

J. C. Penney (JCP)

\$0.80 (As of 01/29/20)

Price Target (6-12 Months): **\$1.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: C

Momentum: F

Summary

Shares of J. C. Penney have slid and underperformed the industry in the past three months. The stock recently came under pressure owing to drab holiday sales numbers. We note that comps fell 7.5% during the festive season. Persistent struggle to cope with rapidly changing consumer trends and stiff competition from e-commerce players hurt the performance. Nonetheless, the company reaffirmed its fiscal 2019 view. Well, the company has been in a spot of bother for some time, thanks to dismal sales. However, the company's turnaround efforts — including the early implementation of Plan for Renewal — are on track. These apart, the partnership with thredUP, optimization of inventory levels and new store format are some of the notable efforts. Moreover, in an effort to draw more customers, the company has enhanced the loyalty program.

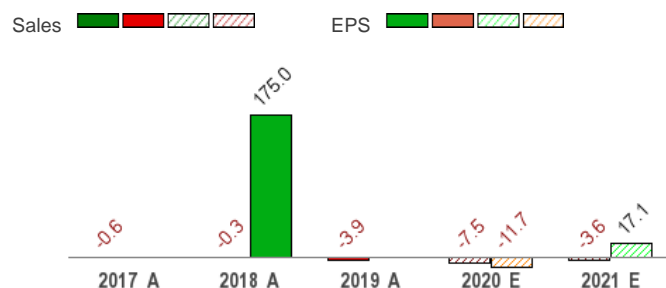
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1.92 - \$0.53
20 Day Average Volume (sh)	8,438,810
Market Cap	\$256.0 M
YTD Price Change	-28.6%
Beta	1.63
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Regional Department Stores
Zacks Industry Rank	Top 22% (55 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	45.5%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	02/27/2020
Earnings ESP	40.5%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,448 E	2,549 E	2,445 E	3,379 E	10,715 E
2020	2,555 A	2,619 A	2,500 A	3,442 E	11,116 E
2019	2,671 A	2,829 A	2,733 A	3,786 A	12,019 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.38 E	-\$0.15 E	-\$0.30 E	-\$0.16 E	-\$0.87 E
2020	-\$0.46 A	-\$0.18 A	-\$0.30 A	-\$0.09 E	-\$1.05 E
2019	-\$0.22 A	-\$0.38 A	-\$0.52 A	\$0.18 A	-\$0.94 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 01/29/2020. The reports text is as of 01/30/2020.

Overview

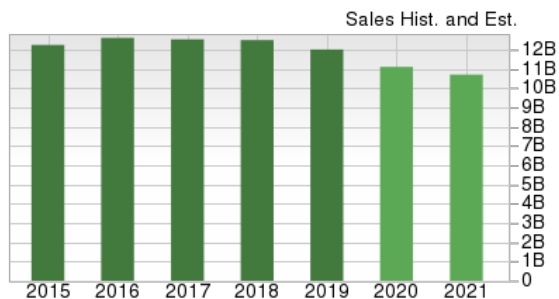
Founded in 1902 and based in Plano, TX, J. C. Penney Company, Inc. through its wholly-owned subsidiary J. C. Penney Corporation, Inc. offers merchandise and services to customers through its department stores, catalogs and website.

Meanwhile, the company fulfills online customer purchases by direct shipment to the customer from its distribution facilities and stores or from its suppliers' warehouses and by in store customer pick up.

The company operates stores at both mall and off-mall locations. The company sells family apparel, footwear, accessories, fine and fashion jewelry, and home furnishings. It also offers beauty products through Sephora shops, which are located inside the J. C. Penney stores.

Furthermore, the company's department stores also offer a variety of other services, which include optical, portrait photography, styling salon, and custom decorating.

Through its integrated channels, the company provides a wide range of national and private brands. J.C. Penney operates 850 store locations across the United States and Puerto Rico. The company also runs one of the largest apparel and home furnishing sites, jcp.com, and a general merchandise catalog business.



