

Cboe Global(CBOE)

\$86.33 (As of 08/03/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Cboe Global's second-quarter bottom line beat estimates. It eyes strategic acquisitions to gain a competitive edge by diversifying and adding capabilities to its portfolio. The buyout of Bats Global should diversify product portfolio, boost margins and generate expense synergies while the MATCHNow buyout will help it venture into Canada. Cboe explores new markets like the Middle East, Scandinavia and Asia. Trading volume growth should continue to drive transaction fee. Strong liquidity has been aiding it to effectively deploy capital. Its shares have underperformed the industry in a year's time. However, escalating expenses put pressure on margin. It expects expenses to rise in the second half of 2020 as it intends to ramp up growth initiatives. CBOE Global faces competition that tends to reduce market share and leverage of the business.

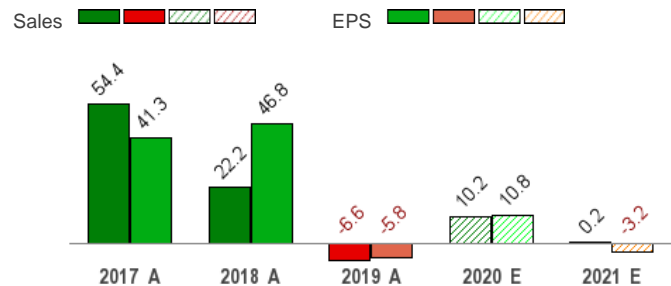
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$127.93 - \$72.01 |
| 20 Day Average Volume (sh) | 731,433 |
| Market Cap | \$9.4 B |
| YTD Price Change | -28.1% |
| Beta | 0.46 |
| Dividend / Div Yld | \$1.44 / 1.7% |
| Industry | Securities and Exchanges |
| Zacks Industry Rank | Top 48% (123 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 4.8% |
| Last Sales Surprise | -0.2% |
| EPS F1 Est- 4 week change | -1.0% |
| Expected Report Date | 11/06/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 15.8 |
| P/E F1 | 16.5 |
| PEG F1 | 4.6 |
| P/S TTM | 3.1 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 307 E | 314 E | 313 E | 320 E | 1,255 E |
| 2020 | 358 A | 297 A | 302 E | 300 E | 1,253 E |
| 2019 | 281 A | 283 A | 294 A | 280 A | 1,137 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.22 E | \$1.27 E | \$1.29 E | \$1.32 E | \$5.07 E |
| 2020 | \$1.65 A | \$1.31 A | \$1.15 E | \$1.18 E | \$5.24 E |
| 2019 | \$1.11 A | \$1.13 A | \$1.29 A | \$1.21 A | \$4.73 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 08/03/2020. The reports text is as of 08/04/2020.

Overview

Based in Chicago, IL, and founded in 1973, Cboe Global Markets, Inc. (effective Oct 17, 2017, CBOE Holdings, Inc. came to be known as Cboe Global Markets, Inc.) is one of the largest stock exchange operators by volume in the United States and a leading market globally for ETP trading.

Cboe offers trading across a diverse range of products in multiple asset classes and geographies, including options, futures, U.S. and European equities, exchange-traded products (ETPs), global foreign exchange (FX) and multi-asset volatility products based on the VIX Index. Cboe's trading venues include the largest options exchange in the United States and the largest stock exchange by value traded in Europe.

CBOE reports the results of its operations in five business segments —

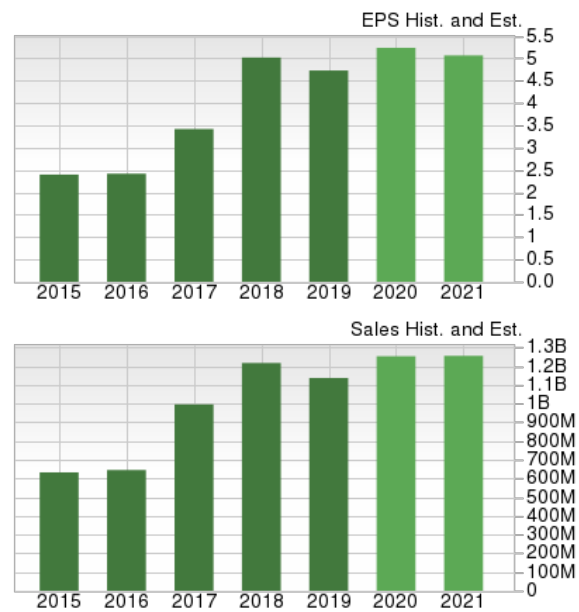
Options (34.9% of 2019 revenues) includes options exchange business that lists for trading options on market indexes, including the VIX Index and SPX, non-exclusive multilisted options and options on other ETPs. These options trade on Cboe Options, C2, BZX and EDGX.

