

## Citizens Financial Grp (CFG)

**\$19.96** (As of 03/27/20)

Price Target (6-12 Months): **\$21.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 11/19/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: A

Growth: F

Momentum: F

## Summary

Shares of Citizens Financial have underperformed the industry in the past six months. Yet, the company has an impressive earnings surprise history, outpacing the Zacks Consensus Estimate for earnings in each of the trailing four quarters. The company's rising loans and deposits balance will bolster bottom line in the coming quarters. Also, its revenue and efficiency initiatives, the latest being TOP 6 Program, is anticipated to deliver pre-tax benefit of \$300-\$325 million by 2021-end. Improving credit quality is a tailwind. Notably, the company has stopped its share buybacks with an aim to use the capital for lending activities amid coronavirus related slowdown. However, rising costs due to investments in new technology and pending probes and litigations, remains a key concern. Further, lack of diversification in loans is a major headwind.

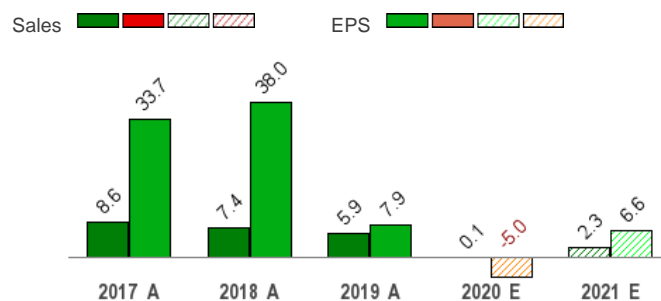
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$41.29 - \$14.12
20 Day Average Volume (sh)	9,898,193
Market Cap	\$8.5 B
YTD Price Change	-50.9%
Beta	1.57
Dividend / Div Yld	\$1.56 / 7.8%
Industry	<a href="#">Financial - Savings and Loan</a>
Zacks Industry Rank	Bottom 13% (222 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.1%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-5.9%
Expected Report Date	04/16/2020
Earnings ESP	-4.7%
P/E TTM	5.2
P/E F1	5.5
PEG F1	0.7
P/S TTM	1.1

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,591 E	1,630 E	1,652 E	1,671 E	6,647 E
2020	1,608 E	1,629 E	1,643 E	1,656 E	6,496 E
2019	1,588 A	1,628 A	1,638 A	1,637 A	6,491 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.89 E	\$0.93 E	\$0.97 E	\$0.96 E	\$3.89 E
2020	\$0.88 E	\$0.87 E	\$0.91 E	\$0.93 E	\$3.65 E
2019	\$0.93 A	\$0.96 A	\$0.98 A	\$0.99 A	\$3.84 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 03/27/2020. The reports text is as of 03/30/2020.

## Overview

Headquartered in Providence, RI, Citizens Financial Group, Inc. was founded in 1828 and currently is one of the largest retail bank holding companies in the United States, with total assets of \$165.7 billion, as of Dec 31, 2019. Citizens Financial was acquired by the RBS Group in 1988 and was known as RBS Citizens Financial Group. However, Citizens Financial became a publicly-traded company through its September 2014 initial public offering (IPO).

Citizens Financial offers retail and commercial banking products and services to individuals, institutions and companies. It operates approximately 1,100 branches and around 2,900 ATMs in 11 states across the New England, Mid-Atlantic and Midwest regions and through its online, telephone as well as mobile banking platforms.

