

Mondelez International (MDLZ)

\$51.49 (As of 07/02/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Mondelez has outperformed the industry on a year-to-date basis. The company has been benefitting from its efficient pricing strategy, which have been aiding its organic sales. This was witnessed in the company's first-quarter 2020 results, wherein earnings and sales beat the consensus mark and rose year over year. Also, balanced pricing and volume/mix drove organic sales. The company's focus on brand building through innovation and acquisitions has been yielding. Evidently, the buyout of minority stakes in Perfect Snacks along with investments in Hu Master and Uplift Foods indicates the company's efforts to boost healthy offerings. Also, it has been bolstering presence in the emerging regions. However, adjusted gross margin contracted 20 bps, owing to higher raw material costs, currency woes and disruptions caused by coronavirus.

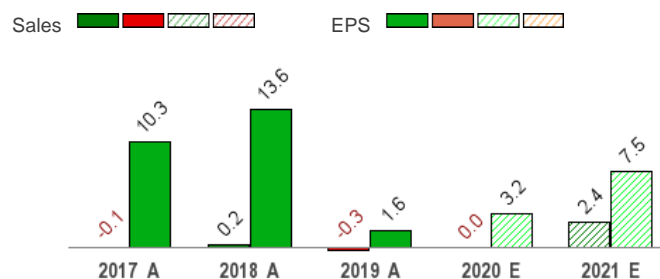
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$59.96 - \$41.19
20 Day Average Volume (sh)	6,747,922
Market Cap	\$73.8 B
YTD Price Change	-6.5%
Beta	0.61
Dividend / Div Yld	\$1.14 / 2.2%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 26% (66 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.2%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	08/04/2020
Earnings ESP	-4.6%
P/E TTM	20.5
P/E F1	20.2
PEG F1	2.7
P/S TTM	2.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,646 E	6,053 E	6,568 E	7,269 E	26,490 E
2020	6,707 A	5,843 E	6,343 E	6,984 E	25,872 E
2019	6,538 A	6,062 A	6,355 A	6,913 A	25,868 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.69 E	\$0.62 E	\$0.68 E	\$0.73 E	\$2.74 E
2020	\$0.69 A	\$0.56 E	\$0.63 E	\$0.68 E	\$2.55 E
2019	\$0.65 A	\$0.57 A	\$0.64 A	\$0.61 A	\$2.47 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

Headquartered in Deerfield, IL, **Mondelez International, Inc.** (MDLZ) is one of the leading global snacks company. Mondelez was previously known as Kraft Foods, Inc. and changed its name to Mondelez following the spin-off of its North American grocery business into a separate independent company, Kraft Foods Group, Inc. in Oct 2012. Kraft has, however, merged with H.J. Heinz Company to form The Kraft Heinz Company.

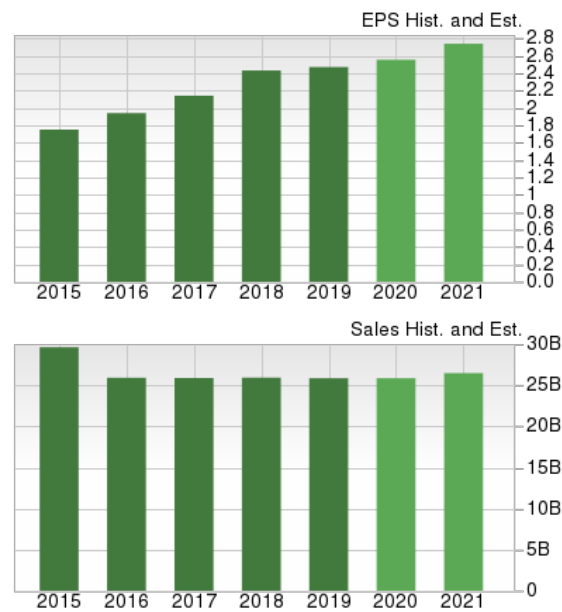
Mondelez makes snack food products. Its product categories include chocolates; biscuits (cookies, crackers and salted snacks); gum and candy, beverages and cheese & grocery products.

In July 2018, the company completed the acquisition of 13.8% ownership in the Keurig Dr Pepper business. Prior to this, in June 2018, Mondelez concluded the buyout of Tate's Bake Shop. Also, in January 2018, the company teamed up with Post Consumer Brands, a business unit of Post Holdings, to create two new cookie-inspired breakfast cereals. Additionally, Mondelez's two major acquisitions of the LU biscuit business in 2007 and Cadbury in 2010 significantly expanded its routes-to-market around the globe, especially in Europe and emerging markets.

