

Sirius XM Holdings (SIRI)

\$5.80 (As of 05/01/20)

Price Target (6-12 Months): **\$6.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: A

Momentum: F

Summary

Sirius XM's first-quarter 2020 results reflected growth in subscriber base, advertisement revenues and ARPU. The company's strong content portfolio helped in subscriber base expansion. Additionally, strength in traditional audio advertising, backed by video programmatic and engagement-based video, as well as the expansion of off-platform efforts and fees generated on the AdsWizz platform drove Pandora's ad revenues. Also, the availability of all F1 programming on SiriusXM, including race broadcasts, amid lockdown was a major growth driver. However, higher royalty expenses along with increasing music licensing costs hurt profitability. Moreover, significant competition in the music streaming market dominated by the likes of Spotify and Apple is an overhang. Notably, shares have underperformed the industry on a year-to-date basis.

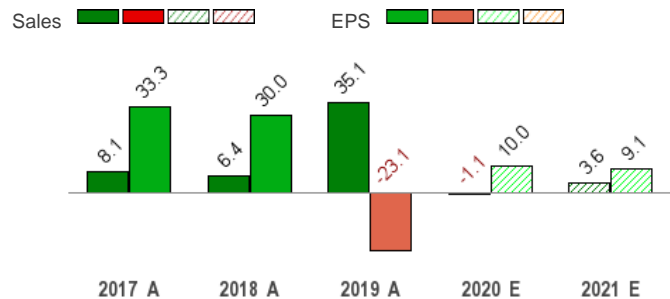
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.40 - \$4.11
20 Day Average Volume (sh)	23,442,186
Market Cap	\$25.4 B
YTD Price Change	-18.9%
Beta	1.22
Dividend / Div Yld	\$0.05 / 0.9%
Industry	Broadcast Radio and Television
Zacks Industry Rank	Bottom 40% (153 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	-13.6%
Expected Report Date	NA
Earnings ESP	-3.9%
P/E TTM	25.2
P/E F1	26.4
PEG F1	2.9
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,889 E	1,893 E	1,942 E	2,020 E	7,985 E
2020	1,952 A	1,870 E	1,899 E	1,965 E	7,709 E
2019	1,744 A	1,977 A	2,011 A	2,062 A	7,794 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.05 E	\$0.06 E	\$0.06 E	\$0.07 E	\$0.24 E
2020	\$0.07 A	\$0.05 E	\$0.06 E	\$0.05 E	\$0.22 E
2019	\$0.03 A	\$0.06 A	\$0.05 A	\$0.05 A	\$0.20 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Headquartered in New York, Sirius XM Holdings Inc. was founded in 1990. The radio broadcasting company creates and broadcasts a variety of content such as commercial-free music, premier sports and live events, news and comedy and exclusive talk and entertainment shows. Sirius XM provides radio services to users in the United States and Canada.

On Feb 1, 2019, Sirius XM completed the acquisition of Pandora, making it the world's largest audio entertainment company.

Notably, the company's services are primarily distributed through its app and website, automakers, and other connected devices like Amazon Echo, Fire TV products and Apple TV.

Sirius XM reported revenues of \$7.79 billion in 2019. Pandora reported revenues of \$1.61 billion.

The company has four revenue generating segments:

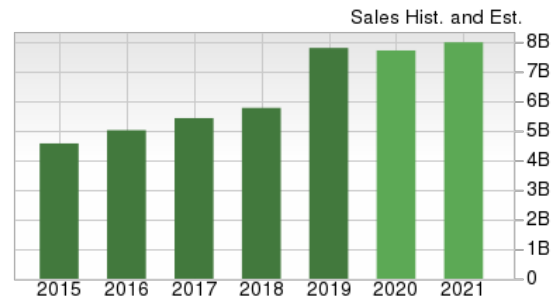
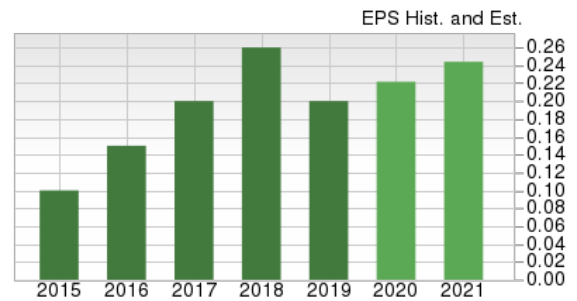
Subscriber Revenues: This segment consists of subscription fees, activation fees and the effects of rebates. The segment generated 78.5% of total revenues in 2019.

