

Oracle Corp. (ORCL)

\$50.48 (As of 03/26/20)

Price Target (6-12 Months): **\$58.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/18/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Oracle is benefiting from strong adoption of cloud-based solutions, comprising NetSuite ERP, Fusion ERP and Fusion HCM among others. Further, momentum witnessed in cloud services is a key upside. Moreover, strong demand for the latest autonomous database supported by ML is anticipated to drive the top line and provide the company a competitive edge against Amazon Web Services (AWS) in the Database-as-a-Service market. Going ahead, the company is expected to reap benefits from rising adoption of SaaS. Although shares have underperformed in the past year, these factors are expected to help the company grow in the rest of 2020. However, stiff competition in the cloud market from dominant players is expected to put pressure on profitability. Further, lower hardware volumes are likely to hurt the top line.

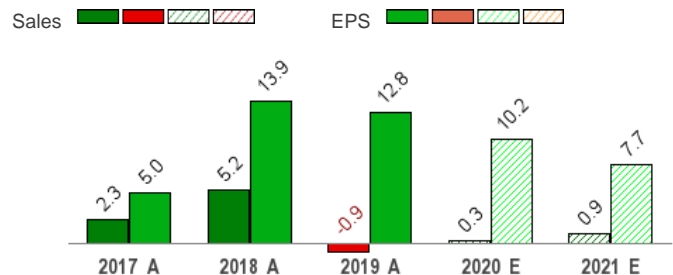
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$60.50 - \$39.71 |
| 20 Day Average Volume (sh) | 23,400,834 |
| Market Cap | \$159.2 B |
| YTD Price Change | -4.7% |
| Beta | 1.07 |
| Dividend / Div Yld | \$0.96 / 1.9% |
| Industry | Computer - Software |
| Zacks Industry Rank | Top 26% (65 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 1.0% |
| Last Sales Surprise | 0.3% |
| EPS F1 Est- 4 week change | 0.3% |
| Expected Report Date | 06/17/2020 |
| Earnings ESP | -0.5% |
| P/E TTM | 13.2 |
| P/E F1 | 13.0 |
| PEG F1 | 1.3 |
| P/S TTM | 4.0 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|----------|----------|
| 2021 | 9,424 E | 9,754 E | 9,914 E | 11,152 E | 40,034 E |
| 2020 | 9,220 A | 9,615 A | 9,797 A | 11,010 E | 39,664 E |
| 2019 | 9,201 A | 9,567 A | 9,618 A | 11,139 A | 39,526 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.90 E | \$0.97 E | \$1.04 E | \$1.29 E | \$4.18 E |
| 2020 | \$0.81 A | \$0.90 A | \$0.97 A | \$1.21 E | \$3.88 E |
| 2019 | \$0.71 A | \$0.80 A | \$0.87 A | \$1.16 A | \$3.52 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 03/26/2020. The reports text is as of 03/27/2020.

Overview

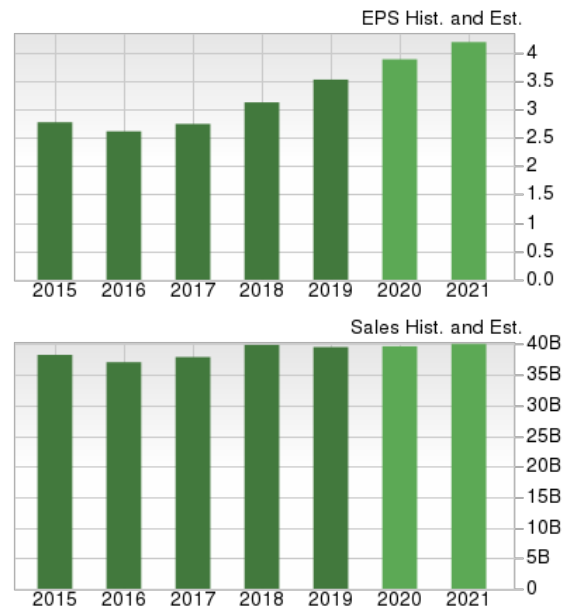
Redwood City, CA-based Oracle Corporation was founded in 1977 and incorporated later in 2005. Oracle is one of the largest enterprise-grade database, middleware and application software providers. With the acquisition of Sun Microsystems in Jan 2010, Oracle began selling hardware products and services, primarily comprising computer server and storage products. Oracle's software and hardware products and services include Oracle Database, Oracle Fusion Middleware, Java and Oracle Engineered Systems. Oracle Engineered Systems include Exadata Database Machine, Exalogic Elastic Cloud, Exalytics In-Memory Machine, SPARC SuperCluster, Virtual Compute Alliance, Oracle Database Appliance, Oracle Big Data Appliance and ZFS Storage.

