

The Clorox Company (CLX)

\$199.79 (As of 05/06/20)

Price Target (6-12 Months): **\$230.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 03/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Clorox's shares have risen and outpaced the industry in the past three months. The stock received a boost from the robust third-quarter fiscal 2020 results, wherein both top and bottom lines beat the Zacks Consensus Estimate and grew year over year. While earnings benefited from higher sales and gross margin, sales were driven by increased volumes. Further, it saw broad-based growth at all four segments as it catered well to consumers' increased demand for disinfecting products in wake of the coronavirus outbreak. Moreover, the company's IGNITE strategy and product portfolio bode well. These factors also aided management to raise view for fiscal 2020. Its upbeat outlook reflects expectations of gains from COVID-19 related demand spike, with minimal supply chain disruptions. Higher product demand on robust innovations will also aid

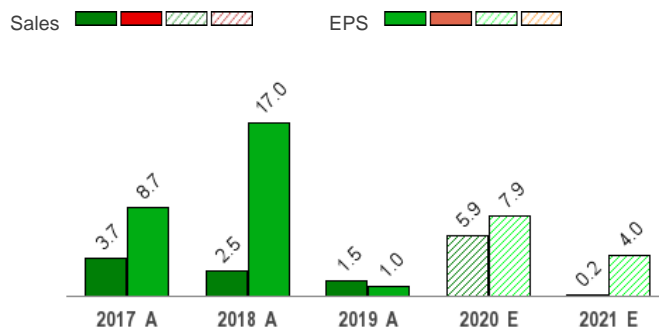
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$214.26 - \$144.12
20 Day Average Volume (sh)	2,104,071
Market Cap	\$25.2 B
YTD Price Change	30.1%
Beta	0.24
Dividend / Div Yld	\$4.24 / 2.1%
Industry	Soap and Cleaning Materials
Zacks Industry Rank	Top 5% (13 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.9%
Last Sales Surprise	4.0%
EPS F1 Est- 4 week change	6.9%
Expected Report Date	08/06/2020
Earnings ESP	0.9%
P/E TTM	29.3
P/E F1	29.3
PEG F1	5.4
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,597 E	1,529 E	1,640 E	1,815 E	6,595 E
2020	1,506 A	1,449 A	1,783 A	1,825 E	6,579 E
2019	1,563 A	1,473 A	1,551 A	1,627 A	6,214 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.65 E	\$1.49 E	\$1.68 E	\$2.08 E	\$7.09 E
2020	\$1.59 A	\$1.46 A	\$1.89 A	\$1.94 E	\$6.82 E
2019	\$1.62 A	\$1.40 A	\$1.44 A	\$1.88 A	\$6.32 A

*Quarterly figures may not add up to annual.

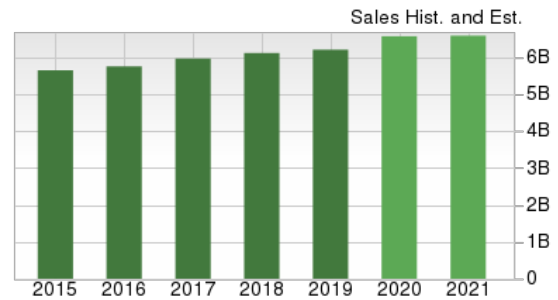
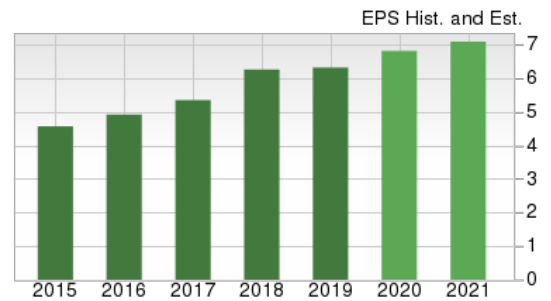
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/06/2020. The reports text is as of 05/07/2020.

Overview

Headquartered in Oakland, CA, The Clorox Company is engaged in the production, marketing and sale of consumer products in the U.S. and international markets. The company sells its products primarily through mass merchandisers, grocery stores and other retail outlets. Clorox markets some of the most trusted and recognized brands, including its namesake bleach and cleaning products, Green Works natural cleaners and laundry products, Poett and Mistolin cleaning products, Armor All and STP auto-care products, Fresh Step and Scoop Away cat litter, Kingsford charcoal, Hidden Valley and K C Masterpiece dressings and sauces, Brita water-filtration systems, Glad bags, wraps and containers, and Burt's Bees natural personal care products. The company manufactures products in over 24 countries and markets them in more than 100 countries.

