

CBRE Group Inc. (CBRE)

\$44.31 (As of 07/07/20)

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

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

CBRE Group has extensive real estate product and service offerings, a solid balance sheet, and has gained from strategic buyouts and technology investments. The company has shifted toward a more diversified and contractual revenue base over the past years, positioning it well to achieve both top and bottom-line growth even amid capital market headwinds. However, the macroeconomic uncertainties and the adverse impacts on commercial real estate transactions are concerning. In its advisory business, there is likely to be substantial decline in revenues from leasing and property sales. Moreover, the company's GWS business growth is expected to remain restrained, given the economic uncertainty and operational challenges onboarding clients under shelter in place orders. Shares of the company have underperformed its industry over the past year.

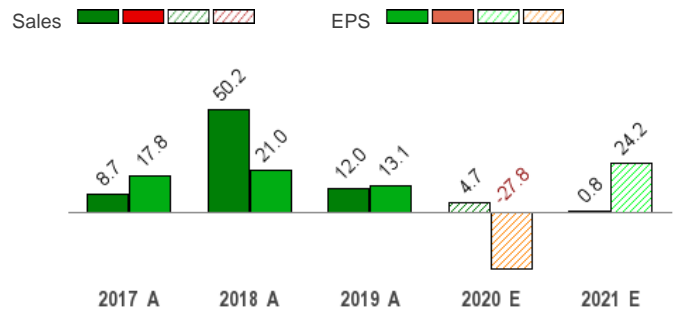
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.75 - \$29.17
20 Day Average Volume (sh)	1,983,465
Market Cap	\$14.9 B
YTD Price Change	-27.7%
Beta	1.73
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Real Estate - Operations
Zacks Industry Rank	Bottom 44% (142 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	7.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/31/2020
Earnings ESP	0.0%
P/E TTM	12.1
P/E F1	16.5
PEG F1	1.5
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,312 E	6,515 E	6,727 E	7,957 E	25,230 E
2020	5,889 A	5,689 E	5,676 E	6,786 E	25,023 E
2019	5,136 A	5,714 A	5,925 A	7,119 A	23,894 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.78 E	\$0.92 E	\$1.44 E	\$3.33 E
2020	\$0.75 A	\$0.37 E	\$0.58 E	\$1.07 E	\$2.68 E
2019	\$0.79 A	\$0.81 A	\$0.79 A	\$1.32 A	\$3.71 A

*Quarterly figures may not add up to annual.

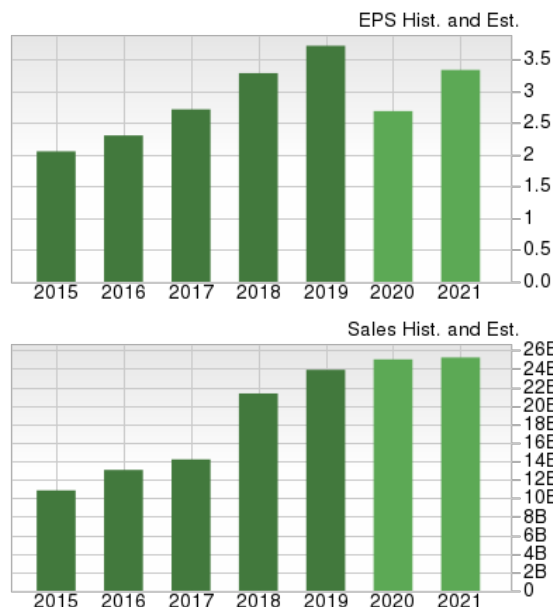
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/07/2020. The reports text is as of 07/08/2020.

Overview

Headquartered in Los Angeles, CBRE Group, Inc., is a commercial real estate services and investment firm, offering a wide range of services to tenants, owners, lenders and investors in office, retail, industrial, multi-family and other types of commercial real estates in all major metropolitan areas across the globe. The services include valuation, real estate investment management, commercial property and corporate facilities management, tenant representation, occupier and property/agency leasing, property sales, commercial mortgage origination and servicing, capital markets (equity and debt) solutions, development services and proprietary research.

CBRE Group's new organizational structure became effective on Jan 1, 2019. Under the new structure, the company reported on three global business segments: Advisory Services, Global Workplace Solutions and Real Estate Investments.

