

Ralph Lauren Corp. (RL)

\$119.81 (As of 01/06/20)

Price Target (6-12 Months): **\$126.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Ralph Lauren's shares have risen and outpaced the industry in the past three months, owing to strong momentum, following its second-quarter fiscal 2020 results. Notably, the company's sales and earnings beat the Zacks Consensus Estimate and improved year over year in the fiscal second quarter. Results benefited from strength in international markets, fueled by sales growth in Europe and Asia. Also, a stringent cost discipline and margin expansion as well as modest growth in North America digital revenues aided results. Further, continued investment in brand elevation and other endeavors bodes well. However, escalating headwinds in Hong Kong are likely to hurt sales in fiscal 2020. Moreover, soft wholesale business and lower digital sales to international shoppers are likely to mar revenues for the North America business in the near term.

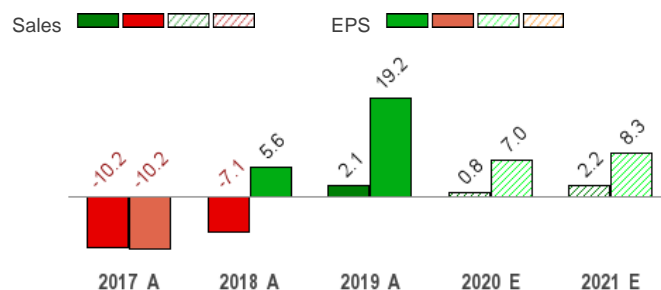
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$133.63 - \$82.69
20 Day Average Volume (sh)	754,521
Market Cap	\$8.9 B
YTD Price Change	2.2%
Beta	0.93
Dividend / Div Yld	\$2.75 / 2.3%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 26% (188 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.7%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	15.5
P/E F1	15.6
PEG F1	1.5
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,440 E	1,724 E	1,732 E	1,522 E	6,503 E
2020	1,429 A	1,706 A	1,715 E	1,516 E	6,366 E
2019	1,391 A	1,691 A	1,726 A	1,506 A	6,313 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.94 E	\$2.72 E	\$2.63 E	\$1.18 E	\$8.33 E
2020	\$1.77 A	\$2.55 A	\$2.43 E	\$0.96 E	\$7.69 E
2019	\$1.54 A	\$2.26 A	\$2.32 A	\$1.07 A	\$7.19 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 01/06/2020. The reports text is as of 01/07/2020.

Overview

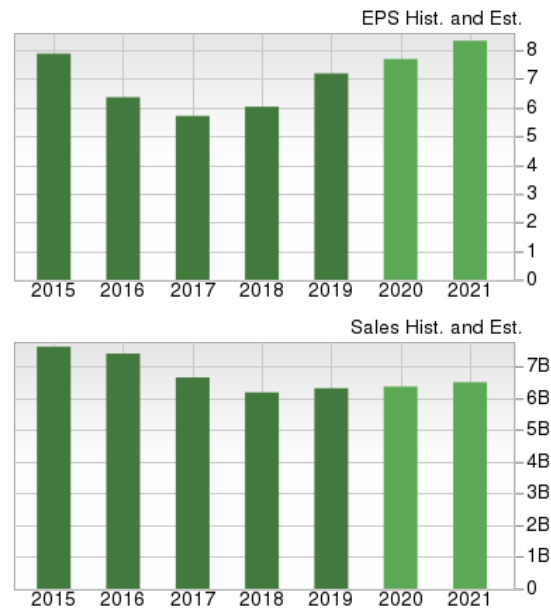
Ralph Lauren Corp. is a major designer, marketer and distributor of premium lifestyle products in North America, Europe, Asia, and internationally. It offers products in the apparel, footwear, accessories, home furnishings, and other licensed product categories. The company possesses a strong portfolio of globally recognized brand names such as Polo Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Collection, Double RL, Lauren Ralph Lauren, Polo Golf Ralph Lauren, Ralph Lauren Golf, RLX Ralph Lauren, Polo Ralph Lauren Children, Chaps, Club Monaco and American Living.

The company offers lifestyle product collections in 4 categories – Apparel, which includes men's, women's, and children's clothing; Home, which includes bedding and bath products, furniture, fabric and wallpaper, paint, tabletop and giftware; Accessories, comprising footwear, eyewear, watches, fashion and fine jewelry, and leather goods; and Fragrance and skin care products sold under the Glamorous, Romance, Polo, Lauren, Safari, and Polo Sport brands.

The company's reportable segments include North America, Europe and Asia. These segments contributed roughly 50.7%, 26.3% and 16.5% respectively to net revenue in fiscal 2019. The rest of the contribution came from other non-reportable segments.

