

The Macerich Company (MAC)

\$25.76 (As of 01/17/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: F

Summary

Macerich's focus to boost mall traffic and drive sales by replacing unproductive tenants with productive ones will help it thrive in the evolving retail landscape. The company is making efforts to enhance portfolio quality through non-core asset sales and addition of flexible-office spaces in its retail centers. Last December, Macerich announced that Scottsdale Fashion Square's sales jumped 42.7% year over year to \$1,472 per square foot, following the redevelopment and expansion of the property's luxury wing which was inaugurated in November 2018. Yet, the choppy retail real estate environment, with tenant bankruptcies and store closures, is expected to keep eroding the company's leasing and occupancy level. Also, geographical concentration of assets is a concern. Its shares have underperformed the industry in the past year.

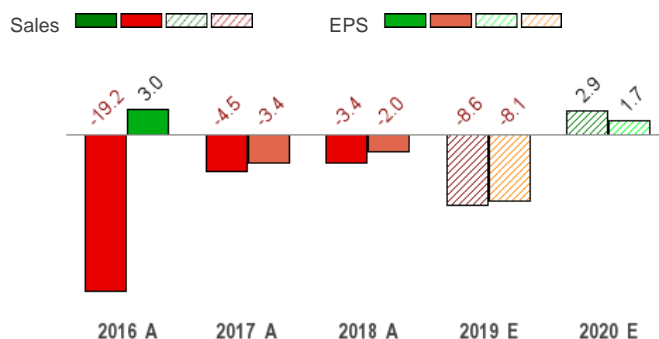
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.05 - \$24.94
20 Day Average Volume (sh)	2,914,876
Market Cap	\$3.6 B
YTD Price Change	-4.3%
Beta	0.71
Dividend / Div Yld	\$3.00 / 11.6%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 21% (200 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	7.0
P/E F1	7.2
PEG F1	4.0
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					902 E
2019	211 A	211 A	214 A	227 E	877 E
2018	212 A	235 A	218 A	216 A	960 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.86 E	\$0.89 E	\$0.90 E	\$0.99 E	\$3.60 E
2019	\$0.81 A	\$0.88 A	\$0.88 A	\$0.99 E	\$3.54 E
2018	\$0.82 A	\$0.96 A	\$0.99 A	\$1.09 A	\$3.85 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 1994 and headquartered in Santa Monica, CA, The Macerich Company is a retail real estate investment trust (REIT) that owns, acquires, leases, manages, develops, and redevelops regional and community shopping centers in high barrier-to-entry markets.

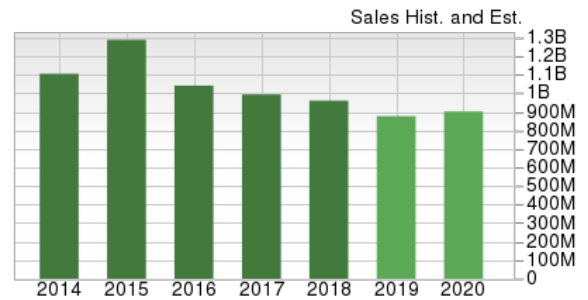
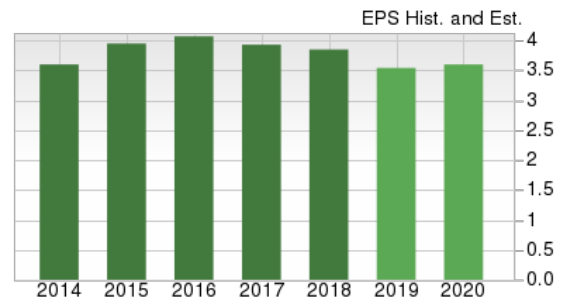
Macerich primarily focuses on the attractive, densely populated markets of the United States. It has notable presence in the West Coast, Arizona, Chicago, and the Metro New York to Washington, DC corridor.

At present, Macerich's real-estate ownership spreads over 51 million square feet of space, comprising mainly interests in 47 regional shopping centers.

In March 2018, Macerich formed a 25/75 joint venture with Hudson Pacific Properties, under which the company agreed to contribute Westside Pavilion — a 680,000-square-foot regional shopping center in Los Angeles, CA — in exchange for \$142.5 million. The company accomplished the sale of the 75% ownership stake in the property to Hudson Pacific Properties last August, which resulted in a gain on sale of assets of \$46.2 million.

