

## Columbia Sportswear (COLM)

**\$95.59** (As of 01/17/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

### Summary

Shares of Columbia Sportswear have declined and underperformed the industry in the past three months. The company has been grappling with high SG&A expenses, which increased in the third quarter of 2019 due to elevated investments to improve global DTC operations, project related expenses and other demand creation spending. Also, international presence exposes the company to volatile currency movements and tariff-related concerns. Nonetheless, Columbia Sportswear has been seeing growth across most regions and product categories. Notably, the company posted better-than-expected third-quarter results, wherein the top and bottom lines continued to improve year over year on brand strength and Project CONNECT margin benefits. Moreover, management raised its operating margin and bottom-line view for 2019.

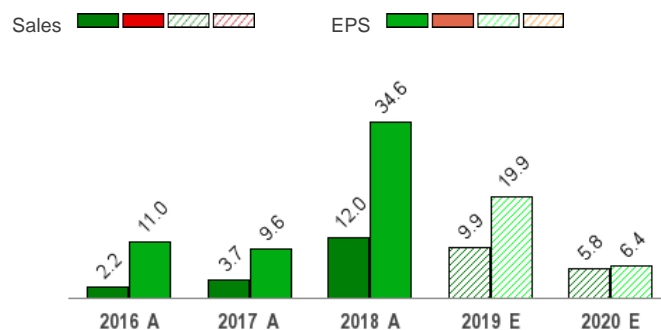
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$109.74 - \$84.41</b>
20 Day Average Volume (sh)	<b>554,908</b>
Market Cap	<b>\$6.5 B</b>
YTD Price Change	<b>-4.6%</b>
Beta	<b>0.64</b>
Dividend / Div Yld	<b>\$0.96 / 1.0%</b>
Industry	<a href="#">Textile - Apparel</a>
Zacks Industry Rank	<b>Bottom 9% (231 out of 254)</b>

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



Last EPS Surprise	<b>12.9%</b>
Last Sales Surprise	<b>2.3%</b>
EPS F1 Est- 4 week change	<b>-0.3%</b>
Expected Report Date	<b>02/06/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>20.2</b>
P/E F1	<b>18.7</b>
PEG F1	<b>2.1</b>
P/S TTM	<b>2.2</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	692 E	553 E	949 E	998 E	3,210 E
2019	655 A	526 A	907 A	947 E	3,035 E
2018	607 A	482 A	796 A	899 A	2,761 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.11 E	\$0.23 E	\$1.89 E	\$1.87 E	\$5.12 E
2019	\$1.07 A	\$0.23 A	\$1.75 A	\$1.65 E	\$4.81 E
2018	\$0.77 A	\$0.16 A	\$1.41 A	\$1.68 A	\$4.01 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/20/2020.

## Overview

Headquartered in Portland, OR, **Columbia Sportswear Company** engages in the sourcing, marketing and distribution of outdoor and active lifestyle apparel, footwear, accessories and equipment in the U.S. and internationally.

The company offers products under four well-established brands – Columbia, Sorel, Mountain Hardwear and prAna. Amongst other brands, The OutDry and The Pacific Trail are worth mentioning.

The high quality products manufactured by the company under different banners makes them ideal for a range of sporting activities. The company also engages in innovation, in order to match consumers changing preferences, especially in relation with outdoor activities.

The company distributes its products through a mix of wholesale distribution channels, own direct-to-consumer ("DTC") channels (retail stores and e-commerce), independent international distributors, as well as licensees.

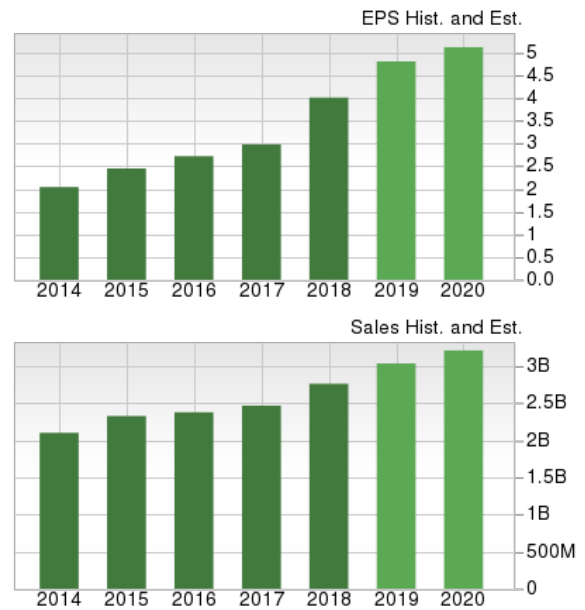
In 2018, the company's products were sold across 90 countries. Majority of the company's products are manufactured by contract manufacturers located outside the United States.