The company operates through strategic business units, which are aggregated into 4 reportable segments:

- **Cleaning** (37.6% of 3Q20 Net Sales) consists of laundry, home-care, professional products and auto-care products, marketed and sold domestically.
- **Household** (28%) consists of charcoal, cat litter and plastic bags, wraps and containers, marketed and sold in the United States.
- **Lifestyle** (19%) consists of food products and water-filtration systems and filters, marketed and sold in the United States, along with all natural personal care products.
- **International** (15.4%) consists of products sold outside the United States.



Reasons To Buy:

▲ **Upbeat Q3 Performance & Outlook, Stock Outperforms:** Shares of Clorox have gained 22.4% in the past three months against the industry's decline of 9.7%. The stock got a significant boost from the heightened demand for its products amid the coronavirus pandemic, which also aided its third-quarter fiscal 2020 results. While Clorox's bottom line beat the Zacks Consensus Estimate for the fourth straight quarter, its sales topped the same for second straight time. Earnings benefited from higher net sales and gross margin expansion, while gains from increased demand for products due to the pandemic aided the top line. Further, it witnessed broad-based growth at all four segments as it catered well to consumers' increased demand for disinfecting products in wake of the coronavirus outbreak. These factors also led management to raise view for fiscal 2020.

For fiscal 2020, management now projects sales growth of 4-6% compared with low-single digits decline to 1% increase expected earlier. The raised guidance reflects expectations of gains from COVID-19 related demand spike. Also, higher product demand on robust innovations will aid performance. It now expects organic sales growth of 6-8% versus the prior view of flat to up 2%. Moreover, gross margin is now estimated to rise substantially, reflecting continued gains from operating leverage backed by robust sales and cost savings. Management now anticipates fiscal 2020 earnings per share of \$6.70-\$6.90, indicating a rise of 6-9% year over year. Earlier, it had envisioned earnings per share of \$6.10-\$6.25.

Clorox witnessed gross margin expansion of 330 bps in third-quarter fiscal 2020, driven by volume increases and cost savings. This marked the sixth straight quarter of gross margin expansion.

▲ **IGNITE Strategy:** Clorox is on track with the IGNITE strategy, its latest and integrated strategy, formulated on a sturdy foundation of its 2020 Strategy. This initiative mainly focuses on the expansion of the key elements under the 2020 Strategy to pace up innovation in each area of business. As a result, the company will be able to boost overall growth and reinforce competitive advantage, hence boost shareholder value. The IGNITE strategy mainly binds Clorox on four strategic areas namely, fuel growth through brand reinvestments, innovate to deliver enhanced customer experience, develop product portfolio, and re-imagine the company's operations. IGNITE's main principle is 'Innovating for Good Growth', delivering sustainable and responsible growth. IGNITE strategy encompasses the long-term financial targets of achieving net sales growth of 2-4%, EBIT margin expansion of 25-50 basis points (bps) and free cash flow generation of 11-13% of sales.

▲ **Strategic Innovations:** Clorox's diversified brand portfolio positions it well ahead of peers to generate above-average industry growth and sustain it in the currently challenging environment. Further, it remains committed to investing in innovative products and platforms to deliver frictionless shopping experiences. In third-quarter fiscal 2020, the company witnessed significant top-line gains through innovations in various categories including professional products. Also, innovations with double-digit shipment increases for the renewal and sensitive skin line fueled results. Based on its IGNITE Strategy, the company has a strong innovation plan with investments in bigger and enduring multi-year innovation platforms that differentiate its products and brands. This is supported by a robust innovation pipeline in the second half of fiscal 2020.

Notably, Clorox's innovation pipeline is led by the Compaction of Clorox Liquid Bleach as well as the launch of Clorox Compostable Cleaning Wipes, Clorox Fabric Sanitizer and Kingsford Pellets, and several innovations in Bags and Wraps and Natural Personal Care, in fiscal 2020. Further, the company plans to invest in expanding innovation platforms such as Clorox Scentiva, Fresh Step Clean Paws, Brita Filtering Water Bottles and Hidden Valley Ready-to-Eat Dips.

