

## DICKS Sporting Goods (DKS)

**\$54.55** (As of 08/26/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 08/26/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: D

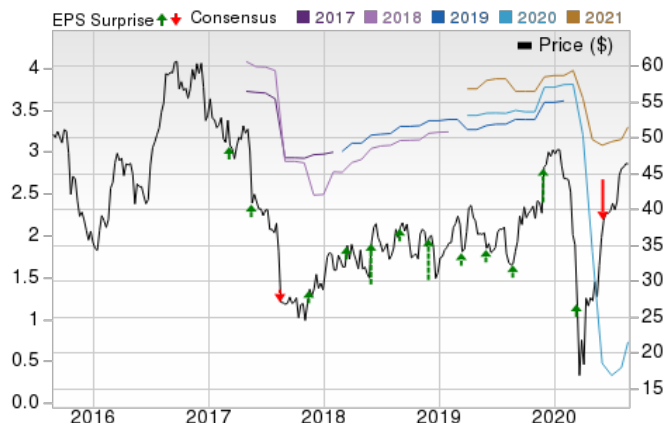
Growth: F

Momentum: A

### Summary

Shares of DICK'S Sporting have outpaced the industry in the past three months. The company reported solid second-quarter fiscal 2020 results, wherein both the top and bottom lines improved year over year. Results gained from robust comps and robust e-commerce performance. Strength in its core categories including hardlines, apparel and footwear bode well. The company notes that comps momentum continued in the third quarter driven by healthy demand. Notably, all its stores have resumed operations from June-end which is likely to contribute to the top line in the near term. Also, its decision to resume dividend payments is boosting investor confidence. However, COVID-19 related costs are likely to linger in fiscal 2020. Moving on, it remains uncertain about impacts of COVID-19, as a result of which, it did not provide fiscal 2020 view.

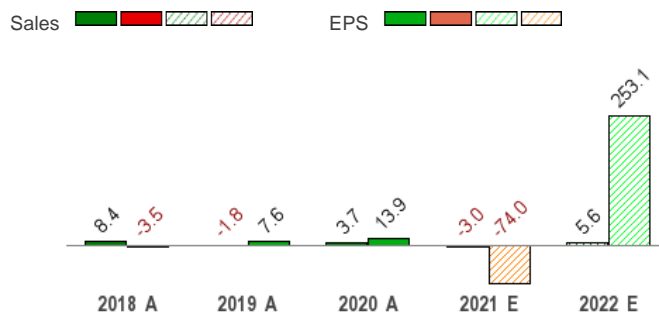
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$54.50 - \$13.46
20 Day Average Volume (sh)	2,873,145
Market Cap	\$4.7 B
YTD Price Change	9.1%
Beta	1.62
Dividend / Div Yld	\$1.25 / 2.3%
Industry	<a href="#">Retail - Miscellaneous</a>
Zacks Industry Rank	Top 48% (120 out of 252)

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



Last EPS Surprise	158.9%
Last Sales Surprise	8.2%
EPS F1 Est- 4 week change	76.8%
Expected Report Date	11/24/2020
Earnings ESP	18.1%
P/E TTM	14.1
P/E F1	56.8
PEG F1	9.7
P/S TTM	0.5

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,662 E	2,420 E	2,086 E	2,736 E	8,960 E
2021	1,333 A	2,508 E	2,022 E	2,666 E	8,485 E
2020	1,921 A	2,259 A	1,962 A	2,609 A	8,751 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.16 E	\$1.44 E	\$0.46 E	\$1.26 E	\$3.39 E
2021	-\$1.21 A	\$1.24 E	\$0.29 E	\$1.13 E	\$0.96 E
2020	\$0.62 A	\$1.26 A	\$0.52 A	\$1.32 A	\$3.69 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 08/26/2020. The reports text is as of 08/27/2020.

## Overview

DICK'S Sporting Goods Inc. was founded in 1948 in New York under the labels Dick's Clothing and Sporting Goods, Inc. It was earlier reincorporated as a Delaware corporation and changed our name to Dick's Sporting Goods, Inc. in April 1999. The company's executive office is located in Coraopolis, Pennsylvania.

