

Emergent BioSolutions (EBS)

\$99.47 (As of 07/16/20)

Price Target (6-12 Months): **\$115.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Emergent's acquisitions of PaxVax and Adapt Pharma expanded its presence in the public health threats market. Narcan contributed substantially to Emergent's top line in 2019. Delivery of anthrax vaccine, AV7909, began in September 2019, which in turn, is driving revenues. Emergent forged several CDMO collaborations to help partners produce a vaccine against COVID-19. If successful, it can be a huge positive for Emergent in reaping profits. However, Emergent's main product, BioThrax vaccine, is seeing a slowdown in sales of late as fewer doses are getting shipped to the stockpile in the United States. Hence, its high dependence on BioThrax for revenues remains a woe. Recently, Emergent got an unfavorable patent ruling on Narcan which is a major concern. Shares have outperformed the industry year to date.

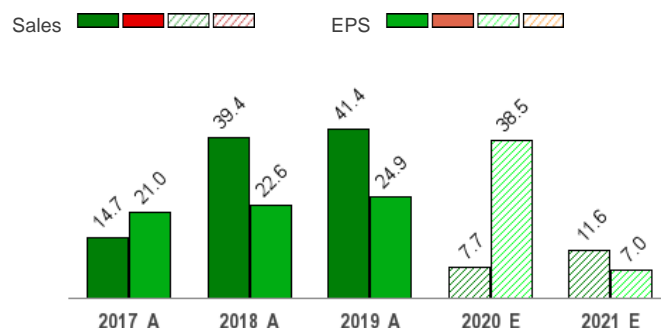
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$101.34 - \$39.11
20 Day Average Volume (sh)	584,508
Market Cap	\$5.2 B
YTD Price Change	84.4%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Top 33% (82 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/30/2020
Earnings ESP	0.0%
P/E TTM	34.2
P/E F1	24.7
PEG F1	NA
P/S TTM	4.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,329 E
2020	193 A				1,191 E
2019	191 A	243 A	312 A	360 A	1,106 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$4.31 E
2020	\$0.01 A	\$0.53 E			\$4.03 E
2019	-\$0.13 A	\$0.12 A	\$1.21 A	\$1.57 A	\$2.91 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 07/16/2020. The reports text is as of 07/17/2020.

Overview

Headquartered in Gaithersburg, MD, Emergent BioSolutions, Inc. is a global specialty biopharmaceutical company that aims to offer specialized products to health care providers and governments to fulfil unmet medical needs and combat emerging public health threats.

BioThrax is the company's key Biodefense product and is the sole vaccine to be marketed for the general use for both pre-exposure prophylaxis and post-exposure prophylaxis of anthrax disease. The U.S. government is the primary purchaser of the company's Biodefense products.

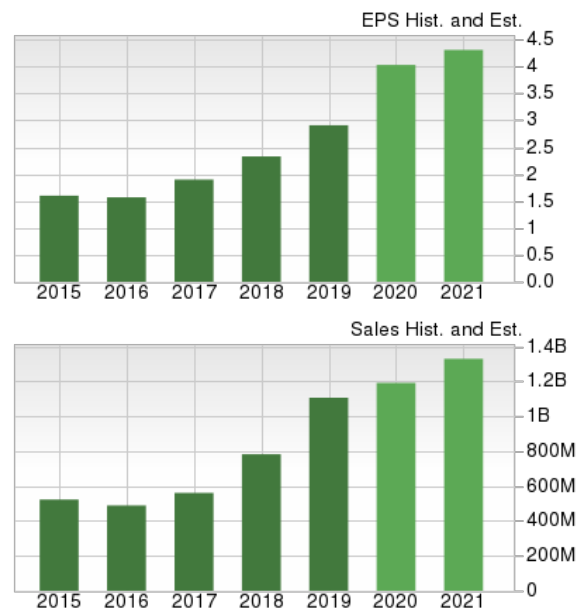
Emergent BioSolutions also markets smallpox vaccine ACAM2000 and anthrax monoclonal antibody raxibacumab, both of which, were acquired in 2017 from Sanofi and GlaxoSmithKline, respectively. ACAM2000 recorded sales worth \$242.6 million in 2019.

In October 2018, the acquisition of Adapt Pharma added the latter's Narcan nasal spray to Emergent's portfolio, which registered \$280.4 million sales in 2019.

The company is developing a next-generation anthrax vaccine candidate, AV7909, for post-exposure prophylaxis of anthrax disease. In 2019, Emergent began the transition from BioThrax to AV7909. The company derives a substantial portion of its revenues from procurement of AV7909 and BioThrax.

