

Hain Celestial Group (HAIN)

\$32.92 (As of 08/26/20)

Price Target (6-12 Months): **\$38.00**

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:C

Value: F

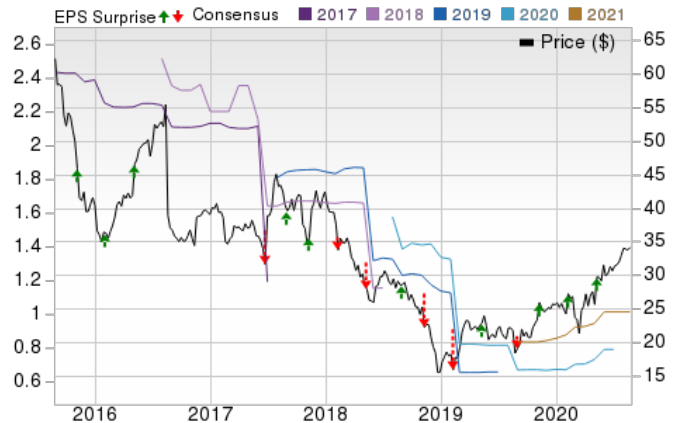
Growth: C

Momentum: A

Summary

Shares of Hain Celestial have increased and outperformed the industry over the past six months. The stock's momentum can be attributed to the company's sound growth fundamentals. This was reflected in fourth-quarter fiscal 2020 performance, with the top and the bottom lines improving year-on-year. With this, the company delivered its fourth straight earnings beat. Top-line gained from higher sales at the company's North America segment. Gross margin also depicted solid growth, backed by better product mix and improved absorption of overheads across plants. Going ahead, the company is on track with transformational and rationalization efforts. Moreover the company expects net sales and adjusted EBITDA to rise in the first half of fiscal 2021. For first-quarter fiscal 2021, management predicts net sales to grow in mid-single digit.

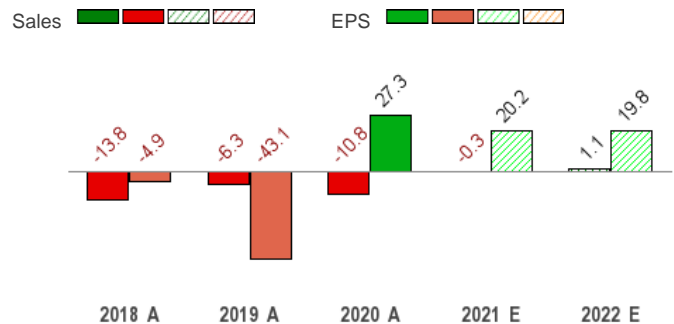
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.53 - \$17.94
20 Day Average Volume (sh)	669,190
Market Cap	\$3.4 B
YTD Price Change	26.8%
Beta	0.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 46% (117 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.5%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	7.3%
Expected Report Date	11/05/2020
Earnings ESP	0.0%
P/E TTM	38.7
P/E F1	30.2
PEG F1	15.1
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	488 E	526 E	559 E	519 E	2,070 E
2021	478 E	508 E	543 E	503 E	2,047 E
2020	482 A	507 A	553 A	512 A	2,054 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.25 E	\$0.31 E	\$0.41 E	\$0.38 E	\$1.21 E
2021	\$0.17 E	\$0.24 E	\$0.33 E	\$0.31 E	\$1.01 E
2020	\$0.08 A	\$0.17 A	\$0.28 A	\$0.32 A	\$0.84 A

*Quarterly figures may not add up to annual.

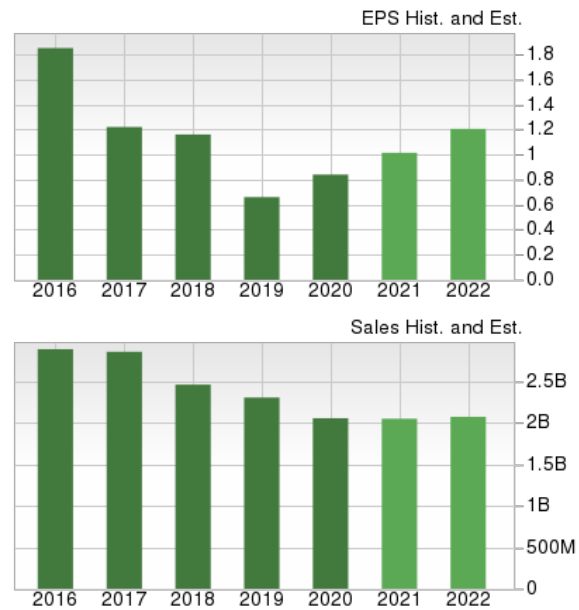
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/26/2020. The reports text is as of 08/27/2020.