Columbia reports its operating results under two major segments:

**Apparel, accessories and equipment segment:** This segment designs, develops, markets and distributes apparel, accessories and equipment for men and women under its Columbia, Sorel, Mountain Hardwear and prAna brands, and for youth under the Columbia and Mountain Hardwear brand.

**Footwear segment:** The segment designs, develops, markets and distributes footwear products for men, women and youth under its Columbia and Sorel brands.

The company operates in four geographic regions: The United States, Canada, Latin America and Asia Pacific (LAAP), and Europe, Middle East and Africa (EMEA).



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## Reasons To Buy:

- ▲ **Stellar Performance:** The company has delivered positive earnings and sales surprise streak in all the three quarters of 2019. The company reported better-than-expected third-quarter 2019 results, wherein both the top and bottom lines continued to improve year over year. Impressive performance prompted management to raise full-year projection. Growth witnessed across geographic segments, channels and product categories contributed to the company's results. During the quarter, the company shipped a large portion of Fall 2019 order book. Notably, rise in advance orders and earlier shipments contributed to double-digit growth in the Columbia and SOREL brands. The company's net sales growth coupled with Project CONNECT margin benefits drove the bottom line.
- ▲ **Raised 2019 View:** The company lifted the low-end of net sales view and raised operating margin and earnings per share outlook for the full year. Net sales are expected in the range of \$3.01-\$3.04 billion compared to the earlier prediction of \$3.00-\$3.04 billion. The revised top-line view depicts growth of nearly 7.5-8.5% year over year. Further, gross margin is anticipated to increase approximately 60 bps to 50.1%. Operating income is estimated in the band of \$392-\$401 million compared with \$388-\$396 million projected earlier. Operating margin is envisioned to be 13-13.2% versus prior view of 12.9-13%. Management expects earnings per share to be \$4.70-\$4.80, up from the prior view of \$4.65-\$4.75. The company had reported adjusted earnings of \$4.01 per share in 2018. Management is impressed with the sales and profitability momentum achieved in the third quarter. The company expects to continue reaping financial gains from Project CONNECT. Further, management intends to continue with its investments related to demand creation, drive brand awareness and enhance digital capabilities. It will also continue exploring growth opportunities in DTC business and improve support processes. The company envisions mid to high single digit growth in net sales during the first half of 2020.
- ▲ **Project CONNECT to Drive Growth:** Columbia Sportswear is progressing well with its Project CONNECT program, which is aimed toward driving sales and earnings growth, alongside strengthening the company's financial position. Project CONNECT focuses on connecting consumers, wholesale customers and international distributors with its manufacturing partners and employees around the globe. Markedly, the program comprises design to value, assortment optimization and manufacturing efficiency endeavors. During the third quarter, Project CONNECT aided the company's gross margin performance, which expanded nearly 110 bps to 49.3%. Also operating margin increased 100 bps to 16.8%. The company is optimistic about generating substantial financial value from this project in 2019 and beyond.
- ▲ **Strong International Presence:** Columbia has a solid international presence and sells its products in approximately 90 countries. The widespread global reach provides the company a solid business foundation and enables it to seek new opportunities to enhance profitability. Net sales outside the United States increased 11% during the quarter under review and 8% year-to-date with growth in all international regions. In Canada, net sales grew 22% in the quarter and 15% year-to-date. In Japan, net sales rose in mid-single digit percentage in the quarter and high single digit percentage year-to-date. In Europe, direct net sales rose in high single digit percentage in the quarter and mid-single digit percentage year-to-date. Again, in Korea, net sales increased in high single digit percentage in the quarter and mid-single digit percentage year-to-date.
- ▲ **Direct-to-Consumer Business – A Major Driver:** Columbia Sportswear remains committed toward expanding and enhancing its global direct-to-consumer (DTC) business, through accelerated investments. During the third quarter of 2019, DTC channels depicted sales growth of nearly 3% (up 4% at constant currency). Within the DTC business, both the brick-and-mortar and e-commerce businesses have been strong. Management expects this channel to continue performing well in the forthcoming periods.
- ▲ **Brand Enhancing Initiatives:** Columbia Sportswear undertakes brand-enhancing and unique marketing initiatives that further strengthen its presence in the apparel industry. We note that the company's Columbia brand is steadily gaining market share. Further, the company expects continued growth from its SOREL brand through constant upgradation and effective strategies. Going forward, the company remains optimistic about its partnership with Disney and is excited about recently launched SOREL Frozen 2 collection for women and kids. Driven by such efforts, the Columbia and SOREL brands registered growth of 14% to \$729.5 million and 27% to \$116.1 million, respectively, during the third quarter. On the technology front, the company initiated "Consumer First" retail platform or C1 at its North America stores. These outlets now comprise improved point of sale systems including mobile checkout, access to loyalty programs as well as improved merchandising and pricing functionality. The company also executed new mobile platform experience first or X1 across its Europe-direct and product eCommerce businesses.