Reasons To Buy:

- ▲ **Efforts to Aid Turnaround Process Bodes Well:** J. C. Penney has been undertaking a slew of initiatives in a bid to make a turnaround. In this regard, the company recently launched a brand-defining store in Hurst, TX. The store will serve as a lab for extensive consumer research. Moreover, J. C. Penney collaborated with the Hallmark channel as part of its preparation for the holiday season sale. Further, in a bid to lure customers, it is testing a new store format, which includes yoga studio, videogame lounge and lifestyle workshops. Additionally, the company is on track to add key national brands — including Instant Pot, Ninja, Brookstone and Sharper Image — to boost the top line. Also, J. C. Penney has launched an in-house brand — St. John's Bay Outdoor — within the men's department in its stores along with an Outdoor Shop featuring St. John's Bay Outdoor along with three new product lines namely American Threads, The American Outdoorsman and HI-TEC. Management noted that consumers have been responding positively to this initiative. Prior to this, it had teamed up with thredUP to offer second-hand women's clothing and handbags. It is on track with rolling out thredUP shops across 30 stores. Through such a move, management expects to cash in on the growing demand for high-quality second-hand products, provided at lower prices. This new in-store experience is likely to cater to consumers who crave for sustainable apparel options. The company launched a store checkout process, which is expected to streamline tasks and enhance customer experience. In this regard, it has tested a centralized pickup in returns to improve the in-store experience, and in turn, omni-channel customer experience. Also, it has been shutting down underperforming stores and revamping existing ones to revive sales.
- J. C. Penney is making strategic efforts to drive traffic. Its partnership with the Hallmark channel will help drive sales during the holiday season.
- ▲ **Narrower-Than-Expected Loss in Q3, Improved Margins:** J. C. Penney posted a loss of 30 cents in third-quarter fiscal 2019, narrower than the Zacks Consensus Estimate of a loss of 55 cents and the prior-year quarter's loss of 52 cents. Encouragingly, the company witnessed reduced costs and improved margins in the quarter. Cost of goods sold (excluding depreciation and amortization) was down 14.8% and improved 350 basis points (bps) as a rate of sales. Improved shrink rates as well as gains in both store and online selling margins aided the reduction in cost. Further, management expects a decline of 150-200 bps in cost of goods sold (as a percentage of net sales) for fiscal 2019. Gross margin expanded 350 bps to 35.4%. Lower store and advertisement expenses cushioned SG&A, which declined 3.3% in the reported quarter. Moreover, adjusted EBITDA improved more than two-fold to \$106 million. Going ahead, it anticipates gross margin improvement for the fiscal year. Additionally, management continues to expect positive free cash flow for fiscal 2019.
- ▲ **Merchandise Endeavors:** J. C. Penney is reaping benefits from its merchandise initiatives. Despite a decline in the company's overall comps, it continued to experience strength in Women's and Men's apparel as well as fine jewelry and footwear businesses in the third quarter of fiscal 2019. Categories including Modern Bride, silver, diamonds and fashion gems also remained sturdy. Moreover, the company's national brand denim performed well. In addition, the company has enhanced partnerships with bigwigs like Nike, Adidas, Champion and Puma and seeks to increase the number of stores carrying such brands. Furthermore, the company has integrated Fit Bit in its assortments of health and wellness products. It is also taking initiatives to boost sales with special size offerings. In this regard, the company unveiled Shaquille O'Neal XLG brand specially designed for big & tall customers. Earlier, it had launched fashion tween brand, Obsess and redesigned Okie Dokie children's private brand. Further, the company has launched Fanatics shops designed to attract sports fans to purchase the newest and popular team apparel inside their local JCPenney store.
- ▲ **New Loyalty Program to Attract More Customers:** Earlier, the company announced a fresh and better J. C. Penney Rewards program. In an effort to lure more customers and ramp up sales performance, it has enhanced the loyalty program, introduced for the first time in 2008. Per the new reward program, every customer will get a reward of \$10 for every 200 points earned. Further, there is no cap for receiving the reward of \$10 per month. For all active J. C. Penney customers, any leftover points will roll over from one month to the next instead of expiring. Meanwhile, J. C. Penney credit cardmembers will get a point for each dollar spent.
- ▲ **Excellent Performance of Sephora Continues:** The in-store Sephora departments continue to outperform by drawing more customers. During fiscal 2016 and 2017, the company opened 61 and 70 Sephora stores, respectively. At the end of 2018, the total count of Sephora locations inside J. C. Penney was 668 stores. These shops are part of J. C. Penney's strategy to gain a competitive advantage over other beauty product retailers and drugstores, which have significantly enhanced their cosmetics sections in the recent years. Since Sephora is part of J. C. Penney's long-term growth strategy, the company not only intends to add more stores but has also started selling Sephora products online.

