

## Royal Caribbean(RCL)

**\$52.80** (As of 07/21/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**
**Neutral**

(Since: 04/26/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

## Summary

Shares of Royal Caribbean have underperformed the industry in the past year. The dismal performance can primarily be attributed to the coronavirus outbreak that has compelled the company to cancel cruises. Notably, in April, the Centers for Disease Control has extended the "No Sail Order" for cruise ships for nearly three months. The company has also withdrawn 2020 guidance. Bookings for 2020 have declined significantly. The company reported first-quarter 2020 results, wherein earnings and revenues not only missed the Zacks Consensus Estimate but also declined sharply year over year. In the past 30 days, earnings estimates for 2020 and 2021 have witnessed downward estimate revisions. However, the company has enough liquidity to tide over the coronavirus pandemic. The company announced bookings for 2021 is within the historical range.

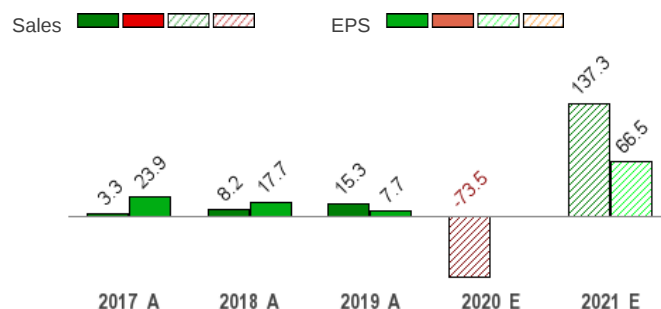
## Price, Consensus & Surprise



## Data Overview

|                            |                                                 |
|----------------------------|-------------------------------------------------|
| 52 Week High-Low           | <b>\$135.32 - \$19.25</b>                       |
| 20 Day Average Volume (sh) | <b>14,943,288</b>                               |
| Market Cap                 | <b>\$11.1 B</b>                                 |
| YTD Price Change           | <b>-60.5%</b>                                   |
| Beta                       | <b>2.50</b>                                     |
| Dividend / Div Yld         | <b>\$3.12 / 5.9%</b>                            |
| Industry                   | <a href="#">Leisure and Recreation Services</a> |
| Zacks Industry Rank        | <b>Bottom 5% (239 out of 252)</b>               |

## Sales and EPS Growth Rates (Y/Y %)



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>-82.7%</b>     |
| Last Sales Surprise       | <b>-3.3%</b>      |
| EPS F1 Est- 4 week change | <b>-12.6%</b>     |
| Expected Report Date      | <b>07/23/2020</b> |
| Earnings ESP              | <b>-1.6%</b>      |

|         |            |
|---------|------------|
| P/E TTM | <b>7.8</b> |
| P/E F1  | <b>NA</b>  |
| PEG F1  | <b>NA</b>  |
| P/S TTM | <b>1.1</b> |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4      | Annual*  |
|------|---------|---------|---------|---------|----------|
| 2021 | 784 E   | 1,494 E | 2,105 E | 1,791 E | 6,878 E  |
| 2020 | 2,033 A | 118 E   | 262 E   | 748 E   | 2,898 E  |
| 2019 | 2,440 A | 2,807 A | 3,187 A | 2,517 A | 10,951 A |

## EPS Estimates

|      | Q1        | Q2        | Q3        | Q4        | Annual*    |
|------|-----------|-----------|-----------|-----------|------------|
| 2021 | -\$3.19 E | -\$0.92 E | \$1.21 E  | -\$0.20 E | -\$4.85 E  |
| 2020 | -\$1.48 A | -\$4.71 E | -\$4.18 E | -\$3.68 E | -\$14.50 E |
| 2019 | \$1.31 A  | \$2.54 A  | \$4.27 A  | \$1.42 A  | \$9.54 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 07/21/2020. The reports text is as of 07/22/2020.

