

V.F. Corporation (VFC)

\$45.99 (As of 03/23/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/11/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: C

Summary

Shares of V.F. Corp have slid and lagged the industry in the past three months. The stock remains under pressure due to the ongoing global COVID-19 crisis. It expects the pandemic to significantly impact results. Following the public health outlook, the company has closed all stores in the North America and Europe, and withdrew its fiscal 2020 view. Further, it has witnessed supply-chain disruptions due to the current COVID-19 scenario. Moreover, mixed holiday season sales in the United States and sluggishness at the Timberland brand remain concerns. However, top and bottom lines rose year over year in the fiscal third quarter driven by revenue growth as well as adjusted gross and operating margin improvement. Strength in international and direct-to-customer businesses as well as growth in Active and Outdoor segments aided sales.

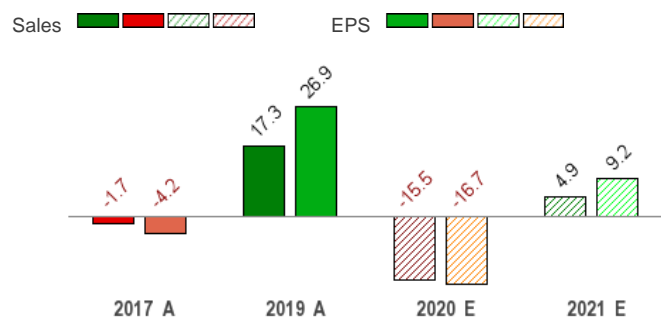
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|-----------------------------------|
| 52 Week High-Low | \$100.25 - \$45.07 |
| 20 Day Average Volume (sh) | 4,291,841 |
| Market Cap | \$18.2 B |
| YTD Price Change | -53.9% |
| Beta | 1.21 |
| Dividend / Div Yld | \$1.92 / 4.2% |
| Industry | Textile - Apparel |
| Zacks Industry Rank | Bottom 8% (234 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 1.7% |
| Last Sales Surprise | -1.1% |
| EPS F1 Est- 4 week change | -4.8% |
| Expected Report Date | 05/27/2020 |
| Earnings ESP | -55.4% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2021 | 2,305 E | 3,508 E | 3,513 E | 2,827 E | 12,279 E |
| 2020 | 2,271 A | 3,393 A | 3,385 A | 2,666 E | 11,702 E |
| 2019 | 2,788 A | 3,907 A | 3,940 A | 3,213 A | 13,849 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.31 E | \$1.36 E | \$1.34 E | \$0.58 E | \$3.44 E |
| 2020 | \$0.30 A | \$1.26 A | \$1.23 A | \$0.34 E | \$3.15 E |
| 2019 | \$0.43 A | \$1.43 A | \$1.31 A | \$0.60 A | \$3.78 A |

*Quarterly figures may not add up to annual.

| | |
|---------|------|
| P/E TTM | 13.6 |
| P/E F1 | 14.6 |
| PEG F1 | 1.3 |
| P/S TTM | 1.5 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/23/2020. The reports text is as of 03/24/2020.

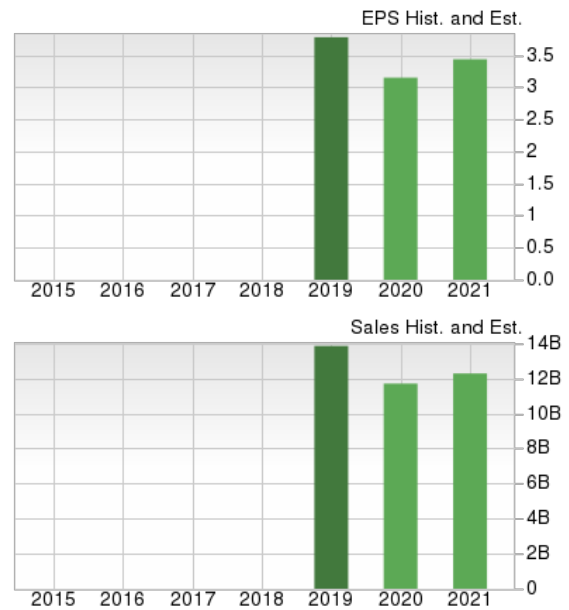
Overview

Based in Greensboro, NC, V.F. Corporation designs, manufactures and markets branded apparel and related products in the United States and internationally. Its product line consists of denim and casual tops, bottoms, backpacks, book bags, luggage, outdoor gear, skateboard-inspired footwear and apparel, surf-inspired footwear and apparel, women's lingerie, occupational apparel, licensed sports apparel, athletic apparel and fashion sportswear. The company markets its products through specialty stores, department stores, national chains and mass merchants along with licensees and distributors.

