

## Macys, Inc. (M)

**\$6.80** (As of 07/02/20)

Price Target (6-12 Months): **\$6.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 06/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:B

Value: A

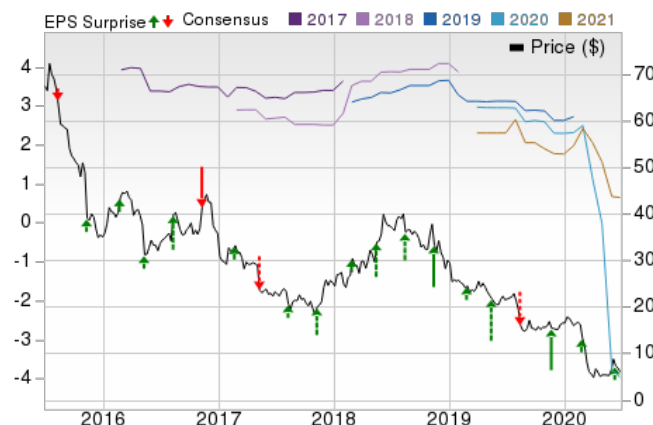
Growth: B

Momentum: F

## Summary

Shares of Macy's have fallen in the past six months. The coronavirus outbreak disrupted the business activities forcing the retailer to close all its stores in mid-March. This jeopardized its turnaround efforts. As a result, the company reported dismal numbers for first-quarter fiscal 2020. The coronavirus-induced stay-at-home orders, social distancing and curtailment of discretionary purchases hurt the company's performance. While net sales declined 45.2% year over year, the bottom line swung to a loss. Even with stores reopened, we believe that sales will take time to reach the pre-COVID levels. Certainly, the company is concentrating on improving financial flexibility and taking adequate steps to stabilize the business. It announced restructuring updates, including cost-containment and headcount reductions to address the challenges.

## Price, Consensus & Surprise



## Data Overview

52 Week High-Low **\$23.40 - \$4.38**

20 Day Average Volume (sh) **51,926,568**

Market Cap **\$2.1 B**

YTD Price Change **-60.0%**

Beta **1.57**

Dividend / Div Yld **\$0.00 / 0.0%**

Industry **Retail - Regional Department Stores**

Zacks Industry Rank **Top 19% (49 out of 252)**

Last EPS Surprise **14.4%**

Last Sales Surprise **0.2%**

EPS F1 Est- 4 week change **-10.0%**

Expected Report Date **08/12/2020**

Earnings ESP **2.3%**

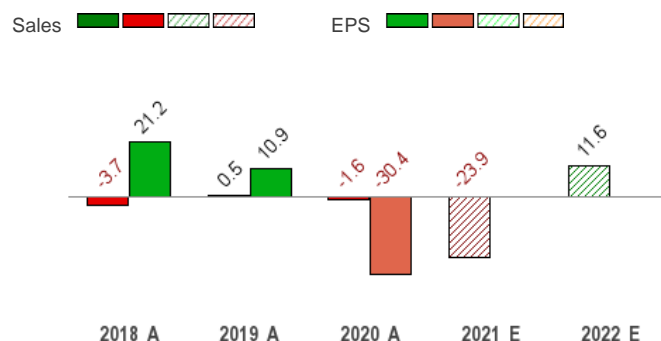
P/E TTM **15.5**

P/E F1 **NA**

PEG F1 **NA**

P/S TTM **0.1**

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



## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					20,861 E
2021	3,017 A	3,738 E	4,434 E	7,430 E	18,692 E
2020	5,504 A	5,546 A	5,173 A	8,337 A	24,560 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.44 E	-\$0.29 E	-\$0.30 E	\$1.68 E	\$0.41 E
2021	-\$2.03 A	-\$2.34 E	-\$0.69 E	\$1.18 E	-\$4.16 E
2020	\$0.44 A	\$0.28 A	\$0.07 A	\$2.12 A	\$2.91 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 07/02/2020. The reports text is as of 07/03/2020.