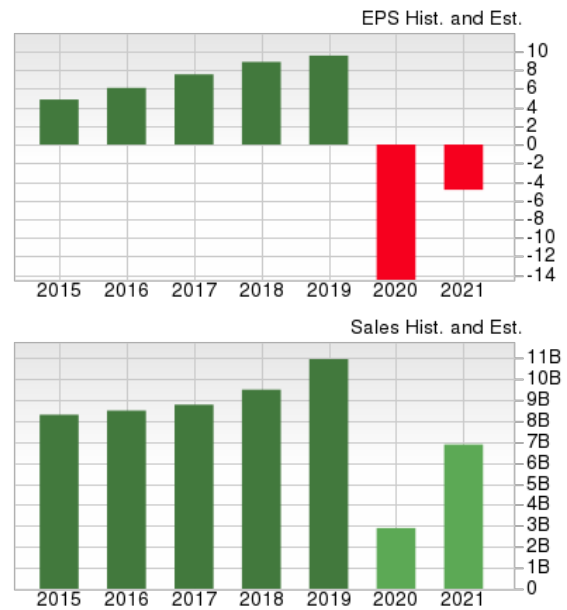
## Overview

Based in Miami and incorporated in 1985, Royal Caribbean Cruises is a cruise company. It owns and operates three global brands — Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises. Additionally, it has 50% investment in a joint venture with TUI AG, which operates the brand TUI Cruises and a 49% interest in the Spanish brand Pullmantur along with a 36% interest in the Chinese brand SkySea Cruises.

The company's cruise brands primarily serve the contemporary, premium and deluxe segments of the cruise vacation industry, which also includes the budget and luxury segments. These brands operate 60 ships, with an additional 16 on order as of Dec 31, 2018. The ships operate on a selection of diverse itineraries worldwide that include roughly 540 destinations on all seven continents.

The company reports revenues under the following segments — Passenger ticket revenues (71.7% of total revenues in 2019), and Onboard and other revenues (28.3%).

Owing to the unprecedented impact of the coronavirus pandemic, Royal Caribbean and Cruises Investment Holding recently filed for the reorganization of their Spanish Joint Venture - Pullmantur Cruceros. With sailings cancelled through Nov 15 due to the global crisis, filings were made with the respective authorities under the terms of Spanish insolvency laws. However, Royal Caribbean stated that its assets related to the JV had already been included in the non-cash asset impairment charges while reporting their first quarter 2020 results on May 3.



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## Reasons To Buy:

▲ **Overall Bookings and Capacity Growth:** Since 2017, Royal Caribbean has been consistently witnessing strong demand from its key markets of operations. In 2018 and 2019, demand for the company's all brands and itineraries increased sharply. The company commenced 2020 on a strong note. However, demand started declining in mid-February. Due to the coronavirus pandemic, the company had to cancel sailings. The company stated that bookings still remain suppressed but it is now better than it was in mid-April, driven by improved trends for fourth-quarter 2020 and 2021 sales. It also announced bookings for 2021 is within the historical range. Current bookings give an indication that there is demand for cruising.

Technological innovations and robust liquidity position bode well for the company. As of Mar 31, 2020, the company had cash and cash equivalents of approximately \$3.9 billion.

▲ **Technological & Other Innovation:** Royal Caribbean continues to make use of digital tools for marketing, product development and to enhance the consumer experience. These include revamped websites, new vacation packaging capabilities, support for mobile apps and increased bandwidth onboard to help its guests remain well-connected while at sea. With busier customers preferring more digital devices that help to save time, introduction of superior Internet bandwidth, online check-in accompanied with radio-frequency identification technology should continue to increase occupancy. Meanwhile, Royal Caribbean introduces new technological capabilities under its Project Excalibur. The company rolled out a smartphone app to increase convenience and better serve guests. In fact, the app is so broadly deployed that more than 60% of Royal Caribbean's current guests can avail it. In addition to industry-wide trends, there are several unique factors that are boosting the company's numbers. Streaming WiFi and customized destination experiences, as well as other ship upgrades, are also paying off.

