

Hilton Worldwide (HLT)

\$113.92 (As of 01/17/20)

Price Target (6-12 Months): **\$120.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Shares of Hilton have outperformed the industry in a year's time. We believe that improving economic indicators and expansion strategies, its industry-leading loyalty program, along with asset-light business model bode well. Notably, Hilton has been making steady progress in the luxury development strategy and anticipates double-digit luxury growth in the next few years. Hilton has transformed into a capital-light operating business backed by the spin-offs of a portfolio of hotels and resorts as well as its timeshare business. Moreover, the company raised its 2019 earnings guidance to \$3.78-\$3.85 per share from \$3.74-\$3.84 guided earlier. However, intense competition and cyclical nature of the industry are concerning. Also, earnings estimate for 2020 have witnessed downward revisions in the past 30 days.

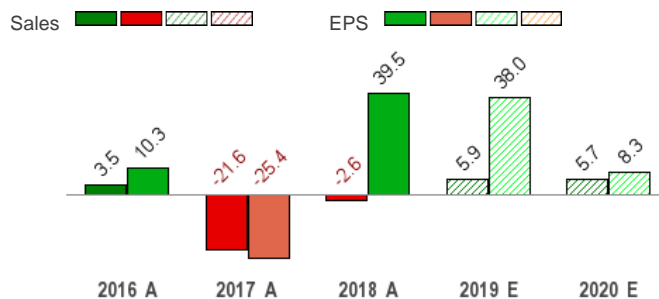
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$113.96 - \$70.16
20 Day Average Volume (sh)	1,394,029
Market Cap	\$32.1 B
YTD Price Change	2.7%
Beta	1.12
Dividend / Div Yld	\$0.60 / 0.5%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 13% (222 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	30.8
P/E F1	27.3
PEG F1	3.1
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,329 E	2,623 E	2,545 E	2,468 E	9,968 E
2019	2,204 A	2,484 A	2,395 A	2,337 E	9,430 E
2018	2,074 A	2,291 A	2,253 A	2,288 A	8,906 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.83 E	\$1.14 E	\$1.12 E	\$1.08 E	\$4.17 E
2019	\$0.80 A	\$1.06 A	\$1.05 A	\$0.95 E	\$3.85 E
2018	\$0.55 A	\$0.70 A	\$0.77 A	\$0.79 A	\$2.79 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 01/17/2020. The reports text is as of 01/20/2020.

Overview

Founded in 1919 and headquartered in McLean, VA, Hilton Worldwide Holdings is a hospitality company that owns, leases, manages, develops, and franchises hotels and resorts. As of Sep 30, 2019, Hilton's development pipeline comprised nearly 2,530 hotels, with roughly 379,000 rooms throughout 111 countries and territories, including 35 countries and territories where it currently does not have any running hotels. Moreover, 205,000 rooms in the development pipeline were located outside the United States and 198,000 rooms were under construction.

The company's operations are organized in two distinct operating segments: (i) management and franchise (59.2% of total segmental revenues in 2018), and (ii) ownership (40.8%).

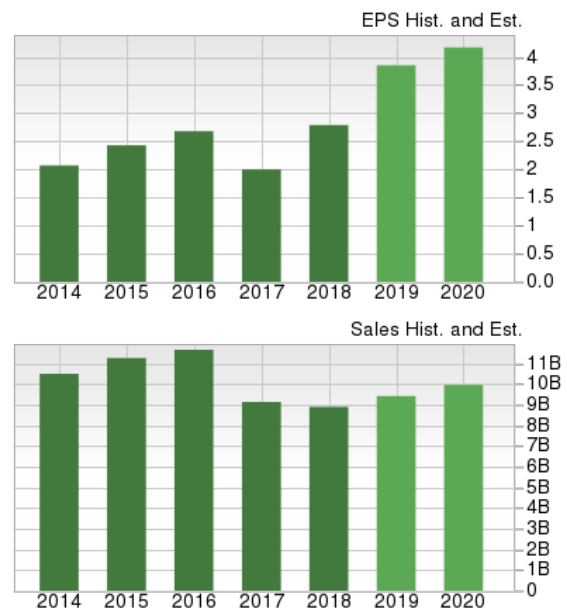
The management and franchise segment include all the hotels that the company manages for third-party owners, as well as all franchised hotels.

Terms of management contract differ but the company's fee mostly consists of base management, depending on the hotel's monthly gross revenues.

Ownership segment includes hotels that are company-owned and entirely managed by the company. As of Dec 31, 2018, the company had 71 hotels and 21,720 rooms under its ownership segment.

