

## Yandex N.V. (YNDX)

**\$44.30** (As of 01/13/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 09/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

## Summary

Yandex's core search business continues to be the key growth driver. Its increasing share in the Russian search market is a tailwind. Moreover, the company's top-line growth is driven by its increasing online advertising revenues. Further, the company's solid momentum across Taxi, Classifieds, Media Services and Experiments segments is expected to contribute well in the upcoming quarters. Furthermore, strengthening ridesharing business will continue to aid growth in Taxi segment. Additionally, robust Yandex.Drive and Geolocational services are tailwinds. The stock has outperformed the industry it belongs to over a year. However, mounting investments across all the segments pose a serious threat to its profitability. Moreover, rising competition from search giant like Google remains a risk to its market position.

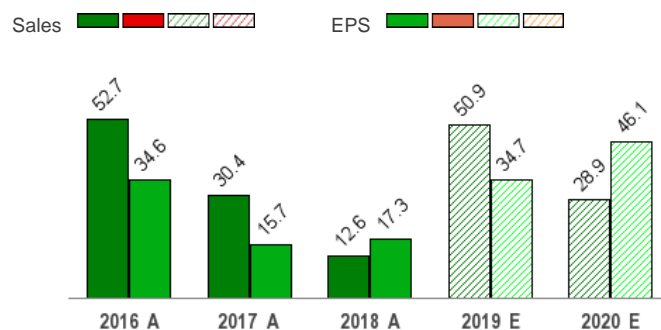
## Price, Consensus & Surprise



## Data Overview

|                            |                                    |
|----------------------------|------------------------------------|
| 52 Week High-Low           | <b>\$44.83 - \$28.91</b>           |
| 20 Day Average Volume (sh) | <b>1,281,841</b>                   |
| Market Cap                 | <b>\$14.4 B</b>                    |
| YTD Price Change           | <b>1.9%</b>                        |
| Beta                       | <b>2.03</b>                        |
| Dividend / Div Yld         | <b>\$0.00 / 0.0%</b>               |
| Industry                   | <a href="#">Internet - Content</a> |
| Zacks Industry Rank        | <b>Bottom 35% (164 out of 254)</b> |

## Sales and EPS Growth Rates (Y/Y %)



|                           |                   |
|---------------------------|-------------------|
| Last EPS Surprise         | <b>-8.6%</b>      |
| Last Sales Surprise       | <b>4.0%</b>       |
| EPS F1 Est- 4 week change | <b>0.0%</b>       |
| Expected Report Date      | <b>02/21/2020</b> |
| Earnings ESP              | <b>0.0%</b>       |
| P/E TTM                   | <b>38.2</b>       |
| P/E F1                    | <b>23.7</b>       |
| PEG F1                    | <b>0.6</b>        |
| P/S TTM                   | <b>5.8</b>        |

## Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4      | Annual* |
|------|-------|-------|-------|---------|---------|
| 2020 | 747 E | 818 E | 905 E | 1,056 E | 3,575 E |
| 2019 | 576 A | 656 A | 699 A | 817 E   | 2,773 E |
| 2018 | 464 A | 473 A | 497 A | 559 A   | 1,838 A |

## EPS Estimates

|      | Q1       | Q2       | Q3       | Q4       | Annual*  |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.36 E | \$0.32 E | \$0.45 E | \$0.57 E | \$1.87 E |
| 2019 | \$0.27 A | \$0.27 A | \$0.32 A | \$0.39 E | \$1.28 E |
| 2018 | \$0.21 A | \$0.24 A | \$0.28 A | \$0.30 A | \$0.95 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 01/13/2020. The reports text is as of 01/14/2020.

## Overview

Moscow-based Yandex N.V. is an internet-based company that develops technology products and services by leveraging the power of machine learning. It holds a leading position in the European market with its advanced and popular search engine that offers enhanced and relevant search results.

The company operates in five organized segments and generated RUB 127.7 billion of total revenues in 2018.

