

SBA Communications (SBAC)

\$305.44 (As of 08/21/20)

Price Target (6-12 Months): **\$324.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

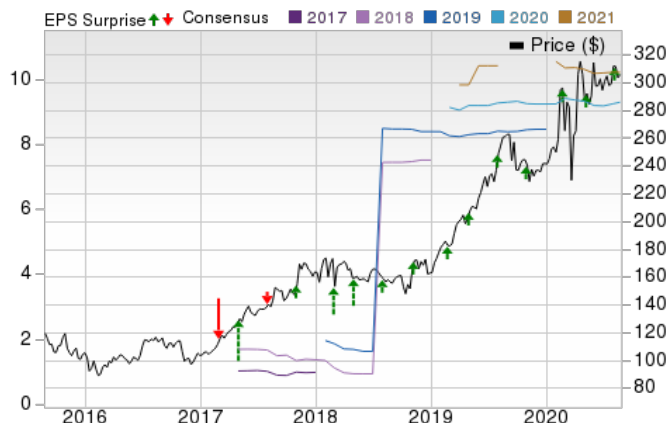
Growth: B

Momentum: C

Summary

Shares of SBA Communications have outperformed the industry in the past year. Robust performance in domestic site-leasing business has driven the company's results in second-quarter 2020. An increase in data volume, deployment of 5G network and additional spectrum are propelling wireless carriers to expand and enhance their networks. Amid this, the company is expanding its tower portfolio to capitalize on significant lease-up opportunity. Recurring revenues from long-term tower leases are likely to drive site-leasing revenue growth over the long term. It also enjoys sufficient liquidity. Yet, high leverage is worrisome. Moreover, tenant concentration is concerning as any consolidations or reduction in network spending impact the company's top line. Further, the evolution of new technologies may impact its site-leasing activities.

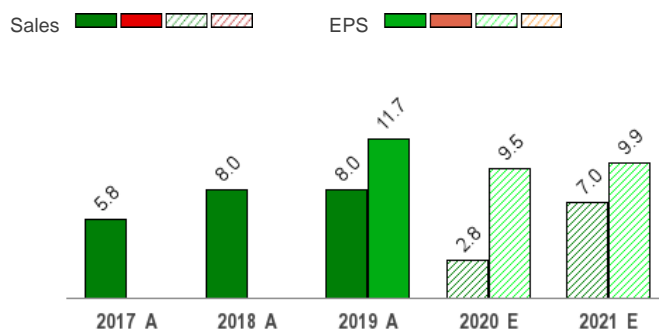
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$323.03 - \$205.20 |
| 20 Day Average Volume (sh) | 527,858 |
| Market Cap | \$34.2 B |
| YTD Price Change | 26.7% |
| Beta | 0.41 |
| Dividend / Div Yld | \$1.86 / 0.6% |
| Industry | <u>REIT and Equity Trust - Other</u> |
| Zacks Industry Rank | Bottom 14% (216 out of 252) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|--------------|
| Last EPS Surprise | 2.7% |
| Last Sales Surprise | 0.7% |
| EPS F1 Est- 4 week change | 0.3% |
| Expected Report Date | NA |
| Earnings ESP | -0.0% |
| P/E TTM | 34.3 |
| P/E F1 | 32.8 |
| PEG F1 | 3.3 |
| P/S TTM | 16.7 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 543 E | 550 E | 552 E | 565 E | 2,215 E |
| 2020 | 517 A | 507 A | 517 E | 531 E | 2,071 E |
| 2019 | 493 A | 500 A | 508 A | 514 A | 2,015 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|-----------|
| 2021 | \$2.48 E | \$2.56 E | \$2.56 E | \$2.68 E | \$10.22 E |
| 2020 | \$2.28 A | \$2.29 A | \$2.32 E | \$2.42 E | \$9.30 E |
| 2019 | \$2.07 A | \$2.09 A | \$2.15 A | \$2.18 A | \$8.49 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 08/21/2020. The reports text is as of 08/24/2020.