On Jan 3, 2017, Hilton completed the spin-offs of a portfolio of hotels and resorts as well as its timeshare business into two independent, publicly traded companies - Park Hotels & Resorts, Inc. and Hilton Grand Vacations Inc. Also, the company put into effect its previously announced 1-for-3 reverse stock split on the same day.

Hilton boasts an award-winning guest loyalty program, known as Hilton Honors. As of Sep 30, 2019, the loyalty program had more than 99 million members.



Reasons To Buy:

▲ **Robust Brand Image & Impressive Earnings Trend Drive Stock Performance:** Hilton is known for its scale, size, commercial platform and industry-leading brands. The company's premier brands provide distinguished customer-centric services to preserve the brand image. In a year's time, shares of the company have outpaced the industry. The appreciation in share price can be attributed to Hilton's better-than-expected earnings for fifth straight quarter. Notably, its earnings surpassed the Zacks Consensus Estimate in the trailing four quarters, with the average being 6.9%. For 2019, adjusted earnings are expected to be \$3.78-\$3.85 cents per share compared with \$3.74-\$3.84 projected earlier.

Aggressive expansion strategies, industry-leading loyalty program coupled with an asset-light business model, bode well for Hilton.

▲ **Continual Expansion as Major Growth Driver:** In a bid to maintain its position as the fastest-growing global hospitality company, Hilton is continuing to drive unit growth. During the third quarter of 2019, Hilton opened 118 hotels. It also achieved net unit growth of 15,600 rooms, marking an improvement of roughly 7% from the prior-year quarter. Notably, during the last reported quarter, the company gained from increased average daily rate and continual unit expansion. During 2018, Hilton launched over 450 hotels, taking room count to more than 66,000, and achieved net unit growth of nearly 57,000 rooms, marking an increase of 10% from the same period of 2017.

As of Sep 30, 2019, Hilton's development pipeline comprised nearly 2,530 hotels, with roughly 379,000 rooms throughout 111 countries and territories, including 35 countries and territories where it currently does not have any running hotels. Moreover, 205,000 rooms in the development pipeline were located outside the United States and 198,000 rooms were under construction. In 2019, the company is likely to open 100th Tru hotel, 500th Homewood Suites, 850th Hilton Garden Inn, and 2500th Hampton.

Hilton's broad geographic diversity lowers the effect of volatility in individual markets. More than half of the company's pipeline is located outside the United States. More than 30% of the pipeline is located in the Asia Pacific region, where demand has been high. Also, a growing middle-class population in China is creating demand for hospitality services. Further, Europe's RevPAR trends are being supported by favorable exchange rates as well as strength in regions including Spain, the U.K., Germany, Turkey and more. Notably, the company continues to make great progress in its luxury development strategy, anticipating double-digit luxury growth in the next several years. During the third quarter, the company opened new hotels namely Conrad Tianjin, Conrad Shenyang, Waldorf Astoria Los Cabos Pedregal and the Biltmore Mayfair, LXR, as well as re-branded the Conrad New York Midtown. Hilton's new brands including Home2 Suites, Tru by Hilton, Tapestry Collection are also gaining momentum globally.

▲ **Capital-Light Business Model:** Hilton has transformed into a capital-light operating business backed by the spin-offs of a portfolio of hotels and resorts as well as its timeshare business. Post-spinoff, the company expects to be a resilient, fee-driven business with disciplined strategies. In fact, the focus is expected to be on growing market share, units, free cash flow per share as well as preserving the company's strong balance sheet and accelerating return of capital. Furthermore, as Hilton's unit growth is mostly financed by third parties, the company is capable of generating substantial returns on minimal capital investment.

Backed by this asset-light model, shareholders are anticipated to receive high returns on invested capital. In the third quarter, the company repurchased 4.5 million shares of its common stock for roughly \$422 million. Notably, average price per share was \$94.72. In February, the company announced an additional share repurchase program worth \$1.5 billion. Hilton aims to strengthen its shareholders' value through regular dividend payments and buybacks moving ahead. In June 2019, Hilton paid out a quarterly cash dividend of 15 cents per share on its common stock for \$43 million. This month, the company's board of directors authorized a regular quarterly dividend of 15 cents, payable on or before Dec 27 to its shareholders of record as of the close of business on Nov 8.