U.S. Equities (48.6%) includes listed cash equities and ETP transaction services that occur on BZX, BYX, EDGX and EDGA. It also includes ETP listings, market data revenues generated from U.S. tape plans and from the sale of proprietary market data, routing services, connectivity fees and advertising activity from ETF.com.

Futures (5.4%) includes the business of futures exchange, CFE, which lists futures on the VIX Index, corporate bond indexes and bitcoin and other futures products. It also includes market data revenues generated from the sale of associated proprietary market data.

European Equities (4.4%) includes pan European listed cash equities transaction services, ETPs, exchange-traded commodities, and international depository receipts that occur on the RIE, operated by Cboe Europe Equities. It also includes listed cash equities and ETPs routed transaction services that occurred through Cboe Chi-X Europe, as well as the listings business where ETPs can be listed on Cboe Europe Equities.

Global FX (2.1%) includes institutional FX services on the Cboe FX platform. The Global FX segment also includes non-deliverable forward FX transactions executed on Cboe SEF.



Reasons To Buy:

- ▲ Shares of Cboe Global Markets have lost 28% year to date underperforming the industry's decline 1.2%. Nevertheless, the solid fundamentals like diversified product portfolio and strong liquidity position should help the stock bounce back.
- ▲ Cboe Global Markets boasts a compelling inorganic growth story given its prudent acquisitions. While the acquisition of Bats Global expands and diversifies CBOE Global Markets' product portfolio with the addition of U.S. and European cash equities, Global ETPs and Global FX widens global reach with solid pan-European equities and global FX positions. Cboe Global acquired Trade Alert to provide real-time data, market information and alerts to customers and EuroCCP to enhance European equities offering and extend business into trading and clearing European derivatives. The company agreed to buy MATCHNow to venture into Canada. On the other hand acquisition of Hanweck and FT Options and Silexx helped boost its service portfolio. Strategic acquisitions have helped the company to gain a competitive edge by diversifying as well as adding capabilities to its portfolio.

Cboe's growth strategy revolves around expanding product line across asset classes, broadening geographic reach, diversifying business mix with recurring revenues and leveraging technology.

Cboe Global Markets anticipates to achieve \$50 million in annualized expense synergies from the Bats Global buyout within three years of the acquisition. In 2020, the company estimates to achieve \$85 million of run rate synergies. The company expects to achieve the synergies through its shift to a single proprietary trading platform and by optimizing the expense structure of the combined entity.

- ▲ Organic growth remained a key strength at Cboe Global Markets, as reflected in its revenue growth story. Revenues witnessed CAGR of 32% over the last five years (2014-2019). Increasing transaction fees on the back of trading volume growth aided the improvement. In the first half of 2020, the top line increased 46.5% year over year due to higher transaction fees, access and capacity fees, market data fees, regulatory fees plus other revenues. Transaction fees increased 49.5% on the back of higher market volumes in Options, U.S. Equities and Futures. Given its strong market position and a global reach with strength in its proprietary products, primarily SPX options, VIX options and VIX futures, the growth momentum should continue.

The company is also exploring new markets like the Middle East, Scandinavia and Asia, while pursuing jurisdictional approval in more established markets, including Switzerland and Israel. It has plans to launch CBOE Closing Cross, a new post-close trading service serving across 18 European markets in October 2019 and intends to bring similar product in the U.S. Equities market too.

- ▲ Cboe Global Markets enjoys strong liquidity position despite cash outlays to enhance operating leverage. Strong liquidity not only mitigates balance sheet risks but also paves the way for an accelerated capital deployment. It hiked dividend for nine consecutive years. In June 2020, the company increased its share repurchase authorization by \$250 million and thus had \$330 million remaining under its existing share repurchase authorization as on Jun 30, 2020. These endeavors testify the company's confidence in its liquidity position and the ongoing focus on its efficient capital deployment strategy.
- ▲ The company's debt has been decreasing since 2017. Total debt has increased 0.1% from 2019-end level to \$868.6 million. At the end of the second quarter of 2020, debt to capital was 23.4%, up from 21.4% at the end of 2019. Nonetheless, times interest earned, a measure to identify the company ability to service debt, was 21.5% in the second quarter, up from the 2019 level of 15%. It compared favorably with the industry's measure of 12.4%, implying that its earnings are sufficient to cover interest obligations. Also, the company has \$250 million available under revolver in case of short-term funding requirement.

