

Walmart Inc. (WMT)

\$129.00 (As of 04/14/20)

Price Target (6-12 Months): **\$136.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Walmart's shares have outpaced the industry year to date. The stock has been especially gaining from increased traffic stemming from rising demand for essential items amid coronavirus. COVID-19 and the resultant social distancing has spiked up the demand for toilet paper, masks, gloves, packaged water, groceries and related staples. This has led to increased store traffic, to handle which the company also announced additional hiring. Walmart is also taking actions to support employees' well-being and safety. To this end, it announced special cash bonuses, and has altered shopping methods to aid social distancing. The company has also been gaining from its e-commerce business, especially grocery delivery. However, the company's gross margin has been strained for a while due to compelling pricing and growing e-commerce mix.

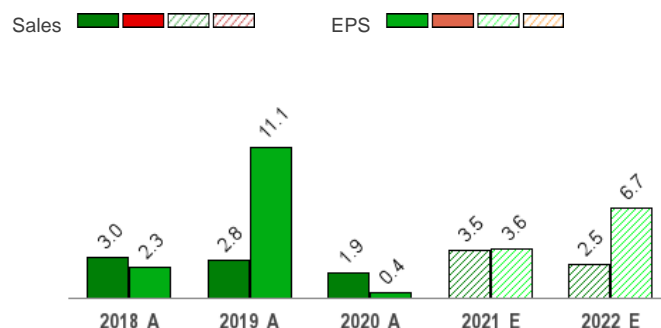
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$129.79 - \$98.85
20 Day Average Volume (sh)	12,828,765
Market Cap	\$365.4 B
YTD Price Change	8.6%
Beta	0.27
Dividend / Div Yld	\$2.16 / 1.7%
Industry	Retail - Supermarkets
Zacks Industry Rank	Top 28% (70 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.5%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/19/2020
Earnings ESP	5.5%
P/E TTM	26.1
P/E F1	25.2
PEG F1	5.3
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	129,869 E	138,340 E	136,586 E	151,908 E	555,816 E
2021	128,624 E	134,784 E	132,294 E	146,606 E	542,289 E
2020	123,925 A	130,377 A	127,991 A	141,671 A	523,964 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.22 E	\$1.42 E	\$1.29 E	\$1.59 E	\$5.45 E
2021	\$1.16 E	\$1.33 E	\$1.19 E	\$1.46 E	\$5.11 E
2020	\$1.13 A	\$1.27 A	\$1.16 A	\$1.38 A	\$4.93 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 04/14/2020. The reports text is as of 04/15/2020.

Overview

Walmart Inc., which removed “Stores” from its name in 2018, has evolved from just being a traditional brick-and-mortar retailer into an omnichannel player. In this regard, acquisitions of Jet.com, Bonobos, Moosejaw and Parcel, partnership with JD.com and Lord and Taylor, and investment in online e-commerce platform Flipkart are noteworthy. These position the company to keep pace with the changing retail ecosystem and stay firm in the presence of rivals like Amazon and Target. Markedly, Walmart's product offerings include almost everything from grocery to cosmetics, electronics to stationery, home furnishings to health and wellness products, and apparel to entertainment products, to name a few.

This Bentonville-based retailer operates variety stores, discount stores, supercenters, Sam's Clubs and Neighborhood Markets, along with the websites – walmart.com and samsclub.com.

The company offers merchandise under its private-label store brands, which comprises of Equate, Faded Glory, George, Great Value, Holiday Time, Mainstays, and others. The company also markets merchandise under licensed brands, such as, Better Homes & Gardens, General Electric and more.

