

NETGEAR, Inc. (NTGR)

\$24.00 (As of 04/29/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/06/20)

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

NETGEAR delivered impressive first-quarter 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. The company intends to capitalize on technology inflections and build recurring service revenues to drive growth. It holds nearly 51% and 53% of the market share in U.S. retail WiFi products and switch market, respectively. Benefiting from advanced technological innovations, it aims to emerge as a pioneer of networking technologies like WiFi 6 and Pro AV. However, it operates in a dynamic market and expects competition to intensify on price. It faces major headwinds in APAC and EMEA regions due to macroeconomic challenges and lower service provider revenues. Further, NETGEAR has withdrawn its prior guidance for 2020 and has not given any definitive outlook for the second quarter due to COVID-19 crisis.

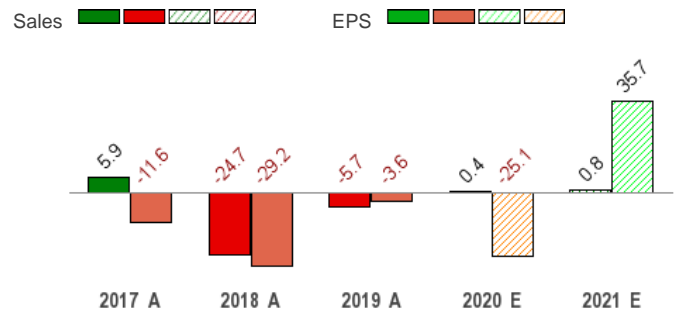
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---------------------------------------|
| 52 Week High-Low | \$36.87 - \$15.01 |
| 20 Day Average Volume (sh) | 532,327 |
| Market Cap | \$710.2 M |
| YTD Price Change | -2.1% |
| Beta | 1.19 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Computer - Networking |
| Zacks Industry Rank | Top 25% (64 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 16.7% |
| Last Sales Surprise | 6.1% |
| EPS F1 Est- 4 week change | -38.8% |
| Expected Report Date | 07/22/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 16.2 |
| P/E F1 | 17.1 |
| PEG F1 | NA |
| P/S TTM | 0.7 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 242 E | 233 E | 257 E | 278 E | 1,011 E |
| 2020 | 230 A | 237 E | 254 E | 281 E | 1,003 E |
| 2019 | 249 A | 231 A | 266 A | 253 A | 999 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.38 E | \$0.29 E | \$0.52 E | \$0.61 E | \$1.90 E |
| 2020 | \$0.21 A | \$0.21 E | \$0.48 E | \$0.57 E | \$1.40 E |
| 2019 | \$0.60 A | \$0.28 A | \$0.65 A | \$0.34 A | \$1.87 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 04/29/2020. The reports text is as of 04/30/2020.

Overview

Incorporated in January 1996 and headquartered in San Jose, CA, NETGEAR, Inc. is a global telecommunications firm that offers innovative networking and Internet connected products for seamless networking, broadband access and network connectivity. The company's products are built on variety of proven technologies such as wireless (Wi-Fi and LTE), Ethernet and powerline, with a focus on reliability and ease-of-use. These products are available in multiple configurations to address the evolving needs of customers in each geographic region where it operates. Leveraging its technological expertise, high volume manufacturing and engineering infrastructure, NETGEAR designs its products and services to meet the specific needs of consumer, business and service provider markets. The company customizes various elements of the software interface and product design, including component specification, physical characteristics such as casing, design and coloration to meet the individual needs of its clients.