On the other hand, In July 2017, the company completed the sale of a major part of its grocery business in Australia and New Zealand to Bega Cheese Limited. In April 2017, the company completed the sale of several manufacturing facilities in France and the sale of several local confectionery brands.

In Mar 2016, Mondelez exchanged of a portion of its investment in JDE for an interest in Keurig Green Mountain. As a result, the company holds a 26.5% equity interest in JDE. In Jul 2015, Mondelez contributed its global coffee businesses to a new company, Jacobs Douwe Egberts (JDE), in which it holds an equity interest.

Mondelez has operations in more than 80 countries outside the United States and offers its products in 165 countries. Mondelez's operating segments include — **Latin America** (11.7% of 2019 sales); **Asia, Middle East & Africa or AMEA** (22.3% of 2019 sales); **Europe** (38.5% of 2019 sales) and **North America** (27.5% of 2019 sales).



Reasons To Buy:

▲ **Solid Pricing & Organic Sales:** Mondelez's strategic pricing initiatives have been yielding results. In fact, during the first quarter of 2020, balanced pricing and volume/mix led the company's organic revenues to rise 6.4%. Organic revenues in the quarter rose in emerging and developed markets. We note that the company's organic sales have been rising for a while. During the first, second, third and fourth quarter of 2019, organic sales went up 3.7%, 4.6%, 4.2% and 4.1%, respectively. A strong brand position combined with yielding strategies has been boosting organic sales. Management continues to strike the right balance between volume and profit through disciplined pricing. Although, the stock lost 6.5% year to date, it has outpaced the industry's decline of 10%.

Mondelez's strategic pricing efforts have been fueling organic sales. It is also progressing well with saving initiatives.

▲ **Accretive Acquisitions and Partnerships:** Mondelez has always been keen on expanding its business through acquisitions. To this end, it recently acquired majority interest in Give & Go, which is a pioneer in fully-finished sweet baked goods. In previous developments, the company made investments in Hu Master Holdings and Uplift Foods (in April 2019) as part of the SnackFutures platform. In July last year, it acquired minority stakes in Perfect Snacks. These investments indicate management's efforts to boost healthy offerings. In fact, management earlier stated that Mondelez plans to offer more good-for-you snacks and expects 50% of its product portfolio to comprise 'well-being' items by 2020. Also, in January 2018, the company teamed up with Post Consumer Brands, a business unit of Post Holdings, to create two new cookie-inspired breakfast cereals.

Further, some notable buyouts of the company include 13.8% ownership in the Keurig Dr Pepper business (in July 2018), acquisition of Tate's Bake Shop (June 2018), LU biscuit business in 2007 and Cadbury in 2010. These buyouts significantly expanded Mondelez's routes-to-market around the globe, especially in emerging markets. The company's focus on undertaking acquisitions to gain scale in its categories and distribution capabilities bode well.

▲ **Focus on Innovation and Brand Building:** The company is refreshing its brand portfolio through product innovation and extending its brands to newer geographies and platforms. In 2018, the company introduced an innovation platform — Joy Fills. This platform, which was launched in Europe, is designed to meet growth across brands such as Oreo, Cadbury and Milka. Also, the introduction of Lickables in India has been doing well. Further, the company's continued product innovation under the SnackFutures platform bodes well. In fact, management plans to focus on enhancing the snacking portfolio, an area which growing rapidly across the globe.

Speaking of brand building efforts, Mondelez has been increasing investments in in-store execution and advertising to support the Power Brands and innovation funded by cost savings. Such investments are helping the company to witness growth in two of its most globally renowned brands — Cadbury Dairy Milk and Oreo.

The company focuses on boosting brand popularity through advertising campaigns across different media platforms. Additionally, to strengthen its brand presence across digital media, Mondelez had earlier formed a global strategic partnership with Facebook, Google and Amazon in the United States. Further, the company is proving its presence in high-growth channels like e-commerce, discounters, convenience stores and traditional trade. Earlier, Mondelez had also inked an e-commerce partnership with China's leading online and mobile commerce company, Alibaba Group.