**Search and Portal:** This segment is Yandex's primary business and the primary catalyst for top-line growth. In 2018, it accounted for 81.7% of total revenues. Under this segment, the company offers its vast search engine, personal services, Yandex.Health and advertising services. These services are available in Russia, Belarus, Kazakhstan and Ukraine. The segment also includes Search and Portal in Turkey and Yandex Launcher.

**Media Services:** This segment accounted for 1.5% of total revenues in 2018. This segment was formed out of Experiments segment and offers KinoPoisk, Yandex.Music, Yandex.Afisha and Yandex.TV.

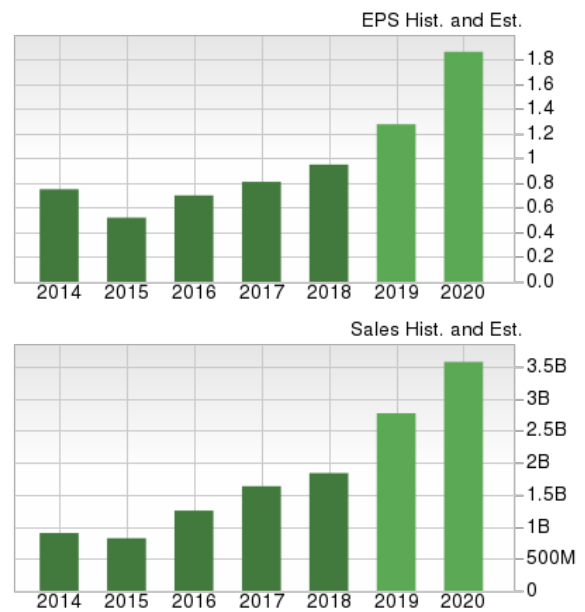
**Taxi:** Yandex generated 15.1% of its revenues from this segment. The company provides ride sharing and food delivery services under this segment.

**Classifieds:** The company has generated 2.9% of revenues from this segment. The facilities offered include automobile, real estate, job search and online travel services.

**Other Bets and Experiments:** This segment is comprised of geolocational services and Yandex.Education. Yandex also offers discovery services and big data analytics solutions under this segment. The company generated 2% of total revenues in 2018.

Out of all these, Yandex generates most of its revenues through online advertising from which the revenues can be divided into two categories — revenues from Yandex Properties and Advertising Networks.

The company offers programmatic advertising as well as mobile advertising. Yandex also faces stiff competition from Google and Mail.ru in the Russian search market.



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## Reasons To Buy:

- ▲ Yandex Search remains the most significant business unit of the company and has been witnessing steady growth since its inception. The search engine market continues to gain traction due to increasing penetration of internet and mobile. In 2018, the company accounted for 56.3% share of overall Russian search traffic while Google and Mail.ru was 39.6% and 3.4%, respectively. Yandex's share further reached 56.6% in the third-quarter 2019. Moreover, the company's search share on Android in Russia was 52.8% in the third quarter. The company is well-poised to capitalize on benefits from an increased penetration in the Russian search engine market with the introduction of new apps such as — Turbo pages and Alice — which are aimed at enhancing its search results.
- ▲ The online advertising services remain the key driver of Yandex's top-line growth. In 2018, it accounted for 80.5% of total revenues. The digital advertising market holds immense potential as the global spending on advertisement is increasing at a rapid pace. Per the reports from a media agency, Magna, the global digital ad spending is expected to reach \$291 billion and account for 50% of the total ad spending in 2020. For the past few years, mobile advertising has been playing an important role driving the overall growth of online advertising market. Per Zenith's report, mobile advertising spend is expected to hit \$180 billion by 2020. Further, mobile is anticipated to generate 35% of total revenues in this particular market of Russia by 2022. Consequently, Yandex is well poised to reap benefits from this high growth market on the back of its vast ad network, various kinds of ad formats and robust Yandex.Direct, an advertising placement platform.
- ▲ The company's efforts toward expanding business beyond the search engine world are major positives. The company has made significant amount of investments to diversify business. The company operates in the e-commerce market and has entered ride sharing business with Yandex.Taxi; auto dealer market with Auto.ru; real estate sector with Yandex.Realty; job search market with Yandex.Jobs, travel sector with Yandex.Travel and video streaming market with its robust media services. It also recently launched a car rental service called Yandex.Drive. Apart from these, the company also managed to foray into the cloud industry with the launch of Yandex.Cloud. The company has rolled out its voice assistant, Alice and smart speaker, Yandex.Station. These have reinforced its competitive position against other players, especially Google in Russia. Consequently, we note that Yandex's business is well diversified which will help it to overcome the loss from any sector if any with the profit from another sector.