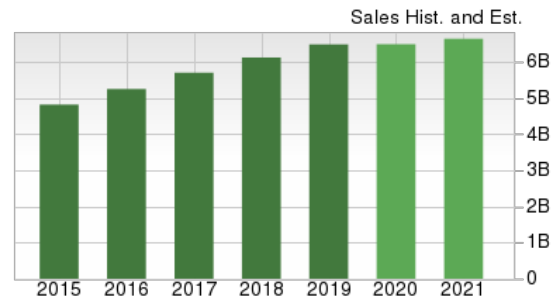
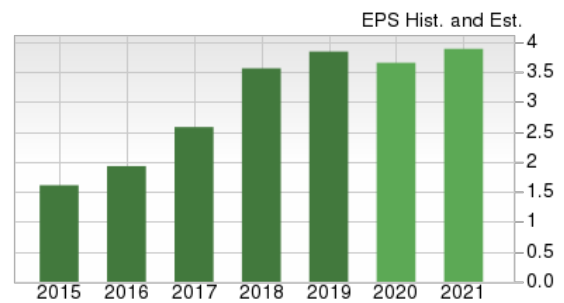
Reportable segments:

**Consumer Banking** (67% of total revenues in 2019) is focused on retail customers and small businesses with annual revenues of up to \$25 million. It provides traditional banking products and services, including deposit products, mortgage lending, credit cards, auto financing as well as wealth management and investment services.

**Commercial Banking** (32%) is mainly focused on companies with annual revenues from \$25 million to \$2.5 billion. The segment is engaged in offering financial products and solutions, including loans, leases, trade financing, deposits and capital markets advisory services. It covers middle-market companies, large corporations and institutions and has industry expertise in areas including government banking, healthcare, technology, oil & gas, commercial real estate and sponsor finance.

**Other** (1%) constitutes non-segment operations that include corporate functions, wholesale funding activities, non-core assets, and other unallocated assets, liabilities, revenues, provision for credit losses and expenses.

In March 2019, Citizens Financial completed the buyout of Atlanta-based Bowstring Advisors in an all-cash deal. In January, the company acquired Clarfeld Financial Advisors, LLC. Further, in August 2018, the company strengthened its mortgage servicing portfolio by acquiring Franklin American Mortgage Company. In 2017, it acquired Western Reserve Partners LLC, a merger and acquisition advisory firm.



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## Reasons To Buy:

- ▲ Given the higher interest-rate environment, margin pressure for Citizens Financial eased. In the three years (ended 2018), the company has reported rise in net interest margin (NIM) after witnessing a declining trend for long with support from its strategy of continued mix shift toward higher-yielding assets. Though NIM witnessed contraction in 2019 due to decline in interest rates, the same is likely to benefit from improving loan yields in the upcoming quarters.
- ▲ Citizens Financial's organic growth is on track. The company's loans and deposits recorded a CAGR of 4.7% and 5.1%, respectively, over the last five years (2015–2019). Further, the company has been benefiting from its increasing non-interest-bearing deposits that provide a low-cost funding base. We believe the company is well positioned to grow further backed by improving U.S. economy.
- ▲ Citizens Financial's focus on executing a series of revenue and efficiency initiatives led to the introduction of "Tapping Our Potential" (TOP) program in late 2014. The first three TOP programs helped to achieve \$200 million cost savings target and delivered \$215 million income benefit. Following this, the company launched a fresh set of initiatives in mid-2017 to ramp up its profitability — Top 4 program — which delivered pre-tax benefit of \$115 million in 2018. Also, the TOP 5 program was successful and delivered a pre-tax benefit of \$125 million by 2019-end. Notably, continuing its journey to drive efficiency improvement and fund additional growth and innovation investments, Citizens Financial introduced TOP 6 Program, which is expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021.
- ▲ Citizens Financial remains focused on maintaining a strong capital base. As of Dec 31, 2019, the company's Basel III capital ratios on a transitional basis exceeded regulatory requirements, with a CET1 capital ratio and a total capital ratio of 10% and 13%, respectively. Also, the company remains committed to enhance shareholders' value. Earlier in January, the company increased its common stock dividend by 8%. Further, it plans to repurchase up to \$1.28 billion of common stock beginning July 2019. Notably, the company targets medium-term dividend payout ratio of 35%-40%. Also, the company's debt/equity ratio compares favorably with the broader industry and its steadily improving performance indicates that these steady capital deployment activities are sustainable.
- ▲ Citizens Financial's credit quality continues to normalize with the improvement in domestic macroeconomic environment. As the overall financial condition of businesses and consumers strengthened, while the housing market showed improvement in many areas, most of the credit metrics improved in the last few years. Asset quality trends are likely to be relatively stable in the coming quarters.
- ▲ Citizens Financial seems undervalued compared with the industry. Its current price-to-book and price-earnings (P/E) ratios are lower than the respective industry averages. Further, it has a Value Score of A.

