

## Hain Celestial Group (HAIN)

**\$26.10** (As of 01/16/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**2-Buy**

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: B

### Summary

Hain Celestial's shares have outpaced the industry in the past three months. The company is benefitting from its focus on transformation strategy that aided results in first-quarter fiscal 2020. Notably, the strategy is aimed to simplify portfolio, solidify key capacities, enhance margins, revive the top-line and improve cash flows. To this end, the company concluded the sale of Sunspire and Arrowhead to focus on areas with better potential. Also, company is on track with Project Terra, which aims at cutting costs. However, the company's top and the bottom line have been declining year over year. In the first quarter, earnings were hit by soft sales and higher interest expenses. Sales are likely to shrink in fiscal 2020, partly owing to SKU rationalization. Also, currency woes are a deterrent.

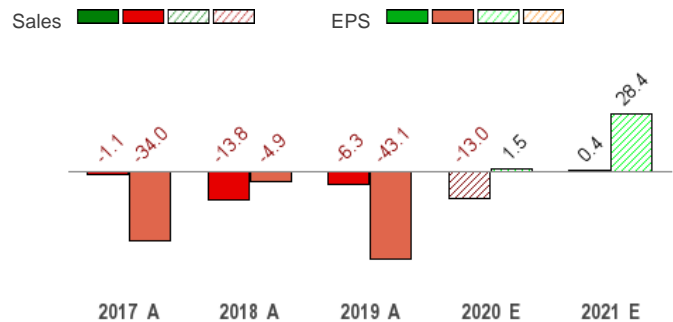
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$26.49 - \$14.45
20 Day Average Volume (sh)	524,317
Market Cap	\$2.7 B
YTD Price Change	0.5%
Beta	1.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Food - Miscellaneous</a>
Zacks Industry Rank	Top 43% (109 out of 254)

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



Last EPS Surprise	14.3%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	40.8
P/E F1	39.0
PEG F1	19.5
P/S TTM	1.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	467 E	494 E	518 E	496 E	2,011 E
2020	482 A	501 E	524 E	495 E	2,002 E
2019	561 A	584 A	600 A	558 A	2,302 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.15 E	\$0.20 E	\$0.26 E	\$0.27 E	\$0.86 E
2020	\$0.08 A	\$0.15 E	\$0.22 E	\$0.22 E	\$0.67 E
2019	\$0.09 A	\$0.14 A	\$0.21 A	\$0.21 A	\$0.66 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 01/16/2020. The reports text is as of 01/17/2020.

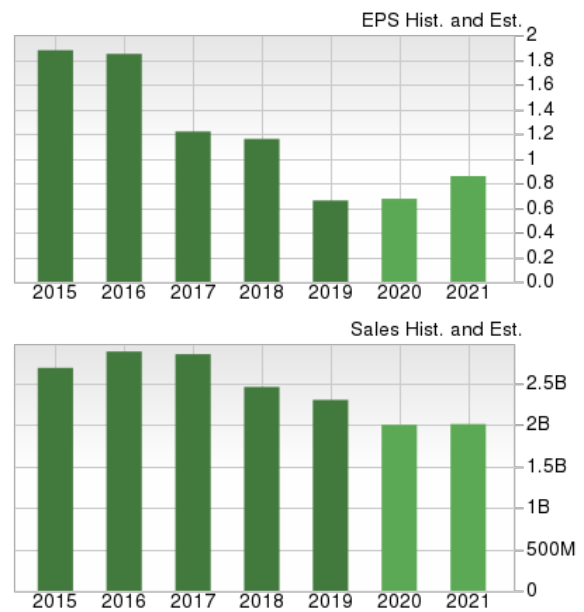
## Overview

Incorporated in 1993 and headquartered in Lake Success, New York, The Hain Celestial Group, Inc. (HAIN) produces, distributes, markets, and sells various natural and organic foods as well as personal care products with operations in North America, Europe and India. The company offers popular better-for-you groceries (non-dairy beverages and frozen desserts, flour and baking mixes, cereals, condiments, cooking oils, infant and toddler food, etc.), snacks (potato and vegetable chips, organic tortilla style chips, whole grain chips and popcorn, etc.), and tea (include herb teas such as Lemon Zinger, Peppermint, Mandarin Orange Spice, Cinnamon Apple Spice, Red Zinger, etc.). Earlier, Hain Celestial reports its results in three segments United States, United Kingdom and Rest of World.

