

## DuPont de Nemours, Inc (DD)

**\$61.70** (As of 09/30/19)

Price Target (6-12 Months): **\$52.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 01/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**5-Strong Sell**

Zacks Style Scores:

VGM:D

Value: D

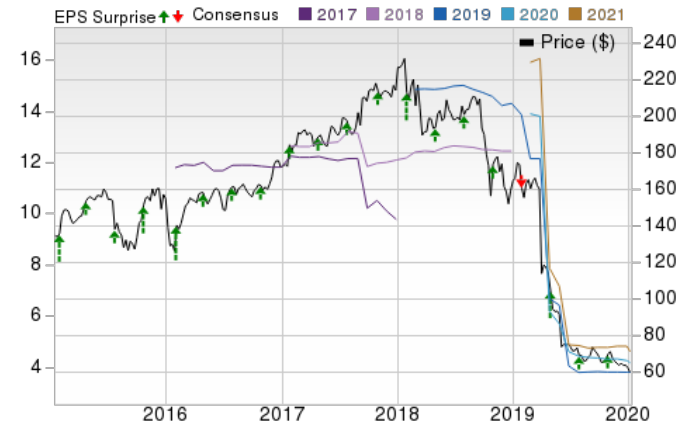
Growth: D

Momentum: C

### Summary

Earnings estimates for DuPont for the fourth quarter of 2019 have been going down over the past three months. Weak demand across a number of markets including automotive and semiconductor are likely to hurt DuPont's volumes. Global economic slowdown and trade tariffs are hurting demand across these major end-use markets. Demand weakness is expected to affect the company's organic sales. DuPont also faces pricing pressure stemming from supply-demand imbalance. Weak pricing is expected to weigh on its sales and margins. The company also faces headwinds from higher manufacturing costs, affecting its nutrition & biosciences and safety & construction units. Higher plant turnaround expenses are contributing to the rise in its manufacturing costs. Unfavorable currency swings are also expected to weigh on its sales and earnings.

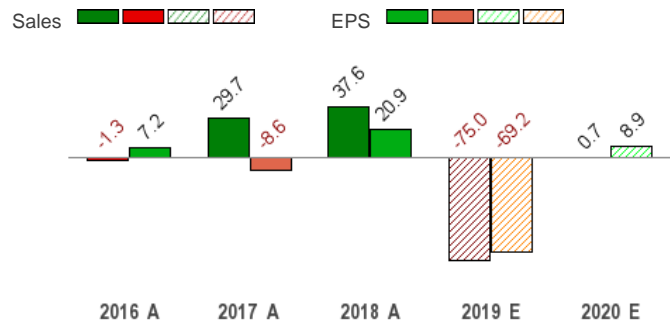
### Price, Consensus & Surprise



### Data Overview

|                            |  |
|----------------------------|--|
| 52 Week High-Low           | \$92.60 - \$63.28                      |
| 20 Day Average Volume (sh) | 5,017,215                              |
| Market Cap                 | \$45.7 B                               |
| YTD Price Change           | -3.9%                                  |
| Beta                       | 1.43                                   |
| Dividend / Div Yld         | \$1.20 / 1.9%                          |
| Industry                   | <a href="#">Chemical - Diversified</a> |
| Zacks Industry Rank        | Bottom 10% (229 out of 254)            |

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



|                           |            |
|---------------------------|------------|
| Last EPS Surprise         | 1.1%       |
| Last Sales Surprise       | 0.3%       |
| EPS F1 Est- 4 week change | -3.4%      |
| Expected Report Date      | 01/30/2020 |
| Earnings ESP              | 0.3%       |
| P/E TTM                   | 16.9       |
| P/E F1                    | 14.9       |
| PEG F1                    | 1.5        |
| P/S TTM                   | 0.9        |

### Sales Estimates (millions of \$)

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2020 |          |          |          |          | 21,646 E |
| 2019 | 19,649 A | 5,468 A  | 5,426 A  | 5,218 E  | 21,485 E |
| 2018 | 21,510 A | 24,245 A | 20,123 A | 20,099 A | 85,977 A |

### EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*   |
|------|----------|----------|----------|----------|-----------|
| 2020 |          |          |          |          | \$4.14 E  |
| 2019 | \$2.52 A | \$0.97 A | \$0.96 A | \$0.96 E | \$3.80 E  |
| 2018 | \$3.36 A | \$4.11 A | \$2.22 A | \$2.64 A | \$12.33 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 09/30/2019. The reports text is as of 01/17/2020.

