

Skechers U.S.A., Inc. (SKX)

\$29.22 (As of 08/19/20)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 07/21/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Shares of Skechers have slid and lagged the industry in the past six months. The stock came under pressure in spite of the company reporting better-than-expected second-quarter 2020 results. The company reported narrower-than-expected loss. Further, the company's sales surpassed the Zacks Consensus Estimate for the fifth straight quarter. However, the coronavirus pandemic did impact the company's performance. Both the top and the bottom line continued to decline year over year. Nonetheless, management informed that more than 90% of the Skechers' stores are now operational. Additionally, the company is seeing signs of recovery in some of the markets. It returned to growth in China and is also witnessing green shoots in other international markets. No wonder, the company's e-commerce business remains sturdy amid the crisis.

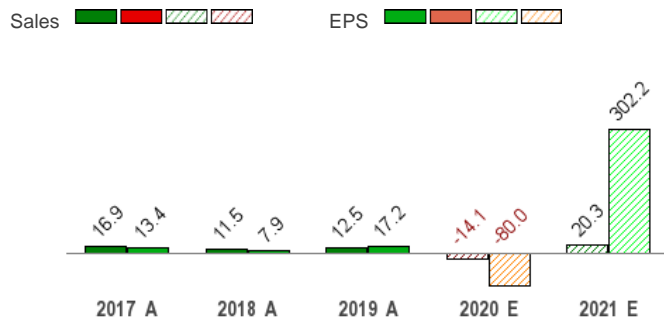
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.50 - \$17.06
20 Day Average Volume (sh)	1,601,542
Market Cap	\$4.6 B
YTD Price Change	-32.4%
Beta	1.13
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 12% (223 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.3%
Last Sales Surprise	7.8%
EPS F1 Est- 4 week change	16.9%
Expected Report Date	NA
Earnings ESP	6.1%
P/E TTM	28.9
P/E F1	64.9
PEG F1	9.3
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,391 E
2020	1,242 A	729 A	1,195 E	1,356 E	4,482 E
2019	1,277 A	1,259 A	1,354 A	1,331 A	5,220 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.81 E
2020	\$0.39 A	-\$0.44 A	\$0.32 E	\$0.34 E	\$0.45 E
2019	\$0.73 A	\$0.49 A	\$0.67 A	\$0.39 A	\$2.25 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 08/19/2020. The reports text is as of 08/20/2020.

Overview

Founded in 1992 and headquartered in Manhattan Beach, California, Skechers U.S.A., Inc. (SKX) designs, develops, markets, and distributes footwear for men, women, and children in the United States and overseas under the SKECHERS name, as well as under several uniquely branded names.

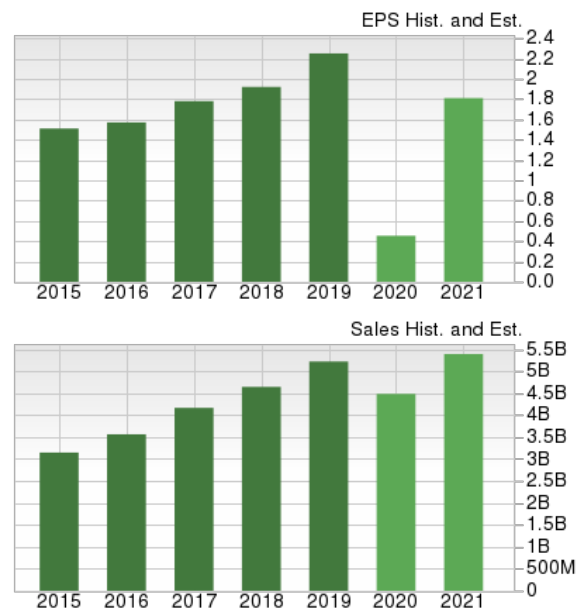
Through its distribution networks, joint venture partners in Asia and the Middle East, and wholly-owned subsidiaries in Canada, Japan, throughout Europe and Latin America, Skechers' products are available in more than 170 countries and territories. There are more than 3,600 SKECHERS Company-owned and third-party-owned retail stores.

Skechers offers casuals, dress casuals, comfort and lightweight, sandals, and casual fusion categories for men and women under the **Skechers USA brand**; sport footwear for men and women, including men's lifestyle athletic footwear, lightweight women's sneakers, and sport sandals and boots under the **Skechers Sport brand**; fusion and sport fusion sneakers for females of all ages under the **Skechers Active brand**; and vulcanized looks and at Home collection under the brand **BOBS from Skechers**.