Citizens Financial benefits from growing loans and deposits. Also, its focus on revenue and efficiency initiatives is a tailwind. Further, a strong capital position enables growth through acquisitions.

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## Reasons To Sell:

- ▼ Cost escalation is the key downside for Citizens Financial. The company's non-interest expenses witnessed a CAGR of 4.2% over the last five years (2015-2019). Costs are likely to remain elevated due to the company's investments in newer technologies and building fee income capabilities organically. These investments might leverage the company in the long term, but increasing current expense level is limiting bottom-line expansion.
- ▼ The loan portfolio of Citizens Financial comprises majorly of residential mortgages, home equity and commercial real estate loans (nearly 48% as of Dec 31, 2019). Such high exposure can be risky for the company if the housing sector weakens.
- ▼ Citizens Financial is burdened with numerous investigations and legal proceedings, including class actions. Significant matters include LIBOR litigation, foreclosure-related expenses and mortgage repurchase demands. The company addressed certain litigations in the last few years, but many are yet to be resolved. As Citizens Financial continues to work through its legal issues, we believe the company remains exposed to potential high legal expenses, which might dampen its bottom line.
- ▼ Shares of Citizens Financial have underperformed the industry over the past six months. With this unfavorable trend, the company's current-year earnings estimates have been revised 5.9% downward over the past 60 days. Therefore, given the above concerns and lack of positive estimate revisions, the stock has limited upside potential.

Rise in expenses due to pending litigations and probes along with investment in technology are key concerns. Also, lack of diversification in loan portfolio is a major headwind for Citizens Financial.

## Last Earnings Report

### Citizens Financial's Q4 Earnings Beat Estimates, Expenses Rise

Riding on higher mortgage banking fees, Citizens Financial delivered a positive earnings surprise of 3.1% in fourth-quarter 2019. Adjusted earnings per share came in at 99 cents, beating the Zacks Consensus Estimate of 96 cents. Also, the bottom line rose 1% year over year.

Rise in fee income, on the back of solid rise in mortgage banking and card fees, supported revenue growth. Also, its capital position remained strong. Further, loans balances showed improvement. However, elevated expenses and provisions were headwinds. Also, contraction of margin posed a concern.

After considering notable items, net income came in at \$450 million or 98 cents per share compared with \$465 million or 96 cents reported in the prior-year quarter.

For full-year 2019, the company reported net income of \$1.79 billion or \$3.81 compared with \$1.72 billion or \$3.52 in 2018.

Quarter Ending **12/2019**

Report Date	Jan 17, 2020
Sales Surprise	<b>0.67%</b>
EPS Surprise	<b>3.13%</b>
Quarterly EPS	<b>0.99</b>
Annual EPS (TTM)	<b>3.86</b>

### Fee Income Growth Drives Revenues, Loans Improve, Costs Rise

Total revenues for the fourth quarter came in at \$1.64 billion, surpassing the consensus estimate of \$1.63 billion. Additionally, the top line was up 3% year over year.

For 2019, the company reported net revenues of \$6.49 billion, which came in line with the Zacks Consensus Estimate. Also, the top line jumped 6% from the prior-year figure.

Citizens Financial's net interest income declined 2% year over year to \$1.14 billion. Also, net interest margin contracted 19 basis points (bps) to 3.06%. This was, however, partly mitigated by higher interest-earning asset yields given continued mix shift toward better-returning assets.

Non-interest income climbed 17% year over year to \$494 million. This upside stemmed from strength in almost all components of income, partially offset by reduced service charge and fees.

Non-interest expenses jumped 4% year over year to \$986 million. The upswing highlights rise in all categories of expenses, partly muted by lower occupancy expenses. On an adjusted basis, expenses rose 5%.

