

Tapestry, Inc. (TPR)

\$27.65 (As of 01/22/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

Summary

Shares of Tapestry have fallen in the past six months. The dismal run on the bourses can be attributed to the negative sales surprise streak that continued in first-quarter fiscal 2020. While earnings beat the Zacks Consensus Estimate, net sales missed the same for the fourth quarter in row. Also, both the top and the bottom lines fell year over year. The quarter was characterized by tough retail backdrop in North America, unfavorable currency movements, soft margins as well as weakness in Kate Spade and Stuart Weitzman brands. While the company retained fiscal 2020 outlook, it did not provide an encouraging second-quarter view. Management now expects high single-digit decline in Kate Spade comps and anticipates operating income to fall due to soft gross margin and higher SG&A costs. Also, earnings are projected to decrease year over year.

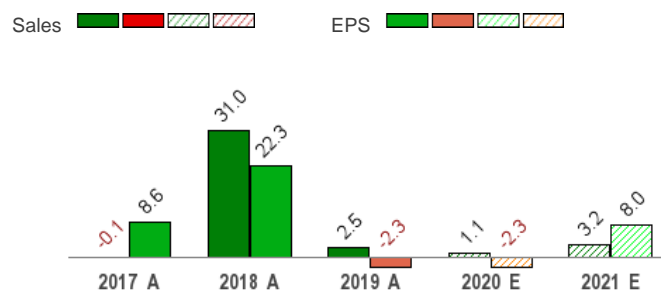
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.63 - \$18.54
20 Day Average Volume (sh)	2,727,885
Market Cap	\$7.6 B
YTD Price Change	2.5%
Beta	1.01
Dividend / Div Yld	\$1.35 / 4.9%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	11.1
P/E F1	11.0
PEG F1	1.0
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,396 E	1,858 E	1,404 E	1,592 E	6,289 E
2020	1,358 A	1,803 E	1,374 E	1,565 E	6,094 E
2019	1,381 A	1,801 A	1,331 A	1,514 A	6,027 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$1.05 E	\$0.50 E	\$0.70 E	\$2.71 E
2020	\$0.40 A	\$0.99 E	\$0.45 E	\$0.67 E	\$2.51 E
2019	\$0.48 A	\$1.07 A	\$0.42 A	\$0.61 A	\$2.57 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 01/22/2020. The reports text is as of 01/23/2020.

Overview

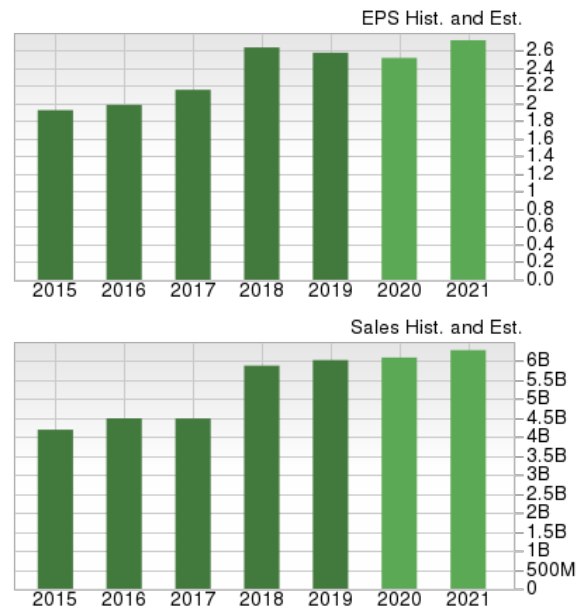
Founded in 1941 and headquartered in New York, Tapestry, Inc. (TPR), which was formerly known as Coach, Inc., is the designer and marketer of fine accessories and gifts for women and men in the United States and internationally. The Company offers lifestyle products, which include handbags, women's and men's accessories, footwear, jewelry, seasonal apparel collections, sunwear, travel bags, fragrance and watches. Tapestry now operate under three segments comprising Coach brand (North America and International - 71% of FY19 Sales), Stuart Weitzman (6% of FY19 Sales) and Kate Spade & Company (23% of FY19 Sales).

Coach Brand North American segment includes sales to customers via North American company-owned stores, including the Internet, and sales to North American wholesale customers and distributors.