Notably, this joint venture with Hudson Pacific Properties is redeveloping One Westside into 584,000 square feet of creative office space, and 96,000 square feet of dining and entertainment space. The entire office space has been leased to Google and is projected to be completed in 2022.

Note: All EPS numbers presented in this report represent 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:

▲ Macerich has a high concentration of premium malls in vibrant U.S. markets. These properties are located in densely-populated areas, where affluent consumers with significant disposable incomes live, work and play, offering the company solid scope to generate decent cash flows. Over the past 10 years, average base rent increased from \$40.67 to \$61.16 (4.0% CAGR), while sales per square foot increased from \$407 to \$800 (6.5% CAGR). Moreover, since the 2008-2009 recession, the company has maintained an average occupancy of 94.3%. Also, 87% of the company's net operating income (NOI) comes from market-dominant class A regional malls. The company also has a number of well-capitalized retailers that have fared relatively well in the post-recession environment, where U.S. consumers have become more budget conscious.

Concentration of premium malls in vibrant markets, well-capitalized tenants, adoption of omni-channel model and tempered supply are emerging as Macerich's growth driver for years to come.

▲ Macerich has been focusing on an aggressive capital-recycling program, which involves the divestiture of non-core and slower-growth assets, and usage of the proceeds in higher-growth properties through acquisitions, developments and redevelopment initiatives. In fact, the company raised \$1.8 billion over the past six years through its capital-recycling program, disposing of lesser quality assets in slower-growing, secondary and tertiary markets. Apart from raising capital, the strategic dispositions reduced impending bankruptcy issues across the lower quality disposition portfolio. Meanwhile, the company's joint venture with Hudson Pacific Properties is redeveloping the iconic mall, The Westside Pavilion, in West Los Angeles into a 584,000-square-foot Class A urban creative office campus called One Westside. During third-quarter 2018, the company also announced a 50/50 joint venture with Simon Property Group for creating the Los Angeles Premium Outlets. We expect such moves to offer an upside potential to the company and strengthen its high-end portfolio.

▲ Macerich is aiming to enhance its assets quality as well as customer relationships through redevelopment efforts and increasing adoption of the omni-channel model. Through redevelopment, the company is focusing at repurposing properties as well as improving merchandizing mix and shopper experience. Particularly, the company invested \$1.6 billion in 12 major (re)development projects between 2010 and 2019, at a weighted average return on investment of 8.5%. The company is aimed at reduction of exposure to department stores and focusing on enhancing growth prospects by creating a more vibrant portfolio and embracing more diverse uses. It is targeting selling experiences such as art centers, concerts, spas, fitness clubs, food beverage and entertainment uses, as well as focusing on clicks-to-bricks retailers "C2B" and co-working tenants. Also, shift towards re-use and mixed-use properties through recapture and repositioning of anchor tenants remains a key emphasis. These efforts are expected to boost demand for its properties.

▲ Macerich has a decent balance sheet with well manageable schedule of debt maturities. In 2017-2018, the company entered into \$1.8 billion of financings at an average interest rate of 4.2% and an average term of 9 years. As of Sep 30, 2019, the company had \$750 million of additional capacity on its line of credit. In addition, the company's debt maturity schedule is well laddered with weighted average years to maturity of 5 years.

▲ Furthermore, solid dividend payouts are arguably the biggest attraction for REIT investors. In fact, the company has an uninterrupted history of dividends payout since its Initial Public Offering in 1994. In October 2018, Macerich announced its quarterly cash dividend of 75 cents per share, reflecting a sequential hike of 1.4% from the prior payout. Subsequently, it has retained the same dividend rate. The company has indeed remained committed to increasing its dividend and its annual dividend has grown from \$2.51 in 2014 to \$2.97 in 2018. The company also paid special dividend of \$2 per share each in 2015 and 2016. Such moves boost investors' confidence in the stock. Given its financial position, the dividend payout is likely to be sustainable.

