

## Hanesbrands Inc. (HBI)

**\$14.32** (As of 01/20/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

### Summary

Shares of Hanesbrands have lagged the industry in the past three months. The company has been battling soft sales in the Innerwear segment. The trend is likely to affect results in fourth-quarter 2019. In the third quarter, Innerwear sales dipped 3.5% due to an adverse back-to-school retail environment. Moreover, unfavorable currency fluctuation is a concern. Despite these headwinds, the top and the bottom line grew year over year in the third quarter. Earnings were driven by higher net sales, fall in adjusted SG&A costs and lower interest expenses. Further, strong International performance and sturdy organic sales have been driving performance. Also, online business is faring well and supporting Global consumer-directed sales. Encouragingly, management raised the mid-point of the top- and the bottom-line view for 2019.

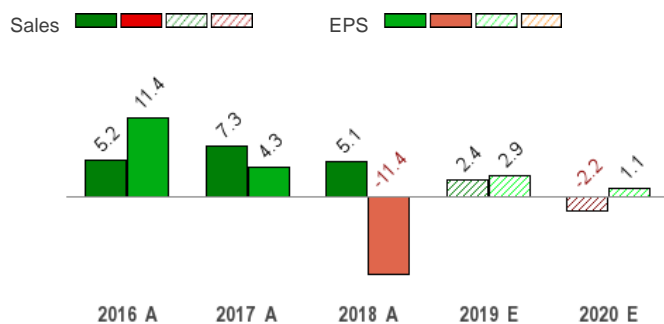
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$19.38 - \$12.90
20 Day Average Volume (sh)	4,737,962
Market Cap	\$5.2 B
YTD Price Change	-3.6%
Beta	1.13
Dividend / Div Yld	\$0.60 / 4.2%
Industry	<a href="#">Textile - Apparel</a>
Zacks Industry Rank	Bottom 9% (231 out of 254)

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



Last EPS Surprise	0.0%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,542 E	1,706 E	1,821 E	1,769 E	6,810 E
2019	1,588 A	1,761 A	1,867 A	1,748 E	6,964 E
2018	1,472 A	1,715 A	1,849 A	1,768 A	6,804 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.28 E	\$0.45 E	\$0.55 E	\$0.52 E	\$1.78 E
2019	\$0.27 A	\$0.45 A	\$0.54 A	\$0.51 E	\$1.76 E
2018	\$0.26 A	\$0.45 A	\$0.55 A	\$0.48 A	\$1.71 A

\*Quarterly figures may not add up to annual.

P/E TTM	8.2
P/E F1	8.0
PEG F1	2.7
P/S TTM	0.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/20/2020. The reports text is as of 01/21/2020.

## Overview

Headquartered in Winston-Salem, NC, Hanesbrands Inc. engages in the design, manufacture, sourcing and sale of apparel essentials for men, women and children in the U.S. and internationally. The company offers products under well-established brands such as Hanes, Champion, Playtex, Bali, Just My Size, Barely There and Wonderbra.

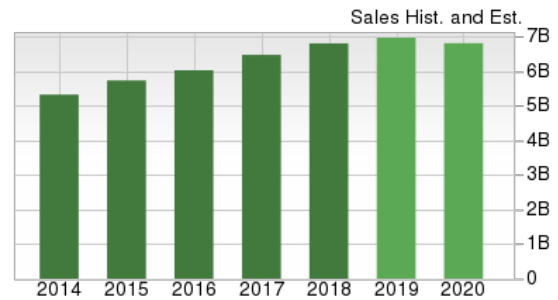
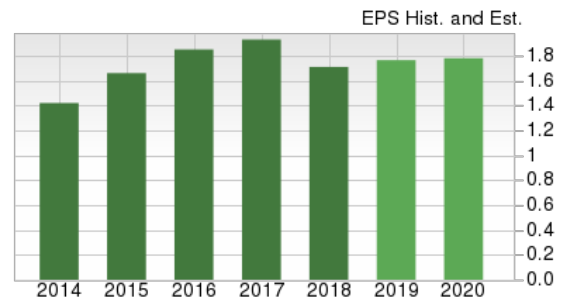
In the first-quarter 2017, management realigned its reporting segments. Now, Hanesbrands' U.S. retail Internet operations are reported in the respective Innerwear and Activewear divisions. Hanesbrands reports its operating results under the following segments:

**Innerwear segment** (35% of 2019 sales): This segment manufactures and sells core apparel products, such as women's intimate apparel, men's underwear, kids' underwear and socks, marketed under well-known brands like Hanes, Bali, Playtex, Barely There, Just My Size and Wonderbra. Innerwear segment also includes the Hosiery segment, which makes women's sheer hosiery in the United States.

