

PNC Financial Services (PNC)

\$104.92 (As of 07/27/20)

Price Target (6-12 Months): **\$110.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Shares of PNC Financial have outperformed the industry over the past six months. Also, it has an impressive earnings surprise history, having surpassed the Zacks Consensus Estimate in three of the trailing four quarters. The second-quarter results reflected loss, hurt by higher provisions and lower revenues, partly offset by lower costs. The company's commitment to expand the middle-market lending franchise, and bolster its digital products and services offerings bode well. Moreover, execution of inorganic strategies to diversify revenue sources is likely to keep supporting fee income. Also, rising loans balance keeps PNC Financial well poised for growth. However, with growing business and investment in technology, the company's expense base is expected to be elevated. Further, lack of diversification in loan portfolio is a headwind.

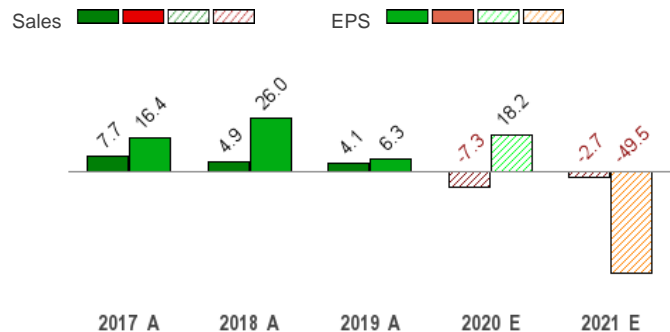
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$161.79 - \$79.41
20 Day Average Volume (sh)	2,751,764
Market Cap	\$44.5 B
YTD Price Change	-34.3%
Beta	1.29
Dividend / Div Yld	\$4.60 / 4.4%
Industry	Banks - Major Regional
Zacks Industry Rank	Top 46% (117 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-315.9%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-32.4%
Expected Report Date	10/21/2020
Earnings ESP	0.0%
P/E TTM	17.6
P/E F1	7.8
PEG F1	1.0
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,872 E	3,967 E	4,040 E	4,100 E	16,082 E
2020	4,517 A	4,076 A	3,989 E	4,065 E	16,524 E
2019	4,286 A	4,439 A	4,493 A	4,609 A	17,827 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.42 E	\$1.54 E	\$1.81 E	\$2.05 E	\$6.80 E
2020	\$1.95 A	-\$1.90 A	\$1.65 E	\$1.52 E	\$13.46 E
2019	\$2.61 A	\$2.88 A	\$2.94 A	\$2.97 A	\$11.39 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 07/27/2020. The reports text is as of 07/28/2020.

Overview

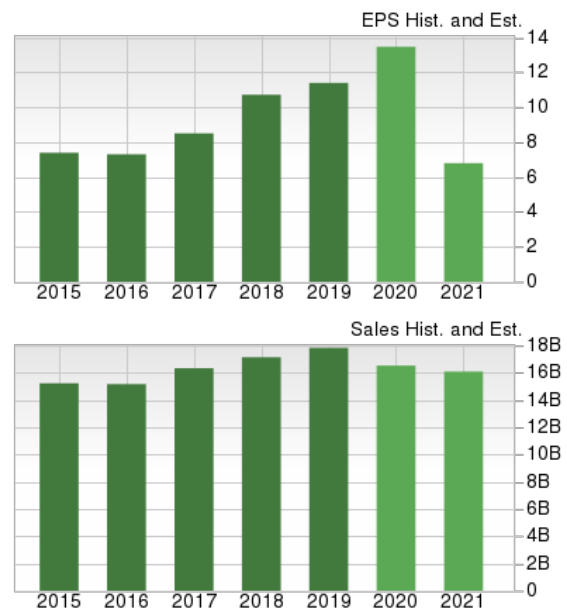
Headquartered in Pittsburgh and incepted in 1983, PNC Financial Services Group Inc. provides consumer and business banking services. The group's principal subsidiary is PNC Bank.

PNC Financial reports mainly through three business segments:

- **Retail Banking** (contributes 46% to total revenue in 2019) provides deposit, lending, brokerage, investment management, and cash management services to consumer and small business customers branch network, ATM's, call centers and online & mobile banking channels.
- **Corporate and Institutional Banking** (35%) provides lending, treasury management, and capital markets-related products and services to mid-sized and large corporations, government entities and not-for-profit organizations.
- **Asset Management Group** (7%) provides a wide range of wealth management products and services to individuals and their families, multi-generational family planning services to ultra-high net worth clients. Institutional Investments serves as an investment manager and trustee for companies, non-profit organizations and retirement plans across the country.

