

Tractor Supply Company (TSCO)

\$93.99 (As of 01/27/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 09/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

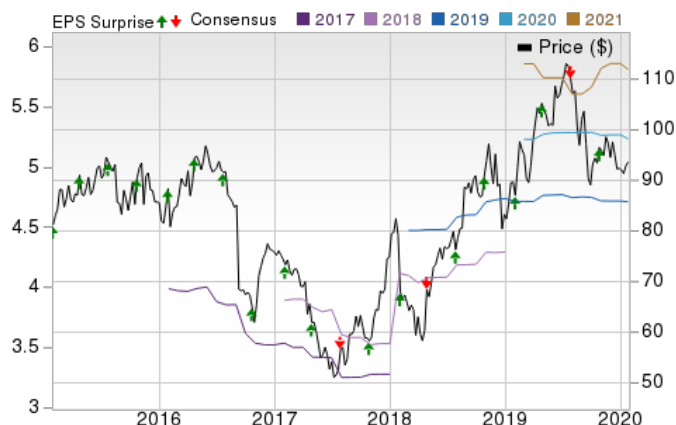
Growth: A

Momentum: F

Summary

Tractor Supply has outperformed the industry in the past year, courtesy of its store-growth initiatives, ONETractor plan and a robust loyalty program. Though the company's earnings were in line with the Zacks Consensus Estimate in third-quarter 2019 and it reported a sales miss, its surprise trend was still robust. Notably, it recorded a positive earnings surprise in four of the trailing six quarters, with a sales beat in five of the last six quarters. Both metrics also improved on a year-over-year basis, driven by top-line growth, positive comps, enhanced margins and improved traffic. Further, the company's margins benefited from its price management program and lower freight costs. Moreover, it updated view for 2019. However, higher SG&A expenses due to higher investments in infrastructure and technology remain concerning.

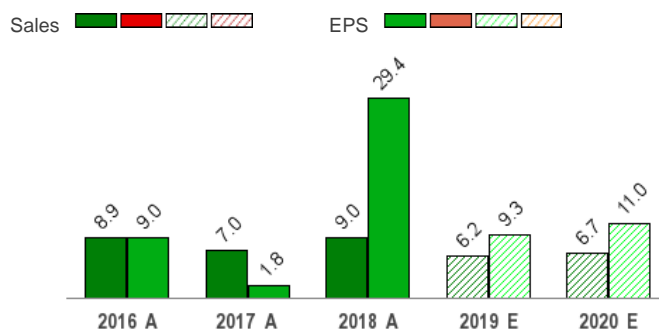
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$114.25 - \$82.62
20 Day Average Volume (sh)	1,266,344
Market Cap	\$11.1 B
YTD Price Change	0.6%
Beta	1.00
Dividend / Div Yld	\$1.40 / 1.5%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 24% (195 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	01/30/2020
Earnings ESP	-1.3%
P/E TTM	20.5
P/E F1	18.0
PEG F1	1.6
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,941 E	2,528 E	2,135 E	2,393 E	8,963 E
2019	1,822 A	2,354 A	1,984 A	2,240 E	8,400 E
2018	1,683 A	2,213 A	1,882 A	2,133 A	7,911 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.69 E	\$2.03 E	\$1.15 E	\$1.39 E	\$5.23 E
2019	\$0.63 A	\$1.80 A	\$1.04 A	\$1.23 E	\$4.71 E
2018	\$0.57 A	\$1.69 A	\$0.95 A	\$1.11 A	\$4.31 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 01/27/2020. The reports text is as of 01/28/2020.

Overview

Headquartered in Brentwood, TN, Tractor Supply Company is the largest retail farm and ranch store chain in the United States. The company focuses on recreational farmers and ranchers as well as tradesmen and small businesses. It offers a wide array of merchandise such as livestock, pet and animal products, maintenance products for agricultural and rural use, hardware and tools, lawn and garden power equipment, truck and towing products, and work apparel.