The company operates through wholesale, retail and licensing channels of distribution. It sells products to department stores, specialty stores, and golf and pro shops through the wholesale channel. It also sells directly to consumers through an integrated retail channel, which includes retail stores, concession-based shop-within-shops, and its digital commerce sites. It also licenses to third parties for specified periods the right to access its trademarks in connection with the licensees' manufacture and sale of designated products.

As of Sep 28, 2019, Ralph Lauren had 517 directly-operated stores and 653 concession shops globally. The directly-operated stores included 132 Ralph Lauren, 75 Club Monaco and 310 Polo factory stores. Additionally, the company had 254 global licensed stores.



Reasons To Buy:

▲ **Robust Q2 Performance Aid Stock:** Shares of Ralph Lauren have gained 33.9% in the past three months, outperforming the industry's 15.5% rally. The stock recently received a boost from its solid second-quarter fiscal 2020 performance. Notably, sales and earnings beat the Zacks Consensus Estimate and improved year over year in the fiscal second quarter. Results benefited from consistent strength in international markets, mainly fueled by sales growth in Europe and Asia. In addition, a stringent cost discipline and margin expansion along with continued investment in brand elevation and other endeavors — including "Next Great Chapter" — aided the quarterly results.

Ralph Lauren's results benefited from consistent strength in international markets, mainly fueled by constant currency revenue growth of 8% and 5%, respectively, in Europe and Asia.

▲ **AUR Growth to Aid Performance:** Average unit retail (AUR) across Ralph Lauren's direct-to-consumer network increased 2% in the fiscal second quarter, driven by momentum in under-developed categories mainly on strength in denim. This is consistent with the company's target of achieving low-single-digit AUR growth in fiscal 2020, with moderate increases throughout the fiscal year. AUR growth across all segments mostly aided gross margin expansion in the fiscal second quarter. The company expects AURs to be incrementally stronger in the second half of fiscal 2020 compared with the first half. The improvement will likely be fueled by expected price increases in select channels and categories as well as accelerated product mix shifts. Additionally, AURs will benefit from the company's ongoing efforts to reduce promotions that will improve the quality of sales and elevate the brand globally across every distribution channel.

▲ **Strategic Growth Plan – Next Great Chapter:** Ralph Lauren is well on track with its "Next Great Chapter" plan that was announced in June 2018. This growth plan focuses on delivering sustainable long term growth and value creation. The company expects to execute this growth plan through by five strategic priorities including – winning over a new generation of customers; energizing core products and accelerating under developed categories; drive targeted expansion in its regions and channels; lead with digital; and operate with discipline to fuel growth. As part of the plan, the company targets delivering low to mid-single digit revenue compounded annual growth rate (CAGR) and mid-teen operating margin by fiscal 2023, in constant currency. Additionally, it anticipates marketing spend to grow nearly 5% of revenue by fiscal 2023, while capital expenditure is expected to represent 4-5% of revenue. Furthermore, the company plans returning 100% free cash flow to shareholders in the next five years, amounting to about \$2.5 billion on a cumulative basis through fiscal 2023 in the form of dividends and share repurchases.

▲ **Strong International Presence:** Ralph Lauren remains keen on bolstering international presence by continually expanding in underpenetrated markets. In the past two years, the company has elevated the brand in Asia, particularly China, and built strong business foundation by enhancing the quality of sales and profitability. In second-quarter fiscal 2020, Ralph Lauren inaugurated 20 stores and concessions worldwide, while closing 21 locations. The openings comprised 15 stores in Asia. Meanwhile, it opened four owned and partnered full-price stores in Europe. Overall, the company's international business reported 7% top-line growth in constant currency (representing about 45% of total sales). This included constant currency revenue growth of 8% and 5%, respectively, in Europe and Asia. Further, it continued to witness strong growth in key markets, with about 22% constant-currency revenue growth in Mainland China. Moreover, the company sees immense potential to expand in Europe, where it currently has only 40 full-price stores. Going forward, the company remains on track to expand real estate locations in order to elevate the brand globally, and drive sales and profitability.

▲ **Digital Growth:** Expansion of digital platforms is a key aspect of Ralph Lauren's growth strategy. The company has developed a winning digital ecosystem, including directly-operated flagship sites, wholesale digital, pure plays and social commerce. In second-quarter fiscal 2020, management continued to expand into new digital distribution platforms — including rental, subscription and resale models. The company's constant-currency digital revenues improved in low-teens in the fiscal second quarter, backed by more than 30% growth in international regions and modest growth in North America digital revenues. Notably, digital comps in North America improved 2% in the quarter, which was above management's expectations, and improved sequentially from the first quarter of fiscal 2020.