Advisory Services offers a broad range of services globally. This includes property leasing, property sales, mortgage services, valuation, property management and project management. Global Workplace Solutions provides an extensive set of integrated, contractually-based services to occupiers of real estate, including facilities management, project management, transaction management and management consulting. Real estate investments comprises investment management services offered globally, development services in the United States and a new service designed for helping institutional property owners address the demand for flexible office space solutions.



Reasons To Buy:

▲ CBRE Group has a broad range of real estate products and services, and an extensive knowledge of domestic and international real estate markets. The year 2019 marked the company's 10th consecutive year of double-digit adjusted earnings per share growth. The company's market leading position is likely to give it a competitive edge in navigating through the current challenges and capitalize on compelling opportunities. As the largest commercial real estate services and investment firm (based on 2019 revenues), the company enjoys a robust scale. It is among a few companies offering a full suite of services to multinational clients. Moreover, the company has grown organically and banked on strategic in-fill acquisitions to boost its service offerings and geographic reach. With an expanded capability to service, the company's number of large clients has increased significantly over the past years. As large corporations continue to seek consolidation of the number of service providers, CBRE Group is expected to remain a beneficiary of this trend.

CBRE Group's wide real estate products and services offerings, healthy outsourcing business, strategic buyouts, technology investments and solid balance sheet are expected to drive performance.

▲ CBRE Group has opted for a better-balanced and more resilient business model and in pursuit of this the company has shifted toward more diversified and contractual revenue base over the past years. Contractual revenues and leasing, largely recurring over time, constituted 72% of total fee revenues in fourth-quarter 2019. This makes the company relatively resilient to market disruptions and positions it well to achieve both top and bottom-line growth even amid capital market headwinds.

▲ The company's solid technology platform helps it to develop and deliver superior analytical, research and client service tools to meet diverse client needs. In fact, strategic reinvestment in its business, specifically on the technology front, is expected to differentiate CBRE Group from its peers. The company has been spending millions, besides opting for the acquisition of technology solution providers in the commercial real estate market. Moreover, CBRE Group has gained from its cost-cutting efforts and benefited from operational efficiencies in the past quarters. Also, a considerable part of costs of sales in the Advisory business is variable in nature. To temporarily lower costs within its transactional business, the company has resorted to furloughs and reduced work schedules as well as some job eliminations. These efforts are likely to support margins in this adverse situation.

▲ Further, the company's Global Workplace Solutions segment, which provides a broad suite of integrated, contractually-based services to occupiers of real estate, including facilities management, project management, transaction management and management consulting, is well poised to grow. Occupiers of real estate have been increasingly opting for outsourcing and depending on the expertise of third-party real estate specialists to achieve improvement in execution and efficiency. As a result, CBRE Group has been witnessing continued momentum from both new and existing customers. Moreover, high-quality client base is bumping up contractual revenues. In fact, during the first-quarter earnings release, the company noted that the new business pipeline remained robust with healthy demand from the media and technology and transportation/logistics and life sciences industries, while the company had its biggest quarter ever for renewing expiring contracts, with a renewal rate above 90%. Therefore, management expects this segment, where revenues are generated from multi-year contracts, to be comparatively resilient and generate positive revenue growth, although at a rate lower than its initial expectations.

▲ CBRE Group has banked on strategic in-fill acquisitions to widen its geographic coverage, as well as expand and reinforce service offerings. The company focuses on acquiring regional or specialty firms which complement its existing platform as well as independent affiliates in which, at times, it holds small stakes. Furthermore, the company opts for larger, transformational deals driven by macro policies. During first-quarter 2020, the company acquired leading local facilities management firms in Spain and Italy, a U.S. firm that helps companies reduce telecommunications costs and a leading provider of workplace technology project management, consulting and procurement services to occupiers across the United States. Further, during 2019, the company completed eight in-fill acquisitions: a leading advanced analytics software company based in the U.K., a commercial and residential real estate appraisal firm headquartered in Florida, the company's former affiliate in Omaha, a project management firm in Australia, a valuation and consulting business in Switzerland, a leading project management firm in Israel, a full-service real estate firm in San Antonio with a focus on retail, office, medical office and land, and a debt-focused real estate investment management business in the U.K. These opportunistic acquisitions and strategic investments will likely serve as growth drivers, supplementing its organic growth.

