

Snap Inc. (SNAP)

\$19.11 (As of 01/17/20)

Price Target (6-12 Months): **\$20.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/22/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

Summary

Snap's shares have significantly outperformed the industry in the past year. The company's focus on introducing features like games, AR Lenses, premium content and Snap Kit is a key catalyst. Snap is benefiting from improving user engagement, particularly in the 13-34-year-old demography. This is expanding the company's advertiser base, thereby driving the top line. The company is also increasing efforts to improve user experience in ROW markets through language support, local content and local partnerships. However, the company's increasing investments in areas such as content, AR Lenses and marketing may hurt profitability in the near term. Moreover, lack of revenue diversification and stiff competition from Facebook are major headwinds.

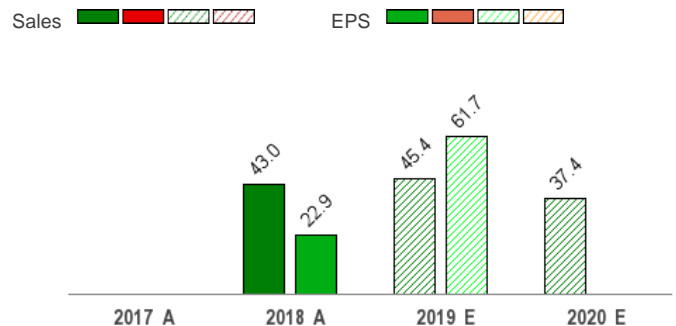
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.29 - \$5.74
20 Day Average Volume (sh)	20,544,468
Market Cap	\$26.8 B
YTD Price Change	17.0%
Beta	1.11
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 41% (105 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	20.0%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	955.5
PEG F1	NA
P/S TTM	17.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	456 E	538 E	602 E	736 E	2,357 E
2019	320 A	388 A	446 A	560 E	1,716 E
2018	231 A	262 A	298 A	390 A	1,180 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.06 E	-\$0.02 E	\$0.02 E	\$0.07 E	\$0.02 E
2019	-\$0.10 A	-\$0.06 A	-\$0.04 A	\$0.00 E	-\$0.18 E
2018	-\$0.17 A	-\$0.14 A	-\$0.12 A	-\$0.04 A	-\$0.47 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 01/17/2020. The reports text is as of 01/20/2020.

Overview

Venice, CA-based Snap Inc. is a technology and social media services provider founded by Evan Thomas Spiegel, Frank Reginald Brown IV, and Robert C. Murphy in July 2011. The company went for an Initial Public Offering (IPO) on Mar 2, 2017.

Snap reported revenues of \$1.18 billion in 2018, which increased 43% from the year-ago period.

Snap's flagship product, Snapchat, is a mobile camera application that helps people to communicate through short videos and images called Snaps. The application is one of the most popular and trendy messaging and social media applications in the United States.

Snapchat's popularity, especially with teens and millennials, can primarily be attributed to its ephemerality i.e. photos/videos and text sent to friends via Snapchat disappear after sometime. Moreover, an interactive style of chat developed by the addition of stickers, doodling etc. has really caught the fancy of teens.

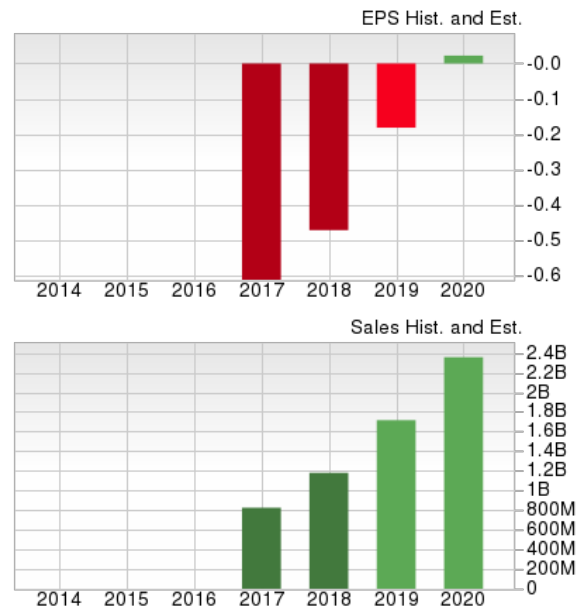
Snap slowly diversified its service offerings by introducing features like Stories and augmented reality (AR). Offerings like Scan, Landmarkers and AR Bar give users a whole new experience within the application. Notably, Snap had 186 million daily active users (DAUs) in 2018.