## Overview

Wilmington, DE-based DuPont de Nemours, Inc., which was formerly known as DowDuPont Inc., started trading as a stand-alone company on Jun 3, 2019 following the separation of its Agriculture division through the spin-off of Corteva, Inc. Following the Corteva separation, DuPont now holds the specialty products business of the former DowDuPont.

DuPont provides technology-based materials, ingredients and solutions. It serves markets including electronics, transportation, construction, health and wellness, food and worker safety.

DuPont currently operates through five reportable segments -- Electronics & Imaging, Nutrition & Biosciences, Transportation & Industrial, Safety & Construction and Non-Core.

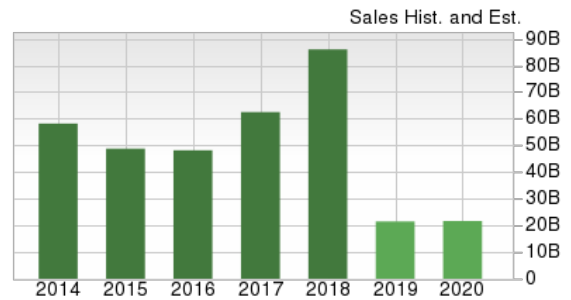
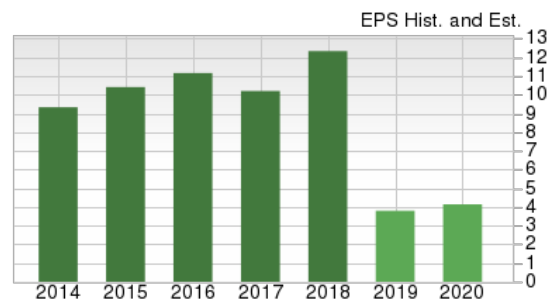
**Electronics & Imaging:** The segment provides differentiated materials and systems for a vast range of consumer electronics that include personal computers, mobile devices and television monitors. It is a leading provider of materials and solutions for the fabrication of semiconductors and integrated circuits. The segment accounted for 17% of third-quarter 2019 sales.

**Nutrition & Biosciences:** The unit offers solutions for home and personal care, food and beverage, dietary supplements, energy, animal nutrition and pharmaceuticals markets. It is one of the biggest producers of specialty ingredients. The division accounted for 29% of third-quarter sales.

**Transportation & Industrial:** The segment provides high-performance engineering resins, silicones, lubricants, adhesives and parts in transportation, electronics, healthcare, industrial and consumer end-markets. It accounted for 22% of third-quarter sales.

**Safety & Construction:** The unit is a leading provider of engineered products and integrated systems for a host of industries, including construction, energy, oil and gas, transportation and medical devices. It accounted for 24% of third-quarter sales.

**Non-Core:** The segment supplies key materials for the production of photovoltaics and solar cells, and components and films for consumer electronics, automotive and aerospace markets. It accounted for 8% of third-quarter sales.



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## Reasons To Sell:

- ▼ DuPont faces headwind from weak demand across some of its businesses. Soft demand in the semiconductor market is affecting volumes in the company's electronics and imaging business unit. Moreover, softness across automotive and electronics end markets are hurting volumes and sales in Asia Pacific and EMEA regions. Weakening global economic conditions and trade tariffs are hurting demand. Demand weakness, especially in automotive and semiconductor, is expected to continue to affect the company's organic sales.
- ▼ Weaker pricing is expected to dent the company's organic sales and margins for 2019. While the company benefited from higher pricing in the last reported quarter, it is expected to face pricing pressure moving ahead stemming from supply-demand imbalance. Pricing weakness is expected to hurt full-year 2019 sales as reflected in the company's guidance. DuPont expects its organic sales for the full year to be down on a year-over-year basis factoring in soft pricing. Some pricing pressure is also expected in the fourth quarter.
- ▼ Higher manufacturing costs will likely weigh on margins. The company saw increased manufacturing costs across some of its segments in the most recent quarter. In particular, increased plant turnaround expenses pushed up manufacturing costs in the company's safety & construction unit. The company expects margins in its nutrition & biosciences and safety & construction units to be hurt by higher manufacturing costs.
- ▼ DuPont is exposed to currency headwinds, which is hurting its organic sales. The company expects unfavorable currency impacts on sales and margins across its segments for full-year 2019. DuPont sees greater currency headwinds, which is expected to lower its net sales for the full year. It has also narrowed its adjusted earnings guidance for 2019 factoring in unfavorable currency impact of roughly \$45 million in the second half.