▲ CBRE Group is focused on maintaining solid balance sheet strength and ample liquidity. Particularly, the company exited first-quarter 2020 with \$3.4 billion of liquidity and no debt maturities until 2023. The company's net leverage was 0.59X as of the same date. This is 3.66X below the company's primary debt covenant of 4.25X. Moreover, it enjoys investment grade credit ratings with BBB+ from S&P and Baa1 from Moody's. With significant balance sheet flexibility and industry-leading market position, the company remains well poised to navigate through current challenging times and capitalize on compelling opportunities.

Reasons To Sell:

- ▼ The coronavirus pandemic has led to significant amounts of uncertainty, interruption of business activity and substantial impact on global markets as well as adverse impact on consumer and business sentiments. Particularly, in the second quarter, there is likely to be business contraction. In fact, management noted that U.S. leasing and property sales were down more than 40% compared with the prior year since April. In its advisory business, there is likely to be substantial decline in revenues from leasing and property sales. Moreover, as a result of the pandemic, loan origination volume is likely to decline, weighing on loan servicing revenue. Also, the company needs to support modest liquidity requirements necessitated by the GSE's rent forbearance. Furthermore, though the company's GWS business is likely to be comparatively resilient, growth is expected to remain restrained given the economic uncertainty and operational challenges onboarding clients under shelter in place orders.
 - ▼ CBRE Group faces stiff competition from international, regional and local players in the market. Some of these firms enjoy greater financial resources than the company. Also, some of them are larger on a regional or local basis, or have a stronger position in a specific market segment or service offering. This affects the company's ability to do business and crack deals on favorable terms.
 - ▼ Given its international presence, the company often faces an unfavorable foreign currency movement and uneasiness in some economies, which impact its top-line growth. In addition, though the company's business is geographically diverse, the United States and the U.K. comprise more than 70% of its global leasing and property sales revenue in 2019. However, with both the United States and the U.K. being significantly impacted by the coronavirus pandemic, the company's business is likely to be adversely impacted.
 - ▼ Shares of CBRE Group have lost 15.2% over the trailing 12-month period compared with the industry's decline of 11%. The recent trend in earnings estimates revisions for the current quarter does not indicate a favorable outlook for CBRE Group. The Zacks Consensus Estimate for second-quarter 2020 earnings per share has been unchanged over the past month. Therefore, given the above-mentioned concerns and lack of northward estimate revisions, there is limited upside potential in the near term.
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Macroeconomic uncertainty due to the coronavirus pandemic and adverse impact on commercial real estate transactions are key concerns. Also, there is stiff competition from regional and local players.

Last Earnings Report

CBRE Group Beats on Q1 Earnings, Suspends Guidance

CBRE Group reported first-quarter 2020 adjusted earnings per share of 75 cents, beating the Zacks Consensus Estimate of 70 cents. However, the figure decreased 4.9% year over year.

The company generated revenues of \$5.89 billion, outpacing the Zacks Consensus Estimate of \$5.49 billion. The revenue figure also compares favorably with the year-ago quarter's \$5.14 billion. Moreover, fee revenues were up 10.9% (11.6% in local currency), year on year, to \$2.69 billion. However, adjusted EBITDA decreased 4.4% (4.1% local currency) to \$430 million.

Results reflect solid performance in the Advisory Services segment, mainly property sales in continental Europe and Japan. However, in the Real Estate Investments segment, a \$27-million decline in its co-investments in the public real estate securities portfolio played spoilsport.

Nevertheless, the company has withdrawn its full-year guidance issued on Feb 27, in light of the coronavirus pandemic and resultant uncertain operating environment.

Quarter in Detail

The company's Advisory Services segment registered year-over-year revenue growth of 5.3% (6.1% local currency) to \$1.9 billion. Fee revenues increased 4.5% (5.2% local currency) to \$1.7 billion.

The upswing was driven by global property sales, which jumped 12% (same in local currency), indicating solid capital flows to commercial real estate in the initial weeks of the quarter.

Commercial mortgage origination revenues were up 2% (same local currency). Global capital market revenues, which comprise property sales and commercial mortgage origination, were up 9% (10% local currency).

Advisory leasing revenues fell 2% (same local currency) and reflect the impact of the pandemic in late March. Valuation revenues were up 7% (8% local currency). In addition, property management and advisory project management revenues and fee revenues climbed 9% (10% local currency) and 7% (9% local currency), respectively.

Furthermore, Global Workplace Solutions segment registered an increase of 18.3% (19% local currency) in revenues to \$3.75 billion. Fee revenues climbed 16.7% (17.3% local currency) to \$808 million. Quarterly results reflect solid increases in global facilities management and project management and revenue growth was especially strong in Continental Europe, the U.K. and the United States.