Reasons To Sell:

- ▼ Elevated expenses remain a major concern for CBOE Holdings. Given the several ongoing investments in systems hardware and software (including CBOE Holdings' systems migration to Bats technology), expenses are likely to trend higher. However, in the first half of 2020, total operating expenses decreased 8.5%, due to a decline in depreciation and amortization, travel and promotional expenses and acquisition-related costs. For 2020, adjusted operating expenses are projected in the range of \$436 million to \$444 million, up from \$419-\$427 million expected earlier, reflecting EuroCCP and expenses related to European derivatives growth initiative. The company estimates expenses are expected to accelerate the second half of 2020 as it intends to ramp up growth initiatives and complete Chicago headquarters build-out. The company now estimates core expense growth to be down 1% to 2% compared with flat to up 1% expected earlier.
- ▼ The company reaffirmed capital expenditure guidance for 2020 in the range of \$65 million to \$70 million, which includes expenditures associated with the company's Chicago headquarters relocation occurring later this year and its trading floor relocation planned for 2021. This will account for around one-third of the incremental spend. Additionally, the company forecasts depreciation and amortization in the band of \$34-\$38 million in 2020, which excludes amortization of intangibles of approximately \$120 million.
- ▼ CBOE Holdings has been facing intense competition due to increased market consolidation that tends to reduce market share and leverage of the business. This includes both product and price competition, which are continuously increasing due to the creation of new execution and listing venues in the United States. As a result, CBOE Holdings' market share has witnessed decline over the last few years.

Industry volatility, elevated expenses weighing on margin expansion and sluggish credit quality amid intense competition due to increased market consolidation and challenging regulations are headwinds.

Last Earnings Report

Cboe Global's Q2 Earnings Beat Estimates, Rise Y/Y

Cboe Global's second-quarter 2020 adjusted earnings of \$1.31 per share beat the Zacks Consensus Estimate by 4.8%. Moreover, the bottom line increased 15.9% year over year on increased trading activity, expanded operating margin, and decline in expenses.

Operational Details

Total revenues came in at \$296.9 million, missing the Zacks Consensus Estimate by 0.03%. However, the top line increased 5% year over year, reflecting higher market data fees, primarily due to revenues from the acquisitions of Hanweck and FT Options in the first quarter of 2020 and record quarterly trading volumes in U.S. equities and multi-listed options.

Options revenues increased 7% year over year to \$150.6 million driven by higher net transaction fees and market data revenues, offset by a decrease in royalty fees.

Average daily volume for Options surged 36% year over year while revenue per contract or RPC slipped 24% in the second quarter.

Revenues of U.S. Equities increased 22% year over year to \$90.6 million, driven by higher revenues from net transaction fees, as well as higher revenues from non-transaction fees.

Futures revenues of \$20.9 million were down 36% year over year due to a decline in net transaction fees.

European Equities revenues decreased 6% year over year to \$21.1 million, due to decrease in net transaction fees, offset by higher access and capacity fees.

Global FX revenues increased 5% to \$13.7 million driven by higher access and capacity fees and net transaction fees.

Total adjusted operating expenses decreased 7% year over year to \$95.8 million attributable to lower professional fees and outside services and travel and promotional expenses.

Adjusted operating income improved 12% year over year to \$201.1 million. The improvement was driven by higher net revenues and lower operating expenses.

Adjusted operating margin in the quarter under review expanded 410 basis points (bps) to 67.7% owing to increased operating leverage from higher net revenues.

Adjusted EBITDA margin of 71.1% expanded 270 bps.

Financial Update

As of Jun 30, 2020, CBOE Global had cash and cash equivalents of \$210.1 million, down 8.4% from the figure at 2019 end. Total assets were \$5.4 billion in the second quarter, up 4.9% from the level at 2019 end.

At the end of the second quarter, long-term debt of the company stands at \$868.6 million, up 0.1% year over year.

Total shareholders' equity was \$3.3 billion at the end of the reported quarter, down 2.1% from the value on Dec 31, 2019.

