

Tiffany & Co. (TIF)

\$125.18 (As of 08/10/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: A

Summary

Shares of Tiffany have declined and underperformed the industry in the past three months. The stock's bearish run can be attributed to the company's dismal first-quarter fiscal 2020 performance. We note that the coronavirus-induced stay-at-home orders, social distancing and store closures hurt the company's quarterly results. The company posted wider-than-expected loss for the quarter. Also, the top line missed the Zacks Consensus Estimate and fell drastically from the year-ago period. Management stated that sales were down significantly in the key markets such as the United States and Japan during the quarter. Worldwide net sales plunged 45%, while comps plummeted 44% year over year. We believe that demand for luxury jewelry is likely to remain soft, thanks to shift in consumer spending pattern and fall in international tourism.

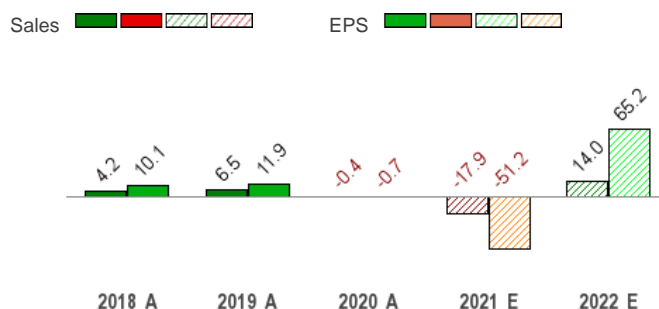
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$134.42 - \$78.60
20 Day Average Volume (sh)	1,096,285
Market Cap	\$15.2 B
YTD Price Change	-6.3%
Beta	0.99
Dividend / Div Yld	\$2.32 / 1.9%
Industry	Retail - Jewelry
Zacks Industry Rank	Bottom 12% (222 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-51.4%
Last Sales Surprise	-14.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/26/2020
Earnings ESP	0.0%
P/E TTM	41.2
P/E F1	55.9
PEG F1	5.1
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	683 E	1,020 E	985 E	1,378 E	4,139 E
2021	556 A	800 E	850 E	1,188 E	3,632 E
2020	1,003 A	1,049 A	1,015 A	1,358 A	4,424 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.03 E	\$0.95 E	\$0.60 E	\$2.00 E	\$3.70 E
2021	-\$0.53 A	\$0.35 E	\$0.34 E	\$1.44 E	\$2.24 E
2020	\$1.03 A	\$1.12 A	\$0.65 A	\$1.80 A	\$4.59 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 08/10/2020. The reports text is as of 08/11/2020.

Overview

Tiffany & Co., which accepted the buyout offer of LVMH Moët Hennessy Louis Vuitton SE or LVMH, is engaged in the designing, manufacturing and retailing activities of fine jewelry, which includes gemstone jewelry and gemstone band rings, diamond rings and wedding bands, gold or platinum jewelry, as well as sterling silver jewelry. Its merchandising offerings include timepieces and clocks; sterling silverware; crystal, glass, china, and other tableware; custom engraved stationery; writing instruments; and fashion accessories.

The company sells its products through catalog and wholesale operations, retail stores, direct marketing, Internet and business-to-business direct selling transactions. As of April 30, 2020, the Company operated 324 stores (123 in the Americas, 90 in Asia-Pacific, 58 in Japan, 48 in Europe, and five in the UAE).

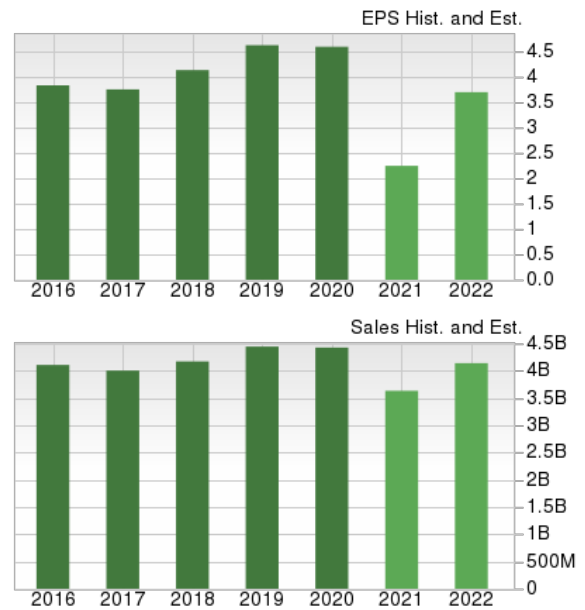
Americas: Includes sales in stores in the United States, Mexico, Canada, Brazil and Chile. Tiffany also distributes a selection of its products through its websites and catalogs of selected merchandise to its list of customers and to mailing lists rented from third parties.