In Asia, the company added five digital partners in the quarter, including Secco in China, GS Shop in Korea and Marui in Japan. It also expanded presence, with key digital pure players like Tmall in Asia. Moving to Europe, the company added 17 wholesale digital partners, including La Redoute. In fact, its directly-operated digital sites experienced strong momentum in Europe, with 13% comps growth in the reported quarter. These partnerships coupled with strong brand-building efforts and higher quality of sales is likely to drive growth at the company's digital business, particularly in the international regions.

Reasons To Sell:

- ▼ **Soft North America Revenues:** Ralph Lauren reported a 1% decline in North America revenues in second-quarter fiscal 2020. The decrease primarily resulted from a 6% decline in North America wholesale revenues, offset by 2% comparable store sales (comps) growth in the retail channel. Notably, underlying North America wholesale revenues were down in high-single digits due to modest share declines in women's category as Lauren's brand underperformed the market. The company is on track to improve customer experience in the wholesale business by implementing store refreshes, enhanced marketing and expansion in underpenetrated categories. However, these efforts will take time to reflect in the results of the segment's wholesale business.

Soft wholesale business and lower digital sales to international shoppers hurt revenues for the North America segment in the fiscal second quarter. These headwinds are likely to persist in the near term.

Apart from the wholesale business, the North America segment's top line was affected by continued headwinds from reduced sales to international shoppers on its U.S. site. This has been the primary cause of soft digital sales in North America over the past few quarters. However, in the fiscal second quarter, digital sales to domestic consumers partly offset the lower sales to international shoppers, resulting in improved digital sales for the region. Nevertheless, management expects lower digital sales to international shoppers to hurt North America digital comps through the rest of fiscal 2020. Clearly, soft wholesale business and lower digital sales to international shoppers are likely to affect the North America business in the near term.

- ▼ **Headwinds in Hong Kong:** Although Ralph Lauren witnessed robust growth in Asia in the fiscal second quarter, the top line was significantly impacted by disruptions in the Hong Kong business. Notably, constant currency revenues in Hong Kong were down 27% in the reported quarter. Results in Hong Kong were impacted by about 48 full days of store closures in the fiscal second quarter due to heavy protests in the region. Additionally, reduced tourism in the region marred the top line. Declines in Hong Kong affected total comps in Asia by three points. The company expects these headwinds to continue hurting results in Hong Kong in the near term. Driven by the escalating headwinds in Hong Kong, it now expects net revenue growth for fiscal 2020 at the lower end of its prior guidance of 2-3%.
 - ▼ **Currency Headwinds:** Though Ralph Lauren posted robust earnings and sales in second-quarter fiscal 2020, results were impacted by foreign currency headwinds due to strong U.S. dollar. Notably, currency headwinds hurt revenue growth by nearly 130 basis points (bps) in the fiscal second quarter. Currency headwinds are likely to persist throughout fiscal 2020. The company estimates foreign currency to negatively impact revenue growth by 130 bps and operating margin expansion by 20 bps in fiscal 2020. For the fiscal third quarter, currency headwinds are expected to mar revenue growth by 70-90 bps.
 - ▼ **Macroeconomic Headwinds May Dampen Operating Performance:** Consumer confidence and spending behavior may be affected by macroeconomic factors, including increase in fuel and energy costs, credit availability, high unemployment levels, and high household debt levels. These may affect disposable income of consumers. This, in turn, could affect the company's growth and profitability. Although the company remains committed toward its Next Great Chapter growth initiative, it expects to witness a more volatile global retail backdrop.
 - ▼ **Competitive Pressure:** Ralph Lauren operates in a highly fragmented market and competes with a number of well-established players such as Estee Lauder, Coach, V.F. Corp., Phillips-Van Heusen, Jones Apparel, Liz Claiborne and Kenneth Cole Productions. The company primarily competes on the basis of fashion, quality and service. Failure to offer high-quality distinguished products at a competitive price may hamper Ralph Lauren's market share, resulting in lower earnings and sales.
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Last Earnings Report

Ralph Lauren Q2 Earnings and Sales Surpass Estimates

Ralph Lauren continued with its earnings and sales beat trend in second-quarter fiscal 2020. Results benefited from consistent strength in international markets. In addition, a stringent cost discipline along with continued investment in brand elevation and other strategic endeavors — including “Next Great Chapter” — aided the quarterly results.

Ralph Lauren reported adjusted earnings of \$2.55 per share in the fiscal second quarter, which surpassed the Zacks Consensus Estimate of \$2.39. The bottom-line figure also increased 12.8% from the prior-year quarter.

