

Urban Outfitters Inc. (URBN)

\$15.78 (As of 03/26/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: C

Summary

Shares of Urban Outfitters have declined in the past three months. Moreover, the company reported dismal bottom-line results for fourth-quarter fiscal 2020. The metric lagged the Zacks Consensus Estimate for the second straight time and also declined year over year. Meanwhile, the company continued to witness soft gross and operating margins in the fiscal fourth quarter. Additionally, it has witnessed a decline in traffic and sales across certain areas due to coronavirus outbreak. Further, management was unable to forecast the impact of COVID-19 on the business in first-quarter fiscal 2021 due to uncertainty surrounding the pandemic. Nevertheless, the company's Retail segment was robust in the fiscal fourth quarter. This, coupled with solid performance across most of its brands aided the top-line performance in the reported quarter.

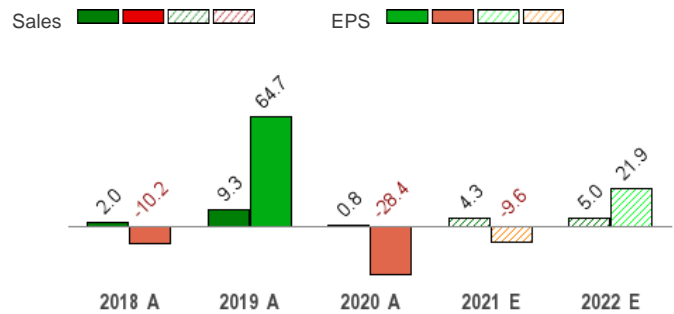
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.25 - \$12.34
20 Day Average Volume (sh)	3,348,976
Market Cap	\$1.5 B
YTD Price Change	-43.2%
Beta	0.73
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Bottom 21% (200 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.6%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-22.3%
Expected Report Date	05/19/2020
Earnings ESP	0.0%
P/E TTM	8.0
P/E F1	8.9
PEG F1	0.8
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					4,365 E
2021	888 E	1,019 E	1,043 E	1,233 E	4,157 E
2020	864 A	962 A	987 A	1,170 A	3,984 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$2.17 E
2021	\$0.10 E	\$0.56 E	\$0.57 E	\$0.60 E	\$1.78 E
2020	\$0.31 A	\$0.61 A	\$0.56 A	\$0.50 A	\$1.97 A

*Quarterly figures may not add up to annual.

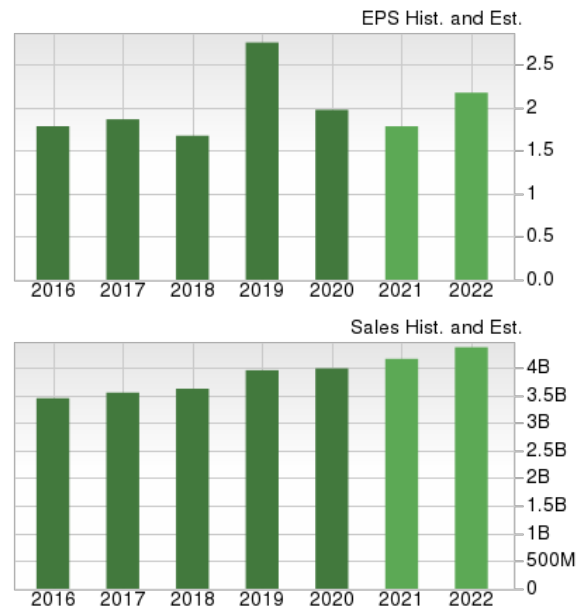
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

Overview

Founded in 1970 and based in Philadelphia, Pennsylvania, Urban Outfitters Inc. (URBN) is a lifestyle specialty retailer that offers fashion apparel and accessories, footwear, home décor and gifts products. The company's merchandises are generally sold directly to consumers through stores, catalogs, call centers and e-commerce platforms. The company has operations in the United States, Canada and Europe.

