

## D.R. Horton, Inc. (DHI)

**\$39.65** (As of 04/08/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 03/29/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: D

### Summary

Shares of D.R. Horton have outperformed its industry in the past year. The outperformance is expected to continue in the near term as well, courtesy of its industry-leading market share, solid acquisition strategy and affordable product offerings across multiple brands. Given an impressive sales backlog, and a well-stocked supply of land, lots and homes, it is well positioned for fiscal 2020 and beyond. However, uncertainties in the U.S. economy and the company's business operations arising from COVID-19 have prompted D.R. Horton to withdraw its previously issued fiscal 2020 guidance. The economic slowdown resulting from shutdowns due to coronavirus has raised concerns regarding the future. Earnings estimates moved downward over the past 30 days, reflecting analyst's concern over the company's prospects.

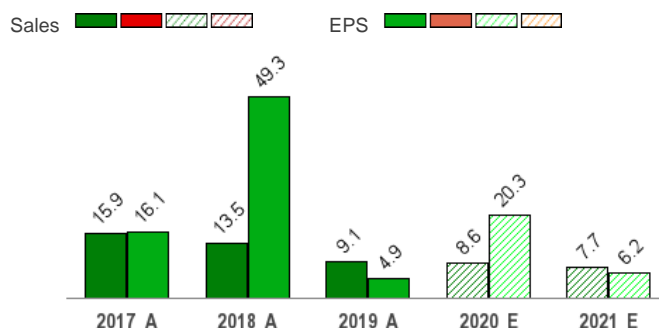
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$62.54 - \$25.51
20 Day Average Volume (sh)	7,360,769
Market Cap	\$14.5 B
YTD Price Change	-24.8%
Beta	1.31
Dividend / Div Yld	\$0.70 / 1.8%
Industry	<a href="#">Building Products - Home Builders</a>
Zacks Industry Rank	Top 23% (57 out of 253)

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



Last EPS Surprise	7.6%
Last Sales Surprise	6.5%
EPS F1 Est- 4 week change	-2.0%
Expected Report Date	04/28/2020
Earnings ESP	-2.7%

P/E TTM	8.8
P/E F1	7.7
PEG F1	0.7
P/S TTM	0.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,192 E	4,681 E	5,602 E	5,687 E	20,419 E
2020	4,021 A	4,413 E	5,261 E	5,359 E	18,957 E
2019	3,503 A	4,097 A	4,882 A	4,977 A	17,459 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.07 E	\$1.23 E	\$1.60 E	\$1.66 E	\$5.48 E
2020	\$0.99 A	\$1.12 E	\$1.44 E	\$1.49 E	\$5.16 E
2019	\$0.76 A	\$0.93 A	\$1.26 A	\$1.35 A	\$4.29 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 04/08/2020. The reports text is as of 04/09/2020.

## Overview

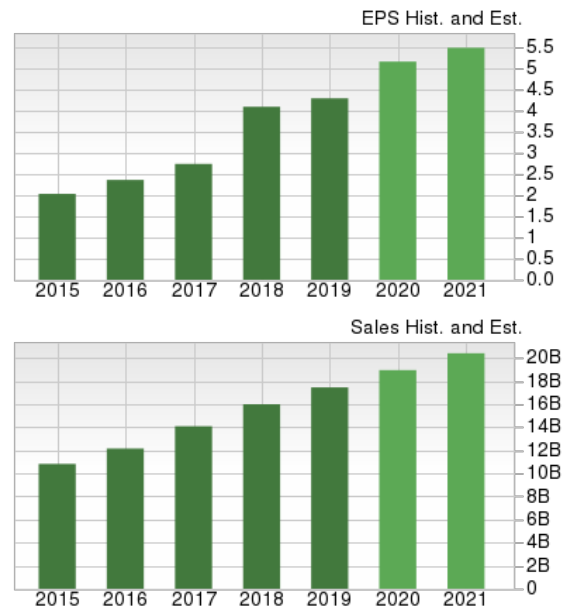
D.R. Horton, Inc., based in Texas, is one of the leading national homebuilders, primarily engaged in the construction and sale of single-family houses both in the entry-level and move-up markets. Homes vary in sizes from 1,000 to 4,000 square feet, with prices ranging from \$100,000 to more than \$1,000,000. D.R. Horton's operations are spread over 90 markets across 29 states in the East, Midwest, Southeast, South Central, Southwest and West regions of the United States. Its houses are sold under the brand names D.R. Horton - America's Builder, Emerald Homes, Express Homes and Freedom Homes.