Reasons To Sell:

- ▼ Mall traffic continues to decline owing to a change in shopping patterns with online purchases taking precedence over in-store purchase. This has forced retailers to reconsider their strategy and shift investments from traditional retailing to online channels and optimize their brick-and-mortar presence. These optimization efforts and the consequent decision to close stores by a number of retailers have raised concerns over cash flows of mall landlords. Also, retailers unable to cope with competition have been filing bankruptcies. This is adversely affecting the demand for retail real estate space and emerged as a pressing concern for retail REITs like Macerich. In fact, the company has been witnessing higher volumes of tenant bankruptcies and these are expected to weigh on Macerich's operating results.
- ▼ The company has a substantial number of centers positioned across California, New York and Arizona. This geographical concentration risk may weigh upon its earnings in times of economic uncertainty.
- ▼ Although interest rate levels are low at present, 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 might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Shares of Macerich have underperformed the industry it belongs to, in the past year. During this period, shares of the company have slipped 44.4%, as against the industry's growth of 8.7%. Additionally, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company. In fact, the Zacks Consensus Estimate for 2020 FFO per share has been revised marginally downward, over the past week. Therefore, given the above-mentioned concerns and negative estimate revisions, the stock has a limited upside potential.

Declining mall traffic, store closures and retailer bankruptcies emerge as pressing concerns for Macerich. Furthermore, substantial asset concentration in California and Arizona raises its risk.

Last Earnings Report

Macerich Q3 FFO Meets Estimates, Leasing Revenues Dip

Macerich reported third-quarter 2019 adjusted FFO per share of 88 cents, in line with the Zacks Consensus Estimate. However, the figure compares unfavorably with the prior-year quarter's 99 cents. Adjusted FFO per share for the quarter excludes financing expense in relation to Chandler Freehold.

The company witnessed strong tenant sales growth as well as increase in average rent and releasing spreads, while occupancy declined.

The company generated leasing revenues of \$214.3 million in the quarter, missing the Zacks Consensus Estimate of \$217.8 million. The figure also slipped 4.5% year over year.

Behind the Headlines

As of Sep 30, 2019, mall portfolio occupancy shrunk 130 basis points year over year to 93.8%. Mall tenant annual sales for the 12-month period ended Sep 30, 2019, increased 13.2% to \$800 per square feet. Re-leasing spreads for the 12-month period ended Sep 30, 2019, increased 8.3%. Average rent per square foot jumped 3.5% to \$61.16 from \$59.09 as of Sep 30, 2018. Also, same-center net operating income (excluding lease termination revenue) inched up 0.2% from the prior-year quarter.

Notably, year to date, Macerich accomplished or arranged around \$2.1 billion of financings. This was done at an average interest rate of 3.9% and an average maturity of more than 9.2 years, netting \$576 million of excess loan proceeds at the company's share.

Outlook

Macerich reaffirmed its guidance for FFO per share, excluding financing expense in connection with Chandler Freehold. The REIT expects FFO per share of \$3.50-3.58 for the ongoing year.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-1.61%
EPS Surprise	0.00%
Quarterly EPS	0.88
Annual EPS (TTM)	3.66

Recent News

Macerich's Scottsdale Fashion Square Sales Witness Growth – Dec 16, 2019

Macerich is experiencing robust demand at Scottsdale Fashion Square. The company announced that the mall's sales jumped 42.7% year over year to \$1,472 per square foot, following its efforts to redevelop and expand the property's luxury wing that was inaugurated in November 2018.

The luxury wing comprises new stores, premium furnishings and finishes, a Swarovski-inspired light column in the Crystal Court, and a wide variety of amenities. The wing, anchored by Neiman Marcus, has a new grand entrance and two-story glass entry. Also, the mall will provide new attractions and first-to-market tenants like Nobu Scottsdale, which will open in spring 2020, and Equinox luxury fitness, opening in 2021.

Michael Guerin, senior vice president of Macerich's Leasing department, said "The stellar sales performance demonstrates the success of our efforts to take Arizona's undisputed luxury leader to the next level, matching the interests of the buoyant luxury sector in Scottsdale and beyond."

Scottsdale Fashion Square has more than 200 shops and restaurants spanning 1.9-million-square-foot of space. The mall has a reputed tenant roster offering various products and services like fashion, accessories, watches, fragrances, electronics, shoes, restaurants, etc. The mall boasts some well-known brands like Burberry, Michael Kors Holdings Limited, Prada, Gucci, Apple Inc., Lululemon, Farmhouse, Zinqué and many more.

