

Colgate-Palmolive Co. (CL)

\$75.40 (As of 02/04/20)

Price Target (6-12 Months): **\$79.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

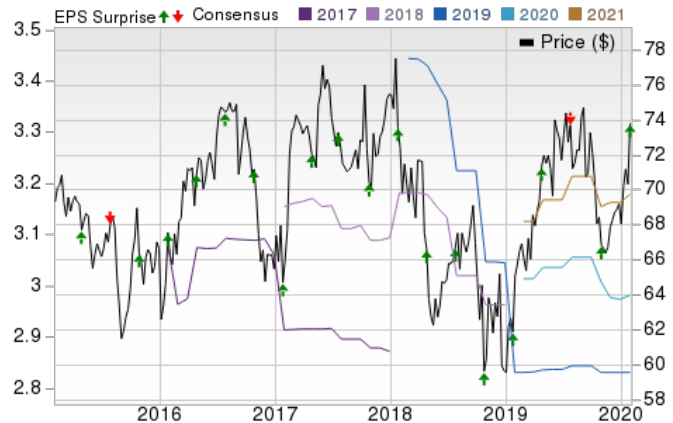
Growth: B

Momentum: D

Summary

Shares of Colgate have risen and outperformed the industry in the past three months, driven by strong top-line gains in fourth-quarter 2019 on strong volume growth and robust price increases. The company's expansion in new markets and investments in brands also bode well. The company is on track to expand its oral care portfolio with the agreement to buy Hello Products LLC. Additionally, it expects sales growth, increase in organic sales and gross margin expansion in 2020. Colgate's better pricing, strategic marketing, investments in e-commerce capabilities and innovative product launches are likely to contribute to top line. However, escalated raw and packaging material expenses, and SG&A expenses, remain concerns. Moreover, management expects higher advertising spending and adverse currency to hurt results in 2020.

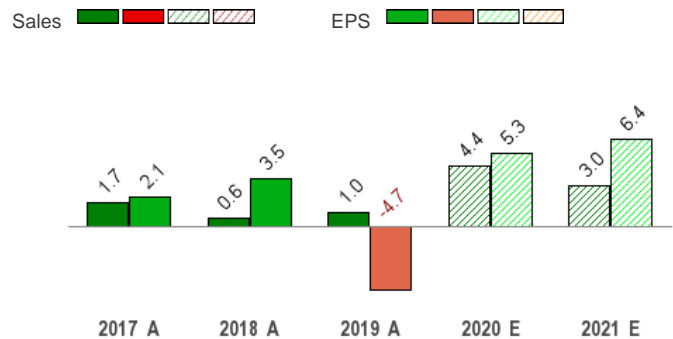
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$76.41 - \$64.50
20 Day Average Volume (sh)	4,309,923
Market Cap	\$64.6 B
YTD Price Change	9.5%
Beta	0.71
Dividend / Div Yld	\$1.72 / 2.3%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Bottom 10% (229 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	26.6
P/E F1	25.3
PEG F1	4.7
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,188 E	4,189 E	4,275 E	4,341 E	16,876 E
2020	4,030 E	4,029 E	4,120 E	4,152 E	16,386 E
2019	3,884 A	3,866 A	3,928 A	4,015 A	15,693 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.81 E	\$0.77 E	\$0.84 E	\$3.17 E
2020	\$0.71 E	\$0.76 E	\$0.72 E	\$0.78 E	\$2.98 E
2019	\$0.67 A	\$0.72 A	\$0.71 A	\$0.73 A	\$2.83 A

*Quarterly figures may not add up to annual.

