

Iron Mountain Inc. (IRM)

\$30.79 (As of 01/15/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/21/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Iron Mountain announced the construction of its second data center in the Manassas campus to benefit from the growing data-center demand. In October, it announced a transformation program, Project Summit, aimed at enhancing its ability to fund future growth opportunities. Its record storage business will likely witness continued volume growth backed by focus to incubate business in new storage areas. Moreover, efforts to shift revenue mix to faster-growing businesses and markets will support top-line growth. However, near-term rise in costs from such efforts will likely dampen its financials, especially given the company's highly-leveraged balance sheet. Moreover, the company is witnessing a fall in physical storage volume and activity rates amid shrinking paper needs. Its Shares have also underperformed its industry in the past year.

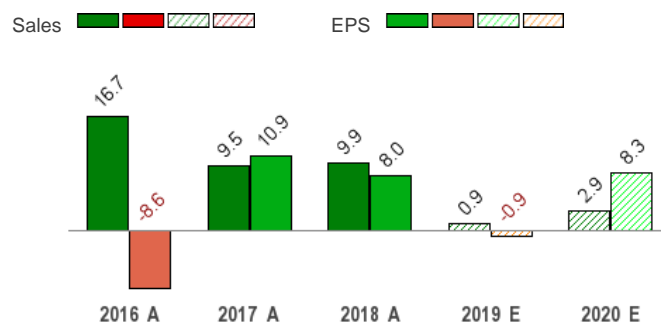
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.32 - \$29.28
20 Day Average Volume (sh)	2,541,594
Market Cap	\$8.8 B
YTD Price Change	-3.4%
Beta	0.51
Dividend / Div Yld	\$2.47 / 8.0%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 32% (173 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	12.5
PEG F1	2.7
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,084 E	1,095 E	1,099 E	1,109 E	4,387 E
2019	1,054 A	1,067 A	1,062 A	1,077 E	4,264 E
2018	1,042 A	1,061 A	1,061 A	1,061 A	4,226 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.56 E	\$0.59 E	\$0.64 E	\$0.67 E	\$2.47 E
2019	\$0.48 A	\$0.54 A	\$0.62 A	\$0.62 E	\$2.28 E
2018	\$0.49 A	\$0.56 A	\$0.55 A	\$0.56 A	\$2.30 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 01/15/2020. The reports text is as of 01/16/2020.

Overview

Boston, MA-based Iron Mountain Inc. provides records & information management services and data center space & solutions in more than 50 countries. The company started operating as a real estate investment trust (REIT) from the taxable year that commenced on Jan 1, 2014. The company serves more than 225,000 customers from various industries, through its 1,450 facilities spanning more than 90 million square feet.

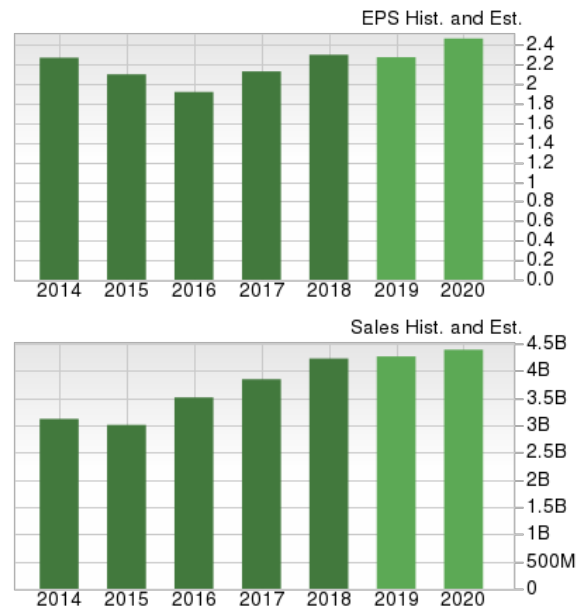
The company primarily generates revenues from storage rental and services. Storage rental revenues are generated through periodic rental charges for data storage. Service revenues comprise charges for related core service activities and a wide array of complementary products and services.

Iron Mountain reports operations under North American Records and Information Management (RIM) Business (50.6% of 2018 revenues), North American Data Management Business (9.4%), Western European Business (12.3%), Other International Business (19.4%), Global Data Center Business (5.4%) and Corporate & Other Business segment (2.9%).