Oracle has expanded its cloud computing operations over the last couple of years. The company offers cloud solutions and services that can be used to build and manage various cloud deployment models. Built upon open industry standards such as SQL, Java and HTML5, Oracle Cloud provides access to application services, platform services and infrastructure services for a subscription. Through its Oracle Enterprise Manager offering, the company manages cloud environments.

Oracle reported revenues of \$39.5 billion in fiscal 2019. The company changed its reporting format in the fourth-quarter. The company reports its new software licenses under its new Cloud license and on-premise license segment. Further, the company merged its Cloud SaaS, Cloud PaaS and IaaS along with its software license updates and product support into Cloud services and license support.

Total cloud services and license support revenues came in at \$26.71 billion in fiscal 2019. Further, total cloud license and on-premise license came in at \$5.86 billion in fiscal 2019.

Oracle faces significant competition in most of its operational markets (database, applications, storage, cloud computing) from the likes of Dell-EMC, IBM, Hewlett-Packard, Microsoft, SAP, Salesforce.com, Workday and Teradata.



Reasons To Buy:

- ▲ Oracle is gaining ground in its **cloud business**. Both its software-as-a-service (SaaS) and platform-as-a-service (PaaS) products should grow very strongly over the next few years as enterprises increasingly transition to the cloud. Bookings are also picking up. Overall, we believe that Oracle's new cloud-based offerings hold promise. Moreover, the cloud services offering has opened up a new source of recurring revenues (subscriptions), which is expected to improve visibility. Oracle is expected to benefit from the ongoing in-premise to cloud transitions leveraging its new technological developments. Additionally, the company is witnessing strong growth in Cloud HCM, which is being purchased as a part of an ERP cloud application suite. Also, the migration of several mid-sized SAP customers to Fusion ERP is an upside.
- ▲ Oracle enjoys a dominant position in the **enterprise software and database management system (DBMS)** software market. Markedly, the company's enormous strength in cloud technology has been a key force behind growth in database business. Among infrastructure, DBMS is expected to record strong growth driven by Big Data and digitalization initiatives. We believe that Oracle's leading position in the DBMS software market will make it the primary beneficiary of this increased spending. The latest autonomous database supported by machine learning is expected to boost competitive position against the likes of AWS. The next-generation autonomous database launched by Oracle, supported by ML, is also gaining traction. New product introductions are likely to boost growth in this category. Markedly, autonomous database in Gen2 Infrastructure is witnessing rapid adoption.
- ▲ Oracle remains very active on the **acquisition** front and chooses companies that can be easily integrated within its existing or new product lines. From time to time, the company also acquires organizations with competing technologies with the intention of killing rival products. The NetSuite acquisition helped the company to fast penetrate the ERP and small & medium companies' segment. Acquisitions like Maxymiser and CloudMonkey helped Oracle in developing cloud-based software and testing tools & platforms for mobile apps. To-date, its most important acquisition remains that of Sun, which helped it to enter the hardware market. In the last 10 years, management has spent more than \$50 billion to acquire 100 companies. Over the last three years, the company has aggressively pursued acquisitions that will boost its presence in the cloud computing and database markets. We believe that Oracle will continue to pursue strategic acquisitions to improve its market share and top line in the long haul. Apart from these, Oracle also boasts partnerships with Accenture and Microsoft for better harnessing cloud capabilities and expanding its clientele.
- ▲ Oracle's **strong cash balance** enables it to pursue share repurchases and make consistent dividend payments. As of Feb 29, 2020, Oracle had cash & cash equivalents, and marketable securities of \$25.858 billion. Oracle repurchased 73.5 million shares worth approximately \$4 billion during the fiscal third quarter, and paid out dividends worth \$2.33 billion during the nine months ended Feb 29, 2020. The company has also increased share repurchases authorization by \$15 billion. Due to strong and relatively stable cash flow, the aggressive share repurchase activity and dividend payout appear sustainable and make the stock quite attractive, in our view.