Following changes in the strategy that includes creating synergies among its businesses, Hain Celestial reassessed its segment reporting structure. Effective from Jul 1, the company's Canada and Hain Ventures operating units were moved from the Rest of World reporting segment to the United States reportable segment. The combined segment was renamed as "North America". Similarly, the Europe operating segment was combined with the United Kingdom reportable segment. Together, they are reported as the "International" segment.

The Hain Celestial Group is the largest manufacturer in the natural foods segment and has several leading brands. Some of the prominent brands are Celestial Seasonings, Earth's Best, Ella's Kitchen, Terra, Garden of Eatin', Sensible Portions, Health Valley, MaraNatha, DeBoles, Casbah, Rudi's Organic Bakery, Hain Pure Foods, Spectrum Portions, Spectrum Organics, Imagine, Almond Dream, Rice Dream, Soy Dream and Other notable brands include The Greek Gods, BluePrint, FreeBird, Plainville Farms, Yves Veggie Cuisine, Better Bean, Europe's Best, Cully & Sully, New Covent Garden Soup Co., Yorkshire Provender, Johnson's Juice Co., Farmhouse Fare, Hartley's, Sun-Pat, Gale's, Robertson's, Frank Cooper's, Linda McCartney, Lima, Danival, Joya, Natumi, GG UniqueFiber, JASON, Avalon Organics, Alba Botanica, Live Clean and Queen Helene.

The company also provides natural personal care products under brands such as Avalon Organics, Alba Botanica, JASON, Live Clean and Queen Helene.



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## Reasons To Buy:

▲ **Strategic Endeavors Aid Stock:** Hain Celestial is focused on its global strategic goals and continues to make marketing investments in key brands. Further, it is progressing well with its transformation strategy for the United States, which was announced on the company's Investor Day. Such efforts helped the company witness sequential improvements in adjusted margins for the fourth straight time in the first quarter of fiscal 2020. We expect such efforts to help Hain Celestial deliver an above-average performance in the near term. The company's shares have gained 17.8% in the past three months as compared to the industry's gain of 5.3%.

Hain Celestial remains focused on strategic goals and continues to make marketing investments in key brands. It is on track with Project Terra, which is aimed at cutting costs.

The transformation strategy is aimed at simplifying portfolio, solidifying key capacities, enhancing margins, reviving top-line growth, and improving cash flows and ROIC. Hain Celestial is on track to simplify its business in a bid to focus on areas with higher growth potential such as core packaged-foods business. Since the onset of the transformation strategy, the company has divested loss-making brands of almost \$750 million. The company recently sold two loss making brands — SunSpire and Arrowhead Mills — for \$15 million. Earlier, Hain concluded the sale of Tilda to EBRO FOODS. Prior to this, the company sold a significant chunk of assets related to the Plainville Farms business and also divested WestSoy tofu, seitan and tempeh businesses. Moreover, the company concluded the sale of its entire equity stake in Hain Pure Protein Corporation, which incorporates the FreeBird and Empire Kosher businesses. Moving on, Hain Celestial is well on track with Project Terra, which is aimed at cutting costs and complexity, alongside aiding sales growth. In this regard, Hain has been consolidating sales forces and brokers in the United States. Additionally, the company has consolidated its distribution network in North America from 30 distribution points to less than five. For fiscal 2020, the company expects to expand adjusted profit and EBITDA despite lower revenues.

▲ **Acquisitions Playing a Key Role:** Acquisitions have been a key part of the company's strategy to build market share. Buyouts have not only expanded the company's geographical presence but have also provided opportunities to cross-sell products in the United States, Canadian, and European markets. The company seeks to expand in India, Middle East and China. A healthy balance sheet enables it to target strategic acquisition opportunities, which is likely to result in incremental sales along with providing the company a strong foothold in the packaged food and grocery market.

Hain Celestial revealed that one of its wholly-owned subsidiaries acquired Clarks UK Ltd. (The Natural Sweeteners Company), the leading maple syrup brand, and a natural sweetener brand, in the United Kingdom. Earlier, the company purchased leading packaged grocery brands – Hartley's, Gale's Robertson's, Frank Cooper's and Sun-Pat – from Premier Foods plc. The company also acquired Ella's Kitchen Group Limited that offers organic baby food products under approximately 80 brands and provides them in easy to carry pouches.