Asia-Pacific: Consists of sales in China, Korea, Hong Kong, Taiwan, Australia, Singapore, Macau, Malaysia and New Zealand and Thailand.

Japan: Consists of sales in Japan.

Europe: Includes sales in stores in the the U.K., Italy, Germany, France, Spain, Switzerland, the Netherlands, Russia, Austria, Belgium, the Czech Republic and Ireland.

Other: The Other segment primarily consists of retail sales transacted in five company-operated stores in the United Arab Emirates and wholesale distribution in the Emerging Markets region; wholesale sales of diamonds; and licensing agreements.



Reasons To Sell:

▼ **Dismal Q1 Performance Hurts the Stock:** Shares of Tiffany have declined 1.9% in the past three months against the industry's gain of 3.8%. The stock came under pressure following the company's dismal first-quarter fiscal 2020 results owing to coronavirus-induced stay-at-home orders, social distancing and store closure. The company posted wider-than-expected loss for the quarter. Also, the company's top line missed the Zacks Consensus Estimate and fell sharply from the year-ago period. The company posted adjusted loss of 53 cents a share, wider than the Zacks Consensus Estimate of loss of 35 cents. The reported figure also compared unfavorably with earnings of \$1.03 reported in the year-ago period. Lower net sales hurt the company's bottom line. We believe that demand for luxury jewelry is likely to remain soft, thanks to shift in consumer spending pattern and fall in international tourism.

We believe that demand for luxury jewelry is likely to remain soft, thanks to the shift in consumer spending pattern and fall in international tourism owing to the coronavirus pandemic.

▼ **Top-Line Struggles:** Worldwide net sales plunged 45% to \$555.5 million, and came below the Zacks Consensus Estimate of \$646.4 million. Also, the company's comparable sales plummeted 44% year over year. Geography-wise, net sales in the Americas plunged 45% to \$225 million and comparable sales declined at the same rate. In the Asia-Pacific region, net sales tumbled 46% to \$174 million, while comparable sales decreased 45%. In Japan, net sales decreased 40% to \$86 million, while comparable sales slid 41% owing to store closures that began in early April 2020 and the fall in tourist traffic. In Europe, net sales declined 40% to \$61 million, while comparable sales decreased 42%.

▼ **Margins Remained Under Pressure:** Gross margin, an important financial metric, remained under pressure during the first quarter of fiscal 2020 as well. After shrinking 50 basis points during the final quarter of fiscal 2019, gross margin contracted 610 basis points to 55.6% in the quarter under review. Management pointed that the contraction in margin was due to sales deleverage on fixed costs resulting from the effects of coronavirus on net sales as well as some overhead expenses resulting from certain manufacturing locations being closed or operating at lower capacity due to the pandemic. Higher inventory reserves also impacted the margin.

▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Tiffany looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 41.18, which is above the median level of 29.18 but below the high level of 42.29 scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 20.86 and 23.76, respectively.

▼ **Prone to Currency Fluctuations:** Tiffany 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 U.S. An increase in price may have an adverse impact on the demand for the products. Net sales fall victim of the adverse foreign currency fluctuations that lowers the value of the sales generated in the overseas market and also result in reduced spending by tourists.

▼ **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 focusing on necessities for the time being.

Risks

- **Accepted the Buyout Offer:** Tiffany's shareholders have approved merger with LVMH Moët Hennessy Louis Vuitton SE or LVMH. The latter has entered into a deal to acquire Tiffany for more than \$16 billion. Industry experts believe that the acquisition of Tiffany — which would become part of growing luxury portfolio comprising Bulgari, Christian Dior, Dom Perignon, Fendi, Sephora and Guerlain — will add sheen to LVMH's jewelry and watch segments. Meanwhile Tiffany, which operates more than 300 stores worldwide, will also gain from LVMH's prominent presence in European and Asian markets. During first-quarter fiscal 2020 release, management highlighted that the company had received antitrust clearances from Russian and Mexican authorities to proceed with its transaction with LVMH.

- **Green Shoots in Mainland China, E-Commerce Gains:** Management stated that while sales were down significantly in key markets such as the United States and Japan during the quarter, recovery was seen in Mainland China. Retail sales in Mainland China did decline roughly 85% and 15% year over year during the first and second months of the quarter but surged approximately 30% during the month of April. Notably, the momentum gained continued in the month of May with retail sales up approximately 90% in Mainland China.