Columbia Sportswear has been gaining from growth across most regions and product categories. The company is also on track with Project CONNECT initiative.

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## Reasons To Sell:

- ▼ **High SG&A Costs:** After increasing 9% in the second quarter of 2019, SG&A expenses increased 14% on a year-over-year basis during the third quarter. This increase was caused by high investments to improve global DTC operations, project related expenses and other demand creation spending. Such persisting increase in SG&A expenses is a threat to profitability, unless cushioned by adequate revenue growth. This, along with a soft fourth quarter outlook seems to be weighing on investors' sentiments. Shares of the company have declined 5.1% in the past three months, against the industry's growth of 7.9%.

As the company shipped a large part of Fall 2019 order book in the third quarter, management now expects deceleration in sales growth rate in the fourth quarter.
  - ▼ **Soft Q4 Sales & Earnings Expectations:** As the company shipped a large portion of Fall 2019 order book during the third quarter, management now expects low to mid single digit growth in net sales in the final quarter. This shows a sharp deceleration in rate of sales growth, when compared with the preceding period. In the third quarter, the company witnessed sales increase of about 14%. Also, the company expects fourth-quarter earnings in the band of \$1.55-\$1.65, down from \$1.68 per share reported in the year-ago period. Management highlighted that the prior-year quarter had gained from favorable retail scenario as well as ideal winter weather.
  - ▼ **Currency Headwinds:** Due to exposure in international markets, Columbia Sportswear is prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the United States. Increase in prices may have adverse impact on demands for the products. In 2019, management anticipates currency fluctuations to negatively impact net revenue growth by 90 bps.
  - ▼ **Tariffs May Hit in the Long Run:** Columbia Sportswear has significant operations overseas, with China being a significant market for both production and sales. Further, the company intends to maintain its ties with its Chinese partners, given the hurdles related to local manufacturing. Thus, any adverse tariff impacts, stemming from the trade war, are likely to have a detrimental impact on Columbia Sportswear's business, vendors and consumers in future. Nonetheless, the company is taking steps to mitigate the impact of same.
  - ▼ **Volatile Product Costs:** Columbia Sportswear remains prone to volatility in the prices of several raw materials in the commodity market, such as oil, leather and cotton among others. The company's product costs depend largely on these prices, along with quality and availability of raw materials; labor market fluctuations that impact wage rates; transportation costs and general economic conditions like inflation. Thus, any major changes in these factors can impact the company's production cost, which can hurt profitability.
  - ▼ **Risk Related to Contract Manufacturers:** Columbia Sportswear mainly procures its products through contract manufacturers. The order commitments of the company with such contract manufacturers are not long term in nature, thus posing the risk of meeting production needs timely and adequately on the event of any lags from the manufacturers end.
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## Last Earnings Report

### Columbia Sportswear Beats on Q3 Earnings, Raises View

Columbia Sportswear reported better-than-expected third-quarter 2019 results, wherein both the top and bottom lines continued to improve year over year. Impressive performance prompted management to raise full-year projection. The company lifted the low-end of net sales view and raised operating margin and earnings per share outlook for the full year.

Growth witnessed across geographic segments, channels and product categories contributed to the results. During the quarter, the company shipped a large portion of Fall 2019 order book. Notably, rise in advance orders and earlier shipments contributed to double-digit growth in the Columbia and SOREL brands. The company's net sales growth and Project CONNECT margin benefits drove the bottom line.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	2.26%
EPS Surprise	12.90%
Quarterly EPS	1.75
Annual EPS (TTM)	4.73

#### Q3 in Detail

Adjusted earnings of this designer, marketer and distributor of outdoor and active lifestyle apparel, footwear and accessories came in at \$1.75 per share, which beat the Zacks Consensus Estimate of \$1.55. Further, quarterly earnings rose 24% year over year.