On a reported basis, the company posted earnings of \$2.34 per share, up from the year-ago quarter's \$2.07. Reported earnings for the quarter primarily included restructuring and other charges.

Net revenues grew nearly 1% year over year to \$1,706.2 million and outpaced the Zacks Consensus Estimate of \$1,688 million. On a constant-currency basis, revenues were up 2%. The top line was mainly fueled by growth in Europe and Asia. However, unfavorable foreign currency hurt revenue growth by nearly 130 basis points (bps) in the fiscal second quarter.

Segment Details

North America: During the quarter under review, the segment's revenues dipped 1% to \$881.2 million. The decrease primarily resulted from a 6% decline in North America wholesale revenues. However, the retail channel in the region delivered strong growth, with a 2% increase in comparable store sales (comps). Comps growth was backed by 2% improvement each in brick-and-mortar stores and ralphlauren.com.

Europe: The segment's revenues improved 3% year over year to \$480.2 million, while currency-neutral revenues were up 8%. Currency-neutral comps at retail stores in Europe rose 3%, driven by a 2% increase in brick-and-mortar stores and 13% rise in digital commerce. Meanwhile, revenues for the segment's wholesale business improved 2% on a reported basis and 7% in constant currency.

Asia: The segment's revenues increased 4% to \$255.3 million and 5% in constant currency, backed by robust performance at the retail channel. Comps in Asia rose 1%, courtesy of growth in brick and mortar, and digital commerce channels. However, this was partly negated by soft performance in Hong Kong due to business disruptions. Notably, revenues in Hong Kong declined 27%.

Margins

Ralph Lauren's adjusted gross profit margin expanded 60 bps to 61.5%, driven by positive product, geographic and channel mix as well as improved pricing and promotions. Moreover, gross margin expanded 80 bps in constant currency.

Driven by gross margin expansion and adjusted operating expense leverage, adjusted operating income margin expanded 100 bps to 14.9%.

Financials

Ralph Lauren ended the quarter with cash and short-term investments of \$1,589.5 million, total debt of \$693 million, and total shareholders' equity of \$2,913.6 million. The company witnessed moderate inventory growth of 2% to \$1,012.5 million at the end of the fiscal second quarter. This was driven by robust inventory optimization initiatives worldwide, which better aligned inventory with its sales outlook.

Moreover, the company incurred capital expenditure of \$130.6 million in the first half of fiscal 2020.

It repurchased Class A shares worth \$250 million in the fiscal second quarter. Following this, it had nearly \$830 million remaining under the currently authorized share repurchase program. It also paid out dividends of about \$101.9 million in the first half of fiscal 2020.

Store Update

As of Sep 28, 2019, Ralph Lauren had 517 directly-operated stores and 653 concession shops globally. The directly-operated stores included 132 Ralph Lauren, 75 Club Monaco and 310 Polo factory. Additionally, the company operated 254 licensed stores globally.

Guidance

For fiscal 2020, Ralph Lauren retained its net revenue growth target of 2-3% on a currency-neutral basis. However, the company now expects revenues at the lower end of this range due to the escalating headwinds in Hong Kong. Furthermore, operating margin is anticipated to expand 40-60 bps in constant currency, including the impacts of List 4 tariffs from China. Foreign currency is now expected to hurt revenues and operating margin expansion by 130 bps and 20 bps, respectively. Tax rate for the fiscal year is estimated to be 22%.

For the fiscal third quarter, management envisions flat net revenues on a constant currency basis. Foreign currency is expected to mar revenue growth by 70-90 bps. Moreover, operating margin is anticipated to be between flat and down 20 bps in constant currency. This will include a minimal impact from currency. Tax rate for the fiscal third quarter is envisioned to be 21%.

Quarter Ending 09/2019

Report Date	Nov 07, 2019
Sales Surprise	1.07%
EPS Surprise	6.69%
Quarterly EPS	2.55
Annual EPS (TTM)	7.71

Recent News

Ralph Lauren Declares Dividend – Dec 13, 2019

Ralph Lauren announced a quarterly cash dividend of 68.75 cents per share, payable Jan 10, 2020, to shareholders of record as on Dec 27, 2019.

Valuation

Ralph Lauren shares are up 13.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 27.8% and 23.1%, respectively, in the past year.

The S&P 500 index is up 27.8% in the past year.

The stock is currently trading at 14.66X forward 12-month earnings, which compares to 20.61X for the Zacks sub-industry, 20.41X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.44X and as low as 10.45X, with a 5-year median of 16.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$126 price target reflects 15.42X forward 12-month earnings.