On May 22, 2019, the company completed the spin-off of its Jeans business into an independent, publicly-traded company named as Kontoor Brands. The spin-off included Wrangler, Lee, and Rock & Republic brands, as well as the VF Outlet business. These businesses are now presented as discontinued operations.

The company reports operating results under three segments — Active, Outdoor and Work.

- **Outdoor** segment mainly comprises of outdoor apparel, footwear and equipment. The key brands sold under this segment are The North Face, Timberland (excluding Timberland PRO), Smartwool, Icebreaker and Altra.
- **Active** segment offers active apparel, footwear and accessories under brands like Vans, Kipling, Napapijri, JanSport, Reef, Eastpak and Eagle Creek.
- **Work** segment sells work and work-inspired lifestyle apparel and footwear and occupational apparel. The primary brands in this segment include Dickies, Bulwark, Red Kap, Timberland PRO, Wrangler RIGGS, Walls, Terra, Kodiak and Horace Small.



Reasons To Sell:

- ▼ **COVID-19 Compels to Withdraw Outlook, Stock Underperforms:** The crippling effect of the coronavirus outbreak has been leading to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. In the view of implementation of safety measures and a drop in store footfall, companies are temporarily shutting down their brick-and-mortar stores, curtailing work hours and operating in shifts, or permitting employees to work remotely. In response to the continued spread of COVID-19 and following the public health guidance, V.F. Corp temporarily closed all stores in North America and Europe. Apart from this, management has also witnessed supply-chain disruptions stemming from the current COVID-19 scenario. Consequently, the clothing retailer has also chosen to withdraw its fiscal 2020 guidance. Given this tough situation, shares of the company have plunged 53.5% in the past three months against the industry's loss of 49.1%.

V.F. Corp is grappling with soft revenues at the Timberland brand, which continued in third-quarter fiscal 2020. For fiscal 2020, it expects revenues at the Timberland brand to decline 1-2%.
 - ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, V.F. Corp looks pretty overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 13.6x, which is below the median level of 24.3x and the high level of 29.6x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 12.2x for the industry. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
 - ▼ **Soft Timberland Brand:** Though V.F. Corp's big four brands reported strong sales on a combined basis, revenues for the Timberland brand remained soft in third-quarter fiscal 2020. Timberland revenues decreased 4% in the fiscal third quarter, due to softness in men's footwear in the Americas and Europe, particularly in classic business, partially offset by strength in apparel, outdoor footwear and China. For fiscal 2020, the company expects revenues at the Timberland brand to decline 1-2%.
 - ▼ **Impact of Coronavirus:** V.F. Corp, like most other peers, expects the coronavirus outbreak in China to pose impacts on its financial results. The company has temporarily closed about 60% of its owned and partnered stores in China in response to the coronavirus outbreak. Management stated that it might witness soft traffic in China and surrounding areas due to the epidemic. In fiscal 2019, the Asia Pacific region and Mainland China accounted for nearly 12% and 6%, respectively, of the company's total revenues. Although it is not possible to measure the impact of the coronavirus outbreak on its supply chain at the moment, the company states that around 16% of its total cost of goods sold is sourced directly from Mainland China. Nearly 7% of these are transported to the United States. With rising cases of COVID-19, V.F. Corp temporarily closed all stores in North America from Mar 16 till Apr 5. Further, the company has closed its corporate and brand offices in North America till Apr 5. Prior to this, the company has shuttered all offices and stores in Europe until further notice.