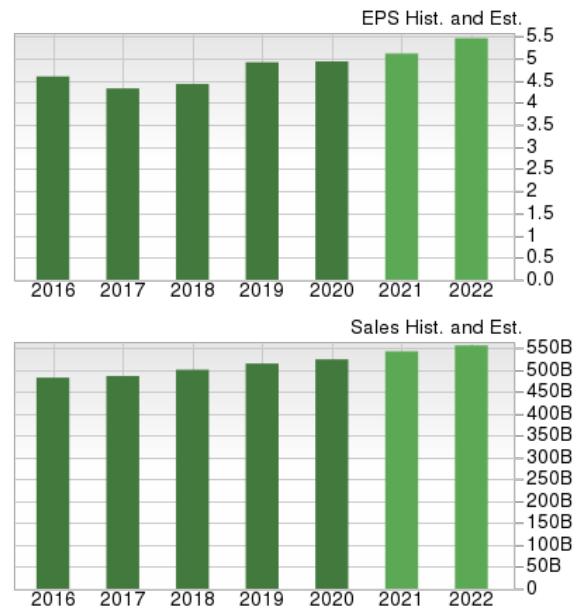
The company operates as Walmart in the United States (its largest segment), including the 50 states, Washington D.C. and Puerto Rico. Its International segment (second largest) operated businesses in 26 countries as of Jan 31, 2019. Apart from United States, Walmart has operations in Argentina, Canada, Chile, China, India, Japan, Mexico, United Kingdom, Africa and Central America. The company operates in Mexico as Walmex, in the U.K. as Asda, in Japan as Seiyu, and in India as Best Price.

The company conducts its businesses under three segments:

Walmart U.S. (65.1% of fiscal 2020 revenues) operates retail stores in different formats in the U.S. and also in Puerto Rico.

Walmart International (23%) consists of retail operations in 26 countries outside the U.S.

Sam's Club (12%) comprises membership warehouse clubs in 44 states in the U.S. and Puerto Rico, as well as the segment's online retail operations.



Reasons To Buy:

- ▲ **Impressive Stock Performance:** Walmart's shares have gained 8.6% year to date, outpacing the industry's growth of 4.8%. The stock, which has jumped 20.8% in a month, has been especially gaining from increased traffic stemming from burgeoning demand for essential items amid coronavirus. Well, COVID-19 and the resultant social distancing has led consumers to stay indoors and just move out for essentials. This has spiked up the demand for toilet paper, disinfectants, masks, gloves, packaged water, infant supplies medicines, groceries and related staples. As a result of the surging demand, retail behemoths like Walmart have to restock their shelves faster than usual. Consequently, the company also announced plans to employ 150,000 new associates, until the end of May, for its stores, distribution centers, clubs and fulfillment centers. Apart from this, Walmart announced special cash bonuses for its hourly workers and is committed toward the well-being of employees. The company said that it is extending paid leave policies, shutting stores overnight to restock and sanitize, installing social distance markers and sneeze guards in stores, producing gloves and masks and conducting temperature checks. Moreover, the company's regulated store entry and organized one-way movement through aisles is likely to help it ensure safety and support social distancing.
- Walmart is gaining from its sturdy comps record, which in turn is driven by its constant omnichannel efforts. The company has been posting positive comps in the U.S. division for 22 straight quarters.
- ▲ **Solid Comps Record:** Walmart has been gaining from its sturdy comparable store sales (comps) record, which in turn is driven by its constant expansion efforts and splendid e-commerce performance. These factors have helped shares of the company rally about 26.1% in the past year compared with the industry's growth of 21.5%. Well, Walmart has been undertaking several efforts to enhance merchandise assortments. Also, the company is on track with store remodelling, in an attempt to upgrade them with advanced in-store and digital innovations. Walmart is also gaining from its compelling pricing strategy, which helps it draw customers. Such trends drove the company in fourth-quarter fiscal 2020, which marked Walmart's 22nd consecutive quarter of U.S. comps growth. U.S. comp sales (or comps), excluding fuel, improved 1.9% on the back of a 1% rise in transactions and 0.9% in ticket. On a two-year stacked basis, comps rose 6%. This was backed by constant increases in food and consumables sales despite facing tough comparisons from last year's SNAP benefit. In fact, strength in grocery, health & wellness, home and electronics drove the segment's performance, which was somewhat offset by weakness in toys, media & gaming and apparel.
- ▲ **Robust E-Commerce Initiatives:** Walmart is trying every means to evolve with the changing consumer environment to compete with brick-and-mortar rivals and e-Commerce king Amazon. In this regard, the company has been taking several e-commerce initiatives, including buyouts, alliances, and improved delivery and payment systems. The company's contracts with Green Dot and Microsoft; buyouts of ShoeBuy, Moosejaw, Bonobos, ModCloth and Jet.com; and deal with Lord and Taylor, among others, underscore its intention to build an impressive digital brand portfolio. Further, the buyout of the 77% stake in Flipkart has been bolstering its e-commerce sales. The company's efforts to improve its website, enhance check-out process, focus on Walmart2World money transfer service, along with Walmart Pay mobile payment system and Mobile Express Returns program highlight its initiatives to accelerate the online business. Apart from this, Walmart is making aggressive efforts to expand in the booming online grocery space, which has long been a major contributor to e-commerce sales. Backed by such endeavors, U.S. e-commerce sales surged 35% in the fourth quarter of fiscal 2020. Solid growth in grocery pickup and delivery boosted e-commerce sales in the segment. Further, walmart.com saw considerable growth during the quarter. These factors keep management optimistic about achieving 30% U.S. e-commerce sales growth in fiscal 2020.
- ▲ **Focus on Enhancing Delivery Services:** Given the rising demand for online grocery, Walmart remains committed to enrich consumers' experiences by providing easy shopping methods and seamless grocery deliveries. To this end, Walmart unveiled the Delivery Unlimited membership option for 1,400 U.S. stores during the third quarter of fiscal 2020. Also, it launched Walmart InHome Delivery across three markets and same-day pickup at all of Mexico's Sam's Club locations. Prior to this, Walmart joined hands with Point Pickup, Skipcart, AxleHire and Roadie. These collaborations are expected to strengthen Walmart's online grocery delivery service in four states, with plans of greater expansions going ahead. Also, Walmart's alliance with Jet.com and Blue Apron to provide on-demand meal kits is noteworthy.
- In an earlier development, Walmart inked a deal with Postmates to extend its online grocery delivery service to cover more than 40% of the families in the United States. Other than this, the company's contract with DoorDash and acquisition of Parcel highlight its focus on enhancing grocery sales. Further, the company's Walmart Pickup program enables customers to place orders online and then pick them up at a store for free. Walmart has also partnered with ride hailing services Uber and Lyft for speedy online grocery deliveries, while it also tested same-day delivery with Deliv. We believe that these actions help Walmart offer multiple choices to online grocery shoppers amid increasing competition from Amazon. As of the fourth quarter, Walmart U.S. had nearly 3,200 pickup locations, more than 1,600 same-day grocery delivery locations and nearly 1,500 pickup towers.
- ▲ **Strength in International Business:** At Walmart's International segment, currency-neutral net sales grew 2.2% to \$33 billion, with six out of 10 markets registering positive comps. Robust performance in China, Mexico and Canada was partly offset by Brexit-related worries in the U.K. and headwinds in Chile. The company remains committed toward achieving growth across all its markets, on the back of its fresh products, expansion of online grocery and private brands. Also, Walmart is likely to gain from its steps to improve the international business unit. To this end, the company is making continued efforts to shift focus from underperforming areas to profitable regions like India and China. This is clear from its decision to merge its soft U.K. grocery unit, Asda with Sainsbury and sale of 80% of its stake in the underperforming Brazilian business. On the other hand, Walmart's buyout of major stake in India's leading e-commerce company, Flipkart is helping the former expand its presence in India, which is one of the largest retail markets in the world. Management expects net sales at Walmart's International segment to increase approximately 4% at cc in fiscal 2021.

Reasons To Sell:

- ▼ **Soft Q4 Earnings, Stock Appears Overvalued:** In fourth-quarter fiscal 2020, Walmart's earnings broke its seven-quarter long trend of positive surprise. Moreover, earnings dropped 2.1% year over year, which could be accountable to higher cost of sales as well as increased operating, selling, general and administrative expenses. Additionally, disruption in Chile and a legal matter affected the bottom line by around 5 cents.

Further, on considering price-to-earnings (P/E) ratio, Walmart looks overvalued when compared with the industry. The stock has a trailing 12-month P/E ratio of 26.11, which is above its median level of 23.37 scaled in a year. Meanwhile, the trailing 12-month P/E ratio for the industry is currently pegged at 23.62.