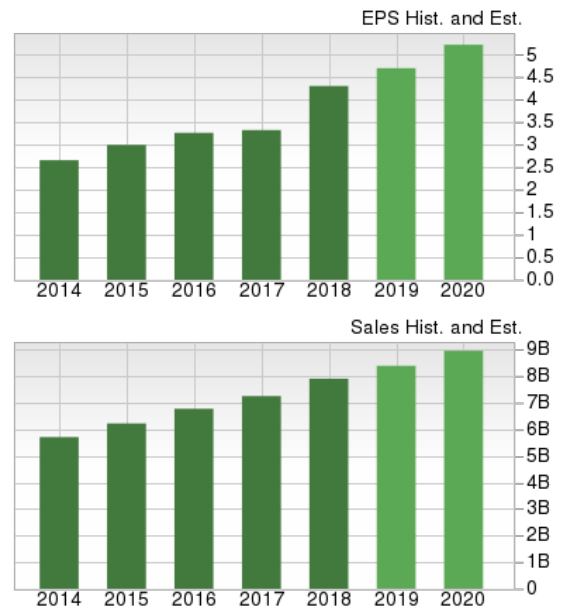
Stores of Tractor Supply are primarily located in rural areas and the suburbs of major cities, which have inside selling space of 15,000–20,000 square feet with a similar area of outside space, used to demonstrate agricultural fencing, livestock equipment and horse stalls. Petsense stores have roughly 5,500 square feet of inside selling space. For Tractor Supply retail locations, the company has a standard design for the new built-to-suit locations, including nearly 15,500 square feet of inside selling space.

Tractor Supply's broad assortment of products is tailored to meet the regional and geographic needs of its markets. Moreover, the retailer's full line of product offerings is supported by a strong in-stock inventory position with an average of 16,000–19,500 unique products per store.

Apart from selling nationally recognized branded merchandise, the company also markets an increasing list of products under its "private-label programs." The latter include Masterhand and Job Smart (tools and tool chests), Dumor and Producers Pride (livestock feed) and Retriever and Paws 'n Claws (pet foods). Further, the company recently acquired 100% stake in Petsense, to fortify its presence in the pet specialty space.

Tractor Supply operates retail stores under the names Tractor Supply Company, Del's Feed & Farm Supply, and Petsense as well as operate websites under the names TractorSupply.com and Petsense.com. Its online selling websites are expected to offer expanded assortment of products beyond in-store as well as boost store traffic through buy online, pickup in-store and ship to store programs.

As of Sep 28, 2019, the company operated 1,814 Tractor Supply stores across 49 states and 176 Petsense stores.



Reasons To Buy:

▲ **Robust Surprise Trend & Outlook Aid Stock:** Shares of Tractor Supply have gained 4.6% in the past year, compared with the industry's 8.8% decrease. The outperformance can be primarily attributed to the company's robust surprise trend and solid view for 2019. Though Tractor Supply's earnings were in line with the Zacks Consensus Estimate in third-quarter 2019 and it reported a sales miss, its surprise trend was still robust. Notably, it recorded a positive earnings surprise in four of the trailing six quarters, with a sales beat in five of the last six quarters. Further, the top and bottom lines improved on a year-over-year basis in the reported quarter. Results were driven by top-line growth, positive comparable store sales (comps), enhanced margins and improved traffic. Comps improved 2.9%, backed by higher store transaction count and average ticket. Traffic and sales growth was aided by the ongoing efforts to build customer loyalty and enhance digital capabilities. Additionally, growth across all geographic regions and strength in everyday merchandise, which includes consumable, usable and edible products, aided results. Broad-based strength across merchandising categories along with higher demand for spring and summer seasonal product categories also boosted comps.

Tractor Supply posted double-digit e-commerce sales growth for the 29th straight quarter in third-quarter 2019, driven by significant gains from its Buy Online Pick Up in Store and other capabilities.

Backed by the strong performance in the third quarter, Tractor Supply revised its view for 2019. It now estimates earnings per share of \$4.66-\$4.70 for 2019 compared with \$4.65-\$4.75 mentioned earlier. On an adjusted basis, the company retained the mid-point of its earnings guidance but narrowed the range to \$4.68-\$4.72. It also narrowed the range for sales to \$8.40-\$8.42 billion versus \$8.40-\$8.46 billion stated earlier. Further, it now anticipates comps growth of 3.2-3.4% compared with 3-4% mentioned earlier.