Overview

SBA Communications Corporation was founded in 1989 and is headquartered in Boca Raton, FL. It is a leading independent owner and operator of wireless communications infrastructure. The company's principal operations are in the United States. It also owns and operates towers in Central America, South America, Canada and South Africa.

The company elected to qualify as a real estate investment trust ("REIT") for tax purposes, commencing with the taxable year ended Dec 31, 2016.

The company generates revenues from two primary businesses, site leasing and site development services. The primary focus of the company is the leasing of antenna space on its multi-tenant towers to a variety of wireless service providers under long-term lease contracts. The company's site-development business is only conducted in the United States.

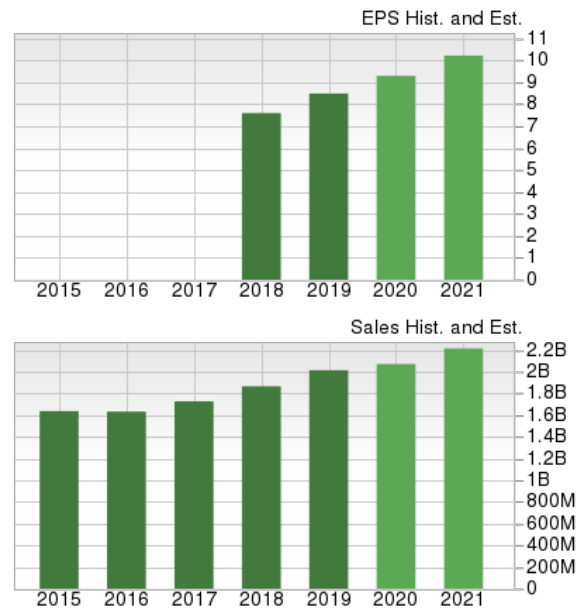
Site Leasing (95.1% of total revenues in second-quarter 2020): Through this site leasing business, SBA Communications leases antenna space on their multi-tenant towers to a variety of wireless service providers under long-term lease contracts.

Site Development (4.9%): This segment provides wireless service providers and operators assistance in developing their own networks through site acquisition, zoning, construction and equipment installation.

During the June-end quarter, the company acquired 16 communication sites for cash consideration of \$13.4 million. It also built 79 towers during this period. The company owned or operated 32,610 communication sites as of Jun 30, 2020. Of these, 16,478 sites are located in the United States and its territories, and 16,132 internationally.

SBA Communications also spent \$12.9 million to purchase land and easements, and extend lease terms. Markedly, total cash capital expenditure was \$57.2 million in the reported quarter, of which \$8.3 million was non-discretionary and \$48.9 million represented discretionary.

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:

- ▲ Apart from operating in the United States and its territories, SBA Communications owns and operates towers in Brazil, Canada, Chile, Argentina, Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Peru and South Africa. As the company continues to expand its tower portfolio and seek new growth opportunities, it is extending its business into select international markets with high growth characteristics. Over the years, the company has developed or acquired thousands of towers throughout Central and South America and across Canada. Subsequent to the second-quarter end, it purchased 25 communication sites and a data center for \$61.6 million. Moreover, it agreed to acquire 100 additional communication sites for \$42 million. The acquisitions are expected to close by the fourth-quarter end.
- ▲ Mobile subscriber growth has significantly boosted the wireless tower industry. Next-generation 4G LTE networks and the increased usage of smartphones and tablets are creating impressive demand for tower leasing. With increasing smartphone adoption, greater broadband demand and plans for 5G service worldwide, the company is pursuing wireless infrastructure opportunities beyond the domestic borders to advance the strong portfolio growth to which its investors are accustomed. Aside from the benefits of 5G services, the importance of wireless as the major source of broadband services has recently been highlighted due to the pandemic. Hence, as business and economic conditions improve in international markets, wireless capital spending will also be higher. Therefore, portfolio expansion will position SBA Communications to leverage on secular trends in mobile data usage and wireless spending growth across the globe.
- ▲ SBA Communications offers wireless service providers assistance in developing their own networks. The company's services include site identification and acquisition as well as obtaining zoning approvals and permitting networks representing all technologies. It also provides a broad range of cell site equipment installation, optimization and integration services. SBA Communications' extensive site development experience includes participation in the development of more than 45,000 communication sites and this will propel its growth over the long term.
- ▲ Wireless services are advancing rapidly in terms of additional features and capabilities. Much of the infrastructure and upgrades require effective site management of cell towers and equipment. SBA Communications effectively addresses this opportunity as a significant portion of its quarterly revenues come from wireless service providers. Furthermore, wireless consumer demand is expected to shoot up considerably in the upcoming years on increased innovation and adoption of data-driven mobile devices and applications such as machine-to-machine connections, social networking and streaming of video. SBA Communications has emerged as a preferred partner for wireless service providers both in the United States and internationally, offering its wireless customers in-depth management experience, scale and resources.
- ▲ SBA Communications has a resilient and stable site-leasing business model. The company generates most of its revenues from long-term (typically 5-10 year) tower leases that have built-in rent escalators. With lower customer churn and higher operating margins, its tower-leasing business remains attractive. Wireless service providers continue to lease additional antenna space on the company's towers amid the increase in network use, data transfer, network expansion and network coverage requirements. This is expected to drive site-leasing revenue growth over the long term.
- ▲ SBA Communications' share buybacks and dividend hikes demonstrate its commitment to drive shareholder value and superior capital-deployment ability. During first-quarter 2020, the company repurchased 0.8 million shares for \$200 million. As of Aug 3, 2020, it had \$424.3 million of capacity available under its repurchase program. Further, solid dividend payouts remain arguably the biggest attraction for REIT investors. In October 2019, SBA Communications announced a quarterly cash dividend of 46.5 cents on its Class A common stock, indicating a sequential hike of 25.7%. Given the company's financial position and lower dividend payout rate (compared to that of the industry), the dividend distribution is expected to be sustainable. Such measures also boost shareholders' confidence in the stock.
- ▲ Additionally, with the T-Mobile/Sprint merger now closed, management expects a substantial increase in incremental leasing activity as the new T-Mobile invests in upgrades across its new portfolio to meet required 5G coverage goal. In fact, growth in application activity from T-Mobile is expected to drive domestic organic bookings in the second half of 2020 and in 2021. Dish Network is also set to enter the wireless market and intends to build a nationwide 5G network in the coming years. Moreover, heavy investments in future 5G networks and additional spectrum deployment by the company's other U.S. customers are expected to drive domestic leasing activities for the upcoming years.
- ▲ SBA Communications has a decent balance sheet and sufficient liquidity. The company exited second-quarter 2020 with cash and cash equivalents of \$475 million. Moreover, it had full availability under its \$1.25-billion revolving credit facility. On the back of refinancing activities, SBA Communications reduced weighted average interest rate and extended maturities. Other than external financing, the company generates significant recurring revenues, contributing to internally-generated cash from operating activities. In fact, it enjoys an industry-leading international tower cash flow margin.
- ▲ Shares of SBA Communications rallied 15.2% over the past year against the industry's decline of 7.9%. Moreover, the recent trend in estimate revisions of current-year FFO per share indicates a favorable outlook for the company as estimates have moved marginally north over the past month. Therefore, given the strong fundamentals and upward estimate revisions, the stock has decent upside potential.

SBA Communications anticipates a healthy growth momentum with extensive infrastructure assets, driven by increased consumer demand and adoption of data-driven mobile devices and applications.