Weak demand across certain end-use markets will hurt DuPont's volumes and organic sales. The company is also exposed to headwinds from weak pricing, currency and higher manufacturing costs.

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## Risks

- DuPont remains focused on driving top-line growth through innovation and new product development. New product launches are driving growth in automotive electrification, 5G, health care, water and sustainable food platforms. The company's innovation-driven investment is focused on several high-growth areas. It remains committed to drive returns from its R&D investment.
  - The company should gain from cost synergy savings and productivity actions. DuPont saw productivity benefits in the most recent quarter. The company is taking additional cost and productivity improvement actions in the second half, which would drive margin expansion. It achieved roughly \$145 million in incremental savings from cost synergies and additional cost actions in third-quarter 2019. DuPont aims to deliver more than \$500 million in savings in 2019.
  - The company remains focused on driving cash flow and shareholder value. It looks to boost cash flow through working capital productivity and earnings growth. The company sees around \$1 billion in working capital productivity opportunity. DuPont also remains committed to effective capital allocation as it has already completed more than \$800 million of share repurchases this year under its earlier announced \$2 billion buyback program.
  - DuPont is actively managing its portfolio with an aim for value creation. The company is divesting non-core assets to focus more on high-growth, high-margin businesses. It is making significant progress in its divestiture actions. As part of this move, DuPont has agreed to sell its silicon wafer business to SK Siltron. The company expects its portfolio actions to boost its underlying performance.
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## Last Earnings Report

### DuPont Beats on Q3 Earnings & Sales, Narrows EPS View

DuPont recorded earnings (on a reported basis) from continuing operations of 49 cents per share for third-quarter 2019, up from earnings of 15 cents per share in the comparable quarter a year ago.

Barring one-time items, earnings were 96 cents per share for the reported quarter, beating the Zacks Consensus Estimate of 95 cents. The company benefited from higher pricing, portfolio actions and cost control amid a challenging macroeconomic environment.

DuPont raked in net sales of \$5,426 million, down around 5% from the comparable quarter a year ago. It, however, surpassed the Zacks Consensus Estimate of \$5,409.9 million.

Net sales fell 2% on an organic basis as 1% higher pricing was more than offset by 3% lower volumes. Currency and portfolio headwinds lowered sales by 2% and 1%, respectively.

### Segment Highlights

The company's Electronics & Imaging segment recorded net sales of \$934 million in the quarter, down 1% on a year over year comparison basis. Organic sales fell 1%. Higher volumes in interconnect solutions were masked by weaker volumes in advanced printing and semiconductor technologies.

At the Nutrition & Biosciences unit, sales fell 1% to \$1.5 billion. Organic sales went up 2% year over year on 1% higher pricing and 1% increased volumes. Higher volumes in food & beverage and pharma solutions businesses coupled with higher pricing in pharma solutions drove growth in organic sales.

Net sales for the Transportation & Industrial division were \$1.2 billion in the reported quarter, down 11% year over year. Organic sales fell 10% as 1% higher pricing was more than offset by a 11% decline in volumes due to lower auto builds, soft electronics demand and de-stocking in the automotive channel.

Net sales in the Safety & Construction unit were \$1.3 billion, down 3%. Organic sales rose 2% on the back of a 3% price improvement, partly offset by 1% lower volume. Volume improvement in the water solutions business was masked by weakness in the shelter solutions business due to continued softness in construction demand in North America.

For the non-core reporting segment, net sales fell 12% to \$431 million. Organic sales declined 8%, impacted by lower volumes. Prices rose 2% in the quarter.

### Financials

DuPont had cash and cash equivalents of \$2,107 million at the end of the quarter. Long-term debt was \$ 15,610 million.