Oracle's growing cloud business and the latest autonomous database is expected to boost competitive position in the long haul.

Reasons To Sell:

- ▼ Although engineered systems are expected to drive growth, we believe that lower hardware volumes will continue to hurt Oracle's top-line growth over the next couple of years. Moreover, hardware is significantly a **lower-margin business** that will keep margins under pressure, going forward. Moreover, despite Oracle's growing cloud business, we believe that the business model transition will hurt revenue growth over the next couple of years. The company expects to gain a significant part of its revenues from SaaS compared with legacy on-premise licensing business. However, SaaS revenues will not be recognized upfront as in the case of license business, which will hurt top-line growth in the near term.
- ▼ Acquisitions have played an important part in Oracle's growth trajectory over the years. Being a **late entrant** in the cloud computing space, the company is trying to build its position through aggressive acquisitions. The company is making significant investment in these acquisitions in order to catch up with AWS, Salesforce and IBM. As the SaaS market is getting overcrowded, we believe that all acquisitions may not perform as per company expectations, which will eventually hurt profitability. Moreover, large acquisitions can negatively impact the company's balance sheet in the form of a high level of goodwill and intangible assets.
- ▼ Oracle faces **significant competition** in most of its operational markets (database, applications, storage, cloud computing) from the likes of Dell-EMC, IBM, Hewlett-Packard, Microsoft, SAP, Salesforce.com, Workday and Teradata. The trend toward consolidation is increasing competition for the company in most of these markets. To differentiate products here, large vendors are entering into alliances or partnerships to offer integrated and differentiating solutions. As a result, Oracle continues to face severe pricing pressure and lengthy sales cycles in its core business, which is hurting profitability. Moreover, stiff competition in the cloud is expected to hurt margins and will make revenue growth difficult to come by over the long run.
- ▼ Oracle has been embroiled in various **legal tangles**. In 2016, Oracle faced defeat in two of its most high profile lawsuits. In May 2016, a 10 member jury found no violations of JAVA APIs by Alphabet thus dismissing Oracle's \$9 billion claim. Moreover, a California Court held Oracle liable of paying Hewlett Packard Enterprise \$3 billion in damages for withdrawing support to titanium software. The company is hell bent on re-appealing against these verdicts. In December 2017, the company renewed the legal fight over Android against Alphabet. In the recent filing Oracle challenged the idea of "fair use," and alleged that Google lied when it said Android didn't compete directly with Oracle's ability to license its own products to customers. Moreover, lawsuit expenses pertaining to U.S. Department of Defense's (DoD) Joint Enterprise Defense Infrastructure (JEDI) cloud contract does not bode well for Oracle's business opportunities with DoD. This is likely to weigh on the company's bottom line and might impact the stock performance. We believe such high legal risks, if materialized, might wreak havoc on the company's financials.

Stiff competition, lawsuits and currency volatility are likely to impact Oracle as it transitions from licensing to cloud.

Last Earnings Report

Oracle Q3 Earnings and Revenues Beat Estimates

Oracle reported third-quarter fiscal 2020 non-GAAP earnings of 97 cents per share, beating the Zacks Consensus Estimate by 1.04%. Further, the figure was up 11% from the year-ago quarter (up 12% in constant currency or cc).