The company primarily reports through two segments: 1) Retail segment (91% of fiscal 2019 total sales), which comprises brands such as Urban Outfitters, Anthropologie, Free People, Terrain and BHLDN, and 2) Wholesale segment (9% of fiscal 2019 total sales), which is better described through Free People wholesale division (established in 1984) that designs, develops and markets contemporary casual attire for women. Free People, Anthropologie Group and Urban Outfitters wholesale sell their products through approximately 2,300 department and specialty stores worldwide, digital businesses and the Company's Retail segment.

As of Jan 31, 2020, the company operated 248 Urban Outfitters stores in the United States, Canada and Europe, offering apparel, footwear and accessories to younger men and women in the age bracket of 18 to 28 years; 231 Anthropologie Group stores in the United States, Canada and Europe, offering casual clothes and accessories, shoes, home furnishings targeted at women in the age group of 28 to 45 years; 144 Free People stores in the United States, Canada and Europe, offering private label branded merchandise that includes apparel, intimates, shoes, accessories and gifts for women aged between 25 and 30 years; 11 Food and Beverage restaurants, 5 Urban Outfitters franchisee-owned stores, one Anthropologie Group franchisee-owned store, and one Free People franchisee-owned store.



Reasons To Sell:

▼ **Q4 Earnings Miss:** Urban Outfitters suffered disappointing bottom-line results for fourth-quarter fiscal 2020. The metric missed the Zacks Consensus Estimate and also continued to decline year over year. This marked the second consecutive earnings miss for the company. The bottom line plunged 39.8% in the reported quarter on account of increased SG&A expenses and higher effective tax rate. Moreover, the company witnessed a soft performance at its Wholesale business in the fiscal fourth quarter. Evidently, its Wholesale segment sales declined nearly 10% from the year-ago quarter due to a 12% drop in Free People. Further, management stated that the Wholesale segment sales are likely to decrease in high single digit at the start of fiscal 2021. We note that shares of the company have lost 42.8% compared with the industry's 44.1% decline in the past three months.

Urban Outfitters posted weaker-than-expected bottom-line results in fourth-quarter fiscal 2020. Also, margins continued to remain soft in the reported quarter.

▼ **Soft Margins & Higher SG&A:** Urban Outfitters' soft margin performance persisted in the fiscal fourth quarter. In the reported quarter, adjusted gross profit fell 7.4% from the year-ago quarter and the margin contracted 351 basis points (bps) to 29.8%. This was primarily due to increased Retail segment markdowns, lower Wholesale segment margins, and higher delivery and logistics costs. Further, adjusted income from operations was down nearly 43% with adjusted operating margin decreasing 470 basis points to 5.7%. Lower gross profit and higher SG&A expense affected its operating profits in the fiscal fourth quarter. SG&A costs rose 8.9% while as a percentage of net sales, the metric increased 117 bps to 24.1%. This can be attributed to higher marketing expenses to drive digital sales and new business initiatives. In the third quarter of fiscal 2020, gross margin shrank 217 bps to 32.5% while operating margin shriveled 230 bps to 7.6%.

On fourth-quarter earnings call, management projected gross margin rate for first-quarter fiscal 2021 to contract roughly 100 bps due to weak gross margin at subscription and Wholesale segments, partly offset by flat-to-positive gross margin at Retail segment. Notably, the subscription segment business Nuuly is estimated to leave an adverse impact on gross margin in the quarter and most likely for the fiscal year. It anticipated Wholesale segment's gross margin to be hurt by increased marked down allowances and high inventory levels. The company projected its total SG&A expenses to increase roughly 9% each in the first quarter and fiscal 2021 due to higher incentive compensation expenses.