Coach Brand International segment includes sales via company-operated outlets (including the Internet) and concession store-in-stores in — Japan, mainland China, Hong Kong, Macau, Singapore, Taiwan, Malaysia, South Korea, the United Kingdom, France, Ireland, Spain, Portugal, Germany, Italy, Austria, Belgium, the Netherlands and Switzerland. Additionally, International includes sales to consumers through the Internet in Japan, mainland China, the United Kingdom and South Korea, as well as sales to wholesale customers and distributors in about 55 countries.

Stuart Weitzman segment includes sales generated by the Stuart Weitzman brand globally, principally via department stores in North America and international locations, within numerous independent third party distributors and within Stuart Weitzman operated stores, comprising the Internet, in the U.S., Canada and Europe.

Kate Spade & Company, which designs and markets accessories and apparel under two multichannel lifestyle brands – kate spade new york and Jack Spade New York.



Reasons To Buy:

- ▲ **Growth Drivers:** Being a leading American marketer of fine accessories and gifts, Tapestry boasts a proven strategy of investing in stores to enhance store sales productivity through product innovation, compelling pricing strategy, new merchandise assortments, and a cost-effective global sourcing model, which we believe should help drive comparable-store sales and operating margins in the long run. The company's long-term growth drivers include expansion of global distribution model, venturing into under-penetrated markets and enhancement of digital and data analytics capabilities. Tapestry continues to focus on Asian markets, primarily China for long-term growth. The company launched Coach Create, a platform to customize bags either online or in outlets. The company expanded offering in sport category and also launched smartwatch with Fossil, while its Signature brand continues to gain traction. The company entered into a multi-year licensing agreement with Incipio Group to launch mobile device accessories with Coach and also continued with its partnership with Disney.
- ▲ **Undergoing Brand Transformation:** Tapestry has undertaken transformation initiatives revolving around, product, stores and marketing. The acquisitions of Stuart Weitzman and Kate Spade have facilitated it to emerge as a multi-brand company. Also, the company is introducing modern luxury concept stores in key markets. Moreover, the company has undertaken strategic measures involving upgrading of core technology platforms and enhancement of international supply chain. These along with transformational initiatives are expected to facilitate the company to attain low-single-digit rate growth in revenues for fiscal 2020. Management expects low-single digit growth in both revenues and comparable-store sales at Coach brand. Kate Spade is likely to register low to mid-single digit sales growth driven by distribution. At Stuart Weitzman, the company expects marginal growth.
- ▲ **Tapping Growth Opportunities:** The company remains optimistic about its dual-gender Legacy lifestyle collection, dedicated men's stores and international growth opportunities. The company is also aggressively expanding its e-commerce platform. The company is introducing Coach own branded women's footwear. Also, management has undertaken initiatives to have direct control over international distribution. The company concluded the buybacks of the Kate Spade operations in Singapore, Malaysia and Australia. It also completed the buyback of the Stuart Weitzman business in Southern China. The company also acquired the Stuart Weitzman business in Australia from its distribution partner. Such moves help the company to directly operate these businesses, look for growth opportunities in international markets and enhance brand development.
- ▲ **Shareholder Friendly Moves:** During the first quarter of fiscal 2020, Tapestry repurchased approximately 12 million shares for a total of roughly \$300 million. At the end of the period, the company still had \$600 million remaining under its current buyback program. The company plans to return about \$700 million to its shareholders in fiscal 2020 via share buybacks and dividends. The company had returned about \$490 million to shareholders through dividends and share repurchases during fiscal 2019. The company had earlier announced \$1 billion share buyback program.

Tapestry has undertaken transformation initiatives revolving around, product, stores and marketing. Also, the company is introducing modern luxury concept stores in key markets.

Reasons To Sell:

▼ **Dismal Stock Performance:** Shares of Tapestry have fallen 10.3% compared with the industry's decline of 7.4% in the past six months. This can be attributed to the company's negative sales surprise streak that continued in the first quarter of fiscal 2020. While earnings came ahead of the Zacks Consensus Estimate, net sales missed the same for the fourth straight quarter. Also, both the top and the bottom lines declined year over year. The quarter was characterized by challenging retail backdrop in North America, unfavorable currency movements, soft margins and weakness in Kate Spade and Stuart Weitzman brands. The company also did not provide an encouraging view for the second quarter.

Softness in Kate Spade is likely to persist in the near term and may hurt Tapestry's sales. Also, expectation of higher SG&A expenses in the second quarter may hurt margins to an extent.