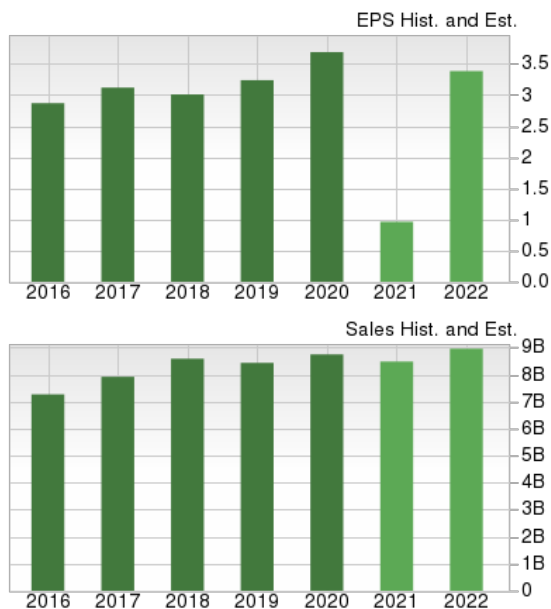
The company operates as a major omni-channel sporting goods retailer, offering athletic shoes, apparel, accessories and a broad selection of outdoor and athletic equipment for team sports, fitness, camping, fishing, tennis, golf, water sports, etc.

DICK'S Sporting offers these items through a blend of associates, in-store services and unique specialty shop-in-shops. DICK'S Sporting also owns operates Golf Galaxy and Field & Stream stores as well as Team Sports HQ. It also operates all-in-one youth sports digital platform, which offer scheduling, communications and live scorekeeping via the GameChanger mobile apps, free league management services, custom uniforms and fan wear.

The company also operates through its e-commerce websites and catalog operations. The company operates 4 kinds of stores – a) single-level DICK'S Sporting stores of approximately 50,000 square feet, b) two-level DICK'S Sporting store of approximately 80,000 square feet, c) DICK'S Sporting stores for smaller markets of about 35,000–40,000 square feet, and d) 13,000–18,000 square feet Golf Galaxy stores.

DICK'S Sporting stocks nationally recognized brands such as Callaway Golf, adidas, TaylorMade-adidas Golf, The North Face, Asics, Under Armour, Nike, Columbia and Remington.

As of Aug 1, 2020, DICK'S Sporting operated 726 DICK'S Sporting Goods stores across 47 states.



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## Reasons To Buy:

- ▲ **Solid Q2 Results Boost Stock:** Shares of DICK'S Sporting have skyrocketed 54.5% in the past three months outperforming the industry's growth of 17.4%. The stock's bullish run on the bourses can be attributable to better-than-expected second-quarter fiscal 2020 results, wherein both the top and bottom lines improved year over year. Results gained from solid comps and robust e-commerce performance. Notably, all its stores have resumed operations from June-end, which also aided results to some extent. Net sales of \$2,713.4 million rose 20.1% year over year in the fiscal second quarter, with comps growth of 20.7% driven by higher transactions and rise in average ticket to the tune of 2.8% and 17.9%, respectively. Also, solid performance in all the core categories including hardlines, apparel and footwear contributed to comps growth. Additionally, the company notes that it witnessed double digit growth in store comps in the months of June and July. Going ahead, healthy consumer demand that drove comps in the quarter under review remains intact and has resulted in continued momentum in the fiscal third quarter. For the first three weeks of the third quarter, the company has recorded comps growth of 11%.
- DICK'S Sporting gains from its solid online show which led to 194% rise in e-commerce sales during Q2. Also, strength in core categories including hardlines, apparel and footwear bode well.
- ▲ **Initiatives – Omni-channel Growth:** DICK'S Sporting has been gaining from continued focus on developing every possible avenue to generate greater sales. As part of its long-term plan, the company plans to make significant investments in e-commerce, technology, store payroll, Team Sports and private brands. It also remains on track to build the best omni-channel experience for athletes by strengthening store network and expanding e-commerce presence. Despite coronavirus woes, the company has been witnessing strong online show driven by strong online demand and improved omni-channel capabilities including curbside pickup services and BOPIS. As a result, e-commerce sales surged 194% year over year, which was nearly 30% of net sales in the reported quarter compared with 12% in the prior-year quarter. Encouragingly, management announced a pay premium of 15% for this year.
- On the store-front, it earlier launched two types of concept stores namely OVERTIME by DICK'S Sporting Goods and DICK'S Sporting Goods Warehouse. This will bring the total number of outlet and clearance stores to 11 at nine different states. This move is in sync with its plans to expand outlet and clearance stores in a bid to offer popular athletic brands at discounted prices.
- ▲ **Financial Flexibility:** DICK'S Sporting's remains committed to reducing debt for a while now. In this context, it has repaid \$1.4 billion debt during the fiscal second quarter. Post this, the company has a cash balance of \$1,061.1 million with no outstanding borrowings under its \$1.9 billion revolving credit facility. Moreover, it issued 3.25% senior notes worth \$575 million adding an extra \$500 million to the cash balance. Such well chalked out plans are likely to help the company stay afloat amid the pandemic.
- ▲ **Shareholder-Friendly Moves:** DICK'S Sporting boasts a good history of returning value to shareholders. The company recently announced to resume dividend payment after it had suspended dividend payments in wake of the ongoing pandemic. After a brief hiatus of dividend suspension, the company has resumed its dividend program recently. It approved a dividend of 31.25 cents per share on its Common Stock and Class B Common Stock which has been paid on Jun 30. Moreover, management declared a quarterly dividend of 31.25 cents to be payable on Sep 25, 2020 as of shareholders record on Sep 11. Moreover, the company has a five-year annualized dividend growth rate of 20%, reflecting dividend increases for five consecutive years. It currently has a dividend yield of 2.3%, dividend payout ratio is 32.6% and free cash flow yield of 57.7%. Moreover, DICK'S Sporting is likely to resume share repurchases under its existing share repurchase program of \$1 billion.
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## Risks

- **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, DICK'S Sporting looks pretty overvalued compared with the market at large. The stock has a trailing 12-month P/E ratio of 28.57x compared with 16.96x for the industry and 24.41x for the S&P 500. The company's trailing 12-month P/E ratio is above the median level of 13.18x and in-line with the high level of 28.57x, scaled in the past year.
  - **COVID-19 Related Cost Remain a Drag:** During second-quarter fiscal 2020, the company incurred \$32 million of extra compensation and \$12 million of safety expense associated with the COVID-19 crisis. Going ahead, management expects to incur \$50 million COVID-19 related cost in each quarter of fiscal 2020. Moreover, it remains uncertain about impacts of COVID-19 as a result of which, it did not provide guidance for fiscal 2020.
  - **Competitive Pressure:** DICK'S Sporting faces intense competition from other sporting goods retailers on grounds of size, availability of financial, distribution and marketing resources, pricing strategies and retail sales methods. The company's inability to stay afloat amid such competition may result in loss of market share and adversely impact its business.
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## Last Earnings Report

### DICK'S Sporting Beats Earnings & Sales Estimates in Q2

DICK'S Sporting Goods posted better-than-expected second-quarter fiscal 2020 results, wherein both top and bottom lines improved year over year. Moreover, management did not provide any fiscal 2020 view citing unprecedented impacts of COVID-19. Further, it noted that all its stores have resumed operations from June-end.

#### Q2 in Detail

In the fiscal first quarter, DICK'S Sporting reported adjusted earnings of \$3.21 per share, up more than two-folds from \$1.26 in the prior-year quarter. The figure also surpassed the Zacks Consensus Estimate of \$1.24 per share.