Concurrent with third-quarter 2019 earnings, Iron Mountain announced a transformation program — Project Summit — to focus on simplifying its global structure, deleveraging, streamlining managerial structure for the future and enhancing customer experience. This is expected to deliver annual run-rate adjusted EBITDA benefits of \$200 million by the end of 2022. The total cost to implement the program is estimated to be approximately \$240 million over the next two years. Notably, in fourth-quarter 2019, Iron Mountain expects to record restructuring charges of around \$60 million associated with the program.

In 2017, the company launched Iron Mountain Iron Cloud, its enterprise-class cloud storage platform and services that offers data protection, preservation, restoration and recovery services.

Note: All EPS numbers presented in this report represent funds from operations (FFO) per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation, and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Iron Mountain enjoys a steady stream of recurring revenues from its core storage and record management businesses. Specifically, the company derives the majority of its revenues from fixed periodic (usually earned on a monthly basis) storage rental fees charged to customers based on the volume of their records stored. Storage rental accounted for nearly 62.1% of revenues in 2018 and per management organic storage rental revenue growth rate for 2019 is projected to be 2.5%. In fact, Iron Mountain has enjoyed a consistent box retention rate of 98%, with more than 50% of its boxes staying in the facilities for 15 years on average. This durable business also drives significant cross-selling synergies across different segments and delivers robust cash-flow growth. We believe strong organic growth and the company's initiatives to expand its core storage business will lead to sustained top-line growth over the long term.
- ▲ Iron Mountain is supplementing its storage segment's performance with expansion in faster-growing Adjacent Businesses segment, most notably being data centers. In fact, data-center wins and a robust leasing pipeline indicate Iron Mountain's solid data-center platform which offers a long growth runway. Year-to-date through third-quarter 2019 the company has leased 15 megawatts of capacity and remains on track to achieve the high end of 15-20 megawatts guidance.
- ▲ Iron Mountain's diversified revenue base is positive. The company serves more than 225,000 clients across different industries and geographical locations. Most importantly, no single customer accounts for more than 1% of its revenues, which reflects a well-diversified revenue generation base. Further, the company remains on track to achieve its Vision 2020. Iron Mountain targets its growth portfolio, comprising emerging markets, data center and Adjacent Businesses segment, to contribute 30% to total revenues in 2020. Moreover, the company remains on track to achieve a business mix delivering adjusted EBITDA growth in excess of 5% before acquisitions by 2020.
- ▲ Iron Mountain has an aggressive acquisition strategy to supplement organic growth in storage revenues. The company has not only gained new customers from these acquisitions but has also been able to expand operations in international markets, specifically, emerging markets. Notably, by scaling up its emerging market platform, the company can accelerate the EBITDA growth rate. In first nine months of 2019, it completed the buyout of nine storage and records management companies and an art storage company, thereby enhancing its operations in the United States, the U.K., Switzerland, Thailand, Latvia, Colombia, Germany, Hong Kong and expanding operations in Bulgaria. The company's 2019 outlook for business acquisitions is \$80 million. Moreover, it remains on track to generate more than \$100 million of capital-recycling proceeds in the ongoing year from the sale of real estate to explore accretive acquisition options.
- ▲ Also, solid dividend payouts are arguably the biggest enticement for REIT shareholders, and Iron Mountain remains committed to that. In fact, concurrent with its third-quarter 2019 earnings, the company announced a 1.2% sequential hike in quarterly cash dividend to 61.85 cents and expects to continue growing dividends at a modest pace going forward. Furthermore, it plans to grow its dividend by 4% annually by 2020. Such shareholder friendly moves boost investor's confidence in the stock.

We remain positive on Iron Mountain primarily due to strong cash flows in its storage and records management business. Also, an aggressive acquisition strategy supplements organic growth.