▲ **Margins Aid Bottom-Line Growth in Q3:** Among the various factors driving the bottom line in the third quarter, strong margins have been crucial. The company's gross margin improved 28 basis points (bps), driven by the smooth execution of retail price management initiatives and global strategic sourcing to manage product cost increases, including tariffs. Further, gross margin was aided by lower freight costs as a percentage of sales mainly due to the company's supply-chain profit improvement initiatives and lower industry rates. Further, adjusted operating margin expanded 17 bps in the reported quarter.

▲ **Strategies to Drive Growth:** Given the changing consumer trends, Tractor Supply is focused on integrating its physical and digital operations to offer consumers a seamless shopping experience. Incidentally, the company remains on track with the 'ONETractor' strategy that is aimed at connecting store and online shopping. Backed by this initiative, the company continues to drive growth, build customer-centric engagement, offer suitable products and services, and reinforce core infrastructure capabilities. Moreover, Tractor Supply is benefiting from capabilities like Stockyard Kiosk and mobile point-of-sale, enhancing of the Tractor Supply credit card offering, and investments in its supply chain. Its omni-channel business is gaining from the combination of its Buy Online Pick Up in Store and direct delivery to store facilities. Apart from easy e-commerce fulfillment, these facilities help in improving sales by encouraging customers to make additional purchases during the store visits. In third-quarter 2019, the company reported double-digit e-commerce sales growth for the 29th straight quarter.

The company is also consistently expanding its Neighbor's Club loyalty program, which is resulting in membership growth, increased penetration of sales, greater frequency and higher average ticket sales by these customers. It uses the rich customer data from the loyalty program to pitch offers to existing customers and also find new customers with similar interests on social media. Management expects all these strategies to play a major role in boosting the company's top line.

▲ **Store Growth Initiatives to Boost Sales:** Tractor Supply is persistently focusing on its growth initiatives, which include expansion of store base and incorporation of technological advancements to induce traffic and drive the top line. The company's sales and comps have been considerably gaining from the addition of new stores every quarter. Moreover, the company expects to drive comps by improving marketing and merchandising initiatives as well as supply chain efficiencies. The company is well positioned to expand store base, remaining on track to increase its domestic store to 2,500 in the long term. In the first nine months of 2019, Tractor Supply opened 50 namesake and three Petsense stores, while shuttered one namesake and two Petsense outlets. In 2019, the company expects to open about 80 namesake and 10 Petsense stores. Store expansion is likely to keep Tractor Supply's sales momentum alive throughout 2019 and beyond.