▼ **COVID-19 Impacts:** Urban Outfitters recently decided to shut all stores worldwide through at least Mar 28 in the wake of the coronavirus pandemic. Workers will still be paid during this time-off. However, the company's e-commerce and subscription businesses will continue to operate in the meantime. Management also permitted certain workers to work remotely. For employees who are unable to perform from home, the company asked them to work in shifts to lower the density rate and maintain distance in the office premises. It also improved cleaning protocols. Moreover management cited that plans may alter depending on the situation. Prior to the store-closure announcement, Urban Outfitters had provided updates on current business trends that emerged since its last earnings conference. The apparel retailer informed that it witnessed low traffic as well as sales across areas like Milan, Italy, and Seattle, Washington, which took a severe hit from coronavirus. Further, management stated that it was unable to forecast the impact of COVID-19 on the business in the first quarter of fiscal 2021 due to unpredictability surrounding the spread of coronavirus across North America and Europe.

▼ **Fashion Obsolescence:** Fashion obsolescence remains the key concern for Urban Outfitters' business model, which includes sustained focus on product and design innovation. The taste and preferences of people are ever changing, and thus one which is in fashion may become out of fashion, with the entrance of new trendier assortments in the market. So, there remains a challenge to constantly revamp its assortments for the fear of losing market share against other big players who may pour the market with more in trend collections. If the company is not successful in its approach, there is a fear that this may have an adverse impact on the company's sales and margins.

▼ **Competitive Threat:** Urban Outfitters faces stiff competition in the retail segment from other department stores, discounters, home furnishing stores, specialty retailers, and direct-to-consumer businesses on attributes, such as merchandise assortment, price, quality, location, and credit facility. Aggressive pricing by competitors, may dent the company's top and bottom-line results as well as strain margins.

Risks

- **Robust Q4 Sales:** Recently, Urban Outfitters generated robust sales for fourth-quarter fiscal 2020. The metric improved 3.6% year over year, thanks to higher comparable Retail segment sales and an impressive performance of Anthropologie Group, Urban Outfitters and Free People brands. Urban Outfitters reported fourth-quarter net sales worth \$1,169.6 million. At Anthropologie Group, net sales were up 5.7% to \$491.1 million and the same at Free People grew 3.1% from the prior-year quarter to \$215.8 million. At Urban Outfitters, net sales inched up 0.5% from the year-ago period to \$449.9 million in the quarter. However, Food and Beverage net sales came in at \$6.8 million, down 9.3% from the prior-year quarter. Nuuly, the subscription rental service for women's clothes, contributed roughly \$6 million to net sales. Further, net sales at the Retail Segment grew 4.1%.
- **Comparable Store Sales Rise Again in Q4:** After increasing 3% during the third quarter of fiscal 2020, comparable Retail segment net sales increased 4% during the fourth quarter on account of strength in the digital channel, partially offset by lower retail store sales. In terms of brands, comparable net sales at the Retail segment jumped 9% at Free People and 6% at Anthropologie Group while the metric was flat year over year at Urban Outfitters.
- **Multi-brand and Multi-channel Retailer:** Being a multi-brand and multi-channel retailer, Urban Outfitters offers flexible merchandising strategy. The company also has a significant domestic and international presence with rapidly expanding e-commerce activities. The company remains committed to improve comparable-store sales performance, sustain investments in direct-to-consumer business, enhance productivity in existing channels, add new brands and optimize inventory level. The company made an unprecedented move by acquiring Philadelphia's The Vetri Family group of restaurants, including the Pizzeria Vetri chain. The attempt is seen as a part of the company's strategy to target and attract millennials to the stores. Further, to enhance reach Anthropologie and Nordstrom entered into a partnership, whereby more than 200 items from Anthropologie Home are now available at selected Nordstrom full-line stores and on Nordstrom.com. The Anthropologie Home collection comprise categories including kitchen, dining and entertaining, bed and bath textiles, room decor, stationery and hardware.

The company also introduced a subscription rental service for women's clothes called Nuuly. The company envisions roughly 50,000 subscribers within one year of operation. The subscribers have to shell out \$88 each month for one six-item box. Shoppers can choose from Anthropologie, Free People and Urban Outfitters brands, third-party brand and designer labels, and rare vintage items for rent via a custom-built, digital platform. They may either worn clothes temporarily and returned them or can even buy it. Nuuly contributed roughly \$6 million to net sales during the fiscal fourth quarter.