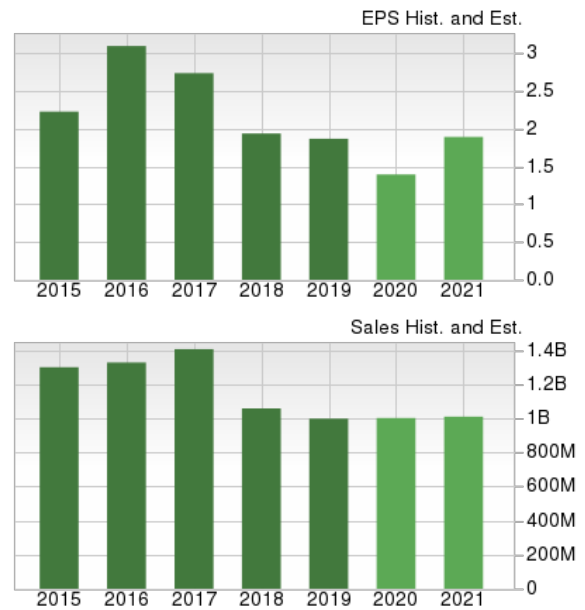
On Dec 31, 2018, NETGEAR completed the spin-off of the Arlo business through a distribution of 62,500,000 shares of Arlo Technologies stock to NETGEAR's shareholders. Prior to that, the company owned approximately 84.2% of Arlo's stock. Following the completion, the company no longer owns any shares of Arlo.

NETGEAR currently operates and reports under two segments: Connected Home, and Small and Medium Business (SMB).

Connected Home (accounting for 71.6% of net revenues in first-quarter 2020): Generating the lion's share of revenues, this segment offers high-performance, dependable and easy-to-use LTE and WiFi Internet networking solutions for consumers.

SMB (28.4%): Focused on small and medium-sized businesses, this segment comprises affordable business networking, storage and security solutions for enterprise-class functionality for small and medium-sized businesses.

The company conducts business across three geographic regions: Americas, Europe, Middle-East and Africa (EMEA) and Asia Pacific (APAC).



Reasons To Buy:

- ▲ NETGEAR continues to capitalize on technology inflections, create new categories and build recurring service revenues to maintain its market leadership position and drive future growth. The company's revenues have been driven by the rapid increase in Internet connected devices such as smart phones, laptops, tablets and the advent of Smart Home and Internet of Things devices, which have boosted the need for robust networking solutions. An increased market demand for Smart Home and Internet-connected products such as Smart TVs, game consoles, HD streaming players, security cameras, thermostats and smoke detectors continues to drive innovations in networking. NETGEAR continues to focus on introducing products into growth areas which form the basis of Smart Homes as it strives to be the provider of industry-leading networking and smart connected products for consumers, business and service provider markets.
 - ▲ NETGEAR intends to maintain a competitive edge with new product launches, which hinge on affordability, reliability and ease of use, for consumer, business and service provider markets.
 - ▲ NETGEAR is confident to retain a competitive edge in new product introductions, based on the Wi-Fi 6 standards. The company is excited to be part of AT&T's commitment to be the first to introduce mobile 5G services in the United States, and intends to launch more 5G related products in 2020. Furthermore, it has released Meural Canvas II. Notably, Meural is the world's leading smart digital canvas. NETGEAR also announced an exciting new Meural content partnership with National Geographic.
 - ▲ With an exponential growth in data traffic, consumers, businesses and service providers need a complete set of wired and wireless networking and broadband products that are tailored to their specific needs and budgets. The company's products are designed with an industrial appearance, including metal cases, the ability to mount the product within standard data networking racks as well as unique mounting solutions for other uses and targeting the business market. These products typically include higher port counts, higher data transfer rates and other performance characteristics designed to meet the needs of a business user, providing a competitive edge to outsmart its rivals. Notably, the number of registered app users recorded in first-quarter 2020 was 5.1 million, up from 4.4 million on a sequential basis. The company ended the quarter with 228,000 paid subscribers.
 - ▲ The company continues to introduce new products and services that hinge on affordability, reliability and ease of use. In order to capitalize on the increasing demand for cloud-based applications for small and medium-sized enterprises, NETGEAR is introducing next generation commercial products. These include PoE switches, Multi-gigabit Ethernet switches, high capacity local and remote unified storage, small to medium capacity campus wireless LAN, and security appliances. These products are likely to augment the effectiveness and efficiency of its hybrid cloud access network and strengthen its position in the market. In the last reported quarter, NETGEAR shipped nearly 3.4 million units, including 2.4 million nodes of wireless products.
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Reasons To Sell:

- ▼ NETGEAR's business continues to be affected by geopolitical and economic conditions, and changes in the overall demand for networking and smart home product. The company's operating results are likely to be impacted by introduction of new products by competitors, slow growth in the networking product, personal computer and Internet infrastructure. In the last reported quarter, its adjusted operating margin was 3.6% compared with 9.1% in the year-ago quarter due to lower operating income. A seasonal shift in end market demand for products, particularly in Connected Home business segment, is expected to impair growth. Moreover, the outbreak of coronavirus in China, an important region for its supply chain and end market sales, as well as in other countries doesn't bode well for near-term growth.
- ▼ NETGEAR is facing headwinds in EMEA and APAC that is negatively impacting its revenues. In first-quarter 2020, EMEA revenues came in at \$42.1 million, down 26% year over year, due to lower service provider revenues. Meanwhile, APAC revenues were \$29.6 million, down 32.8% due to COVID-19 crisis in the Greater China region coupled with lower service provider revenues in Australia. In the last reported quarter, the company generated net revenues of \$230 million, down 7.7% from the previous-year quarter's figure. The year-over-year decline was caused by reduction in service provider revenues of nearly \$11 million. Moreover, the company's decision to split into two independent companies involves a fair amount of risk, which may lead to decline in the top line, earnings dilution and lower cash flow in the long term. The company has incurred high costs related to the separation of the Arlo business.
- ▼ The company functions in a rapidly evolving and fiercely competitive market and expects competition to intensify on price. Furthermore, it depends on a limited number of third-party manufacturers for substantially all of its manufacturing needs, primarily based in low-cost countries like China and Vietnam. With potential trade restrictions on China, NETGEAR is likely to lose its cost advantage and products can become pricier. The company's business is highly seasonal. It experiences increased sales in the third and fourth fiscal quarters primarily due to seasonal demand from consumer markets relating to the beginning of the school year and holiday season. This leads to volatility in cash flow and reduces the predictability of earnings.
- ▼ NETGEAR operates in a highly competitive and dynamic environment. Hence, its future success depends on its ability to develop new products that have broad market acceptance. In order to differentiate its products, the company has to continually invest in research and development activities, which strain its margins. In addition, high technological obsolescence of its product portfolio has led to lower return on capital. Notably, in the last reported quarter, Connected Home segment generated net revenues of \$164.7 million, down 2.8% year over year due to lower service provider revenues in the APAC region. SMB revenues, on the other hand, declined 18.1% year over year to \$65.3 million due to reduced demand stemming from the virus outbreak.
- ▼ Owing to the COVID-19 pandemic, NETGEAR has withdrawn its earlier guidance for full-year 2020 and has not given any definitive financial outlook for the second quarter of 2020. The company expects that the major shift coupled with higher freight costs will likely reduce the operating margin in the next quarter. Channel inventory is anticipated to decline in the future as the company is witnessing a change in demand from retail to online platforms. This, in turn, will further constrain the revenue growth in the second quarter of 2020. Currently facing a 50% decline in its SMB segment, it is estimated that if the IT demand does not recover, then SMB revenues are likely to decline 25% sequentially.
- ▼ As of Mar 29, 2020, the company had \$204.3 million in cash and equivalents with \$234.2 million of total current liabilities, compared to respective tallies of \$196 million and \$298 million in the previous quarter. The company currently has a debt-to-capital ratio of .04 compared with 0.3 of the sub-industry. This shows that the company is likely to face difficulties to clear its debt. It remains to be seen how NETGEAR handles its business operations in the near future amid disruptions caused by COVID-19 pandemic.

NETGEAR's business is highly seasonal and causes volatility in cash flow. The company operates in a dynamic environment that further strains its margins. It has withdrawn its prior guidance for 2020 due to COVID-19 crisis.

Last Earnings Report

NETGEAR Q1 Earnings Beat Estimates, Withdraws Outlook

NETGEAR delivered impressive first-quarter 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. However, both earnings and revenues declined year over year.

Bottom Line

GAAP net loss from continuing operations in the reported quarter were \$4.2 million or a loss of 14 cents per share against net income of \$12.8 million or 39 cents per share in the year-ago quarter. The year-over-year deterioration was primarily caused by lower revenues.

Non-GAAP net income from continuing operations was \$6.4 million or 21 cents per share compared with \$19.8 million or 60 cents per share in the year-ago quarter. The bottom line beat the Zacks Consensus Estimate by 3 cents.

