

J. M. Smucker(SJM)

\$116.81 (As of 04/23/20)

Price Target (6-12 Months): **\$135.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 04/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Shares of Smucker have outpaced the industry year to date. The stock got a boost when management raised its fiscal 2020 guidance on increased demand stemming from coronavirus-led stock piling. Markedly, the increased demand from customers in the fourth quarter caused the company to pull up its sales and earnings forecasts for fiscal 2020. The company is continuing to work with customers and suppliers closely and has also taken measures to continue business operations, expand the availability of products and minimize supply-chain hurdles to cater to consumers' demand amid the pandemic. Apart from this, Smucker has been gaining from contributions from strategic buyouts and partnerships, strength of its brands as well as cost-saving measures. However, lower net price realization and volatile currency movements are concerns.

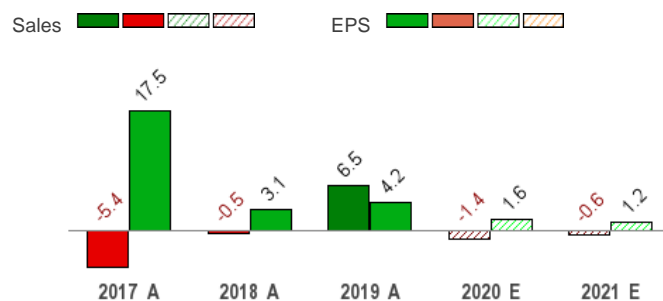
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.43 - \$91.88
20 Day Average Volume (sh)	1,081,405
Market Cap	\$13.3 B
YTD Price Change	12.2%
Beta	0.14
Dividend / Div Yld	\$3.52 / 3.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 22% (56 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.9%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	2.9%
Expected Report Date	06/04/2020
Earnings ESP	1.7%
P/E TTM	14.1
P/E F1	13.9
PEG F1	3.4
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,818 E	1,972 E	1,982 E	2,017 E	7,686 E
2020	1,779 A	1,958 A	1,972 A	2,023 E	7,731 E
2019	1,903 A	2,022 A	2,012 A	1,902 A	7,838 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.73 E	\$2.28 E	\$2.31 E	\$2.13 E	\$8.52 E
2020	\$1.58 A	\$2.26 A	\$2.35 A	\$2.23 E	\$8.42 E
2019	\$1.78 A	\$2.17 A	\$2.26 A	\$2.08 A	\$8.29 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 04/23/2020. The reports text is as of 04/24/2020.

Overview

Headquartered in Orrville, OH, the J.M. Smucker Company is a leading marketer and manufacturer of consumer food and beverage products and pet food and pet snacks in North America. Although majority of the company's operations are concentrated in the United States, it also operates on an international basis.

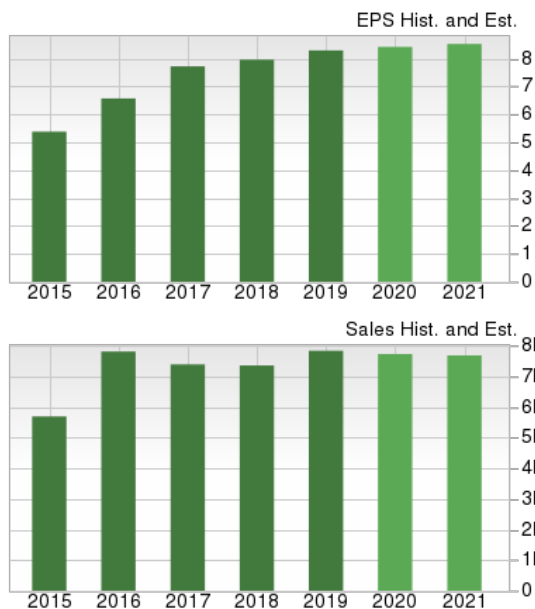
The company boasts a strong portfolio of iconic food and beverages. It mainly caters in the areas of coffee, pet food, peanut butter, fruit spreads, baking products, ready-to-spread frostings, frozen sandwiches, flour, juices and beverages as well as portion control products.

In consumer foods and beverages, some of the renowned brands include Smucker's, Folgers, Jif, Dunkin' Donuts, Crisco, Pillsbury, R.W. Knudsen Family, Hungry Jack, Café Bustelo, Martha White, truRoots, Sahale Snacks, Robin Hood, and Bick's. In pet food and pet snacks, its brands include Meow Mix, Milk-Bone, Kibbles 'n Bits, Natural Balance, and 9Lives. We note that the acquisitions of Big Heart Pet Brands (in March 2015) and Ainsworth Pet Nutrition, LLC (in May 2018) have strengthened the company's portfolio.

