

Anheuser-Busch InBev (BUD)

\$64.79 (As of 07/29/21)

Price Target (6-12 Months): **\$71.00**

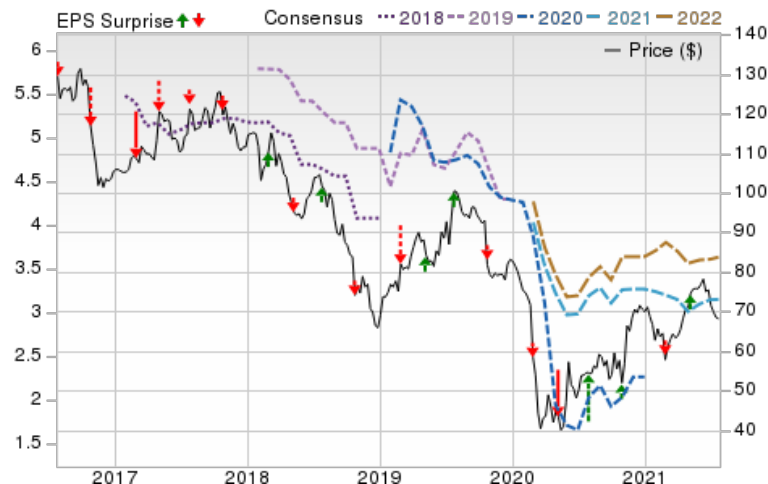
Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 05/04/21)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM: B
Value: B | Growth: C | Momentum: A

Summary

AB InBev's shares have outpaced the industry in the past year. The company had a strong start to 2021, with robust first-quarter 2021 results. Its top and bottom lines beat the Zacks Consensus Estimate and improved year over year. Results benefited from its unique commercial strategy, strong brand portfolio, investments in digital platform and operation excellence, which led to market share growth across the majority of the key markets. Moreover, its premium portfolio reported revenue growth of 28% in the first quarter of 2021, representing more than 30% of its total revenues. Also, the expansion of the Beyond Beer portfolio, along with investments in B2B platforms, e-commerce and digital marketing bode well. However, the company continued to witness higher costs in the first quarter, which hurt margins.

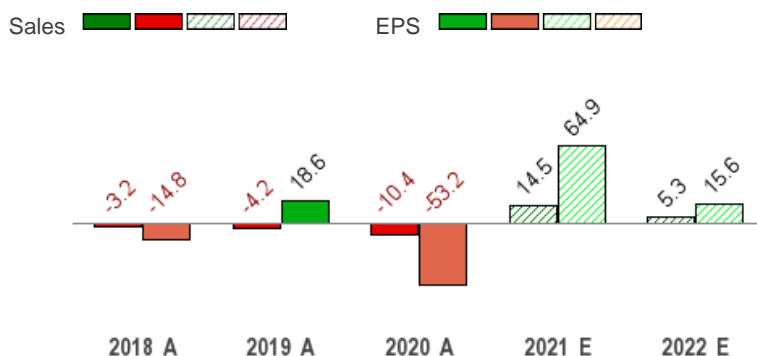
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.67 - \$51.45
20 Day Average Volume (sh)	1,569,019
Market Cap	\$128.3 B
YTD Price Change	-7.3%
Beta	1.55
Dividend / Div Yld	\$0.44 / 0.7%
Industry	Beverages - Alcohol
Zacks Industry Rank	Bottom 19% (204 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-21.5%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	11/04/2021
Earnings ESP	0.0%
P/E TTM	19.5
P/E F1	20.6
PEG F1	2.4
P/S TTM	2.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					56,553 E
2021	12,293 A	13,539 A	13,944 E	13,566 E	53,701 E
2020	11,003 A	10,294 A	12,816 A	12,767 A	46,881 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.64 E
2021	\$0.51 A	\$0.95 A	\$0.96 E	\$0.62 E	\$3.15 E
2020	-\$0.42 A	\$0.46 A	\$0.79 A	\$1.08 A	\$1.91 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 07/29/2021. The report's text and the analyst-provided price target are as of 07/21/2021.