▲ **Strong Liquidity Position:** As of Mar 31, 2020, the company had cash and cash equivalents of approximately \$3.9 billion, compared with \$244 million at the end of Dec 31, 2019. On May 19, 2020, the company completed its \$3.3 billion senior secured notes offering. The company announced that during suspension of its operations, its estimated cash burn is likely to be in the range of \$250 million to \$275 million per month. This includes ongoing ship operating expenses, administrative expenses, debt service, hedging costs and anticipated necessary CapEx. Although, the company's long-term debt at the end of first-quarter 2020 stands at \$12.9 billion, its anticipated debt maturities for the remainder of 2020 and 2021 are \$0.4 billion and \$0.9 billion, respectively. At the end of first-quarter 2020, the company had debt-to-capital ratio of 0.6, this gives an indication that its debt level is manageable.

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## Reasons To Sell:

▼ **Coronavirus to Hurt 2020 Results:** The leisure industry is currently grappling with the coronavirus pandemic and Royal Caribbean isn't immune to the trend. Travel warnings and cruise cancellations are starting to take a toll on the company. In fact, the outbreak has persuaded management to suspend 2020 guidance. The coronavirus outbreak has compelled the company to cancel cruises. Notably, in April 2020, the Centers for Disease Control (CDC) has extended the "No Sail Order" for cruise ships for nearly three months. Due to the pandemic, bookings for 2020 have declined significantly. The company expects to report net loss on both a GAAP and adjusted basis for the second quarter and 2020 fiscal year.

The coronavirus pandemic, increased cost of operations and a cyclical industry are primary concerns.

▼ **Q1 Results Decline Sharply:** The company reported first-quarter 2020 results, wherein both earnings and revenues declined sharply year over year. The company reported adjusted loss per share of \$1.48, compared with adjusted earnings per share of \$1.31 per share in the prior-year quarter. Moreover, the top line declined 16.7% year over year. Due to the pandemic, the company suspended global cruise operation beginning Mar 13, 2020. This resulted in cancellation of 130 sailings during the first quarter. During the first quarter, the company recorded \$1.1 billion non-cash asset impairment charge due to the pandemic.

▼ **Travel Ban to Cuba a Concern:** Meanwhile, Trump administration's policy change on travel to Cuba is concerning. Travel ban to Cuba will have a huge impact on cruise industry at the beginning of summer vacation season as demand for sailings in the region is very high. Notably, the company anticipates itinerary changes owing to Cuba to impact yields during first-half 2020. It also expects to witness the most significant impact during the first quarter, when three of its brands including Silversea and Azamara — its high-yielding brands — are scheduled to visit the island.

▼ **Increasing Costs Hurt:** The company is shifting its deployment toward Asia, Australia and certain areas of Europe to curtail capacity in areas with geopolitical risks. The changes related to international distribution system and a shift in deployment for strategic purposes will likely improve yields. However, it will also increase costs. Moreover, higher-than-anticipated load factors, timing and investment in revenue-generating activities are further adding to the company's costs. In 2018 and 2019, net cruise costs, excluding fuel, were up 4.1% and 11.4% in constant currency, respectively. Moreover, costs in the coming quarter are likely to increase due the suspension of operations.

▼ **Currency & Other Macro Economic Headwinds:** Royal Caribbean is heavily investing in China, where a slowdown in the economy could limit discretionary spending. In fact, the rate of capacity growth in the Asia Pacific region is expected to slow considerably in the near-term for both the company and the industry. The company's business in Latin America is also suffering due to the economic slowdown. Moreover, Australia and Southeast Asia are experiencing lower pricing, due to a significant increase in industry capacity. Further, in Europe, economic/political conditions are expected to be somewhat challenging after U.K.'s exit from the 28-member economic bloc.

Also, Royal Caribbean generates just under 50% of its revenues from customers outside the United States where a majority pay with local currency. Hence, the company is highly exposed to the impact of negative currency translation. Thus, if the U.S. dollar continues to strengthen versus the company's basket of currencies, it is likely to prove detrimental to the company's earnings growth. Moreover, an increase in fuel prices may further hamper the company's performance.