The **Other** category includes residual activities that do not meet the criteria for disclosure as a separate reportable business.

In April 2017, PNC Financial acquired U.S.-based commercial and vendor finance business of ECN Capital Corp in an all-cash transaction valued at \$1.1 billion. Further, in December 2017, it acquired The Trout Group, LLC, an investor relations and strategic advisory firm. PNC Financial also acquired Fortis Advisors with a view to expand advisory business.



Reasons To Buy:

- ▲ PNC Financial remains committed toward developing its business through strategic initiatives. In 2017, it expanded middle-market franchise to Dallas, Kansas City and Minneapolis and has plans to target more cities in future. Also, the company continues to build its technology platform in order to serve clients better. Moreover, in 2017, PNC Financial acquired two companies, which helped strengthen its advisory services. Notably, it plans to extend the reach of middle market corporate banking franchise into new markets, and expand its retail banking brand nationally. Thus, the company's bottom line is likely to get further support, if it continues to make planned investments.
- ▲ PNC Financial's net interest margin (NIM) has benefited from the higher interest-rate environment, increased yields and growth in loan balances in the past. In 2017 and 2018, the company reported a rise in NIM and net interest income (NII), after facing a volatile trend since 2009. While NII continued to rise in 2019 and first-half 2020, NIM shrunk due to lower rates. Notably, growth momentum in NII was recorded owing to lower borrowing and deposit costs along with higher securities yields, partly offset by reduced loan yields. Though management expects NII to be down 1% sequentially in the third quarter, interest income might get support from a decent lending scenario.
- ▲ With one of the most attractive business mixes in the banking industry, PNC Financial continues to make steady progress toward improving its non-interest income. The company's fee income has seen a four-year CAGR (2016-2019) of 5.1%. The positive trend continued mainly on increasing other non-interest revenues, along with higher fees from consumer and corporate services. Moreover, asset-management fees escalated with some annual volatility. Notably, growth momentum continued in the first-half of 2020. Amid coronavirus crisis, management expects fee income to decline 3-5% sequentially, with core fee revenue to remain stable while other non-interest income to be lower in the third quarter.
- ▲ PNC Financial stands solid from the balance-sheet perspective. Notably, total loans and deposits have witnessed a five-year CAGR (2015-2019) of 3.8% and 3.7%, respectively, with the trend continuing in the first-half of 2020 on liquidity needs due to crisis. Notably, additional expected funding needs of commercial and consumer customers amid crisis is likely to escalate loans and deposits balance.
- ▲ Shares of PNC Financial have outperformed the industry over the past six months. With this favorable trend, the company's current-year earnings estimates have been revised significantly upward over the past 30 days. Therefore, given the solid fundamentals and positive estimate revisions, the stock has upside potential.

PNC Financial's continues to undertake strategic initiatives with support from strong balance sheet. Moreover, rising fee income and steady loan growth are expected to further benefit the company.

Reasons To Sell:

- ▼ After witnessing stable trend in the three-year period ended 2016, PNC Financial's expenses climbed at four-year CAGR (2016–2019) of 3.7%, with slight decrease in 2018. Higher levels of business activity, along with investments in technology and business infrastructure contributed to this upside. Though the company aims to fund part of its investments through continued improvement-savings program goals (\$300 million for 2020) that target cost containment, a rising expenses base is likely to continue impacting the bottom line in the near term. Notably, expenses declined slightly in the first six months of 2020.
- ▼ Following the 2020 stress test results, PNC Financial maintain its quarterly dividend and continues to suspend its buyback plan to enhance liquidity amid coronavirus concerns till the fourth quarter of 2020. Though PNC Financial boasts an impressive capital deployment plan, its debt/equity ratio and dividend payout ratio are unfavorable compared with the broader industry. Hence, its capital deployment activities might not be sustainable.
- ▼ Majority of PNC Financial's loan portfolio — nearly 70% as of Jun 30, 2020 — comprises total commercial loans. Such high exposure to commercial loans depicts lack of diversification, which can be risky for the company amid uncertain economy and competitive markets.
- ▼ PNC Financial's trailing 12-month return on equity (ROE) undercuts its growth potential. Though the company's ROE of 5.78% has gradually improved over the years, it compares unfavorably with the 8.52% industry average, highlighting that it is less efficient in using shareholders' funds.
- ▼ The stock seems overvalued when compared with the broader industry. Its price-to-book and price-to-cash flow ratios are above the respective industry average.