- **Rational Store-Growth Efforts:** The company remains rational in opening new stores. It opened 38 new stores in both fiscal 2014 and 2015, and 31, 29 and 18 stores in fiscal 2016, 2017 and 2018, respectively. During fiscal 2019, the company opened 18 retail locations while shuttered 11 locations. During the said period, the company also opened five franchisee-owned stores. Encouragingly, during fiscal 2020, the company opened 26 retail outlets comprising 10 Free People stores, nine Anthropologie Group stores and seven Urban Outfitters stores. Simultaneously, it shuttered 12 retail locations — five Anthropologie Group stores, four Urban Outfitters stores, one Free People store, and two Food and Beverage restaurants. In the aforementioned period, two franchisee-owned stores were also inaugurated — one Anthropologie Group and Urban Outfitters store each. For fiscal 2021, Urban Outfitters intends to open 39 new stores, with 30 stores in North America. Simultaneously, it expects to shut down nearly nine stores.
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Last Earnings Report

Urban Outfitters Reports Q4 Earnings Miss

Urban Outfitters posted lower-than-expected earnings in fourth-quarter fiscal 2020. Also, earnings continued to decline year over year on account of increased SG&A expenses and higher effective tax rate.

An Insight

This lifestyle specialty retail company delivered adjusted earnings of 50 cents a share that missed the Zacks Consensus Estimate of 63 cents. Bottom line also declined 39.8% year over year from 83 cents earned in the year-ago quarter. Net sales of \$1,169.6 million increased 3.6% year over year, thanks to higher comparable Retail segment sales.

At Anthropologie Group, net sales were up 5.7% to \$491.1 million and the same at Free People grew 3.1% from the prior-year quarter to \$215.8 million. At Urban Outfitters, net sales inched up 0.5% from the year-ago period to \$449.9 million in the quarter. However, Food and Beverage net sales came in at \$6.8 million, down 9.3% from the prior-year quarter. Again, Nuuly, the subscription rental service for women's clothes, contributed roughly \$6 million to net sales.

Segment-wise, Urban Outfitters reported net sales of \$1,090.6 million at the Retail Segment and \$73.1 million at the Wholesale Segment. Comparable Retail segment net sales rose 4.1% on account of strength in the digital channel, partially offset by lower retail store sales. Brand-wise, comparable Retail segment net sales rose 9% at Free People and 6% at the Anthropologie Group but were flat at Urban Outfitters. However, Wholesale segment sales declined nearly 10% from the year-ago quarter, due to a 12% drop in Free People.

Margin Performance

In the quarter under review, adjusted gross profit came in at \$348.4 million, down 7.4% from the year-ago quarter. Further, adjusted gross margin contracted 351 basis points (bps) to 29.8%, primarily due to increased Retail segment markdowns, lower Wholesale segment margins, and higher delivery and logistics costs.

SG&A expenses rose 8.9% to \$281.3 million, while as a percentage of net sales, the metric increased 117 basis points to 24.1%. Further, adjusted income from operations came in at \$67.1 million, down nearly 43% from the year-ago quarter's figure, while adjusted operating margin shriveled 470 basis points to 5.7%.

Store Update

During fiscal 2020, the company opened 26 retail outlets, including 10 Free People stores, nine Anthropologie Group stores and seven Urban Outfitters stores. Simultaneously, it shuttered 12 retail locations — five Anthropologie Group stores, four Urban Outfitters stores, one Free People store, and two Food and Beverage restaurants. In the aforementioned period, two franchisee-owned stores were also inaugurated — one Anthropologie Group and Urban Outfitters store each. For fiscal 2021, it intends to open 39 new stores, with 30 stores in North America. Simultaneously, it expects to shut down nearly nine stores.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$221.8 million, marketable securities of \$211.5 million and total shareholders' equity of \$1,455.4 million. In August 2017, the company's board of directors authorized buyback of 20 million shares. During fiscal 2020, Urban Outfitters bought back and subsequently retired 8.1 million shares for roughly \$217 million. In June 2019, the company's board of directors authorized share repurchase program of 20 million shares. As of Jan 31, 2020, the company had 26.3 million shares remaining under the share repurchase program.