### Outlook

DuPont narrowed its adjusted earnings per share guidance to the range of \$3.77-\$3.82 for 2019 from its prior view of \$3.75-\$3.85. The company continues to see organic sales for the year to be modestly down from last year.

Quarter Ending 09/2019

| Report Date      | Oct 31, 2019 |
|------------------|--------------|
| Sales Surprise   | 0.30%        |
| EPS Surprise     | 1.05%        |
| Quarterly EPS    | 0.96         |
| Annual EPS (TTM) | 7.09         |

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## Recent News

### DuPont Exercises Option to Acquire 100% Ownership of OxyMem - Dec 18, 2019

DuPont has announced that it has exercised the option to acquire all outstanding shares of OxyMem Limited. The company already owns 31% of OxyMem.

OxyMem, founded in 2013, employs more than 60 staff and has a manufacturing facility situated in Athlone, Ireland. It manufactures, develops and sells Membrane Aerated Biofilm Reactor (MABR) technology for industrial and municipal wastewater treatment and purification.

Per DuPont's management, MABR offers differentiated and unique performance for secondary wastewater treatment over existing technologies. In addition to DuPont's MEMCOR MBR product, this emerging technology offer more solutions for customers seeking to minimize footprint and energy requirements for secondary wastewater treatment. Also, it improves system performance using other conventional water purification, reuse and recovery technologies.

### DuPont Unit Seals Merger Deal With International Flavors – Dec 15, 2019

DuPont's Nutrition & Biosciences business unit has entered into a definitive merger agreement with International Flavors & Fragrances Inc. to form a new entity, focused on creating a leading global integrated solution. The combined entity is valued at \$45.4 billion on an enterprise basis.

DuPont's Nutrition & Biosciences business offers solutions for home and personal care, food and beverage, dietary supplements, energy, animal nutrition and pharmaceuticals markets. It is one of the biggest producers of specialty ingredients. The division accounted for 29% of DuPont's third-quarter 2019 sales.

Under the terms of agreement, DuPont shareholders will own 55.4% of the newly-formed company, while International Flavors shareholders will hold the remaining. Upon closing of the deal, DuPont will get a one-time cash payment of \$7.3 billion. The deal has been approved by the boards of both companies. The combination will be executed through a Reverse Morris Trust transaction.

The transaction is likely to close by the end of the first quarter of 2021 upon approval by International Flavors' shareholders. Both companies have obtained fully-committed debt financing from Morgan Stanley and Credit Suisse. Upon the deal's closure, the new entity's board will consist of the seven current directors of International Flavors and six appointed by DuPont. International Flavors' chief executive officer Andreas Fibig will run the combined company and also continue to be the board chairman.

The new entity will be based in New York. It is expected to be a global leader in high-value ingredients and solutions for food and beverage, home and personal care, and health & wellness markets. The newly-formed company will have attractive positions across key growth categories, which include Taste, Scent, Texture, Nutrition, Enzymes, Cultures, Soy Proteins and Probiotics. With expanded global reach and enhanced capabilities, the company will be able to meet customers' increasing preference for natural and healthier products.

Moreover, shareholders will benefit from a highly profitable business with strong cash flow. The company expects to register stellar top-line growth as well as enhanced margins, with further benefit from cost synergies and revenue growth.

The integrated company will have estimated current-year revenues of more than \$11 billion and EBITDA of \$2.6 billion. The new entity's targeted cost-synergy to deliver more than \$400 million in run-rate revenue synergies would result in EBITDA of \$175 million, spurred by cross-selling opportunities and leveraging the extended capabilities across a broader range of customers.

DuPont reaffirmed 2019 revenue guidance at \$21.5 billion and adjusted earnings per share of \$3.77 to \$3.82. DuPont expects operating EBITDA to be at the lower end of the previously-guided range, due to temporary supply-chain disruptions in Safety & Construction and Electronics & Imaging.

### DuPont Scoops Up Desalitech, Strengthens Portfolio - Dec 11, 2019

DuPont has agreed to purchase closed circuit reverse osmosis company, Desalitech Ltd for an undisclosed price. The financial terms of the deal were not divulged.