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## Last Earnings Report

### Royal Caribbean Q1 Earnings & Revenues Miss Estimates

Royal Caribbean reported first-quarter 2020 results, wherein both earnings and revenues missed the respective Zacks Consensus Estimate. The top line missed the consensus estimate for the third straight quarter. Moreover, both earnings and revenues declined sharply year over year due to the coronavirus pandemic.

The company reported adjusted loss per share of \$1.48, wider than the Zacks Consensus Estimate of a loss of 81 cents. In the prior-year quarter, the company had reported adjusted earnings per share of \$1.31 per share.

Total revenues were \$2,032.8 million, missing the consensus mark of \$2,103 million and declined 16.7% from the year-ago quarter. Due to the pandemic, the company suspended its global cruise operation beginning Mar 13, 2020. This resulted in cancellation of 130 sailings during the first quarter.

During the suspension of its operations, the company anticipates cash burn in the range of nearly \$250 million to \$275 million per month.

### Quarterly Highlights

Passenger ticket revenues decreased 19.5% to \$1,376.9 million, and onboard and other revenues declined 10.4% to \$655.9 million.

Total cruise operating expenses of \$1,413.7 million improved 15% on a year-over-year basis.

### Other Financial Information

As of Apr 30, 2020, the company had cash and cash equivalents of approximately \$2.3 billion. On May 19, 2020, the company completed its \$3.3 billion senior secured notes offering.

The company announced that as of May 19, 2020, the anticipated debt maturities for the remainder of 2020 and 2021 are \$0.4 billion and \$0.9 billion, respectively.

### Guidance

Due to the pandemic, the company has withdrawn guidance. The company is unable to estimate the financial losses due to the coronavirus as the magnitude and duration of the same remains uncertain.

The company announced interest expenses for the remainder of the year (Apr 1, 2020 through Dec 31, 2020) in the range of \$590 million to \$610 million.

Quarter Ending 03/2020

| Report Date      | May 20, 2020 |
|------------------|--------------|
| Sales Surprise   | -3.32%       |
| EPS Surprise     | -82.72%      |
| Quarterly EPS    | -1.48        |
| Annual EPS (TTM) | 6.75         |

## Recent News

### Royal Caribbean & Norwegian Cruise Line Tie Up for Safety Plan - Jul 6, 2020

The cruise industry has been driven to a standstill by the coronavirus-induced crisis. However, the ongoing pandemic has compelled companies to forget rivalries and come together to counter the scenario. Case in point, Royal Caribbean and Norwegian Cruise Line have teamed up to develop safety standards.

Former Utah Governor Mike Leavitt and former U.S. Food and Drug Administration Commissioner Scott Gottlieb, are serving as co-chairs of a newly formed group of experts called the "Healthy Sail Panel." The expert panel, which has been working for approximately a month, will provide their initial recommendations by the end of August.

### Royal Caribbean Extends Suspension On Cruising – May 20, 2020

Royal Caribbean has decided to extend the suspension of majority sailings through Jul 31, while sailings from China, have been suspended till the end of June.

### Royal Caribbean Extends "Cruise with Confidence" Cancellation Policy Through Sept. 1 - Mar 30, 2020

Royal Caribbean is extending its "Cruise with Confidence" cancellation policy through September 1, 2020. The update provides guests flexibility with travel planning by allowing cancellations up to 48 hours before a sailing for any reason. Guests will receive a full credit for their fare, usable on any future sailing of choice in 2020 or 2021.

The policy applies to both new and existing cruise bookings with sailing dates on or before September 1, 2020, and applies to the company's global brands Royal Caribbean International, Celebrity Cruises, and Azamara. Details are available on the respective brand websites.

## Valuation

Royal Caribbean's shares are down 60.5% year-to-date and 53.6% in the trailing 12-month period. Stocks in the Zacks sub-industry is down by 48.3%, and Zacks Consumer Discretionary sector is down by 8.1% in the year-to-date period. Over the past year, the Zacks sub-industry and sector were down by 46.7% and 3.1%, respectively.