Overview

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 and Europe. 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 Earth's Best, Ella's Kitchen, Terra, Garden of Eatin', Sensible Portions, Health Valley, MaraNatha, DeBoles, Hain Pure Foods, Imagine, Almond Dream, Soy Dream and Other notable brands include The Greek Gods, Blueprint, 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.



Reasons To Buy:

▲ **Robust Q4 Earnings & Margins:** Shares of Hain Celestial have gained 38.8% in the past six months outperforming the industry's rise of 12.9%. Much of the stock's momentum can be attributed to its sound fundamentals and strategic efforts. In fact, during fourth-quarter fiscal 2020, the company's top and bottom line improved year on year. Adjusted earnings surpassed the Zacks Consensus Estimate. With this the company delivered its fourth straight earnings beat. Top-line growth was backed by higher sales in the company's North America segment. Margins were also robust in the quarter, which acted as an added incentive to the bottom line. Adjusted gross margin expanded 257 basis points (bps) owing to higher sales, supply-chain productivity efforts, better product mix and improved absorption of overheads across plants. We note that adjusted EBITDA margin expanded 237 bps to 12.1%. Overall, management is pleased with its fiscal 2020 performance with profitability toward the higher end of its anticipations. Results were backed by continued focus on the transformation plan, which led to solid margin improvement and operating cash flow generation. Moreover, the company's North America segment performed well in fiscal 2020, driven by growth in the Get Bigger brands.

Growth in North America segment along with sound business fundamentals have been supporting Hain Celestial's top-line. It is also on track with transformation and rationalization efforts.

For fiscal 2021, Hain Celestial expects consistent margin growth, double digit adjusted EBITDA growth and double digit operating free cash flow growth. The company believes that the first half of fiscal 2021 will yield strong net sales and adjusted EBITDA growth. For the first quarter of fiscal 2021, based on actual results to date, management anticipates net sales to grow in mid-single digit, after excluding divestitures and discontinued brands. Further, it expects margin to rise by several 100 points in the quarter and anticipates higher adjusted EBITDA.

▲ **Strategic Endeavors:** 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 to deliver sustainable profits. The transformation strategy is aimed at simplifying portfolio, identifying additional areas of productivity savings, enhancing margins, reviving top-line growth and improving cash flow. Moreover, well-chalked innovations, marketing and assortment optimization efforts have been supporting the company's top-line. It is also on track with boosting automation capabilities in plants for lowering costs.

Furthermore, Hain Celestial is on track to simplify its business. In fact, by exiting smaller and non-strategic brands, the company is able to reduce supply-chain complexity and redeploy resources on bigger growth opportunities. Last month, the company sold its Danival business in Europe to Wessanen N.V.'s subsidiary. On May 1, 2020, it concluded the sale of the Rudi's Gluten Free Bakery TM and Rudi's Organic Bakery brands to an affiliate of the Promise Gluten Free. Alongside Rudi's, the company also exited from brands like Blueprint, Fountain of Truth and DeBoles during the fourth quarter of fiscal 2020. Earlier, management sold two loss making brands — SunSpire and Arrowhead Mills — for \$15 million and also divested Tilda to EBRO FOODS. Moreover, the company concluded the sale of its entire equity stake in Hain Pure Protein Corporation, which incorporates the FreeBird and Empire Kosher businesses.

▲ **Acquisitions Playing a Key Role:** Acquisitions form 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. 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. Notably, one of the Hain Celestial's wholly-owned subsidiaries acquired Clarks UK Ltd. (The Natural Sweeteners Company), the leading maple syrup brand, and a natural sweetener brand, in the U.K. 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.