Also, the company stated that the current situation was not accounted for in its fiscal 2020 guidance, which was provided during its third-quarter fiscal 2020 results. During the fourth-quarter earnings call, it expects to provide an update on financial and operational impacts from the coronavirus outbreak on its results. Nevertheless, it sees China as a massive growth opportunity for the long term.
 - ▼ **Competitive Pressure:** V.F. Corp faces intense competition from other well-established players in the apparel industry, on the basis of brand recognition, fashion, price, service, store location and quality. Failure to offer high-quality products at a competitive price may hamper V.F. Corp's market share and consequently, dent both top-line and bottom-line growth.
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Risks

- **Q3 Results:** V.F. Corp posted third-quarter fiscal 2020, wherein the bottom line surpassed the Zacks Consensus Estimate. Further, both sales and earnings continued to increase on a year-over-year basis. Earnings improved 14%, while net revenues were up 5%. Constant-dollar revenues improved 6%. Excluding the occupational Work business, revenues rose 6% (up 7% in constant currency). Earnings reflected strong revenue gains as well as an improvement in adjusted gross and operating margins. Strength in the company's two largest brands – Vans and The North Face – and international and direct-to-customer businesses, along with robust growth in Active and Outdoor segments aided the top line.
 - **Focus on Digital Growth:** V.F. Corp is focused on selling directly to consumers and investing in digital platforms for its brands. Revenues for the direct-to-consumer business improved 7% in the fiscal third quarter. Further, digital revenues were up 16%, with 17% growth in constant dollars. Quarterly results reflected strong performance at both direct-to-consumer and digital wholesale businesses. In the reported quarter, revenues from the wholesale business improved 4%. For fiscal 2020, revenues for the direct-to-consumer business are anticipated to increase 9-10% (10-11% at a constant-dollar basis). The company estimates digital revenue growth of 20%.
 - **International Expansion Strategy:** V.F. Corp is aggressively looking for opportunities to expand international operations, particularly in Asia, which is one of the fastest growing regions. Driven by its commitment to invest in international platforms, revenues for the business grew 8% (9% in constant dollars) in third-quarter fiscal 2020. This was led by balanced growth across regions — including 15% in Asia, 9% in non-U.S. Americas and 4% in Europe. Moreover, the China business remained strong, with 30% revenue growth (32% in constant currency). Backed by the robust momentum, the company now anticipates international revenues growth of 6% (9% at constant currency). This suggests a rise from prior view of 4-5% growth (8-9% at constant currency) for the International segment.
 - **2024 Growth Plan & Outlook:** V.F. Corp. is on track with its growth plan for the 2020-2024 period. The 2024 growth strategy primarily focuses on transitioning to a consumer-minded and retail-centric business in a hyper-digital way. The company's efforts will also focus on creating a dynamic and optimum portfolio, directing investments to Asia and uplifting direct channels by prioritizing digital. The strategy targets generating revenue growth of 7-8% at a five-year CAGR, through 2024. This growth will be primarily driven by its largest brands — The Vans, The North Face, Timberland and Dickies. Further, the company expects revenue growth through the period to be driven by strong contributions from the International and Direct-to-Consumer business platforms. It expects earnings per share growth of 12-14% at a five-year CAGR, from fiscal 2019 levels. In fiscal 2024, the company anticipates gross margin to exceed 55.5%, with an operating margin of more than 15%. Further, the company expects to generate cumulative free cash flows of nearly \$8 billion during the five years. Of this, the company plans to return about \$10 billion to shareholders in the form of dividend payouts and share repurchases. It anticipates delivering top quartile total shareholder return (TSR) performance with annual TSR of 14-16%.
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Last Earnings Report

V.F. Corp Q3 Earnings Surpass Estimates, Sales Miss

Quarter Ending **12/2019**

V.F. Corporation has posted third-quarter fiscal 2020 results, wherein the bottom line surpassed the Zacks Consensus Estimate, while sales lagged the same. Notably, sales missed estimates for the second straight quarter. Mixed holiday season sales in the United States might have hurt the top line.

| Report Date | Jan 23, 2020 |
|------------------|--------------|
| Sales Surprise | -1.09% |
| EPS Surprise | 1.65% |
| Quarterly EPS | 1.23 |
| Annual EPS (TTM) | 3.39 |

V.F. Corp delivered adjusted earnings of \$1.23 per share, improving 14% year over year and surpassing the Zacks Consensus Estimate of \$1.21.

