

Hasbro Inc. (HAS)

\$71.84 (As of 07/27/20)

Price Target (6-12 Months): **\$75.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

Shares of Hasbro have underperformed the industry in the past year. Recently, the company reported second-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Moreover, the top and bottom line declined 12.6% and 96%, respectively, on a year-over-year basis. The decline can be primarily attributed to temporary store closures, product shortages, lower retail inventories, supply chain disruption, live-action production shutdowns, and changing theatrical release schedules owing to the coronavirus pandemic. Also, rise in selling costs is hurting margins. Notably, earnings estimates for 2020 have declined in the past 30 days. However, strategies like new product launches, strong product line-up along with increased focus on gaming are expected to aid the company in the days ahead.

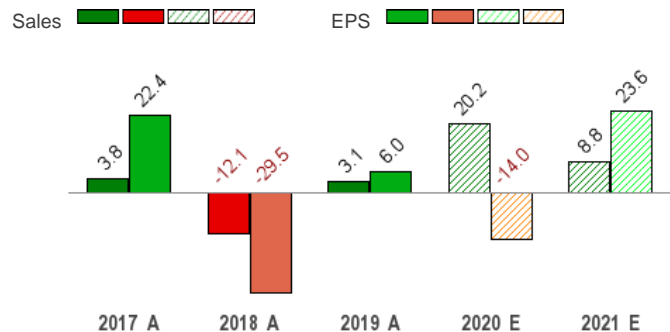
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$126.87 - \$41.33
20 Day Average Volume (sh)	985,269
Market Cap	\$9.8 B
YTD Price Change	-32.0%
Beta	0.97
Dividend / Div Yld	\$2.72 / 3.8%
Industry	Toys - Games - Hobbies
Zacks Industry Rank	Top 34% (87 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-89.5%
Last Sales Surprise	-11.9%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	10/27/2020
Earnings ESP	-6.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,212 E	1,173 E	2,004 E	1,815 E	6,172 E
2020	1,106 A	860 A	1,885 E	1,708 E	5,675 E
2019	733 A	985 A	1,575 A	1,428 A	4,720 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.45 E	\$1.89 E	\$1.36 E	\$4.34 E
2020	\$0.57 A	\$0.02 A	\$1.65 E	\$1.11 E	\$3.51 E
2019	\$0.21 A	\$0.78 A	\$1.84 A	\$1.24 A	\$4.08 A

*Quarterly figures may not add up to annual.

P/E TTM	19.6
P/E F1	20.5
PEG F1	1.9
P/S TTM	2.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/27/2020. The reports text is as of 07/28/2020.

Overview

Based in Pawtucket, RI, Hasbro Inc. is engaged in the design, manufacture and marketing of games and toys. The company, founded in 1923, offers traditional, high-tech and digital toys, games and licensed products under various well-known brands.

Meanwhile, beginning with the first quarter of 2017 earnings, Hasbro has started reporting its revenues by brand portfolio that includes Franchise Brands, Partner Brands, Hasbro Gaming and Emerging Brands. Earlier, the company used to provide revenues breakdown by product category: Boys, Games, Girls and Preschool.

In first-quarter 2020, the company completed the acquisition of Entertainment One Ltd. (eOne).

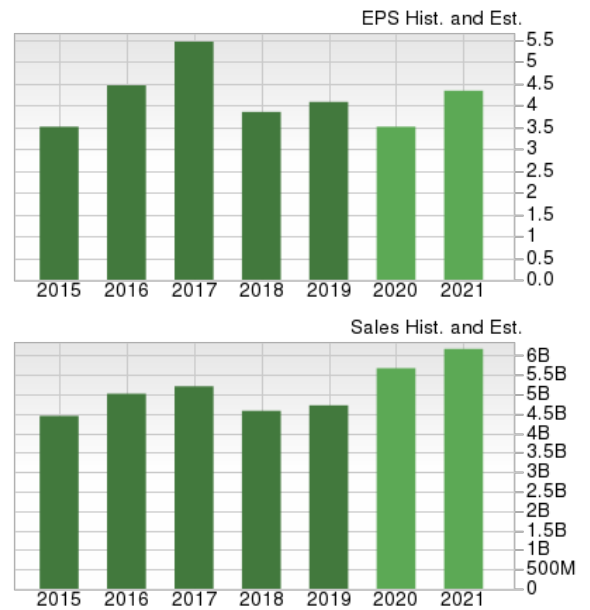
Hasbro has four business segments:

The **U.S. and Canada** segment (accounting for 41.8% of total second-quarter 2020 revenues) develops, markets and sells boys' action figures, arts and crafts and creative play products, electronic toys and related electronic interactive products, fashion and other dolls, infant products, play sets, preschool toys, plush products, sports action blasters and accessories, vehicles and toy-related specialty products, along with traditional board games, trading cards and role-playing games primarily within the United States and Canada.

Within the **International** segment (29%), the company develops, markets, and sells both toys as well as certain games in markets outside the U.S. and Canada, primarily in the European, Asia-Pacific, and Latin and South American regions.

The newly formed **eOne** (18.7%) segment leads company-wide entertainment content efforts. The segment focuses on development of potential Hasbro brands for television and film.

The company's **Entertainment, Licensing and Digital** (10.5%) segment includes the consumer products licensing, digital gaming, movie, television and online entertainment operations.



Reasons To Buy:

- ▲ **Sales Boosting Initiatives, Product Launches & Partnerships:** Hasbro continues to invest in innovation. It partnered with Paramount to enhance storytelling and content capabilities. Further, the company invested in Boulder Media — the company's animation studio — and increased digital capacities to drive sales. Hasbro continues to release Transformers Franchise in all forms of entertainment including movies, television and digital expressions. Given the company's several innovative and productive plans for Transformers franchise over the next 10 years, revenues are expected to grow. During the second quarter of 2020, the company unveiled a crossover toy Gigawatt based on characters from the TRANSFORMERS and Back to the Future movie. It also launched the first issue cover of the four-part IDW comic book series based on the same.

New products and strategic partnerships, major theatrical releases, along with increased focus on gaming bode well

Apart from Paramount, the company announced that it entered several partnerships in the recent past, all of which indicate Hasbro's efforts to diversify revenues beyond retail sales and expand the customer base. Global retail support for STAR WARS: Solo, a Star Wars story product, was popular among consumers. It is expected to boost growth in the days ahead. Notably, the company believes that the multi-year entertainment slate for STAR WARS has created a bigger, more sustainable level of business for this top industry property. Moreover, the deal with Walt Disney to manufacture dolls based on Disney Princess stories and characters is expected to continue bolstering Hasbro's top line. During the second quarter, the company launched the HasWeb project, the X-Men Legends Marvel Sentinel. The launch not only achieved its funding threshold within the first 24 hours but was also followed by more than 11,000 backing for a \$350 collectible item, over the next 10 days. Notably, this initiative is likely to enhance consumers' connection with the brand.

On the product innovation front, Hasbro launched several social games. Among them, Dungeons & Dragons was particularly successful. With the launch of DROPMIX, the company further strengthened its digital gaming revenues. The company further plans to launch beer pong, Operation Pet Scan, a whole new line-up of new Monopoly games, Black Panther, beyond the home entertainment window for holidays, including product in the MARVEL LEGENDS series for Black Panther. It also intends to expand Magic, the Gathering Arena across its digital platform in China, by the second half of 2020. Notably, the company will be partnering with Tencent for the same.