Moreover, in the area earlier occupied by Barneys department store, Industrious has opened its first co-working space at Scottsdale Fashion Square. Under the ongoing redevelopment initiatives of the mall, construction of high-end residential units, class A office space and the new Republic Scottsdale hotel has commenced, and are slated to open doors for customers in 2021. The hotel will also include new dining concepts from high-profile chef, Giada De Laurentiis.

Macerich Refinances Kings Plaza With Loan Worth \$540M – Dec 12, 2019

Macerich refinanced Kings Plaza in Brooklyn, NY with a new long-term loan worth \$540 million. The loan, carrying an interest rate of 3.62, is set to mature on Jan 1, 2030.

The former loan was valued at \$427.4 million, with an effective interest rate of 3.67%. It matured on Dec 3, 2019, and was repaid at closing.

Remaining refinancing proceeds were used to repay a portion of the company's revolving line of credit. Notably, as of Sep 30, 2019, the company had \$750 million of additional capacity on its line of credit.

In 2018, the property received a \$110-million overhaul to redevelop the four-floor store, formerly occupied by Sears, with Primark, Zara, JCPenney and Burlington. The redevelopment also included a transformative revamp of the mall's exterior along Flatbush Avenue. This has likely enabled the company to improve property value and retain its relevance amid choppy retail environment. In fact, as of Sep 30, 2019, the shopping center generated \$735 sales per square foot.

Macerich Boosts Tenant Lineup at Scottsdale Fashion Square – Dec 9, 2019

Macerich announced that Versace, one of the leading global fashion design houses, will be opening its first Arizona store at Scottsdale Fashion Square. Set to open in Spring 2020, the store will be located in the mall's luxury wing, adjacent to that of Michael Kors Holdings Limited, and span 3131 square feet of space.

Michael Guerin, senior vice president of Leasing, Macerich, noted, "Versace represents its heritage through innovative and always-glamorous designs, and this inspired brand is a tremendous complement to the curated collection of luxury stores and experiences at Scottsdale Fashion Square. We continue to attract the world's finest global brands to our magnificent property, which is the true home for luxury in Arizona."

Macerich & PREIT's Fashion District Philadelphia to Add Primark and Others - Oct 29, 2019

The joint-venture between PREIT and Macerich — Fashion District Philadelphia — announced that Primark, international fast fashion retailer, will anchor the west end of the project with a high-profile location at the corner of 11th and Market. Further, cosmetic and beauty supply giant Sephora and designer apparel company Kate Spade New York Outlet are joining the tenant roster.

Macerich Leases Former Sears Space to Saratoga Hospital at Wilton Mall - Oct 1, 2019

Macerich announced that Saratoga Hospital has leased more than 56,000 square feet at Wilton Mall, a space previously occupied by Sears. The move will free up space for patient care on the main hospital campus and information systems and other support functions will be the first to relocate from the hospital campus to the mall space. The transfer of staff and services to the mall by Saratoga Hospital is likely to take place in phases.

Notably, the repurposing of the former Sears space for hospital support functions marks an innovative adaptive reuse of retail space. In fact, mall landlords are making concerted efforts to boost their asset productivity by trying to grab attention from new and productive tenants, and disposing the non-productive ones amid the retail apocalypse. The companies are avoiding heavy dependence on apparel and accessories, and rather expanding their dining options, opening movie theaters, offering recreational facilities and opening fitness centers.

Particularly, Macerich is aimed at enhancing its asset quality as well as customer relationships through redevelopment efforts and increasing adoption of the omni-channel model. Through redevelopment, the company is focusing on repurposing properties as well as improving its merchandizing mix and shopper experience.

Dividend Update

On Oct 24, Macerich announced a quarterly cash dividend of 75 cents per share for its shareholders. The dividend was paid on Dec 3, to

Valuation

Macerich's shares have been down 44.4% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.7% and 11.7% in the past year, respectively.

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

The stock is currently trading at 7.15X forward 12-month FFO, which compares to 15.09X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.25X and as low as 6.91X, with a 5-year median of 15.39X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$27 price target reflects 7.49X FFO.

The table below shows summary valuation data for MAC.

