

## Terex Corporation (TEX)

**\$20.64** (As of 06/05/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 04/29/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

## Summary

Terex's earnings estimates for the current year and second-quarter have been stable of late. The company has withdrawn guidance for 2020 on account of the coronavirus concerns. The company has temporarily suspended certain manufacturing facilities on lower demand due to the coronavirus-induced crisis. Overall slowdown in industrial equipment demand and cautious spending at customers' end will continue to impact Terex in the near term. The company is reducing production and managing inventories due to weak end-market demand for the Aerial Work Platforms segment. However, Terex is poised to grow on investment in innovative products, digital innovation in parts and services as well expansion of manufacturing facilities to ensure growth. The company's strong liquidity and cash position will also stoke growth.

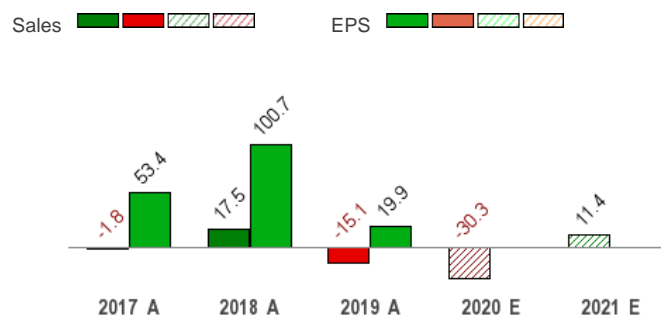
## Price, Consensus & Surprise



## Data Overview

|                            |   |
|----------------------------|---|
| 52 Week High-Low           | \$33.49 - \$11.54                                       |
| 20 Day Average Volume (sh) | 1,054,562   |
| Market Cap                 | \$1.4 B   |
| YTD Price Change           | -30.7%  |
| Beta                       | 1.61  |
| Dividend / Div Yld         | \$0.48 / 2.3%   |
| Industry                   | <a href="#">Manufacturing - Construction and Mining</a> |
| Zacks Industry Rank        | Bottom 10% (227 out of 253)                             |

## Sales and EPS Growth Rates (Y/Y %)



|                           |           |
|---------------------------|-----------|
| Last EPS Surprise         | -1,066.7% |
| Last Sales Surprise       | -2.4%     |
| EPS F1 Est- 4 week change | 0.0%      |
| Expected Report Date      | NA        |
| Earnings ESP              | 0.0%      |
| P/E TTM                   | 10.1      |
| P/E F1                    | NA        |
| PEG F1                    | NA        |
| P/S TTM                   | 0.4       |

## Sales Estimates (millions of \$)

|      | Q1      | Q2      | Q3      | Q4    | Annual* |
|------|---------|---------|---------|-------|---------|
| 2021 | 872 E   | 894 E   | 836 E   | 842 E | 3,379 E |
| 2020 | 834 A   | 665 E   | 731 E   | 775 E | 3,033 E |
| 2019 | 1,137 A | 1,307 A | 1,025 A | 885 A | 4,353 A |

## EPS Estimates

|      | Q1        | Q2        | Q3        | Q4        | Annual*   |
|------|-----------|-----------|-----------|-----------|-----------|
| 2021 | \$0.12 E  | \$0.45 E  | \$0.43 E  | \$0.24 E  | \$0.88 E  |
| 2020 | -\$0.35 A | -\$0.43 E | -\$0.08 E | -\$0.01 E | -\$0.92 E |
| 2019 | \$0.87 A  | \$1.21 A  | \$0.82 A  | \$0.36 A  | \$3.25 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 06/05/2020. The reports text is as of 06/08/2020.