D.R. Horton operates through three segments: **Homebuilding** (contributing 96.7% of the total revenues in fiscal 2019), **Forestar** (2.4%) and **Financial Services** (2.5%). Notably, of the total revenues, 1.8% represents the elimination of intercompany transactions. The Homebuilding segment comprises six reporting regions and derives revenues primarily from the sale of completed homes built on lots it develops and on finished lots purchased ready for home construction. In addition to single-family detached homes (accounting for around 90% of home sale revenues), the segment builds attached homes, such as town homes, duplexes, triplexes and condominiums. The segment also derives revenues by selling lands and lots.

As of Dec 31, 2019, the Forestar land development reporting segment has operations in 51 markets and 20 states, where it owns, directly or through joint ventures, interests in residential and mixed-use projects. During fiscal 2018, the company had acquired a 75% share of Forestar Group, which is a residential and mixed-use real estate development company. Forestar Group Inc. (FOR), a publicly-traded residential and real estate development company, is a majority-owned subsidiary of D.R. Horton.

The Financial Services segment, through the mortgage subsidiary, DHI Mortgage, provides mortgage financing and title agency services primarily to the company's homebuilding customers.

Other Businesses — Through DHI Communities, a 100% owned subsidiary, the company develops, constructs and owns multi-family residential properties that produce rental income.



## Reasons To Buy:

▲ **Strong Results and Stock Outperformance:** Shares of D.R. Horton have outperformed its industry in the past year. The price performance was backed by the company's robust earnings surprise history, having surpassed the Zacks Consensus Estimate in seven of the trailing nine quarters. Its revenues also surpassed the consensus mark in eight of the trailing nine quarters. The trend is expected to continue in the near term as well, post its solid fiscal 2019 and first-quarter fiscal 2020 results. It ended fiscal 2019 on a strong note. Earnings per share increased 10.6% and revenues grew 10.7% from a year ago. Notably, with 56,975 homes closed in fiscal 2019, D.R. Horton completed its 18th consecutive year as the largest homebuilder in the United States. The trend continued in fiscal first-quarter 2020 as well, with adjusted earnings and revenues increasing 30.3% and 14.3%, respectively.

With accretive acquisitions, robust backlog and a well-stocked inventory of land, lots and homes in place, D.R. Horton is expected to perform well in fiscal 2020.

Meanwhile, the U.S. housing market started building up strength since the beginning of 2019, after a torrid second-half 2018. Declining mortgage rates and moderate home prices have been adding strength to D.R. Horton and other homebuilders. The overall homebuilding industry remains positive owing to ongoing traffic trends that indicate higher inclination of buyers, thereby reflecting a slow but steady housing recovery. Notably, declining interest/mortgage rates and lower construction costs are somewhat offsetting the other ongoing headwinds. Moreover, as more and more millennials are leaving their parents' home, a sharp spike in household formation is likely to translate into higher demand for new homes.

▲ **Accretive Acquisitions & Increased Capital Investments in Land:** D.R. Horton is fast acquiring homebuilding companies in desirable markets. Over the past five years (through fiscal 2019), the company has invested approximately \$1 billion on acquisitions. During fiscal 2019, the company purchased homebuilding operations of three private builders for approximately \$325.9 million. In December 2018, the company entered Iowa by acquiring Classic Builders, the largest builder in Des Moines. It enhanced its market position in Raleigh, NC by acquiring Terramor Homes. In November 2018, it acquired Westport Homes, a top five builder by volume in Indianapolis and Columbus, which are both in the top 50 U.S. housing markets.