▲ **Strong Loyalty Program:** Hilton has created one of the largest loyalty programs, Hilton Honors. With more than 99 million members, this network created an extremely valuable asset for the company. In 2017, it added over 11 million members to the program. Further, in 2018, more than 14 million members were added to Hilton Honors. In the meantime, innovations such as the Hilton Honors app continue to drive growth in the program. In addition to being the company's fastest growing and lowest cost distribution channel, this app, launched in December 2017, also enables a differentiated customer experience. In fact, the loyalty program increased occupancy in 2018 by 20%. In the third quarter, Hilton Honors accounted for roughly 62% of system-wide occupancy, which was up 430 basis points year over year.

Reasons To Sell:

- ▼ **Cutthroat Competition:** The hotel industry is highly competitive, as major hospitality chains with well-established and recognized brands are continuously expanding their global presence. Hilton is continuously facing intense competition from both large hotel chains and smaller independent local hospitality providers. Increasingly, the company also faces competition from new channels of distribution in the travel industry.

Challenging economic conditions in some key operating regions along with stiff competition remain concerns for Hilton.

Additional sources of competition include large companies that offer online travel services as part of their business model such as Alibaba, search engines such as Google and peer-to-peer inventory sources such as Airbnb and HomeAway that allow travelers to book stays on websites that facilitate the short-term rental homes and apartments from owners, thereby providing an alternative to hotel rooms. Unless Hilton counters these competitions with appropriate strategies, it may pose a concern to the company's future profitability.

- ▼ **Increase in Expenses:** Higher operating expenses are a persistent concern for Hilton. In third-quarter 2019, operating expenses increased 4.8% from a year ago. Operating expenses are likely to expand in the coming quarters, which might mar the company's margin.
- ▼ **Valuation Looks Irrational:** As Hilton has outperformed the industry in a year, the stock's valuation looks quite stretched. It has a trailing 12-month EV/EBITDA ratio of 18.26. On the contrary, the trailing 12-month EV/EBITDA ratio for the industry and S&P 500 is 15.86 and 12.12, respectively.
- ▼ **Cyclical Nature of the Industry & Other Macro Woes Pose Concerns:** The hospitality industry is cyclical and a worsening of global economic conditions might in turn dent Hilton's revenues and profits. Consumer demand for services is closely linked to the performance of the general economy and is sensitive to business and personal discretionary spending levels. The decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower the revenues and profitability of Hilton owned properties. These factors can also reduce the company's management and franchise fee revenues.

Meanwhile, in the United States, RevPAR growth is being pressurized by softer group performance and weakness in oil and gas markets, despite good leisure transient trends. Moreover, President Trump's stringent policies on immigration and tourist visas seem to have impelled international visitors to rethink their vacation plans in the United States. Hilton's considerable international presence also makes it vulnerable to the economic conditions in various regions. In the Middle East, political unrest, lower government spending and increased hotel supply continue to hurt tourism and is concerning.

Last Earnings Report

Hilton Q3 Earnings Surpass Estimates, Hikes '19 View

Hilton Worldwide reported third-quarter 2019 results wherein both earnings and revenues surpassed the respective Zacks Consensus Estimate. While the bottom line beat the estimates for the fifth straight quarter, the top line surpassed the consensus mark for the second consecutive quarter.

Hilton's adjusted earnings of \$1.05 per share surpassed the consensus estimates of \$1.02 and improved 13% on a year-over-year basis.

Revenues totaled \$2,395 million, which surpassed the consensus mark of \$2,377 million.

Moreover, the reported figure improved 6.3% from the year-ago quarter number on higher comparable revenue per available room (RevPAR).

The company primarily gained from increased average daily rate (ADR) and continual unit expansion. During the third quarter of 2019, Hilton opened 118 hotels. It also achieved net unit growth of 15,600 rooms, marking an improvement of roughly 7% from the prior-year quarter.

As of Sep 30, 2019, Hilton's development pipeline comprised nearly 2,530 hotels, with roughly 379,000 rooms throughout 111 countries and territories — including 35 countries and territories, where it currently does not have any running hotels. Moreover, 205,000 rooms in the development pipeline were located outside the United States and 198,000 rooms were under construction.

RevPAR and Adjusted EBITDA

In the quarter under review, system-wide comparable RevPAR increased 0.4% (on a currency-neutral basis) and was at the lower end of the company's guidance of 1-2%. This uptick was driven by growth in occupancy rate.

At managed and franchised hotels, comparable RevPAR increased 0.3% in the third quarter. Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) were \$605 million compared with \$557 million in the prior-year quarter.