Reasons To Sell:

- ▼ Customer concentration remains high for SBA Communications and the top three among its customers, namely Verizon Wireless, AT&T Wireless and T-Mobile, account for majority of its domestic site-leasing revenues. Loss of any of these customers or consolidation among them or a reduction in network spending will lead to a significant material impact on the company's top line.
- ▼ SBA Communications has a substantially leveraged balance sheet, with \$10.7 billion of total debt as of the second-quarter end. Such high amount of debt will likely increase the company's financial obligations. Moreover, its debt-to-capital ratio is significantly higher than the industry's ratio. This limits its strength to withstand the current crisis and any unexpected negative externalities in the future.
- ▼ SBA Communications mainly operates in the United States and its territories. In addition, it owns and operates towers in Brazil, Canada, Chile, Argentina, Costa Rica, Colombia, Ecuador, El Salvador, Guatemala, Nicaragua, Panama, Peru and South Africa. Although this geographic diversification is likely to boost revenues, it exposes the company to adverse foreign currency translation impact. Also, tower operations in emerging markets are not as profitable as that in the mature domestic market. Notably, the company expects Latin America and South Africa operations to be challenged due to the pandemic.
- ▼ Evolution of new technologies is likely to reduce demand for site leases. Furthermore, the developments of satellite-delivered radio and video services are likely to weigh on the need for tower-based broadcast transmission. Frequent changes in demand for network services and infrastructure support will tend to increase volatility in SBA Communications' revenues.
- ▼ A large number of carriers are experimenting with alternative technologies like Voice over Wi-Fi (VoWiFi). This technology allows users to make and receive calls on Wi-Fi networks as they would on standard cellular networks. Such a feature is useful in areas with strong Wi-Fi but low cellular signal strength. With the increasing popularity of the VoWiFi network in metro cities and both mobile handset manufacturers and wireless carriers rapidly adopting it, SBA Communications' revenues are likely to come under pressure.

Increasing customer concentration coupled with the ongoing consolidation in wireless industry remain perennial threats for SBA Communications' top-line growth.

Last Earnings Report

SBA Communications Beats Q2 AFFO & Revenue Estimates

SBA Communications delivered solid second-quarter 2020 results, wherein the adjusted FFO (AFFO) and the top line increased year over year, and surpassed the Zacks Consensus Estimate.

AFFO per share of \$2.29 for the second quarter surpassed the Zacks Consensus Estimate of \$2.23. Further, the reported figure was 9.6% higher than the prior-year quarter's \$2.09.

Results reflected solid operating performance in its site leasing business. The company continues to benefit from the addition of sites to its portfolio. Demand in international markets also remained robust.

Quarterly total revenues increased 1.4% year over year to \$507.2 million and outpaced the consensus estimate of \$503.55 million. The upswing resulted from strong growth in site-leasing revenues.

Quarter in Detail

Site-leasing revenues increased 5.1% year over year to \$482.4 million. This consisted of domestic site-leasing revenues of \$388 million and international site-leasing revenues of \$94.4 million. Domestic cash site-leasing revenues were \$387.1 million, up 5.6% year over year. International cash site-leasing revenues were \$95 million, up 6.2% year over year. Site-leasing operating profit was \$390.8 million, marking an increase of 6.9% year over year. However, site development revenues plunged 39.7% to \$24.8 million.

Overall operating income improved to \$157.1 million from the year-ago quarter's \$136.4 million.

Adjusted EBITDA totaled \$368.8 million, up 6.2% year over year, while adjusted EBITDA margin improved to 72.8% from the year-earlier quarter's 69.8%.

During the June-end quarter, the company acquired 16 communication sites for a total cash consideration of \$13.4 million. It also built 79 towers during this period. The company owned or operated 32,610 communication sites as of Jun 30, 2020. Of these, 16,478 sites are located in the United States and its territories, and 16,132 internationally.

SBA Communications also spent \$12.9 million to purchase land and easements, and extend lease terms. Markedly, total cash capital expenditure was \$57.2 million in the reported quarter, of which \$8.3 million was non-discretionary and \$48.9 million represented discretionary.

Cash Flow & Liquidity

During the second quarter of 2020, the company generated \$314.7 million of net cash from operations compared with the year-ago quarter's \$258.7 million. As of Jun 30, 2020, it had \$475 million in cash and equivalents, with \$10.7 billion of net debt.