▲ **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. Moreover, the company has discontinued roughly 500 SKUs in order to expand margins and cash flows.

▲ **Debt Analysis:** Hain Celestial ended fourth-quarter fiscal 2020 with cash & cash equivalents of \$37.8 million as of Jun 30, which shows an increase of roughly 22% on a quarter-on-quarter basis. Notably, the company's cash position remains sufficient to meet current portion of long-term debt of about \$1.7 million. Hain Celestial's long-term debt (including operating lease liabilities) of \$364.1 million as of Jun 30, decreased 16.8% sequentially. Further, its times interest earned ratio of 2.9, portrays a sequential increase from 1.3. Again, the company's debt-to-capitalization ratio of 0.20 at the end of the fourth quarter is better than that of industry's 0.46.

Risks

- **Growth Likely to Slow Down:** Management expects slowed rate of growth for the second half of fiscal 2021, as compared with the first half. In fact, the company has less clarity regarding the outlook for the second half of the fiscal due to uncertainty in macro-economic factors, primarily stemming from the COVID-19 outbreak. There is a probability that the current eating-at-home trend shall moderate as the company progresses into the second half.
 - **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 44.5, which is above its median level of 38.7 but below the high level of 46.5 scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 19.7 and 24.4, respectively.
 - **Foreign Currency Woes:** Hain Celestial has operations in the international markets, thus highly exposed to fluctuation in foreign 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 fourth-quarter fiscal 2020, foreign currency fluctuations hurt the company's International revenues by roughly \$7 million. Further, foreign currency woes impacted gross profit and EBITDA to the tune of \$2 million and \$1 million, respectively, in the quarter.
 - **Stiff Competition:** Hain Celestial operates in a highly competitive food industry, wherein it faces competition from conventional packaged goods companies as well as natural and organic packaged foods companies. The company competes on grounds of lower cost advantage, pricing, packaging, product quality, taste, geographic reach and responsiveness to changing consumer needs among others. Further, significant consolidation in the grocery and foodservice industry and consumers evolving preferences has intensified competition of late.
 - **Seasonal Risks:** Hain Celestial remains prone to seasonal fluctuations for some of its product lines. For instance, sales for tea, baking products, soup, and hot cereal and desserts are stronger in colder months, while sales for snacks, sunscreen and personal care products are grater in warmer months. Absence of the appropriate season for these products may result in lower sales and in turn weigh on the company's overall performance. Over the recent years, sales and earnings per share in the fiscal first quarter have generally been the lowest in four quarters.
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Last Earnings Report

Hain Celestial Beats Q4 Earnings, Sales Up Y/Y

Hain Celestial reported fourth-quarter fiscal 2020 results, wherein the bottom line exceeded the Zacks Consensus Estimate, while the top line missed the same. Results in North America benefited from increased at-home consumption due to COVID-19, though the International segment faced challenges related to the pandemic-led fruit business declines in the U.K.

While management did not offer any financial guidance for fiscal 2021 due to the uncertainty surrounding the pandemic, it envisions continued margin growth, robust double-digit adjusted EBITDA improvement and a double-digit rise in operating free cash flow. The first half is likely to see greater net sales and adjusted EBITDA improvements due to solid consumer and customer plans, together with increased at-home consumption owing to coronavirus. The second half of fiscal 2021 is likely to witness a slowdown in growth.

Quarter Ending **06/2020**

Report Date	Aug 25, 2020
Sales Surprise	-0.22%
EPS Surprise	18.52%
Quarterly EPS	0.32
Annual EPS (TTM)	0.85

Quarter in Detail

The company posted adjusted earnings of 32 cents a share, which surpassed the Zacks Consensus Estimate of 27 cents. This marked the company's fourth consecutive beat. Higher sales and margins seem to have fueled the bottom line.

Net sales were \$511.7 million, which climbed 1% on reported and 3% on a constant-currency basis. Sales missed the consensus mark of about \$513 million. The top line was backed by higher sales at the company's North America segment, partly offset by declines in the International unit. On adjusting for currency fluctuations, divestitures and various other items like SKU rationalization, net sales advanced 7%.

