

Red Robin (RRGB)

\$8.51 (As of 07/10/20)

Price Target (6-12 Months): **\$9.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

Shares of Red Robin Gourmet Burgers have underperformed the industry year to date. This dismal performance can be primarily attributed to the coronavirus outbreak. Owing to the uncertainty of the crisis, the company has withdrawn 2020 guidance and suspended its share repurchase programs. Moreover, increase in labor and other restaurant operating expenses are concerns. Notably, earnings estimates for 2020 have declined over the past 60 days, depicting analysts' concern regarding the stock growth potential. However, efforts to improve sales and regain market share via efficient menu innovation, focus on increasing service speed and effective marketing strategy are likely to benefit the company going forward. Also the company is anticipated to reopen more dining rooms in the coming weeks.

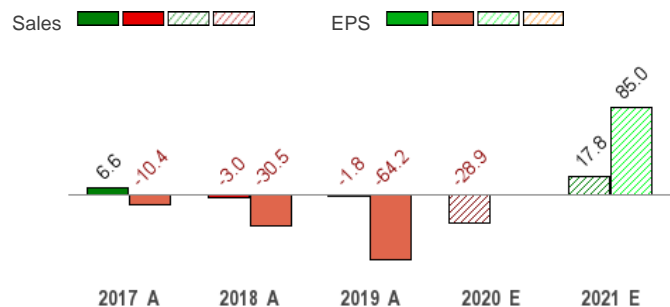
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--------------------------------------|
| 52 Week High-Low | \$37.29 - \$4.04 |
| 20 Day Average Volume (sh) | 1,380,993 |
| Market Cap | \$109.9 M |
| YTD Price Change | -74.2% |
| Beta | 2.53 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Retail - Restaurants |
| Zacks Industry Rank | Top 22% (55 out of 252) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | -313.7% |
| Last Sales Surprise | 0.0% |
| EPS F1 Est- 4 week change | -91.9% |
| Expected Report Date | 08/28/2020 |
| Earnings ESP | 0.0% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 318 E | 249 E | 241 E | 248 E | 1,101 E |
| 2020 | 306 A | 160 E | 210 E | 239 E | 935 E |
| 2019 | 410 A | 308 A | 294 A | 303 A | 1,315 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-----------|-----------|-----------|-----------|------------|
| 2021 | -\$0.89 E | -\$0.44 E | -\$0.88 E | -\$0.18 E | -\$1.75 E |
| 2020 | -\$6.66 A | -\$3.09 E | -\$1.86 E | -\$0.54 E | -\$11.66 E |
| 2019 | \$0.19 A | \$1.03 A | -\$0.24 A | -\$0.36 A | \$0.62 A |

*Quarterly figures may not add up to annual.

| | |
|---------|-----|
| P/E TTM | NA |
| P/E F1 | NA |
| PEG F1 | NA |
| P/S TTM | 0.1 |

The data in the charts and tables, except sales and EPS estimates, is as of 07/10/2020. The reports text and the analyst-provided sales and EPS estimates are as of 07/13/2020.

Overview

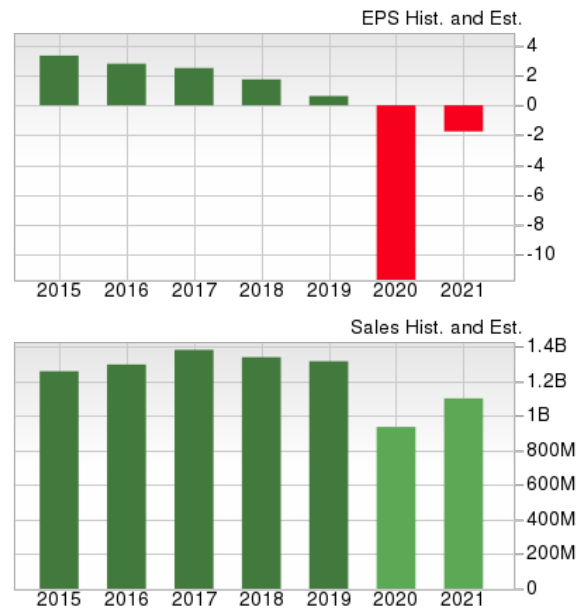
Founded in 1969 in Seattle, WA, and made public in 2002, Red Robin Gourmet Burgers, Inc. is a full-service casual dining restaurant chain that serves an assorted range of burgers. Along with its subsidiaries, the company develops, operates and franchises full-service restaurants in North America.