Moreover, non-GAAP revenues improved 2% (up 3% in cc) year over year to \$9.797 billion, outpacing the Zacks Consensus Estimate by 0.32%.

Quarter Ending **02/2020**

| Report Date | Mar 12, 2020 |
|------------------|--------------|
| Sales Surprise | 0.32% |
| EPS Surprise | 1.04% |
| Quarterly EPS | 0.97 |
| Annual EPS (TTM) | 3.84 |

Top Line in Detail

Oracle reported total revenues (on a GAAP basis) of \$9.796 billion, up 2% (up 3% in cc) year over year.

Revenues by Offerings

Oracle's top line benefited from the ongoing cloud-based momentum. **Cloud services and license support** revenues (71% of total revenues) in the reported quarter rose 4% year over year (up 5% in cc) to \$6.93 billion.

Break up of Cloud services and license support Revenues

Applications revenues (contributed 40.5% to total cloud services and license support revenues) amounted to \$2.809 billion, up 6% year over year (up 7% in cc).

Infrastructure related revenues (59.5%) came in at \$4.121 billion, up 2% year over year (up 4% in cc).

Meanwhile, **Cloud license and on-premise license** revenues (12%) declined 2% year over year (flat in cc) to \$1.231 billion.

Hardware revenues (9%) were \$857 million, down 6% (down 5% in cc) year over year.

Services revenues (8%) improved 2% (up 3% in cc) to \$778 million.

Revenues by Geography

Revenues from **Americas** (represented 55% of total revenues) inched up 1.8% year over year to \$5.363 billion.

Revenues from **Europe/Middle East/Africa** (29%) improved 1.9% from the year-ago quarter's figure to \$2.835 billion.

Revenues from **Asia Pacific** (16%) increased 2% from the year-ago quarter level to \$1.598 billion.

Customer Expansion Bodes Well

Management announced that Fusion HCM, NetSuite ERP and Fusion ERP businesses were up 27%, 26% and 38% in the fiscal third quarter, respectively. NetSuite ERP and Fusion ERP have customer strength of around 21,000 and 7,000, respectively.

Additionally, the company is witnessing strong growth in Cloud HCM, which is increasingly being purchased as part of the company's ERP cloud application suite. Further, the migration of several mid-sized SAP customers to Fusion ERP is an upside.

Operating Details

Non-GAAP operating expenses increased 2% year over year (up 3% in cc) to \$5.44 billion.

Non-GAAP operating income during the reported quarter was \$4.357 billion, up 2% year over year (up 3% in cc).

Non-GAAP operating margin came in at 44%, remaining flat on a year-over-year basis.

Balance Sheet & Cash Flow

As of Feb 29, 2020, Oracle had cash & cash equivalents, and marketable securities of \$25.858 billion, down from \$27.444 billion as of Nov 30, 2019.

Operating cash flow and free cash flow for the 12 months ended Nov 30, 2019 came in at \$13.947 billion and \$12.403 billion, respectively.

Share Repurchases & Dividends

Oracle repurchased 73.5 million shares worth approximately \$4 billion during the fiscal third quarter, and paid out dividends worth \$2.33 billion during the nine months ended Feb 29, 2020.

On Mar 12, 2020, the company declared a quarterly dividend of 24 cents per share, payable on Apr 23, 2020, to shareholders as on Apr 9, 2020. The company also increased share repurchases authorization by \$15 billion.

Guidance

For the fiscal fourth quarter, Oracle anticipates total revenue growth rate on a year-over-year basis in the range of (2%) to 2%, both at USD and

cc.

Oracle expects non-GAAP earnings per share in the range of \$1.20-\$1.28.

Recent News

On Mar 17, 2020, Oracle launched Java 14 with new features to improve productivity of software developers.

On Mar 17, 2020, Oracle announced that its cloud services are being utilized by internet content providers – Phenix, Net Insight, and Mynet Inc. to support the surge in demand for streaming content.

On Mar 16, 2020, Oracle announced that American Electric Power (AEP) has adopted Oracle Utilities Opower solution to provide customers with personalized energy management programs.