▲ **Efficient Inventory Management:** Over the years, Tractor Supply has been focused on efficiently managing its inventories to minimize the impact of weather on its business and capitalize on seasonal demand. With regard to this, the company is focusing on enhancement of IT systems and supply chain. It is on track with constant investments in new systems, including demand planning, improved pricing, inventory allocation, all of which are directed toward generating supply chain efficiencies in order to better manage global inventories. Additionally, it remains focused on the execution of digital priorities lending the support needed to bolster growth at its merchandising, customer facing and logistics capabilities. At the end of the third quarter, the company's merchandised inventories were \$1.81 billion, reflecting growth of 2.7% on a per-store basis. This positions it well to take advantage of the change in season as it enters the fourth quarter.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Tractor Supply looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 20.52x, which is below the median level of 22.02x and the high level of 25.16x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 15.65x for the industry and 20.30x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Higher SG&A Expenses:** Though Tractor Supply remains committed toward enhancing business via store-growth and omni-channel initiatives, higher investments in infrastructure and technology remain concerning. These have led to an increase in SG&A expenses over the past several quarters. Notably, SG&A expenses, including depreciation and amortization, rose 6.5% in the third quarter along with 26 bps increase as a percentage of sales. This increase was mainly attributed to incremental costs related to its new distribution facility in Frankfurt, NY, and an executive transition agreement along with a slight impact of investments in wages of store team members. These expenses were somewhat offset by lower occupancy and other costs coupled with decreased incentive compensation, as a percentage of sales. However, adjusted SG&A expenses, which excluded the impact of the executive transition agreement, grew 11 bps as a rate of sales.
- ▼ **Competitive Threat:** Tractor Supply's business is highly competitive, primarily based on customer services, price, store location and assortment of merchandise. It faces stiff competition from local, regional and international players. Being in such a highly competitive industry, Tractor Supply may find it difficult to execute and implement new business strategies, which could adversely impact its operations.
- ▼ **Volatility in Raw Material Prices:** Tractor Supply's business involves the purchase of commodities like grain, steel, petroleum, corn, and cotton, among various other raw materials, whose prices keep fluctuating. Prices of these products are also quite prone to inflationary and deflationary pressures, which in turn can hurt the company's sales, margins and overall financial results. Though the company is focused on minimizing such price volatility, the failure to implement its strategies efficiently may be a cause for concern.
- ▼ **Seasonality Risk:** Tractor Supply's business is highly seasonal, with sales and profits soaring in the spring and winter selling seasons on the back of seasonal demand for its merchandise offering. Unseasonable weather, heavy precipitation, drought conditions and early or late frosts may have a material impact on the company's financial condition and its operational results.

SG&A deleveraged in the third quarter due to incremental costs for the new distribution facility in Frankfurt, NY, an executive transition agreement and slight impact from investments in store wages.

Last Earnings Report

Tractor Supply Posts In-line Q3 Earnings, Updates View

Tractor Supply reported in-line earnings in third-quarter 2019, while sales missed the Zacks Consensus Estimate. However, both metrics improved on a year-over-year basis. Furthermore, management updated its outlook for 2019.

Q3 Highlights

Tractor Supply's adjusted earnings were \$1.04 per share, which met the Zacks Consensus Estimate. However, the bottom line improved 9.5% from the prior-year quarter. Including the after-tax impact of the executive transition agreement, the company reported earnings of \$1.02 per share.

Net sales grew 5.4% to \$1,984.1 million but lagged the Zacks Consensus Estimate of \$1,997 million. This year-over-year improvement was driven by comps increase of 2.9%, led by respective growth of 0.6% and 2.3% in comparable store transaction count, and average ticket.

Furthermore, traffic and sales growth were aided by the company's ongoing efforts to build customer loyalty and enhance digital capabilities. Also, comps gained from improvement across geographies as well as strength in everyday merchandise. Higher sales for spring and summer seasonal product categories too drove comps.

Margins & Costs

Gross profit rose 6.3% year over year to \$694.2 million, with gross margin expansion of 28 basis points (bps) to 35%. The uptick was mainly backed by gains from the company's price management program and lower freight costs, as a rate of net sales.

Selling, general and administrative (SG&A) expenses, including depreciation and amortization, as a percentage of sales, grew 26 bps to 26.8%. Higher costs related to a new distribution facility in Frankfort, NY, along with the executive transition agreement and a slight impact of investment in store team member wages led to the upside. These expenses were somewhat offset by lower occupancy and other costs coupled with decreased incentive compensation, as a percentage of sales. However, adjusted SG&A expenses, which exclude the impact of the executive transition agreement, grew 11 bps, as a rate of sales.

Financial Position

Tractor Supply ended the quarter with cash and cash equivalents of \$82.6 million, long-term debt of \$613.9 million, and total stockholders' equity of \$1,491.8 million.

Year to date through the third quarter, the company returned \$611.2 million via share repurchases worth \$490 million and dividends of \$121.2 million. Additionally, it incurred capital expenditure of \$144.3 million while generated cash flow from operating activities of about \$414.3 million.

For 2019, management expects share buybacks of about \$525-\$550 million compared with \$350-\$450 million mentioned earlier. Moreover, the company continues to expect capital expenditure of \$225-\$250 million.

