

Procter & Gamble Co. (PG)

\$124.47 (As of 12/30/19)

Price Target (6-12 Months): **\$143.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 10/24/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

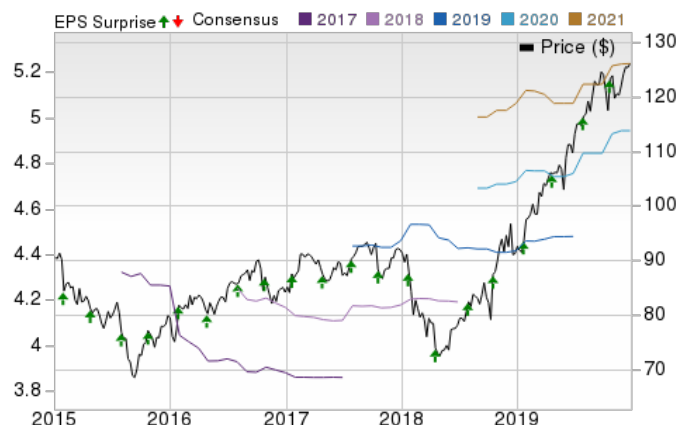
Growth: B

Momentum: D

Summary

Shares of Procter & Gamble have risen and outpaced the industry in the past six months. The company's solid first-quarter fiscal 2020 results, wherein both top and bottom lines not only surpassed the Zacks Consensus Estimate but also improved year over year, is driving the stock momentum. Strong organic sales growth, backed by higher shipment volume and favorable price/mix, boosted the top line. Again, ongoing cost-saving and productivity efforts cushioned margins and in turn the bottom line. Impressive performance prompted management to provide an upbeat view for fiscal 2020. The company now projects all-in sales growth of 3-5% and core EPS growth of 5-10%. On the flip side, currency fluctuation remains concerning. Nevertheless, adverse impacts of the same are likely to be offset by slight gain from acquisitions and divestitures.

Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|----------------------------------------------------|
| 52 Week High-Low | \$126.60 - \$89.08 |
| 20 Day Average Volume (sh) | 6,351,389 |
| Market Cap | \$310.4 B |
| YTD Price Change | 35.4% |
| Beta | 0.39 |
| Dividend / Div Yld | \$2.98 / 2.4% |
| Industry | Soap and Cleaning Materials |
| Zacks Industry Rank | Top 39% (99 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 10.5% |
| Last Sales Surprise | 1.9% |
| EPS F1 Est- 4 week change | 0.0% |
| Expected Report Date | 01/23/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 26.0 |
| P/E F1 | 25.2 |
| PEG F1 | 3.6 |
| P/S TTM | 4.5 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | 18,441 E | 19,023 E | 17,591 E | 18,112 E | 72,876 E |
| 2020 | 17,798 A | 18,321 E | 16,943 E | 17,407 E | 70,452 E |
| 2019 | 16,690 A | 17,438 A | 16,462 A | 17,094 A | 67,684 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.43 E | \$1.47 E | \$1.18 E | \$1.18 E | \$5.24 E |
| 2020 | \$1.37 A | \$1.37 E | \$1.11 E | \$1.09 E | \$4.94 E |
| 2019 | \$1.12 A | \$1.25 A | \$1.06 A | \$1.10 A | \$4.52 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 12/30/2019. The reports text is as of 12/31/2019.

Overview

Headquartered in Cincinnati, OH, The Procter & Gamble Company, also referred to as Procter & Gamble or P&G, is a branded consumer products company which markets its products in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores, drug stores, department stores, distributors, baby stores, specialty beauty stores, e-commerce, high frequency stores and pharmacies. It has operations in approximately 70 countries. The company has five reportable segments:

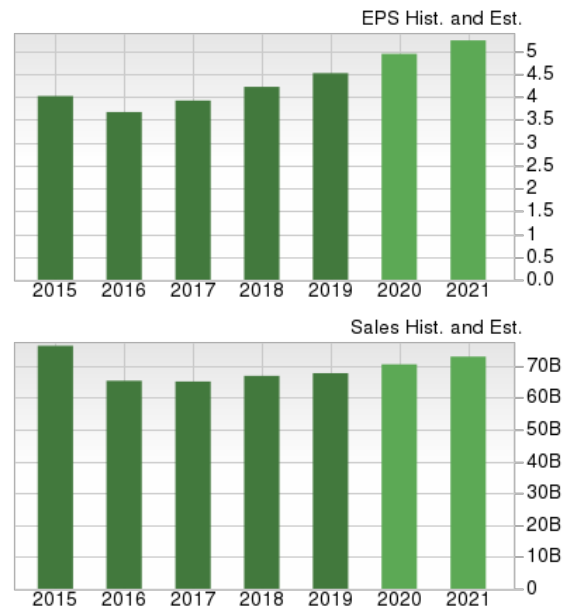
Beauty (18.7% of Q4 fiscal 2019 revenues): The segment includes hair care products (conditioner, shampoo, styling aids treatments) antiperspirants and deodorants as well as products for personal cleansing and skin care. Billion Dollar Brands include Head & Shoulders, Olay, Pantene, Old Spice, Safeguard, and SK-II. In Oct 2016, P&G completed its last major step in portfolio transformation with the Beauty Brands divestiture to Coty Inc.