Red Robin's first franchised restaurant was opened in Yakima, WA, in 1979. It offers primarily burgers; various appetizers, salads, soups, seafood, and other entrees; and desserts, milkshakes, alcoholic and non-alcoholic specialty drinks, cocktails, wine, and beers. The company also runs limited service non-traditional prototype restaurants, named Red Robin's Burger Works.

As of Dec 29, 2019, Red Robin owned and operated 556 restaurants across the United States and Canada. Notably, it also had 102 franchised full-service restaurants in 16 states as of the same date. The company's franchisees are independent organizations but seek support from Red Robin. It operates its business as one operating as well as one reportable segment.

Red Robin's major source of revenues is sale of food and beverages at company-owned restaurants. The company earns from royalties and fees from franchised restaurants as well.

As of Apr 19, 2020, the company had cash and cash equivalents of \$88.9 million, compared with \$30 million at the end of Dec 29, 2019. Inventories in the reported quarter declined 5.7% to \$24.9 million. As of Apr 19, 2020, long-term debt increased to \$281.2 million from \$206.9 million at the end of Dec 29, 2019.



Reasons To Buy:

▲ **Dining Rooms Reopening:** After coronavirus-induced shutdowns the company is gradually reopening its dining rooms. As of Jun 7, 2020, the company had reopened 270 dining rooms with limited occupancy and operating hours. The company is witnessing encouraging trends and volume is also increasing at reopened dining rooms. The company is anticipated to reopen more dining rooms in the coming weeks.

Brand transformation and digital enhancements are expected to aid topline growth while margin expansion initiatives bode well for future profitability.

▲ **Loyalty Program:** A key long-term growth driver for the company is its guest loyalty program — Red Robin Royalty — initiated in 2011 with a goal to increase guest count. The company engages guests through this program with offers designed to increase the frequency of visits. The company has more than nine million Royalty members. It also informs its enrolled guests about new menu items to generate awareness and for trials. Also, one of the key benefits the company is realizing with off-premise on its loyalty program is the ability to reach guests on holidays. During fourth-quarter fiscal 2019, the company started testing marketing automation as part of its loyalty platform upgrade initiative with e-mail offers targeted by visit frequency and purchase behavior. Initial results are very encouraging as that continues to optimize the effectiveness and profitability of this functionality through testing.

▲ **Digital Initiatives to Boost Business:** The digital wave has hit the U.S. fast-casual restaurant space as more and more restaurants are deploying technology to enhance the guest experience. In line with this, Red Robin too has been investing more in technology and data infrastructure. The company is set to grow its off-premise, online-ordering business via carry-out, delivery and catering. The growing demand for off-premise orders is resulting in higher traffic. However, in 2018, the company failed to maintain its year-over-year traffic growth in off-premise businesses via carry-out, delivery and catering over the past several quarters. Red Robin's move of moving call-in ordering to a centralized call center is also yielding positive results and it is thus slowly expanding its reach to ensure quality experience. On the delivery front, the company partnered with Amazon, DoorDash and GrubHub. In fact, the company is working with each provider to better integrate into its POS and KDS systems, and ease the intricacy in operations teams. During October 2019, it completed the rollout of POS terminals, and headsets and printers that contain menu item details for off-premise orders, thereby enabling the company to deliver an improved guest experience. Also, third-party delivery is now available at most of its locations. The company's off-premise sales have increased sharply compared with the pre-COVID-19 level. Off-premise sales growth has been driven by enhanced website, order accuracy, speed of service, order packaging and ease of pickup. The company announced that restaurants with open dining rooms are maintaining off-premise sales, which is nearly 1.5 to 2 times pre-COVID-19 levels and 40% of sales mix.

▲ **Strategic Plan to Enhance Profitability:** The company continues to focus on three areas — revenue growth, expense management and efficient capital deployment to drive profitability. On the expense front, the company is focusing on a new supply chain management software, replacing its older manual system. This might result in improved control of waste and cost of goods, significantly reducing inventory levels at its restaurants. It would also allow restaurant managers to interact more with guests, resulting in improved guest experience.

Furthermore, Red Robin intends to deploy more capital to its shareholders once the company completes brand transformation remodeling at all restaurants. Annually, management expects to reduce expenses by about 20 basis points (bps) as part of the five-year strategic plan.

Reasons To Sell:

▼ **Coronavirus Likely to Hurt 2020 Results:** The recent outbreak of the coronavirus in China now became a global crisis. The Retail - Restaurants industry is currently grappling with the situation and Red Robin isn't immune to the trend either. Moreover, the company announced temporary pay cuts of 20% for all non-furloughed restaurant support center and restaurant supervisory team members, effective as of Apr 20, 2020, in an effort to reduce costs. Owing to the uncertainty of the crisis, the company has withdrawn its 2020 guidance as well as suspended its share repurchase programs.