In August 2016, Emergent completed the spin-off of certain assets and liabilities of its Biosciences business into a separate publicly traded company, Aptevo Therapeutics Inc.

In 2019, the company reported revenues of \$1.11billion, up 41% year over year.



Reasons To Buy:

- ▲ **Shares Outperforming Industry:** Shares of Emergent have rallied 84.4% so far this year compared to the industry's increase of 8.7%.
- ▲ **Coronavirus Vaccine Manufacturing Agreements Hold Promise:** To address the global COVID-19 pandemic, Emergent inked several contract development and manufacturing (CDMO) deals to provide manufacturing services to various companies for helping them produce their respective experimental vaccine candidates against COVID-19.

We are positive on Emergent's 2020 outlook and its vaccine portfolio looks promising at this juncture. Its recent acquisitions also bodes well.

Emergent signed a CDMO contract with Vaxart and small biotech Novavax to help them producing their respective vaccine candidates against COVID-19. In April 2020, Emergent signed a CDMO agreement to support the manufacturing of Johnson & Johnson's lead vaccine candidate against COVID-19. The deal is valued at around \$135 million. In June 2020, Emergent agreed to provide CDMO services to AstraZeneca for supporting the manufacturing of the latter's COVID-19 vaccine candidate AZD1222. The agreement is valued at around \$87 million.

In March 2020, Emergent initiated the development of two product candidates for the treatment and prevention of COVID-19. The company is developing the two candidates to leverage its hyperimmune platforms with well-established safety databases.

Given the current scenario, if any of the above companies is able to successfully develop a vaccine for fighting the deadly COVID-19, it can be a huge boost to Emergent as well in the near future.

- ▲ **Pursuing Regular M&A Deals to Widen Portfolio:** Emergent has also been active in pursuing deals and acquisitions. In October 2017, Emergent acquired Sanofi's ACAM2000, the only smallpox vaccine approved by the FDA and Glaxo's raxibacumab, an anthrax monoclonal antibody.

In October 2018, Emergent acquired the specialty vaccine company PaxVax, which added two marketed vaccines, namely Vivotif (Typhoid Vaccine Live Oral Ty21a) and Vaxchora (Cholera Vaccine, Live, Oral).

Meanwhile, the 2018 acquisition of Adapt Pharma added the latter's Narcan nasal spray to Emergent's portfolio, thereby solidifying the company's presence in the public health threats market. The product contributed significantly to Emergent's sales growth in 2019.

- ▲ **AV7909 Represents Upside Potential:** Emergent's a next generation anthrax vaccine AV7909, is indicated for treating post-exposure prophylaxis of anthrax disease. AV7909 should be able to address a number of the improvements that the U.S. government is looking for in terms of protecting civilians who might be exposed in a post-exposure setting.

In September 2016, Emergent inked a multi-year deal worth about \$1.6 billion with the BARDA for advanced development and delivery of AV7909. The United States government signaled its intent to procure AV7909. Deliveries of AV7909 to the U.S. government began in September 2019. Subject to certain regulatory actions, Emergent anticipates drawing substantial future revenues from the sales of AV7909 to the U.S. government.

- ▲ **Vaccines Pipeline Progressing Well:** The company is conducting a phase I study in the United States to evaluate the safety and immunogenicity of VLA1601 (Zika virus vaccine) in partnership with Valneva. In November 2018, Emergent and Valneva announced positive interim data from the study.

During the second quarter of 2019, Emergent completed enrollment in the phase II study on IGIV therapeutic for treating severe illness caused by influenza A infection in hospitalized patients. Data from the study is expected in the first half of 2020. Notably, Emergent's single-dose oral cholera vaccine, Vaxchora, was approved by EMA in the first quarter of 2020. The company is planning to commercially launch the same in late 2020.

Meanwhile, in the first quarter, Emergent secured an approval from the FDA and EMA to develop its chikungunya vaccine candidate, CHIKV VLP.

