

Regency Centers Corp. (REG)

\$41.65 (As of 05/19/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Regency's in-line results in first-quarter 2020 were supported by strong leasing activities. Yet, the negative impacts of store closures and rent receivable write-offs, stemming from the COVID-19 pandemic, marred revenue growth. It also deferred development expenditure worth \$145 million due to the virus outbreak. Notably, retail REITs, which have already been battling store closure and bankruptcy woes, are experiencing the brunt due to public gathering restrictions and higher e-commerce adoption. Its shares have underperformed the industry over the past year. Nonetheless, with a high-quality portfolio focused on essential retail businesses and the majority of its annual base rent (ABR) coming from grocery-anchored centers along with efforts to boost liquidity strength, Regency remains well-poised to brave through the current uncertain times.

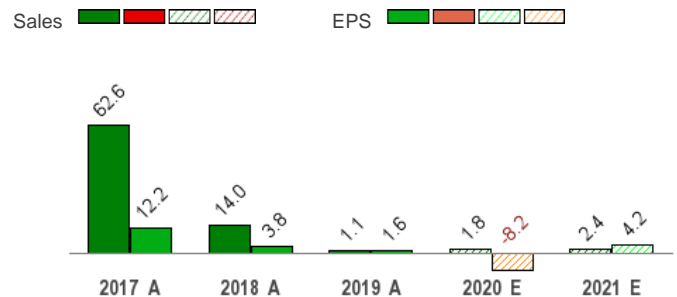
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$70.26 - \$31.80 |
| 20 Day Average Volume (sh) | 1,742,154 |
| Market Cap | \$7.1 B |
| YTD Price Change | -34.0% |
| Beta | 0.97 |
| Dividend / Div Yld | \$2.38 / 5.7% |
| Industry | REIT and Equity Trust - Retail |
| Zacks Industry Rank | Bottom 24% (193 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 0.0% |
| Last Sales Surprise | -1.6% |
| EPS F1 Est- 4 week change | -6.5% |
| Expected Report Date | 08/06/2020 |
| Earnings ESP | -6.1% |
| P/E TTM | 10.6 |
| P/E F1 | 11.7 |
| PEG F1 | 2.8 |
| P/S TTM | 6.3 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 292 E | 293 E | 295 E | 302 E | 1,151 E |
| 2020 | 284 A | 275 E | 279 E | 285 E | 1,124 E |
| 2019 | 286 A | 268 A | 282 A | 281 A | 1,104 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.90 E | \$0.92 E | \$0.95 E | \$0.98 E | \$3.72 E |
| 2020 | \$0.98 A | \$0.85 E | \$0.87 E | \$0.89 E | \$3.57 E |
| 2019 | \$0.98 A | \$0.95 A | \$0.99 A | \$1.00 A | \$3.89 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 05/19/2020. The reports text is as of 05/20/2020.

Overview

Jacksonville, FL-based Regency Centers Corporation is one of the leading publicly traded retail REIT in the United States. The company's portfolio mainly constitutes of grocery-anchored community and neighborhood centers. It started operating as a publicly traded REIT in 1993.

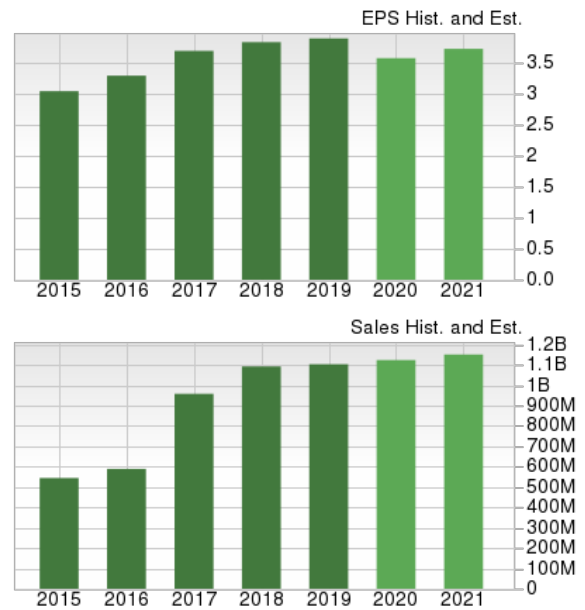
Regency leases space in its shopping centers to grocery stores, major retail anchors, restaurants, side-shop retailers and service providers. This apart, the company also makes ground leasing or selling out-parcels to similar types of tenants.

As of Mar 31, 2020, Regency had full or partial ownership of 416 properties, spanning more than 52.2 million square feet of gross leasable area (GLA). The company's pro-rata share of the GLA is 42.5 million square feet and the properties are 94.5% leased.