Tapestry anticipates second-quarter operating income to decline year over year owing to gross margin contraction and mid-single-digit increase in SG&A, including the shift in timing of expenses from the first quarter. Also, management expects earnings per share to decline year over year. We note that second-quarter earnings projection of 95 cents to \$1.00 per share, showcase a decline from \$1.07 reported in the year-ago period. For fiscal 2020, consolidated gross margin is likely to witness a modest decline on account of bringing Kate Spade's footwear business in-house in the second half of the fiscal year, currency pressure primarily at Coach and tariff related impact. Again, at Stuart Weitzman, management now expects marginal sales growth in fiscal 2020 owing to lower-than-expected performance in the first quarter as well as continued soft wholesale demand. The company had earlier anticipated solid sales growth across the brand.

▼ **Weakness in Kate Spade:** Tapestry acquired the Kate Spade brand in June 2017 with hope to consolidate its position as a multi-brand company. However, the brand's performance failed to live up to management's expectations. The company launched new products under the brand but those did not perform as expected. We believe that the weakness in brand is likely to persist in the near term and may hurt the company's sales. In the first quarter of fiscal 2020, Kate Spade sales came in at \$305.5 million, down 6% on both reported and constant currency basis, while comparable-store sales slid 16% owing to product and merchandising challenges. We note that the rate of decline in comparable-store sales accelerated from 6% witnessed in the preceding quarter. While adjusted gross margin for the segment shrank 30 basis points to 63.1%, adjusted operating margin shrank 810 basis points to 6.3%. Management expects second-quarter comparable-store sales to decline in high single-digit rate at Kate Spade.

▼ **Higher SG&A Expenses May Hurt Margins:** SG&A expenses have been increasing for quite some time now. Certainly, any deleverage in the same has a direct bearing on margins. During the first quarter of fiscal 2020, adjusted SG&A expenses came in at \$752.1 million, reflecting an increase of \$2.2 million from the year-ago period. As a percentage of net sales, the same increased 110 basis points to 55.4%. To this end, we note that adjusted operating income of \$166.5 million fell 10% from the prior-year quarter figure, while operating margin shrank 110 basis points to 12.3%. Tapestry anticipates second-quarter operating income to decline year over year owing to gross margin contraction and mid-single-digit increase in SG&A, including the shift in timing of expenses from the first quarter. For fiscal 2020, SG&A expenses is expected to increase at a low-single-digit rate attributable to new store openings, regional buybacks in order to expand brands and directly manage operations in key international market and systems investments.

▼ **Fashion Obsolescence A Threat:** Fashion obsolescence remains the main concern for Tapestry's business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be compromised by delays in its product launches. The company operates in the highly competitive premium handbag and accessories segment. The company faces stiff competition from European luxury brands as well as private label retailers on distinctiveness, innovativeness, quality and pricing, which may weigh on its results.

Last Earnings Report

Tapestry's Q1 Earnings Beat, Decline Year Over Year

Tapestry, Inc. came out with its first-quarter fiscal 2020 results, wherein the bottom line came ahead of the Zacks Consensus Estimate but top line missed the same.

The company posted adjusted quarterly earnings of 40 cents a share that beat the Zacks Consensus Estimate of 37 cents. However, the bottom line declined 17% from the year-ago period on account of lower net sales and higher SG&A expenses.

Net sales of this New York-based company came in at \$1,357.9 million, down 2% year over year on a reported and 1% on a constant currency basis. Sales increase in Coach brand was offset by declines at Kate Spade and Stuart Weitzman. Net sales also came below the Zacks Consensus Estimate of \$1,372.7 million. This was the fourth straight quarter that the company's top line missed the estimates.

Management highlighted that the company's international business was sturdy than North America business, where it continued to face industry headwinds. It further added that adjusted operating income and earnings per share fared better than its guidance.

Notably, Coach registered eighth straight quarter of comparable store sales (comps) growth led by digital and international channels. Comps were strong across Europe, Japan and Mainland China but soft in Hong Kong. Comps were flat in North America. We note that comps at Kate Spade fell owing to product and merchandising challenges, while sales at Stuart Weitzman were hurt by sluggish wholesale demand and operational challenges.

Consolidated adjusted gross profit came in at \$918.6 million, down 2% from the prior-year quarter. Gross margin contracted 20 basis points to 67.6%. Further, adjusted operating income of \$166.5 million fell 10% from the prior-year quarter figure, while operating margin shrunk 110 basis points to 12.3%. We note that adjusted SG&A expenses came in at \$752.1 million, reflecting an increase of \$2.2 million from the year-ago period. As a percentage of net sales, the same increased 110 basis points to 55.4%.