Overview

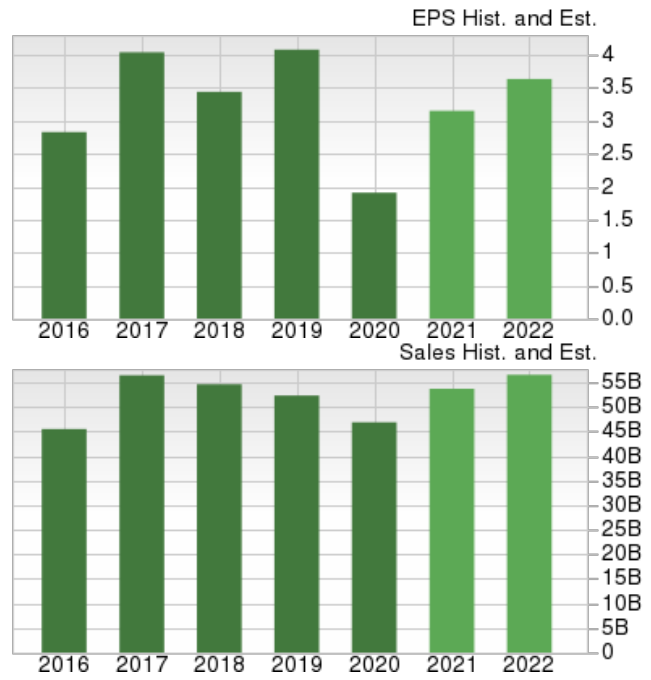
Anheuser-Busch InBev, alias AB InBev, is a global brewing company with more than 500 iconic brands. The company's leading position in majority of its markets and a strong global footprint lends the advantage of economies of scale and growing its multi-country brands globally. Its strategy is based on efforts to develop a portfolio of brands that cater to extensive consumer needs within the market, in terms of price range, flavor profiles, and brand meaning.

Founded in 1366 and based in Leuven, Belgium, Anheuser-Busch InBev, alias AB InBev, is one of the biggest brewing companies (by volume), also ranking among the top five consumer product firms. Following the acquisition of SABMiller in October 2016, the company holds the top spot in the beer industry, controlling about one-third of the global beer market.

The company's diverse portfolio includes global brands like Budweiser, Corona and Stella Artois; multi-country brands like Beck's, Hoegaarden, Leffe and Michelob Ultra; and local names like Aguila, Antarctica, Bud Light, Brahma, Cass, Castle, Castle Lite, Cristal, Harbin, Jupiler, Modelo Especial, Quilmes, Victoria, Sedrin, and Skol. AB InBev sells its beers in more than 150 countries. It generated revenues of \$52.3 billion in 2019.

The company operates in six management zones including North America (19.3% of 2019 revenues), Middle Americas (23.8%), South America (15.3%), APAC (24.9%), EMEA (16.6%) and Global Export and Holding Companies (0.2%).

In 2019, developed markets represented nearly 41.4% of total revenues while developing markets represented 58.6%.



Reasons To Buy:

▲ **Solid Q1 Bodes Well for Stock:** Shares of AB InBev have increased 22.9% in the past year, outpacing the industry's growth of 19.2%. The stock got a boost from the strong start to 2021, with robust first-quarter 2021 results. Notably, its top and bottom lines beat the Zacks Consensus Estimate and improved on a year-over-year basis in the first quarter. The company's results benefited from its unique commercial strategy, strong brand portfolio, investments in digital platform and operation excellence, which led to market share growth across the majority of the key markets. The better-than-expected top-line results demonstrated the company's fundamental strength as well as continued resilience in the global beer category. Notably, its beer business reported 2.8% volume growth in first-quarter 2021 compared with first-quarter 2019, reflecting strong growth versus the pre-pandemic levels. This growth came despite heightened COVID-led impacts like on-premise restrictions across markets as well as a one-month ban imposed on the sale of alcohol in South Africa.

AB InBev remains keen on making the most of investments in its portfolio over the years as well as rapidly growing its digital platform, including BEES and Ze Delivery.

For 2021, AB InBev expects normalized EBITDA growth of 8-12%, with revenue growth expected to be higher than EBITDA growth, driven by strong volume and pricing.