Grooming (9.3%): The segment includes Shave Care products like female and male blades & razors and pre- and post-shave products as well as appliances. Billion Dollar Brands under this segment include Fusion, Gillette, Prestobarba and Mach3.

Health Care (11.9%): The segment includes gastrointestinal, rapid diagnostics, respiratory, vitamins/minerals/supplements and other personal health care product categories along with toothbrush, toothpaste and other oral care, product categories. Billion Dollar Brands include Crest, Oral-B and Vicks.

Fabric and Home Care (33.1%): The segment includes air care, dish care, fabric enhancers, laundry additives and detergents, P&G Professional and surface care product categories. Billion Dollar Brands under this segment are Ariel, Dawn, Downy, Febreze, Gain and Tide. P&G completed sale of its Duracell (Batteries) business to Berkshire Hathaway in exchange for Berkshire's equity stake in P&G in Feb 2016.

Baby, Feminine and Family Care (26.3%): The segment includes baby wipes, diapers and pants, paper towels, tissues, toilet paper, adult incontinence and feminine care products. Billion Dollar Brands include Always, Bounty, Charmin and Pampers.



Reasons To Buy:

▲ **Q1 Performance Strong, Outlook Upbeat:** Shares of Procter & Gamble have gained 12.6% in the past six months, compared with the industry's growth of 4.6%. The outperformance is mainly attributed to the company's robust surprise trend and an upbeat outlook for fiscal 2020. It reported top and bottom-line beat in first-quarter fiscal 2020, marking the 18th straight earnings beat and the fifth consecutive sales beat. Earnings primarily gained from productivity efforts. Meanwhile, strong organic sales growth, backed by rise in shipment volume as well as favorable mix and pricing, aided the top line. Notably, all of the company's segments contributed to organic sales growth. Driven by robust top-line growth, margin expansion and cash productivity witnessed in the fiscal first quarter, management provided upbeat guidance for fiscal 2020. The company now projects all-in sales growth of 3-5% compared with 3-4% mentioned earlier. Moreover, it now projects core EPS growth of 5-10% for fiscal 2020, whereas it earned \$4.52 per share in fiscal 2019. Earlier, it had anticipated core EPS growth of 4-9%.

Cost savings and efficiency gains across all facets of business helped P&G cross the mid-point of its second five-year cost-saving target of \$10 billion, which has been aiding margins.

▲ **Cost Savings and Productivity Program Aid Margins:** Procter & Gamble remains focused on productivity and cost-saving plans to boost margins. The company's continued investment in business alongside efforts to offset macro cost headwinds and balance top and bottom-line growth underscores its productivity efforts. With cost savings and efficiency improvements across all facets of business, it has crossed the mid-point of its second five-year (fiscal 2017-2021) cost-saving target of \$10 billion. The second five-year restructuring plan targets cutting costs in areas including supply chain and cost of goods sold (COGS), marketing and digitization and promotional spend effectiveness. This plan comprises \$7 billion in COGS savings (\$4.5 billion from raw and packaging materials, \$1.5 billion in manufacturing savings and \$1 billion from transportation/warehousing/other); \$2 billion of marketing cost reductions; \$1.5 billion of trade spending savings (10% efficiency); and \$1-\$2 billion of additional overhead reductions. This brings the total potential savings to \$12-\$13 billion, higher than the \$10 billion level. However, P&G adjusted the level down to up to \$10 billion to take into account the uncertainty associated with operations, especially when projecting out several years.

Notably, the company's core gross and operating margins reflected significant gains from productivity savings and pricing in first-quarter fiscal 2020. In the reported quarter, core gross margin (on a currency-neutral basis) expanded 200 basis points (bps), backed by 90-bps gain from productivity savings, 70 bps from higher pricing, 40 bps from commodity cost declines, and 50 bps from fixed cost leverage and other benefits. The uptick was partly offset by unfavorable product mix. Total productivity cost savings aided core currency-neutral operating margin by 160 bps in the quarter.