Moreover, on Mar 1, 2017, Regency announced the closure of the Equity One merger deal. The move created a combined company with a total market capitalization of around \$16 billion. Specifically, Equity One merged with and into Regency, and the surviving entity – Regency Centers – joined the S&P 500 Index on Mar 2. This merger created a high-quality portfolio of 429 properties, mainly grocery-anchored, situated in several top markets and provides long-term growth opportunities.

In September 2019, Regency announced the acquisition of 120,000-square-foot Circle Marina Center in Long Beach, CA. This off-market buyout marks the company's fifth property owned in Long Beach. Positioned in a high density sub-market, the property is presently 94.1% leased. It includes 33,000 square feet area of a three-story office building and above-retail office, enjoying proximity to three other Regency shopping centers.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Regency primarily focuses on building a premium portfolio of grocery-anchored shopping centers. Such centers are usually necessity driven and drive a dependable traffic. Particularly, the company's premium quality portfolio of shopping centers, is located in strong trade areas, which are characterized with higher spending power, enables the company to attract top grocers and retailers. In fact, 77% (based on pro-rata ABR) of the company's portfolio consists of national and regional tenants. Further, 43% (based on pro-rate ABR) of its portfolio consisted of anchor tenants. This encouraging tenant mix helps the company to generate steady rental revenues. Also, the best-in-class operators are opening new locations in high-quality centers.
- ▲ Further, in these uncertain times, having a grocery component has been saving the grace of retail REITs, and Regency has numerous industry-leading grocers such as Kroger, Albertsons Companies and Publix as tenants. In fact, 80% of its properties are anchored by leading grocers. Further, with a focus on necessity, convenience and value retailers, Regency's portfolio has 43% essential tenancy. Significant essential retail businesses at the company's centers have enabled its properties to remain open, operating for the entirety of the pandemic. In fact, in April, around 60% of its tenants were allowed to operate, while the remaining portfolio was occupied by best-in-class, creditworthy retailers.
- ▲ Regency enjoys a large pool of unencumbered assets and good relationships with lenders. In fact, as of Mar 31, 2020, 88.6% of its wholly-owned real estate assets were unencumbered. With a high percentage of such assets, the company can enjoy accessibility to secured and unsecured debt markets, and maintain availability on the line. Regency currently enjoys BBB+/Baa1 credit rating, with stable outlook from S&P Global and Moody's. The company's debt maturity profile is well-laddered and it has no unsecured debt maturities until 2022.
- ▲ In the wake of the coronavirus pandemic, the company apprised of its liquidity position and the measures undertaken to enhance the same in the uncertain times. It settled its forward equity sales under its at-the-market program ("ATM"), generating \$125.8 million in net proceeds. Further, the company made use of its revolving credit facility of \$1.25 billion by drawing down \$500 million from it. Through the efforts, Regency boosted its liquidity to \$1.3 billion as of Mar 31, 2020, consisting of cash balance of \$735 million and \$545 million available under its revolving credit facility. Strong liquidity and the company's sector-leading free cash flows are sufficient to meet its expected near-term capital needs. In fact, after considering \$303 million in secured mortgage debt payments and capital expenditure, the company will have \$975 million of net liquidity through 2021.
- ▲ Further, the company's strategy is to sell a modest amount lower growth assets will provide free cash flow that can be redeployed for developments and redevelopments, acquisitions with superior growth prospects as well as repurchases of its own stock.

Focus on building a premium portfolio of grocery-anchored shopping centers, which are usually necessity-driven, along with the presence of leading grocers in its tenant roster, augurs well for Regency.

Reasons To Sell:

- ▼ The market is witnessing a shift in retail shopping from brick-and-mortar stores to internet sales. Particularly, the recent effort of online retailers to go deeper into the grocery business has emerged as a concern for this REIT that focuses on building a premium portfolio of grocery-anchored shopping centers. This is because the shift in retail shopping to internet sales is adversely affecting the retail tenants' sales, leading to retailers reconsidering their footprint and opting for store closures, thereby resulting in lesser demand for retail real estate space. Moreover, retailers unable to cope with competition are filing bankruptcies. In fact, move outs, store closures and bankruptcies of retailers are likely to affect the company's revenues in the near term.
- ▼ Furthermore, the escalating number of coronavirus cases forced several retailers to close stores to contain the spread of the virus. As a result, retail REITs, including Regency, which have already been battling store closures and bankruptcy issues, are experiencing the brunt. The company noted that roughly 40% of ABR across the portfolio comes from tenants that are subject to some form of mandatory closure or have voluntarily closed as of April end. In fact, the pandemic has been most impactful for many non-essential businesses that are experiencing significant declines in customer traffic and temporarily store closures. This is expected to have a significant adverse impact on the tenants' ability to pay rent obligations. As a result, there could be a significant increase in the number of tenants making late or partial rent payments, requesting rent deferrals, or defaulted on rent payments.
- ▼ With regards to its investment activity in these volatile times, the company informed that net project costs for its in-process developments and redevelopments amounted to \$190 million as of the first-quarter end. In the near term, it expects to spend \$80 million in its in-process projects and has selectively deferred investments worth \$145 million in light of the virus outbreak. Although a huge development and redevelopment projects pipeline is encouraging, it exposes the company to various risks such as rising construction costs, entitlement delays and lease-ups.
- ▼ Regency operates in a highly fragmented market and faces stiff competition from other retail REITs as well as private real estate developers. In addition, most properties of the company are concentrated in select markets of California, Florida, Texas, New York and Virginia, respectively. Thus, geographic concentration of Regency's properties exposes it to climatic threats and risks related to market saturation.
- ▼ Over the past 12 months, shares of Regency have declined 37.4% compared with the industry's decrease of 32.8%. Moreover, the trend in estimate revisions for current-year FFO per share does not indicate a favorable outlook for the company. In fact, the 2020 FFO per share estimate has been revised 6.5% downward over the past month. Therefore, given the above-mentioned concerns and downward estimate revisions, the stock has limited upside potential.

Dwindling traffic at retail properties, store closures and tenant bankruptcy remain concerns. The coronavirus pandemic and the resultant rent collection issues has added to the company's woes.

Last Earnings Report

Regency Centers Q1 FFO Meets Estimates, Revenues Miss

Regency's first-quarter 2020 NAREIT FFO per share of 98 cents were in line with the Zacks Consensus Estimate. The reported figure remained unchanged from the prior-year quarter's tally.

Decent leasing activities and rent spreads aided performance. However, results indicate declines in revenues and same-property net operating income (NOI). In fact, same-property NOI was impacted by known bankruptcy move-outs and a higher uncollectible lease income due to the COVID-19 pandemic.

Notably, 416 properties of the company were operational in the first quarter amid the virus outbreak. However, due to social distancing mandates and the COVID-19 outbreak-related restrictions, around 40% of Regency's tenants were closed (based on pro-rata annual base rent) as of April end. Also, through May 5, 2020, 62% of April 2020 pro-rata base rents were collected.

Total revenues in the quarter were \$283.7 million, lagging the Zacks Consensus Estimate of \$288.1 million. Further, the top line declined marginally from the year-ago figure of \$286.3 million.

Inside the Headlines

During the reported quarter, Regency executed 1.5 million square feet of comparable new and renewal leases, with blended rent spreads for the March-end quarter of 4.1%.

As of Mar 31, 2020, the company's wholly-owned portfolio along with its pro-rata shares of co-investment partnerships was 94.5% leased. Its same-property portfolio was 95% leased. Same-property NOI, excluding termination fees, edged down 0.7% on a year-over-year basis.

Portfolio Activity

During the reported quarter, the company sold two shopping centers for \$98.4 million.

Further, in January 2020, it closed the acquisition of additional interests in two properties for \$60.5 million.

Liquidity Update

Regency's liquidity totaled \$1.3 billion as of Mar 31, 2020, consisting of cash balance of \$735 million and \$545 million available under its revolving credit facility. The company has no unsecured debt maturities until 2022.

During the quarter, in its efforts to provide financial flexibility and strengthen its balance-sheet position amid the ongoing pandemic, the company settled its 2019 forward equity sales under its ATM program, generating \$125.8 million in net proceeds. It also drew an additional \$500 million from its existing \$1.25-billion revolving credit facility.

Quarter Ending **03/2020**

| Report Date | May 07, 2020 |
|------------------|--------------|
| Sales Surprise | -1.55% |
| EPS Surprise | 0.00% |
| Quarterly EPS | 0.98 |
| Annual EPS (TTM) | 3.92 |

Recent News

Regency Centers Prices \$600M Notes, Boosts Flexibility – May 11, 2020

Regency announced the pricing of the company's 3.70% senior unsecured notes worth \$600 million, through its operating partnership Regency Centers, L.P. The notes are priced at 99.805%.

The move is a strategic fit as it will bolster financial flexibility. The company intends to utilize net proceeds from the offering to enhance its liquidity, reduce outstanding balances under its line of credit and for general corporate needs, which can include the repayment of part of its remaining debt.