Advertising Revenues: This segment includes the sale of advertisements on the company's non-music channels, net of agency fees and accounted for 17.1% of total revenues in 2019.

Equipment Revenues: This segment includes revenues and royalties from the sale of Sirius and XM radios, components and accessories, accounting for 2.2% of total revenues in 2019.

Other revenues: This segment offers ancillary services, such as Backseat TV, data and weather services. The segment generated 2.1% of total revenues in 2019.

Sirius XM faces significant competition from Apple and Spotify in the U.S. market. Both these companies dominate the streaming space as they together command the highest market share. Additionally, key initiatives taken by both Apple and Spotify to gain competitive advantage may hurt Sirius XM's user base expansion levels.



Reasons To Buy:

- ▲ The acquisition of Pandora helped Sirius XM become the world's largest audio entertainment company, as it significantly expanded the latter's listener base. The combined entity has more than 100 million listeners in North America, of which 40 million are expected to be self-paying subscribers and the rest "trailers and ad-based listeners." Sirius XM expects cost synergies from the acquisition to be more than \$75 million/year. The combination of Sirius XM's subscription-based model and Pandora's ad-based model along with diversified content offerings and the ability to cross sell content across both the platforms is expected to attract users, advertisers and content creators to Sirius XM's platform. Additionally, Sirius XM is also looking to create unique audio packages to boost user engagement levels. The company is also looking to bank on its strength from in-vehicles services and Pandora's out-of-the-vehicle market to boost subscriber growth.
- ▲ Sirius XM's healthy relationships with automakers is expected to boost the adoption of its service. The company inked a long-term agreement with Toyota Motors to extend the deal till 2028, starting with 2020 Toyota models. Notably, the extended partnership was primarily due to increased demand for Sirius XM services from Toyota's dealers and customers. Sirius XM also benefits from the increasing adoption of its 360L platform with General Motors. Moreover, the company extended connected vehicle agreements with Nissan and Infiniti till 2022. Earlier, Sirius XM extended agreements with original equipment manufacturers (OEMs) like Audi, Mazda, Land Rover, Mercedes-Benz, Jaguar and Volvo to install its services in their vehicles by 2020.
- ▲ Sirius XM, which has strong relationships with automobile OEMs, is looking to provide real-time vehicle services to its users. The company in partnership with Visa introduced an in-vehicle payment solution that allows car users to easily make and manage purchases such as paying for coffee, parking and movie tickets among others. Users can "activate and authenticate" payments with their Visa accounts by using biometric authentication like touchscreen commands and voice. Earlier, with the acquisition of automatic labs, Sirius XM introduced an aftermarket solution to enable smart services at a few dealership locations. Notably, the dealers will offer car buyers three years of free crash alert as well as free premium services like roadside assistance for six months. With Sirius XM-enabled radio vehicles increasing on the road, we believe the adoption of its other connected services may also increase owing to agreements with OEMs. At the end of the first quarter, about 119 million vehicles on road were equipped with Sirius XM-enabled radios, up 11% year over year and representing approximately 45% of all the cars in the country currently.
- ▲ Sirius XM will continue to use smart speakers to penetrate into home. The company's plan to bring additional content and features to Amazon Echo is positive in this regard. Earlier, Sirius XM had partnered with Amazon to provide free access to a few of its subscription packages for existing Echo holders. The company is also looking to partner with other big players in the smart speaker market to expand its reach and user engagement.
- ▲ Sirius XM continues to bolster its content offerings by adding content from all spheres including music, politics, news and sports to its platform. The company added 100 ad free music channels to its platform in first-quarter 2019. The channels are available only to Sirius XM's All Access, Premier subscribers and trail users. Additionally, Sirius XM is creating original content in talk, sports and music in addition to its content to make it available for Pandora users to cross-promote content on both platforms. The addition of channels and strong collection of sports content is expected to help the company boost its subscription revenues.

Pandora acquisition, growing subscriber base, partnership strength and solid content portfolio are key factors contributing to Sirius XM's growth.