Yandex's improving search market share, robust Taxi segment and rising advertising revenues remain major positives.

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## Reasons To Sell:

- ▼ The company derives revenues majorly from online advertising which reflects the concentration of its revenues. The company operates primarily in emerging markets where overall online advertising spending and internet use penetration is comparatively lower than the developed countries. Moreover, traditional modes of advertising such as television and radio are still preferable than the online internet advertising in most of the developing countries. This remains a headwind. Notably, any customer or group of customers of the company have not even accounted for more than 10% of its revenues since 2015.
- ▼ Yandex operates primarily in Russia; consequently, its financial and operating activities are exposed to economic conditions of the country. Hence, any unfavorable economic situation is bound to impact the company's fundamentals significantly. Russia's high dependency on oil and gas exports makes its economy prone to the fluctuations in the world oil and gas prices. The economy witnessed a severe downturn in 2014 and 2015 due to a sharp fall in oil prices and this led to a substantial decline in the country's stock market and depreciation of ruble. Additionally, strict tax laws in Russia remain major concerns as the company has recorded \$5 million of unrecognized tax benefits as liabilities. Now if the company plans to enter the global market, it will face a tough competition from Google which already poses a stiff challenge in Russia.
- ▼ Notably, the company is trading at premium in terms of Price/Earnings. Currently, Yandex has a trailing 12-month P/E ratio of 38.19, which compares unfavorably with what the industry witnessed over the last year. Consequently, valuation looks stretched from P/E perspective.

Concentration of revenues and operations are serious concerns. Intensifying competition also remains a headwind for Yandex.

## Last Earnings Report

### Yandex's Q3 Earnings Miss, Revenues Beat

Yandex reported third-quarter 2019 adjusted earnings of 32 cents (RUB 13.85) per share missing the Zacks Consensus Estimate by 3 cents. Further, the figure has declined from the year-ago quarter figure of RUB 14.25.

Revenues of \$698.8 million (RUB 45 billion) surpassed the Zacks Consensus Estimate of \$672 million. The figure exhibited year-over-year growth of 38% in ruble terms.

The company's growing advertising revenues, solid momentum in the Russian search market and robust performance by Taxi segment drove the top line during the reported quarter. Additionally, the company witnessed year-over-year growth of 22% in its paid clicks during the third quarter.

Further, well-performing Classifieds, Media Services and Experiments segments of the company contributed to the results.

However, increasing expenses hurt margin expansion during the reported quarter.

We believe Yandex's strong momentum across Taxi and ride sharing business remains a major positive. Moreover, the company has raised revenue outlook for 2019, which is likely to instill investor optimism.

### Top Line Details

Total online advertising revenues amounted to RUB 31.23 billion (69.4% of total revenues), reflecting growth of 21% on a year-over-year basis.

This was primarily driven by robust performance of Yandex properties, which accounted for 79.7% of the total advertising revenues and exhibited year-over-year growth of 25%. This can be attributed to robust Zen, Geo services, Mail and others. Further, Advertising network revenues contributed 20.3% to advertising revenues and improved 6.3% from the year-ago quarter.

Taxi revenues of RUB 9.6 billion (21.4% of total revenues) surged 89% on a year-over-year basis, driven by increasing number of rides.