The company's strong cash position and low debt/capital ratio allowed it to make strategic land purchases even during the downturn, in turn giving it a significant competitive advantage. The company has selectively invested in attractively-priced land and lots in the past few years allowing it to bring new attractive communities in desirable markets. D.R. Horton's well-stocked supply of land, plots and homes provide it with a strong competitive position to meet the demand in future quarters, thereby growing sales and home closings. The company invested \$3.7 billion in lots, land and development in fiscal 2019, almost on par with the year-ago level of \$3.8 billion. It invested \$1.3 billion in lots, land and development during the fiscal first quarter. It has plans to boost investments to replenish its land and lot supply in fiscal 2020 for supporting revenue growth.

▲ **Affordable Homes Drive D.R. Horton's Profits:** Higher building material costs, as well as land and labor shortages are prompting homebuilders to increase home prices. That said, D.R. Horton's strategic shift toward more entry-level affordable homes have been paying off, with the segment experiencing strong demand and limited supply. Notably, first-time homebuyers represented 50% of its closings in first-quarter fiscal 2020. The figure was same in the corresponding quarter of last year.

▲ **Cost Reduction and Margin Improvement:** Management has consistently made an effort to reduce both construction and selling, general and administrative (SG&A) expenses. It controls construction costs by designing homes efficiently and also by obtaining construction materials and labor at competitive prices. Further, its SG&A expenses are continuously going down due to cost control and better fixed cost leverage. In fiscal 2018, SG&A expenses improved 30 basis points (bps) year over year to 8.6%. The metric decreased 40 bps and 20 bps in fiscal 2017 and fiscal 2016, respectively. Notably, the company did not achieve SG&A leverage in fiscal 2019 after it reduced revenue growth expectation for the fiscal first quarter, and worked on aligning its inventory levels and operations with revised expectations throughout the fiscal year. Nonetheless, it remains focused on controlling SG&A and expects to improve the same in fiscal 2020. Its fiscal first-quarter SG&A improved 30 bps year over year.

The company strategically manages the pricing, incentives and sales pace across its markets in a manner that will optimize the returns on inventory investments. It believes a consistent sales pace through inventory turnover is the best way to maximize profits and returns. The company's homebuilding return on inventory (ROI) improved over the past three years from 15.4% in fiscal 2016 to 16.6% and 20.2% in fiscal 2017 and fiscal 2018, respectively. In fiscal 2019, ROI was 18.1%. With 307,300 lots (40% were owned and 60% controlled through option contracts) in inventory at the end of fiscal 2019, D.R. Horton is well poised for fiscal 2020.

▲ **Active Management of Cash Flows:** D.R. Horton has been actively managing cash flows, returning much of its free cash to investors through share repurchases and dividends. During fiscal 2019, the company returned more than \$1.4 billion to its shareholders through share repurchases and dividends, after reducing homebuilding debt by \$1.3 billion. In fiscal 2019, the company paid cash dividends of \$223.4 million and repurchased 11.9 million shares of common stock for \$479.8 million. In first-quarter fiscal 2020, the company paid dividends worth \$64.6 million and repurchased \$163.1 million shares. It has \$732.6 million remaining under the stock repurchase authorization (as of Dec 31, 2019), which has no expiration date. Management boosted its quarterly cash dividend by 17% to 17.50 cents per share in November 2019. It expects to pay dividends of approximately \$250 million in fiscal 2020.

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## Reasons To Sell:

▼ **Margin Pressure:** Rising land and labor costs are threatening margins as they limit homebuilders' pricing power. Labor shortages are leading to higher wages while land prices are inflating due to limited availability. Meanwhile, key cost pressures coming from finished lots, skilled labor, and rising materials costs may affect margins in all key regions. This is denting homebuilders' margins to some extent.