▲ **Cost Saving & Productivity Initiatives:** Clorox remains on track with its cost-saving and productivity initiatives. Backed by the IGNITE strategy, Clorox aims at higher cost savings annually by emphasizing more on technology and integrated design. With this, it expects to achieve EBIT margin expansion of 175 basis points annually. Further, the company's cost-based pricing strategy has enabled it to address the inflationary environment that has persisted for over three years. These cost-saving and pricing actions should continue to support its investment in long-term brands and category growth. In the fiscal third quarter, Clorox witnessed gross margin expansion of 330 basis points, driven by gains from cost savings and double-digit volumes. Notably, the cost-savings program has meaningfully contributed in generating year-over-year gross margin expansion for the sixth consecutive quarter. By the end of fiscal 2020, the company expects to surpass its annual cost savings target of 150 bps, supported by meaningful productivity improvements.

▲ **International Business Strength:** Clorox is witnessing strong progress in the core International business as it continues to build on the success of the segment's Go Lean strategy. These efforts will help in accelerating profitable growth for the segment. Organic sales for the International segment grew 22% driven by favorable price mix. Driven by its IGNITE Strategy, which aims to improve profitability in International business, the company expects to invest selectively in profitable platforms. These investments are likely to result in improved returns from businesses like Burt's Bees and Cat Litter.

▲ **Sustainable Shareholder Returns:** Clorox looks well placed on the dividend-payout front. At a juncture where companies are suspending dividends to preserve financial flexibility, Clorox paid a dividend of \$1.06 per share during the third quarter of fiscal 2020 (ended Mar 31, 2020). We note that the company's current annualized dividend rate of \$4.24 a share reflects a 10.4% increase from the year-ago period. Notably, Clorox has a dividend payout of 62.2%, dividend yield of 2.1% and free cash flow yield of 3.2%. With an annual free cash flow return on investment of 26.6%, ahead of the industry's nearly 21%; the dividend payment is likely to be sustainable.

Risks

- **Valuation Looks Stretched:** Considering Price-to-Earnings (P/E) ratio, Clorox looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E of 29.84x compared with 18x for the industry and 20.4x for the S&P 500. Its trailing 12-month P/E ratio is above the median level of 24.78x and below the high level of 31.06x, scaled in the past year.
 - **Higher Costs to Linger:** Clorox continued to witness gross margin expansion in the fiscal third quarter. However, growth was partly negated by higher trade promotion spending. Further, selling and administrative expenses, as a percentage of sales, increased 120 bps to 15.1% due to higher incentive compensation cost year over year. Advertising and sales promotion investments, as a percentage of sales, were nearly flat in the fiscal third quarter, while spending for the U.S. retail business was roughly 12% of sales. In fiscal 2020, advertising and sales promotion spending is now anticipated to be nearly 10% of sales, due to increased investments and support for robust innovation pipeline. Selling and administrative expenses are projected to be nearly 15% of sales. Moreover, gross margin expansion in fiscal 2020 will be somewhat offset by temporary investments with respect to employees and operational safety measures. Also, increased transportation and warehousing expenses remain deterrents.
 - **Currency Headwinds:** Clorox's significant international presence exposes it to major foreign currency risks, which have been weighing on the company's performance. Net sales for the fiscal third quarter included 2 percentage points of negative impacts of foreign currency translations. Unfavorable currency fluctuations also hurt gross margin to a certain extent. Additionally, adverse currency effects of 11 percentage points marred sales for the International segment. The company's sales view for fiscal 2020 reflects about 2 percentage points of negative impact from foreign exchange.
 - **Competitive Pressure:** Clorox faces intense competition from other well-established players in the consumer products industry, such as Church & Dwight, Colgate, and Procter & Gamble on the basis of pricing, promotional activities and new product introductions. The failure to offer exclusive high-quality products at competitive prices may hamper the company's market share, and in turn, dent its top- and bottom-line performances.
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Last Earnings Report

Clorox Tops Q3 Earnings & Sales Estimates, Raises View

Clorox reported robust third-quarter fiscal 2020 results, wherein earnings and sales beat the Zacks Consensus Estimate and grew year over year. Strong quarter performance aided management to raise guidance for the fiscal year.

During the quarter, the company experienced strong growth in the disinfecting products and broad-based growth at all four segments as the company catered well to consumers in wake of the coronavirus outbreak. Also, the company's IGNITE strategy and product portfolio bode well. These factors also position the company well going forward.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	4.03%
EPS Surprise	9.88%
Quarterly EPS	1.89
Annual EPS (TTM)	6.82

Q3 Highlights

Quarterly earnings from continuing operations of \$1.89 per share increased about 31% year over year and beat the Zacks Consensus Estimate of \$1.72. The upside was mainly driven by higher net sales and gross margin, partly offset by increased selling and administrative costs and advertising investments.