Rising cost base due to investments in technology deter PNC Financial's bottom-line expansion. Also, unsustainable capital deployment activities and lack of loan diversification remain concerns.

Last Earnings Report

PNC Financial Reports Q2 Loss, Revenues Down

PNC Financial reported second-quarter 2020 loss from continuing operations per share of \$1.90 as against the earnings of \$2.47 reported in the prior-year quarter. Higher provisions due to the coronavirus pandemic's crippling impact on the economy resulted in this dismal performance. The Zacks Consensus Estimate was pegged at 88 cents.

Including income from discontinued operations on the divestment of 22.4% equity investment in BlackRock in May, net income came in at \$3.7 billion or \$8.40 per share compared with the \$1.4 billion or \$2.88 per share witnessed in the prior-year quarter.

Lower revenues on decline in fee income, along with higher provisions, were the headwinds. Moreover, a lower net interest margin and decrease in loans were undermining factors. However, expenses dropped, while net interest income improved slightly.

Segment wise, quarterly net loss was reported in Corporate & Institutional Banking, Retail banking and the Other segments. The Asset Management Group segment registered a 65% plunge.

Revenues Down, Costs Decline

Total revenues for the reported quarter came in at \$4.1 billion, down 3% year over year. The top-line figure came in line with the Zacks Consensus Estimate.

Net interest income inched up 1% from the year-ago quarter to \$2.5 billion. Lower rates on deposits and borrowings, along with elevated average loans, balances held with the Federal Reserve Bank and securities, were partially negated by lower yields on earning assets. However, the net interest margin contracted 39 basis points to 2.52% due to lower yields on earning assets, partially muted by lower funding costs.

Non-interest income was down 10% year over year to \$1.5 billion on lower asset management, consumer, service charges on deposits and other income. This was partially muted by higher corporate services and residential mortgage income.

PNC Financial's non-interest expenses totaled \$2.5 billion, down 4% from the year-ago figure. This decline primarily resulted from the fall in marketing and occupancy costs, along with other costs, partly offset by higher equipment and personnel costs.

Efficiency ratio was 62%, in line with the prior-year quarter.

As of Jun 30, 2020, total loans were down 2% sequentially to \$258.2 billion. However, total deposits improved 13% to \$346 billion.

Credit Quality: A Concern

Credit metrics deteriorated during the June-end quarter. Non-performing assets escalated 6% year over year to \$1.95 billion. Net charge-offs surged 66% to \$236 million.

Allowance for loan and lease losses more than doubled on a year-over-year basis to \$5.9 billion. Provision for credit losses escalated significantly from the year-earlier quarter to \$2.5 billion.

Steady Capital Position

As of Jun 30, 2020, the Basel III common equity Tier 1 capital ratio was 11.3% compared with 9.7% as of Jun 30, 2019.

Return on average assets and average common equity came in at 3.21% and 30.11%, respectively, compared with the 1.39% and 11.75% witnessed in the prior-year quarter.

Share Repurchase

In mid-March, the company temporarily suspended share buybacks through the second quarter, following the "unprecedented challenge" from the coronavirus pandemic. Notably, the suspension will continue through the third quarter as well.

Outlook

Management anticipates no substantial reserve builds during the remainder of 2020.

As expected, management continues to see an increase in the nonperforming loans, which represents around 4% of current outstandings in the portfolio.

Third-Quarter 2020

The company expects sequential decline in low-single digits in average loans.

Management expects NII to be down 1% sequentially. Fee income is expected to decline 3-5% sequentially, mainly reflecting management's expectation that core fee revenue will be stable while other non-interest income will be lower in the quarter. Notably, consumer services are expected to pick up a little bit, corporate services maybe to fall off a little bit and asset management and residential mortgage essentially stable.

Non-interest expenses are expected to be flat to down.

Net loan charge-offs are estimated in the range of \$250-\$350 million.

Quarter Ending 06/2020

Report Date	Jul 15, 2020
Sales Surprise	-0.73%
EPS Surprise	-315.91%
Quarterly EPS	-1.90
Annual EPS (TTM)	5.96

Full-Year 2020 Compared With Full-Year 2019

Management anticipates revenues to decrease 2-5%.

Further, non-interest expenses are predicted to be down 2-5%.

Effective tax rate expected to be in low teens.