On Mar 12, 2020, the company declared a quarterly dividend of 24 cents per share, payable on Apr 23, 2020, to shareholders as on Apr 9, 2020. The company also increased share repurchases authorization by \$15 billion.

On Feb 12, 2020, Oracle rolled out Oracle Cloud Data Science Platform, to aid enterprises to devise, train, manage and deploy machine learning models, to boost data science projects.

On Jan 15, 2019, Oracle announced enhancements to its Oracle Enterprise Manager platform for enabling customers to easily shift Oracle Databases to the cloud, as well as simplify management of hybrid cloud environments.

On Jan 9, 2020, Oracle Cloud Applications was chosen by Blue Nile — a leading online diamond jeweler. By utilizing Oracle's cloud solutions, Blue Nile is able to streamline financial operations, alongside boosting customer's shopping experience.

On Dec 27, 2019, Oracle announced that its Cloud Applications are now live in the Gen 2 cloud region in Mumbai. As a result, the company's Cloud Application can be leveraged by existing and new customers. The move reflects continued momentum for Oracle's cloud business in India.

Valuation

Oracle shares are down 9% in the past six-month period and 5.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5.5%, while stocks in the Zacks Computer & Technology sector are down 2.5% in the past six-month period. Over the past year, the Zacks sub-industry and the sector are up 16.1% and 0.5%, respectively.

The S&P 500 index is down 11.6% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 13.56X forward 12-month earnings, which compares to 25.54X for the Zacks sub-industry, 18.95X for the Zacks sector and 15.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.31X and as low as 10.66X, with a 5-year median of 15.55X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$58 price target reflects 15.49X forward 12-month earnings.

The table below shows summary valuation data for ORCL

| Valuation Multiples - ORCL | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M | Current | 13.56 | 25.54 | 18.95 | 15.91 |
| | 5-Year High | 19.31 | 28.78 | 22.02 | 19.34 |
| | 5-Year Low | 10.66 | 18.59 | 16.85 | 15.18 |
| | 5-Year Median | 15.55 | 24.55 | 19.3 | 17.42 |
| P/S F12M | Current | 3.97 | 6.42 | 3.08 | 2.85 |
| | 5-Year High | 5.72 | 7.23 | 3.58 | 3.43 |
| | 5-Year Low | 3.15 | 3.88 | 2.3 | 2.54 |
| | 5-Year Median | 4.60 | 5.34 | 3.07 | 3 |
| EV/Sales TTM | Current | 4.59 | 6.68 | 3.6 | 2.65 |
| | 5-Year High | 5.43 | 8.13 | 4.48 | 3.46 |
| | 5-Year Low | 3.47 | 3.19 | 2.57 | 2.16 |
| | 5-Year Median | 4.55 | 5.4 | 3.54 | 2.83 |

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 253)



Top Peers

| | |
|---|--------------|
| Intel Corporation (INTC) | Outperform |
| Microsoft Corporation (MSFT) | Outperform |
| SAP SE (SAP) | Outperform |
| Adobe Systems Incorporated (ADBE) | Neutral |
| salesforce.com, inc. (CRM) | Neutral |
| Hewlett Packard Enterprise Company (HPE) | Neutral |
| International Business Machines Corporation (IBM) | Neutral |
| VMware, Inc. (VMW) | Underperform |