As of Jan 31, 2020, total inventory rose 10.5% year over year to \$409.5 million, driven by higher Wholesale segment inventory, somewhat offset by flat Retail segment inventory at cost. For fiscal 2021, management anticipates capital expenditures of nearly \$250 million, mainly associated with investments in additional and enhanced distribution facilities. It expects to complete its new European distribution facility this year.

Outlook

On the basis of quarter-to-date performance, management anticipates first-quarter fiscal 2021 Retail segment comps to improve in low single to mid single digit on improved product performance and lower markdowns. However, Wholesale segment sales are likely to decline high single digit at the start of fiscal 2021. Nonetheless, management expects Wholesale sales to revert to positive in fiscal second quarter and fiscal 2021.

Moreover, gross margin rate for fiscal first quarter is likely to contract roughly 100 bps, due to soft gross margin at subscription and Wholesale segments, partly offset by flat to positive gross margin at Retail segment. Notably, the subscription segment business Nuuly is estimated to have an adverse impact on gross margin in the quarter and most likely for the fiscal year. Wholesale segment gross margin will be impacted by increased marked down allowances and high inventory levels. Total SG&A expenses are likely to increase roughly 9% each in the first quarter and fiscal 2021, due to higher incentive compensation expenses.

Quarter Ending 01/2020

Report Date	Mar 03, 2020
Sales Surprise	-0.05%
EPS Surprise	-20.63%
Quarterly EPS	0.50
Annual EPS (TTM)	1.98

Recent News

Urban Outfitters Closes Stores Worldwide Due to Coronavirus – Mar 14, 2020

Urban Outfitters decided to shut all stores worldwide till at least Mar 28 and workers will still be paid during this time off. However, the company's e-commerce and subscription businesses will continue to operate in the meantime. Management has also permitted certain workers to work remotely. For employees who are unable to perform remotely, the company has asked them to work in shifts to lower density and maintain distance in its corporate offices. It has also improved cleaning protocols. Management also cited that plans may alter depending on the situation.

Urban Outfitters Issues Updates – Mar 11, 2020

Urban Outfitters issued updates on current business trends that have emerged since its last earnings call on March 3. The apparel retailer informed that it has witnessed a fall in traffic and decline in sales across areas such as Milan, Italy and Seattle, Washington, which are severely impacted by coronavirus. However, this Philadelphia, PA-based company provided an update declaring that it has not experienced any significant impact across its stores in other locations and digital platform due to the outbreak. Management stated that currently it is not in the position to forecast the impact of COVID-19 on the business in the first quarter.

Valuation

Urban Outfitters shares are down 43.2% in the year-to-date period and 19.2% in the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Retail-Wholesale sector are down 44.2% and 11%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are down 36.6% and 2.6%, respectively.

The S&P 500 index is down 18.4% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 7.75X forward 12-month earnings, which compares to 8.58X for the Zacks sub-industry, 23.01X for the Zacks sector and 15.91X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.91X and as low as 6.61X, with a 5-year median of 13.7X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$12 price target reflects 6.37X forward 12-month earnings.

The table below shows summary valuation data for URBN

Valuation Multiples - URBN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.75	8.58	23.01	15.91
	5-Year High	21.91	18.38	26.19	19.34
	5-Year Low	6.61	8.58	19.06	15.18
	5-Year Median	13.7	14.2	23.01	17.42
P/S F12M	Current	0.36	0.36	0.91	2.85
	5-Year High	1.62	1.34	1.11	3.43
	5-Year Low	0.31	0.36	0.8	2.54
	5-Year Median	0.87	0.81	0.92	3
EV/EBITDA TTM	Current	4.79	6.26	13.79	9.74
	5-Year High	11.4	8.88	16.22	12.88
	5-Year Low	3.42	4.66	10.88	8.27
	5-Year Median	6.47	6.73	12.51	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 21% (200 out of 253)