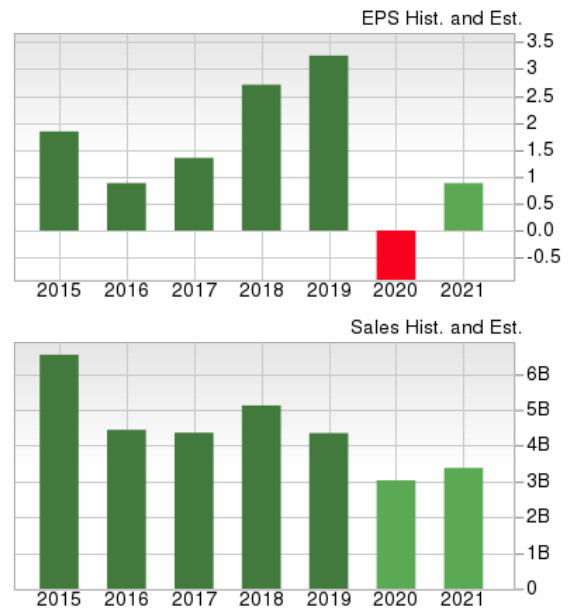
## Overview

Incorporated in 1986, Terex Corporation is a global manufacturer of aerial work platforms, materials processing machinery and cranes. It designs, build and support products used in construction, maintenance, manufacturing, energy, minerals and materials management applications. The company's manufacturing facilities are located in the United States, Canada, Europe, Australia, Asia and South America. Terex sells its products through a worldwide distribution network. Terex also offers a complete line of financial products and services to assist in the acquisition of equipment through Terex Financial Services.

On Jul 31, 2019, Terex completed the previously announced disposition of Demag to Tadanos. Products divested are Demag all terrain cranes and large lattice boom crawler cranes. In addition to selling Demag, Terex sold its boom truck, truck crane and crossover product lines and related inventory, previously manufactured in its Oklahoma City facility, on Apr 24, 2019.

Terex engages with customers through all stages of the product life cycle, from initial specification and financing to parts and service support. The company manages and report business in the following segments: Aerial Work Platforms (AWP) and Materials Processing (MP).

- Aerial Work Platforms** (approximately 67% of 2019 revenues): This segment designs, manufactures, and markets aerial work platform equipment, telehandlers, power equipment, construction trailers and utility equipment. Products include portable material lifts, portable aerial work platforms, as well as their related components and replacement parts. Customers use these products to construct and maintain industrial, commercial and residential buildings and facilities and for other commercial operations, as well as in a wide range of infrastructure projects. The company market AWP products under the Terex and Genie brand names.
- Material Processing** (approximately 33% of 2019 revenues): This segment designs and manufactures materials processing equipment, including crushers, washing systems, screens, apron feeders and chippers. Terex recently announced that its Tower and Rough Terrain Cranes businesses have become part of the MP segment.



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## Reasons To Buy:

- ▲ Terex has made considerable progress in its strategic transformation plan that has three principal elements — Focus, Simplify and Execute to Win. While the Focus element calls for increased investments on high performing businesses, the Simplify aspect focuses on complexity reduction and cost management. The Execute to Win is focused on three key management processes — talent development, strategy development and deployment, and operational excellence. In sync with this, Terex sold the Demag mobile crane business and exited the mobile crane product lines manufactured at Oklahoma City facility, to improve operating performance. The company has also simplified key elements of infrastructure, including implementing a new global performance management system, consolidating to a single chart of accounts and up-grading primary ERP system. Under its Execute to Win strategy, the company remains focused on enhance capabilities by investing in people, processes and tools in three priority areas: Commercial Excellence, Parts and Lifecycle Solutions and Strategic Sourcing.
- ▲ Terex is aggressively managing production across its segments. Its Aerial Work Platform (AWP) segment will gain from strategic source and savings, operational execution, strengthening global footprint and innovative new products in the long haul. The utilities business will benefit from the new manufacturing facility being built in Watertown, SD, which will increase capacity and significantly improve productivity. In the MP segment, strong product pipeline and consistent strong execution also positions the segment well for growth.
- ▲ Terex is focused on maintaining strong liquidity and cash position placing it well to navigate through the current unprecedented situation. In sync with this, it has completed an amendment and waiver of its revolving credit facility with its bank group, which will provide financial flexibility during the current crisis. At the first-quarter end, the company had available liquidity of \$945 million. It has implemented several cost reductions actions to preserve cash in response to the current turbulent situation. That includes suspension of dividends and share repurchases for the current year, reduction of team-member compensation, temporarily suspension of manufacturing operation and giving temporary leaves and permanent layoffs of team members. The company is implementing cost savings in excess of \$100 million. Terex has reduced capital expenditure for the current year while continuing to fund growth capital projects.
- ▲ Terex continues to invest in innovative products and expansion of manufacturing facilities to ensure future growth. It has brought online new manufacturing capabilities, including Campsie facility in Northern Ireland and expanded the Hosur, India facility. This will enable the company to cater to global demand. Its new utilities facility will consolidate multiple production buildings into one state-of-the-art, world-class manufacturing and engineering facility. The Changzhou manufacturing facility in China started operating in May following its ramp down of its operations. The facility will undergo an expansion in the current year to accommodate the market growth in China for aerial products, will be another growth driver. Additionally, Material Processing and utility product lines will be added to the facility.
- ▲ Driving parts and service growth is one key element of its Execute to Win initiative. To deliver industry-leading customer service, the company is providing distribution partners easy-to-use digital tools that help them to service their customers more efficiently. This maximizes their opportunity to win business. This will provide Terex a competitive edge and accelerate parts growth.

Terex will gain from focus on the Execute to Win strategy and introducing innovative products. Its disciplined capital-allocation strategy and backlog strength will fuel growth.

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## Reasons To Sell:

- ▼ Terex's first-quarter results were negatively impacted by the coronavirus pandemic with sharp contraction of customers' capital-equipment purchases. The company suspended production across its global manufacturing facilities in response to lower demand and comply with local government mandates. Also, it is reducing supplier-component purchases in line with lower production. Consequently, Terex withdrew the current-year financial guidance on account of the uncertainties related to the pandemic. Going forward, its operating results will continue to be affected by the pandemic-related crisis.
- ▼ For the AWP segment, there has been a downward trend in net bookings since the fourth quarter of 2018. In first-quarter 2020, booking were down 29% year over year to \$498 million as customers cancelled their orders. At the quarter end, backlog was \$717 million, down 34% from the prior year. Challenging global markets and weak end market demand in United States and Europe are putting pressure on sales. Terex is cutting down production and managing inventory levels to align with demand. Moreover, lower volume, adverse foreign exchange rates and product mix will weigh on margins for the year. Global market uncertainty and the coronavirus-induced crisis is weighing on the MP segment. Backlog of \$272 million was 52% lower than last year. Cautious customer sentiment is leading to delayed capital purchases of crushing and screening products, material handlers, and environmental equipment. This will likely continue in the current year.
- ▼ The U.S manufacturing sector is bearing the brunt of the coronavirus pandemic which was already reeling under U.S.-China trade tensions and waning global demand. This is likely to impact demand for Terex. The U.S Purchasing Managers' Index (PMI) released by the Institute for Supply Management had been below 50 (indicating contraction) for five consecutive months till December 2019. Even though the index had climbed to 50.9 in January and 50.1 in February, it dipped to 49.1% in March and 41.5% in April. The manufacturing sector has clearly been impacted by the coronavirus pandemic and energy market volatility. Weakening global economic conditions and the uncertainty regarding the impact of the outbreak are weighing on the sector's customers. Customers have thus taken a conservative stance to manage their businesses by aggressively destocking inventory and holding back on new product launches. This slowdown in customer orders remains a major headwind.
- ▼ Terex's margin outlook is also tempered by pricing and steel cost headwinds. The market prices and the futures prices for steel have flared up significantly due to imposition on certain steel imports. Inability of the company to pass on the increase by implementing price hikes might not always be feasible, given the competitive environment. This is likely to dent the company's margins in the forthcoming periods.