▲ **Project Terra on Track:** Hain Celestial, which began a strategic review under Project Terra in fiscal 2016, expects to generate worldwide cost savings worth \$350 million through fiscal 2020 (comprises annual productivity) and remove complexity from business. To achieve these savings, the company intends to optimize plants, co-packers and procurement, along with rationalizing product portfolio. Consequently, it plans to reinvest the additional savings through brand development and household penetration. Earlier, the company had announced that in an attempt to augment sales and margin growth, it had created five strategic platforms across its U.S. segment, including Fresh Living, Better-for-You Baby, Better-for-You Snacking, Better-for-You Pantry and Pure Personal Care.

Additionally, Hain Celestial created Cultivate Ventures or "Cultivate", which is a unit focused on three main ideas – investing in the company's small yet high potential brands, making small acquisitions, and investing in products, concepts and technology, committed to health and wellness.

▲ **SKU Rationalization Program:** Hain Celestial has undertaken a number of initiatives to improve performance and to put itself on the growth trajectory. The company's Stock Keeping Unit ("SKU") rationalization program has helped eliminate SKUs based on lower sales volume or weak margins, and identified 700 SKUs, which are already phased out of portfolio. The company initiated a more aggressive program called the 2018 Project Terra SKU rationalization. In fiscal 2019, the Company initiated a SKU rationalization, which included the elimination of approximately 350 low velocity SKUs.

Further, the management stated that going forward its innovative pipeline will enable the company to replace underperforming SKUs with new SKUs.

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## Reasons To Sell:

▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Hain Celestial looks overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 40.77, which is above its median level of 32.06 and is in-line with the high level scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 20.74 and 19.4, respectively.

▼ **Dismal Top & Bottom-Line Performance:** Hain Celestial's the top and the bottom line have been declining year over year for the last few quarters. The trend continued in first-quarter fiscal 2020. During the quarter, the company reported adjusted earnings of 8 cents that declined 11.1% year over year. The downside can be attributed to soft sales and higher net interest expenses.

Net sales fell around 7% year over year to \$482.1 million. The top line was hurt by sluggish performance in North America and International segment. On a constant-currency basis, net sales dropped 5%. Further, management expects the top line to shrink in fiscal 2020, due to efforts related to SKU rationalization and lower uneconomic spending.

▼ **Inflation Remains a Hurdle:** After registering a decline of 250 basis points (bps) and 240 bps in the first and the second quarter, respectively, Hain Celestial's adjusted gross margin contracted 140 bps to 21.6% in the third quarter of fiscal 2019. Although the gross margin expanded in the fourth quarter of fiscal 2019 and first-quarter fiscal 2020, the same continued to be hurt by higher commodity expenses. Persistence of cost inflation is likely to remain a threat to margins.

▼ **Adverse Currency Fluctuation May Weigh Upon Sales:** Hain Celestial has operations in international markets too and is consequently highly exposed to fluctuation in exchange rates. Year-over-year currency fluctuations in the British pound, euro, and Canadian dollar, which when denominated in strong U.S. dollars, may negatively affect sales. In fact, we note that currency fluctuations had a negative impact on Hain Celestial's top line in the first quarter fiscal 2020. Persistence of such volatility remains a threat.

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Hain Celestial witnessed sluggish sales performance across the United States, United Kingdom and Rest of World along with commodity inflation during the quarter.

## Last Earnings Report

### Hain Celestial Q1 Earnings Beat, Sales Miss Estimates

Quarter Ending **09/2019**

The Hain Celestial Group, Inc. reported better-than-expected earnings for first-quarter fiscal 2020. While both top and bottom lines declined year over year, the company's margins witnessed growth. Further, Hain Celestial is on track with its saving initiatives and expects margins to improve in each quarter in fiscal 2020.

Report Date	Nov 07, 2019
Sales Surprise	-2.26%
EPS Surprise	14.29%
Quarterly EPS	0.08
Annual EPS (TTM)	0.64

Effective Jul 1, the company's Canada and Hain Ventures operating segments were moved from the Rest of World reporting segment to the United States reportable segment. The combined segment was renamed as "North America". Similarly, the Europe operating segment was combined with the United Kingdom reportable segment and now are together reported as the "International" segment.

#### Quarter in Detail

The company posted adjusted earnings of 8 cents a share that surpassed the Zacks Consensus Estimate by a penny, though it declined 11.1% year over year. The downside can be attributed to soft sales and increased net interest expenses.