The company generated net revenues of \$3,384.7 million, which increased about 5% year over year but lagged the Zacks Consensus Estimate of \$3,425 million. Constant-dollar revenues improved 6%. Excluding the occupational Work business, the metric rose 6% (up 7% in constant currency). Revenue growth can be attributed to strength in the company's largest brands, and international and direct-to-customer businesses.

International revenues rose 8% (up 9% in constant dollars). Further, revenues in China improved 30% (up 32% in constant dollars). Moreover, V.F. Corp's direct-to-consumer revenues grew 7%. Digital revenues were up 16% (up 17% in constant dollars).

Adjusted gross margin expanded 100 basis points (bps) year over year to 55.7%. Furthermore, adjusted operating income increased 11% to \$595 million. Adjusted operating margin grew 100 bps to 17.6%.

Segmental Details

Revenues at the Active segment grew 8% to \$1,239.5 million (up 9% on a constant-dollar basis). This includes revenue growth of 12% (up 13% in constant dollars) at the Vans brand. The Outdoor segment reported revenues of \$1,659.1 million, which improved 3% year over year (up 4% in constant dollars). This includes revenue growth of 8% at The North Face brand.

Revenues at the Work segment increased 2% year over year and at constant currency to \$480.1 million. Other revenues were \$6.1 million compared with \$0.7 million reported in the year-ago quarter.

Financial Details

V.F. Corp ended third-quarter fiscal 2020 with cash and cash equivalents of approximately \$584 million, long-term debt of \$2,110.5 million, and shareholders' equity of \$4,567.6 million. At the end of the fiscal third quarter, the company used cash provided by operating activities of \$841.6 million.

During the reported quarter, the company paid out about \$189 million of dividends. It bought back shares worth \$500 million in the quarter and therefore had an outstanding balance of \$3.3 billion under its existing share-repurchase authorization. Further, management approved a quarterly dividend of 48 cents per share, which is payable Mar 20, 2020, to its shareholders of record as of Mar 10.

Recent News

V.F. Corp Withdraws Guidance Due to COVID-19 Impacts - Mar 23, 2020

V.F. Corporation issued an update on the COVID-19 impact on its operations, given the growing uncertainty about the pandemic and its duration. To safeguard the company and its shareholders, management strengthened its cash position by drawing \$1 billion from its revolving credit facility. It also withdrew the guidance for fiscal 2020.

Further, the company announced \$1-billion drawings on its current revolving credit facility. It had \$2.25 billion under its revolving credit facility with an expiry date of December 2023. This move comes as a precautionary measure to contain the unprecedented impacts of COVID-19. This brings the total cash balance to \$1.5 billion, which will be later utilized to fund its working capital requirements until the first half of fiscal 2021.

However, the company retained its commercial paper program, which will allow it to borrow up to \$2.25 billion for short-term, seasonal working capital requirements and other corporate purposes.

V.F. Corp Shuts North America Stores Amid Coronavirus Scare - Mar 16, 2020

V.F. Corporation joins the bandwagon of retailers shutting down stores to prevent further spread of coronavirus. The company has temporarily closed all retail stores across North America from Mar 16 till Apr 5. During this time, all employees will continue to receive their salaries and other job-related benefits.

Further, the company has closed its corporate and brand offices in North America till Apr 5. All office employees have been asked to work remotely. These temporary measures will be extended depending on the overall situation in the country.

V.F. Corp Closes Stores in China Due to Coronavirus Outbreak – Feb 7, 2020

The outbreak of coronavirus in China has given rise to a tough situation for companies operating in the region. V.F. Corp. is among the companies that are anticipating the current situation in China to have a material impact on its results. On Feb 7, V.F. Corp announced that it has temporarily closed about 60% of its owned and partnered stores in China in response to the coronavirus outbreak.