Undoubtedly, store closures dented the company's performance but its e-commerce business displayed strength. E-commerce sales surged 23% worldwide during the quarter under review. We note that important markets such as the United States and the United Kingdom registered growth of approximately 14% and 15%, respectively. Management pointed that sales via Mainland China e-commerce portal have improved sequentially each quarter since its launch in July 2019. Notably, the robust online sales trend worldwide continued through May, with sales more than doubled year over year.

- **Strategic Endeavors:** Tiffany holds a significant position in the world jewelry market due to its distinctive brand appeal. The company is steadily introducing new jewelry designs, new watch collection and fragrance, and additional jewelry SKUs. It also introduced "build-your-own program" on its website under which customers are allowed to personalize their own charm bracelets. Further, Tiffany is allowing customers to personalize their ring. The company also renewed its licensing agreement with Luxottica Group — slated to expire on December 31, 2027 — for the development, production and global distribution of sunglasses and prescription frames under its brand. Tiffany introduced company-operated e-commerce website in China. The company in a joint venture with Reliance Brands Limited is entering the Indian market. Tiffany's efforts to enhance store operations are yielding results. To this end, the company has undertaken several initiatives. The company renovated its flagship stores in Shanghai, Hong Kong, London and Sydney. The company opened a concept store in Tokyo, several pop-up stores worldwide and Tiffany Blue Box Café in Shanghai and Hong Kong.

- **Other Catalysts:** Tiffany is well positioned to augment its top and bottom lines performance in the long run by leveraging capital investments made over the past several years in distribution, manufacturing and diamond sourcing processes. The company remains focused on evolving its brand, enhancing omnichannel experience and solidifying position in core markets. The company remains committed to elevating in-store experience and replenishing product portfolio. Focus on renewing product portfolio is evident from the launch of PAPER FLOWERS, which comprises solid collection in diamonds and platinum and the introduction of TIFFANY TRUE, an innovative engagement ring design. The company remains enthusiastic about its Tiffany T1 collection that is off to a strong start. The company remains hopeful that Tiffany T1 will outperform Tiffany HardWear and Paper Flowers as well as Tiffany T-Color in terms of sales. The company is also looking at other revenue generating avenues, and this includes expansion of its watch business. The company also intends to expand its distribution network by adding stores in both new and existing markets. With about half of the total sales generated internationally, we believe that the company is well diversified from a regional perspective as well.
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Last Earnings Report

Tiffany Q1 Loss Wider Than Expected, Sales Plunge Y/Y

The coronavirus-induced stay-at-home orders, social distancing and store closures adversely impacted Tiffany first-quarter fiscal 2020 results. This luxury jewelry retailer posted wider-than-expected loss for the quarter under review. Also, the company's top line missed the Zacks Consensus Estimate and fell sharply from the year-ago period. In spite of the soft performance, the company remains optimistic going ahead owing to investments made in Mainland China domestic business, focus on global e-commerce, and new product innovation.

Quarter Ending **04/2020**

Report Date	Jun 09, 2020
Sales Surprise	-14.06%
EPS Surprise	-51.43%
Quarterly EPS	-0.53
Annual EPS (TTM)	3.04

Management stated that while sales were down significantly in key markets such as the United States and Japan during the quarter, recovery was seen in Mainland China. Retail sales in Mainland China did decline roughly 85% and 15% year over year during the first and second months of the quarter but surged approximately 30% during the month of April. Notably, the momentum gained continued in the month of May with retail sales up approximately 90% in Mainland China. However, global net sales decreased approximately 40% in the May month.

Undoubtedly, store closures dented the company's performance but its e-commerce business displayed strength. E-commerce sales surged 23% worldwide during the quarter under review. We note that important markets such as the United States and the United Kingdom registered growth of approximately 14% and 15%, respectively. Management pointed that sales via Mainland China e-commerce portal have improved sequentially each quarter since its launch in July 2019. Notably, the robust online sales trend worldwide continued through May, with sales more than doubled year over year.

With respect to product, the company remains enthusiastic about its Tiffany T1 collection that is off to a strong start. The company remains hopeful that Tiffany T1 will outperform Tiffany HardWear and Paper Flowers as well as Tiffany T-Color in terms of sales. Also, management highlighted that the company had received antitrust clearances from Russian and Mexican authorities to proceed with its transaction with LVMH Moët Hennessy - Louis Vuitton SE (or LVMH).