Segment Details

Net sales for Coach came in at \$965.9 million, up 1% year over year on both reported and constant currency basis. Comparable-store sales rose 1%, comprising roughly a 100-basis-point benefit due to a rise in global e-commerce. While adjusted gross margin for the segment contracted 80 basis points to 70.2%, adjusted operating margin increased 30 basis points to 25%.

Kate Spade sales came in at \$305.5 million, down 6% on both reported and constant currency basis. Comparable-store sales slid 16%, including the adverse impact of approximately 200 basis points from a rise in global e-commerce. While adjusted gross margin for the segment shrank 30 basis points to 63.1%, adjusted operating margin shrunk 810 basis points to 6.3%.

Net sales for Stuart Weitzman totaled \$86.5 million, reflecting a decrease of 9% on a reported and 8% on a constant currency basis. The segment's adjusted gross margin expanded 550 basis points to 55.7%. The segment reported adjusted operating loss of \$10 million.

Store Update

At the end of the quarter, the company operated 392 Coach stores, 212 Kate Spade outlets and 72 Stuart Weitzman stores in North America. Internationally, the count was 592, 198 and 78 for Coach, Kate Spade and Stuart Weitzman, respectively.

During the quarter, the company added net four locations driven by international expansion at Kate Spade and Stuart Weitzman. The company ended the quarter with 1,544 directly operated stores worldwide.

Coach is likely to witness a moderate change in store count during fiscal 2020 on account of store closures in North America, offset by modest net openings internationally. The company plans to open a net of 15-20 Stuart Weitzman locations globally, and net 30-40 Kate Spade stores in fiscal 2020. Clearly, the company has scaled back its Kate Spade store opening plans.

Other Financial Details

Tapestry ended the quarter with cash, cash equivalents and short-term investments of \$788.4 million, long-term debt of 1,597.3 million and shareholders' equity of \$ 3,086.9 million. Management incurred capital expenditures of \$72 million during the quarter under review and anticipates the same to be roughly \$300 million for fiscal 2020.

During the quarter, the company repurchased approximately 12 million shares for a total of roughly \$300 million. At the end of the period, the company still had \$600 million remaining under its current buyback program. The company plans to return about \$700 million to its shareholders in fiscal 2020 via share buybacks and dividends.

Guidance

Management expects second-quarter fiscal 2020 revenue to be in line with the prior-year period. Notably, comps are projected to increase in low single-digit at Coach but to decline in high single-digit rate at Kate Spade. Revenues at Stuart Weitzman are expected to be approximately flat with last year.

Tapestry anticipates second-quarter operating income to decline year over year owing to gross margin contraction and mid-single-digit increase in SG&A, including the shift in timing of expenses from the first quarter. Management envisioned second-quarter earnings in the range of 95 cents to \$1.00 per share, down from \$1.07 reported in the year-ago period.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-1.08%
EPS Surprise	8.11%
Quarterly EPS	0.40
Annual EPS (TTM)	2.50

For fiscal 2020, management continues to anticipate revenues increase at a low-single-digit rate with earnings per share expected to be even with the prior year.

Management expects low-single digit growth in both revenues and comparable-store sales at Coach brand. Kate Spade is likely to register low to mid-single digit sales growth driven by distribution. At Stuart Weitzman, management expects marginal growth owing to lower-than-expected performance in the first quarter as well as continued soft wholesale demand.

Consolidated gross margin is likely to witness a modest decline on account of bringing Kate Spade's footwear business in-house in the second half of the fiscal year, currency pressure primarily at Coach and tariff related impact. Moreover, SG&A expenses is expected to increase at a low-single-digit rate attributable to new store openings, regional buybacks in order to expand brands and directly manage operations in key international market and systems investments.

Recent News

Tapestry Partners With Alibaba's Tmall – September 12, 2019

Tapestry enters into a strategic alliance with Alibaba's Tmall, China's largest B2C ecommerce platform. As a result, Coach, Kate Spade and Stuart Weitzman brands will all have flagship stores on Tmall Luxury Pavilion, Alibaba Group's dedicated platform for luxury and premium brands.

Tapestry Appoints Chief Executive Officer – September 4, 2019

Tapestry announced that Jide Zeitlin, the company's Chairman of the Board, has been appointed Chief Executive Officer.

Valuation

Tapestry shares are down 23.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 23.1% but in the Zacks Retail-Warehouse sector are up 19% over the past year. The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 10.53X forward 12-month earnings, which compares to 11.72X for the Zacks sub-industry, 25.55X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22X and as low as 6.79X, with a 5-year median of 16.62X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29 price target reflects 11.16X forward 12-month earnings.