Reasons To Sell:

- ▼ As archiving of original hard-copy documents loses its relevance, paper needs are shrinking at the enterprise level. This is resulting in declining physical storage volume and activity rates. Also, recycled paper prices are expected to fall in the near term due to lower pulp prices and oversupply of paper for recycling. Amid these, Iron Mountain's third-quarter organic Service revenues were impacted by paper prices and witnessed 3.7% year-over-year decline. Additionally, service revenue activity level from the company's North American Data Management Business segment witnessed continued fall in third-quarter 2019. Further, the recovery in paper prices is expected to be slow, thus making it difficult for the company to achieve its top-line targets.
- ▼ The company has a highly-leveraged balance sheet. High debt may limit the company's future expansion and worsen its risk profile. Although interest-rate levels are low, presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money-market accounts.
- ▼ The storage and information management services industry is highly fragmented with numerous competitors in North America and around the world. Although Iron Mountain offers compelling products and has a strong market position, the company faces significant competition. This, along with lower volume growth, in its more mature markets is likely to result in aggressive pricing in and will keep margins under pressure, going forward.
- ▼ In addition, given Iron Mountain's international footprint, the company often faces unfavorable foreign-currency movements, which affects top-line growth. In fact, expansion of the company's international businesses has adversely impacted cost of sales components, and selling, general and administrative expenses. This is because its international operations are more labor intensive relative to revenues as compared with the company's North America operations. This results in labor costs to be a higher percentage of revenues from international operations.
- ▼ Shares of Iron Mountain have declined 13.1%, over the past year, as against the industry's rally of 16.8%. Furthermore, the trend in estimate revisions for 2019 FFO per share does not indicate a favorable outlook for the company as it has remained unchanged over the past month. Therefore, given the above-mentioned concerns and lack of any positive estimate revisions, the stock is unlikely to perform well in the upcoming period.

The storage and information management services industry remains a highly-fragmented industry with numerous competitors. A highly-leveraged balance sheet and unfavorable paper prices are concerns.

Last Earnings Report

Iron Mountain's Q3 FFO Beats, Revenues Lag Estimates

Iron Mountain reported third-quarter 2019 normalized FFO per share of 62 cents, beating the Zacks Consensus Estimate of 59 cents. The reported figure also came in 6.9% higher year over year.

Revenues of \$1.06 billion inched up 0.1% year over year but missed the Zacks Consensus Estimate of \$1.07 billion. However, excluding the impact of foreign exchange, total revenues were up 1.7% year over year.

This is mainly due to solid contribution from revenue management, together with organic growth across a number of the company's segments and regions, including Adjacent Businesses, Global Data Center, and Other International. However, Service revenues were impacted by lower recycled paper prices.

Further, adjusted FFO edged down 0.8% year over year to \$225.3 million.

Project Summit

Iron Mountain also announced a transformation program — Project Summit — which will focus on simplifying its global structure, streamlining managerial structure for the future and enhancing customer experience.

Project Summit is expected to deliver annual run-rate adjusted EBITDA benefits of \$200 million. Considerably, all of the benefits will be realized by the end of 2022, with \$80 million of benefits projected to be delivered in 2020. The total cost to implement the program is estimated to be approximately \$240 million over the next two years. Notably, during fourth-quarter 2019, Iron Mountain expects to record pre-tax restructuring charges of around \$60 million associated with the program.

Quarter Details

Storage revenues came in at \$673 million in the third quarter, highlighting a 4% year-on-year increase on a constant currency basis. The company recorded 3% organic growth, year over year. In developed markets, storage organic revenue growth came in at 2.3%, while in Other International markets, storage organic revenues were up 4.5% year over year.

Service revenues amounted to \$389 million in the reported quarter, indicating a year-over-year decline of 2.1% on a constant currency basis. Service organic revenue in developed markets declined 3.1%, while in Other International markets, the figure was down 5.7%.

Adjusted EBITDA margin expanded 120 basis points (bps) to 35.4%. The company registered a 700-basis point expansion in Global Data Center, and 140 basis point increase in North America Data Management and Other International segments' adjusted EBITDA margin. However, a 60-basis point contraction in North America RIM, 50-basis point reduction in Western Europe and 90-basis point fall in Corporate and Other, partly offset these positives.

Guidance

Iron Mountain has revised its guidance for 2019. Particularly, the company projects revenues at \$4,250-\$4,280 million compared with the prior outlook of \$4,250-\$4,325 million, and adjusted EBITDA of \$1,430-\$1,450 as compared with the previous estimate of \$1,440-\$1,480 million. Further, AFFO is estimated in the range of \$850-\$870 million as compared with the \$870-\$900 million earlier projected.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-1.30%
EPS Surprise	5.08%
Quarterly EPS	0.62
Annual EPS (TTM)	2.20

Recent News

Iron Mountain to Construct Second Data Center in Manassas – Jan 3, 2020

Iron Mountain is constructing its second data center in Manassas with an aim to strengthen its campus in Prince William County, VA, per an article by Washington Business Journal. The announced project, slated to be completed in the first quarter of 2020, will require funding of \$225 million.