Top Peers

Burberry Group PLC (BURBY)	Neutral
Foot Locker, Inc. (FL)	Neutral
The Gap, Inc. (GPS)	Neutral
L Brands, Inc. (LB)	Neutral
American Eagle Outfitters, Inc. (AEO)	Underperform
Abercrombie & Fitch Company (ANF)	Underperform
Capri Holdings Limited (CPRI)	Underperform
Designer Brands Inc. (DBI)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	URBN Underperform	X Industry	S&P 500	AEO Underperform	ANF Underperform	BURBY Neutral
VGM Score	C	-	-	A	C	B
Market Cap	1.55 B	354.69 M	18.50 B	1.44 B	627.48 M	7.06 B
# of Analysts	13	3.5	13	10	10	3
Dividend Yield	0.00%	0.00%	2.35%	6.38%	8.00%	1.61%
Value Score	B	-	-	A	A	D
Cash/Price	0.29	0.38	0.07	0.29	1.23	0.16
EV/EBITDA	4.47	5.26	11.16	5.45	5.07	NA
PEG Ratio	0.72	0.67	1.74	1.29	0.96	NA
Price/Book (P/B)	1.06	0.95	2.44	1.15	0.59	4.50
Price/Cash Flow (P/CF)	7.31	3.52	9.87	3.32	2.78	11.85
P/E (F1)	8.24	7.83	15.29	7.46	17.36	19.58
Price/Sales (P/S)	0.39	0.28	1.93	0.33	0.17	NA
Earnings Yield	11.28%	11.48%	6.47%	13.34%	5.80%	5.13%
Debt/Equity	0.78	0.88	0.70	1.04	1.39	0.69
Cash Flow (\$/share)	2.16	1.44	7.01	2.60	3.59	1.45
Growth Score	D	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	8.33%	-0.04%	10.85%	11.67%	-0.50%	NA
Proj. EPS Growth (F1/F0)	-9.69%	-11.17%	2.89%	-21.96%	-21.10%	-18.07%
Curr. Cash Flow Growth	-49.61%	0.71%	5.93%	0.06%	8.78%	-7.14%
Hist. Cash Flow Growth (3-5 yrs)	-10.61%	-0.99%	8.55%	10.42%	-7.00%	-5.42%
Current Ratio	1.65	1.46	1.23	1.39	1.55	1.69
Debt/Capital	43.87%	49.59%	42.57%	51.06%	58.09%	40.70%
Net Margin	4.22%	2.75%	11.64%	4.44%	1.09%	NA
Return on Equity	13.88%	11.37%	16.74%	20.31%	4.61%	NA
Sales/Assets	1.23	1.21	0.54	1.29	1.04	NA
Proj. Sales Growth (F1/F0)	4.34%	0.00%	2.37%	2.66%	-1.18%	-6.27%
Momentum Score	C	-	-	B	D	C
Daily Price Chg	-1.44%	0.70%	6.21%	0.70%	5.60%	6.42%
1 Week Price Chg	-1.59%	-19.95%	-16.96%	-13.47%	-22.96%	-28.39%
4 Week Price Chg	-35.04%	-33.20%	-15.70%	-32.71%	-24.13%	-19.72%
12 Week Price Chg	-43.30%	-43.74%	-23.67%	-39.51%	-42.79%	-41.74%
52 Week Price Chg	-46.09%	-52.97%	-13.99%	-60.66%	-62.71%	-32.92%
20 Day Average Volume	3,348,976	436,651	4,286,768	6,454,553	4,171,356	305,242
(F1) EPS Est 1 week change	-4.02%	0.00%	-0.15%	-15.42%	-9.72%	0.00%
(F1) EPS Est 4 week change	-22.33%	-12.86%	-2.28%	-20.84%	-52.54%	-6.74%
(F1) EPS Est 12 week change	-26.81%	-19.57%	-3.22%	-22.54%	-52.20%	-19.57%
(Q1) EPS Est Mthly Chg	-63.27%	-63.09%	-1.60%	-62.92%	-75.00%	NA

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	C
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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