DuPont is a leading player in water purification and separation technology that includes ultrafiltration, reverse osmosis and ion exchange resins. The company noted that the acquisition reinforces its strategy of offering a strong portfolio of technologies to address its customers' current and future challenges.

Desalitech along with other acquisitions announced this year are expected to allow DuPont to boost growth and innovation through access to new manufacturing capabilities, geographies and technologies

Desalitech's patented and unique process technology strengthens DuPont's portfolio with a compelling offering to further minimize the lifecycle cost of water purification and reuse.

The transaction, which is subject to customary closing conditions and regulatory approvals, is expected to close in January 2020.

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## Valuation

DuPont's shares are down 63.9% over the trailing 12-month period. Stocks in the Zacks Chemicals-Diversified industry and the Zacks Basic Materials sector are down 23.1% and up 0.8% over the past year, respectively.

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The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 4.98X trailing 12-month enterprise value-to EBITDA (EV/EBITDA) ratio, which compares to 7.24X for the Zacks sub-industry, 9.54X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.39X and as low as 4.69X, with a 5-year median of 8.91X.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$52 price target reflects 12.44X forward 12-month earnings per share.

The table below shows summary valuation data for DD:

| Valuation Multiples - DD |               |       |              |        |         |
|--------------------------|---------------|-------|--------------|--------|---------|
|                          |               | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM            | Current       | 4.98  | 7.24         | 9.54   | 12.12   |
|                          | 5-Year High   | 19.39 | 12.41        | 18.35  | 12.86   |
|                          | 5-Year Low    | 4.69  | 5.08         | 7.33   | 8.48    |
|                          | 5-Year Median | 8.91  | 7.24         | 10.57  | 10.67   |
| P/E F 12M                | Current       | 14.75 | 12.85        | 13.65  | 18.97   |
|                          | 5-Year High   | 22.08 | 15.05        | 21.12  | 19.34   |
|                          | 5-Year Low    | 8.69  | 8.18         | 9.76   | 15.17   |
|                          | 5-Year Median | 14.92 | 12.38        | 13.77  | 17.44   |
| P/B TTM                  | Current       | 1.09  | 1.73         | 2.34   | 4.5     |
|                          | 5-Year High   | 3.21  | 3.51         | 3.54   | 4.5     |
|                          | 5-Year Low    | 0.58  | 0.88         | 1.34   | 2.85    |
|                          | 5-Year Median | 2.27  | 2.52         | 2.18   | 3.61    |

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 254)



## Top Peers

|  |            |
|--|------------|
| Air Products and Chemicals, Inc. (APD) | Outperform |
| BASF SE (BASFY)                        | Neutral    |
| The Chemours Company (CC)              | Neutral    |
| Celanese Corporation (CE)              | Neutral    |
| Dow Inc. (DOW)                         | Neutral    |
| Eastman Chemical Company (EMN)         | Neutral    |
| LyondellBasell Industries N.V. (LYB)   | Neutral    |
| PPG Industries, Inc. (PPG)             | Neutral    |