The S&P 500 index is up by 1.2% in the year-to-date period and 9% in the past year.

The stock is currently trading at 7.82X trailing 12-month earnings, which compares to 14.29X for the Zacks sub-industry, 25.42X for the Zacks sector and 21.01X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.3X and as low as 2.34X, with a 5-year median of 14.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$55 price target reflects 8.14X trailing 12-month earnings.

The table below shows summary valuation data for RCL.

| Valuation Multiples - RCL |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E TTM                   | Current       | 7.82  | 14.29        | 25.42  | 21.01   |
|                           | 5-Year High   | 27.3  | 29.48        | 32.62  | 22.25   |
|                           | 5-Year Low    | 2.34  | 11.56        | 19.76  | 15.98   |
|                           | 5-Year Median | 14.13 | 21.55        | 25.39  | 19.13   |
| P/B TTM                   | Current       | 1.08  | 0.73         | 3.13   | 4.46    |
|                           | 5-Year High   | 2.97  | 1.71         | 5.01   | 4.56    |
|                           | 5-Year Low    | 0.38  | 0.43         | 2.2    | 2.83    |
|                           | 5-Year Median | 2.18  | 1.38         | 4.2    | 3.71    |
| EV/EBITDA TTM             | Current       | 7.83  | 5.93         | 10.4   | 12.1    |
|                           | 5-Year High   | 16.45 | 11.36        | 17.63  | 12.86   |
|                           | 5-Year Low    | 4.23  | 4.72         | 8.29   | 8.25    |
|                           | 5-Year Median | 11.31 | 8.75         | 12.22  | 10.88   |

As of 07/21/2020

## Industry Analysis Zacks Industry Rank: Bottom 5% (239 out of 252)



## Top Peers

| Company (Ticker)                           | Rec          | Rank |
|--------------------------------------------|--------------|------|
| Camping World Holdings Inc. (CWH)          | Neutral      | 4    |
| H.I.S. Co., Ltd. (HISJF)                   | Neutral      | 4    |
| Lindblad Expeditions Holdings Inc. (LIND)  | Neutral      | 3    |
| Norwegian Cruise Line Holdings Ltd. (NCLH) | Neutral      | 3    |
| AMC Entertainment Holdings, Inc. (AMC)     | Underperform | 4    |
| Carnival Corporation (CCL)                 | Underperform | 5    |
| Cinemark Holdings Inc (CNK)                | Underperform | 5    |
| Live Nation Entertainment, Inc. (LYV)      | Underperform | 5    |