Costs associated with investments in e-commerce expansion and technological advancements; the mix impact from growing e-commerce operations and a compelling pricing strategy are hurdles.

- ▼ **Strained Margins:** While Walmart's online strategies have been driving its business, costs associated with investments in e-commerce expansion and technological advancements; the mix impact from growing e-commerce operations and Walmart's compelling pricing strategy have been weighing on its margins. During the fourth quarter of fiscal 2020, consolidated gross margin contracted 47 bps, following a decline of 36 bps, 46 bps and 27 bps in the third, second and first quarters, respectively. In the fourth quarter of fiscal 2020, Walmart U.S. gross margin contracted 34 bps due to constant price investments and rising e-commerce mix. Persistence of these trends poses a threat to margins.
 - ▼ **Intense Competition:** Walmart faces intense competition from other department, discount, dollar, variety, drug and specialty stores, warehouse clubs, e-commerce businesses and supermarkets, at national, regional and global levels. The company competes on the basis of merchandise assortment, price and quality, among other factors, which may affect its results.
 - ▼ **Macroeconomic Issues:** The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn, the company's growth and profitability. Walmart generates a significant amount of net sales outside the U.S. Due to high exposure to international markets, the company is prone to currency fluctuations.
 - ▼ **Loss of Investor Confidence Due to Increased Media Scrutiny:** Walmart has always remained under media scrutiny due to its size and scale of operations. It has had to face criticism for issues such as labour disputes and breach of food safety measures in China. Expenses associated with enquiries and investigations significantly impact the company's margins. Moreover, the allegations severely hurt investor confidence.
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Last Earnings Report

Walmart Q4 Earnings Lag Estimates, Sales Increase Y/Y

Walmart posted fourth-quarter fiscal 2020 results, wherein adjusted earnings came in at \$1.38 per share, falling short of the Zacks Consensus Estimate of \$1.43. Moreover, earnings dropped 2.1% year over year. This could be accountable to higher cost of sales as well as increased operating, selling, general and administrative expenses. Further, the disruption in Chile and a legal matter affected the bottom line by around 5 cents.

Total revenues grew 2.1% to nearly \$141.7 billion. The year-over-year upside was driven by growth in all segments. The Zacks Consensus Estimate was pegged at \$142.4 billion.

Consolidated gross profit margin contracted 47 basis points (bps) to 23.4%. Gross margin in Walmart U.S. contracted 34 bps due to constant price investments and rising e-commerce mix, partly compensated by reduced supply-chain costs. Consolidated operating income fell 12.3% to \$5.3 billion. On a constant-currency (cc) basis, operating income declined 12.7%. Adjusted operating income decreased 3.7% to \$5.8 billion at cc.

Segment Details

Walmart U.S.: The segment's net sales grew 1.9% to \$92.3 billion in the quarter. U.S. comp sales (or comps), excluding fuel, improved 1.9% on the back of a 1% rise in transactions and 0.9% in ticket. On a two-year stacked basis, comps rose 6%. This was backed by constant increases in food and consumables despite facing tough comparisons from last year's SNAP benefit. In fact, strength in grocery, health & wellness, home and electronics drove the segment's performance, somewhat offset by weakness in toys, media & gaming and apparel.

Further, e-commerce sales drove comps by 210 bps. E-commerce sales soared 35% on strength in online grocery. Solid growth in grocery pickup and delivery boosted e-commerce sales in the segment. Further, walmart.com saw considerable growth. As of the fourth quarter, Walmart U.S. had nearly 3,200 pickup locations, more than 1,600 same-day grocery delivery locations and nearly 1,500 pickup towers. Adjusted operating income at the Walmart U.S. segment declined 3.8% to \$4.9 billion.

Walmart International: Segment net sales rose 2.3% to \$33 billion. On a currency-neutral basis, net sales advanced 2.2% to \$33 billion, with six out of 10 markets registering positive comps. Robust performance in China, Mexico and Canada was partly offset by Brexit-related worries in the U.K. and headwinds in Chile. Adjusted operating income rose 0.4% to \$1.2 billion at cc. Operating income was partly hurt by the disruption in Chile.