Snap has also ventured into original content through Snap Originals and gaming. In the both the cases, the company provides its own content along with a few other third-party providers content.

Advertising forms the mainstay of Snap's revenues. In order to diversify revenues, in late 2016, Snap launched \$130-priced sunglasses called Spectacles, with a built-in camera that connects to smartphones to take and send Snaps.

Snap faces competition from Apple, Facebook (including Instagram and WhatsApp), Twitter and Google among others over the areas - mobile engagement and advertising. Some of these companies not only have greater financial resources but have higher user base due to increased international presence.

Other mobile communication, content and camera providers like LINE, TikTok and Tencent's WeChat are also Snap's competitors. Moreover, increase in popularity of any other free-to-use applications that provide services similar to Snap may negatively impact the company's user base growth.



Reasons To Buy:

- ▲ Snap has added a number of features, including the Tab feature on Friends and Discover to make its Snapchat platform more attractive to users and advertisers. Moreover, adoption of the company's AR lenses have been strong, particularly post the launch of Lens Studio 2, which introduced Landmarkers, a new tool for overlaying AR on the world. At the end of the third quarter, more than 600,000 lenses had been created by Snapchat members through Lens Studio, with Community lenses achieving significant popularity. The company also stated that more than 15% of the Snaps sent every day with Lenses now feature Lenses made by Snapchatters using Lens Studio. Snap is investing heavily in Lens Studio to help creators build AR experiences. Solid adoption of products like Scan and AR Bar is driving the usage of AR-based lenses, providing significant growth opportunities to the company.
- ▲ Snapchat has become the most preferred social networking medium among Millennials and Gen Z, owing to the immersive experience of Snapchat platform. The company has stated that more than 75% of 13-34-year olds in the United States are active on Snapchat, making it a larger platform than Facebook, Instagram and Twitter among this demography. This bodes well for the company as user engagement holds the key to attract advertisements, which is the primary source of revenues for Snap.
- ▲ Moreover, Snap's transition to automated or programmatic auction of Snap Ads is driving its advertising revenues. The company's advertising products include Snap Ads and Sponsored Creative Tools like Sponsored Lenses and Sponsored Geofilters. Moreover, Snapchat's new conversion tracking tool, Snap Pixel is also gaining traction. The tool helps advertisers' measure traffic growth on their websites. Snap's new ad format Promoted Stories offers good opportunity to the company by helping advertising partners spend more time with audiences. The company's decision to shift creative tools business to the programmatic platform is also expected to drive ad impressions.
- ▲ Snapchat's partnership with e-commerce giant Amazon to introduce visual Search, a camera-powered search engine in its app is a tailwind. The company is also aggressively ramping up its original content efforts through collaborations with Viacom, Comcast division NBCUniversal and Disney's ESPN. We believe that with binge viewing catching up fast, expansion of its original content portfolio will attract subscribers and drive Snap's top line growth.

Snap is benefiting from its growing popularity among teenagers driven by the number of exciting features that the platform provides.

Reasons To Sell:

- ▼ Snap's closest rival Facebook's strategy of mimicking Snapchat features on its platforms to boost user growth and engagement levels has paid off. The company even succeeded in making them more popular than Snapchat. Additionally, competition from Facebook and Apple poses serious threat to Snap as they are preparing to enter the augmented reality (AR) advertising business where Snap is a dominant name.
- ▼ Lackluster user growth remains the primary concern for investors. The company's problem has been its sole focus on the younger demographic. Snap undoubtedly is quite popular among that demography but the failure to attract the older generation (above 35 year olds) has been a major headwind. The company's lack of popularity in the international quarters is also a big concern. Snapchat needs to focus more on the global market and target other age groups in order to stay ahead in the competition.
- ▼ Moreover, lack of revenue diversification is a major concern for Snap. Advertising is its only source of revenues, which is suffering from continuous decline in price per ad impression. Moreover, decelerating growth in advertising revenues following the backlash on redesign remains an overhang on the stock. Notably, the company's hardware product Spectacles has not yet been able to generate significant revenues. There is also uncertainty regarding whether the company views the recently launched Snap Store, to sell Snap merchandise, as an alternative revenue channel.
- ▼ In the video streaming market, the company faces stiff competition from established players like Amazon Prime, Netflix, Hulu and HBO. Given the high growth opportunity in the video streaming market, the players are ramping up their efforts to boost subscriber base. The companies are undertaking a number of initiatives such as investing more in regional programming and making more kids and family-oriented content in a bid to gain an edge. Further, giants like Apple, Facebook and Disney are gearing up to cash in on the high growth opportunity in the video streaming market. This doesn't bode well for Snap.