▼ **Dismal Q1 Earnings & Comps:** Red Robin's first-quarter earnings missed the Zacks Consensus Estimate. The company reported adjusted loss per share of \$6.66, wider than the Zacks Consensus Estimate of a loss of \$1.61. In the year-ago quarter, the company had reported adjusted earnings of 19 cents. Notably, estimates for 2020 have been revised downward over the past 30 days, indicating analysts' concern for the stock.

Comparable restaurant revenues declined 20.8% year over year, owing to 20.9% fall in guest count, which was partially offset by a 0.1% increase in average guest check.

▼ **High Debt a Concern:** As of Apr 19, 2020, the company's long-term debt stood at \$735 million, compared with \$672 million on Dec 29, 2019. As a result, the company's debt-to-capitalization rose to 80.2% compared with industry's average of 65.1%. Moreover, the company ended first-quarter fiscal 2020 with cash and cash equivalent of \$89 million, which may not be enough to manage the high debt level.

▼ **Higher Costs Continue to Hurt Margins:** Red Robin has been witnessing rising costs and expenses in the recent quarters. The Affordable Care Act, commonly known as Obamacare, would continue to have an adverse impact on restaurant operators. Meanwhile, Red Robin is investing heavily in several sales building initiatives like advertising and technical upgrades, which will result in elevated costs. Remodeling and restaurant maintenance also add to the already rising expenses. In first-quarter fiscal 2020, restaurant-level operating profit margin declined to 8.8% in the quarter, compared with a slump of 18.3% in the year-ago period. Restaurant labor costs as a percentage of restaurant revenue rose 360 basis points primarily due to sales deleverage, higher wage rates, and increased group insurance costs.

▼ **Limited Focus on Franchising:** Unlike most of its peers, Red Robin remains focused on the company-owned restaurants that allow it to have total control over operations and also keep generating profits. However, this limited focus on franchising burdens the company with increased costs, which could have been transferred on to franchisees had there been a franchise business model. As of Dec 29, 2019, the company had 102 franchised full-service restaurants.

Coronavirus-related woes, soft comps, high expenses and limited international presence poses concern for the company.

Last Earnings Report

Red Robin Posts Wider-than-Expected Q1 Loss

Red Robin reported first-quarter fiscal 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues matched the same.

The company reported adjusted loss per share of \$6.66, wider than the Zacks Consensus Estimate of a loss of \$1.61. In the year-ago quarter, the company had reported adjusted earnings of 19 cents.

Quarter Ending **03/2020**

| Report Date | Jun 10, 2020 |
|------------------|--------------|
| Sales Surprise | 0.03% |
| EPS Surprise | -313.66% |
| Quarterly EPS | -6.66 |
| Annual EPS (TTM) | -6.23 |

Revenue Discussion

Revenues came in at \$306.1 million, which came in line with the Zacks Consensus Estimate. However, the top line declined 25.3% year over year. The downside can be attributed to shutdown of dining rooms on account of the coronavirus pandemic.

Comparable restaurant revenues declined 20.8% year over year, owing to 20.9% fall in guest count, which was partially offset by a 0.1% increase in average guest check. The improvement in average guest check can be attributed to a 1.6% increase in pricing and a 0.3% increase from lower discounting, which was marginally negated by a 1.8% decrease in menu mix. Guest count in the quarter was hurt by a decline of 22% owing to the pandemic.

Operating Results

Restaurant-level operating profit margin declined to 8.8% in the quarter, compared with a decline of 18.3% in the year-ago period. Restaurant labor costs as a percentage of restaurant revenue rose 360 basis points primarily due to sales deleverage, higher wage rates, and higher group insurance costs. Other restaurant operating costs increased 340 bps primarily owing to an increase in third-party delivery fees driven by higher off-premise sales volume and increased restaurant technology costs compared with favorable adjustment in the prior-year quarter.

Cost of sales margin remained flat, while occupancy costs contracted 250 bps on account of sales deleverage impacts on rent expense and general liability and other real estate costs.

Adjusted earnings before interest, taxes and amortization was negative \$10.7 million. In the prior-year quarter, the company had reported adjusted EBITDA of \$34.3 million.