Revenues

NETGEAR generated net revenues of \$230 million, down 7.7% from the prior-year quarter's figure. The year-over-year decline was caused by reduction in service provider revenues of nearly \$11 million. However, the top line surpassed the consensus estimate of \$217 million. The company shipped nearly 3.4 million units, including 2.4 million nodes of wireless products in the first quarter of 2020.

Region wise, net revenues from the Americas were \$158.2 million (68.8% of net revenues), up 6.9% year over year. The growth was primarily driven by higher demand of wireless products, owing to work-from-home trend triggered by the coronavirus pandemic. EMEA (Europe, Middle East and Africa) revenues were \$42.1 million (18.3%), down 26% year over year. The decline was mainly due to lower service provider revenues. APAC (Asia Pacific Region) revenues were \$29.6 million (12.9%), down 32.8% due to COVID-19 crisis in the Greater China region coupled with lower service provider revenues in Australia.

The number of registered app users recorded in the quarter was 5.1 million, up from 4.4 million on a sequential basis. Notably, NETGEAR ended the quarter with 228,000 paid subscribers.

Segmental Performance

Connected Home, which includes Nighthawk, Orbi, Nighthawk Pro Gaming and Meural brands, generated net revenues of \$164.7 million, down 2.8% year over year. The decline was primarily caused by lower service provider revenues in the APAC region, partially offset by robust retail channels and service provider revenues in the Americas. Markedly, NETGEAR continues to hold about 51% market share in U.S. retail WiFi products, which include mesh, routers, gateways and extenders.

Net revenues from **SMB** declined 18.1% year over year to \$65.3 million due to reduced demand stemming from the virus outbreak. Markedly, the company continues to hold about 53% market share in U.S. retail switch market. NETGEAR also launched new PoE+ switches for small businesses in the reported quarter.

Other Details

Adjusted gross margin declined to 29.2% from 33.3% due to lower revenues. Non-GAAP operating margin was 3.6% compared with 9.1% in the year-ago quarter thanks to lower operating income.

Cash Flow & Liquidity

During the first quarter, NETGEAR generated \$29 million of cash from operating activities. As of Mar 29, 2020, the company had \$204.3 million in cash and equivalents with \$234.2 million of total current liabilities. It repurchased approximately 584,000 shares at an average price of \$25.71 per share for \$15 million in the reported quarter.

2020 Guidance Withdrawn

Due to the COVID-19 pandemic, NETGEAR has withdrawn its earlier guidance for full-year 2020 and has not given any definitive financial outlook for the second quarter of 2020. The company witnessed a significant shift in its business operations. It expects that the major shift coupled with higher freight costs will likely reduce the operating margin in the next quarter. As channel partners migrate to efficient operating structures, the company is witnessing a change in demand from retail to online platforms. As a result, channel inventory is expected to decline in the future, which will further put pressure on revenue growth in the second quarter.

Despite these shortcomings, the current demand surge for WiFi products is expected to bolster revenues in the Connected Home segment in the second quarter. The revenue growth will be partially offset by softness in the SMB segment. The company is currently facing a 50% decline in its SMB segment due to the coronavirus pandemic. Consequently, it is estimated that if the IT demand does not recoup, then SMB revenues are likely to decline 25% sequentially.

Moving Forward

Despite supply chain disruptions amid global pandemic, NETGEAR is confident that it will maintain its leadership in new product introduction, based on the Wi-Fi 6 standards. This, in turn, is likely to drive positive cash flow amid competitive macro environment. The company also launched second generation 5G mobile hotspot and new PoE+ switches. It aims to emerge as a pioneer of best-in-class networking technologies like WiFi 6 and Pro AV, thereby benefiting from advanced technological innovations. In order to ramp up the availability of its products, the company is committed to help customers with superior performance and emerge as the biggest contributor in these crucial times. Moving

Quarter Ending 03/2020

| Report Date | Apr 22, 2020 |
|------------------|--------------|
| Sales Surprise | 6.07% |
| EPS Surprise | 16.67% |
| Quarterly EPS | 0.21 |
| Annual EPS (TTM) | 1.48 |

forward, NETGEAR intends to boost its registered app user base to pay out future dividends and continue to drive the momentum in 2020.