Share Repurchase and Dividend Update

The company paid out cash dividends worth \$39.5 million or 36 cents per share in the second quarter.

As of Jun 30, 2020, the company had \$329.9 million of availability remaining under its existing share repurchase authorizations.

2020 Guidance

Adjusted operating expenses are now expected to be in the range of \$436 to \$444 million, up \$17 million from the previous guidance of \$419 to \$427 million, primarily reflecting the addition of EuroCCP and expenses related to the launch of pan-European derivatives trading and clearing.

Capital expenditures are still expected in the \$65-\$70 million band. Depreciation and amortization expense are estimated between \$34 million and \$38 million.

The effective tax rate on adjusted earnings is expected between 26.5% and 28.5%. However, it is now expected to be at the higher end of the range in the third quarter of 2020.

Quarter Ending 06/2020

| Report Date | Jul 31, 2020 |
|------------------|--------------|
| Sales Surprise | -0.16% |
| EPS Surprise | 4.80% |
| Quarterly EPS | 1.31 |
| Annual EPS (TTM) | 5.46 |

Recent News

Cboe Global Reports Solid June Volumes, Guides Q2 RPC - Jul 6, 2020

Cboe Global Markets posted total average daily volume (ADV) of 10.8 million contracts, which surged 48.2% year over year driven by solid performance in Options, partly offset by lower Futures volume. Though U.S. Equities and Global Forex witnessed increase, European Equities declined.

Total contracts for the month were nearly 194 million, up 63% year over year. Of this, Options improved 64.9% to 234.2 million while Futures decreased 2.2% to 4 million. Options' ADV was 10.6 million whereas Futures' ADV was 0.2 million.

Cboe Global Announces Completion of EuroCCP Buyout – Jul 1, 2020

Cboe Global has finalized the buyout of a leading pan-European equities clearing house, EuroCCP. The complete acquisition of the clearing house is expected to boost the current European equities business of Cboe Global and provide an opportunity to further grow the business by capitalizing on the strength of its pan-European network, and by pursuing the development of derivatives trading and clearing capabilities in the region.

Valuation

CBOE Global shares are down 28% in the year-to-date period and 24.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 1.2% and 18.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 2.4% but down 8.8%, respectively.

The S&P 500 index is up 2.3% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 16.76x forward 12-month earnings, which compares to 24.21x for the Zacks sub-industry, 16.29x for the Zacks sector and 22.59x for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.5x and as low as 14.91x, with a 5-year median of 24.35x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$91 price target reflects 17.7x forward 12-month earnings.

The table below shows summary valuation data for CBOE

| Valuation Multiples - CBOE | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 16.76 | 24.21 | 16.29 | 22.59 |
| | 5-Year High | 36.5 | 27.47 | 16.29 | 22.59 |
| | 5-Year Low | 14.91 | 18.49 | 11.59 | 15.25 |
| | 5-Year Median | 24.35 | 22.15 | 14.21 | 17.55 |
| P/S F12M | Current | 7.52 | 11.44 | 6.05 | 3.6 |
| | 5-Year High | 14.16 | 12.94 | 6.66 | 3.6 |
| | 5-Year Low | 6.03 | 7.27 | 4.97 | 2.53 |
| | 5-Year Median | 9.12 | 10.35 | 6.06 | 3.04 |
| P/B TTM | Current | 2.88 | 3.13 | 2.39 | 4.5 |
| | 5-Year High | 24.42 | 3.54 | 2.91 | 4.56 |
| | 5-Year Low | 2.5 | 1.81 | 1.72 | 2.83 |
| | 5-Year Median | 3.98 | 2.7 | 2.53 | 3.72 |

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Top 48% (123 out of 254)



Top Peers

| Company (Ticker) | Rec | Rank |
|--------------------------------------|--------------|------|
| Envestnet, Inc. (ENV) | Outperform | 1 |
| MarketAxess Holdings Inc. (MKTX) | Outperform | 1 |
| Intercontinental Exchange Inc. (ICE) | Neutral | 3 |
| Moodys Corporation (MCO) | Neutral | 3 |
| MSCI Inc (MSCI) | Neutral | 3 |
| Nasdaq, Inc. (NDAQ) | Neutral | 3 |
| CME Group Inc. (CME) | Underperform | 5 |
| OTC Markets Group Inc. (OTCM) | Underperform | 3 |

