

Estee Lauder(EL)

\$215.70 (As of 01/14/20)

Price Target (6-12 Months): **\$227.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: D

Summary

Estee Lauder has outperformed the industry in a year, courtesy of robust sales and earnings history. The company has been gaining from growth across most brands and sales channels. The trend continued in first-quarter fiscal 2020, wherein both top and bottom lines surpassed estimates and rose year on year. Performance was supported by growth in emerging markets, travel retail and online sales. Further, management provided an optimistic view for fiscal 2020. However, the company is witnessing certain headwinds such as soft retail trends in the United States and the U.K., costs related to Brexit and tariff impacts in China. Additionally, challenges in Hong Kong's retail environment are expected to continue through fiscal 2020. Moreover, adverse currency movements are a concern.

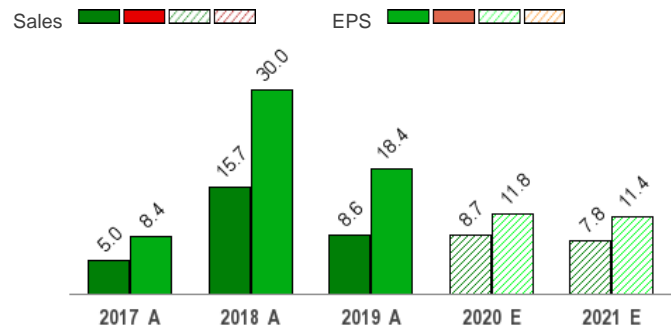
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$216.58 - \$124.38
20 Day Average Volume (sh)	1,131,460
Market Cap	\$77.6 B
YTD Price Change	4.4%
Beta	0.78
Dividend / Div Yld	\$1.92 / 0.9%
Industry	Cosmetics
Zacks Industry Rank	Bottom 10% (228 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	02/06/2020
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,240 E	4,680 E	4,305 E	4,145 E	17,421 E
2020	3,895 A	4,344 E	4,030 E	3,898 E	16,154 E
2019	3,524 A	4,005 A	3,744 A	3,590 A	14,863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.83 E	\$2.11 E	\$1.88 E	\$0.84 E	\$6.65 E
2020	\$1.67 A	\$1.89 E	\$1.68 E	\$0.72 E	\$5.97 E
2019	\$1.41 A	\$1.74 A	\$1.55 A	\$0.64 A	\$5.34 A

*Quarterly figures may not add up to annual.

P/E TTM	38.5
P/E F1	36.1
PEG F1	2.8
P/S TTM	5.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/14/2020. The reports text is as of 01/15/2020.

Overview

New York-based Estee Lauder Companies Inc. is one of the world's leading manufacturers and marketers of skin care, makeup, fragrance and hair care products. The company's products are sold through department stores, mass retailers, company-owned retail stores, hair salons and travel-related establishments.

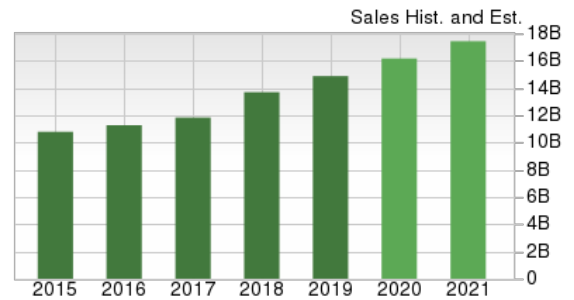
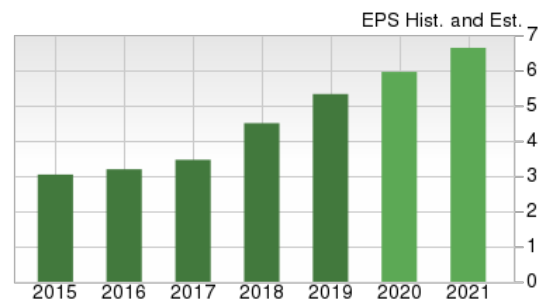
Estee Lauder's manufacturing and research facilities are spread across the U.S., Canada, Belgium, Switzerland, Japan, South Africa and the U.K.

The company reports operating results in terms of product categories and geographic regions.