Rising land/labor and material costs, competitive pricing pressure, and stretched valuation are major causes of concern

▼ **Federal Government Actions:** The housing industry is cyclical and affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits could affect consumer confidence and spending levels, which in turn could hurt both the economy and housing market.

Although strong economy along with labor market strength provide the basis for strong demand, its influence on the homebuilding industry is undeniable and uncertain. Indeed, any rise in interest and mortgage rates as well as land and labor shortages raise concerns, as do rising material prices. High mortgage rates dilute the demand for new homes as mortgage loans become expensive. This lower purchasing power of the buyers hurts volumes, revenues and profits of homebuilders.

▼ **Overvalued Compared to Peers:** The company's stretched valuation is another concern. Its trailing 12-month price to earnings ratio is 8.75, which is higher than the industry's 7.41. This implies that the stock is overvalued compared with its peers.

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## Last Earnings Report

### D.R. Horton Q1 Earnings & Revenues Top, Sales View Up

D.R. Horton, Inc. reported better-than-expected results in first-quarter fiscal 2020, thanks to its industry-leading market share, broad geographic footprint and affordable product offerings across multiple brands.

The homebuilder foresees demand to remain strong in the remainder of fiscal 2020. Solid demand, a limited supply of homes at affordable prices across the markets served, favorable economic fundamentals and financing availability, as well as 30,200 homes in inventory (at the end of December) make D.R. Horton well positioned for the spring selling season.

Quarter Ending **12/2019**

Report Date	<b>Jan 27, 2020</b>
Sales Surprise	<b>6.48%</b>
EPS Surprise	<b>7.61%</b>
Quarterly EPS	<b>0.99</b>
Annual EPS (TTM)	<b>4.53</b>

### Earnings & Revenue Discussion

Adjusted earnings came in at 99 cents per share in the quarter, surpassing the Zacks Consensus Estimate of 92 cents by 7.6%. The reported figure also increased from the year-ago profit of 76 cents per share.

The quarterly results were adjusted for a tax benefit of \$32.9 million related to federal energy efficient homes tax credits that were retroactively reinstated during the quarter.

Total revenues (Homebuilding, Forestar and Financial Services) came in at \$4.02 billion, up 14.3% year over year. The reported figure also topped the consensus mark of \$3.78 billion.

### Home Closings and Orders

Homebuilding revenues of \$3.88 billion increased 13.6% from the prior-year quarter. Home sales also increased 13.3% year over year to \$3.86 billion, aided by higher home deliveries. Also, land/lot sales and other revenues were \$19.7 million, increasing from \$6.7 million a year ago.

Home closings increased 13% from the prior-year quarter to 12,959 homes and 13% in value to \$3.9 billion. It recorded growth across regions comprising East, Midwest, Southeast, West and South Central, and Southwest.

Net sales orders increased 19% year over year to 13,126 homes, with improvement witnessed in East, Midwest, Southeast, South Central and West and Southwest. Value of net orders also improved 22% year over year to \$3.9 billion. The cancellation rate was 20%, lower than 24% in the prior-year quarter.

Revenues from the Financial Services segment increased 20.6% from the year-ago level to \$102.9 million. Forestar contributed \$247.2 million to its quarterly revenues, reflecting a notable improvement from \$38.5 million a year ago.

### Margins

Gross margin on home sales revenue in the quarter was 21%, up 100 basis points (bps) year over year and flat sequentially. In the quarter, SG&A expense (as a percentage of homebuilding revenues) was 9.2%, down 30 bps from the prior year quarter. The company's consolidated pre-tax margin expanded 230 bps to 13% in the quarter.

### Balance Sheet

D.R. Horton's cash, cash equivalents and restricted cash totaled \$1.58 billion as of Dec 31, 2019 compared with \$1.49 billion in the corresponding period of 2018. It repurchased 3 million shares of common stock for \$163.1 million during first-quarter fiscal 2020. The company has \$732.6 million remaining under the stock repurchase authorization (as of Dec 31, 2019), which has no expiration date.