The newly-issued debt security will mature on Jun 15, 2030. Interest on the notes will be paid semi-annually on Jun 15 and Dec 15. The first payment is scheduled to be paid on Dec 15, 2020.

Regency Centers Withdraws 2020 Guidance on Coronavirus Scare – Mar 30, 2020

Regency has withdrawn its full-year 2020 guidance issued on Feb 12, 2020. The company had projected 2020 NAREIT FFO per share to be in the range of \$3.90 to \$3.93. This was backed by same-property NOI growth, excluding termination fees of 0% or more.

Along with this, Regency apprised of its liquidity position and the measures undertaken to enhance the same in these uncertain times. The company settled its forward equity offering from September 2019 at \$67.99 per share and garnered proceeds of about \$125 million.

Further, the company made use of its revolving credit facility of \$1.25 billion, by drawing down \$500 million from it. This provided Regency with a combined cash balance of about \$720 million and an additional amount of \$545 million available from the revolving credit facility. Thus, the total liquidity of the company stands at about \$1.27 billion.

Additionally, the company has no unsecured debt maturities until 2022. Nonetheless, the company has \$153 million and \$174 million of secured mortgage debt maturing in 2020 and 2021, respectively.

Dividend Update

On May 4, 2020, Regency's board of directors announced a quarterly cash dividend of 59.5 cents per share on its common stock. The dividend will be paid out on May 26 to shareholders of record as of May 18, 2020.

Valuation

Regency's shares have been down 37.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 32.8% and 21.2%, over the past year, respectively.

The S&P 500 Index has been up 1.9% over the past year.

The stock is currently trading at 11.45X forward 12-month FFO, which compares with the 10.83X for the Zacks sub-industry, 15.39X for the Zacks sector and 21.51X for the S&P 500 Index.

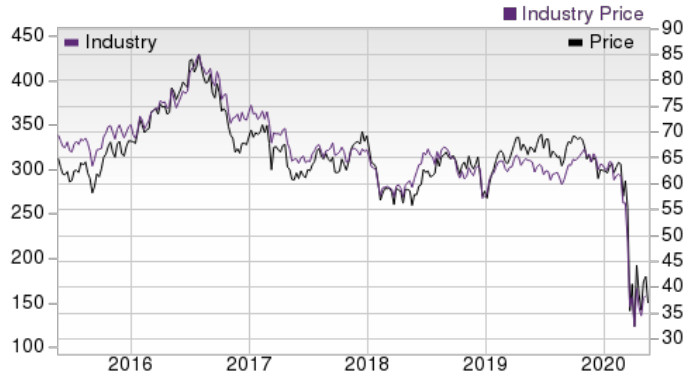
Over the past five years, the stock has traded as high as 25.25X and as low as 8.26X, with a 5-year median of 17.25X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 12.10X FFO.

The table below shows summary valuation data for REG.

| Valuation Multiples - REG | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 11.45 | 10.83 | 15.39 | 21.51 |
| | 5-Year High | 25.25 | 19.44 | 16.18 | 21.51 |
| | 5-Year Low | 8.26 | 9.72 | 11.58 | 15.23 |
| | 5-Year Median | 17.25 | 14.87 | 13.94 | 17.49 |
| P/S F12M | Current | 6.23 | 5.90 | 5.81 | 3.34 |
| | 5-Year High | 18.68 | 13.91 | 6.70 | 3.44 |
| | 5-Year Low | 4.78 | 5.43 | 4.99 | 2.53 |
| | 5-Year Median | 10.35 | 8.17 | 6.05 | 3.01 |
| P/B TTM | Current | 1.11 | 2.12 | 2.36 | 4.03 |
| | 5-Year High | 4.75 | 5.57 | 2.90 | 4.56 |
| | 5-Year Low | 0.86 | 1.77 | 1.71 | 2.83 |
| | 5-Year Median | 1.73 | 3.37 | 2.53 | 3.65 |