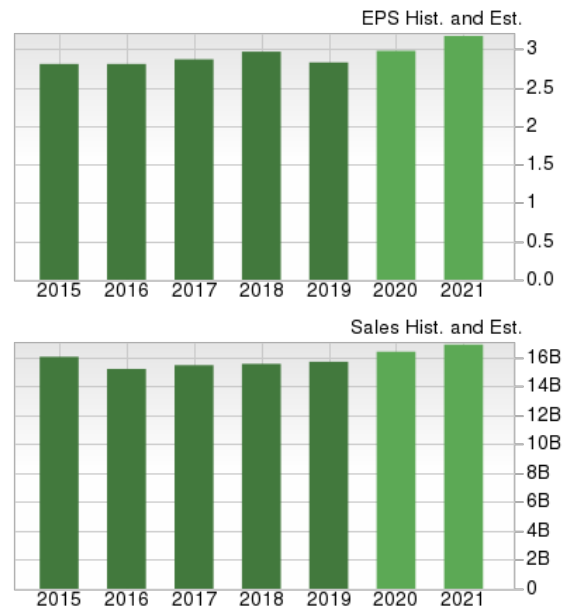
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/04/2020. The reports text is as of 02/05/2020.

Overview

New York City-based Colgate-Palmolive Co. is a global consumer products manufacturer with a distribution network spanning across more than 200 countries and territories around the world. The company is the world leader in oral care products and one of the leading manufacturers of personal care products. It follows a closely defined business strategy to increase its leadership positions in key product categories. The product categories are further prioritized based on their capacity to utilize the company's core competencies and strong global equities at optimal levels in order to deliver sustainable long-term growth.

Colgate-Palmolive operates through two business segments: (1) Oral, Personal and Home Care; and (2) Pet Nutrition.

- Oral, Personal and Home Care:** The company's portfolio of oral care products includes toothpaste, manual toothbrushes, and other offerings, such as pharmaceutical products for dentists and other oral health professionals. Within personal care items, it has global leadership in liquid hand soaps, which it sells under the Softsoap, Palmolive and Protex brands. The company's personal care range also includes soap bars under the Palmolive, Protex and Irish Spring brands; shower gels from Palmolive, Sanex and Softsoap brands; deodorants such as Speed Stick, Lady Speed Stick, Sanex deodorants and antiperspirants; Elta MD and PCA Skin professional skin care products; and Palmolive and Caprice shampoos and conditioners. Home care products include Palmolive and Ajax dishwashing liquids and Fabuloso, Murphy's Oil Soap and Ajax household. It also sells fabric conditioners with leading brands, including Suavitel in Latin America, Soupline in Europe and Cuddly in the South Pacific.
- Pet Nutrition:** The pet nutrition segment consists of pet food products for dogs and cats manufactured by Colgate-Palmolive's subsidiary, Hill's Pet Nutrition. These products are marketed under two brands - Hill's Science Diet and Hill's Prescription Diet. The pet products are sold to veterinarians and specialty pet retailers in over 80 countries. Sales of Pet Nutrition products contributed nearly 17% of the company's total sales in fourth quarter 2019.



Reasons To Buy:

▲ **Robust Q4 Sales, Stock Outperforms:** Shares of Colgate have increased 13.3% in the past three months, outperforming the industry's growth of 3.2%. The stock got a boost after the company's fourth-quarter 2019 results, wherein the bottom line was in line with the Zacks Consensus Estimate while sales surpassed the consensus mark. Also, net sales rose 5.4% from the year-ago period. The year-over-year improvement can be primarily attributed to 5.5% increase in global unit volume and 1.5% rise in pricing. On an organic basis, the company's sales improved 5%. This marked the fifth consecutive quarter of sequential improvement in organic sales growth. On a geographic basis, it experienced organic sales growth in all its six divisions. Moreover, it delivered organic growth in all its four businesses, namely, Oral Care, Personal Care, Home Care and Pet Nutrition.

Higher global unit volume and rise in pricing are boosting Colgate's sales. Going forward, management expects top-line gains from accelerated investment in brands, higher pricing and innovation.

For 2020, management expects top-line gains, backed by accelerated investment in brands, higher pricing and strong innovation. Moreover, the company expects top-line gain of 4-6% and organic sales growth of 3-5% for 2020, based on current spot rates. On a GAAP basis, earnings per share for 2020 are likely to increase in a mid to high single digit. Meanwhile, adjusted earnings per share are expected to rise in a low to mid single digit.