- ▲ **The Biosciences Spin-off, a Positive:** We are positive on Emergent's spin-off of its Biosciences business into a separate publicly traded company, Aptevo. While Aptevo focuses on oncology and hematology, Emergent continues to work on public health threats specifically chemical, biological, radiological, nuclear and explosive threats as well as the emerging infectious diseases. The spin-off resulted in a reduced cost structure with enhanced profitability. Cash flow and operating margins are improving due to the elimination of Aptevo-related R&D, sales, marketing and G&A costs within the Biosciences business

Risks

- **Overdependence on BioThrax Sales:** Emergent derives a substantial part of revenues from the sales of BioThrax to its principal purchaser, the U.S. government. The company's prospects depend heavily on the funding for the procurement of BioThrax. BioThrax and AV7909 comprise total sales of anthrax vaccines. In 2019, anthrax vaccines sales plunged 38% year over year as the U.S. government purchased fewer units of BioThrax in anticipation of the transition to AV7909. If the procurement of BioThrax or AV7909 is substantially reduced further, the company's sales and profits would be materially harmed then.
 - **Production Hiccups May Hurt the Company:** Any hiccup in the production of BioThrax might severely hamper the company's prospects. For instance, the company suspended shipments of BioThrax to the CDC in the first quarter of 2015 following the discovery of foreign particles in a limited number of vials in two manufactured lots of BioThrax. As a result, there were no revenues for BioThrax product sales to the CDC for the three months ended Mar 31, 2015. Although Emergent eventually resumed and increased full manufacturing operations of BioThrax after that, similar setbacks could have a significant negative impact on the company's top line and could pull down the stock significantly.
 - **Stiff Competition:** Emergent faces competition from a number of companies with Biodefense products or candidates under development for both the U.S. government procurement and development resources. For instance, in terms of additional procurement of anthrax countermeasures, HHS awarded an SNS procurement contract to GlaxoSmithKline for ABThrax, and also awarded an SNS procurement contract to Elusys Therapeutics for Anthim. Both are FDA-approved anthrax monoclonal antibody therapeutics. Competition could lead to reduced demand for the company's products thereby leading to reduction in revenues, margins, levels of profitability and loss of market share. These competitive pressures could adversely affect Emergent's operating results.
 - **Unfavorable Debt Profile:** Emergent has an unfavorable debt profile. As of Mar 31, 2020, the company's total debt (current and long-term debt) was approximately \$789 million. The company's cash, cash equivalents, and marketable securities were approximately \$182 million, as of the end of March 2020. Although the company has enough resources to pay off its short-term debt (\$26 million), the company's total debts exceeds its total assets, which may lead to bankruptcy in case of insolvency. Meanwhile, the company's total debt to total capital of 42.3% as of March end is almost in-line with 42.7% at December end.
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Last Earnings Report

Emergent Earnings and Revenues Beat Estimates in Q1

Emergent reported first-quarter 2020 earnings of 1 cent per share, The Zacks Consensus Estimate was of a loss of 2 cents. Moreover, the figure was narrower than the year-ago loss of 10 cents per share.

Revenues in the reported quarter were marginally up 1% from the prior-year period to \$192.5 million, primarily backed by an increase in contract development and manufacturing (CDMO) and contracts and grants revenues. The top line also beat the Zacks Consensus Estimate of \$190 million.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	1.28%
EPS Surprise	150.00%
Quarterly EPS	0.01
Annual EPS (TTM)	2.91

Quarter in Detail

Total product sales dipped 3% to \$148.2 million from the year-earlier quarter. The fall in revenues was due to a decrease in sales of small pox vaccine ACAM2000, which did not record any sales in the reported quarter.

However, Narcan (naloxone HCl) nasal spray added \$72.2 million to product sales, increasing 10% year over year. Notably, sales of anthrax vaccines (BioThrax and AV7909) were \$51.9 million in the reported quarter, reflecting a significant increase year over year. Other product sales plunged 20% on a year-over-year basis to \$24.1 million.

Revenues from contracts and grants increased 4.1% year over year to \$22.6 million, primarily owing to higher grant received from the PC2A (diazepam) auto-injector drug-device product candidate.

Contract manufacturing revenues surged 36% to \$21.7 million from the year-ago figure. This upside was primarily on solid demand across development services, drug substance and drug product offerings.

The company recorded adjusted EBITDA of \$15.3 million in the reported quarter compared with \$8.4 million in the year-ago period, up 82.1%.

2020 Guidance

Emergent predicts revenues of \$1.18-\$1.27 billion for 2020. The company expects adjusted net income within \$160-\$210 million while adjusted EBITDA is anticipated in the band of \$300-\$360 million.

In the second quarter of 2020, Emergent expects total revenues within \$270-\$300 million.

Recent News

Form Collaboration for COVID-19 Hyperimmune Globulin Product – Jul 8

Emergent announced that it will collaborate with Mount Sinai Health System and ImmunoTek Bio Centers to develop and manufacture its COVID-19 hyperimmune globulin product, COVID-HIG. The program will include a post-exposure prophylaxis study on health care providers who stand at high risk of COVID-19 infection and other high-risk populations. The program will be backed by a funding of \$34.6 million from the U.S. Department of Defense (DOD).