The company's operations are dependent on the effective sourcing of raw materials, which are largely agriculture-based. Some of the primary input materials are green coffee, peanuts, oils and fats, protein meals, sweeteners, grains and fruits among others.

Products of the company are sold to customers through direct sales, brokers to food retailers and wholesalers. Moreover, it also sells products through club stores, pet specialty stores, discount stores, drug stores, natural foods stores, military commissaries, mass merchandisers, online retailers as well as foodservice distributors and operators.

The company has four reportable segments including: U.S. Retail Coffee Market (27% of FY19 sales), U.S. Retail Consumer Foods (22.5% of FY19 sales), U.S. Retail Pet Foods (36.7% of FY19 sales) as well as International and Foodservice (13.7% of FY19 sales).



Reasons To Buy:

▲ **Coronavirus-Led High Demand Leads to Raised View, Stock Up:** Shares of Smucker have gained 12.2% year to date, against the industry's decline of 13.2%. The stock got a boost when management raised its fiscal 2020 guidance on increased demand stemming from coronavirus-led stock piling. Well, the growing spread of coronavirus has led to increased social distancing, causing most people to stay indoors and step out just for essentials. As consumers are unable to gauge the severity and duration of this deadly spread, they have been stockpiling goods, especially staple items to avoid going out often. This, in turn, has been spiking up demand for products Smucker, which witnessed heavy demand in March. Although the magnitude of the rising demand has moderated, it is still high.

Smucker gains from the popularity of its brands and augments its portfolio through product launches and acquisitions. It is also on track with savings initiatives.

Markedly, the increased demand from customers in the fourth quarter caused the company to pull up its forecasts for fiscal 2020. The company now anticipates net sales to decrease 1% compared with the previous guidance of a decline 3%. This can be accountable to increased demand in all U.S. and Canadian retail networks, somewhat negated by softness in products sold at away-from-home channels (which forms less than 10% of Smucker's top line). Certainly, elevated production and lower selling, distribution and administrative costs are likely to result in operating leverage. Smucker now envisions adjusted earnings per share to surpass the higher end of its previously-projected band of \$8.10-\$8.30. Smucker remains committed toward meeting consumers' rising demand in the crisis situation. The company is continuing to work with customers and suppliers closely and has also taken measures to continue business operations, expand the availability of products and minimize supply-chain hurdles as much as possible. Also, the company has taken concrete actions to ensure the safety and protection of its workers.

▲ **Strategic Partnerships & Acquisitions:** Smucker actively pursues strategic acquisitions both in the U.S. as well as overseas. We note that the company's acquisition of Ainsworth (completed in May 2018) has been aiding performance in the U.S. Retail Pet Foods category. Other noteworthy acquisitions of the company include; Big Heart Pet Brand (pet food maker), Sahale Snacks (branded nut and fruit snacks maker), Enray Inc. (manufacturer of organic, gluten-free ancient grain products) and coffee brands and business operations of Rowland Coffee, among others. These acquisitions have added iconic brands to the company's portfolio and strengthened its presence in the United States.

Additionally, Smucker has formed key partnerships with quite a few coffee companies. Smucker's agreement with Keurig Green Mountain (KGM) and Dunkin' Brands Group, Inc. to manufacture and sell the K-Cup category of products, has been yielding positive results since fiscal 2016. Evidently, Dunkin' Brand increased 4% in third-quarter fiscal 2020. Also, the company has been consistently extending partnership with KGM to augment K-Cup business opportunities. Notably, the company recorded 7% sales growth for all K-Cup brands in the third quarter.

▲ **Strong Brands & Innovation Boosting Portfolio:** Smucker offers moderately priced, exclusive quality products and has a strong brand portfolio with popular brands like Smucker's, Nature's Recipe, Dunkin' Donuts, 1850 coffee, Uncrustables, Jif and Meow Mix among others. The company is also accelerating marketing support for growth brands. Notably, marketing spend for the third quarter was 6.1% of net sales. Also, Smucker has effectively launched advertising campaign for ten brands in fiscal 2020. Further, the company is on track with building a new production facility and undertaking phase two expansion for one of its fastest growing brand Uncrustables.

▲ **Focus on Cost-Savings Bodes Well:** Smucker resorts to cost savings in order to fuel investments and enhance operating performance. Earlier in fiscal 2018, the company generated synergies of nearly \$200 million from its pet food synergy program. In fiscal 2019, the company delivered savings of nearly \$30 million through the right-spend program.