The new business pipeline remained robust with healthy demand from the media and technology and transportation/logistics sectors, while the company had its biggest quarter ever for renewing expiring contracts, with a renewal rate above 90%.

The Real Estate Investments segment recorded 56.4% (57.1% local currency) growth in revenues to \$211 million. However, adjusted EBITDA plummeted 55.6% (55.5% local currency). This reflects a \$27-million decline in co-investments in the investment management business' public securities portfolio, amid flaring up equity market volatility. Further, there were fewer development asset sales than in last year's strong first quarter. There were also some late-quarter deal delays due to the early impact of the coronavirus.

At first-quarter end, assets under management (AUM) aggregated \$108.1 billion, reflecting a decline of \$4.8 billion (\$2.6 billion in local currency), from year-end 2019. This is mainly due to valuation declines and net outflows in the public securities portfolio, along with negative foreign-currency movement.

In-process development portfolio increased to \$13.9 billion, up \$900 million from year-end 2019. During the quarter, the pipeline was unchanged at \$5.8 billion.

Balance Sheet Position

CBRE Group exited first-quarter 2020 with cash and cash equivalents of \$628.5 million, down from \$971.8 million as of Dec 31, 2019.

As of Mar 31, 2020, the company had \$3.4 billion of total liquidity. This comprised \$560 million in cash in addition to the ability to borrow a total of \$2.8 billion under its revolving credit facilities, net of any outstanding letters of credit. The company's net leverage was 0.59x as of the same date. This is 3.66x below the company's primary debt covenant of 4.25x.

During the March-end quarter, the company repurchased a total of 1.1 million shares of its common stock for \$50 million at an average price of \$47.62 per share. Currently, the company has \$350 million of stock-repurchase capacity.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	7.27%
EPS Surprise	7.14%
Quarterly EPS	0.75
Annual EPS (TTM)	3.67

Recent News

CBRE Retains Global Investment Sales Activity Top Spot - Mar 16, 2020

CBRE Group announced that it has once again secured the top spot in the global rankings for commercial real estate investment sales for 2019. The data is as per Real Capital Analytics (RCA).

This, in fact, is the ninth consecutive year of the company securing the first position. Per the RCA data, CBRE had 23% market share in 2019 across all property types on a global basis, which is a massive 680 basis points ahead of its closest competitor. Apart from being number one globally, CBRE held the top spot for commercial real estate investment sales in the Americas and Europe, Middle East & Africa (EMEA).

In 2019, the company executed \$61.30 billion in global office sales as seller representative for an industry-leading market share of 21.5%. Further, with \$38.43 billion in transactions for a market share of 31.6%, the company once again became the top global firm in logistics and industrial sales.

In addition, CBRE maintained its top global rank in retail sales with \$13.62 billion in transactions as well. The company's global market share was 19.7% in 2019. In addition, the company executed \$39.57 billion in global apartment sales for a market share of 24%.

CBRE Group Buys New England Fiber, Boosts Occupier Advisory Offering - Jan 6, 2020

In an effort to strengthen its occupier advisory offering, CBRE Group recently announced the acquisition of telecommunications and network infrastructure advisory services firm — New England Fiber, Inc. (NEF). The move gives the technical expertise to CBRE Group to advise clients on network capabilities.

Notably, NEF, founded in 2004 in Newton, MA, specializes in helping occupiers optimize network deployment, offering solutions spanning network design, procurement and installation management. Large and mid-sized enterprises in multiple industries and vertical markets are being served by NEF.

Valuation

CBRE Group's shares have been down 15.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have declined 11% and 15%, over the past year, respectively.

The S&P 500 Index is up 7.2% over the past year.

The stock is currently trading at 14.68X forward 12-month earnings, which compares to 19.29X for the Zacks sub-industry, 16.34X for the Zacks sector and 22.70X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 19.25X and as low as 7.35X, with a 5-year median of 14.00X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$47 price target reflects 15.57X earnings.

The table below shows summary valuation data for CBRE.