The company also provides casuals, field boots, hikers, and athletic shoes for men and women under the **Skechers Work brand**; boots, shoes, sandals, dress sneakers, and lighted footwear for infants, toddlers, boys, and girls under the **Skechers Kids brand**; and a vivid range of on-trend casual, dress and active styles for men under **Mark Nason Collection**.

The company also offers specially designed footwear collection under **Skechers GORun**, **Skechers GOwalk**, **Skechers**, **Skechers GOtrain**, **Skechers GOtrail**, **Skechers GO Golf** and **YOU by Skechers**.

Skechers reports under four segments - **domestic wholesale sales**, **international wholesale sales**, **direct-to-consumer (which includes domestic and international retail sales)**, and **e-commerce**.



Reasons To Buy:

▲ **Better-than-Expected Q2 Results:** Skechers posted better-than-expected second-quarter 2020 results. The company reported narrower-than-expected loss. Further, the company's sales surpassed the Zacks Consensus Estimate, marking the fifth straight beat. Management also informed that more than 90% of the Skechers' stores are now operational. Additionally, the company is seeing signs of recovery in some of the markets. It returned to growth in China and is also witnessing green shoots in Australia, France, Indonesia, Germany, Spain, South Korea and Taiwan. No wonder, the company's e-commerce business remains sturdy amid the crisis. The company's investment in direct-to-consumer business outside the United States is commendable. We also note that gross margin expanded 210 basis points to 50.5% owing to a favorable mix of online and international sales.

Skechers is likely to witness growth with more emphasis on new lines of product, cost containment, inventory management and global distribution platform. Its international business also holds promise.

▲ **E-commerce Gaining Traction:** Skechers has been directing resources to enhance its digital capabilities, which includes relaunching of websites, mobile application and loyalty program. The company is focusing on improving in-store point-of-sale systems to better engage with customers, both offline and online. Initiatives such as "Buy Online, Pick-Up in Store" and "Buy Online, Pickup at Curbside" are worth mentioning. We note that the company-owned e-commerce sales soared 428.2% during the second quarter of 2020. This follows an improvement of 70% in the preceding quarter. The metric has been an important sales driver within direct-to-consumer channel. Notably, the company has launched a new online shopping platform in the United States. The company plans to roll out the same platform in even more countries.

▲ **Efforts to Mitigate COVID-19 Impact:** In order to mitigate the impact of coronavirus pandemic, the company has curtailed non-essential discretionary spending, which includes business travel, lowering of non-digital marketing expenditures and reassessment of store opening plans. The company also trimmed the headcount, furloughed selected employees and reduced compensation levels. Given the prevailing retail backdrop, the company has prioritized necessary and strategic projects. Management's capital expenditures of \$75.9 million during the second quarter were related to acquisition of an office building in Shanghai, opening of new retail outlets globally, new distribution center in China and expansion of domestic distribution center. Skechers now expects to incur capital expenditures \$100-\$150 million for rest of the year.

▲ **Financial Flexibility:** In spite of a substantial increase in total debt during second-quarter of 2020 (excluding operating lease liabilities), Skechers looks quite comfortable from a liquidity point of view. As of Jun 30, 2020, cash, cash equivalents and investments totaled \$1,556 million. This reflects an increase of \$524.5 million and \$583 million from Dec 31, 2019 and Jun 30, 2019, respectively. On a sequential basis, this reflects an increase of 6.7%. The rise primarily reflects the drawdown of \$490 million from senior unsecured credit facility in the first quarter. On the contrary, the company had a total debt of \$763.3 million as Jun 30, 2020, up from \$699.8 million as of Mar 31, 2020 and \$121.2 million as of Dec 31, 2019. Moreover, the company has a decent "times interest earned" ratio of 21.6.

▲ **Strategic Endeavors:** The company is making strategic investments to improve infrastructure worldwide, primarily e-commerce platforms and distribution centers. The company is also focusing on designing and developing new products. We believe that greater emphasis on new line of products, store remodeling projects, cost-containment efforts, inventory management, and global distribution platform bodes well. The company operates e-commerce sites in the United States, Chile, Germany, United Kingdom, Spain, China, South Korea and Canada. Notably, Skechers collaborated with The Goodyear Rubber & Tire Company in order to use latter's rubber technology in its footwear.