- ▲ **Increased Focus on Eone Content:** Hasbro continues to focus on adapting plans to deliver robust line-up of entertainment and innovation from E1 and its partners in 2021. Notably, on the content side, E1 production is gradually recovering through a new animated series on Netflix and Alien TV. The team also continues to develop and produce new content for Peppa Pig, PJ Mask and the My Little Pony 2021 feature film. Apart from this, it has executed a successful virtual con and developed more than 100 film and 60 new TV projects, including Hasbro IP and new IP. Notably, the company spent \$220.4 million on content production in the first half of 2020. Going forward, cash spend projections for 2020 are estimated at \$450 million to \$550 million for content. Even though the company intends to finish the projects by 2020, a portion of its revenues is likely to get realized in 2021.

- ▲ **Gaming Category to Drive Growth:** Hasbro is witnessing strong gaming demand during the coronavirus pandemic. Hasbro has a supreme gaming portfolio, and it is refining gaming experiences across a multitude of platforms like face-to-face gaming, off-the-board gaming and digital gaming experiences in mobile. Given a strong product lineup and a greater focus on entertainment backed products, Hasbro's Entertainment and Licensing segment is poised for growth. The company stated that it is currently investing in longer-term larger game play. The company's gaming category, which includes MAGIC: THE GATHERING tabletop, MONOPOLY, DUNGEONS AND DRAGONS and many other Hasbro games such as THE GAME OF LIFE, JENGA, CONNECT 4 and OPERATION are performing well.

During the second quarter of 2020, the company witnessed good solid momentum in gaming and Nerf, as well as Disney's Frozen 2 and Lucasfilms Star Wars. This also includes the retail arrival of product featuring the Child from the Disney Plus series, The Mandalorian, as well as the much anticipated animatronic edition.

- ▲ **Rapid Growth in Emerging Markets:** In addition to growing brands and leveraging opportunistic toy lines and licenses, the company seeks to grow its international business by expanding into emerging markets in Eastern Europe, Asia and Latin and South America. Emerging markets offer greater opportunities for revenue growth than developed markets and have been contributing to a significant share of Hasbro's revenues, given its investments in advertising and other brand-building efforts. Over the next few years, Hasbro anticipates emerging markets to grow in double digits backed by innovation in products, entertainment and market share gains. Moreover, the company reinforced its five-year plan (2018 to 2023-24) to double its Wizards business.

- ▲ **Leveraging the Power of Television:** The company continues to increase its brand awareness through television. Hasbro Studio is responsible for the creation and development of storytelling based on Hasbro's brands, across mediums including television, film and digital shorts. Moreover, the company recently aired a TV series on CCTV, on a Chinese Television platform. Hasbro has 40% interest in a joint venture with Discovery Communications called the Discovery Family Channel (formerly known as 'The Hub Network'). This network offers high-quality children's shows as well as family entertainment and educational programs. The deal has been contributing meaningfully to Hasbro's revenues for quite a while now. In first-quarter 2020, the company completed the acquisition of Entertainment One Ltd., which will lead company-wide entertainment content efforts. The segment focuses on development of potential Hasbro brands for television and film.

- ▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Hasbro has enough liquidity to survive the pandemic scenario for some time. As of Jun 28, 2020, the company's cash balance totaled nearly \$1,038 million. Moreover, the company has access to \$1.5 billion credit facility. Although the company's long-term debt at the end of second-quarter 2020 stood at \$4.8 billion, compared with \$1.7 billion as of Jun 30, 2019, it has no debt maturing prior to May 2021. At the end of second-quarter 2020, the company had debt-to-capital ratio of 0.64, which indicates that its debt levels are manageable.