## Overview

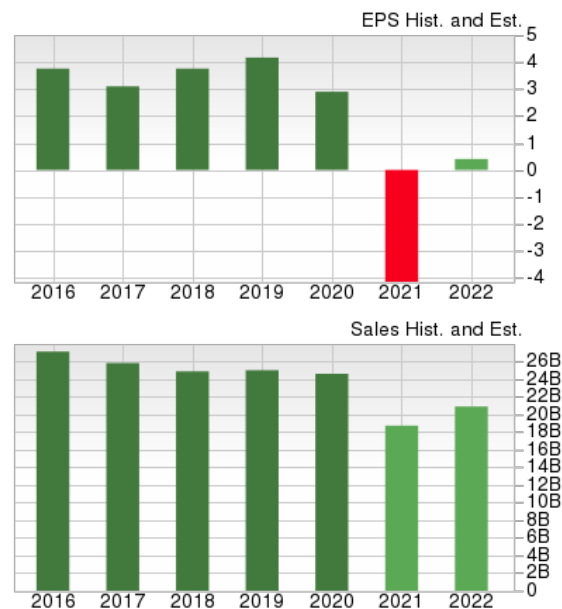
Macy's is in the process of a complete makeover and has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. Notably, the company is banking on Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores, 'mobile first' strategy and Destination Businesses. The department store chain is investing in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty.

Macy's is an omnichannel retail organization operating stores, websites and mobile applications under three brands Macy's, Bloomingdale's and bluemercury. Bloomingdale's in Dubai, United Arab Emirates and Al Zahra, Kuwait are operated under a license agreement with Al Tayer Insignia, a company of Al Tayer Group, LLC.

This New York-based company trades in a wide range of merchandise, including men's, women's and children's apparel and accessories, cosmetics, home furnishings and other consumer goods in 43 states, the District of Columbia, Guam and Puerto Rico. Most stores are located at urban or suburban sites, principally in densely populated areas across the United States.

The principal private label brands offered by Macy's include include Alfani, American Rag, Aqua, Bar III, Belgique, Charter Club, Club Room, Epic Threads, first impressions, Giani Bernini, Greg Norman for Tasso Elba, Holiday Lane, Home Design, Hotel Collection, Hudson Park, Ideology, I-N-C, jenni, JM Collection, Karen Scott, lune+aster, M-61, Maison Jules, Martha Stewart Collection, Material Girl, Oake, Sky, Style & Co., Sun + Stone, Sutton Studio, Tasso Elba, Thalia Sodi, The Cellar, Tools of the Trade and Wild Pair.

Women's Accessories, Intimate Apparel, Shoes, Cosmetics and Fragrances accounted for 40.3%, Women's Apparel accounted for 19.2%, Men's and Kids' accounted for 19% and Home/Other accounted for 21.5% of first-quarter fiscal 2020 net sales.



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## Reasons To Sell:

- ▼ **Coronavirus Hurts Prospects:** Shares of Macy's have fallen significantly in the past six months. The stock has plunged 60% compared with the industry's decline of 61% in the said period. The coronavirus outbreak has significantly disrupted the company's business activities. The company has been reviewing all its non-essential operating costs and lowered capital expenditures plan. During the first quarter of fiscal 2020, Macy's bore the brunt of coronavirus-induced woes. Incidentally, management stated that temporary store closures that were undertaken to check the spread of COVID-19 had significant negative impact on the top and the bottom line in this period. While the company seems to be satisfied with the performance of reopened stores, it remains cautious about the increasing number of coronavirus cases that may derail the recovery in the back-half of the year. Management highlighted that many of the malls in which the company operates are closed or may reclose in areas where COVID-19 cases are rising. This will severely hurt the traffic. Also, the company is assuming no international tourism sales for the remainder of the year. In 2019, international tourism accounted for just over 4% of sales.
- ▼ **Dismal Q1 Numbers:** The coronavirus-induced stay-at-home orders, social distancing and store closures adversely impacted Macy's first-quarter fiscal 2020 performance. The company posted a loss for the quarter under review. Also, the company's top line missed the Zacks Consensus Estimate and fell sharply from the year-ago period. Net sales of \$3,017 million fell short of the Zacks Consensus Estimate of \$3,028 million, after surpassing the same in the preceding quarter. We note that the top line declined 45.2% on a year-over-year basis. Also, gross margin contracted to 17.1% during the quarter discussion from 38.2% in the year-ago period. Macy's reported adjusted EBITDA loss of \$689 million. The company had reported adjusted EBITDA of \$447 million in the year-ago quarter. Macy's reported adjusted loss of \$2.03 per share. Notably, the company had posted adjusted earnings of 44 cents a share in the year-ago period. Lower net sales hurt the company's bottom line.
- ▼ **Any Deleverage in SG&A Expense May Hurt Margins:** As a percentage of net sales, selling, general and administrative expenses increased to 52.9% in the first quarter of fiscal 2020 from 38.4% in the year-ago period. Analysts expect selling, general and administrative expenses may increase on account of strategic investments. We believe that any significant increase in selling, general and administrative expenses may hurt margins and in turn the bottom line. In the preceding two quarter, selling, general and administrative expenses, as a percentage of net sales, have increased 10 basis points and 90 basis points. Management forecast elevated levels of SG&A as a percent of lower sales base for fiscal 2020.
- ▼ **Competitive Pressure:** Macy's operates in the highly competitive retail merchandise sector. The company faces stiff competition from a diverse group of competitors, such as Wal-Mart, Target, Bed Bath & Beyond, general merchandise stores, specialty stores, discount stores and online retailers, which are likely continue to weigh on its results. We also remain concerned about Macy's low pricing power as against other discount chains, which may in turn hurt the company's market share.
- ▼ **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. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focus on necessities for the time being.

We remain concerned about Macy's low pricing power as against other discount chains, which may in turn hurt the company's market share. Also, strategic investments in long term endeavors may put pressure on margins.

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## Risks

- **Strategic Endeavors:** Macy's sustained focus on price optimization, inventory management, merchandise planning and private label offering are the primary catalysts facilitating in meeting customer-oriented demand and improving in-store shopping experience. In an attempt to increase sales, profitability and cash flows, the company has been taking steps such as integration of operations as well as developing omnichannel capabilities and online order fulfillment centers. Notably, reopened stores have been performing above expectations. Also, the company's curbside pickup services have been receiving positive response from customers. Macy's is optimistic about demand for seasonal merchandise and expects to end second-quarter with a clean inventory. Additionally, the company has undertaken restructuring actions to contain costs. Macy's foresees itself as a smaller, more leveraged company. Its lower cost base, coupled with about \$4.5-billion new financing, will help it become more stable and flexible.

The company expects its digital business to continue gain strength, even as stores reopen. During the first quarter of fiscal 2020, the company registered digital sales penetration of approximately 43%. Management anticipates annual digital penetration will average in the mid-40s. The company envisions a low to mid-teens increase in full-year digital sales. Further, the retailer informed that it will eliminate nearly 3,900 corporate and management jobs. The company's actions will result in cost savings of roughly \$365 million in fiscal 2020 and about \$630 million on an annualized basis. The aforementioned savings is in addition to \$1.5-billion annual cost savings announced in February, which is anticipated to be accomplished by 2022 end.