▲ **International Business Still a Growth Driver:** Skechers' international business remains a considerable sales growth driver for the company with Europe and China being the significant market outside the United States. Skechers is poised to enhance its global reach in the footwear market through its distribution networks, subsidiaries and JVs. The company returned to growth in China and is also witnessing green shoots in Australia, France, Indonesia, Germany, Spain, South Korea and Taiwan. Sales in China jumped 11.5% during the quarter under review, which also includes e-commerce growth of 43%.

▲ **Diversified Portfolio of Brands:** Skechers continues to offer a diversified portfolio of brands that includes a wide range of fashion, athletic, non-athletic, and work footwear at compelling prices. We believe that this multi-brand strategy enables the company to roll out new products without cannibalizing its existing brands and helps to expand the targeted demographic profile of customers. Skechers D'Lites is fast gaining traction with sturdy demand in North America and Europe, after gaining grounds in Asia. The brand is also set for growth in South America, India and the Middle East.

Reasons To Sell:

- ▼ **Top & Bottom-Line Decline Y/Y:** Shares of Skechers have decreased 23.4% in the past six months compared with the industry's rise of 1.1%. The stock came under pressure in spite of the company reporting better-than-expected results for second-quarter 2020. We note that both the top and the bottom line continued to decline year over year owing to the adverse impacts of the coronavirus pandemic. The company reported quarterly loss of 44 cents a share against earnings of 49 cents in the year-ago period. Skechers generated sales of \$729.5 million that fell 42% (or 41% on a constant currency basis) from the year-ago period. Sales decreased 37.8% and 47.3% across international and domestic businesses, respectively. The company's international wholesale business fell 29.9% during the quarter. We note that the domestic wholesale business declined 57.2%, as operations at many of the company's wholesale customers were closed, primarily in the first half of the quarter.
- ▼ **Direct-to-Consumer Sales Fall:** With almost all of Skechers stores shuttered at some point during second-quarter 2020, its direct-to-consumer business fell 47.1%. This followed a decline of 4.2% witnessed in the preceding quarter. The decline in direct-to-consumer sales reflects a decrease of 35.4% and 66.6% in direct-to-consumer domestic and direct-to-consumer international businesses, respectively, during the quarter under review. Comparable same store sales in company-owned direct-to-consumer business plunged 45.6%, hurt by a decline of 35.9% in the United States and 66.9% internationally. We note that comparable same store sales in company-owned direct-to-consumer business had dropped 8.1% in the first quarter.
- ▼ **Deleverage in SG&A Expenses a Concern:** Any deleverage in selling, general and administrative (SG&A) expenses have a direct bearing on the company's margin. SG&A expenses declined 14.5% year over year during the second quarter of 2020, as a percentage of sales, the metric increased to 59.2% from 40.1% in the year-ago quarter. In the preceding quarter, the metric grew 720 bps to 40.9%. We note that the company reported operating loss of \$61 million during the quarter under review against operating income of \$111.1 million in the prior-year period.
- ▼ **Prone to Currency Fluctuations:** Skechers generates a significant amount of net sales outside the U.S. Due to high exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the United States. An increase in price may have an adverse impact on the demand for the products.
- ▼ **Fashion Obsolescence a Threat:** Fashion obsolescence remains the main concern for Skechers' business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be hurt by delays in its product launches. The company operates in the highly competitive athletic footwear and apparel segment. It faces stiff competition from athletic footwear specialty stores, sporting goods stores, department stores, discount stores and traditional shoe stores in terms of distinctiveness, innovativeness, quality and pricing, which may weigh on its results.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure. Again, job losses as well as lower disposable income due to this catastrophe are making things worse. Consumers are avoiding discretionary spending and focus on necessities for the time being.

Concerns related to higher operating expenses cannot be ignored. Further, the company remains vulnerable to fashion obsolescence and currency fluctuations.

Last Earnings Report

Skechers Posts Narrower-Than-Expected Q2 Loss

Skechers U.S.A., Inc. posted better-than-expected second-quarter 2020 results. The company reported narrower-than-expected loss. Further, the company's sales surpassed the Zacks Consensus Estimate. However, the coronavirus pandemic did impact the company's performance with both top and bottom line declining sharply from the prior-year period.

Nonetheless, management informed that more than 90% of the Skechers' stores are now operational. Additionally, the company is seeing signs of recovery in some of the markets. It returned to growth in China and is also witnessing green shoots in Australia, France, Indonesia, Germany, Spain, South Korea and Taiwan. No wonder, the company's e-commerce business remains sturdy amid the crisis. We note that the company-owned e-commerce sales soared 428.2% during the second quarter. This follows an improvement of 70% in the preceding quarter.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	7.80%
EPS Surprise	34.33%
Quarterly EPS	-0.44
Annual EPS (TTM)	1.01

Let's Analyze the Results

This designer, developer, marketer and distributor of footwear reported quarterly loss of 44 cents a share narrower than the Zacks Consensus Estimate of loss of 67 cents. The company had posted earnings of 49 cents in the year-ago period.