Other Financial Information

As of Apr 19, 2020, the Zacks Rank #3 (Hold) company had cash and cash equivalents of \$88.9 million, compared with \$30 million at the end of Dec 29, 2019. Inventories in the reported quarter declined 5.7% to \$24.9 million. As of Apr 19, 2020, long-term debt increased to \$281.2 million from \$206.9 million at the end of Dec 29, 2019.

Recent News

Red Robin Reports Preliminary Comps – May 29, 2020

Red Robin Gourmet Burgers reported preliminary comparable restaurant sales for first-quarter fiscal 2020 and the first five weeks of second quarter.

Preliminary Comparable Sales

With 38% (or 158 dining rooms) company-operated restaurants re-opened, Red Robin has been witnessing improvement in sales.

The company's preliminary comparable restaurant revenues were down 20.8% for the first quarter ended Apr 19, 2020. In the first eight weeks of the first quarter, comps increased 3.7%. However, in the last eight weeks of the first quarter, comps declined 43.2% due to the pandemic. Comparable restaurant guest counts fell 20.9%

In the first five weeks of the second quarter, comparable restaurant revenues witnessed sequential improvement. For the week ended Apr 26, May 3, May 10, May 17 and May 24, comparable restaurant revenues fell 56%, 54.7%, 52.2%, 47.9%, and 47%, respectively.

Red Robin Provides Business Updates Amid Coronavirus – Apr 14, 2020

Red Robin Gourmet Burgers recently provided an update on its business and initiatives that it is undertaking in response to the coronavirus pandemic. To contain the spread of the virus, the company has temporarily closed 35 company-operated restaurants. Moreover, the company announced temporary pay cuts of 20% for all non-furloughed restaurant support center and restaurant supervisory team members, effective as of Apr 20, 2020, in an effort to reduce costs.

Red Robin Revokes 2020 Guidance Due to Coronavirus – Apr 2, 2020

The devastating impact of the novel coronavirus outbreak (COVID-19) on the global economy has compelled Red Robin Gourmet Burgers to withdraw its previously announced 2020 guidance. Thanks to the crisis, the company has also suspended its share repurchase programs.

Valuation

Red Robin's shares have declined 74.2% in year-to-date period and 72.6% in the trailing 12-month period. Stocks in the Zacks sub-industry is down 8.5%, but stocks in the Zacks Retail-Wholesale sector are up 23.8%, in the year-to-date period. Over the past year, the Zacks sub-industry is down 12.8% while sector is up by 27.2%.

The S&P 500 index is down 0.8% in the year-to-date period but up 6.3% in the past year.

The stock is currently trading at 0.11X forward 12-month sales, which compares to 3.53X for the Zacks sub-industry, 1.24X for the Zacks sector and 3.55X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.97X and as low as 0.05X, with a 5-year median of 0.47X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$9 price target reflects 0.1X forward 12-month sales.

The table below shows summary valuation data for RRGB.

| Valuation Multiples - RRGB | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M | Current | 0.11 | 3.53 | 1.24 | 3.55 |
| | 5-Year High | 0.97 | 3.92 | 1.24 | 3.55 |
| | 5-Year Low | 0.05 | 2.81 | 0.82 | 2.52 |
| | 5-Year Median | 0.47 | 3.31 | 0.96 | 3.04 |
| EV/EBITDA TTM | Current | 2.39 | 18.01 | 20.07 | 12.18 |
| | 5-Year High | 10.84 | 19.27 | 20.07 | 12.45 |
| | 5-Year Low | 2.25 | 11.31 | 10.72 | 8.04 |
| | 5-Year Median | 6.8 | 14.18 | 12.79 | 10.76 |
| P/CF | Current | 5.69 | 19.57 | 18.45 | 16.44 |
| | 5-Year High | 12.82 | 21.3 | 18.45 | 22.64 |
| | 5-Year Low | 1.16 | 8.77 | 11.09 | 11.66 |
| | 5-Year Median | 5.23 | 16.83 | 13.22 | 16.39 |

As of 07/10/2020

Industry Analysis Zacks Industry Rank: Top 22% (55 out of 252)