In terms of product categories, Estee Lauder's primary segments include:

- **Skin Care division** (44.1% of fiscal 2019 sales): This segment sells skin care products for men and women. The products consist of moisturizers, creams, lotions, cleansers, sunscreens and self-tanning products.
- **Makeup division** (39.4% of fiscal 2019 sales): This segment manufactures, markets and sells makeup products. Products include lipsticks, mascaras, foundations, eye shadows, nail polishes, powders and related items, such as compacts, brushes and other makeup tools.
- **Fragrances division** (12.1% of fiscal 2019 sales): This segment sells fragrance products for men and women. Its products include eau de perfume, sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance.
- **Hair care division** (3.9% of fiscal 2019 sales): This segment includes hair color and styling products, shampoos, conditioners, and finishing sprays.
- **Other division**: This segment sells ancillary products and services.

Region-wise, the company reports under **Americas** (31.9% of fiscal 2019 sales); **Europe, the Middle East & Africa** (43.4% of fiscal 2019 sales); and **Asia-Pacific** (24.7% of fiscal 2019 sales).



Reasons To Buy:

▲ **Stellar Record & Outlook Boost Stock:** Estee Lauder has been performing well on strong brand growth across most sales channels and regions. Such upsides combined with efficient operational strategies have led to remarkable top-line and bottom-line trends. With first-quarter fiscal 2020 results, the company marked its 21st and 11th straight quarter of earnings and sales beat, respectively. Also, both metrics improved year over year. Apart from strong brands, performance in the quarter was aided by a solid skincare category, along with strength in travel retail and online channel sales. Moreover, China and other emerging regions continued to perform well. The sturdy brand performances were supported by focus on innovation as well as prudent marketing and advertising strategies. Moreover, savings from the Leading Beauty Forward initiative provided the company additional financial strength to invest in growth moves.

Estee Lauder has been gaining from strong brands and growth in the emerging markets. Additionally, it has been depicting strong growth in its online and travel retail network.

Management expects the global prestige beauty industry to grow 5-6% in fiscal 2020. Notably, the company expects to outperform the industry in fiscal 2020, backed by strong demand for its premium products and other brands. The stellar past performance along with expectations of consistent growth have boosted investors' optimism in the stock. Estee Lauder's shares have rallied 74.1% in a year, compared with the industry's rise of 59.1%.

For fiscal 2020, the company expects net sales to rise 7-8%, and 8-9% on a currency neutral basis. Further, adjusted earnings are projected in a band of \$5.85-\$5.93 per share. In fiscal 2019 the company's adjusted earnings figure came in at \$5.34. For the second quarter of fiscal 2020, net sales are likely to improve 7-8%. Adjusted earnings are projected in the range of \$1.83-\$1.86 per share. The company reported adjusted earnings of \$1.41 per share in the prior-year quarter.

▲ **Solid Presence in Emerging Markets, Prospects From China Look Strong:** Estee Lauder has strong presence in emerging markets which insulates it from the macroeconomic headwinds in the matured markets. The company derives significant revenues from emerging markets like Mexico, Southeast Asia, Russia and Brazil, which keeps it encouraged about making distributional, digital and marketing investments in these countries. In the first quarter fiscal 2020, the company witnessed growth in most emerging markets. This was backed by customer-oriented products and efficient social media operations.

Markedly, China remains a major area of focus for Estee Lauder. In fact, in first-quarter fiscal 2020, the region witnessed double-digit gains across most brands. Sales channels, especially online, grew significantly. Management, as part of its long-term emerging market strategy, has been making constant investments in China for the past 20 years and plans to continue growing market share in the region. China's long-term demographic and economic trends keep Estee Lauder encouraged. Additionally, it is striving to expand in other emerging regions as well.

▲ **Strong Online Business:** Estee Lauder has a strong online business and the company expects it to be a major growth engine for the upcoming few years. Estee Lauder was the first global prestige beauty company that went online with the Clinique brand in the United States in 1996 and has now spread its presence online to about 50 markets. Further, Estee Lauder is implementing new technology and digital experiences including online booking for each store appointment, omni-channel loyalty programs and high touch mobile services. These initiatives and the company's digital-first mindset have been boosting the company's online sales, thus being a major growth driver for its overall top line. In fact, in the first quarter of fiscal 2020, the online business witnessed double-digit growth across all online distribution channels.

The company has expanded brand presence across various third-party sites as it continues to widen market reach. The company's online business is primarily fueled by the United States, China and the U.K. regions. In China, the company is gaining from the launch of Tom Ford Beauty and Jo Malone London brands on TMall. Also, significant contributions are being derived from other smaller regions. In fact, online markets in Spain, Greece, Israel and India are expanding rapidly and present solid growth opportunities. Further, the company is on track with augmenting omni-channel capabilities to seamlessly connect online and offline businesses.