Extends 5-Year Deal to Back J&J's Coronavirus Vaccine – Jul 6

Emergent announced that it has expanded a five-year agreement to provide contract development and manufacturing (CDMO) services to pharma giant Johnson & Johnson for supporting the large-scale drug substance manufacturing of the latter's investigational COVID-19 vaccine candidate, Ad26.COV2-S. The deal is valued at around \$480 million for the first two years.

To Invest for Expanding Viral Vector and Gene Therapy Capability – Jun 18

Emergent announced that it will strengthen its contract development and manufacturing (CDMO) capabilities by expanding into viral vector and gene therapy. The company will invest \$75 million in its Canton, Massachusetts facility for the same.

To Manufacture AstraZeneca's Coronavirus Vaccine – Jun 11

Emergent announced that it will provide contract development and manufacturing (CDMO) services to AstraZeneca for supporting the manufacturing of the latter's COVID-19 vaccine candidate AZD1222. The agreement is valued at around \$87 million.

Gets Unfavorable Patent Ruling for Narcan – Jun 5

Emergent announced that a district court of New Jersey passed an unfavorable decision with respect to the company on the patent litigation of its Narcan (naloxone HCl) nasal spray 4mg. The court ruled in favor of the defendants, Teva Pharmaceuticals. Emergent plans to appeal the above decision to the Court of Appeals for the Federal Circuit.

Expands CDMO Partnership for COVID-19 Vaccine Development – Jun 1

Emergent announced that it has been issued a task order under an existing contract with the Biomedical Advanced Research and Development Authority, at the U.S. Department of Health & Human Services (HHS), to deploy its contract development and manufacturing (CDMO) capacities and expertise to support the U.S. government's efforts to accelerate delivery of COVID-19 vaccines.

To be Manufacturing Partner for JNJ's COVID-19 Vaccine Candidate — Apr 23

Emergent announced an agreement whereby it will use its contract development and manufacturing services to support the manufacturing of Johnson & Johnson's lead vaccine candidate for COVID-19. The agreement is valued at around \$135 million.

To Manufacture NanoFlu with Novavax — Mar 31

Emergent announced that it has signed an agreement with Novavax, whereby Emergent will provide molecule-to-market contract development and manufacturing (CDMO) services to produce Novavax's seasonal influenza vaccine candidate NanoFlu.

To Help Vaxart Develop Coronavirus Vaccine — Mar 18

Emergent announced that it has entered into a manufacturing agreement with Vaxart to produce the clinical material for the latter's experimental oral vaccine candidate against the novel coronavirus disease (COVID-19). Development services will begin immediately.

Begins Development of Treatments for COVID-19 — Mar 11

Emergent BioSolutions announced that it has initiated the development of two product candidates for the treatment and prevention of the novel coronavirus disease, COVID-19. The company is developing the two candidates, leveraging its hyperimmune platforms, which have a well-established safety database.

The hyperimmunes are polyclonal antibody therapies derived from plasma that leverage the immune response in humans or animals and can provide immediate protection from infection.

Emergent has already started collecting plasma for both human and equine platforms and has set a target of manufacturing clinical material within the next four-five months. The company plans to begin a clinical study in the third quarter of 2020.

Collaborates for Coronavirus Vaccine — Mar 10

Emergent BioSolutions announced that it has entered into a collaboration agreement with Novavax to support the latter's development of a vaccine candidate to protect against coronavirus disease (COVID-19). Per the terms of the agreement, Emergent BioSolutions will use its contract development and manufacturing ("CDMO") services to advance Novavax's COVID-19 vaccine candidate into clinical stage.

Emergent BioSolutions is responsible for production of the vaccine candidate, which was developed using Novavax's proprietary technology platform. Emergent BioSolutions has started preparations for this program and anticipates that the COVID-19 vaccine candidate can be used in a phase I study within next four months. Financial terms of the deal are yet to be disclose.

Valuation

Emergent BioSolutions' shares are up 84.4% in the year-to-date period and 126.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 8.7% and 1.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 18.9% and the sector is up 6%.

The S&P 500 index is up 0.4% in the year-to-date period but up 8.4% in the past year.

The stock is currently trading at 4.67X trailing 12-month sales per share, which compares to 3.58X for the Zacks sub-industry, 3.09X for the Zacks sector and 3.45X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.35X and as low as 2.15X, with a 5-year median of 3.47X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$115.00 price target reflects 5.39X trailing 12-month sales per share.