Lack of revenue diversification and stiff competition from established players like Facebook are major headwinds.

Last Earnings Report

Snap Q3 Loss Narrower Than Estimates, Revenues Up Y/Y

Snap reported third-quarter 2019 loss of 4 cents per share, narrower than the Zacks Consensus Estimate of a loss of 5 cents and the year-ago quarter's loss of 12 cents.

Revenues surged 49.9% from the year-ago quarter to \$446.2 million, comfortably surpassing the consensus mark of \$431 million. The revenue figure was also exceeded the company's guidance of \$410-\$435 million.

Geographically, revenues from North America (70.8% of revenues) soared 52.7% year over year to \$316 million. Revenues from Europe (15.5%) jumped 38% to \$69 million. Rest of the World (ROW) revenues were \$62 million, up 55% year over year.

Average revenues per user (ARPU) increased 32.5% year over year and 11% sequentially to \$2.12. On a year-over-year basis, North America, Europe and ROW ARPUs increased 43.1%, 23.5% and 20.2%, respectively.

User Engagement Improved in Q3

Daily Active Users (DAU) at the end of the reported quarter were 210 million. Snap added 24 million DAUs on a year-over-year basis and 7 million sequentially. The growth was broad based, with year-over-year and sequential growth in both iOS and Android platforms.

North America DAU was 84 million, up 5 million year over year and 1 million sequentially. Europe DAU was 65 million, which increased 6 million on a year-over-year basis and 2 million on a sequential basis.

ROW DAU was 61 million at the end of the reported quarter, up 14 million year over year and 5 million sequentially. The growth was primarily driven by the strong adoption of Snap's redesigned Android application. The company is increasing efforts to improve user experience in these markets through language support, local content and local partnerships.

Snap is benefiting from improved user engagement. It stated that each DAU opens Snapchat 30 times a day on average.

Notably, the company launched Lens Studio 2.0 that introduced Landmarkers, a new tool for overlaying AR on the world, and a variety of other features. By the end of the reported quarter, more than 600,000 Lenses had been created by Snapchat members through Lens Studio, with Community Lenses achieving significant popularity.

The company stated that more than 15% of the Snaps sent every day with Lenses now feature Lenses made by Snapchatters using Lens Studio.

Snap is investing heavily in Lens Studio to help creators build AR experiences. Solid adoption of products like Scan and AR Bar is driving the usage of AR-based lenses, providing significant growth opportunities to the company.

Further, Snap is helping advertisers reach Millennials and Gen Z audience, who are more active on immersive mobile platforms like Snapchat. The company stated that more than 75% of 13-34-year olds and 90% of 13-24-year olds in the United States are active on Snapchat.

The company stated that advertisers focused on consumer end markets like beauty products, beverages and grocery are selecting Snap to penetrate the 13-34-year old demography. This popularity provides the company with a competitive edge over the likes of Facebook, Google and Twitter in attracting ad dollars.

Premium Content Drives Ad Impressions

Impressions per DAU were up 121% from the year-ago quarter, driven by growth in Snap Ads, which benefited from strong demand for bid optimization products such as app installs and premium ad units such as Commercials.

Snap stated that the combination of Snap Ads with AR and Creative Tools products are helping advertisers achieve higher ROI. This is also driving the adoption of Self-Serve Reach and Frequency Lens products, which grew more than 30% sequentially in the reported quarter.

Price per ad impression declined 6% sequentially. However, Snap benefited from the year-over-year increase in user activity, including growth in Snapchatters posting and viewing Stories, and continued strong growth in viewership of Premium content.

Notably, in the reported quarter, more than 100 Discover channels reached a monthly audience of more than 10 million viewers. The company added more than 50 new channels internationally across eight markets.

Snap stated that the number of media partners distributing content on Discover has doubled. It has also strengthened relationships with larger partners. Notably, total daily time spent by Snapchatters on Discover grew more than 40% year over year. Moreover, time spent on premium content internationally increased more than 55% year over year.

Snap stated that its new horror-thriller original *Dead of Night* reached more than 14 million unique viewers since the premiere in September.

Further, the company launched Spectacles 3, its new camera glasses. Additionally, the company in partnership with SYBO Games launched a new multiplayer game called Subway Surfers Airtime exclusively on Snapchat.