Cash, Debt and Share Repurchase

As of Sep 30, 2019, cash and cash equivalent balance amounted to \$809 million. No amounts were outstanding under the \$1.75-billion Revolving Credit Facility. In the third quarter, the company repurchased 4.5 million shares of its common stock for roughly \$422 million. Average price per share was \$94.72.

In June 2019, Hilton paid out a quarterly cash dividend of 15 cents per share on its common stock for \$43 million. In October, the company's board of directors authorized a regular quarterly dividend of 15 cents, to be paid out on or before Dec 27 to its shareholders of record as of the close of business on Nov 8.

Q4 Outlook

For fourth-quarter 2019, the company anticipates adjusted earnings between 91 cents and 96 cents per share. The Zacks Consensus Estimate for the same is currently pegged at 99 cents. Hilton projects system-wide RevPAR to be nearly flat on a currency-neutral basis. Adjusted EBITDA is envisioned to be \$563-\$583 million. Moreover, the company anticipates management and franchise fee revenues to improve 3-5% year over year.

2019 View

For 2019, Hilton projects adjusted earnings of \$3.81-\$3.86 cents per share compared with \$3.78-\$3.85 guided previously. The Zacks Consensus Estimate for the same is currently pegged at \$3.86. System-wide RevPAR is anticipated to witness year-over-year improvement of nearly 1% on a comparable and currency-neutral basis (lower than the previously guided 1-2%). Meanwhile, adjusted EBITDA is expected to be \$2,285-\$2,305 million, up from \$2,265-\$2,305 million stated previously.

Additionally, the company anticipates an increase of 7-8% in management and franchise fee revenues on a year-over-year basis. It also continues to anticipate 6.5% net unit growth

Quarter Ending **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.78%
EPS Surprise	2.94%
Quarterly EPS	1.05
Annual EPS (TTM)	3.70

Recent News

Hilton Launches Lifestyle Brand 'Tempo by Hilton' - Jan 16, 2020

Hilton Worldwide Holdings Inc. has launched a new lifestyle brand, Tempo by Hilton. This launch marks the company's 18th brand in its portfolio.

Notably, Tempo by Hilton aims to meet growing demand of "modern achievers" who seek a hotel experience that reflects their ambition. The brand is launched in partnership with leading professionals in lifestyle domain like Arianna Huffington's Thrive Global and established culinary firm, Blau + Associates.

Hilton Plans to Expand Presence of DoubleTree Brand - Jan 8, 2020

In a bid to maintain its position as the fastest-growing global hospitality company, Hilton Worldwide Holdings Inc. continues to focus on unit expansion. To this end, HOF Village, LLC (HOFV) announced its plan to launch DoubleTree by Hilton hotel in Downtown Canton, OH.

Notably, the new property was acquired by HOFV in October 2019. HOFV is the owner of the premier sports, entertainment and media enterprise surrounding the Pro Football Hall of Fame in Canton, OH. It anticipates to open the hotel during the summer of 2020 in a bid to welcome guests visiting for the 2020 Pro Football Hall of Fame Enshrinement Week and Johnson Controls Hall of Fame Village.

Hilton Expands Presence in North Carolina With New Hotel - Dec 30, 2019

Hilton Worldwide Holdings Inc. announced the opening of its innovative hotel brand — Tru by Hilton Burlington in North Carolina. Built in collaboration with Parks Hospitality Group, the new hotel is located at 982 Kirkpatrick Road in close proximity to the Alamance Regional Medical Center and Elon University.

Slated to be the brand's first hotel in the Piedmont Triad area, the 101-room, five-story hotel will offer guests a range of amenities — including a fitness center, food and beverage options, and advanced technological facilities — thus providing an innovative mid-scale lodging experience to business and leisure travelers.

Valuation

Hilton's shares have increased 55.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector have increased 31.3% and 20.9%, respectively.

The S&P 500 index has moved up 23.8% in the past year.

The stock is currently trading at 18.26x trailing 12-month EV/EBITDA, which compares with 15.86x for the Zacks sub-industry, 12.71x for the Zacks sector and 12.12x for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.29x and as low as 8.94x, with a 5-year median of 16.88x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$120 price target reflects 28.63x forward 12-month Price to Earnings value.

The table below shows summary valuation data for HLT.