Top Peers

| Company (Ticker) | Rec | Rank |
|--|------------|------|
| Dominos Pizza Inc (DPZ) | Outperform | 2 |
| Yum China Holdings Inc. (YUMC) | Outperform | 1 |
| Dunkin Brands Group, Inc. (DNKN) | Neutral | 3 |
| McDonalds Corporation (MCD) | Neutral | 2 |
| Restaurant Brands International Inc. (QSR) | Neutral | 3 |
| Starbucks Corporation (SBUX) | Neutral | 3 |
| The Wendys Company (WEN) | Neutral | 3 |
| Yum Brands, Inc. (YUM) | Neutral | 3 |

| Industry Comparison Industry: Retail - Restaurants | | | | Industry Peers | | |
|--|------------|------------|-----------|----------------|-----------|------------|
| | RRGB | X Industry | S&P 500 | SBUX | YUM | YUMC |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Outperform |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 1 |
| VGM Score | F | - | - | D | C | F |
| Market Cap | 109.90 M | 253.60 M | 21.61 B | 86.79 B | 26.26 B | 19.34 B |
| # of Analysts | 4 | 6 | 14 | 14 | 8 | 6 |
| Dividend Yield | 0.00% | 0.00% | 1.92% | 2.21% | 2.15% | 0.93% |
| Value Score | D | - | - | C | D | D |
| Cash/Price | 0.71 | 0.15 | 0.07 | 0.03 | 0.04 | 0.08 |
| EV/EBITDA | 9.48 | 12.12 | 12.75 | 16.57 | 18.35 | 12.46 |
| PEG Ratio | NA | 4.85 | 2.87 | 6.72 | 2.53 | 4.85 |
| Price/Book (P/B) | 0.60 | 1.84 | 3.01 | NA | NA | 6.12 |
| Price/Cash Flow (P/CF) | 1.10 | 7.87 | 11.53 | 18.01 | 21.60 | 16.70 |
| P/E (F1) | NA | 41.55 | 21.07 | 92.37 | 31.14 | 46.02 |
| Price/Sales (P/S) | 0.09 | 0.62 | 2.23 | 3.26 | 4.68 | 2.35 |
| Earnings Yield | -137.02% | 0.54% | 4.48% | 1.08% | 3.21% | 2.18% |
| Debt/Equity | 3.99 | 1.32 | 0.76 | -2.56 | -1.34 | 0.01 |
| Cash Flow (\$/share) | 7.72 | 1.81 | 6.94 | 4.12 | 4.04 | 3.08 |
| Growth Score | F | - | - | D | B | F |
| Hist. EPS Growth (3-5 yrs) | -22.89% | 5.16% | 10.90% | 14.15% | 0.51% | 5.56% |
| Proj. EPS Growth (F1/F0) | -1,981.13% | -80.54% | -9.99% | -71.58% | -21.09% | -40.60% |
| Curr. Cash Flow Growth | -15.30% | 3.07% | 5.51% | 5.49% | 3.60% | 10.09% |
| Hist. Cash Flow Growth (3-5 yrs) | -0.74% | 5.23% | 8.55% | 12.19% | -6.71% | 25.34% |
| Current Ratio | 0.80 | 0.92 | 1.30 | 0.70 | 1.33 | 1.38 |
| Debt/Capital | 79.95% | 70.06% | 44.46% | NA | NA | 0.79% |
| Net Margin | -15.10% | 2.52% | 10.62% | 12.71% | 19.89% | 6.72% |
| Return on Equity | -25.04% | 1.11% | 15.75% | -50.19% | -12.97% | 17.46% |
| Sales/Assets | 1.00 | 1.02 | 0.55 | 1.12 | 1.07 | 1.22 |
| Proj. Sales Growth (F1/F0) | -28.86% | -11.68% | -2.52% | -12.69% | -2.04% | -8.61% |
| Momentum Score | C | - | - | F | C | D |
| Daily Price Chg | 8.55% | 0.15% | 1.51% | 0.98% | 1.00% | -0.17% |
| 1 Week Price Chg | 0.10% | 2.10% | 3.66% | 3.09% | 2.09% | -0.44% |
| 4 Week Price Chg | -26.64% | -2.59% | 1.85% | 2.37% | -3.78% | 5.46% |
| 12 Week Price Chg | -18.17% | 11.93% | 12.57% | 1.06% | 8.90% | 17.95% |
| 52 Week Price Chg | -71.69% | -40.64% | -7.10% | -16.59% | -21.76% | 15.67% |
| 20 Day Average Volume | 1,380,993 | 301,884 | 2,339,510 | 9,591,962 | 1,928,284 | 2,465,591 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | -91.90% | 0.78% | 0.00% | -35.76% | 2.85% | 0.00% |
| (F1) EPS Est 12 week change | -309.57% | -49.71% | -7.77% | -61.26% | -9.93% | 42.20% |
| (Q1) EPS Est Mthly Chg | -26.88% | 2.83% | 0.00% | -18.92% | 5.21% | 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 | D |
| Growth Score | F |
| Momentum Score | C |
| 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.

Disclosures

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