The table below shows summary valuation data for RL

Valuation Multiples - RL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.66	20.61	20.41	18.79
	5-Year High	22.44	23.06	23.34	19.34
	5-Year Low	10.45	14.31	16.17	15.17
	5-Year Median	16.5	18.34	20.09	17.44
P/S F12M	Current	1.38	2.42	2.37	3.47
	5-Year High	1.9	2.58	3.19	3.48
	5-Year Low	0.87	1.55	1.81	2.54
	5-Year Median	1.3	2.07	2.54	3
EV/EBITDA TTM	Current	9.52	21.37	12.75	11.99
	5-Year High	10.61	26.2	17.78	12.86
	5-Year Low	5.74	13.46	11.08	8.47
	5-Year Median	7.71	17.75	12.44	10.67

As of 01/06/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 254)



Top Peers

Delta Apparel, Inc. (DLA)	Neutral
Guess?, Inc. (GES)	Neutral
G-III Apparel Group, LTD. (GIII)	Neutral
Hanesbrands Inc. (HBI)	Neutral
lululemon athletica inc. (LULU)	Neutral
PVH Corp. (PVH)	Neutral
V.F. Corporation (VFC)	Neutral
Fossil Group, Inc. (FOSL)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	RL Neutral	X Industry	S&P 500	GIII Neutral	PVH Neutral	VFC Neutral
VGM Score	B	-	-	C	A	F
Market Cap	8.94 B	1.31 B	23.72 B	1.58 B	7.71 B	39.62 B
# of Analysts	5	4	13	6	7	9
Dividend Yield	2.30%	0.00%	1.79%	0.00%	0.14%	1.94%
Value Score	B	-	-	B	B	D
Cash/Price	0.18	0.05	0.04	0.04	0.07	0.01
EV/EBITDA	10.62	10.62	13.90	9.21	9.27	21.81
PEG Ratio	1.53	1.78	2.00	0.98	1.10	2.62
Price/Book (P/B)	3.21	1.64	3.34	1.25	1.31	8.53
Price/Cash Flow (P/CF)	10.77	10.66	13.67	8.93	7.43	21.69
P/E (F1)	15.78	15.64	18.72	10.58	11.17	29.54
Price/Sales (P/S)	1.40	0.78	2.66	0.50	0.79	3.09
Earnings Yield	6.42%	6.37%	5.31%	9.45%	8.95%	3.39%
Debt/Equity	0.70	0.65	0.72	0.74	0.71	0.67
Cash Flow (\$/share)	11.12	1.63	6.94	3.70	14.22	4.57
Growth Score	C	-	-	D	B	D
Hist. EPS Growth (3-5 yrs)	-0.75%	3.67%	10.56%	3.67%	7.92%	4.08%
Proj. EPS Growth (F1/F0)	6.95%	9.39%	7.42%	9.09%	-1.47%	-11.14%
Curr. Cash Flow Growth	9.60%	9.47%	14.83%	55.48%	13.47%	51.18%
Hist. Cash Flow Growth (3-5 yrs)	-3.42%	7.17%	9.00%	14.76%	3.78%	4.29%
Current Ratio	1.95	1.73	1.23	2.36	1.40	1.99
Debt/Capital	41.27%	40.16%	42.92%	42.58%	41.55%	40.16%
Net Margin	7.08%	2.33%	11.08%	4.50%	6.57%	10.07%
Return on Equity	19.52%	10.58%	17.16%	12.27%	12.17%	32.04%
Sales/Assets	0.96	1.18	0.55	1.23	0.74	1.21
Proj. Sales Growth (F1/F0)	0.84%	1.38%	4.15%	3.95%	1.43%	-14.60%
Momentum Score	C	-	-	B	C	C
Daily Price Chg	1.40%	0.00%	0.10%	-0.78%	2.28%	-0.39%
1 Week Price Chg	0.64%	0.10%	-0.30%	0.85%	-0.73%	-0.36%
4 Week Price Chg	5.79%	0.01%	2.33%	14.39%	3.30%	9.20%
12 Week Price Chg	29.59%	0.77%	7.02%	30.67%	21.51%	9.09%
52 Week Price Chg	12.29%	0.52%	24.61%	8.84%	7.18%	35.94%
20 Day Average Volume	754,521	36,150	1,589,897	542,510	600,428	1,849,170
(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%	0.00%	0.00%	-0.03%
(F1) EPS Est 12 week change	0.13%	-0.75%	-0.56%	-2.14%	0.62%	-0.33%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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	B
Growth Score	C
Momentum Score	C
VGM Score	B

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.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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