**Activewear segment** (26.3% of 2019 sales): The segment consists of casual wear and active wear products. The casual product category provides comfortable clothing for men, women and children under the Hanes and Just My Size brands. The active wear products include T-shirts and fleece sold to both retailers and wholesalers. The company sells this segment's products to both retailers and wholesalers.

**International segment** (34.5% of 2019 sales): The International segment includes sales from Latin America, Asia, Canada, Australia, Japan, Mexico and Brazil. The company also has sales offices in India and China. The segment produces and sells products under brands such as Hanes, Champion, Wonderbra, Playtex, Stedman, Zorba, Rinbros, Kendall, Soly Oro, Ritmo and Track N Field.

**Other** (4.2% of 2019 sales): The Other category comprises the U.S. businesses for outlet stores, hosiery (earlier reported in the Innerwear division), along with legacy catalog business.



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## Reasons To Buy:

▲ **Robust Q3 Results & Positive View Aid Stock:** Hanesbrands posted third-quarter 2019 results, wherein the top and bottom lines grew year over year, and sales beat the Zacks Consensus Estimate. Adjusted earnings of 54 cents a share improved 3.8% from the year-ago period, benefiting from higher net sales, fall in adjusted SG&A costs and reduced interest expenses. Net sales rose about 1% to \$1,867 million and surpassed the Zacks Consensus Estimate of \$1,858.4 million. On a constant-currency basis, sales were up 2%, driven by strong International businesses and growth in global Champion sales. Based on this, Hanesbrands raised the mid-point of net sales and earnings per share view for 2019.

Hanesbrands' impressive organic sales, backed by strength in Champion and International sales, has been boosting the top line. It is also on track with expanding offerings through innovation.

For 2019, net sales are expected to be \$6.935-\$6.985 billion versus \$6.885-\$6.985 billion mentioned earlier. Further, the company envisions adjusted earnings of \$1.74-\$1.80 for the year versus \$1.72-\$1.80 stated earlier. Adjusted operating profit is expected to be \$955-\$980 million versus previously mentioned \$955-\$985 million. The mid-point of the current guidance for 2019 indicates year-over-year growth of more than 2% for net sales, 4% for adjusted earnings and 2% for adjusted operating profit. Additionally, it anticipates net sales of \$1.719-\$1.769 billion and adjusted earnings of 48-54 cents a share for the fourth quarter.

▲ **Organic Sales Growth Trend Continues in Q3:** In third-quarter 2019, Hanesbrands continued with sturdy organic sales growth, which helped boost its overall top line. On a constant-currency (cc) basis, organic sales rose 2%, marking the company's ninth straight quarter of growth. Organic sales in the quarter were driven by increased sales from International units, mainly fueled by strength in Champion. Encouragingly, management had earlier projected organic sales (at cc) to improve 2.5% in 2019.

Talking of the Champions brand, it has been performing strongly for a while and driving the company's growth on a global scale. During the third quarter, Global Champion sales increased 26% in constant currency, excluding the U.S. mass channel. While domestic Champion sales grew 29%, international Champion sales rose 24%, with double-digit gains in Europe, Asia and Australia. The company is on track with the expansion of its Champions product portfolio along with increasing distribution in large economies such as China and South Korea. Such well chalked out plans are expected to deliver double-digit growth in Champion sales in 2020 and beyond.

▲ **International Strength Remains a Growth Driver:** Hanesbrands has long been gaining from solid performance of its international segment, which constituted 35.5% of the company's net sales in the third quarter. Sales at the segment improved 7.1% to \$663.5 million, up 11% at constant currency. Sturdy sales in innerwear and activewear units acted as growth drivers. The segment's innerwear sales rose across multiple brands in Australia, Germany, the U.K., Mexico and Canada. Moreover, the segment's operating margin improved nearly 10 basis points. This is the fifth consecutive quarter in which the international unit's operating margin was above the corporate average. For the fourth quarter, management anticipates sales growth for the segment.