Other revenues of RUB 4.1 billion (9.2% of total revenues) soared 169% from the prior-year quarter. This can be attributed to the well-performing Yandex.Drive and Media Services. Further, strong IoT initiatives remain a positive.

### Segments in Detail

**Search and Portal:** The segment generated RUB 31.2 billion revenues (69.2% of total revenues), up 21% year over year. The company's strong position in the Russian search market remains a key catalyst. Notably, its market share reached 56.6% during the reported quarter, which went up 70 bps year over year. This can be attributed to expanding Yandex's mobile search share which stood at 50.4% in the third quarter. Notably, mobile revenues accounted for 46.3% of the company's search revenues. Further, mobile search traffic accounted for 57.3% of the total search traffic. This was driven by Yandex's search share on Android, which came in 52.8%, expanding 370 bps from the year-ago quarter.

**Taxi:** The segment generated RUB 9.6 billion revenues (21.4% of revenues), surging 89% from the year-ago quarter. Impressive year-over-year growth was driven by increasing number of rides that advanced 58% from the prior-year quarter, on the back of strengthening ridesharing business. Further, robust performance by corporate Taxi and food delivery business contributed to the segment's results.

**Classifieds:** The segment generated revenues of RUB 1.4 billion (3% of revenues), advancing 39% year over year. Revenues from listing fees and value added service (VAS), which surged 88% year over year, drove the segment's top line.

**Media Services:** The segment generated revenues of RUB 924 million (2% of revenues), climbing 123% from the year-ago quarter. This can be attributed to improving subscription services and video advertising revenues on the back of expanding Yandex.Plus and growth in content inventory of KinoPoisk. Further, well-performing Yandex.Music contributed to revenues.

**Other Bets and Experiments:** The segment yielded RUB 4.1 billion revenues (9% of total revenues), up 176% from the prior-year quarter. This was driven by robust performance of Yandex's Zen, Yandex.Drive and Geo services.

### Operating Details

In third-quarter 2019, adjusted net income margin was 15.3%, contracting 360 bps from the year-ago quarter.

Per the company, its operating margin came in 16.5% in the third quarter, contracting 180 bps on a year-over-year basis.

Further, Adjusted EBITDA margin was 30.9%, which contracted 230 bps year over year.

Operating expenses as a percentage of revenue was 83.5%, expanding 180 bps from the year-ago quarter.

The company's total traffic acquisition cost (TAC) came in RUB 5.8 billion, climbing 9% on a year-over-year basis.

### Balance Sheet & Cash Flows

As of Sep 30, 2019, cash and cash equivalents were \$675.7 million, up from \$536 million as of Jun 30, 2019.

Accounts Receivables totaled \$246.8 million, decreasing from \$254.4 million in the previous quarter.

Quarter Ending **09/2019**

| Report Date      | Oct 25, 2019 |
|------------------|--------------|
| Sales Surprise   | 4.01%        |
| EPS Surprise     | -8.57%       |
| Quarterly EPS    | 0.32         |
| Annual EPS (TTM) | 1.16         |

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For the third quarter, cash flow from operations was \$228 million, which surged from the previous-quarter figure of \$167.1 million.

**Guidance**

For 2019, management raised guided range for revenue growth from 32-36% to 36-38% in ruble terms from 2018, excluding the Yandex.Market.

Further, the company expects revenue growth in Search and Portal in the range of 20-21% from 2018 in ruble terms.

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## Recent News

On **Jan 5, 2020**, Yandex revealed its growing initiatives in the autonomous driving space. The company mentioned about providing rides in its self-driving cars with no driver on public roads of Las Vegas at CES 2020. Further, it will offer autonomous taxi service in Detroit for visitors of the June 2020 North American International Auto Show. Notably, the service will offer wide range of self-driving vehicles.

On **Oct 14, 2019**, Yandex unveiled an app called Sloy which is a short video app for fashion and style. This is likely to aid Yandex's momentum in the video making app market.