The overall slowdown in industrial equipment demand, impact of coronavirus and higher input costs due to the implementation of tariffs will weigh on near-term results.

## Last Earnings Report

### Terex Posts Wider-Than-Expected Loss in Q1, Scraps View

Terex reported loss per share of 35 cents in first-quarter 2020, significantly wider than the Zacks Consensus Estimate of a loss per share of 3 cents. The company had reported adjusted earnings per share of 87 cents in the prior-year quarter.

In the reported quarter, production was lower in the company's global facilities due to bleak customer demand and local government mandates on account of the coronavirus outbreak.

Quarter Ending **03/2020**

|                  |                     |
|------------------|---------------------|
| Report Date      | <b>Apr 30, 2020</b> |
| Sales Surprise   | <b>-2.37%</b>       |
| EPS Surprise     | <b>-1,066.67%</b>   |
| Quarterly EPS    | <b>-0.35</b>        |
| Annual EPS (TTM) | <b>2.04</b>         |

### Operational Update

Revenues in the quarter declined 26.5% year over year to \$834 million. Moreover, the revenue figure missed the Zacks Consensus Estimate of \$854 million.

Cost of goods sold slid 22.4% to \$697 million from the prior-year quarter's \$899 million. Gross profit plummeted 42.4% year over year to around \$137 million.

Selling, general and administrative expenses flared up 4.3% to \$144 million from the prior-year quarter's \$138 million. Terex reported an operating loss of \$7.1 million as against the operating profit of \$99.7 million witnessed in the year-ago quarter. The company incurred operating margin loss of 0.8% as against margin gain of 8.8% recorded in the prior-year quarter.

### Segmental Performance

The Aerial Work Platforms (AWP) segment generated revenues of \$512 million in the first quarter, down 29.6% from the year-ago quarter's \$728 million. The segment reported an operating loss of \$6 million, as against the operating profit of \$59.6 million in the prior-year quarter.

The Material Processing (MP) segment's revenues totaled \$316 million, reflecting a year-over-year decline of around 23%. The segment reported operating income of \$25 million, significantly down 58% year over year.

### Financial Position

Terex had cash and cash equivalents of \$511.3 million as of Mar 31, 2020, compared with \$535.1 million as of Dec 31, 2019. In the reported quarter, the company utilized \$89 million cash in operating activities compared with the year-ago quarter's \$265 million. Long-term debt was \$1,338 million as of Mar 31, 2020, compared with \$1,169 million as of Dec 31, 2019. As of Mar 31, 2020, Terex had available liquidity of \$945 million.

Additionally, the company undertook significant cost-reduction actions, including suspending dividends and share repurchases, reducing team-member compensation, and making temporary furloughs and permanent layoffs of team members. These actions will hurt the company's cost structure.

### Guidance Suspension

On Mar 25, Terex withdrew the current-year financial guidance on account of the uncertainties related to the coronavirus pandemic. Also, the company has not issued any revised guidance. Its operating results will continue to be negatively impacted by the pandemic-related crisis.

## Recent News

### Terex Withdraws Guidance on Coronavirus Concerns - Mar 25, 2020

Terex withdrew its guidance for 2020 on account of the coronavirus outbreak. The company also announced that it has suspended all share repurchases.

Terex stated that it is temporarily shutting down certain manufacturing facilities owing to the coronavirus outbreak, while adjusting production schedules at other facilities. The company is reducing supplier component purchases in line with lower production. It is aggressively managing all controllable costs.

Meanwhile, the company also remains committed to fulfilling customer requirements, including shipping products, delivering parts and servicing equipment. Contingency plans are being made for operations and the company is taking appropriate steps to reduce operating expenses. Precautions are also being taken to ensure health and safety of employees.