| Industry Comparison Industry: Leisure And Recreation Services |            |            |           | Industry Peers |              |            |
|---------------------------------------------------------------|------------|------------|-----------|----------------|--------------|------------|
|                                                               | RCL        | X Industry | S&P 500   | CCL            | LYV          | NCLH       |
| Zacks Recommendation (Long Term)                              | Neutral    | -          | -         | Underperform   | Underperform | Neutral    |
| Zacks Rank (Short Term)                                       | 4          | -          | -         | 5              | 5            | 3          |
| VGM Score                                                     | F          | -          | -         | D              | C            | D          |
| Market Cap                                                    | 11.06 B    | 633.69 M   | 22.70 B   | 9.12 B         | 10.59 B      | 3.84 B     |
| # of Analysts                                                 | 8          | 3.5        | 14        | 7              | 4            | 7          |
| Dividend Yield                                                | 5.91%      | 0.00%      | 1.81%     | 13.17%         | 0.00%        | 0.00%      |
| Value Score                                                   | C          | -          | -         | B              | C            | C          |
| Cash/Price                                                    | 0.35       | 0.28       | 0.06      | 0.74           | 0.30         | 0.35       |
| EV/EBITDA                                                     | 5.52       | 6.44       | 13.09     | 3.15           | 13.84        | 5.96       |
| PEG Ratio                                                     | NA         | 1.83       | 3.03      | NA             | NA           | NA         |
| Price/Book (P/B)                                              | 1.08       | 1.08       | 3.12      | 0.38           | 8.60         | 0.73       |
| Price/Cash Flow (P/CF)                                        | 3.34       | 4.55       | 12.23     | 1.54           | 19.34        | 1.82       |
| P/E (F1)                                                      | NA         | 74.70      | 22.36     | NA             | NA           | NA         |
| Price/Sales (P/S)                                             | 1.05       | 0.65       | 2.42      | 0.54           | 0.95         | 0.61       |
| Earnings Yield                                                | -27.46%    | -11.37%    | 4.31%     | -47.60%        | -11.37%      | -46.06%    |
| Debt/Equity                                                   | 1.26       | 0.94       | 0.75      | 0.71           | 4.09         | 1.93       |
| Cash Flow (\$/share)                                          | 15.81      | 2.40       | 6.94      | 9.87           | 2.54         | 8.22       |
| Growth Score                                                  | F          | -          | -         | F              | B            | F          |
| Hist. EPS Growth (3-5 yrs)                                    | 18.88%     | 13.09%     | 10.82%    | -7.41%         | NA           | 16.97%     |
| Proj. EPS Growth (F1/F0)                                      | -251.95%   | -234.00%   | -9.08%    | -264.25%       | -27,825.00%  | -235.56%   |
| Curr. Cash Flow Growth                                        | 11.91%     | 3.70%      | 5.51%     | 3.07%          | -0.65%       | 4.56%      |
| Hist. Cash Flow Growth (3-5 yrs)                              | 15.91%     | 9.86%      | 8.55%     | 10.47%         | 0.08%        | 18.35%     |
| Current Ratio                                                 | 0.51       | 0.96       | 1.31      | 0.69           | 1.03         | 0.57       |
| Debt/Capital                                                  | 56.77%     | 59.14%     | 44.41%    | 41.64%         | 81.64%       | 65.84%     |
| Net Margin                                                    | 1.75%      | -0.87%     | 10.54%    | -17.53%        | -0.91%       | -16.95%    |
| Return on Equity                                              | 12.34%     | 0.20%      | 15.38%    | 0.06%          | -7.21%       | 12.15%     |
| Sales/Assets                                                  | 0.34       | 0.53       | 0.54      | 0.36           | 1.03         | 0.39       |
| Proj. Sales Growth (F1/F0)                                    | -73.54%    | -42.08%    | -2.40%    | -69.55%        | -60.40%      | -73.13%    |
| Momentum Score                                                | F          | -          | -         | F              | F            | A          |
| Daily Price Chg                                               | 0.76%      | 0.72%      | 0.86%     | 1.27%          | -0.06%       | 0.60%      |
| 1 Week Price Chg                                              | 2.65%      | 1.11%      | 3.82%     | -4.27%         | 9.91%        | -6.89%     |
| 4 Week Price Chg                                              | -2.87%     | -4.31%     | 3.42%     | -15.61%        | 4.91%        | -16.92%    |
| 12 Week Price Chg                                             | 26.95%     | 7.14%      | 9.22%     | 5.05%          | 12.69%       | 14.44%     |
| 52 Week Price Chg                                             | -53.57%    | -51.53%    | -3.38%    | -67.12%        | -30.21%      | -69.08%    |
| 20 Day Average Volume                                         | 14,943,288 | 267,705    | 2,069,527 | 35,635,544     | 2,936,050    | 47,338,576 |
| (F1) EPS Est 1 week change                                    | 0.00%      | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%      |
| (F1) EPS Est 4 week change                                    | -12.58%    | 0.00%      | 0.13%     | -24.07%        | -19.88%      | -0.55%     |
| (F1) EPS Est 12 week change                                   | -786.62%   | -144.19%   | -3.85%    | -513.21%       | -53.42%      | -142.66%   |
| (Q1) EPS Est Mthly Chg                                        | -16.54%    | 0.00%      | 0.00%     | -22.17%        | -44.37%      | 1.40%      |

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## 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.

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### 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   | 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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### Disclosures

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