During the reported quarter, the company did not repurchase any shares under its \$1-billion stock repurchase plan. As of the date of filing, it had \$424.3 million of authorization remaining under the plan. Further, the company paid out a cash dividend of \$52 million in second-quarter 2020.

Outlook

SBA Communications revised its guidance and now expects 2020 AFFO per share of \$8.94-\$9.33 compared with \$8.89-\$9.29 mentioned earlier.

The company expects total revenues of \$2,047-\$2,087 million as compared to the previously mentioned \$2,040-\$2,080 million. Site-leasing revenues are expected to be \$1,937-\$1,957 million, and site development revenues are likely to be between \$110 million and \$130 million. Moreover, adjusted EBITDA is projected between \$1,471 million and \$1,491 million.

Quarter Ending 06/2020

| Report Date | Aug 03, 2020 |
|------------------|--------------|
| Sales Surprise | 0.73% |
| EPS Surprise | 2.69% |
| Quarterly EPS | 2.29 |
| Annual EPS (TTM) | 8.90 |

Recent News

Dividend Update

On Aug 3, SBA Communications announced the third-quarter cash dividend of 46.5 cents on its Class A common stock. The dividend will be paid out on Sep 22 to shareholders of record as of the close of business on Aug 25, 2020.

Valuation

SBA Communications shares have gained 15.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 7.9% and 7.1% in the past year.

The S&P 500 Index has been up 18.3% both in the trailing 12-month period.

The stock is currently trading at 15.80X forward 12-month sales, which compares to 8.34X for the Zacks sub-industry, 6.23X for the Zacks sector and 3.71X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 16.65X and as low as 5.53X, with a 5-year median of 9.61X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$324 price target reflects 16.76X forward 12-month sales.

The table below shows summary valuation data for SBAC.

| Valuation Multiples - SBAC | | | | | |
|----------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M | Current | 15.80 | 8.34 | 6.23 | 3.71 |
| | 5-Year High | 16.65 | 8.37 | 6.67 | 3.71 |
| | 5-Year Low | 5.53 | 5.97 | 4.97 | 2.53 |
| | 5-Year Median | 9.61 | 7.00 | 6.06 | 3.05 |
| EV/Sales F12M | Current | 20.47 | 11.44 | NA | 3.38 |
| | 5-Year High | 21.29 | 11.73 | 3.34 | 3.52 |
| | 5-Year Low | 8.77 | 8.21 | NA | 2.28 |
| | 5-Year Median | 14.52 | 9.66 | 0.95 | 2.86 |
| P/EBITDA TTM | Current | 24.78 | 18.49 | 13.75 | 14.28 |
| | 5-Year High | 26.01 | 19.80 | 15.57 | 14.28 |
| | 5-Year Low | 8.13 | 11.85 | 7.82 | 8.75 |
| | 5-Year Median | 15.62 | 14.97 | 13.19 | 11.84 |

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (216 out of 252)



Top Peers

| Company (Ticker) | Rec | Rank |
|--|--------------|------|
| American Tower Corporation REIT (AMT) | Neutral | 3 |
| Alexandria Real Estate Equities, Inc. (ARE) | Neutral | 2 |
| Crown Castle International Corporation (CCI) | Neutral | 3 |
| Columbia Property Trust, Inc. (CXP) | Neutral | 3 |
| Digital Realty Trust, Inc. (DLR) | Neutral | 3 |
| OUTFRONT Media Inc. (OUT) | Neutral | 4 |
| PLYMOUTH IND RE (PLYM) | Neutral | 3 |
| Hudson Pacific Properties, Inc. (HPP) | Underperform | 5 |