- **Three-Year Polaris Strategy:** Macy's has outlined plans under its three-year Polaris Strategy to adapt better to the new retail ecosystem. This includes trimming of corporate and support function headcount. As part of its strategy, the company is committed toward building four \$1 billion power private brands. Moreover, to better engage with customers, the company expanded Star Rewards Loyalty program that was initiated in 2017. Apart from these, Macy's is evaluating store portfolio. The company plans to shutter roughly 125 stores in lower tier malls within three years that are least productive, and upgrade the remaining by applying Growth treatment. The treatment, which comprises merchandising strategies, technology improvements, talent and local marketing, will be applied to another 100 stores in fiscal 2020. Clearly, Macy's has undertaken a strategic review of business operating model to bring itself back on growth trajectory. The company had earlier highlighted that Polaris strategy will help attain gross savings of \$600 million in the current year and \$1.5 billion annually by 2022. If we look at the company's three-year financial targets it buoys optimism. Macy's had envisioned net sales in the range of \$23.2-\$23.9 billion and comparable sales on an owned plus licensed basis to be down 1% to flat by fiscal 2022. Moreover, it had anticipated adjusted earnings between \$2.50 and \$3.00 per share.
  - **Customer Friendly Endeavors:** Macy's Backstage locations, Vendor Direct, Store Pickup, Loyalty Program, Growth150 stores, 'mobile first' strategy and Destination Businesses remain primary growth drivers. The company is investing in areas where it has strong foothold, and these include dresses, fine jewelry, fragrances, men's tailored, women's shoes and beauty. The company's "Buy Online Pickup in Store" and "Buy Online Ship to Store" initiatives are gaining traction. After a positive response from customers on STORY, a concept store, Macy's introduced second iteration of STORY — Outdoor STORY. The company has added a new feature to its mobile app such as My Wallet, My Store and My Stylist. Macy's is steadily expanding its virtual reality furniture gallery. The company has taken a minority stake in b8ta, a technology retailer that allow customers to try, buy and learn about new tech products. The investment is seen as a part to enhance customer shopping experience at its The Market @ Macy's, a store-within-a-store retail concept. The company has partnered with thredUP, a fashion resale website for consumers to buy and sell secondhand clothing online. Bloomingdale's has launched My List, a subscription rental service. Moreover, it also testing a new store format, Market by Macy's, which is smaller in size than an average Macy's store. These new prototype stores will be located off-mall in lifestyle centers.
  - **Financial Flexibility:** Macy's has raised nearly \$4.5 billion of new financing, which includes senior secured notes as well as asset-based credit agreement worth \$1.3 billion and \$3.15 billion, respectively. This provides company with enough liquidity to meet business needs, comprising funding operations and the purchase of new inventory for upcoming merchandising seasons, resolving its accrued payables obligations, and repaying upcoming debt maturities in fiscal 2020 and fiscal 2021. Macy's ended the first quarter with cash and cash equivalents of \$1,523 million, which portrays a sharp rise from cash and cash equivalents of \$685 at the end of the preceding quarter.
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## Last Earnings Report

### Macy's Q1 Loss Narrower Than Expected, Revenues Miss

The coronavirus-induced stay-at-home orders, social distancing and store closures adversely impacted Macy's, Inc. first-quarter fiscal 2020 performance. The New York-based company posted a loss for the quarter under review. Also, the company's top line missed the Zacks Consensus Estimate and fell sharply from the year-ago period.

#### Let's Delve Deep

Macy's reported adjusted loss of \$2.03 per share, narrower than the Zacks Consensus Estimate of loss of \$2.37. Notably, the company had posted adjusted earnings of 44 cents a share in the year-ago period. Lower net sales hurt the company's bottom line.

Net sales of \$3,017 million fell short of the Zacks Consensus Estimate of \$3,028 million, after surpassing the same in the preceding quarter. We note that the top line declined 45.2% on a year-over-year basis. The company generated credit revenue of \$131 million, down 24% from last year.

Also, gross margin contracted to 17.1% during the quarter discussion from 38.2% in the year-ago period. Macy's reported adjusted EBITDA loss of \$689 million. The company had reported adjusted EBITDA of \$447 million in the year-ago quarter.

#### Other Financial Aspects

Macy's ended the first quarter with cash and cash equivalents of \$1,523 million, which portrays a sharp rise from cash and cash equivalents of \$685 at the end of the preceding quarter. We note that the company ended the quarter with a total debt of \$5,657 million, which shows a sequential increase of almost 36%. Shareholders' equity was \$2,697 million as of May 2.