Reasons To Sell:

- ▼ **Likely Impact of Coronavirus Pandemic:** The company's third-quarter results are likely to reflect the impact of the second wave of the coronavirus pandemic. The company anticipates the coronavirus pandemic to continue hurting every aspect of business from shipments to brick-and-mortar sales to delivery of content in order to meet demand. This along with temporary store closures, product shortages, lower retail inventories, supply chain disruption, live-action production shutdowns and changing theatrical release schedules are likely to hurt results going forward.
- ▼ **Dismal International Sales:** Dismal international sales remain a concern for the company. During the second quarter, International segment's revenues amounted to \$249.8 million, which declined 34% year over year. The segment's operating margin came in at negative 10% against 3.9% reported in the year-ago quarter. The segment's results in the quarter were impacted by dismal performance of European, Asia Pacific and Latin American regions. Moreover, coronavirus-induced store closures, product shortages and lower retail inventories hurt the international segment.
- ▼ **Higher Costs to Hurt Profits:** Hasbro's initiatives including product launches and shift toward more technology-driven toys for reviving its brands and boosting sales would aid profits in the long term. Costs related to those initiatives might prove detrimental to the company in the near term. Hasbro's cost of sales, as a percentage of net revenues, increased to 29.4% during the second quarter 2020 from 26.2% in the prior-year quarter. Selling, distribution and administration expenses — as a percentage of net revenues — were 32.7% compared with 25.2% in the prior-year quarter.
- ▼ **Traditional Toys and Age Compression Mar the Top Line:** Toy manufacturers have to battle a broad array of alternative modes of entertainment including video games, MP3 players, tablets, smartphones and other electronic devices. Hasbro's revenues have been under some pressure over the past few quarters due to lower demand for games as children are opting for electronic versions of games on smartphones and tablets.

Another factor affecting demand for these brands is age compression. Kids are growing up and moving on much faster than they used to and also get bored easily. For instance, demand for some toys that were preferred by kids aged 3 to 9 years previously has narrowed down to the band of 3 to 6 years. This is tapering the demand for toys, thereby hurting revenues.

Soft consumer demand, the coronavirus woes and higher costs remain Hasbro's concerns.

Last Earnings Report

Hasbro Q2 Earnings and Revenue Miss Estimates, Decline Y/Y

Hasbro, reported second-quarter 2020 results, wherein both earnings and revenues missed the Zacks Consensus Estimate. Notably, both the top and bottom lines missed the consensus estimate for the second straight quarter.

The company reported adjusted earnings of 2 cents per share, missing the Zacks Consensus Estimate of 19 cents. In the prior-year quarter, the company had reported adjusted pro forma net earnings of 54 cents per share.

In the quarter under review, net revenues were \$860.3 million, which lagged the consensus mark of \$983 million. Moreover, the top line declined 12.6% year over year. On a pro forma basis, net revenues plunged 29% year over year.

Quarter Ending 06/2020

Report Date	Jul 27, 2020
Sales Surprise	-11.86%
EPS Surprise	-89.47%
Quarterly EPS	0.02
Annual EPS (TTM)	3.67

Brand Performances (On PRO Forma Basis)

The Franchise Brand reported revenues of \$376.8 million, down 35% year over year.

Partner Brands' revenues declined 35% from the prior-year quarter to \$138.2 million.

Revenues at Hasbro Gaming amounted to \$137 million, reflecting an improvement of 11% from the prior-year period. JENGA, CONNECT 4, BATTLESHIP, MOUSETRAP and TWISTER drove the segment's revenues. However, its total gaming category revenues decreased 19% to \$319 million.

Emerging Brands' revenues slumped 29% year over year to \$76 million.

Meanwhile, revenues from TV/Film/Entertainment declined 32% year over year to \$132.2 million.

Segmental Revenues (On Pro Forma Basis)

Regionally, net revenues at the U.S. and Canada segment fell 30% to \$359.7 million in the quarter. Moreover, operating margin decreased to 6.8% from the prior-year quarter's figure of 20.9%. The segment's growth was hurt by coronavirus-induced store closure, product shortages and lower retail inventories. However, both pure play and omni-channel grew in the quarter under review.

The International segment's revenues amounted to \$249.8 million, which declined 34% year over year. The segment's operating margin came in at negative 10% against 3.9% reported in the year-ago quarter. The segment's results in the quarter were impacted by dismal performance of European, Asia Pacific and Latin American regions. Moreover, coronavirus-induced store closure, product shortages and lower retail inventories hurt international segment.