▲ **Improving Product Portfolio:** P&G focuses on improving its product portfolio through strategic initiatives, which enable it to concentrate on its fast-growing businesses. For this, the company relies on its strategy of acquiring complementary businesses. The company also follows a systematic divestiture plan to streamline its portfolio. Notably, it has acquired a private company — This Is L. — that produces period products with natural ingredients. This will aid in expanding its naturals product range, which is a key focus area for most day-to-day consumer product companies at present. Some of its other acquisitions include the beauty brand — First Aid Beauty, the consumer health business of Germany-based Merck KGaA and Walker & Company Brands in 2018. These acquisitions should bolster the company's product portfolio in various categories.

Further, the company has divested several assets over the years as part of portfolio reshaping plan. Recently, it divested two Oral Care brands in Europe. Other prominent among these is the sale of four product categories, comprising 41 beauty brands, to Coty in 2016. Other divestitures include its snacks unit — Pringles; the bleach business in Italy and Portugal and the Braun household appliances business; and sale of the remaining global bleach businesses. These divestitures will enable the company to concentrate on core businesses that have greater growth potential, thus boosting the top line.

▲ **Strong Free Cash Flows & Shareholder Returns:** Procter & Gamble generates strong free cash flow annually. Cash flow provides management the opportunity to invest in product innovations, acquisitions and brand development in addition to regularly paying dividends and repurchasing shares. Notably, the company generated operating cash flow of \$4,169 million in the fiscal first quarter, while adjusted free cash flow productivity was 91%. Furthermore, the company returned nearly \$4.9 billion of cash to its shareholders. This included dividend payments worth \$1.9 billion and share buybacks of roughly \$3 billion. Moreover, it returned an average of more than 100% of net earnings to shareholders in forms of dividends and share repurchases over the last 10 fiscal years. For fiscal 2020, the company increased view for adjusted free cash flow productivity to 95% from 90% stated earlier. It anticipates paying out dividends worth \$7.5 billion and repurchasing \$6-\$8 billion of common shares in fiscal 2020.

Risks

- **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Procter & Gamble looks overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 26x, which is above the median level of 25x but below the high level of 27.5x scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry is 20.7x and the S&P 500 is 20.2x. Given these factors, we believe that the stock is stretched from the P/E aspect.
 - **Currency Headwinds:** Procter & Gamble's significant international presence exposes it to foreign currency risks, which have been weighing on the company's performance. 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. Increase in prices may have adverse impact on demands for the products. Apparently, currency fluctuations hurt net sales to the tune of about 2% and core gross margin by 10 bps in first-quarter fiscal 2020. Moreover, foreign currency of \$50 million after-tax headwind impacted earnings in the quarter. For the current fiscal year, management projects witnessing modest impact of adverse foreign currency on all-in sales growth.
 - **Slowdown of Global Economies:** Procter & Gamble remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower-margin products, thereby impacting margins. Management stated that it is likely to continue facing challenges from a volatile macro and geopolitical environment.
 - **Competitive Pressure:** Procter & Gamble faces intense competition from other well-established players in the consumer products industry, such as Colgate-Palmolive, Clorox, and Church & Dwight on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share.
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Last Earnings Report

Procter & Gamble's Q1 Earnings & Sales Beat Estimates

Procter & Gamble reported first-quarter fiscal 2020 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate. This marked the company's 18th straight earnings beat. Earnings and sales also improved on a year-over-year basis. Moreover, the company raised its guidance for fiscal 2020.

Procter & Gamble's core earnings of \$1.37 per share improved 22% year over year and outpaced the Zacks Consensus Estimate of \$1.24. Meanwhile, currency-neutral core earnings per share (EPS) grew 24%.

Sales in Detail

Procter & Gamble reported net sales of \$17,798 million, beating the Zacks Consensus Estimate of \$17,465 million and improving 6.6% year over year. However, the top line was hurt by currency fluctuations of about 2%.

Organically (excluding the impact of acquisitions, divestitures and foreign exchange), revenues grew 7%, driven by 4% rise in organic shipment volume. Further, organic sales benefited 1% from increased pricing and 2% from favorable mix. Strong Personal Health Care, and Skin and Personal Care categories along with robust gains in Japan mainly aided the company's mix. Notably, all of these have higher than average selling prices.

Moreover, all of the company's business segments reported organic sales growth. Organic sales improved 10% for the Beauty segment, 9% for Health Care, 8% for Fabric & Home Care, 5% for Baby, Feminine and Family Care, and 1% for the Grooming segment.