Valuation Multiples - HLT					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	18.26	15.86	12.71	12.12
	5-Year High	39.29	23.07	17.76	12.86
	5-Year Low	8.94	10.99	11.07	8.48
	5-Year Median	16.88	14.35	12.42	10.67
P/S F12M	Current	3.22	2.24	2.4	3.57
	5-Year High	3.33	2.25	3.19	3.57
	5-Year Low	1.37	1.13	1.81	2.54
	5-Year Median	2.32	1.65	2.54	3
P/E TTM	Current	30.79	25.9	24.94	20.83
	5-Year High	47.12	33.79	32.66	22.17
	5-Year Low	20.9	19.52	19.69	15.9
	5-Year Median	29.28	24.13	25.66	18.82

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (222 out of 254)



Top Peers

Marriot Vacations Worldwide Corporation (VAC)	Outperform
Choice Hotels International, Inc. (CHH)	Neutral
Hyatt Hotels Corporation (H)	Neutral
Hilton Grand Vacations Inc. (HGV)	Neutral
Marriott International, Inc. (MAR)	Neutral
ORIENTAL LAND (OLCLY)	Neutral
Extended Stay America, Inc. (STAY)	Neutral
WYNDHAM DESTINATIONS, INC. (WYND)	Neutral

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	HLT Neutral	X Industry	S&P 500	CHH Neutral	H Neutral	MAR Neutral
VGM Score	B	-	-	C	D	D
Market Cap	32.14 B	4.79 B	24.65 B	5.59 B	9.06 B	49.13 B
# of Analysts	7	6	13	7	8	9
Dividend Yield	0.53%	0.86%	1.73%	0.90%	0.86%	1.28%
Value Score	D	-	-	D	C	C
Cash/Price	0.03	0.07	0.04	0.01	0.10	0.01
EV/EBITDA	22.07	15.44	14.11	21.20	7.28	20.30
PEG Ratio	3.12	2.94	2.08	3.04	8.28	3.50
Price/Book (P/B)	NA	2.28	3.39	NA	2.42	58.62
Price/Cash Flow (P/CF)	27.69	16.48	13.81	27.14	15.59	20.63
P/E (F1)	27.32	21.63	19.19	22.88	50.14	22.92
Price/Sales (P/S)	3.43	2.14	2.69	5.12	1.86	2.35
Earnings Yield	3.66%	4.37%	5.21%	4.37%	2.00%	4.37%
Debt/Equity	-44.08	0.65	0.72	-15.86	0.53	13.63
Cash Flow (\$/share)	4.11	3.35	6.94	3.69	5.66	7.28
Growth Score	A	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	9.23%	19.21%	10.56%	18.61%	20.90%	21.63%
Proj. EPS Growth (F1/F0)	8.30%	8.30%	7.57%	3.02%	-1.46%	11.12%
Curr. Cash Flow Growth	19.49%	11.49%	14.73%	28.74%	-3.21%	28.49%
Hist. Cash Flow Growth (3-5 yrs)	1.78%	4.17%	9.00%	11.10%	2.12%	26.97%
Current Ratio	0.78	1.12	1.24	0.82	1.41	0.51
Debt/Capital	NA%	55.21%	42.99%	NA	34.79%	93.16%
Net Margin	9.92%	6.51%	11.14%	19.43%	10.01%	6.28%
Return on Equity	972.97%	7.99%	17.16%	-174.81%	6.47%	134.91%
Sales/Assets	0.63	0.48	0.55	0.89	0.61	0.85
Proj. Sales Growth (F1/F0)	5.71%	4.39%	4.16%	5.27%	1.80%	4.39%
Momentum Score	C	-	-	D	F	C
Daily Price Chg	2.08%	0.06%	0.27%	-0.10%	0.71%	0.83%
1 Week Price Chg	-1.26%	-1.93%	0.39%	-3.33%	-3.19%	-2.60%
4 Week Price Chg	3.24%	0.51%	2.95%	-1.70%	0.62%	0.15%
12 Week Price Chg	17.55%	15.95%	7.76%	15.95%	21.54%	20.88%
52 Week Price Chg	58.22%	19.02%	22.29%	34.22%	31.53%	38.53%
20 Day Average Volume	1,394,029	241,493	1,536,375	427,406	436,617	1,142,806
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.98%	0.23%
(F1) EPS Est 4 week change	-0.09%	0.00%	0.00%	-0.13%	-0.70%	-0.21%
(F1) EPS Est 12 week change	-1.44%	-1.44%	-0.40%	-0.19%	-3.59%	-1.51%
(Q1) EPS Est Mthly Chg	-0.72%	0.00%	0.00%	-0.30%	9.69%	-0.48%

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	D
Growth Score	A
Momentum Score	C
VGM Score	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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