Meanwhile, revenues at the Entertainment, Licensing and Digital segment — which was named Entertainment and Licensing earlier — decreased 7% year over year to \$89.8 million. The segment revenues were impacted by dismal digital gaming revenues. Moreover, the segment's operating margin increased to 31% from the prior-year quarter's figure of 8.2%.

The newly formed eOne segment reported revenues of \$160.9 million, down 30% year over year. The downside can be attributed to shutdowns of live action productions and theaters globally owing to the coronavirus pandemic. Moreover, the segment's operating margin came in at negative 3.7%, compared with a negative 11.9% in the prior-year quarter.

Operating Highlights

Hasbro's cost of sales, as a percentage of net revenues, increased to 29.4% from 26.2% in the prior-year quarter. Selling, distribution and administration expenses — as a percentage of net revenues — were 32.7%, compared with 25.2% in the prior-year quarter.

Balance Sheet

Cash and cash equivalents as of Jun 28, 2020 were \$1,038.1 million, down from \$1,151 million on Jun 30, 2019. The company's \$1.5 billion revolving credit facility is also available. At the end of the reported quarter, inventories totaled \$564.2 million compared with \$564.8 million in the comparable year-ago period. As of Jun 28, 2020, long-term debt increased to \$4,802.5 million from \$1,695.8 million from Jun 30, 2019. The company's next major debt maturity is \$300 million in May 2021.

The company is also committed to paying dividends. During the second quarter, the company paid dividend worth \$93.1 million. The company's next dividend of 68 cents, will be payable on Aug 17, 2020 to shareholders of record at the close of business as of Aug 3.

Coronavirus Update

The company anticipates the coronavirus pandemic to continue hurting every aspect of business from shipments to brick-and-mortar sales to delivery of content to meet demand. Notably, China, which represents nearly 55% of the company's manufacturing productions, is currently operating at normal levels.

Recent News

Hasbro Boosts Transformer Lineup With New Character Gigawatt – Jul 2, 2020

Hasbro in collaboration with Universal Brand Development and Amblin Entertainment, recently unveiled the latest Autobot, Gigawatt. Based on characters from the TRANSFORMERS and Back to the Future movie, the new crossover toy is an amalgamation of a time machine and a robot in disguise. The company also unveiled the first issue cover of the four-part IDW comic book series based on the same.

Valuation

Hasbro's shares are down 31.9% year-to-date and 43% in the trailing 12-month period. Stocks in the Zacks sub-industry is up by 22.1%, while the Zacks Consumer Discretionary sector is down by 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 34.6%, but sector is down 3.8%.

The S&P 500 index is up 0.8% in the year-to-date period and 7.7% in the past year.

The stock is currently trading at 18.1X forward 12-month earnings, which compares to 31.44X for the Zacks sub-industry, 33.98X for the Zacks sector and 22.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.73X and as low as 10.35X, with a 5-year median of 19.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$75 price target reflects 18.93X forward 12-month earnings.

The table below shows summary valuation data for HAS.

Valuation Multiples - HAS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.1	31.44	33.98	22.49
	5-Year High	27.73	31.44	33.98	22.49
	5-Year Low	10.35	19.51	16.12	15.25
	5-Year Median	19.04	25.48	19.85	17.52
P/S F12M	Current	1.66	6.02	2.3	3.55
	5-Year High	3.11	6.07	3.22	3.55
	5-Year Low	0.97	3.5	1.68	2.53
	5-Year Median	2.16	4.8	2.5	3.02
P/B TTM	Current	3.56	4.74	3.15	4.43
	5-Year High	9.27	6.64	5.03	4.56
	5-Year Low	1.89	3.11	2.22	2.83
	5-Year Median	6.45	4.15	4.21	3.71