▲ **Strong Volume & Organic Sales:** Despite the pandemic-led challenges, AB InBev reported better-than-expected top-line results as well as organic revenue growth. It registered an organic revenue growth of 17.2% primarily on ongoing premiumization and revenue-management initiatives. Notably, revenues per hectoliter (hl) were up 3.7%. Moreover, the company notes that revenues in the first quarter were ahead of the pre-pandemic levels, mostly driven by a 2.8% rise in beer volume when compared with the first quarter of 2019. Total organic volume grew 13.3%, with a 14.9% increase in own-beer volume and 4% growth in non-beer volume.

▲ **Premiumization Strategy:** Premiumization of the beer industry has been a key growth opportunity for AB InBev. The company has been investing to develop a diverse portfolio of global, international and crafts and specialty premium brands in its markets. The company's premium portfolio reported revenue growth of 28% in the first quarter of 2021, reflecting more than 30% of its total revenues. This growth is well reflected in the company's bottom line as the premium brands attract higher profit per hl compared with its core brands. Moreover, the premium portfolio marked a growth of more than 6% from 2017. Apart from the premium brands, the company's global brands lead the way in premiumization. Notably, revenue for the three global brands — Budweiser, Corona and Stella Artois — were up 29.5% globally and 46.4% outside of their home markets in first-quarter 2021. The company's all three global brands delivered double-digit revenue growth in the first quarter compared with the same periods in both 2020 and 2019.

▲ **Expansion of Beyond Beer Portfolio:** AB InBev is steadfastly growing its Beyond Beer portfolio, including products like Ready to Drink Beverages like Canned Wine and Canned Cocktails, Hard Seltzers, Cider and Flavored Malt Beverages. The Beyond Beer trend has been recently gaining popularity due to the rise in demand for low-alcoholic or non-alcoholic drinks. Notably, the company's beyond beer business delivered \$1.2 billion in revenue in 2020. Meanwhile, revenues from the business grew 40% in the first quarter of 2021. This incremental growth has contributed to the bottom-line improvement in the quarter. Moreover, its Beyond Beer products have a 20% higher gross profit per hl, on average, than the traditional beer.

The United States is the company's largest Beyond Beer market, representing about 50% of its global Beyond Beer volume. The company has significantly enhanced its Beyond Beer presence in the United States with the introduction of hard seltzers like Bud Light Seltzer, followed by the more recently launched Michelob ULTRA Organic Seltzer and Cacti. Additionally, the company is focused on expanding its hard seltzer presence in newer markets. This was demonstrated by the recent launch of Michelob ULTRA Hard Seltzer in Mexico, where it has already captured 45% of market share of the developing seltzer segment. This represents more than the next three brands combined share in the region. Also, it is launching the Mike's Hard brand, including the Mike's Hard Lemonade and Mike's Hard Seltzer variance, in markets outside the United States as a part of its efforts to build the beyond beer portfolio globally. The company expects the brand to be available in more than 20 countries by the end of 2021.

▲ **Scaling Digital Investments:** AB InBev has been investing in new capabilities for several years to better connect with customers and consumers by leveraging technology, such as B2B sales and other e-commerce platforms. These platforms remained more relevant amid the coronavirus pandemic as consumers were confined to their homes. Consumers are quickly shifting to in-home consumption occasions, which has led to growth in the e-commerce channel as well as finding new ways to connect with others. Consequently, the company is witnessing acceleration in the B2B platforms, e-commerce and digital marketing trends, which has been aiding growth in the past few months. Notably, the company's proprietary B2B platform — BEES — captured more than \$3 billion in gross merchandise value (GMV) in the first quarter, reflecting a growth of more than 50% from the fourth quarter of 2020. Moreover, the company's owned e-commerce business quadrupled in size in the first quarter. The company courier platforms are now accessible in nine markets and 220 cities, catering to nearly 120 million customers. In Brazil, Ze Delivery has expanded substantially, delivering more than 14 million orders in first-quarter 2021, reflecting more than half of the amount delivered in all of 2020.

▲ **Financial Flexibility:** AB InBev has demonstrated financial discipline amid the pandemic with several proactive measures. To maintain strong liquidity, the company has been proactively managing its debt profile. The company's debt maturity profile is well distributed across next several years, with no significant maturities in the next five years. The company had more than \$24 billion liquidity as of the end of 2020. Moreover, it targets a net debt to EBITDA ratio of 2x. To attain this level, it remains committed to debt repayments going forward. Net capital expenditure is projected to be \$4.5-\$5 billion for 2021, driven by higher investments in innovation and other consumer-centric initiatives to fuel the ongoing momentum.