| Industry Comparison Industry: Computer - Software | | | | Industry Peers | | |
|---|--------------|------------|-----------|----------------|-------------|-----------------|
| | ORCL Neutral | X Industry | S&P 500 | ADBE Neutral | IBM Neutral | MSFT Outperform |
| VGM Score | C | - | - | C | D | C |
| Market Cap | 159.19 B | 1.50 B | 18.50 B | 155.94 B | 100.29 B | 1,187.38 B |
| # of Analysts | 13 | 4 | 13 | 12 | 7 | 14 |
| Dividend Yield | 1.90% | 0.00% | 2.35% | 0.00% | 5.74% | 1.31% |
| Value Score | C | - | - | F | C | D |
| Cash/Price | 0.18 | 0.13 | 0.07 | 0.03 | 0.11 | 0.13 |
| EV/EBITDA | 10.58 | 15.32 | 11.16 | 38.03 | 8.28 | 19.35 |
| PEG Ratio | 1.31 | 2.10 | 1.74 | 2.01 | 1.58 | 2.15 |
| Price/Book (P/B) | 10.70 | 4.21 | 2.44 | 14.90 | 4.76 | 10.78 |
| Price/Cash Flow (P/CF) | 11.45 | 19.19 | 9.87 | 39.40 | 5.71 | 24.57 |
| P/E (F1) | 12.85 | 26.33 | 15.29 | 32.72 | 8.64 | 27.84 |
| Price/Sales (P/S) | 4.00 | 3.85 | 1.93 | 13.37 | 1.30 | 8.84 |
| Earnings Yield | 7.69% | 3.74% | 6.47% | 3.06% | 11.57% | 3.59% |
| Debt/Equity | 3.31 | 0.16 | 0.70 | 0.39 | 2.58 | 0.64 |
| Cash Flow (\$/share) | 4.41 | 1.20 | 7.01 | 8.19 | 19.75 | 6.35 |
| Growth Score | C | - | - | B | D | C |
| Hist. EPS Growth (3-5 yrs) | 7.82% | 11.15% | 10.85% | 48.86% | -3.50% | 17.68% |
| Proj. EPS Growth (F1/F0) | 10.12% | 12.92% | 2.89% | 25.31% | 1.96% | 18.06% |
| Curr. Cash Flow Growth | -0.35% | 11.31% | 5.93% | 27.62% | 2.09% | 19.70% |
| Hist. Cash Flow Growth (3-5 yrs) | -1.03% | 9.27% | 8.55% | 41.64% | -3.76% | 11.99% |
| Current Ratio | 2.12 | 1.50 | 1.23 | 1.23 | 1.02 | 2.80 |
| Debt/Capital | 76.82% | 20.16% | 42.57% | 28.21% | 72.05% | 39.05% |
| Net Margin | 27.06% | 7.06% | 11.64% | 27.72% | 12.23% | 33.02% |
| Return on Equity | 64.68% | 11.82% | 16.74% | 33.54% | 62.27% | 40.41% |
| Sales/Assets | 0.39 | 0.64 | 0.54 | 0.57 | 0.53 | 0.48 |
| Proj. Sales Growth (F1/F0) | 0.35% | 5.68% | 2.37% | 16.45% | -0.57% | 12.30% |
| Momentum Score | B | - | - | A | C | D |
| Daily Price Chg | 9.88% | 3.74% | 6.21% | 5.48% | 6.65% | 6.26% |
| 1 Week Price Chg | -4.76% | -9.48% | -16.96% | -11.97% | -11.64% | -13.52% |
| 4 Week Price Chg | -0.59% | -14.46% | -15.70% | -4.40% | -15.19% | -1.31% |
| 12 Week Price Chg | -6.43% | -18.18% | -23.67% | -3.52% | -16.64% | -2.81% |
| 52 Week Price Chg | -5.09% | -4.64% | -13.99% | 22.44% | -19.32% | 33.51% |
| 20 Day Average Volume | 23,400,834 | 126,287 | 4,286,768 | 5,871,094 | 9,238,134 | 75,579,768 |
| (F1) EPS Est 1 week change | -0.34% | 0.00% | -0.15% | 0.00% | -2.21% | -0.13% |
| (F1) EPS Est 4 week change | 0.35% | -0.07% | -2.28% | -0.07% | -2.24% | -0.56% |
| (F1) EPS Est 12 week change | 0.35% | -0.52% | -3.22% | 0.01% | -1.07% | 4.79% |
| (Q1) EPS Est Mthly Chg | -0.41% | -0.41% | -1.60% | -0.50% | -8.08% | -2.61% |

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 | B |
| VGM Score | C |

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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