Net sales of \$2,713.4 million rose 20.1% year over year and exceeded the Zacks Consensus Estimate of \$2,508 million. Consolidated same-store sales (comps) grew 20.7%, driven by higher transactions and rise in average ticket to the tune of 2.8% and 17.9%, respectively. Also, solid performance in all core categories, including hardlines, apparel and footwear, contributed to comps growth. Apart from these, the company witnessed double-digit growth in store comps in June and July.

Going ahead, healthy consumer demand that drove comps in the quarter under review remains intact and has continued momentum in the third quarter. However, it witnessed sluggishness in key back-to-school categories as sports events and schools remain suspended due to the ongoing COVID-19 situation. For the first three weeks of the third quarter, comps grew 11%.

E-commerce sales surged 194% year over year, which was nearly 30% of net sales in the reported quarter compared with 12% in the prior-year quarter. Encouragingly, management announced a pay premium of 15% for this year.

Gross margin expanded roughly 456 basis points (bps) to 34.5% in the quarter under review. This was due to a 325-bp rise in merchandise margins and a 204-bp leverage on occupancy costs.

Meanwhile, SG&A expenses, as a percentage of sales, contracted 305 bps year over year to 20% due to sturdy sales growth. This is inclusive of \$32 million of extra compensation and \$12 million of safety expenses associated with the COVID-19 crisis.

#### Financial Aspects

DICK'S Sporting ended fiscal 2020 with cash and cash equivalents of \$1,061.1 million, no outstanding borrowings under its \$1.9-billion revolving credit facility and total stockholders' equity of \$1,930.3 million. Moreover, it issued 3.25% senior notes worth \$575 million, adding an extra \$500 million to the cash balance. Further, total inventory declined 12.2% year over year as of Aug 1, 2020. In the reported quarter, total capital expenditure amounted to \$12.5 million.

#### Dividend Payments and Share Repurchases

Although the company did not repurchase any shares in the reported quarter, it has resumed its dividend program lately. It approved a dividend of 31.25 cents per share on its Common Stock and Class B Common Stock, which has been paid out on Jun 30.

Moreover, management declared a quarterly dividend of 31.25 cents to be payable on Sep 25, to shareholders on record as of Sep 11, 2020. Apart from these, DICK'S Sporting is likely to resume share repurchases under its existing share repurchase program of \$1 billion.

#### Looking Ahead

The company has launched its back-to-school campaign at the end of the fiscal second quarter, wherein the product offerings are in accordance with the ongoing scenario. Moving on, the company highlighted that it expects to incur \$50 million of COVID-19-related costs in each quarter of fiscal 2020.

Quarter Ending **07/2020**

Report Date	Aug 26, 2020
Sales Surprise	8.21%
EPS Surprise	158.87%
Quarterly EPS	3.21
Annual EPS (TTM)	3.84

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## Recent News

### DICK'S Sporting to Open New Stores – Aug 6, 2020

DICK'S Sporting plans to open 11 new stores in August. These include four DICK'S Sporting Goods stores, five DICK'S Sporting Goods Warehouse Sale stores, one combination DICK'S and Golf Galaxy location, and one OVERTIME by DICK'S Sporting Goods location.

### DICK'S Sporting's Store Expansion On, Opens New Stores – Jun 16, 2020

DICK'S Sporting is on track with expanding global footprint by store expansion efforts. To this end, the company announced two types of concept stores namely OVERTIME by DICK'S Sporting Goods and DICK'S Sporting Goods Warehouse. This move is in sync with its plans to expand outlet and clearance stores in a bid to offer popular athletic brands at discounted prices. The current store openings will bring the total number of outlet and clearance stores to 11 at nine different states.

Notably, the first concept store type – OVERTIME will offer a wide range of apparel, footwear and equipment products from well-known brands including Nike, adidas, Under Armour, etc, at up to 75% discount. Further, two OVERTIME stores at Connecticut and Maryland will start operating from today while the one at Pennsylvania will open from Jun 24. These stores will operate from 9 a.m. to 9 p.m. from Monday – Saturday and from 9 a.m. to 7 p.m. on Sunday.