Going ahead, management is focused on cost reduction and optimization efforts to ensure greater profitability. Markedly, SD&A costs are expected to decline nearly 2.5% year over year in fiscal 2020.

▲ **Digital Platform to Boost Sales:** Growing trend of online customers has urged Smucker to take notice of its e-commerce channel to boost sales. In fact, e-commerce is a fast-growing retail channel of the company. In the digital realm, the coffee and pet food categories have been steadily expanding. We note that during third-quarter fiscal 2020, e-commerce sales improved double-digits and contributed 5% to total U.S. retail sales.

Management expects to continue gaining from increasing online sales in the forthcoming periods. Moreover, the company is utilizing the digital platform to enhance consumer engagement.

Risks

- **Lower Net Price Realization:** Smucker's performance has been hurt by lower net price realization for the past few quarters. During fiscal third quarter, revenues in U.S. Retail Coffee Market unit was affected by 5 percentage point due to reduced net price realization. The same also put pressure on the company's International and Away From Home segment. Persistence of such headwinds is a concern for the company's performance.
 - **U.S. Baking Business Divestiture to Hurt Top Line:** The divestiture of the U.S. baking business has been leading to unfavorable year-over-year comparisons on Smucker's top line. Moreover, this unfavorable comparisons stemming from the divestiture is expected to put pressure on the company's performance in fiscal 2020. This is evident from management's drab sales outlook. The company expects net sales to decline 3% year over year. The top-line view includes a loss of \$105.9 million stemming from the divestiture of the U.S. baking business and \$25.4 million from non-comparable sales associated with Ainsworth. On a comparable basis, the company continues to expect sales decline of 2% from the year-ago levels.
 - **Currency Headwinds:** Smucker's is exposed to unfavorable foreign currency translations owing to the company's significant exposure to international markets. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or lower profit margins in locations outside the country. Therefore, volatility in exchange rates pose formidable risks for the periods ahead.
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Last Earnings Report

Smucker Q3 Earnings Surpass Estimates, Sales Miss

The J. M. Smucker Company posted third-quarter fiscal 2020 results, wherein the bottom line grew year over year and beat the Zacks Consensus Estimate. However, sales were soft during the quarter. The results were hurt by softness in premium dog food offerings and decreased volume/mix in the U.S. Retail Pet Foods segment, among other factors. Management reaffirmed its sales, earnings and free cash flow guidance for fiscal 2020.

Quarter Ending **01/2020**

Report Date	Feb 26, 2020
Sales Surprise	-0.05%
EPS Surprise	5.86%
Quarterly EPS	2.35
Annual EPS (TTM)	8.27

Quarter in Detail

Adjusted earnings of \$2.35 per share rose 4% year over year and comfortably beat the Zacks Consensus Estimate of \$2.22. The year-over-year increase can be attributable to lower SG&A costs, reduced interest expenses and a decline in tax rate.

Company Quote

Net sales amounted to \$1,972.3 million, which marginally missed the consensus mark of \$1,973 million. Moreover, the top line dropped 2% year over year, mainly due to decreased volume/mix in the U.S. Retail Pet Foods segment. However, improved net price realization offered some respite.

Although Smucker's sales were affected by softness in premium dog food offerings, management is pleased with the performance of the rest of the offerings in the portfolio. Notably, its top-line performance reflected solid growth for the Smucker's and Uncrustables brand. Also, the company saw improved volume fundamentals for coffee and peanut butter brands.

Adjusted gross profit fell 3% year over year to \$752.3 million and adjusted gross margin contracted 50 basis points to 38.1%. Adjusted operating income decreased 2.6% year over year to \$395.8 million and adjusted operating margin contracted 10 basis points to 20.1%.

Segment Performance

U.S. Retail Pet Foods: Segment sales came in at \$721.9 million, which dropped 5% from the prior-year figure owing to lower Natural Balance brand and private-label sales, and reduced volume/mix. Net price realization was neutral in the quarter.

U.S. Retail Consumer Foods: Net sales rose \$0.2 million from a year ago to \$422.9 million, driven by increase in volume/mix on account of growth in Smucker's Uncrustables and Jif brands. However, lower net pricing — mostly due to the Jif brand — impacted sales.

U.S. Retail Coffee Market: Sales in the segment decreased \$2.8 million from the prior-year quarter to \$558.8 million due to lower net price realization, partially offset by favorable volume/mix.