Reasons To Sell:

- ▼ Sirius faces intense competition in the streaming space from the likes of Apple and Spotify, which is expected to hurt the top line in the near term. Apple continues to bolster its presence in the music streaming space backed by acquisitions of Shazam and Asaii. Moreover, the company's recent push into the AR market differentiates its music service offerings and AR initiatives. Spotify, the dominant name in the market, is also ramping up its efforts to expand its subscriber base on the back of partnerships with Samsung and Google.
- ▼ High royalty costs are hurting the company's bottom line. Expenses related to revenue share and royalties rose 64.3% year over year in 2019 compared with 15% growth in 2018. Moreover, growing music licensing costs are a headwind.
- ▼ Moreover, higher subscriber acquisition costs are expected to keep margins under pressure in the near term due to increasing OEM installations and higher OEM hardware subsidy rates. Sirius XM plans to continue to offer subsidies and other incentives to induce auto OEMs to include its technology in their vehicles. Notably, Sirius XM is significantly dependent on the auto industry, as sale and lease of vehicles with satellite radios are an important source of subscription revenues. Hence, slowdown in new car and used car sales is a concern.
- ▼ Sirius XM has a highly leveraged balance sheet, which adds to the risk of investing in the company. As of Mar 31, 2020, the company had total debt of \$8.34 billion, which remained flat sequentially. However, this compares unfavourably with the company's cash, cash equivalents and current marketable investment securities balance of \$40 million, which declined from \$106 million as of Dec 31, 2019. At quarter-end, Sirius XM's debt-to-adjusted EBITDA ratio was 3.1.

Moreover, Sirius XM's cash flow generation ability has suffered in recent times. Free cash flow, which indicates the company's ability to invest in its existing businesses, and pursue acquisitions and repurchases declined to \$348 million in first-quarter 2020 from \$408 million in the previous quarter.

Increasing competition in the streaming space, high royalty costs and leveraged balance sheet are major concerns.

Last Earnings Report

Sirius XM Holdings Q1 Earnings Top, Revenues Rise Y/Y

Sirius XM Holdings reported first-quarter 2020 earnings of 7 cents per share that beat the Zacks Consensus Estimate by 40% and increased 133% year over year.

Total revenues on a reported basis jumped 11.9% year over year to \$1.95 billion and beat the Zacks Consensus Estimate by 2.5%. On a pro-forma basis, revenues increased 5.1% year over year.

The top line was driven by increasing subscriber and advertisement revenues. Subscriber revenues (81.2% of total revenues) grew 8.7% from the year-ago quarter to \$1.58 billion. Advertisement revenues (14.6%) increased 36.4% year over year to \$285 million.

Equipment revenues (2.1% of total revenues) remained flat year over year at \$41 million. Other revenues (2.1% of total revenues) increased 13.9% from the year-ago quarter to \$41 million.

SiriusXM Standalone Details

Sirius XM segment pro-forma revenues were \$1.58 billion, up 6% year over year. The increase was driven by 1.7% growth in subscriber base and 3.2% in ARPU, which was \$13.95.

Self-pay subscribers increased 3.4% year over year to 30.047 million. The company added 69K net self-pay subscribers in the reported quarter.

However, Sirius XM lost 143K net subscribers. The company lost paid promotional subscribers due to a decline in shipments from automakers offering paid promotional subscriptions.

Total subscribers were 34.766 million as of Mar 31, 2020, better than 34.171 million as of Mar 31, 2019.

Sirius XM traffic users grew 10% year over year to 9.706 million and Canada subscribers increased 1% to 2.687 million.

Additionally, average self-pay monthly churn rate was 1.8% in the first quarter, which remained flat year over year.

Subscriber revenues rose 6.4% year over year to \$1.45 billion. Other revenues improved 13.2% year over year to \$43 million. Moreover, Equipment revenues remained flat year over year at \$41 million.

However, advertising revenues were \$44 million, down 4.3% year over year.

Pandora Details

Pandora's pro-forma revenues increased 11% year over year to \$369 million owing to 4.3% growth in advertising revenues, which totaled \$241 million. This was partially offset by 4.5% decline in subscriber revenues, which came in at \$128 million.

Ad revenues were driven by strong first-quarter monetization of \$67.54 per thousand hours, up 7.9% year over year.

Management stated that strength in traditional audio advertising, backed by video programmatic and engagement-based video as well as the expansion of off-platform efforts and fees generated on the AdsWizz platform, drove ad revenues.

Moreover, ARPU increased 2.2% year over year to \$6.85.

Meanwhile, monthly active users (MAUs) were 60.926 million at the end of the reported quarter, down from 66.035 million in the year-ago quarter. Ad-supported listener hours declined 8.5% year over year to 3.13 billion.

Pandora added 55K self-pay subscribers and exited the first quarter with nearly 6.215 million self-pay subscribers. However, it lost 685K paid promotional subscribers over the year.