Recent News

On Feb 11, 2020, NETGEAR announced that it has introduced Audio-Visual over Internet Protocol applications at the Integrated Systems Europe Conference in Amsterdam with M4500 switches. These switches have been specifically designed to meet the high-end requirements of businesses with ultra-low latency connections within 100 gigabit bandwidth. With this launch, the company has also eased ProAV installations with a dedicated Engineering Services team at no additional cost.

On Jan 9, 2020, NETGEAR announced that it has welcomed Laura Durr to join its board of directors. Ms. Durr joins with a valued background in finance and strategy.

On Jan 6, 2020, NETGEAR announced that it has added Nighthawk Mesh WiFi System to its broad portfolio of WiFi 6 solutions. The move has been undertaken to make Nighthawk's line of performance routers more accessible to a broader spectrum of tech enthusiasts, which primarily highlights personalized network settings with flexible WiFi coverage. Equipped with dual-band technology, the innovative mesh system provides seamless and reliable connections with speeds up to 1.8 Gbps to address gaming, streaming and smart home requirements.

On Jan 6, 2020, NETGEAR announced that it has added Orbi 4G LTE WiFi Router to its much acclaimed Orbi portfolio as it aims to expand network connectivity of all Internet-connected devices within a household. The move has been undertaken to make the Orbi technology more accessible to a broader spectrum of audience. Demonstrated at CES 2020, the high-tech router has been designed to provide uninterrupted WiFi connection with speeds up to 1.2 Gbps and coverage of up to 2,000 square feet. Its expandable mesh architecture is compatible with Orbi AC satellites, which facilitates consistent and flawless 4K streaming and gaming applications. Backed by a robust cellular network, the WiFi router is compatible with major 4G LTE service providers.

Valuation

NETGEAR shares are down 22% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 21.9% over the past year, but stocks in the Zacks Computer and Technology sector are up 6.9% in the same time frame.

The S&P 500 Index is down 2.6% in the past year.

The stock is currently trading at 15.02X trailing 12-month EV/EBITDA, which compares to 8.8X for the Zacks sub-industry, 11.38X for the Zacks sector and 10.45X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 16.73X and as low as 3.51X, with a 5-year median of 8.46X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 21.85X trailing 12-month book value.

The table below shows summary valuation data for NTGR

| Valuation Multiples - NTGR | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM | Current | 15.02 | 8.8 | 11.38 | 10.45 |
| | 5-Year High | 16.73 | 13.94 | 12.85 | 12.87 |
| | 5-Year Low | 3.51 | 4.87 | 7.56 | 8.27 |
| | 5-Year Median | 8.46 | 7.25 | 10.63 | 10.78 |
| P/B TTM | Current | 1.19 | 4.9 | 4.64 | 3.78 |
| | 5-Year High | 3.27 | 6.16 | 5.38 | 4.55 |
| | 5-Year Low | 0.76 | 1.84 | 3.16 | 2.84 |
| | 5-Year Median | 1.88 | 2.59 | 4.29 | 3.64 |
| P/S F12M | Current | 0.71 | 3.4 | 3.53 | 3.3 |
| | 5-Year High | 1.58 | 4.3 | 3.59 | 3.44 |
| | 5-Year Low | 0.46 | 2.36 | 2.32 | 2.54 |
| | 5-Year Median | 1.02 | 3.28 | 3.09 | 3.01 |

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|----------------------------------|---------|------|
| Allot Communications Ltd. (ALLT) | Neutral | 3 |
| Cisco Systems, Inc. (CSCO) | Neutral | 3 |
| Digi International Inc. (DGII) | Neutral | 3 |
| Extreme Networks, Inc. (EXTR) | Neutral | 3 |
| Infinera Corporation (INFN) | Neutral | 3 |
| Lantronix, Inc. (LTRX) | Neutral | 3 |
| NetScout Systems, Inc. (NTCT) | Neutral | 3 |
| Silicom Ltd (SILC) | Neutral | NA |