## Valuation

Terex's shares are down 30.3% in the year-to-date period and down 24.2% over the past year. Stocks in the Zacks Manufacturing – Construction and Mining industry and the Zacks Industrial Products are down 7.9% and 4.8% in the year-to-date period, respectively. Over the trailing 12-month period, the Zacks sub-industry and sector are up 9.1% and 3.1%, respectively.

The S&P 500 index is down 0.2% in the year-to-date period while up 12.6% in the past year.

The stock is currently trading at 0.45X forward 12-month sales, which compares with 1.43X for the Zacks sub-industry, 2.93X for the Zacks sector and 3.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 0.95X and as low as 0.23X, with a 5-year median of 0.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 0.47X forward 12-month sales per share.

The table below shows summary valuation data for TEX:

| Valuation Multiples - TEX |               |       |              |        |         |
|---------------------------|---------------|-------|--------------|--------|---------|
|                           |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/S F12M                  | Current       | 0.45  | 1.43         | 2.93   | 3.59    |
|                           | 5-Year High   | 0.95  | 1.64         | 2.93   | 3.59    |
|                           | 5-Year Low    | 0.23  | 0.71         | 1.52   | 2.53    |
|                           | 5-Year Median | 0.49  | 1.15         | 2      | 3.02    |
| EV/EBITDA TTM             | Current       | 7.65  | 8.22         | 17.01  | 11.82   |
|                           | 5-Year High   | 19.62 | 12.92        | 17.45  | 12.85   |
|                           | 5-Year Low    | 3.73  | 5.95         | 10.74  | 8.25    |
|                           | 5-Year Median | 7.71  | 8.5          | 14.8   | 10.8    |
| P/B TTM                   | Current       | 2.82  | 9.17         | NA     | 12.54   |
|                           | 5-Year High   | 5.84  | 15.52        | 746.8  | 12.76   |
|                           | 5-Year Low    | 1.37  | 4.41         | NA     | 5.96    |
|                           | 5-Year Median | 3.56  | 8.81         | 22.57  | 9.28    |

As of 06/05/2020

## Industry Analysis Zacks Industry Rank: Bottom 10% (227 out of 253)



## Top Peers

| Company (Ticker)                  | Rec          | Rank |
|-----------------------------------|--------------|------|
| AGCO Corporation (AGCO)           | Neutral      | 3    |
| Astec Industries, Inc. (ASTE)     | Neutral      | 2    |
| CNH Industrial N.V. (CNHI)        | Neutral      | 4    |
| DeereCompany (DE)                 | Neutral      | 3    |
| The Manitowoc Company, Inc. (MTW) | Neutral      | 3    |
| Oshkosh Corporation (OSK)         | Neutral      | 3    |
| Caterpillar Inc. (CAT)            | Underperform | 5    |
| Crane Company (CR)                | Underperform | 4    |