Operating Details

In the first quarter, total operating expenses increased 5.2% year over year to \$1.48 billion.

Revenue share and royalty costs grew 15.9% year over year to \$570 million. Satellite and transmission costs increased 29% year over year to \$40 million.

Customer service & billing costs improved 4.4% to \$118 million. Programming & content costs were \$118 million, up 11.3% while Cost of Equipment declined 33.3% year over year to \$4 million.

Engineering, design and development expenses increased 31.5% from the year-ago quarter to \$71 million. Sales and marketing expenses jumped 23% to \$225 million.

However, subscriber acquisition costs declined 8.3% year over year to \$99 million.

Adjusted EBITDA grew 12.7% year over year to \$639 million, driven primarily by revenue growth across the business and reductions in subscriber acquisition costs, general and administrative costs and customer service and billing costs.

Quarter Ending **03/2020**

Report Date	Apr 28, 2020
Sales Surprise	2.63%
EPS Surprise	40.00%
Quarterly EPS	0.07
Annual EPS (TTM)	0.23

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents were \$40 million compared with \$106 million as of Dec 31, 2019.

Long-term debt as of Mar 31, 2020 was \$7.847 billion compared with \$7.842 billion as of Dec 31, 2019.

At quarter-end, Sirius XM's debt to adjusted EBITDA ratio was 3.1. The company had \$1.75 billion available under its revolving credit facility.

Cash flow from operating activities in first-quarter 2020 was \$416 million compared with \$532 million in fourth-quarter 2019. Free cash flow was \$348 million in the first quarter compared with \$408 million in the previous quarter.

Guidance Withdrawal For 2020

The company withdrew its full-year 2020 guidance for self-pay net subscriber additions, revenue, adjusted EBITDA and free cash flow.

The company plans to release revised guidance at a future date when more data is available on the effects of the COVID-19 crisis on its business.

Recent News

On Apr 6, SiriusXM's Kids Place Live division announced the launch of Tunetopia, a daily series of exclusive performances featuring kid musicians, award-winning artists from Kids Place Live, and music educators from around the country during the free streaming period.

On Mar 31, SiriusXM announced free access to full Sirius XM premier streaming service in North America through May 15, featuring 300+ channels of news and information, entertainment, escape, and companionship across ad-free music channels, channels of live news, faith-based content, comedy, sports talk and politics among others amid coronavirus lockdown.

On Mar 11, SiriusXM announced that it will air every Fia Formula One World Championship Race on SiriusXM radios and the SiriusXM app, starting with Formula 1 Rolex Australian Grand Prix 2020.

On Feb 11, SiriusXM Holdings Inc. announced that it invested \$75 million in SoundCloud, the world's largest open audio platform. SoundCloud will use this investment to ramp up product development as well as enhance the services that fuel its global community of creators and listeners.

On Dec 17, Sirius XM announced a tie-up with General Motors to bring SiriusXM with 360L to nearly 1 million Chevrolet, Buick, GMC and Cadillac owners.

On Dec 13, Sirius XM announced exclusive radio broadcast agreement with Rolling Loud, the world's largest Hip-Hop festival brand.

On Dec 4, Sirius XM launched Pandora's redesigned mobile experience available for all listeners after initially rolling out to select users in October. The new features give listeners exposure to Pandora's vast library of on-demand music and podcasts, personalized content recommendations and a wide selection of unique programming across all tiers of service and free ad-supported, Pandora Plus, or Pandora Premium.

SiriusXM also announced a new creative partnership with U2 to launch U2X RADIO, which will include a dedicated SiriusXM channel and exclusive content available only to SiriusXM subscribers and Pandora listeners.

Valuation

Sirius XM shares are down 18.9% in the year-to-date period and 0.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.3% while stocks in the Zacks Consumer Discretionary sector are down 20.5% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 3.1% and 17%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 14.84X, which compares to 22.38X for the Zacks sub-industry, 9.62X for the Zacks sector and 10.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.11X and as low as 12.29X, with a 5-year median of 16.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$6 price target reflects 26.57X forward 12-month earnings.