Reasons To Sell:

- ▼ **Dismal Holiday Sales Hurt Stock:** Shares of J. C. Penney have declined 20% during the past three months underperforming the industry that lost 3.3%. The stock got hurt following sluggish holiday season sales. We note that comparable store sales (comps) for the nine-week period ended Jan 4 dipped 7.5%. On an adjusted basis, comps for the same period fell 5.3% compared with a decline of 5.4% in the last year. Stiff competition from e-commerce players such as Amazon and a persistent struggle to cope with rapidly changing consumer trends might have taken a toll on the performance.
- ▼ **Declining Y/Y Sales Trend a Worry:** In third-quarter fiscal 2019, J. C. Penney's top line lagged the Zacks Consensus Estimate and deteriorated year over year. The metric fell 8.5%, wider than 7.4% and 4.3% fall in the fiscal second and first quarters, respectively. Further, total net sales fell 10.1% year over year on soft comparable store sales. Also, the top line was hurt by aggressive promotions to reduce slow-moving and aged inventory. Moving forward, the headwinds are expected to persist in the fourth quarter. In addition, comps in the quarter declined 9.3% year over year due to the company's exit from major appliance and in-store furniture categories, which impacted comps to the tune of 270 basis points. These exits were carried out as part of its turnaround initiatives to focus on profitable areas. Excluding these exits, comps decreased 6.6%, owing to lower transactions, partly offset by higher average transaction value. Persistence of such trends may hurt the company's profitability in the near future. Moreover, J. C. Penney has repeatedly failed to bring fashionable and trendy brands, thereby losing customers.
- ▼ **Drab FY19 View:** The company reiterated the fiscal 2019 outlook and provided a soft view for adjusted EBITDA. Management continues to expect comps decline of 7-8%. Excluding the impact of exit from major appliance and in-store furniture categories, comps are still anticipated to decline 5-6%. We note that comps fell 3.1% in fiscal 2018. Moving on, the company now expects adjusted EBITDA of \$475 million for fiscal 2019. The guided range is lower than adjusted EBITDA of \$568 million recorded in the last fiscal year. Soft comps and EBITDA views for fiscal 2019 might hurt the company's top and bottom line in the quarters ahead.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth.
- ▼ **Competitive Pressure:** In the retail segment, J. C. Penney faces stiff competition from other department stores, discounters, home furnishing stores, specialty retailers, wholesale clubs, and direct-to-consumer businesses on attributes, such as merchandise assortment, price, quality, location, and credit facility. This may affect the company's top and bottom-line results.

J. C. Penney's exit from major appliance and in-store furniture categories hurt comps to the tune of 270 basis points in the fiscal third quarter. The metric is expected to decline in the 7-8% in fiscal 2019.

Last Earnings Report

J. C. Penney Q3 Loss Narrower Than Expected, Sales Lag

J. C. Penney reported narrower-than-expected loss in third-quarter fiscal 2019. Lower cost of goods sold, improved gross margins and a decline in SG&A expenses impacted quarterly results. However, sales missed the consensus mark for the third consecutive quarter. Sluggishness in comps might have hurt the top line to some extent.

Moving on, the company's turnaround efforts — including the early implementation of Plan for Renewal, which aims at driving traffic, enhancing customer shopping experience and offering compelling merchandise — have started to gain traction. These apart, CEO Soltau's other endeavors — including the partnership with largest fashion resale marketplace thredUP, significant changes in leaderships, optimization of inventory levels and closing of underperforming stores — are contributing to results.

Quarter Ending **10/2019**

Report Date	Nov 15, 2019
Sales Surprise	-1.14%
EPS Surprise	45.45%
Quarterly EPS	-0.30
Annual EPS (TTM)	-0.76

Q3 Highlights

The company posted adjusted loss of 30 cents, narrower than loss of 52 cents reported in the year-ago quarter. Moreover, the figure was narrower than the Zacks Consensus Estimate of a loss of 55 cents.

Total revenues (including total net sales, and credit income and other) in the quarter were \$2,500 million, which declined 8.5% from the prior-year quarter's figure and missed the Zacks Consensus Estimate of \$2,529 million.