| Industry Comparison Industry: Reit And Equity Trust - Other | | | | Industry Peers | | |
|---|---------|------------|-----------|----------------|---------|----------|
| | SBAC | X Industry | S&P 500 | AMT | ARE | PLYM |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 2 | 3 |
| VGM Score | D | - | - | D | F | A |
| Market Cap | 34.19 B | 1.96 B | 23.62 B | 110.60 B | 21.53 B | 203.35 M |
| # of Analysts | 4 | 4 | 14 | 6 | 3 | 4 |
| Dividend Yield | 0.61% | 3.75% | 1.65% | 1.76% | 2.48% | 6.28% |
| Value Score | F | - | - | D | F | B |
| Cash/Price | 0.01 | 0.06 | 0.07 | 0.02 | 0.01 | 0.13 |
| EV/EBITDA | 33.29 | 14.01 | 13.29 | 30.08 | 26.25 | 17.62 |
| PEG Ratio | 3.21 | 3.93 | 3.03 | 2.10 | 4.68 | NA |
| Price/Book (P/B) | NA | 1.32 | 3.11 | 27.24 | 1.95 | 1.78 |
| Price/Cash Flow (P/CF) | 38.07 | 10.70 | 12.69 | 29.91 | 23.71 | 6.22 |
| P/E (F1) | 32.11 | 15.35 | 21.51 | 30.17 | 23.36 | 6.27 |
| Price/Sales (P/S) | 16.72 | 4.79 | 2.43 | 14.21 | 12.85 | 2.16 |
| Earnings Yield | 3.04% | 5.91% | 4.46% | 3.32% | 4.28% | 15.95% |
| Debt/Equity | -2.45 | 0.92 | 0.76 | 6.88 | 0.68 | 3.47 |
| Cash Flow (\$/share) | 8.02 | 2.05 | 6.93 | 8.34 | 7.20 | 2.05 |
| Growth Score | B | - | - | C | D | B |
| Hist. EPS Growth (3-5 yrs) | NA% | 0.73% | 10.44% | 12.16% | 7.69% | NA |
| Proj. EPS Growth (F1/F0) | 9.51% | -2.49% | -5.53% | 6.92% | 4.98% | 2.53% |
| Curr. Cash Flow Growth | 17.05% | 3.36% | 5.20% | 9.58% | 4.79% | 197.59% |
| Hist. Cash Flow Growth (3-5 yrs) | 6.55% | 12.74% | 8.52% | 15.15% | 23.85% | 41.42% |
| Current Ratio | 1.13 | 1.62 | 1.33 | 0.61 | 0.19 | 0.26 |
| Debt/Capital | NA% | 48.09% | 44.50% | 87.31% | 40.53% | 61.66% |
| Net Margin | -0.74% | 10.49% | 10.13% | 24.70% | 24.09% | -17.27% |
| Return on Equity | -4.24% | 3.32% | 14.67% | 39.62% | 3.94% | -14.19% |
| Sales/Assets | 0.22 | 0.13 | 0.51 | 0.19 | 0.09 | 0.13 |
| Proj. Sales Growth (F1/F0) | 2.82% | 0.00% | -1.54% | 3.57% | 15.94% | 38.74% |
| Momentum Score | C | - | - | D | F | B |
| Daily Price Chg | 1.88% | -0.23% | -0.15% | 0.67% | -0.44% | 0.08% |
| 1 Week Price Chg | -2.61% | -0.94% | 1.09% | -2.91% | -3.09% | 0.43% |
| 4 Week Price Chg | 2.26% | 0.98% | 1.64% | -3.32% | 1.29% | -1.85% |
| 12 Week Price Chg | -1.69% | 0.26% | 6.72% | -3.40% | 10.02% | -12.21% |
| 52 Week Price Chg | 17.24% | -21.55% | 1.00% | 9.12% | 14.24% | -32.68% |
| 20 Day Average Volume | 527,858 | 614,474 | 1,873,576 | 1,419,270 | 610,857 | 205,217 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.34% | 0.00% | 1.79% | -0.10% | -0.09% | 1.25% |
| (F1) EPS Est 12 week change | 1.16% | -0.04% | 3.35% | -0.27% | 0.14% | 0.62% |
| (Q1) EPS Est Mthly Chg | -1.65% | 0.00% | 0.42% | -1.34% | -0.09% | 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 | F |
| Growth Score | B |
| 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.

Disclosures

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