The table below shows summary valuation data for TPR

Valuation Multiples - TPR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.53	11.72	25.55	19.13
	5-Year High	22	18.38	26.23	19.34
	5-Year Low	6.79	10.23	19.07	15.17
	5-Year Median	16.62	14.26	22.95	17.44
P/S F12M	Current	1.23	0.61	1.09	3.56
	5-Year High	2.96	1.31	1.11	3.56
	5-Year Low	0.9	0.55	0.8	2.54
	5-Year Median	2.15	0.82	0.91	3
EV/EBITDA TTM	Current	9.31	8.87	15.6	12.38
	5-Year High	14.01	9.29	15.6	12.86
	5-Year Low	5.19	4.76	10.37	8.48
	5-Year Median	9.65	6.92	12.38	10.67

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Abercrombie & Fitch Company (ANF)	Neutral
Capri Holdings Limited (CPRI)	Neutral
Fossil Group, Inc. (FOSL)	Neutral
Guess?, Inc. (GES)	Neutral
The Gap, Inc. (GPS)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Vera Bradley, Inc. (VRA)	Neutral
L Brands, Inc. (LB)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	TPR Neutral	X Industry	S&P 500	CPRI Neutral	FOSL Neutral	VRA Neutral
VGM Score	C	-	-	B	D	D
Market Cap	7.63 B	833.95 M	24.65 B	5.52 B	425.85 M	367.71 M
# of Analysts	11	3	13	9	1	2
Dividend Yield	4.88%	0.00%	1.77%	0.00%	0.00%	0.00%
Value Score	B	-	-	A	B	B
Cash/Price	0.10	0.12	0.04	0.03	0.35	0.09
EV/EBITDA	9.61	7.70	13.98	9.80	6.04	10.27
PEG Ratio	1.02	1.48	2.05	1.54	NA	NA
Price/Book (P/B)	2.47	1.75	3.38	2.29	0.83	1.27
Price/Cash Flow (P/CF)	7.89	6.08	13.60	5.47	3.80	10.16
P/E (F1)	10.97	12.94	19.07	7.45	56.20	11.88
Price/Sales (P/S)	1.27	0.48	2.69	0.99	0.19	0.81
Earnings Yield	9.08%	6.96%	5.24%	13.43%	1.78%	8.42%
Debt/Equity	1.15	1.06	0.72	1.48	1.04	0.40
Cash Flow (\$/share)	3.50	1.60	6.94	6.66	2.22	1.08
Growth Score	D	-	-	D	F	F
Hist. EPS Growth (3-5 yrs)	7.10%	-0.46%	10.60%	3.07%	-56.82%	-9.75%
Proj. EPS Growth (F1/F0)	-2.26%	1.75%	7.53%	-1.68%	25.00%	55.93%
Curr. Cash Flow Growth	-0.32%	9.92%	13.90%	6.03%	25.00%	-9.15%
Hist. Cash Flow Growth (3-5 yrs)	-0.81%	-0.29%	9.00%	6.04%	-24.59%	-12.78%
Current Ratio	1.82	1.47	1.22	1.05	2.06	2.25
Debt/Capital	53.58%	52.65%	42.99%	59.67%	51.00%	33.34%
Net Margin	9.01%	2.74%	11.21%	6.04%	0.10%	2.67%
Return on Equity	21.17%	10.96%	17.16%	28.91%	3.84%	7.46%
Sales/Assets	0.82	1.33	0.55	0.76	1.43	0.96
Proj. Sales Growth (F1/F0)	1.11%	0.62%	4.08%	10.27%	-2.60%	19.92%
Momentum Score	B	-	-	D	F	D
Daily Price Chg	-2.50%	0.00%	-0.04%	-0.68%	1.08%	-0.46%
1 Week Price Chg	5.32%	0.51%	2.29%	2.65%	14.53%	-0.40%
4 Week Price Chg	3.40%	-1.35%	2.05%	-2.96%	10.48%	-5.04%
12 Week Price Chg	5.33%	0.67%	6.92%	15.07%	-23.29%	-1.66%
52 Week Price Chg	-24.27%	-11.70%	21.50%	-10.87%	-50.90%	17.02%
20 Day Average Volume	2,727,885	255,237	1,518,423	1,745,073	893,164	183,025
(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%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.57%	0.00%	-0.23%	-0.07%	-91.07%	3.37%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.96%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	B
VGM Score	C

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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