Efficiency ratio increased to 60.28% in the fourth quarter from 59.69% in the prior-year quarter. Generally, a higher ratio is indicative of the bank's declined efficiency.

As of Dec 31, 2019, period-end total loan and lease balances climbed 1% sequentially to \$119.1 billion. Also, total deposits increased marginally to \$125.3 billion.

### Credit Quality: A Mixed Bag

Provision for credit losses jumped 29% year over year to \$110 million. Also, net charge-offs for the quarter increased 44% to \$122 million.

However, total non-performing loans and leases were down 8% to \$703 million. Also, nonperforming loans and leases as a percentage of total loans and leases contracted 7 bps to 0.59%. As of Dec 31, 2019, allowance for loan and lease losses decreased 1% to \$1.25 billion.

### Solid Capital Position

Citizens Financial remained well capitalized in the fourth quarter. As of Dec 31, 2019, Common equity Tier 1 capital ratio was 10% compared with 10.6% at the end of the prior-year quarter. Further, Tier 1 leverage ratio was 10%, flat year over year. Total Capital ratio was 13%, down from 13.3%.

### Capital Deployment Update

The company repurchased 10.9 million shares at average price of \$36.68 during the December-ended quarter. Notably, including common stock dividends, the company returned \$558 million to shareholders.

In 2019, Citizens Financial repurchased 34 million shares at average price of \$35.56, and including common dividends, returned \$1.84 billion to shareholders.

### Outlook

#### First-Quarter 2020 (excluding expected notable items and including impact of acquisitions)

Net interest income is expected to be up slightly, sequentially, due to expectations of loan growth and stable/slightly up margins, partially offset by expected day count impact of \$10 million.

Non-interest income is expected to be down mid-single digits compared with strong fourth-quarter 2019.

Management expects non-interest expenses to be up low-single digits, given seasonal compensation impacts.

Provision expenses of around \$115-\$120 million are expected. The effective tax rate is expected to be around 22%.

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Further, Basel III common equity tier 1 ratio is estimated to be about 10%.

### Full-Year 2020

Average loans and interest-earnings assets are expected to grow in the range of 3-4%.

Management expects NII to grow 1-2%.

Given expectations of the Fed holding interest rates at current level throughout 2020, the company expects NIM to remain stable or rise modestly over the course of the year, as pressure on loan yields is partially offset by improvements in deposit pricing.

Non-interest income is expected to grow 4-5.5%, as the company continues to leverage investments and expand the capabilities.

Expenses are anticipated to increase 1.75-2.75%. Also, the company targets to deliver positive operating leverage.

Efficiency ratio is expected to remain stable.

Provision expenses are expected to be in the range of \$475-\$575 million, with charge off in the range of \$475 million to \$525 million.

The tax rate is expected to be 22%.

The company is targeting a dividend payout ratio of nearly 35-40% for 2020.

Year-end Basel III common equity tier 1 ratio is estimated to be between 9.75% and 10%.

### Medium-Term Targets

Having achieved the medium-term targets set in 2018, the company raised them to following:

- Return on common tangible equity of 14-16%
- Efficiency ratio of 54%
- Common equity tier 1 ratio of 9.75-10%
- Dividend payout ratio of 35-40%

### Efficiency Initiatives

In late 2014, Citizens Financial had announced its first efficiency program — TOP 1 — which resulted in \$200 million costs savings. During the second quarter of 2015, the company announced Top 2 revenue and expense initiatives, which resulted in a pre-tax benefit of roughly \$105 million in 2016. Following its success, Citizens Financial launched Top 3 program, which delivered a pre-tax benefit in excess of \$115 million. Further, the company launched the Top 4 program, which delivered pre-tax benefit of \$115 million by the end of 2018.

Finally, continuing with the trend, Citizens Financial announced TOP 5 program with fresh objectives targeting strong positive operating leverage with goal to self-finance growth initiatives and delivered pre-tax benefit of \$125 million in 2019.