| Industry Comparison Industry: Chemical - Diversified |                 |            |           | Industry Peers |             |             |
|--|-----------------|------------|-----------|----------------|-------------|-------------|
|  | DD Underperform | X Industry | S&P 500   | BASFY Neutral  | DOW Neutral | LYB Neutral |
| <b>VGM Score</b>                                     | <b>D</b>        | -          | -         | <b>C</b>       | <b>A</b>    | <b>A</b>    |
| Market Cap   | 45.71 B         | 2.98 B     | 24.61 B   | 65.76 B        | 38.91 B     | 30.51 B     |
| # of Analysts  | 9               | 3          | 13        | 3              | 6           | 6           |
| Dividend Yield                                       | 1.94%           | 1.77%      | 1.74%     | 3.57%          | 5.34%       | 4.59%       |
| <b>Value Score</b>                                   | <b>D</b>        | -          | -         | <b>A</b>       | <b>A</b>    | <b>A</b>    |
| Cash/Price   | 0.05            | 0.07       | 0.04      | 0.04           | 0.07        | 0.02        |
| EV/EBITDA  | 4.58            | 6.54       | 14.24     | 7.18           | 5.31        | 5.90        |
| PEG Ratio  | 1.49            | 1.63       | 2.07      | 1.63           | 3.58        | 0.97        |
| Price/Book (P/B)                                     | 1.09            | 2.13       | 3.38      | 1.43           | 2.16        | 3.86        |
| Price/Cash Flow (P/CF)                               | 3.05            | 6.69       | 13.75     | 6.08           | NA          | 6.20        |
| P/E (F1)   | 14.90           | 14.71      | 19.09     | 15.52          | 13.11       | 8.14        |
| Price/Sales (P/S)                                    | 0.90            | 0.90       | 2.68      | 0.94           | NA          | 0.86        |
| Earnings Yield                                       | 6.71%           | 6.69%      | 5.24%     | 6.42%          | 7.62%       | 12.28%      |
| Debt/Equity  | 0.37            | 0.61       | 0.72      | 0.39           | 1.05        | 1.38        |
| Cash Flow (\$/share)                                 | 20.25           | 3.41       | 6.94      | 2.95           | NA          | 14.76       |
| <b>Growth Score</b>                                  | <b>D</b>        | -          | -         | <b>F</b>       | <b>B</b>    | <b>B</b>    |
| Hist. EPS Growth (3-5 yrs)                           | -0.19%          | 10.15%     | 10.56%    | 1.11%          | NA          | 1.92%       |
| Proj. EPS Growth (F1/F0)                             | 9.01%           | 8.11%      | 7.57%     | 9.14%          | 13.49%      | 13.06%      |
| Curr. Cash Flow Growth                               | 64.33%          | 3.75%      | 14.73%    | 136.40%        | 112.32%     | 7.46%       |
| Hist. Cash Flow Growth (3-5 yrs)                     | 20.87%          | 6.70%      | 9.00%     | -0.12%         | NA          | 2.91%       |
| Current Ratio  | 1.62            | 1.83       | 1.24      | 1.78           | 1.69        | 1.30        |
| Debt/Capital   | 27.14%          | 39.72%     | 42.99%    | 28.03%         | 51.30%      | 58.19%      |
| Net Margin   | 1.57%           | 5.57%      | 11.14%    | 14.64%         | NA          | 9.80%       |
| Return on Equity                                     | 7.78%           | 11.94%     | 17.16%    | 9.36%          | NA          | 35.56%      |
| Sales/Assets   | 0.39            | 0.85       | 0.55      | 0.69           | NA          | 1.19        |
| Proj. Sales Growth (F1/F0)                           | 0.75%           | 1.97%      | 4.16%     | 4.29%          | 1.35%       | 0.84%       |
| <b>Momentum Score</b>                                | <b>C</b>        | -          | -         | <b>D</b>       | <b>F</b>    | <b>F</b>    |
| Daily Price Chg                                      | 0.92%           | 0.18%      | 0.89%     | 0.28%          | 0.40%       | 0.35%       |
| 1 Week Price Chg                                     | -3.94%          | -0.79%     | 0.39%     | -2.09%         | -1.76%      | -2.32%      |
| 4 Week Price Chg                                     | -3.52%          | -2.10%     | 2.65%     | -3.92%         | -3.74%      | -4.01%      |
| 12 Week Price Chg                                    | -6.88%          | 2.22%      | 7.55%     | -7.87%         | 6.08%       | 3.57%       |
| 52 Week Price Chg                                    | -63.95%         | 1.52%      | 22.12%    | -1.65%         | NA          | 6.59%       |
| 20 Day Average Volume                                | 5,017,215       | 127,015    | 1,536,375 | 206,525        | 3,163,805   | 1,613,961   |
| (F1) EPS Est 1 week change                           | -0.67%          | 0.00%      | 0.00%     | -3.89%         | -2.29%      | -1.17%      |
| (F1) EPS Est 4 week change                           | -3.44%          | -0.31%     | 0.00%     | -6.49%         | -2.91%      | -1.55%      |
| (F1) EPS Est 12 week change                          | -4.00%          | -3.58%     | -0.40%    | -4.68%         | -3.58%      | -7.49%      |
| (Q1) EPS Est Mthly Chg                               | NA%             | 0.00%      | 0.00%     | NA             | -14.61%     | 0.00%       |



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## 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.

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### 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   | D |
| 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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