Q1 Highlights

Tiffany posted adjusted loss of 53 cents a share, wider than the Zacks Consensus Estimate of loss of 35 cents. The reported figure also compared unfavorably with earnings of \$1.03 reported in the year-ago period. Lower net sales hurt the company's bottom line. Worldwide net sales plunged 45% to \$555.5 million, and came below the Zacks Consensus Estimate of \$646.4 million. Also, the company's comparable sales (comps) plummeted 44% year over year. At constant currency, net sales and comps declined 44% and 43%, respectively. Sales declined owing to the closure of retail stores globally at various times during the quarter, thanks to the COVID-19 outbreak. Sales declined 44% and 49% for Jewelry Collections and Engagement Jewelry, respectively, while Designer Jewelry sales fell 39% year over year.

Let's Delve Deeper

Geography-wise, net sales in the Americas plunged 45% to \$225 million and comps declined at the same rate. This can be attributed to closure of stores that began in mid-March and continued through the end of the quarter owing to the coronavirus outbreak. In the Asia-Pacific region, net sales tumbled 46% to \$174 million, while comps decreased 45%. We note that store closures in Mainland China and the rest of the Asia-Pacific markets hurt sales. However, stores in Mainland China began to re-open at the end of February, and as of Apr 30 roughly 85% of the retail stores in this region were fully or partly open.

In Japan, net sales decreased 40% to \$86 million, while comps slid 41% owing to store closures that began in early April 2020 and the fall in tourist traffic. However, as of Apr 30 about 5% of the retail stores in this region were fully or partially open. In Europe, net sales declined 40% to \$61 million, while comps decreased 42%. This can be attributed to store closures that began in mid-March and continued through the second half of April. As of Apr 30 approximately 15% of the retail stores in this region were fully or partially open.

Gross margin decreased 610 basis points to 55.6% in the quarter under review. Management pointed that the contraction in margin was due to sales deleverage on fixed costs resulting from the effects of coronavirus on net sales as well as some overhead expenses resulting from certain manufacturing locations being closed or operating at lower capacity due to the pandemic. Higher inventory reserves also impacted the margin.

During the quarter, Tiffany shuttered two company-operated outlets and relocated two stores. As of Apr 30, the company operated 324 stores (123 in the Americas, 90 in Asia-Pacific, 58 in Japan, 48 in Europe, and five in the UAE).

Other Financial Details

Tiffany ended the quarter with cash and cash equivalents and short-term investments of \$1,058.5 million and total debt (short-term borrowings and long-term debt) of \$1,538 million, reflecting 48% of stockholders' equity compared with 32% in the year-ago period. This increase was due to \$500 million drawdown on the revolving credit facility during the quarter. The company did not make any buybacks in the quarter owing to restrictions described in the merger agreement with LVMH.

Valuation

Tiffany shares are down 6.3% in the year-to-date period but up 43.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 6.2% but the Zacks Retail-Wholesale sector is up 26.7% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 39.5% and 40.1%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 41.56X forward 12-month earnings, which compares to 35.53X for the Zacks sub-industry, 33.63X for the Zacks sector and 22.75X for the S&P 500 index.

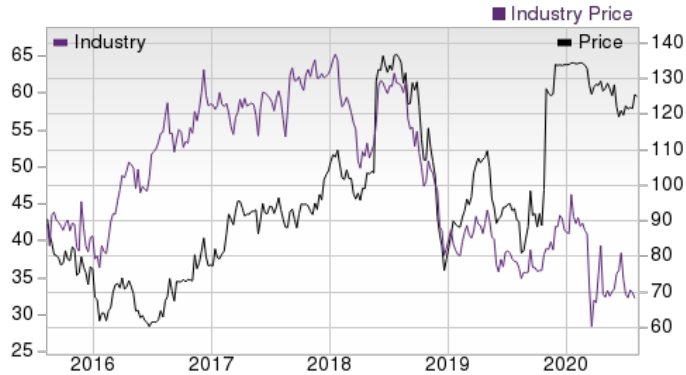
Over the past five years, the stock has traded as high as 42.34X and as low as 14.29X, with a 5-year median of 21.35X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$106 price target reflects 35.33X forward 12-month earnings.