Reasons To Sell:

▼ **Elevated Costs:** During the first-quarter 2021, AB InBev continued to witness soft margins trend driven by higher cost of sales, SG&A expense and other costs, which also partly hurt the bottom line. In the reported quarter, higher cost of goods sold partly offset the top line growth, resulting in gross margin decline. Cost of sales increased 14.7% to \$5,243 million and was up 20.6% on an organic basis. Notably, gross margin contracted 110 basis points (bps) year over year to 57.3% in the first quarter. On an organic basis, gross margin declined 122 bps.

Additionally, SG&A expense increased 9.1% year over year and 12.5% on an organic basis. Other operating expenses were up 29.5% year over year and 35.1% on an organic basis. Consequently, normalized operating income (EBIT) declined 6.3% year over year and 4.7% organically. Normalized operating margin contracted 20 bps year over year to 25.3%. Also, normalized EBITDA margin contracted 120 basis points (bps) to 34.7% and declined 91 bps organically. Adverse currency translations and headwinds from commodity, channel and packaging mix continued to hurt EBITDA margin.

▼ **Higher Effective Tax Rate:** AB InBev's normalized effective tax rate, before mark-to-market gains and losses linked to the hedging of share-based payment programs, increased to 28.6% in the first quarter of 2021 compared with 25.9% in the prior-year quarter. The increase was mainly driven by country mix and reduced benefits of tax attributes. Moreover, the company anticipates effective tax rate of 28-30% for 2021, higher than that reported in 2020. The year-over-year increase relates to the phasing out of the temporary COVID-19 measures and changes in tax attributes in some key markets.

▼ **Competitive Threats:** AB InBev faces stiff competition from other players in its distribution network, as stronger purchasing power of other players is bound to compel AB InBev to lower its prices, raise capital investment and increase its marketing expenditure. All these factors are likely to hurt the company's margins and market share. Also, the company faces competitive pressure in terms of its pace of undertaking innovations to keep track of the evolving consumer trends. Further, continued consolidation among retailers in the beer space could hurt the overall profit of the industry. This, in turn, remains a threat to AB InBev's financial performance.

▼ **Higher Indirect Taxes May Hurt Performance:** The beer and beverage industry remain susceptible to unfavorable changes in taxes. In many regions, these taxes constitute a major chunk of the cost of beer that is charged to customers. Thus, any rise in excise taxes or indirect taxes on AB InBev's products is likely to shift consumers' preferences to other beverages and weigh upon the overall consumption of the company's products, thus hurting its revenues and margins.

AB InBev continued to witness soft margins trend driven by higher cost of sales, SG&A expense and other costs, which hurt margins. Cost of sales increased 14.7% and was up 20.6% on an organic basis.

Last Earnings Report

AB InBev Surpasses Q1 Earnings & Revenue Estimates

AB InBev is off to a strong start to 2021, with robust first-quarter 2021 results. Notably, its top and bottom lines beat the Zacks Consensus Estimate and improved on a year-over-year basis in the first quarter. The company's results benefited from its unique commercial strategy, strong brand portfolio, investments in digital platform and operation excellence, which led to market share growth across the majority of the key markets.

The better-than-expected top-line results demonstrated the company's fundamental strength as well as continued resilience in the global beer category. Notably, its beer business reported 2.8% volume growth in first-quarter 2021 compared with first-quarter 2019, reflecting strong growth versus the pre-pandemic levels. This growth came despite heightened COVID-led impacts like on-premise restrictions across markets as well as a one-month ban imposed on the sale of alcohol in South Africa.

The company remains keen on making the most of investments in its portfolio over the years as well as rapidly growing its digital platform, including BEES and Zé Delivery.

Q1 Highlights

The company reported normalized earnings per share of 51 cents against a loss per share of 42 cents reported in the year-ago quarter. Moreover, the bottom line beat the Zacks Consensus Estimate of 48 cents.

Underlying earnings per share (normalized EPS, excluding mark-to-market gains and losses related to the hedging of share-based payment programs and the impacts of hyperinflation) were 55 cents in first-quarter 2021, up 7.8% from 51 cents earned in the year-ago quarter.