Net sales decreased 7% year over year to \$482.1 million and missed the Zacks Consensus Estimate of \$493 million. The top line was hurt by the sluggish performance of the North America and the International segments. On a constant-currency basis, net sales dropped 5%. On adjusting for currency fluctuations, buyouts, divestitures and various other items like SKU rationalization, net sales edged down 1%.

Net sales in the North America segment fell 7% year over year to \$239.8 million. On adjusting for currency fluctuations, buyouts, divestitures and various other items like SKU rationalization, net sales went declined 1%. Segment adjusted operating income rose a solid 68% to \$19 million.

International net sales decreased 7% to \$210.4 million, while the same was flat year over year on adjusting for the aforementioned items. Currency headwinds impacted net sales by about \$11 million. On a currency-neutral basis, segment net sales fell 2.5%. Nonetheless, management is impressed with the performance despite a tough business landscape in Europe, along with the uncertainty in the U.K. related to Brexit. Segment adjusted operating income decreased 7% to \$11.5 million.

#### Costs & Margins

Adjusted gross margin expanded 240 basis points (bps) to 20.9%, courtesy of trade efficiencies, lower supply-chain expenses in the United States and productivity savings. However, elevated commodity expenses were a deterrent.

Adjusted operating income was \$16.9 million compared with \$17 million in the year-ago period. Adjusted operating margin rose 10 bps to 7.3%. Adjusted EBITDA grew 11.8% to \$32.1 million, while adjusted EBITDA margin expanded 110 bps to 6.7%. The expansion was fueled by improved profitability in North America through SKU rationalization, supply-chain efficiencies and removal of uneconomical investments.

#### Other Financials

The company ended the quarter with cash and cash equivalents of \$20.5 million, long-term debt (excluding current portion) of \$323.4 million and total shareholders' equity of \$1,470.9 million. Cash used in operating activities from continuing operations totaled \$3.6 million, while capital expenditures incurred during the fiscal were around \$13.1 million. The company used operating free cash flow from continuing operations of \$16.7 million during the quarter.

For fiscal 2020, cash flow from operations is anticipated to be \$110-\$140 million. Further, capital expenditures are expected between \$70 million and \$80 million.

#### Other Developments & Guidance

Hain Celestial concluded the sale of Arrowhead Mills and SunSpire brands to Hometown Food Company last month. In August, the company concluded the sale of Tilda to EBRO FOODS.

Notably, Hain Celestial is on track with saving initiatives. The company expects productivity savings of roughly \$90 million in fiscal 2020, almost in line with the amount generated in fiscal 2019. Management expects a slight drop in inflation in fiscal 2020.

All said, Hain Celestial reiterated its outlook for fiscal 2020 on a proforma basis that excludes contributions from Tilda. Adjusted EBITDA is expected to grow 2-16% to \$168-\$192 million. In fact, the company expects each quarter of fiscal 2020 to witness adjusted gross and adjusted EBITDA margin growth.

Additionally, Hain Celestial anticipates adjusted earnings per share of 59-72 cents, which suggests a decline of 2% to an increase of 20% from fiscal 2019.

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## Recent News

### Hain Celestial Divests Arrowhead Mills, SunSpire to Hometown – October 8, 2019

Hain Celestial recently concluded the sale of Arrowhead Mills and SunSpire brands to Hometown Food Company. Hometown is a wholly-owned portfolio company of private equity investment firm Brynwood Partners. The deal worth \$15 million is in sync with the company's transformational plans that aim to optimize its product portfolio.

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## Valuation

Hain Celestial shares are up 40.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Consumer Staples sector are up 11.8% and 16.8%, respectively.

The S&P 500 index is up 23.3% in the past year.

The stock is currently trading at 33.68X forward 12-month earnings, which compares to 18.41X for the Zacks sub-industry, 19.91X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.79X and as low as 12.55X, with a 5-year median of 21.96X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 36.1X forward 12-month earnings.