▲ **Travel Retail to Drive Sales Further:** Estee Lauder has been strongly focused on enhancing its travel retail business, which remains a major sales driver for the company. Travel retail sales were sturdy in first-quarter fiscal 2020, with broad-based growth in most brands, regions and categories. Expanded targeted reach, presence of wide assortments along with easy shopping facilities are boosting travel retail sales. Travel retail has been particularly growing strongly in Asia.

Additionally, Estee Lauder's travel retail sales have been benefitting from rise in traffic, effective launches and impressive marketing strategies. Further, the company expects the travel retail business to gain from rising passenger traffic, favorable fundamentals and higher conversions. Well, the company remains committed toward undertaking more efforts to enhance conversions through strategic initiatives. To this end, it has been undertaking various endeavors like better customer insights; enhanced merchandising and improved digital marketing.

Reasons To Sell:

- ▼ **Soft U.S. Retail Traffic & More:** Sales in the Americas declined 6% in the first quarter of fiscal 2020. We note that the company is witnessing a difficult macro environment in this region. In this context, persistent softness in the brick-and-mortar retail space in the United States (especially in color cosmetics) and the U.K. (especially in makeup) is a concern.

Apart from this, management is cautious about certain factors like tariff impacts in China, costs related to Brexit, and slow moderation of net sales growth in China and travel retail network. Challenges in Hong Kong's retail environment caused a sales decline of 20% in the first quarter and are expected to continue through fiscal 2020. Additionally, the company's outlook includes risks associated with social and political problems, geopolitical issues, regulatory matters, currency headwinds, and other economic hurdles that can hurt consumer spending.

Management is cautious about certain factors like tariff impacts in China, costs related to Brexit. Moreover, weak retail trends in the United States and in the U.K. are worries.

- ▼ **Risk of Operating in Overseas Markets:** Estee Lauder's financial performance may be largely affected by its significant presence in the international markets, which exposes it to the risk of unfavorable foreign currency translations, economic or political instability, and other governmental actions on trade and repatriation of foreign profits.

Evidently, unfavorable currency rates hurt the bottom line by a penny in the first quarter. In fiscal 2020, currency movements are likely to adversely affect the bottom line by almost 5 cents. For the second quarter, unfavorable currency rates are likely to dent the bottom line by roughly 2 cents per share.

- ▼ **Market Trends and Consumer Preferences:** As Estee Lauder operates in a consumer centric market, its ability to garner profits depends largely on how well it can predict changes in consumer preferences and spending patterns for beauty products and respond in a timely manner to fulfill the same.

Hence, failure to stay up to date on product mix by continually searching for new products and anchoring new supplier agreements may result in becoming obsolete.

- ▼ **Cheaper Alternatives & Competition:** The cosmetics industry is very competitive not only with regard to the peers existing in the space but also due to the fact that the market is flooded with alternative products. Therefore, it is very difficult to advertise a product and convert into sales, as many cheaper generic products are available. Cheaper alternatives may hinder customers' loyalty for the brand, thus impacting the sale of its products.
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Last Earnings Report

Estee Lauder Q1 Earnings & Sales Beat Estimates

The Estee Lauder Companies Inc. reported first-quarter fiscal 2020 results. The company posted adjusted earnings per share of \$1.67 that increased 19% year over year and beat the Zacks Consensus Estimate of \$1.60. Adjusted earnings improved 20% at cc. The upside was driven by a robust top-line performance along with operational excellence.

Estee Lauder's net sales of \$3,895 million surpassed the Zacks Consensus Estimate of \$3,847 million. Moreover, sales increased 11% year over year (12% at cc). Results gained from strong international market performance (especially China and other emerging markets); strength in the Skin Care category, and solid sales of Estee Lauder and various other luxury brands. Also, the company's travel retail and online channels performed well. Further, the company gained from innovation and digital marketing.

Adjusted gross profit came in at \$2,989 million, up 10%. However, gross margin contracted 10 basis points (bps) to 76.7%. Adjusted operating income grew 17% year over year to \$804 million. Operating income margin expanded 110 bps to 20.6%.

Product-Based Segment Results

Skin Care reported sales growth of 24% year over year (up 25% at cc) to \$1,842 million, backed by strength in Estee Lauder and La Mer brands.

Makeup revenues were up 3% year over year (up 4% at cc) to \$1,443 million, courtesy of solid sales of Estee Lauder, Tom Ford Beauty, La Mer and MAC, partly negated by softness in Too Faced, Clinique and BECCA.