Speaking of the second concept store, the company will open DICK'S Sporting Goods Warehouse at five locations. Customers will be offered upto 90% off on popular footwear and apparel brands. Such warehouses will also come with temporary pop-up-style shopping experience for the next six months. These warehouses are now open from Monday – Sunday from 10 a.m. to 7 p.m at Avon, IN, St. Peters, MO, North Olmstead, OH, South Hills, PA and Brookfield, WI.

### DICK'S Sporting Resumes Dividend Payments as Stores Reopen – Jun 12, 2020

With government easing restrictions and stores reopening gradually, DICK'S Sporting announced to resume dividend payment. Notably, it has approved a quarterly dividend of 31.25 cents per share, which is payable on Jun 30 to shareholders as of record on Jun 22.

This move comes following the reopening of almost 80% of its stores since the end of May, after the temporary closure of stores that began on Mar 18 to curb the spread of the virus.

### DICK'S Sporting Closes Senior Notes Offering – Apr 22, 2020

DICK'S Sporting closed the issuance and sale of additional \$75 million aggregate principal amount of senior notes. This issuance was in sync with the exercising of option in full by initial purchases (on Apr 22) under the previously issued \$500 million Convertible Senior Notes.

The company had issued \$500 million Convertible Senior Notes on Apr 17, which are due in 2025. The company also granted the initial purchasers of the notes a 13-day option to purchase up to an additional \$75 million aggregate principal amount of the notes. Notably, the company's net proceeds from the issuance and sale of \$575 million notes were \$558 million.

### DICK'S Sporting Takes More Action Amid Coronavirus – Mar 19, 2020

DICK'S Sporting announced additional precautionary measures in wake of the coronavirus crisis. The company is looking to cut operating expenses and planned inventory receipts to partly offset the negative impacts of COVID-19 on its performance. Moreover, it temporarily reduced the base salaries of its certain executive officers, all other members of its senior management team and other salaried teammates. Further, the company altered its capital allocation plan for fiscal 2020, including lowering its planned capital expenditures, suspending share buybacks and evaluating dividend program. However, the company plans to payout the quarterly dividend of 31.25 cents per share on Mar 27.

### DICK'S Sporting Temporarily Closes Stores, Withdraws View – Mar 18, 2020

Citing decline in traffic and demand following its earnings release on Mar 10 due to the spread of coronavirus across the United States, DICK'S Sporting temporarily closed all its stores for two weeks effective Mar 18. The company notified that its e-commerce business, including contactless curbside pickup and ship from a store, will continue to provide services. Further, based on the uncertainty on the duration of the closures and the resulting negative impact of COVID-19 on its results, it has withdrawn its previously provided guidance for fiscal 2020.

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## Valuation

DICK'S Sporting shares are up 9.1% in the year-to-date period but up 57.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 5.5% and 36.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 5.7% and 46.9%, respectively.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 22.54X forward 12-month earnings, which compares to 22.65X for the Zacks sub-industry, 34.22X for the Zacks sector and 22.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.78X and as low as 4.34X, with a 5-year median of 11.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$62 price target reflects 25.88X forward 12-month earnings.

The table below shows summary valuation data for DKS

Valuation Multiples - DKS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.54	22.65	34.22	23.37
	5-Year High	24.78	24.2	34.77	23.37
	5-Year Low	4.34	11.52	19.08	15.25
	5-Year Median	11.67	15.98	23.47	17.58
P/S F12M	Current	0.54	0.87	1.32	3.81
	5-Year High	0.84	1.13	1.32	3.81
	5-Year Low	0.16	0.51	0.82	2.53
	5-Year Median	0.43	0.92	0.97	3.05
EV/EBITDA TTM	Current	9.21	13.09	20.75	13.25
	5-Year High	9.68	13.09	20.75	13.25
	5-Year Low	2.3	6.16	10.68	8.25
	5-Year Median	5.55	9.46	12.97	10.92