The table below shows summary valuation data for SIRI

Valuation Multiples - SIRI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	14.84	22.38	9.62	10.37
	5-Year High	19.11	32.64	17.6	12.86
	5-Year Low	12.29	17.59	8.26	8.28
	5-Year Median	16.83	22.99	12.24	10.78
P/E F12M	Current	25.3	26.06	23.64	20.18
	5-Year High	34.28	34.44	23.64	20.18
	5-Year Low	17.17	20.19	16.15	15.19
	5-Year Median	25.94	25.81	19.88	17.44
P/S F12M	Current	3.26	6.99	1.94	3.19
	5-Year High	5.83	13.42	3.19	3.44
	5-Year Low	2.35	6.61	1.67	2.54
	5-Year Median	4.26	9.54	2.52	3.01

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (153 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Discovery, Inc. (DISCA)	Neutral	3
Discovery Communications, Inc. (DISCB)	Neutral	NA
Discovery Communications, Inc. (DISCK)	Neutral	NA
Fox Corporation (FOX)	Neutral	NA
Fox Corporation (FOXA)	Neutral	4
ITV PLC. (ITVPY)	Neutral	NA
Sinclair Broadcast Group, Inc. (SBGI)	Neutral	4
Grupo Televisa S.A. (TV)	Neutral	4

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	SIRI	X Industry	S&P 500	AAPL	AMZN	GOOGL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	D	A	C
Market Cap	25.40 B	459.38 M	20.61 B	1,264.82 B	1,139.65 B	905.37 B
# of Analysts	6	2	14	11	13	12
Dividend Yield	0.92%	0.00%	2.11%	1.07%	0.00%	0.00%
Value Score	D	-	-	D	D	D
Cash/Price	0.00	0.20	0.06	0.09	0.05	0.14
EV/EBITDA	16.60	5.25	11.87	16.24	32.16	15.96
PEG Ratio	2.81	0.55	2.47	2.27	3.52	1.96
Price/Book (P/B)	NA	0.80	2.67	14.13	18.34	4.50
Price/Cash Flow (P/CF)	18.96	2.63	10.66	19.25	36.90	19.39
P/E (F1)	25.98	6.32	19.01	24.17	81.55	31.77
Price/Sales (P/S)	3.17	0.56	2.10	4.72	3.85	5.43
Earnings Yield	3.79%	6.67%	5.05%	4.14%	1.23%	3.15%
Debt/Equity	-11.27	1.29	0.72	1.04	0.38	0.07
Cash Flow (\$/share)	0.31	2.13	7.01	15.26	67.05	69.45
Growth Score	A	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	22.16%	12.73%	10.88%	9.54%	110.19%	24.24%
Proj. EPS Growth (F1/F0)	10.83%	-11.10%	-7.32%	0.59%	21.83%	-15.65%
Curr. Cash Flow Growth	-6.44%	1.60%	5.92%	-3.74%	31.33%	12.62%
Hist. Cash Flow Growth (3-5 yrs)	12.75%	12.85%	8.55%	7.40%	49.26%	19.91%
Current Ratio	0.30	1.68	1.23	1.60	1.10	3.37
Debt/Capital	NA%	56.96%	43.84%	50.97%	27.39%	6.83%
Net Margin	13.06%	6.54%	11.08%	21.35%	3.56%	20.71%
Return on Equity	-158.74%	7.02%	16.44%	62.08%	18.46%	17.59%
Sales/Assets	0.72	0.38	0.54	0.80	1.44	0.63
Proj. Sales Growth (F1/F0)	-1.28%	0.00%	-1.42%	-1.34%	20.73%	4.02%
Momentum Score	F	-	-	C	A	D
Daily Price Chg	-0.17%	-2.17%	-2.39%	2.11%	4.27%	0.34%
1 Week Price Chg	4.06%	-4.93%	-1.74%	0.06%	1.48%	-0.19%
4 Week Price Chg	24.42%	12.10%	17.07%	19.95%	28.93%	20.56%
12 Week Price Chg	-17.80%	-33.82%	-18.53%	-9.66%	20.67%	-8.76%
52 Week Price Chg	2.43%	-37.12%	-9.82%	40.47%	30.15%	15.45%
20 Day Average Volume	23,442,186	141,297	2,641,413	36,549,324	5,808,662	2,539,773
(F1) EPS Est 1 week change	-7.30%	0.00%	0.00%	-1.91%	0.23%	-0.71%
(F1) EPS Est 4 week change	-13.61%	-13.01%	-6.62%	-5.74%	2.24%	-11.36%
(F1) EPS Est 12 week change	-17.69%	-21.57%	-13.28%	-13.15%	1.69%	-25.87%
(Q1) EPS Est Mthly Chg	-16.67%	-16.67%	-11.97%	-13.62%	-6.53%	-19.56%

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	A
Momentum Score	F
VGM Score	C

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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