Net sales in the North America segment increased 5% year over year to \$298.6 million. On adjusting for currency movements, divestitures, discontinued brands and SKU rationalization, net sales grew 13%. Segment adjusted operating income rose a solid 57% to \$38.9 million.

International net sales dropped 3% year over year to \$213.1 million. On adjusting for foreign currency fluctuations, divestitures, discontinued brands and SKU rationalization, net sales were flat year over year. Segment sales continued to face hurdles in the foodservice channel due to the pandemic. Further, segment adjusted operating income dipped 1% to \$22.7 million.

Margins

Adjusted gross margin expanded 257 basis points (bps) to 25.3%, thanks to greater sales, solid supply-chain productivity efforts, better product mix and improved absorption of overheads across plants. However, foreign currency fluctuations affected adjusted gross profit to the tune of \$2 million in the quarter.

Adjusted operating income was \$47.9 million in the quarter, up 39.2% from \$34.4 million in the year-ago quarter. Adjusted EBITDA grew 25.9% to \$62.2 million, while adjusted EBITDA margin expanded 237 bps to 12.1%. The expansion was fueled by a higher gross margin.

Other Financials

The company ended the quarter with cash and cash equivalents of \$37.8 million, long-term debt (excluding current portion) of \$281.1 million and total shareholders' equity of \$1,443.6 million. Cash provided by operating activities from continuing operations totaled \$156.9 million during fiscal 2020. The company's operating free cash flow from continuing operations was roughly \$96 million for fiscal 2020. Capital expenditures were \$60.9 million in the same time frame.

During the quarter, management bought back 0.1 million shares at an average cost of \$24.97 per share. In fiscal 2020, Hain Celestial bought back 2.6 million shares for a total of \$60.2 million. The company had shares worth \$189.8 million remaining under its buyback authorization as of Jun 30, 2020.

Other Developments & Outlook

On May 1, 2020, Hain Celestial divested its Rudi's business, which was part of the United States reporting segment. Further, effective Jul 21, the company closed the sale of Danival to a subsidiary of Wessanen N.V.

Management remains pleased with its fiscal 2020 performance, with profitability toward the higher end of its anticipations. Results were backed by continued focus on the transformation plan, which led to solid margin improvement and operating cash flow generation. Hain Celestial remains committed to its core growth pillars, which include simplifying portfolio, building capability, curtailing costs and boosting sales.

For the first quarter of fiscal 2021, management anticipates net sales to grow in mid-single digit, after excluding divestitures and discontinued brands. Further, it expects margin to rise by several 100 points in the quarter and anticipates higher adjusted EBITDA.

Recent News

Hain Celestial Divests Danival Brand – Jul 21, 2020

Hain Celestial transformational efforts bode well. With respect to the transformation strategy, the company recently announced divestiture of the Danival brand to Europe-based Wessanen N.V.'s subsidiary. However, details of the transaction remained under covers. The Danival brand, which formed part of Hain Celestial's Europe operating segment, consists of organic-cooked vegetables, sauces, fruit spreads, prepared meals and desserts. The latest divestiture further simplifies the company's brand portfolio.

Hain Celestial Divests Casbah & Europe's Best Brands – Mar 18, 2020

Hain Celestial recently concluded the sale of Casbah and Europe's Best brands to the U.S. Durum and Nature's Touch Frozen Foods, respectively. However, financial details of the deal remained under covers. Notably, these divestitures are in sync with the company's transformation efforts.

Valuation

Hain Celestial shares are up 26.8% in the year-to-date period and 79.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Staples sector are down 1.4% and 6.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 7.1% but the sector is down 4.2%.

The S&P 500 index is up 6.9% in the year-to-date period and 19.6% in the past year.