The project would provide jobs to 50 employees. Prior to this, in 2017, the company had completed the construction of its first phase of campus worth \$100 million, located at 11680 Hayden Road. According to management, with this addition, Iron Mountain will provide purpose-built, enterprise-class data center capacity to address clients' growing IT architecture challenges.

Iron Mountain Enhances InSight's Offering With 2 Extensions – Nov 19, 2019

Iron Mountain expanded its offerings under the company's SaaS content-services platform, Iron Mountain InSight. The company has added two solutions, Iron Mountain InSight Essential Edition and Iron Mountain InSight for Mortgage and Loans, thereby strengthening its digital transformation offerings for customers.

Both solutions are immediately available and will be demonstrated at the Google Cloud Next '19 show in London.

Iron Mountain InSight Essential Edition will bring together all documents and information of its customer for centralized visibility and access. An easy-to-use and visual interface will enable authorized users to access, retrieve and share the required information from any location at any time. Further, it will provide a simple upgrade path to Iron Mountain InSight's full artificial intelligence (AI)/ machine learnings (ML) capabilities. Additionally, a unified view of all information will enable companies to reduce physical documents and free up valuable workspace.

InSight for Mortgage and Loans will simplify and improve efficiency of complex processes like mortgage servicing transfers, post-close quality assurance and exception management. Further, it will place all content according to information governance policies. These will meet the financial service organizations needs of streamlining processes, improving accuracy and enhancing services to customers. Such advance workflows will boost an enterprise's ability to process higher volumes, leading to elevated revenues and lower cycle times for loans.

Management believes these extensions in the platform will help customers automate high-volume physical and digital journeys, and deliver accurate results quickly.

Iron Mountain to Preserve San Sebastian Basilica's Digital Copies – Oct 30, 2019

Continuing its ongoing partnership with CyArk, Iron Mountain announced a new project to 3D-map and model the San Sebastian Basilica situated in Manila, Philippines.

The International Council on Monuments and Sites (ICOMOS) Philippines and The San Sebastian Basilica Conservation and Development Foundation initiated a conservation project to restore the monument. As part of these preservation efforts, it has approached the companies to digitize the monument's interior and exterior.

The digital copies of the San Sebastian Basilica will be made by CyArk and will be preserved in a highly secure Iron Mountain-facility. This will ensure the safety, protection and timely availability of the record for future use by CyArk and the foundation.

Iron Mountain to Install Largest Rooftop Solar Power Plant at its Data Center – Oct 21, 2019

Iron Mountain closed the power-purchase agreement (PPA) contract for the company's largest on-site solar installation. Specifically, the 7.2 MW-rated solar installation at the company's data center in Edison, NJ is projected to generate more than 9 million KWhrs per year.

This has the capacity to power more than 1,000 homes for a year. The solar installation will provide nearly 15% of the data center's energy load at present. The installation is part of the company's mission to obtain local, dependable, low-cost, 24/7 renewable energy solutions to meet its RE100 goal of 100% renewable electricity for global operations.

The project is scheduled to close by the end of 2019 and will be the largest rooftop solar installation of any data center in the country. Per management, "the on-site solar Power Purchase Agreement (PPA) will be added to a portfolio of renewable energy contracts that already cover 100 percent of Iron Mountain's worldwide data center operations."

Dividend Update

On Oct 31, Iron Mountain announced third-quarter common stock cash dividend of 61.85 cents per share, indicating a sequential hike of 1.2%. The dividend was paid on Jan 2, 2020 to shareholders of record at the close of business on Dec 16, 2019.

Valuation

Iron Mountain's shares have depreciated 13.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 16.8% and 12.1%, over the past year.

The S&P 500 Index has been up 23.6% over the past year.

The stock is currently trading at 12.44X forward 12-month FFO, which compares to 17.88X for the Zacks sub-industry, 14.85X for the Zacks sector and 18.95X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 31.13X and as low as 11.04X, with a 5-year median of 15.47X. Our neutral

recommendation indicates that the stock will perform in line with the market. Our \$33 price target reflects 13.33X FFO.

The table below shows summary valuation data for IRM.