The company posted net sales of \$1,783 million, up nearly 15% year over year and above the Zacks Consensus Estimate of \$1,714 million. This was backed by 18 points of volume growth on increased demand for products in light of the pandemic. Growth was partly offset by 2 points owing to adverse foreign currency rates and 1 point from unfavorable price mix. Also, organic sales increased 17% in the quarter.

Moreover, Clorox witnessed gross margin expansion of 330 bps to 46.7% in the fiscal second quarter. This marked the company's sixth straight quarter of gross margin expansion. The rise in gross margin was driven by gains from cost savings and double-digit volumes, somewhat marred by higher trade promotion spending.

Segmental Discussion

Sales of the **Cleaning** segment surged 32% at \$671 million on double-digit shipment increases across all business units. Notably, Home Care was the key driver, with robust gains from Laundry and Professional products on higher demand for disinfecting wipes, sprays, disinfecting bleach, wipes and more. Also, robust consumer demand fueled increased household penetration on its retail brands.

The Household segment's sales inched up 2% to \$500 million mainly driven by Cat Litter and Grilling on higher consumer demand. The improvement was somewhat offset by increased trade promotion spending.

Sales at the Lifestyle segment grew 10% to \$339 million on sales growth in three of its four business units and robust contributions from Food and Natural Personal Care. Growth was somewhat offset by a fall in Dietary Supplements on supply disruption owing to the coronavirus pandemic.

At the International segment, sales increased 11% to \$273 million from the year-ago quarter on benefits from higher volumes in every geographic region. Though sales were hurt by 11 points of foreign currency impact, this was partly mitigated by strong pricing action implemented prior to the pandemic. Organic sales for the segment rose 22%.

Financials

Clorox ended the fiscal third quarter with cash and cash equivalents of \$496 million, and long-term debt of \$2,288 million. During the nine months of fiscal 2020, the company generated \$806 million of net cash from continuing operations.

Fiscal 2020 Guidance

Clorox updated its outlook for fiscal 2020, assuming minimal supply chain disruptions for rest of the fiscal. It now projects sales growth of 4-6% compared with the prior estimation of low-single digits decline to up 1%. The raised guidance reflects expectations of favorable COVID-19 impact. Also, higher product demand on robust customer plans and innovations will aid. However, the sales view reflects about 2 points of foreign exchange woes. Further, the company now expects organic sales growth of 6-8% versus the prior anticipation of flat to up 2%.

Moreover, gross margin is now estimated to rise substantially, reflecting continued gains from operating leverage backed by robust sales and cost savings. This will be somewhat offset by temporary investments with respect to employees and operational safety measures. Also, increased transportation and warehousing expenses remain deterrents. Advertising and sales promotion spending is now anticipated at nearly 10% of sales. Selling and administrative expenses are projected around 15% of sales. The company envisions effective tax rate of 21-22% for fiscal 2020.

Management now anticipates fiscal 2020 earnings per share of \$6.70-\$6.90, indicating a rise of 6-9% year over year. Earlier, it had envisioned earnings per share of \$6.10-\$6.25.

Recent News

Clorox Declares Dividend – Feb 11, 2020

Clorox announced a quarterly cash dividend of \$1.06 per share, payable May 8, 2020 to its shareholders of record as of Apr 22.

Valuation

Clorox shares are up 31.8% in the year-to-date period and 36% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 8.7% and 17.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 2.2% and 13.1%, respectively.

The S&P 500 index is down 11.5% in the year-to-date period and 1.3% in the past year.

The stock is currently trading at 29.16X forward 12-month earnings, which compares to 20.94X for the Zacks sub-industry, 18.46X for the Zacks sector and 20.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.7X and as low as 18.27X, with a 5-year median of 23.73X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$230 price target reflects 33.57X forward 12-month earnings.

