves Annual Dividend - Jun 3, 2020

AB InBev's board has approved the total dividend of \$1.30 per share for 2019. Out of this, gross interim dividend of 80 cents has already been paid on Nov 19.

AB InBev Completes Sale of Australian Subsidiary – Jun 1, 2020

AB InBev completes the previously announced sale of its Australian subsidiary – Carlton & United Breweries (CUB) to Asahi Group Holdings, Ltd. for A\$16 billion (or about US\$11 billion). The company plans to use nearly all of the proceeds from the divestiture of the Australian business to pay down debt. Per the transaction, AB InBev has granted Asahi Group the rights to commercialize the portfolio of AB InBev's global and international brands in Australia.

AB InBev Alters Dividend Proposal – Apr 14, 2020

Driven by the uncertainty of the COVID-19 outbreak, AB InBev has lowered its proposed dividend for 2019 to EUR 0.50 per share, compared with EUR 1.00 per share proposed earlier. Further, it has rescheduled its extraordinary shareholder meeting to Jun 3, 2020, which was earlier likely to take place on Apr 29.

Valuation

Anheuser-Busch InBev shares are down 29.3% in the year-to-date period and 32.1% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 21% and 9.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 16.8% and 6.4%, respectively.

The S&P 500 index is down 1% in the year-to-date period but up 10.5% in the past year.

The stock is currently trading at 25.26X forward 12-month earnings, which compares to 28.62X for the Zacks sub-industry, 20.31X for the Zacks sector and 23.07X for the S&P 500 index.

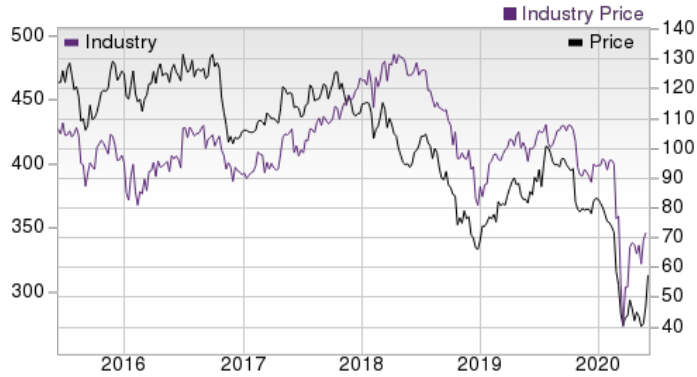
Over the past five years, the stock has traded as high as 31.53X and as low as 10.15X, with a 5-year median of 21.05X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$61 price target reflects 27X forward 12-month earnings.

The table below shows summary valuation data for BUD

Valuation Multiples - BUD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.26	28.52	20.31	23.07
	5-Year High	31.53	28.52	22.37	23.07
	5-Year Low	10.15	18.8	16.65	15.23
	5-Year Median	21.05	23.2	19.66	17.49
P/S F12M	Current	2.61	14.28	9.78	3.59
	5-Year High	4.81	20.67	11.16	3.59
	5-Year Low	1.35	13.04	8.1	2.53
	5-Year Median	3.27	17.34	9.89	3.02
EV/EBITDA TTM	Current	5.11	36.27	34.51	11.82
	5-Year High	15.82	53.27	45.11	12.85
	5-Year Low	3.53	27.03	27.19	8.25
	5-Year Median	10.2	43.34	38.37	10.8

As of 06/05/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Craft Brew Alliance, Inc. (BREW)	Outperform	1
BrownForman Corporation (BF.B)	Neutral	3
Carlsberg AS (CABGY)	Neutral	3
Diageo plc (DEO)	Neutral	4
The Boston Beer Company, Inc. (SAM)	Neutral	2
Constellation Brands Inc (STZ)	Neutral	2
Molson Coors Beverage Company (TAP)	Neutral	3
Heineken NV (HEINY)	Underperform	3

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	BUD	X Industry	S&P 500	DEO	HEINY	TAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	F	-	-	B	A	D
Market Cap	115.30 B	9.44 B	23.09 B	86.19 B	55.94 B	9.18 B
# of Analysts	2	2	14	4	2	7
Dividend Yield	2.30%	0.00%	1.82%	1.83%	1.88%	5.38%
Value Score	D	-	-	C	B	B
Cash/Price	0.00	0.04	0.06	0.02	0.04	0.08
EV/EBITDA	5.12	9.48	13.17	NA	10.65	10.13
PEG Ratio	3.84	4.88	3.13	5.28	NA	2.36
Price/Book (P/B)	1.36	2.72	3.15	8.06	2.89	0.71
Price/Cash Flow (P/CF)	9.05	16.63	12.43	20.96	11.23	4.94
P/E (F1)	33.34	29.53	22.80	27.44	29.08	14.18
Price/Sales (P/S)	2.24	1.76	2.52	NA	NA	0.72
Earnings Yield	3.01%	3.18%	4.19%	3.65%	3.44%	7.05%
Debt/Equity	NA	0.47	0.76	1.14	0.77	0.62
Cash Flow (\$/share)	6.32	1.53	7.01	7.04	4.32	8.59
Growth Score	F	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	-5.30%	7.53%	10.87%	NA	NA	7.06%
Proj. EPS Growth (F1/F0)	-57.97%	-19.08%	-10.79%	-20.37%	-31.28%	-34.14%
Curr. Cash Flow Growth	11.61%	0.66%	5.48%	-1.12%	2.45%	-5.29%
Hist. Cash Flow Growth (3-5 yrs)	0.84%	3.18%	8.55%	-0.55%	5.02%	11.28%
Current Ratio	0.83	1.39	1.29	1.15	0.68	0.59
Debt/Capital	53.57%	32.78%	44.75%	53.21%	43.57%	38.29%
Net Margin	6.51%	-0.05%	10.59%	NA	NA	-0.21%
Return on Equity	12.29%	8.69%	16.26%	NA	NA	7.01%
Sales/Assets	0.43	0.50	0.55	NA	NA	0.44
Proj. Sales Growth (F1/F0)	-19.84%	-3.30%	-2.61%	-11.69%	-18.10%	-8.89%
Momentum Score	D	-	-	D	D	D
Daily Price Chg	3.91%	0.21%	2.89%	1.17%	-0.01%	0.21%
1 Week Price Chg	14.62%	2.02%	4.60%	1.40%	10.48%	3.07%
4 Week Price Chg	34.76%	11.86%	15.60%	7.56%	21.21%	12.77%
12 Week Price Chg	29.93%	16.09%	29.34%	17.50%	17.65%	10.42%
52 Week Price Chg	-32.01%	-7.73%	2.76%	-13.78%	-10.59%	-26.53%
20 Day Average Volume	3,499,577	39,803	2,537,324	493,822	102,572	2,921,725
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.69%	0.00%	0.00%
(F1) EPS Est 4 week change	-11.83%	0.00%	-0.08%	-0.88%	0.00%	-0.43%
(F1) EPS Est 12 week change	-49.41%	-23.01%	-16.19%	-22.75%	-36.10%	-23.28%
(Q1) EPS Est Mthly Chg	81.25%	0.00%	0.00%	NA	NA	-0.85%

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	D
Growth Score	F
Momentum Score	D
VGM Score	F

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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