Store Update

In the first nine months of 2019, Tractor Supply opened 50 namesake and three Petsense stores, while shuttered one namesake and two Petsense outlets. As of Sep 28, 2019, the company operated 1,814 Tractor Supply stores across 49 states and 176 Petsense stores in 26 states.

For 2019, management expects to open 80 namesake stores and 10 Petsense stores.

Outlook

Depending on the company's year-to-date performance, management updated guidance for 2019. Tractor Supply now projects net sales of \$8.40-\$8.42 billion for the year, with comps growth of 3.2-3.4%. Earlier, it anticipated net sales of \$8.40-\$8.46 billion, with comps growth of 3-4%. Operating margin is still estimated to be 8.9-9%.

Moreover, the company envisions net income of \$564-\$569 million for 2019 compared with \$562-\$575 million mentioned earlier. It anticipates adjusted net income of \$566-\$571 million.

Furthermore, it expects earnings per share of \$4.66-\$4.70 for 2019 compared with \$4.65-\$4.75 mentioned earlier. Adjusted earnings, excluding after-tax effects from the executive transition agreement, are now anticipated to be \$4.68-\$4.72. In 2018, the company registered earnings per share of \$4.31.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-0.66%
EPS Surprise	0.00%
Quarterly EPS	1.04
Annual EPS (TTM)	4.58

Recent News

Tractor Supply Expands Feed Products With Triple Crown Launch – Jan 16, 2020

Tractor Supply joined forces with Triple Crown Nutrition, Inc. to launch Triple Crown premium products in a bid to expand its horse feed offerings. Further, selective products from Triple Crown will be made available in most of Tractor Supply's stores from Jan 27.

With the partnership, Tractor Supply will be able to offer a wider range of products — including Triple Crown Senior, Complete and Lite, and Safe Starch Fortified Forage. This move underscores management's commitment toward providing premium quality products to its equine customers and improve their shopping experience.

Tractor Supply Opts Microsoft to Renew Technology Structure – Jan 9, 2020

Tractor Supply is on track with its 'ONETractor' initiative. In sync with the initiative, the company has selected Microsoft Corporation as its preferred and strategic cloud provider to modernize its technology structure, including the website and enterprise analytics platform.

The agreement will enable Tractor Supply to leverage cloud solutions with Microsoft Azure and Microsoft Office 365 to drive in-store and digital experience. Moreover, the analytics engine is likely to offer improved insights and facilitate deeper personalization to cater to enhanced consumers' shopping experience. This also aims at driving the enterprise-wide analytics through business intelligence. It will also make innovations and improvements in its products and services according to consumers' needs.

Tractor Supply Announces Dividend – Nov 7, 2019

Tractor Supply announced a quarterly cash dividend of 35 cents per share, payable Dec 10, 2019, to stockholders of record as on Nov 25.

Valuation

Tractor Supply shares are up 4.6% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 8.3% while the Zacks Retail-Wholesale sector is down 17.8% in the past year. The S&P 500 index is up 24.1% in the past year.

The stock is currently trading at 17.83X forward 12-month earnings, which compares to 14.29X for the Zacks sub-industry, 25.06X for the Zacks sector and 18.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.85X and as low as 13.8X, with a 5-year median of 20.15X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 18.66X forward 12-month earnings.

The table below shows summary valuation data for TSCO

Valuation Multiples - TSCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.83	14.29	25.06	18.93
	5-Year High	28.85	20.29	26.23	19.34
	5-Year Low	13.8	13.74	19.07	15.18
	5-Year Median	20.15	16.09	22.95	17.45
P/S F12M	Current	1.24	1.14	1.07	3.52
	5-Year High	1.96	1.35	1.11	3.52
	5-Year Low	0.86	0.95	0.8	2.54
	5-Year Median	1.34	1.15	0.91	3
EV/EBITDA TTM	Current	14.98	15.4	15.33	12.25
	5-Year High	17.63	18.54	15.39	12.86
	5-Year Low	8.21	11.73	10.37	8.48
	5-Year Median	13.56	15.22	12.38	10.68

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (195 out of 255)