In the Fragrance category, revenues slipped 2% year over year (down 1% at cc) to \$462 million due to reduced sales of various designer fragrances. This was somewhat compensated by increased sales of Jo Malone London and Tom Ford Beauty.

Hair Care sales totaled \$136 million that descended 5% year on year (down 4% at cc). This can be accountable to weak sales of Bumble and bumble (especially in North American salons and specialty-multi channels) along with tough year-over-year comparisons for Aveda.

Regional Results

Sales in the Americas declined 6% year over year (also at cc) to \$1,160 million, due to softness in the North America beauty industry stemming from weak color cosmetic sales. Further, the fragrance category was weak and the company continued to struggle with brick-and-mortar challenges in North America.

Sales in Europe, the Middle East & Africa region improved 17% (up 19% at cc) to \$1,677 million, backed by strong gains in the online and travel retail channels.

In the Asia-Pacific region, sales rose 24% (up 26% at cc) to \$1,058 million, with broad-based growth across most markets.

Guidance

The company expects solid demand for its premium products and anticipates to outperform the industry in fiscal 2020. Well, the global prestige beauty industry is expected to grow 5-6% in fiscal 2020. Moreover, Estee Lauder is on track with the implementation of the Leading Beauty Forward initiative, directed toward efficient management of costs and operations.

However, Estee Lauder is cautious about certain headwinds that might weigh on its performance. In this context, persistent softness in the brick-and-mortar retail space in the United States and the U.K. (especially in makeup) is a concern. Also, costs related to Brexit uncertainty, impacts from trade negotiations with different countries, lingering hurdles in Hong Kong, and moderation of net sales growth in China and travel retail networks are worries.

For fiscal 2020, the company expects net sales to rise 7-8%. Currency fluctuations are likely to have a 1% negative impact on the top line. Adjusted earnings are projected in a band of \$5.85-\$5.93. At cc, earnings are projected to grow 10-12%. Currency is likely to adversely impact the bottom line by almost 5 cents.

For the second quarter of fiscal 2020, the company expects net sales to grow 7-8%. Currency fluctuations are likely to have a 1% negative impact on the top line. Adjusted earnings are projected in the range of \$1.83-\$1.86. At cc, the company expects earnings to rise 6-7%, bearing the impacts of elevated spending for innovation, holiday season programs and efforts to draw traffic and boost share. Currency is likely to affect the bottom line by nearly 2 cents.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	1.26%
EPS Surprise	4.37%
Quarterly EPS	1.67
Annual EPS (TTM)	5.60

Recent News

Estee Lauder's Have & Be Buyout to Boost Skin Care Unit - Dec 17, 2019

Estee Lauder concluded the acquisition of two-thirds shares of Have & Be Co. — the Seoul-based skin care company — which owns brands like Dr. Jart+ and Do The Right Thing. In 2015, Estee Lauder had made a minor investment in Have & Be. Management had stated that Have & Be had an enterprise value of \$1.7 billion. Also, the company had earlier announced to fund this transaction with debt.

Launched in 2005, Dr. Jart+ — Have & Be's skin care brand — focuses on making high-quality products that combine dermatology, art and innovation. Cicapair and Ceramidin are some of the best known skin care collections of the brand. Dr Jart+ offers a broad range of exclusive moisturizers, masks, cleansers and serums, which are sold through specialty-multi channels, travel retail, freestanding stores, high-end department stores and online websites in over 35 countries worldwide.

Notably, Dr. Jart+ has become one of the most popular Korean skin care brands globally, especially among millennials in Asia and the United States. This fast growing brand is expected to help Estee Lauder strengthen its skin care business and expand operations in Asia/Pacific, North America, the U.K. as well as the travel retail network.

Estee Lauder Announces Dividend – Aug 19, 2019

Estee Lauder announced that its board of directors declared dividend of 43 cents per share paid out on September 16, 2019, to shareholders of record at the close of business on August 30, 2019.

Valuation

Estee Lauder shares are up 74.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 59.1% and 21.2% in the past year.

The S&P 500 index is up 27.5% in the past year.

The stock is currently trading at 34.03X forward 12-month earnings, which compares to 29.85X for the Zacks sub-industry, 19.82X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.65X and as low as 21.25X, with a 5-year median of 26.74X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$227 price target reflects 35.81X forward 12-month earnings.