Valuation Multiples - CBRE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.68	19.29	16.34	22.70
	5-Year High	19.25	23.11	16.34	22.70
	5-Year Low	7.35	14.03	12.00	15.15
	5-Year Median	14.00	19.64	13.97	17.42
P/S F12M	Current	0.59	2.62	6.57	3.54
	5-Year High	1.14	3.86	6.62	3.54
	5-Year Low	0.38	2.25	5.39	2.54
	5-Year Median	0.75	2.85	6.06	3.01
P/B TTM	Current	2.41	0.42	2.28	4.45
	5-Year High	5.13	0.66	2.88	4.52
	5-Year Low	1.59	0.39	1.82	2.82
	5-Year Median	3.42	0.50	2.51	3.63

As of 07/07/2020

Industry Analysis Zacks Industry Rank: Bottom 44% (142 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Colliers International Group Inc. (CIGI)	Neutral	4
FirstService Corporation (FSV)	Neutral	2
Jones Lang LaSalle Incorporated (JLL)	Neutral	3
Newmark Group, Inc. (NMRK)	Neutral	3
The RMR Group Inc. (RMR)	Neutral	3
WalkerDunlop, Inc. (WD)	Neutral	4
CushmanWakefield PLC (CWK)	Underperform	3
MarcusMillichap, Inc. (MMI)	Underperform	3

Industry Comparison Industry: Real Estate - Operations				Industry Peers		
	CBRE	X Industry	S&P 500	CIGI	CWK	JLL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	C	-	-	D	F	D
Market Cap	14.85 B	427.46 M	21.64 B	2.25 B	2.60 B	5.36 B
# of Analysts	3	1.5	14	1	4	3
Dividend Yield	0.00%	0.00%	1.92%	0.18%	0.00%	0.83%
Value Score	C	-	-	D	D	B
Cash/Price	0.05	0.16	0.07	0.05	0.14	0.13
EV/EBITDA	8.52	8.57	12.68	9.17	8.61	7.25
PEG Ratio	1.50	1.50	2.88	NA	1.33	1.60
Price/Book (P/B)	2.41	1.16	3.01	4.53	2.39	1.07
Price/Cash Flow (P/CF)	8.24	8.17	11.66	11.38	6.16	5.52
P/E (F1)	16.51	17.91	21.31	18.80	13.35	14.38
Price/Sales (P/S)	0.60	2.27	2.30	0.74	0.30	0.29
Earnings Yield	6.05%	5.06%	4.43%	5.32%	7.47%	6.95%
Debt/Equity	0.45	0.44	0.76	1.49	2.82	0.56
Cash Flow (\$/share)	5.38	1.19	6.94	4.96	1.91	18.82
Growth Score	C	-	-	D	F	D
Hist. EPS Growth (3-5 yrs)	16.93%	16.28%	10.90%	8.90%	NA	9.30%
Proj. EPS Growth (F1/F0)	-27.67%	-28.95%	-9.72%	-35.76%	-46.19%	-48.76%
Curr. Cash Flow Growth	11.78%	8.75%	5.51%	12.01%	259.21%	25.02%
Hist. Cash Flow Growth (3-5 yrs)	16.49%	9.48%	8.55%	7.34%	NA	13.41%
Current Ratio	1.20	1.90	1.30	0.91	1.12	2.36
Debt/Capital	31.22%	31.22%	44.46%	68.65%	73.80%	36.08%
Net Margin	5.23%	5.11%	10.62%	3.49%	-0.39%	2.84%
Return on Equity	21.37%	4.12%	15.75%	22.33%	-2.77%	14.30%
Sales/Assets	1.60	0.23	0.55	1.15	1.29	1.43
Proj. Sales Growth (F1/F0)	4.72%	0.00%	-2.57%	-18.38%	-8.84%	-9.89%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	-4.46%	-0.93%	-1.54%	-4.28%	-10.21%	-3.85%
1 Week Price Chg	5.74%	0.71%	3.66%	4.09%	5.79%	7.13%
4 Week Price Chg	-16.91%	-1.06%	-6.66%	-13.65%	-10.89%	-13.69%
12 Week Price Chg	1.03%	3.84%	7.04%	4.58%	0.00%	-5.42%
52 Week Price Chg	-15.20%	-19.45%	-6.88%	-20.81%	-35.13%	-24.35%
20 Day Average Volume	1,983,465	18,911	2,385,506	90,567	882,835	349,835
(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%	-1.69%	0.00%	0.00%
(F1) EPS Est 12 week change	-31.98%	-17.59%	-8.21%	-54.33%	-135.71%	-45.86%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-28.57%	0.00%	0.00%

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

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	C
Momentum Score	D
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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