Revenues of \$12,293 million improved 11.7% from the year-ago quarter and surpassed the Zacks Consensus Estimate of \$11,494 million. It registered an organic revenue growth of 17.2% primarily on ongoing premiumization and revenue-management initiatives. Notably, revenues per hectoliter (hl) were up 3.7%. Moreover, the company notes that revenues in the first quarter were ahead of the pre-pandemic levels, mostly driven by a 2.8% rise in beer volume when compared with the first quarter of 2019.

Total organic volume grew 13.3%, with a 14.9% increase in own-beer volume and 4% growth in non-beer volume. The company's premium portfolio reported revenue growth of 28% in the first quarter, reflecting more than 30% of its total revenues. This was driven by elevated profit per hl compared with its core brands.

Consolidated revenues at its three global brands — Budweiser, Corona and Stella Artois — advanced 29.5% globally and 46.4% outside their respective home markets in the first quarter.

The cost of sales increased 14.7% to \$5,243 million and was up 20.6% on an organic basis.

The company's normalized earnings before interest, taxes, depreciation and amortization (EBITDA) were \$4,267 million, which rose 8.1% year over year and 14.2% on an organic basis. This growth is mainly attributed to positive brand mix and ongoing cost discipline, partly negated by adverse currency translations and headwinds from commodity, channel and packaging mix. Additionally, higher SG&A expenses, owing to higher variable compensation accruals, hurt EBITDA.

However, normalized EBITDA margin contracted 120 basis points (bps) to 34.7% and declined 91 bps organically.

2021 Outlook

For 2021, AB InBev expects normalized EBITDA growth of 8-12%, with revenue growth expected to be higher than EBITDA growth, driven by strong volume and pricing.

Management anticipates effective tax rate of 28-30% for 2021, higher than that reported in 2020. The year-over-year increase relates to the phasing out of the temporary COVID-19 measures and changes in tax attributes in some key markets. Net capital expenditure is projected to be \$4.5-\$5 billion for 2021, driven by higher investments in innovation and other consumer-centric initiatives to fuel the ongoing momentum.

Quarter Ending	06/2021
Report Date	Jul 29, 2021
Sales Surprise	-0.29%
EPS Surprise	-21.49%
Quarterly EPS	0.95
Annual EPS (TTM)	3.33

Valuation

Anheuser-Busch InBev shares are down 4.2% in the year-to-date period but up 22.9% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 1.5% and 4.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 19.2% and 15.5%, respectively.

The S&P 500 index is up 14.2% in the year-to-date period and 31.6% in the past year.

The stock is currently trading at 19.57X forward 12-month earnings, which compares to 26.17X for the Zacks sub-industry, 20X for the Zacks sector and 21.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.58X and as low as 10.15X, with a 5-year median of 20.31X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$71 price target reflects 20.76X forward 12-month earnings.

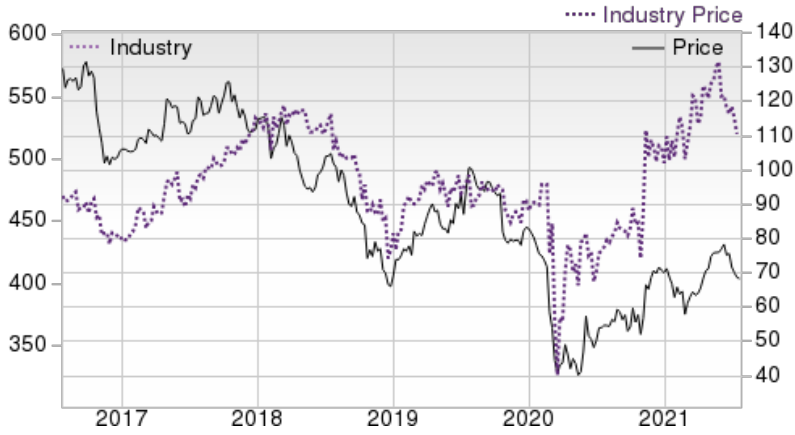
The table below shows summary valuation data for BUD