▲ **Project Booster Program to Boost Cost Savings:** Hanesbrands launched a multiyear program in the first-quarter 2017 to drive investment for growth, minimize costs as well as increase cash flow. This program, which is well-positioned for the next five years, is likely to boost the company's Sell More, Spend Less, Generate Cash strategy for additional gains, mainly from the global commercial and supply chain scale through acquisitions. The company had earlier stated that by 2019, this project is anticipated to produce nearly \$150 million of annualized cost savings, out of which roughly \$50 million will be reinvested in targeted growth opportunities. Notably, this reinvestment should generate approximately \$100 million in a run rate of net annualized savings that will begin by the end of 2019. Furthermore, the Project Booster cost savings, along with other cash flow drivers like synergies from buyouts and diversified revenues are estimated to help Hanesbrands achieve its cash flow target of an annual run rate of \$1 billion by the end of 2019.

▲ **Strong Online Business:** As consumers are increasingly resorting to online shopping, Hanesbrands remains focused on developing its online sales. In the third quarter, the company's Global consumer-directed sales (including store and all online networks) rose roughly 10% year over year, representing 23% of total sales. On a constant-currency basis, the same increased 13%, up in double digits both domestically and internationally. Hanesbrands, which is global partner with Amazon, remains focused on making incremental investments in its online business, in order to keep pace with consumers' evolving shopping patterns.

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## Reasons To Sell:

▼ **Unimpressive Innerwear Unit:** Hanesbrands has been battling soft sales at its Innerwear segment for quite some time now. In third-quarter 2019, Innerwear sales dipped 3.5%, thanks to an adverse back-to-school retail environment, which impacted Innerwear basics. In the first and second quarters, the unit witnessed sales declines of 3% and 2.3%, respectively. For the fourth quarter of 2019, Hanesbrands remains wary of its Innerwear segment, wherein U.S. Innerwear sales are likely to decline 2%. Although management is on track with product launches, the same is yet to bear positive impacts upon the unit's performance. We note that, shares of the company have declined 11.3% in the past three months, against the industry's growth of 6.3%.

Hanesbrands has been struggling with weaknesses in its Innerwear category. Adverse impacts of currency rates and stiff competition are also worries.

▼ **Currency Headwinds to Hit Sales:** Hanesbrands remains exposed to unfavorable foreign currency translations, as nearly one-third of its total sales come from international businesses. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country.

Management expects adverse currency fluctuations to hurt net sales by approximately \$20 million in the fourth quarter. Also, currency headwinds are expected to lower 2019 net sales by about \$123 million.

▼ **Stiff Competition:** The Intimate Apparel/Innerwear industry is highly competitive and extremely price sensitive. The company's strategy to focus more on premium brands and increase prices in these categories come with the inherent risk of consumers shifting to more competitively-priced brands offered by competitors. Thus, failure to offer high-quality distinguished products at a competitive price may hamper Hanesbrands' market share, resulting in lower earnings and sales.

▼ **Seasonal preferences:** Consumer demand for certain products depends on changes in seasonal preferences. In this regard, the company witnesses higher sales during the back-to-school and holiday shopping seasons. Meanwhile, demand for product categories such as fleece remains high during cooler weather. Thus, any fluctuation in the weather has a direct bearing on the company's top line.

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## Last Earnings Report

### Hanesbrands Q3 Earnings Meet Estimates, Sales Beat

Hanesbrands reported third-quarter 2019 results, wherein the bottom line met the Zacks Consensus Estimate. Nonetheless, the top line surpassed the consensus mark. Also, the company's net sales and earnings grew year over year.

Management stated that quarterly results were in line with expectations. Based on this, Hanesbrands raised the mid-point of net sales and earnings per share view for 2019. The company pointed out that its International businesses remained strong and growth in global Champion continued. Also, it is focusing on improving consumer-direct channels and lowering debt burden.

The company posted adjusted earnings of 54 cents a share. Notably, quarterly earnings improved 3.8% from the year-ago period, benefiting from higher net sales, fall in adjusted SG&A costs and reduced interest expenses.

Net sales rose about 1% to \$1,867 million and surpassed the Zacks Consensus Estimate of \$1,858.4 million. On a constant-currency basis, sales were up 2%. The upside was backed by increased sales from International units, mainly fueled by strength in Champion.

Global Champion registered the ninth straight quarter of double-digit sales growth. Sales increased 26% in constant currency, excluding the U.S. mass channel. While domestic Champion sales grew 29%, international Champion sales improved 24%, with double-digit gains in Europe, Asia and Australia. Sales also increased in double digits in the activewear and innerwear segments.

Also, global consumer-directed sales (including retail and online networks) rose 10% on a reported basis, representing 23% of total sales. On a constant-currency basis, the same increased 13%, up in double digits both domestically and internationally. Moving on, adjusted operating profit grew 0.7% to \$279.7 million. However, adjusted operating margin remained flat at 15%.