On **Oct 9, 2019**, Yandex rolled out Yandex.Station Mini, its new smart speaker device. This is likely to aid the company's presence in the booming smart speaker market.

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## Valuation

Yandex shares are up 9.4% in the six-month period and 49.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 1.3% and 14.4% in the six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are 18.2% and 50%, respectively.

The S&P 500 index is up 9.7% in the six-month period and 25% in the past year.

The stock is currently trading at 23.46X forward 12-month earnings, which compares to 24.3X for the Zacks sub-industry, 22.94X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 59.42X and as low as 1.71X, with a 5-year median of 24.5X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 24.87X forward 12-month earnings.

The table below shows summary valuation data for YNDX

| Valuation Multiples - YNDX |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F 12M                  | Current       | 23.46 | 24.3         | 22.94  | 19      |
|                            | 5-Year High   | 59.42 | 31.89        | 22.94  | 19.34   |
|                            | 5-Year Low    | 1.71  | 12.84        | 16.87  | 15.17   |
|                            | 5-Year Median | 24.5  | 25.68        | 19.24  | 17.44   |
| P/S F12M                   | Current       | 3.99  | 8.45         | 3.7    | 3.52    |
|                            | 5-Year High   | 7.2   | 15.07        | 3.7    | 3.52    |
|                            | 5-Year Low    | 2.91  | 1.79         | 2.3    | 2.54    |
|                            | 5-Year Median | 4.74  | 6.55         | 3.01   | 3       |
| EV/Sales TTM               | Current       | 5.57  | 10.44        | 4.35   | 3.29    |
|                            | 5-Year High   | 8.36  | 28.2         | 4.35   | 3.3     |
|                            | 5-Year Low    | 3.55  | 9.81         | 2.56   | 2.16    |
|                            | 5-Year Median | 5.54  | 18.21        | 3.44   | 2.8     |

As of 01/13/2020

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## Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 254)



## Top Peers

|   |              |
|---|--------------|
| Changyou.com Limited (CYOU)                           | Neutral      |
| Global Eagle Entertainment Inc. (ENT)                 | Neutral      |
| Alphabet Inc. (GOOGL)                                 | Neutral      |
| Shutterstock, Inc. (SSTK)                             | Neutral      |
| Tencent Music Entertainment Group Sponsored ADR (TME) | Neutral      |
| Yelp Inc. (YELP)                                      | Neutral      |
| Sina Corporation (SINA)                               | Underperform |
| Weibo Corporation (WB)                                | Underperform |