Net sales at Beauty, Health Care, Fabric & Home Care, and Baby, Feminine and Family Care segments grew 8%, 20%, 6% and 4%, respectively. Meanwhile, sales declined 1% for the Grooming segment.

Margins

In the reported quarter, core gross margin increased 190 basis points (bps) year over year to 51.3%, including nearly 10 bps of adverse impact of foreign currency. On a currency-neutral basis, core gross margin expanded 200 bps, backed by gains from productivity savings, higher pricing, commodity cost declines, fixed cost leverage and other benefits. This uptick was partly offset by unfavorable product mix.

Core selling, general and administrative expenses (SG&A), as a percentage of sales, declined 70 bps to 27%. Currency-neutral core SG&A costs decreased 60 bps, driven by savings from overhead and marketing expenses, and gains from sales leverage. This was partly negated by marketing investments as well as inflation and other impacts like augmented digital investments and incentive compensation costs.

Moreover, core and currency-neutral operating margin expanded 260 bps to 24.3%, driven by 160 bps of total productivity cost savings.

Financials

Procter & Gamble ended the reported quarter with cash and cash equivalents of \$9,304 million, long-term debt of \$20,161 million, and total shareholders' equity of \$46,984 million.

Cash flow from operating activities amounted to \$4,169 million for the fiscal first quarter, while adjusted free cash flow productivity was 91%. Furthermore, the company returned nearly \$4.9 billion of cash to its shareholders. This included dividend payments worth \$1.9 billion and share buybacks of roughly \$3 billion.

For fiscal 2020, the company increased its view for adjusted free cash flow productivity to 95% from 90% stated earlier. It anticipates paying out more than \$7.5 billion in dividends and repurchasing \$6-\$8 billion of common shares in fiscal 2020.

Fiscal 2020 Guidance

Driven by strong top-line growth, margin expansion and cash productivity witnessed in the fiscal first quarter, Procter & Gamble raised its view for fiscal 2020. The company now projects all-in and organic sales growth of 3-5% compared with 3-4% mentioned earlier. The guidance includes a modest impact of adverse foreign currency, which is likely to be mostly offset by slight gain from acquisitions and divestitures.

Moreover, the company now projects core EPS growth of 5-10% for fiscal 2020 compared with 4-9% mentioned earlier. In fiscal 2019, it reported core earnings of \$4.52 per share.

Quarter Ending **09/2019**

| Report Date | Oct 22, 2019 |
|------------------|--------------|
| Sales Surprise | 1.91% |
| EPS Surprise | 10.48% |
| Quarterly EPS | 1.37 |
| Annual EPS (TTM) | 4.78 |

Recent News

Procter & Gamble Announces Dividend - Oct 8, 2019

Procter & Gamble announced a quarterly dividend of 74.59 cents per share, which is payable on or after Nov 15, 2019, to shareholders of record on Oct 18.

Valuation

Procter & Gamble shares are up 35.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 23% and 20.4% over the pst year, respectively.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 24.45X forward 12-month earnings, which compares to 22.71X for the Zacks sub-industry, 19.87X for the Zacks sector and 18.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.46X and as low as 16.02X, with a 5-year median of 20.94X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$143 price target reflects 28.09X forward 12-month earnings.

The table below shows summary valuation data for PG

| Valuation Multiples - PG | | | | | |
|--------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 24.45 | 22.71 | 19.87 | 18.76 |
| | 5-Year High | 25.46 | 23.53 | 22.39 | 19.34 |
| | 5-Year Low | 16.02 | 17.89 | 16.65 | 15.17 |
| | 5-Year Median | 20.94 | 21.03 | 19.74 | 17.44 |
| P/S F12M | Current | 4.33 | 2.66 | 9.81 | 3.41 |
| | 5-Year High | 4.41 | 2.72 | 11.03 | 3.41 |
| | 5-Year Low | 2.6 | 1.86 | 8.02 | 2.54 |
| | 5-Year Median | 3.36 | 2.29 | 9.78 | 3 |
| EV/EBITDA TTM | Current | 19.35 | 13.11 | 40.3 | 12.01 |
| | 5-Year High | 20.54 | 14.61 | 44.63 | 12.86 |
| | 5-Year Low | 11.41 | 9.26 | 31.32 | 8.49 |
| | 5-Year Median | 14.24 | 10.9 | 37.9 | 10.65 |

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Top 39% (99 out of 253)