▲ **Gross Margin Returns to Growth:** In fourth-quarter 2019, Colgate reported gross margin expansion after declining in the preceding quarter. Adjusted gross profit margin of 60.2% increased 80 basis points (bps) from the prior-year quarter, driven by cost savings under funding-the-growth program and higher pricing. Notably, the company's commitment toward pricing efforts through premiumization and revenue growth management has been paying off. This has resulted in organic sales growth and gross margin expansion. Moreover, its funding-the-growth endeavors remain impressive. For 2020, management expects gross margin expansion, both on a GAAP and adjusted basis.

▲ **Innovation to Aid Business Growth:** Innovation and in-store implementation have been the guiding principles for Colgate's growth strategy over the years. The company's innovation strategy is focused on growing in adjacent categories and product segments. Further, it is focused on the premiumization of its Oral Care portfolio through major innovations. The company is on track to expand its oral care portfolio with the recent announcement of the agreement to buy Hello Products LLC, a leading oral care brand in the United States that produces eco-friendly and organic products. The brand's products, which have a distinct position in the market, are extremely popular with young consumers and across the broader segment. Further, the brand fully complements the company's Tom's of Maine and Colgate brands.

Also, the company's innovation efforts were highlighted by the re-launch of Colgate Total and Hill's Science Diet as well as the continued expansion of the Naturals and Therapeutics divisions. This, along with accelerated investments in brands and higher pricing, is likely to aid the top line in 2020. Additionally, it continues to expand the Naturals toothpaste and prescription diet. In fact, the Naturals range is a key area of focus for the company in personal and home care categories.

▲ **Expanding in New Channels and Markets:** Expanding the availability of its products, through enhanced distribution to newer markets and channels, is one of Colgate's priorities to improve organic sales performance. The company is aggressively expanding into faster growth channels while extending the geographic footprint of its brands. In 2019, the company expanded its portfolio by introducing pharmacy brands like elmex and meridol to newer markets. Moreover, it remains impressed with the performance of professional skincare businesses — Elta MD and PCA Skin — in spas and dermatologists. Further, the company expanded its premium skincare portfolio with the buyout of Filorga skincare business. It is also on track to expand its oral care portfolio with the agreement to buy Hello Products LLC. It is also keen on expanding the availability of its products through the e-commerce channel. These apart, the company is likely to launch the Hill's to home, which will enable pet parents to purchase prescription diet products directly from their veterinarian, with home delivery option. This should enable it to deliver strong e-commerce growth in the current year. All these actions are likely to drive top-line growth in 2020.

▲ **Disciplined Capital Strategy:** Colgate has always followed a disciplined capital allocation strategy that focuses on making investments to develop business while using the excess cash to enhance shareholder returns through dividend payouts and share buybacks, thanks to its strong cash generation ability. The company has been regularly increasing its dividend every year since 2001. In 2019, the company paid out dividends of \$1,614 million. Moreover, management declared a quarterly cash dividend of 43 cents per share, payable on Feb 14. Further, the company generated \$3,133 million of cash from operations as of Dec 31, 2019, and deployed \$335 million toward capital expenditures.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Colgate looks pretty overvalued compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 26.64x, which is below the median level of 24.46x and the high level of 26.64x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 20.90x for the industry and 20.35x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Higher SG&A Expenses:** Colgate is grappling with higher selling, general & administrative (SG&A) expenses for a while now. In the fourth quarter of 2019, the company's adjusted operating margin contracted mainly due to rise in SG&A expenses. Higher advertising investment caused rise in SG&A expenses and other cost. In the fourth quarter, advertising spending was up 13%. Going forward, management anticipates higher advertising spending in 2020 (both on a GAAP and adjusted basis), which may continue hurting its operating income and profitability.
- ▼ **Currency Headwinds Remain a Hurdle:** Despite pricing gains, Colgate's sales for third-quarter 2019 continued to be hurt by adverse currency rates. Currency had a 1.5% negative impact on net sales. Moreover, unfavorable currency impacted sales across all geographic regions except North America and Africa/Eurasia, where currency rates were flat in the quarter. Currency had negative impacts of 4.5% in Latin America, 2.5% in Europe, 0.5% each in Hill's Pet Nutrition and Asia Pacific. Further, raw material costs, which included foreign exchange transaction costs, marred gross margin. Persistence of any impact of currency headwinds might continue hurting the company's top and bottom lines in 2020.
- ▼ **Slowdown of Global Economies:** Colgate remains vulnerable to global economic challenges, which may impact its revenues, profits and cash flows. A global economic slowdown can reduce the personal disposable income of consumers, which in turn, will decrease the company's sales volumes as consumers move toward cheaper alternatives. Further, it may force the company to shift its product mix to lower margin products, thereby impacting margins. In fact, it has been witnessing slower category growth rates worldwide, which remains a threat to the company's profitability.