The table below shows summary valuation data for EL

Valuation Multiples - EL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.03	29.85	19.82	19
	5-Year High	35.65	29.85	22.38	19.34
	5-Year Low	21.25	19.65	16.66	15.17
	5-Year Median	26.74	23.88	19.76	17.44
P/S F12M	Current	4.63	4.09	9.94	3.52
	5-Year High	4.63	4.09	11.13	3.52
	5-Year Low	2.28	1.53	8.09	2.54
	5-Year Median	2.99	2.69	9.87	3
EV/EBITDA F12M	Current	21.31	22.53	34.37	12.66
	5-Year High	21.31	22.67	37.22	12.66
	5-Year Low	11.89	8.68	29.37	9.08
	5-Year Median	15.11	16.91	33.52	10.78

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (228 out of 254)



Top Peers

Helen of Troy Limited (HELE)	Outperform
Coty Inc. (COTY)	Neutral
e.l.f. Beauty Inc. (ELF)	Neutral
L'Oreal SA (LRLCY)	Neutral
Revlon, Inc. (REV)	Neutral
Inter Parfums, Inc. (IPAR)	Underperform
Nu Skin Enterprises, Inc. (NUS)	Underperform
Shiseido Co. (SSDOY)	Underperform

Industry Comparison Industry: Cosmetics				Industry Peers		
	EL Neutral	X Industry	S&P 500	COTY Neutral	HELE Outperform	NUS Underperform
VGM Score	F	-	-	C	C	B
Market Cap	77.61 B	1.31 B	24.31 B	8.11 B	4.64 B	2.24 B
# of Analysts	10	3	13	7	2	5
Dividend Yield	0.89%	0.00%	1.76%	4.67%	0.00%	3.66%
Value Score	F	-	-	D	D	A
Cash/Price	0.03	0.05	0.04	0.05	0.00	0.14
EV/EBITDA	26.89	20.30	14.12	-5.65	21.28	7.73
PEG Ratio	2.79	2.85	2.05	2.39	2.19	1.33
Price/Book (P/B)	17.07	3.14	3.34	1.81	4.00	2.66
Price/Cash Flow (P/CF)	30.74	29.02	13.66	6.60	21.24	7.95
P/E (F1)	36.13	30.45	18.82	16.00	20.22	12.30
Price/Sales (P/S)	5.09	2.22	2.64	0.95	2.81	0.89
Earnings Yield	2.77%	3.25%	5.29%	6.26%	4.95%	8.14%
Debt/Equity	1.15	0.24	0.72	1.77	0.24	0.50
Cash Flow (\$/share)	7.02	1.62	6.94	1.62	8.69	5.09
Growth Score	D	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	15.21%	5.49%	10.56%	-13.66%	7.74%	3.24%
Proj. EPS Growth (F1/F0)	11.76%	9.05%	7.49%	2.86%	13.21%	5.86%
Curr. Cash Flow Growth	13.88%	-0.29%	14.83%	-2.37%	1.79%	13.27%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	8.22%	9.00%	17.39%	8.28%	-6.76%
Current Ratio	1.53	1.77	1.23	0.97	2.29	2.01
Debt/Capital	53.43%	33.32%	42.99%	64.20%	19.65%	33.32%
Net Margin	12.34%	4.59%	11.08%	-43.46%	11.68%	4.59%
Return on Equity	46.14%	10.22%	17.16%	7.57%	19.84%	23.52%
Sales/Assets	1.12	0.95	0.55	0.44	0.95	1.44
Proj. Sales Growth (F1/F0)	8.69%	3.71%	4.23%	-5.59%	0.00%	1.89%
Momentum Score	D	-	-	C	B	C
Daily Price Chg	1.04%	0.00%	0.73%	2.29%	0.32%	-0.93%
1 Week Price Chg	3.38%	0.00%	0.39%	-4.16%	4.32%	1.02%
4 Week Price Chg	6.56%	0.09%	1.84%	-4.04%	12.31%	3.11%
12 Week Price Chg	16.53%	0.00%	6.48%	-10.16%	17.18%	-9.23%
52 Week Price Chg	72.45%	0.00%	23.15%	46.78%	60.66%	-34.89%
20 Day Average Volume	1,131,460	25,117	1,578,594	4,200,806	192,973	363,710
(F1) EPS Est 1 week change	0.03%	0.00%	0.00%	-1.06%	0.42%	-0.24%
(F1) EPS Est 4 week change	0.11%	0.00%	0.00%	-0.95%	6.16%	-0.24%
(F1) EPS Est 12 week change	-0.29%	-2.06%	-0.48%	-2.22%	6.16%	-4.48%
(Q1) EPS Est Mthly Chg	-0.07%	0.00%	0.00%	0.00%	NA	0.00%

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	F
Growth Score	D
Momentum Score	F
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.

Disclosures

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