Further, it announced TOP 6 Program also, which is expected to deliver \$300-\$325 million in pre-tax run-rate benefit by 2021. Along with the traditional TOP objectives, the new program will also take into account ways to transform company's operating manner and customers' satisfaction in a better way. The cost of Top program implementation is expected to be between \$50 million and \$75 million in 2020-2021.

### TOP 6 Program

The Program will consist of two elements:

- *The transformational program*, which is designed to improve how it delivers for customers and how the bank is operated. The company also seeks to redefine cross-organizational operating model to deliver a more customer-centric, efficient and agile environment by modernizing IT practices. Through this, the company targets pre-tax run-rate benefits of \$100-\$125 million and \$200-\$225 million by 2020 and 2021, respectively.
- *The traditional program* will be similar in nature and scope to TOP 2-5 programs and is anticipated to deliver \$75-\$100 million and \$175-\$225 million in benefits by 2020 and the rest in 2021.

The company mulls that the program will help offset interest-rate headwinds, maintain commitment to delivering positive operating leverage, improve efficiency ratio and ROTCE. Also, it plans to fund new strategic revenue initiatives such as significant expansion of digital strategies to increase customer reach and developing new digital offerings for commercial customers.

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## Recent News

### Citizens Financial to Purchase Assets of Trinity Capital - Feb 13, 2020

Citizens Financial entered an agreement to purchase the certain assets of Trinity Capital, a Los Angeles-based advisory firm. With this transaction, the company continues to add key talent and solutions, further strengthening its growing advisory capabilities.

"The addition of the Trinity Capital team expands our ability to act as a trusted strategic and financial partner," said Ted Swimmer, head of corporate finance and capital markets for Citizens Commercial Banking. "Trinity adds deep expertise in the restaurant, retail, food and beverage, and agricultural sectors while strengthening our overall coverage nationally."

Since 2000, Trinity Capital has closed more than 500 transactions. The firm focuses on providing financial advice to middle-market businesses on debt restructuring, leveraged and management buyouts, and private placements of debt and equity.

The transaction will be funded with cash and is expected to close later this quarter subject to regulatory approval. Under the terms of the agreement, Citizens' wholly-owned subsidiary, Citizens Capital Markets, Inc. will conduct the buyout of the assets of Trinity Capital and upon closing, Trinity Capital will operate as its division.

### Dividend Update

On Jan 17, Citizens Financial announced a quarterly cash dividend of 39 cents per share, up 8% from previous payout. The dividend was paid on Feb 12 to shareholders on record as of Jan 29.

## Valuation

Citizens Financial's shares are down 50.9% in the year-to-date period and 40.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 37.9% and 29.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.5% and 22.7%, respectively.

The S&P 500 Index is down 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 5.38X forward 12 months earnings, which compares to 8.68X for the Zacks sub-industry, 11.05X for the Zacks sector and 15.48X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.94X and as low as 4X, with a 5-year median of 12.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 5.65X forward earnings.

The table below shows summary valuation data for CFG

Valuation Multiples - CFG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	5.38	8.68	11.05	15.48
	5-Year High	18.94	18.25	16.21	19.34
	5-Year Low	4	8.68	11.05	15.18
	5-Year Median	12.02	14.93	13.97	17.42
P/B TTM	Current	0.42	0.63	1.98	3.42
	5-Year High	1.18	1.57	2.89	4.55
	5-Year Low	0.32	0.49	1.69	2.85
	5-Year Median	0.8	1.21	2.52	3.63
P/S F12M	Current	1.31	2.17	5.99	2.76
	5-Year High	3.91	3.48	6.64	3.43
	5-Year Low	1	2.17	5.38	2.54
	5-Year Median	2.68	2.95	6.04	3

As of 03/27/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (222 out of 254)



## Top Peers

East West Bancorp, Inc. (EWBC)	Neutral
Fifth Third Bancorp (FITB)	Neutral
Huntington Bancshares Incorporated (HBAN)	Neutral
M&T Bank Corporation (MTB)	Neutral
Peoples United Financial, Inc. (PBCT)	Neutral
Webster Financial Corporation (WBS)	Neutral
BOK Financial Corporation (BOKF)	Underperform
Comerica Incorporated (CMA)	Underperform