Colgate is grappling with higher SG&A expenses and adverse currency fluctuations. Moreover, management anticipates higher advertising spending in 2020.

Last Earnings Report

Colgate Beats Q4 Sales Estimates, Earnings In Line

Quarter Ending **12/2019**

Colgate reported fourth-quarter 2019 results, wherein the bottom line was in line with the Zacks Consensus Estimate while sales surpassed the consensus mark. In the reported quarter, gains from strong volume growth and robust price increases were offset by unfavorable foreign currency. The company provided its earnings and sales guidance for 2020.

Report Date	Jan 31, 2020
Sales Surprise	1.85%
EPS Surprise	0.00%
Quarterly EPS	0.73
Annual EPS (TTM)	2.83

Adjusted earnings of 73 cents per share dipped 1.4% from the prior-year quarter and were in line with the Zacks Consensus Estimate. Including one-time items, earnings were 75 cents per share compared with 70 cents in the year-ago period.

Total net sales of \$4,015 million rose 5.4% from the year-ago period and beat the Zacks Consensus Estimate of \$3,942 million. The year-over-year improvement can be primarily attributed to 5.5% increase in global unit volume and 1.5% rise in pricing, somewhat offset by a negative currency impact of 1.5%. On an organic basis, the company's sales improved 5%. This marked the fifth consecutive quarter of sequential improvement in organic sales growth.

Adjusted gross profit margin of 60.2% increased 80 basis points (bps) from the prior-year quarter, driven by cost savings under funding-the-growth program and higher pricing. This was somewhat offset by escalated raw and packaging material expenses.

In the reported quarter, adjusted operating profit of \$938 million remained flat with the year-ago quarter. However, adjusted operating margin contracted 120 bps to 23.4%. Operating margin was mainly impacted by rise in adjusted selling, general & administrative expenses. Higher advertising investment caused rise in SG&A expenses and other cost, which was partially offset by increase in gross margin. Colgate's market share of manual toothbrushes reached 41.1% at the end of 2019. Further, the company continued with its leadership position in the global toothpaste market, with market share at 31.6%.

Segmental Discussion

North America's net sales (21% of total sales) improved 1.5%, reflecting 3.5% rise in unit volume offset by 2% decrease in pricing along with flat currency rates. On an organic basis, sales grew 1.5%.

Latin America's net sales (23% of total sales) rose 2% year over year on unit volume growth of 3% and price increases of 3.5%, partly offset by negative currency impact of 4.5%. During the quarter under review, volume benefited from gains in Colombia and Mexico. On an organic basis, sales were up 6.5%.

Europe's net sales (16% of total sales) increased 10% year over year on 13% rise in unit volume somewhat offset by 0.5% decline in pricing and 2.5% adverse impact of unfavorable currency exchange. Volume benefited from gains in France and the Nordic region, offset by a decline in Germany and United Kingdom. Further, organic sales in Europe increased 0.5% and organic unit volume grew 1%.

The **Asia Pacific's** net sales (17% of total sales) improved 7%, attributable to 4.5% rise in unit volume, 2% pricing gains, and 0.5% positive impact of favorable currency rates. Volume growth stemmed from gains in the Philippines and Greater China. On an organic basis, sales for the Asia Pacific rose 6.5%.