Video Ad Portfolio Expanded in Q3

Given the robust growth opportunity provided by video ads, Snap is focused on expanding the video advertising solutions portfolio.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	1.97%
EPS Surprise	20.00%
Quarterly EPS	-0.04
Annual EPS (TTM)	-0.24

The company extended the maximum length of video ads to three minutes on its platform. The same capability was added to its unskippable Commercials. A Snap content viewer can now skip the ad-video only after the first six seconds.

Further, Snap announced that advertisers can now add swipe actions to their Commercials campaigns. This allows Snapchatters to swipe up to access a web page, view a long-form video or a Lens.

Moreover, Snap launched new models for in-app and web purchases in the reported quarter.

Most recently, the company launched Dynamic Ads, which it had started testing during the third quarter. This solution allows advertisers to automatically create ads in real time, based on product catalogs.

Further, Snap's partnership with Shopify helped e-commerce advertisers expand their reach at scale and gain new customers.

Operating Details

In third-quarter 2019, the cost of revenues on a non-GAAP basis increased 13.6% year over year to \$223.1 million. Infrastructure costs, revenue sharing costs and other expenses increased 4.3%, 73.1% and 4%, respectively, on a year-over-year basis.

Infrastructure costs per DAU in the reported quarter were 70 cents, down 5 cents year over year and 3 cents sequentially.

Gross margin on a non-GAAP basis increased to 51% compared with 36% in the year-ago quarter.

Operating expenses were \$271 million, up 10.2% year over year. Sales and marketing expenses jumped 41.2% year over year to \$96 million due to investments in the Real Friends marketing campaign.

Adjusted EBITDA loss was \$42.4 million compared with a loss of \$138.4 million in the year-ago quarter.

Balance Sheet and Cash Flow

As of Sep 30, 2019, cash and cash equivalents and marketable securities were \$2.26 billion, up from \$1.18 billion as of Jun 30, 2019, driven by net proceeds from the Convertible Notes offering completed in the reported quarter.

Net cash used from operating activities was \$76.1 million compared with \$132.5 million used in the year-ago quarter.

Free cash outflow was \$84.1 million compared with an outflow of \$158.8 million reported in the year-ago quarter.

Fourth-Quarter Guidance

For the fourth quarter of 2019, Snap expects revenues between \$540 million and \$560 million compared with \$390 million reported in the year-ago quarter. The Zacks Consensus Estimate for fourth-quarter revenues is pegged at \$552.1 million.

DAUs are expected between 214 million and 215 million, up 4-5 million sequentially.

Adjusted EBITDA is expected between breakeven and \$20 million compared with a loss of \$50 million in the year-ago quarter.

Near, Medium & Long-term Outlook

Over the next one-three years, Snap is focused on strengthening content and AR platforms. The aim is to make Snapchat content and AR more personalized and monetizable.

Moreover, Snap expects to invest significantly in both maps and gaming endeavors over the coming years (next 3-5 years), which it believes are areas with significant growth potential.

Further, over the next seven to 10 years, Snap intends to realize its "vision of computing overlaid on the world" through wearable AR.

Recent News

On Dec 9, Snap introduced Cameos, which are looping videos a user can send to friends in Chat.

On Sep 25, Snap expanded its originals content portfolio with the announcement of new shows — *Tekashi69 VS The World*, *Nikita Unfiltered*, *The Honeybeez*, *Driven*, *Mind Yourself*, *Everything's Fine*, *Players* and *Save Me*. The company also renewed shows like *Bringing UpBhabie* by *Invent TV*, *Two Sides by New Form*, and *Kappa Crypto*.

On Sep 17, Snap introduced a 3D Camera Mode that adds depth to a user's snap. The company also released new 3D effects that users can swipe on in the Filter Carousel.

Valuation

Snap shares are up 35.1% in the six-months period and 209.3% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 2%, the Zacks Computer Technology sector is up 16.5% in the six-months period. Over the past year, the Zacks sub-industry and the sector is up 16.7% and 32.8%, respectively.

The S&P 500 Index is up 12.3% in the six-months period and 23.9% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 16.04X, which compares to 7.06X for the Zacks sub-industry, 4.40X for the Zacks sector and 3.34X for the S&P 500 index.

Over the past two years, the stock has traded as high as 28.27X and as low as 4.67X, with a 2-year median of 12.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$20 price target reflects 11.70X forward 12-month sales.