#### Segment Details

**Innerwear:** Sales declined 3.5% in the quarter to \$578.5 million due to adverse back-to-school retail environment impacting Innerwear basics' replenishment. Further, operating profit declined 8.1% to \$121.5 million. Nevertheless, the company witnessed strong performance in the shapewear category.

**Activewear:** Sales fell 1.2% to \$548.1 million due to weakness in non-Champion portion of the segment. Outside the mass channel, Champion activewear sales rose 18%. Operating profit rose 4% to \$97.3 million on improved Champion profitability and the benefit of pricing.

**International:** Sales at the segment improved 7.1% to \$663.5 million (up 11% in constant currency), driven by sturdy sales in innerwear and activewear units. The company registered double-digit Champion activewear growth in Europe, Asia and Australia. The segment's innerwear sales rose across multiple brands in Australia, Germany, the U.K., Mexico and Canada. Operating profit at the International segment rose 7.6% to \$107.2 million in the quarter.

**Other:** Sales at the segment improved 3.1% to \$76.9 million. The segment's operating profit was \$9.6 million, up 14.8% year over year.

#### Other Financial Details

Hanesbrands, which carries a Zacks Rank #3 (Hold), ended the third quarter with cash and cash equivalents of \$317 million, long-term debt (including current portion) of \$3,619.5 million, and stockholders' equity of \$1,230.2 million. The company lowered its net debt by approximately \$250 million compared with the end of the second quarter. On a year-over-year basis, it reduced debt load by about \$470 million.

Management envisions combined interest expenses and other expenses of about \$213 million for 2019, down approximately \$11 million from the prior view. For the fourth quarter, the company anticipates combined interest expenses and other expenses of roughly \$51 million. During the third quarter, the company generated net cash from operations of \$302.1 million and incurred capital expenditure of \$21.7 million, thereby resulting in free cash flow of \$280.4 million. It projects net cash from operations of \$700-\$800 million and capital expenditure of \$90-\$100 million for 2019.

#### Guidance

Management issued guidance for the fourth quarter. For the quarter, it anticipates net sales of \$1.719-\$1.769 billion. Adverse currency fluctuations are expected to hurt net sales by approximately \$20 million. It expects adjusted operating profit of \$259-\$284 million. Moreover, the company projects adjusted earnings of 48-54 cents a share.

For 2019, the company anticipates net sales of \$6.935-\$6.985 billion versus \$6.885-\$6.985 billion mentioned earlier. Adverse currency fluctuations are expected to lower yearly net sales by about \$123 million. The company expects GAAP operating profit of \$900-\$925 million versus \$900-\$930 million mentioned earlier. It forecasts adjusted operating profit of \$955-\$980 million versus \$955-\$985 million stated previously. Further, the company envisions 2019 adjusted earnings of \$1.74-\$1.80 versus \$1.72-\$1.80 mentioned earlier. At the mid-point, the current guidance for 2019 indicates year-over-year growth of more than 2% for net sales, 5% for operating profit on a GAAP basis and 2% for adjusted operating profit. Further, the mid-point of the guidance suggests growth of 8% and 4% for GAAP and adjusted earnings, respectively.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	0.46%
EPS Surprise	0.00%
Quarterly EPS	0.54
Annual EPS (TTM)	1.74

## Recent News

### Hanesbrands Partners With Coca-Cola– Nov 22, 2019

Hanesbrands' renowned Champion Athleticwear brand teamed up with Coca-Cola Company to launch a limited edition capsule collection called Champion X Coca-Cola. The full range of men's and women's apparel along with accessories like hats, socks, slides and bags are now available at six Champion retail stores in major cities in the United States, as well as Champs Sports and Foot Locker (FL) stores across the United States and Canada. The newly launched collection is also available at Footaction stores and online platforms like Eastbay.com and Champion.com.

### Hanesbrands Announces Dividend – Oct 22, 2019

Hanesbrands announced a quarterly cash dividend of 15 cents a share, which is payable on Dec 3, 2019 to shareholders of record as on Nov 12.

## Valuation

Hanesbrands shares are up 1.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 18.5% and 24.7% over the past year, respectively.

The S&P 500 index is up 28.4% in the past year.

The stock is currently trading at 8.02X forward 12-month earnings, which compares to 20.07X for the Zacks sub-industry, 20.87X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.52X and as low as 6.33X, with a 5-year median of 10.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$15 price target reflects 8.4X forward 12-month earnings.