Net sales advanced 14% (up 15% on a constant-currency or cc basis) to \$906.8 million. The top line surpassed the consensus estimate of \$886.8 million. This can be attributed to strength in the Columbia and Sorel brands.

In the reported quarter, DTC channels depicted sales growth of nearly 3% (up 4% at cc) and wholesale net sales advanced 19% (up 20% at cc).

Gross profit grew 16% to \$446.7 million, whereas gross margin expanded 110 bps to 49.3%. Margin improved on account of Project CONNECT that comprises design to value, assortment optimization and manufacturing efficiency endeavors. Operating income came in at \$152 million, reflecting a rise of almost 21% year over year. Operating margin also increased 100 bps to 16.8%.

#### Regional Segments

**United States'** net sales jumped 17% to \$581.3 million, owing to growth across the DTC and wholesale businesses. Net sales in **Latin America/Asia Pacific (LAAP)** improved 4% (up 5% at cc) to \$123.2 million. **Europe/Middle East/Africa (EMEA)** saw net sales improvement of 4% (up 8% at cc) to \$104.4 million. Also, net sales in **Canada** grew 21% (up 22% at cc) to \$97.9 million.

#### Sales by Product Category & Brand

Net sales at the Apparel, Accessories and Equipment category improved 11% to \$684.7 million and Footwear sales surged 25% to \$222.1 million. Further, the Columbia and SOREL brands registered growth of 14% to \$729.5 million and 27% to \$116.1 million, respectively. Moreover, net sales in the prAna and Mountain Hardwear brands fell 4% to \$38.5 million and 1% to \$22.7 million, respectively.

#### Other Financial Updates

Columbia Sportswear ended the quarter with cash and cash equivalents of \$239.3 million and total equity of \$1,747.1 million. During the first nine months of 2019, the company used cash from operating activities of \$198.2 million, while it incurred capital expenditures of \$104.5 million. In the aforementioned period, the company repurchased 1,191,684 shares for an aggregate of \$116.2 million. At the end of the quarter, the company had \$220 million remaining under the existing share repurchase authorization.

#### Guidance

Columbia Sportswear raised view for 2019. Net sales are expected in the range of \$3.01-\$3.04 billion compared to the earlier prediction of \$3.00-\$3.04 billion. The revised top-line view depicts growth of nearly 7.5-8.5% year over year. Adverse currency movements are likely to hurt sales growth by nearly 90 bps. Management envisions mid to high-single digit growth in net sales during the first half of 2020.

Further, gross margin is anticipated to improve approximately 60 bps to 50.1%. Operating income is estimated in the band of \$392-\$401 million compared with \$388-\$396 million projected earlier. Operating margin is envisioned to be 13-13.2% versus prior view of 12.9-13%.

Management expects earnings per share for 2019 to be \$4.70-\$4.80, up from the prior view of \$4.65-\$4.75. The company had reported adjusted earnings of \$4.01 per share in 2018.

As the company shipped a large portion of Fall 2019 order book during the third quarter, management now expects low to mid single digit growth in net sales in the final quarter. The company expects fourth-quarter earnings in the band of \$1.55-\$1.65, down from \$1.68 per share reported in the year-ago period.

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## Valuation

Columbia Sportswear shares are up 12.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 16.9% and 22.4% over the past year.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 18.56X forward 12-month earnings, which compares to 20.08X for the Zacks sub-industry, 20.88X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.69X and as low as 16.46X, with a 5-year median of 21.07X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$101 price target reflects 19.61X forward 12-month earnings.