▲ **Strong Emerging Market Presence:** The company generates around 70% of its revenues from outside the United States with around 35% coming from the emerging markets including Brazil, China, India, Mexico, Russia and Southeast Asia. Food/beverage companies are increasingly investing in developing and emerging markets like India, China and Brazil which boast significant growth potential due to relatively low per-capita consumption. Another reason is the burgeoning middle-class population with rising income levels which in turn is increasing the demand for convenience food and beverages. Mondelez is also been making investments in other emerging regions such as Africa, Mexico, Russia and Southeast Asia, which are yielding results. Management explores brand growth opportunities in these regions based on local consumer preferences.

During the first quarter, revenues from emerging markets increased 4.5% on an organic basis. Further, strong growth in developed markets like Europe and North America in discounters and biscuits channels, respectively are likely to set the base for the company's future growth in emerging markets such as China, India and Russia.

▲ **Savings & Restructuring Plans On-Track:** Mondelez has been undertaking some major steps to enhance savings, which aid fueling margins and cash flow. Moreover, such savings are being invested in brand-building endeavors. We note that management is on track with savings initiatives such as zero-based budgeting. It is also on track with eliminating other unnecessary costs from supply chain, such as waste reduction in the U.S. network. Management expects to keep gaining from such well-chalked saving plans.

Further, the company is on track with its restructuring program, called the Simplify to Grow Program. This program is aimed at reducing Mondelez's operating costs that includes supply chain and overhead costs.

▲ **Debt Analysis:** Mondelez's long-term debt (including operating lease liabilities) of \$13,787 million as of Mar 31, 2020 reflected a decrease of 5.6% on a sequential basis. Incidentally, the company's debt-to-capitalization ratio of 0.38 stood lower than the industry's ratio of 0.45 at the end of first-quarter 2020. Moreover, the company's times interest earned ratio of 6.6 is above the industry's ratio of 3.7. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.

Reasons To Sell:

- ▼ **Currency Headwinds:** Due to exposure in international markets, Mondelez is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the United States. An increase in price may have an adverse impact on the demand for the products. Adverse currency movements have been hurting the company's performance for a while. Notably, during the first quarter of 2020, adverse impacts from currency rates dented the company's top line. Clearly, volatility in exchange rates is a threat to the company's performance.
- ▼ **Strained Margins:** During first-quarter 2020, adjusted gross margin contracted 20 basis points, owing to increased raw material costs, unfavorable currency and disruptions caused by coronavirus outbreak. Also, the company's adjusted operating margin fell 30 bps to 16.5% due to lower adjusted gross profit margin and elevated marketing expenses during the quarter. Persistence of such headwinds is a threat to profitability, if not cushioned by adequate revenue growth.
- ▼ **Macroeconomic Headwinds:** Mondelez is dependent on consumer discretionary spending environment which is affected by the general macroeconomic conditions, consumer confidence, employment levels and other macro factors. Despite improvement in economic growth, consumers are increasing their spending only modestly. High healthcare costs and tightened credit availability remain concerns for consumer discretionary spending in the United States.
- ▼ **Stiff Competition:** The food and snacking industry is highly competitive. Mondelez's principal competitors are major international food, snack and beverage companies that operate in multiple geographic areas and numerous local and regional companies. Competitor and customer pressures restrict the company to increase prices in response to commodity and other cost hikes. Moreover, the rapid emergence of new distribution channels, such as e-commerce, may create consumer price deflation and affect retail customer relationships.
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Mondelez has withdrawn its full-year 2020 guidance due to coronavirus outbreak.

Last Earnings Report

Mondelez's Q1 Earnings Top Estimates, Sales up

Mondelez International reported first-quarter 2020 results, with earnings and sales surpassing the Zacks Consensus Estimate for the third and sixth successive time, respectively. Also, sales increased year over year on favorable pricing and volumes, though adverse currency movements were a hurdle. Earnings also increased year over year.

Moreover, the company witnessed increased consumer demand for its snacks in developed markets, majorly in North America during March. However, Mondelez faced some challenges in certain emerging markets during this time. Apart from this, the company has been undertaking various cost-control measures along with expanding its credit facility to maintain financial flexibility amid the coronavirus crisis. Also, management has decided to suspend its share buyback plans due to the coronavirus outbreak.

Given the current situation related to the coronavirus outbreak and its unpredictable impact on economic activities, Mondelez is withdrawing its full-year 2020 guidance.