#### Key Notes

Management highlighted that almost all of the company's outlets have now reopened, including those in the major metropolitan areas. Notably the reopened stores have been performing above expectations. Also, the company's digital business remained robust across geographies. As a result, the company anticipates a steady recovery in sales. Undoubtedly, the company has been concentrating on improving financial flexibility and taking adequate steps to stabilize the business.

The company recently announced restructuring updates, including cost-containment measures and headcount reductions to address challenges related to the pandemic and position itself for future success.

The retailer informed that it will eliminate nearly 3,900 corporate and management jobs. The company's actions will result in cost savings of roughly \$365 million in fiscal 2020 and about \$630 million on an annualized basis. The aforementioned savings is in addition to \$1.5-billion annual cost savings announced in February, which is anticipated to be accomplished by 2022 end.

Macy's also stated that it will turn into a smaller company going forward. Its lower cost base, coupled with about \$4.5-billion new financing, will help it become more stable and flexible.

Quarter Ending 04/2020

Report Date	Jul 01, 2020
Sales Surprise	0.22%
EPS Surprise	14.35%
Quarterly EPS	-2.03
Annual EPS (TTM)	0.44

## Recent News

### Macy's Updates on Restructuring, to Lower Headcount – June 25, 2020

Macy's announced restructuring updates, including cost-containment measures and headcount reductions to address challenges related to the pandemic and position itself for future success. The beleaguered retailer said that it will eliminate nearly 3,900 corporate and management jobs, also having minimized staffing at its stores, supply chain and customer-support network. These actions will result in cost savings of roughly \$365 million in fiscal 2020 and about \$630 million annually. The aforementioned savings will be in addition to \$1.5-billion cost savings annually, which is anticipated to be accomplished by 2022 end.

## Valuation

Macy's shares are down 60% in the year-to-date period and 68.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 61.5% but the Zacks Retail-Wholesale sector is up 14.5%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 63.1% but the sector is up 20.7%.

The S&P 500 index is down 3.2% in the year-to-date period but up 4.6% in the past year.

The stock is currently trading at 0.11X forward 12-month sales, which compares to 0.16X for the Zacks sub-industry, 1.14X for the Zacks sector and 3.47X for the S&P 500 index.

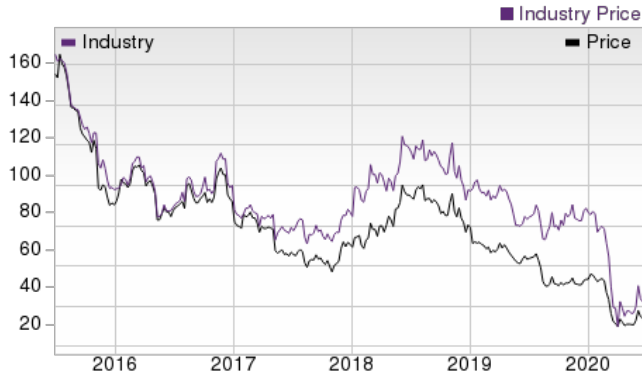
Over the past five years, the stock has traded as high as 0.86X and as low as 0.06X, with a 5-year median of 0.36X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$6 price target reflects 0.09X forward 12-month sales.

The table below shows summary valuation data for M

Valuation Multiples - M					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.11	0.16	1.14	3.47
	5-Year High	0.86	0.77	1.14	3.47
	5-Year Low	0.06	0.11	0.81	2.53
	5-Year Median	0.36	0.46	0.95	3.02
P/B TTM	Current	0.33	0.5	5.25	4.27
	5-Year High	4.72	3.65	5.97	4.56
	5-Year Low	0.21	0.34	3.66	2.83
	5-Year Median	1.75	2.02	4.94	3.69
EV/EBITDA TTM	Current	9.9	3.84	18.14	11.57
	5-Year High	10.82	7.72	18.14	12.86
	5-Year Low	3.38	3.38	11.05	8.25
	5-Year Median	5.43	5.41	12.81	10.86