Valuation Multiples - MAC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.15	15.09	14.73	19.2
	5-Year High	24.25	19.44	16.21	19.34
	5-Year Low	6.91	12.57	12.01	15.17
	5-Year Median	15.39	15.13	13.98	17.44
P/S F12M	Current	4.1	8.35	6.53	3.57
	5-Year High	12.7	13.91	6.61	3.57
	5-Year Low	3.92	7.13	5.2	2.54
	5-Year Median	9.18	8.34	6.04	3
P/B TTM	Current	1.25	3.37	2.86	4.55
	5-Year High	2.91	5.57	2.89	4.55
	5-Year Low	1.22	2.83	1.83	2.85
	5-Year Median	2.17	3.44	2.51	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 254)



Top Peers

CBL & Associates Properties, Inc. (CBL)	Neutral
Federal Realty Investment Trust (FRT)	Neutral
Kimco Realty Corporation (KIM)	Neutral
Tanger Factory Outlet Centers, Inc. (SKT)	Neutral
Simon Property Group, Inc. (SPG)	Neutral
Taubman Centers, Inc. (TCO)	Neutral
Washington Prime Group Inc. (WPG)	Neutral
Pennsylvania Real Estate Investment Trust (PEI)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	MAC Neutral	X Industry	S&P 500	FRT Neutral	KIM Neutral	SPG Neutral
VGM Score	D	-	-	F	F	D
Market Cap	3.64 B	2.80 B	24.65 B	9.78 B	8.56 B	47.35 B
# of Analysts	5	5.5	13	6	9	7
Dividend Yield	11.65%	4.63%	1.73%	3.24%	5.53%	5.68%
Value Score	C	-	-	F	D	C
Cash/Price	0.03	0.03	0.04	0.02	0.02	0.08
EV/EBITDA	14.31	16.00	14.11	22.32	15.48	16.52
PEG Ratio	3.95	4.04	2.08	4.30	3.32	2.66
Price/Book (P/B)	1.25	2.06	3.39	4.05	1.72	15.59
Price/Cash Flow (P/CF)	8.67	12.58	13.81	19.68	10.57	12.49
P/E (F1)	7.16	14.52	19.19	19.91	13.46	11.71
Price/Sales (P/S)	3.90	6.00	2.69	10.50	7.46	8.27
Earnings Yield	13.98%	6.88%	5.21%	5.03%	7.45%	8.53%
Debt/Equity	1.77	1.05	0.72	1.42	1.09	8.77
Cash Flow (\$/share)	2.97	2.26	6.94	6.58	1.92	11.83
Growth Score	F	-	-	D	D	D
Hist. EPS Growth (3-5 yrs)	0.04%	2.99%	10.56%	5.36%	-0.12%	6.96%
Proj. EPS Growth (F1/F0)	1.64%	2.38%	7.57%	2.47%	2.48%	4.38%
Curr. Cash Flow Growth	-20.68%	3.10%	14.73%	-3.92%	2.71%	11.00%
Hist. Cash Flow Growth (3-5 yrs)	-4.36%	9.77%	9.00%	10.61%	9.77%	7.40%
Current Ratio	0.78	1.06	1.24	1.52	NA	3.34
Debt/Capital	63.96%	51.19%	42.99%	57.94%	52.18%	89.72%
Net Margin	8.76%	24.75%	11.14%	28.01%	33.95%	40.23%
Return on Equity	2.69%	5.94%	17.16%	11.09%	7.36%	66.93%
Sales/Assets	0.10	0.13	0.55	0.15	0.10	0.18
Proj. Sales Growth (F1/F0)	2.86%	2.16%	4.16%	4.05%	1.23%	1.48%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	-0.69%	0.04%	0.27%	0.21%	-0.34%	-0.52%
1 Week Price Chg	-3.25%	-0.42%	0.39%	-0.17%	-2.07%	-0.39%
4 Week Price Chg	-5.54%	1.30%	2.95%	1.30%	-1.31%	1.66%
12 Week Price Chg	-8.00%	-4.32%	7.76%	-7.16%	-4.21%	-4.32%
52 Week Price Chg	-43.93%	6.30%	22.29%	3.13%	22.40%	-14.72%
20 Day Average Volume	2,914,876	738,236	1,536,375	353,444	3,095,012	1,346,094
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.08%	-0.19%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.42%	-0.63%	0.00%
(F1) EPS Est 12 week change	-0.74%	-0.59%	-0.40%	-2.47%	-0.49%	-0.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.08%	-1.83%	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	F
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.

Disclosures

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