The table below shows summary valuation data for HBI

Valuation Multiples - HBI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.02	20.07	20.87	19.19
	5-Year High	20.52	23.06	23.35	19.34
	5-Year Low	6.33	14.31	16.16	15.17
	5-Year Median	10.94	18.34	20.11	17.44
P/S F12M	Current	0.76	2.38	2.4	3.57
	5-Year High	2.32	2.58	3.19	3.57
	5-Year Low	0.61	1.55	1.81	2.54
	5-Year Median	1.23	2.07	2.54	3
EV/EBITDA F12M	Current	7.57	16.69	10.74	12.66
	5-Year High	15.22	19.11	12.76	12.66
	5-Year Low	6.76	11.66	8.55	9.08
	5-Year Median	10.05	14.65	10.78	10.78

As of 01/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 254)



## Top Peers

Columbia Sportswear Company (COLM)	Neutral
Guess?, Inc. (GES)	Neutral
G-III Apparel Group, LTD. (GIII)	Neutral
lululemon athletica inc. (LULU)	Neutral
PVH Corp. (PVH)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Under Armour, Inc. (UA)	Neutral
Under Armour, Inc. (UAA)	Neutral

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	HBI Neutral	X Industry	S&P 500	COLM Neutral	GIII Neutral	UAA Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>F</b>	<b>C</b>	<b>F</b>
Market Cap	5.18 B	1.26 B	24.65 B	6.45 B	1.46 B	9.21 B
# of Analysts	5	4	13	6	6	15
Dividend Yield	4.19%	0.00%	1.73%	1.00%	0.00%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>D</b>	<b>B</b>	<b>D</b>
Cash/Price	0.06	0.05	0.04	0.04	0.04	0.05
EV/EBITDA	8.85	10.62	14.11	15.71	8.76	67.46
PEG Ratio	2.64	1.74	2.08	1.71	0.91	1.59
Price/Book (P/B)	4.21	2.53	3.39	3.69	1.16	4.27
Price/Cash Flow (P/CF)	6.77	9.63	13.81	19.39	8.25	30.12
P/E (F1)	7.93	15.88	19.19	18.67	9.77	43.26
Price/Sales (P/S)	0.74	0.74	2.69	2.15	0.46	1.77
Earnings Yield	12.43%	6.30%	5.21%	5.36%	10.23%	2.31%
Debt/Equity	3.11	0.65	0.72	0.21	0.74	0.55
Cash Flow (\$/share)	2.11	1.63	6.94	4.93	3.70	0.68
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	4.10%	3.67%	10.56%	19.51%	3.67%	-18.37%
Proj. EPS Growth (F1/F0)	0.91%	9.39%	7.57%	6.52%	9.09%	38.09%
Curr. Cash Flow Growth	-10.01%	9.47%	14.73%	26.00%	55.48%	16.31%
Hist. Cash Flow Growth (3-5 yrs)	9.00%	7.17%	9.00%	19.30%	14.76%	7.37%
Current Ratio	1.73	1.73	1.24	3.04	2.36	2.05
Debt/Capital	75.70%	40.16%	42.99%	17.34%	42.58%	35.41%
Net Margin	8.35%	2.33%	11.14%	10.97%	4.50%	2.14%
Return on Equity	57.95%	10.58%	17.16%	19.14%	12.27%	7.24%
Sales/Assets	0.91	1.18	0.55	1.16	1.23	1.16
Proj. Sales Growth (F1/F0)	-2.21%	1.09%	4.16%	5.78%	3.95%	4.52%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>C</b>
Daily Price Chg	0.21%	0.00%	0.27%	-0.30%	0.76%	-3.78%
1 Week Price Chg	-3.96%	-1.67%	0.39%	-3.58%	-7.01%	-9.52%
4 Week Price Chg	-1.31%	-1.78%	2.95%	-5.07%	-8.74%	-3.64%
12 Week Price Chg	-10.22%	1.88%	7.76%	-0.35%	18.92%	-2.25%
52 Week Price Chg	-0.00%	-0.82%	22.29%	14.02%	-10.46%	1.80%
20 Day Average Volume	4,737,962	54,066	1,536,375	554,908	481,441	3,886,253
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.28%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.28%	0.00%	-1.81%
(F1) EPS Est 12 week change	-1.11%	-0.77%	-0.40%	-1.73%	-2.14%	-6.14%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.48%	0.00%	0.00%

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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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>D</b>
VGM Score	<b>B</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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