The table below shows summary valuation data for CLX

Valuation Multiples - CLX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.16	20.94	18.46	20.52
	5-Year High	30.7	23.53	22.37	20.52
	5-Year Low	18.27	17.89	16.5	15.19
	5-Year Median	23.73	21.04	19.68	17.44
P/S F12M	Current	3.87	2.51	8.63	3.21
	5-Year High	3.94	2.72	11.16	3.44
	5-Year Low	2.34	1.94	8.1	2.54
	5-Year Median	2.85	2.33	9.89	3.01
EV/EBITDA TTM	Current	19.77	11.42	32.08	10.44
	5-Year High	21.03	14.72	45.12	12.86
	5-Year Low	12.73	9.26	27.24	8.28
	5-Year Median	14.92	11.08	38.4	10.77

As of 05/06/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ChurchDwight Co Inc (CHD)	Neutral	2
ColgatePalmolive Company (CL)	Neutral	3
Henkel AGCo (HENKY)	Neutral	3
JohnsonJohnson (JNJ)	Neutral	3
KimberlyClark Corporation (KMB)	Neutral	2
ProcterGamble Company The (PG)	Neutral	3
Reckitt Benckiser Group PLC (RBGLY)	Neutral	1
Unilever PLC (UL)	Neutral	3

Industry Comparison Industry: Soap And Cleaning Materials				Industry Peers		
	CLX	X Industry	S&P 500	CHD	CL	PG
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	3	3
VGM Score	B	-	-	B	C	B
Market Cap	25.16 B	58.11 B	19.11 B	17.67 B	58.11 B	280.00 B
# of Analysts	6	7.5	14	11	9	9
Dividend Yield	2.12%	2.36%	2.2%	1.34%	2.59%	2.80%
Value Score	C	-	-	C	D	D
Cash/Price	0.02	0.06	0.06	0.06	0.01	0.05
EV/EBITDA	20.93	14.05	11.69	18.00	16.29	30.72
PEG Ratio	5.43	3.84	2.48	3.22	4.46	3.18
Price/Book (P/B)	36.20	5.20	2.58	6.27	170.40	6.22
Price/Cash Flow (P/CF)	25.12	13.59	10.40	22.04	19.65	19.30
P/E (F1)	29.67	22.43	18.81	26.45	23.67	22.83
Price/Sales (P/S)	3.95	3.80	1.97	3.95	3.65	3.98
Earnings Yield	3.41%	4.46%	4.99%	3.79%	4.23%	4.38%
Debt/Equity	3.69	0.64	0.75	0.64	21.51	0.52
Cash Flow (\$/share)	7.95	3.45	7.01	3.26	3.45	5.86
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	7.61%	6.59%	10.87%	11.72%	0.72%	5.01%
Proj. EPS Growth (F1/F0)	7.86%	-1.10%	-9.86%	9.98%	1.26%	9.59%
Curr. Cash Flow Growth	1.11%	1.99%	5.88%	12.70%	-4.58%	4.72%
Hist. Cash Flow Growth (3-5 yrs)	5.39%	5.95%	8.55%	9.63%	-1.27%	-0.93%
Current Ratio	0.98	0.96	1.25	1.03	0.96	0.83
Debt/Capital	78.68%	39.12%	44.23%	39.12%	95.56%	33.66%
Net Margin	13.67%	12.02%	10.87%	14.96%	15.86%	7.09%
Return on Equity	147.52%	26.89%	16.36%	24.62%	942.99%	29.15%
Sales/Assets	1.17	0.87	0.55	0.65	1.09	0.61
Proj. Sales Growth (F1/F0)	4.11%	0.00%	-2.18%	6.80%	0.45%	3.46%
Momentum Score	B	-	-	C	B	A
Daily Price Chg	-1.81%	-1.66%	-1.27%	-2.15%	-2.42%	-2.51%
1 Week Price Chg	1.08%	-0.16%	0.53%	-0.18%	-4.02%	-1.65%
4 Week Price Chg	10.36%	2.36%	0.68%	4.72%	-3.39%	-1.74%
12 Week Price Chg	21.65%	-8.38%	-22.30%	-5.06%	-10.68%	-8.38%
52 Week Price Chg	34.25%	-0.91%	-11.55%	-1.82%	-4.44%	7.64%
20 Day Average Volume	2,104,071	1,440,778	2,470,143	1,469,766	3,712,901	9,974,882
(F1) EPS Est 1 week change	4.32%	0.54%	0.00%	1.25%	0.90%	0.00%
(F1) EPS Est 4 week change	6.94%	0.14%	-6.52%	1.56%	-1.07%	0.09%
(F1) EPS Est 12 week change	11.15%	-7.03%	-14.84%	1.56%	-3.88%	-0.80%
(Q1) EPS Est Mthly Chg	6.78%	0.16%	-12.48%	3.93%	-3.62%	-8.10%

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	B
Momentum Score	B
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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