Recent News

PNC Financial Concludes Sale of BlackRock Ownership - May 15, 2020

PNC Financial recently announced the completion of the sale of its ownership stake in BlackRock, Inc. The company sold 31.6 million shares of BlackRock at a price of \$420 per share.

Notably, the underwriters also exercised their previously-announced option to purchase an additional amount of BlackRock shares. Blackrock's repurchase of 2.65 million shares from PNC Financial at a price of \$414.96 per share was also completed.

With the conclusion of this sale and the exercising of the option by the underwriters, PNC Financial sold its entire holding in BlackRock, excluding 500,000 BlackRock shares which the bank has retained for donating to the PNC Foundation by the end of this June.

PNC Financial made an investment in BlackRock in 1995. The stake was in the form of common stock and convertible participating preferred shares that shall convert to common stock upon selling.

Per PNC Financial management, this is the right time to divest its stake in BlackRock and realize a substantial return on the investment. Moreover, this stake sale will bolster the bank's balance sheet and liquidity position.

Also, the divestiture of stake in BlackRock will free PNC Financial from any regulatory obligations associated with the ownership of a large position in another diversified financial services company.

PNC Financial Ratings Affirmed by Moody's, Outlook Stable - May 13, 2020

Despite the pending sale of PNC Financial's equity investment in BlackRock, Inc., the ratings and assessments of the company and its banking subsidiary, PNC Bank, have been affirmed by Moody's Investors Service, the rating division of Moody's Corporation. The bank's senior debt has been given A3 rating. Also, the ratings outlook remained stable.

The subsidiary's deposit rating was Aa2/Prime-1, has an a2 standalone Baseline Credit Assessment (BCA) and the senior debt were rated A2.

Reasons for Ratings Affirmation

Per Moody's, the divestiture will solidify PNC Financial's capital and liquidity positions to grasp the increased expected credit costs in the coming quarters due to the coronavirus crisis. Though the bank holds a strong capital currently, Moody's views it to be of weak credit strength given PNC Financial's strong asset risk and liquidity profiles.

Notably, the bank recorded a Common Equity Tier 1 (CET1) capital ratio of 9.4% as of Mar 31, 2020, down from the prior year's 9.8%. Per Moody's, the proceeds from the sale of the BlackRock investment will augment the ratio by 1.8%.

On the contrary, with the boost to capital and liquidity, the divestiture carries the risk of reduction of a steady source of non-interest income for PNC Financial, thus weakening the company's overall revenue diversification. Notably, the bank recorded 9% of total non-interest income in first-quarter 2020 from BlackRock investment and averaged 13% since the first quarter of 2017. Nevertheless, the ratings are supported by the company's sustainable business model, revenue mix and diverse sources of earnings.

Per PNC Financial's management, the divestiture will help the company explore investment opportunities in the current market. Though Moody's considers the bank to be a regulated acquirer, any large acquisition escalating the asset risk, depleting capital, or weakening the bank's standalone credit profile would be negative for creditors. Moreover, Moody's views increased shareholder distributions as a negative for the ratings, as it impacts the bank's capability of absorbing unexpected losses at the time of enormous uncertainty.

Moody's ratings are supported by PNC Financial's ability of generating solid earnings on its retail and commercial banking businesses and balanced revenue base. Further, the bank's direct banking franchise supports financials with a sizable, low-cost core deposit base, healthy liquidity and geographic diversity. Also, the bank's recently-launched retail national expansion strategy bodes well, along with its efforts to fortify presence in untapped markets. The company's healthy market position and strong treasury management franchise support funding.

Also, PNC Financial's efforts to conservatively manage loan growth and limit concentration risks are expected to help the bank survive, even in an unfavorable economic environment. Moody's unchanged assessment of the bank's credit profile is reflected in the stable ratings.

Dividend Update

On Jun 30, PNC Financial's board of directors announced quarterly common stock dividend of \$1.15. The dividend will be paid on August 5 to shareholders on record as of Jul 17.

Valuation

PNC Financial's shares are down 34.3% in the year-to-date period and 26.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 35.7% and 18.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 26.6% and 13.9%, respectively.

The S&P 500 Index is up 0.02% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 10.88X forward 12 months earnings, which compared to 13.3X for the Zacks sub-industry, 16.35X for the Zacks sector and 22.49X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.08X and as low as 6.95X, with a 5-year median of 12.69X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$110 price target reflects 11.41X forward earnings.