Total net sales of \$2,384 million fell 10.1% year over year. Soft comparable store sales (comps) were a deterrent. Nevertheless, fine jewelry, women's apparel, footwear and men's apparel categories performed well.

Further, credit income and others totaled \$116 million, up 45% on a year-over-year basis on gains from the company's credit portfolio.

Comps in the quarter declined 9.3% year over year. This can be attributed to the company's exit from major appliance and in-store furniture categories, which impacted comps to the tune of 270 basis points (bps). These exits were carried out as part of its turnaround initiatives to focus on profitable areas.

Adjusted comps decreased 6.6%, owing to lower transactions, partly offset by higher average transaction value.

Cost of goods sold was \$1,541 million, down 14.8% from the prior-year quarter's figure. As a percentage of net sales, the metric improved 350 bps, courtesy of improved shrink rates as well as margin gains from stores and online sales. Gross margin (on the basis of total net sales and cost of goods sold) expanded 350 bps to 35.4%. Adjusted EBITDA improved more than two-fold to \$106 million.

SG&A expenses declined 3.3% to \$854 million on a decline in advertising and store controllable expenses, offset by rise in incentive compensation. As percentage of net sales, SG&A expenses increased 250 bps to 35.8%.

Other Financial Details

J. C. Penney ended the quarter with cash and cash equivalents of \$157 million compared with \$168 million in the year-ago period. Meanwhile, long-term debt was \$4,011 million, down 3.6% from the year-ago quarter's figure. Shareholders' equity totaled \$868 million at the end of the quarter. Merchandise inventory levels declined 9% to \$2,934 million. The company reported negative free cash flow of \$518 million in the first nine months of fiscal 2019. Further, during this period it incurred capital expenditure of \$226 million.

Outlook

Management continues to expect comps decline of 7-8%. Excluding the impact of exit from major appliance and in-store furniture categories, comps are still anticipated to decline 5-6%. It expects a decline of 150-200 bps in cost of goods sold (as a percentage of net sales). Additionally, management continues to expect positive free cash flow for the fiscal year. Moving on, the company now expects adjusted EBITDA of \$475 million for fiscal 2019. Also, it anticipates gross margin for the fiscal year to improve.

Other Developments

J. C. Penney highlighted that it is undertaking efforts in the operating front to improve performance. In this context, the company remains focused on driving store traffic and enhancing merchandise. Further, in a bid to lure customers, it is testing a new store format, which includes yoga studio, videogame lounge and lifestyle workshops. In this regard, the company recently launched a brand-defining store in Hurst, TX. The store will serve as a lab for extensive consumer research.

Moreover, J. C. Penney collaborated with the Hallmark channel as part of its preparation for the holiday season sale. Additionally, the company is on track to add key national brands — including Instant Pot, Ninja, Brookstone and Sharper Image — to boost the top line. Moving on, it implemented visual merchandising in the women's category in 92 stores. Despite such well-chalked out plans, experts believe that J. C. Penney still has a long way to go before these strategies start reaping benefits.

Recent News

J. C. Penney Showcases Dismal Holiday Sales - Jan 10, 2020

J. C. Penney witnessed sluggish holiday season sales. We note that comparable store sales (comps) for the nine-week period ended Jan 4 dipped 7.5%. On an adjusted basis, comps for the same period fell 5.3% compared with a decline of 5.4% in the last year.

Nonetheless, management reaffirmed its guidance for fiscal 2019. It continues to expect a comps decline of 7-8%. Excluding the impact of the exit from the major appliance and in-store furniture categories, comps are still anticipated to decline 5-6%.

Valuation

J. C. Penney shares are down 39.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 33.8% but those in the Zacks Retail-Wholesale sector are up 13.5% over the past one year.

The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 0.02X forward 12-month sales, which compares to 0.28X for the Zacks sub-industry, 1.06X for the Zacks sector and 3.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.28X and as low as 0.02X, with a 5-year median of 0.12X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1 price target reflects 0.03X forward 12-month sales.