Top Peers

Calavo Growers, Inc. (CVGW)	Outperform
Archer Daniels Midland Company (ADM)	Neutral
Adecoagro S.A. (AGRO)	Neutral
Calyxt, Inc. (CLXT)	Neutral
MarineMax, Inc. (HZO)	Neutral
KAR Auction Services, Inc (KAR)	Neutral
Build-A-Bear Workshop, Inc. (BBW)	Underperform
Limoneira Co (LMNR)	Underperform

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	TSCO Neutral	X Industry	S&P 500	CLXT Neutral	CVGW Outperform	HZO Neutral
VGM Score	B	-	-	F	C	D
Market Cap	11.13 B	1.30 B	23.86 B	187.82 M	1.42 B	460.96 M
# of Analysts	12	4	13	2	2	4
Dividend Yield	1.49%	0.00%	1.81%	0.00%	1.37%	0.00%
Value Score	C	-	-	F	C	B
Cash/Price	0.01	0.09	0.04	0.36	0.01	0.08
EV/EBITDA	15.53	7.21	13.94	-5.15	18.11	6.41
PEG Ratio	1.60	1.59	2.00	NA	NA	NA
Price/Book (P/B)	7.46	1.29	3.25	2.60	4.96	1.21
Price/Cash Flow (P/CF)	16.06	6.36	13.46	NA	21.23	11.98
P/E (F1)	18.18	12.88	18.67	NA	23.21	11.21
Price/Sales (P/S)	1.34	0.38	2.62	53.15	1.19	0.35
Earnings Yield	5.56%	7.56%	5.35%	-21.23%	4.31%	8.91%
Debt/Equity	1.75	0.86	0.72	0.25	0.02	0.10
Cash Flow (\$/share)	5.85	3.35	6.92	-0.82	3.79	1.79
Growth Score	A	-	-	F	C	F
Hist. EPS Growth (3-5 yrs)	11.59%	11.48%	10.68%	NA	14.35%	24.93%
Proj. EPS Growth (F1/F0)	11.08%	11.21%	7.51%	-2.54%	14.90%	17.33%
Curr. Cash Flow Growth	19.59%	10.02%	13.40%	5.45%	17.65%	-1.75%
Hist. Cash Flow Growth (3-5 yrs)	10.63%	8.72%	8.78%	NA	15.90%	23.56%
Current Ratio	1.60	1.41	1.22	12.38	1.41	1.39
Debt/Capital	63.63%	51.52%	42.92%	20.26%	1.86%	8.96%
Net Margin	6.69%	3.82%	11.39%	-1,016.27%	3.06%	3.09%
Return on Equity	36.64%	11.33%	17.19%	-43.09%	18.59%	11.22%
Sales/Assets	1.72	1.54	0.54	0.03	3.00	1.66
Proj. Sales Growth (F1/F0)	6.66%	0.36%	4.09%	176.00%	6.63%	7.78%
Momentum Score	F	-	-	B	D	D
Daily Price Chg	0.45%	-1.54%	-1.40%	0.18%	-0.33%	-2.01%
1 Week Price Chg	0.84%	-0.07%	-1.09%	-22.05%	0.11%	22.58%
4 Week Price Chg	1.17%	-4.50%	-0.25%	-10.24%	-12.05%	28.61%
12 Week Price Chg	-2.70%	3.13%	3.64%	11.77%	-7.17%	29.55%
52 Week Price Chg	5.48%	-8.93%	18.08%	-52.38%	-1.97%	18.52%
20 Day Average Volume	1,266,344	472,975	1,615,215	173,764	172,580	267,419
(F1) EPS Est 1 week change	-0.37%	0.00%	0.00%	0.00%	-4.67%	15.91%
(F1) EPS Est 4 week change	-0.63%	-0.32%	0.00%	0.00%	6.77%	15.91%
(F1) EPS Est 12 week change	-0.62%	-1.03%	-0.17%	-17.48%	6.12%	15.21%
(Q1) EPS Est Mthly Chg	-2.08%	-1.14%	0.00%	0.00%	NA	-10.00%

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	C
Growth Score	A
Momentum Score	F
VGM Score	B

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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