Africa/Eurasia's net sales (6% of total sales) grew 7.5% year over year, owing to 8% rise in unit volume, offset by 0.5% decrease in pricing while foreign exchange remained flat. Volume gains were driven by growth in Russia and South Africa. Organic sales for Africa/Eurasia improved 6% and organic unit volume improved 6.5%.

Hill's Pet Nutrition's net sales (17% of total sales) rose 8% from the year-ago quarter. Results gained from a 3.5% increase in unit volume and 5% rise in pricing, offset by a 0.5% negative impact of currency. Volume growth in the United States and Western Europe were partly negated by soft volume in Japan and South Africa. On an organic basis, sales were up 8.5%.

Other Financial Details

Colgate ended fourth-quarter 2019 with cash and cash equivalents of \$883 million, and total debt of \$7,847 million. Net cash provided by operating activities amounted to \$3,133 million as of Dec 31, 2019.

Outlook

Colgate is on track to expand its oral care portfolio with the recent announcement of the agreement to buy Hello Products LLC, a leading oral care brand in the United States that produces eco-friendly and organic products. The company's guidance includes this acquisition.

Going into 2020, the company expects top-line gain of 4-6% and organic sales growth of 3-5%, based on current spot rates. This growth indicates the company's plan to continue to invest behind brands and global capabilities. Moreover, the company anticipates increase in gross margin in 2020, on both GAAP and adjusted basis. Further, it continues to expect higher advertising spending in 2020. On a GAAP basis, earnings per share for 2020 are likely to increase in a mid to high-single digit. Meanwhile, adjusted earnings per share are expected to rise in a low to mid-single digit.

Recent News

Colgate to Buy Hello Brand, Expand Natural Products Line – Jan 24, 2020

Colgate has agreed to acquire Hello Products LLC, a leading oral care brand in the United States that produces eco-friendly and organic products. Hello's products include adult and kids toothpaste, mouth rinse, toothbrushes and floss. The brand's products, which have a distinct position in the market, are extremely popular with young consumers and across the broader segment. Further, the brand fully complements the company's Tom's of Maine and Colgate brands.

Colgate plans to finance the deal with a combination of cash and debt. The company anticipates closing the transaction by February 2020. Following the completion of the acquisition, Hello's founder Craig Dubitsky and CEO Lauri Kien Kotcher will continue to lead the brand.

The company expects the acquisition to be flat to a penny dilutive to 2020 earnings per share, after including transaction costs. The terms of the deal were not disclosed.

Colgate Declares Dividend – Jan 10, 2020

Colgate announced its quarterly cash dividend of 43 cents per share, which is payable on Feb 14, 2020 to its shareholders of record as of Jan 23.

Valuation

Colgate shares are up 9.6% in the year-to-date period and 15.4% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 2.6% but the Zacks Consumer Staples sector is down 0.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 19% and 11.1%, respectively.

The S&P 500 index is up 2.2% in the year-to-date period and 19.8% in the past year.

The stock is currently trading at 25.13X forward 12-month earnings, which compares to 22.88X for the Zacks sub-industry, 19.51X for the Zacks sector and 18.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.21X and as low as 18.57X, with a 5-year median of 23.02X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79 price target reflects 26.33X forward 12-month earnings.

The table below shows summary valuation data for CL

Valuation Multiples - CL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.13	22.88	19.51	18.6
	5-Year High	26.21	23.53	22.38	19.34
	5-Year Low	18.57	17.89	16.66	15.18
	5-Year Median	23.02	21.06	19.74	17.46
P/S F12M	Current	3.97	2.72	9.97	3.5
	5-Year High	4.31	2.72	11.13	3.5
	5-Year Low	3.22	1.94	8.09	2.54
	5-Year Median	3.75	2.31	9.88	3
EV/EBITDA TTM	Current	19.53	13.25	39.52	11.95
	5-Year High	19.53	14.61	45.13	12.85
	5-Year Low	12.44	9.25	31.57	8.49
	5-Year Median	15.49	10.96	38.5	10.66