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## Recent News

### D.R. Horton's Q2 Sales Strong, March Cancellation Rate Rises - Apr 7, 2020

D.R. Horton, Inc. announced preliminary results for the second quarter of fiscal 2020 (ended Mar 31, 2020), wherein it reported solid sales, net orders and backlog numbers. Additionally, it reported select preliminary results for the month of March 2020 amid the coronavirus pandemic.

#### Fiscal Second-Quarter Snapshots

Housing market fundamentals mostly remained solid throughout second-quarter fiscal 2020, given low interest rates on mortgage loans and strong demand owing to limited supply of homes at affordable prices across most of the markets served by the company.

Home sales revenues in the fiscal second quarter increased 10% to \$4.4 billion from \$4 billion a year ago. Homes closed grew 8% to 14,539 homes and 10% in value to \$4.4 billion in the quarter.

Net sales orders increased 20% to 20,087 homes and 22% in value to \$6 billion. It registered double-digit percentage growth in each geographic region served except Southeast, which recorded 7% net sales order growth. Cancellations were 4,570 homes in the quarter compared with 3,896 homes a year ago, resulting in a cancellation rate of 19% in both the periods.

The company's sales order backlog of homes under contract, as of Mar 31, 2020, advanced 14% on a year-over-year basis to 19,328 homes and 18% in value to \$5.9 billion.

It had \$1 billion of unrestricted homebuilding cash and \$1 billion of available capacity on the \$1.6-billion revolving credit facility for total homebuilding liquidity of \$2 billion at the end of fiscal second quarter. As of Mar 31, 2020, homebuilding debt totaled \$2.5 billion, with \$400 million of senior note maturities in the next 12 months.

#### March Highlights

Widespread slowdown in economic activity owing to the coronavirus outbreak began to adversely affect the company's business operations and the demand for homes in the latter part of March, with continuation of the same in April. Cancellation rate in March was 24% compared with 18% a year ago.

Nonetheless, gross sales orders in the month grew 14% to 8,511 homes from 7,495 homes in March 2019. Net sales orders in the month increased 6% to 6,491 homes from 6,127 homes in March 2019 and the value of net sales orders increased 5% to \$1.9 billion from \$1.8 billion.

#### Fiscal 2020 Guidance Withdrawn

Uncertainties in the U.S. economy and the company's business operations arising from COVID-19 have prompted D.R. Horton to withdraw its previously issued fiscal 2020 guidance.

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## Valuation

D.R. Horton shares are down 24.8% in the year-to-date period and 9.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and

the Zacks Construction sector are down 29% and 29.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 16.1% and 17.7%, respectively.

The S&P 500 index is down 14.6% in the year-to-date period and 5% in the past year.

The stock is currently trading at 7.44X forward 12-month earnings, which compares to 6.55X for the Zacks sub-industry, 12.36X for the Zacks sector and 16.99X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.83X and as low as 5.44X, with a 5-year median of 11.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 7.88X forward 12-month earnings.

The table below shows summary valuation data for DHI.

Valuation Multiples - DHI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.44	6.55	12.36	16.99
	5-Year High	15.83	14.36	18.55	19.34
	5-Year Low	5.44	6.27	10.71	15.19
	5-Year Median	11.32	10.72	15.92	17.44
P/B TTM	Current	1.38	0.93	2.15	3.54
	5-Year High	2.49	2.29	7.23	4.55
	5-Year Low	1	0.65	1.71	2.84
	5-Year Median	1.82	1.54	3.38	3.63
P/S F12M	Current	0.73	0.66	1.4	2.94
	5-Year High	1.19	1.21	2.23	3.44
	5-Year Low	0.53	0.57	1.25	2.54
	5-Year Median	0.89	0.92	1.65	3