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Activision Blizzard, Inc. (ATVI)	Neutral	3
Electronic Arts Inc. (EA)	Neutral	3
Glu Mobile Inc. (GLUU)	Neutral	3
International Game Technology (IGT)	Neutral	2
JAKKS Pacific, Inc. (JAKK)	Neutral	4
Mattel, Inc. (MAT)	Neutral	2
Nintendo Co. (NTDOY)	Neutral	3
TakeTwo Interactive Software, Inc. (TTWO)	Neutral	2

Industry Comparison Industry: Toys - Games - Hobbies				Industry Peers		
	HAS	X Industry	S&P 500	EA	MAT	TTWO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	2
VGM Score	C	-	-	C	D	C
Market Cap	9.84 B	6.81 B	22.74 B	39.31 B	3.77 B	18.21 B
# of Analysts	7	6	14	13	4	21
Dividend Yield	3.79%	0.00%	1.8%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	D	D
Cash/Price	0.12	0.14	0.07	0.15	0.12	0.14
EV/EBITDA	13.93	20.96	13.03	20.49	21.43	22.75
PEG Ratio	1.93	2.76	3.03	3.67	NA	4.23
Price/Book (P/B)	3.73	5.06	3.17	5.29	43.76	7.11
Price/Cash Flow (P/CF)	11.47	25.37	12.05	25.37	27.24	27.64
P/E (F1)	20.61	27.22	21.90	26.71	NA	42.32
Price/Sales (P/S)	1.98	4.14	2.38	7.10	0.88	5.89
Earnings Yield	4.89%	3.54%	4.30%	3.75%	-2.12%	2.36%
Debt/Equity	1.82	0.12	0.76	0.05	33.11	0.06
Cash Flow (\$/share)	6.27	2.34	7.01	5.37	0.40	5.76
Growth Score	D	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	4.60%	15.11%	10.85%	15.11%	NA	29.50%
Proj. EPS Growth (F1/F0)	-13.97%	25.17%	-7.56%	-10.87%	24.17%	-31.96%
Curr. Cash Flow Growth	-3.32%	-3.32%	5.47%	15.43%	-214.17%	-8.18%
Hist. Cash Flow Growth (3-5 yrs)	5.21%	6.23%	8.55%	7.26%	-28.91%	12.57%
Current Ratio	1.61	1.99	1.31	2.45	1.47	1.71
Debt/Capital	64.62%	15.95%	44.41%	5.05%	97.07%	5.65%
Net Margin	7.58%	10.34%	10.45%	54.88%	-5.82%	13.09%
Return on Equity	18.71%	15.68%	15.13%	16.79%	-51.03%	18.22%
Sales/Assets	0.57	0.69	0.54	0.52	0.83	0.65
Proj. Sales Growth (F1/F0)	20.23%	2.59%	-2.00%	8.26%	-5.72%	-9.38%
Momentum Score	C	-	-	A	A	F
Daily Price Chg	-7.41%	0.00%	0.48%	0.68%	-4.23%	2.06%
1 Week Price Chg	0.13%	0.00%	0.37%	-2.22%	7.39%	3.61%
4 Week Price Chg	-2.64%	1.04%	5.61%	4.19%	13.13%	15.57%
12 Week Price Chg	4.01%	8.47%	13.36%	16.55%	26.57%	27.48%
52 Week Price Chg	-43.02%	14.84%	-3.30%	53.21%	-25.16%	28.84%
20 Day Average Volume	985,269	561,805	1,917,592	1,909,393	3,563,400	1,356,719
(F1) EPS Est 1 week change	-0.32%	0.00%	0.00%	0.93%	22.22%	-1.56%
(F1) EPS Est 4 week change	-1.17%	-0.05%	0.21%	1.17%	28.35%	-1.17%
(F1) EPS Est 12 week change	-12.93%	-6.20%	-2.00%	0.53%	-468.75%	-22.76%
(Q1) EPS Est Mthly Chg	-0.96%	0.00%	0.00%	-19.97%	1.63%	-2.62%

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	B
Growth Score	D
Momentum Score	C
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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