| Industry Comparison Industry: Internet - Content |              |            |           | Industry Peers    |                 |              |
|--|--------------|------------|-----------|-------------------|-----------------|--------------|
|  | YNDX Neutral | X Industry | S&P 500   | SINA Underperform | WB Underperform | YELP Neutral |
| <b>VGM Score</b>                                 | <b>A</b>     | -          | -         | <b>F</b>          | <b>F</b>        | <b>C</b>     |
| Market Cap                                       | 14.39 B      | 202.97 M   | 24.31 B   | 3.18 B            | 11.63 B         | 2.54 B       |
| # of Analysts                                    | 4            | 2          | 13        | 3                 | 3               | 10           |
| Dividend Yield                                   | 0.00%        | 0.00%      | 1.76%     | 0.00%             | 0.00%           | 0.00%        |
| <b>Value Score</b>                               | <b>C</b>     | -          | -         | <b>C</b>          | <b>F</b>        | <b>C</b>     |
| Cash/Price                                       | 0.10         | 0.22       | 0.04      | 1.01              | 0.22            | 0.15         |
| EV/EBITDA  | 13.37        | 4.33       | 14.12     | 3.12              | 15.89           | 28.35        |
| PEG Ratio  | 0.63         | 1.15       | 2.05      | NA                | NA              | 1.76         |
| Price/Book (P/B)                                 | 4.29         | 3.12       | 3.34      | 0.79              | 5.48            | 3.62         |
| Price/Cash Flow (P/CF)                           | 28.55        | 17.61      | 13.66     | 18.61             | 19.64           | 35.87        |
| P/E (F1)   | 23.33        | 23.05      | 18.82     | 16.09             | 17.25           | 36.90        |
| Price/Sales (P/S)                                | 5.78         | 1.51       | 2.64      | 1.49              | 6.53            | 2.57         |
| Earnings Yield                                   | 4.22%        | 4.27%      | 5.29%     | 6.22%             | 5.80%           | 2.70%        |
| Debt/Equity                                      | 0.04         | 0.00       | 0.72      | 0.42              | 0.79            | 0.26         |
| Cash Flow (\$/share)                             | 1.55         | 0.42       | 6.94      | 2.39              | 2.63            | 1.01         |
| <b>Growth Score</b>                              | <b>A</b>     | -          | -         | <b>F</b>          | <b>F</b>        | <b>B</b>     |
| Hist. EPS Growth (3-5 yrs)                       | 8.59%        | 16.34%     | 10.56%    | 66.25%            | 130.05%         | 29.06%       |
| Proj. EPS Growth (F1/F0)                         | 45.99%       | 18.20%     | 7.49%     | -4.38%            | 8.06%           | 81.48%       |
| Curr. Cash Flow Growth                           | 6.23%        | 7.36%      | 14.83%    | -10.25%           | 60.82%          | 73.91%       |
| Hist. Cash Flow Growth (3-5 yrs)                 | -0.83%       | 10.64%     | 9.00%     | 21.00%            | 75.38%          | 109.77%      |
| Current Ratio                                    | 2.77         | 1.19       | 1.23      | 2.92              | 4.51            | 3.67         |
| Debt/Capital                                     | 9.16%        | 7.52%      | 42.99%    | 29.51%            | 44.18%          | 20.94%       |
| Net Margin                                       | 10.94%       | 5.65%      | 11.08%    | 5.66%             | 31.79%          | 5.63%        |
| Return on Equity                                 | 12.22%       | 7.94%      | 17.16%    | 3.08%             | 28.88%          | 4.62%        |
| Sales/Assets                                     | 0.61         | 0.75       | 0.55      | 0.33              | 0.47            | 0.86         |
| Proj. Sales Growth (F1/F0)                       | 28.93%       | 8.94%      | 4.23%     | 7.24%             | 9.80%           | 11.45%       |
| <b>Momentum Score</b>                            | <b>B</b>     | -          | -         | <b>C</b>          | <b>B</b>        | <b>F</b>     |
| Daily Price Chg                                  | 0.54%        | 0.00%      | 0.73%     | 6.61%             | 10.31%          | 2.69%        |
| 1 Week Price Chg                                 | 1.97%        | 0.00%      | 0.39%     | -2.36%            | -6.52%          | 1.61%        |
| 4 Week Price Chg                                 | 3.42%        | 1.76%      | 1.84%     | 19.23%            | 15.02%          | 7.25%        |
| 12 Week Price Chg                                | 35.23%       | 6.08%      | 6.48%     | 10.83%            | 5.25%           | 8.31%        |
| 52 Week Price Chg                                | 49.92%       | -3.33%     | 23.15%    | -21.08%           | -4.67%          | 5.08%        |
| 20 Day Average Volume                            | 1,281,841    | 68,481     | 1,578,594 | 632,300           | 1,335,439       | 602,906      |
| (F1) EPS Est 1 week change                       | 0.00%        | 0.00%      | 0.00%     | 0.00%             | 0.00%           | 0.00%        |
| (F1) EPS Est 4 week change                       | 0.00%        | 0.00%      | 0.00%     | 0.00%             | 0.00%           | -2.71%       |
| (F1) EPS Est 12 week change                      | -2.19%       | -4.99%     | -0.48%    | -30.62%           | -8.35%          | -5.59%       |
| (Q1) EPS Est Mthly Chg                           | 0.00%        | 0.00%      | 0.00%     | NA                | NA              | -15.74%      |



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## 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.

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### 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 | B |
| 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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