The table below shows summary valuation data for EBS

Valuation Multiples - EBS					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	4.67	3.58	3.09	3.45
	5-Year High	5.35	5.34	4.08	3.68
	5-Year Low	2.15	2.24	2.29	2.42
	5-Year Median	3.47	3.21	3.19	3.21
P/B TTM	Current	4.85	3.05	4.39	4.42
	5-Year High	4.85	6.44	5.07	4.56
	5-Year Low	1.57	2.06	2.94	2.83
	5-Year Median	2.5	3.89	4.29	3.71
P/E F12M	Current	23.79	59.94	23.29	22.89
	5-Year High	30.34	66.02	23.29	22.89
	5-Year Low	11.71	21.16	15.91	15.25
	5-Year Median	19.05	37.71	18.99	17.52

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 33% (82 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Horizon Therapeutics Public Limited Company (HZNP)	Outperform	1
Seattle Genetics, Inc. (SGEN)	Outperform	2
Alkermes plc (ALKS)	Neutral	3
Arena Pharmaceuticals, Inc. (ARNA)	Neutral	3
Exact Sciences Corporation (EXAS)	Neutral	2
Exelixis, Inc. (EXEL)	Neutral	3
Galapagos NV (GLPG)	Neutral	3
Myriad Genetics, Inc. (MYGN)	Neutral	3

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	EBS	X Industry	S&P 500	ALKS	EXEL	GLPG
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	3	3
VGM Score	B	-	-	B	D	F
Market Cap	5.21 B	236.78 M	22.43 B	3.07 B	7.40 B	12.95 B
# of Analysts	2	3	14	8	4	6
Dividend Yield	0.00%	0.00%	1.82%	0.00%	0.00%	0.00%
Value Score	C	-	-	D	B	D
Cash/Price	0.04	0.22	0.07	0.16	0.12	0.50
EV/EBITDA	25.26	-3.86	13.00	-27.65	15.85	26.69
PEG Ratio	NA	1.71	2.97	NA	1.45	NA
Price/Book (P/B)	4.85	4.23	3.13	2.89	4.23	4.10
Price/Cash Flow (P/CF)	19.31	17.17	12.13	33.28	22.25	31.75
P/E (F1)	24.68	28.12	21.97	NA	54.51	NA
Price/Sales (P/S)	4.71	17.60	2.38	2.57	7.55	12.11
Earnings Yield	4.05%	-12.77%	4.35%	-0.21%	1.82%	-0.66%
Debt/Equity	0.71	0.02	0.75	0.26	0.00	0.01
Cash Flow (\$/share)	5.15	-1.08	6.94	0.58	1.08	6.25
Growth Score	A	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	12.72%	17.18%	10.85%	NA	126.28%	NA
Proj. EPS Growth (F1/F0)	38.49%	12.05%	-9.37%	-105.28%	-56.62%	-123.75%
Curr. Cash Flow Growth	45.59%	14.86%	5.51%	-4.72%	-26.95%	-1,298.94%
Hist. Cash Flow Growth (3-5 yrs)	25.14%	7.73%	8.55%	-0.32%	27.52%	67.03%
Current Ratio	3.03	5.52	1.30	2.69	8.09	9.28
Debt/Capital	41.51%	4.34%	44.33%	20.48%	0.00%	0.66%
Net Margin	6.15%	-203.22%	10.59%	-11.63%	30.01%	15.42%
Return on Equity	14.58%	-61.83%	15.74%	4.99%	18.01%	12.45%
Sales/Assets	0.48	0.19	0.54	0.67	0.54	0.20
Proj. Sales Growth (F1/F0)	7.69%	4.26%	-2.44%	-13.92%	-6.00%	-27.37%
Momentum Score	C	-	-	A	D	C
Daily Price Chg	1.33%	-0.12%	-0.06%	1.68%	-1.03%	-1.16%
1 Week Price Chg	12.07%	-0.65%	-0.41%	0.51%	6.22%	-4.26%
4 Week Price Chg	42.00%	-0.67%	1.63%	9.01%	7.34%	-1.78%
12 Week Price Chg	49.42%	16.16%	15.55%	23.88%	-8.53%	-5.21%
52 Week Price Chg	126.43%	2.53%	-4.26%	-20.31%	8.99%	14.02%
20 Day Average Volume	584,508	389,993	2,236,294	1,634,170	2,496,143	98,057
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	9.04%	0.00%	1.32%
(F1) EPS Est 4 week change	0.00%	0.00%	0.01%	9.04%	0.00%	-13.91%
(F1) EPS Est 12 week change	17.49%	1.03%	-5.24%	-71.00%	-20.98%	41.49%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	0.00%	-15.21%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	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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