As of 07/02/2020

## Industry Analysis Zacks Industry Rank: Top 19% (49 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	1
Dollar General Corporation (DG)	Outperform	1
Costco Wholesale Corporation (COST)	Neutral	3
Dillards, Inc. (DDS)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Kohls Corporation (KSS)	Neutral	3
Target Corporation (TGT)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Retail - Regional Department Stores				Industry Peers		
	M	X Industry	S&P 500	BIG	DDS	KSS
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	B	-	-	A	D	F
Market Cap	2.11 B	2.11 B	21.98 B	1.58 B	567.02 M	3.25 B
# of Analysts	7	6	14	6	5	9
Dividend Yield	0.00%	0.80%	1.91%	2.97%	2.46%	13.68%
Value Score	A	-	-	A	C	D
Cash/Price	0.37	0.53	0.07	0.18	0.12	0.69
EV/EBITDA	4.83	4.54	12.74	5.86	2.71	4.25
PEG Ratio	NA	NA	2.89	0.94	NA	NA
Price/Book (P/B)	0.78	0.68	2.98	1.79	0.43	0.68
Price/Cash Flow (P/CF)	1.11	1.83	11.75	5.63	1.83	1.91
P/E (F1)	NA	NA	21.41	6.62	NA	NA
Price/Sales (P/S)	0.10	0.10	2.30	0.29	0.10	0.18
Earnings Yield	-61.18%	-51.60%	4.42%	15.11%	-42.03%	-17.64%
Debt/Equity	2.91	2.23	0.76	1.68	0.43	1.55
Cash Flow (\$/share)	6.12	6.12	6.94	7.18	13.37	10.77
Growth Score	B	-	-	A	F	F
Hist. EPS Growth (3-5 yrs)	-11.95%	-7.68%	10.93%	7.48%	-7.68%	-1.12%
Proj. EPS Growth (F1/F0)	-243.05%	-214.37%	-9.56%	66.21%	-346.04%	-174.71%
Curr. Cash Flow Growth	-15.88%	-10.84%	5.51%	0.18%	-16.01%	-10.84%
Hist. Cash Flow Growth (3-5 yrs)	-6.32%	-3.55%	8.62%	2.93%	-10.66%	-0.78%
Current Ratio	1.24	1.54	1.30	1.48	1.66	1.88
Debt/Capital	74.41%	67.56%	44.46%	62.66%	30.04%	60.72%
Net Margin	-14.28%	-2.36%	10.62%	5.05%	-2.31%	0.48%
Return on Equity	2.61%	-2.94%	15.75%	19.99%	-8.48%	3.34%
Sales/Assets	1.06	1.27	0.55	1.67	1.59	1.21
Proj. Sales Growth (F1/F0)	-23.89%	-20.89%	-2.54%	10.94%	-20.89%	-21.39%
Momentum Score	F	-	-	A	D	D
Daily Price Chg	3.34%	1.54%	0.47%	-1.03%	-1.77%	2.39%
1 Week Price Chg	-12.50%	-11.75%	-3.90%	28.94%	-6.99%	-15.64%
4 Week Price Chg	-17.17%	-10.46%	-3.77%	9.17%	-27.20%	-13.67%
12 Week Price Chg	2.10%	0.80%	8.02%	105.65%	-26.59%	3.37%
52 Week Price Chg	-68.03%	-58.62%	-7.59%	48.97%	-60.55%	-56.69%
20 Day Average Volume	51,926,568	5,840,411	2,649,865	2,557,561	1,111,101	10,569,722
(F1) EPS Est 1 week change	-4.74%	0.00%	0.00%	38.90%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.05%	0.00%	0.00%	37.34%	0.00%	4.16%
(F1) EPS Est 12 week change	-469.33%	-353.52%	-9.53%	101.54%	-1,234.96%	-237.72%
(Q1) EPS Est Mthly Chg	-7.37%	0.00%	0.00%	229.38%	0.00%	7.05%



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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	A
Growth Score	B
Momentum Score	F
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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### Disclosures

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