As of 04/08/2020

## Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



## Top Peers

Beazer Homes USA, Inc. (BZH)	Neutral
KB Home (KBH)	Neutral
Lennar Corporation (LEN)	Neutral
M/I Homes, Inc. (MHO)	Neutral
Meritage Homes Corporation (MTH)	Neutral
NVR, Inc. (NVR)	Neutral
PulteGroup, Inc. (PHM)	Neutral
Toll Brothers Inc. (TOL)	Neutral

Industry Comparison Industry: Building Products - Home Builders				Industry Peers		
	DHI Neutral	X Industry	S&P 500	LEN Neutral	PHM Neutral	TOL Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>A</b>	<b>A</b>	<b>D</b>
Market Cap	14.53 B	1.65 B	19.05 B	13.70 B	6.89 B	2.91 B
# of Analysts	16	5	13	7	7	7
Dividend Yield	1.77%	0.00%	2.23%	1.15%	1.88%	1.92%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Cash/Price	0.22	0.26	0.06	0.12	0.25	0.23
EV/EBITDA	7.10	6.77	11.47	8.24	6.03	7.48
PEG Ratio	0.74	0.80	2.00	0.87	0.80	0.59
Price/Book (P/B)	1.38	0.78	2.56	0.85	1.26	0.64
Price/Cash Flow (P/CF)	8.62	6.03	10.14	7.15	6.54	4.87
P/E (F1)	8.11	6.63	16.97	7.52	6.40	6.54
Price/Sales (P/S)	0.80	0.47	2.01	0.60	0.67	0.40
Earnings Yield	13.01%	15.09%	5.81%	13.28%	15.63%	15.28%
Debt/Equity	0.36	0.50	0.70	0.50	0.51	0.86
Cash Flow (\$/share)	4.60	3.90	7.01	6.06	3.90	4.72
<b>Growth Score</b>	<b>D</b>	-	-	<b>B</b>	<b>B</b>	<b>F</b>
Hist. EPS Growth (3-5 yrs)	24.04%	20.24%	10.92%	15.42%	33.03%	23.82%
Proj. EPS Growth (F1/F0)	20.24%	6.29%	-0.64%	0.42%	14.33%	-12.83%
Curr. Cash Flow Growth	3.66%	-2.58%	5.93%	-6.27%	-2.58%	-11.99%
Hist. Cash Flow Growth (3-5 yrs)	23.21%	22.34%	8.55%	22.34%	15.54%	13.21%
Current Ratio	7.13	3.33	1.24	12.65	0.81	6.82
Debt/Capital	26.48%	33.38%	42.36%	33.38%	33.63%	46.17%
Net Margin	9.74%	6.78%	11.64%	8.77%	9.95%	7.44%
Return on Equity	16.92%	12.76%	16.74%	12.76%	19.38%	10.81%
Sales/Assets	1.16	0.98	0.54	0.78	0.99	0.68
Proj. Sales Growth (F1/F0)	8.59%	2.15%	0.61%	1.61%	10.41%	0.50%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Daily Price Chg	8.51%	9.48%	4.33%	10.44%	10.81%	10.86%
1 Week Price Chg	-12.85%	-17.43%	-4.40%	-17.06%	-22.84%	-17.59%
4 Week Price Chg	-13.09%	-21.51%	-1.70%	-18.82%	-27.79%	-25.11%
12 Week Price Chg	-27.83%	-36.66%	-20.64%	-30.94%	-38.22%	-47.88%
52 Week Price Chg	-9.74%	-21.01%	-12.97%	-14.71%	-11.76%	-38.67%
20 Day Average Volume	7,360,769	427,144	4,016,075	5,907,844	6,778,267	4,314,369
(F1) EPS Est 1 week change	0.13%	0.00%	-0.26%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.04%	-3.03%	-5.64%	-6.88%	-3.29%	-2.77%
(F1) EPS Est 12 week change	2.60%	-4.79%	-7.49%	-4.92%	2.87%	-10.42%
(Q1) EPS Est Mthly Chg	-2.22%	0.00%	-9.90%	-7.89%	0.00%	-1.96%



## 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>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>D</b>
VGM Score	<b>C</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.

## Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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