The table below shows summary valuation data for SNAP

Valuation Multiples - SNAP					
		Stock	Sub-Industry	Sector	S&P 500
EV/Sales TTM	Current	16.04	7.06	4.40	3.34
	2-Year High	28.27	7.60	4.4	3.34
	2-Year Low	4.67	4.52	3.05	2.46
	2-Year Median	12.71	6.37	3.8	2.99
P/S F12M	Current	11.16	6.5	3.74	3.57
	2-Year High	18.45	6.61	3.74	3.57
	2-Year Low	4.28	4.89	2.62	2.76
	2-Year Median	9.58	5.87	3.2	3.17
P/B TTM	Current	11.51	7.26	5.61	4.55
	2-Year High	11.6	8.17	5.61	4.55
	2-Year Low	2.70	5	3.56	3.36
	2-Year Median	6.79	6.54	4.55	3.97

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 41% (105 out of 254)



Top Peers

Apple Inc. (AAPL)	Outperform
Baidu, Inc. (BIDU)	Neutral
Facebook, Inc. (FB)	Neutral
Momo Inc. (MOMO)	Neutral
Microsoft Corporation (MSFT)	Neutral
Tencent Holding Ltd. (TCEHY)	Neutral
Twitter, Inc. (TWTR)	Neutral
Weibo Corporation (WB)	Underperform

Industry Comparison Industry: Internet - Software				Industry Peers		
	SNAP Neutral	X Industry	S&P 500	FB Neutral	TWTR Neutral	WB Underperform
VGM Score	D	-	-	B	D	F
Market Cap	26.75 B	709.63 M	24.65 B	633.49 B	26.57 B	10.53 B
# of Analysts	9	5	13	12	7	3
Dividend Yield	0.00%	0.00%	1.73%	0.00%	0.00%	0.00%
Value Score	F	-	-	C	D	D
Cash/Price	0.09	0.11	0.04	0.08	0.23	0.22
EV/EBITDA	-22.16	-1.98	14.11	19.87	21.27	14.29
PEG Ratio	NA	2.59	2.08	1.19	1.41	NA
Price/Book (P/B)	11.47	5.65	3.39	6.74	3.16	4.96
Price/Cash Flow (P/CF)	NA	35.86	13.81	23.99	27.22	17.78
P/E (F1)	955.50	58.14	19.19	24.51	40.17	15.61
Price/Sales (P/S)	17.32	4.41	2.69	9.52	7.90	5.91
Earnings Yield	0.10%	0.76%	5.21%	4.08%	2.48%	6.41%
Debt/Equity	0.50	0.10	0.72	0.09	0.28	0.79
Cash Flow (\$/share)	-0.88	-0.01	6.94	9.26	1.26	2.63
Growth Score	B	-	-	A	D	F
Hist. EPS Growth (3-5 yrs)	NA%	16.72%	10.56%	58.03%	NA	130.05%
Proj. EPS Growth (F1/F0)	112.27%	14.74%	7.57%	41.94%	-64.36%	8.06%
Curr. Cash Flow Growth	-50.65%	3.33%	14.73%	24.75%	83.06%	60.82%
Hist. Cash Flow Growth (3-5 yrs)	NA%	14.22%	9.00%	60.23%	30.79%	75.38%
Current Ratio	7.25	1.55	1.24	4.66	8.69	4.51
Debt/Capital	33.39%	19.79%	42.99%	8.16%	22.04%	44.18%
Net Margin	-63.75%	-14.19%	11.14%	27.08%	47.67%	31.79%
Return on Equity	-44.16%	-12.09%	17.16%	20.39%	6.07%	28.88%
Sales/Assets	0.51	0.66	0.55	0.59	0.30	0.47
Proj. Sales Growth (F1/F0)	37.35%	17.63%	4.16%	21.45%	14.69%	9.80%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	4.71%	0.00%	0.27%	0.17%	0.09%	-2.52%
1 Week Price Chg	3.94%	2.74%	0.39%	4.50%	4.00%	-6.52%
4 Week Price Chg	23.61%	7.34%	2.95%	7.80%	6.84%	1.12%
12 Week Price Chg	41.35%	9.89%	7.76%	19.19%	11.28%	-3.21%
52 Week Price Chg	232.93%	0.95%	22.29%	49.79%	4.17%	-19.65%
20 Day Average Volume	20,544,468	260,122	1,536,375	11,374,349	11,060,654	1,511,538
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.03%	2.30%	0.00%
(F1) EPS Est 4 week change	0.77%	0.00%	0.00%	-0.10%	2.04%	0.00%
(F1) EPS Est 12 week change	7.64%	-0.29%	-0.40%	-5.02%	-44.13%	-8.04%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	NA

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.

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