The table below shows summary valuation data for HAIN

Valuation Multiples - HAIN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	33.68	18.41	19.91	18.96
	5-Year High	35.79	22.9	22.38	19.34
	5-Year Low	12.55	14.82	16.66	15.17
	5-Year Median	21.96	19.19	19.76	17.44
P/S F12M	Current	1.36	1.75	10.21	3.53
	5-Year High	2.55	2.05	11.13	3.53
	5-Year Low	0.65	1.44	8.09	2.54
	5-Year Median	1.28	1.81	9.87	3
EV/EBITDA TTM	Current	17.65	17.53	40.3	12.12
	5-Year High	24.19	23.68	44.94	12.86
	5-Year Low	12.44	14.02	31.54	8.48
	5-Year Median	17.28	15.65	38.33	10.67

As of 01/16/2020

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## Industry Analysis Zacks Industry Rank: Top 43% (109 out of 254)



## Top Peers

Lamb Weston Holdings Inc. (LW)	Outperform
B&G Foods, Inc. (BGS)	Neutral
Campbell Soup Company (CPB)	Neutral
Flowers Foods, Inc. (FLO)	Neutral
General Mills, Inc. (GIS)	Neutral
Mondelez International, Inc. (MDLZ)	Neutral
Sysco Corporation (SYN)	Neutral
United Natural Foods, Inc. (UNFI)	Neutral

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	HAIN Neutral	X Industry	S&P 500	BGS Neutral	CPB Neutral	LW Outperform
<b>VGM Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Market Cap	2.72 B	4.44 B	24.61 B	986.93 M	14.51 B	13.29 B
# of Analysts	5	3.5	13	1	5	4
Dividend Yield	0.00%	0.11%	1.74%	12.33%	2.91%	0.88%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>C</b>	<b>C</b>
Cash/Price	0.01	0.03	0.04	0.25	0.00	0.00
EV/EBITDA	75.59	14.38	14.24	7.41	14.82	18.63
PEG Ratio	19.47	2.26	2.07	NA	3.19	2.94
Price/Book (P/B)	1.85	2.96	3.38	1.19	11.61	66.11
Price/Cash Flow (P/CF)	21.64	13.11	13.75	5.61	12.68	20.89
P/E (F1)	38.95	18.95	19.09	8.56	18.96	25.98
Price/Sales (P/S)	1.22	1.38	2.68	0.60	1.64	3.38
Earnings Yield	2.57%	5.00%	5.24%	11.68%	5.28%	3.85%
Debt/Equity	0.27	0.62	0.72	2.57	5.37	10.96
Cash Flow (\$/share)	1.21	2.72	6.94	2.75	3.79	4.36
<b>Growth Score</b>	<b>B</b>	-	-	<b>F</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	-19.90%	5.08%	10.56%	4.47%	-0.30%	NA
Proj. EPS Growth (F1/F0)	2.12%	7.85%	7.57%	2.86%	10.26%	8.77%
Curr. Cash Flow Growth	-31.03%	3.82%	14.73%	-7.27%	-12.42%	18.57%
Hist. Cash Flow Growth (3-5 yrs)	-9.49%	7.12%	9.00%	11.59%	0.50%	12.76%
Current Ratio	1.77	1.57	1.24	3.47	0.60	1.65
Debt/Capital	21.28%	38.38%	42.99%	71.99%	84.30%	91.64%
Net Margin	-11.37%	2.79%	11.14%	10.80%	2.07%	12.90%
Return on Equity	4.40%	11.60%	17.16%	12.70%	64.48%	869.30%
Sales/Assets	0.86	1.17	0.55	0.51	0.66	1.23
Proj. Sales Growth (F1/F0)	-13.06%	2.51%	4.16%	1.58%	-12.79%	8.53%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>D</b>
Daily Price Chg	2.57%	0.56%	0.89%	-2.47%	0.65%	0.13%
1 Week Price Chg	-2.63%	0.00%	0.39%	-6.41%	-1.45%	-3.29%
4 Week Price Chg	1.93%	1.47%	2.65%	-12.74%	-0.27%	8.08%
12 Week Price Chg	16.34%	8.42%	7.55%	-3.93%	2.15%	21.98%
52 Week Price Chg	42.21%	16.30%	22.12%	-47.30%	34.40%	28.35%
20 Day Average Volume	524,317	105,008	1,536,375	1,320,451	1,813,933	1,093,859
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.30%	0.00%	0.00%	0.00%	0.00%	1.60%
(F1) EPS Est 12 week change	0.30%	-0.92%	-0.40%	0.00%	0.34%	1.60%
(Q1) EPS Est Mthly Chg	1.82%	0.00%	0.00%	0.00%	0.00%	-2.55%



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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	C
Growth Score	B
Momentum Score	B
VGM Score	C

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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