| Industry Comparison Industry: Securities And Exchanges | | | | Industry Peers | | |
|--|---------|------------|-----------|----------------|------------|---------|
| | CBOE | X Industry | S&P 500 | ICE | MKTX | NDAQ |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Outperform | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 1 | 3 |
| VGM Score | D | - | - | D | D | C |
| Market Cap | 9.39 B | 21.39 B | 22.67 B | 52.31 B | 19.43 B | 21.39 B |
| # of Analysts | 7 | 7 | 13.5 | 7 | 5 | 7 |
| Dividend Yield | 1.67% | 1.50% | 1.77% | 1.25% | 0.47% | 1.50% |
| Value Score | D | - | - | C | F | D |
| Cash/Price | 0.04 | 0.04 | 0.07 | 0.04 | 0.03 | 0.04 |
| EV/EBITDA | 13.77 | 17.56 | 13.08 | 17.04 | 65.46 | 18.25 |
| PEG Ratio | 4.61 | 2.77 | 2.94 | 2.56 | NA | 2.59 |
| Price/Book (P/B) | 2.86 | 3.71 | 3.10 | 3.08 | 22.76 | 3.71 |
| Price/Cash Flow (P/CF) | 13.32 | 20.04 | 12.34 | 18.77 | 81.37 | 20.94 |
| P/E (F1) | 16.69 | 23.15 | 21.71 | 21.80 | 67.79 | 22.25 |
| Price/Sales (P/S) | 3.06 | 7.06 | 2.46 | 7.06 | 31.59 | 4.36 |
| Earnings Yield | 6.07% | 4.32% | 4.38% | 4.59% | 1.48% | 4.50% |
| Debt/Equity | 0.31 | 0.22 | 0.75 | 0.47 | 0.11 | 0.67 |
| Cash Flow (\$/share) | 6.48 | 6.22 | 6.94 | 5.13 | 6.29 | 6.22 |
| Growth Score | B | - | - | D | B | C |
| Hist. EPS Growth (3-5 yrs) | 23.03% | 14.94% | 10.46% | 13.26% | 20.79% | 11.28% |
| Proj. EPS Growth (F1/F0) | 10.72% | 12.80% | -7.08% | 13.84% | 39.78% | 17.14% |
| Curr. Cash Flow Growth | -6.75% | 5.26% | 5.47% | 7.25% | 21.24% | 0.39% |
| Hist. Cash Flow Growth (3-5 yrs) | 25.08% | 18.37% | 8.55% | 15.62% | 20.85% | 10.02% |
| Current Ratio | 1.57 | 1.07 | 1.32 | 1.01 | 7.42 | 1.11 |
| Debt/Capital | 23.44% | 17.40% | 44.21% | 32.20% | 9.99% | 40.29% |
| Net Margin | 15.07% | 29.01% | 10.25% | 29.01% | 42.74% | 16.21% |
| Return on Equity | 18.23% | 18.23% | 14.72% | 14.18% | 33.75% | 16.89% |
| Sales/Assets | 0.59 | 0.35 | 0.52 | 0.07 | 0.64 | 0.35 |
| Proj. Sales Growth (F1/F0) | 10.10% | 8.65% | -1.79% | 9.29% | 31.69% | 8.65% |
| Momentum Score | F | - | - | F | C | B |
| Daily Price Chg | -1.56% | -0.97% | 0.27% | -0.52% | -0.97% | -0.73% |
| 1 Week Price Chg | -1.97% | 0.48% | 0.14% | 0.48% | 2.15% | 0.57% |
| 4 Week Price Chg | -9.13% | -1.75% | 2.96% | 4.05% | -1.75% | 7.66% |
| 12 Week Price Chg | -13.57% | 2.32% | 10.90% | 2.32% | 1.31% | 19.32% |
| 52 Week Price Chg | -24.78% | 8.89% | 2.35% | 8.89% | 49.85% | 38.14% |
| 20 Day Average Volume | 731,433 | 686,930 | 2,043,624 | 2,670,174 | 202,828 | 686,930 |
| (F1) EPS Est 1 week change | -0.60% | 0.00% | 0.00% | -0.06% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -0.97% | 0.00% | 0.82% | -1.97% | 6.58% | 4.17% |
| (F1) EPS Est 12 week change | -1.13% | -1.13% | 0.59% | -1.59% | 9.71% | 5.34% |
| (Q1) EPS Est Mthly Chg | -6.34% | 0.00% | 0.25% | -3.69% | 7.61% | 3.95% |

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 | B |
| 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.

Disclosures

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