Skechers generated sales of \$729.5 million that surpassed the Zacks Consensus Estimate of \$676.7 million. Notably, this marks the fifth straight quarter of revenues beat. However, the company's top line declined 42% (or 41% on a constant currency basis) from the year-ago period. Sales decreased 37.8% and 47.3% across international and domestic businesses, respectively, owing to the pandemic.

The decline in international sales was partly offset by an 11.5% jump in sales in China, which includes e-commerce growth of 43%. The company's international wholesale business fell 29.9% during the quarter. We note that the domestic wholesale business declined 57.2%, as operations at many of the company's wholesale customers were closed, primarily in the first half of the quarter.

With almost all of Skechers stores shuttered at some point during the quarter under review, its direct-to-consumer business fell 47.1%. This reflects a decrease of 35.4% and 66.6% in direct-to-consumer domestic and direct-to-consumer international businesses, respectively. Comparable same store sales in company-owned direct-to-consumer business plunged 45.6%, hurt by a decline of 35.9% in the United States and 66.9% internationally.

Gross profit fell 39.6% year over year to \$368.6 million on account of lower sales volumes. However, gross margin expanded 210 basis points to 50.5% owing to a favorable mix of online and international sales.

Meanwhile, SG&A expenses were \$432.1 million, down 14.5% year over year. However, as a percentage of sales, the metric increased to 59.2% from 40.1% in the year-ago quarter. The year-over-year decrease in SG&A expenses can be attributed to lower advertising and marketing expenses worldwide and reduction in compensation expenses due to the temporary closure of retail outlets and the furlough of select corporate staff. The company reported operating loss of \$61 million against operating income of \$111.1 million in the prior-year period.

Store Update

During the quarter, Skechers opened three company-owned domestic stores and shuttered one, taking the total domestic count to 510, as of Jun 30. Further, it opened four company-owned international stores resulting in 308 stores at the end of the quarter. Notably, 21 joint venture stores were opened and eight closed in the reported quarter taking the count to 390. Furthermore, the company inaugurated 81 distributor, licensee and franchise stores in the quarter, and closed 60 such outlets, taking the overall store base to 2,407 at quarter-end. Adding these outlets, Skechers' total store count stands at 3,615 as of Jun 30.

Other Financial Aspects

As of Jun 30, 2020, cash, cash equivalents and investments totaled \$1,556 million. This reflects an increase of \$524.5 million and \$583 million from Dec 31, 2019 and Jun 30, 2019, respectively. The rise primarily reflects the drawdown of \$490 million from senior unsecured credit facility in the first quarter.

The company ended the quarter with long-term borrowings (excluding current installments) of \$680.1 million, and shareholders' equity of \$2,224.7 million, excluding non-controlling interests of \$212.4 million. Further, total inventory was \$1,027.7 million, up nearly 20.1% from the year-ago period. This increase reflects lower wholesale shipping and fall in retail activity due to the pandemic.

Management incurred capital expenditures of \$75.9 million during the second quarter. Given the prevailing retail backdrop, the company has prioritized necessary and strategic projects, and now projects capital expenditures of \$100-\$150 million for rest of the year.

Recent News

Skechers Launches Dr. Seuss Footwear Collection – Aug 17, 2020

Skechers is set to launch the new Skechers x Dr. Seuss fashion and casual collection. The collection will feature famous characters from Dr. Seuss stories.

Skechers Opens a New Store in Paris – Aug 12, 2020

Skechers has opened a new store in Rue de Rivoli, Paris. Rue de Rivoli is fame to be one of the biggest shopping destinations in Paris. The move is likely boost the company's customer base in France.

Valuation

Skechers shares are down 32.4% in the year-to-date period and 6% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.6% while the Zacks Consumer Discretionary sector are down 3.8%, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 25.5% and 6.2%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 16.2% in the past year.

The stock is currently trading at 22.21X forward 12-month earnings, which compares to 36.19X for the Zacks sub-industry, 33.9X for the Zacks sector and 22.9X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.33X and as low as 8.14X, with a 5-year median of 14.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 23.56X forward 12-month earnings.