Top Peers

| | |
|--------------------------------------|--------------|
| Avon Products, Inc. (AVP) | Outperform |
| Church & Dwight Co., Inc. (CHD) | Neutral |
| Colgate-Palmolive Company (CL) | Neutral |
| The Clorox Company (CLX) | Neutral |
| Coty Inc. (COTY) | Neutral |
| The Estee Lauder Companies Inc. (EL) | Neutral |
| Unilever PLC (UL) | Neutral |
| Henkel AG & Co. (HENKY) | Underperform |

| Industry Comparison Industry: Soap And Cleaning Materials | | | | Industry Peers | | |
|-----------------------------------------------------------|---------------|------------|-----------|----------------|------------|------------|
| | PG Outperform | X Industry | S&P 500 | CHD Neutral | CL Neutral | UL Neutral |
| VGM Score | C | - | - | B | D | A |
| Market Cap | 310.40 B | 58.17 B | 23.80 B | 17.26 B | 58.96 B | 66.96 B |
| # of Analysts | 9 | 7.5 | 13 | | | 3 |
| Dividend Yield | 2.40% | 2.22% | 1.78% | 1.29% | 2.50% | 3.12% |
| Value Score | D | - | - | D | D | B |
| Cash/Price | 0.03 | 0.04 | 0.04 | 0.01 | 0.02 | 0.08 |
| EV/EBITDA | 34.27 | 16.26 | 13.88 | 20.17 | 15.94 | NA |
| PEG Ratio | 3.64 | 4.14 | 2.13 | 3.26 | 5.60 | 2.44 |
| Price/Book (P/B) | 6.74 | 6.49 | 3.33 | 6.75 | 338.83 | 4.45 |
| Price/Cash Flow (P/CF) | 21.24 | 15.75 | 13.55 | 24.41 | 19.14 | 7.03 |
| P/E (F1) | 25.20 | 22.46 | 19.62 | 28.39 | 24.31 | 19.97 |
| Price/Sales (P/S) | 4.51 | 3.46 | 2.66 | 4.03 | 3.81 | NA |
| Earnings Yield | 3.97% | 4.48% | 5.09% | 3.53% | 4.11% | 5.01% |
| Debt/Equity | 0.44 | 0.71 | 0.71 | 0.71 | 43.94 | NA |
| Cash Flow (\$/share) | 5.86 | 3.59 | 6.94 | 2.88 | 3.59 | 8.15 |
| Growth Score | B | - | - | B | C | A |
| Hist. EPS Growth (3-5 yrs) | 2.36% | 6.74% | 10.48% | 11.23% | 0.50% | NA |
| Proj. EPS Growth (F1/F0) | 9.37% | 4.75% | 6.14% | 9.16% | -4.71% | 3.61% |
| Curr. Cash Flow Growth | 4.72% | 7.32% | 14.75% | 13.93% | 2.68% | 7.32% |
| Hist. Cash Flow Growth (3-5 yrs) | -0.93% | 4.15% | 8.93% | 7.92% | -0.02% | 4.15% |
| Current Ratio | 0.72 | 0.84 | 1.24 | 0.80 | 1.03 | 0.81 |
| Debt/Capital | 30.03% | 41.42% | 42.92% | 41.42% | 97.78% | NA |
| Net Margin | NA% | 12.09% | 11.06% | 14.33% | 15.04% | NA |
| Return on Equity | 25.07% | 24.99% | 17.10% | 24.91% | 6,492.71% | NA |
| Sales/Assets | 0.58 | 0.90 | 0.54 | 0.68 | 1.16 | NA |
| Proj. Sales Growth (F1/F0) | % | 0.00% | 2.49% | 5.14% | 0.44% | -1.27% |
| Momentum Score | D | - | - | B | D | B |
| Daily Price Chg | -1.28% | 0.04% | 0.21% | -0.50% | -0.56% | -0.68% |
| 1 Week Price Chg | 0.58% | -0.09% | 1.46% | 0.64% | 0.48% | 1.66% |
| 4 Week Price Chg | 1.43% | 1.01% | 1.98% | 0.77% | 1.81% | -3.34% |
| 12 Week Price Chg | 1.33% | 2.71% | 9.78% | -7.50% | -3.95% | -4.00% |
| 52 Week Price Chg | 35.41% | 8.25% | 28.47% | 6.98% | 15.57% | 9.67% |
| 20 Day Average Volume | 0 | 944,922 | 1,778,443 | 1,442,928 | 3,457,325 | 1,033,128 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.00% | 0.00% | 0.00% | 0.01% | 0.00% | 1.41% |
| (F1) EPS Est 12 week change | 2.05% | -0.38% | 0.12% | -0.29% | -0.47% | 2.87% |
| (Q1) EPS Est Mthly Chg | 0.18% | -0.08% | 0.00% | -0.18% | 0.00% | NA |

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 | B |
| Momentum Score | D |
| 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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