International and Away From Home: Net sales improved \$0.1 million from the prior-year quarter to \$268.7 million, thanks to favorable foreign currency exchange, offset by decline in net price realization and volume/mix.

Financials

Smucker exited the quarter with cash and cash equivalents of \$74.4 million, long-term debt (less current portion) of \$4,583.3 million and total shareholders' equity of \$8,170.4 million. Cash flow from operations amounted to \$521.6 million in the fiscal third quarter and free cash flow totaled \$465.1 million.

Fiscal 2020 Outlook

Smucker reiterated its net sales, adjusted earnings per share and free cash flow guidance for fiscal 2020. The company still expects net sales to be down 3% year over year. The top-line view includes a loss of \$105.9 million stemming from the divestiture of the U.S. baking business and \$25.4 million from non-comparable sales associated with Ainsworth. On a comparable basis, the company continues to expect sales decline of 2% from a year ago.

Adjusted earnings per share for 2020 are still anticipated within \$8.10-\$8.30. Smucker's adjusted earnings came in at \$8.29 per share in fiscal 2019. The bottom line is likely to be affected by reduced contributions from sales. Gross margin is now anticipated to be 38.2% in fiscal 2020 compared with 38.5% projected earlier. SD&A costs are now projected to decline 2.5% compared with the previous expectation of 2% fall.

Free cash flow is still projected to be \$850 million.

Recent News

Smucker Ups Fiscal 2020 View on Surging Coronavirus-Led Demand - Apr 20, 2020

Coronavirus-led stock piling and the resultant increased demand from customers in the fourth quarter caused Smucker to pull up its forecasts for fiscal 2020. The company now anticipates net sales to decrease 1% compared with the previous guidance of a decline 3%. This can be accountable to increased demand in all U.S. and Canadian retail networks, somewhat negated by softness in products sold at away-from-home channels (which forms less than 10% of Smucker's top line).

Certainly, elevated production and lower selling, distribution and administrative costs are likely to result in operating leverage. This may be partly countered by escalated costs associated with employee compensation and benefits, freight, and community support efforts. Nonetheless, operating leverage and higher contribution from sales led to a perked up bottom-line view. Smucker now envisions adjusted earnings per share to surpass the higher end of its previously-projected band of \$8.10-\$8.30. Free cash flow is anticipated to exceed \$850 million, as guided earlier. Also, capital expenditures are expected to come below the old estimate of \$300-\$320 million. The company stated that its old commentary related to the financial directions for fiscal 2021 is no longer valid, given the uncertainty around the near term as well as the long-term impacts of COVID-19.

Smucker remains committed toward meeting consumers' rising demand in the crisis situation. The company is continuing to work with customers and suppliers closely and has also taken measures to continue business operations, expand the availability of products and minimize supply-chain hurdles as much as possible. Also, the company has taken concrete actions to ensure the safety and protection of its workers. To this end, it has implemented increased sanitization and temperature screening and offered incremental support like financial hardship rewards to front-line workers. Notably, all of Smucker's manufacturing and distribution centers have been operating and it has been observing the scenario closely, especially at its coffee facilities in Louisiana where there are increased cases of COVID-19. Further, the company has taken steps to ensure continued supply to its retail partners amid the burgeoning demand.

Smucker Provides Support to Employees Amid Coronavirus – Mar 24, 2020

Smucker recently announced initiatives to offer monetary relief and protection to its employees as the world continues to strive against the coronavirus menace. Among other moves, the company is giving up to 12 weeks of full salaries along with other benefits to its workers whose production or distribution sites are shut due to the coronavirus pandemic. Apart from this, Smucker is pledging \$300,000 as donations to various organizations to support them in their fight against the novel coronavirus.

Valuation

Smucker shares are up 12.2% in the year-to-date period but down 3.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 13.2% and 16.6%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 4.8%, while the sector declined 11.4%.

The S&P 500 index is down 13.1% in the year-to-date period and 4.9% in the past year.

The stock is currently trading at 14.07X forward 12-month earnings, which compares to 17.05X for the Zacks sub-industry, 18.2X for the Zacks sector and 19.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.25X and as low as 10.88X, with a 5-year median of 14.86X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$135 price target reflects 16.26X forward 12-month earnings.