Valuation Multiples - BUD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.57	26.17	20	21.44
	5-Year High	30.58	NA	28.98	21.93
	5-Year Low	10.15	18.9	16.51	15.31
	5-Year Median	20.31	24.42	20.49	18.01
P/S F12M	Current	2.44	19.03	9.9	4.66
	5-Year High	4.57	NA	14.53	4.66
	5-Year Low	1.35	14.44	9.39	2.97
	5-Year Median	2.96	17.89	10.83	3.66
EV/EBITDA TTM	Current	7.57	50.04	40.38	17.46
	5-Year High	15.82	56.46	45.73	18
	5-Year Low	3.4	26.68	27.42	9.62
	5-Year Median	9.6	43.97	39.23	13.49

As of 07/20/2021

Source: Zacks Investment Research

Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Carlsberg AS (CABGY)	Neutral	3
Diageo plc (DEO)	Neutral	4
Heineken NV (HEINY)	Neutral	2
Altria Group, Inc. (MO)	Neutral	3
Constellation Brands..(STZ)	Neutral	3
Molson Coors Beverag...(TAP)	Neutral	3
BrownForman Corporat...(BF.B)	Underperform	5
The Boston Beer Comp...(SAM)	Underperform	5

Industry Comparison Industry: Beverages - Alcohol

	BUD	X Industry	S&P 500	DEO	HEINY	TAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	2	3
VGM Score	B	-	-	B	B	C
Market Cap	128.28 B	11.41 B	31.75 B	115.54 B	68.76 B	10.72 B
# of Analysts	4	3	12	5	3	7
Dividend Yield	0.68%	0.00%	1.36%	1.54%	0.57%	0.00%
Value Score	B	-	-	C	D	B
Cash/Price	0.00	0.04	0.05	0.03	0.07	0.05
EV/EBITDA	8.37	15.96	17.23	NA	20.05	30.11
PEG Ratio	2.30	3.70	2.08	3.29	5.78	2.29
Price/Book (P/B)	1.67	3.42	4.10	10.44	4.18	0.81
Price/Cash Flow (P/CF)	15.13	19.23	17.72	22.94	14.94	6.01
P/E (F1)	19.99	27.74	21.11	28.36	29.90	12.81
Price/Sales (P/S)	2.50	3.24	3.39	NA	NA	0.89
Earnings Yield	4.86%	3.61%	4.60%	3.53%	3.35%	7.81%
Debt/Equity	NA	0.33	0.65	1.72	1.02	0.51
Cash Flow (\$/share)	4.28	1.57	6.83	8.61	3.99	8.22
Growth Score	C	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	-10.69%	4.85%	9.64%	NA	NA	4.91%
Proj. EPS Growth (F1/F0)	65.05%	25.00%	23.68%	6.54%	72.13%	-1.64%
Curr. Cash Flow Growth	-32.22%	-0.72%	1.38%	20.52%	-7.63%	-4.08%
Hist. Cash Flow Growth (3-5 yrs)	-5.84%	3.53%	7.37%	4.91%	3.53%	11.67%
Current Ratio	0.82	1.61	1.36	1.77	0.83	0.74
Debt/Capital	54.93%	33.61%	40.86%	63.28%	50.39%	33.61%
Net Margin	11.21%	10.28%	12.06%	NA	NA	-4.63%
Return on Equity	25.48%	12.20%	17.22%	NA	NA	5.97%
Sales/Assets	0.68	0.49	0.50	NA	NA	0.43
Proj. Sales Growth (F1/F0)	14.55%	4.77%	10.69%	5.49%	-4.43%	6.09%
Momentum Score	A	-	-	D	C	B
Daily Price Chg	-5.60%	0.00%	0.42%	1.22%	0.35%	-0.24%
1 Week Price Chg	-0.42%	-0.13%	1.18%	0.03%	-2.00%	-1.56%
4 Week Price Chg	-10.14%	-0.74%	2.30%	2.94%	-1.96%	-8.47%
12 Week Price Chg	-13.61%	-0.75%	5.18%	8.75%	-0.75%	-16.89%
52 Week Price Chg	11.55%	24.22%	36.13%	31.79%	20.32%	31.97%
20 Day Average Volume	1,569,019	38,461	1,671,520	350,855	16,899	1,739,483
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.51%	0.00%	-0.30%
(F1) EPS Est 4 week change	0.16%	0.00%	0.36%	-0.83%	0.34%	-0.26%
(F1) EPS Est 12 week change	4.65%	0.26%	2.87%	-2.13%	4.90%	0.26%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.22%	NA	NA	0.30%

Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of this report.

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

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	C
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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