Sam's Club: The segment, which comprises membership warehouse clubs, witnessed a net sales rise of 2.6% to \$15.3 billion. Sam's Club comps, excluding fuel, rose 0.8%. Comps were hurt by lower tobacco sales to the tune of around 300 bps. While transactions grew 4.3%, ticket was down 3.5%. E-commerce fueled comps by 200 bps. Markedly, e-commerce sales jumped 33% at Sam's Club. Segment operating income came in at \$0.4 billion, down 7.2% year over year.

Other Financial Updates

In fiscal 2020, the company generated operating cash flow of \$25.3 billion and incurred capital expenditures of \$10.7 billion, resulting in free cash flow of \$14.6 billion. The company allocated \$6 billion toward dividends and made share buybacks worth \$5.7 billion during the fiscal.

In a separate press release, management raised its annual dividend for fiscal 2021 to \$2.16 per share, from \$2.12 paid out in fiscal 2020. The raised dividend will be paid out in quarterly installments of 54 cents per share.

Guidance

For fiscal 2021, management expects consolidated net sales growth (at cc) of nearly 3%. Comps at the U.S. division are likely to rise at least 2.5% (excluding fuel). At Sam's Club, comps are expected to decline 50 bps, excluding fuel, while it is likely to rise 3%, excluding fuel and tobacco.

Walmart U.S. e-commerce sales are likely to jump roughly 30%. Further, net sales at Walmart's International segment are anticipated to increase approximately 4% at cc.

Walmart anticipates expense leverage of nearly 20 bps in fiscal 2021 and consolidated operating income growth to be similar to that of the bottom line. Management envisions fiscal 2021 earnings per share of \$5.00-\$5.15, implying an increase of 1.5-4.5% from adjusted earnings of \$4.93 reported in fiscal 2020.

Quarter Ending 01/2020

Report Date	Feb 18, 2020
Sales Surprise	-0.52%
EPS Surprise	-3.50%
Quarterly EPS	1.38
Annual EPS (TTM)	4.94

Recent News

Walmart Alters Shopping Methods Amid Coronavirus – Apr 4, 2020

Walmart is witnessing increased traffic as a result of burgeoning demand for essential items amid coronavirus-led social distancing. This is leading to panic buying and stock piling, thereby leading to increased traffic in stores. To ensure safety amid the virus spread, Walmart announced various alterations in shopping methods. To this end, the company has regulated store entry – limiting the number of customers in a store at once. Also, it has organized one-way movement through aisles in quite a few stores.

Apart from this, the company has been doing things to protect the well-being of employees like extending paid leave policies, shutting stores overnight to restock and sanitize, installing social distance markers and sneeze guards in stores, producing gloves and masks and conducting temperature checks.

Prior to this, Walmart also announced special cash bonuses for its hourly workers employed as of Mar 1, 2020. Moreover, the company announced plans to employ 150,000 new associates, until the end of May, for its stores, distribution centers, clubs and fulfillment centers. The company is particularly speeding up the hiring process for key positions like stockers and cashiers.

Valuation

Walmart shares are up 8.5% in the year-to-date period and 25.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 4.7% but the Zacks Retail-Wholesale sector are down 5.3% in the year-to-date period. Over the past year, the Zacks sub-industry gained 19.7%, and the sector climbed 0.4%.

The S&P 500 index is down 14.5% in the year-to-date period and 5.5% in the past year.

The stock is currently trading at 24.91X forward 12-month earnings, which compares to 22.24X for the Zacks sub-industry, 26.97X for the Zacks sector and 18.03X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.91X and as low as 12.75X, with a 5-year median of 17.48X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$136 price target reflects 26.26X forward 12-month earnings.