As of 02/04/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (229 out of 255)



Top Peers

Procter & Gamble Company (The) (PG)	Outperform
Church & Dwight Co., Inc. (CHD)	Neutral
The Clorox Company (CLX)	Neutral
Johnson & Johnson (JNJ)	Neutral
Kimberly-Clark Corporation (KMB)	Neutral
Reckitt Benckiser Group PLC (RBGLY)	Neutral
Unilever PLC (UL)	Neutral
Henkel AG & Co. (HENKY)	Underperform

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CL Neutral	X Industry	S&P 500	CLX Neutral	PG Outperform	UL Neutral
VGM Score	D	-	-	C	B	A
Market Cap	64.62 B	60.48 B	23.66 B	20.53 B	310.31 B	69.78 B
# of Analysts	8	7.5	13	6	9	3
Dividend Yield	2.28%	2.13%	1.82%	2.59%	2.37%	2.99%
Value Score	D	-	-	D	C	B
Cash/Price	0.01	0.04	0.04	0.01	0.02	0.08
EV/EBITDA	18.00	17.82	13.87	17.64	34.45	NA
PEG Ratio	4.69	3.32	1.97	5.26	3.32	2.75
Price/Book (P/B)	115.81	6.45	3.24	37.00	6.90	4.49
Price/Cash Flow (P/CF)	21.84	16.37	13.40	20.57	21.44	7.78
P/E (F1)	25.30	22.80	18.48	26.66	25.17	19.73
Price/Sales (P/S)	4.12	3.74	2.60	3.35	4.46	NA
Earnings Yield	3.95%	4.42%	5.40%	3.75%	3.97%	5.07%
Debt/Equity	13.70	0.68	0.72	4.63	0.42	NA
Cash Flow (\$/share)	3.45	3.45	6.92	7.95	5.86	7.68
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	0.54%	6.74%	10.80%	7.26%	3.75%	NA
Proj. EPS Growth (F1/F0)	5.35%	5.16%	7.46%	-2.90%	10.47%	4.97%
Curr. Cash Flow Growth	-4.58%	1.11%	10.59%	1.11%	4.72%	-5.80%
Hist. Cash Flow Growth (3-5 yrs)	-1.27%	4.28%	8.55%	5.39%	-0.93%	4.28%
Current Ratio	0.37	0.82	1.21	0.86	0.63	0.78
Debt/Capital	97.78%	40.42%	42.91%	82.24%	29.26%	NA
Net Margin	15.08%	12.14%	11.76%	13.31%	6.92%	NA
Return on Equity	1,906.25%	25.65%	17.24%	133.50%	27.14%	NA
Sales/Assets	1.12	0.89	0.55	1.16	0.60	NA
Proj. Sales Growth (F1/F0)	4.10%	3.34%	4.22%	-0.71%	4.14%	5.16%
Momentum Score	D	-	-	A	A	F
Daily Price Chg	0.63%	0.22%	0.67%	4.99%	0.44%	-0.23%
1 Week Price Chg	4.95%	1.36%	-2.60%	-0.61%	-0.42%	0.93%
4 Week Price Chg	11.62%	6.49%	-0.76%	7.99%	3.01%	6.49%
12 Week Price Chg	13.15%	5.36%	2.84%	12.56%	5.36%	1.01%
52 Week Price Chg	16.47%	9.06%	13.93%	7.11%	28.96%	9.06%
20 Day Average Volume	4,309,923	1,178,715	1,915,782	1,063,892	6,816,314	1,293,538
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.22%	0.00%	-2.16%
(F1) EPS Est 4 week change	0.29%	0.09%	0.00%	-0.11%	1.01%	-2.26%
(F1) EPS Est 12 week change	0.12%	-1.15%	-0.13%	-0.14%	1.31%	-2.26%
(Q1) EPS Est Mthly Chg	-1.14%	-0.83%	0.00%	-0.52%	0.34%	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	D
Growth Score	B
Momentum Score	D
VGM Score	D

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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