As of 05/19/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (193 out of 254)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|---------|------|
| Acadia Realty Trust (AKR) | Neutral | 3 |
| Brixmor Property Group Inc. (BRX) | Neutral | 4 |
| Federal Realty Investment Trust (FRT) | Neutral | 3 |
| Kimco Realty Corporation (KIM) | Neutral | 3 |
| Retail Properties of America, Inc. (RPAI) | Neutral | 4 |
| SITE CENTERS CORP. (SITC) | Neutral | 3 |
| Urban Edge Properties (UE) | Neutral | 4 |
| Weingarten Realty Investors (WRI) | Neutral | 4 |

| Industry Comparison Industry: Reit And Equity Trust - Retail | | | | Industry Peers | | |
|--|-----------|------------|-----------|----------------|-----------|-----------|
| | REG | X Industry | S&P 500 | BRX | FRT | KIM |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 4 | 3 | 3 |
| VGM Score | D | - | - | D | D | D |
| Market Cap | 7.07 B | 1.10 B | 19.91 B | 3.20 B | 5.88 B | 4.52 B |
| # of Analysts | 9 | 6 | 14 | 8 | 9 | 10 |
| Dividend Yield | 5.71% | 8.90% | 2.14% | 10.56% | 5.40% | 10.71% |
| Value Score | D | - | - | C | D | C |
| Cash/Price | 0.12 | 0.16 | 0.07 | 0.22 | 0.18 | 0.11 |
| EV/EBITDA | 16.24 | 11.46 | 12.09 | 10.29 | 13.45 | 12.87 |
| PEG Ratio | 2.80 | 4.77 | 2.68 | NA | 5.71 | 6.38 |
| Price/Book (P/B) | 1.11 | 1.05 | 2.75 | 1.20 | 2.41 | 0.93 |
| Price/Cash Flow (P/CF) | 12.01 | 6.13 | 10.68 | 5.39 | 9.89 | 6.41 |
| P/E (F1) | 11.54 | 9.00 | 19.96 | 6.15 | 13.09 | 7.65 |
| Price/Sales (P/S) | 6.25 | 3.23 | 2.01 | 2.76 | 6.29 | 3.92 |
| Earnings Yield | 8.57% | 11.13% | 4.83% | 16.22% | 7.64% | 13.10% |
| Debt/Equity | 0.74 | 1.18 | 0.76 | 2.06 | 1.84 | 1.19 |
| Cash Flow (\$/share) | 3.47 | 2.19 | 7.01 | 2.00 | 7.86 | 1.63 |
| Growth Score | D | - | - | D | D | D |
| Hist. EPS Growth (3-5 yrs) | 6.75% | 1.39% | 10.87% | -1.65% | 4.59% | -1.00% |
| Proj. EPS Growth (F1/F0) | -8.17% | -8.25% | -10.48% | -8.18% | -6.11% | -7.01% |
| Curr. Cash Flow Growth | -0.84% | 0.37% | 5.51% | -14.31% | 22.11% | -14.81% |
| Hist. Cash Flow Growth (3-5 yrs) | 11.14% | 5.61% | 8.55% | 5.61% | 12.40% | 1.91% |
| Current Ratio | 4.54 | 2.53 | 1.28 | 1.68 | 4.79 | 2.01 |
| Debt/Capital | 42.49% | 54.42% | 44.46% | 67.30% | 64.19% | 54.42% |
| Net Margin | 11.02% | 22.53% | 10.59% | 23.43% | 37.27% | 33.33% |
| Return on Equity | 1.97% | 6.04% | 16.27% | 9.94% | 14.40% | 7.64% |
| Sales/Assets | 0.10 | 0.13 | 0.55 | 0.14 | 0.14 | 0.10 |
| Proj. Sales Growth (F1/F0) | 0.55% | -1.71% | -2.49% | -2.06% | -0.10% | -1.70% |
| Momentum Score | C | - | - | D | D | F |
| Daily Price Chg | 0.81% | -1.25% | -1.38% | -1.01% | -1.33% | 0.48% |
| 1 Week Price Chg | -12.27% | -11.60% | -4.56% | -17.69% | -7.81% | -16.06% |
| 4 Week Price Chg | 17.03% | 6.97% | 6.08% | 21.65% | 10.45% | 26.02% |
| 12 Week Price Chg | -32.67% | -44.57% | -13.96% | -45.06% | -37.41% | -43.70% |
| 52 Week Price Chg | -37.36% | -45.05% | -7.85% | -40.88% | -41.00% | -42.65% |
| 20 Day Average Volume | 1,742,154 | 1,742,154 | 2,586,392 | 4,753,123 | 1,166,651 | 8,341,656 |
| (F1) EPS Est 1 week change | 0.12% | 0.00% | 0.00% | 0.00% | 0.00% | -1.16% |
| (F1) EPS Est 4 week change | -6.52% | -3.64% | -4.62% | -4.10% | -3.53% | -7.20% |
| (F1) EPS Est 12 week change | -8.76% | -9.13% | -16.58% | -10.01% | -8.76% | -11.22% |
| (Q1) EPS Est Mthly Chg | -11.50% | -7.99% | -10.10% | -8.71% | -3.72% | -12.59% |

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 | D |
| Momentum Score | C |
| VGM Score | D |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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