The table below shows summary valuation data for SKX

Valuation Multiples - SKX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.21	36.19	33.9	22.9
	5-Year High	33.33	36.19	33.9	22.9
	5-Year Low	8.14	8.63	16.13	15.25
	5-Year Median	14.66	23.51	19.86	17.58
P/S F12M	Current	0.91	3.35	2.4	3.72
	5-Year High	2.27	3.35	2.95	3.72
	5-Year Low	0.54	2.04	1.68	2.53
	5-Year Median	1.02	2.68	2.5	3.05
EV/EBITDA TTM	Current	16.27	31.57	11.19	12.83
	5-Year High	20.55	31.57	17.84	12.85
	5-Year Low	4.68	12.75	8.34	8.25
	5-Year Median	9.57	16.49	12.23	10.91

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (223 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Deckers Outdoor Corporation (DECK)	Outperform	2
Adidas AG (ADDYY)	Neutral	3
Columbia Sportswear Company (COLM)	Neutral	3
NIKE, Inc. (NKE)	Neutral	4
Steven Madden, Ltd. (SHOO)	Neutral	4
V.F. Corporation (VFC)	Neutral	3
Wolverine World Wide, Inc. (WWW)	Neutral	3
Anta Sports Products Ltd. (ANPDF)	Underperform	5

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SKX	X Industry	S&P 500	ADDYY	DECK	NKE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	4
VGM Score	A	-	-	C	C	D
Market Cap	4.61 B	1.48 B	23.61 B	60.72 B	5.82 B	169.08 B
# of Analysts	6	6	14	8	7	14
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.90%
Value Score	A	-	-	D	C	D
Cash/Price	0.31	0.24	0.07	0.05	0.11	0.05
EV/EBITDA	7.77	7.10	13.36	13.53	14.02	42.15
PEG Ratio	9.28	3.16	2.99	24.80	1.36	2.79
Price/Book (P/B)	1.89	1.36	3.16	7.68	5.12	20.97
Price/Cash Flow (P/CF)	9.79	8.75	12.71	17.31	18.45	41.64
P/E (F1)	64.98	30.56	21.82	126.98	22.97	45.47
Price/Sales (P/S)	0.99	0.85	2.47	2.67	2.72	4.52
Earnings Yield	1.54%	2.67%	4.37%	0.79%	4.35%	2.20%
Debt/Equity	0.73	0.48	0.76	0.23	0.21	1.53
Cash Flow (\$/share)	2.98	2.85	6.94	8.95	11.26	2.60
Growth Score	B	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	1.67%	2.97%	10.44%	4.27%	26.35%	4.49%
Proj. EPS Growth (F1/F0)	-79.85%	-42.86%	-5.97%	-77.53%	-6.00%	48.97%
Curr. Cash Flow Growth	11.53%	0.00%	5.22%	36.19%	1.85%	-14.59%
Hist. Cash Flow Growth (3-5 yrs)	18.98%	5.48%	8.52%	23.10%	8.34%	0.67%
Current Ratio	2.91	2.50	1.33	1.25	3.27	2.48
Debt/Capital	42.21%	42.21%	44.50%	18.43%	17.17%	60.46%
Net Margin	3.08%	2.84%	10.13%	2.67%	13.44%	6.79%
Return on Equity	6.24%	8.64%	14.67%	7.93%	26.64%	32.95%
Sales/Assets	0.92	1.05	0.51	1.00	1.19	1.36
Proj. Sales Growth (F1/F0)	-14.13%	-0.40%	-1.54%	-12.93%	-0.40%	5.47%
Momentum Score	C	-	-	F	C	A
Daily Price Chg	0.00%	0.00%	-0.38%	-3.42%	-1.48%	1.33%
1 Week Price Chg	1.92%	2.45%	1.09%	7.08%	2.45%	4.49%
4 Week Price Chg	-5.07%	0.61%	2.23%	8.54%	0.61%	9.58%
12 Week Price Chg	-11.00%	0.00%	6.91%	19.83%	6.36%	8.53%
52 Week Price Chg	-6.05%	-11.00%	2.28%	5.25%	48.10%	31.00%
20 Day Average Volume	1,601,542	262,448	1,899,976	30,472	370,894	5,606,094
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	1.95%
(F1) EPS Est 4 week change	16.92%	0.00%	1.70%	-24.05%	10.01%	2.79%
(F1) EPS Est 12 week change	-19.24%	-12.73%	3.08%	-27.92%	30.39%	-12.73%
(Q1) EPS Est Mthly Chg	-7.95%	-3.00%	0.83%	-5.99%	16.01%	3.78%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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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