| Industry Comparison Industry: Manufacturing - Construction And Mining |           |            |           | Industry Peers |              |          |
|---|-----------|------------|-----------|----------------|--------------|----------|
|   | TEX       | X Industry | S&P 500   | CAT            | CR           | MTW      |
| Zacks Recommendation (Long Term)                                      | Neutral   | -          | -         | Underperform   | Underperform | Neutral  |
| Zacks Rank (Short Term)   | 3         | -          | -         | 5              | 4            | 3        |
| VGM Score   | F         | -          | -         | B              | D            | F        |
| Market Cap  | 1.43 B    | 1.42 B     | 23.09 B   | 73.13 B        | 3.82 B       | 419.28 M |
| # of Analysts   | 8         | 6          | 14        | 10             | 3            | 6        |
| Dividend Yield  | 2.33%     | 1.43%      | 1.82%     | 3.05%          | 2.61%        | 0.00%    |
| Value Score   | D         | -          | -         | C              | C            | D        |
| Cash/Price  | 0.47      | 0.11       | 0.06      | 0.11           | 0.09         | 0.32     |
| EV/EBITDA   | 5.86      | 5.49       | 13.17     | 7.82           | 13.17        | 5.13     |
| PEG Ratio   | NA        | 3.10       | 3.13      | 2.28           | NA           | NA       |
| Price/Book (P/B)  | 1.82      | 1.79       | 3.15      | 5.14           | 2.71         | 0.68     |
| Price/Cash Flow (P/CF)  | 5.20      | 5.66       | 12.43     | 8.39           | 8.26         | 4.12     |
| P/E (F1)  | NA        | 22.40      | 22.80     | 27.35          | 17.57        | NA       |
| Price/Sales (P/S)   | 0.35      | 0.75       | 2.52      | 1.43           | 1.18         | 0.24     |
| Earnings Yield  | -4.46%    | 3.69%      | 4.19%     | 3.66%          | 5.69%        | -6.01%   |
| Debt/Equity   | 1.70      | 0.56       | 0.76      | 1.71           | 0.60         | 0.56     |
| Cash Flow (\$/share)  | 3.97      | 3.85       | 7.01      | 16.10          | 7.97         | 2.95     |
| Growth Score  | F         | -          | -         | B              | F            | D        |
| Hist. EPS Growth (3-5 yrs)  | 17.20%    | 16.77%     | 10.87%    | 30.62%         | 10.44%       | -16.47%  |
| Proj. EPS Growth (F1/F0)  | -128.15%  | -43.31%    | -10.79%   | -55.33%        | -37.71%      | -138.62% |
| Curr. Cash Flow Growth  | 5.52%     | 11.85%     | 5.48%     | -6.65%         | -1.40%       | 71.04%   |
| Hist. Cash Flow Growth (3-5 yrs)                                      | -8.19%    | 4.31%      | 8.55%     | 4.31%          | 7.00%        | -13.41%  |
| Current Ratio   | 2.53      | 1.64       | 1.29      | 1.42           | 1.37         | 1.91     |
| Debt/Capital  | 62.99%    | 35.73%     | 44.75%    | 63.12%         | 37.44%       | 35.73%   |
| Net Margin  | 2.37%     | 3.24%      | 10.59%    | 10.41%         | 3.50%        | 3.75%    |
| Return on Equity  | 17.04%    | 13.23%     | 16.26%    | 37.15%         | 22.07%       | 9.41%    |
| Sales/Assets  | 1.24      | 0.87       | 0.55      | 0.65           | 0.76         | 1.08     |
| Proj. Sales Growth (F1/F0)  | -30.34%   | -12.75%    | -2.61%    | -24.07%        | -13.88%      | -26.51%  |
| Momentum Score  | D         | -          | -         | B              | C            | F        |
| Daily Price Chg   | 8.23%     | 6.32%      | 2.89%     | 4.78%          | 4.99%        | 8.00%    |
| 1 Week Price Chg  | 11.02%    | 8.37%      | 4.60%     | 6.81%          | 7.46%        | 8.09%    |
| 4 Week Price Chg  | 57.44%    | 24.27%     | 15.60%    | 25.94%         | 28.53%       | 38.70%   |
| 12 Week Price Chg   | 36.15%    | 34.18%     | 29.34%    | 46.46%         | 30.51%       | 25.00%   |
| 52 Week Price Chg   | -25.76%   | 2.24%      | 2.76%     | 9.51%          | -17.74%      | -18.35%  |
| 20 Day Average Volume   | 1,054,562 | 286,468    | 2,537,324 | 3,794,481      | 402,646      | 448,056  |
| (F1) EPS Est 1 week change  | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 0.00%    |
| (F1) EPS Est 4 week change  | 0.00%     | -0.50%     | -0.08%    | -1.00%         | 0.00%        | -284.21% |
| (F1) EPS Est 12 week change   | -146.06%  | -47.03%    | -16.19%   | -47.03%        | -40.79%      | -208.69% |
| (Q1) EPS Est Mthly Chg  | 0.00%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | -205.56% |

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## 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.

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### 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   | F |
| Momentum Score | D |
| VGM Score      | F |

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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### Disclosures

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