The table below shows summary valuation data for PNC

Valuation Multiples - PNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.88	13.3	16.35	22.49
	5-Year High	20.08	14.2	16.35	22.49
	5-Year Low	6.95	8.01	11.59	15.25
	5-Year Median	12.69	11.31	14.16	17.52
P/TB TTM	Current	1.05	1.5	3.33	12.69
	5-Year High	2.13	2.68	4	12.94
	5-Year Low	0.92	1.21	2.01	5.96
	5-Year Median	1.64	2.11	3.48	9.52
P/S F12M	Current	2.73	2.75	6.04	3.55
	5-Year High	4.42	4.59	6.66	3.55
	5-Year Low	1.95	2.39	4.96	2.53
	5-Year Median	3.45	3.59	6.06	3.02

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 46% (117 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Citigroup Inc. (C)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
KeyCorp (KEY)	Neutral	3
MT Bank Corporation (MTB)	Neutral	3
Regions Financial Corporation (RF)	Neutral	4
U.S. Bancorp (USB)	Neutral	3
Wells FargoCompany (WFC)	Neutral	3
Fifth Third Bancorp (FITB)	Underperform	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	PNC	X Industry	S&P 500	FITB	MTB	USB
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	F	-	-	D	F	C
Market Cap	44.51 B	31.65 B	22.74 B	13.83 B	13.20 B	54.47 B
# of Analysts	6	9	14	9	8	13
Dividend Yield	4.38%	4.38%	1.8%	5.56%	4.28%	4.65%
Value Score	D	-	-	F	F	B
Cash/Price	1.11	2.59	0.07	2.30	1.75	0.94
EV/EBITDA	4.30	-0.89	13.03	-0.02	-0.89	4.74
PEG Ratio	1.03	2.18	3.03	1.73	4.16	2.38
Price/Book (P/B)	0.84	0.81	3.17	0.67	0.90	1.17
Price/Cash Flow (P/CF)	6.99	6.09	12.05	5.34	6.09	7.33
P/E (F1)	7.80	14.28	21.90	14.28	11.70	14.31
Price/Sales (P/S)	2.17	1.71	2.38	1.50	1.99	2.04
Earnings Yield	12.83%	7.00%	4.30%	7.00%	8.54%	7.00%
Debt/Equity	0.89	0.88	0.76	0.79	0.43	0.92
Cash Flow (\$/share)	15.01	6.63	7.01	3.64	16.90	4.93
Growth Score	F	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	8.49%	11.74%	10.85%	10.96%	16.43%	6.78%
Proj. EPS Growth (F1/F0)	18.15%	-45.12%	-7.56%	-50.90%	-36.05%	-41.78%
Curr. Cash Flow Growth	3.95%	2.66%	5.47%	17.50%	5.45%	2.66%
Hist. Cash Flow Growth (3-5 yrs)	5.26%	9.49%	8.55%	6.10%	11.65%	3.99%
Current Ratio	0.88	0.90	1.31	0.90	1.02	0.84
Debt/Capital	47.05%	44.79%	44.41%	42.23%	28.39%	44.79%
Net Margin	35.52%	18.16%	10.45%	16.55%	22.36%	19.70%
Return on Equity	5.78%	8.52%	15.13%	7.37%	10.22%	11.82%
Sales/Assets	0.05	0.05	0.54	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-7.20%	-1.94%	-2.00%	-9.38%	-4.89%	-1.39%
Momentum Score	F	-	-	A	B	B
Daily Price Chg	-1.80%	-1.40%	0.48%	-0.61%	-2.12%	-2.06%
1 Week Price Chg	3.71%	3.97%	0.37%	4.16%	5.85%	2.47%
4 Week Price Chg	2.03%	0.57%	5.61%	3.63%	0.57%	-0.52%
12 Week Price Chg	3.26%	4.90%	13.36%	10.09%	-1.44%	4.90%
52 Week Price Chg	-26.09%	-28.53%	-3.30%	-34.77%	-37.14%	-36.63%
20 Day Average Volume	2,751,764	5,746,321	1,917,592	6,096,542	735,468	6,725,493
(F1) EPS Est 1 week change	-0.16%	0.00%	0.00%	1.49%	-0.20%	0.09%
(F1) EPS Est 4 week change	-32.43%	7.33%	0.21%	7.33%	12.20%	16.58%
(F1) EPS Est 12 week change	-42.62%	8.06%	-2.00%	2.81%	11.79%	10.39%
(Q1) EPS Est Mthly Chg	38.70%	28.10%	0.00%	-1.84%	28.10%	74.16%

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	F
Momentum Score	F
VGM Score	F

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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