The table below shows summary valuation data for SJM

Valuation Multiples - SJM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.07	17.05	18.2	19.31
	5-Year High	22.25	22.9	22.37	19.34
	5-Year Low	10.88	14.82	16.49	15.19
	5-Year Median	14.86	18.9	19.66	17.45
P/S F12M	Current	1.75	1.55	8.72	3.14
	5-Year High	2.35	2.05	11.16	3.44
	5-Year Low	1.35	1.41	8.1	2.54
	5-Year Median	1.76	1.81	9.89	3.01
EV/EBITDA F12M	Current	9.83	13.82	34.16	12.29
	5-Year High	13.49	16.59	37.75	12.65
	5-Year Low	8.58	11.67	29.77	9.09
	5-Year Median	10.82	13.25	34.08	10.82

As of 04/23/2020

Industry Analysis Zacks Industry Rank: Top 22% (56 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Outperform	2
Ingredion Incorporated (INGR)	Outperform	3
B&G Foods, Inc. (BGS)	Neutral	2
BRF S.A. (BRFS)	Neutral	3
Conagra Brands Inc. (CAG)	Neutral	2
General Mills, Inc. (GIS)	Neutral	2
Hormel Foods Corporation (HRL)	Neutral	3
Post Holdings, Inc. (POST)	Neutral	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	SJM	X Industry	S&P 500	BGS	CAG	GIS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	2	2
VGM Score	B	-	-	B	B	C
Market Cap	13.32 B	3.13 B	19.03 B	1.21 B	16.55 B	36.19 B
# of Analysts	7	3	14	3	8	8
Dividend Yield	3.01%	0.30%	2.23%	10.05%	2.50%	3.28%
Value Score	B	-	-	A	B	B
Cash/Price	0.01	0.05	0.05	0.01	0.01	0.02
EV/EBITDA	12.36	12.46	11.66	11.19	16.51	14.63
PEG Ratio	3.44	3.18	2.20	NA	2.20	2.29
Price/Book (P/B)	1.63	2.07	2.56	1.49	2.10	4.60
Price/Cash Flow (P/CF)	8.94	11.95	10.31	6.72	13.46	14.01
P/E (F1)	13.87	17.23	17.77	11.30	15.37	17.15
Price/Sales (P/S)	1.75	1.09	1.97	0.73	1.59	2.16
Earnings Yield	7.21%	5.52%	5.48%	8.84%	6.50%	5.83%
Debt/Equity	0.58	0.60	0.72	2.35	1.16	1.47
Cash Flow (\$/share)	13.07	2.75	7.01	2.81	2.52	4.26
Growth Score	C	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	9.69%	6.16%	10.92%	2.38%	-2.98%	2.74%
Proj. EPS Growth (F1/F0)	1.53%	-0.46%	-5.06%	2.03%	10.01%	8.15%
Curr. Cash Flow Growth	1.65%	4.76%	5.92%	-0.56%	10.04%	5.47%
Hist. Cash Flow Growth (3-5 yrs)	11.97%	5.35%	8.55%	4.81%	-0.87%	1.32%
Current Ratio	0.77	1.59	1.23	3.05	0.87	0.64
Debt/Capital	36.60%	37.52%	43.90%	70.11%	53.63%	59.59%
Net Margin	8.21%	4.07%	11.32%	4.60%	7.37%	12.68%
Return on Equity	11.70%	11.20%	16.60%	12.50%	12.08%	26.40%
Sales/Assets	0.45	1.17	0.55	0.51	0.47	0.55
Proj. Sales Growth (F1/F0)	-1.31%	0.00%	-0.78%	1.02%	15.44%	2.85%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	-1.48%	0.00%	0.15%	1.23%	-0.93%	-0.80%
1 Week Price Chg	7.83%	1.68%	0.42%	8.21%	3.45%	5.70%
4 Week Price Chg	12.89%	7.51%	4.04%	12.90%	22.01%	19.42%
12 Week Price Chg	10.39%	-12.70%	-21.19%	17.17%	2.20%	11.13%
52 Week Price Chg	-3.64%	-11.46%	-15.14%	-23.05%	9.79%	18.90%
20 Day Average Volume	1,081,405	239,450	2,802,273	1,411,671	4,658,867	4,553,509
(F1) EPS Est 1 week change	2.81%	0.00%	-0.10%	0.00%	0.11%	0.22%
(F1) EPS Est 4 week change	2.90%	0.00%	-6.64%	0.20%	8.53%	0.65%
(F1) EPS Est 12 week change	3.48%	-6.37%	-11.78%	-1.57%	4.18%	2.62%
(Q1) EPS Est Mthly Chg	11.17%	0.00%	-10.38%	0.00%	41.38%	2.70%

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	A
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.

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