Further, it noted that the open stores are witnessing substantial declines in retail traffic. Given the epidemic outbreak in the country, V.F. Corp is prioritizing on health and safety of employees and its partners. Consequently, it expects Asia Pacific operations to witness softness in the near term, which should have a pronounced impact on overall results.

In fiscal 2019, the Asia Pacific region and Mainland China accounted for nearly 12% and 6%, respectively, of the company's total revenues. Although it is not possible to measure the impact of the coronavirus outbreak on its supply chain at the moment, the company states that around 16% of its total cost of goods sold is sourced directly from Mainland China. Nearly 7% of these are transported to the United States.

The company also stated that the current situation was not accounted for in its fiscal 2020 guidance, which was provided during its third-quarter fiscal 2020 results. During the fourth-quarter earnings call, it expects to provide an update on financial and operational impacts from the coronavirus outbreak on its results.

V.F. Corp Reviews Nine Workwear Brands for Strategic Options – Jan 21, 2020

V.F. Corporation is looking for strategic alternatives for the occupational part of its Work division, which comprises nine brands and businesses. The nine brands include Red Kap, VF Solutions, Bulwark, Workrite, Walls, Terra, Kodiak, Work Authority and Horace Small. These brands essentially provide work wear and uniforms for workers in the industrial, service and government sectors. However, the company remains committed to retain its Dickies and Timberland Pro brands.

Collectively, the brands under review contributed about \$865 million to the company's fiscal 2019 top line and make for nearly 50% of the Work segment's revenues.

Valuation

V.F. Corp shares down 53.9% in the year-to-date period and nearly 45.6% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 49.3% and 36% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector is down 43% and 27.5%, respectively.

The S&P 500 index is down 30.3% in the year-to-date period and 20.6% in the past year.

The stock is currently trading at 12.64X forward 12-month earnings, which compares to 9.99X for the Zacks sub-industry, 13.92X for the Zacks sector and 13.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.73X and as low as 12.64X, with a 5-year median of 20.45X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$39 price target reflects 10.72X forward 12-month earnings.

The table below shows summary valuation data for VFC

| Valuation Multiples - VFC | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 12.64 | 9.99 | 13.92 | 13.41 |
| | 5-Year High | 26.73 | 23.06 | 23.23 | 19.34 |
| | 5-Year Low | 12.64 | 9.99 | 13.92 | 13.41 |
| | 5-Year Median | 20.45 | 17.99 | 19.89 | 17.42 |
| P/S F12M | Current | 1.48 | 1.24 | 1.49 | 2.43 |
| | 5-Year High | 3.21 | 2.58 | 3.19 | 3.43 |
| | 5-Year Low | 1.48 | 1.24 | 1.49 | 2.43 |
| | 5-Year Median | 2.24 | 2.05 | 2.53 | 3 |
| EV/EBITDA TTM | Current | 9.66 | 11.09 | 8.29 | 8.27 |
| | 5-Year High | 47.37 | 26.49 | 17.6 | 12.88 |
| | 5-Year Low | 9.66 | 11.09 | 8.26 | 8.27 |
| | 5-Year Median | 16.74 | 18.02 | 12.28 | 10.78 |

As of 03/23/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (234 out of 254)



Top Peers

| | |
|----------------------------------|--------------|
| Fossil Group, Inc. (FOSL) | Neutral |
| Guess?, Inc. (GES) | Neutral |
| G-III Apparel Group, LTD. (GIII) | Neutral |
| Hanesbrands Inc. (HBI) | Neutral |
| lululemon athletica inc. (LULU) | Neutral |
| Ralph Lauren Corporation (RL) | Neutral |
| Delta Apparel, Inc. (DLA) | Underperform |
| PVH Corp. (PVH) | Underperform |