The table below shows summary valuation data for WMT

Valuation Multiples - WMT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.91	22.24	26.97	18.03
	5-Year High	24.91	22.24	26.97	19.34
	5-Year Low	12.75	14.08	19.06	15.19
	5-Year Median	17.48	17.09	23.16	17.45
P/S F12M	Current	0.67	0.44	0.99	3.04
	5-Year High	0.67	0.49	1.11	3.44
	5-Year Low	0.37	0.31	0.8	2.54
	5-Year Median	0.48	0.41	0.93	3.01
EV/EBITDA TTM	Current	13.51	11.2	15.11	10.07
	5-Year High	13.51	11.2	16.31	12.87
	5-Year Low	6.35	5.87	10.89	8.27
	5-Year Median	8.13	7.19	12.53	10.78

As of 04/14/2020

Industry Analysis Zacks Industry Rank: Top 28% (70 out of 253)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Companhia Brasileira de Distribuicao (CBD)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
The Kroger Co. (KR)	Neutral
Macys, Inc. (M)	Neutral
Target Corporation (TGT)	Neutral
Tesco PLC (TSCDY)	Neutral

Industry Comparison Industry: Retail - Supermarkets				Industry Peers		
	WMT Neutral	X Industry	S&P 500	CBD Neutral	KR Neutral	TSCDY Neutral
VGM Score	A	-	-	A	A	A
Market Cap	365.36 B	4.45 B	19.79 B	3.32 B	24.96 B	29.18 B
# of Analysts	14	8	14	2	9	3
Dividend Yield	1.67%	1.99%	2.16%	0.24%	1.99%	2.28%
Value Score	C	-	-	A	B	A
Cash/Price	0.03	0.12	0.06	0.61	0.07	0.14
EV/EBITDA	12.46	6.67	11.74	6.70	7.15	NA
PEG Ratio	5.34	2.73	2.15	0.56	2.73	2.03
Price/Book (P/B)	4.49	1.11	2.65	0.97	3.00	1.68
Price/Cash Flow (P/CF)	14.57	6.49	10.40	6.49	5.06	8.13
P/E (F1)	25.24	13.29	17.72	9.50	13.29	13.61
Price/Sales (P/S)	0.70	0.24	2.06	0.23	0.20	NA
Earnings Yield	3.96%	7.51%	5.46%	10.53%	7.51%	7.38%
Debt/Equity	0.79	1.01	0.70	1.37	2.17	1.13
Cash Flow (\$/share)	8.85	2.99	7.01	1.92	6.34	1.10
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	0.99%	0.83%	10.92%	NA	1.95%	NA
Proj. EPS Growth (F1/F0)	3.62%	4.44%	-2.65%	197.73%	9.75%	26.28%
Curr. Cash Flow Growth	-0.12%	1.94%	5.93%	-12.81%	20.55%	21.48%
Hist. Cash Flow Growth (3-5 yrs)	-0.31%	3.24%	8.55%	-13.56%	6.44%	-12.01%
Current Ratio	0.79	0.80	1.24	0.86	0.76	0.80
Debt/Capital	44.04%	50.49%	42.36%	57.74%	68.47%	53.09%
Net Margin	2.84%	1.36%	11.64%	1.36%	1.36%	NA
Return on Equity	18.16%	9.16%	16.74%	4.17%	20.72%	NA
Sales/Assets	2.22	2.22	0.54	1.17	2.73	NA
Proj. Sales Growth (F1/F0)	3.50%	2.74%	0.00%	39.76%	3.02%	12.02%
Momentum Score	A	-	-	A	A	C
Daily Price Chg	2.95%	0.62%	2.56%	1.55%	2.43%	1.82%
1 Week Price Chg	1.94%	-0.20%	16.01%	5.97%	-3.81%	4.43%
4 Week Price Chg	8.17%	2.51%	11.39%	-5.61%	-2.76%	6.94%
12 Week Price Chg	11.60%	-6.19%	-19.33%	-41.76%	12.95%	-6.19%
52 Week Price Chg	25.33%	-16.72%	-11.64%	-47.40%	25.50%	-9.33%
20 Day Average Volume	12,828,765	172,878	3,452,738	517,142	16,069,275	489,972
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-3.43%
(F1) EPS Est 4 week change	0.08%	-4.71%	-6.42%	-1.87%	2.58%	-5.74%
(F1) EPS Est 12 week change	-1.80%	-3.97%	-8.69%	1.95%	3.40%	-6.19%
(Q1) EPS Est Mthly Chg	1.19%	6.23%	-11.08%	NA	11.28%	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	C
Growth Score	B
Momentum Score	A
VGM Score	A

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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