As of 08/26/2020

## Industry Analysis Zacks Industry Rank: Top 48% (120 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Deckers Outdoor Corporation (DECK)	Outperform	2
Foot Locker, Inc. (FL)	Outperform	3
Five Below, Inc. (FIVE)	Neutral	3
Hibbett Sports, Inc. (HIBB)	Neutral	3
KAR Auction Services, Inc (KAR)	Neutral	2
Shoe Carnival, Inc. (SCVL)	Neutral	3
Walmart Inc. (WMT)	Neutral	3
Zumiez Inc. (ZUMZ)	Underperform	3

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	DKS	X Industry	S&P 500	FIVE	FL	HIBB
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	D	-	-	F	D	A
Market Cap	4.69 B	1.43 B	23.69 B	6.38 B	3.04 B	487.04 M
# of Analysts	10	4	14	9	12	2
Dividend Yield	2.32%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	A	A
Cash/Price	0.37	0.31	0.07	0.02	0.48	0.25
EV/EBITDA	5.20	8.56	13.37	25.73	5.13	8.40
PEG Ratio	9.73	3.93	3.04	3.74	1.98	0.89
Price/Book (P/B)	2.43	1.50	3.17	9.25	1.26	1.59
Price/Cash Flow (P/CF)	7.52	6.39	12.78	28.67	4.25	7.08
P/E (F1)	56.82	14.78	21.63	72.98	16.97	10.07
Price/Sales (P/S)	0.54	0.44	2.50	3.79	0.41	0.44
Earnings Yield	1.78%	6.09%	4.44%	1.37%	5.90%	9.91%
Debt/Equity	0.21	0.94	0.75	1.27	1.12	0.61
Cash Flow (\$/share)	7.18	3.12	6.94	3.99	6.86	4.16
Growth Score	F	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	0.68%	6.28%	10.41%	27.67%	-3.56%	-12.24%
Proj. EPS Growth (F1/F0)	-73.88%	-43.01%	-4.92%	-49.75%	-65.16%	25.54%
Curr. Cash Flow Growth	6.18%	6.68%	5.22%	19.42%	-1.10%	15.81%
Hist. Cash Flow Growth (3-5 yrs)	2.61%	2.61%	8.50%	27.57%	1.64%	-4.23%
Current Ratio	1.35	1.44	1.34	1.58	1.70	1.56
Debt/Capital	17.33%	57.66%	44.18%	55.99%	52.94%	38.04%
Net Margin	3.03%	3.03%	10.25%	5.87%	2.88%	-1.42%
Return on Equity	19.21%	10.50%	14.66%	14.23%	12.40%	5.39%
Sales/Assets	1.19	1.26	0.50	0.91	1.10	1.46
Proj. Sales Growth (F1/F0)	-3.03%	-4.05%	-1.45%	-1.26%	-8.44%	0.00%
Momentum Score	A	-	-	F	F	C
Daily Price Chg	15.69%	0.49%	-0.18%	1.85%	-1.75%	12.02%
1 Week Price Chg	-0.06%	-3.59%	-1.45%	-0.72%	-4.04%	-3.59%
4 Week Price Chg	15.36%	6.39%	2.10%	1.00%	-5.91%	14.76%
12 Week Price Chg	46.95%	21.42%	3.61%	6.07%	-6.30%	49.09%
52 Week Price Chg	57.63%	27.39%	3.61%	-3.27%	-18.44%	73.70%
20 Day Average Volume	2,873,145	440,255	1,883,291	774,856	4,463,616	432,600
(F1) EPS Est 1 week change	32.35%	0.00%	0.00%	0.00%	-18.69%	0.00%
(F1) EPS Est 4 week change	76.83%	0.00%	0.93%	-0.14%	147.32%	0.00%
(F1) EPS Est 12 week change	77.76%	25.80%	3.41%	-26.97%	171.95%	350.00%
(Q1) EPS Est Mthly Chg	28.89%	0.00%	0.00%	-3.21%	-22.65%	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	F
Momentum Score	A
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.

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