Industry Comparison Industry: Financial - Savings And Loan				Industry Peers		
	CFG Neutral	X Industry	S&P 500	CMA Underperform	FITB Neutral	MTB Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Market Cap	8.53 B	92.61 M	17.63 B	4.61 B	12.20 B	13.94 B
# of Analysts	9	2	13	12	11	8
Dividend Yield	7.82%	3.02%	2.41%	8.28%	5.60%	4.10%
<b>Value Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Cash/Price	0.49	0.33	0.07	1.47	0.60	0.71
EV/EBITDA	6.19	7.77	10.81	3.19	5.52	4.20
PEG Ratio	0.66	1.05	1.69	0.38	0.73	2.91
Price/Book (P/B)	0.42	0.80	2.35	0.65	0.63	0.98
Price/Cash Flow (P/CF)	3.55	7.97	9.47	3.64	4.72	6.35
P/E (F1)	5.27	9.05	14.74	5.91	6.00	8.17
Price/Sales (P/S)	1.06	2.02	1.89	1.21	1.25	2.01
Earnings Yield	18.29%	11.05%	6.73%	16.95%	16.68%	12.24%
Debt/Equity	0.68	0.57	0.70	0.99	0.77	0.48
Cash Flow (\$/share)	5.62	1.91	7.01	9.04	3.64	16.90
<b>Growth Score</b>	<b>F</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	26.55%	13.17%	10.85%	30.93%	13.58%	17.92%
Proj. EPS Growth (F1/F0)	-4.86%	-6.84%	2.89%	-29.28%	3.12%	-4.52%
Curr. Cash Flow Growth	11.11%	7.53%	5.93%	-4.61%	17.50%	5.45%
Hist. Cash Flow Growth (3-5 yrs)	14.84%	14.84%	8.55%	12.59%	6.10%	11.65%
Current Ratio	0.99	1.01	1.23	1.03	0.88	1.08
Debt/Capital	38.75%	36.16%	42.57%	49.80%	41.38%	30.77%
Net Margin	22.20%	20.15%	11.64%	31.33%	25.65%	27.79%
Return on Equity	8.75%	8.41%	16.74%	16.20%	10.96%	13.37%
Sales/Assets	0.05	0.05	0.54	0.05	0.06	0.06
Proj. Sales Growth (F1/F0)	0.08%	0.00%	2.37%	-12.66%	-7.63%	-4.41%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>F</b>	<b>C</b>	<b>D</b>
Daily Price Chg	-3.67%	-1.27%	-3.35%	-3.30%	-0.98%	-3.09%
1 Week Price Chg	-25.95%	-11.13%	-16.96%	-25.19%	-26.77%	-12.41%
4 Week Price Chg	-38.47%	-23.62%	-18.79%	-38.23%	-31.92%	-25.84%
12 Week Price Chg	-51.02%	-28.91%	-25.68%	-54.19%	-44.71%	-37.28%
52 Week Price Chg	-38.45%	-24.45%	-17.12%	-55.03%	-32.48%	-31.84%
20 Day Average Volume	9,898,193	6,191	4,286,768	3,944,519	11,847,355	1,533,519
(F1) EPS Est 1 week change	-2.35%	-1.99%	-0.15%	0.00%	0.00%	-1.67%
(F1) EPS Est 4 week change	-5.90%	-5.97%	-2.28%	-14.34%	-3.20%	-6.26%
(F1) EPS Est 12 week change	-5.54%	-8.01%	-3.22%	-17.12%	-3.32%	-2.34%
(Q1) EPS Est Mthly Chg	-2.89%	-7.25%	-1.60%	-5.71%	-3.29%	-3.07%



## 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	<b>A</b>
Growth Score	<b>F</b>
Momentum Score	<b>F</b>
VGM Score	<b>D</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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