The table below shows summary valuation data for TIF

Valuation Multiples - TIF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	41.56	35.53	33.63	22.75
	5-Year High	42.34	36.52	34.76	22.75
	5-Year Low	14.29	11.8	19.08	15.25
	5-Year Median	21.35	15.74	23.46	17.58
P/S F12M	Current	3.9	1.53	1.25	3.66
	5-Year High	3.92	1.93	1.25	3.66
	5-Year Low	1.78	0.92	0.82	2.53
	5-Year Median	2.71	1.48	0.97	3.05
EV/EBITDA TTM	Current	22.53	16.06	19.53	12.62
	5-Year High	23.08	16.07	19.75	12.84
	5-Year Low	7.82	5.08	11.13	8.24
	5-Year Median	11.68	8.81	12.94	10.9

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 12% (222 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AbercrombieFitch Company (ANF)	Neutral	4
L Brands, Inc. (LB)	Neutral	3
Movado Group Inc. (MOV)	Neutral	3
Signet Jewelers Limited (SIG)	Neutral	2
Tapestry, Inc. (TPR)	Neutral	3
Capri Holdings Limited (CPRI)	Underperform	5
Guess, Inc. (GES)	Underperform	5
Ralph Lauren Corporation (RL)	Underperform	4

Industry Comparison Industry: Retail - Jewelry				Industry Peers		
	TIF	X Industry	S&P 500	CPRI	MOV	SIG
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	5	3	2
VGM Score	F	-	-	C	F	F
Market Cap	15.19 B	488.68 M	23.56 B	2.53 B	241.70 M	735.66 M
# of Analysts	7	3	14	9	1	3
Dividend Yield	1.85%	0.00%	1.71%	0.00%	0.00%	5.26%
Value Score	F	-	-	C	B	D
Cash/Price	0.07	0.08	0.07	0.09	0.77	1.60
EV/EBITDA	16.17	9.68	13.39	94.26	2.87	6.07
PEG Ratio	5.08	6.20	2.92	7.97	NA	NA
Price/Book (P/B)	4.78	3.23	3.18	1.26	0.98	0.75
Price/Cash Flow (P/CF)	18.54	18.54	12.69	2.97	6.81	1.62
P/E (F1)	55.88	52.00	22.16	38.32	NA	NA
Price/Sales (P/S)	3.82	0.35	2.55	0.54	0.39	0.13
Earnings Yield	1.79%	1.79%	4.33%	2.61%	-0.96%	-9.67%
Debt/Equity	0.58	0.51	0.77	1.66	0.43	2.71
Cash Flow (\$/share)	6.75	0.50	6.94	5.68	1.53	8.68
Growth Score	F	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	3.32%	-1.63%	10.41%	-3.98%	-1.63%	-19.35%
Proj. EPS Growth (F1/F0)	-51.10%	-51.78%	-6.51%	-88.69%	-106.37%	-135.05%
Curr. Cash Flow Growth	3.40%	-22.19%	5.26%	-13.65%	-31.56%	-60.42%
Hist. Cash Flow Growth (3-5 yrs)	2.30%	2.30%	8.55%	-3.72%	-3.81%	-4.93%
Current Ratio	3.21	2.63	1.34	0.94	4.73	2.39
Debt/Capital	36.77%	36.77%	44.59%	62.38%	30.67%	76.97%
Net Margin	8.83%	-1.35%	10.13%	-9.62%	-17.82%	-1.35%
Return on Equity	11.48%	12.48%	14.59%	12.62%	3.74%	13.48%
Sales/Assets	0.61	0.77	0.51	0.58	0.77	0.88
Proj. Sales Growth (F1/F0)	-17.90%	0.00%	-1.54%	-34.06%	0.00%	-20.76%
Momentum Score	A	-	-	F	F	F
Daily Price Chg	0.29%	0.00%	0.91%	6.44%	-0.95%	10.62%
1 Week Price Chg	-0.43%	0.00%	2.30%	5.74%	9.44%	18.34%
4 Week Price Chg	3.31%	0.00%	8.54%	8.15%	-3.95%	36.11%
12 Week Price Chg	-1.94%	2.56%	13.68%	17.25%	-0.67%	40.18%
52 Week Price Chg	43.82%	0.45%	3.71%	-43.54%	-57.17%	7.08%
20 Day Average Volume	1,096,285	272,709	2,015,804	4,007,809	181,514	1,724,610
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-23.85%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	1.67%	-50.44%	0.00%	0.00%
(F1) EPS Est 12 week change	-36.78%	-36.84%	2.27%	-84.02%	-114.09%	-324.79%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.67%	-61.49%	NA	0.00%

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	F
Momentum Score	A
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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