Q1 Performance

Adjusted earnings came in at 69 cents per share, up 6.2% year over year. The metric surpassed the Zacks Consensus Estimate of 65 cents. On a constant-currency (cc) basis, adjusted earnings increased 10.8% year over year. Improved sales are likely to have been offset by lower adjusted margins.

Net revenues advanced 2.6 % year over year to \$6,707 million and surpassed the Zacks Consensus Estimate of \$6,536 million. The upside was backed by organic net revenues, which rose 6.4% on improved pricing and volume/mix. However, currency headwinds were a deterrent.

Revenues from emerging markets declined 3.4% to \$2,417 million, while the same increased 4.5% on an organic basis. Revenues from developed markets increased 6.3% to \$4,290million, while the same increased 7.6% on an organic basis.

Regional-wise, revenues in Latin America and Asia, Middle East & Africa dropped 9.3% and 2.5% year over year, respectively. Nevertheless, the same moved up 1.3% and 15.1% in Europe and North America, respectively. On an organic basis, revenues increased 7%, 2.2%, 4.3% and 13.4% in Latin America; Asia, Middle East & Africa; Europe; and North America, respectively.

Adjusted gross profit increased \$151 million at constant currency (cc). However, adjusted gross margin contracted 20 basis points (bps) due to increased raw material costs, unfavorable currency and disruptions caused by coronavirus outbreak.

The company's adjusted operating income increased \$62 million (at cc) from the prior-year quarter's figure. However, adjusted operating margin fell 30 bps to 16.5% due to lower adjusted gross profit margin and elevated marketing expenses.

Other Financials

Mondelez ended the quarter with cash and cash equivalents of \$1,925 million, long-term debt of \$13,354 million and total equity of \$25,752 million.

At the end of the quarter, the company generated cash from operating activities of nearly \$284 million. Free cash flow was \$70 million during the same time period.

During the quarter, the company distributed around \$1.1 billion to shareholders through share repurchases and cash dividends.

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	2.62%
EPS Surprise	6.15%
Quarterly EPS	0.69
Annual EPS (TTM)	2.51

Recent News

Mondelez Declares Dividend – May 13, 2020

Mondelez has declared quarterly cash dividend of 28.5 cents per share. This will be payable on Jul 14, 2020 to shareholders of record as on Jun 30.

Mondelez Bolsters Portfolio With Give & Co.'s Inclusion – Apr 2, 2020

Mondelez concluded the previously announced buyout of a considerable majority stake in Give & Co. The buyout was first announced on Feb 25. Per the deal, the acquired company will operate as a separate business from its existing headquarters in Toronto, Ontario, Canada. Moreover, Mondelez will provide customer and channel insights along with procurement and marketing resources to aid growth.

Being a pioneer in fully-finished sweet baked goods, Give & Go offers brownies, cupcakes, pastries and muffins as well as owns well-known brands like two-bite and Create-A-Treat. The inclusion of the above-mentioned products and brands is likely to strengthen Mondelez's portfolio, which already includes global and local brands — Oreo, Cadbury, Milka and belVita along with Tate's and Perfect Snacks.

Mondelez Announces Benefits for Workers Amid Coronavirus Scares – Mar 23, 2020

Mondelez recently announced that it has adopted some concrete steps to offer bonus and protection to its employees as the world continues to strive against the coronavirus menace. The company's manufacturing, distribution and sales hourly workers will be rewarded with an extra \$2 per hour, based on number of hours worked till May 2. Also, its sales representatives will be eligible for a \$125 per-week bonus.

In an attempt to support the increased marketplace demand amid the coronavirus crisis, the company plans to hire 1,000 frontline employees for its U.S. distribution and sales network in the next few months.

Valuation

Mondelez shares are down 6.5% in the year-to-date period and 7.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 10% in the year-to-date period, while the Zacks Consumer Staples sector has dipped 12.7%. Over the past year, the Zacks sub-industry is down 4.4%, while the sector dipped 11.7%.

The S&P 500 index is down 3.2% in the year-to-date period and up 4.7% in the past year.

The stock is currently trading at 19.46X forward 12-month earnings, which compares to 17.78X for the Zacks sub-industry, 19.14X for the Zacks sector and 22.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.5X and as low as 14.8X, with a 5-year median of 20.16X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$55 price target reflects 20.79X forward 12-month earnings.