Valuation Multiples - IRM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.44	17.88	14.85	18.95
	5-Year High	31.13	18.94	16.21	19.34
	5-Year Low	11.04	14.29	12.01	15.17
	5-Year Median	15.47	16.11	13.98	17.44
P/S F12M	Current	2.01	8.12	6.53	3.52
	5-Year High	2.93	8.12	6.61	3.52
	5-Year Low	1.69	5.9	5.2	2.54
	5-Year Median	2.31	6.88	6.04	3
P/B TTM	Current	5.85	2.79	2.83	4.49
	5-Year High	16.09	2.92	2.89	4.49
	5-Year Low	3.81	2.06	1.83	2.85
	5-Year Median	5.34	2.52	2.5	3.61

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 254)



Top Peers

Gladstone Land Corporation (LAND)	Outperform
Gaming and Leisure Properties, Inc. (GLPI)	Neutral
Gladstone Commercial Corporation (GOOD)	Neutral
Innovative Industrial Properties, Inc. (IIPR)	Neutral
Lamar Advertising Company (LAMR)	Neutral
OUTFRONT Media Inc. (OUT)	Neutral
VICI Properties Inc. (VICI)	Neutral
Safhold Inc. (SAFE)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	IRM Neutral	X Industry	S&P 500	GLPI Neutral	LAMR Neutral	VICI Neutral
VGM Score	B	-	-	C	D	D
Market Cap	8.84 B	3.04 B	24.22 B	9.60 B	9.09 B	11.98 B
# of Analysts	4	4	13	3	1	4
Dividend Yield	8.04%	4.10%	1.75%	6.26%	4.24%	4.58%
Value Score	C	-	-	C	D	D
Cash/Price	0.02	0.03	0.04	0.00	0.00	0.17
EV/EBITDA	13.01	17.60	14.11	19.12	19.15	18.67
PEG Ratio	2.71	3.64	2.06	1.29	NA	1.63
Price/Book (P/B)	5.85	1.70	3.34	4.56	7.78	1.48
Price/Cash Flow (P/CF)	8.55	15.03	13.57	17.12	16.83	18.04
P/E (F1)	12.59	15.42	18.90	12.76	14.71	15.36
Price/Sales (P/S)	2.08	6.92	2.65	8.22	5.29	13.56
Earnings Yield	8.02%	6.48%	5.29%	7.85%	6.80%	6.51%
Debt/Equity	6.51	0.88	0.72	2.82	3.32	0.51
Cash Flow (\$/share)	3.60	2.27	6.94	2.61	5.38	1.44
Growth Score	B	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	1.78%	3.10%	10.56%	5.57%	5.07%	NA
Proj. EPS Growth (F1/F0)	8.40%	4.11%	7.59%	1.94%	5.85%	13.71%
Curr. Cash Flow Growth	21.21%	13.18%	14.73%	8.12%	0.28%	1,073.85%
Hist. Cash Flow Growth (3-5 yrs)	14.50%	18.05%	9.00%	56.92%	7.98%	NA
Current Ratio	0.66	1.27	1.24	3.24	0.51	83.01
Debt/Capital	86.77%	46.68%	42.99%	73.85%	76.86%	33.82%
Net Margin	9.14%	13.72%	11.14%	27.62%	21.23%	66.78%
Return on Equity	21.57%	4.54%	17.16%	14.76%	32.10%	7.84%
Sales/Assets	0.32	0.13	0.55	0.14	0.31	0.07
Proj. Sales Growth (F1/F0)	2.89%	4.76%	4.23%	1.04%	3.90%	29.43%
Momentum Score	B	-	-	C	C	A
Daily Price Chg	0.62%	0.94%	0.27%	1.39%	0.37%	2.00%
1 Week Price Chg	0.07%	-0.04%	0.39%	1.20%	0.83%	0.28%
4 Week Price Chg	-3.18%	2.41%	2.17%	6.25%	4.31%	3.80%
12 Week Price Chg	-10.23%	-0.34%	6.65%	14.31%	9.65%	9.85%
52 Week Price Chg	-12.13%	13.74%	22.43%	28.09%	22.93%	24.49%
20 Day Average Volume	2,541,594	504,235	1,545,017	834,618	267,347	2,894,430
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.51%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.07%
(F1) EPS Est 12 week change	3.29%	-0.43%	-0.41%	0.68%	0.67%	6.60%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	C
Growth Score	B
Momentum Score	B
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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