The table below shows summary valuation data for COLM

Valuation Multiples - COLM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.56	20.08	20.88	19.2
	5-Year High	28.69	23.06	23.35	19.34
	5-Year Low	16.46	14.31	16.16	15.17
	5-Year Median	21.07	18.34	20.11	17.44
P/S F12M	Current	2.01	2.38	2.4	3.57
	5-Year High	2.46	2.58	3.19	3.57
	5-Year Low	1.25	1.55	1.81	2.54
	5-Year Median	1.78	2.07	2.54	3
EV/EBITDA F12M	Current	11.22	16.69	10.74	12.66
	5-Year High	14.91	19.11	12.76	12.66
	5-Year Low	8.05	11.66	8.55	9.08
	5-Year Median	11.71	14.65	10.78	10.78

As of 01/17/2020

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## Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 254)



## Top Peers

Guess?, Inc. (GES)	Neutral
G-III Apparel Group, LTD. (GIII)	Neutral
lululemon athletica inc. (LULU)	Neutral
PVH Corp. (PVH)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Under Armour, Inc. (UAA)	Neutral
V.F. Corporation (VFC)	Neutral
Delta Apparel, Inc. (DLA)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	COLM Neutral	X Industry	S&P 500	GES Neutral	GIII Neutral	LULU Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Market Cap	6.45 B	1.26 B	24.65 B	1.54 B	1.46 B	31.43 B
# of Analysts	6	4	13	2	6	14
Dividend Yield	1.00%	0.00%	1.73%	1.91%	0.00%	0.00%
<b>Value Score</b>	<b>D</b>	-	-	<b>C</b>	<b>B</b>	<b>F</b>
Cash/Price	0.04	0.05	0.04	0.07	0.04	0.02
EV/EBITDA	15.71	10.62	14.11	20.70	8.76	37.50
PEG Ratio	2.09	1.74	2.08	0.99	0.91	2.77
Price/Book (P/B)	3.69	2.53	3.39	2.63	1.16	19.07
Price/Cash Flow (P/CF)	19.39	9.63	13.81	12.80	8.25	49.58
P/E (F1)	18.67	15.88	19.19	17.28	9.77	48.63
Price/Sales (P/S)	2.15	0.74	2.69	0.58	0.46	8.38
Earnings Yield	5.36%	6.30%	5.21%	5.79%	10.23%	2.06%
Debt/Equity	0.21	0.65	0.72	1.74	0.74	0.34
Cash Flow (\$/share)	4.93	1.63	6.94	1.84	3.70	4.87
<b>Growth Score</b>	<b>F</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	19.51%	3.67%	10.56%	-1.48%	3.67%	22.60%
Proj. EPS Growth (F1/F0)	6.52%	9.39%	7.57%	38.78%	9.09%	29.18%
Curr. Cash Flow Growth	26.00%	9.47%	14.73%	21.93%	55.48%	38.28%
Hist. Cash Flow Growth (3-5 yrs)	19.30%	7.17%	9.00%	-9.92%	14.76%	14.16%
Current Ratio	3.04	1.73	1.24	1.52	2.36	2.53
Debt/Capital	17.34%	40.16%	42.99%	63.63%	42.58%	25.49%
Net Margin	10.97%	2.33%	11.14%	1.48%	4.50%	15.10%
Return on Equity	19.14%	10.58%	17.16%	12.56%	12.27%	39.71%
Sales/Assets	1.16	1.18	0.55	1.21	1.23	1.49
Proj. Sales Growth (F1/F0)	5.78%	1.09%	4.16%	2.98%	3.95%	20.05%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Daily Price Chg	-0.30%	0.00%	0.27%	1.03%	0.76%	-1.01%
1 Week Price Chg	-3.58%	-1.67%	0.39%	3.22%	-7.01%	0.95%
4 Week Price Chg	-5.07%	-1.78%	2.95%	7.40%	-8.74%	7.64%
12 Week Price Chg	-0.35%	1.88%	7.76%	38.40%	18.92%	16.64%
52 Week Price Chg	14.02%	-0.82%	22.29%	9.35%	-10.46%	66.22%
20 Day Average Volume	554,908	54,066	1,536,375	864,401	481,441	1,439,419
(F1) EPS Est 1 week change	-0.28%	0.00%	0.00%	0.00%	0.00%	1.88%
(F1) EPS Est 4 week change	-0.28%	0.00%	0.00%	0.99%	0.00%	2.09%
(F1) EPS Est 12 week change	-1.73%	-0.77%	-0.40%	1.36%	-2.14%	4.72%
(Q1) EPS Est Mthly Chg	-1.48%	0.00%	0.00%	0.45%	0.00%	5.21%



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## Zacks Stock Rating System

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

### Zacks Recommendation

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

### Zacks Rank

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

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>D</b>
Growth Score	<b>F</b>
Momentum Score	<b>C</b>
VGM Score	<b>F</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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### Disclosures

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