| Industry Comparison Industry: Textile - Apparel | | | | Industry Peers | | |
|---|------------------|------------|-----------|----------------|------------------|------------|
| | VFC Underperform | X Industry | S&P 500 | GES Neutral | PVH Underperform | RL Neutral |
| VGM Score | C | - | - | A | A | A |
| Market Cap | 18.15 B | 350.00 M | 15.21 B | 413.53 M | 2.12 B | 4.82 B |
| # of Analysts | 9 | 4 | 13 | 4 | 6 | 6 |
| Dividend Yield | 4.17% | 0.00% | 2.82% | 7.14% | 0.52% | 4.20% |
| Value Score | C | - | - | A | A | A |
| Cash/Price | 0.03 | 0.19 | 0.07 | 0.62 | 0.24 | 0.39 |
| EV/EBITDA | 10.71 | 6.63 | 9.67 | 9.48 | 4.73 | 5.59 |
| PEG Ratio | 1.42 | 1.17 | 1.37 | 0.39 | 0.43 | 0.93 |
| Price/Book (P/B) | 3.97 | 0.77 | 1.99 | 0.65 | 0.36 | 1.55 |
| Price/Cash Flow (P/CF) | 10.06 | 4.20 | 8.15 | 2.09 | 2.04 | 5.88 |
| P/E (F1) | 16.09 | 7.33 | 11.83 | 6.83 | 4.06 | 8.66 |
| Price/Sales (P/S) | 1.48 | 0.46 | 1.60 | 0.15 | 0.22 | 0.75 |
| Earnings Yield | 6.85% | 13.62% | 8.21% | 14.60% | 24.61% | 11.54% |
| Debt/Equity | 0.69 | 0.65 | 0.70 | 1.55 | 0.71 | 0.65 |
| Cash Flow (\$/share) | 4.57 | 2.16 | 7.01 | 3.02 | 14.22 | 11.12 |
| Growth Score | B | - | - | A | B | A |
| Hist. EPS Growth (3-5 yrs) | 4.12% | 3.50% | 10.85% | 4.98% | 7.92% | 1.80% |
| Proj. EPS Growth (F1/F0) | -16.67% | -5.00% | 4.20% | -36.38% | -24.38% | 5.05% |
| Curr. Cash Flow Growth | 51.18% | 8.09% | 5.93% | 33.03% | 13.47% | 9.60% |
| Hist. Cash Flow Growth (3-5 yrs) | 4.29% | 4.12% | 8.55% | 1.96% | 3.78% | -3.42% |
| Current Ratio | 2.12 | 1.75 | 1.23 | 1.67 | 1.40 | 1.94 |
| Debt/Capital | 40.92% | 39.71% | 42.57% | 61.47% | 41.55% | 39.49% |
| Net Margin | 10.54% | 3.58% | 11.57% | 3.58% | 6.57% | 10.40% |
| Return on Equity | 30.78% | 11.95% | 16.74% | 17.78% | 12.17% | 20.83% |
| Sales/Assets | 1.14 | 1.13 | 0.54 | 1.12 | 0.74 | 0.91 |
| Proj. Sales Growth (F1/F0) | -15.50% | 0.00% | 2.76% | -11.51% | -2.37% | -0.49% |
| Momentum Score | C | - | - | C | C | D |
| Daily Price Chg | -12.87% | -0.50% | -3.98% | -10.51% | -7.98% | -1.82% |
| 1 Week Price Chg | -11.35% | -19.20% | -16.96% | -25.97% | -37.29% | -20.39% |
| 4 Week Price Chg | -43.80% | -43.80% | -36.64% | -66.83% | -64.24% | -40.33% |
| 12 Week Price Chg | -53.81% | -50.00% | -37.10% | -71.76% | -72.07% | -43.90% |
| 52 Week Price Chg | -45.58% | -61.38% | -28.90% | -65.89% | -73.40% | -46.65% |
| 20 Day Average Volume | 4,291,841 | 192,371 | 4,200,337 | 2,788,845 | 1,617,513 | 1,786,171 |
| (F1) EPS Est 1 week change | -3.74% | -0.85% | -0.16% | -28.76% | -6.01% | -0.84% |
| (F1) EPS Est 4 week change | -4.83% | -5.88% | -1.37% | -46.37% | -8.96% | -3.35% |
| (F1) EPS Est 12 week change | -6.22% | -8.33% | -2.41% | -46.37% | -14.88% | -1.78% |
| (Q1) EPS Est Mthly Chg | -35.18% | -35.18% | -1.16% | -191.35% | -7.80% | -43.61% |

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 | B |
| 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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