| Industry Comparison Industry: Computer - Networking | | | | Industry Peers | | |
|---|----------|------------|-----------|----------------|-----------|---------|
| | NTGR | X Industry | S&P 500 | EXTR | INFN | NTCT |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | D | - | - | C | C | C |
| Market Cap | 710.22 M | 102.18 M | 20.82 B | 431.37 M | 1.17 B | 2.01 B |
| # of Analysts | 3 | 2 | 14 | 2 | 8 | 2 |
| Dividend Yield | 0.00% | 0.00% | 2.07% | 0.00% | 0.00% | 0.00% |
| Value Score | C | - | - | B | D | C |
| Cash/Price | 0.33 | 0.17 | 0.06 | 0.39 | 0.10 | 0.18 |
| EV/EBITDA | 10.71 | 9.31 | 12.12 | 17.64 | -6.79 | 20.44 |
| PEG Ratio | NA | 3.12 | 2.51 | NA | NA | 3.12 |
| Price/Book (P/B) | 1.19 | 1.45 | 2.74 | 8.47 | 2.99 | 1.03 |
| Price/Cash Flow (P/CF) | 16.01 | 9.14 | 11.23 | 6.30 | NA | 8.89 |
| P/E (F1) | 17.23 | 17.18 | 19.26 | NA | NA | 15.62 |
| Price/Sales (P/S) | 0.72 | 1.61 | 2.16 | 0.42 | 0.90 | 2.24 |
| Earnings Yield | 5.83% | 1.33% | 5.03% | -1.92% | -3.76% | 6.42% |
| Debt/Equity | 0.04 | 0.14 | 0.72 | 8.00 | 1.01 | 0.26 |
| Cash Flow (\$/share) | 1.50 | 0.39 | 7.01 | 0.58 | -0.06 | 3.06 |
| Growth Score | C | - | - | C | B | B |
| Hist. EPS Growth (3-5 yrs) | -16.21% | -1.66% | 10.88% | -10.04% | NA | -17.13% |
| Proj. EPS Growth (F1/F0) | -25.31% | 23.98% | -6.94% | -118.57% | 60.00% | 12.22% |
| Curr. Cash Flow Growth | 102.04% | 23.87% | 5.92% | -31.93% | -196.51% | -0.96% |
| Hist. Cash Flow Growth (3-5 yrs) | -24.73% | 20.94% | 8.55% | 5.33% | NA | 26.38% |
| Current Ratio | 2.89 | 2.34 | 1.23 | 0.99 | 1.32 | 1.70 |
| Debt/Capital | 3.90% | 13.98% | 43.90% | 88.89% | 50.24% | 20.87% |
| Net Margin | 0.90% | -1.50% | 11.15% | -8.31% | -29.77% | 1.02% |
| Return on Equity | 1.87% | 2.50% | 16.47% | 6.55% | -30.29% | 4.47% |
| Sales/Assets | 1.04 | 0.89 | 0.54 | 1.16 | 0.83 | 0.28 |
| Proj. Sales Growth (F1/F0) | 0.39% | 0.00% | -1.52% | -6.92% | 6.61% | 3.23% |
| Momentum Score | F | - | - | F | B | C |
| Daily Price Chg | 4.99% | 0.47% | 2.91% | 11.31% | 0.47% | 3.69% |
| 1 Week Price Chg | -13.05% | 0.54% | -1.74% | 6.23% | 1.67% | 3.17% |
| 4 Week Price Chg | 12.78% | 19.52% | 21.33% | 32.36% | 33.96% | 19.52% |
| 12 Week Price Chg | -7.48% | -15.22% | -16.28% | -39.84% | -19.62% | -1.18% |
| 52 Week Price Chg | -21.95% | -15.55% | -7.57% | -46.78% | 47.92% | -6.55% |
| 20 Day Average Volume | 532,327 | 28,139 | 2,658,107 | 1,663,537 | 2,104,020 | 484,748 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -38.75% | -2.92% | -6.32% | -585.71% | -3.13% | -0.81% |
| (F1) EPS Est 12 week change | -62.02% | -40.00% | -12.93% | -194.44% | -63.68% | -1.61% |
| (Q1) EPS Est Mthly Chg | -53.85% | -0.88% | -11.84% | NA | -0.88% | -30.00% |

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 | 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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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