The table below shows summary valuation data for JCP

Valuation Multiples - JCP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.02	0.28	1.06	3.49
	5-Year High	0.28	0.73	1.11	3.49
	5-Year Low	0.02	0.26	0.8	2.54
	5-Year Median	0.12	0.41	0.91	3
P/B TTM	Current	0.29	1.3	5.15	4.48
	5-Year High	2.9	3.67	5.87	4.55
	5-Year Low	0.18	1.14	3.6	2.85
	5-Year Median	1.17	2.12	4.84	3.62
EV/EBITDA TTM	Current	9.97	6.43	15.33	12.25
	5-Year High	20.7	8.43	15.39	12.86
	5-Year Low	NA	4.66	10.37	8.48
	5-Year Median	9.6	6.4	12.38	10.68

As of 01/29/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 255)



Top Peers

Dillards, Inc. (DDS)	Outperform
Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
Macys, Inc. (M)	Neutral
Target Corporation (TGT)	Neutral
Kohls Corporation (KSS)	Underperform

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	JCP Neutral	X Industry	S&P 500	DDS Outperform	KSS Underperform	M Neutral
VGM Score	D	-	-	B	A	D
Market Cap	256.00 M	5.09 B	23.91 B	1.72 B	7.02 B	5.21 B
# of Analysts	4	5	13	2	8	6
Dividend Yield	0.00%	1.25%	1.77%	0.86%	5.98%	8.95%
Value Score	C	-	-	A	A	A
Cash/Price	0.62	0.06	0.04	0.05	0.07	0.06
EV/EBITDA	8.73	5.09	14.07	4.59	5.47	4.72
PEG Ratio	NA	0.89	2.00	NA	0.94	0.83
Price/Book (P/B)	0.29	1.08	3.27	1.08	1.31	0.86
Price/Cash Flow (P/CF)	0.97	3.11	13.48	4.66	3.92	2.31
P/E (F1)	NA	9.42	18.76	17.30	9.42	6.21
Price/Sales (P/S)	0.02	0.24	2.61	0.27	0.35	0.21
Earnings Yield	-131.25%	8.20%	5.32%	5.78%	10.61%	16.12%
Debt/Equity	5.90	1.16	0.72	0.37	1.09	1.24
Cash Flow (\$/share)	0.83	5.12	6.88	14.93	11.45	7.31
Growth Score	C	-	-	C	B	F
Hist. EPS Growth (3-5 yrs)	NA%	-1.58%	10.68%	-8.49%	6.85%	-1.58%
Proj. EPS Growth (F1/F0)	-11.70%	-13.89%	7.73%	-34.31%	-14.98%	-34.97%
Curr. Cash Flow Growth	-59.25%	6.93%	12.29%	4.90%	11.63%	6.93%
Hist. Cash Flow Growth (3-5 yrs)	18.26%	-2.50%	8.78%	-7.34%	1.24%	-2.50%
Current Ratio	1.51	1.47	1.23	1.64	1.42	1.28
Debt/Capital	85.51%	53.72%	43.16%	27.11%	52.13%	55.31%
Net Margin	-1.92%	2.77%	11.59%	2.03%	3.50%	3.91%
Return on Equity	-24.09%	11.17%	17.38%	7.14%	15.19%	17.44%
Sales/Assets	1.39	1.39	0.54	1.74	1.40	1.18
Proj. Sales Growth (F1/F0)	-7.51%	-1.94%	4.05%	-1.33%	-3.17%	-1.94%
Momentum Score	F	-	-	D	B	C
Daily Price Chg	-0.49%	-0.24%	-0.21%	0.03%	-0.51%	0.00%
1 Week Price Chg	-6.16%	-4.25%	-1.09%	-1.87%	-3.21%	-4.50%
4 Week Price Chg	-28.57%	-5.22%	-0.01%	-5.33%	-11.97%	-0.76%
12 Week Price Chg	-21.57%	-9.65%	4.14%	-1.77%	-17.54%	5.64%
52 Week Price Chg	-37.01%	-32.26%	17.24%	3.91%	-35.09%	-34.41%
20 Day Average Volume	8,438,810	1,887,947	1,824,613	223,290	3,552,605	12,748,702
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.48%	-0.24%	0.00%	0.00%	-1.60%	3.69%
(F1) EPS Est 12 week change	14.11%	4.51%	-0.11%	14.20%	-8.85%	-5.09%
(Q1) EPS Est Mthly Chg	-26.14%	-1.79%	0.00%	-0.25%	-3.33%	5.08%

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	C
Momentum Score	F
VGM Score	D

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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