The table below shows summary valuation data for MDLZ

Valuation Multiples - MDLZ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.46	17.78	19.14	22.16
	5-Year High	24.5	22.9	22.37	22.16
	5-Year Low	14.8	14.82	16.65	15.25
	5-Year Median	20.16	18.54	19.62	17.52
P/S F12M	Current	2.82	1.63	9.37	3.47
	5-Year High	3.21	2.05	11.15	3.47
	5-Year Low	2.04	1.41	8.1	2.53
	5-Year Median	2.52	1.78	9.89	3.02
EV/EBITDA F12M	Current	15.79	13.82	34.15	12.31
	5-Year High	17.98	16.59	37.73	12.64
	5-Year Low	12.22	11.67	29.76	9.04
	5-Year Median	15.43	13.23	34.09	10.81

As of 07/02/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Conagra Brands Inc. (CAG)	Neutral	2
Campbell Soup Company (CPB)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
The Hain Celestial Group, Inc. (HAIN)	Neutral	2
Hershey Company The (HSY)	Neutral	3
Kellogg Company (K)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	3
The J. M. Smucker Company (SJM)	Neutral	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MDLZ	X Industry	S&P 500	K	KHC	SJM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	B
Market Cap	73.78 B	3.57 B	21.98 B	22.72 B	38.87 B	11.98 B
# of Analysts	8	3	14	6	7	7
Dividend Yield	2.21%	0.00%	1.91%	3.44%	5.03%	3.35%
Value Score	D	-	-	C	C	B
Cash/Price	0.03	0.07	0.07	0.05	0.14	0.03
EV/EBITDA	17.30	13.13	12.74	14.16	13.80	10.28
PEG Ratio	2.65	3.83	2.89	4.55	2.26	5.91
Price/Book (P/B)	2.87	2.26	2.98	7.07	0.76	1.46
Price/Cash Flow (P/CF)	15.90	11.77	11.75	12.36	9.30	8.28
P/E (F1)	20.19	18.00	21.41	17.44	13.57	12.77
Price/Sales (P/S)	2.83	1.13	2.30	1.69	1.54	1.54
Earnings Yield	4.95%	4.91%	4.42%	5.73%	7.36%	7.83%
Debt/Equity	0.54	0.66	0.76	2.38	0.62	0.67
Cash Flow (\$/share)	3.24	2.68	6.94	5.36	3.42	12.68
Growth Score	D	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	9.10%	5.78%	10.93%	3.30%	0.09%	8.82%
Proj. EPS Growth (F1/F0)	3.39%	4.87%	-9.56%	-3.51%	-17.74%	-6.15%
Curr. Cash Flow Growth	4.99%	4.76%	5.51%	-9.43%	-15.53%	-2.78%
Hist. Cash Flow Growth (3-5 yrs)	2.73%	5.64%	8.62%	-0.49%	11.14%	11.88%
Current Ratio	0.53	1.66	1.30	0.77	1.48	1.24
Debt/Capital	34.87%	40.14%	44.46%	70.39%	38.15%	40.14%
Net Margin	14.24%	2.56%	10.62%	7.61%	7.58%	9.99%
Return on Equity	13.73%	12.01%	15.75%	41.25%	6.54%	12.31%
Sales/Assets	0.41	1.08	0.55	0.75	0.24	0.46
Proj. Sales Growth (F1/F0)	0.02%	0.00%	-2.54%	-2.13%	0.01%	-1.71%
Momentum Score	B	-	-	D	C	D
Daily Price Chg	0.80%	0.09%	0.47%	0.58%	0.44%	-0.19%
1 Week Price Chg	-4.72%	-2.23%	-3.90%	-5.78%	-7.71%	-5.44%
4 Week Price Chg	0.39%	0.28%	-3.77%	2.47%	1.02%	-3.74%
12 Week Price Chg	-1.62%	7.07%	8.02%	5.69%	13.16%	-6.86%
52 Week Price Chg	-7.74%	-4.66%	-7.59%	17.01%	1.79%	-12.29%
20 Day Average Volume	6,747,922	233,339	2,649,865	2,638,135	6,795,275	1,111,518
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.25%	0.00%	0.00%	0.00%	0.21%	-3.33%
(F1) EPS Est 12 week change	-2.34%	-2.30%	-9.53%	0.97%	7.44%	-0.98%
(Q1) EPS Est Mthly Chg	0.53%	0.00%	0.00%	0.00%	0.00%	-3.77%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
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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