The stock is currently trading at 31.52X forward 12-month earnings, which compares to 19.42X for the Zacks sub-industry, 20.26X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.52X and as low as 12.55X, with a 5-year median of 21.96X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$38 price target reflects 36.38X 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	31.52	19.42	20.26	23.11
	5-Year High	39.52	22.9	22.37	23.11
	5-Year Low	12.55	14.82	16.63	15.25
	5-Year Median	21.96	18.57	19.58	17.58
P/S F12M	Current	1.64	1.73	9.6	3.77
	5-Year High	2.1	2.05	11.15	3.77
	5-Year Low	0.65	1.41	8.1	2.53
	5-Year Median	1.26	1.75	9.89	3.05
EV/EBITDA TTM	Current	22.45	14.55	38.04	13.09
	5-Year High	23.93	23.67	45.11	13.09
	5-Year Low	12.24	11.51	27.25	8.25
	5-Year Median	17.36	15.25	38.42	10.92

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Flowers Foods, Inc. (FLO)	Outperform	2
BG Foods, Inc. (BGS)	Neutral	2
Campbell Soup Company (CPB)	Neutral	2
General Mills, Inc. (GIS)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	4
Mondelez International, Inc. (MDLZ)	Neutral	3
United Natural Foods, Inc. (UNFI)	Neutral	3
Sysco Corporation (SYF)	Underperform	4

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	HAIR	X Industry	S&P 500	BGS	CPB	LW
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	2	4
VGM Score	C	-	-	B	C	B
Market Cap	3.35 B	3.81 B	23.69 B	2.00 B	16.16 B	8.98 B
# of Analysts	5	3	14	3	7	4
Dividend Yield	0.00%	0.00%	1.65%	6.09%	2.62%	1.50%
Value Score	F	-	-	B	C	C
Cash/Price	0.01	0.08	0.07	0.09	0.08	0.15
EV/EBITDA	87.64	13.16	13.37	13.41	14.09	14.31
PEG Ratio	15.10	4.14	3.04	NA	2.25	8.20
Price/Book (P/B)	2.33	2.36	3.17	2.45	6.26	37.39
Price/Cash Flow (P/CF)	24.05	12.54	12.78	11.08	14.10	16.26
P/E (F1)	30.20	19.42	21.63	14.07	18.66	29.51
Price/Sales (P/S)	1.63	1.40	2.50	1.09	1.93	2.37
Earnings Yield	3.31%	4.92%	4.44%	7.12%	5.37%	3.38%
Debt/Equity	0.19	0.57	0.75	2.33	2.01	12.47
Cash Flow (\$/share)	1.37	2.81	6.94	2.81	3.79	3.78
Growth Score	C	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-22.19%	5.50%	10.41%	-0.35%	-2.14%	11.76%
Proj. EPS Growth (F1/F0)	29.52%	3.22%	-4.92%	35.16%	-2.38%	-16.70%
Curr. Cash Flow Growth	11.12%	4.39%	5.22%	-0.56%	-12.42%	-13.39%
Hist. Cash Flow Growth (3-5 yrs)	-9.49%	6.08%	8.50%	4.81%	0.50%	8.09%
Current Ratio	1.87	1.62	1.34	3.12	0.84	2.25
Debt/Capital	16.30%	36.40%	44.18%	69.95%	66.79%	92.58%
Net Margin	-3.91%	2.97%	10.25%	6.22%	18.34%	9.65%
Return on Equity	5.93%	9.81%	14.66%	15.65%	46.05%	183.08%
Sales/Assets	0.92	1.02	0.50	0.55	0.66	1.02
Proj. Sales Growth (F1/F0)	-0.31%	0.00%	-1.45%	16.17%	-4.83%	-2.29%
Momentum Score	A	-	-	F	D	A
Daily Price Chg	4.01%	0.00%	-0.18%	0.19%	0.85%	-2.35%
1 Week Price Chg	1.17%	0.00%	-1.45%	3.05%	1.76%	-4.90%
4 Week Price Chg	-2.63%	2.76%	2.10%	12.65%	6.53%	2.74%
12 Week Price Chg	6.81%	8.24%	3.61%	29.65%	9.55%	-5.14%
52 Week Price Chg	79.30%	4.25%	3.61%	74.87%	27.42%	-10.64%
20 Day Average Volume	669,190	160,989	1,883,291	1,128,357	1,481,918	851,583
(F1) EPS Est 1 week change	7.30%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	7.30%	0.07%	0.93%	4.31%	0.20%	-8.56%
(F1) EPS Est 12 week change	7.30%	2.55%	3.41%	3.10%	0.70%	-4.47%
(Q1) EPS Est Mthly Chg	11.77%	0.00%	0.00%	-0.52%	0.00%	-28.41%

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	C
Momentum Score	A
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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